NEWSPAPER

APRIL 24, 1995

Business Insurance

Reporting Weekly For Corporate Risk, Employee Benefit a

© Entire contents copyright 1995 by Crain Communications, Inc. All rights reserved

CAPTIVE DOMICILES Page 3

Risk Management Honor Roll

Lee D. Holland
Tennessee Municipal League Risk Management Pool

K.C. Kidder
Norwest Corp.

Judith M. Payne
South Dakota

Bruce Zaccanti
Jupiter Mechanical Industries Inc.

RISK MANAGER of the YEAR

Scott K. Lange
Microsoft Corp.

We See a Solution

Time after time, our industry runs to extremes. Pricing swings high, then low. Capacity shortages come and go. Risk classes trend up and down. And contracts are broadened beyond agreements printed on paper.

Make no mistake, extreme times call for stable reinsurance solutions. Solutions that build long-lasting relationships, not just short-term business deals. Solutions that enhance our clients' results, as well as our own. And improve industry standards, too.

At SCOR, our collaborative approach produces results. It has made us a leading reinsurer. With a global reach and universal experience. With a secure, diversified book of business. And a level of financial strength and stability that earns us high marks from clients and rating agencies alike.

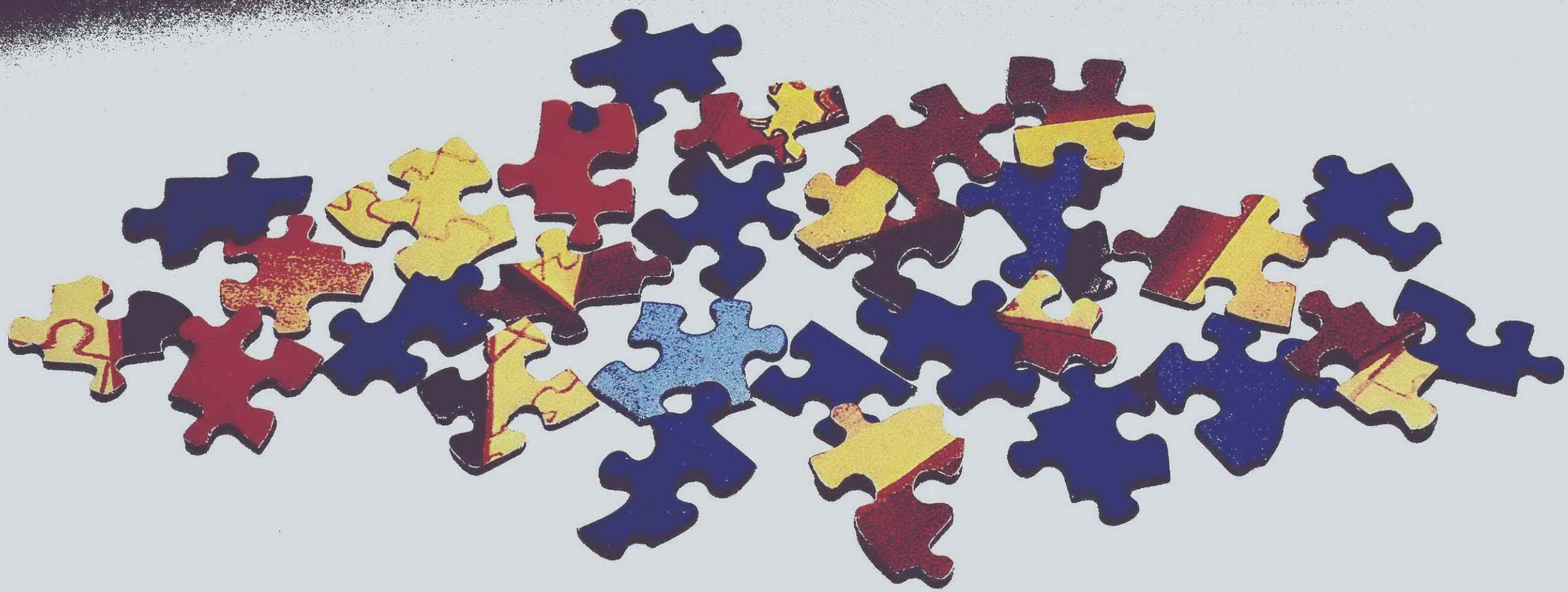
To discover this type of performance, get to know SCOR and what we can do for you. SCOR. We'll puzzle out a solution with you.

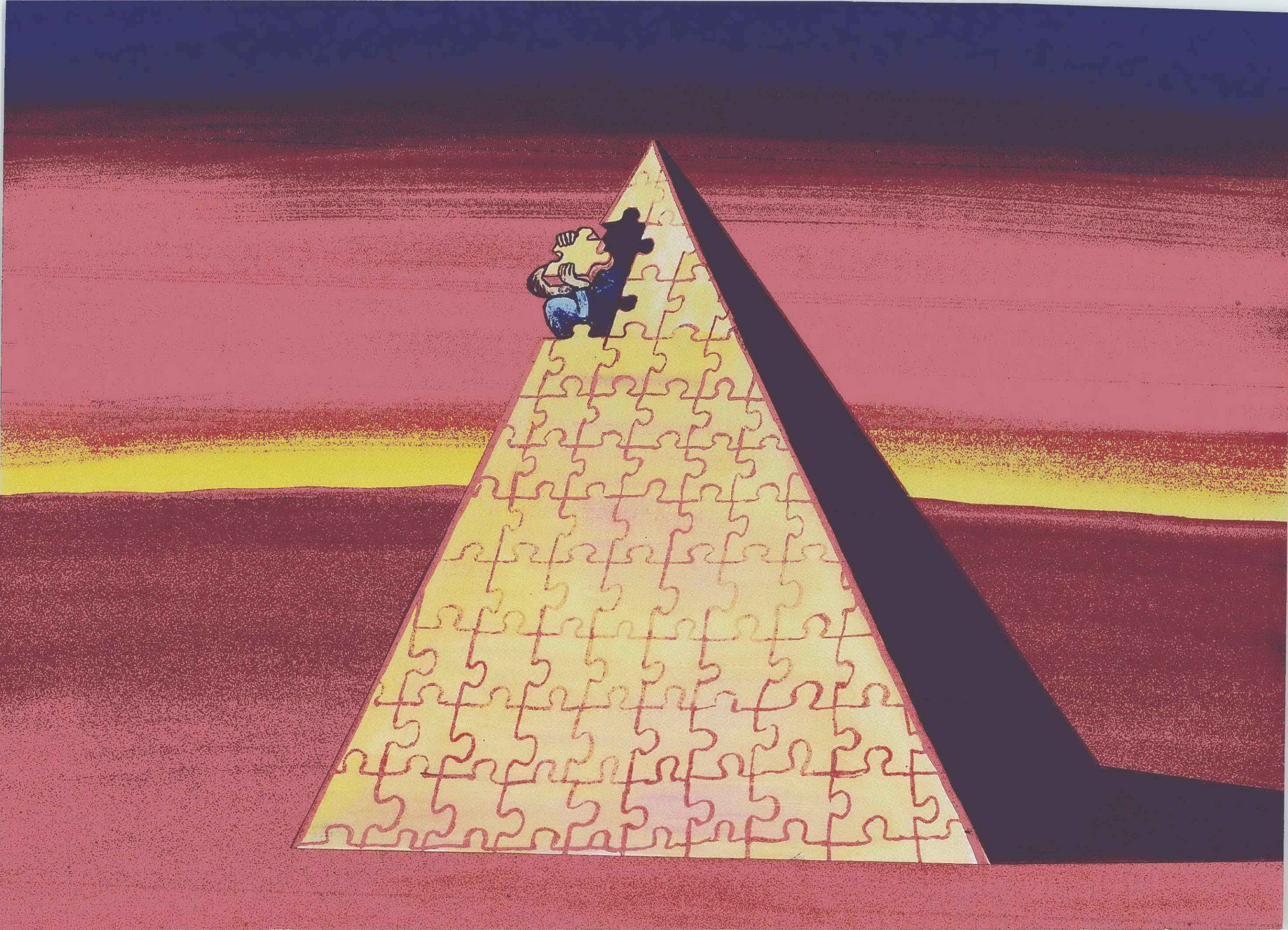
SCOR®

SCOR REINSURANCE COMPANY
110 William Street • New York, NY 10038-3995 • 212-978-8200
2 World Trade Center • New York, NY 10048-0178 • 212-839-8400
Chicago 312-346-2189 • Dallas 214-401-1066
Hartford 203-525-2300 • San Francisco 415-247-6565

Rated "A" (Excellent) by A.M. Best

You See a Puzzle





NEWSPAPER

APRIL 24, 1995

Business Insurance®

Reporting Weekly For Corporate Risk, Employee Benefit and Financial Executives / $4

© Entire contents copyright 1995 by Crain Communications Inc. All rights reserved

Updates

Wall Street 'carnage' follows moves by HMOs to cut rates

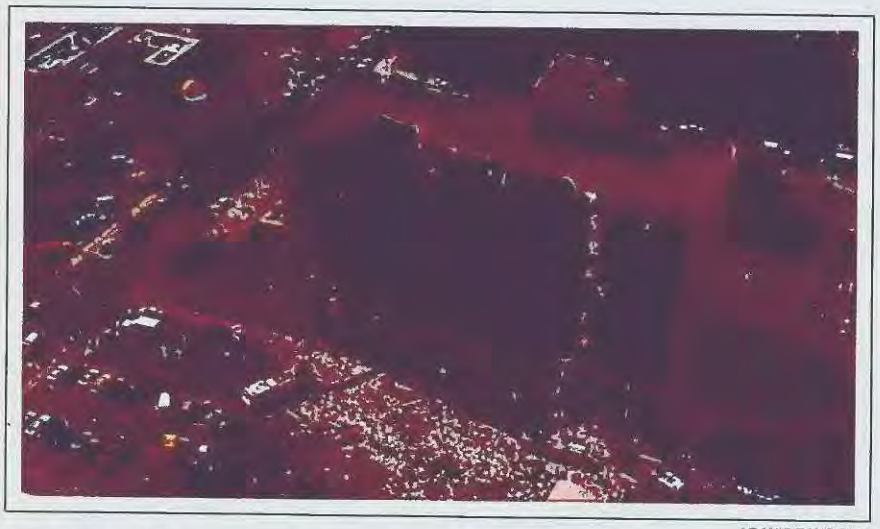
NEW YORK—Potentially good news to employers caused a big drop in publicly traded managed health care company stocks last week.

Following an announcement last Wednesday that U.S. Healthcare Inc. of Blue Bell, Pa., will reduce premiums and cut profits in an effort to build market share, HMO stocks fell by as much as 16% in heavy trading.

Overall, HMO capitalization fell about $3.6 billion on April 19, more than 10% of the total market value of the 21 publicly

Continued on next page

Shock waves from bombing losses



AP/WIDE WORLD

The death toll is rising after last week's bombing of the Alfred P. Murrah Federal Building in Oklahoma City. More stories are on page 140.

Disaster to create variety of insured losses

By MICHAEL BRADFORD, DOUGLAS McLEOD and MARK A. HOFMANN

OKLAHOMA CITY—The damage to Oklahoma City businesses from last week's devastating bombing will probably not be known for days or weeks, long after the human toll is well established.

Those damages could be severe, though, reaching into the tens of millions of dollars.

As rescuers continued to search for survivors and remove bodies from the shattered Alfred P. Murrah Federal Building late last week, risk managers, agents and adjusters were beginning the process of quantifying losses from the deadliest bombing ever on U.S. soil.

Federal authorities on Friday had arrested two suspects. One was arrested in Oklahoma and the other surrendered to authorities in Kansas. Federal agents were carrying out searches and raids throughout the country.

As of late last Friday, 65 people were confirmed dead from the bombing and the toll was expected to rise sharply, with scores of others still listed as missing.

The federal government is self-insured for its own losses, by far the heaviest in the explosion.

See **Bombing** *on page 140*

Risk managers' salaries rise, bonuses slip

By MICHAEL SCHACHNER

Risk managers' salaries crept upward in 1994, but for the first time in several years bonuses fell from the previous year, according to an annual survey of risk managers.

Overall, average total compensation for risk managers improved only slightly last year—up 1.8%.

But, risk managers at the nation's largest corporations fared quite well in terms of salary and bonuses compared with their counterparts at smaller companies, the study indicates.

The 1994 gains also outstripped the average gain in compensation a year earlier, when risk managers' salary was up only 1% (*BI*, April 18, 1994).

All told, the average salary for risk managers increased by 1.9% in 1994 to $86,256, up from $84,638 in 1993. Average bonuses for risk managers decreased by less than 1% to $6,223 from $6,245.

Consistent with previous surveys, risk managers in industries like entertainment, heavy manufacturing and pharmaceuticals reported the highest average total compensation—approximately $97,000—whereas risk managers in fields like construction, metals and mining and pulp and paper were the lowest paid—taking home $67,000 to $78,000 on average.

But regardless of the industry in which risk managers work, most of those employed by large companies—those

See **Salaries** *on page 135*

Making the merger work

Chookaszian details his strategy to make CNA, Continental one

Dennis H. Chookaszian will lead what is about to become the largest commercial property/casualty insurer in the United States, in terms of net premiums written. As chairman and chief executive officer of Chicago-based CNA Insurance Cos., he will orchestrate the integration of Continental Insurance Co. into CNA., the largest merger of two insurers in 20 years. The $1.1 billion deal is expected to be approved by Continental's shareholders at a May 9 meeting, with regulatory approval to follow quickly. Mr. Chookaszian recently discussed the issues surrounding the pending merger, and the challenges and opportunities that lie ahead, with Business Insurance *Editor Paul D. Winston and Publisher and Editorial Director Kathryn J. McIntyre.*

MICHAEL A. MARCOTTE

Why are you buying Continental?

When we looked at our various growth strategies and looked at the acquisition of Continental for roughly $1.1 billion, the question was what would we get for that? When we looked at Continental, we saw that it had an excellent strategic fit and would allow us to achieve some of our long-term objectives—and could give us the scale, both from a marketing and operating point of view—much more quickly than we could get on our own.

If we can, in fact, achieve the kinds of economies of scale that we believe we can by putting the two companies together, we believe that there's a potential for $300 million of cost savings on a pretax basis.

See **CEO** *on page 127*

D&O ruling may spur insurers to raise rates

By DAVE LENCKUS

SAN FRANCISCO—A powerful federal appeals court victory for policyholders in a directors and officers liability coverage allocation dispute may trigger a tighter D&O insurance market.

In a closely watched battle over whether a D&O insurer may limit indemnification of covered executives based on their uninsured company's share of liability for a loss, the appeals court affirmed a lower court's decision that prohibited the insurer from taking the company's role into account.

A panel of the 9th U.S. Circuit Court of Appeals on April 14 unanimously ruled that Chubb Corp. subsidiary Federal Insurance Co. must fully cover a $7.5 million D&O settlement by Nordstrom Inc. executives. The panel said the loss would not have been any smaller, even if the retailer had not borne any liability.

Both D&O insurer and policyholder attorneys, noting that several more allocation cases are before the 9th Circuit and other federal appeals courts, called the Nordstrom ruling significant.

Particularly noteworthy is that the appeals court did not simply affirm the lower court decision but analyzed the case, said Brian Smith, senior vp with Willis Corroon Group P.L.C.'s Financial Services division in New York.

Insurer attorneys, though, added that its influence might be limited by the court's admonition that its ruling was case specific and not applicable to all settlements under D&O policies.

Still, they said the court's adoption of the so-called "larger settlement" standard likely will pressure insurers to either:

- Boost rates to cover what they perceive as their larger corporate liability exposure.
- Add a "relative exposure" allocation formula to policies that would reduce executives' coverage by the percentage the corporation is liable for a loss.

"The decision is too important for carriers to simply ignore it and conduct business as usual," said Dan A. Bailey, a partner with Arter & Hadden in Columbus, Ohio, who generally represents in-

See **D&O** *on page 139*

Updates

HMO stocks tumble

Continued from preceding page

traded managed care companies, said Robert Mains, an analyst with First Albany Corp. in Albany, N.Y. "It was carnage, total carnage."

Among the stocks that experienced double-digit declines were U.S. Healthcare and Humana Inc. United HealthCare Corp., PacifiCare Health Systems Inc. and FHP International Corp. fell more than 9%.

Mr. Mains expects most HMO stocks to rebound, especially for well-managed HMOs that are controlling medical care costs.

Other analysts predict increased competition will lead HMOs into a downward earnings cycle characterized by lower premium increases and sluggish profits.

HMOs will begin to release first-quarter earnings this week.

IRS offers 403(b) plan break

WASHINGTON—Employers that realize they have violated certain government rules that apply to their 403(b) pension plans will be able to make amends before the Internal Revenue Service audits—and possibly disqualifies—their plans.

Beginning this week, employers with 403(b) plans, which typically are offered by educational institutions, can make corrections to the plans and pay a fee to the IRS to avoid audits.

The voluntary compliance program, announced by the IRS last week in Revenue Procedure 95-24, applies to a broad range of violations, such as failure to offer terminating employees the opportunity to directly transfer their accumulated benefits into individual retirement accounts or into their new employers' defined contribution plans.

A $500 fee will be imposed on employers with fewer than 25 employees and a $1,250 fee will be charged employers with between 25 and 1,000 employees.

The fee for an employer with between 1,001 and 9,999 employees will be $5,000 and the fee for employers with at least 10,000 employees will be $10,000.

The program does not apply for certain serious violations, such as misuse of plan assets. The IRS established a similar voluntary compliance program for other types of pension plans in 1992.

Lloyd's faces another loss

LONDON—Lloyd's of London's next month will report a 1992 loss of between £1.38 billion and £1.51 billion ($2.16 billion and $2.36 billion), predicts Lloyd's largest members agency.

Most of the loss will be from the runoff of pre-1992 open syndicate accounts, according to Sedgwick Lloyd's Underwriting Agents Ltd. The 1992 pure year loss will be only £180 million to £210 million ($281.7 million and $328.7 million).

And the worst may be over, according to the members agency. Lloyd's for 1993 will produce a profit of £840 million to £1.28 billion ($1.34 billion and $2.04 billion), the agency predicts.

"What is becoming clearer day by day is that very acceptable returns will be achieved from the 1993 and 1994 accounts," said Sedgwick Lloyd's Chairman Julian Crispin. "It is right to recognize that the recovery really is on the way."

New York targets NAIC

ALBANY, N.Y.—Following Vermont's lead, three influential New York lawmakers last week introduced a bill that would give the Legislature broad oversight authority over the National Assn. of Insurance Commissioners.

Saying the NAIC has been operating with a swollen budget and bloated staff—and also that the regulators group has tried to impose its view of insurance regulation on states through its accreditation program—the three state senators want to force the NAIC to report to them on many key matters.

For example, the bill would require the NAIC to provide the Assembly Ways and Means Committee and the Senate Finance Committee an annual report that: summarizes the NAIC's activities during the previous year; outlines every category of personal, operating and capital expenditures, including salaries; spells out all model laws states must enact to receive accreditation; and describes due process ensuring that all meetings are open to the public.

If enacted, the bill also would require the NAIC to give the Legislature any other requested information and would stipulate that any fees the NAIC charges New York-domiciled insurers must be authorized by New York's superintendent of insurance.

The bill is co-sponsored by Sens. Martin Solomon, D-Brooklyn, Guy Velella, R-Bronx, and Bill Larkin, R-Orange County, and is modeled after legislation introduced and passed by the Vermont House of Representatives (*BI*, Jan. 30).

The bill also criticizes the NAIC's budget and staff levels. The bill says these costs have been "fueled by significant increases in fees charged to companies and passed along to consumers. . . .Despite the essentially public nature of the NAIC's budget, it is not subject to state legislative review, and the fees charged are not authorized by state law in the usual and customary manner."

The bill's authors hope to have the act take effect Oct. 1.

Errors & omissions

• Due to incorrect information, a directory in the April 3 issue misstated the number of pharmacies Aetna Pharmacy Management has under direct contract—the correct number is 38,000—and the percentage of prescription volume dispensed through mail-order service, which should have been 30%.

• RiskCap does not bill for services on a project or commission basis as indicated in its listing in the Directory of Risk Management Consultants in the March 20 issue.

Coalition on quest for data to evaluate purchasing plan

By CHRISTINE WOOLSEY

DAYTON, Ohio—One year after launching a group managed care purchasing initiative, the Miami Valley Employers Health Action Council now is seeking more data to confirm that the plan is indeed saving money.

While some employers say their costs under the managed care plan are less than their indemnity plans, they want to benchmark the new plan's performance against a broader sample of health care claims data locally and nationwide.

The coalition, which has grown to 48 members from 24, first announced plans in 1993 to directly contract with the most cost-effective doctors and hospitals in the community (*BI*, April 26, 1993).

But after evaluating proposals from more than a dozen local managed care companies and independent hospital networks, the group chose instead to forge a three-year agreement with Community Mutual Insurance Co. of Cincinnati, one of the state's Blue Cross & Blue Shield plans.

The plan offered more sophisticated claims administration services than the coaltion or area health care providers could assemble.

Among other things, MVEHAC asked Community Mutual to create a network and negotiate discounts with area hospitals and physicians who would participate in a self-insured, point-of-service plan designed specifically for the coalition's members. The plan, called Pro+, features a uniform set of benefits, with varying copayments, deductibles and out-of-pocket limits, depending on whether plan members seek care from network or non-network providers.

Community Mutual is the sole administrator of the point-of-service plan and provides physician services through its subsidiary, Wright Health Associates, a group of 1,400 primary care and specialty doctors in six counties.

See **Pro+** *on page 137*

Residual market rebound

Comp insurers' operating loss narrows

By MEG FLETCHER

ORLANDO, Fla.—When is a $500 million operating loss good news?

When you're talking about the 1994 results of the residual workers compensation insurance market, which bottomed out at a $2.2 billion loss in 1989 and has been struggling to improve its financial picture ever since.

"While this 1994 result is still unacceptable, it is vastly improved," said Jim Rabenstine, senior vp-residual markets for the National Council on Compensation Insurance.

The improvement in the workers compensation residual market's loss picture has been cited as a factor in the dramatic improvement of insurers' workers compensation operating results (*BI*, April 17).

The estimated $500 million loss for the nation's residual markets last year is the best result in 10 years, since a $400 million operating loss in 1984.

"We've turned the corner," Mr. Rabenstine told 550 attendees at the NCCI's annual issues symposium in Orlando, Fla., held April 12-13.

States' residual markets were designed to be the market of last resort to provide coverage to high-risk or new employers unable to find insurers willing to write coverage on a voluntary basis.

In the last decade, though, those

See **Residual** *on page 129*

Workers comp is not the concern it had been

What worries risk managers?

By SALLY ROBERTS

Risk management and benefits bills before Congress. See page 133.

Risk managers are breathing easier about workers compensation than they have in years.

With workers compensation markets stabilizing and losses falling, workers compensation issues no longer dominate the list of risk managers' biggest concerns, according to a new survey.

Risk managers a year ago put four separate workers compensation issues on that list of 15: cost-shifting, at No. 5; integrating workers comp and group health care, No. 8; easier proof of occupational disease claims, No. 9; and cost containment strategies, No. 13.

This year, by contrast, only one workers compensation issue was among their top 15 concerns: the emergence of liability for repetitive motion injuries at No. 4.

Civil justice issues remained important for risk managers with open-ended punitive and non-economic damage awards being ranked as their top concern for a seventh year in a row.

Some 85% of risk managers ranked this issue as of high or above-average importance.

In its annual opinion survey,

See **Worries** *on page 137*

Inside

• ON THE COVER: Scott K. Lange, director of risk management at Redmond, Wash.-based Microsoft Corp., is the 1995 *Business Insurance* Risk Manager of the Year. **PAGE 90 COVER PHOTO BY MICHAEL A. MARCOTTE**

• Lee D. Holland, president of the Tennessee Municipal League Risk Management Pool, is named to the 1995 Risk Management Honor Roll, representing self-insurance pools. **PAGE 108**

• K.C. Kidder of Norwest Corp. is named to the 1995 Risk Management Honor Roll, representing financial institutions. **PAGE 113**

• South Dakota Risk Manager Judith M. Payne is named to the 1995 Risk Management Honor Roll, representing government entities. **PAGE 117**

• Bruce Zaccanti of Jupiter Mechanical Industries Inc. is named to the 1995 Risk Management Honor Roll, representing small companies. **PAGE 113**

• A U.S. Supreme Court review of a case on recovery of damages could affect many dozens of suits involving international airline disaster claims. **PAGE 138**

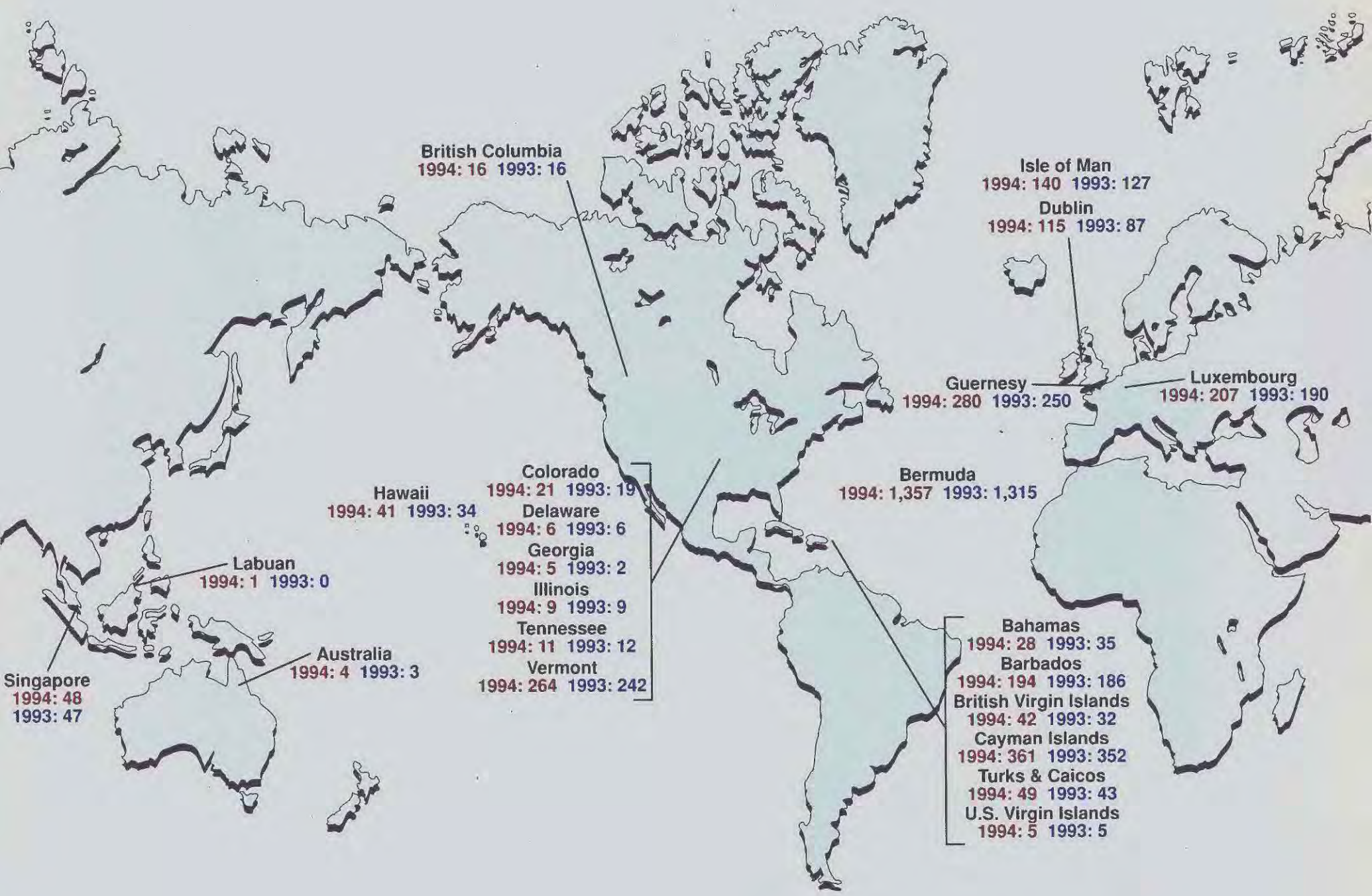
Captive guide

Barbados **42**
Bermuda **6**
Cayman Islands **34**
Colorado **68**
Directory of Captive Managers **73**
Dublin **50**
Guernsey **44**
Hawaii **66**
International Captive Roundup **61**
Isle of Man **54**
Luxembourg **57**
Singapore **60**
U.S. Captive Roundup **69**
Vermont **64**

Departments

Advertiser Index **104**
Classifieds **134**
Insurance Services Guide **135**
International **131**
Letters **8**
Opinions **8**
Reader Reply Service **104**

Business Insurance (ISSN 0007-6864) Vol. 29, No. 17, is published weekly by Crain Communications Inc., 740 N. Rush St., Chicago, Ill. 60611-2590. Second-class postage is paid at Chicago and at additional mailing offices. POSTMASTER: Send address changes to *Business Insurance*. Circulation Department, 965 E. Jefferson Ave., Detroit, Mich. 48207. $4 a copy and $80 a year in U.S. $100 in Canada and Mexico (includes GST). All other countries $200 a year (includes expedited air delivery). Canadian Post International Publications Mail Product (Canadian Distribution) Sales Agreement No. 0293512, GST No. 136760444. Printed in U.S.A. Copyright 1995 by Crain Communications Inc.



Captive numbers finally surge in '94

Despite housecleaning in some domiciles, captive growth hits 6.4%

After several years of flat or meager growth, the ranks of captive insurers swelled last year.

And captive managers and regulators around the globe are optimistic they can sustain this growth, as more companies realize that the benefits of captives transcend market cycles.

In the major captive insurance domiciles covered in this issue, the number of licensed companies grew 6.4% to 3,194 as of year-end 1994 from 3,002 a year earlier. That compares with a 2.6% increase in both 1993 and 1992. Not all of those facilities are captive insurers, though, since some domiciles do not distinguish between forms of insurance entities.

The five domiciles with the largest net gain were: Bermuda, up 42 to 1,357; Guernsey, up 30 to 280; Dublin, up 28 to 115; Vermont, up 22 to 264; and Luxembourg, up 17 to 207.

However, net growth in the number of captive insurers actually masks the number of new formations, since the overall figure also reflects captives shut down during the year.

For example, while Bermuda led the pack with a net gain of 42 companies, it actually had 95 formations, though 53 facilities surrendered their licenses.

Likewise, the Cayman Islands reported only a net gain of nine captives, though it actually had 45 captive formations in 1994. Thirty-six closed or were shut down as Cayman regulators continue to eliminate captives that are no longer functioning from the domicile's rolls.

Other domiciles with large increases in formations were: Guernsey, with 35 new captives; Vermont, 32; and Dublin, 30.

While other domiciles had a greater number of new captives, Dublin actually saw the largest percentage increase in 1994, with total captives increasing 32.2%. Next came the British Virgin Islands, which adopted regulations recognizing captives for the first time last year, at 31.2%; Hawaii, at 20.6%; Turks & Caicos, 13.9%; and Guernsey, 12%.

Several domiciles are revamping their captive laws to boost regulatory oversight, streamline tax rules and generally make their domicile more attractive to prospective parents.

The Cayman Islands is seeking legislation that would, among other things, improve regulatory oversight and change its longstanding confidentiality laws.

Bermuda introduced four new classes of insurance licenses to recognize the diversity of operations on the island.

Though tax benefits are a major reason for setting up captives in some domiciles, several are changing their tax laws to give captives an option of paying higher tax rates. That helps captive owners avoid home country restrictions or penalties on doing business in so-called tax havens.

Business Insurance's 1995 captive domicile report begins on page 4, with a report on the market for fronting services. Stories on the Bermuda captive insurance market begin on page 6. Reports on other captive domiciles begin on page 34.

SPECIAL REPORT

Competing fronting insurers expand services

By MEG FLETCHER

Most commercial insurers are looking for ways to expand fronting services for captive and self-insurance programs in the face of ongoing competition for insured business.

Some insurers are trying to broaden their market share by exploring association and group captives as new market niches, or by providing more managed care services for workers compensation injuries.

They hope these strategies will help them compete in the buyer's market for fronting services, which is partly caused by employers favoring less costly, large-deductible programs for workers comp coverage.

The experience of an American International Group Inc. unit runs counter to this trend: It sees growth in employers' use of captives, especially for property risks.

"The market is as competitive as I've ever seen it and continues to be," said Philip Pierson, vp and director of risk management services for TIG Insurance Cos. in Dallas.

"It's a dwindling market and that's one of the reasons people hate to lose business," said Bill Watson, senior vp with Reliance National Insurance Co.'s risk management division in New York.

Buyers typically want fronting programs for workers comp, general liability and auto liability, insurers say. But, some also are interested in pollution and property coverages.

"Property is still a very significant play for captives," said John G. Gantz Jr., president of AIG Risk Management Inc. in New York. "Our property book has grown over the last year."

"We see less and less fronting applied to traditional lines—workers comp, general and auto liability," Mr. Pierson said. "Where we see opportunities is not so much single-risk captives but association captives and agency-owned captives."

Current fronting arrangements are very different from those of the past, when insurers acted as fronts for blocks of business produced by managing general agents. They ceded nearly all of their risk to offshore reinsurers and took a fee for issuing policies and leaving underwriting, claims handling and reinsurance placement to the MGAs.

Lack of oversight prompted some insolvencies among fronting insurers and caused state regulators to pass a model fronting law in 1993, though it has had little impact on the market thus far.

Insurers now typically provide fronting services to self-insurance programs while keeping control of underwriting and claims handling. Although many insurers rely on a third-party administrator to process claims, they retain claims settlement authority, several insurers say.

Fronting insurers also may offer other services, including providing excess insurance or reinsurance.

Some clients seek fronting services for their captives to write employee benefit coverage for their foreign affiliates and for U.S. programs not governed by the Employee Retirement Income Security Act.

And, a few large employers use fronted captive programs to write controlled, third-party business. For example, a company may do that to provide coverage to subcontractors it plans to hire, said Robert A. Mulderig, chairman and chief executive officer of Mutual Risk Management Ltd. in Bermuda.

Companies use that approach more for control reasons, such as ensuring the subcontractors have a good safety program, than for helping the captive have enough unrelated business so that premiums may be tax-deductible, he said.

Seeking tax-deductible premiums may be a primary objective for some companies, but it should not be the sole objective, said Kathryn Westover, president of American Risk Management Corp. in Burlington, Vt., a unit of International Risk Management (Bermuda) Ltd. Companies may use that arrangement to enhance a business relationship or to better spread the captive's risk, she added.

Several insurers said fronting services are including more managed care of workers comp injuries.

Employers today take a broad view and want to control the entire cost of a workers comp claim, AIG's Mr. Gantz said. Employers previously took a narrower focus, merely controlling portions of a claim, like a per visit cost.

Managed care saves money, though the savings are not necessarily equal to those in a group health plan setting, noted Mr. Mulderig. Savings in workers compensation can be diminished by factors like state requirements that employees be allowed to choose their treating physicians.

AIG Risk Management offers its fronting clients investment and actuarial services, Mr. Gantz said.

TIG helps buyers by filing necessary rates and forms in states and seeking prompt action, Mr. Pierson said.

The heated competition in the market for fronting services is caused in part by the growing popularity of large-deductible workers comp programs. These programs allow, for example, taking a $250,000 deductible, which produces big premium reductions. The lower the premium, the lower the premium taxes and residual market costs.

In addition, improved financial results among conventional workers comp insurers is making their pricing competitive with alternative markets, like fronted programs.

Workers comp insurers' combined ratio after policyholder dividends was 101% in 1994, an improvement from 109.1% in 1993 (*BI*, April 17).

Fronting insurers are generally untroubled by the model fronting law the National Assn. of Insurance Commissioners adopted in 1993 (*BI*, Dec. 13, 1993).

The model law, which created more reporting requirements and administrative expense, applies to few, if any, fronting transactions involving captives.

And, relatively few states—Florida, Kentucky, Maryland, New York and Oklahoma—have adopted fronting controls, either before or after the model law was passed, the NAIC said.

Currently, a state is not required to adopt the model fronting act a part of accreditation process, and there is only "a very, very slight chance it would be required, said Virginia Insurance Commissioner Steven T. Foster, a former NAIC president who chaired the model law drafting group.

But, the model fronting bill is "still a good model act," for those states concerned about regulating domestic insurer's fronting activities, he said. ■

Tim Jonke/The Image Bank

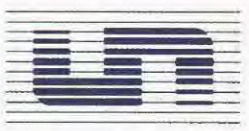
"Never say never."

When surplus lines producers try to place specialty programs with most insurance companies, they usually find themselves getting nowhere fast.

Many companies have no idea what to do with programs that aren't run-of-the-mill. To buy time, they box producers in with a flurry of petty procedures. That kind of competitive disadvantage just doesn't work in today's market.

At United National Group — one of the largest surplus lines insurers in America — specialty programs are the rule, not the exception. Our companies are resourceful, flexible, and inventive, and when it comes to writing specialty programs, we never say never.

United National Group. Wise enough to listen, strong enough to act.



united national group

The open market for unique risks and specialty programs

United National Insurance Company Diamond State Insurance Company Hallmark Insurance Company
Three Bala Plaza, East, Suite 300, Bala Cynwyd, PA 19004 (610) 664-1500

United National Group Companies rated A+, VIII by A. M. Best, eligible for surplus lines in 50 states, and admitted in 45 states.
United National Insurance Company's policyholders' surplus is $162,800,000.

IN ALTERNATIVE MARKETS ONE REINSURER CUTS A CLEAR PATH.

You need a highly experienced reinsurer to guide you through the alternative market maze. No reinsurer is more experienced than North American Re. We offer reinsurance capacity, no matter which structure you select. To discuss which reinsurance program is best for your company, call Carla D'Andre, Director of Alternative Markets at 212-907-8013. North American Re: the clear path to solvent capacity.

NORTH AMERICAN RE

NORTH AMERICAN REINSURANCE CORPORATION 237 PARK AVENUE, NEW YORK, NY 10017 (212) 907-8013 ATLANTA BOSTON CHICAGO DALLAS LOS ANGELES NEW YORK PHILADELPHIA SAN FRANCISCO
A MEMBER OF THE SWISS RE GROUP

SPECIAL REPORT

Bermuda is back on fast track as captive domicile

New regulation helps promote diversity and growth

By GAVIN SOUTER

BERMUDA

HAMILTON, Bermuda—Captive formations are sprinting forward in Bermuda after several years of running in place.

Despite the continued drag of the soft liability insurance market in the United States, Bermuda increased its lead over the rest of the pack of captive domiciles.

New captives formed by health care organizations, privately held and medium-sized companies and European and Latin American parents all helped Bermuda to increase its tally, captive managers say.

And with new regulations in place and the host of other insurance services available on the island, Bermuda won't be giving up ground anytime soon, they add.

Existing captives are not standing still, either. Premium volumes are increasing as risk managers seek to retain more of their risks and increase the types of coverage provided by their captives, the captive managers say.

Captive insurers have long been the largest group of insurers incorporated in Bermuda, but over the past two years they have been pushed out of the limelight by the island's new catastrophe reinsurers and big excess liability insurers.

But while the new breed of reinsurers and insurers helped maintain Bermuda's high profile in 1994, it was the traditional captive business that accounted for a large chunk of the international company formations.

The number of international insurance and reinsurance companies in Bermuda rose 3.2% to 1,357 in 1994 from 1,315 in 1993.

Ninety-five companies were formed last year, compared with 61 startups in 1993. In contrast, 53 companies were wound up in 1994, compared with 70 in the previous year.

The 56% increase in formations made 1994 "second only to the 125 incorporations recorded in 1986," said Malcolm Butterfield, Bermuda's registrar of companies until June 9.

Of the new incorporations, 45 were captive insurers directly insuring or reinsuring the risks of their parent companies or affiliates, he said.

And while most of the incorporations came from the United States and Europe, nearly a quarter came from outside Bermuda's traditional markets, Mr. Butterfield said.

Mexico, the West Indies, Africa, the Middle East and Latin America accounted for 22% of the incorporations, compared with 8% in 1993, he said.

Formations by U.S. companies increased to 61 in 1994, compared with 48 in 1993. But, with the overall increase in Bermuda formations, the U.S. share of the total fell to 64% last year from 79% in 1993.

Gross premiums written increased 18.5% to $17.9 billion in 1993, the latest year for which figures are available, compared with $15.1 billion in 1992.

Net premiums rose 18.6% to $13.4 billion from $11.3 billion in 1992.

The total capital and surplus of Bermuda's international insurers rose 32.4% to $29 billion in 1993 from $21.9 billion in 1992.

The increase in captive numbers despite the soft insurance market is partly due to an increased interest in risk management, according to Mr. Butterfield.

"People are diversifying their risk management objectives and have realized that captives can provide them with quite a number of advantageous options which will allow them to fulfill those objectives," he said.

For example, risk managers are anxious to gain direct access to the reinsurance market and the competitive rates charged companies with good loss records, Mr. Butterfield said.

Premium volumes are increasing as risk managers seek to retain more risks, captive managers say.

Bermuda's longstanding reputation as a captive domicile and its growing reputation as a domicile for other insurers and reinsurers help draw risk managers to the island, he said.

That reputation, he said, will be enhanced further by new insurance regulations under The Insurance Amendment Act 1995, which becomes effective on April 29.

The new regulations will divide the island's insurers into four categories, with capital requirements for each category depending on the level of risk (see story, page 16).

Single-parent captives will likely be Class 1 companies. Minimum capital for Class 1 companies will remain at $120,000. Class 2 companies, such as association captives, will have a minimum capital requirement of $250,000.

Class 3, which will include finite risk insurers and captives that derive more than 20% of their business from unrelated companies, will have a minimum capital requirement of $1 million. Class 4 companies, which include the excess liability insurers and catastrophe reinsurers, have a capital requirement of $100 million.

The new regulations are unlikely to have much effect on captive insurers, as most of them already meet the new requirements, Mr. Butterfield said.

The new regulations, the first major overhaul of the 1978 insurance law, respond to Bermuda market changes and also reflect that captive insurers must be regulated differently than high-risk catastrophe reinsurers and excess

See **Bermuda** *on page 12*

BERMUDA

THE PREMIER OFFSHORE DOMICILE FOR INSURANCE, MANAGEMENT AND FINANCIAL REINSURANCE

- More than one thousand captive insurance companies
- More than $4 billion of excess and speciality liability insurance capital
- More than $29 billion in total capital and surplus
- More than 1,350 international insurance companies
- Less than 50 horse and buggies

For more information call or write to: The Insurance Information Office
The Bermuda Insurance Institute, P.O. Box HM 2911, Hamilton HM LX, Bermuda.
Telephone: 809 -292-9829 Fax: 809-295-3532

Next Stop...RIMS '95

Whether it be cable car, ferry, MUNI or BART, the modes of transportation in San Francisco are as diverse as the attractions themselves. From Fisherman's Wharf to Lombard Street, Ghiradelli Square to the Embarcadero, the list of exciting experiences you'll find in San Francisco include one more this year–and it can be found at Booth #556 in the Moscone Center.

Reliance National will be transporting 1995 RIMS attendees into a dimension far beyond their imagination. With an eye to the future, Reliance National's RIMS experience is as innovative as our product portfolio.

Join us at RIMS and journey into tomorrow with Reliance National...THE CHOICE in Property/Casualty and Accident & Health insurance.

THE CHOICE

Reliance National

Reliance Group Holdings Company

77 Water Street, New York, NY 10005

212-858-6602

Reliance National

One Market Plaza

Spear Street Tower

Suite 2300

San [illegible], CA 94105

[illegible]14

[illegible]3429

Reliance National products and programs underwritten by Reliance Insurance Company, Reliance National Indemnity Company, Reliance National Insurance Company, Reliance National Insurance Company of New York, Reliance Insurance Company of Illinois, Reliance Insurance Company of California, United Pacific Insurance Company, Firemark Insurance Company and/or Reliance Surety Company.

© 1995 Reliance National Insura

Opinions

No resting on their laurels

AS RISK MANAGERS look for ways to boost their achievements and enhance their stature within their organizations, they need look no farther than this year's Risk Manager of the Year and four Risk Management Honor Roll winners.

The risk management success stories told by these individuals should serve as an inspiration and example for other risk managers who may be seeking to squeeze an extra measure of efficiency from their program—or trying to avoid getting squeezed out of the company.

That, in fact, is why *Business Insurance* created the Risk Manager of the Year competition 18 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.

When reviewing the accomplishments of this year's winners—as well as those of past recipients of the award—several qualities stand out, perhaps none so clearly as the fact that none of these individuals is resting on his or her laurels.

They always are seeking to improve their risk management programs, even if that means turning everything on its head and starting from scratch. They constantly are improving themselves, by education, involvement with professional organizations like the Risk & Insurance Management Society Inc. and learning as much as possible about other areas of their organization.

In addition, they are effective communicators, which is integral to an optimum risk management program. Several have the ear of their organization's top executive—ranging from the chairman of a multibillion dollar company to the governor of a state. They all communicate the goals and methods of risk management through interaction with employees and assistance to other departments. It becomes clear that these leaders are so effective because they work *with* others, rather than simply dictating the ways to minimize risks.

Risk Manager of the Year Scott K. Lange, director of risk management for Microsoft Corp., has elevated his department's stature within his organization to a point where it is frequently consulted in corporate decision making, and called upon to aid other departments. But rather than be content with his many successes to date, he currently is taking his program a step further by challenging senior management to examine its tolerance for risk. With that assessment, Mr. Lange will develop a new risk financing program under which it likely will retain a greater portion of its exposures.

The members of the Risk Management Honor Roll are making similar strides:

• Lee D. Holland has made the Tennessee Municipal League Risk Management Pool the leading source of coverage to municipalities in the state, with more than 90% of the state's eligible municipalities participating and a 100% retention rate. And he constantly strives to keep the self-insurance pool in that position by working with members to improve loss control, lower costs and keep an eye out for potential new risks.

• K.C. Kidder, with the support of top management at Norwest Corp., questioned basic assumptions about risk financing and has adopted a whole new approach to protecting the financial service company's assets. She challenges others in Norwest and its service providers to be more creative in their approach to risk management.

• Judith M. Payne ensures risk management is working for the many diverse risks of South Dakota by getting out in the trenches and taking a first-hand look for any new exposures. She works constantly to educate state workers and agencies, while searching for opportunities to improve on past risk management successes.

• Bruce Zaccanti disproves the conventional wisdom that a construction company must have a poor safety record. His aggressive overhaul of risk management and safety programs at Jupiter Mechanical Industries Inc. reduced workers compensation claims and costs dramatically. He hasn't stopped there, but is constantly on the lookout for new exposures and gaps in protection.

These five individuals constantly challenge themselves, their organizations and their peers to do better. By learning and borrowing from them, the whole risk management profession can move a step further.

Finding a balanced tort reform stand

Tort reformers just got more evidence in their argument that the United States has grown too litigious.

A recent survey shows beyond a doubt that most citizens believe the civil justice system is out of whack and demands reform. Now it's up to reform advocates to transform that public sentiment into reform without overreaching and alienating the public.

And the sentiment is truly widespread, according to a survey undertaken by Cambridge Reports Research International for the Insurance Information Institute. Some 95% of the 1,250 adults questioned said that too many lawsuits are being filed (*BI*, April 17). More than three-quarters said that the amount of money awarded to plaintiffs in civil suits is usually excessive.

The survey also found that most people realize that society as a whole bears the costs of excessive litigation. For example, 78% said that physicians, who are often sued, are so concerned about being sued that they do unneeded tests and procedures to protect themselves. That inflates medical costs. And nearly nine of out of 10 of those surveyed said that too many lawsuits force up the price of goods and services.

Those certainly constitute impressive pro-reform majorities. The challenge is keeping those majorities intact.

As Gordon S. Stewart, president of the III, explained, the key to doing so is balance.

"While looking to control litigation, we must also take into account the public's concern and apprehension regarding their access to the courts. We need to find a balanced position, one that protects (consumers) from real abuse, yet reduces the lawsuit abuse that is ultimately passed on to the public in the form of higher costs for liability insurance," said Mr. Stewart.

It's hard to argue with that. The public clearly wants reform. By making sure that reform proposals leave the system accessible to all citizens with legitimate claims, reformers should be able to ride the tide of public support for reform to legislative victory.

Business Insurance®

Reporting weekly for corporate risk, employee benefit and financial executives

Vice president/ Publisher/Editorial Director:	Kathryn J. McIntyre, ARM *(Chicago)*
Editor:	Paul D. Winston *(Chicago)*
Editor-at-Large:	Jerry Geisel *(Washington)*
Managing Editor:	Timothy Stanton *(Chicago)*
International Editor:	Stacy Shapiro *(London)*
Senior Editors:	Meg Fletcher, ARM *(Chicago)*
	Judy Greenwald *(San Jose)*
	Dave Lenckus *(Chicago)*
	Douglas McLeod *(New York)*
	Joanne Wojcik *(Los Angeles)*
Assistant Managing Editor/Graphics:	Jeanne M. Bartels *(Chicago)*
Assistant Managing Editor/News:	Roseanne White *(Chicago)*
Assistant Managing Editor/Spotlight Reports:	Christine Woolsey *(Chicago)*
Bureau Chief:	Michael Schachner *(New York)*
Copy Editors:	Regis J. Coccia *(Chicago)*
	Sara J. Harty *(Chicago)*
Assistant Copy Editor:	Kerry A. Dziubek *(Chicago)*
Associate Editors:	Deborah Shalowitz Cowans *(Chicago)*
	Roberto Ceniceros *(Los Angeles)*
	Mark A. Hofmann *(Washington)*
	Adrian Ladbury *(London)*
	Sara Marley *(Chicago)*
	Sally Roberts *(Chicago)*
	Gavin Souter *(New York)*
	Rodd Zolkos *(Chicago)*
Directory Editor:	Kathy Welyki *(Chicago)*
Assistant Directory Editor:	Rich Trout *(Chicago)*
Editorial Assistant:	Ovie Dent *(Chicago)*
Assistant to the Publisher:	Karen Brown Tucker *(Chicago)*
Editorial Cartoonist:	Roger Schillerstrom *(Chicago)*
Advertising Director:	Martin J. Ross III *(New York)*
Eastern Advertising Manager:	Stephen P. Lincoln *(New York)*
Midwest Advertising Manager:	Robert L. Niesse *(Chicago)*
District Managers:	Cynthia Bykowski *(New York)*
	Blake Delany *(New York)*
	Barrie Harmelin *(New York)*
	Charles A. Horvath *(New York)*
	Deborah D. Neale *(Chicago)*
Sales Assistant	Lori Lieberman *(Los Angeles)*
Classified Advertising Manager:	Cheryl Butler *(Chicago)*
Production Manager:	Elmer Kerstowske *(Chicago)*
Director of Communications:	Ronnie I. Drachman *(New York)*
Promotion Coordinator:	Barbara O'Brien *(New York)*
EDITORIAL:	Chicago: 312-649-5398
	London: 71-608-1172
	Los Angeles: 213-651-3710
	New York: 212-210-0100
	San Jose: 408-379-1790
	Washington: 202-662-7200
ADVERTISING:	New York: 212-210-0226
	Chicago: 312-649-5276
	Los Angeles: 213-651-3710
COMMUNICATIONS:	New York: 212-210-0132
SUBSCRIPTIONS:	Detroit: 800-678-9595

Published by Crain Communications, Inc., Chicago

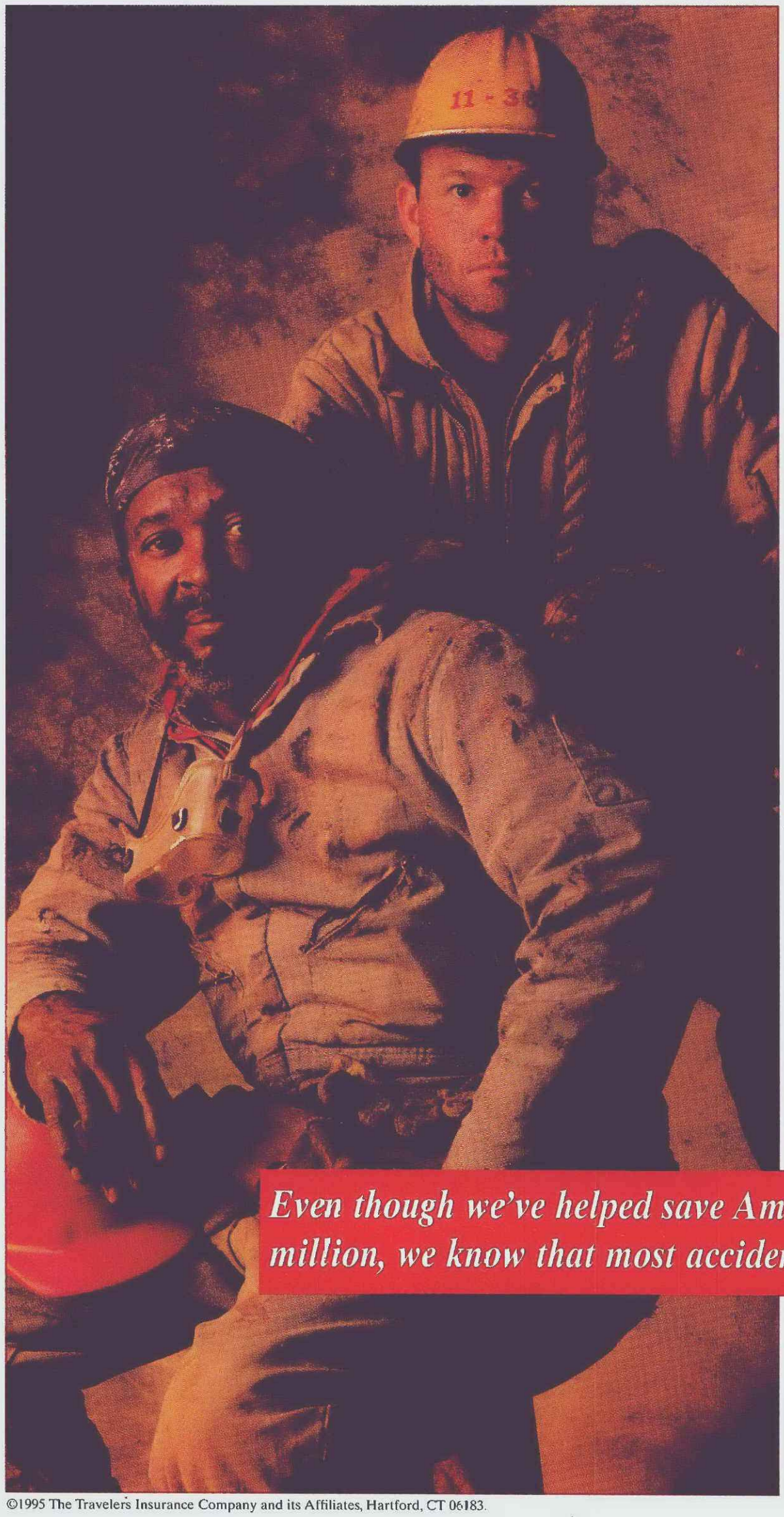
Founder	G.D. Crain Jr. (1885-1973)
Chairman	Mrs. G.D. Crain
Vice chairman	Keith Crain
President	Rance Crain
Chairman-executive committee	S.R. Bernstein (1907-1993)
Treasurer	Mary Kay Crain
Secretary	Merrilee P. Crain
Executive Vice president-operations	William A. Morrow
Vice president-production	Robert C. Adams
Circulation director	Peter J. Johnson

Published weekly at 740 Rush St., Chicago, Ill. 60611-2590, Telex 6871241, Fax 312/280-3174, Cable CRAINCOM. Offices: 220 E. 42nd St., New York, N.Y. 10017-5806, Fax 212/210-0701, CRAIN COM NYK; Suite 814, National Press Building, Washington, D.C. 20045-1801, Fax 202/638-3155; 6500 Wilshire Blvd., Suite 2300 Los Angeles, Calif. 90048-4947, Fax 213/655-8157; 540 Latimer Circle, Campbell, Calif. 95008, Fax 408/379-3257; Cowcross Court, 2nd Floor, 75-77 Cowcross St. London EC1M 6BP, England, Fax 71/608/1173. $4 a copy. $80 a year in U.S. $100 in Canada and Mexico (includes GST). All other countries $200/yr (includes expedited air delivery). DAVE KELLEY, circulation manager. Four weeks' notice required for change of address. Send subscription correspondence to Circulation Department, Business Insurance, 965 E. Jefferson Ave., Detroit, Mich., 48207-3185, or phone 800-678-9595 or 313-446-0450, Fax 313/446-6777. Microfilm copies are available from University Microfilms, 300 Zeeb Road, Ann Arbor, Mich. 48013. Microfiche copies available: Bell & Howell, Micro Photo Division, Old Mansfield Road, Wooster, Ohio 44691. Portions of the editorial content of this issue are available for reprint or reproduction in other media. For information and rates to reproduce in general circulation media, contact: JOSEPH P. HANLEY, Crain News Service, 220 E. 42nd St., New York, N.Y. 10017-5806, 212-254-0890. For reprints or reprint permission contact: KAREN BROWN TUCKER, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590, 312-649-5319, Fax 312/280-3174.

TO SUBSCRIBE TO THE WORLD'S LEADING COMMERCIAL INSURANCE PUBLICATION, CALL
800-678-9595
313-446-0450 outside of the United States

BPA INTERNATIONAL® Member of Business Publications Audit of Circulation ABP

AMERICA'S UMBRELLA®



At Travelers Insurance we help our customers reduce loss costs by focusing on the human side. Our innovative program of injury prevention cuts down on claims and costs by keeping your employees healthy and on the job. For one customer this helped cut accidents by over 40% – and saved $3.6 million in the process.

Whether it's worker's compensation, product liability or general liability, Travelers offers the best insurance products at the best price for the best run companies – those committed to a safety management philosophy.

Our expertise in assuming risk, reducing costs and managing complex insurance needs makes Travelers an ideal partner. Just ask the 90% of our customers who sign on year after year.

They know that our commitment to the workplace is backed by over 130 years of experience and the belief that for each employee under

Even though we've helped save American business over $400 million, we know that most accidents cost more than money.

America's Umbrella, any accident is one too many. If you believe that too, call your broker or Thomas C. Tucker at 203-277-5500.

©1995 The Travelers Insurance Company and its Affiliates, Hartford, CT 06183.

TravelersInsurance
A Member of *TravelersGroup*

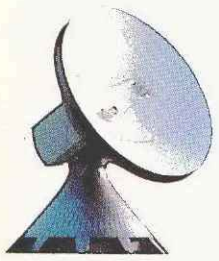
If this is the reception your maybe it's time to

Virtually no one would challenge the direct market's size or financial stability. But ask clients to evaluate the bigger picture—underwriting flexibility or responsiveness to unique needs and business opportunities—and its ratings often decline. If you share this view, we'd like to suggest an alternative solution: *Tune in to the broker channel.*

TUNED IN TO YOUR WAVE

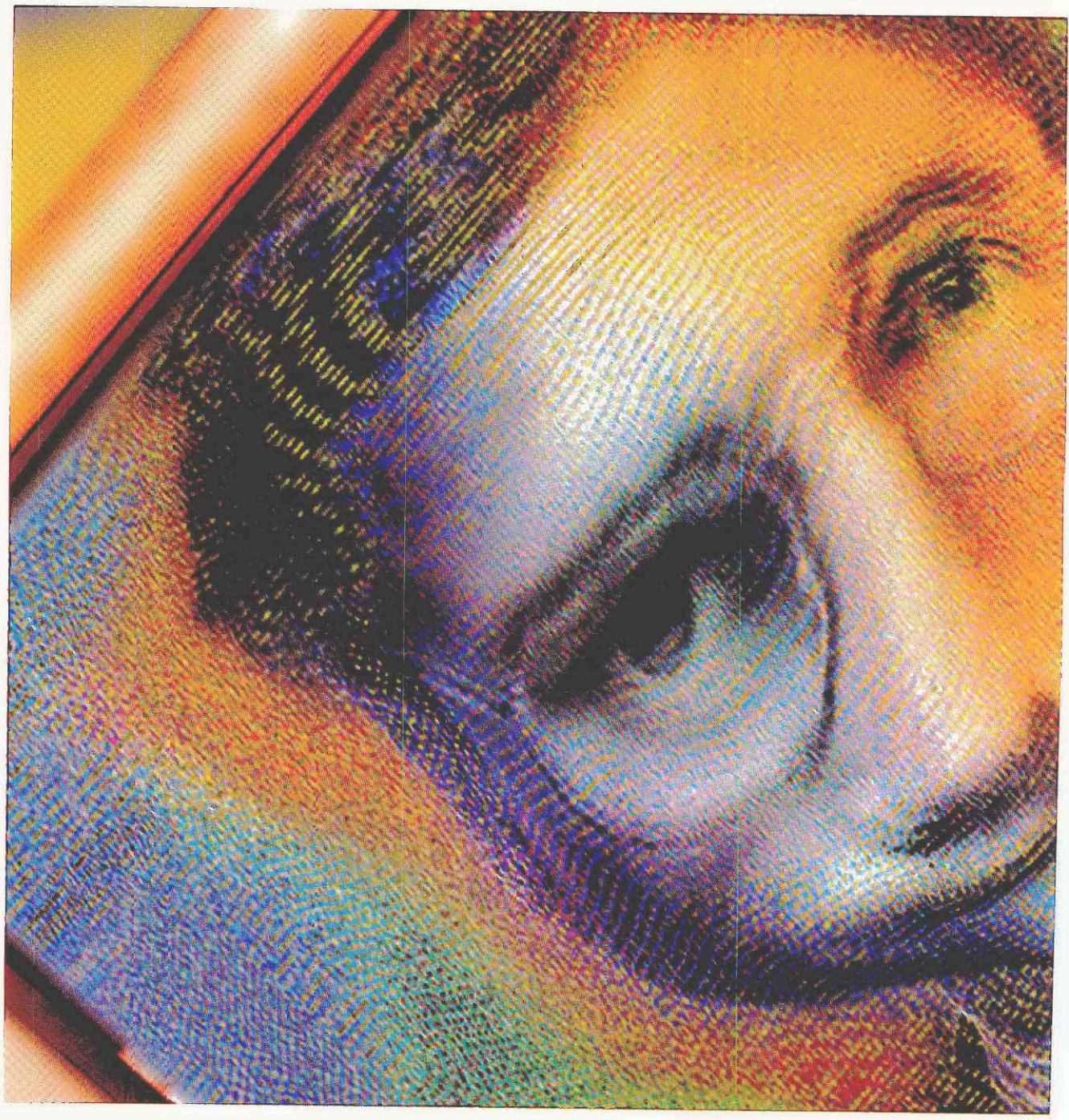
Like the commercial banking profession a decade ago, the reinsurance brokerage industry is changing dramatically. Today's top reinsurance brokers work smarter, faster and are more responsive to clients' changing needs. In addition to directing reinsurance programs, most have created highly specialized consulting units to help clients deal with issues from financial and tax planning to complex risk-based capital requirements.

Broker-market reinsurers have also changed. Check the numbers: Half of



WELCOME TO THE INFORMATION SUPERHIGHWAY. The broker market provides access to problem-solving specialists across the globe.

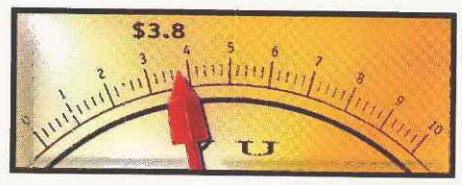
Standard & Poor's "top tier" reinsurance companies are marketed through brokers. Led by innovators like Zurich Reinsurance Centre, the broker market is attracting top underwriting, actuarial, claims and financial professionals from throughout the industry, all to provide more innovative solutions to reinsurance buyers *without* compromising financial security.



A NETWORK OF PROBLEM SOLVERS

Brokers share a simple philosophy: "What's best for you" rather than "What's in it for me?" They provide clients with a broad range of problem-solving ideas rather than promoting a single point of view.

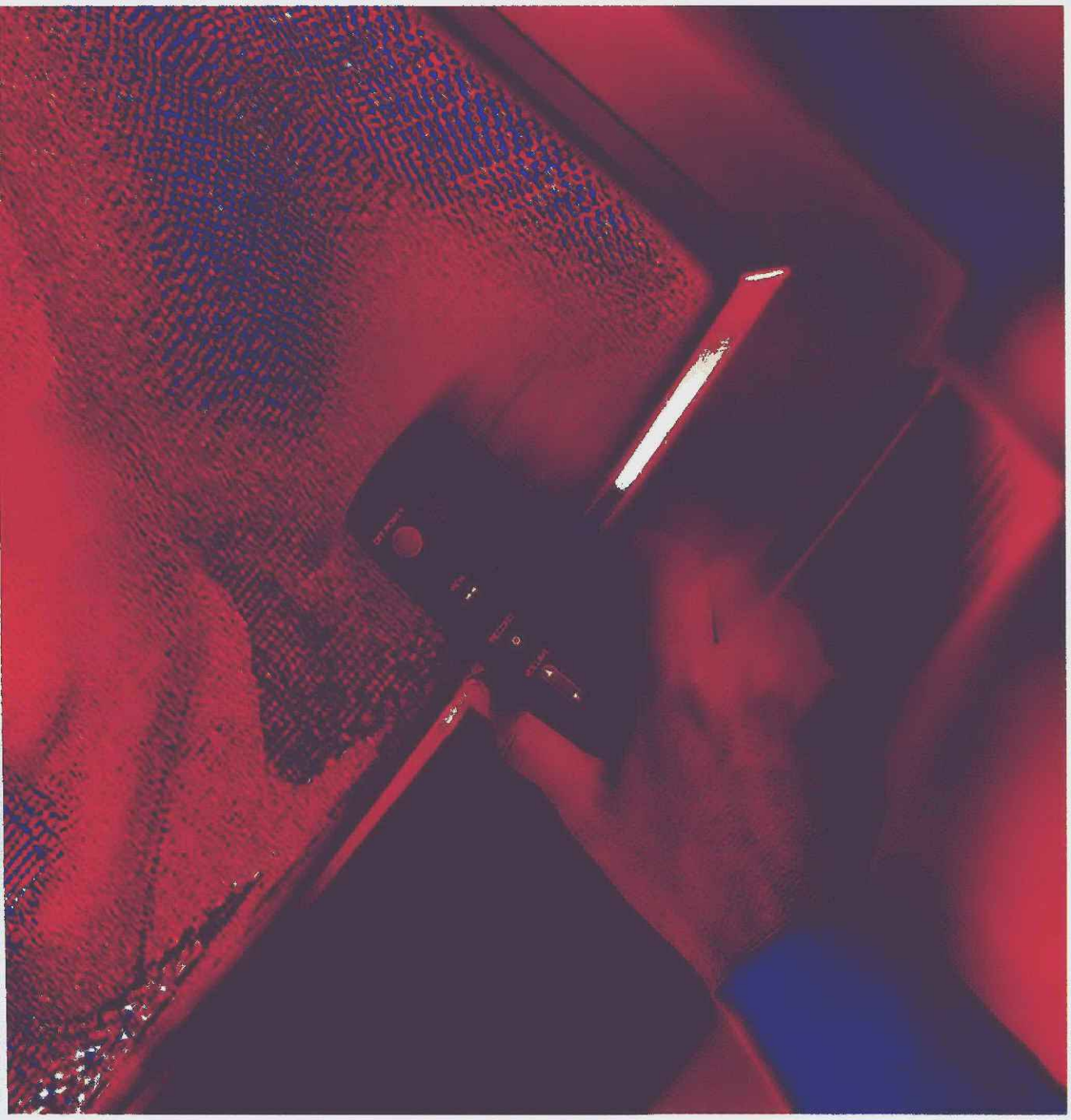
Brokers are tireless client advocates. They work on your side of the table, negotiating favorable terms and conditions, evaluating contract language, facilitating claims payments, and constantly challenging reinsurance companies to create more efficient solutions. The broker market doesn't tell you how to run your business. It shows you ways to make it stronger and more profitable, in part by designing pro-



DIRECT MARKET
(treaty reinsurance, in billions)

1992 Treaty Reinsurance Premium Volume. Source:

reinsurer gives new ideas, change channels.



WHO'S IN CHARGE HERE, ANYWAY? YOU ARE! Keep control over your reinsurance program using the help and advice of your broker.

A WORD FROM OUR SPONSOR

Why are we saying all of this in an ad? For the same reason we formed ZRC: We believe the reinsurance industry needs to change to keep pace with the escalating needs of ceding companies. Working through the broker channel, we continue to advocate this position to the benefit of a growing number of clients.

With more than $600 million in statutory surplus, a AA- claims-paying rating from S&P and a clean, unencumbered balance sheet, ZRC leads the broker market in size and financial stability. But beyond capacity, it's our energy, creativity and innovative underwriting philosophy that we think set us apart. If you're looking to fine tune your reinsurance program this renewal season, call your broker and ask about ZRC. You'll be pleasantly surprised by the reception you'll receive.

grams to achieve an optimal balance of risk retention and risk transfer.

When traditional solutions have come up short, the broker market has developed new and more effective ones, including the creation of finite risk protection and, most recently, the expansion of the property catastrophe market.

BROKER MARKET
(treaty reinsurance, in billions)

Brokers are managing their businesses to be more responsive, too. By upgrading technologies and automating many day-to-day service functions, brokerage firms and reinsurers are able to respond faster to client needs—from contract delivery to claims payments—and have set aggressive goals for continuous improvement.

ZRC

RAISING THE STANDARD FOR REINSURANCE

MEMBER OF THE ZURICH INSURANCE GROUP

TEL: 212-898-5000 FAX: 212-898-5005

Bermuda

Continued from page 6

liability insurers, Mr. Butterfield said.

"It helps create a feeling that Bermuda is a domicile of high integrity and it takes regulation seriously," he said.

The re-registering of Bermuda's insurers will cause a great deal of work for the registrar's office, but with the assistance of temporary staff, the task should be manageable, Mr. Butterfield said.

Overseeing the introduction of the regulations will be one of Mr. Butterfield's last actions in the department. In June, he will leave to take an undisclosed position with a private company.

His successor has not been named, but the current inspector of companies, Kymn Astwood, is widely rumored to be the leading candidate.

Other changes in Bermuda have also enhanced the regulation of captives and other insurers there, Mr. Butterfield said.

In the past year, the registrar's office has improved the timeliness of submission of statutory financial returns, he said.

Over the course of several years, it had become accepted practice in Bermuda that companies had three months' grace past the official filing date to hand in their returns, Mr. Butterfield said.

Now, the companies must request the consent of the registrar if they require more than one month extra to file the returns, he said.

"We've seen a vast improvement in timing," according to Mr. Butterfield.

The stricter regulatory environment will help attract more captives to Bermuda, captive managers agree.

"From a perception point of view, everybody involved in offshore insurance will recognize that a little more regulation is a good thing," said Andrew Carr, president of Marsh & McLennan Management Services (Bermuda) Ltd.

The new regulation will enhance Bermuda's reputation, even though few captive owners will be affected by it, he said.

"The point of the regulations is to address the whole question of whether this is a transient market or not. We have had people saying that the capital here is not committed, and the new regulations meet that criticism," said David Ezekiel, president of International Advisory Services Ltd.

IAS clients will be largely unaffected by the regulations, he said. One company that writes some third-party business will require extra capital to meet the requirements of a Class 3 company.

The new regulations have already won one captive for Bermuda from the Cayman Islands, which is perceived to have less stringent regulatory requirements, Mr. Ezekiel said.

"We've had one relocation from Cayman that was attracted here by the regulation. They liked the fact that the regulations were more clearly defined in Bermuda," he said.

The relocation was just one of seven new clients for IAS, which had a boom year in 1994 that propelled it to number two in the rankings of Bermuda captive managers, based on gross written premiums.

So far this year, IAS has added two captives to its roster, including one that covers residual value risks, which insures against unexpected declines in the market value of large assets, Mr. Ezekiel said.

IAS is seeing an increase in business and interest from Britain, he said.

London brokers, whose interest in Bermuda has been stimulated by the catastrophe reinsurance and excess liability business, are also now helping more clients establish captives in Bermuda, Mr. Ezekiel said.

"There has been a lot more contact between U.K. brokers and Bermuda for a whole lot of insurance, and that has had a spinoff effect," he said.

Bermuda's evolution into an insurance center has increased the volume of captive business coming to the island, agreed Gail Y. Fox, executive vp at Alexander Insurance Managers Ltd.

"It's the realization of the one-stop-shopping that we've been talking about for years. Bermuda is now an offshore insurance center as opposed to a captive insurance center," she said.

The abundance of services available in Bermuda caused another relocation to Bermuda from Cayman, said Alan C. Cossar, executive director at Alexander Insurance Managers.

The captive owner had one captive in Cayman and another in Bermuda, and it wanted to consolidate the management of both. The owner selected Bermuda over Cayman because of the other insurance services available, he said.

"People recognize that there are so many other things you can do here," Mr. Cossar said.

Risk managers are also impressed with Bermuda.

The professional service available from the captive managers is as good as anywhere, and despite Bermuda's reputation as an expensive domicile, the costs of operating a captive in Bermuda are not significantly higher than other domiciles, they say.

Chemical manufacturer Rohm & Haas Co. established its captive in Bermuda in 1980.

Bermuda was largely the only choice of domicile in the late 1970s when the Philadelphia-based company was setting up the captive, said Henry L. Good, director of insurance.

Rohm & Haas (Bermuda) Ltd. is managed by Johnson & Higgins and covers much of the company's non-U.S. benefits, property/casualty and auto exposures, Mr. Good said.

The professional services available in Bermuda are of a high standard but, like other captive domiciles, they are expensive, he said.

"Occasionally we look at other domiciles but have not found a place that gets away from that problem," Mr. Good said.

Houston-based U.S. Home Corp. has price-shopped other domiciles, but it also plans to stick with Bermuda, said Michael Thibodeaux, director of risk management at the builder and land developer.

"We've checked into Vermont and Colorado to see whether there were any advantages in having it moved to those states, and we did not see any," he said.

U.S. Home Corp. set up its captive in November 1977. It is managed by International Risk Management (Bermuda) Ltd. and covers general liability, auto liability and workers compensation risks.

Continued on next page

The Alexsis philosophy – No. 4 in a series

More than just talk.

For a large copy of the poster above, please send your business card to J. Darwin Daniel, Sr. V

Continued from previous page

The level of service available from managers and regulators' understanding makes Bermuda an attractive domicile for a captive, he said.

"The managers are very responsive to us, and when the regulators have questions, they give you time to provide an answer and they tell you what is acceptable," Mr. Thibodeaux said.

Usually the captive managers in Bermuda can anticipate the concerns of regulators, and captive owners rarely receive queries, he said.

"In the 10 years that I have been involved, I have only had one or two questions from the regulators. . . .The managers know the regulators and the things that need to be done," Mr. Thibodeaux said.

Some Mexican corporations also have been impressed enough with Bermuda to set up captive insurers there.

Bermuda managers have pinpointed Mexico as an area for expansion in the past few years. Until the recent economic freefall, touched off by the collapse of the peso, they thought economic development and the North American Free Trade Agreement would stimulate interest in captives.

J&H (Bermuda) had two Mexican captives among the 20 new captives it formed in 1994, said Jill E.U. Husbands, vp at J&H.

"Most of the new inceptions continue to be from the U.S., but we are seeing developments in Latin America," she said.

Alexander Insurance Managers also set up a captive for a Mexican concern in 1994.

The prospects for attracting more captives owned by Mexican concerns over the next few years are unclear, said Alexander Insurance Managers' Ms. Fox.

Bermuda managers have pinpointed Mexico as an area for expansion in the past few years.

In fact, Mexico's economic crisis might have a beneficial effect on captive growth, she said.

"We don't know what will happen, but it could encourage captive formations. The companies there will still have to buy insurance, and captives are a cost-effective way of doing that," Ms. Fox said.

Still, the crisis in Mexico has deterred SINSER Group from establishing an office in Mexico in 1995, said Robert J. Rosser, vp at Skandia International Risk Management Ltd., a member of the SINSER Group.

"We are still looking at establishing an office in Mexico, but it has been put off until 1996," he said.

Mr. Rosser estimated that there are about six Mexican-owned captives in Bermuda. "That's great. It's a substantial number for one country in Latin America."

Europe continues to be a growth area for captives, said Nicholas S. Dove, president of Skandia in Bermuda.

"There is tremendous interest in France and Germany, and we are also beginning to see an interest from companies in Eastern European countries," he said.

Skandia lists two Norwegian-owned captives among the five new captives it set up in 1994.

"They were both shipping companies who know Bermuda well through their P&I activities," Mr. Dove said.

Norway and Switzerland will likely be a good source of business for Bermuda captive managers because companies there receive significant tax advantages by establishing captives in Bermuda rather than European domiciles, J&H's Ms. Husbands said.

J&H established a captive for a Norwegian energy and shipping company last year, she said.

Some captives did relocate to other domiciles from Bermuda for reasons relating to company needs, captive managers say.

For example, one captive managed by Johnson & Higgins (Bermuda) Ltd. moved to Vermont for tax reasons that were relevant to its parent. And a Canadian captive managed by Alexander Insurance Managers moved to Barbados, which has traditionally offered tax advantages to Canadian-owned companies.

In general, J&H saw an increase in captives established by private corporations, Ms. Husbands said.

Private corporations are reviewing the tax advantages in recent cases, such as the December 1993 case *Malone & Hyde Inc. vs. Commissioner of Internal Revenue*, which made captives more attractive to smaller companies, she said.

More captives also are being established as "profit centers" to cover business like extended warranty risks, Ms. Husbands said.

"And, if they have a captive set up as a profit center, they often will put general casualty business into the captive as well," she said. Putting general liability risks in a captive that serves as a profit center is justified despite low commercial liability insurance rates, she noted.

Risk managers and their brokers are extending the range of risks that are covered by captives, agreed Alastair C. Nicoll, vp at Aon Risk Services (Bermuda) Ltd.

"A lot of professional liability risks are coming into the captives," he said.

Often much of the risk is then reinsured to excess liability insurers based in Bermuda. The captive owners benefit from paying 1% federal excise tax rather than the 4% they would pay if they went directly to the insurers, Mr. Nicoll said.

"In addition to that, they get greater control of the risk," he said.

Risk managers are generally using their existing captives more than they have in the past, said Mr. Rosser of Skandia.

"Risk managers are better educated and more sophisticated than they were 10 years ago, and they are looking into ways to build protection rather than buy protection," he said.

Captive owners are using their captives to solve problems, M&M's Mr. Carr said.

"It seems that captives are being used more often in one-off situations where problems can be solved through the use of a captive and that is why the number of formations continues to grow in a soft market," he said.

For example, one captive formed by M&M covers professional liability exposures for agents that all operated for one company, Mr. Carr said.

The company set up the captive to formalize its relationship with the agents and provide them with

See **Bermuda** *on page 16*

nicate.

Understanding.

At Alexsis, we believe communication is more than just talk. We think it is mutual understanding. And that is what we strive for in each client relationship.

From our information and reporting procedures through daily contact with client account teams, we work to assure clients of clarity and substance in all of our communications.

That is why Alexsis has become one of the nation's leading risk management service organizations. Our services range from loss control and claims administration to managed care and consulting on risk management issues.

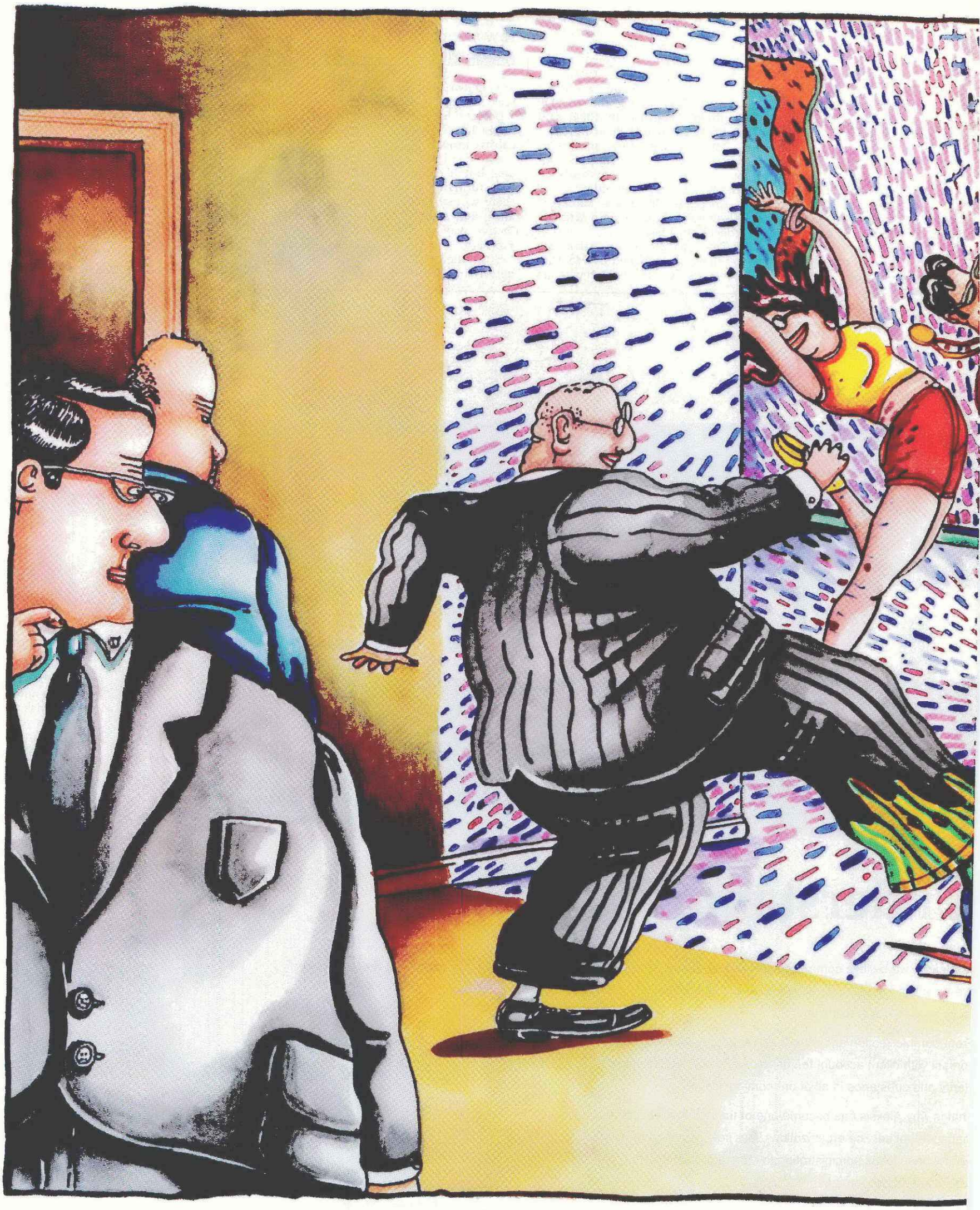
So, if the cost of workers compensation or liability programs is a problem for your company, turn to Alexsis.

We provide solutions tailored to your situation.

Alexsis®
Risk Management Services
Solutions

ational Sales Director, Alexsis, 17187 N. Laurel Park Drive, Livonia MI, 48152

Cross the Line.



Discover Re • 3:3 Waterside Drive, Farmington, CT 06032 • Post Office Box 568, Farmington, CT 06034 • Telephone (203) 674-2660 Fax (203) 674-2671

Something amazing happens
when you step into Discover Re.
Alternative Risk Transfer
becomes more imaginitive.
More insightful. With possibilities
that could make your pin stripes curl.
If you find conventional insurance
a little stuffy, loosen your ties
and come over to our side.

Discover Re.
Everything but routine.™

DISCOVER RE

SPECIAL REPORT

Bermuda

Continued from page 13

coverage, he said.

"It was the opportunity to provide insurance rather than price that led to them establishing the captive," Mr. Carr said.

Increased retentions are boosting the premium volume of existing captives, said Robert C. Hug, president and managing director at Sedgwick Management Services (Bermuda) Ltd.

Sedgwick had a net loss of three captives in 1994, but gross premiums written by its clients increased 25% to $406 million.

"That was because of an increase in retentions being funded by captives," he said.

Companies are looking at their exposures throughout the world and trying to fund the retentions through their captives. In some cases, the captive is covering high-level retentions for subsidiaries of the parent that would not normally be able to carry such burdens, Mr. Hug said.

Coverage of U.S. liabilities for non-U.S. companies is also leading to increased premium volume, he said.

"Companies in Europe did not have the liability problems that U.S. corporations do, so many of the captives were for property or marine or credit risks. They were reluctant to put their U.S. liabilities into the captive until they had achieved a certain comfort level in using their captive," Mr. Hug said.

Health care captives are also increasing in size, even though the U.S. Congress failed to pass comprehensive health care reforms in 1994, captive managers say.

"The changes from a regulatory view point have been put in abeyance, but the changes in the industry are still going ahead," said Mr. Dove of Skandia. "Health care providers are seeking to reduce their costs by establishing captives to provide insurance."

Health care groups seeking to provide coverage for non-employed physicians also are attracted to Bermuda, Alexander's Mr. Cossar said.

"Vermont is very cautious about captives writing third-party business, so they come offshore. . . .Bermuda is happy with the business as long as there is a good business plan," he said.

Existing medical malpractice captives are increasing their retentions due to the lack of good-quality reinsurance for long-tail liability risks, said Mr. Ezekiel of IAS.

"There is a much higher standard being set for reinsurance, and reinsurers that we would have used in the past are not acceptable any longer," he said. BI

Largest managers of Bermuda captives

Premium volume in millions of dollars

Manager (Parent)	Premium volume 1994	Premium volume 1993	Captives 1994	Captives 1993	Staff 1994	Staff 1993
Johnson & Higgins (Bermuda) Ltd. (Johnson & Higgins)	$1,847	$1,206	190	181	157	156
International Advisory Services Ltd.	650	570	77	71	47	43
International Risk Management (Bermuda) Ltd. (International Risk Management Group Ltd.)	610	615	80	76	51	51
Aon Risk Services (Bermuda) Ltd. (Aon Corp.)	600	600	80	83	29	27
Marsh & McLennan Management Services (Bermuda) Ltd. (Marsh & McLennan Cos. Inc.)	550*	525*	88	87	45	40
Sedgwick Management Services (Bermuda) Ltd. (Sedgwick Group P.L.C.)	406	325	59	62	34	32
Alexander Insurance Managers (Bermuda) Ltd. (Alexander & Alexander Services Inc.)	260	260	81	82	34	42
Minet Risk Services (Bermuda) Ltd. (Minet Group P.L.C.)	250	250	12*	12*	10	10
Skandia International Risk Management Ltd. (Skandia/SINSER Group)	237*	220*	80	85	18	20
American International Co. Ltd. (American International Group Inc.)	207	171	26	25	10	11

*BI estimate
Source: BI survey

GRAPHIC BY MIKE GARVEY

Bermuda overhauling insurer regulations

BERMUDA

HAMILTON, Bermuda—Regulations for establishing insurers in Bermuda will go through their first major shake-up since 1978 when new rules are implemented on April 29.

Intended to reflect the diversity of captives and insurance companies now domiciled on the island, the regulations will create four classes of insurance licenses.

Previously, all Bermuda-based insurers—from single-parent captives to catastrophe reinsurers—had been regulated under one license.

The four classes of licenses proposed under the Insurance Amendment Act 1995 will be:

• Class 1 licenses, which will be issued to single-parent captives insuring only the risks of the parent company and its affiliates.

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

• Class 2 licenses, which will be issued to group and association captives that derive no more than 20% of their net premiums from unrelated companies.

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

• Class 3 licenses, which will be issued to commercial insurers and reinsurers writing third-party business. This would include finite risk reinsurers and captives that derive more than 20% of their business from unrelated companies.

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

• Class 4 licenses, which will be issued to excess liability insurers and catastrophe reinsurers.

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

Few Bermuda-based companies will have to increase their capitalization, except a few association captives, which will be able to do so, captive managers say.

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 is $1,100. The one-time registration fee is $2,320.

Registrar of Companies Malcolm Butterfield has announced his intention to resign effective June 9, and a successor has not been named. Mr. Butterfield said he is joining a Bermuda-based company, but he has not disclosed which company.

Information on incorporating a Bermuda captive is available from the Office of the Registrar of Companies, Government Building, Hamilton 5, Bermuda; 809-295-5151.

—By Gavin Souter

Hopewell forced to call it quits

Harrington stepping in to fill void

By GAVIN SOUTER

BERMUDA

HAMILTON, Bermuda—Hopewell International Insurance Ltd. is shutting down after 23 years as a reinsurer of large property programs underwritten by captive insurers.

The property risk pooling facility, managed by International Risk Management (Bermuda) Ltd., cannot find sufficient proportional reinsurance to continue operating, said Gareth Bradburn, chief executive officer of IRM.

Hopewell will be replaced by a new facility, Harrington International Insurance Ltd., which will have $70 million in capital provided by Zurich, Switzerland-based Swiss Reinsurance Co., which owns 70% of IRM, and Winterthur Swiss Insurance Co. of Winterthur, Switzerland.

Mr. Bradburn became CEO of IRM when Arthur H. Deters retired in June 1994, after 34 years with the company. Mr. Bradburn formerly was managing director of IRM affiliate European Risk Management Ltd.

When Hopewell was established in 1972, it retained little risk and "its primary purpose was to package reinsurance in the most convenient way for the reinsurance market," he said.

At that time, the reinsurance market covered most ceding companies on a proportional basis. But, in recent years, non-proportional reinsurance has become much more widespread, he said.

Hopewell is now capitalized at $6.3 million.

The decision to close Hopewell reflected investors' reluctance "to put money into existing vehicles because nobody knows what skeletons you have in the cupboard," he said.

Most of Hopewell's outstanding losses are short-tail property risks. But, Hopewell did write some liability business between 1973 and 1978, which included coverage of pollution exposures, Mr. Bradburn said.

The scarcity of non-proportional reinsurance to support Hopewell at its current capitalization led to the decision to place Hopewell into runoff and establish a new vehicle to reinsure the approximately 60 captive insurer members of Hopewell.

Harrington, like Hopewell, will reinsure highly protected industrial properties and marine risks. Additional capital will be sought from existing Hopewell members and other insurers and reinsurers to boost Harrington's capital to more than $100 million, Mr. Bradburn said.

Harrington's reinsurance will be written largely on an excess-of-loss basis by about 100 different reinsurers, he said.

IRM will manage the Hopewell runoff.

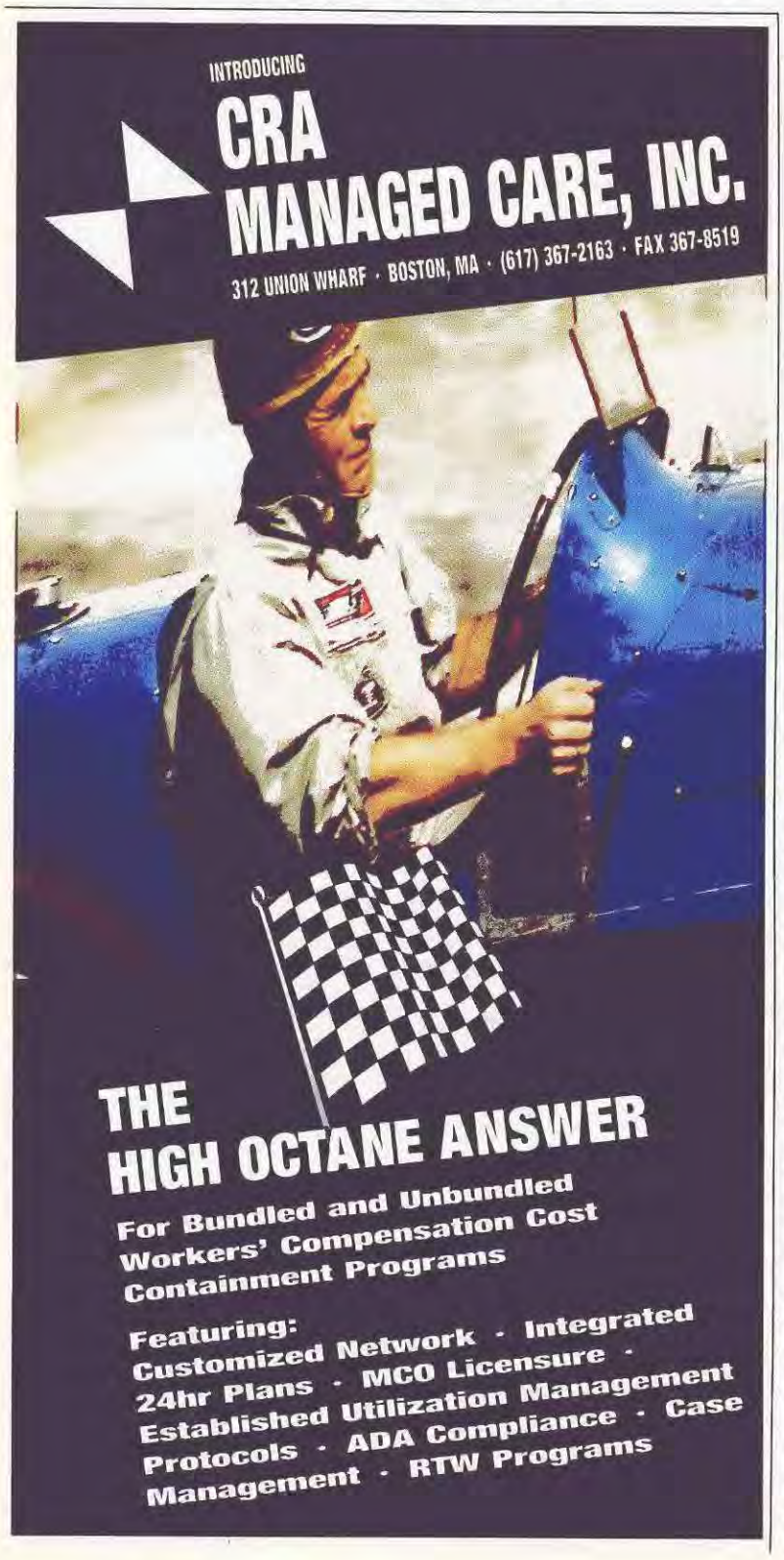
Hopewell will cease underwriting on June 30 and will transfer its business to Harrington on July 1. Most Hopewell members are expected to move to Harrington.

Hopewell's attractive features are likely to be repeated in Harrington, said Cheri J. Hawkins, assistant treasurer and director of insurance at wood products manufacturer Weyerhaeuser Co. in Tacoma, Wash.

"When we formed our captive in Bermuda in 1976, having a well-respected treaty in place through Hopewell was a major consideration," she said.

That well-organized access to the reinsurance market will be maintained through Harrington, Ms. Hawkins said, adding that Weyer-

See **Hopewell** *on page 20*



A GOOD PARTNER SEES THINGS FROM YOUR PERSPECTIVE.

Although two people may be looking at the same thing, they may not see it the same way. That's why we sit down with you from the very start. To be sure we understand your objectives. And your perspective.

We believe a quality reinsurance partnership should meet *your* needs — as *you* define them. In fact, when you work with our reinsurance professionals, you'll find they share a common goal: to consistently provide superior, individualized service.

As we see it, understanding what's important to you is essential to sustaining a successful, long-term reinsurance partnership. If you'd like a strong, dependable reinsurance partner, who'll see things from your perspective, talk to us. We'll be there when you need us.

- Treaty Through Intermediaries
- Facultative Direct

We'll be there when you need us.

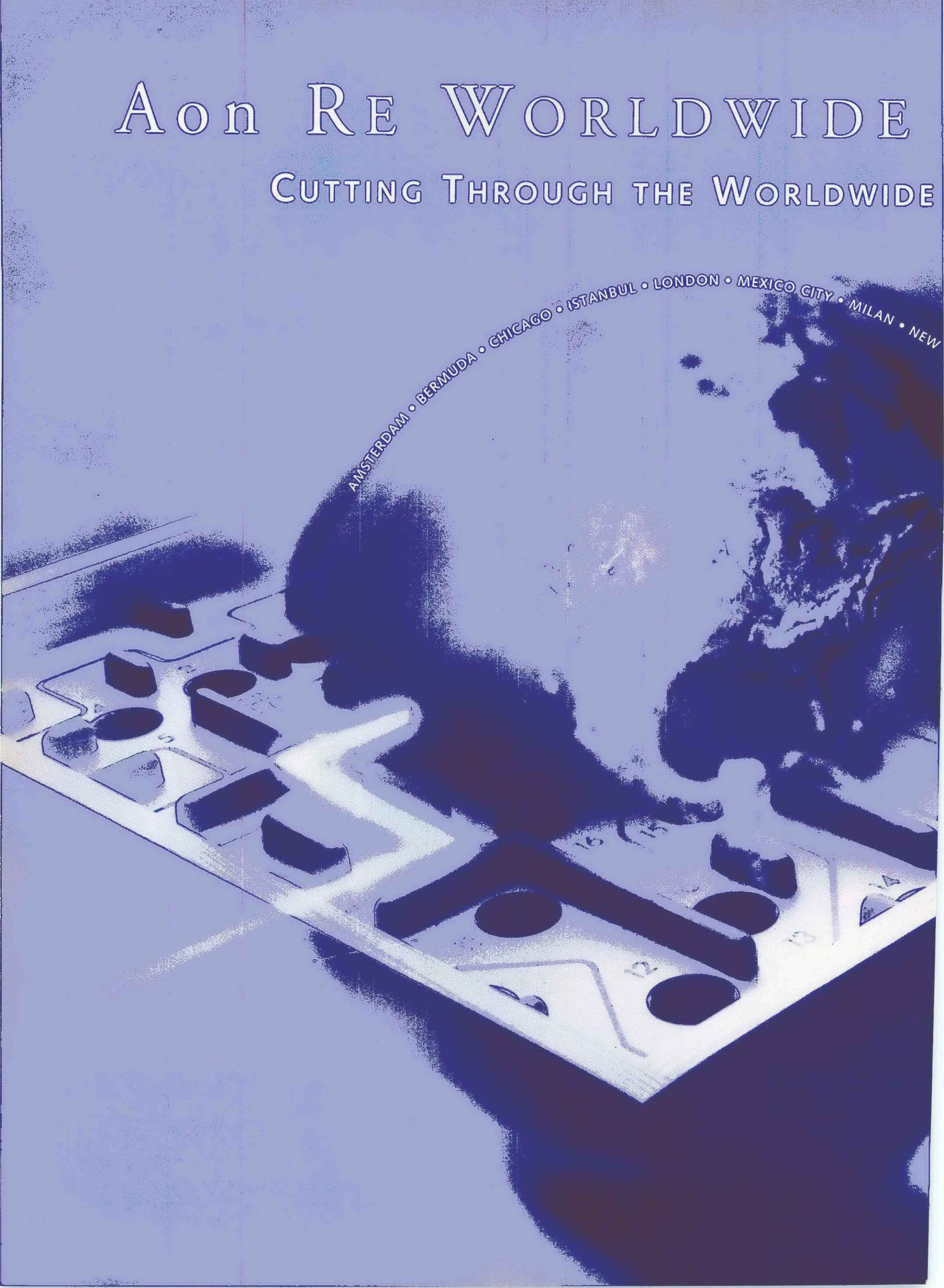
NAC Re

GREENWICH HARTFORD ATLANTA CHICAGO SAN FRANCISCO LONDON

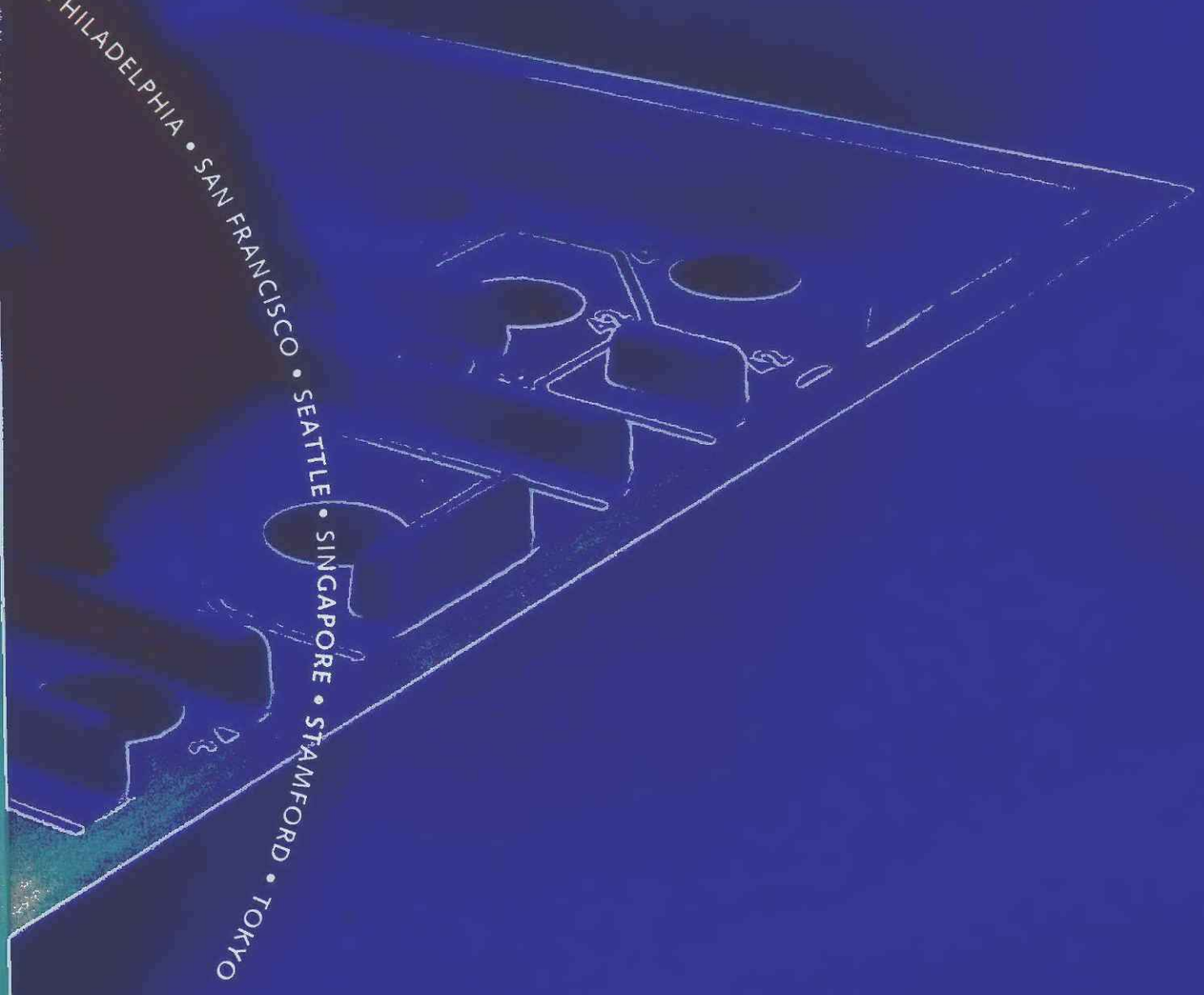
NAC Reinsurance Corporation © 1995

Aon Re Worldwide

Cutting Through the Worldwide



Reinsurance Maze



Aon Risk Services Inc.

ALTERNATIVE SOLUTIONS IN THE GLOBAL REINSURANCE MARKETPLACE

Aon Re
Worldwide
312.701.3000

SPECIAL REPORT

Hopewell

Continued from page 16

haeuser is considering investing in Harrington.

Hopewell's reinsurance program was restructured slightly at the 1994 renewal. "We had some companies that decided not to write reinsurance anymore, but some reinsurers increased their share and some new reinsurers came on as well," Mr. Bradburn said.

In particular, syndicates at Lloyd's of London increased their participation in the Hopewell program, he said.

Limits for the excess-of-loss portion of the program were increased, and that coverage now attaches at a lower level, Mr. Bradburn said.

Still, with the reduction of proportional coverage, Hopewell members had to increase their retentions, he said.

Hopewell suffered some major losses in the fiscal year ending June 30, 1994. The facility reported a net loss of $2.8 million, compared with a $1 million net profit in 1993. Underwriting losses totaled $3.8 million vs. an underwriting profit of $23,000 in 1993.

Hopewell last year ended its long-standing dispute with Somerville, N.J.-based Hoechst-Celanese Corp. over coverage for damages resulting from a 1987 explosion at a Hoechst plant in Pampa, Texas.

Hoechst disputed an earlier settlement after Hopewell had begun making payments and filed a $100 million lawsuit in Texas courts. The case was settled through mediation last year for an undisclosed amount.

In 1993, an industrial fire in Hereford, England, created a more than $100 million loss for Hopewell. Significant claims also stemmed from the Mississippi River floods in 1993 and an earthquake in Guam.

The past year was quieter, however, for Bermuda's Risk Exchange Assn., which IRM also manages. Soft market conditions in the United States made for little activity at the Risk Exchange, but the facility had a profitable year, Mr. Bradburn said.

The Risk Exchange is a pooling facility that allows members to select the classes of insurance they want to reinsure. Members can turn down individual risks rather than pool and reallocate all of the business that flows to the facility.

Selected professional reinsurers, led by Chubb Atlantic Indemnity Ltd., can reinsure the risks along with the members. The arrangement gives members more flexibility than a typical pooling vehicle.

The Risk Exchange provides about $10 million of capacity.

IRM took over management of the Risk Exchange in 1993 from Skandia International Risk Management Ltd. and changed the reinsurance program for the facility, installing Chubb Atlantic as the pool's main facultative reinsurer in January 1993.

Several new members had considered joining in 1994, but the soft U.S. reinsurance market interfered, Mr. Bradburn said. In the end, the facility, which now has 11 members, lost a member.

Prospective new members in 1995 include companies from Europe and as well as the United States, he said.

The prospective members "think there could be a hardening of rates, and they think they will be able to get a better balance by using the Risk Exchange," Mr. Bradburn explained. BI

"To gain a better perspective on the world, you need to stand back a little."

BERMUDA • CAYMAN • COOK ISLANDS • DUBLIN • GUERNSEY • HONG KONG • ISLE OF MAN • JERSEY
LONDON • LUXEMBOURG • MAURITIUS • NEW YORK • NEW ZEALAND • SINGAPORE • WESTERN SAMOA

"To appreciate the benefits of being exclusively offshore, you need to look no further than The Bank of Bermuda. From the vantage point of the world's fifteen important jurisdictions, each with its specific expertise, we offer the insurance industry an uncommon degree of security and freedom- the ideal mix for risk management.

"Indeed, we've formed partnerships with more than half the world's captive insurance companies.

"We also enjoy a vital partnership with the world-renowned Bermuda Biological Station for Research, Inc., whose work in predicting natural disasters and other phenomena can help reinsurers put a value on potential catastrophic risk. Which proves nothing sharpens one's perspective quite like good information.

"For more information, visit our booth (1668) at RIMS. Or call me on (809) 299-5005 or fax (809) 295-1386. Or send me your business card and I'll call you. The Bank of Bermuda Limited, 6 Front Street, Hamilton HM DX Bermuda."

THE BANK OF BERMUDA
Exclusively Offshore.

Charles Vaughan Johnson

Turnaround in work comp stalls growth

Rent-a-captives look to future for growth

By GAVIN SOUTER

HAMILTON, Bermuda—Rent-a-captive facilities are hoping business picks up in 1995.

Only the largest rent-a-captive program trumpeted strong growth in 1994.

BERMUDA

Many others lost members and reported lower or stagnant premium volume, in part due to competition from conventional insurers underwriting in the newly competitive California workers compensation insurance market.

The Insurance Profit Center rent-a-captive reported the strongest results last year.

IPC's gross premiums increased 13.5% to $168 million from $148 million in 1993. Membership logged a net increase of 45 programs, or 14.3%, to 359 from 314 in 1993.

"Most of them were workers comp," though some included auto and general liability, said Paul D. Watson, president of IPC parent company Mutual Indemnity Ltd.

Workers comp problems in some states continued to push employers to rent-a-captives, he said.

Workers comp risks are well-suited for rent-a-captives, Mr. Watson says. They normally have about a five-year tail, so they can generate investment income. And, those risks are relatively simple to underwrite.

IPC, though, faced competition in the California workers comp market, where an open-rating system has replaced a minimum-rate system. "It makes it more difficult for us because guaranteed-cost policies can be a cheaper alternative," Mr. Watson said.

But, in two or three years, rent-a-captives should make a strong comeback in California, he predicted. Workers comp rates there are too low now and cannot be sustained, he said.

Mr. Watson expects that so-called program business from brokers, which accounted for several new deals last year, also will continue to generate new premiums. Under this arrangement, a broker becomes a facility shareholder. "If the program is profitable, he will get a share of the profit. But if it is unprofitable, it will cost him," he explained.

Customers also are more interested in fully funded programs, "though they tend to be for unusual deals," Mr. Watson noted. In a fully funded program, the rent-a-captive issues a policy and the client funds the risk up to the aggregate limit. For most of these programs, there is no reinsurance.

Traditional programs are written through a fronting insurance company. The rent-a-captive reinsures the fronting insurer and usually buys reinsurance.

The new open rating system in California's workers comp market also squeeze premium growth at Universal Re-Insurance Co. Ltd., managed by Atlantic Security Ltd.

Universal Re's premium volume was stagnant at around $23 mil-

See **Renting** *on page 22*

CHOOSING THE WRONG PROPERTY CAT REINSURER CAN STOP YOU IN YOUR TRACKS.

Centre Cat can show you the signs of stability: Beyond substantial capacity, our superior risk analysis and proprietary portfolio management tools offer cedants proof—not promises—of our ability to weather multiple catastrophes. Look to us for responsible pricing. Program leadership. Selective, individualized underwriting. Ask your broker to call us in Bermuda at 809-292-2102 for more information.

CENTRE CAT

REWARD YOUR INDIVIDUALITY

SPECIAL REPORT

Bermuda excess products revamped, expanded

Some prices fall, keeping new capital away

BERMUDA

By GAVIN SOUTER

HAMILTON, Bermuda—The selection of products on sale in Bermuda's excess insurance market continues to grow as new vendors set up their stalls and the established insurers revamp and expand their brands.

While large blocks of excess liability and directors and officers liability coverage remain the market's staple business, buyers also can find finite risk, aviation products, architects and engineers professional liability coverage, property coverage and tailor-made liability insurance policies touted on the island.

And as insurers vie to provide new products, price competition also is heating up in some lines.

Hazardous liability risks suffered price increases last year, but rates for less volatile business fell in some cases as competition from London returned and U.S. insurers maintained their appetite for casualty business, brokers say.

The Bermuda excess market settled in and re-engineered some of its products in 1994, said L. John Goldberg, principal and senior vp at J&H Intermediaries, a unit of Johnson & Higgins.

"There was little activity in terms of new capital, but we saw the existing companies re-engineer some of their products," he said.

For example, ACE Ltd. restructured its excess liability coverage to reduce its exposure to integrated occurrences.

More recently, ACE has started to offer financial and finite risk coverages, entered the aviation products market and likely will enter the property insurance market soon.

X.L. Insurance Co. introduced COAXL, a simplified version of its excess liability coverage aimed at medium-sized companies. X.L. has also revamped its property insurance coverage, giving it a lower attachment point to make it more attractive, and has begun to offer architects and engineers professional liability coverage.

Among the newcomers to the island is Chubb Atlantic Indemnity Ltd., which opened for business last year and is offering a range of products customized for individual policyholders, such as punitive damages insurance.

Also joining the Bermuda excess market last year was Lexington Insurance Co., though the branch of this Boston-based unit of American International Group Inc. has not yet written significant premiums, brokers say.

The excess insurers also re-engineered their underwriting in 1994.

In September, ACE implemented substantial rate increases for policyholders in the medical, chemical and energy industries.

In some cases, the rates likely will be increased by 100% over the next

Continued on next page

Renting

Continued from page 20

lion, said Hal Forkush, president.

But new areas of business, like services that provide temporary employees, helped prevent any fall in premium volume.

Mr. Forkush expects that the new office for marketing affiliate Universal Risk Services in New York, through which several programs already have been added, will help Universal Re double its premium volume in 1995, he said.

Universal Risk plans to open two or three more offices nationwide during the next few years, he said.

Atlantic Security also manages three other rent-a-captives: Hanseatic Insurance Co., Universal International Reinsurance Co. Ltd. and Magna Carta Insurance.

Hanseatic doubled its premium volume to $2 million and its members to two in 1994. One program is for U.S. risks, and the other is for Caribbean property risks. Hanseatic is used only for programs that the manager says are not suitable for Universal Re.

Universal International's gross premiums nearly doubled to $15 million in 1994 from $8 million in 1993. The facility, which is taxed as a U.S. corporation, usually is used for programs larger than those covered by Universal Re. That accounts for Universal International's rapid growth since it was formed in 1992, said Colin C. James, president and CEO of Atlantic Security.

Premium volume for Magna Carta, which writes a broad spectrum of liability risks for California-based companies, remained at about $4 million in 1994, he said.

BF&M Management Ltd. shelved its plans last year to set up a new rent-a-captive to write workers comp business in Texas. The idea for the facility was based on the business of one producer in Texas. But, the program eventually did not prove viable, said Irmgard Viera, vp. BF&M's existing rent-a-captive, Fortress Insurance Co. Ltd., lost half of its 12 clients in 1994.

"Some of them went onshore because they had achieved what they wanted to achieve, which was a deductible fund," Ms. Viera said.

Still, prospects for 1995 look good, she said. BF&M intends to concentrate its efforts on marketing its rent-a-captive this year.

In January, Fortress changed its bylaws to allow members to be shareholders of the facility. One client so far has become a shareholder.

Pennsylvania Manufacturer's International, established in 1993 by workers comp insurer Pennsylvania Mutual Assn., added one program in 1994, bringing its total to three.

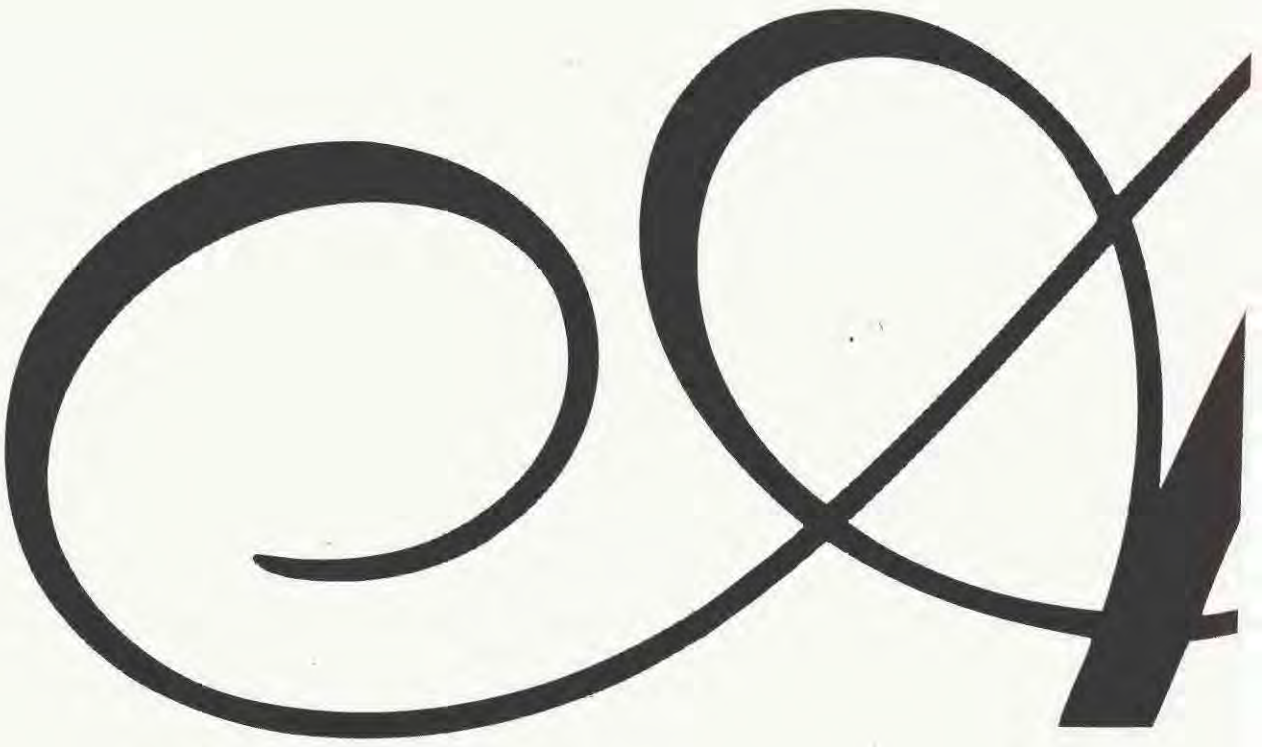
"They are expanding into other states, and there are about three other programs that are possibilities in the near future," said Peter J.N. Strong, president and director of facility manager Independent Management Group Ltd.

Hurst Holme Insurance Co. Ltd. added two new programs but lost four in 1994, leaving it with 11.

Two of the companies that pulled their programs formed their own captives, said David Pickering, executive vp of facility manager International Advisory Services Ltd.

Premium volume fell to $6.6 million in 1994 from $8.2 million in 1993. The drop was due largely to the reduction of exposures for one client, he explained. BI

Q. Is there an **insurance broker** willing to develop customiz solutions to the unique needs of *my* business?



Continued from previous page
three years, said Colin C. James, president and chief executive officer of broker Atlantic Security Ltd.

And X.L. followed the ACE move by increasing its rates for pharmaceutical business by an average of 15%., though X.L. will look at each account individually, according to Mr. James.

Simultaneously with the price increases, ACE cut its excess liability limits for multiple claims from one event to $100 million from $200 million (*BI*, Oct. 24, 1994).

But ACE lost little business as a result of the move, J&H's Mr. Goldberg said.

"We thought that there might be a flight from ACE, but it has not occurred. It seems that the people that buy the coverage need it regardless of the extra cost, and they will buy whatever is available," he said.

However, the full effect of the price increases and coverage changes will not be known until a year's worth of renewals have been placed, Mr. Goldberg said.

Insurers like X.L. and Starr Excess Liability Insurance Co. Ltd., which continue to offer integrated coverage, may yet see an increase in business from ACE policyholders seeking more extensive coverage, brokers say.

"To date we have not seen people leave ACE, and I don't think they will. They may look to add integrated cover from other insurers, such as Starr or in London," said Karen White Lawson, senior vp at Alexander International Insurance Services Ltd.

Less hazardous risks, however, are enjoying reduced prices, in part due to the re-emergence of London as a significant market for excess liability insurance, said Ms. Lawson.

"London is back, particularly for energy business," she said, adding that U.S. insurers also continue to offer competitive rates.

Bermuda's excess insurers have held on to many of their policyholders because their coverage is broader, but the outside competitors are having some effect on rates, brokers agree.

"For the first time in 10 years, we are seeing the Bermuda market follow the domestic U.S. market down in a competitive fashion," said Mr. Goldberg.

And added competition between the Bermuda insurers themselves is also driving down prices for less hazardous business, said Atlantic Security's Mr. James.

Prices have fallen by about 15% for softer business, he said.

"Starr has been very aggressive, and American underwriters have been aggressive on the softer risks," Mr. James said.

"ACE and X.L. are doing what they can to retain their business, and that means not increasing their premiums when insureds' exposures are increasing," said Terry L. Pimentel, vp at Aon Intermediaries (Bermuda) Ltd.

In some cases, the existing insurers are cutting rates slightly on risks with good loss records. "But they are not writing the business and cutting the rates unrealistically," Mr. Pimentel said.

ACE Ltd.

ACE is going through significant changes as it approaches its 10th anniversary.

In the past year, the company has added two new products, taken on a top executive, restricted its excess liability coverage and posted its first loss.

Brian Duperreault took over as chairman, president and chief executive officer of ACE in October (*BI*, Oct. 24, 1994). His predecessor, Walter A. Scott, is now a consultant to the company and remains on the board.

Shortly before Mr. Duperreault joined, ACE cut its excess liability limits for multiple claims from one event to $100 million from $200 million. The sublimit applies whether the "batch" loss is limited to one policyholder or multiple policyholders.

The move, effective with December renewals, was made to prevent a rerun of the large losses suffered from silicone breast implant claims. Last year, the company took a $200 million charge to strengthen its loss reserves to pay the breast implant claims.

The $200 million addition to loss reserves contributed to ACE's $45.7 million loss in 1994. ACE reported a profit of $223.5 million in 1993.

ACE's current loss reserves should be sufficient to pay ACE's breast implant claims, Mr. Duperreault said.

Few clients left ACE in response to the reduced limits or the increase in rates for hazardous business, he said.

"We expected to lose some clients in the whole process of reducing cover and increasing rates, but we have lost very few, and it's certainly within the bands of what we expected," Mr. Duperreault said.

In fact, ACE's client roster increased to 615 clients at the end of 1994, compared with 523 at the end of 1993.

And net premiums rose 13.4% to $385.9 million for the year ended Sept. 30, 1994 from $340.3 million in 1993. ACE buys little reinsurance.

Premiums were boosted primarily by the late 1993 acquisition of Corporate Officers & Directors Assurance Ltd. and ACE's entry into the satellite insurance business in February 1994.

CODA writes primary and excess D&O coverage with limits of $25 million. ACE's D&O coverage attaches excess of $50 million. Both CODA and ACE issue D&O policies, but CODA's premiums now are counted toward ACE's total premiums. D&O insurance generated 28% of ACE's premiums in 1994, compared with 21% in 1993.

Mr. Duperreault expects ACE's book of D&O insurance to grow. "The D&O market is competitive, but we are seeing growth internationally," he said.

Much of the international growth has come through the representative office in London that ACE established in September, he said.

D&O insurance is well established in Britain and France, and it is being more widely purchased in other European countries. Southeast Asia and Japan are also good long-term prospects as significant buyers of D&O insurance, he said.

Satellite business generated $14 million in net premiums in 1994. ACE offers $25 million in limits for satellite business.

ACE suffered its first satellite loss in January when a Chinese Long March rocket carrying a satellite exploded shortly after takeoff (*BI*, Jan. 30).

ACE has expanded into other product areas, as well. In January it started a financial lines division, and in March it hired Gary Cooke, a former Lloyd's of London aviation underwriter, to start writing aviation products business.

The financial lines division will offer finite risk insurance and other customized financial products, Mr. Duperreault said.

Some of the financial products may include coverages blending traditional casualty coverage with fi-

See **Excess** *on page 26*

A. Yes...Acordia. Acordia forms working partnerships with clients of all sizes and in all industries. We're one of the largest insurance brokers in the United States—a network of companies that deliver property and casualty coverages, workers' compensation programs, employee benefits programs, managed health care integration, consulting, and loss control services. We work to understand your insurance-related needs, and we create innovative and specialized answers that help you meet those needs. Making both your business—and ours—a success.

Find out how we can develop customized insurance solutions for you. Call 1-800-4-ACORDIA for more information.

Acordia.

Insurance Brokers With Answers

WE WANTED THE BEST:

- Highly skilled, knowledgeable insurance professionals committed to providing the very best personalized service
- Dedication to risk management and prevention of professional liability claims, with commitment to expediting claims promptly and efficiently
- Active involvement in professional societies and issues affecting the industry
- A comprehensive network of brokers throughout the United States and Canada

PLAN
Professional Liability Agents Network

WE FOUND IT IN PLAN

Professional Liability Agents Network (**PLAN**) is a highly respected network of insurance brokers, specializing in serving architects, engineers, lawyers and accountants, with more than 50 members throughout the United States and Canada.

PLAN members provide insurance, risk management, loss prevention services and other business practice techniques to 15,000 firms in North America.

DPIC congratulates **PLAN** *for its continued excellence.*

For the number of the PLAN agent near you, call (800) 227-4284 US or (800) 565-6038 Canada

---

DPIC COMPANIES

Different by Design®

The Professional Liability
Specialist of the Orion
Capital Companies

2959 Monterey-Salinas Highway
P.O. Box DPIC
Monterey, California 93940-6439
(800) 227-4284
(408) 649-5522 (800) 227-4284
FAX (408) 649-1734
info@dpic.com
http://www.dpic.com

APPOINTED AGENCIES

Acordia of Pittsburgh
Pittsburgh, Pennsylvania
Acordia of West Virginia
Morgantown, West Virginia
Alexander & Sanders Insurance Agency, Inc.
Baton Rouge, Louisiana
Allred, Bryson & Bailey, Inc.
Jackson, Mississippi
American Insurance & Investment Corporation
Salt Lake City, Utah
AVA Insurance Agency, Inc.
Oakbrook Terrace, Illinois
Capital-Kitchen Insurance Agency
Fredericton, New Brunswick, Canada
Clark Associates
Portland, Maine
Claude Barry R. C. Professionnelle Inc.
St-Sauveur-des-Monts, Quebec, Canada
Commercial Insurance Concepts, Inc.
Houston, Texas
Austin, Texas
San Antonio, Texas
Crowell Insurance Agency,
a division of Akasaka, Ortiz & Varela Insurance Associates, Inc.
Irvine, California
Dealey, Renton & Associates
Oakland, California
DeJarnette & Paul, Inc.
Richmond, Virginia
DenMark Insurance Services, Inc.
Beachwood, Ohio
Cincinnati, Ohio
Finance Insurance, Ltd.
Honolulu, Hawaii
Francis M. Jackson Associates, Inc.
Wethersfield, Connecticut
H. Robert Anderson & Associates, Inc.
Minnetonka, Minnesota
Holmes Murphy
Cedar Rapids, Iowa
Huestis & Huestis Insurance Ltd.
Saint John, New Brunswick, Canada
Hurley Atkins & Stewart, Inc.
Seattle, Washington
Insurance Designers
Springfield, Illinois
Jeffrey W. Cavignac Insurance Brokerage
San Diego, California
Jim Anderson & Company
Lawrenceville, Georgia
Columbia, South Carolina
Birmingham, Alabama
Klipstein Insurance Services, Inc.
Madison, Wisconsin
KT&D, Inc.
Wilmington, Delaware
L.R. House Insurance, Inc.
Reno, Nevada
Lucas & Dake Company, Inc.
Rochester, New York
McLaughlin/Brunson Insurance Agency
Dallas, Texas
Metrix Professional Insurance Brokers, Inc.
Vancouver, British Columbia, Canada
Metro Insurance Services, Ltd.
Halifax, Nova Scotia, Canada
Narver Associates, Inc.
South Pasadena, California
Nelson Chalmers, Inc./
Singer Insurance Group
Teaneck, New Jersey
Oldfield Kirby Esau Inc.
Winnipeg, Manitoba, Canada
Paul Hertel & Company, Inc.
Philadelphia, Pennsylvania
Poole Professional Ltd.
Wakefield, Massachusetts
Pro-Form Insurance Services
Aurora, Ontario, Canada
Professional Concepts Insurance Agency, Inc.
Ann Arbor, Michigan
Professional Liability Consultants, Inc.
High Point, North Carolina
Quadrant Insurance Services
Calgary, Alberta, Canada
R.J. Dean & Associates
Albuquerque, New Mexico
Ramsey, Krug, Farrell & Lensing, Inc.
Little Rock, Arkansas
Seitlin & Company Insurance
Miami, Florida
Stuckey Insurance & Associated Agencies
Phoenix, Arizona
Suncoast Insurance Associates, Inc.
Tampa, Florida
Tallahassee, Florida
The Ebersberger Companies
Severna Park, Maryland
The Harry A. Koch Company
Omaha, Nebraska
The Hartwell Corporation
Caldwell, Idaho
Idaho Falls, Idaho
The Insurance Exchange, Inc.
St. Louis, Missouri
Treadwell & Harry Insurance Agency
Memphis, Tennessee
Nashville, Tennessee
Tyler Associates, Inc.
Louisville, Kentucky
Indianapolis, Indiana
Van Gilder Agency Company
Kansas City, Missouri
Van Gilder Insurance Corporation
Denver, Colorado
Westen Dakota Insurors
Rapid City, South Dakota

On Time. On Budget.

Impossible these days? Well, almost. Until DPIC came up with a breakthrough approach to project insurance that changes the impossible to the achievable.

How? With Partnered TeamCover™—project-specific professional liability insurance that not only provides the best coverage for your entire design team, it gets the whole construction team working together, *as partners*, to make your project successful. In fact, DPIC is so sure this concept will work for you, we'll even help you pay for the partnering.*

TEAM PARTNERED COVER

So don't give up on your dream of a smooth project that comes in on time and on budget. Let DPIC help you make it happen. To learn more about Partnered TeamCover, and to receive a free copy of "Partnering" from DPIC's *Contract Guide*, call or fax us today.

PHONE 800.227.4284

FAX 408.649.3240

No Kidding.

* Certain qualifications apply

DPIC COMPANIES

The Professional Liability Specialist of the Orion Capital Companies

A.M. Best Rating: A (Excellent)

In Canada: Security Insurance Company of Hartford 800.565.6038

info@dpic.com
http://www.dpic.com

© 1995, DPIC Companies, Inc.

Design Professionals Insurance Company • Security Insurance Company of Hartford • The Connecticut Indemnity Company

Excess

Continued from page 23

nite risk coverage, he said. X.L. launched such a blended product, called MAXL, in 1992.

The company also plans to enter the property market soon. ACE was unsuccessful in attracting one property underwriter it wanted to hire but is now negotiating with another one, Mr. Duperreault said.

ACE founded a reinsurance captive in Dublin in January, which could be converted to a primary company, but there are no plans to do that anytime soon, Mr. Duperreault said. He would not say how much reinsurance the captive is writing.

X.L. Insurance Co.

X.L. has not stood still, either.

The insurer has revamped its property coverage and earlier this month it began to offer professional liability coverage for architects and engineers.

X.L. first offered property insurance in 1993, underwriting $50 million limits attaching above a policyholder's probable maximum loss. But the product was not well received.

X.L. wrote just $13.7 million in gross property insurance premiums, with one catastrophe program accounting for $6 million.

Brokers say the X.L. coverage was too narrow and had too high an attachment point.

Recently, X.L. took on two new property insurance underwriters and changed its coverage to make it more attractive, said Brian O'Hara, the insurer's president and CEO.

"We've been trying to find the right level of coverage that appeals to clients and a risk that we can live with," he said.

X.L. now offers $100 million in capacity with a minimum attachment point of $50 million. The coverage has a time element option to cover business interruption risks and an earthquake sublimit of $10 million.

The new coverage is much more attractive and will likely generate significantly more premium for X.L., brokers predict.

The architects and engineers professional liability and errors and omissions coverage has an attachment point of $25 million and a maximum limit of $50 million.

The coverage has a multiyear feature, with a single limit over several years that must be reinstated after a loss.

In a year that saw increased competition, X.L.'s gross premiums increased 13.1% to $638.3 million last year from $564.4 million in 1993.

But the new competition ate into the company's profits. Net income fell 62.1% to $143.9 million in 1994 from $379.2 million the year before.

"There continues to be a bit more competition each year," Mr. O'Hara said.

X.L.'s new business from the United States is slowing due to the competition and the maturation of the market, but international business is growing through the insurer's office in Dublin, Ireland, he said.

Gross premiums are slightly inflated due to MAXL, the managed aggregate with excess liability insurance product introduced in 1992, which promises to return premiums to policyholders with good loss records.

MAXL represents about 27% of the company's $533 million in general liability gross premiums, but growth in sales has slowed because it is a complex product that is designed for larger risks, Mr. O'Hara said.

"We've already made good penetration into that area," he said.

COAXL also saw slow growth, with only "a handful of accounts" written in 1994. The coverage was launched in 1994 and aimed at companies with revenues of less than $500 million. The product offers limits of $50 million excess of $25 million for U.S. risks and $50 million excess of $15 million for non-U.S. risks. The coverage is less extensive than X.L.'s traditional excess liability coverage.

"It has been slow because there is more competition for the smaller risks, and the prevailing prices are below those that we think are profitable," Mr. O'Hara said.

X.L. is currently developing other new products, he said.

Starr Excess Liability Insurance Co. Ltd.

Starr completed its first full year of operations in 1994 and saw premiums surge to $82.5 million from $20 million in 1993.

The insurer began writing in June 1993, offering general liability limits of $100 million excess of $50 million and D&O liability limits of $50 million excess of $50 million.

Starr fell slightly short of the $91 million premium volume it planned to write last year, due to the increased worldwide competition for excess liability business, said Joseph R. Wiedemann, senior vp.

"We thought it was prudent to write less business at prices that were adequate," he said.

In the United States, in particular, more insurers increased their limits to $50 million from $25 million, Mr. Wiedemann said.

Starr expects 1995 premiums to reach $100 million, he said.

Energy business accounted for 40.6% of the $76.4 million in excess liability premiums in 1994, compared with 63% in 1993.

Of the $6.1 million in D&O liability insurance premiums, communication industry clients accounted for 23.7% of the business and financial companies constituted 23.1%.

Of all the accounts written, 77.7% were derived from the United States and 12.8% came from Britain.

Starr's business in Britain and Europe will likely expand through Starr's London office, which opened in September, Mr. Wiedemann said.

"The London office has done better than we expected, and the submissions we receive there are up on our expectations," he said.

Non-U.S. business will likely make up 25% of Starr's business in 1995, Mr. Wiedemann said.

The insurer's business has come from a variety of sources. About one-third of the business was formerly written by ACE and X.L., another third was from clients seeking additional capacity and the final third was business that was new to Bermuda, Mr. Wiedemann said.

Starr will not follow ACE and X.L. into the property market, but it may extend its liability insurance underwriting to include professional liability and E&O coverages.

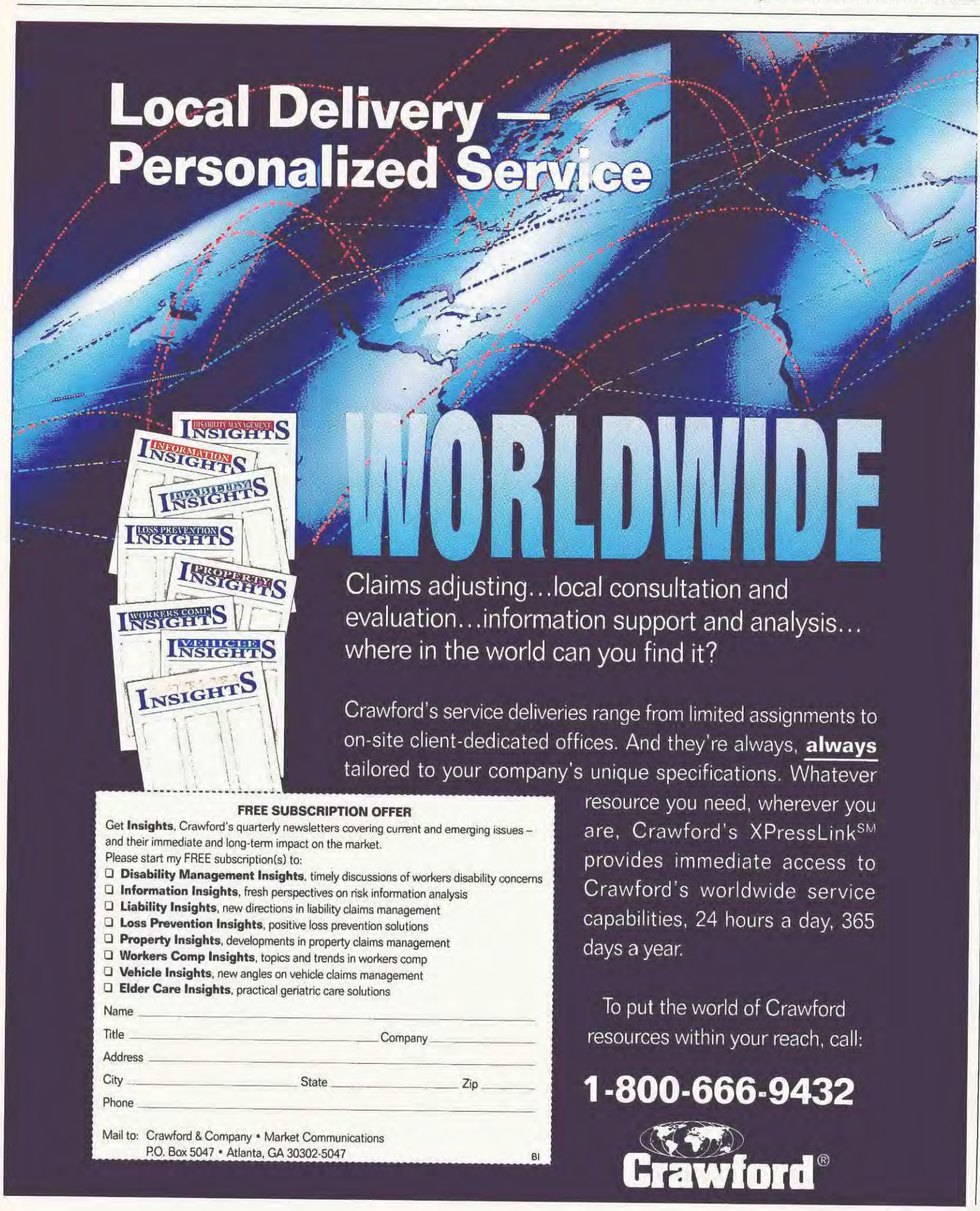
"We may do it, but we are not committed to it, because in most cases the current market is supplying the necessary capacity," Mr. Wiedemann said.

Starr may also lower its attachment point for non-U.S. business, he said.

Chubb Atlantic Indemnity Ltd.

Chubb Atlantic also completed its first year in 1994, with $5.5 million in written premiums.

See **Excess** *on page 28*



UNITED STATES WATERS

PROBLEM: GUARANTEEING FINANCIAL RESPONSIBILITY FOR POTENTIAL OIL SPILLS.

NEEDED: AN INSURANCE FACILITY TO PROVIDE SHIPOWNERS THE HUGE GUARANTEES REQUIRED BY NEW FEDERAL LAW.

NEEDED FOR THAT: THE RIGHT GLOBAL INSURANCE BROKER.

As December 28, 1994 loomed, the Coast Guard's message to tanker owners and operators was unwavering: Don't enter American waters as of this date without a Certificate of Financial Responsibility guaranteeing cleanup costs.

The Oil Pollution Act of 1990 (OPA) set such stringent new standards that tankers had to obtain financial guarantees for amounts 10 times higher than previously required—or be barred from trading in U.S. waters.

But most insurers were unwilling to provide the huge guarantees mandated by OPA, causing widespread concern that America's flow of oil would be sharply disrupted.

• Independent shipowners, who carry over half of America's daily imported oil needs, would be most severely affected.

A complex problem involving U.S. national interests demanded a direct, affordable solution.

That's what Johnson & Higgins/UNISON delivered.

Working with insurers and reinsurers worldwide and interfacing with shipowners' Protection & Indemnity Clubs, J&H Marine and Casualty specialists partnered to create the FIRST LINE facility.

FIRST LINE offered shipowners the only insurance program providing the financial guarantees they needed at a fixed price, avoiding the problem of supplementary premiums or cash calls posed by other plans.

And FIRST LINE became the first insurance program to issue guarantee certificates before the Coast Guard deadline—helping ease fears of U.S. oil shortages, and enabling shipowners to continue trading in U.S. waters.

Many said that a sensible OPA guarantee facility could not be built.

But it got built. By us.

Now you know why international businesses of all kinds want the J&H/UNISON global network working for them.

We deliver real world solutions.

JOHNSON & HIGGINS

UNISON
THE GLOBAL TEAM

REAL WORLD SOLUTIONS

Excess

Continued from page 26

The company writes a wide range of liability products and some property insurance with limits up to $25 million at a variety of attachment points, said Kenneth J. Rice, vp at Chubb Atlantic.

"We are trying to come up with new and different products that complement what the Chubb Group is doing in the U.S.," he said.

Such products include punitive damages insurance for companies in states where they are not insurable and second-loss bush fire liability for an Australian utility company, a coverage that is not widely available in the local market, Mr. Rice said.

And Chubb does not tie itself to a single form. "We tailor a form to meet the specific needs of a situation. Some may be based on the Bermuda form, while others could be based on the U.S. or London form," Mr. Rice said.

Likewise, the attachment points of Chubb Atlantic vary, said Vp Kevin J. Rehnberg.

"It could be $5 million excess of $25 million or $5 million excess of $100 million. It depends on what the program looks like," he said.

About 85% of Chubb Atlantic's accounts are U.S.-based.

Twenty-five percent of the insurer's $5.5 million in premium was from property insurance, 25% excess liability and 45% professional liability.

Chubb Atlantic has had to do a lot of work informing the brokers in Bermuda about its products, Mr. Rehnberg said.

Traditionally, Bermuda-based excess liability insurers have offered clear-cut products, he said.

"The major obstacle that we had was to educate brokers about what we were going to do. We've done a lot of groundwork there, and it started to come to fruition in the third quarter," Mr. Rehnberg said.

Chubb Atlantic is a unit of Warren, N.J.-based Chubb Corp. and operates out of the International Risk Management Group office in Bermuda. IRM provides some management services to the company.

In 1994, A.M. Best Co. extended the parent company's A++ rating to Chubb Atlantic.

Lexington Insurance Co.

Boston-based Lexington set up a branch office in Bermuda in mid-1994 to take advantage of the emerging market there, said President Kevin Kelley.

The Bermuda branch offers excess liability limits of $25 million with an attachment point of $25 million (*BI*, May 30, 1994).

So far, the surplus lines insurer's Bermuda office has written about $2 million in gross premiums.

"We think that Bermuda is going to be a very strong force in terms of demand," Mr. Kelley said.

And, as the market develops, Lexington will adapt its products to meet the needs of the policyholders, he said.

"As the market evolves, we think there will be different needs, so we are going to maintain a flexible approach," he said.

Lexington may offer different attachment points and new products in the future. Already the company will consider some professional liability coverages, Mr. Kelley said.

Oil Insurance Ltd.
Oil Casualty Insurance Ltd.

Oil Insurance Ltd. and its sister company, Oil Casualty Insurance Ltd., had differing fortunes in 1994.

OIL reported a net loss of $10.5 million in 1994, compared with net income of $90.1 million in 1993.

In 1994, OIL had gross premiums of $257.2 million, 33.6% higher than the $192.5 million reported in 1993.

The large premium increase was mainly due to the post-loss funding structure of OIL, said Senior Vp Douglas A. Kline.

"We still have losses going back to the late 1980s for which we are still receiving premium," he said.

Although the mutual insurer only suffered two losses in 1994, the combined value of the losses was $215 million.

The first loss was the blowout and subsequent well control and pollution damage at an ENI oil well in northern Italy and the second resulted from an explosion at a Shell Oil Co. chemical plant in Ohio (*BI*, June 6, 1994).

The company lost six policyholders during 1994 and gained one, Vienna, Austria-based oil company OMV A.G.

The policyholders left for a variety of risk management reasons rather than in pursuit of lower rates, Mr. Kline said.

OIL's capital growth enabled it to retain more risk, an advantage with the increased rates for energy reinsurance, he said.

OIL offers one standard limit per occurrence of $200 million.

OCIL wrote gross premiums of $35.5 million in 1994, up 10.2% from $32.2 million in 1993.

Net income also grew 40.8% to $9.3 million from $5.5 million in 1993.

The company enjoyed its third consecutive year without a major loss, said Jon R. King, senior vp of OCIL.

Seven new members joined OCIL in 1994, bringing the total to 54.

Liability insurance rates for energy business have increased slightly over the past year, largely because of the increases announced by ACE, but OCIL's rates have remained stable, Mr. King said.

During 1994, OCIL eliminated the requirement for new members to buy shares in the insurer.

And under a new joint venture allocation, coverage can be written to attach at a lower point and provide lower limits to suit the individual venture partners' share of a potential loss, or to provide full limits of $100 million excess of $50 million. "It means that you can make sure you don't have gaps in your program and that your whole program fits together," Mr. King said.

Both OIL and OCIL have introduced fixed premium options for members because of new U.S. accounting rules on so-called funded covers (*BI*, April 18, 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 opt for the flat rate instead of retrospective ratings can only buy general liability limits of $75 million.

Thirty-four OCIL members and 26 OIL members opted for the flat rate.

D&O limits offered by OCIL remain $50 million excess of $20 million.

TOPS Insurance Ltd.

TOPS Insurance Ltd. had a loss-free year. The facility offers total loss coverage to its 16 member companies with offshore production platforms.

Gross premiums written for 1994 were $33.4 million, compared with $25.3 million in 1993. As a result of no claims in 1994, TOPS recorded net income last year of $34.2 million, up from $26.5 million in 1993. BI

"In the global environmental arena, public to double from $200 billion to $400 billion The company leading the environmental of this industry tomorrow."

DOIN

For the past three years American Re has co-hosted seminars to facilitate relationships between top industrial corporations, government agencies and international organizations. Together we are addressing environmental issues and identifying emerging technologies that cut both the cost of cleanup and of litigation.

We are a direct writer, carefully positioned to capitalize on opportunities for growth. Always on the lookout for new markets and innovative technologies, we were the first reinsurer in the industry to open an office in Beijing, we recently structured the largest insurance program in Russia through our subsidiary Becher + Carlson Companies.

We have specialists in actuarial, claims management, data processing, and numerous other disciplines. Our multidisciplined teams can customize client solutions involving treaty, facultative, bond, finite risk, and alternative market approaches.

Good risks, captives remain appealing to reinsurers

Rates down 10% for many captives, up to 50% for some

By GAVIN SOUTER

BERMUDA

HAMILTON, Bermuda—Captive insurers still are considered good risks, and therefore aggressively pursued by reinsurers wanting their business.

Inexpensive liability reinsurance is plentiful for Bermuda captive insurers, and that is not likely to change this year.

Bermuda's own specialty captive reinsurer, Sphere Drake Underwriting Management (Bermuda) Ltd., has increased its capacity.

"We write what we write not on a whim, but because we actually believe it to be better business," said Jonathan J. Crawley, president of the underwriting manager for the U.K.-based insurer.

Risk managers for captives strive to take control of their exposures and are less likely to suffer large losses than many other policyholders, Mr. Crawley said.

Large U.S. reinsurers, while not specialists in captives, still market themselves eagerly. Brokers say major reinsurers keen to write captive business include: Genesis Insurance Co., a General Reinsurance Corp. unit in Stamford, Conn.; NAC Re Corp. in Greenwich, Conn.; and SCOR U.S. Group in New York.

The U.S. companies are being joined by reinsurers new to the island, such as Zurich Reinsurance Centre Inc., said Colin C. James, president and chief executive officer of reinsurance brokerage Atlantic Security Ltd. of Hamilton.

The increased capacity has driven down rates for liability reinsurance by 5% to 20%, brokers report.

The liability reinsurance market has been soft for several years, said Mr. James. On the casualty side, he added, the reinsurance market resembles the primary market: "It is soft, and people are willing to reduce their prices to defend their accounts."

Reinsurance rates for captives have fallen 10% for many accounts and by up to 50% in extreme cases, said Bruce M. Jones, senior vp at Sphere Drake. "It's hard to pick a specific number, but there is a lot of competition out there and more and more players are coming in."

Rates for non-U.S. liability business have fallen by about 5%, said Mary Barnes, assistant vp in the underwriting services department of Sedgwick Management Services (Bermuda) Ltd. in Hamilton.

Some property rates have increased for business outside of the United States, but those increases are against the prevailing trend, brokers say.

The only difficulties have been with some multiperil property programs where reinsurers are reluctant to take on risks with large catastrophe exposures, Ms. Barnes said.

Rates and attachment points have increased dramatically for a few accounts, she said.

Nonetheless, Bermuda remains a buyers market for captives seeking reinsurance, with U.S.-based reinsurers ready to write the business.

Reinsuring captives is usually more attractive than underwriting run-of-the-mill general liability reinsurance, said Sphere Drake Underwriting's Mr. Crawley. Sphere Drake Underwriting provides reinsurance to captives, risk retention groups and other entities that carry a large self-insured retention.

Both excess specific and excess aggregate reinsurance and insurance programs are provided.

Sphere Drake Underwriting increased its capacity to $5 million from $3 million for casualty risks this year. The reinsurance capacity for property business remains at $2 million.

Sphere Drake's gross written premiums for captive reinsurance shot up 50% to $67.9 million in 1994 from $45.2 million in 1993.

That growth was fueled in part by the "comfort level" of clients following the 1993 initial public offering of Sphere Drake Insurance P.L.C., he said. The IPO increased the capital of Sphere Drake Insurance to over £100 million ($147.95 million) at the end of 1993. The capital now stands at £120.5 million ($193.9 million).

Net income on business written by Mr. Crawley's unit rose 12.7% to $7.1 million from $6.3 million in 1993. The average line per contract rose 16.4% to $975,000 from $837,000 in 1993.

According to Mr. Crawley, the makeup of the 203 contracts was: 31% workers compensation; 24% general liability and auto liability; 20% professional indemnity; and 25% other, which was mainly multiperil business.

Of the 203 contracts, 123 attached above retentions of $500,000 or less; 32 attached between $501,000 and $1 million; and 48 attached at over $1 million.

Forty-two were single-parent captives, 39 were association captives, 18 were risk retention groups, 52 were other self-insuring entities licensed to buy reinsurance and the remaining 52 were self-insurers.

In 1995, Sphere Drake set up a new arrangement with Transatlantic Holdings Inc. in which the two reinsurers will share liability and premium proportionally on some business. Transatlantic has reserved the right to approve each program on a case-by-case basis.

Mr. Crawley plans to retire on March 31, 1996.

In the past year, Sphere Drake Underwriting increased its staff. Eric Keen, a casualty actuary, joined the company as vp-underwriting from KPMG Peat Marwick in Bermuda, and Derek Ratteray, a former vp-underwriting at Belvedere Insurance Co. Ltd., which now is in runoff, also joined as an underwriter.

Former claims consultant Ian Sawden also joined the company as vp-claims and underwriting support to head up its claims department.

Treaty insurer Belvedere Insurance Co. Ltd., which stopped accepting new business Dec. 31, 1994, is "effectively in runoff," said Chairman Colin D. O'Connor.

Belvedere had capital and surplus of only $17.6 million in 1993. In 1994 it sought to increase that by $50 million but could not find sufficient investors, he said. "It became clear that we could not cut it any more with that capital."

and private spending is expected
by the year 2000.
forums of today will influence the course

G IT.

With an office on every populated continent, we are able to draw on a vast network of resources worldwide. It's no wonder that our U.S. treaty clients actually outperformed the competition by an average of six loss ratio points over six years.

Financial security isn't our only strength. Reinsurance is a business of relationships. At American Re, we are doing more to build partnerships that add strategic security, keeping our clients ready for whatever lies ahead.

AMERICAN RE-INSURANCE COMPANY

555 College Road East, Princeton, NJ 08543-5241 (609) 243-4200

Atlanta, Beijing, Bermuda, Bogota, Boston, Brussels, Cairo, Chicago, Columbus, Dallas, Hartford, Kansas City, London, Los Angeles, Melbourne, Mexico City, Minneapolis, Montreal, New York, Philadelphia, Princeton, San Francisco, Santiago, Singapore, Sydney, Tokyo, Toronto, Vienna

SPECIAL REPORT

Bermuda independence would raise business costs

BERMUDA

HAMILTON, Bermuda—International businesses, including captive insurers, will face increased costs if Bermudians vote for independence from Britain in a referendum to be held this year, says Bermuda Minister of Finance David Saul.

But, he adds, that increase should be minimal.

"There is no question whatsoever that there would be a cost associated with independence, but I don't think it would be a monumental amount," Mr. Saul said.

The government of Bermuda estimates that the extra costs would total $3 million a year if the colony becomes an independent nation, Mr. Saul said. No decisions have been made on just how to raise the tax revenue.

The increase in taxes that would be necessary to raise that amount of extra revenue will not be sufficient to deter international companies from establishing in Bermuda, Mr. Saul predicted.

"I've talked to dozens of international companies here and they have all stated that as long as the factors that contributed to them incorporating here in the first place stay the same, there will be nothing deterring them from Bermuda," he said.

Those factors include: less rigorous regulation than many nations; stable government; good infrastructure; right of appeal to the House of Lords in Britain on legal matters; an educated population; and good communications.

None of those factors would be altered by independence, according to Mr. Saul.

The referendum is scheduled to take place before Dec. 31 and likely will be held in July, August or December to allow students studying abroad to vote during vacations.

Bermuda's insurance business is unlikely to suffer if the island becomes independent, said Brian R. Hall, chairman and director of captive management firm Johnson & Higgins (Bermuda) Ltd. in Hamilton, Bermuda.

The political stability of Bermuda would not change because the island is largely self-governing already, he said.

"A lot of people are saying, 'Independent from what?' " he said.

And the government is unlikely to severely penalize international businesses in its attempts to raise extra revenues, he said.

"Bermuda has to remain competitive from a regulatory and a costs perspective and the powers that be understand that," Mr. Hall said.

Independence itself should not affect international business in Bermuda, but any sharp increase in costs would, said Robert C. Hug, president and managing director of Sedgwick Management (Bermuda) Ltd. in Hamilton.

"The mere fact that Bermuda was independent would not make a difference, but there would be an extra layer of cost, which could make Bermuda less competitive," he said.

Political stability will not be an issue for international companies in the independence referendum, said Alan C. Cossar, executive director of Alexander Insurance Managers Ltd. in Hamilton.

"Both political parties here are very committed to international business," he said.

The political parties are split, though, on the referendum.

While the governing United Bermuda Party has traditionally opposed independence, the opposition Progressive Labour Party in the past has favored independence.

Now, however, the UBP says it is time to have a referendum and it will abide by the vote, while the PLP opposes the referendum saying the issue should be settled at a general election.

This is the first vote on independence in Bermuda. The eventual outcome of the vote is not clear but "the smart money is on a no vote," said one observer.

—By Gavin Souter

Robert A. Muldering: Chairman & Chief Executive Officer, Mutual Risk Management Ltd.

"When it comes to investment managers, we can't afford anything less than the best."

"Managing a multi-million dollar investment portfolio is demanding. When the time came to diversify internationally, we needed performance, experience and people we could trust. We received this and more - from the professional investment managers at Bank of Butterfield."

Bank of Butterfield can provide offshore insurance companies with a variety of investment management services from mutual funds to tailored portfolios.

For more information on how we can meet your offshore portfolio management needs, contact Butterfield Asset Management Ltd. at (809) 299-3888.

Bank of Butterfield

Head Office, Bermuda - The Bank of N.T. Butterfield & Son Limited, 65 Front Street, Hamilton, P. O. Box HM 195. Hamilton HM AX, Bermuda. Telephone: (809) 295-1111
Grand Cayman - Bank of Butterfield International (Cayman) Ltd., Butterfield House, George Town, Grand Cayman, P. O. Box 705, Grand Cayman Islands, B.W.I. Telephone: (809) 949-7055
Guernsey - Bank of Butterfield International (Guernsey) Limited, P. O. Box 25, Roseneath, The Grange, St. Peter Port, Guernsey GY1 3AP, Channel Islands. Telephone: (01481) 711521
Hong Kong - The Bank of N.T. Butterfield & Son Ltd., Hong Kong Branch, A Restricted Licence Bank, 26/F Bank of China Tower, 1 Garden Road, Central, Hong Kong. Telephone: (852) 2-868-1010
United Kingdom - The Bank of N. T. Butterfield & Son Ltd., London Branch, 24 Chiswell Street, London EC1Y 4TY, United Kingdom. Telephone: (171) 814 8800

Business Insurance®

• EVENTS •

RISK MANAGER OF THE YEAR AND RISK MANAGEMENT HONOR ROLL AWARDS
These awards recognize individual accomplishments in the field of risk management. For nominating forms and rules, write or call:

BUSINESS INSURANCE
Editorial Department
740 N. Rush Street
Chicago, IL 60611-2590
phone: 312/649-5319
fax: 312/280-3174

EMPLOYEE BENEFITS COMMUNICATION AWARDS
The EBC awards honor employers for excellence in communicating benefits programs to their employees. Insurance companies and consulting firms also are recognized for their participation in the preparation of award-winning communication programs. For entry forms and rules, write or call:

BUSINESS INSURANCE
Communication Services
220 E. 42nd Street
New York, NY 10017-5806
phone: 212/210-0299
fax: 212/210-0704

WORKERS COMPENSATION CONFERENCE
Presented in conjunction with IBF Conferences, this event addresses the specific concerns of corporate executives managing workers comp programs and rehabilitation services. Sessions cover this rapidly changing environment and creative and innovative strategies to curb costs.

For details on registration or exhibition for any *BI* conference, write or call:

BUSINESS INSURANCE
Communication Services
220 E. 42nd Street
New York, NY 10017-5806
phone: 212/210-0299
fax: 212/210-0704

For more information, call one of the numbers listed below:

Advertising Information: 212/210-0228
Subscription Information: 800/678-9595

Cutting workers' comp loss costs is an operation best left to specialists.

Leave it to us, AIG Claim Services (AIGCS). Our specialists provide cutting edge, cost containment services that can reduce workers' compensation loss costs by as much as 20 to 30%.

While other claim administrators use generalist adjusters who are expected to manage all aspects of claims, we at AIGCS put specialists on the case. By concentrating the focus of each specialist, we deepen the expertise the adjuster can bring to each file. And in time-critical situations, you want experts to make expert decisions.

Each specialist uses proven strategies in their area of expertise: Compensability, Disability Management, Early Return to Work, Critical Claims, Investigations or Medical Management.

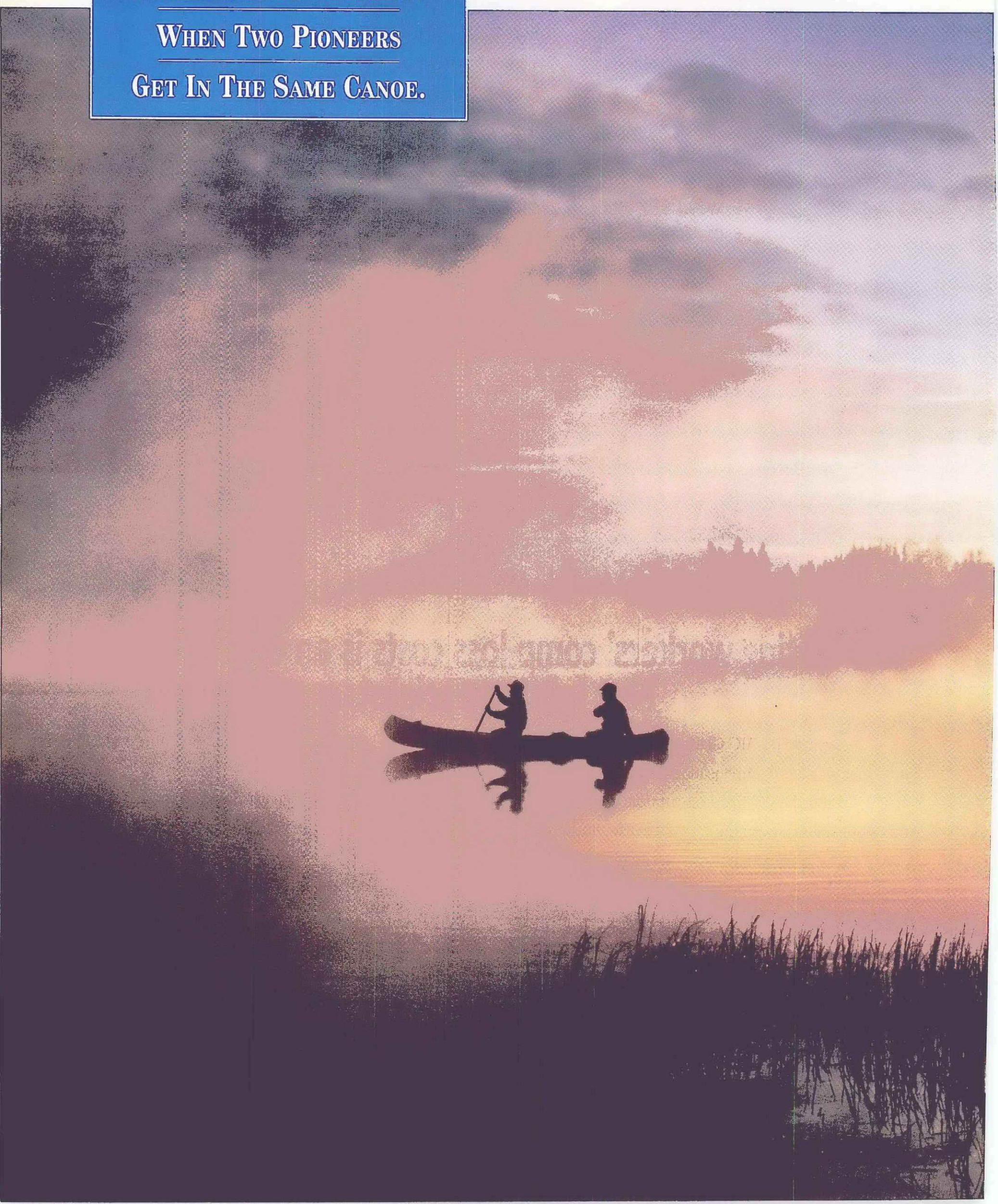
And recently we've introduced one more specialist, *IntelliRisk*,™ a Windows®-based real-time software solution that allows you to access, analyze and use claim information much more efficiently and effectively.

With each of our specialists personally committed to reducing your workers' comp loss costs, it's no wonder we're called "The Cost Containment Company." For more information, call your agent or broker. And put your company in the hands of the loss cost-reduction specialists.

AIG **World leaders in insurance and financial services.**
AIG Claim Services, Inc., a member company of American International Group, Inc.

AIGCS

Amazing What Happens When Two Pioneers Get In The Same Canoe.



Separately, they explored; together, they pioneered America. When you stop and think about it, we owe a lot to Lewis and Clark. Together, their willpower, integrity and commitment helped define our country. It was a genuine spirit of leadership all too rare in today's world.

We're Met DisAbility. And we're making an open and genuine commitment to our customers. A commitment to provide unprecedented levels of service, responsiveness and innovation in group disability coverage. A commitment of broad and dedicated resources, strengthened by the MetLife® acquisition of Travelers Managed Disability Services.

At Met DisAbility, our focus is on setting new standards and pioneering ways for improved customer service. Because when powerful resources combine forces, it's amazing where commitment can take you.

Met DisAbility

We put abilities to work℠

1-800-METLIFE

H9502FVL(exp 0296) MLIC-LD
©1995 Metropolitan Life Insurance Co., One Madison Ave., NY, NY

SPECIAL REPORT

Cayman sees surge of captive activity

Domicile considers legislation to boost insurer regulation

By MICHAEL SCHACHNER

GRAND CAYMAN, B.W.I—The Cayman Islands Legislature will likely be asked in June to amend the domicile's insurance laws, with a special focus on changing long-standing confidentiality laws.

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

CAYMAN ISLANDS

The law has come under fire for many years from those who believe that the time it takes the insurance department to obtain permission to talk about a Cayman-based insurer offers potential protection to individuals engaging in fraud or criminal activity. Critics say that from the time wrongdoers get word that information about their activities is being sought to the moment the insurance department receives clearance to talk, the party under investigation can transfer assets, clean up its books and make all look well.

"We are proposing that we be given the ability to deal more openly with other regulators and legal authorities, especially in cases where we suspect criminal or fraudulent activity," said John Darwood, Deputy Inspector of Insurance.

"Now we cannot technically communicate about anything without getting approval from the government. This clearly raises questions and eyebrows about what is going on down here. Our laws do not say we cannot tell people anything, but the approval process can be slow, allowing time for proof to vanish and assets to be liquidated," he explained.

Mr. Darwood also expressed a desire to secure more power from the Caymanian government to step in and take action with respect to "captives and managers in distress." He lamented that the department's current authority does not extend beyond suspending and revoking operating licenses.

"We need a better mechanism for dealing with troubled companies. An ability to order a freeze on assets as well as compulsory liquidation would help. Beyond that, there are no other plans to drastically remodel the laws. We have no desire to take steps to change our capitalization requirements like Bermuda did (*BI*, Sept. 5, 1994). Our weaknesses relate to companies in precarious positions."

For their part, several of Cayman's 24 licensed captive managers agreed that changes to Cayman's laws are overdue.

"We've been talking about free flow of information for some time and we look forward to the issue being introduced before (the next) legislative sitting," said Wayne A.M. Cowan, senior vp with Johnson & Higgins (Cayman Islands) Ltd., the domicile's largest captive manager. "While we're concerned about who could request information, overall it makes sense. We don't believe the changes would stop the clients we want from coming to the Caymans."

"Our regulations were satisfactory 15 years ago. But lessons have been learned from the number of insurance companies and banks that have gone bust. We need to make changes," added Steven R. Butler, director of Chandler Insurance Management Ltd. and chairman of the Cayman Insurance Managers Assn.

Cayman has not tampered with its insurance laws since they were first drafted in 1979.

And Cayman's captive industry has grown in the last 16 years, especially last year.

Buoyed by the end of the recession in the United States, captive insurance company growth in the Cayman Islands surged last year to a level not seen since the hard market of the mid-1980s.

Continuing a trend that began in 1993 when the U.S. economy started to turn for the better, many large and medium-sized companies last year loosened their purse strings and committed capital to new offshore captives.

Furthermore, parent companies that have had captive insurers in Cayman for some time selected 1994 as the year to pump more premiums to their captive insurers, thus increasing the scope of their captives' underwriting.

New captive formations totaled 45, and a campaign begun in 1993 by the insurance department aimed at shutting down dormant captives approached its culmination.

The islands' managers and Mr. Darwood say greater awareness about alternative risk financing among the world's insurance buyers, combined with no major slump in the U.S. economy, should allow for another solid year for the islands' insurance industry.

The 45 new captives would have been a sizable net gain in captives but 1994 also was the second consecutive year by a department-initiated effort to eliminate captives that were no longer functioning.

"We identified about 30 more companies last year for license forfeiture," said Mr. Darwood. "I think we're about done now and we can again begin growing the roster. If there are six of these companies left, I'd be surprised."

The bulk of the companies that were struck from the captive register were "companies that ceased trading or were delinquent in fees. A lot of them had become caught up in other people's problems," he said, citing primarily the failures of Mission Insurance Co and Transit Casualty Insurance Co. "They had unrecoverable reinsurance they would never collect."

The Cayman Islands finished 1994 with 361 captives, an increase of nine from 352 in 1993. Seventeen new companies have already been licensed this year and nine new captives have been approved in principle, noted Lori Smith, senior analyst with the insurance department.

For new companies, reporting requirements have become more stringent. Mr. Darwood, who reviews proposed business plans with captive principals and managers before issuing licenses, is now requiring all new captives to submit a financial report six weeks after its sixth month of operation. Only after captives complete a full year of operation can they use the schedule of filing financial reports with the department six months after the close of their fiscal year.

"Eighteen months was just too long to see if a new company was adhering to its approved business plan. I guess you could say that we are sharpening up our requirements of our managers and programs. We won't be baffled by words. We want to know what companies are doing both before licensing and down the road," Mr. Darwood said.

Clearly, since Mr. Darwood took over the department again in January 1994, regulatory efficiency has improved. Mr. Darwood had been superintendent in Cayman from 1980 to 1984.

But captive managers are quick to point out that they remain the first line of regulation and that Cayman's lifeblood of offering flexible regulation and capitalization requirements in a professional, tax-free environment is not in jeopardy.

"For the most part, we're self-regulated. There's nothing wrong with the department taking steps to cover for us as managers if we slip up. We have needed sharper teeth in our regulation for some time," said Peter R.L. MacKay, a director with Mutual Risk Management (Cayman) Ltd.

But some managers voiced concern about going too far with regulatory reform.

"For many captive owners, doing business here has been looked at as a breath of fresh air from the heavy regulation that exists in the U.S. I don't think we want to lose that," said Tim Byrne, a vp with Willis Corroon Management (Cayman) Ltd.

With more than 370 captives now on its books, Cayman ranks as the world's second-largest captive domicile. Ms. Smith said premium volume generated by the 361 captives last year has yet to be tabulated, "but it will be up substantially from $1.3 billion in 1993 because most existing captives are showing higher premiums and we had 45 new companies begin writing business."

Cayman continues to draw the majority of its captives from the United States. Mr. Darwood estimates that 75% of Cayman's captives have U.S. owners and about half are involved in writing medical malpractice liability insurance for groups of doctors and hospitals. Of the 45 new formations in 1994, 34 are owned by U.S. companies and 16 are writing medical malpractice.

While Cayman continues to be known as the mecca for medical malpractice captives, efforts by managers to recruit captives writing other lines of business like workers compensation and property have been somewhat successful. Eleven new workers comp captives were formed last year, while eight property captives started up, with ownership primarily coming from other Caribbean nations where property insurance capacity is scarce.

While eager to attract other lines of business, captive managers still say medical malpractice and health care-related captives are Cayman's bread and butter.

"Every domicile has its niche. Vermont gets captives for political reasons—the parents don't want to go offshore. Bermuda attracts the Fortune 500 companies and the excess insurance industry, and medical malpractice comes here. That's the way it is and it's why I say we're not really competing against each other," said Mr. MacKay.

Cayman is attracting its fair share of large U.S. companies, however. Big Six accountants Ernst & Young and Coopers & Lybrand write professional liability insurance through Cayman-based cap-

See **Cayman** *on page 36*

Largest managers of Cayman captives

Premium volume in millions of dollars

Manager (Parent)	Premium volume 1994	Premium volume 1993	Captives 1994	Captives 1993	Staff 1994	Staff 1993
Johnson & Higgins (Cayman Islands) Ltd. (Johnson & Higgins)	$481.0	$453.0	84	73	28	24
International Risk Management (Cayman) Ltd. (International Risk Management Group Ltd.)	330.0	320.0	30	29	21	26
Midland Bank Trust Corp. (Cayman) Ltd. (HSBC Holdings P. L. C.)	201.0	155.0[1]	63	65	46	43
Cayside Insurance Management Ltd.	135.0	104.4	10	10	3	4
Marsh & McLennan Management Services (Cayman) Ltd. (Marsh & McLennan Cos. Inc.)	75.4	77.0[1]	36	37	4	4
Mutual Risk Management (Cayman) Ltd. (Mutual Risk Management Ltd.)	70.0	66.0	39	34	4	4
Caledonian Bank & Trust Ltd.	43.0[1]	51.0[1]	12	12	28	25
Crusader International Management (Cayman) Ltd.	37.0[1]	18.0[1]	8	6	5	3
Willis Corroon Management (Cayman) Ltd.[2] (Willis Corroon P. L. C.)	25.0	NA	9	NA	4	NA
Chandler Insurance Management Ltd. (Chandler Insurance Co. Ltd.)	20.5	25.5	9	9	3	3

[1] *BI* Estimate [2] 1994 was first year of operation
Source: *BI* survey

GRAPHIC BY KIM ROME

BERMUDA INSURANCE SYMPOSIUM II
MAY 30 - JUNE 2, 1995

"ONE MARKET FOR THE WORLD"

To register, visit our booth #1462 in the main exhibition hall.

BERMUDA INSURANCE SYMPOSIUM

THE WHITFIELD BUILDING
61 FRONT STREET, PENTHOUSE
P.O. BOX HM 2550,
HAMILTON HM KX,
BERMUDA

TEL: (809) 292-6386

FAX: (809) 292-6990

It takes strategy. And we know it's the only way to keep your business on track. That's why you can count on us to take the lead and give you the advantage you need to keep you out in front. We offer multi-line capabilities backed by an asset base approaching $400 million, and 40 years of underwriting experience from the **CNA Reinsurance Group.** Next time you need a lead quote, give us a call. We'll be there first, every time.

LaSalle Re Limited

Contact: Guy Hengesbaugh, Executive Vice President, Chief Underwriter
CNA (Bermuda) Services Limited
Telephone (809) 292-3339 Telefax (809) 292-2656

SPECIAL REPORT

Cayman

Continued from page 34

tives. The Bank of America has had a pair of captives here since 1985. The University of Florida recently opened up a medical malpractice captive for its teaching hospitals, and the Ford Motor Co. is in the final stages of preparing a Cayman captive.

Always a selling point in Cayman is its financial services industry—nearly 500 banks have operations here, as do virtually all the Big Six accounting firms. There are also several law firms with captive expertise.

Captive managers stress that incorporation and licensing fees are affordable and capitalization requirements are flexible. A long-standing rule of thumb calls for captives to keep a net premium-to-surplus ratio not exceeding 5-to-1, or 3-to-1 for shorter-tail liabilities.

But the department's Ms. Smith said these capital and surplus requirements are flexible. "It's all about risk, not volume. If you're a non-profit insuring only yourself, that will be considered. More goes into the mix than just straight capital and surplus measured against premiums written," she said.

Constantly improving modern communications and infrastructure is another benefit touted by the Cayman financial services community, as is proximity to the United States—it's only 500 miles south of Miami. Grand Cayman can be reached by plane from Miami, Atlanta, Houston, Detroit, Tampa, Fla., and Charlotte, N.C. Recently, British Airways began flying twice per week between Cayman and the United Kingdom.

Confident that people familiar with Cayman appreciate what it has to offer but still concerned that not enough people around the world view Cayman in a positive light, the public and private sector here recently sponsored a tour during which government and business officials traveled to New York, London and Hong Kong to promote Cayman as a financial center.

Grant Stein, an attorney with Caymanian firm W.S. Walker & Co., who deals primarily with the insurance industry, spoke on behalf of the insurance community at these February gatherings.

"We tried to stress our political stability and tax-free environment as well as regulatory and legal flexibility. These are important issues to make public because there is still a view that we're a Caribbean backwater. We suffer from an image problem that is perpetrated by those who don't do business with us," said Mr. Stein.

"Everything we have here is serious but not onerous. The island is flexible enough to allow someone to present their program, and then we try to adapt and accommodate. With no direct taxes, low fees and reasonable capitalization requirements, it's an easy place to do business," said Vincent Ternier, general manager with Marsh & McLennan Services (Cayman) Ltd.

Easy access and expertise with medical malpractice were the primary reasons the University of Florida's Health Science Center formed a captive for its medical liability exposure. International Risk Management (Cayman) Ltd. is managing the captive.

Martin Smith, president and chief executive officer of the University of Florida Health Care Education Insurance Co., which began operating Jan. 1, explained that when it came down to analyzing Bermuda, Cayman and other domiciles: "Cayman is where most of the medical malpractice captives are and it's so close to us that traveling down there is like going to Atlanta. It only takes a couple hours. Frankly, we didn't see a lot of differences beyond that. It became a matter of costs associated with travel and administration. We felt those would be lowest in Cayman."

From an insurance perspective, Mr. Smith said the captive, which will insure about 2,000 physicians, dentists, veterinarians and pharmacists affiliated with the university's teaching facilities, will have better access to reinsurance than when coverage was provided entirely through a self-insured trust. And, "we can do better with our investment income through our manager there than through the state Treasury."

While the insurance community in Cayman generally experiences little change from year to year, there are a couple of important new faces on the domicile this year, as well as a couple of departures.

Within the regulator's offices, John M. Mantz took over in January as the insurance department's chief analyst. He replaced Charles Scott, who moved to Guernsey to run Wilde & Co. Insurance Managers Ltd. Mr. Mantz has an accounting background and held positions at Continental Reinsurance Co. in Bermuda, CIGNA Reinsurance Co. and the Orion Group over the past 15 years.

Among the captive managers, AIG Insurance Management Services (Cayman) Ltd. was licensed last year and will be subcontracting business to CSI International Underwriting (Cayman) Ltd., while B.R.I. Management Services (Cayman) Ltd. surrendered its license.

At IRM, Bryan Murphy, a pioneer in the captive movement in Cayman and the longtime general manager of IRM's two large casualty pools—Tortuga Casualty Co. and United Insurance Co.—left the company last year to become a consultant for Trident Partnership L.P., the investment group backed by Marsh & McLennan Risk Capital Corp. and J.P. Morgan & Co. Mr. Murphy still resides in Cayman and often works out of M&M's offices there.

Meanwhile, most of Cayman's large managers reported solid business in 1994.

Johnson & Higgins added 18 new captives, bringing its total to 84, and the captives it manages increased their premiums by about 6%. J&H is now managing a new captive insurer owned by Mutual of New York Insurance Co. The captive will write life insurance in the Caribbean and South America, J&H's Mr. Cowan said.

J&H also is operating a rent-a-captive for Caribbean property. "Property rates are up 200% to 300%. A lot of companies in Jamaica, Trinidad and the British Virgin Islands are using it to fund their property deductibles," he said.

At IRM, a member of the International Risk Management Group Ltd., which is 70% owned by Swiss Reinsurance Co., premiums increased about 3% and its number of captives increased by one, to 30. General Manager Peter Joy said interest in Tortuga and United Insurance remain modest. "It will stay that way until the casualty market turns," he said.

At Midland Bank Trust Corp. (Cayman) Ltd., which is owned by London-based HSBC Holdings P.L.C., 1994 was a "good year," said Midland Director Anthony Stelling. "We've noticed a recent

See **Cayman** *on page 38*

DAVID

COMPREHENSIVE SYSTEMS.
INDUSTRY LEADERSHIP.
CLIENT COMMITMENT.

DAVID: The Total Risk Management Software Solution

Since 1984, DAVID Corporation has led the way in advanced risk management software. Comp*Plus*, our workers' compensation claims administration system, and P&C*Plus*, our property and casualty claims management system, are comprehensive solutions built upon in-depth knowledge of the insurance industry's complex regulatory and reporting requirements.

DAVID software does it all, from data capture to detailed reporting and efficient data organization for claims management and analysis. DAVID also provides flexible third-party interfaces with insurance carrier systems, document imaging packages, medical bill review firms, accounts payable systems, and more.

And because success to us means long-term client satisfaction, DAVID brings you unparalleled support – including a dedicated Project Manager to coordinate your installation and customize the DAVID system to meet your company's needs.

The most comprehensive systems available, backed by superior customer service – that's *the DAVID difference*. No wonder more Risk Managers nationwide continue to turn to DAVID for *total* risk management solutions.

For more information call us toll free, 800.55.DAVID or 800.553.2843.

Visit Us At RIMS
Booth #1175

DAVID CORPORATION

A Subsidiary of The Wyatt Company

580 California Street, 23rd Floor
San Francisco, CA 94104

It's amazing how little damage a fire will do when it's contained in this small area.

NO ONE REALLY KNOWS AT WHAT precise point fire was first discovered. But for the sake of argument, we'll assume it didn't take much longer to discover how destructive it can be.

GENERATIONS HAVE BEEN TRYING TO understand fire, to control its potential, and to minimize the damage it can cause to property. Which is why, throughout our history, we've worked to understand the effects of fire through our partnership with Factory Mutual Engineering & Research.

WHILE BEST RECOGNIZED FOR LARGE-scale fire testing, we have also worked for well over a century developing new technologies to control fire and help our customers reduce its damaging effects.

A CASE IN POINT: FOR CLOSE TO TWO decades our scientists have developed sophisticated computer models that create simulated fires in a given environment.

These models analyze a range of probabilities, determining the likelihood of a particular event occurring, and the impact of the available protection alternatives. They also evaluate potential routes the fire may take and the effects of heat and smoke. All on a computer screen no larger than this page. All without ever having to ignite a fire.

OBVIOUSLY, THIS EFFORT HAS HELPED US better evaluate fires. More important, the process has helped us further understand each of our customers. This, in turn, allows us to create cost-effective solutions tailored to each particular business.

AT ALLENDALE, WE'RE PIONEERING technology to help protect our policyholders' property from potential losses. We've been in business for over 150 years. Instead of looking back, we look forward to anticipate the ever-changing needs of our policyholders.

WE BELIEVE AN INSURANCE COMPANY should do more than just insure your property. Indeed, we do everything in our power to help you prevent losses, minimize damage from them, and eliminate the disruptions they can cause.

Allendale Insurance
SINCE 1835

© 1994, ALLENDALE INSURANCE, P.O. BOX 7500, JOHNSTON, RHODE ISLAND, 02919.

SPECIAL REPORT

Canadian tax reforms don't slow Barbados growth

By DOUGLAS McLEOD

BARBADOS

BRIDGETOWN, Barbados—Barbados steadily is attracting new captive insurers despite the impending loss of tax advantages for some captive owners based in Canada, long one of the domicile's main sources of business.

The domicile licensed 24 new insurers last year, all of them set up by Canadian and U.S. parent companies. This continued the slow expansion of the last few years, which saw 22 new companies formed in 1993, 21 in 1992 and 11 in 1991, according to Barbados government figures.

Excluding companies that have stopped underwriting, Barbados finished 1994 with 194 active insurers, up from 186 active companies at the end of 1993, according to William Layne, the domicile's supervisor of insurance as of January.

Christopher Towner, president of Towner Management Group Inc. and vp of the Barbados Exempt Insurance Management Assn., expressed surprise at 1994's growth rate.

"With the Canadian tax status sort of in limbo, a lot of us would have thought it would be a year sitting in a holding pattern," he said, referring to Canadian tax reforms that will eliminate tax breaks for some Canadian-owned Barbados captives (*BI*, April 18, 1994).

Still, the domicile continues to draw new business from both Canada and the United States and shows no signs of slowing down so far this year.

In the first three months of 1995, Barbados licensed nine new insurers, five with Canadian parents and four with U.S. parents, according to Mr. Layne.

"I wouldn't be surprised if we see 30 this year," Mr. Towner added.

The wild card on the Barbados captive scene remains the potential impact of the Canadian tax reforms, which were unveiled last year as part of the 1994 Canadian federal budget and which go into effect for fiscal years beginning in 1995.

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

The new rules, however, eliminate the tax break for third-party Canadian business, and income on all Canadian risks will be taxed unless non-Canadian business is more than 90% of a captive's volume.

In addition, income on non-Canadian third-party risks also may be taxed unless the Barbados insurer qualifies for an exclusion from the new taxes by having more than five full-time employees in Barbados, according to a summary of the rules prepared by Ernst & Young L.L.P. in Toronto. Previously, there was no Canadian tax on this income.

Some observers had suggested captives could delay the effective date of the rules by changing their fiscal year end. A change to Nov. 30 from Dec. 31, for example, might have pushed the effective date to Dec. 1, 1995, from Jan. 1, 1995.

Concerned about this, though, Canada's Department of Finance announced that any company changing its year end after the tax proposal was announced would become subject to the rules immediately after its 1994 year end.

The rules—which also apply to other foreign affiliates of Canadian companies, like foreign investment units—are expected to have the heaviest effect on captives set up by Canadian banks and financial institutions to write credit life coverages and captives formed to write warranty programs.

These captives were structured to generate earnings from Canadian business that is not related to the captive's shareholder, Ernst & Young said.

"Pure captives are OK, but the third-party business has been influenced significantly," said Denis C. Brown, an Ernst & Young partner in Toronto.

Some bank and warranty captives have tax years ending Oct. 31, meaning that the new rules would not become effective for them until Nov. 1, giving them time to study their options, Mr. Brown noted.

One of these options would be to move onshore.

"They are all planning vigorously," he said. "It's expected that some will come back to Canada."

Those that decide to stay, he added, will have to increase their presence in Barbados, making sure they have six or more employees to qualify for an exclusion from the new taxes. Few captives currently have staffs that large.

Others, however, say it is too early to predict how many insurers will be lost to Canada.

"I don't think it's at all realistic to generalize about what these people will be doing," Mr. Towner said.

Another provision of the Canadian law continues to create uncertainty among Barbados insurers: for a captive to be exempted from tax under the new rules, it must be considered a "resident" of Barbados, meaning partly that it must be subject to local taxation.

Because insurers formed under the Barbados Exempt Insurance Act are not liable for local taxes, it is unclear whether Canada would consider them Barbados "residents."

As a result, the Barbados government may have to consider amending its Exempt Insurance Act to impose some sort of tax on Canadian-owned insurers, government officials say (see story, page 43).

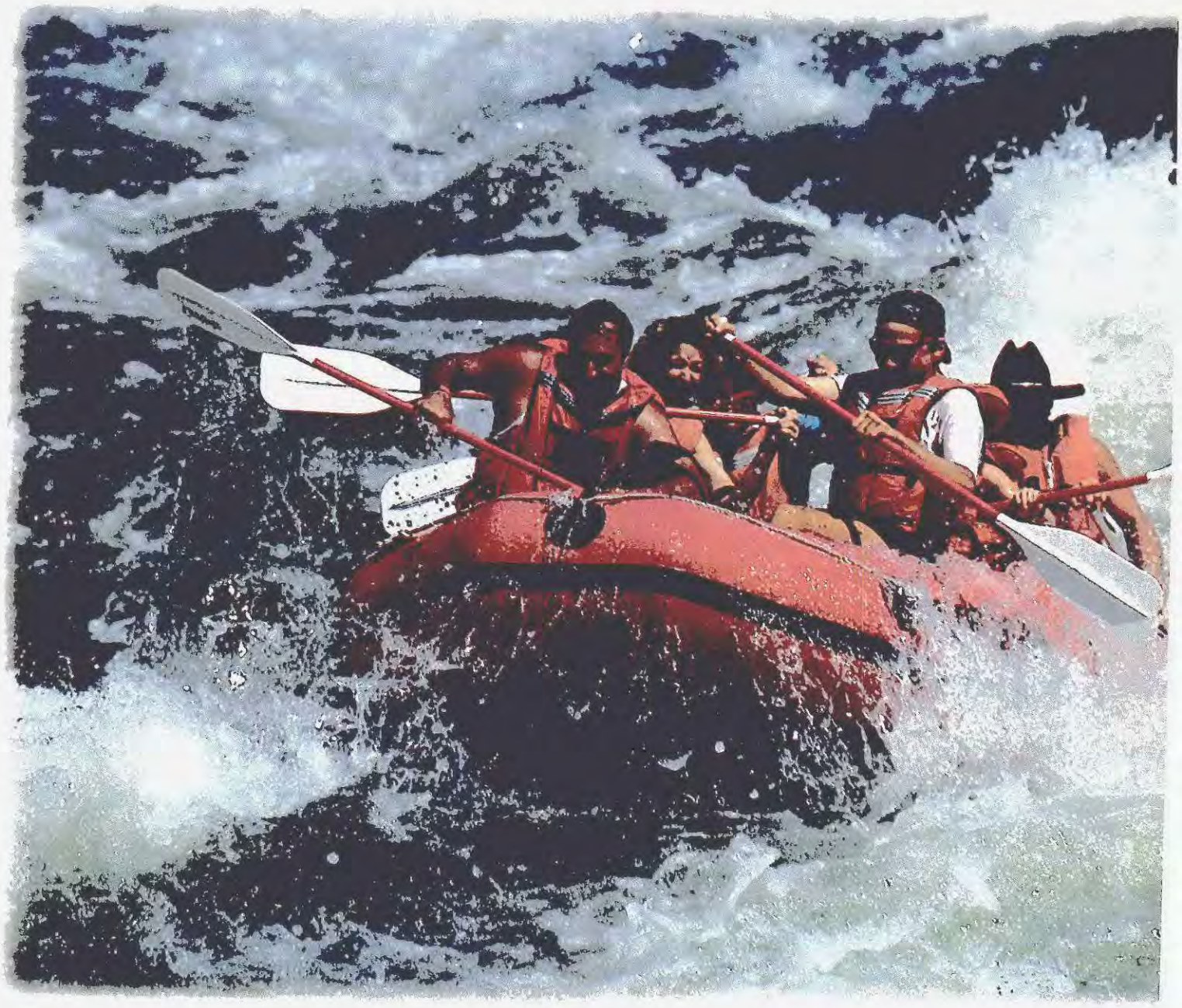
For example, the government could create different classes of exempt insurance license, with taxes imposed as needed on Canadian-owned insurers but not on others, Mr. Layne suggested.

"We have to come up with a mechanism that will be acceptable to Revenue Canada and that will not be seen as window-dressing, basically," he said. "That is going to call for some creative legal drafting."

For insurers hit with new local taxes, the Barbados government might also reduce or eliminate other fees in an effort to offset the added tax burden, said Carlyle Carter, permanent secretary with the International Business and Financial Services Unit of the Barbados Ministry of Finance and Economic Affairs.

Continued on next page

It's Not fo



CommonwealthRisk® • • •

Continued from previous page

"It would not mean that they would pay any more money to the Barbados government in the form of taxes or fees than they are already paying," Mr. Carter said.

However, Mr. Layne emphasized that it is still unclear whether Canada will consider Barbados insurers to be "residents" of the domicile, and the domicile's government still is studying the situation before deciding whether any change to its law is necessary.

Meanwhile, Barbados government and management company officials maintain that the loss of Canadian tax advantages will not damage the domicile's prospects.

"We do not see that it is in any way going to affect the sector here in Barbados," Mr. Carter said.

"I don't think it is as major as people thought it was going to be," agreed William M. Tomlin, managing director of International Insurance Management Ltd., one of the island's largest independent managers.

"There is a lot of anxiety in Barbados, but I think there will be a settling down," observed Ronald W. Jones, managing director of Alexander Insurance Managers (Barbados) Ltd. "For my client base, it has a minimal effect."

If the Canadian tax reforms are scaring off new Canadian-owned captives, it isn't apparent in the domicile's licensing statistics.

Mr. Towner, who compiles his own licensing statistics, counted 207 licensed Barbados insurers at the end of 1994, up from 183 at year-end 1993.

Of 25 new insurers licensed last year by Mr. Towner's count, 15 had Canadian owners and 10 had U.S. owners.

This represents little change from 1993, when 13 of 22 new captives were Canadian-owned, eight were U.S.-owned and one was formed by a U.K. company.

Mr. Towner's 1994 license tally is higher than the government's count in part because it includes some insurers that had not paid license fees by the end of the year and technically were dormant, he explained. Some of these companies could be expected to pay the fees and reactivate their licenses during 1995, he added.

As of the end of last year, Barbados had issued a total of 276 licenses since its insurance law was enacted in 1983. Of these, 69 captives have dissolved, moved to other domiciles, ceased underwriting or had their licenses revoked, according to Mr. Towner.

Of the 207 insurers licensed at year-end 1994, 111 had U.S. owners, 85 had Canadian owners, four had U.K. owners and the other seven had owners in various countries, including Australia, the Netherlands, Hong Kong and Switzerland, according to the statistics.

While Barbados as a whole continued to attract new business last year, the experience of individual management companies differed. The domicile's largest managers include:

- MIMS International (Barbados) Ltd., which reported 22 active captive clients and $268 million in premium volume at the end of 1994, up from 19 active clients and $167.5 million in gross premiums the previous year.
- Continental Risk Services (Barbados) Ltd., which reported managing six active insurers and $238.1 million in premium volume last year. Continental added one client but lost two in 1994, according to Fiona Williams, assistant vp.

Volume in 1993 had totaled $370 million; the decline in 1994 related mainly to financial reinsurance transactions, she said.

- Johnson & Higgins (Barbados) Ltd., which reported 23 active captives and $92 million in premium volume last year, compared with 21 active clients and $96 million in gross premiums in 1993.
- Alexander Insurance Managers, which reported 18 active clients and $70 million in gross premium volume last year, compared with 15 captives writing $80 million in gross premiums in 1993.

The three active insurers added in 1994 were existing companies that previously had been dormant, Mr. Jones said.

"We haven't really seen a lot of activity in the last 12 months," he observed. "It's definitely been a slow year."

- Mutual Risk Management (Barbados) Ltd., which reported five active captive clients in 1994 and 1993. Premium volume rose last year to $60.4 million from $45.6 million in 1993.
- American International Management Io. (Barbados) Ltd., which had four active clients at year-end 1994. It did not report premium volume.

One of these clients is Coral Reinsurance Co. Ltd., formed in 1987 to act as a reinsurer of American International Group Inc. units. AIG subsidiaries reported about $1 billion in recoverables from Coral Re at the end of 1993 (*BI*, Feb. 6). BI

Changing of the guard in Barbados

BRIDGETOWN, Barbados—William Layne took over as Barbados insurance supervisor in January after leaving his job as comptroller of the National Insurance Scheme, a national social security fund.

He replaced Cuthbert Bynoe, acting supervisor during 1994, and Wismar Greaves, who left the supervisor's post in January 1994 to join Insurance Corp. of Barbados.

BARBADOS

The Barbados government soon may have to amend its Exempt Insurance Act of 1983 to account for changes in Canadian tax law affecting Canadian-owned Barbados captives, Mr. Layne and others say (see story, page 42).

Meanwhile, though, no changes have been made to the act. 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 additional 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.

Corporate and investment profits are not taxed, nor are the gains on the transfer of securities to non-residents. For more information, contact William Layne, Supervisor of Insurance, Ministry of Finance and Economic Affairs, Bridgetown, Barbados; 809-426-3815.

—*By Douglas McLeod*

r Everyone

But it can be...

You wouldn't go rafting without an experienced guide...
Why should it be any different with the Alternative Market.

When negotiating the rapids, it's best to have someone along who's been this way before. Same thing with **Workers' Compensation.** You need a strong, steady, experienced hand at the controls. Or else...

Commonwealth Risk, an acknowledged Alternative Market leader, has negotiated the challenges of a rapidly changing, continually shrinking Workers' Compensation market. Strength of product, expertise, and the support of The MRM Companies make the difference.

Times have changed. Business has changed. Companies in touch with the market change. Commonwealth Risk has an array of products to accompany its success in Workers' Compensation. Packaged with Auto and General Liability coverages, they represent multi-line casualty capabilities.

We also have distinct advantages on association/group programs. Offshore and onshore captive management facilities offer unique features to insureds. Agency captives, which are becoming popular, present attractive opportunities to brokers and agents. Whatever your commercial property-casualty needs, we can find a solution to your particular situation.

Never considered an Alternative Market company? No reason to hesitate. Commonwealth Risk has the knowledge and expertise to guide you along the way. That comes from knowing the current.

For more information, please call:

Philadelphia, PA (215) 979-3300
Orange, CA (714) 978-0577
London, England 071-247-1066

CommonwealthRisk

An **MRM** Company

A leader in Alternative Risk Financing

SPECIAL REPORT

Guernsey still Europe's top domicile

Record number of captive formations continuing

By ADRIAN LADBURY

GUERNSEY

ST. PETER PORT, Guernsey—Guernsey is Europe's premier captive insurance company domicile, reporting record growth last year in new captives, insurers and reinsurers registered.

Thirty-five new insurers were registered in 1994. Five were closed, leaving a net gain of 30, compared with a net rise of 29 in 1993. The number of captives registered in Guernsey rose to 280 last year from 250 in 1993.

Guernsey currently has 289 registered captives.

Last year was the fifth straight year that Guernsey set a captive formation record, and it was again the fastest-growing domicile in Europe. Dublin came a close second with a net increase of 28 captives, Luxembourg third with 17 and Isle of Man was fourth with 13. Worldwide, Guernsey was second only to Bermuda in terms of captive gains.

Final asset and premium volume information are not yet available, said Steve Butterworth, Guernsey's superintendent of financial services, whom many captive managers and risk managers credit for the domicile's success.

But, he believes the arrival of some highly capitalized new ventures, such as Italian insurer Assicurazioni Generali S.p.A. in 1993 and reinsurer Unione Italiana di Riassicurazione S.p.A. last year, should push total gross written premiums in 1994 past £1 billion ($1.57 billion) compared with about £725 million ($1.07 billion) in 1993.

More than 80% of Guernsey's captives are owned by U.K. companies. This reliance on the United Kingdom for new business is one reason Mr. Butterworth and some captive managers believe the record growth is not sustainable, at least in the short term.

"The signs are that (growth) will not be as buoyant this year as last," said Mr. Butterworth. "Perhaps the softening U.K. and worldwide insurance market is having an impact. But also I do not think that it would be possible to keep up this sort of growth rate indefinitely. A good percentage of the leading U.K. companies now have captives and it could be nearing saturation point. But we expect continued steady growth."

"The U.K. captive market is quite mature and most major companies already have a captive," agreed David Johnstone, managing director at UNISON (Management) Guernsey Ltd. "But, as in any vibrant economy, companies are always growing and so there will always be potential for new business here. There is no fixed ceiling."

Some captive managers believe there is still a great deal of untapped demand among medium-sized U.K. companies and especially association captives, which is a concept far less developed in the United Kingdom than the United States.

"I still think there are a lot of situations where a captive makes sense for a medium-sized operation. It doesn't have to be that big for a captive to be viable. Associations are a good example of where it could make sense," said Malcolm J. Cutts-Watson, managing director of Willis Corroon Management (Guernsey) Ltd., which added eight clients last year to bring its total under management to 31.

Charles Scott, a former Cayman Islands regulator, is now director of Wilde & Co. Insurance Managers, one of Guernsey's two new captive managers—taking the total to 37. He hopes to target medium-sized U.K. companies and associations by building relationships with medium-sized brokers that do not have their own captive managers.

However, association business in the United Kingdom will need selling, he said.

"In the U.S., many associations are driven to set up captives for their members because of the tremendous costs, which are often driven by litigation in areas like workers compensation. In the U.K., it is not the same yet and so it needs selling, but there is certainly potential here," he said.

As in other European domiciles, Guernsey's captive managers hope that if U.K. demand does slow, new business will arrive from continental Europe. But competition for new business from Europe is stiff and volumes so far have been low.

Of the 280 insurers registered at the end of last year, only 29 had non-U.K. European parent companies, and 12 of these were Swedish.

German and French companies are attractive targets and it seems they are slowly warming to the captive concept. Guernsey currently has five French captives, but none from Germany.

Guernsey, though, faces tough competition from Luxembourg for the French business and must overcome linguistic and cultural barriers. Despite Guernsey's proximity to the French coast and long historical links with France, it remains a very British island.

According to Guernsey captive insurer managers, most German risk managers continue to view captives mainly as a means of evading tax

See **Guernsey** *on page 46*

Achievement

A distinguished record...
unmatched levels of service...superior skills.
We celebrate our 25th year with pride in our position as a major U.S. reinsurer.

PMA Reinsurance Corporation
Mellon Bank Center • 1735 Market Street
Philadelphia, PA 19103-7590
(215) 665-5000 • FAX (215) 665-5099

PMA Re

Virtual Reliance

Charting a course for the future requires a merging of perception with reality. The insurance carrier you choose can greatly influence your coordinates in time. Reliance National's multidimensional vision and skill position us to provide insurance solutions for both today and tomorrow. Our Property/Casualty and Accident & Health products offer comprehensive and responsive coverage that successfully transport your client through the dynamics of change.

THE CHOICE for the future is Reliance National.

THE CHOICE

Reliance National

A Reliance Group Holdings Company

77 Water Street, New York, N.Y. 10005

For further information
write us or call (212) 858-6602

Reliance National products and programs underwritten by Reliance Insurance Company, Reliance National Indemnity Company, Reliance National Insurance Company, Reliance National Insurance Company of New York, Reliance Insurance Company of Illinois, Reliance Insurance Company of California, United Pacific Insurance Company, Firemark Insurance Company and/or Reliance Surety Company.

© 1995 Reliance National Insurance Company.

Guernsey

Continued from page 44

and, not surprisingly, the German government is not embracing the concept.

Managers in Luxembourg, however, report that German companies are setting up captives there (see story, page 57).

And, 20 German captives so far exist in Dublin (see story, page 50).

"We have high hopes for German business, but it will not be easy," said Mr. Johnstone, who hopes to win more continental European business than most through the UNISON brokerage network and could enjoy a head start with help from Germany's largest brokerage, Jauch & Huebener KGaA, a UNISON member.

"The Germans do perhaps still tend to look at captives more in tax terms rather than insurance and risk management, so it may take longer than some may have imagined," he said.

"There is a huge untapped market in Europe. But captives in Guernsey are used as part of the risk management strategy and I have the feeling that many Europeans consider captives more as financial tools rather than risk management tools," said John Copeland, general manager Marsh & McLennan Management Services (Guernsey) Ltd., which was formed in 1993.

Captive managers in Guernsey, like their colleagues in Ireland and Luxembourg, also believe that one day demand also will spring forth from Italy and Spain. But for most, that day remains some way off. Currently, Guernsey has one Italian and one Spanish captive.

Wilde & Co.'s Mr. Scott has higher hopes than most for Italy.

Wilde & Co. manages Guernsey's latest reinsurance company, Unione Italiana. Mr. Scott hopes that its arrival, coupled with the creation of a specialist global benefit insurer for expatriates last year by Italy's largest insurer, Generali, will help attract other Italian companies.

Jean-Francois Gelot, managing director of independent captive management company Optimum Risk Research (International) Ltd., is one of the few French natives on the island. He travels extensively throughout the continent for his captive, investment and other consulting work.

In his opinion, the much-discussed and hoped-for flood of continental European business will not come as quickly or in as great a volume as many of the U.K.- or U.S.-based brokers believe because of Europe's different business culture.

Mr. Gelot believes captives will not really take off in France and Germany until Europe becomes a truly "integrated" insurance market.

Once the cultural barriers to pan-European competition fall and Europe's large insurers abandon protectionist traditions, then more advanced concepts of risk transfer and financing such as captives will be embraced more quickly, he says.

Mr. Gelot believes Guernsey must do more to sell itself in Europe if it wants to attract meaningful volumes of business. "We need improved marketing in mainland Europe because Guernsey's existence and financial capabilities are still not sufficiently well-known. We must all work hard at this."

Captive managers like to deny that the softening insurance markets in the United Kingdom, and to a lesser extent Europe, will cut demand for new captives or stunt the growth of established companies. They say the cost of insurance in the open market should not be a key reason for forming a captive.

But, risk managers who have recently set up in Guernsey say that insurance rates and availability of coverage are still crucial factors. Those risk managers do not rule out reduced use of their captives if rates continue the downward slide they commenced in the United Kingdom last year.

Rising premiums is the reason The Navy, Army & Air Force Institutes, an organization that provides provisions and services for the British armed forces, formed its first captive in Guernsey last November.

John Loaring, risk manager at NAAFI, which had revenues of £433 million ($640.1 million) in 1993, said that he chose Guernsey because of "all the usual factors: convenience, stability, relatively low costs, speed of setup and availability, and the quality of the captive managers."

The captive is managed by Hogg Insurance Management Ltd.

"There was no specific jolt that pushed us into creating the captive. It was more a general escalation in premium rates year on year. The captive gives us the opportunity to carry the profits ourselves.

"We have not actually placed as much business with the captive as we originally envisaged. This is mainly because it created competition with our current insurers and rates offered by them improved. Hopefully it will build up and we will place more and more business into the captive," said Mr. Loaring.

So far the captive has written about £400,000 ($642,800) in premiums.

In time, "we would look to also write third-party risks. We are already substantial brokers for the army in our own right," he added. NAAFI covers risks such as standard auto, homeowners and the basic supplies issued to each soldier.

A 1993 decision by the U.K. government to allow building societies to set up captives led to five new captives in Guernsey, the first in 1993 and four more last year. More are expected this year as at least the top 20 societies are expected to form captives.

The societies created the captives in the first place to help cope with mushrooming mortgage indemnity claims, made when private houses are repossessed, and the subsequent massive rate hikes charged by the indemnity insurers.

Mr. Butterworth expects more announcements to follow the societies'

See **Guernsey** *on page 48*

Many employee benefit plan fiduciaries are at risk of losing their personal assets.

Be a hero. Tell them about it.

The Employee Retirement Income Security Act requires employee benefit plan fiduciaries to carry a fidelity bond equal to at least 10 percent of funds handled. It protects the fund, not the fiduciary.

But, many fiduciaries don't know that. A recent survey showed *nearly 50 percent* of those who don't purchase coverage believe their ERISA-mandated fidelity bond does protect their personal assets.

It doesn't, but you can. Aetna has developed a coordinated promotional package to help you explain the need for fiduciary liability coverage and differentiate it from the ERISA-mandated fidelity bond.

It's a simple way to help your customers and earn additional income at the same time. In fact, once your clients understand their personal risk as fiduciaries, we think Aetna's fiduciary liability coverage will practically sell itself. Hey, being a hero has its rewards.

For more information about Aetna's fiduciary liability coverage, call your Bond representative today.

Aetna

The Aetna Casualty and Surety Company
Aetna Casualty & Surety Company of America

THINGS AIN'T WHAT THEY USED TO BE.

It's as if the sun came up one morning and shone down on a world it had never known. That's how quickly it seemed to happen.

Suddenly, every aspect of our political, social and business environment has been transformed, as the world has become at once more complex and more competitive. And witnessing it all, businesses have found themselves presented with an array of challenges unlike any before.

We're Summit Global Partners, Inc., an international insurance brokerage and consulting organization uniquely suited to the challenges of today's world. We're a new company with extraordinary resources and a clean slate, an organization with a fresh approach and a clear focus on speed and effectiveness. We're lean and agile, unemcumbered by bureaucracy, driven by technology.

Our resources include a 60-country global network, along with skilled specialists in today's key industries.

Through autonomous, local-area sales and service offices, buttressed by high-quality resource teams armed with today's advanced technologies, we offer superior solutions and deliver them cost-effectively. And because our resources are located in cities throughout the U.S., rather than collected together at a distant headquarters location, they're exactly where our clients need them.

SUMMIT GLOBAL PARTNERS

Please let us tell you more about Summit Global Partners. Call us at 1-800-494-9418.

SOLUTIONS FOR THE WORLD WE LIVE IN.

©1995 Summit Global Partners, Inc.

SPECIAL REPORT

Guernsey

Continued from page 46

annual meetings, generally held in late April.

Malcolm Cutts-Watson, managing director of Willis Corroon Management (Guernsey) Ltd., agrees that the flow of building society business has not stopped yet and hopes to win more this year. Willis Corroon has won a great deal of the building society business so far.

"It's certainly not the end. Most building societies need approval of a captive at their annual general meeting and I think a lot of them may have considered the idea last year and will resolve to set up this year," he said.

Banks and building societies made up the biggest proportion of new formations—10—last year by category of owners.

The next largest single category of new captive owners was professional partnerships, or law firms, with six new formations. The big U.K. law firms provided a welcome boost in demand last year for much the same reasons as the Building Societies. Rising claims brought against solicitors, mainly for negligent advice, has led to constantly increasing professional liability insurance rates and shrinking capacity.

"Following the trend set in the U.S., there has been a growing tendency for European clients of professional firms to become increasingly litigious, hence the steep increases in professional indemnity insurance premiums," said Mr. Butterworth.

"We believe captive insurance is a growth area as more and more professionals across Europe recognize the advantages of self-insurance," he said.

Another potential stream of new business was created by the shortage of errors and omissions coverage for Lloyd's of London underwriting agents following the deluge of claims made by loss-suffering members in recent years.

Callum Beaton, managing director of Spread Risk Management Ltd., a captive manager launched in 1993 and part of the international accounting group BDO Binder Hamlyn, launched the first Lloyd's agency captive last year, which is one of four new captives it registered last year.

The captive has been created with initial capital of £500,000 ($803,500), which the agency will use to pay any future claims on a claims-made basis. It believes it has ringfenced the new vehicle from any old-year claims.

Mr. Beaton said that he was pleased to have won the new business and hopes that others will follow, but that probably no more than "half a dozen" Lloyd's agents would have sufficient resources to form a captive.

Spread also was hired last year by American International Group Inc. to manage its new captive manager, AIG Insurance Management Services (Guernsey) Ltd.

Captive managers and regulators in Guernsey, as in most domiciles, like to downplay the significance of the island's low taxes and other fiscal attractions. Mr. Butterworth and the managers prefer to point to Guernsey's mature and sophisticated financial community, skilled workforce and ease of access as key reasons for locating in Guernsey.

But risk managers identify the low tax rates as a key reason for selecting Guernsey.

"We chose Guernsey for tax reasons, basically. It has very beneficial tax advantages. I suppose we could have chosen any tax haven really, but Guernsey seemed to fit the bill," said Michael Monk, head of financial services with the Assn. of British Travel Agents, which set up one captive in Guernsey in 1993 and a second one last July.

ABTA set up its first captive for its 620 tour operator members because a European Union directive on travel packages demanded that each E.U. member state ensure that tour operators are fully bonded to cover against bankruptcy.

The directive did not make it compulsory for ABTA's more than 7,000 U.K. travel agents to carry such a bond, but most do anyway. The association decided to set up its second captive last year to provide coverage for the agents.

Mr. Monk said that the second captive was created to give members an alternative to the coverage traditionally provided by the insurers and banks, which was proving increasingly expensive and, as with the NAAFI captive, it seems to have reduced conventional market rates.

"We didn't really intend it, but it seems that the creation of the captive has stabilized the rates. The cover was proving very expensive for some members and some just couldn't get adequate cover, so we decided to offer an option. About 40% (of all travel agents) use the captive and we expect more rather than less at the next renewal," he said.

Both captives are reporting lower-than-expected claims. "The package travel directive requirements are very onerous on the members but claims have actually gone exceedingly well," Mr. Monk said.

He hopes to develop both captives once sufficient reserves have been built up. He envisages both captives writing third-party liability risks, not just the first party risks covered under the bonds. BI

Tax-free catastrophe reserves give Guernsey a big edge in wooing specialty reinsurers

GUERNSEY

ST. PETER PORT, Guernsey—Unione Italiana di Riassicurazione S.p.A. became the second major Italian insurer to set up shop in Guernsey when it launched a specialist reinsurer last summer.

Assicurazioni Generali S.p.A., Italy's largest insurer, led the way in 1993 when it formed Generali Worldwide Insurance Co. Ltd., a subsidiary in Guernsey capitalized at £120 million ($193.1 million) to write employee benefit coverages for multinational expatriates (*BI*, April 18, 1994).

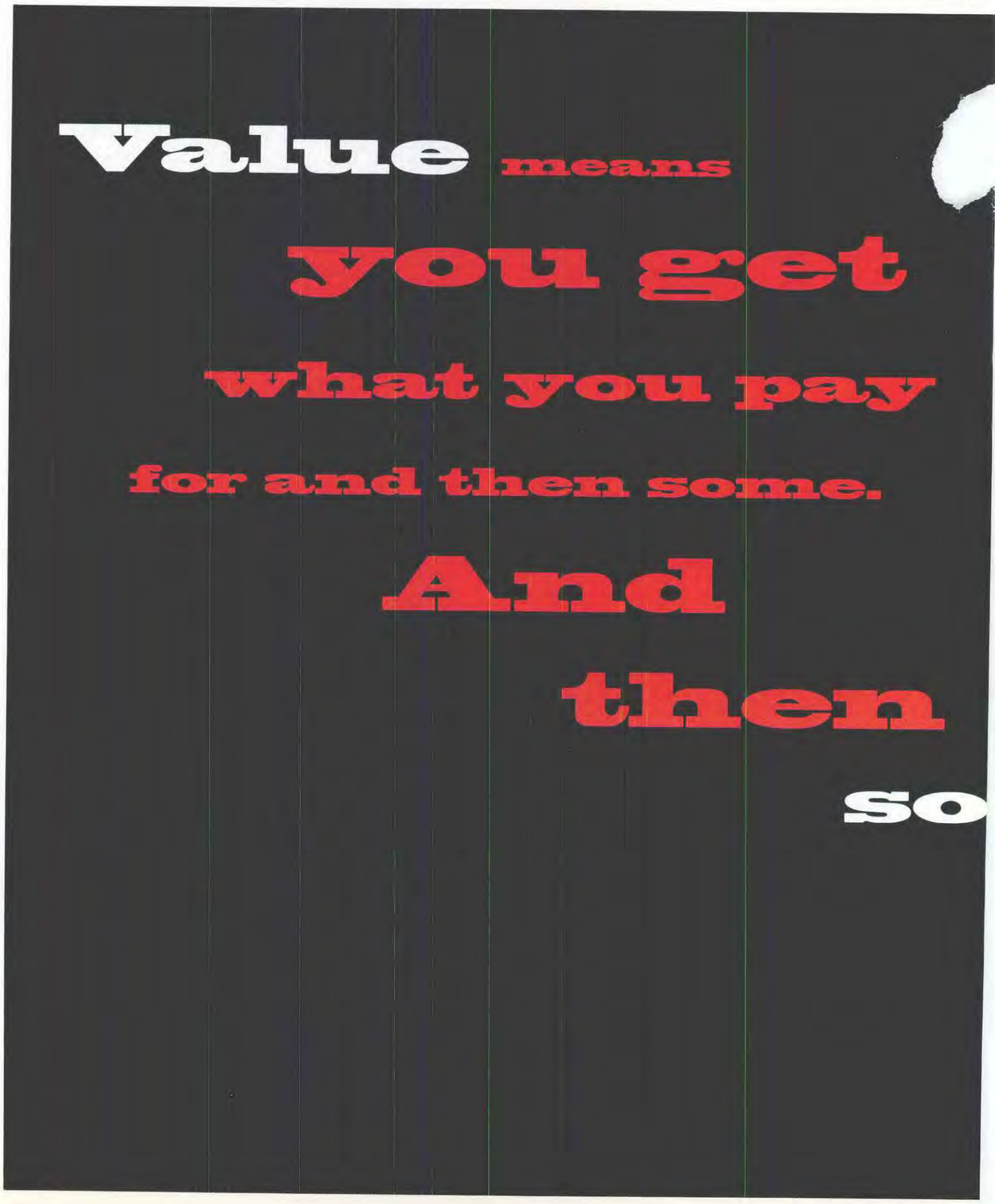
Unione Italiana Reinsurance International Ltd. was launched last August and issued stock worth $30 million.

The reinsurer is managed by Guernsey's newest captive management company, Wilde & Co. Insurance Managers.

Guernsey is a cost-effective base to set up a reinsurance company because reinsurers based here are able to set up tax-free catastrophe, or equalization, reserves. These reserves are used to fund future losses and thus can cushion the effect of catastrophic losses when they occur.

Unione Chairman Fabio Fegitz said the new company chose Guernsey because of its "efficient and flexible" regulation and support services and because the domicile has "a Eu-

Continued on next page



Continued from previous page

ropean Community accounting base," and "equalization reserves will help the company to maintain a competitive edge to the advantage of its clients."

"Unione International is committed to developing a long-term profitable portfolio, principally to reinsure short-tail, high-severity and low-frequency classes of business for both general and life insurers.

"An objective of the company will be to obtain the widest possible spread of both geographical exposures and attachment points in order to better balance the effects of accumulations and catastrophe events," he said.

Guernsey registered two more reinsurers last year, both with significantly lower capital bases and Russian parent companies.

Rosgosstrakh, the successor company to Gosstrakh, the former state insurer, and The St. Paul Cos. Inc., formed a joint venture reinsurer called New World Insurance Co. last June. St. Paul's London brokerage unit, Minet Group P.L.C., is managing the reinsurer and placing retrocession coverage for it in London and other markets.

The 50/50 venture started with initial capital of $1.1 million. Premiums written by the reinsurer so far have not been disclosed but are believed to be small.

Wilde & Co., which manages the Unione reinsurer, is also the manager for Rusica, the second reinsurer launched in Guernsey last year from the former Soviet Union. Rusica's parent is Standard Insurance Co., one of the Ukraine's largest life and general insurers. Rusica, capitalized with $2 million, will rely heavily on retrocession to start but aims eventually to increase its retention.

—By Adrian Ladbury

Guernsey tinkers with insurance regs

Competitive changes won't be extensive

GUERNSEY

ST. PETER PORT, Guernsey—Steve Butterworth, Guernsey's superintendent of financial services, plans to do some fine-tuning of Guernsey's insurance regulations to keep up with competition from other European domiciles.

The 1986 insurance law soon will undergo its first change. But captive managers should not fear any sweeping changes, and Mr. Butterworth says he is in no great rush. "We are planning a few changes. This will be done through the law committee, but we are in no hurry," he said.

One area that Mr. Butterworth hopes to change is the range of approved assets in which the captive insurers can invest. Currently, captive insurance assets are not recognized if they are invested in: building society deposits, similar to savings and loan institutions; unit trusts, a form of pooled investment vehicle; or commercial paper. "We are looking to broaden the net," he said.

He also wants to look at ways of ensuring that insurers invest in an adequate range of investments. "We need to make it more flexible and less flexible. It's possible for an insurer to hold all its assets in one poor type of stock. So we are looking at rules to ensure they have a decent spread of investments," he said.

Another change that captive managers hope can be made is the introduction of rules to make it easier for captives to repatriate from another domicile. A committee has been set up to frame the new rules and Mr. Butterworth hopes changes can be made by the end of the year.

"I do not expect a huge flood of business to come from places like Bermuda and the Cayman Islands, but it would help if we made it easier for companies to transfer the captive here from overseas," he said.

At the moment, if a company wishes to transfer its captive from another domicile to Guernsey, it must first liquidate the original captive, substitute its client contracts and start up fresh in Guernsey.

"It would be useful if captives were allowed to move domiciles lock, stock and barrel and not have to set up a shell company. It would be a good advantage for Guernsey if it had legislation which made this easier. There are a number of U.K. captives in Bermuda which may be interested in coming to Guernsey if these changes were made," said Malcolm J. Cutts-Watson, managing director of Willis Corroon Management (Guernsey) Ltd.

One key reason for easing the transfer of business to Guernsey is that the Isle of Man, probably Guernsey's keenest competitor, is already drafting legislation to do the same (see story, page 54).

However, the insurance department's unsuccessful effort this year to introduce a new law to regulate insurance brokers failed to improve relations between the captive managers and the insurance department.

The law was intended to enhance consumer protection by beefing up the regulators' powers over brokers. When it was introduced as draft legislation late last year, however, the captive managers realized that the new law would encompass them and lead to an added cost and burden.

After discussion between Mr. Butterworth's office and the captive managers, the department agreed to redraft the legislation to exclude the captive managers unless they carry out general brokering activities.

In 1993, Guernsey added a second tax option. The two options are:

- Remain exempt from local taxes but pay a £500 ($805) annual fee to the Income Tax Authority.
- Pay a "sliding scale" tax of up to 20%, which is based on the amount of investment income generated by shareholders' equity and non-insurance income.

The new option, The Income Tax (International Bodies) (Guernsey) Law 1993, enables the captive owner to pay a 20% tax in Guernsey that should help prevent continental European companies especially from paying no tax in Guernsey and punitive rates in their home country. Such companies would be based in countries like the Netherlands and France that have local laws calling for certain levels of taxation of offshore companies.

Registration, assets and solvency requirements remain unchanged.

- Each registered insurer must appoint a representative who is either a "fit and proper" Guernsey resident or an authorized insurance manager.
- Minimum share capital is £100,000 ($160,950).
- Minimum solvency margin of 18% of the first £5 million ($8.0 million) of net premium income and 16% thereafter.
- Seventy-five percent of the assets required to maintain the minimum solvency margin must be in approved investments.

—By Adrian Ladbury

Some companies see insurance as a commodity. But many others see an insurer's value as much more. For Hunter Industries, it was not a matter of rate or premium. They were looking for a solution. The fast-growing Southern California manufacturer had experienced a series of injuries, which jeopardized production. Then they teamed up with SAFECO. Along with agent Steve Tanner of Tanner Insurance Brokers in Pleasanton, California, SAFECO helped develop an aggressive safety plan to minimize losses and cut costs. SAFECO's overall approach was twofold: set up direct lines of communication, and provide loss-control help. For Hunter, SAFECO's value wasn't just coverage—when the company built a new East Coast factory recently, Hunter asked SAFECO to help design the plant's safety features. If you want more value for your insurance dollar, let's talk.

me more.

SAFECO *What's right.*

Commercial Lines

Burns & Wilcox Ltd.
NATIONAL
UNDERWRITING MANAGERS AND BROKERS

is pleased to announce the acquisition of

ILLINOIS R.B. JONES inc.

from Alexander Howden North America

Illinois R.B. Jones inc. will become a new division of Burns & Wilcox Ltd. effective April 1, 1995

The staff will continue operations in their present location

Illinois R.B. Jones inc./Burns & Wilcox Ltd.
250 S. Wacker Drive
Chicago, Illinois 60606
Phone (312) 993-0505 · Fax: (312) 993-7977

Burns & Wilcox Ltd. • Illinois R.B. Jones inc.
Member Companies of the H.W. Kaufman Financial Group, Inc.
"Listed on the American Stock Exchange (HWK)"

Irish eyes smile on U.S. parents

Low taxes, convenience attracts household names

By STACY SHAPIRO

DUBLIN

DUBLIN, Ireland—Maybe it's the luck o' the Irish that makes Dublin an attractive place to U.S. multinationals and Bermuda-based insurers seeking a European base.

More likely, though, the interest stems from Dublin's 10% tax rate, the ability to become a licensed insurer throughout the European Union and the skills of the Irish people.

Over the years, U.S. companies have shown some interest in other European captive domiciles, such as Luxembourg, Guernsey and the Isle of Man. But none of these areas has attracted nearly as many U.S. household names as Dublin.

The list of U.S. multinationals with insurance and reinsurance captives set up in Dublin since it opened for this kind of business in 1987 is impressive: Ford Motor Co., Hertz Corp., H.J. Heinz Co., McDonald's Corp. and The Coca-Cola Co.

Last year, additions to the list included: Texaco Inc., Black & Decker Corp., Union Carbide Corp. and AT&T Corp.

There are now 22 U.S.-owned captives out of 115 in Dublin—more than any other country represented in the Irish market. Sweden and Germany follow with 20 captives each, then the Netherlands with 11.

The Irish-American relationship helped boost captive growth in Dublin last year with 30 new captive formations, including 10 with U.S. owners.

"Last year was our best year for quite a while," said Ciaran Morris, project manager for captives for the Irish Development Authority until he moved to Los Angeles April 13 to become vp-marketing for the IDA.

Two captives shut down, bringing the total to 115 captives at the end of last year in Dublin, up from 87 captives in 1993. Of these, 30 are insurance captives, 60 are reinsurance captives and 25 are "agency reinsurers," meaning their owners are insurance companies.

Gross premiums also increased 75% to 1.4 billion Irish punts ($2.29 billion) at the end of last year from 800 million Irish punts ($1.13 billion) in 1993, according to the first survey of captive managers, said Mr. Morris. The companies are capitalized at a total of 800 million Irish punts.

"Our dominant market without doubt is the U.S.," said Mr. Morris. Of the 10 U.S.-owned captives set up last year, nine were licensed as insurance companies and one as a reinsurer. "The U.S. is going to be our market. I cannot see another country in the medium term producing more captives than the U.S. for Dublin."

The dominant reason for the American interest is the ability of Dublin-based captives to become licensed insurers in Ireland and throughout the European Union under the Single Insurance Market directives.

"Dublin is very attractive to U.S. risk managers because you can write a policy from Dublin and you don't have to deal with fronting companies (across Europe). You're therefore reducing costs. The risk manager has more control over the wording of the policies," said Mr. Morris.

Becoming a licensed insurer in the European Union by setting up in Dublin is "a tremendous competitive advantage" compared with other domiciles, added Jennifer Cartmell, senior vp and chief financial officer of Texaco's Bermuda-based captive, Heddington Insurance Ltd.

Add to that the 10% tax rate and choosing Dublin to set up a captive "almost becomes a no-brainer," she said.

Ms. Cartmell also is impressed with the "quality of the people" she dealt with—from captive managers to regulators—while setting up Heddington's latest venture, Heddington Life Ltd., in Dublin last year. A Dublin base offers other benefits, too, such as the language and the ease of traveling to Ireland.

Heddington Life was established to reinsure life insurance and employee benefits for Texaco's non-U.S.-based workforce, which comprises 40% of the oil giant's 33,000 employees worldwide.

It is the latest in a group of Heddington companies whose aim is to become a direct writer of Texaco's insurance programs worldwide. Aside from Heddington in Bermuda, the other Heddington companies are: Heddington (U.K.) Ltd., created in 1980; Heddington (C.I.S.) Ltd. in Russia, which was licensed in 1993; and Bermuda-based Heddington Brokers Ltd., a 50/50 joint venture captive broker with Willis Corroon Group P.L.C.

Until now, Heddington has focused on writing property/casualty insurance, so the Dublin operation "is a new development for us," said Ms. Cartmell. Heddington Life is "at the very early stages and is testing the water." The only program the captive is involved in so far is a global travel accident policy.

If everything goes well, however, Heddington Life will seek an insurance company license in Dublin, increase the company's capital and "become a direct writer," said Ms. Cartmell.

Placing pan-European employee benefits into a Dublin captive "we see as quite a major growth area," added Desmond Morris, director/secretary of Willis Corroon Management (Dublin) Ltd., which manages seven captives, including Heddington and one agency reinsurer. Willis Corroon also manages the first group captive in Dublin, Routemaster R Ltd., set up last year to write liability coverage for 10 independent bus companies in London sold by state-owned London Transport Ltd.

Meanwhile, Union Carbide Corp. of Danbury, Conn., early last year set up what may be Dublin's first captive broker, managed by Sedgwick Management Services (Ireland) Ltd., confirmed Richard M. Inserra, Union Carbide's assistant treasurer. The company, Glengate Insurance Brokers Ltd., also will place coverage for third parties, he said.

"We set it up for a combination of reasons," said Mr. Inserra, including to access certain European underwriters and to keep a percentage of brokerage commissions. The idea resulted from brokers bidding for part of Union Carbide's excess liability insurance program. "Instead of outsourcing, we are insourcing (one part of) our brokerage," he said.

Union Carbide chose Dublin because "it was easy to set up," one of the company's excess underwriters was there, and "it's a way to expand operations in Europe," said Mr. Inserra.

"We're seeing a lot of interest from the U.S.—but everyone you meet is saying the same thing—particularly from U.S. companies with a European presence," said Gary Cullen, director of Sedgwick Management Services (Ireland). The wave of interest in Dublin first came from Germany and then Sweden, but now it's the United States, he added.

Large U.S. companies in particular want benefit captives "closer to Europe" to keep a closer eye on all the changes taking place in employee benefits in European countries, said Mr. Cullen. "It's in the early stages, but I think there will be a strong growth in Ireland in relation to that."

Sedgwick, with 12 employees, manages 13 captives, including Dublin's first Portuguese agency reinsurer.

With many of the big American multinationals present in Dublin, smaller U.S. companies may follow, added Eamon O'Brien, managing director of Alexander Insurance Managers (Dublin) Ltd., which manages five insurance captives, including those of Heinz and McDonald's, one reinsurance

See **Dublin** *on page 52*

High Security Needs.

These cities-at-sea work 24 hours a day all over the globe. Millions of dollars worth of equipment and thousands of people constantly in motion. Millions more at stake. Working in all kinds of weather, in places that seem as rough as they were when the oil was first laid down there.

Global Special Risks understands the special needs of the oil business. That's what enables us to tailor our coverages to individual needs, and to make our service up close and personal.

Around the clock, wherever we're needed. Global Special Risks is the *coverholder* to call when quality and service count.

GLOBAL SPECIAL RISKS
Dallas (214) 969-1890 • Houston (713) 952-2774
New Orleans (504) 455-7874 • New York (212) 742-8111

THE POWER of PARTNERSHIP™

Active partnership is powered by the attention to our customers' present and future needs that cements solid, long-term relationships. By anticipating the demands of tomorrow, while meeting those of today, we can work together to create custom-tailored risk management products and solutions that yield superior results in areas like cost management and customer service. As a member of The Worldwide Zurich Insurance Group, we provide extensive financial strength, and offer long-term active partnership to you. For more information, contact your agent or broker, or call 1-800-382-2150 today.

IS STABILITY

ZURICH-AMERICAN
INSURANCE GROUP

A MEMBER OF THE WORLDWIDE ZURICH INSURANCE GROUP

©1995 Zurich Insurance Company

SPECIAL REPORT

Dublin

Continued from page 50

captive and one agency reinsurer with a total of $50 million in premium volume. Five of its seven clients are American.

Fortune 500 companies in particular should be looking at Dublin, said Mr. O'Brien. "I reckon in the next five years you'll see a lot more U.S.-based companies coming here."

Bermuda-based insurers also are interested in the Irish domicile as a base from which to tap European business, with EXEL Ltd. leading the way in 1991 by setting up X.L. Europe Insurance Ltd. Centre Insurance International Ltd., owned by Centre Re Ltd., also is operating in Dublin. Recently, too, ACE Ltd. opened a reinsurance captive managed by Willis Corroon Management (Dublin) Ltd. to test the water in Dublin. There are no plans for ACE to become a direct insurer in Dublin in the near future, however, ACE officials say.

There are now 14 commercial reinsurers, including Centre Re and Australian-owned QBE Insurance & Reinsurance (Europe) Ltd.; three direct non-life insurers, including X.L.; and seven life insurance companies in the international low-tax sector in Dublin.

The Bermuda-based companies did not expect to see so much of their reinsurance business in Dublin coming from America.

In 1990, X.L. thought that over the five-year period it would have "a huge number of mainland European clients," said Patrick J. Tolan, managing director of X.L. Europe, which last year wrote gross written premiums of $80.5 million, compared with $56 million in 1993 and only $15.5 million in 1991.

But, cut of 156 clients—including 10 Dublin captives—in 22 countries, 56 are from the United States, 59 are from the United Kingdom and the rest are scattered in France, Sweden, Germany, Switzerland and elsewhere.

"We didn't come here to win U.S. business. That should go to Bermuda," said Mr. Tolan. "But if it finds its way into the London market and we haven't seen it in X.L. (Bermuda) and they want to deal with us rather than Bermuda, then we're happy to do that." X.L. Europe has close relations with London-based brokers.

X.L. Europe, with 30 employees, will lead the marketing drive for business from the Far East.

While enthusiasm for the domicile is growing from the United States and Bermuda, it is waning slightly in Sweden because the Swedish government introduced pre-clearance procedures last year under the tax treaty between Ireland and Sweden. Under this rule, if a Swedish company sets up a financial operation in Dublin and wants to repatriate dividends, those dividends must be taxed in Sweden unless the company can show that it is carrying on genuine business operations.

"It's caused us quite a lot of concern and has led to a lot of uncertainty in Sweden," said Irene Ryan, managing director of SINSER (Ireland) Ltd. SINSER managed 19 captives at year-end 1994 with 50 million Irish punts ($82 million) in premiums, up from 17 captives in 1993 with 47.2 million Irish punts ($66.5 million) in premiums. One of the new captives is Swedish, the other Dutch.

The new rule means that Dublin-based Swedish captives "which are successful are accumulating funds here" rather than repatriating profits to the parent companies, she said. Twelve of SINSER's captives in Dublin are Swedish.

Companies from other countries also are interested in coming to Dublin. Interest from Germany waned for a period, but it's picking up, said John R. English, director and general manager of International Risk Management (Dublin) Ltd., which managed six captives and one agency reinsurer at the end of last year with gross premiums of $20 million.

The Hong Kong & Shanghai Bank Corp., an IRM client, also has set up in Dublin recently to write compulsory products—such as third-party auto insurance—in Europe, said Mr. English.

Meanwhile, probably the most successful captive manager in Dublin, UNISON Management (Dublin) Ltd., has decided to branch out and offer treasury management, according to its managing director, John Perham.

UNISON managed 24 captives in Dublin at year-end 1994, including those of AT&T and Black & Decker, with premiums totaling $341 million. It employs 25 people. UNISON is managing two agency treasury centers, which permit inter-group lending between one foreign subsidiary and another in the correct currency, according to Mr. Perham. Treasury management, in which UNISON is competing with banks, "will become big business in the future, bigger than captive management" at least for UNISON in Dublin, he said. BI

Dublin is thriving under tax breaks that run until 2005

DUBLIN, Ireland—Captive growth has been steady here since 1987, when the European Commission allowed Ireland to offer a major tax break to financial companies that would rent space in the International Financial Services Centre.

That break, a 10% corporate tax rather than Ireland's standard 38%, expires in 2005. The government extended it last year so that new companies can be licensed through the end of the year 2000.

Late last year, the Irish government agreed to let captives defer taxes on underwriting profits for five years.

"We feel it will be very beneficial to companies writing property and short-tail liability business," said Michael C. Brady, chairman of the Dublin Insurance Managers Assn.

Captive managers had hoped that Ireland, like Luxembourg, would permit companies to set aside catastrophe reserves tax free. The five-year deferral was seen as a compromise.

Among the future concerns of some of the 31 members of the Dublin managers association are:

- The expiration of the 10% tax rate. Some managers want the European Union to extend the break, while others hope that Ireland will simply reduce its overall corporate tax rate substantially.

After 2005, without either the tax breaks or a lower overall rate,

See **Dublin law** *on page 54*

F&D means Contract Bonds.

It also means License, Permit, Miscellaneous and Judicial Bonds.

You know F&D. We've been the leader in contract bonds for over a century. Our reputation for accuracy and promptness is the standard for the industry.

No matter where you are, we have offices and trained professionals ready to help.

Did you know F&D also has the same experienced specialists for every other kind of surety bonding too? Everything from regulatory, compliance, license, permit and miscellaneous bonds to judicial bonds.

And, because your time is valuable, our national network of representatives has a high level of authority to approve most bonds on the spot. We have simplified reporting procedures for large commercial accounts, trade and affinity groups, all at very competitive rates.

Next time you need a bond program, talk to the people who know all kinds of bonds...talk to F&D.

Contact your local F&D agent, the F&D office nearest you, or call 1-800-821-4635 for more information.

F&D Surety

The Fidelity & Deposit Companies

MEMBER NASBP

AT ONE TIME, THIS WAS MEDICAL MANAGEMENT. WE'LL SHOW YOU ITS FUTURE WITH A LITTLE OF OUR OWN MAGIC.

Does it seem at times as if some of the workers' compensation claims you review have been generated by unearthly visions? We have a down-to-earth solution to administering these claims, particularly in a multi-state situation.

Since every state is different, and no two claims are exactly alike, we employ a myriad of resources to control rapidly rising medical expenses. These include in-house medical bill adjusting programs, Medical Management Specialists specifically assigned to your program, and outside sources with proven results chosen in conjunction with your administrative team.

Our magic may also include Telephone Claim Reporting (TCR), which results in the automated generation of appropriate claims forms and the electronic transmission of loss notices to our branch offices. TCR improves response time and offers opportunities for early medical intervention and control.

For more information, please contact our closest branch office. Or call our corporate headquarters at 1-800-426-5990. Ask for our president, John Harrold. He'll tell you how to develop a program that meets your objectives. Without relying on the supernatural.

THE VISION TO LEAD. SCOTTWETZEL SERVICES, INC.

Risk Management Planning and Support

SPECIAL REPORT

Dublin law

Continued from page 52

"I'd say bye-bye to captives in Dublin," said Des McCarthy, director/secretary of Willis Corroon Bermuda (Dublin) Ltd.

But, Mr. McCarthy added, "if all goes well, there would be a great basis to bring down the 38% corporate tax level throughout the country."

• Strict lease terms in the financial service center buildings.

With companies required to sign 25-year leases, many are reluctant to move into the office buildings, even though doing so is required to take advantage of the tax break, which runs 10 years.

Some captive managers also complain about the rents.

To form a captive in the IFSC and obtain the 10% tax certificate, parents first must obtain approval from the Irish Development Authority. The application is then forwarded to the Certification Advisory Committee, which advises the financial authorities on if it should be approved.

If the captive is to become a reinsurer, then minimum share capital of £100,000 ($160,950) is required, but it does not have to file returns to the Department of Enterprise & Employment.

If, however, the captive is to become an insurer, it must adhere to European Union and Irish insurance company requirements, said Patrick Kelly, assistant principal, insurance section, for the DEE. These include:

• A minimum of 500,000 Irish punts ($819,500) in capital.

• Maintain a solvency margin which is based either on 18% of gross premiums or three years claims performance, whichever is higher.

• Pay an application fee of 4,000 punts ($6,556).

• File annual returns including revenue accounts, premiums, claims and principle reinsurers.

The whole process to set up an insurance captive takes three to four months, said Mr. Kelly.

For more information, contact the Insurance Division, Department of Enterprise & Employment, Setanta Center, South Frederick Street, Dublin 2, Ireland; 011-353-1-614-444; fax: 353-1-679-5710.

—By Stacy Shapiro

Workable, cost-effective solutions to loss control problems in a word.

Axia.

The first thing a loss control company should be is practical. All the loss control programs in the world won't help if they don't work for you. And they must be cost-effective.

Axia specializes in practical, affordable solutions tailored to your problems.

Axia's seasoned, professional staff offers nationwide service that can be addressing your loss control problems within hours.

Axia Services specializes in:

- Industrial hygiene
- Laboratory analysis
- Property and HPR
- Safety training
- Occupational health and ergonomics services
- Environmental assessment
- Indoor air quality testing
- Safety auditing
- ADA Title III
- Loss control programs.

If you would like to discuss your problems with an Axia representative, or would simply like to receive our brochure, just say the word.

Call Axia Services at 1-800-268-2201.

AXIA SERVICES INC.

Axia Services Inc.

One of the Aetna Life & Casualty Companies

Growth rebounds after slowdown

Tax, transfer bills could boost captives

By CAROLYN ALDRED

DOUGLAS, Isle of Man—Captive growth on the Isle of Man is rebounding.

Until last year, the level of growth

ISLE OF MAN

had declined each year from its record 1990 levels, when 23 new captives were formed, to 15 in 1991, 10 in 1992 and six new formations in 1993.

But 13 formations last year reversed that trend and brought the total number of captives to 140.

More important, say Manx captive managers and regulators, the domicile continues to attract quality captives.

"We were happy with the amount of new captives and were pleased with the quality of the companies," said Deputy Insurance Supervisor David Vick. "We have concentrated more on quality and size of companies as well as the continued growth of our existing captives."

Various industries produced the 13 new captives last year.

Three U.K. building societies—which are similar to U.S. savings and loan associations—formed captives to underwrite mortgage indemnity coverage. Changes in U.K. building society laws opened the way for captive formation, explained Geoffrey Hunt, managing director of Alexander Insurance Managers (Isle of Man) Ltd., which manages 14 captives, including one of the new building society-owned captives.

More growth could be spurred by a 1994 law and a current proposal. The law, which allows companies to opt to pay tax on a sliding scale, could attract captives with owners based in countries that are wary of tax havens. And the proposed law is designed to make it easier for captives to transfer to the Isle of Man from other domiciles.

The 1994 law, the International Business Act, will make the Isle of Man more attractive to corporations in countries with strict tax laws, managers say.

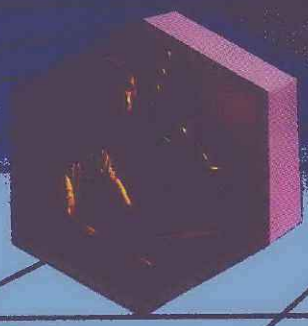
It allows companies based on the Isle of Man, including insurers, to opt to pay tax on a sliding scale up to 35%. Captives can still opt for tax exemption or for paying the standard Isle of Man corporation tax rate of 20%.

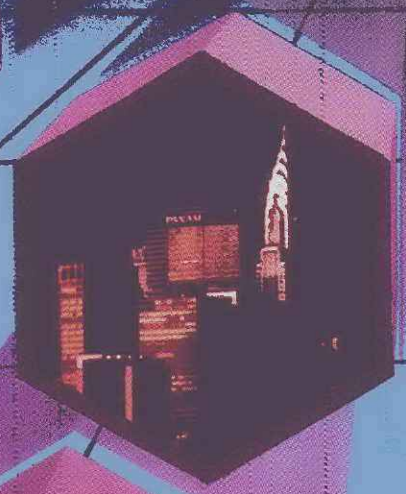
Tax authorities in other countries are less likely to consider the Isle of Man a tax haven under this law. For example, the domicile should be more attractive to Japanese companies that need to prove that a captive is paying at least half the normal Japanese corporate tax rate, said Ian Gerrard, a director of UNISON Management (Isle of Man) Ltd.

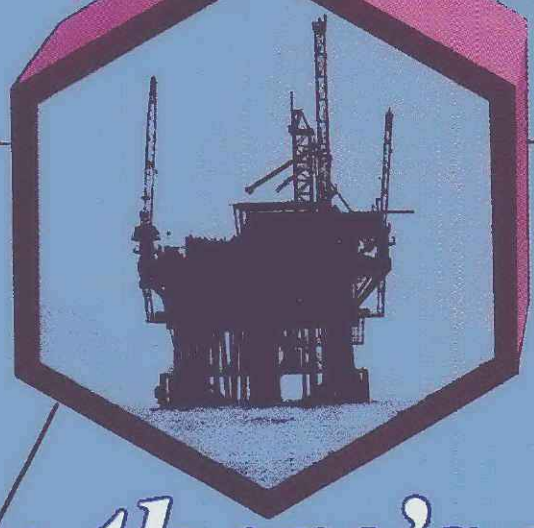
Captive managers and Mr. Vick say the Isle of Man needed such legislation because unlike, for example, Ireland, it has no double taxation treaties with other coun-

See **Isle** *on page 56*

Reliance National's
Risk Management Services Division







When there's no room for doubt.

Today's complex business environment places more demands than ever on the sophisticated risk manager of the '90s. Pressure to reduce the ever-increasing costs of insurance and minimize the potential of economic harm to large companies due to casualty losses are only a few of the demands the risk manager faces. Using an insurance carrier which is both flexible and responsive is a key element in the risk manager's program development.

At Reliance National, our Risk Management Services Division is attentive to the needs of the risk manager and the large casualty account. We offer a diverse array of products and services customized to the particular needs of each client. Talented and experienced underwriters listen and respond to the requests of our customers.

Reliance National...THE CHOICE
in Risk Management Services.

Risk Management Services Division

- National Risks
- Reverse Home Foreign
- Excess Workers' Compensation
- Workers' Compensation Alternative Products
- Risk Management Consulting Services
- Global Risk Management

THE CHOICE

Reliance National

A Reliance Group Holdings Company

77 Water Street, New York, N.Y. 10005

For further information
write us or call (212) 858-6602

Reliance National products and programs underwritten by Reliance Insurance Company, Reliance National Indemnity Company, Reliance National Insurance Company, Reliance National Insurance Company of New York, Reliance Insurance Company of Illinois, Reliance Insurance Company of California, United Pacific Insurance Company, Firemark Insurance Company and/or Reliance Surety Company.

© 1995 Reliance National Insurance Company.

SPECIAL REPORT

Isle of Man

Continued from page 54

tries and is not a member of the European Union.

"In a modern, highly competitive captive market, we needed to have an alternative to double taxation treaties or E.C. membership," said Mr. Gerrard. Details among tax treaties vary, but generally double taxation treaties mean two jurisdictions agree to recognize the taxes paid by related companies in the other jurisdiction.

The second change that managers say could encourage captive growth is a proposed amendment to the Isle's Insurance Act of 1986 to ease "redomiciliation.

Under the amendment, which is expected to become law soon, corporations could move existing captives from other domiciles to the Isle of Man more easily and cost-effectively. Now, companies that want to transfer a captive from another domicile to the Isle of Man have to formally liquidate the company in the previous jurisdiction and re-form in the Isle of Man.

The legislation resulted from inquiries by captive owners interested in relocating to the Isle of Man "without having to go through the time-consuming and expensive process of liquidation," said Mr. Vick. The new law will be attractive to U.K. parents with captives much farther away, such as Bermuda, he said.

But most managers do not see a huge number of captives taking advantage of the new law.

Some companies may see it makes economic sense to move, "but there is not going to be a wholesale exodus of U.K. captives from Bermuda," said Mr. Hunt.

"One or two companies have stressed a strong desire" to relocate to the Isle of Man, "and perhaps there are some more who would be more likely to move with the legislation in place," said Mr. Gerrard.

Managers, though, do not expect a windfall of captives from the law.

British companies, the Isle of Man's traditional source of captive business, continue to set up most new captives, observed Mr. Vick. But the island is making a concerted effort "to extend its base away from the U.K."

Other areas that may be interested in the Isle of Man include South Africa, Japan and other countries in the Far East.

Since most of the largest U.K. corporations already have captives, the Isle of Man must look farther afield for new business, he said. However, most continental European corporations view either Luxembourg or Dublin as the obvious choice to form a captive.

Graham King, manager of Marsh & McLennan Management Services (Isle of Man) Ltd., agreed that the Isle of Man faces an uphill struggle attracting captives from European corporations. But, he said there is still U.K. growth potential and, while captive numbers may not rise dramatically, premium volumes could as established captives grow.

"Most of our captives are getting substantially bigger," he said. Although M&M lost one captive last year to a rival Manx captive manager, two of its remaining eight captives increased their capital to expand their capacity, said Mr. King. "The captives are broadening their base and looking at other coverages such as pollution and product liability," becoming more substantial companies, he said.

Mr. Hunt agreed that the "natural marketplace (for the Isle of Man) is the U.K. and there is not a bottomless pit of opportunities for conventional captive business."

As a result, Manx captive managers are going to "have to look at other alternatives to attract business to the island," he said.

Opportunities for non-conventional captives, such as group captives, still exist within the U.K. market, he said, noting that A&A is looking at other products to attract clients to the Isle of Man.

Optimism about the Isle of Man's future is especially evident within UNISON's operation, which has expanded rapidly in the last year.

Since 1994, UNISON's Isle of Man office has restructured to extend and enhance local activities, said Mr. Gerrard.

UNISON's Isle of Man team now consists of director Mr. Gerrard and two new appointments, lawyer Simon Cooper and Clive Fletcher, former risk manager for Hampshire, England-based British Aerospace P.L.C., where he was responsible for managing the group's captive. UNISON also has hired accounting and secretarial staff.

UNISON recently set up an additional captive management consulting firm, Unicorn Insurance Services Ltd., which will be an independent captive manager. The new unit is part of Isle of Man-based Unicorn Holdings Ltd., a group of companies that specializes in providing offshore financial services. Although based in the same offices as UNISON and staffed by the same directors, Unicorn is an independent company, he said.

The team also hopes to act as an agent for Aon Risk Services Ltd., which is applying for a license to operate in the Isle of Man.

Mr. Gerrard hopes to have two to three captives under management by each of the three operations by the end of 1995. BI

Little change in rules for Manx captives

ISLE OF MAN

DOUGLAS, Isle of Man—Changes to the tax code in the Isle of Man are the only legislative and regulatory change affecting captives in the Channel Island domicile.

Under the new International Business Act, all companies—including captive insurers—can opt to pay higher rates of taxation, which can help avoid restrictions in their home countries on locating operations in tax havens (see related story).

Otherwise, the requirements for forming an Isle of Man captive remain the same as they were last year:

• Single-parent captives must have minimum paid-up capital of £50,000 ($80,500). If a captive is writing third-party business, reinsurance or life insurance, the minimum capital requirements range from £100,000 to £500,000 ($161,000 to $805,000).

The minimum capital requirements plus 10% of any amount above £50,000 must be paid in cash and deposited in an Isle of Man bank. 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 ($3.2 million) and 5% of net written premiums ex-

Continued on next page

This Year We Tu
Our Clients Will S

With clients like *Hallmark Cards* we have plenty to celebrate. Indeed, it's our privilege to provide leading companies *worldwide* with property and casualty coverage. And with a new *field-driven* structure, we've empowered local branches to design flexible programs and make immediate decisions. Which means we provide the tailor-made products and the *quick* answers producers and clients need. So find out how your local Royal branch can help you – whatever the occasion.

Royal Insurance

150 YEARS 1845 1995

Continued from previous page
ceeding an amount of £2 million ($3.2 million).

Captives on the Isle of Man that write third-party business are required to maintain a solvency margin that is equivalent to 15% of net premiums written but totaling not less than £150,000 ($241,500).

• Captives must present to the insurance supervisor a three-year business plan.

The business plan for each captive must include: the maximum net retention per risk or occurrence and the aggregate retention after all reinsurance is ceded; policy limits; details of the reinsurance program, including the names of the reinsurance companies; projections for claims; projections for the captive insurer's cash flow; and projections for its profits.

• A "suitable" manager on the island must manage the captive. The criteria for suitability are determined by the domicile's insurance regulator.

A £1,000 ($1,610) registration fee is required for all captives on the Isle of Man.

Authorized insurance companies on the island also pay an annual fee of £500 ($805).

For captive insurers with tax-exempt status, there is an additional annual fee of £2,000 ($3,220).

For more information on the Isle of Man's captive insurance industry, contact Bill Hastings, chief executive and insurance supervisor, 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 Carolyn Aldred

Luxembourg captive growth fueled by German interest

By CAROLYN ALDRED

LUXEMBOURG

LUXEMBOURG—German companies, relatively new users of captive insurance, are expected to provide much of the future growth in the world's fifth-largest captive domicile.

Recent sharp increases in insurance rates and reductions in pollution and other coverages are prompting major German industrial companies to begin considering captives and other alternatives to traditional insurance.

So far, German companies seem to be attracted most to Luxembourg and Dublin, Ireland, which has a double taxation treaty with Germany. Double taxation treaties generally set the terms under which one jurisdiction will recognize the taxes paid by related companies in another jurisdiction.

Among the 22 captives formed in Luxembourg in 1994 were a group captive reinsurer set up by a group of major German chemical firms, and one formed by Daimler-Benz A.G. to underwrite business interruption, property and other lines of insurance.

Along with five withdrawals, mainly due to mergers, the formations brought the number of registered reinsurers at year-end 1994 to 207, said Insurance Commissioner Victor Rod. That represents an 8.9% increase from 190 reinsurers a year earlier.

French companies own more than 25% of Luxembourg's captives, followed by Belgian, Scandinavian, Luxembourg and Dutch companies.

But, with many Northern European nations reaching the saturation point for captives, the talk of the town is the arrival of the Germans.

Early last year, three chemical giants—Hoechst A.G., Bayer A.G. and BASF A.G.—formed the first German group captive reinsurer in Luxembourg (*BI*, April 18, 1994).

The captive, Indurisk, was formed to write environmental liability coverage. Both Germany and the European Union have toughened their environmental laws lately and European insurers are increasingly unwilling to write the coverage.

'We expect to see another two or three German captives formed this year,' says Victor Rod.

Separately, Daimler-Benz formed a captive that it hopes to have operating in 1995. Initially, it will write property, business interruption, transport and contractors coverage (*BI*, Oct. 19, 1994).

Mr. Rod and captive managers hope that Daimler-Benz's move will encourage other German companies to form Luxembourg captives. "We are in contact with five major industrial groups from Germany and expect to see another two or three German captives formed this year," said Mr. Rod.

One reason for the German interest, he added: Many German manufacturing companies have taken over plants in former East Germany since reunification and are faced with unknown but potentially large pollution exposures that the conventional market is not prepared to insure.

Mr. Rod sees Dublin as the primary competitor for Luxembourg's German captive business and says that "at the moment the score is deuce." He is referring to electrical engineering and electronics company Siemens A.G. and automaker Bayerische Motorenwerke A.G. forming Dublin captives recently.

"The German market is quite interesting," said Alain Dufraisse, general manager of Alexander Insurance Managers (Luxembourg) S.A.R.L., which was formed last year and hopes to get its first captive, owned by a Swiss company, licensed shortly. "It is the biggest economy in the European Community with a huge potential for captive growth."

In Germany, the "whole culture of insurance seems to be changing," said Tim Yeates, managing director of UNISON Management (Luxembourg) S.A., which expects to set up several German

See **Luxembourg** *on next page*

rn 150. One Of
urely Send A Card.
It's Your
irthda
Happy Birthday

SPECIAL REPORT

Luxembourg

Continued from previous page
captives in 1995.

Until now, most Luxembourg captives under UNISON management have been French, but that is changing as Italian, Spanish and German companies move to set up captives, according to Mr. Yeates.

UNISON manages 20 active captives, down from 23 a year earlier.

"It is still early days in continental Europe" for captives, said Mr. Yeates.

"The biggest development over the last few months is the start of an influx of captives from Germany," concurs Jonathan Miles, regional manager of Gecalux S.A., which manages the Daimler-Benz captive.

Mr. Miles predicts that such a substantial company setting up a captive in Luxembourg will encourage growth in German-owned captives, as will the increasing acceptance of captives by German companies and officials.

"We are finding a far greater acceptance of captives by German insurers and reinsurers so that captives are becoming a part of the whole insurance infrastructure in Germany," Mr. Miles explained.

Gecalux, meanwhile, is talking to other German companies and expects more of them to set up Luxembourg captives in the near future.

Gecalux is one of Luxembourg's largest captive managers, managing 57 active captives as of yearend 1994.

In 1994 and 1995, the firm has set up eight new captives, including two each from Germany and France and one apiece from Belgium and Portugal.

Among the other largest management firms are: SINSER, which currently manages 63 active captives; and Sogecor S.A., which currently manages 40.

Spain and Italy 'are virgin markets for captives compared to France and Belgium,' says Alain Dufraisse.

Mr. Miles believes there is still room for further growth from France despite estimates that most of France's largest 100 companies already have established captives.

Like many of his fellow managers, Mr. Miles sees the Iberian peninsula as a more fruitful source of new business.

"There is a lot of interest from Southern European countries, such as Spain and Italy. They are virgin markets for captives compared to France and Belgium," said Mr. Dufraisse.

Mr. Rod agreed that the potential in Spain and Portugal is good, citing the formation of three Portuguese-owned captives in Luxembourg in 1994.

Italy, meanwhile, remains "difficult to make predictions (about) because of the uncertain political situation," Mr. Rod said.

But Sogecore recently set up a separate affiliate to manage captives with Italian company parents.

Among the 40 captives that it currently manages are 10 formed that were since the beginning of 1994.

Those 10 include five that were transferred from other managers plus two new captives with Italian owners, two captives from France and one captive from Belgium, according to its general director, Jean Thilly.

In addition to Italy, Sogecore plans to try to attract German captives later this year, said Mr. Thilly.

"The intention is to go into the German market but we need to be fully equipped," Mr. Thilly explained.

Sogecore, which has one German-speaking employee, is planning to recruit more German speaking staff.

Insurance regulation is taking a higher profile in Luxembourg, according to Mr. Rod.

The Commissariat aux Assurances has now been given its own authority, with Mr. Rod reporting directly to Luxembourg's Minister of Finance, rather than through the Ministry of Finance.

In November 1994, the Commissariat also moved to its own offices out of the Ministry of Finance, Mr. Rod said. BI

Captive rules in Luxembourg include capital requirements

LUXEMBOURG—Captives are governed by the 1991 Insurance Law. Luxembourg captives, which are required to be formed as reinsurers, must:

- Have minimum paid-up capital of 50 million Luxembourg francs ($1.8 million).
- Maintain a minimum solvency margin of at least 10% of non-life net premiums written and at least 2% of reserves for life insurance risks.
- File an annual audit by a Luxembourg-approved auditor.
- Be managed by a Luxembourg-licensed captive manager.

Luxembourg captives may maintain tax-deductible catastrophe reserves, which is one of the most attractive aspects of the domicile.

There are two levels of corporate income tax. Companies with income of less than 400,000 Luxembourg francs ($14,140) are subject to a 20% tax rate, while income of 400,000 to 1.313 million Luxembourg francs ($14,140 to $46,414) is subject to a progressive scale up to a maximum rate of 33.83%. That top rate was increased from 33.33% a year earlier.

Net assets of a captive that exceed the first 1.8 million Luxembourg francs ($63,630) are subject to a 0.5% tax at the beginning of every financial year.

In addition, there is a separate 9.09% tax on profits exceeding 700,000 Luxembourg francs ($24,745).

Both these taxes are deducted from income before the corporate income tax is levied.

For more information about Luxembourg's captive industry, contact Victor Rod, Commissariat aux Assurances, 7 Boulevard Royale, 669, Luxembourg L-2016; 011-352-2269111; fax: 011-352-226910.

—By Carolyn Aldred

LUXEMBOURG

The Illinois Insurance Exchange is a unique American insurance/financial institution. Patterned after the Lloyd's concept, investment syndicates providing underwriting capital, the Exchange offers capacity for unusual and hard-to-place risks. The Exchange also helps retain some of the billions in premium dollars exported abroad each year. If you are interested in participating as a broker member or syndicate investor, contact Terry Ryan, Assistant Vice President, at 312/408-8000.

ILLINOIS INSURANCE EXCHANGE

America's 4th Largest Surplus Lines Market

311 S. Wacker Drive, Suite 400, Chicago, Illinois 60606

Toll-Free 1-800/525-8471 (In Ill. 312/408-8000) • Fax 312/408-8001

...and then ~~Godzilla~~ Godzilla came in and broke it!

Things happen. We are there when you need us.

HANNOVER RE
EISEN UND STAHL RE

SPECIAL REPORT

Singapore captive managers look to Asia

By KATE TILLEY

SINGAPORE

SINGAPORE—Singapore's growth as a domicile for Australian and Japanese captives is flat, sending captive managers to developing Asian countries for new clients.

Singapore is home to 48 captives, an increase of only one since yearend 1993. Of those, 31 captives are owned by Australian companies and 15 are owned by Japanese concerns.

Three new captives were registered during 1994, but two were deregistered, said Sudesh Maniar, senior insurance officer in the Insurance Commissioner's office, Monetary Authority of Singapore.

Gross premiums written by the captives in Singapore in 1993 totaled $268.9 million Singapore, ($192.8 million), a 7.1% increase from 1992. Consolidated figures for all captives in 1994 are not yet available.

Growth in Singapore's captive business is "difficult at the moment because Australia and Japan are the main markets and both countries have been battling recessions," said George McGhie, manager-global risk management consulting at Johnson & Higgins in Singapore.

Johnson & Higgins Risk Management Services (S) Pte Ltd., one of 19 Singapore-based captive managers, gained a new captive owned by Japan's Nippon Travel Agency, bringing its captive client total to three. Their combined gross written premium for the year ended Dec. 31, 1994, was $27 million, compared with $23 million in 1993.

As a nation of only 17 million people, Australia does not have many major corporations that can justify establishing a captive, Mr. McGhie said. Most of the major Australian companies with the capital to establish captives have already done so.

Also, Australian law does not allow Singapore captives to write Australian companies' workers compensation programs, he noted.

In addition, the Australian insurance market is the "softest in the world," decreasing the need to form a captive. At the same time, captives still have some stigma of being "dubious offshore tax shelters, which they are not," he added.

The Australian Taxation Office's draft on tax rules for captives (see story, page 61) also curbed captive growth in Singapore, said George Tarabaras, director and general manager of Sedgwick Management Services (Singapore) Pte. Ltd.

Sedgwick is Singapore's largest captive manager, with 18 captives with combined gross written premiums in 1994 of $82.6 million. One of Sedgwick's captives is inactive.

"Japan is still the best market" for Singapore captives, said J&H's Mr. McGhie. "There are a lot of Japanese companies that could and should form captives. One thousand might be overstating it, but not too much."

Not waiting for conditions in Australia and Japan to change, Singapore is looking to the more risk management-oriented companies in developing Asian countries for captive business, said Moss Pellen, managing director of Richard Oliver Risk Managers Pte. Ltd.

India would be a potential market when brokers are firmly established there, Mr. Tarabaras said. Taiwan and Indonesia represent good opportunities and Korea, too, provided that deregulation occurs there.

Richard B.H. Tan, managing director of Alexander Insurance Managers (Singapore) Pte. Ltd., agreed captive growth could come from Indonesia, Thailand, Korea and Taiwan.

"A long-term education process is needed to show potential owners the advantages of captives," he said, noting development will still be slow.

J&H also sees India as a major potential market. While the Chinese market is bigger, it is less sophisticated in terms of risk management. Vietnam, too, needs to develop further before captives could be viable, Mr. McGhie said.

He said that J&H has studies in progress for clients from Asian countries, but not necessarily for captive formation alone. There is "in-built conservatism" among some Asian corporations, and risk management consulting may be the better option for them before considering a captive, he said. He projects it may take five years but "hopefully only three years" for major Asian markets to develop captives.

Sedgwick's Mr. Tarabaras noted that he is working on two feasibility studies for New Zealand corporations. Singapore also faces competition from other domiciles, far and near.

One Australian risk management and insurance consultant, Terry Herbert, recommends Bermuda over Singapore as the preferred captive domicile for Australian companies.

Mr. Herbert, a former managing director of GRE Insurance Pty. Ltd., before it was taken over by Zurich Aust. Insurance Ltd., and a former chairman of broker OAMPS Ltd., now runs a consulting firm in Melbourne, Australia, Ghanesh Solutions Pty. Ltd.

He assisted the New South Wales-based Rice-Growers' Co-operative Ltd. in establishing a captive, Sun Arise Insurance Co. Ltd., in Bermuda. The captive begins operating April 30 under the management of International Risk Management (Bermuda) Ltd. Its gross premiums written in the first year are expected to be $600,000 Australian ($444,480).

The Ricegrowers' Co-op had more than $600 million Australian ($444.5 million) in insurable assets outside catastrophe prone areas and good loss ratios, but its premiums continued to increase. The capital requirements of $1 million Singapore ($712.5 million) in Singapore made it impossible for the Ricegrowers' Co-op to establish there, he said.

Ken MacDonald, manager of insurance services with Melbourne-based International Risk Management (Australia) Pty Ltd., which did a feasibility study for the Ricegrowers' Co-op, said Australia is still a potential competitor to Singapore, if Australia's rules are relaxed.

Singapore in the last year relaxed its tax law for captives. The Internal Revenue Authority (Singapore) agreed that captives can tax deduct their incurred-but-not-reported loss reserves, Mr. McGhie noted. The IRAS considered tax deductibility on an individual captive-by-captive basis. That was not a problem because most Singapore-based captives write mainly short-tail business.

For more information, contact the Insurance Commissioner's Department, Monetary Authority of Singapore, 10 Shenton Way, MAS building, Singapore 0207; 65-225-5577; fax: 65-229-9694. BI

BECOMING THE BEST HEALTH CARE COMPANY IN THE WORLD.

THE FIRST 100 DAYS

The MetraHealth Companies, Inc.℠ Health insurance provided by The MetraHealth Insurance Company of Hartford, CT (not licensed in New York).

Smaller domiciles vying for captives

Some report growth, others alter laws to lure business

Five countries around the world are competing with more established captive domiciles in other countries and the United States to attract captive insurance companies. Following is report on those countries:

Turks & Caicos

The Turks & Caicos Islands is growing modestly as a domicile for captive insurers.

Seven new captives, including two formed to fund deductibles in parent company insurance programs, formed last year. With one captive shut down, the domicile finished 1994 with 49 captives, up from 43 at the end of 1993.

Captives are only a small part of

INTERNATIONAL ROUNDUP

the insurance sector.

The vast majority of its 1,674 licensed insurers at year-end, up from 1,488 in 1993, are credit life reinsurers.

The domicile also has eight licensed insurance managers—only four of which are active—seven licensed brokers and three licensed principal representatives, according to Colin Holder, superintendent of insurance.

The four active Turks & Caicos managers, according to Mr. Holder, are Claymore Insurance Management (TCI) Ltd., Aberdeen Insurance Managers (TCI) Ltd., International Insurance Managers Ltd., and Abacus International Insurance Managers Ltd.

After accounting for much of the formation activity in 1993, employee leasing firms were less interested in Turks & Caicos captives in 1994, according to Mr. Holder.

Instead, the captives licensed last year were formed for a variety of purposes, including deductible funding. One provides reinsurance to a risk purchasing group for taxicab operators, Mr. Holder said.

Six of the seven are owned by U.S. concerns, while the seventh was set up by a Caribbean shipping firm to write marine coverage, he added.

The islands' regulatory agency, the Offshore Finance Centre Unit, rejected 13 insurance license applications last year for various reasons, including misrepresentations on application forms.

The Turks & Caicos government has been trying to tighten oversight and crack down on fraudulent insurers since passage of the Insurance Ordinance of 1989, its first insurance law.

"We are trying to keep the numbers (of new licensees) down because we are trying to focus on the quality of business," he said.

The government, Mr. Holder added, is also trying to live down the adverse publicity in recent years over various state actions barring fraudulent or shaky insurers that had been licensed in the Turks & Caicos before 1990.

Under the insurance ordinance, 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 a company's business plan. However, regulators follow some general guidelines:

- Insurers should have a minimum of $100,000 in capital and may have to add more based on expected premium volume, types of business written, retentions and loss and expense ratios.
- 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 10% of premiums plus $100,000.
- 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 10% of premiums plus $180,000.

Annual fees are $1,750 for captives, $2,500 for P/C insurers and $3,500 for insurance managers.

Among the 1994 changes in the Turks & Caicos insurance ordinance: the definition of credit life was broadened to include extended warranty programs; a $100 application fee was added for credit life companies; and 50% refunds of application fees when a license is denied were discontinued.

For more information, contact Colin Holder, Superintendent of Insurance, P.O. Building, Front Street, Grand Turk, Turks & Caicos Islands; 809-946-2791.

—By Douglas McLeod

British Virgin Islands

Forty-two captive insurers are now licensed in the British Virgin Islands, which enacted its first international insurance law late last year in an effort to attract new insurance and reinsurance business.

This year, the B.V.I. government issued new regulations governing insurance company licensing.

The Insurance Act, 1994, followed a four-year housecleaning during which the government struck from its register of companies between 800 and 1,000 insurers that were incorporated in B.V.I. but never licensed or regulated because the appropriate statutes did not exist (*BI*, Feb. 13).

Among other things, the law sets minimum solvency margins for insurers, including:

- $200,000 for property/casualty insurers writing up to $1 million in net premiums. For those writing between $1 million and $5 million, the solvency margin—defined as the amount by which assets must exceed liabilities—is 20% of net premiums, and for those writing between $1 million and $5 million the margin is $1.2 million plus 10% of net premiums exceeding $5 million.
- $250,000 for insurers writing

See **Worldwide** *on next page*

© 1995 MetraHealth

1

We created MetraHealth with the express purpose of reinventing health care. And along the way we intend to become the best managed care company in the world.

We have the experience, understanding and vision to accomplish this goal.

Created from the health care businesses of Metropolitan Life Insurance Company and Travelers Insurance Company, we're very clear about what our business is — health care. We have no diversions, no distractions.

2

We have a bold mission. One with limitless possibilities.

That's why, in these first days and months, we attracted a team with unrivaled managed care experience. From the pioneers of HMOs to leaders of their own health care companies.

They were intrigued by the opportunity to genuinely make a difference in how health care is delivered in this country.

Ultimately, we knew the kind of people we needed to make this work. And they joined us.

3

We understand that if we serve our customers well, we will prosper. And if not, we will not.

That means providing uninterrupted service to the employees of over 58,000 companies — including 45 of the Fortune 100.

That means maintaining continuity— the

same service representatives for the employer, the same doctor, same claim forms, same phone numbers for the employee.

We're determined to work as hard as we can for you today. It's how we'll get to deliver on our innovative and imaginative plans for your health care tomorrow.

METRAHEALTH℠

SPECIAL REPORT

Worldwide

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 new law also contains an unusual provision allowing the governor of B.V.I. to exempt certain insurers from any or all of these regulations, a provision intended to allow greater regulatory flexibility.

The discretionary exemption applies only to captives writing solely the risks of their owners or affiliates and to insurers already regulated by a "competent authority" in another jurisdiction that the governor considers adequate.

The B.V.I. government has only been accepting applications for insurance management licenses since the passage of the insurance act, and has licensed its first three managers in the last month, according to a government spokesman.

The three are Codan Management (BVI) Ltd., Caribbean Insurance Management Ltd. and A.M.S. Management Insurance Ltd., the spokesman said.

Nigel Bailey, previous B.V.I. supervisor of insurance, left the government earlier this year. Robert Mathavious, director of financial services, has assumed the additional title of insurance supervisor.

For more information, contact Mr. Mathavious at the Financial Services Department, Ministry of Finance, Road Town, Tortolla, British Virgin Islands; 809-494-4190.

—By Douglas McLeod

Bahamas

The Bahamas' new registrar of insurance is trying to recruit insurance professionals to the regulator's office in hopes of jumpstarting the island nation's stagnant captive business.

In 1994, the number of true captives operating under the 1983 captive insurance law increased to 14 from 13. Only four captives were formed; three ceased operations. Meanwhile, only 14 companies licensed under the 1969 Insurance Act survive, down from 22 in 1993. These companies are basically offshore insurers writing third-party business.

In total, the Bahamian captive register read 28 at year-end 1994.

"At the present time, nothing much is happening with the captive and offshore business in the Bahamas. Activity has not picked up and has grown even slower than the past couple of years," said Telzena Coakley, who was appointed insurance registrar in November.

As a result, the Bahamian Ministry of Finance and Planning's Insurance Section is "trying to recruit and train personnel" capable of helping to generate new business, Ms. Coakley said.

Though the captive industry is predominantly dormant here, it has made some news lately.

One of the better-known captive managers, Charles A. Donaldson, president of Nassau-based Captive Managers Ltd., recently pleaded guilty to mail fraud charges stemming from reinsurance he arranged for a defunct risk retention group (*BI*, March 13). He faces up to five years in prison.

Mr. Donaldson's captive management company, however, is still licensed and operating, along with six other managers here: British-American Management Ltd.; Corporate Captive Management Ltd.; Johnson & Higgins Services (Bahamas) Ltd.; Russian Investment Insurance Management Ltd.; Beta Management Ltd.; and Equitable Underwriting and Sales Agency (Bahamas) Ltd.

Under the Bahamas' 1969 captive law, an initial $1,000 registration fee and a $100 annual business fee is required. The 1983 law sets an annual fee of $2,500 and a $650 fee for the captive's manager, as well as the $100 annual 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 annual financial statements.

For more information, contact Telzena Coakley, Insurance Registrar with the 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

While captive supporters are hoping tax law changes will eventually encourage growth in Canada's only captive domicile, so far development is at a standstill.

British Columbia had 16 captives at year-end 1994, the same as it had a year earlier.

But a tax law change designed to make offshore captives less attractive may turn things around. Beginning with the 1995 tax year, any third-party Canadian business written by an offshore captive that is as little as 10% owned by a Canadian parent will be subject to a foreign accrued business income tax.

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 sister companies, explained Bill Morgan, managing director of Alexander Insurance Managers (Canada) Ltd., the domicile's largest captive manager with eight captives.

The purpose of the tax law change "was to deal with the bank credit life and warranty captives that weren't writing their own risks, but that of their customers outside Canada," explained Denis Brown, a partner with Ernst & Young in Toronto.

B.C. captives aren't subject to the accrued business income tax, but they are subject to regular federal and provincial income taxes, which has made the domicile less attractive than its offshore counterparts. The combined federal and provincial tax in British Columbia amounts to 45%.

Under the new tax law, offshore captives may be subject to taxes as high as 40% to 45%. "Now the differential is narrowed considerably," Mr. Brown said.

Another reason companies might want to move their captives onshore: To ensure that they maintain the federal and provincial tax exemption, companies have to incur expenses to make sure that offshore captives are actually managed offshore.

But to be an attractive alternative for many offshore captives, B.C. needs to change the law to permit captives to write third-party business, he said. B.C. captives can only write risks related to their parent companies.

The British Columbia Captive Insurance Assn. is lobbying for amendments to the International Financial Business Act to permit captives to write some third-party business, according to Mr. Morgan, who chairs the association's legislative committee.

However, no new legislation has been drafted yet.

Mr. Morgan hasn't heard of any captives planning to move ashore, but he has had inquiries from three prospects considering forming captives in British Columbia instead of Barbados.

"They've completed our pre-incorporation questionnaire," which precedes a feasibility study, he explained.

Other than Alexander Insurance Managers, the domicile's managers are: Jardine (Canada) Risk Management Ltd. in Vancouver and International Risk Management (Canada) Ltd. in Toronto, which both manage two B.C. captives; and M&M Insurance Management Inc. Canada, which manages one. The remainder are managed by individuals or are self-managed.

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 a $500,000 Canadian ($363,950) minimum joint premium base.

Applicants must pay a non-refundable application fee of $500 Canadian ($363) and an initial registration fee of $2,500 Canadian ($1,819). Annual renewal fees are $2,500 Canadian ($1,819). Minimum capitalization of $200,000 Canadian ($145,580) and $100,000 Canadian ($72,790) 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 personal lines life, health, accident or motor vehicle insurance, but they can write these as commercial lines.

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

An Australian Taxation Office draft ruling would limit premiums paid to offshore captives to what a 'willing, but not over-zealous' insurer would accept for the risk.

Australia

SYDNEY, Australia—The government may change the regulation of captives in Australia and of Australian-owned captives domiciled overseas.

A draft ruling from the Australian Taxation Office could reduce tax deductions for premiums paid to offshore captives.

Australia's regulatory authority, the Insurance & Superannuation Commission, also has issued a discussion paper on proposed guidelines for onshore captives. The draft tax ruling is welcomed by many captive managers and owners for clarifying some aspects of captives' taxation arrangements. But they also want some other aspects of the draft changed.

The tax draft details the requirements for Australian captive owners to take income tax deductions for premiums paid to their captives: There must be true transfer of risk and the captive must be sufficiently economically viable to pay claims.

For risk distribution to occur, the captive must accept unrelated business or reinsure with unrelated parties. The ruling states that a promise of indemnity must exist for the premium to be tax deductible and the premium must be commercially realistic.

"The amount of premium must not exceed that which a willing, but not over-zealous, insurer is prepared to accept in consideration of the risk," the draft states.

The ATO recognizes that captives are often established to insure risks not normally accepted in the market. The draft suggests the captive owner should document attempts to obtain insurance through the open market and be able to demonstrate its reasons for establishing a captive.

If the dominant purpose of placing a program with a captive is to obtain a tax benefit, the deduction will not be allowed, the ATO states.

Of most concern to risk managers are the requirements for risk transfer and distribution.

The ATO is not trying to stall captives, but wants to outlaw any "arrangements designed to create deductions," said ATO Research Officer Mark O'Connor. Any captive that "operates as a true captive should have no problems."

He defended the ATO's decision to make its new requirements retroactive. "We tend not to do that normally, but the industry has been well aware of our views on arrangements set up to create deductions, so it won't be a shock."

The Australian Risk & Insurance Management Assn. criticized the draft, saying it had no guidelines for partial reinsurance, selectively quoted from United States tax decisions, and had "no appreciation of commercial rationale."

It said the realistic premium test was unrealistic because captive managers could not obtain a realistic quote when the market knew the risk would be insured by the captive.

The Insurance & Superannuation Commission's discussion paper on captives questions whether Australia-based captives should be treated less stringently than other insurers.

Under Australian law, onshore captives must abide by the same regulatory regime as all other underwriters. However, the ISC has allowed captives some reinsurance flexibility, including the ability to cede up to 90% of direct premium to reinsurers (*BI*, April 29, 1991).

Eric Chalmers, ISC assistant commissioner, said the ISC wants to introduce more flexibility for captives to encourage more onshore facilities.

Four Australian insurers are regarded as captives, one more than last year.

Coselco Ins. Pty. Ltd., which writes business for CSL Ltd., formerly the Commonwealth Serum Laboratory, has existed since 1988 but was not previously required to be registered because it had special status as underwriter for a government-owned business.

Last year, the Commonwealth Serum Laboratory was privatized, requiring the captive to be registered with the Insurance & Superannuation Commission. Coselco's gross premium income for the year ended June 30, 1994, was $2.29 million Australian ($1.7 million).

The other three captives are:

• BHP Marine & General Insurances Pty. Ltd., owned by Sydney-based Broken Hill Proprietary Co. Ltd. Gross premium income for the year ended June 30, 1994, was $94.6 million Australian ($68.9 million).

• North Insurance Pty. Ltd., owned by North Broken Hill Peko Ltd., writes workers compensation coverage for the Melbourne-based mining company's New South Wales operations. Gross premium income for the year ended June 30, 1994, was $4.95 million Australian ($3.6 million).

In Australia, only onshore captives can write workers compensation coverage.

• Boral Insurance & Fund Management Ltd., owned by Sydney-based Boral Ltd., wrote gross premiums of $7.5 million Australian ($5.46 million) for the year ended June 30, 1994.

For more information, contact the Insurance & Superannuation Commission, GPO Box 9836, Canberra, Australian Capital Territory, Australia 2600; 011-61-6-2676820 or 011-61-6-2676956.

—By Kate Tilley

Labuan

LABUAN, Malaysia—The first captive on the tiny Malaysian island of Labuan was registered late last year.

Compagnie de Suez of Paris registered a captive that is managed by New World Management Services Ltd. of Hong Kong.

Marsh & McLennan Management Services (L) Ltd. is Labuan's only other registered manager.

More captives will form in Labuan next year, after the Malaysian government completes an office park, predicted Izzuddin Tajudin, who is general manager of government-owned MNI Offshore Insurance (L) Ltd., a subsidiary of Malaysian National Insurance.

He expects Hong Kong to be a major source of captives because Labuan is easily accessible from Hong Kong.

Labuan's slow growth may be affected by captive owners' reluctance to be first in a new domicile, said George McGhie, manager, global risk management consultancies, with Johnson & Higgins Risk Management Services (S) Pte Ltd. in Singapore.

He said J&H would establish an office there instantly if a prospective captive owner wanted to set up a Labuan captive. "We can do it in a day if someone wants a captive there," he said. "But we don't want to have a paper company with no captives to manage."

For more information contact: MNI Offshore Insurance (L) Ltd., Lot D, Level 6, Wisma Oceanic Jalan OKK, Awang Besar, 87007 WP, Labuan, Malaysia; 011-87-417-672; fax: 011-87-417-675.

—By Kate Tilley

Our flexibility is firmly anchored

Dramatic changes in the insurance and reinsurance markets require new approaches and creative ideas. Concepts that are not superficial but offer solutions with real depth, which we develop jointly with our customers.

For mutual trust, close customer relations and excellent communication mark our course. In this way we can take a line in keeping with our customers' needs and expectations. Fast in turbulent times and flexible in changing currents - but always firmly anchored to our principles.

Advantages and solutions that are sure to catch your eye - at first glance. Thanks to more than 100 years of experience, the latest know-how and innovative ideas for tomorrow's solutions - in keeping with our tradition.

FRANKONA

Frankona
Rückversicherungs-
Aktien-Gesellschaft
München
Telephone (89) 92280

Frankona America Re
Kansas City
Telephone (816) 471-2200

Largest managers of Vermont captives

Premium volume in millions of dollars

Manager (Parent)	Premium volume 1994	Premium volume 1993	Captives 1994	Captives 1993	Staff 1994	Staff 1993
M&M Insurance Management Services Inc. (Marsh & McLennan Cos. Inc)	$631.0	$526.9	29	26	9	9
Johnson & Higgins Services Inc. (Vermont) (Johnson & Higgins)	402.8	294.1	53	49	25	25
American Risk Management Corp. (International Risk Management Group Ltd.)	399.2	335.9	43	36	18	17
Alexander Insurance Managers (Vermont) (Alexander & Alexander Services Inc.)	294.3	251.1	35	34	10	9
AIG Captive Management Co. Inc. (American International Group Inc.)	163.8	33.4	11	6	8	7
Vermont Insurance Management Inc.	147.5	131.6	31	31	21	14
SB&T Captive Management Co. (Smith, Bell & Thompson Inc.)	128.6	113.1	15	16	8	8
Minet Risk Services (Vermont) Inc.* (Minet Group P.L.C.)	56.1	NA	1	NA	1	NA
Becher & Carlson Management (Vermont) Inc. (American Re-Insurance Co.)	38.4	21.4	5	6	3	3
Skandia International Risk Management (Vermont) Inc. (SINSER Holding A.B.)	34.9	34.2	17	15	5	4

*Opened Vermont office in 1994 Source: *BI* survey

20 largest Vermont-based group captives

Ranked by 1994 premium volume

Group captive Parent (Manager)	Gross written premiums	Net premiums	Net income
EY Risk Retention Group Ernst & Young offices worldwide (Vermont Insurance Management Inc.)	$64,107,425	$8,873,270	($1,521,909)
PAIL Vermont Insurance Co. Large accounting firms (Minet Risk Services Vermont Inc.)	56,144,489	5,614,449	(3,002,991)
ICI Mutual Insurance Co. Members of Investment Company Institute (SB&T Captive Management Co.)	34,005,768	20,052,699	805,496
United Educators Insurance Risk Retention Group Inc. Educational institutions (M&M Insurance Management Services Inc.)	33,876,309	5,281,995	294,692
AmHS Insurance Co. Risk Retention Group Hospitals (Johnson & Higgins Services Inc.)	33,664,261	1,447,283	588,336
Bar Vermont Risk Retention Group Inc. New York City law firms (American Risk Management Corp.)	23,475,875	1,499,362	(70,782)
Housing Authority Risk Retention Group Housing authorities (Yankee Captive Management Co.)	22,786,478	19,985,111	404,656
The Ordinary Mutual, A Risk Retention Group Corp. Catholic dioceses (American Risk Management Corp.)	11,594,051	9,914,841	1,683,695
Mount Mansfield Insurance Group Inc. MMIG Inc. (AIG Captive Management Co. Inc.)	11,542,513	11,542,513	(1,306,956)
Financial Institutions Reserve Risk Retention Group Inc. Commercial banks (Johnson & Higgins Services Inc.)	11,106,101	3,454,969	8,774,252
Ophthalmic Mutual Insurance Co., A Risk Retention Group American Academy of Ophthalmology (Vermont Insurance Management Inc.)	10,840,571	8,334,904	1,142,687
American Safety Risk Retention Group Inc. Asbestos abatement contractors (Mutual Risk Management Vermont Ltd.)	10,573,233	3,635,185	301,455
MPC Insurance Ltd. Various California law firms (Johnson & Higgins Services Inc.)	10,398,854	7,264,591	(3,594,398)
Blairmont Insurance Co. Chemical companies (American Risk Management Corp.)	10,350,346	24,073	134,202
AMFO Mutual Insurance Co. Manpower Franchise Assn. Inc. (Aon Risk Services Inc.)	10,014,633	10,014,633	671,200
CPA Mutual Insurance Co. of America Risk Retention Group Accounting firms (American Risk Management Corp.)	9,005,561	4,769,506	844,767
Consolidated Catholic Casualty Risk Retention Group Inc. Catholic health care systems (Skandia International Risk Management Vermont Inc.)	8,609,011	4,895,904	1,724,787
Housing Authority Property Insurance Inc. Housing authorities (Yankee Captive Management Inc.)	8,297,641	8,197,128	319,519
Professional Consultants Insurance Co. Professional actuarial firms (Vermont Insurance Management Inc.)	7,727,432	4,559,718	18,614
National Catholic Risk Retention Group Inc. Catholic dioceses (SB&T Captive Management Co.)	6,993,976	2,654,199	2,910,050

Source: Vermont Department of Banking, Insurance and Securities

GRAPHIC BY JOHN HALL

Vermont growing as captive domicile

NAIC skirmishes don't harm allure

VERMONT

By RODD ZOLKOS

MONTPELIER, Vt.—Vermont's captive ranks are growing substantially despite the state's accreditation battles with the National Assn. of Insurance Commissioners and a continuing soft market.

Increases were posted in both the number of captives—264 as of Dec. 31, up 9.1% from 242 a year earlier—and in gross premiums written, which rose 31.8% to $2.4 billion from $1.82 billion in 1993.

That net gain of 22 captives included 32 formations—Vermont's third-best year since its first captives in 1981, according to Leonard D. Crouse, the state's director of captive insurance. Ten captives dissolved during the year.

Growth is expected to continue at a similar pace this year.

"In the pipeline right now we've got at least two or three Fortune 200/300 companies that are in the process of setting up a captive," Mr. Crouse said.

"We're seeing lots of interest," said Laura A. Taylor, vp at Aon Risk Services Inc., in Burlington. "I think the interest only continues to grow."

Aon has signed on one new Vermont captive so far this year. The client "took a look at Bermuda and Vermont and we're proud that they chose Vermont," Ms. Taylor said.

Companies moving offshore captives into the United States, as GTE Corp. did in 1994, also are choosing Vermont.

"There's not a whole lot of tax reasons for companies to be offshore anymore," said Guy Ragosta, managing director of North American captive operations at Burlington-based Willis Corroon Management (Vermont) Ltd., and president of the Vermont Captive Insurance Assn.

Among U.S. domiciles, Vermont remains the favorite of insurance buyers, said Raymond C. Oberg, senior vp at M&M Insurance Management Services Inc. in Burlington.

"You don't see captives here saying, 'I don't like this domicile. I'm going to move to a new domicile,' " he said.

"We're very satisfied with the way things have been handled in Vermont," said Karen Sherrill, supervisor of corporate insurance in the Portland, Ore., office of Consolidated Freightways Inc., which formed its CF Financial Services Corp. captive in Vermont in 1985. "I haven't heard a bad word yet."

In terms of premium volume under management, M&M remained the largest Vermont manager in 1994. Its 29 captives generated $631 million in premium volume last year; 26 captives wrote $526.9 million in 1993.

Rounding out the top four managers were: Johnson & Higgins Services Inc. (Vermont) with 53 captives producing $402.8 million in premiums; American Risk Management Corp. with 43 captives generating $399.2 million; and Alexander Insurance Managers (Vermont) with 35 captives producing $294.3 million.

And leaping into the top 10 was Minet Risk Services (Vermont) Inc. on the strength of a single captive.

Minet opened its one-person Vermont office in Colchester last year to manage PAIL Vermont Insurance Co., an industrial insured captive licensed June 30 to write professional liability coverage for large accounting firms. PAIL wrote more than $56.1 million in premiums in 1994, placing it second among Vermont group captives.

Minet Assistant Vp Nancy Gray credited the industry infrastructure in Vermont for attracting PAIL, a factor that is often cited to explain Vermont's captive successes.

"I think now when somebody forms a captive they think of Vermont or Bermuda," said Roger D. Teese, president of SB&T Captive Management Co. in Burlington. "I guess they think of Hawaii if they're on the West Coast."

"We have a critical mass here now that creates more business," he said. "They're in such good company. All the big Fortune 500 companies are here. The big groups are here and the managers and the lawyers."

"As long as we're out front, the only way another state could compete is on price," said George Chaffee, president of Skandia International Risk Management (Vermont) Inc. in Burlington. "They certainly couldn't offer the support system that we have, and a support system is paramount to captives."

Vermont's infrastructure goes beyond professional services, said Cheri J. Hawkins, assistant treasurer and director of insurance for Weyerhaeuser Co. of Tacoma, Wash. Weyerhaeuser's Ver Bes' Insurance Co. captive writes property, casualty and marine coverage.

"There's a lot of infrastructure that probably goes unnoticed, and that is the backing of Champlain College in offering courses for the insurance industry and the VCIA," Ms. Hawkins said. She noted that risk managers with Vermont captives can share data through CapNet, an Internet e-mail exchange developed for VCIA members by Leta C. Finch, director of the Vermont Insurance Institute at Champlain College.

"So many (domiciles) say, 'We have infrastructure,' and true, they do," Ms. Hawkins said. "But it gets down to how do you measure infrastructure and in this case that measure comes down to constantly advancing educational opportunities."

Complementing Vermont's captive infrastructure is a state government that understands, supports and truly values the industry, many say.

The captive industry has created about 100 to 150 jobs in Vermont and paid $8.2 million in premium taxes in the year ended June 30, nearly a third of the state's total premium taxes of $25.4 million.

"Vermont's got the infrastructure in terms of the servicing coupled with the full-service operations of the state," said W. Scott Frazier, executive director of North American operations at Alexander Insurance Managers in Burlington. "They've worked hard to beef up their staff and I think that's important."

Regulators may be the single most important factor in Vermont, M&M's Mr. Oberg said. "In order to get companies to consider Vermont as a domicile all we have to do is talk to Len and his staff and they close the deal for us."

As Alexander's Mr. Frazier sees it, in Vermont "the partnership between the government and the private sector is alive and well."

One form that partnership has taken is a reduced premium tax,

Continued on next page

Continued from previous page

which helps the state maintain captives.

"It's made Vermont more competitive. I can't say which of our clients came here because of that because it wasn't an overriding reason. But that's something Vermont had to do," said Julie S. Boucher, vp at Johnson & Higgins Services Inc. (Vermont) in Burlington.

The state's tax on direct premiums is now 0.4% on the first $20 million, 0.3% from $20 million to $40 million, 0.2% from $40 million to $60 million and 0.075% over $60 million.

Those rates were reached by a decrease over three years from 1992 levels of 0.7% on the first $20 million, 0.5% from $40 million to $60 million, 0.3% from $40 million to $60 million and 0.1% beyond $60 million.

"I believe we would've lost some accounts had we not gone through that three-year reduction," Mr. Frazier said. The reduction helped narrow the tax advantage offered by Hawaii.

Vermont reduced its premium tax on reinsurance last year, to 0.225% on the first $20 million of reinsurance assumed, down from 0.25%; 0.15% from $20 million to $40 million, down from 0.2%; 0.05% from $40 million to $60 million, down from 0.15%; and 0.02% on more than $60 million, down from 0.1%.

Government support for the captive industry also has been apparent in the state's ongoing accreditation battle with the NAIC. That battle hinges largely on risk retention groups, which Vermont regulates as captives, rather than as traditional insurers, as required under an NAIC model law.

The 30 risk retention groups in Vermont last year were responsible for nearly $1.3 million in premium taxes. Only one risk retention group was formed in Vermont in 1994, though many blame that on the soft market and ready availability of coverage rather than the NAIC flap.

"I have a gut sense that if groups are not forming in droves it is a function of the market," said Kathryn A. Westover, president of American Risk Management Corp. in Burlington. In the current market, "unless you have a real market need you'll have a very difficult time forming a group."

Not everyone is convinced the NAIC situation hasn't affected risk retention group formations, however. Messrs. Crouse and Oberg both suggested that some potential groups may be taking a "wait and see" approach until the issue is resolved.

New groups may also be looking to other domiciles while the issue is unresolved, said Michael T. Rogers, president and CEO of Vermont Insurance Management in Montpelier.

But there's a growing sense that in battling the NAIC, Vermont is supporting the industry far beyond the state's own borders.

"Vermont's taken the lead for the alternative market. . .and what Vermont is doing we're doing for everybody in the alternative business whether it's onshore or offshore," Mr. Crouse said.

"I think Vermont's catching spears for the rest of the industry," Mr. Rogers said.

Once they've learned the issues behind the accreditation dispute, their captive clients aren't concerned, managers say. Some even see it as a positive.

"Early on, I think when clients or prospects heard about it I think it was perceived negatively because people just didn't understand what Vermont's goals were," Aon's Ms. Taylor said. "It's a good story to tell now."

"Some of our risk retention groups have raised questions," Skandia's Mr. Chaffee said. "They don't really understand all the issues. But I reassure them that Vermont is fighting the good fight on behalf of risk retention groups to try to preserve the system of state regulation that was granted under the Risk Retention Act."

Weyerhaeuser's Ms. Hawkins isn't troubled by the NAIC dispute.

"If a critical state like New York or if some of the really large ones cave in, then the impact will be felt on Vermont," she said. "But right now it seems like the NAIC is not looking at its customers. It is forcing everybody into one cookie-cutter mold."

The Vermont/NAIC situation is "a good example of where Vermont has tried to protect its customers, protect its client base," Mr. Oberg said. "Vermont really stood up for its industry and took some shots."

Gov. Howard Dean has joined the battle on several fronts. As chairman of the National Governors' Assn., he used that body to hold a hearing on NAIC accreditation. Meanwhile, he has threatened litigation, directing the Legislature to earmark $100,000 to fund any legal battle against the NAIC.

The Legislature, meanwhile, is showing its support. Both houses have passed a bill that would make the NAIC accountable to Vermont legislators and the insurance commissioner. Other states have begun showing interest in copying the Vermont bill, which is now in conference committee.

Elizabeth R. Costle, Vermont's commissioner of Banking, Insurance and Securities, noted that Vermont officials are working with an NAIC task force on risk retention groups.

Litigation remains an option, but only a last resort, she said.

"Both Vermont and the NAIC want the same thing and that's good solvency regulations," Ms. Costle said.

Willis Corroon's Mr. Ragosta, the VCIA president, believes a resolution is near. "The goal is that it would get resolved by the NAIC's summer meeting," he said. "I think it's in the best interests of the state and the NAIC to get this behind us. And I think it's been a good learning experience for both sides."

Mr. Rogers believes that as the dispute with the NAIC has continued, Vermont has sharpened its scrutiny of risk retention groups. "Vermont is definitely looking suspiciously at risk retention groups no matter what they might be," he said.

And Derick A. White, chief insurance examiner-captives for Vermont's Insurance Department, said: "We have a whole program for risk retention groups in particular now."

Risk retention groups are scrutinized on a quarterly basis, Mr. White said. "We look at everything from risk-based capital to how they're doing."

But Mr. White described Vermont's overall regulatory approach as "firm but flexible," and Mr. Crouse added that the state still emphasizes maintaining an "appropriate" level of regulation, applied to all its captives.

"We keep our eyes on our pures, too," the state captive division director said. "It's important to know what our captives are doing at all times."

Through much of the NAIC dispute, Vermont officials pointed to the state's perfect risk retention group solvency record, though that spotless record was broken last year when the state petitioned to liquidate the Beverage Retailers Insurance Co. Risk Retention Group.

Ms. Costle doesn't believe the BRICO insolvency reflects poorly on the state's regulatory environment today, however, but instead speaks to inadequate staffing for captive regulation when the group was formed in 1988.

"I would say the only thing is adequate staffing and I think that's always important no matter what sort of regulatory scheme you have," Ms. Costle said.

The state added two people to its captive division last year, bringing the staff to 10, and will add two more later this year. "We need every one of those bodies," Mr. Crouse said. "We anticipate our growth continuing, and as our numbers increase our staff will increase."

Mr. Crouse anticipates that 25 captives will form in Vermont this year. "And that growth is good because it's manageable. We can keep an eye on it," he said.

And, as they look to the future, Vermont regulators are prepared to regulate the underwriting of employee benefits in captives, if employers convince the Department of Labor to grant approval for it.

"If that ever does take off, I think you'll see some real big premium growth in Vermont," Mr. Crouse said.

"We cannot predict that there will be an immediate ability to write them, but benefits remain one more of a company's risks that they have to manage effectively," American Risk Management's Ms. Westover said.

"And the state has prepared itself as any good domicile would." BI

1981 law governs captives

VERMONT

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

- Minimum capitalization of $250,000 for single-parent captives, $500,000 for industrial insured captives and $750,000 for association captives. Approved letters of credit can be used to meet capitalization requirements.
- A multi-tier tax structure for direct and reinsurance premiums. The first $20 million of direct written premiums is taxed at 0.4%. That rate falls to 0.3% for direct premiums from $20 million to $40 million and to 0.2% for premiums between $40 million and $60 million. The tax on direct premiums exceeding $60 million is 0.075%.
- For reinsurance, the tax is 0.225% on the first $20 million of reinsurance assumed, 0.15% on premiums between $20 million and $40 million, 0.05% on premiums between $40 million and $60 million and 0.025% on premiums exceeding $60 million. In addition, captives are subject to a minimum annual premium tax of $5,000.
- Single-parent and industrial insured captives file simplified annual financial reports; trade association captives and risk retention groups use the National Assn. of Insurance Commissioners' convention blank. Financial reports are due by Feb. 28 each year. Single-parent captives may apply to file on a fiscal year-end basis consistent with the parent company's fiscal year.
- Captives can directly write all types of property/casualty insurance, except primary workers compensation coverage. Primary workers comp risks can be reinsured by a captive, however, while excess workers compensation coverage can be written directly or reinsured.
- Captives must keep their financial records in the state and their boards 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.

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

CLAIMS ADJUSTING, SURVEYING, AUDITING

VERSATILITY. Toplis and Harding offers a full range of adjusting, surveying, and recovery services. We provide complete claim administration, litigation management, and claim auditing services.

STRENGTH. For over 75 years, Toplis and Harding has earned the trust and confidence of the insurance industry by providing responsive and expert claim adjusting and surveying services — throughout North America.

EXPERIENCE, CREATIVITY, DEDICATION. As the principal owners of Toplis and Harding, our employees provide a level of service unrivaled in the industry.

TOPLIS AND HARDING will give your claim management program results where it's needed most — at the bottom line.

WORKERS' COMP · CARGO · MARINE · CASUALTY · PROPERTY · SPECIAL RISKS · TRAVEL · ACCIDENT

Call Barry Belknap or Dick Dahlgren:
1-800-472-4128
New York, Chicago, Los Angeles, Atlanta

TOPLIS AND HARDING, INC.®
NORTH AMERICA

Toplis and Harding is a member of McLarens Toplis, Inc., a worldwide joint venture of McLarens and Toplis and Harding, Inc.

SPECIAL REPORT

California groups show healthy interest in Hawaii

Regulatory flexibility cited in growth

By ROBERTO CENICEROS

HAWAII

HONOLULU—West Coast organizations, particularly California-based medical provider groups, are steadily landing their captive insurers in Hawaii.

California medical groups are eyeing Hawaii either to start new captives or use existing facilities to cover some new risks they face in the managed care environment, as well as traditional exposures. Already, Hawaii has eight captives that write various coverages for medical groups or health care-related entities.

Hawaii's active captives increased to 41 at year-end 1994 from 34 a year earlier, according to the Hawaii Insurance Division. Premium volume surged to $194.8 million last year from $115.4 million in 1993. Growth is continuing, with two more captives licensed so far this year.

A significant reason the domicile is attracting more business is the Insurance Division's demeanor, according to captive managers and owners.

Captive principals agree that the state's Insurance Division is stringent yet hospitable to the concerns of businesses. Hawaii's regulators generally are flexible and willing to consider new or unusual coverage areas, captive principals say.

"I would not understate the importance of having an insurance department that will work to get it done and get it done quickly," said Tom Wander, chief executive officer of Alamo, Calif.-based Program Beta and president of Health Providers Mutual Insurance Co. Inc., a Risk Retention Group.

Program Beta is a joint powers authority, a public entity, that provides its 62 county and district government hospital members in California up to $5 million of professional liability per occurrence.

Health Providers Mutual is a Hawaii captive licensed in June 1994 to provide $30 million of liability coverage excess of the $5 million Program Beta provides, Mr. Wander said. The captive, managed by M&M Insurance Management Services Inc., insures 26 of Program Beta's 62 members.

Mr. Wander said he hopes to revise the captive's filings so it may write "managed care stop-loss coverage," or capitation reinsurance (*BI* April 3). Capitation reinsurance indemnifies health care providers for costs exceeding what managed care organizations pay under capitation contracts. Many providers now pay for such protection through lower capitation fees from the managed care companies that pay them, Mr. Wander said.

Like others in the medical insurance field, Mr. Wander expects that more medical groups—especially from California, a hotbed of managed care activity—will turn to captives to reclaim those dollars.

"When they find out what it's really costing them, they're starting to say, 'Maybe we can get together with other doctors and hospitals' " and self-insure or form captives, he said. "The cat's out of the bag."

Captives are authorized to underwrite managed care stop-loss insurance under regulations that permit underwriting contractual liability coverage, said Gordon Nishiki, an insurance program specialist who leads the state Insurance Division's captive task force.

Another captive, which Mr. Nishiki would not identify, that has applied for a license intends to write managed care stop-loss insurance.

Mr. Wander of Health Providers Mutual added that providers also are looking for creative ways for captives to cover new professional liability exposures stemming from managed care. He and other medical professionals point to the $89 million judgment that a jury assessed health maintenance organization Health Net of Woodland Hills, Calif., in late 1993 for denying coverage for a breast cancer treatment as an example of new liabilities stemming from managed care arrangements. The case was settled later for an undisclosed amount (*BI*, Jan. 3, 1994; April 11, 1994).

One Hawaii-domiciled captive, Sutter Insurance Services Corp., in the future also may write stop-loss coverage and "managed care liability," said Michael Evans, the insurer's president and chief executive officer. Its parent, Sacramento-based Sutter Health, a non-profit corporation that owns and manages several hospitals, medical facilities and physician foundations primarily in California, formed Sutter Insurance in 1991 to write hospital professional liability, miscellaneous errors and omissions liability and automobile coverage.

Mr. Evans, who also is vp of risk and insurance for Sutter Health, said he is looking to write stop-loss and medical liability coverage through his Hawaii-based captive.

He agreed with Mr. Wander that managed care liability is an evolving area with little loss history and many unanswered questions about the nature of liabilities. That, in turn, means there is uncertainty about how much in reserves a captive should maintain to cover potential losses.

Still, the Hawaii Insurance Division is open to working with captives and their managers on the managed care liability issue, Mr. Evans said.

"There are a number of jurisdictions that might want to regulate that to the point where you have defeated the purpose," he said.

Yet the Insurance Division also is interested in adequate regulation to ensure captive solvency, Mr. Evans said.

Messrs. Wander and Evans both said they expect to see more California provider groups turning to Hawaii captives for help addressing those issues because the department is helpful and the two states are relatively close geographically.

They are not alone in their expectations.

"I'm expecting to see a lot more of the health care industry," said Peter J. Lowe, senior vp of M&M Insurance Management Services Inc. in Honolulu. "I think managed care is having an impact on all the providers and they are looking at ways of becoming more competitive because HMOs are forcing their costs down. Cutting their insurance costs is one way for them to compete.

The leader of a risk retention group agrees. "Hawaii is very exciting, both from making it convenient for us to do business and being accessible from the West Coast," said Dr. Robert Huntington, a Pomona, Calif., maxillofacial surgeon and president and chairman of Peer Insurance Risk Retention Group Corp.

Peer writes professional liability coverage for its 65 members, who are maxillofacial surgeons in California, Arizona and Nevada. The risk retention group is managed by Hawaii Captive Insurance Management Inc.

The risk retention group moved to Hawaii in 1994 from the Cayman Islands—where it had operated as a group captive—under pressure from former California Insurance Commissioner John Garamendi, Dr. Huntington said.

The commissioner was not keen on offshore insurers. That philosophy, in turn, led several hospitals to send out letters stating that professional liability coverage written in the Cayman Islands no longer would meet their requirements, Dr. Huntington said.

Peer members now pay $16,000 in annual premiums for a policy with a $1 million per occurrence limit and $3 million aggregate limit. The captive originally was formed during the mid-1980s when premiums in the commercial market were soaring, he said.

Dr. Huntington found Hawaii's insurance regulators thorough when scrutinizing the formation of a risk retention group.

"They're pretty stringent," he said. "Getting approved wasn't a pushover."

Hawaii is attracting more than managed care and other medical providers, though.

"It's a West Coast kind of affiliation," said Brian Gerich, describing in part why Glendale, Calif.-based Public Storage Inc. chose Hawaii over other domiciles for its captive, Stor-Re Mutual Insurance Co. Inc., which was licensed this year.

"It seems like a more logical marriage than Vermont," said Mr. Gerich, a vp for Public Storage and president of Stor-Re Mutual. The captive is managed by Johnson & Higgins Services Inc.

Public Storage manages 1,100 properties in 38 states and five Canadian provinces. Individual Public Storage rental facilities are owned by limited partnerships and real estate investment trusts.

Mr. Gerich said the captive was formed in part to protect the company against the kind of catastrophes that have rocked the property insurance market in recent years.

See **Hawaii** *on next page*

Largest managers of Hawaii captives

Premium volume in millions of dollars

Manager (Parent)	Premium volume 1994	Premium volume 1993	Captives 1994	Captives 1993	Staff 1994	Staff 1993
M&M Insurance Management Services Inc. (Marsh & McLennan Cos. Inc.)	$110	$60	11	8	4	NA
Becher & Carlson Risk Management Inc. (American Re-Insurance Co.)	69.5	63.5	7	7	3	2
Johnson & Higgins Services Inc. (Johnson & Higgins)	24.1	28.6	9	8	4	4
Sedgwick Management Services (U.S.) Ltd. (Sedgwick James Inc.)	17.1	14.1	5	5	3	3
Willis Corroon Management Ltd. (Willis Corroon P.L.C.)	14.7	NA	2	NA	4	3
Alexander Insurance Managers (Hawaii)* (Alexander & Alexander Services Inc.)	7.6	NA	1	1	2	NA
Hawaii Captive Insurance Management Inc.	1.6	NA	3	2	4	1
50th State Risk Management Services Inc. (American International Group Inc.)	0.5	0.3	1	NA	3	1
IAS Insurance Management Inc.	1.1	1.0	1	1	NA	1

* Opened office in 1994

Source: The Hawaii Insurance Division and *BI* survey

GRAPHIC BY KIM ROME

When Bob Diamond of Effective Security Systems talked to us about comprehensive insurance, we immediately "talked to the Brownyards."

Bob Diamond (L) and Jeff Rubin at Effective Security Systems.

Jeff Rubin of Kaye Insurance knew what his client needed. E&O liability coverage to protect against intentional assault, false arrest, malicious prosecution, libel and slander, violation of privacy and more.

Effective Security Systems needed coverage for property they guarded, insurance to pay legal expenses, protection for personal injury lawsuits by employees, for punitive damages, and still more. In short, they needed *tailored* insurance that no *standard* policy would provide.

Jeff "talked to the Brownyards" because he knew they *created* this coverage, because they provide insurance for more guard and investigator firms than anyone else, because they are backed by excellent insurers, because the rates are competitive and the claim service is unexcelled.

Whether your clients needs are complex or simple, just like Jeff, give yourself the competitive edge. Call or FAX for a quote today. "Talk To The Brownyards."

THE BROWNYARD GROUP

21 Maple Avenue, CN9175

Bay Shore, NY 11706-9175 • (800) 645-5820 • In NY (516) 666-5050

General FAX (516) 666-5723 • Claims FAX (516) 665-8086

Continued from previous page

"There are not many carriers who want to insure California (properties against) earthquakes," he said. "What happens if no one wants to insure you all of a sudden?"

Store-Re writes primary property, earthquake, hurricane and wind damage insurance for Public Storage.

"It allowed us to flatten the impact of premiums by setting up a more formal insurance premium (system) compared to going bare, and then when a catastrophe hits, having everyone throw dollars in the pot (to cover the loss)," Mr. Gerich explained.

Public Storage also needs the environmental coverage that its captive is licensed to write. For example, Mr. Gerich noted that a competitor recently was stuck with a $100,000 bill for disposing of toxic pollutants that a renter abandoned on the company's property.

Though willing to work with captive owners, Hawaii's insurance regulators are not looking for a reputation as pushovers.

Indeed, the Insurance Division is seeking accreditation from the National Assn. of Insurance Commissioners. Observers said state regulators and leaders of Hawaii's captive industry want to meet NAIC requirements for regulating group captives.

There are now five risk retention groups domiciled in Hawaii, the Insurance Division's Mr. Nishiki said. "The multiple-owner captives, group captives, we place greater emphasis on regulating," he said. "Even if it were not for accreditation, we would want greater oversight over group captives."

Meanwhile, the Hawaii Captive Insurance Council, which represents managers and other industry business leaders, is supporting state legislation it hopes will open up new lines of business for captives.

A bill that recently passed the state House and is now before the Senate would expand captives' authority to write credit life and credit disability coverages, explained Gerald C. Yoshida, a partner at law firm Char Hamilton Campbell & Thom in Honolulu and president of the Hawaii Captive Insurance Council.

Legislation that would allow Hawaii captives to reinsure group term life insurance also has passed the House and is awaiting Senate action. Mr. Yoshida said. If approved, Hawaii captives would be in a better position to cover employee benefits, he said.

"It's an area where there has been a lot of interest, but there have been a lot of roadblocks," such as federal restrictions, he said.

Those restrictions include a 1979 U.S. Department of Labor ruling that says no more than 50% of the captive insurer's gross premiums can be generated by the parent in order for the captive to be used to fund its parent's employee benefit risks. BI

Hawaii weighs credit cover from captives

HONOLULU—State legislators, at the prompting of Hawaii's captive industry, are considering proposals that would allow captives to write credit life and credit disability insurance for the customers of a parent company.

HAWAII

The legislation would put captive insurers "in a more normal commercial context," said Gerald C. Yoshida, president of the Hawaii Captive Council and a partner in the Honolulu law firm of Char Hamilton Campbell & Thom.

Current state law limits the writing of credit life and credit disability insurance to transactions between captive owners and affiliates and their directors, officers and employees.

Hawaii-domiciled captives now can underwrite: property, casualty, marine and transportation, surety, title and workers compensation insurance.

Hawaii law also permits captives to write employee benefit-related coverage.

Lawmakers also are weighing legislation that would allow Hawaii's captives to reinsure group term life insurance risks.

Wayne Metcalf was appointed state insurance commissioner in December 1994, but captive managers expect few changes will result.

License renewal fees for captives in the state are $300, while the fees for commercial insurers jumped in 1994 to $600 from $400.

Hawaii-based captives normally can write coverage for their parent companies only. Requirements include:

- A minimum of one annual board of directors meeting in Hawaii.
- Maintaining the captive's principal place of business in the state.
- Appointing a resident agent to represent the captive locally.
- A non-refundable fee of $1,000 for the captive license application.

The Insurance Division determines capital requirements on an individual basis, using formula guidelines.

Premium tax rates are 0.25% for single-parent captives and 1% for association captives and risk retention groups.

Captives, including association captives and risk retention groups, must file financial statements conforming to generally accepted accounting principles, accompanied by actuarial opinions by loss reserve specialists.

For more information on forming a captive in Hawaii, contact Wayne Metcalf, Insurance Commissioner, 250 S. Kings St., P.O. Box 3614, Honolulu, Hawaii 96811-3614; 808-586-2790.

—By Roberto Ceniceros

THINK GLOBALLY INSURE LOCALLY

LOCAL SERVICES, WORLDWIDE - THAT'S ASSUREX INTERNATIONAL

Clients of Assurex agencies are served by a powerful, knowledgeable insurance network providing local risk management services around the world.

Our customers enjoy:

- **Comprehensive Services** - property and casualty, bonds, marine, safety and loss prevention, claims services, personal insurance, employee benefits, individual life & health, and workers' compensation.
- **Purchasing Power** - over $4 billion in annual premiums put Assurex in the top five insurance brokerage operations in North America.
- **Experienced Risk Management Professionals** - over 6,000 employees strong.
- **Risk Funding Alternatives** - including captives and self insurance.
- **Preferred Relationships** - with insurance providers around the world.
- **Worldwide Connections** - knowledge in local insurance laws and regulations.
- **Instant Access** - our electronic network allows insurance expertise to be shared instantly between Assurex offices.

MEETING YOUR CHANGING NEEDS

In today's fast-changing world, shifting local conditions create the need for new approaches and new insurance products. Assurex agencies are forward-thinking and innovative, providing you with the latest insurance and risk management programs and services. The worldwide Assurex network means wherever your business takes you, a local Assurex agency will serve your risk management needs.

UNITED STATES

ALABAMA
McGriff, Seibels & Williams, Inc.
Thames Batré Mattei Beville & Ison
ARIZONA
The Mahoney Group
CALIFORNIA
Barney & Barney
Bolton/RGV Insurance Brokers
Woodruff-Sawyer & Co.
COLORADO
Van Gilder Insurance Corporation
CONNECTICUT
Arthur A. Watson & Co., Inc.
FLORIDA
J. Rolfe Davis Insurance Agency, Inc.
Seitlin & Company
GEORGIA
Hamilton Dorsey Alston Company
Palmer & Cay/Carswell, Inc.
HAWAII
American Mutual Underwriters, Ltd.
ILLINOIS
Mack and Parker, Inc.
INDIANA
Insurance & Risk Management
IOWA
Cottingham & Butler, Inc.
La Mair-Mulock-Condon, Co.
KANSAS
Insurance Management Associates, Inc.
KENTUCKY
Powell-Walton-Milward, Inc.
LOUISIANA
Gillis, Ellis & Baker, Inc.
MAINE
Morse, Payson & Noyes Insurance
MARYLAND
Early, Cassidy & Schilling, Inc.
Riggs, Counselman, Michaels & Downes, Inc.
MASSACHUSETTS
Fred C. Church, Inc.
MICHIGAN
General Underwriters, Inc.
MINNESOTA
BHK&R, Inc.
MISSISSIPPI
Fox-Everett, Inc.
MISSOURI
The Daniel and Henry Co.
Gilbert-Magill Company
MONTANA
Terry Payne & Co., Inc.
NEBRASKA
The Harry A. Koch Co.
NEW JERSEY
NIA, Ltd.
NEW MEXICO
Daniels Insurance Agency, Inc.
NEW YORK
Frenkel & Co., Inc.
Hatch-Leonard/Markin-Shaw, Inc.
NORTH CAROLINA
Cameron M. Harris & Co.
OHIO
The McElroy-Minister Company
The James B. Oswald Company
Picton Cavanaugh, Inc.
Schiff, Kreidler-Shell, Inc.
OKLAHOMA
North American Insurance Agency, Inc.
OREGON
JBL&K Insurance, Inc.
PENNSYLVANIA
Clair Odell Group
Engle-Hambright & Davies, Inc.
The HDH Group, Inc.
RHODE ISLAND
Starkweather & Shepley, Inc.
SOUTH CAROLINA
Boyle-Vaughan Associates, Inc.
TENNESSEE
Polk & Sullivan Group, Inc.
Treadwell & Harry Insurance Agency, Inc.
TEXAS
Roach Howard Smith & Hunter
John L. Wortham & Son, L.L.P.
UTAH
Fred A. Moreton & Company
VERMONT
Kinney, Pike, Bell & Conner, Inc.
VIRGINIA
DeJarnette & Paul, Inc.
Henderson & Phillips, Inc.
WASHINGTON
Parker, Smith & Feek, Inc.
WISCONSIN
Laub Group, Inc.

CANADA

BRITISH COLUMBIA
Parsons Brown & Company Ltd.
MANITOBA
Ryan Gateway Insurance Brokers Inc.
NEW BRUNSWICK
Wilson Insurance Ltd.
NEWFOUNDLAND
Anthony Insurance Inc.
NOVA SCOTIA
Fraser & Hoyt Insurance Ltd.
ONTARIO
Stevenson & Hunt Insurance Brokers Ltd.
Tower-Chisholm Ferguson Limited

INTERNATIONAL

AUSTRALIA
J.M.D. Ross Insurance Brokers Pty. Ltd.
Western United Insurance Brokers Pty. Ltd..
BERMUDA
Harnett & Richardson Limited
BRAZIL
Adams & Porter Ltda.
CHINA
New World Insurance Services Limited
ENGLAND
Robert Fleming Insurance Brokers Limited
GERMANY
Wesselhoeft Ahlers & Schües
HONG KONG
New World Insurance Services Limited
IRELAND
Coyle Hamilton Limited
ITALY
Assiteca S.p.A.
MACAU
New World Insurance Services Limited
MALAYSIA
NWI Risk Management Consultants Sdn. Bhd.
MEXICO
Lorant Martinez Salas y Cía
NETHERLANDS
Kamerbeek Assurantiemakelaars B.V.
SINGAPORE
New World Insurance Brokers Pte. Limited
THAILAND
PAP New World Insurance Brokers Limited

Assurex INTERNATIONAL

Community Corporate Center
445 Hutchinson Ave.
Columbus OH 43235
614-888-4869

For additional information contact your local Assurex representative or call our corporate headquarters.

SPECIAL REPORT

Colorado captive reforms meet little interest

Perception of over-regulation lingers: Managers

By JOANNE WOJCIK

COLORADO

DENVER—The old maid of U.S. captive domiciles still is waiting to be wooed.

Even after Colorado legislators rewrote the state captive law last year, few suitors are willing to commit to the nation's oldest captive domicile.

Only two new captives formed in Colorado in 1994, bringing its total to 21.

That's fewer than the 24 it had five years ago, when the captive insurance community, highly critical of Colorado's rigid regulatory environment, began seeking changes in the state's 1972 captive law (*BI*, April 30, 1990).

Since then, Colorado lawmakers lowered the state's captive premium tax to match that of other domestic domiciles and completely rewrote its enabling law to streamline the captive formation process and to permit captives to write employee benefit coverages (*BI*, April 18, 1994).

The authors of the new law, which Gov. Roy Romer signed in April 1994, even hired a public relations firm to promote the facelift.

So far, though, Colorado has had but a few interested "lookers." Most new U.S. captives are being formed in Hawaii and Vermont.

Some of Colorado's backers blame the prolonged soft market and the competitive pricing of insurance products for disinterest in Colorado's captive market.

"We had two that were ready to be licensed and then their broker pulled the applications," said Frank Dino, chief actuary in charge of corporate affairs in the Colorado Division of Insurance.

"But that's short-sighted. They're not in control of their own destiny," he said of prospective captive owners that suddenly decide to purchase insurance after nearly completing the captive licensing process.

Others in Colorado's captive community blame the national brokerages for the sluggish growth.

"The national brokers that have captive management facilities and have invested a significant amount of money in Vermont and Hawaii will always promote those domiciles over Colorado," said Michael Murphy, principal of RiskCap, an independent captive manager in Denver.

RiskCap, Colorado's third-largest captive management company, now manages four Colorado captives after losing the Midwestern Liability Insurance Risk Retention Group account to Johnson & Higgins Services Inc. (Colorado) last year.

Another independent captive manager said he lost one account when the brokerage—which he would not identify—realized how much in commissions it would lose if the client funded its risk via the captive.

"We had one in the works, but it was put on hold when the broker found out how much in commissions they'd lose," said Dick Johnson, president of the state's largest captive management company, Alternative Insurance Management Services Inc. in Englewood, Colo.

AIMS manages four captives in Colorado, including one of the two formed in 1994: Summit Insurance Co. of America, which MTD Products Inc., an outdoor equipment manufacturer in Valley City, Ohio, formed to write product liability coverage.

Other members of the state's captive community readily admit that the offshore domiciles always will be more attractive because they allow more liberal leveraging than Colorado, which requires a 3-to-1 premium-to-surplus ratio.

"We can capitalize at $150,000 in Barbados, while Colorado requires at least $500,000," said Paul Burkett, president and chief executive officer of Lakewood-based Meadowbrook Insurance Group of Colorado, a unit of Meadowbrook Insurance Group of Southfield, Mich.

Meadowbrook formed the domicile's only other new captive: Westmerica Insurance Co., a single-parent captive that will write workers compensation, physical damage and garage liability coverage for Phil Long Auto Dealership Group of Colorado Springs.

Most industry observers have concluded, however, that Colorado's real problem is more a matter of perception than reality.

"There is a pervasive perception that Colorado is over-regulated, which in the case of single-parent captives just isn't true," said RiskCap's Mr. Murphy. "We don't see that in our practice."

"But I would agree that Colorado regulates risk retention groups and group captives more," he added.

"Even though they've changed and streamlined the formation process, they got a bad start because there's still a question as to the stability of the domicile," said Ann Wick, general manager of captive operations for AIG Captive Management Co. Inc., referring to regulators' commitment to the captive industry over the long haul. Historically, regulators' support of captives has been inconsistent.

AIG Captive Management is a new captive manager in Denver and a unit of American International Group Inc. Ms. Wick moved to AIG last year after a joint-venture operation with partner Nancy Velasquez called Mountain States Insurance Managers failed to attract more than one client.

Ms. Velasquez, now president of Mountain States, is managing one captive in runoff: Wescap Insurance Co., a group captive that wrote liability coverage for members of the National Welding Supply Assn.

Prior to forming Mountain States, Ms. Wick had been with Aon Risk Services when it was still called Rollins Hudig Hall Management Inc.

Today Aon also manages just one captive, but it is the domicile's largest: Havican Insurance Co., which underwrote $17.5 million in gross premiums last year.

"We're dealing more with perception than with fact," observed Art Koritzinsky, senior vp of Johnson & Higgins Service Inc. in New York, who oversees the brokerage's domestic captive management operations. J&H manages four captives in the state. "Colorado has a lot of baggage to get rid of. It's still not perceived as easy of a domicile as Hawaii or Vermont," he said.

And, though Colorado's 1994 captive law permits owners to insure employee benefit coverage, "it still doesn't permit third-party business, something companies want for tax reasons, among other reasons," he said.

According to a 1979 U.S. Labor Department rule, a captive must have significant non-related business before a parent company can fund its employee benefit programs through the captive.

Some industry experts say that rule, which the department affirmed last year in a case involving CSX Corp., renders Colorado's benefits capabilities moot (*BI*, April 4, 1994).

But the Insurance Department's Mr. Dino contends that some employers still will try to take advantage of the change.

The new law, for example, allows companies to fund retiree health care liabilities through their captives. Financial Accounting Standard 106, which requires companies to recognize formally their liabilities, has increased corporate interest in funding these liabilities.

In addition, "not all corporations have ERISA-qualified plans" that require Labor Department approval before they can be funded through a captive, Mr. Dino said.

In fact, "we have one filing, an existing captive, that may write benefits," he said.

While he would not identify the captive, he acknowledged that it is a group captive, which narrows it down to Farm Credit System Assn. Colorado's only other group captives are all risk retention groups formed under the federal Liability Risk Retention Act, which permits funding only of liability coverages.

Supporters of Colorado's captive community are hoping that the rewrite of the law to permit employee benefits to be written by captives will revive interest in the domicile.

"Colorado has to find a niche," said J&H's Mr. Koritzinsky. Taking a cue from the movie "Field of Dreams," he added: "They built it and now they're waiting for them to come." BI

Largest managers of Colorado captives

Premium volume in millions of dollars

Manager (Parent)	Premium volume 1994	Premium volume 1993	Captives 1994	Captives 1993	Staff 1994	Staff 1993
Alternative Insurance Management Services Inc.	$24.0	$20.3	4	3	9	9
Aon Risk Services (Aon Corp.)	17.5	17.4	1	1	2	2
RiskCap	15.0	10.9	4	5	12	14
Johnson & Higgins Services Inc. (Colorado) (Johnson & Higgins)	6.6	5.2	4	3	1	1
M&M Insurance Management Services Inc. (Marsh & McLennan Cos. Inc.)	0.4	0.4	2	2	1	1

Source: Annual statements filed with the Colorado Insurance Department and *BI* questionnaires

GRAPHIC BY KIM ROME

Largest Colorado-based captives

Captive Parent (Manager)	Gross written premiums	Net written premiums	Management fee
Havican Insurance Co. Holy Cross Shared Services (Aon Risk Services)	$17,521,874	$16,971,874	$66,000
Manufacturers Indemnity & Insurance Co. of America Werner Holding Co. (DE) Inc. (Self-managed)	12,756,756	12,756,756	648,819
M.S.J. Insurance Co. Sisters of Charity/Cincinnati (Alternative Insurance Management Services Inc.)	11,615,852	11,615,852	30,698
Neumann Insurance Co. Franciscan Health Systems (Alternative Insurance Management Services Inc.)	8,865,849	8,395,849	122,246
Western Pacific Mutual Insurance Co. Residential Warranty Corp. (RiskCap)	7,293,876	6,423,420	248,083
Clifton Casualty Insurance Co. The Emory Clinic (Johnson & Higgins Services Inc.)	4,008,504	4,008,504	121,641
North American Builders Indemnity Co. PHM Corp. (RiskCap)	3,857,350	3,363,239	89,915
Weld Insurance Co. Inc. Monfort Inc. (Self-managed)	2,772,577	2,772,577	98,265
Summit Insurance Co. of America MTD Products Inc. (Alternative Insurance Management Services Inc.)	2,649,397	2,649,397	20,000
Farm Credit System Assn. The Farm Credit System (Farm Credit Council Services)	2,537,997	2,537,997	152,250
Constance Insurance Co. Crawford Fitting Co. (RiskCap)	2,443,000	2,443,000	49,929
Global Indemnity Assurance Co. Browning Ferris Industries (Johnson & Higgins Services Inc.)	1,763,987	1,763,987	50,000
Chesapeake Indemnity Assurance Co. Chesapeake Physicians P.A. (RiskCap)	1,445,000	1,445,000	42,830
Midwestern Liability Insurance Risk Retention Group Deffenbaugh Industries (Johnson & Higgins Services Inc.)	795,751	792,175	36,026
Mountainview Insurance Co. Gracoal Inc. (Alternative Insurance Management Services Inc.)	761,414	693,403	29,400
PanOl Insurance Co. U.S. Olympic Committee (M&M Insurance Management Services Inc.)	356,027	356,027	28,844
Polaris Asbestos Insurance Corp. Building owners (Johnson & Higgins Services Inc.)	696	696	0

Source: Colorado Division of Insurance

GRAPHIC BY MIKE CARVEY

Colorado's updated captive law opens up employee benefit covers

COLORADO

DENVER—Colorado lawmakers rewrote the state's 1972 captive law last year to enable captive insurers to write employee benefits coverage and to give the Insurance Division greater discretion in the way it regulates the alternative risk financing mechanisms.

Under the Captive Insurance Company Act of 1994, companies can form both single-parent and group captives to write insurance and reinsurance covering the risks, hazards and liabilities of their parent company and affiliated entities, as well as employee benefits coverage (*BI*, April 18, 1994).

To prevent any limitations on employee benefits coverage, "employee benefits" was purposefully left undefined in the legislation.

However, captive insurers that do write employee benefits coverage must provide the minimum mandated coverages that commercial insurers provide under Colorado law.

The new law also eliminates the "industrial insured" classification under which some group captives, like risk retention groups, had been established.

Now, captive insurers can be formed either as single-parent or group captives. And risk retention groups now may be formed either as group captives or as commercial insurance companies.

Initial capitalization requirements also were reduced 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.

Under the old law, group captives had been required to put up at least $750,000 in initial capitalization.

The 1994 enabling legislation also simplifies premium tax payment requirements for captives that report their earnings on a fiscal-year basis.

Under the old law, captive insurers that operated on a fiscal year had to file their financial reports on a calendar-year basis so the division could calculate its premium tax liability.

Now, captive insurers that use a fiscal year reporting method can simply 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 captive's fiscal year.

Several other changes also were made:

- 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 manager's fidelity bond.
- Captive owners no longer need to maintain joint deposits with the commissioner.

Because owners could get to these funds only by physically going to the bank with an insurance department official, the approach effectively restricted owners' access to captive funds. Instead, captives now establish joint custody accounts that require only the signature of both the captive owner and the commissioner for withdrawals.

Among provisions unchanged in the law:

- Home offices must be in Colorado, and all books, records and claims-handling documents must be maintained in the state.
- The tax imposed on captives will be 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.
- Captive insurers must pay an initial application fee of $200 and an annual $300 fee.
- Single-parent captives may make loans to their parents as long as they maintain minimum capital and surplus levels.
- 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 insurer in Colorado, contact Jack Ehnes, Commissioner, Colorado Division of Insurance, 1560 Broadway, Suite 850, Denver, Colo. 80202; 303-894-7499.

—By Joanne Wojcik

U.S. Virgin Islands aiming for big year

Captive growth remains stagnant in many small U.S. jurisdictions

U.S. ROUNDUP

In addition to Vermont, Colorado and Hawaii, several other U.S. jurisdictions permit the formation of captive insurance companies.

Following is a report on captive activities in five other domestic domiciles:

U.S. Virgin Islands

A newly elected government in the U.S. Virgin Islands says that 1995 could be the year this U.S. territory earns a larger spot on the world captive map.

Due to the territory's regulatory status as a "state," U.S. employers can fund employee benefit programs through U.S. Virgin Islands-domiciled captives and still comply with the Employee Retirement Income Security Act. ERISA prohibits companies from funding benefit plans for U.S. employees via non-U.S. domiciled captives.

Funding employee benefits is the primary reason that companies have set up captives in the USVI. But overall, the USVI has seen little growth because the complexities of ERISA compliance are too daunting for many risk managers, said Kevin Walton, the Barbados-based manager of Johnson & Higgins (USVI) Ltd., which manages two captives that are writing health and other coverages for U.S. employers.

Under a 1979 Labor Department ruling, a captive can only fund benefit risks if no more than 50% of its gross premiums is generated by its owner.

Mr. Walton blames the lack of new growth—only five captives are licensed here, the same as a year earlier—on poor publicity and the fact "that we don't have any concrete examples to offer people about how it works."

To combat this, J&H is putting together a nationwide marketing plan.

The new director of the Virgin Islands Department of Banking and Insurance is Margery Resnick, who gained her insurance experience with the U.S. Department of Agriculture.

She replaced Larry Diehl in March, three months after Gov. Roy L. Schneider's new government took office.

Ms. Resnick said her main goal is to get the USVI back on its feet after six very rough years following Hurricane Hugo.

"The foundation is here for us to do some good things. We have to promote the image of having a

See **Roundup** *on page 72*

THE ANNUAL

Benefits Symposium

presented by

IBF • International Business Forum

June 26-27, 1995
Marriott Marquis Hotel
New York, NY

★ **MANAGED CARE WORKSHOP** ★

Join us for this Post-Conference Workshop available at no additional fee, where we will discuss the key issues and latest initiatives in this ever-changing field.

CONFERENCE ADVISORY BOARD:

MITCHELL ANDERMAN, *Sun Company, Inc.*
GERALD ANGOWITZ, *RJR NABISCO*
CHRIS CUMMING, *Diversified Investment Advisors*
DAVID BUSH, *Tampa Electric Company*
DONALD BUTT, *U.S. WEST*
ROBERT J. CENTONZE, *The Dupont Merck Pharmaceutical Company*
DENISE COWELL, *BellSouth Corporation*
MICHAEL T. DALEY, *Bankers Trust Company*
KIM M. EVANS, *Merrill Lynch*
ROBERT HUNKELER, *Sandoz Corporation*
RUTH JACOBY, *Metropolitan Museum of Art*
FELICE JOAQUIM, *CUC International*
DIANA KIRTLEY, *Alliance Gaming Corporation*
MARK KLEMOW, *Siemens Corporation*
JOE MONTANARO, *TWA Pilots DAP/401(k) Plan*
KEVIN J. MURPHY, *Community Energy Alternatives Inc.*
KEN NAATZ, *McDonalds Corporation*
JACK O'CONNELL, *The Gillette Company*
DALLAS SALISBURY, *Employee Benefit Research Institute*
PAUL STODDARD, *IBM Corporation*

IBF International Business Forum

CO-CHAIRMEN:

JOSEPH W. DUVA, *President, J.W. Duva & Associates Inc.*
JERRY GEISEL, *Editor-at-Large, Business Insurance*

CONFERENCE SPONSORS:

BANKERS TRUST COMPANY
DIVERSIFIED INVESTMENT ADVISORS
MERRILL LYNCH

CONFERENCE PUBLICATION:

BUSINESS INSURANCE

CONFERENCE REGISTRATION FORM

Please register the following individuals for **The First Annual Benefits Symposium, June 26 – 27, 1995.**

1. Name: _____
Title: _____
2. Name: _____
Title: _____
Company: _____
Street: _____
City: _____ State: _____ Zip: _____
Tel: (____) _____ Fax: (____) _____
☐ Am.Ex. #: _____ Expiration Date: _____
Signature: _____

☐ YES, please register me for **The First Annual Benefits Symposium, June 26 - 27, 1995.** I understand that I will be billed at $1095 *(Special Discounted Fee of $695 for plan sponsors, employee benefits and risk managers).*
☐ I am a plan sponsor/employee benefit/risk manager ($695).
☐ Please send me exhibiting/sponsorship information.

Send registration form (or a photocopy) and payment to:
International Business Forum
7 Penn Plaza, Suite 901
New York, NY 10001
Tel: (212) 279-2525
Fax: (212) 279-9307

I NEED THAT WILL BE THE

ATLANTA BOSTON CHARLOTTE CHELTENHAM CHICAGO COLUMBUS COPENHAGEN DALLAS DENVER DETROIT HARTFORD IRVINE

A COMPANY THERE WHEN CHIPS ARE DOWN!

We hear you. What's more, we'll be there for you. ERC's technical expertise, superior service and innovative methods are matched by deep reserve capacity. Call 1-800-255-6931 to start a dialogue in which we listen more than we talk.

EMPLOYERS REINSURANCE CORPORATION

5200 METCALF, OVERLAND PARK, KS 66201 USA
A SUBSIDIARY OF GENERAL ELECTRIC CAPITAL SERVICES

KANSAS CITY LONDON LOS ANGELES MADRID MUNICH NEW YORK PARIS PHILADELPHIA SAN FRANCISCO SINGAPORE TORONTO TURIN

Roundup

Continued from page 69

hospitable regulatory environment, but also control," she said.

1994 was the first full year that the USVI operated with new insurance laws. The 1993 U.S. Virgin Islands International Insurers Act created three specific categories under which captives can be formed, and set capital and surplus requirements for each.

Recent optimism about growth proved unfounded, though managers say they hope things will turn for the better this year.

"I believe the new government is very interested in developing the captive industry. They have seen how Bermuda and Cayman have moved well beyond tourism as a means of income. But the difficulty in the USVI is the business infrastructure. There are no Big Six accountants and very little legal structure. That needs to develop," said Tom Comer, president of Aon Risk Services (Bermuda) Ltd., who also oversees all of Aon's Caribbean captive management operations. Aon opened an office in St. Thomas last November to bring bigger clients to the USVI. Currently, it manages a captive here for United Parcel Service of America Inc.

USVI officials and captive managers are staffing a booth this week at the Risk & Insurance Management Society Inc. conference in San Francisco, joining other major captive domiciles.

Under USVI captive laws, single-parent captives must have $120,000 in capital and surplus; industrial insured groups of companies in the same industry must have $200,000 in capital and surplus and associations must have $320,000.

Captives pay no local taxes. The annual licensing fee is $6,000, and captives must file an audited financial statement with regulators within 180 days of the close of the business year.

Currently, the domicile has four captives that are designed for funding benefits. The fifth, owned by United Parcel Service, is not yet funding benefits programs, "but it's in the game plan for the future," said Mr. Comer of Aon. In addition to the two managed by J&H, the other two companies are self-managed.

For information on the USVI captive industry, contact Margery Resnick at the Department of Banking and Insurance, P.O. Box 450, St. Thomas, USVI 00801; 809-774-2991.

—By Michael Schachner

The calm ...
after the storm.

It was in the early 1990s. Catastrophic storms in Europe, the Far East and the United States resulted in a greater demand for catastrophe protection.

In the calm that followed ... IPC Re was created to meet this demand ...

specialising in catastrophe treaty reinsurance for the world market with an experienced management and underwriting team.

IPCRe

International Property Catastrophe Reinsurance Company, Ltd.

A wholly-owned subsidiary of IPC Holdings Ltd.
Sponsored by AIG Inc.

American International Building, 29 Richmond Road, Pembroke HM 08, Bermuda.
Tel: 809-295-2121 Fax: 809-292-8085

Lloyd's of London, Suite 463, 1 Lime Street, London EC3M 7HA.
Tel: 071-327-4889 Fax: 071-327-4888

Tennessee

The number of captives in Tennessee was reduced by one to 11 at year-end 1994.

Parthenon Insurance Co., a captive owned by Nashville-based Hospital Corp. of America, was merged into Health Care Indemnity, a subsidiary of Columbia/HCA Healthcare Corp.

HCA was acquired by Louisville, Ky.-based Columbia Healthcare Corp. in early 1994 to form Columbia/HCA (*BI*, Oct. 25, 1993).

Although licensed as a property/casualty insurer in Colorado, Health Care Indemnity only writes insurance for its parent company.

All of Parthenon's outstanding contracts and policies will be handled by HCI, said Jim Hinton, president of the insurer.

The remaining captives in Tennessee wrote $310 million in net written premiums in 1994, according to the Department of Commerce and Insurance.

No changes were made or are anticipated in the Tennessee Captive Insurance Company Act of 1978.

Single-parent captives must have a minimum of $750,000 in capital and surplus and group captives must have 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.

For more information, contact Don Spann, chief examiner, Commerce and Insurance Department, Volunteer Plaza, 500 James Robertson Parkway, Nashville, Tenn. 37243-1135; 615-741-6796.

—By Sara Marley

Illinois

SPRINGFIELD, Ill.—The Midwest's only captive domicile continued with nine captives in 1994.

There were no changes to Illinois' captive legislation, either.

Illinois permits the formation of single-parent, association and industrial insured captives. Industrial insured captives are formed by companies in the same industry that are not formally bound together in an association.

Captives can write all commercial property/casualty business except workers compensation, which they are permitted to reinsure.

All captives must have initial capitalization of $2 million. The law permits captives to meet as much as 80% of that requirement through letters of credit and as much as 67% through contractual obligations. Single-parent captives face no investment restrictions, but association captives are subject to the same restrictions as licensed insurers; industrial insured captives must adhere to their strategy in their application.

The Illinois Captive & Alternative Risk Funding Assn. will again have a booth at the RIMS conference, said Bruce G. Fernandez, the association's president.

Mr. Fernandez also noted that the group has a new executive director. Tomas Russell, the Chicago attorney who served as the group's first executive director and who drafted the 1987 Illinois captive law, died late last year.

For further information on the domicile, contact Etta Mae Credi, Assistant Deputy Director, Illinois Insurance Department, 320 W. Washington, Springfield, Ill. 62767; 217-782-4515.

—By Mark A. Hofmann

Delaware

DOVER, Del.—Delaware's captive count held steady at six in 1994.

No new captives have been licensed since July 1, 1993, when the state licensed ADP Insurance Co. Ltd., owned by Roseland, N.J.-based Automatic Data Processing Inc., and captive Dell USA Corp., owned by Austin, Texas-based Dell Computer Corp. Both are single-parent captives.

The Delaware Captive Act of 1984 underwent no changes in 1994. The law requires that single-owner captives have a minimum of $100,000 in capital. Association captives are required to have $400,000 in capital. Captives also 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. 19901; 302-739-5774. Information packets are available for $25.

—By Mark A. Hofmann

Georgia

Georgia now has five captive insurers, up from two at year-end 1993.

Covenant Management Inc. formed two captives in 1993, according to President Tim Habeck.

Commerce Mutual Captive Insurance Co. writes workers compensation for members of Georgia chambers of commerce, while Commercial Mutual Captive Insurance Co. is an industrial insured captive, whose members must be of a certain size but have no "similar industry" requirement.

In order to qualify, a member of an industrial insured group must pay at least $25,000 for insurance and meet one of the following criteria: 25 employees, $5 million in gross sales or $3 million in gross assets, Mr. Habeck explained.

Writing workers comp through a captive is advantageous in Georgia because the law exempts captives from all residual market loads, including the guaranty fund.

Minimum capital and surplus required is $500,000 and the premium tax varies based on the amount of assets invested in Georgia.

For more information, contact John Hewitt, Department of Insurance regulatory services, 7th Floor, West Tower, 2 Martin Luther King Jr. Drive, Atlanta, Ga. 30332; 404-656-2074; fax: 404-656-0874.

—By Sara Marley

Mead Loss Control-Engineering is now...

MATRIX
RISK CONSULTANTS, INC.

We still do...
WHATEVER IT TAKES
..to excel in property loss control.

Visit us at RIMS
Booth #1042

Matrix Risk Consultants, Inc.
3491 Newmark Drive
Miamisburg, OH 45342
Phone: 513/438-7200
FAX: 513/438-7220

Annual directory of captive insurance company managers

A

AIG Captive Management Co. Inc.

c/o American International Group, 1225 17th St., Suite 1690, Denver, Colo. 80202; 303-295-7111; fax: 303-294-9380

Founded: 1988.
Parent: American International Group Inc.
Services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, investment management (New York), loss control (New York), association captive management services, including specialized accounting services and onshore services.
Contact: Philip Baumgartner or Ann W. Wick, 802-658-9405.

AIG Captive Management Co. Inc.

1233 Shelburne Road, Suite 200, South Burlington, Vt. 05403; 802-658-9405; fax: 802-658-0112

Founded: 1988.
Parent: American International Group Inc.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, managing underwriting pools/facilities, association captive management services, including specialized accounting services and onshore services.
Occasional services: Manual claims processing, claims reserves analysis, underwriting and ratemaking, investment management, loss control (New York).
Staff: Eight; four professionals.
Clients: 11 active captives managed at year-end 1994. Captive premium volume, $164 million. Capital and surplus managed, $49.8 million. No minimum size client.
Current business: 11 active captives.
Compensation: Annual fee, $20.000; hourly: professional, $110 to $150; clerical, $50 to $80.
1994 gross revenues: 100% from fees charged for captive management.
Officers: J.C. Smetana, chairman; J. Gantz, president; M. Banker, M. Curio, senior vps; A. Wick, general manager.
Contact: A. Wick, 802-658-9405 or R.S. Davis, 212-770-6917.

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: R.S. Davis; L.M. Murphy; D.M.L. Roberts; J.R. Weale.
Contact: David Roberts, 809-949-2445; John Weale, 809-295-2121; or Bob Davis, 212-770-6917.
Subcontracts for captive management services with CSI International Underwriting (Cayman) Ltd.

AIG Insurance Management Services (Guernsey) Ltd.

P.O. Box 119, Commerce House, St. Peter Port, Guernsey GY1 3HB; 44-1481-70-06-67

Founded: 1994.
Parent: American International Group Inc.
Officers: Robert S. Davis; Mike Matthews.
Contact: Michael Matthews or Michelle Flanagan.
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.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, investment management, risk management programs, finite risk programs.
Occasional services: Actuarial studies, loss forecasting, underwriting and ratemaking, loss control (Brussels).
Staff: Five; three professionals.
Clients: Three active captives and two inactive captives managed at year-end 1994. Captive premium volume, $62 million. Capital and surplus managed, $20 million. No minimum size client.
Current business: Five active captives, two inactive captives.
Compensation: Annual fee, $30,000; hourly: professional, $120 to $150; clerical, $60 to $80.
1994 gross revenues: 100% from fees charged for captive management.
Officers: David Stafford, Bob Davis, Michael Matthews, J.C. Smetana, S. Hehir.
Contact: Michael Matthews, 353-1-283-7788 or Bob Davis, 212-770-6917.

AIG Insurance Management Services (IOM) Ltd.

IOMA House, Prospect Hill, Douglas, Isle of Man IM1 1ET; 44-1624-670129

Founded: 1994.
Parent: American International Group Inc.
Officers: Robert S. Davis; Mike Matthews.
Contact: Michael Matthews or Audrey Kirby.
Subcontracts for captive management services with Isle of Man Assurances.

AIG Insurance Management Services (Luxembourg) S.A.

21 Boul Grande Duchesse Charlotte, L-1331 Luxembourg; 352-44-30-32-237; fax: 352-44-3107

Founded: 1994.
Parent: American International Group Inc.
Offers rent-a-captive.
Services: Feasibility studies, captive formation, government reporting, accounting, claims processing, underwriting and ratemaking, investment management.
Staff: One.
Current business: One active captive.
Compensation: Annual fee, hourly.
Officers: Jacques Emsix, Robert S. Davis, Mike Matthews.
Contact: Jacques Emsix, 352-44-30-32-237 or Robert S. Davis, 212-770-6917.

Aachen Management Services Ltd.

71 Lower Baggot St., Dublin 2, Ireland; 353-1-676-3184; fax: 353-1-676-0977

Founded: 1989.
Parent: Aachen Re.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, investment management, tax advice, legal advice.
Staff: 15; 12 professionals.
Clients: Six active captives managed at year-end 1994.
Current business: Six active captives.
Compensation: Annual fee, commission.
1994 gross revenues: 90% from fees charged for captive management, 10% from commissions charged for brokering insurance/reinsurance.
Officers: Donal O'Callaghan, managing director; Stefan Andersch, European representative; Kieran Dempsey, investment manager; Tomas O'Dwyer, reinsurance manager; Deborah Hopkins, company secretary.

Alexander Insurance Managers (Barbados) Ltd.

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, claims processing, investment management.
Occasional services: Feasibility studies, captive formation, managing underwriting pools/facilities, association captive management services, including specialized accounting services and onshore services.
Staff: Nine; one professional.
Clients: 18 active captives and five inactive catives managed at year-end 1994. Captive premium volume, $70 million. Capital and surplus managed, $91 million. No minimum size client.
Current business: 21 active captives, two inactive captives.
Compensation: Annual fee, hourly.
1994 gross revenues: 100% from fees charged for captive management.
Officers: Ronald W. Jones, managing director; Vinston E. Hampden, vp.

Alexander Insurance Managers (Bermuda) Ltd.

Dorchester House, 7 Church St., Hamilton, Bermuda; 809-295-0265; fax: 809-292-2754

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, managing underwriting pools/facilities, association captive management services, including specialized accounting services.
Staff: 34; 11 professionals.
Clients: 76 active captives and five inactive captives managed at year-end 1994. Captive premium volume, $260 million. No minimum size client.
Compensation: Annual fee, hourly.
1994 gross revenues: 100% from fees charged for captive management.
Officers: Alan Cossar, executive director; Gail Fox, executive vp; Peter Jones, Philip Barnes, Catriona Godfrey, vps.

Alexander Insurance Managers (Canada)

900 Howe St., Box 3228, Vancouver, B.C. V6B 3X8, Canada; 604-683-2561; fax: 604-682-4026

Founded: 1988.
Parent: Alexander & Alexander Services Inc.
Frequent services: Captive formation, government reporting, accounting, claims processing, claims reserves analysis.
Occasional services: Feasibility studies, underwriting and ratemaking.
Staff: Two, both professionals.
Clients: Seven active captives and one inactive captive managed at year-end 1994. Captive premium volume, $18.4 million. Capital and surplus managed, $13.6 million. No minimum size client.
Current business: Seven active captives, one inactive captive.
Compensation: Annual fee, hourly.
1994 gross revenues: 100% from fees charged for captive management.
Officers: William J. Morgan, managing director.

Alexander Insurance Managers (Cayman) Ltd.

c/o Midland Bank Trust Corp. (Cayman) Ltd., P.O. Box 1109, Grand Cayman, Cayman Islands, B.W.I.; 44-1624-670133; fax: 44-1624-673242

Founded: 1981.
Subcontracts for captive management services with Midland Bank Trust Corp. (Cayman) Ltd.

Alexander Insurance Managers (Curacao) Ltd.

P.O. Box 305, Curacao, Netherlands Antilles; 599-9-661606; fax: 599-9-661611

Subcontracts for captive management services with Maduro & Cariels Insurance Services

Alexander Insurance Managers (Dublin) Ltd.

Haddington Court, Haddington Road, Dublin 4, Ireland; 353-1-660-5888; fax: 353-1-668-7668

Founded: 1991.
Parent: Alexander & Alexander Services Inc.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, loss forecasting, underwriting and ratemaking.
Staff: Nine; three professionals.
Clients: Seven active captives managed at year-end 1994. Captive premium volume, $50 million. Capital and surplus managed, $24 million. No minimum size client.
Current business: Seven active captives.
Compensation: Annual fee, hourly.
1994 gross revenues: 100% from fees charged for captive management.
Officers: Eamon O'Brien, managing director; Ann Finn, manager-insurance services; Anita McGeever, Dermot Finnerty, Jim Langton, account executives.

Alexander Insurance Managers (Guernsey) Ltd.

Alexander House, Victoria Road, St. Peter Port, Guernsey; 44-1481-728180; fax: 44-1481-710551

Founded: 1977.
Parent: Alexander & Alexander Services Inc.
Frequent services: Feasibility studies,

Continued on next page

Everybody wants to look like a million.

Unfortunately, many top executives look like 25 million.

It is well known that more than a handful of today's top corporate executives pull down high six- or seven-figure salaries. Which makes them particularly attractive targets in lawsuits involving corporate wrongdoing.

In fact, many directors and officers these days are spending more time in the courtroom and less time in the boardroom.

Yet, as the magnitude of claims continues to escalate, few insurance companies have been able to provide adequate D&O protection.

Great American offers limits up to $25 million.

Our marketing and underwriting staff will help you tailor coverage to meet the specific needs of those clients who face substantial liability. And, in the event of a claim, we'll respond quickly and efficiently.

So, if your idea of looking like a million involves an $800 suit and an absence of attorneys, then we'd like to talk with you. Call (708) 330-6750, or write Great American Insurance Companies, Executive Liability Division, P.O. Box 66943, Chicago, IL 60666.

After all, the only suit you want your client to be in is hanging in the closet.

GREAT AMERICAN®
INSURANCE COMPANIES

Continued from previous page
captive formation, government reporting, accounting, claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking.

Staff: 17; four professionals.

Clients: 30 active captives and three inactive captives managed at year-end 1994. Captive premium volume, $300 million.

Current business: 30 active captives, three inactive captives.

Compensation: Annual fee, hourly.

1994 gross revenues: 100% from fees charged for captive management.

Officers: Barry Seymour, managing director; Clive James, Richard Gale, directors; Chris LeConte, accounts manager; David Sheil, claims/underwriting manager.

Alexander Insurance Managers (Hawaii)

Suite 901, 1221 Kapiolani Blvd., Honolulu, Hawaii 96814-3560; 808-593-1583; fax: 808-593-2616

Founded: 1994.

Parent: Alexander & Alexander Services Inc.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, actuarial studies.

Staff: Two, both professionals.

Clients: Two active captives managed at year-end 1994. Captive premium volume, $12 million. No minimum size client.

Current business: Two active captives.

Compensation: Annual fee, hourly.

1994 gross revenues: 100% from fees charged for captive management.

Officers: Marc LaPointe, managing director.

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, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking, investment management.

Staff: 17; eight professionals.

Clients: 15 active captives managed at year-end 1994. Captive premium volume, $125 million. Capital and surplus managed, $96 million. No minimum size client.

Current business: 15 active captives.

Compensation: Annual fee, hourly.

1994 gross revenues: 100% from fees charged for captive management.

Officers: Geoffrey Hunt, managing director; Duncan Donald, David Newman, directors.

Alexander Insurance Managers (Luxembourg) S.A.R.L.

European Bank & Business Centre, 6B Route de Treves, Senningerberg, Luxembourg; 352-34-9898202; fax: 352-34-989898

Founded: 1988.

Parent: Alexander & Alexander Services Inc.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, loss forecasting, underwriting and ratemaking.

Occasional services: Actuarial studies, reinsurance brokered for captives.

Staff: Two; one professional.

Clients: No minimum size client.

Current business: One active captive.

Compensation: Annual fee, hourly.

1994 gross revenues: 100% from fees charged for captive management.

Officers: Alain Dufraisse, general manager.

Alexander Insurance Managers (Singapore) Pte. Ltd.

4th Storey, Capitol Building, 11 Stamford Road, Singapore 0617; 65-339-9233; fax: 65-338-9880

Founded: 1987.

Parent: Alexander & Alexander Services Inc.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, underwriting and ratemaking, investment management.

Occasional services: Loss forecasting, reinsurance brokered for captives, captive strategy reviews.

Staff: Three; one professional.

Clients: Three active captives managed at year-end 1994. Captive premium volume, $12.7 million. Capital and surplus managed, $14.2 million. No minimum size client.

Current business: Three active captives.

Compensation: Annual fee, hourly.

1994 gross revenues: 100% from fees charged for captive management.

Officers: Richard Tan, managing director.

Alexander Insurance Managers (Vermont)

600 Financial Plaza, 84 Pine St., Burlington, Vt. 05401-4441; 802-860-0444; fax: 802-860-0440

Founded: 1983.

Parent: Alexander & Alexander Services Inc.

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.

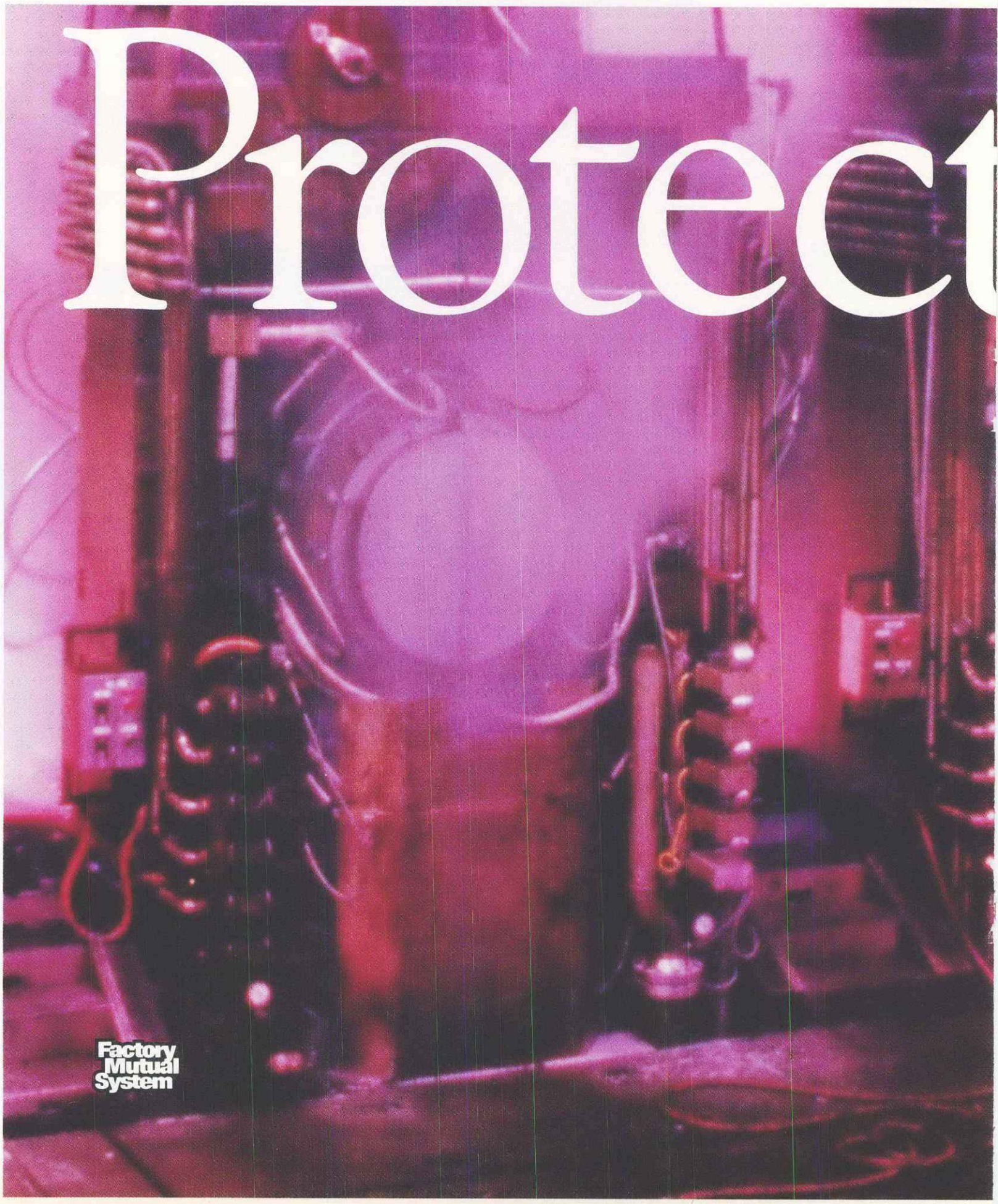
Staff information is reported on a full-time equivalent basis and includes the total number of staff members and the number of professional staff members involved in captive management services at year-end 1994.

Clients includes the number of active and inactive captives managed at year-end 1994 along with the total gross premium volume of captives managed and their capital and surplus in 1994. Also included is the minimum size client accepted (by premium volume). **Current business** includes clients acquired since Jan. 1, 1995.

Compensation details how the company bills for its services; commissions refers to commissions for reinsurance brokered. **1994 gross revenues** are included when reported. Percent of 1994 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.

Although every effort is made to report complete and accurate information, *Business Insurance* is unable to verify all information received.



Continued from previous page

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, actuarial studies.

Occasional services: Claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, investment management, association captive management services.

Staff: 10; seven professionals.

Clients: 37 active captives and two inactive captives managed at year-end 1994*. Captive premium volume, $268 million. No minimum size client.

Current business: 37 active captives, two inactive captives.

Compensation: Annual fee, hourly.

1994 gross revenues: 100% from fees charged for captive management.

Officers: W. Scott Frazier, executive director; Jim Murray, managing director; Beth Albright, supervisor-financial services.

**Includes captives domiciled in other states.*

To locate organizations managing captives in a particular domicile, refer to the index on page 89.

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 Inc. and Franciscan Services Inc.

Frequent services: Captive formation; government reporting; accounting; claims processing; 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 1994. Captive premium volume, $24 million. Capital and surplus managed, $38 million. No minimum size client.

Current business: Four active captives.

Compensation: Annual fee, $10,000; hourly: professional, $90 to $150; clerical $30 to $50.

1994 gross revenues: $270,000, 90% from fees charged for captive management, 10% from other services, including self-insurance trusts and governmental entity pools.

Officers: Richard A. Johnson, president; Thomas E. Beeman, secretary; Robert J. Halonen, treasurer; Ellen L. Barton, chairperson; William H. Fischer, vice chairperson.

American International Co. Ltd.

American International Building, 29 Richmond Road, Pembroke HM 08 Bermuda; 809-295-2121; fax: 809-292-7929

Founded: 1947.

Parent: American International Group Inc.

Offers rent-a-captive.

Frequent services: Captive formation; government reporting; accounting; 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, actuarial studies, underwriting and ratemaking, managing underwriting pools/facilities, loss control (New York, Brussels).

Staff: 10; four professionals.

Clients: 24 active captives and two inactive captives managed at year-end 1994. Captive premium volume, $206.8 million. Capital and surplus managed, $300 million. No minimum size client.

Current business: 26 active captives, two inactive captives.

Compensation: Annual fee, $25,000; hourly: professional, $115 to $150; clerical, $55 to $80.

Officers: E.E. Stempel, chairman; J.C.H. Johnson, president; L.M. Murphy, senior vp/general counsel; S.G. Cubbon, senior vp/treasurer; M. Joannou, senior vp.

Contact: John Weale, vp, 809-295-2121; Robert S. Davis, 212-770-6917.

Designing a risk management program to maintain today's critical operations requires diligence and expertise. Protection Mutual helps policyholders around the world protect valuable equipment through state-of-the-art engineering service provided by the Factory Mutual System.

Whether developing a preventive maintenance program or assisting with equipment testing to identify loss exposures, Factory Mutual engineers draw on the resources of the world's leading loss prevention engineering organization. Production downtime and equipment repairs are costly situations that Protection Mutual policyholders can avoid with the help of Factory Mutual boiler and machinery specialists.

Should a loss occur, Protection Mutual policyholders are supported by superior insurance coverage and engineering service to restore equipment and eliminate expensive downtime.

It comes down to one word . . . Protection.

With physical and financial protection, we will secure the future of your business.

It's Our Word.

Protection Mutual

Part of the Factory Mutual System

300 South Northwest Highway
Park Ridge, Illinois 60068 708.825.4474

American International Management Co. (Barbados) Ltd.

ALICO Building, Cheapside, Bridgetown, Barbados; 809-436-4771; fax: 809-427-5809

Founded: 1985.

Parent: American International Group Inc.

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.

Staff: Three; two professionals.

Clients: Four active captives managed at year-end 1994.

Current business: Four active captives.

Compensation: Annual fee, $25,000; hourly: professional, $100 to $130; clerical, $50 to $75.

1994 gross revenues: 100% from fees charged for captive management.

Officers: Helen Roper, president/general manager; J.R. Weale, D.J. Higginbottom, vps; L.M. Murphy, director.

Contact: Helen Roper, 809-436-4771 or Robert S. Davis, 212-770-6917.

American & Overseas Reinsurance Management Co. Ltd.

P.O. Box HM 397, Hamilton HM BX, Bermuda; 809-295-4591; fax: 809-292-7456

Founded: 1989.

Parent: British International Insurance Co. Ltd.

Frequent services: Government reporting, accounting, claims processing, claims reserves analysis, investment management, runoff management.

Occasional services: Feasibility studies, captive formation, actuarial studies, tax advice, legal advice, association captive management services.

Staff: Five; two professionals.

Clients: Three active captives and one inactive captive managed at year-end 1994. Captive premium volume, $7 million. Capital and surplus managed, $40.6 million. No minimum size client.

Current business: Three active captives, one inactive captive.

Compensation: Annual fee, $10,000.

1994 gross revenues: 100% from fees charged for captive management.

Officers: Stephen W. Pearce, presicent; Dennis Emery, chief accountant.

Contact: Stephen W. Pearce.

American Risk Group Inc.

1 Executive Drive, P.O. Box 1383, 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 Consultants Corp. in Vermont and Hawaii and International Risk Management in Barbados, Bermuda, Canada, Cayman, Dublin, Guernsey, Isle of Man, Luxembourg and Singapore.

American Risk Management Corp.

5 Burlington Square, 4th Floor, P.O. Box 1521, Burlington, Vt. 05402; 802-862-4400; fax: 802-862-7797

Founded: 1958.

Parent: International Risk Management Group Ltd.

Frequent services: Feasibility studies, captive formation, government report-

Continued on next page

Continued from previous page
ing, accounting, claims processing, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, managing underwriting pools/facilities, loss control (U.S. and Europe), association captive management services, risk management consulting.

Occasional services: Claims reserves analysis, loss forecasting, specialized accounting services for association captives, onshore services for association captives.

Staff: 18; 15 professionals.

Clients: 46 active captives and one inactive captive managed at year-end 1994*. Captive premium volume, $378 million. Capital and surplus managed, $726 million. No minimum size client.

Current business: 46 active captives, one inactive captive.

Compensation: Annual fee.

1994 gross revenues: 90% from fees charged for captive management, 10% from other services.

Officers: Kathryn A. Westover, president; Gary O'Hare, Sue Urie, assistant vps.

**Includes captives in other domiciles managed from Vermont.*

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, claims reserves analysis.
Staff: Two; one professional.
Clients: Three active captives managed at year-end 1994.
Current business: Three active captives.
Officers: Rudy Maasdamme, managing director.

Aon Risk Services (Barbados) Ltd.

Chelston Park, Building 2, Collymore Rock, St. Michael, Barbados; 809-429-9518; fax: 809-429-8517

Founded: 1986.
Parent: Aon Risk Services (Bermuda) Ltd.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking.
Staff: Three, all professionals.
Clients: Two active captives managed at year-end 1994.
Current business: Two active captives.
Compensation: Annual fee, commission, hourly.
Officers: Tom Comer, CEO; Martin Hole, vp/general manager.

Aon Risk Services (Bermuda) Ltd.

Craig Appin House, 8 Wesley St., Hamilton HM 11, Bermuda; 809-295-2220; fax: 809-292-0217

Founded: 1970.
Parent: Aon Corp.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, investment management, managing underwriting pools/facilities, loss control via U.S. affiliates, association captive management services, including specialized accounting services and onshore services via affiliates.
Occasional services: Actuarial studies via affiliates, loss forecasting via affiliates, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, tax advice.
Staff: 29; 14 professionals.
Clients: 75 active captives and five inactive captives managed at year-end 1994. Captive premium volume, $600 million. Capital and surplus managed, $1 billion.
Current business: 78 active captives, four inactive captives.
Compensation: Annual fee, commission, hourly.
Officers: Tom Comer, president/CEO; Tracy Keill, senior vp; Pauline Richards, senior vp/controller.

Aon Risk Services (Colorado)

4100 E. Mississippi Ave., Denver, Colo. 80222; 303-759-5334; fax: 303-759-5334

Founded: 1976.
Parent: Aon Corp.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking.
Staff: Two, both professionals.
Clients: One active captive managed at year-end 1994. Captive premium volume, $17 million. Capital and surplus managed, $55.8 million. No minimum size client.
Current business: One active captive.
Compensation: Annual fee.
Contact: Michael Ethridge, senior vp.

Aon Risk Services (Europe) S.A.

283 Route D'Arlon, Strassen 8011, Luxembourg; 352-31-7171; fax: 352-31-7171

Founded: 1994.
Parent: Aon Corp.
Services: Feasibility studies, captive formation, reinsurance brokered for captives, association captive management services, consulting, reinsurance brokering.
Staff: Four, all professionals.
Clients: One active captive managed at year-end 1994.
Current business: Four active captives.
Officers: Ronald Daene, managing director; Lambert Schroeder, director.
Contact: Lambert Schroeder.

Aon Risk Services (Guernsey) Ltd.

P.O. Box 160, Dixcart House, Sir William Place, St. Peter Port, Guernsey; 44-1481-713-322; fax: 44-1481-729-189

Founded: 1995.
Parent: Aon Corp.
Offers rent-a-captive.
Frequent services: Captive management.
Current business: One active captive.
Contact: Peter Walpole.

Aon Risk Services (Ireland) Ltd.

10/12 Lansdowne Road, Ballsbridge, Dublin 4, Ireland; 353-1-668-9288; fax: 353-1-660-1187

Founded: 1992.
Parent: Aon Corp.
Services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking, loss control.
Staff: Three, all professionals.
Compensation: Annual fee, $35,000; commission.
Officers: E.A. Mac Redmond, chairman; J.P. Neary, C.F. Lynch, directors; D.J. Egan, director-accounting; J. Mac Redmond, director-operations.
Contact: Joyce Mac Redmond.

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, 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 1994.
Current business: Three active captives.
Officers: Adri van Velew, managing director; Paul Kabel, senior consultant; Eric Fritz, coordinating director, Europe-Aon Risk Services (Europe).

Aon Risk Services-U.S.V.I. Inc.

King's Corner 116, Frederiksted, St. Croix 00840, U.S. Virgin Islands; 809-772-4499; fax: 809-772-5567

Founded: 1994.
Parent: Aon Corp.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, actuarial studies via affiliate, loss forecasting via affiliate, reinsurance brokered for captives, investment management.
Staff: Two; one professional.
Clients: One active captive managed at year-end 1994.
Current business: One active captive.
Officers: Tom Comer, CEO; John McDonald, manager.

Aon Risk Services (Vermont) Inc.

1 Lawson Lane, Burlington, Vt. 05401; 802-658-1168; fax: 802-658-2996

Founded: 1990.
Parent: Aon Corp.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, actuarial studies, loss forecasting, reinsurance brokered for captives, investment management, association captive management services, including specialized accounting services and onshore services.
Staff: Four; three professionals.
Clients: Six total captives managed at year-end 1994. Captive premium volume, $21.5 million. No minimum size client.
Current business: Seven active captives.
Compensation: Annual fee, $25,000.
1994 gross revenues: 100% from fees charged for captive management.
Officers: Thomas M. Comer, president; Laura A. Taylor, vp.

Argus International Management Ltd.

P.O. Box HM 1064, 12 Wesley St., Hamilton HM EX, Bermuda; 809-295-2021; fax: 809-292-6763

Founded: 1971.
Parent: Argus Insurance Co. Ltd.
Offers rent-a-captive.
Frequent services: Captive formation, government reporting, accounting, claims processing, claims reserves analysis, association captive management services, including specialized accounting services.
Occasional services: Feasibility studies, loss forecasting, reinsurance brokered for captives, investment management, tax advice, managing underwriting pools/facilities.
Staff: 12; six professionals.
Clients: 37 active captives and five inactive captives managed at year-end 1994.
Current business: 43 active captives, five inactive captives.
Compensation: Annual fee, hourly.
Officers: E. John Sainsbury, managing director; Michael Hardy, manager.

Atlantic Security Ltd.

Windsor Place, 18 Queen St., Hamilton, Bermuda; 809-295-5425; fax: 809-295-5444

Founded: 1974.
Parent: ASL Holdings Ltd.
Offers rent-a-captive.
Frequent services: Captive formation, government reporting, accounting, claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, association captive management services, including specialized accounting services.
Occasional services: Feasibility studies, claims processing, reinsurance brokered to captives, underwriting and ratemaking, investment management.
Staff: Nine; seven professionals.
Clients: 29 active captives and one inactive captive managed at year-end 1994. Captive premium volume, $150 million. Capital and surplus managed, $80 million. No minimum size client.
Compensation: Annual fee, $15,000; commission; hourly: professional, $150; clerical, $75.
Officers: Colin C. James, president/CEO; Harold Forkush, chairman; Richard J. Witkowski, senior vp.

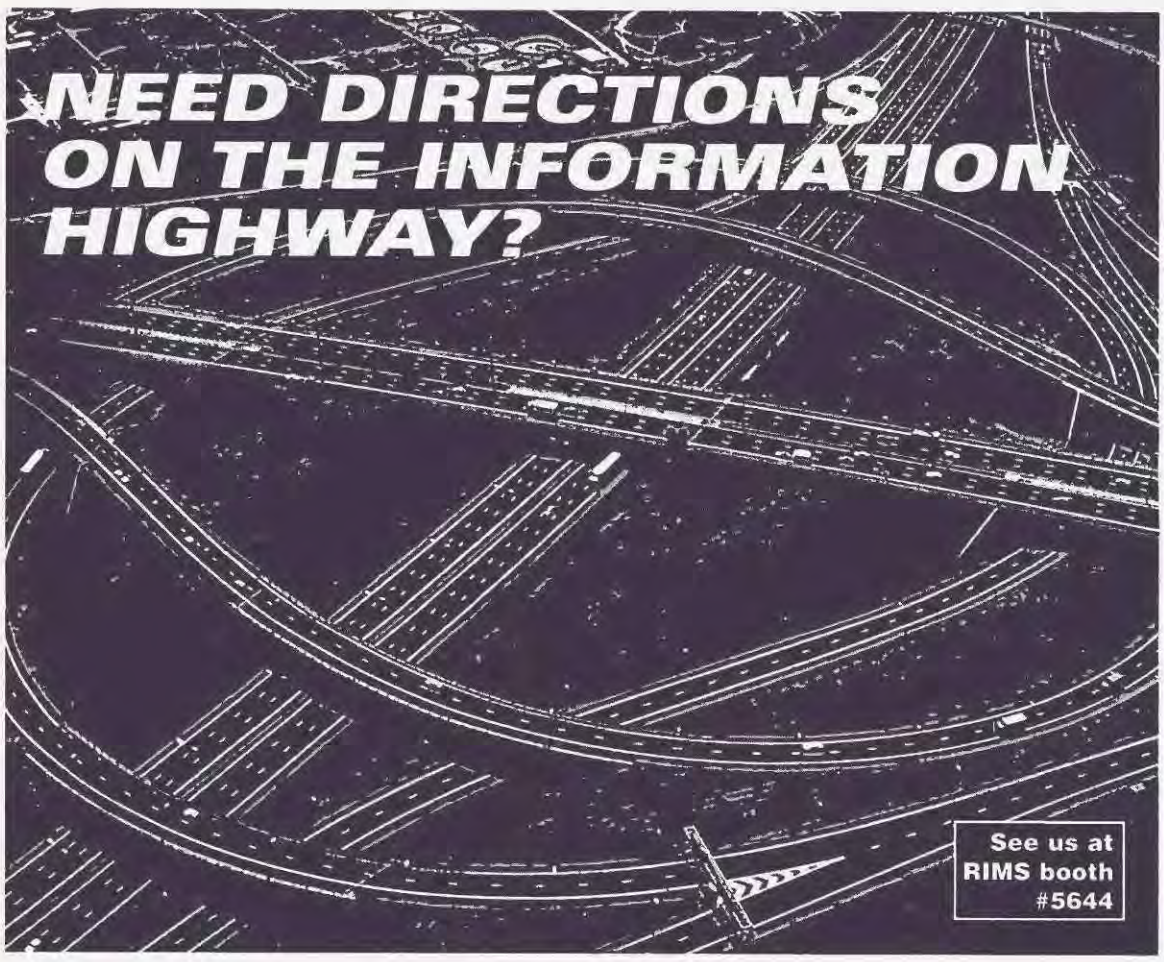
B

BF&M Management Ltd.

P.O. Box HM 1007, Hamilton HM DX, Bermuda; 809-292-6396; fax: 809-292-8682

Founded: 1969.
Parent: BF&M Ltd.
Offers rent-a-captive.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, investment management, association captive management services, including specialized accounting services.
Occasional services: Reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, managing underwriting pools/facilities.
Staff: 10; six professionals.
Clients: 29 active captives and one inactive captive managed at year-end 1994. Captive premium volume, $58.5 million.
Current business: 29 active captives, one inactive captive.
Compensation: Annual fee, $20,000; commission; hourly.
1994 gross revenues: 91.19% from fees charged for captive management; 6.53%

Continued on next page



Anistics OMEGA™ for Windows:

The system solution for today's risk manager.

For 25 years, Anistics has been providing risk managers with the right tools to manage risk management information.

Today, the information challenge encompasses exposure analysis, risk financing and risk control. Anistics Omega for Windows provides an integrated solution.

It includes claims management, policy administration, exposure management, property management, certificate tracking, litigation tracking, bond tracking, allocation, data conversions and more.

Anistics Omega for Windows also lets you prepare, view and distribute the material you need in a variety of formats. You can write reports and letters, import information, create graphs and images, and fax.

For information or a free demonstration, call **800-355-2783** or see us at RIMS booth #5644.

Microsoft SOLUTION PROVIDER Windows is a trademark of Microsoft Corporation.

√Anistics

Continued from previous page
from commissions charged for brokering insurance/reinsurance; 2.28% from other services, including consulting.

Officers: Irmgard Viera, vp; Elizabeth A.C. Durrant, manager; Brian S. Webb, vp-marketing; John Wilkins, treasurer.

Bain Hogg Insurance Management (Guernsey) Ltd.

Suite 5, Town Mills, Rue De Pre, St. Peter Port G41 1LT, Guernsey, C.I.; 44-1481-726049; fax: 44-1481-712-428

Founded: 1978.
Parent: Bain Hogg Group P.L.C.
Frequent services: Feasibility studies, government reporting, accounting, claims processing, claims reserves analysis, underwriting and ratemaking.
Occasional services: Captive formation, loss forecasting, tax advice.
Staff: 13; three professionals.
Clients: 29 active captives and six inactive captives managed at year-end 1994. Captive premium volume, $50 million. Minimum size client, $500,000.
Current business: 29 active captives, six inactive captives.
Compensation: Hourly: professional, $150 to $210; clerical, $50 to $100.
1994 gross revenues: 100% from fees charged for captive management.
Officers: Roger A. Hall, managing director; Hugh M.C. Bromley, Graham M. Powell, directors.

Bain Hogg Management Services (IOM) Ltd.

IOMA House, Prospect Hill, Douglas, Isle of Man IM1 1ET; 44-1624-624141; fax: 44-1624-622500

Founded: 1991.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking.
Occasional services: Actuarial studies, loss forecasting, tax advice, legal advice.
Staff: 12; nine professionals.
Clients: One active captive managed at year-end 1994.
Current business: One active captive.
Compensation: Annual fee, $45,000; hourly: professional, $200 maximum; clerical, $75.
Officers: Christine Crowther, managing director; Peter M. Vick, manager; Keith Allen, group accountant; Brian J. Tonge, company accountant; Laura M. Watterson, assistant manager.
Contact: Peter M. Vick.

Becher & Carlson Management Ltd.

Continental Building, 25 Church St., P.O. Box HM 2461, Hamilton, Bermuda; 809-295-0519; fax: 809-295-0933

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.
Staff: Four; two professionals.
Clients: Eight active captives and three inactive captives managed at year-end 1994. Captive premium volume, $140 million. Capital and surplus managed, $95 million. No minimum size client.
Current business: 11 active captives, three inactive captives.
Compensation: Annual fee; commission.
Officers: David L. Carlson, president/CEO; Robert L. Glicksteen, senior vp/CFO; Robin Mehta, senior vp.
Contact: Pam Brooskin, 818-715-0800.

Becher & Carlson Management (Vermont)

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 to captives.
Staff: Three; two professionals.
Clients: Five active captives managed at year-end 1994. Captive premium volume, $38.4 million. Capital and surplus managed, $30.8 million. No minimum size client.
Current business: Five active captives.
Compensation: Annual fee.
Officers: David L. Carlson, president/CEO; Robert L. Glicksteen, senior vp/CFO; Ann C. DesLauriers, resident manager.
Contact: Pam Brooskin, 818-715-0800.

Becher & Carlson Risk Management Inc.

Pacific Tower, Suite 2788, 1001 Bishop St., Aiea, 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, investment management, loss control.
Staff: Three; two professionals.
Clients: Six active captives and one inactive captive managed at year-end 1994. Captive premium volume, $69.5 million. Capital and surplus managed, $72.9 million. No minimum size client.
Current business: Seven active captives, one inactive captive.
Compensation: Annual fee.
Officers: David L. Carlson, president/CEO; Robert L. Glicksteen, senior vp/CFO; Wanda L. Jong, vp/manager.
Contact: Pam Brooskin, 818-715-0800.

CFM Insurance Managers Ltd.

Victoria Hall, 11 Victoria St., Hamilton HM 11, Bermuda; 809-296-1051; fax: 809-296-1058

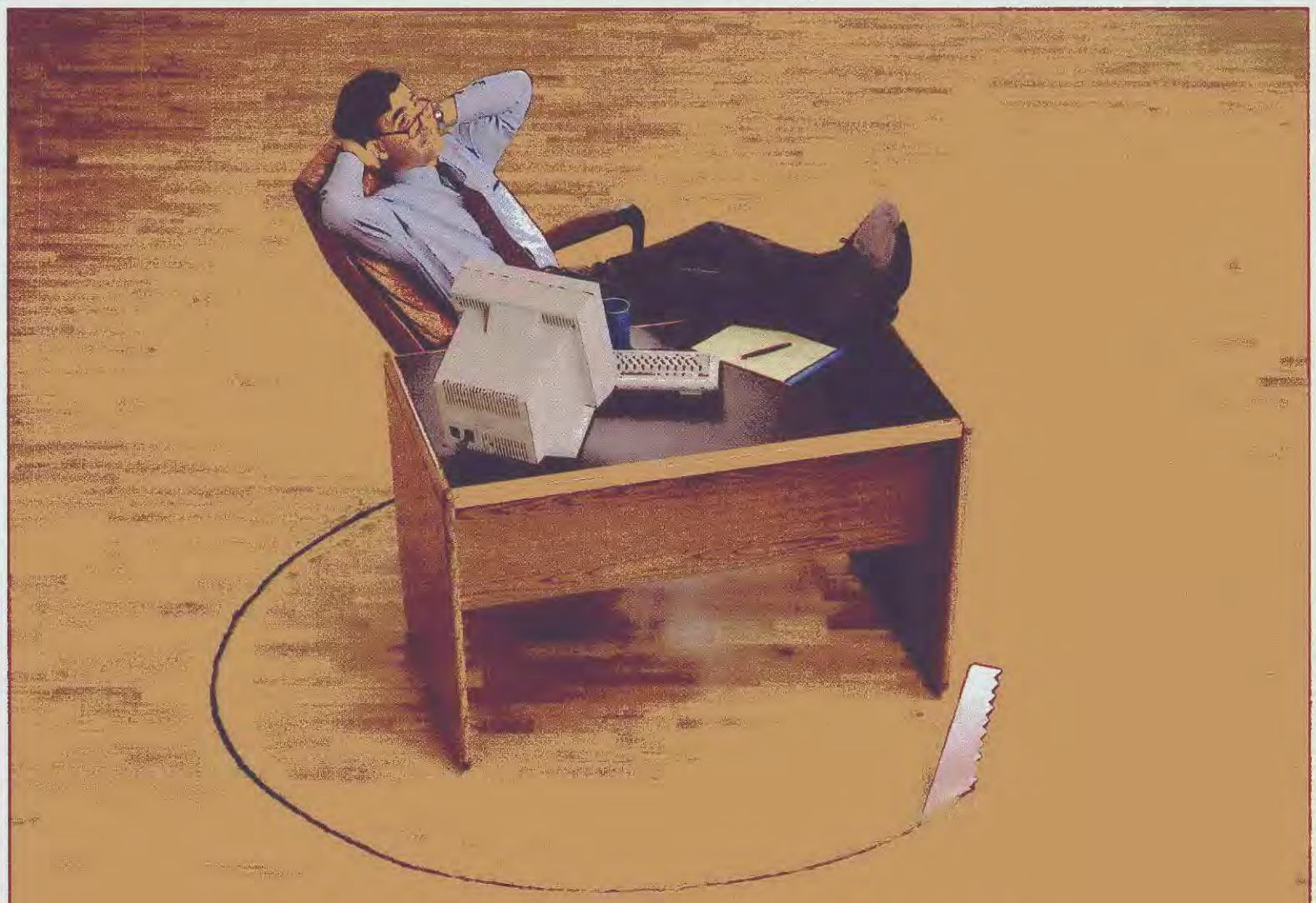
Frequent services: Feasibility studies, captive formation, government reporting, accounting, managing underwriting pools/facilities, association captive management services.
Occasional services: Claims processing, underwriting and ratemaking.
Clients: Capital and surplus managed, $35 million.
Current business: 10 active captives, 10 inactive captives.
Compensation: Annual fee.
1994 gross revenues: 100% from fees charged for captive management.
Officers: Simon Scupham, president.

Caledonian Bank & Trust Ltd.

P.O. Box 1043, George Town, Grand Cayman, Cayman Islands, B.W.I.; 809-949-0050; fax: 809-949-8062

Founded: 1970.
Frequent services: Captive formation, government reporting, accounting, claims processing, investment management, banking.
Staff: 28.
Clients: Nine active captives and three

Continued on next page



Why Worry? Has The Excess Market Ever Let You Down Before?

A gentle reminder to veterans of 1984: excess liability capacity, and even the solvency of carriers, can't be taken for granted. Unless you have your coverage with American Excess Insurance Association.

Look at the names of our member companies. This kind of financial strength and underwriting talent assures a long-term stability and predictability that no other facility can provide.

In fact, American Excess was specifically established to provide a responsible, long-term solution to the excess capacity crisis.

We write a single policy of $100 million in excess of a minimum of $25 million (some exceptions apply). You enjoy one application, one underwriter, one policy and one claim manager. We are admitted and fully licensed in all states except ND and WY. We also offer coverage in Canada and other countries.

Hard times could be closer than you think. Don't you think it's time to look into American Excess? Ask your broker or agent to call an American Excess underwriter at (203) 528-2155 or fax (203) 282-9393.

Each member is severally and not jointly liable for its share of any assumed risk.
Terms and conditions of coverage are as stated in the policy.

American Excess Insurance Association

Underwriting member companies as of 12/94: The Aetna Casualty and Surety Company; Continental Casualty Company; Continental Insurance Company; Employers Reinsurance Corporation; Federal Insurance Company; Fireman's Fund Insurance Company; General Accident Insurance Company of America; The General Star National Insurance Company; Indemnity Insurance Company of North America; NAC Reinsurance Corporation; North American Specialty Insurance Company; St. Paul Fire and Marine Insurance Company; The Travelers Indemnity Company; Zurich Insurance Company, U.S. Branch.

Continued from previous page
inactive captives managed at year-end 1994. Captive premium volume, $43 million. Capital and surplus managed, $64 million. No minimum size client.

Current business: 11 active captives, three inactive captives.

Compensation: Annual fee, $5,000; hourly: professional, $150 to $200; 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; 809-295-1683; fax: 809-295-1704

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: Three, all professionals.
Clients: Ten active captives managed at year-end 1994. Captive premium volume, $104 million.
Current business: Ten active captives.
Compensation: Annual fee; hourly.
1994 gross revenues: 90% from fees charged for captive management, 10% from other services.
Officers: David A. Brown, president; Rhonda M. Caza, vp.

Caledonian Management Ltd.

St. James's Chambers, Athol St., P.O. Box 174, Douglas, Isle of Man; 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, reinsurance brokered for captives, investment management.
Occasional services: Actuarial studies, loss forecasting, underwriting and ratemaking, association captive management services.
Staff: One.
Compensation: Annual fee; hourly.
Officers: David A. Brown, managing director.
Contact: Bermuda office: 809-295-1683.

California Hospitals Affiliated Insurance Services Inc. (CHAIS)

11060 White Rock Road, Suite 210, Rancho Cordova, Calif. 95670; 916-631-0333; fax: 916-638-5263

Founded: 1982.
Parent: California Assn. of Hospitals & Health Systems.
Offers rent-a-captive.
Frequent services: Computerized accounting; computerized claims processing; claims reserves analysis; underwriting and ratemaking; tax advice; legal advice; managing underwriting pools/facilities; loss control (California); association captive management services, including specialized accounting services and onshore services; seminars/consulting.
Occasional services: Feasibility studies, captive formation, government reporting, accounting.
Staff: 20; five professionals.
Clients: One active captive and one inactive captive managed at year-end 1994. Captive premium volume, $13 million. Capital and surplus managed, $6 million. No minimum size client.
Current business: One active captive, one inactive captive.
Compensation: Hourly.
1994 gross revenues: $7.5 million, 29% from fees charged for captive management, 36% from commissions charged for brokering insurance/reinsurance, 35% from other services.
Officers: Douglas Bockus, president; Jeffry Sousa, executive vp; David Durgin, David McDaniel, Cathy Shorr, senior vps.
Contact: Jeffry Sousa.

Capital Management Services Ltd.

Suite 502, 48 Par-la-Ville Road, Hamilton HM 11, Bermuda; 809-295-3974; fax: 809-292-9250

Offers rent-a-captive.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, reinsurance brokered for captives, investment management, tax advice.
Occasional services: Loss forecasting, underwriting and ratemaking, legal advice.
Staff: Three; one professional.
Clients: Four active captives and one inactive captive managed at year-end 1994. Captive premium volume, $10.3 million. Capital and surplus managed, $4.05 million. Minimum size client, $750,000.
Current business: Four active captives, one inactive captive.
Compensation: Annual fee, $15,000; commission.
1994 gross revenues: 60% from fees charged for captive management, 40% from commissions charged for brokering insurance/reinsurance.
Officers: Lawrence Dixon, president; Elizabeth Powell, vp.

CAPTECH Management Services (Barbados) Ltd.

CGM Building, Collymore Rock, St. Michael, Barbados; 809-436-8296; fax: 809-426-7336

Founded: 1994.
Subcontracts for captive management services with International Insurance Management in Barbados.

Captive Managers Ltd.

Cable Beach Court #1, West Bay St., P.O. Box CB-10989, Nassau, Bahamas; 809-327-5771; fax: 809-327-8025

Founded: 1985.
Frequent services: Captive formation, government reporting, accounting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking.
Occasional services: Feasibility studies, claims processing, claims reserves analysis, loss forecasting, tax advice, legal advice.
Staff: Four; two professionals.
Clients: Three active captives managed and one inactive captives at year-end 1994. Captive premium volume, $13 million. Minimum size client, $750,000.
Current business: Three active captives, one inactive captive.
Compensation: Annual fee; commission.
1994 gross revenues: 65% from fees charged for captive management, 30% from commissions charged for brokering insurance/reinsurance, 5% from other services, including local consulting services.
Officers: Charles A. Donaldson, president; Anita M. Donaldson, treasurer.

Caribbean Insurance Management Ltd.

P.O. Box 362, Road Town, Tortola, British Virgin Islands; 809-494-5108 or 809-494-2868; fax: 809-494-4704

Founded: 1990.
Frequent services: Captive formation, government reporting, accounting, claims processing.
Occasional services: Feasibility studies, reinsurance brokered for captives, reinsurance brokered to captives, tax advice, insolvency consulting, auditing.
Compensation: Annual fee, $5,000; hourly.
Officers: Ralph Nebarro, chairman; Richard H. Clayson, managing director.

Cayside Insurance Management Ltd.

P.O. Box 2322, 1 Cayman House, North Church St., Grand Cayman, Cayman Islands; 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, claims processing, loss forecasting, underwriting and ratemaking, association captive management services, including specialized accounting services.
Staff: Three; two professionals.
Clients: Ten active captives managed at year-end 1994. Captive premium volume, $135 million. No minimum size client.
Current business: 11 active captives.
Compensation: Annual fee; hourly.
1994 gross revenues: 100% from fees charged for captive management.
Officers: John E. Smith, managing director.

Chandler Insurance Management Ltd.

Anderson Square, 5th Floor, P.O. Box 1854, Grand Cayman, 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 two inactive captives managed at year-end 1994. Captive premium volume, $20.5 million. Minimum size client, $500,000.
Current business: Seven active captives, two inactive captives.
Compensation: Annual fee; hourly.
1994 gross revenues: 100% from fees charged for captive management.
Officers: W. Brent Lagere, chairman; Benjamin T. Walkingstick, Steven R. Butler, directors.

Channel Islands Insurance Consultants Ltd.

26 Comet St., St. Peter Port, Guernsey; 44-1481-710336; fax: 44-1481-710676

Founded: 1982.
Frequent services: Government reporting, accounting, claims processing, 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: Seven; three professionals.
Clients: 14 active captives and six inactive captives managed at year-end 1994. Captive premium volume, $70 million.
Current business: 21 active captives, six inactive captives.
Compensation: Annual fee; hourly.
1994 gross revenues: 100% from fees charged for captive management.
Officers: Michael J. Savage, managing director; Timothy AMB Spafford, chairman; Mike Bubb.
Contact: Michael Savage.

CIGNA International Insurance Managers Ltd.

P.O. Box HM 1181, Hamilton HM EX, Bermuda; 809-295-7777; fax: 809-292-1930

Founded: 1978.
Parent: CIGNA.
Frequent services: Government reporting, accounting, claims processing, investment management, loss control (CIGNA, Philadelphia).
Occasional services: Feasibility studies, captive formation.
Staff: 11; two professionals.
Clients: Eight active captives managed at year-end 1994; Captive premium volume, $19 million. Capital and surplus managed, $78 million. No minimum size client.
Current business: Eight active captives.
Compensation: Annual fee.
1994 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.
Contact: John Boden.

Claremont Insurance Management Ltd.

14/15 Mount Havelock, Douglas 1M1 2QG, Isle of Man; 44-1624-661797; fax: 44-1624-676315

Founded: 1989.
Parent: Norwich Life South Africa Ltd., Duncan Lawrie Isle of Man Ltd.
Frequent services: Feasibility studies, captive formation, accounting, underwriting and ratemaking, investment management.
Occasional services: Government reporting, claims processing, actuarial studies, reinsurance brokered for captives, reinsurance brokered to captives, tax advice, legal advice.
Staff: Five, all professionals.
Clients: Three total captives managed at year-end 1994.
Officers: Colin R. Formby, CEO.

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, 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.
Officers: Peter D. Sanger, president/CEO.
Figures as of 1995.

Continental Risk Services Ltd.

Continental Building, 25 Church St., P.O. Box HM 824, Hamilton HM CX, Bermuda; 809-295-6015; fax: 809-295-1702

Founded: 1980.
Parent: The Continental Corp.
Offers rent-a-captive.
Frequent services: Captive formation, government reporting, accounting, investment management, association captive management services, including specialized accounting services.
Occasional services: Feasibility studies, claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, loss control (New York).
Staff: Five; four professionals.
Clients: Nine active captives managed at year-end 1994. Captive premium volume, $95.2 million. Capital and surplus managed, $204.7 million. No minimum size client.
Current business: Nine active captives.
Compensation: Annual fee; hourly.
1994 gross revenues: 70.4% from fees charged for captive management; 29.6% from other services, including acting as principal representative and managing other group companies.
Officers: E. Randall Clouser, president; Hector Mendez, senior vp; Thomas McMahon, assistant vp; Richard Spurling, secretary; Judy Taylor, assistant secretary.

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., Bermuda.
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 six inactive captives managed at year-end 1994. Captive premium volume, $238 million. Capital and surplus managed, $76.7 million. No minimum size client.
Current business: Six active captives, six inactive captives.
Compensation: Annual fee; hourly.
1994 gross revenues: 100% from fees charged for captive management.
Officers: E. Randall Clouser, president; Hector Mendez, senior vp; Fiona Williams, assistant vp; Dr. Trevor Carmichael, secretary; Andrew Ferreira, assistant secretary.
Contact: Fiona A. Williams.

Crusader International Management (Cayman) Ltd.

3rd Floor, Elizabethan Square, George Town, Grand Cayman, Cayman Islands, B.W.I.; 809-945-1599; fax: 809-949-0520

Founded: 1993.
Offers rent-a-captive.
Services: Feasibility studies, captive formation, government reporting, accounting, claims reserves analysis, reinsurance brokered for captives, association captive management services including specialized accounting services and onshore services.
Staff: Five; two professionals.
Clients: Seven active captives and one inactive captive managed at year-end 1994. Capital and surplus managed,
Continued on next page

The directory and its terminology are explained on page 74. An index of companies serving each domicile follows the directory.

CICA
CAPTIVE INSURANCE COMPANIES ASSOCIATION, INC.

The recognized authoritative organization which promotes captive insurance companies, regardless of domicile or structure, as viable alternatives available to optimize risk transfer and risk funding.

Some of our 22nd Annual Conference highlights include:

- Captive taxation, regulation and management issues
- Reinsurance industry studies
- Economic forecasting
- Workshop on captive insurance issues for 1995 and beyond

Join us this year for education, networking and exhibition oppotunities.

22nd Annual CICA Conference • March 19-22, 1995
Loews Ventana Canyon • Tuscon, AZ

For registration material and membership information call (212) 687-4501 or write us at our new address • 655 Third Avenue • New York, NY 10017 • Fax (212) 986-9716

CICA...For A Better Industry

Continued from previous page

$32 million. Minimum size client, $1 million.

Current business: 10 active captives, one inactive captive.

Compensation: Annual fee, $25,000; commission; hourly: professional, $150; clerical, $75.

Officers: Ian Kilpatrick, president; Terence Burke, executive vp-finance.

E

Eaglehurst Insurance Management Ltd.

P.O. Box 16, Exchange House, 54-58 Athol St., Douglas IM99 IAP, 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, tax advice.
Occasional services: Captive formation, claims processing, claims reserves analysis, investment management, legal advice.
Staff: Three, all professionals.
Clients: Two active captives and one inactive captive managed at year-end 1994. Captive premium volume, $1.1 million. Capital and surplus managed, $2.8 million. No minimum size client.
Compensation: Hourly: professional, $88 to $250; clerical, $60.
1994 gross revenues: $86,000, 100% from fees charged for captive management.
Officers: I.M. Foster, director; J.N. Nugent, international tax partner; J. Scott, senior partner.
Contact: I.M Foster.

Environmental Management Insurance Services Inc.

1900 The Exchange, Suite 450, Atlanta, Ga. 30339; 404-916-1908; fax: 404-916-0618

Founded: 1990.
Parent: American Safety Casualty Insurance Co.
Frequent services: Government reporting, accounting, claims processing, underwriting and ratemaking, managing underwriting pools/facilities, loss control, marketing, administrative, underwriting.
Occasional services: Feasibility studies, captive formation, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, investment management, association captive management services, including specialized accounting services and onshore services.
Staff: 23; 17 professionals.
Clients: Two inactive captives managed. Captive premium volume, $12 million. Capital and surplus managed, $15 million. No minimum size client.
Current business: Two inactive captives.
Compensation: Annual fee, commission.
Officers: Lloyd A. Fox, president; Stephen R. Crim, vp-underwriting; James G. Leach, vp/general counsel; Stephen F. Clarke, financial officer.

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: Eight.
Clients: Five active captives managed at year-end 1994. Captive premium volume, $31.4 million. No minimum size client.
Current business: Six active captives.
Compensation: Annual fee, hourly.
1994 gross revenues: 90% from fees charged for captive management; 10% from other services, including feasibility studies.
Officers: E. Van Cutsem, managing director; H. Azijn, commercial director.

F

50th State Risk Management Services Inc.

6 Waterfront Plaza, 3rd Floor, 500 Ala Moana Blvd., Honolulu, Hawaii 96813; 808-543-9786; fax: 808-521-1802

Founded: 1991.
Parent: American International Group Inc.
Frequent services: Captive formation; government reporting; accounting; claims processing; claims reserves analysis; loss forecasting; investment management; managing underwriting pools/facilities; association captive management services, including specialized accounting services and onshore services; risk management programs; finite risk programs.
Occasional services: Feasibility studies, actuarial studies, underwriting and ratemaking, loss control (New York, Brussels).
Staff: Three; two professionals.
Clients: One active captive managed at year-end 1994. Captive premium volume, $463,000. Capital and surplus managed, $1.2 million. No minimum size client.
Current business: One active captive.
Compensation: Annual fee, $25,000; hourly: professional, $110 to $150; clerical, $50 to $80.
1994 gross revenues: 100% from fees charged for captive management.
Officers: Robin K. Campaniano, chairman; Linda K. Gilchrist, president; Craig M. Watanabe, senior vp.
Contact: Craig M. Watanabe, 808-543-9786; Robert Davis, 212-770-6917.

FINNCAP-OY Finnish Captive & Risk Services Ltd.

Vattuniemenkvia 8A, P.O. Box 12, SF-00211, Helsinki, Finland; 358-0-69611; fax: 358-0-6961-2388

Founded: 1988.
Parent: European Risk Management Ltd. (U.K.) and Industrial Mutual Insurance Co. (Finland).
Officers: E. Holma, chairman; R. Kamarainen, vice chairman; L. von Hertzen, managing director; Yngve Nygardas, Arie Groenendyk, 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., Hamilton HM 12, Bermuda; 809-292-4654; fax: 809-292-8231

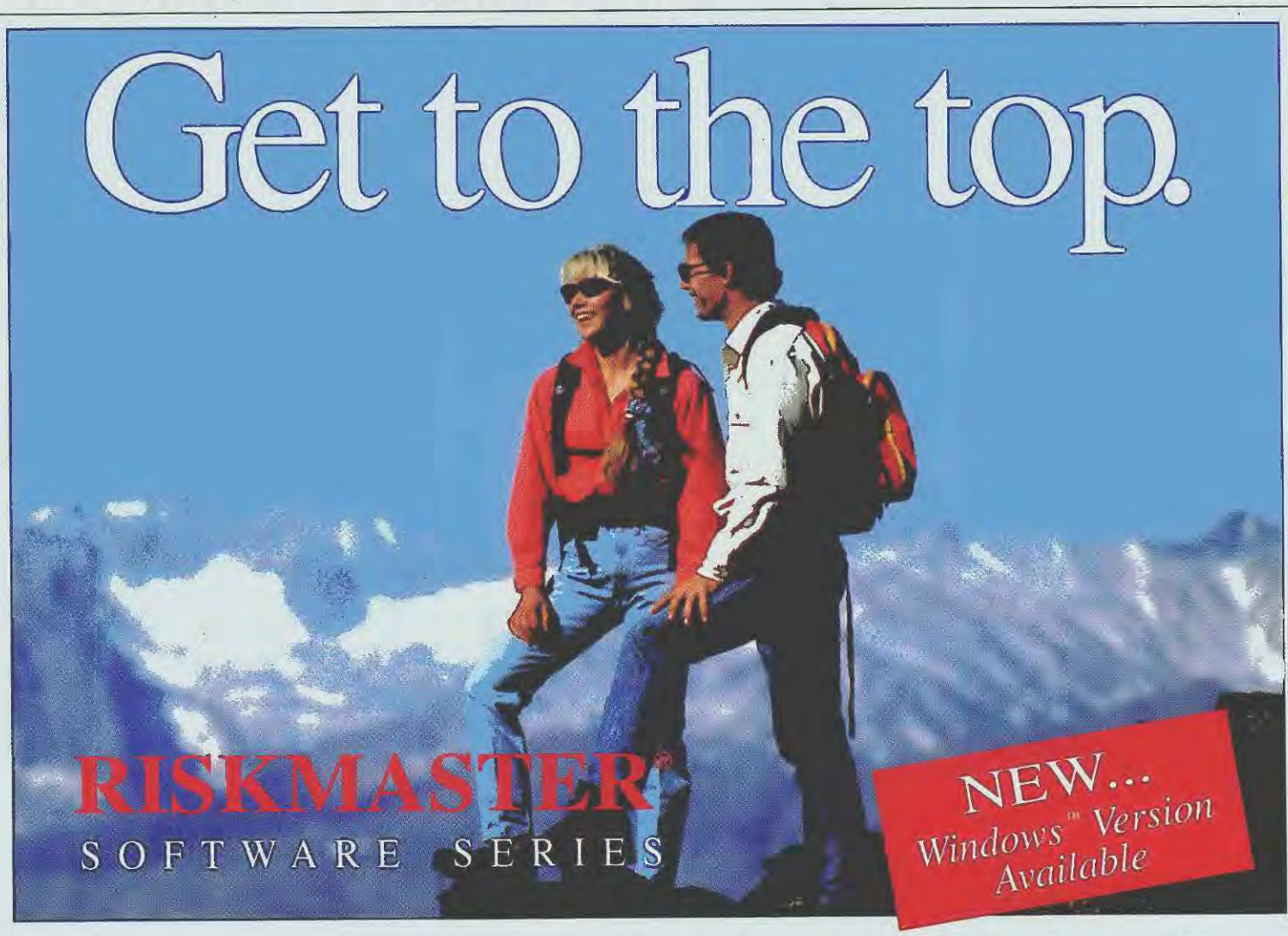
Founded: 1972.
Parent: Arthur J. Gallagher & Co. Inc.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, loss control (Illinois), association captive management services, including specialized accounting services.
Staff: Seven; four professionals.
Clients: Four active captives managed at year-end 1994; one inactive captive managed. Captive premium volume, $10 million. Minimum size client, 2.5 million.
Current business: Five active captives, one inactive captive.
Compensation: Annual fee, $25,000; commission.
Officers: John P. Gallagher, chairman; David J. McManus, president; Peter Mullen, Ronald Hubbard, Wayne Brown, vps.

Gecalux S.A.

5 Place de la Gare, Luxembourg City 1616, Luxembourg; 352-402190; fax: 352-492706

Founded: 1984.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking, tax advice, legal advice.
Occasional services: Manual claims processing, claims reserves analysis, in-

Continued on next page



- Workers' Compensation
- General Claims
- Vehicle Accidents
- Policy Management
- Medical Fee Scheduling
- Incident Reporting
- TPA System
- Certificate Generation

When your risk and claim management tasks seem insurmountable, the RISKMASTER® software series can help you reach your goals. RISKMASTER can improve your productivity today, with new risk management features for client server processing and work flow routing. This powerful software from DORN Technology Group features window-oriented user interfaces with scanning and reporting functions to control your paper file claims and policy environment.

Provide quality data on loss control and loss financing using our proven reporting tools, EXCEL interface or WordPerfect interface. Address your actuarial review or excess carrier needs using our actuarial and loss triangle reporting series.

Integrated Workers' Compensation, General Claims, E & O, Property, Vehicle Accidents and Litigation programs are able to run as separate modules on PCs, UNIX/AIX or Client Server systems. Create flexible user-defined data fields and adhoc reports using "on-the-fly" features for percentages, averages and board room quality presentation exhibits.

What other vendor has achieved 1993 client satisfaction ratings where 94% of the respondents evaluated client service as good or excellent?

Get the facts on our new programs by calling for our 24-page brochure or attend a free seminar in your area. You've heard about us for 12 years. And we intend to keep it that way.

DORN Technology Group, Inc.
Software, Services & Consulting

See us at RIMS booth #367

38705 Seven Mile Road • Suite 450 • Livonia, Michigan 48152-1005 • (313) 462-5800 • FAX: (313) 462-5807

Continued from previous page
vestment management, managing underwriting pools/facilities, loss control (Europe).

Staff: 42; 15 professionals.

Clients: 57 active captives managed at year-end 1994.

Compensation: Annual fee.

Officers: Roland Frere, Frederick Gabriel, Thierry Dron, Jonathan Miles.

Global Risk Financing Services Ltd.

1300-666 Burrard St., Vancouver, B.C. V6C 3J8, Canada; 604-685-8323; fax: 604-688-2419

Founded: 1990.

Frequent services: Government reporting, accounting.

Occasional services: Feasibility studies, captive formation, investment management.

Staff: Three; two professionals.

Officers: Terry Holdom, president/owner; Susan Gallivan, vp.

Green Mountain Captive Management Co.

P.O. Box 628, Barre, Vt. 05641; 802-479-1046; fax: 802-479-2761

Founded: 1983.

Staff: Four; three professionals.

Officers: Richard W. Huskes Jr., James L. Mulligan.

Griffiths & Wanklyn Management Ltd.

P.O. Box 658, Craig Appin House, 8 Wesley St., Hamilton, Bermuda; 809-295-1639; fax: 809-295-1638

Founded: 1985.

Offers rent-a-captive.

Frequent services: Government reporting, accounting, claims processing, reinsurance brokered for captives.

Occasional services: Feasibility studies, captive formation, loss forecasting, underwriting and ratemaking, investment management, tax advice.

Clients: Three active captives and one inactive captive managed at year-end 1994.

Current business: Three active captives, one inactive captive.

Compensation: Annual fee, $12,000; commission.

Officers: Julian Griffiths, William Wanklyn, Lisa Robinson.

H

Hawaii Captive Insurance Management Inc./USA Risk Group

1164 Bishop St., Suite 1415, Honolulu, HI 96813; 808-523-6161; fax: 808-526-4028

Founded: 1988.

Frequent services: Feasibility studies; captive formation; government reporting; accounting; reinsurance brokered for captives; underwriting and ratemaking; legal advice; 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.

Clients: Three active captives managed at year-end 1994. Captive premium volume, $1.6 million.

Compensation: Annual fee, commission.

Officers: Sherman S. Hee, president/secretary; Jon Harkavy, vp; Michael T. Rogers, treasurer.

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.

Occasional services: Reinsurance brokered to captives, underwriting and ratemaking, tax advice, association captive management services, including onshore services.

Staff: Three; one professional.

Clients: Seven active captives managed at year-end 1994; Captive premium volume, $75 million.

Current business: Seven active captives.

Compensation: Annual fee, $10,000; commission; hourly.

1994 gross revenues: 100% from fees charged for captive management.

Officers: David Ezekiel, president/managing director; William Tomlin, Terence Power, vps.

Independent Management Group Ltd.

3rd Floor, Williams House, 20 Reid St., P.O. Box HM 2070, Hamilton, HM HX, Bermuda; 809-295-1646; fax: 809-292-8062

Founded: 1984.

Offers rent-a-captive.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, reinsurance brokered for captives, managing underwriting pools/facilities.

Occasional services: Claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered to captives, underwriting and ratemaking, investment management, tax advice, legal advice.

Staff: Seven; one professional.

Clients: 18 active captives and two inactive captives managed at year-end 1994. Captive premium volume, $135 million. Capital and surplus managed, $182 million. No minimum size client.

Current business: 20 active captives, two inactive captives.

Compensation: Annual fee; commission; hourly: professional., $130.

1994 gross revenues: 83% from fees charged for captive management, 17% from commissions charged for brokering insurance/reinsurance.

Officers: Peter J.N. Strong, president; Geoffrey J. Tytheridge, vp.

Insurance Brokerage & Management Co. Ltd.

Jardine House, 33/35 Reid S:., P.O. Box HM 604, Hamilton, HM CX, Bermuda; 809-295-2470; fax: 809-292-8243

Founded: 1974.

Frequent services: Government reporting, accounting, reinsurance brokered for captives, investment management.

Occasional services: Feasibility studies, captive formation, claims processing, claims reserves analysis, loss forecasting, reinsurance brokered to captives, underwriting and ratemaking, legal advice.

Staff: Four; one professional.

Clients: Five active captives and two inactive captives managed at year-end 1994. Captive premium volume, $10 million. Capital and surplus managed, $14 million. No minimum size client.

Current business: Five active captives, two inactive captives.

Compensation: Annual fee, $15,000; commission.

1994 gross revenues: 84% from fees charged for captive management, 16% from commissions charged for brokering insurance/reinsurance.

Officers: Eric J.M. Arcay, managing director; John E. Thorne, controller.

International Advisory Services Ltd.

Chevron House, 11 Church St., Hamilton, HM HX, Bermuda; 809-295-3688; fax: 809-295-2584

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; reinsurance placed for captives via H&H Re-Insurance Brokers Ltd. (subsidiary).

Occasional services: Actuarial studies, reinsurance brokered to captives, underwriting and ratemaking, tax advice, loss control, onshore services for association captives.

Staff: 47; 19 professionals.

Clients: 75 active captives and 2 inactive captives managed at year-end 1994. Captive premium volume, $650 million.

Current business: 77 active captives, 2 inactive captives.

Subsidiaries: H&H Management Services Ltd., Bermuda.

Compensation: Annual fee, $12,500; commission; hourly.

1994 gross revenues: 95% from fees charged for captive management; 5% from other services, including feasibility studies, consulting, 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, claims processing, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, investment management.

Staff: Four; two professionals.

Clients: 17 active captives and three inactive captives managed at year-end 1994. No minimum size client.

Current business: 19 active captives, three inactive captives.

Compensation: Annual fee, $5,000; hourly: professional, $55; clerical, $25.

Officers: William M. Tomlin, managing director; Christine M. O'Connor, manager.

Contact: Christine M. O'Connor, manager.

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 J. Marcoux, secretary; Rodney S. Shaw, treasurer.

Subcontracts for captive management services with International Insurance Management Ltd.-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 (North America, Europe), risk management consulting.

Staff: One.

Clients: Three active captives managed at year-end 1994. Captive premium volume, $9 million. Capital and surplus managed, $8 million. No minimum size client.

Current business: Three active captives.

Compensation: Annual fee, hourly.

Officers: Graham Brice, president; Richard E. Ince, general manager/director; Peter Joy, director.

International Risk Management (Bermuda) Ltd.

Belvedere Building, P.O. Box HM 660, Hamilton HM CX, Bermuda; 809-295-0713; fax: 809-295-5101

Founded: 1963.

Parent: International Risk Management Group Ltd.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, reinsurance brokered for captives, underwriting and ratemaking, managing underwriting pools/facilities, loss control (North America, Europe), association captive management services, including specialized accounting services.

Occasional services: Claims reserves analysis, loss forecasting.

Staff: 51; 35 professionals.

Clients: 80 active captives managed at year-end 1994. Captive premium volume, $610 million. Capital and surplus managed, $832 million. No minimum size client.

Current business: 80 active captives.

Compensation: Annual fee, $10,000; hourly.

Officers: R.W. Virtue, president; A.W. Summers, senior vp; R.P. Klepper, J.G. Walsh, M. Searson, vps.

International Risk Management (Canada) Ltd. (Ontario and British Columbia)

133 Richmond St. W., 6th Floor, Ontario M5H 2L3, Canada; 416-369-9797; fax: 416-363-7454

Founded: 1979.

Parent: International Risk Management Group Ltd.

Offers rent-a-captive.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, loss forecasting, underwriting and ratemaking, loss control (Ontario), risk management consulting.

Occasional services: Manual claims processing, reinsurance brokered for captives, reinsurance brokered to captives.

Staff: Five; four professionals.

Clients: Two active captives managed at year-end 1994.

Current business: Two active captives.

Compensation: Annual fee, commission, hourly.

Officers: G.S. Takach, secretary; K. Exon, vp.

International Risk Management (Cayman) Ltd.

British American Tower, P.O. Box 69, Grand Cayman; 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 for captives; reinsurance brokered to captives; underwriting and ratemaking; managing underwriting pools/facilities; loss control (North America, Europe); association captive management services, including specialized accounting services and onshore services; risk management consulting; primary and excess brokerage; reinsurance intermediary services.

Staff: 21; eight professionals.

Clients: 30 active captives managed at year-end 1994. Captive premium volume, $330 million. Capital and surplus managed, $280 million. No minimum size client.

Current business: 31 active captives.

Compensation: Annual fee, $5,000; hourly: professional, $150; clerical, $50.

Officers: Peter A. Joy, general manager; Roger Phelps, Stephen Cross, senior vps; Peter Jones, Mike Greenberg, vps.

International Risk Management (Dublin) Ltd.

Harcourt Centre, Harcourt Road, Dublin 2, Ireland; 353-1-790-2600; fax: 353-1-790-2606

Founded: 1990.

Parent: International Risk Management Group Ltd.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, loss forecasting, underwriting and ratemaking, loss control (North America, Europe), risk management consulting.

Occasional services: Manual claims processing, reinsurance brokered for captives, reinsurance brokered to captives.

Staff: Three, all professionals.

Clients: Four active captives managed at year-end 1994. Captive premium volume, $19.8 million. Capital and surplus managed, $15.3 million. No minimum size client.

Current business: Five active captives.

Compensation: Annual fee, hourly.

Officers: J.R. Parkinson, chairman; J.R. English, director/general manager.

International Risk Management (Guernsey) Ltd.

2 Grange Place, St. Peter Port, Guernsey; 44-1481-727220; fax: 44-1481-712443

Founded: 1988.

Parent: International Risk Management Group Ltd.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking.

Occasional services: Captive and insurance audits, consulting.

Staff: 22; eight professionals.

Clients: 20 active captives and two in-

Continued on next page

Conning & Company

is a leading provider of

Asset Management Services

to insurance companies

Our tailored product includes:

- Client-Specific Asset Management
- Investment Consulting & Asset Allocation
- Investment Accounting, Operations & Reporting (Schedule D)

We have $18 billion under management or advisement.

Our clients range from $15 million to over $5 billion in assets.

For more information about Conning's Asset Management Services, write or call Bill Shenton at Conning & Company, 185 Asylum St., Hartford, CT 06103. Phone: 203-520-1296. Fax: 203-520-1202.

Conning & Company

Insurance Asset Management

Continued from previous page

active captives managed at year-end 1994. Captive premium volume, $200 million. Capital and surplus managed, $300 million.

Current business: 28 active captives, two inactive captives.

Officers: John Parkinson, managing director; Nick Wild, director/general manager; John Stuart, financial director.

International Risk Management (Isle of Man) Ltd.

Suite 3, 4th Floor, Peveril Buildings, Douglas, Isle of Man; 44-1624-629198; fax: 44-1624-629199

Founded: 1985.
Parent: International Risk Management Group Ltd.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking, loss control (North America, Europe), risk management consulting.
Occasional services: Manual claims processing, loss forecasting.
Staff: Six; four professionals.
Clients: Seven active captives managed at year-end 1994. No minimum size client.
Current business: Seven active captives.
Compensation: Annual fee, hourly.
Officers: J.R. Parkinson, managing director; G. Brice, J. Stuart, M.A. Skehan, directors.

International Risk Management (Singapore) Pte. Ltd.

331 N. Bridge Road, 11-01 Odeon Tower, Singapore 0718; 65-339-8373; fax: 65-339-8089

Founded: 1988.
Parent: International Risk Management Group Ltd.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, loss control (North America, Europe), 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 1994. No minimum size client.
Current business: Four active captives.
Compensation: Annual fee, hourly.
Officers: Mark Myerson, director/secretary; Gareth G. Bradburn, director.

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 Group.
Offers rent-a-captive.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking.
Occasional services: Actuarial studies, loss forecasting, tax advice, legal advice.
Staff: 12; nine professionals.
Clients: 15 active captives managed at year-end 1994. Minimum size client, $500,000.
Current business: 15 active captives.
Compensation: Annual fee, $45,000; hourly: professional, $200 maximum; clerical, $75.
Officers: Christine Crowther, managing director; Peter M. Vick, manager; Keith Allen, group accountant; Brian J. Tonge, company accountant; Laura M. Watterson, assistant manager.
Contact: Peter M. Vick.

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.
Occasional services: Captive formation, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking, investment management, managing underwriting pools/facilities, onshore services for association captives.
Staff: Two; one professional.
Clients: Two active captives managed at year-end 1994.
Current business: Two active captives.
Compensation: Annual fee, commission, hourly.
Officers: M.D. Ogdon, president; P. Kelly, general manager/secretary; H.W.R. Harrison, W. Uhl, directors.
Contact: Peter Kelly.

Jardine Pinehurst Management Co. Ltd.

Jardine House, 33-35 Reid St., P.O. Box HM 1752, Hamilton, Bermuda; 809-295-4864; fax: 809-292-7375

Founded: 1967.
Parent: Jardine Matheson Holdings Ltd.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, investment management, tax advice, legal advice, loss control (Los Angeles), association captive management services, including specialized accounting services and onshore services.
Occasional services: Underwriting and ratemaking.
Staff: 13; four professionals.
Clients: 36 total captives managed at year-end 1994.
Officers: Carl Daly, president; Donald Baker, senior vp; Gary Holland, vp; Dueane Dill, assistant vp/financial controller; Karen Ebbin, assistant vp.

Jardine Risk Services (I.O.M.) Ltd.

IOMA House, Prospect Hill, Douglas, Isle of Man IM1 1ET; 44-1624-624141; fax: 44-1624-622500

Founded: 1988.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking.
Occasional services: Actuarial studies, loss forecasting, tax advice, legal advice.
Staff: 12; nine professionals.
Clients: Five active captives managed at year-end 1994.
Current business: Five active captives.
Compensation: Annual fee, $45,000; hourly: professional, $200 maximum; clerical, $75.
Officers: Christine Crowther, managing director; Peter M. Vick, manager; Keith Allen, group accountant; Brian J. Tonge, company accountant; Laura M. Watterson, assistant manager.
Contact: Peter M. Vick.

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, claims processing, investment management, managing underwriting pools/facilities, association captive management services, including specialized accounting services.
Occasional services: 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 1994. Captive premium volume, $92 million. Capital and surplus managed, $54 million. No minimum size client.
Current business: 24 active captives, four inactive captives.
Compensation: Annual fee, hourly.
Officers: Brian Hall, president; Wayne Cowan, senior vp; Kevin Walton, vp; Glenda Gordon, Nicholas Crichlow, assistant vps.
Contact: Kevin Walton.

Johnson & Higgins (Bermuda) Ltd.

Victoria Hall, Victoria St., Hamilton HM HX, Bermuda; 809-292-4402; fax: 809-292-1563

Founded: 1969.

Continued on next page

"When can you start?"

In a recent survey by an independent research firm, 66% of the human resources officers of insurance agencies, brokerage firms, and companies surveyed said holding a designation from the American Institute for CPCU or the Insurance Institute of America (IIA) is somewhat or very important in decisions to hire. Today's insurance organizations need professionals who are knowledgeable, highly skilled, and motivated. Education is an important ingredient in a successful career. Earning the Chartered Property Casualty Underwriter (CPCU®) or an IIA designation can open doors for you and give you the knowledge and skills to advance your career.

AICPCU IIA

American Institute for CPCU
Insurance Institute of America

720 Providence Road • P.O. Box 3016 • Malvern, PA 19355-0716
(800) 644-2101 • Fax: (610) 640-9576

Continued from previous page

Parent: Johnson & Higgins.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, 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: 157; 42 professionals.

Clients: 161 active captives and 29 inactive captives managed at year-end 1994. Captive premium volume, $1.8 billion. Capital and surplus managed, $2.1 billion. No minimum size client.

Current business: 165 active captives, 28 inactive captives.

Officers: Brian R. Hall, chairman; Wayne A. Morgan, senior vp/branch manager; Roger C. Gillett, Shaun A. Reape, senior vps; Jill E. Husbands, vp/manager-insurance & claims.

Johnson & Higgins (Cayman Islands) Ltd.

2nd Floor, Swiss Bank Building, Fort St., P.O. Box 1051, Grand Cayman, 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.

Occasional services: Feasibility studies, claims processing, actuarial studies, loss forecasting, reinsurance brokered to captives.

Staff: 28; 12 professionals.

Clients: 80 active captives managed at year-end 1994; four inactive captives managed. Captive premium volume, $481 million. Capital and surplus managed, $655 million. No minimum size client.

Current business: 83 active captives, four inactive captives.

Compensation: Annual fee, $24,000; commission; hourly: professional, $140 to $180; clerical, $80 to $105.

Officers: Wayne A.M. Cowan, senior vp; Seamus B. Tivnan, Peter O'Leary, assistant vp/senior account manager; Graham J. Manchester, assistant vp; Paul Macey, insurance manager.

Johnson & Higgins Risk Management Services (S) Pte. Ltd.

143 Cecil St., Suite 14-01, GB Building, S2260, Singapore; 65-225-3655; fax: 65-224-6721

Founded: 1988.

Parent: Johnson & Higgins Pte. Ltd.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, underwriting and ratemaking.

Occasional services: Reinsurance brokered for captives.

Staff: Five, all professionals.

Clients: Three active captives managed at year-end 1994. Captive premium volume, $32 million. Capital and surplus managed, $9 million. No minimum size client.

Current business: Three active captives.

Compensation: Annual fee.

Officers: Roy Douglas Hubber.

Johnson & Higgins Services Inc.

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, coordination of annual meetings.

Occasional services: Claims processing, 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 and onshore services.

Staff: Four, all professionals.

Clients: Eight active captives and one inactive captive managed at year-end 1994. Captive premium volume, $24.1 million. Capital and surplus managed, $26.1 million. No minimum size client.

Current business: Nine active captives, three inactive captives.

Compensation: Annual fee; hourly: professional, $75 to $150; clerical, $15 to $25.

Officers: Richard E. Meyer, president; Brian R. Hall, director; Alan Page, Arthur Koritzinsky, vps.

Johnson & Higgins Services Inc. (Colorado)

999 18th St., Suite 1000, Denver, Colo. 80202; 303-291-9605; fax: 303-291-9650

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: Four active captives managed at year-end 1994. Captive premium volume, $6.6 million. Capital and surplus managed, $56.1 million. No minimum size client.

Current business: Three active captives.

Compensation: Annual fee.

1994 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. (Vermont)

7 Burlington Square, 6th 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, 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: 25; 12 professionals.

Clients: 52 active captives and one inactive captive managed at year-end 1994. Captive premium volume, $402.8 million. Capital and surplus managed, $856.6 million. No minimum size client.

Current business: 53 active captives, one inactive captive.

Compensation: Annual fee.

1994 gross revenues: 100% from fees charged for captive management.

Officers: Brian R. Hall, director; Arthur Koritzinsky, senior vp; Julie Boucher, vp; Karen Liebel, assistant vp.

Johnson & Higgins (USVI) Ltd.

P.O. Box 12259, St. Thomas, U.S.V.I. 00801; 809-776-0411; fax: 809-776-0532

Founded: 1984.

Parent: Wilcox, Peck & Hughes Inc.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, 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 1994. No minimum size client.

Current business: Two active captives, two inactive captives.

Compensation: Annual fee, hourly.

Contact: Kevin Walton, manager, 809-436-9929.

L

Lowndes Lambert Insurance Management (Guernsey) Ltd.

P.O. Box 308, 11 Westerbrook Centre, South Side, St. Sampson's, Guernsey, C.I.; 44-1481-49984; fax: 44-1481-48304

Founded: 1979.

Parent: Lowndes Lambert Group Holdings 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, investment management, tax advice, legal advice.

Occasional services: Manual claims processing.

Staff: 10; six professionals.

Clients: 10 active captives managed at year-end 1994. Captive premium volume, $170 million. Capital and surplus managed, $70 million.

Current business: 10 active captives.

Compensation: Annual fee, $20,000.

1994 gross revenues: 100% from fees charged for captive management.

Officers: L.J. Banks, chairman; R.A. Heaume, D.B. Margrett, A. Lindsay, directors.

M

M&M Insurance Management Services Inc.

1099 Alakea St., Honolulu, Hawaii 96819; 808-531-4211; fax: 808-521-5892

Parent: Marsh & McLennan.

Staff: Four professionals.

Clients: 11 total captives managed at year-end 1994. Captive premium volume, $110 million.

Officers: Peter J. Lowe, senior vp.

Marsh & McLennan Insurance Management Services Inc.-Vermont

P.O. Box 5129, Burlington, Vt. 05402; 802-658-0776; fax: 802-658-1479

Founded: 1980.

Parent: Marsh & McLennan Inc..

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, 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: Reinsurance brokered to captives, onshore services for association captives.

Staff: Nine; seven professionals.

Clients: 30 total captives managed at year-end 1994. Captive premium volume, $735 million. Capital and surplus managed, $2 billion. No minimum size client.

Current business: 32 active captives.

Compensation: Annual fee, hourly.

Officers: Andrew Carr, managing director; Raymond Oberg, senior vp; Jack Raymond, vp; Peter Snell, Susan Brault, assistant vps.

Marsh & McLennan Management Services (Bermuda) Ltd.

Craig Appin House, Wesley St., Hamilton, Bermuda; 809-295-3278; fax: 809-292-6313

Founded: 1968.

Parent: Marsh & McLennan.

Frequent services: Feasibility studies via affiliates, captive formation, government reporting, accounting, claims processing, claims reserves analysis, association captive management services, including specialized accounting services and onshore services.

Staff: 45; 38 professionals.

Clients: 88 active captives managed at year-end 1994. Captive premium volume, $550 million. Capital and surplus managed, $687 million.

Current business: 92 active captives.

Officers: Andrew Carr, president; Rory Gorman, senior vp; David Lindo, vp.

Marsh & McLennan Management Services (Cayman) Ltd.

P.O. Box 2196, George Town, Grand Cayman, Cayman Islands, B.W.I.; 809-949-7466; fax: 809-949-8096

Founded: 1978.

Frequent services: Captive formation, government reporting, accounting, managing underwriting pools/facilities.

Occasional services: Feasibility studies, claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, investment management, association captive management services, including specialized accounting services.

Staff: Four; three professionals.

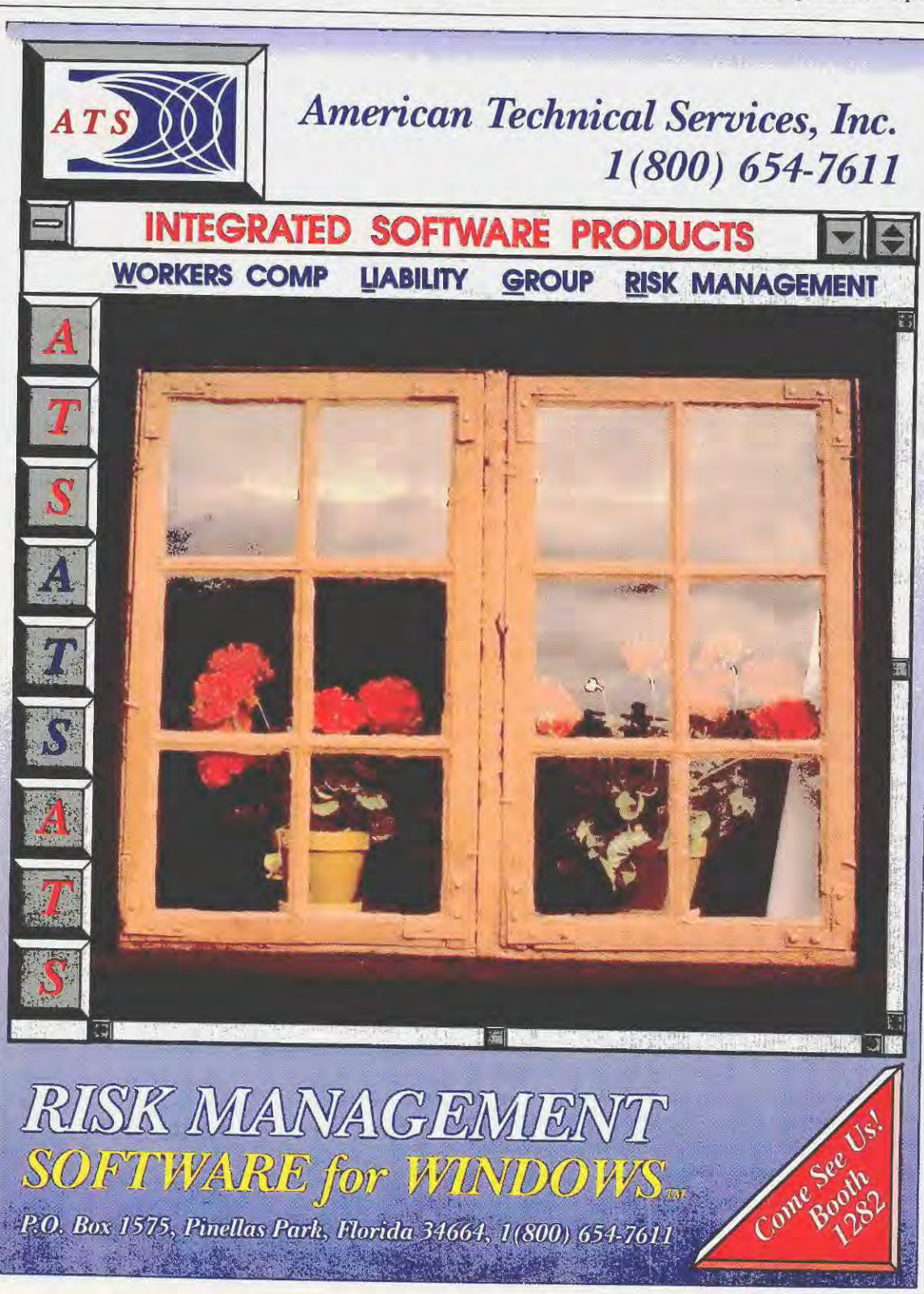
Clients: 28 active captives and eight inactive captives managed at year-end 1994. Captive premium volume, $75.4 million. Capital and surplus managed, $59.1 million. No minimum size client.

Current business: 28 active captives, eight inactive captives.

Compensation: Annual fee, hourly.

1994 gross revenues: 100% from fees charged for captive management.

Continued on next page



Continued from previous page

Officers: Vincent Ternier, general manager/director.

Marsh & McLennan Management Services (Guernsey) Ltd.

P.O. Box 130, St. Peter Port, Guernsey; 44-1481-713833; fax: 44-1481-713766

Founded: 1987.
Parent: Marsh & McLennan Cos. Inc.
Staff: Three; two professionals.
Clients: Three active captives managed at year-end 1994. Captive premium volume, $30 million. Capital and surplus managed, $27 million.
Current business: Four active captives.
Officers: John Copeland, general manager; Sue Corbet, account executive.
Contact: John Copeland.

Meadowbrook Insurance Group

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, 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 issuance (fronting).
Staff: 324; 135 professionals.
Clients: 31 active captives and one inactive captive managed at year-end 1994. Minimum size client, $500,000.
Current business: 31 active captives, one inactive captive.
Compensation: Annual fee, $30,000; commission; hourly: professional, $70; clerical, $35.
1994 gross revenues: $2 million, 58% from fees charged for captive management, 42% from commissions charged for brokering insurance/reinsurance.
Officers: Merton J. Segal, chairman; Robert A. Engle, vice chairman; Warren D. Gardner, president; Joseph C. Henry, vp/CFO; Robert S. Cubbin, senior vp/general counsel.

Meadowbrook Insurance Group of Colorado

12596 W. Bayaud Ave., Suite 290, Lakewood, Colo. 80228; 303-763-9196; fax: 303-763-9394

Founded: 1992.
Parent: Meadowbrook Insurance Group.
Offers rent-a-captive.
Frequent services: Feasibility studies, accounting, underwriting and ratemaking, loss control (Southfield, Mich.).
Occasional services: Captive formation, government reporting, actuarial studies, loss forecasting, reinsurance brokered for captives, association captive management services including onshore services.
Staff: Three, all professionals.
Clients: One active captive managed at year-end 1994. No minimum size client.
Current business: Three active captives.
Compensation: Annual fee, $30,000.
Officers: Paul W. Burkett, president/CEO; Carolyn R. Burkett, vp.

Meadowbrook Risk Management Ltd.

P.O. Box 724, ICB Building, Roebuck St., Bridgetown, Barbados; 809-426-4684; fax: 809-426-4878

Founded: 1992.
Parent: Meadowbrook Insurance Group.
Frequent services: Feasibility studies, government reporting, accounting, investment management.
Occasional services: Captive formation, claims reserves analysis, underwriting and ratemaking.
Staff: Three; one professional.
Clients: Eight active captives managed at year-end 1994. Captive premium volume, $16 million. Capital and surplus managed, $9 million. No minimum size client.
Current business: Nine active captives.
Compensation: Annual fee, $15,000.
1994 gross revenues: $200,000, 100% from fees charged for captive management.
Officers: Merton Segal, president; Omar Cordial, vp/manager; Cheryl Reno, vp; Lee Kelly, treasurer; David King, secretary.
Contact: Omar Cordial, 305-279-0553.

Meadowbrook Risk Management Ltd.

Belvedere Building, P.O. Box HM 2340, Hamilton HM JX, Bermuda; 809-292-7569; fax: 809-292-3299

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 (Southfield, Mich.), 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 1994. Captive premium volume, $21 million.
Current business: 14 active captives, three inactive captives.
Compensation: Annual fee, $10,000; hourly.
1994 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, George Town, Grand Cayman, B.W.I.; 809-949-7755; fax: 809-949-7634

Founded: 1984.
Parent: HSBC Holdings P.L.C.
Services: Captive formation, government reporting, accounting, claims reserves analysis, investment management, association captive management services including specialized accounting services, banking.
Staff: 46; 13 professionals.
Clients: 58 active captives and five inactive captives managed at year-end 1994. Captive premium volume, $201 million. No minimum size client.
Current business: 65 active captives, five inactive captives.
Compensation: Annual fee, $6,000; hourly: professional, $120 to $250; clerical, $85.
Officers: David A. Whitefield, managing director; Anthony B. Stelling, director; Thomas Clark, assistant director; Linda Haddleton, manager-insurance services.
Contact: Anthony Stelling or Thomas Clark.

MIMS International (Barbados) Ltd.

Chelston Park, Building No. 2, Collymore Rock, St. Michael, Barbados; 809-426-6467; fax: 809-429-8517

Founded: 1986.
Frequent services: Captive formation, government reporting, accounting, claims processing.
Occasional services: Feasibility studies, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking.
Staff: Four; three professionals.
Clients: 22 active captives and one inactive captive managed at year-end 1994. Captive premium volume, $268 million. Capital and surplus managed, $357 million. No minimum size client.
Current business: 22 active captives, one inactive captive.
Officers: Martin R. Hole, president.

Minet Risk Services (Bermuda) Ltd.

Cumberland House, 5th Floor, 1 Victoria St., Hamilton HM BX, Bermuda; 809-295-0073; fax: 809-295-5003

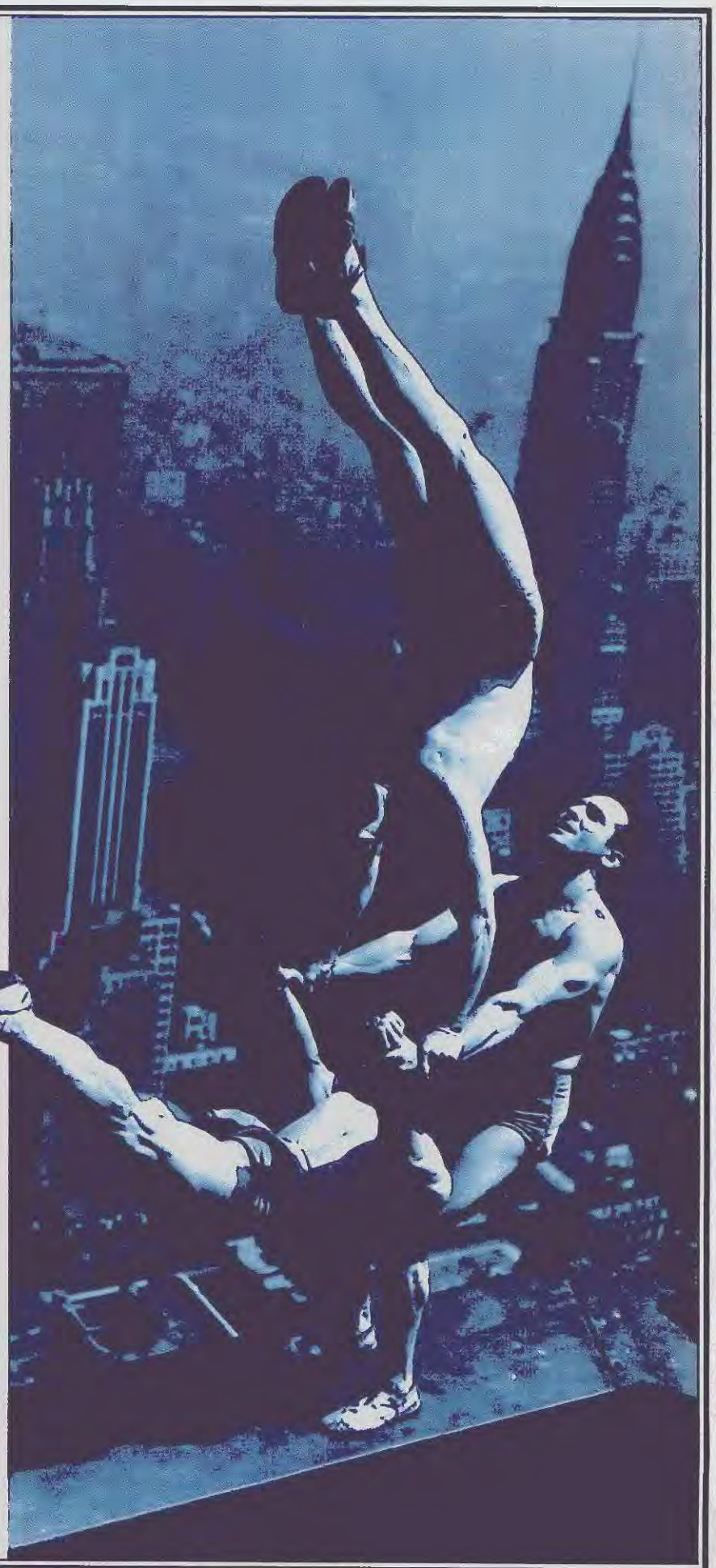
Founded: 1929.
Parent: Minet Group.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, actuarial studies, loss forecasting.
Occasional services: Association captive management services.
Staff: 18; nine professionals.

Continued on next page

DIFFICULT TASKS REQUIRE COMBINED STRENGTH, SKILL & UNWAVERING COMMITMENT

Today's reinsurance environment requires strength, skill and unwavering commitment to achieve the necessary balance for placement of both facultative and treaty reinsurance.

Our extraordinary experience in the complex reinsurance field translates into a hands-on, team-approach to any reinsurance solution... even under the most challenging circumstances.



Sedgwick Re

NORTH AMERICAN OFFICES

Atlanta
Boston
Chicago
Dallas
Hartford
Los Angeles
Minneapolis
New York
Philadelphia
San Francisco
Seattle
Toronto
Vancouver

Continued from previous page

Clients: 16 active captives and eight inactive captives managed at year-end 1994. Captive premium volume, $325 million. No minimum size client.

Current business: 24 active captives, eight inactive captives.

Compensation: Annual fee.

1994 gross revenues: $1.6 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.

Mountain States Insurance Managers

4873 W. 98th Ave., Westminster, Colo. 80030; 303-469-8450; fax: 303-469-8450

Founded: 1993.
Offers rent-a-captive.
Frequent services: Government reporting, accounting, managing underwriting pools/facilities, association captive management services, including specialized accounting services and onshore services.
Staff: One.
Clients: One inactive captive managed. Capital and surplus managed, $11 million. No minimum size client.
Current business: One inactive captive.
Compensation: Annual fee.
1994 gross revenues: $50,000, 100% from fees charged for captive management.
Officers: Nancy Velasquez.

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 International, MRM Group.
Frequent services: Feasibility studies, captive formation, accounting, claims reserves analysis, managing underwriting pools/facilities.
Occasional services: Claims processing, actuarial studies, reinsurance brokered for captives, underwriting and ratemaking.
Staff: Three; two professionals.
Compensation: Annual fee, commission.
1994 gross revenues: 80% from fees charged for captive management, 20% from other services.
Officers: William J. Cooney, chairman; Michael C. Brady, managing director; Hugh D. Governey, Robert A. Mulderig, Richard G. Turner, James C. Kelly, directors; William M. Shannon, secretary.

Mutual Risk Management Ltd.

P.O. Box HM 2064, 44 Church St., Hamilton HM HX, Bermuda; 809-295-5688; fax: 809-292-1867

Founded: 1977.
Offers rent-a-captive.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, investment management, managing underwriting pools/facilities, association captive management services, including specialized accounting services.
Occasional services: Loss forecasting, reinsurance brokered for captives, underwriting and ratemaking.
Staff: 43; 24 professionals.
Clients: 43 active captives managed at year-end 1994. Captive premium volume, $84 million. Capital and surplus managed, $89 million. No minimum size client.
Current business: 45 active captives.
Compensation: Annual fee.
1994 gross revenues: $13.7 million, 5.6% from fees charged for captive management; 7.8% from commissions charged for brokering insurance/reinsurance; 86.6% from other services, including The IPC Program (rent-a-captive).
Officers: Robert A. Mulderig, chairman/CEO; John Kessock Jr., president; Richard G. Turner, Glenn R. Partridge, senior vps; James C. Kelly, vp/CFO.

Mutual Risk Management (Barbados) Ltd.

2nd Floor, Trident House, Broad St., Bridgetown, Barbados; 809-436-5887

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, claims processing.
Staff: One.
Clients: Five active captives managed at year-end 1994. Captive premium volume, $60.4 million. Capital and surplus managed, $41.8 million. No minimum size client.
Current business: Four active captives.
Compensation: Annual fee.
1994 gross revenues: $138,000, 100% from fees charged for captive management.
Officers: Robert Mulderig, president.

Mutual Risk Management (Cayman) Ltd.

Genesis Building, 2nd Floor, P.O. Box 1363, Grand Cayman, 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, investment management, association captive management services, including specialized accounting services.
Occasional services: Claims processing, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, tax advice, managing underwriting pools/facilities, loss control.
Staff: Four; three professionals.
Clients: 34 active captives and five inactive captives managed at year-end 1994. Captive premium volume, $70 million.
Current business: 42 active captives, five inactive captives.
Compensation: Annual fee.
Officers: Robert Mulderig, John Kessock, Spottswood P. Dudley, Peter MacKay, directors; John Pitcairn, vp.
Contact: Peter MacKay or John Pitcairn.

Mutual Risk Management (Vermont) Ltd.

21 E. State St., P.O. Box 1360, Montpelier, Vt. 05601-1360; 802-229-1110; fax: 802-223-2010

Founded: 1994.
Parent: Mutual Risk Management Ltd.
Offers rent-a-captive.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, reinsurance brokered for captives, investment management.
Occasional services: Claims processing, claims reserves analysis, loss forecasting, underwriting and ratemaking, tax advice, managing underwriting pools/facilities.
Staff: One.
Clients: Two active captives managed at year-end 1994. Captive premium volume, $18.7 million. Capital and surplus managed, $6.5 million.
Current business: Two active captives.
Compensation: Annual fee.
1994 gross revenues: 100% from fees charged for captive management.
Officers: Robert Mulderig, John Kessock, Spottswood Dudley, directors; Peter MacKay, Rocco Digilio, vps.

N

Nordic Mutual CMO Zurich A.G.

Postfach 4558, Schipfe 2, Zurich 8022, Switzerland; 41-1-212-44-55; fax: 41-1-212-44-65

Founded: 1991.
Parent: Lansforsakringsbolagens AB.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking, risk management.
Occasional services: Actuarial studies, loss forecasting, investment management, tax advice, legal advice.
Staff: Four, all professionals.
Clients: Seven active captives managed at year-end 1994. Captive premium volume, $20.6 million.
Current business: Seven active captives.
Compensation: Annual fee; hourly: professional, $250; clerical, $100.
1994 gross revenues: $938,000, 40% from fees charged for captive management; 60% from other services, including reinsurance, risk management, feasibility studies, captive establishment.
Officers: Hans Erik Engelbrekts, managing director; Mikael Rudlinger, risk manager; Barbro Mask-Hilding, captive manager.

To locate organizations managing captives in a particular domicile, refer to the index on page 89.

O

Richard Oliver Risk Managers Pte. Ltd.

6 Shenton Way, DBS Building, Tower 2, Suite 25-10, Singapore 0106; 65-221-8561; fax: 65-221-8569

Founded: 1989.
Parent: Richard Oliver Pty. Ltd.
Frequent services: Government reporting, accounting, claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking, loss control (Asia).
Occasional services: Feasibility studies, captive formation, investment management.
Staff: 13; five professionals.
Clients: Four active captives managed at year-end 1994. Captive premium volume, $36 million. Capital and surplus managed, $42 million. Minimum size client, $1 million.
Current business: Four active captives.
Compensation: Annual fee, $25,000; hourly.
1994 gross revenues: $1.2 million, 55% from fees charged for captive management, 45% from other services, including risk management and liability scheme management.
Officers: A. Pellen, managing director; G. Lai, deputy general manager; D.L. Tobiason, manager-underwriting services.

Optimum Risk Research (International) Ltd.

P.O. Box 627, 26 Cornet St., St. Peter Port, Guernsey GY1 4PP; 44-1481-724212; fax: 44-1401-710696

Founded: 1989.
Officers: Jean-Francois Gelot, managing director; Francoise Gelot, executive director; Rosemary Le Messurier, manager.
Contact: Jean-Francois Gelot.
Subcontracts for captive management services with Channel Islands Insurance Consultants in Guernsey.

P

Powerscourt Management Ltd.

Windsor Place, 18 Queen St., Hamilton, Bermuda; 809-295-8495; fax: 809-292-1196

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.
Occasional services: Feasibility studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, investment management, association captive management services, including specialized accounting services.
Staff: 10; eight professionals.
Clients: 16 active captives and two inactive captives managed at year-end 1994.
Current business: 18 active captives, two inactive captives.
Compensation: Annual fee, hourly.
Officers: John R. Kane, chairman; Andrew McComb, president/CEO; Dominic F. Silvester, treasurer/company secretary; David Hackett, Nick Packer, David B. Sampson, vps; Steven R. Western, assistant vp.

Q

Quail Street Management Ltd.

3rd Floor, 34 Church St., P.O. Box HM 2635, Hamilton HM KX, Bermuda; 809-292-2582; fax: 809-292-1880

Founded: 1986.
Parent: Quail Street Casualty Ltd.
Offers rent-a-captive.
Frequent services: Accounting, claims reserves analysis, reinsurance brokered to captives, underwriting and ratemaking, investment management, tax advice, association captive management services, foreign sales corporation (FSC) management, runoffs.
Occasional services: Feasibility studies, captive formation, government reporting, claims processing, loss forecasting, reinsurance brokered for captives.
Staff: Two; one professional.
Clients: One active captive and one inactive captive managed at year-end 1994. Captive premium volume, $5 million. Capital and surplus managed, $6 million. No minimum size client.
Current business: One active captive, one inactive captive.
Compensation: Annual fee, $7,500; commission; hourly.
Officers: Mark G. Moffat, president/managing director.

R

R&I Management Services (Pty.) Ltd.

P.O. Box 61832, Marshalltown, Johannesburg, Gauteng 2107, South Africa; 27-11-832-3534; fax: 27-11-832-1050

Founded: 1993.
Parent: Integrated Risk Consultants.
Officers: A.C. Valsamakis; R.W. Voysey; Louis Ferreira.
Contact: R.W. Voysey.
Subcontracts for captive management services with Isle of Man Insurance and Robert Gordon Captive Managers, Jersey.

Continued on next page

Business Insurance®

• SERVICES •

EDITORIAL INDEX

All news reports and feature articles published from 1981 through 1993 are indexed in annual bound editions. Searching by subject, persons quoted and companies mentioned is as easy as turning the page. To order any volume, write or call:

BUSINESS INSURANCE
Editorial Index
220 E. 42nd Street
New York, NY 10017-5806
phone: 212/210-0137
fax: 212/210-0704

REPRINT SERVICES

BI's Reprint Department can provide reprints, in quantities of 100 or more, of any article appearing in the weekly newsmagazine. Legal permission, complying with U.S. copyright laws, also can be provided to companies wishing to reprint, on their own, material appearing in the newsmagazine. For information, write or call:

BUSINESS INSURANCE
Reprint Department
740 N. Rush Street
Chicago, IL 60611-2590
phone: 312/649-5319
fax: 312/280-3174

ARTICLE FAX SERVICE

For article photocopies sent by fax on the same day, call us with your credit card information, specify *BI* issue date and article headline. The charge is $7.50 per copy/per article. In-publication directories are not available by fax.

BUSINESS INSURANCE
Reprint Department
740 N. Rush Street
Chicago, IL 60611-2590
phone: 312/649-5398
fax: 312/280-3174

SINGLE COPY SALES

To order any current or back issue of *BI*, call the single copy sales division of *BI's* circulation department: **800/678-9595**

For more information, call one of the numbers listed below:
Advertising information: 212/210-0228
Subscription information: 800/678-9595

Continued from previous page

Risk Retention Groups Management Co.

P.O. Box 528, Burlington, Vt. 05402-0528; 802-865-2200

Founded: 1987.
Services: Captive formation, accounting, investment management, association captive management services, including specialized accounting services.
Staff: One, a professional.
Clients: One active captive managed at year-end 1994. Captive premium volume, $3 million. Capital and surplus managed, $1 million. No minimum size client.
Current business: One active captive.
Compensation: Annual fee.
1994 gross revenues: 100% from fees charged for captive management.
Officers: Vincent J. Bell, owner/principal/president.

RiskCap

1571 Race St., Denver, Colo. 80206; 303-388-5688; fax: 303-388-5585

Founded: 1976.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; 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; management assistance to other alternative market programs.
Occasional services: Claims processing, reinsurance brokered to captives.
Staff: 12; seven professionals.
Clients: Four active captives managed at year-end 1994. Captive premium volume, $15 million. Capital and surplus managed, $21 million. No minimum size client.
Current business: Four active captives.
Compensation: Annual fee, $35,000; hourly: professional, $125 to $150; clerical, $35.
1994 gross revenues: 65% from fees charged for captive management, 35% from other services, including risk management.
Officers: Michael Murphy, principal; Sherlyn Farrell, senior consultant; Ed Rohrer, consultant; Donna Holstlaw, George Kern, Richard Poling, risk analysts; Timothy Peterson, junior risk analyst.

S

SB&T Captive Management Co.

102 S. Winooski Ave., P.O. Box 730, Burlington, Vt. 05402-0730; 802-863-5744; fax: 802-658-6191

Founded: 1982.
Parent: Smith, Bell & Thompson Inc.
Frequent services: Captive formation, government reporting, accounting, claims processing, 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: 15 active captives managed at year-end 1994. Captive premium volume, $128.6 million. Capital and surplus managed, $203.3 million. No minimum size client.
Current business: 15 active captives.
Compensation: Annual fee, hourly.
Officers: Roger D. Teese, president; Warren L. Thompson, chairman; Bradley D. Matulonis, CFO; Carolyn S. Kovac, William D. Thompson, vps.

SLR Management (Bermuda) Ltd.

Continental Building, Church St., P.O. Box HM 1978, Hamilton, Bermuda; 809-295-8270

Founded: 1978.
Parent: Internationale Nederlanden Groep N.V.
Frequent services: Government reporting, accounting, claims processing, claims reserves analysis.
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 1994. No minimum size client.
Current business: Seven active captives, three inactive captives.
Compensation: Annual fee.
Officers: Nicholas E.J. Wheeler, president; Angus G. Hyslop, vp; Duarte deFrias, assistant controller.
Contact: Nicholas E.J. Wheeler or Angus G. Hyslop.

Sedgwick Management Services (Bermuda) Ltd.

Cumberland House, Level 6, 1 Victoria St., P.O. Box HM 3380, Hamilton HM JX, Bermuda; 809-292-6667; fax: 809-292-0498

Founded: 1973.
Parent: Sedgwick Group P.L.C.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims processing; 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*; serving as principle representative; assisting in selection of service providers; organization/participation in meetings; establishing asset management and underwriting policies.
** Services provided by other divisions of Sedgwick Group.*
Occasional services: Reinsurance brokered for captives.
Staff: 34; 15 professionals.
Clients: 45 active captives and 14 inactive captives managed at year-end 1994. Captive premium volume, $405.8 million. Capital and surplus managed, $572.7 million. No minimum size client.
Current business: 45 active captives, 14 inactive captives.
Compensation: Annual fee; commission; hourly.
1994 gross revenues: 75% from fees charged for captive management, 25% from commissions charged for brokering insurance/reinsurance.
Officers: Robert C. Hug Jr., president; A. Trevor Metcalf, senior vp-brokerage services; Nigel M. Godfrey, vp-corporate services; Philip A. Cracknell, vp-client financial services; Michael B. Skyrme, vp-underwriting services.
Contact: Robert C. Hug Jr.

Sedgwick Management Services (Guernsey) Ltd.

P.O. Box 309, Dixcart House, Sir William Place, St. Peter Port, Guernsey, C.I.; 44-1481-710555; fax: 44-1481-721-857

Founded: 1978.
Parent: Sedgwick Group P.L.C.
Offers rent-a-captive.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking, loss control (London).
Occasional services: Investment management.
Staff: 12; six professionals.
Clients: 25 active captives managed at year-end 1994. Captive premium volume, $112 million.
Current business: 25 active captives.
Compensation: Hourly.
Officers: Granville Michael de Cruz, director; P. Michael Goudime, underwriting manager; Pauline Chapman, Mary Mooney, Peter Touzeau, account managers.

Sedgwick Management Services (IOM) Ltd.

Atlantic House, 4/8 Circular Road, Douglas, Isle of Man; 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.
Occasional services: Feasibility studies, reinsurance brokered for captives.
Staff: 17; eight professionals.
Clients: 30 active captives and two inactive captives managed at year-end 1994.
Current business: 31 active captives, two inactive captives.
Compensation: Annual fee, $35,000.
Officers: R.J. Martin, managing director; G. Crease, director-underwriting; A.G. McKean, financial controller.

Continued on next page

Directory begins on page 73.

Q: Who Offers A State of the Art Risk Management Information System That's Easy to Use, Real-Time, and Windows®-based?

A: The AIG Companies

When you want immediate access to accurate, timely claims information, you don't want hassles and glitches. You want a menu-driven system that gives you standard or customized reports—*instantly*. Plus software and support that makes it simple to use. IntelliRisk™, from the AIG Companies, can meet your needs.

IntelliRisk™ was created *for* Risk Managers *by* Risk Managers. No other insurer offers a system as advanced. To find out more, visit the AIG booth at RIMS—we'll show you how IntelliRisk™ meets your demands, and why it's the new standard in risk management solutions.

AIG World leaders in insurance and financial services.

IntelliRisk™
The New Standard In Risk Management Solutions

Continued from previous page

Sedgwick Management Services (Singapore) Pte. Ltd.

51 Bras Basah Road, #08-03, Plaza by the Park, Singapore 0718; 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 (Singapore/Asia).
Occasional services: Claims reserves analysis, loss forecasting.
Staff: 20; 12 professionals.
Clients: 17 active captives and one inactive captive managed at year-end 1994. Captive premium volume, $82.6 million. Capital and surplus managed, $120.7 million. No minimum size client.
Current business: 17 active captives, one inactive captive.
Compensation: Hourly.
1994 gross revenues: $1.4 million, 83% from fees charged for captive management, 17% from other services, including risk management.
Officers: George Tarabaras, director/general manager; 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, claims processing, claims reserves analysis, actuarial studies, 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.
Staff: Three; two professionals.
Clients: No minimum size client.
Compensation: Annual fee; commission; hourly: professional, $100 to $250; clerical, $50 to $75.
1994 gross revenues: 100% from fees charged for captive management.
Officers: R. Jane Hill, president; Andrew Sargeant, executive vp; Joel Berrian, managing executive.
Contact: Andrew Sargeant, 802-658-7947.

Sedgwick Management Services (U.S.) Ltd.

841 Bishop St., Suite 2125, Honolulu, Hawaii 96813; 808-545-2420; fax: 808-528-1944

Founded: 1982.
Parent: Sedgwick James Inc.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking, managing underwriting pools/facilities, loss control, association captive management services, including specialized accounting services and onshore services.
Staff: Three; two professionals.
Clients: Five active captives managed at year-end 1994. Captive premium volume, $17.1 million. Capital and surplus managed, $34.3 million. No minimum size client.
Current business: Six active captives.
Compensation: Annual fee; commission; hourly: professional, $100 to $250, clerical, $50 to $75.
1994 gross revenues: 100% from fees charged for captive management.
Officers: R. Jane Hill, president; Andrew Sargeant, executive vp; Gary Osborne, vp; Earl Hisatomi, vp/manager.
Contact: Gary Osborne.

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, claims processing, claims reserves analysis, actuarial studies, 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.
Staff: Three; two professionals.
Clients: No minimum size client.
Compensation: Annual fee; commission; hourly: professional, $100 to $250, clerical, $50 to $75.
1994 gross revenues: 100% from fees charged for captive management.
Officers: R. Jane Hill, president; Andrew Sargeant, executive vp; Steve Goldberg, senior vp.
Contact: Andrew Sargeant, 802-658-7947.

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.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking, managing underwriting pools/facilities, loss control, association captive management services, including specialized accounting services and onshore services.
Staff: Three; two professionals.
Clients: No minimum size client.
Compensation: Annual fee; commission; hourly: professional, $100 to $250; clerical, $50 to $75.
1994 gross revenues: 100% from fees charged for captive management.
Officers: R. Jane Hill, president; Andrew Sargeant, executive vp; Patrick Lynch, senior vp.
Contact: Andrew Sargeant, 802-658-7947.

The captive managers' directory listings and terminology are explained on page 74. To locate organizations managing captives in a particular domicile, refer to the index following the directory.

Sedgwick Management Services (U.S.) Ltd.

95 St. Paul St., Suite 3A, Burlington, Vt. 05401; 802-658-7947; fax: 802-658-8053

Founded: 1982.
Parent: Sedgwick James Inc.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking, managing underwriting pools/facilities, loss control, association captive management services, including specialized accounting services and onshore services.
Staff: Four; three professionals.
Clients: Two active captives managed at year-end 1994. Captive premium volume, $4.5 million. Capital and surplus managed, $2.3 million. No minimum size client.
Current business: Two active captives.
Compensation: Annual fee; commission; hourly: professional, $100 to $250; clerical, $50 to $75.
1994 gross revenues: 100% from fees charged for captive management.
Officers: R. Jane Hill, president; Andrew Sargeant, executive vp; Gary Osborne, vp; David Provost, accounting manager.
Contact: Andrew Sargeant.

SINSER

P.O. Box 593, L-2015 Luxembourg; 352-22-43-22-1; fax: 352-47-02-50

Founded: 1984.
Parent: SINSER Holding.
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; conference and seminar activities.
Occasional services: Actuarial studies, loss forecasting, investment management, tax advice, legal advice.
Staff: 24, 22 professionals.
Clients: 61 active captives managed at year-end 1994.
Current business: 63 active captives.
Officers: Mats Lindkvist, CEO; Tony Nordblad, Irene Ryan, Charles Besnehard, Tomas Wittbjer, Nick Dove, George Chaffee, managing directors.

SINSER A.B.

Grev Turegatan 9, Box 3103, 10362 Stockholm, Sweden; 46-8-788-2520; fax: 46-8-788-2560

Founded: 1983.
Parent: SINSER Holding.
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; conference and seminar activities.
Occasional services: Actuarial studies, loss forecasting, investment management, tax advice, legal advice.
Staff: 14, all professionals.
Clients: 14 active captives managed at year-end 1994.
Current business: 14 active captives.
Officers: Mats Lindkvist, CEO; Tony Nordblad, Irene Ryan, Charles Besnehard, Tomas Wittbjer, Nick Dove, George Chaffee, managing directors.

SINSER Danmark

G.L. Strand 34, 4th Floor, 1202 Copenhagen K, Denmark; 45-334-74693; fax: 45-331-46765

Founded: 1992.
Parent: Skandia.
Offers rent-a-captive.
Services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, actuarial studies, tax advice.
Staff: Three; two professionals.
Clients: One active captive managed at year-end 1994. No minimum size client.
Current business: One active captive.
Compensation: Hourly.
1994 gross revenues: 80% from fees charged for captive management; 20% from other services, including actuarial studies.
Officers: Nikolaj Boysen, 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 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; conference and seminar activities.
Occasional services: Actuarial studies, loss forecasting, investment management, tax advice, legal advice.
Staff: Nine, all professionals.
Clients: 19 active captives managed at year-end 1994.
Current business: 19 active captives.
Officers: Mats Lindkvist, CEO; Tony Nordblad, Irene Ryan, Charles Besnehard, Tomas Wittbjer, Nick Dove, George Chaffee, managing directors.

Skandia International Risk Management Ltd.

Skandia International House, 16 Church St., P.O. Box HM 2062, Hamilton HM HX, Bermuda; 809-295-2185; fax: 809-292-8637

Founded: 1979.
Parent: Skandia/SINSER Group.
Offers rent-a-captive.
Frequent services: Captive formation, government reporting, accounting, claims processing, investment management, association captive management services, including specialized accounting services.
Occasional services: Feasibility studies, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking.
Staff: 18; nine professionals.
Clients: 80 active captives managed at year-end 1994. No minimum size client.
Current business: 82 active captives.
Compensation: Hourly.
Officers: Nicholas S. Dove, president; Robert J. Rosser, Robert W. Eastham, Adrian Lee-Emery, vps.

Skandia International Risk Management (Vermont) Inc.

346 Shelburne Road, P.O. Box 64649; Burlington, Vt. 05406-4649; 802-658-1474; fax: 802-658-0692

Founded: 1986.
Parent: SINSER Holding A.B.
Frequent services: Captive formation, government reporting, accounting, managing underwriting pools/facilities, association captive management services including specialized accounting services and onshore services.
Occasional services: Feasibility studies, claims processing, investment management.
Staff: Five; four professionals.
Clients: 16 active captives and one inactive captive managed at year-end 1994. Captive premium volume, $34.9 million. Capital and surplus managed, $55 million. No minimum size client.
Current business: 18 active captives, one inactive captive.
Compensation: Annual fee.
1994 gross revenues: 100% from fees charged for captive management.
Officers: George A. Chaffee, president; David M. Boardman, Patricia L. Henderson, vps; Thomas M. Tobin, secretary.

Sogecore S.A.

6B Route de Treves, Luxembourg City, Luxembourg 2633; 352-34-68-66; fax: 352-34-68-40

Founded: 1987.
Services: Feasibility studies, captive formation, government reporting, accounting, 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, all professionals.
Clients: 38 active captives and one inactive captive managed at year-end 1994.
Current business: 40 active captives, one inactive captive.
Officers: Jean Thilly, Gilles Coremans, Maite Lambillon.

Sogecore A.G.

Schipfe 2, Zurich, CH 8022, Switzerland; 41-1-212-44-55; fax: 41-1-212-44-65

Founded: 1994.
Parent: Sogecore Group.
Services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking, investment management, association captive management services, including specialized accounting services.
Staff: One.
Clients: One active captive managed at year-end 1994.
Current business: Three active captives.
Officers: Pierre Perrewood, Jean Thilly, Gilles Coremans.

Sogecore Ireland Ltd.-FBD

Andersen House, 1 Harbour Master Place, IFSC, Dublin 1, Ireland; 353-1-670-1340

Founded: 1989.
Parent: Sogecore Group.
Founded: 1989.
Parent: Sogecore Group.
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: Partners of BDO Reads.
Offers rent-a-captive.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, underwriting and ratemaking, tax advice, legal advice, subcontract captive management facilities.
Occasional services: Manual claims processing, loss forecasting, investment management.
Staff: 141; 101 professionals.
Clients: 12 active captives and four inactive captives managed at year-end 1994. Captive premium volume, $73 million. Capital and surplus managed, $215 million. No minimum size client.
Current business: 18 active captives, two inactive captives.
Compensation: Annual fee; hourly.
Officers: Callum Beaton, managing director; Steven Parrott, John Rowe, John Fewkes, Eifion Thomas, directors.

Symphony Management Ltd.

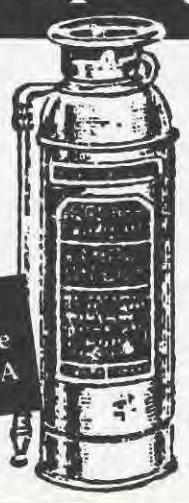
P.O. Box HM 1538, Hamilton HM FX, Bermuda; 809-295-2447; fax: 809-292-0511

Founded: 1991.
Offers rent-a-captive.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, reinsurance brokered for captives.
Occasional services: Claims processing, loss forecasting, reinsurance brokered to captives, underwriting and ratemaking, managing underwriting pools/facilities.
Staff: Four; three professionals.
Clients: 10 active captives and two inactive captives managed at year-end 1994. Captive premium volume, $59.8 million. Capital and surplus managed, $40.2 million. No minimum size client.
Current business: 12 active captives, two inactive captives.
Compensation: Annual fee; commission; hourly: professional, $110 to $150; clerical, $60 to $80.
Officers: John G. Neal, president.

Continued on next page

We extinguish all confusion about your company's risk.

Risk Engineering, Inc. provides superior independent property loss prevention services for medium and large industrial clients, particularly in the HPR market.



What sets REi apart is our engineering expertise and our commitment to quality service.

See us at Booth= 635
1995 RIMS Annual Conference
April 23-28 • San Francisco, CA

REi
Risk Engineering, Inc.
10370 Richmond Avenue, Suite 755
Houston, Texas 77042-4137
(713) 952-3334 • Fax: (713) 952-3337

Continued from previous page

T

W.A. Taft & Co. Ltd.

Windsor Place, 18 Queen St., P.O. Box HM 2210, Hamilton HM JX, Bermuda; 809-295-8495; fax: 809-292-1196

Founded: 1983.
Services: Feasibility studies, captive formation, government reporting, accounting, reinsurance brokered for captives, reinsurance brokered to captives, managing underwriting pools/facilities, association captive management services.
Staff: Three, all professionals.
Current business: Two active captives.
Compensation: Annual fee, commission, hourly.
Officers: W.A. Taft, president; Richard C. Goff, executive vp.
Contact: W.A. Taft, 809-295-8495 (Bermuda), 610-430-7757 (Pennsylvania); or Richard C. Goff, 410-296-1500 (Maryland).

Tate & Lyle Management & Finance Ltd.

Jardine House, 33-35 Reid St., Hamilton, Bermuda; 809-295-9911; fax: 809-292-6139

Founded: 1977.
Parent: Tate & Lyle P.L.C.
Frequent services: Government reporting, accounting, claims processing, claims reserves analysis, underwriting and ratemaking, investment management.
Occasional services: Feasibility studies, captive formation, loss forecasting, reinsurance brokered for captives.
Staff: Five; three professionals.
Clients: Five active captives and one inactive captive managed at year-end 1994. Captive premium volume, $34.9 million. Capital and surplus managed, $55.8 million. No minimum size client.
Current business: Five active captives, one inactive captive.
Compensation: Annual fee, $25,000; commission.
Officers: James A. Kemp, managing director; Dermot Caslin, financial controller.
Contact: James A. Kemp.

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: Accounting, association captive management services.
Occasional services: Feasibility studies, captive formation, claims processing, reinsurance brokered for captives, investment management.
Staff: Five; three professionals.
Clients: Four total captives managed at year-end 1994.
Compensation: Annual fee, hourly.
Officers: Christopher Towner, president; Derek Edghill, Ricardo Knight, account managers.
Contact: Christopher Towner.

Triangle Insurance Management Ltd.

The Phoenix Building, 2 Reid St., P.O. Box HM 1838, Hamilton HM HX, Bermuda; 809-295-3952; fax: 809-295-3982

Founded: 1983.
Parent: Triangle Holdings Ltd.
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, association captive management services, including specialized accounting services.
Staff: Four; two professionals.
Clients: Eight active captives and two inactive captives managed at year-end 1994.
Current business: Nine active captives, two inactive captives.
Compensation: Annual fee, commission, hourly.
1994 gross revenues: 80% from fees charged for captive management, 20% from commissions charged for brokering insurance/reinsurance.
Officers: Bruce Fenton, president/managing director; Janice Witkowski, vp.

Trifoliate Ltd.

26 Comet St., St. Peter Port, Guernsey; 44-1481-710336; fax: 44-1481-710696

Founded: 1984.
Contact: Michael Savage, managing director.
Subcontracts for captive management services with Channel Islands Insurance Consultants.

U

UNISON Management Ltd.

Forchstrasse 95, P.O. Box CH 8032, Zurich, Switzerland; 41-1-387-8800; fax: 41-1-387-8700

Founded: 1994.
Parent: UNISON Brokers.
Services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking.
Officers: Andee Kyburz, Martin Kessler, Hanspeter Lenenberger, Peter Flensburg, Ken Hall, directors.

UNISON Management (Dublin) Ltd.

12-14 Lower Mount St., Dublin 2, Ireland; 353-1-6762748; fax: 353-1-678-9636

Founded: 1990.
Parent: Johnson & Higgins.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing.
Occasional services: Claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking; investment management; tax advice; legal advice; managing underwriting pools/facilities; association captive management services, including specialized accounting services and onshore services; management of treasury centers.
Staff: 24; 12 professionals.
Clients: 23 active captives managed at year-end 1994. Captive premium volume, $341 million. Capital and surplus managed, $219 million. No minimum size client.
Current business: 23 active captives.
Compensation: Annual fee, commission, hourly.
Officers: John Perham, managing director; Tim Hennessy, senior account manager; Jon Borrill, treasury manager; David McDermott, Brian Grogan, Anne McDonnell, account managers.

UNISON Management (Guernsey) Ltd.

Albert House, S. Esplanade, St. Peter Port, Guernsey GY1 4AU, Channel Islands; 44-1481-728-136; fax: 44-1481-713617

Founded: 1975.
Parent: Johnson & Higgins.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking.
Occasional services: Actuarial studies, loss forecasting, investment management, managing underwriting pools/facilities, association captive management services, including specialized accounting services and onshore services.
Staff: 21; eight professionals.
Clients: Nine active captives and six inactive captives managed at year-end 1994. Captive premium volume, $92 million. Capital and surplus managed, $54 million. No minimum size client.
Current business: Nine active captives, six inactive captives.
Compensation: Annual fee; hourly: professional, $100 to $150; clerical, $50.
Officers: David Johnstone, managing director; Merise Wheatley, Ian Daish, directors; Mike Carter, account manager; Ken Read, insurance manager.

UNISON Management (IOM) Ltd.

45 Victoria St., Douglas, Isle of Man; 44-1624-612144; fax: 44-1624-612138

Founded: 1991.
Parent: Johnson & Higgins (Bermuda) Ltd.
Offers rent-a-captive.
Services: Feasibility studies; captive formation; government reporting; accounting; claims processing; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; legal advice; managing underwriting pools/facilities; association captive management services, including specialized accounting services and onshore services; property surveying.
Staff: Five; two professionals.
Compensation: Annual fee, $7,500; commission; hourly.
Officers: Ian Gerrard, Simon Cooper, Ken Hall, John Perham, Brian Hall.
Contact: Ian Gerrard.

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.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing.
Occasional services: 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, rent-a-captive facilities through GS Re (sister company).
Staff: 20; 12 professionals.
Clients: 19 active captives managed at year-end 1994.
Current business: 20 active captives.
Compensation: Annual fee, commission, hourly.
Officers: Timothy Yeates, managing director; Nicolas Fouquet, Killian McDermott, senior managers.

UNISON Management (Scandinavia) A.B.

Birger Jarlsgatan 64, P.O. Box 5908, Stockholm, Sweden 11489; 468-613-2820; fax: 468-24-88-48

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, managing underwriting pools/facilities, association captive management services, including specialized accounting services.
Occasional services: Claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking.
Staff: Five, all professionals.
Clients: Four active captives managed at year-end 1994. Captive premium volume, $12 million. Capital and surplus managed, $5 million. No minimum size client.
Current business: Four active captives.
Compensation: Annual fee, commission, hourly.
Officers: Peter Flensburg, managing director; Krister Wanblad, marketing manager; Lillian Jansson, administration manager.

V

Valmet Insurance Services Ltd.

P.O. Box 472, 50 Town Range, Gibraltar; 350-40000; fax: 350-40404

Founded: 1983.
Offers rent-a-captive.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, trust and corporate management, insurance brokerage.
Occasional services: Actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, tax advice, managing underwriting pools/facilities.
Staff: 40; six professionals.
Clients: Two active captives and two inactive captives managed at year-end 1994. Captive premium volume, $6 million. No minimum size client, $200,000.
Current business: Two active captives, two inactive captives.
Compensation: Annual fee, $10,000; commission; hourly: professional, $200; clerical, $100.
Officers: James David Hassan, David Cuby, Nicky Conway-Hann, directors; Subash Malkani; Penny Murray-White, marketing director.

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: 21; 13 professionals.
Clients: 35 active captives and one inactive captive managed at year-end 1994*. Captive premium volume, $147.5

Continued on next page

THREE REASONS TO RUN WITH TIG INSURANCE . . .

SERVICE.

SERVICE.

SERVICE.

One call to TIG Risk Management Services sets a fast, decision-making team into motion. An organization that delivers personalized solutions to your risk management needs. A team that operates quickly and efficiently with the utmost of expertise.

We offer a full array of products . . . from our risk transfer, cash flow and funding programs, to our full range of account services. TIG can unbundle its services to create a customized solution meeting your expectations. You'll see TIG's strength in our underwriting, claims, actuarial, financial and reinsurance experts. And you'll see it in our Excess Casualty, Workers' Compensation and industry-focused primary insurance products. We're rated "A XI" by A.M. Best and "AA-" by Standard and Poor's. No wonder you come out ahead with TIG Insurance . . . we run on service.

Call TIG at its National Support Center at (214) 831-5000.

Continued from previous page
million. Capital and surplus managed, $128.8 million. No minimum size client.

Current business: 37 active captives, one inactive captive.

Compensation: Annual fee, commission.

1994 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.

**Includes captives in other domiciles managed from Vermont.*

Vista Insurance Services Inc.

60 Pompton Ave., Verona, N.J. 07044; 201-857-7999; fax: 201-239-0666

Founded: 1985.

Officers: E. Arnold Powell, president; Joan McDougall, administrative assistant; Judith Colomb, claims administration.

Contact: E. Arnold Powell.

Subcontracts for captive management services in various domiciles, including Bermuda, Cayman Islands, Colorado and Vermont.

W

Willis Corroon/ARMS

26 Century Blvd., Nashville, Tenn. 37214; 615-872-3200; fax: 615-872-3333

Offers rent-a-captive.

Frequent services: Feasibility studies, captive formation, accounting, claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, investment management, association captive management services including specialized accounting services and onshore services.

Occasional services: Government reporting, underwriting and ratemaking, tax advice.

Clients: Two active captives and one inactive captive managed at year-end 1994. Captive premium volume, $9 million. Capital and surplus managed, $3.5 million. No minimum size client.

Current business: Three active captives, one inactive captive.

Compensation: Annual fee.

1994 gross revenues: $400,000, 100% from fees charged for captive management.

Officers: James V. Davis, chairman; Guy F. Ragosta, managing director; Carolyn L. Greene, vp.

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.

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.

1994 gross revenues: $200,000, 100% from other services, including feasibility studies.

Officers: Peter Watson, president; Guy Ragosta, managing director; Michael Baddeley, vp.

Willis Corroon Management (Bermuda) Ltd.

F.B. Perry Building, P.O. Box HM 1995, Hamilton HM HX, Bermuda; 809-295-1272; fax: 809-295-4143

Founded: 1978.

Parent: Willis Corroon P.L.C.

Frequent services: Captive formation, government reporting, accounting, computerized claims processing, investment management.

Occasional services: Feasibility studies, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, legal advice.

Staff: Six; three professionals.

Clients: 10 active captives and one inactive captive managed at year-end 1994. No minimum size client.

Current business: 11 active captives, three inactive captives.

Compensation: Annual fee.

Officers: J.D. Ryan, president; Jennifer Cartmell, M.A. Dobbie, senior vps; J.O. Heyliger, vp; A.E. Sodergren, secretary.

Willis Corroon Management (Cayman) Ltd.

P.O. Box 30600 SMB, Grand Cayman; 809-949-6039; fax: 809-949-6621

Founded: 1979.

Parent: Willis Corroon P.L.C.

Offers rent-a-captive.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, reinsurance brokered for captives, underwriting and ratemaking.

Occasional services: Claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered to captives, loss control (United States).

Staff: Four; two professionals.

Clients: Nine active captives managed at year-end 1994. Captive premium volume, $25 million. Capital and surplus managed, $23 million. No minimum size client.

Current business: 12 active captives.

Compensation: Annual fee.

Officers: Guy Ragosta, president; Tim Byrne, vp.

Willis Corroon Management (Dublin) Ltd.

80 Harcourt St., Dublin 2, Ireland; 353-1-4784832; fax: 353-1-4784877

Founded: 1989.

Parent: Willis Corroon Group P.L.C.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, loss forecasting, underwriting and ratemaking.

Occasional services: Manual claims processing, actuarial studies, reinsurance brokered for captives, reinsurance brokered to captives.

Staff: Seven; three professionals.

Clients: Seven active captives managed at year-end 1994. Captive premium volume, $37.8 million. Capital and surplus managed, $19.1 million. No minimum size client.

Current business: Eight active captives.

Compensation: Annual fee.

1994 gross revenues: $300,000, 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.

The Caleta Palace, Suite 156, P.O. Box 73, Catalan Bay, Gibraltar; 350-43636; fax: 350-43870

Founded: 1986.

Parent: Willis Corroon Group P.L.C.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking.

Staff: Two.

Compensation: Annual fee.

Officers: Brund G.R. Callaghan, Peter A. Isola, David Campbell, Christine L. Douse, directors.

Contact: Brund G.R. Callaghan.

Willis Corroon Management (Guernsey) Ltd.

P.O. Box 384, 4th Floor, The Albany, South Esplanade, St. Peter Port, Guernsey; 44-1481-720049; fax: 44-1481-710455

Founded: 1981.

Parent: Willis Corroon P.L.C.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, loss forecasting, underwriting and ratemaking, managing underwriting pools/facilities, management of onshore association captives, claims audits, program design and development.

Staff: 16; 11 professionals.

Clients: 29 active captives and two inactive captives managed at year-end 1994. Captive premium volume, $150 million. Capital and surplus managed, $100 million. No minimum size client.

Current business: 29 active captives, two inactive captives.

Compensation: Annual fee, hourly.

1994 gross revenues: 100% from fees charged for captive management.

Officers: Malcolm J. Cutts-Watson, managing director; Tim R. 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.

Occasional services: Actuarial studies, association captive management services including specialized accounting services.

Staff: 19; nine professionals.

Clients: 38 active captives managed at year-end 1994. No minimum size client.

Current business: 38 active captives.

Compensation: Annual fee.

1994 gross revenues: 100% from fees charged for captive management.

Officers: David Campbell, chairman; James C. Boyd, managing director; Peter J. Foulger, David G. Prince, Christine L. Douse, directors.

Contact: James C. Boyd.

Willis Corroon Management (I.O.M.) Ltd.-Malta Branch

Middle Sea House, P.O. Box 147, Floriana VLT 16, Malta; 356-235860; fax: 356-248774

Founded: 1994.

Parent: Willis Corroon Group P.L.C.

Officers: David Campbell, chairman; James C. Boyd, managing director; Peter J. Foulger, David G. Prince, Christine L. Douse, directors; Jack Spencer, manager.

Contact: Jack Spencer.

Subcontracts for captive management services with International Insurance Management Services Ltd. in Malta.

Willis Corroon Management (Vermont) Ltd.

76 St. Paul St., Burlington, Vt. 05401; 802-658-9466; fax: 802-658-5220

Founded: 1992.

Parent: Willis Corroon Corp.

Offers rent-a-captive.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, actuarial studies, loss forecasting.

Occasional services: Reinsurance brokered for captives, underwriting and ratemaking, tax advice, managing underwriting pools/facilities, loss control (Nashville, Tenn.), association captive management services including specialized accounting services and onshore services.

Staff: Four; three professionals.

Clients: Six total captives managed at year-end 1994. Captive premium volume, $76 million. Capital and surplus managed, $26 million. No minimum size client.

Current business: Six active captives.

Compensation: Annual fee, hourly.

1994 gross revenues: 100% from fees charged for captive management.

Officers: James V. Davis, chairman; Guy F. Ragosta, managing director-North American Captive Operations; James Girardin, senior account executive.

Contact: Guy F. Ragosta.

Information on captives domiciled in Hawaii and Vermont are included in this listing.

Wyatt Management Co. (Barbados) Ltd.

P.O. Box 1307, 3rd Floor-International Trading Centre, Warrens, St. Michael, Barbados; 809-425-4959; fax: 809-425-2170

Founded: 1989.

Parent: The Wyatt Co.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, actuarial studies, loss forecasting.

Occasional services: Claims reserves analysis, investment management, association captive management services including specialized accounting services, investment management selection and evaluation.

Staff: Six; three professionals.

Clients: Seven active captives managed at year-end 1994. Captive premium volume, $116.4 million. Capital and surplus managed, $48.6 million. No minimum size client.

Current business: Nine active captives.

Compensation: Hourly: professional, $120 to $230; clerical, $60 to $63.

Officers: C. Ian Durrell, chairman; Chris G. Evans, general manager.

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, claims processing, claims reserves analysis, investment management.

Staff: Four; three professionals.

Clients: Three active captives managed at year-end 1994. Captive premium volume, $30 million. No minimum size client.

Current business: Three active captives.

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; 809-295-7777; fax: 809-295-6781

Founded: 1983.

Parent: The Yasuda Fire & Marine Insurance Co.

Contact: Heinl Schoenberger, CIGNA International Insurance Managers Ltd., 809-295-7777.

Subcontracts for captive management services with CIGNA International Insurance Managers Ltd.

Z

Zurich International (Bermuda) Ltd.

Crawford House, 50 Cedar Ave., P.O. Box HM 2268, Hamilton HM JX, Bermuda; 809-292-8155; fax: 809-292-7368

Founded: 1977.

Parent: Zurich Insurance Co.

Frequent services: Government reporting, accounting, claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, investment management.

Occasional services: Feasibility studies, captive formation, reinsurance brokered to captives.

Staff: 13; five professionals.

Clients: 12 active captives managed at year-end 1994.

Current business: 16 active captives.

Compensation: Annual fee.

1994 gross revenues: $412,000, 100% from fees charged for captive management.

Officers: Laurence W. Cheng, president/CEO; Michael R. Deevy, vp/comptroller; Nigel J. Pooley, vp-investments.

Zurich International Services (Ireland) Ltd.

IFSC House, Custom House Quay, Dublin 1, Ireland; 353-1-670-0988; fax: 353-1-670-1108

Founded: 1990.

Parent: Zurich Insurance Co.

Services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, managing underwriting pools/facilities, association captive management services including specialized accounting services and onshore services.

Staff: Four; three professionals.

Clients: Two active captives managed at year-end 1994. Captive premium volume, $20 million. No minimum size client.

Current business: Two active captives.

Compensation: Annual fee, hourly.

Officers: Laurence Sherin, general manager; Frank Coyle, financial accountant; Sharon Lynch, insurance administrator.

ADDENDUM

The following information was not received in time to be included in the alphabetical listings.

M&M Insurance Management Services Inc.

Independence Plaza, 1050 17th St., Suite 900, Denver, Colo. 80265; 303-628-1844

Parent: Marsh & McLennan Cos. Inc.

Staff: One.

Clients: Two total captives managed at year-end 1994. Captive premium volume, $400,000.

Contact: Lorraine Kehm, assistant vp, 303-628-1844. BI

Business Insurance®

• SERVICES •

EDITORIAL INDEX

All news reports and feature articles published from 1981 through 1993 are indexed in annual bound volumes. Searching by subject, persons quoted and companies mentioned is as easy as turning the page. To order, write or call:

BUSINESS INSURANCE • Editorial Index
220 E. 42nd Street • New York, NY 10017-5806
phone: 212/210-0137 • fax: 212/210-0704

REPRINT SERVICES

BI's Reprint Department can provide reprints, in quantities of 100 or more, of any article appearing in the weekly newsmagazine. Legal permission, complying with U.S. copyright laws, also can be provided to companies wishing to reprint, on their own, material appearing in the newsmagazine. For information, write or call:

BUSINESS INSURANCE • Reprint Department
740 N. Rush Street • Chicago, IL 60611-2590
phone: 312/649-5319 • fax: 312/280-3174

ARTICLE FAX SERVICE

For article photocopies sent by fax on the same day, call us with your credit card information, specify *BI* issue date and article headline. The charge is $7.50 per copy/per article. In-publication directories are not available by fax.

BUSINESS INSURANCE • Reprint Department
740 N. Rush St. • Chicago, IL 60611-2590
phone: 312/649-5398 • fax: 312/280-3174

SINGLE COPY SALES

To order any current or back issue of *BI*, call the single copy sales division of *BI's* circulation department:

800/678-9595

For more information, call one of the numbers listed below:

Advertising information: 212/210-0228
Subscription information: 800/678-9595

Index of captive insurance company managers by domicile

The geographical index lists organizations appearing in the directory along with their subsidiaries and sister companies by the domiciles serviced. Subsidiaries for which a separate directory listing was not provided are identified with a footnote.

Antigua

International Insurance Management (Antigua) Ltd.
Towner Management (Antigua) Ltd.*

Bahamas

Captive Managers Ltd.

Barbados

Alexander Insurance Managers (Barbados) Ltd.
American International Management Co. (Barbados) Ltd.
Aon Risk Services (Barbados) Ltd.
BF&M Management (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.
Jardine Pinehurst Management Co. (Barbados) Ltd.*
Johnson & Higgins (Barbados) Ltd.
MIMS International (Barbados) Ltd.
Minet Risk Services (Barbados) Ltd.**
Meadowbrook Risk Management 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.
CFM Insurance Managers Ltd.
Caledonian Management Ltd.
Capital Management Services Ltd.
CIGNA International Insurance Managers Ltd.
Continental Risk Services Ltd.
Arthur J. Gallagher Management (Bermuda) Ltd.
Griffiths & Wanklyn Management Ltd.
Independent Management Group Ltd.
Insurance Brokerage & Management Co. Ltd.
International Advisory Services Ltd.
International Risk Management (Bermuda) Ltd.
Jardine Pinehurst Management Co. Ltd.
Johnson & Higgins (Bermuda) Ltd.
Marsh & McLennan Management Services (Bermuda) Ltd.
Meadowbrook Risk Management Ltd.
Minet Risk Services (Bermuda) Ltd.
Mutual Risk Management Ltd.
Powerscourt Management Ltd.
Quail Street Management Ltd.
SLR Management (Bermuda) Ltd.
Sedgwick Management Services (Bermuda) Ltd.
Skandia International Risk Management Ltd.
Symphony Management Ltd.
W.A. Taft & Co. Ltd.
Tate & Lyle Management & Finance Ltd.
Triangle Insurance Management Ltd.
Vista Insurance Services Inc.
Willis Corroon Management (Bermuda) Ltd.
The Yasuda Management Service Co. Ltd.
Zurich International (Bermuda) Ltd.

British Columbia

Alexander Insurance Managers (Canada)
Global Risk Financing Services Ltd.
International Risk Management (Canada) Ltd.
Jardine (Canada) Risk Management Ltd.
Willis Corroon Captive Management

British Virgin Islands

Caribbean Insurance Management Ltd.

Cayman Islands

AIG Insurance Management Services (Cayman) Ltd.
Alexander Insurance Managers (Cayman) Ltd.
Caledonian Bank & Trust Ltd.
Cayside Insurance Management Ltd.
Chandler Insurance Management Ltd.
Crusader International Management (Cayman) Ltd.
International Risk Management (Cayman) Ltd.
Johnson & Higgins (Cayman Islands) Ltd.
Marsh & McLennan Management Services (Cayman) Ltd.
Midland Bank Trust Corp. (Cayman) Ltd.
Mutual Risk Management (Cayman) Ltd.
Sedgwick Management Services (Cayman) Ltd.*
Vista Insurance Services Inc.
Willis Corroon Management (Cayman) Ltd.

Colorado

AIG Captive Management Co. Inc.
Alternative Insurance Management Services Inc.
Aon Risk Services (Colorado)
Johnson & Higgins Services Inc. (Colorado)
M&M Insurance Management Services Inc.***
Meadowbrook Insurance Group of Colorado
Mountain States Insurance Managers
RiskCap
Sedgwick Management Services (U.S.) Ltd.
Vista Insurance Services Inc.

Cyprus

Sedgwick Management Services (Cyprus) Ltd.*

Denmark

SINSER Danmark

Dublin

AIG Insurance Management Services (Ireland) Ltd.
Aachen Management Services Ltd.
Alexander Insurance Managers (Dublin) Ltd.
Aon Risk Services (Ireland) Ltd.
EURCO Ltd.
FINNCAP-OY Finnish Captive & Risk Services Ltd.
International Risk Management (Dublin) Ltd.
Mutual Coyle Hamilton Managers Ltd.
Sedgwick Management Services (Dublin) Ltd.*
SINSER (Ireland) Ltd.
Sogecore Ireland Ltd.-FBD
UNISON Management (Dublin) Ltd.
Willis Corroon Management (Dublin) Ltd.
Zurich International Services (Ireland) Ltd.

Georgia

Environmental Management Insurance Services Inc.

Gibraltar

Valmet Insurance Services Ltd.
Willis Corroon Management (Gibraltar) Ltd.

Guernsey

AIG Insurance Management Services (Guernsey) Ltd.
Alexander Insurance Managers (Guernsey) Ltd.
Aon Risk Services (Guernsey) Ltd.
Bain Hogg Insurance Management (Guernsey) Ltd.
Channel Islands Insurance Consultants Ltd.
FINNCAP-OY Finnish Captive & Risk Services Ltd.
International Risk Management (Guernsey) Ltd.
Jardine Risk Services (Guernsey) Ltd.*
Lowndes Lambert Insurance Management (Guernsey) Ltd.
Marsh & McLennan Management Services (Guernsey) Ltd.
Minet Risk Services (Guernsey) Ltd.**
Optimum Risk Research (International) Ltd.
Sedgwick Management Services (Guernsey) Ltd.
Spread Insurance Management Ltd.
Trifoliate Ltd.
UNISON Management (Guernsey) Ltd.
Willis Corroon Management (Guernsey) Ltd.

Hawaii

Alexander Insurance Managers (Hawaii)
American Risk Management Corp.
Becher & Carlson Risk Management Inc.
50th State Risk Management Services Inc.
Hawaii Captive Insurance Management Inc.
IAS Insurance Management Inc.*
Johnson & Higgins Services Inc.
M&M Insurance Management Services Inc.
Sedgwick Management Services (U.S.) Ltd.
Willis Corroon Management (Vermont) Ltd.

Illinois

Sedgwick Management Services (U.S.) Ltd.

Isle of Man

AIG Insurance Management Services (IOM) Ltd.
Alexander Insurance Managers (Isle of Man) Ltd.
Bain Hogg Management Services (IOM) Ltd.
Caledonian Management Ltd.
Claremont Insurance Management Ltd.
Eaglehurst Insurance Management Ltd.
FINNCAP-OY Finnish Captive & Risk Services Ltd.
International Risk Management (Isle of Man) Ltd.
Isle of Man Insurance Management Ltd.
Jardine Risk Services (I.O.M.) Ltd.
R&I Management Services (Pty.) Ltd.
Sedgwick Management Services (IOM) Ltd.
UNISON Management (IOM) Ltd.
Willis Corroon Management (Isle of Man) Ltd.

Jersey

Minet Risk Services (Jersey) Ltd.**
R&I Management Services (Pty.) Ltd.

Luxembourg

AIG Insurance Management Services (Luxembourg) S.A.
Alexander Insurance Managers (Luxembourg) S.A.R.L.
Aon Risk Services (Europe) S.A.
EURCO S.A. (Luxembourg)*
Gecalux S.A.
Sedgwick Management Services (Luxembourg) Ltd.*
SINSER
Sogecore S.A.
UNISON Management (Luxembourg) S.A.

Malta

Willis Corroon Management (I.O.M.) Ltd.-Malta Branch

Netherland Antilles

Alexander Insurance Managers (Curacao) Ltd.
Aon Risk Services (Antilles) N.V.
Sedgwick Management Services (Curacao) Ltd.*

Netherlands

Aon Risk Services (Nederland) b.v.

Singapore

Alexander Insurance Managers (Singapore) Pte. Ltd.
International Risk Management (Singapore) Pte. Ltd.
Johnson & Higgins Risk Management Services (S) Pte. Ltd.
Minet Risk Services (Singapore) Pte. Ltd**
Richard Oliver Risk Managers Pte. Ltd.
Sedgwick Management Services (Singapore)Pte. Ltd.

Sweden

SINSER A.B.
UNISON Management (Scandinavia) A.B.

Switzerland

Nordic Mutual CMO Zurich A.G.
Sogecore A.G.
UNISON Management Ltd.

Tennessee

Sedgwick Management Services (U.S.) Ltd.
Willis Corroon/ARMS

U.S. Virgin Islands

Aon Risk Services-U.S.V.I. Inc.
Johnson & Higgins (USVI) Ltd.

Vermont

AIG Captive Management Co. Inc.
Alexander Insurance Managers (Vermont)
American Risk Management Corp.
Aon Risk Services (Vermont) Inc.
Becher & Carlson Management (Vermont)
Commonwealth Risk Management Inc.
Green Mountain Captive Management Co.
Johnson & Higgins Services Inc. (Vermont)
Minet Risk Services (Vermont) Inc.**
Mutual Risk Management (Vermont) Ltd.
Risk Retention Groups Management Co.
SB&T Captive Management Co.
Sedgwick Management Services (U.S.) Ltd.
Skandia International Risk Management (Vermont) Inc.
Vermont Insurance Management Inc./USA Risk Group
Vista Insurance Services Inc.
Willis Corroon Management (Vermont) Ltd.
Yankee Captive Management Co.

** A directory listing for this domicile was not provided.*

*** Information for this domicile is included in the Minet Risk Services (Bermuda) Ltd. listing*

**** Listing appears in the addendum section at the end of the directory.* BI

NEAR NORTH NATIONAL GROUP

- NEAR NORTH INSURANCE BROKERAGE, INC.
- NEAR NORTH NATIONAL TITLE CORPORATION
- FINE ARTS RISK MANAGEMENT, INC.
- ENTERTAINMENT RISK MANAGEMENT
- SETTLEMENT PLANNING ASSOCIATES
- NATIONAL PROFESSIONAL GROUP
- BUTLER AGRI-BUSINESS
- THB INTERMEDIARIES, INC.
- TRANSACTION CONSULTING GROUP

For information on Near North's capabilities, call our corporate headquarters at (800) 621-6719 or visit booth #784 at the RIMS Conference

CHICAGO DALLAS LOS ANGELES NEW YORK TAMPA WASHINGTON, D.C.

Exploring new frontiers

Scott K. Lange's ideas, innovations are helping keep Microsoft online

By DAVE LENCKUS

A controlled obsession at Microsoft Corp. drives the top gun of the software industry to not just push the envelope in information technology frontiers, but also to blast beyond any real or imagined boundaries.

Co-Founder and Chairman William H. Gates III nurtures that spirit at the leading-edge technology giant to protect it from the insidious effect of corporate evolution—the subversion of entrepreneurism.

That vivacity extends beyond the company's product development group.

Director of Risk Management Scott K. Lange has engineered a risk management culture that goes far beyond the insurance-buying mentality he found at Microsoft five years ago, when he was named the company's first risk manager. But he sees no reason to let a successful program stand in the way of his plan for some big changes in the company's risk management strategy.

Mr. Lange wants to help Microsoft's senior management redefine risk and re-evaluate how to finance it, regardless of whether the exposures are insurable.

"We have to make sense of what we're looking at from a company standpoint—considering all losses, not just this little insurance empire I'm managing," said Mr. Lange, who talks excitedly, though guardedly, about his newest project.

Building from the ground up

Mr. Lange's plan for reshaping risk financing at Microsoft, which he only recently unfolded in detail for the company's top brass, in no way minimizes his accomplishments to date.

Some numbers tell part of the story.

Although sales at the hard-charging Microsoft have increased five-fold and the company's worldwide operations have expanded tremendously, the software giant's insurance costs during Mr. Lange's five-year tenure have not even tripled.

At the same time, Mr. Lange in many cases has negotiated broader coverage terms and additional limits, including picking up more business interruption coverage for the high-margin enterprise and significantly boosting earthquake limits for its U.S. and Japanese operations.

Even considering the soft property/casualty insurance market, that is a small increase in insurance costs, said Roger Van Der Vliet, a vp with Johnson & Higgins of Washington Inc. in Seattle and Microsoft's broker.

Michael W. Brown, vp-finance and chief financial officer of Microsoft, also is impressed with how Mr. Lange is using the company's insurers more as partners than mere vendors to help Microsoft mitigate risk.

Mr. Lange, though, shrugs off the topic of buying insurance as mundane. He much rather would discuss what he considers more exciting areas of risk management.

At Microsoft, those include:

- Creating and expanding risk management's role in helping various corporate departments, including employee benefits, mitigate a wide array of risks while simultaneously raising risk management's level of involvement in the company's strategic planning.

"Scott's developed an understanding of the business and has gained the respect of the product groups and business units," which use him as a consultant, said Mr. Brown.

"I think we are, at present, where risk management does an excellent job of controlling and mitigating risk in the physical world," added Microsoft Treasurer Gregory B. Maffei. "Now, we're taking it up to a higher strategic level."

- Self-insuring the company's workers compensation risks in Washington state, which has helped Microsoft control its workers comp costs and has provided the company with a truer picture of its workers comp risks.
- Developing a contractual risk management program that encourages the company's various departments to allow risk management to review the liability they assume under contracts with outside organizations.
- Persuading liability insurers to allow Microsoft to manage litigation involving insured claims against it.
- Inspiring the company's international auto insurer to develop a program that relieves risk management and employee headaches from overseas car rentals.
- Prodding the company to pursue its general liability insurer for the millions of dollars Microsoft spent defending an advertising injury claim. After rejecting the request several times, the insurer agreed to settle.
- Working with a risk management information system vendor on developing enhancements to Microsoft's new RMIS that now will be made available to the risk management community at-large.
- Developing a product liability risk management program for a major new product, a computer keyboard, that exposes Microsoft to a risk it never had before: consumer claims arising from repetitive strain injuries.

Those accomplishments have earned Mr. Lange the 1995 *Business Insurance* Risk Manager of the Year Award.

A true risk profile

But, Mr. Lange believes that his biggest and most exciting challenge lies ahead: reshaping how BOOP—the company's endearing acronym for Bill Gates and Microsoft's three-person office of the president—assesses and funds risks.

"On the surface, when you look at Microsoft's insurance program, it looks like vanilla stuff," said Mr. Van Der Vliet, who nominated Mr. Lange for the award. The company's exposures include typical highly protected property, workers comp and auto risks, which he noted are cheap to insure or self-fund.

"But, that doesn't reflect the company's unique risk profile," said Mr. Van Der Vliet. Like an iceberg, many uninsurable risks that loom below those surface exposures could rip a gaping hole in the finances of even a company as cash rich as Microsoft.

A large segment of that not-quite-so-clear but present danger involves intellectual property rights.

Microsoft needs to protect itself from the heavy financial losses associated with patent infringement by competitors and the piracy of its products.

'We have to make sense of what we're looking at from a company standpoint—considering all losses, not just this little insurance empire I'm managing.'

"Piracy is probably our major competitor," Mr. Brown said.

In addition, Microsoft's competitors have demonstrated they won't shy away from taking on Microsoft in patent infringement litigation, which Microsoft officials say has become a staple of their competitors' business plans.

For example, in a case that Microsoft eventually won, Apple Computer Inc. claimed that Microsoft illegally used numerous Apple icons for a graphics program in Microsoft's Windows product. Apple sought about $5.5 billion of damages.

Microsoft spent about $10 million defending the claim, though it was able to recover an undisclosed portion of that from its insurer after Mr. Lange intervened (see story, page 97).

In another patent infringement suit over a disk compression process, Microsoft faced $103 million in damages last year when a federal court ruled largely in favor of plaintiff Stac Electronics, a San Diego-based software developer and computer manufacturer. Even after settling the dispute, Microsoft's cash outlay, which was completely uninsured, was between $85 million and $90 million.

Microsoft's competitors also are apt to raise antitrust allegations against the company.

Until a federal district court judge recently nixed the deal, Microsoft and the U.S. Justice Department had worked out a settlement of an antitrust case that numerous competitors had filed over Microsoft's licensing practices.

In addition, competitors have put a bug in the Justice Department's ear about potential antitrust implications of Microsoft's plan to include within its new Windows 95 graphics operating system the capability for users to tap into the company's new online news and information and communications service.

Another significant exposure in Microsoft's risk profile is employment liability.

Because the company's employees on average are not quite 34 years old, terminations of older workers pose a risk of age discrimination lawsuits, Mr. Van Der Vliet said.

In addition, because many employees are awarded stock options, which vest over a 4½-year period, the company has to be mindful of how close employees are to vesting in that benefit when terminated.

And, because of the company's high-margin business, its business interruption exposure may be larger than its total property values. That can make property insurers uneasy, because they typically, if ever, see that, according to Mr. Van Der Vliet.

The company's edge

Microsoft, though, enjoys a risk financing advantage that many companies don't: It is cash rich.

Really cash rich.

Microsoft had $3.61 billion in cash and short-term investments at fiscal year-end June 30, 1994. Not only is that a huge stash, it also represents a whopping 67% of the company's total assets. For most companies, cash and equivalents account for only about 5% to 8% of total assets.

Microsoft also has little debt. At fiscal year-end 1994, its $913 million of liabilities, all of which were current, accounted for a paltry 17% of the bottom half of its balance sheet.

That all adds up to some maneuvering room for Microsoft in the risk-financing area and raises a major question involving high-level company strategy.

Mr. Lange believes that risk managers should be focusing on helping top management strategize rather than getting them entangled in the day-to-day details of managing risk. He has recently been focusing BOOP's attention on his concern about Microsoft's risk-funding strategy.

Pointing to the Stac Electronics case, Mr. Lange said: "You start seeing that kind of stuff and you think, 'What is our strategy? If I can afford to take that kind of hit, why am I buying insurance?' "

Though that kind of a risk was part of the risk profile Mr. Lange had developed for Microsoft's senior management, the Stac case provided a tangible example of the titanic risks Microsoft faces. Even more critical than a monetary loss or the time spent in litigation, the case crystallized for top management the grave risk of losing a substantial revenue-generating product under a court order to withdraw it from the market, according to Mr. Lange.

Microsoft's publicly traded stock did not suffer when the company recognized the Stac case settlement in one quarter, because Wall Street understands the company and its massive financial wherewithal, according to Mr. Lange.

But, he asks, what if Microsoft suffers a massive earthquake loss one week, a huge damage award the next week and another huge loss the following week? "How many situations will it be before the Street says, 'Hmmm, what are you guys doing up there?' " and the stock begins to suffer?

"We went back to square one" in evaluating how well the company protects its assets, he said. "Does it matter where those losses come from, whether they're insurable or not?" Mr. Lange questions.

"We have a great program for 30% to 40% of the risk of the company (see story, page 105). Do we ignore the other 60%? Or, do we not do that 30% to 40%?"

Continued on next page

Scott K. Lange's curriculum vitae

Born: Seattle.

Age: 39

Title: Director of risk management, Microsoft Corp. Has served as risk manager with Microsoft since January 1990; promoted to current position this year.

Previous experience: Liability and aviation manager, The Boeing Co. in Seattle, from 1988 until 1990; liability manager, Boeing, 1985-1988; insurance analyst, Boeing, 1979-1985.

Honors/professional affiliations: Recently nominated to serve on the American Management Assn.'s Insurance & Risk Management Council; completing his third year on the Risk & Insurance Management Society Inc.'s national conference program committee; RIMS audit committee member, 1988; editor of the Washington RIMS Chapter's newsletter, 1990-1993; national society director for the chapter, 1987-1989; chapter president, 1986; chapter vp, 1985; chapter treasurer, 1984; chapter secretary, 1983; membership chair, 1981-1983.

Education: Earned a master of business administration degree from the University of Puget Sound in Tacoma, Wash., in 1982; earned a bachelor of arts degree in business administration-finance from the University of Washington in Seattle in 1979.

Family: Wife, Elizabeth; three children.

Hobbies: Restoring and riding Harley-Davidson motorcycles and fishing.

Continued from previous page

The way Microsoft currently finances risk, considering its total risk profile, is like "putting a Thermopane window in the barn while the barn stays open all the time," he observed.

Drawing a picture

Before the risk-funding issue could be tackled, Microsoft's senior management needed an even firmer grasp of the company's true risk profile than it already had, Mr. Lange believed.

At a meeting with BOOP earlier this year, Mr. Lange presented a risk funding report that outlined the company's significant risks, what was at stake, the various risk funding approaches the company currently uses as well as new ones it should consider.

The risk inventory he presented focused on "things that could really whack" the company's business, regardless of whether they are insurable.

"Scott is approaching this in exactly the right way," said Richard A. Nielsen, president and chief operating officer of Johnson & Higgins, the New York-based parent of Microsoft's broker.

Referring to the short-lived cap programs of the early 1980s, in which a policyholder purchased coverage over an aggregate retention for all of its risks, Mr. Nielsen said: "I think it's a natural evolution of the risk management process as you track it over the years, and I think more and more companies will be taking this approach."

Mr. Lange numerically rated the risks based on what their financial impact would be on Microsoft. That analysis was compounded by factoring in risks that may not

See **Lange** *on next page*

Microsoft's first steps and its giant leaps

Microsoft®

Founded: Harvard University undergraduate William H. Gates III and friend Paul G. Allen, who were consultants in the mainframe/minicomputer programming field during their high school years in Seattle, are inspired by a magazine article on the new Altair 8800 minicomputer to write the BASIC programming language to run the system.

After completing the project, which is the first computer language program for a personal computer, the two sell it to Altair's manufacturer, MITS of Albuquerque.

Messrs. Gates and Allen then set up Microsoft as a partnership on April 4, 1975.

Headquarters: Redmond, Wash., on a 270-acre, 26-building-and-growing campus that features rolling, shrub-lined lawns, a wooded walking trail, a baseball field, a basketball court, a volleyball court and courtyard fountains.

Ownership: Publicly traded over-the-counter stock listed on the NASDAQ exchange. Mr. Gates holds more than 24% of the company, and employees own about 22%.

Revenues: $4.65 billion net revenue for fiscal year ended June 1994. Microsoft reported $2.73 billion of net revenue for the first six months of fiscal year 1995.

Employees: Nearly 16,400 in about 47 countries.

Lines of business: Through its headquarter operations in Washington and its subsidiaries worldwide, Microsoft develops, manufactures, markets, licenses and supports a wide range of software and other computer products. These include: operating systems for personal and office computers and personal information devices; application programs; languages; and personal computer hardware, books and multimedia products.

Production: Microsoft's MS-DOS operating system, designed for personal computers with the Intel microprocessor chip, is preinstalled by original equipment manufacturers on most PCs. The system runs 75% to 80% of the PCs in use worldwide. The company also has shipped about 60 million of its Windows graphics operating system for MS-DOS-based PCs.

Microsoft has sold 20 million copies of its Microsoft Word word processing applications product.

The company has developed 350 software, hardware and related products. Its consumer division plans to introduce at least one new software title each week through June.

Milestones

1975: William H. Gates III and Paul G. Allen set up Microsoft in Albuquerque as a partnership shortly after developing the first computer language program for a personal computer. The company has three employees.

1976: Microsoft refines and enhances the language, BASIC, to sell to other customers. The company has seven employees.

1977: The exclusive license MITS holds to BASIC is terminated after a legal dispute over rights. Microsoft also begins selling FORTRAN, its second language product. The company has nine employees.

1978: Microsoft begins selling COBOL-80, its third language product. It also licenses BASIC to Tandy Corp., which is the parent of Radio Shack, and Apple Computer Inc. Microsoft has 13 employees.

1979: Microsoft moves to the Seattle area and establishes a division dedicated to retail products and end-user customers. It has 38 employees.

1981: International Business Machines Corp. introduces its PC product, which uses Microsoft's DOS operating system and various computer languages.

Microsoft, which also reorganized as a privately held corporation, has 129 employees.

1982: Microsoft introduces a product that combines software support for advanced graphics and other capabilities with the industry standard, BASIC. The company, which also opens its first overseas subsidiary, has 220 employees.

1983: Microsoft introduces a hand-held pointing device, the Mouse, and its Word word processing program.

Paul Allen resigns as a corporate officer but remains on the board of directors. The company has 476 employees.

1985: Microsoft ships its retail version of the Windows graphics operating system. The company has 1,001 employees.

1986: Microsoft's initial public offering of stock raises $61 million. The company, which moves to its new corporate campus in Redmond, Wash., has 1,441 employees.

1987: Microsoft and IBM announce a joint development agreement for the OS/2 operating system.

Microsoft also releases its first CD-ROM application, a writer's reference product. The company has 2,258 employees.

1989: Microsoft and IBM broaden the scope of their joint development partnership, agreeing to develop a consistent full range of systems software.

International operations now account for more than half—55%—of Microsoft's annual sales. The company has 4,759 employees.

1990: Microsoft becomes the first PC software company to exceed $1 billion in sales in a single year. The company has 5,975 employees.

1993: A federal district court rules that the icons Microsoft uses in its Windows products do not violate Apple's copyrights. A federal appeals court upholds the decision a year later.

Microsoft and Intel Corp. announce a standard method of integrating the telephone with the PC. Word becomes the world's most popular word processing program. The company has 14,500 employees.

1994: Microsoft settles a $103 million patent infringement judgment with Stac Electronics for between $85 million and $90 million.

The company also begins selling its first computer keyboard product. But its advertising does not focus on the keyboard's ergonomic design. Instead, Microsoft posts warnings on the product that improper use could lead to repetitive strain injuries. The company has 16,379 employees.

1995: Microsoft announces that the latest version of its graphics operating system, Windows 95, will include the Microsoft Network, the company's entry into the online news and information and communications service market. Competitors voice antitrust concerns.

MICHAEL A. MARCOTTE

Lange

Continued from previous page

pose unduly harsh financial burdens to the company but are nonetheless unacceptable, like risks that threaten the life or safety of employees or visitors.

Mr. Lange ranked the risks by severity on a one to 10 scale, with 10 being the most severe, and also by how often they could occur during a period.

The risks also were ranked by their potential aggregate impact on the company, which meant a given risk could have a second value based on its frequency.

For example, a workers comp injury or a computer keyboard product liability claim would be a low severity risk for the company. But because of the potential high frequency of such claims, their impact on Microsoft in the aggregate may be significant.

Mr. Lange then plotted the frequency/severity and aggregate values of the risks on several graphs, with the horizontal axes denoting frequency and the vertical axes denoting severity.

One such graph presented the company's overall risk profile. On separate graphs, Mr. Lange also plotted the company's financial, operations, natural disaster, litigation and employment-related risks.

"It's a great talking exhibit for management," Mr. Lange said of the risk maps. Without it, management very well may have found digesting his presentation as formidable as consuming a table, he said.

"But you throw out a risk map, and there it is, all on one sheet of paper," he said.

Charting a new course

Mr. Lange now is trying to help BOOP figure out how to overlay a matrix of risk-funding strategies on the graphs so senior management can determine a risk-funding strategy for certain risks.

Both Mr. Lange and Mr. Brown support self-funding Microsoft's risks to a great degree.

Inexorably tying in a major portion of Microsoft's risk-funding program with a commercial insurer would be a problem, Mr. Brown explained, because "in the long run, they're really good for one big problem. Then they don't want to be a friend anymore."

Mr. Lange suggested to senior management how the company should treat the risks in each of the matrix's four quadrants:

- High-frequency/high-severity risks—Eliminate the activity causing the risk or retain the cost of the risk and build it into pricing. Insurance for these risks is not cost-effective because "the underwriting load is so heavy."

Microsoft, and few other companies, face these types of risks.

- High-frequency/low-severity risks—Self-insure these working-level losses, allocate the costs to company departments and try to mitigate the risks. For Microsoft, these risks would include workers comp claims and possibly keyboard liability claims.
- High-severity/low-frequency risks—Insure such a risk, like an earthquake exposure, if the coverage is available, because it is cost-effective.
- Low-severity/low-frequency risks—Don't worry about how to cover those losses. Such a loss would be the theft of a personal computer from a trade show.

Where the risk funding matrix is placed on the risk inventory graphs is important, because moving the cross-hairs of the matrix left, right, up or down inside the graph's axes would give the company different risk targets in each risk-funding quadrant.

At the same time, the company has to determine its appetite for risk, considering its operating objectives.

"We need to know how big is big. This is a tough question," Mr. Lange said.

That's largely because there is no universally accepted method to answer that question. Some companies use a dollar threshold approach. Others develop formulas like a percentage of net sales or assets.

As part of a larger benchmarking project involving its treasury department, which oversees risk management, Microsoft is looking at how other companies establish risk retention thresholds.

Mr. Lange wants to determine whether those thresholds, however they are established, form a pattern in financial management that Microsoft's top brass can use as a standard in evaluating its appetite for risk.

"A totally random pattern will be instructive, too," Mr. Lange said. "That lets them know they have a little more discretion—that they have to come to that decision fairly independently."

But, Microsoft has found that most other companies, which are not as cash-rich, "don't want to recognize risks that are off the map," Mr. Lange said.

And, a truly exhaustive analysis of whether all of those retention thresholds form some kind of pattern likely will have to wait until someone can conduct a multidimensional analysis, he said.

Mr. Lange said he currently doubts that he will have the time to study the idea, but he would like to participate in such a study.

Pinning down a specific risk retention figure may be impossible, but Mr. Lange hopes that BOOP in time will develop a risk-appetite range that will have an impact on the company's risk-funding decisions and lead to a consistent risk-funding strategy.

"I don't expect to go into management, saying, 'Hey, give me a number,' " Mr. Lange said. "My job is to get them thinking more consistently about the risks that fall into the same quadrants."

The exact risk-funding approach that Microsoft is developing is a highly guarded secret (see story, page 94).

Of course, through all of this, senior management has to bear in mind the potential impact of its risk-appetite decision on Microsoft's income statement.

"True, we have some cash," said Jean-Francois Heitz, assistant treasurer and Mr. Lange's immediate supervisor. "We can pay for a lot of things, but it will damage our P&L statement. If earnings per share decrease, out stock will decrease. We will try to avoid that."

That's why Microsoft seeks commercial insurance to cover high-severity/low-frequency risks, he said.

Continued on next page

The Get-Well Network.

THE MULTIPLAN NETWORK IS MORE than our 17,000 health care facilities nationwide – it is the tens of thousands of people who work with us in those facilities to keep health costs reasonable for the more than 17 million people who rely on us. As the largest Preferred Provider Organizations in the nation, we offer our clients discounts at:

- general hospitals
- subacute facilities
- rehabilitation/orthopedic facilities
- psychiatric and alcoholism and substance abuse treatment facilities
- home health care providers
- facilities with specialties in organ transplants.

In addition, our clients benefit from our growing network of physicians.

Additional savings are available through our MultiPlan Managed Care Inc. subsidiary, which provides a full range of managed care options.

Our hundreds of clients include insurance companies, corporate benefit plans, third-party administrators, and labor-management and government benefit plans.

We have more experience helping our clients save money at health care facilities than anybody else. We've been at it for more than two decades, and *it's our only business.*

For information on how The Get-Well Network℠ can become *your* network, please call Edward Rothstein or Ron Katz at 800 677-1098 or write to MultiPlan Inc., 115 Fifth Avenue, New York, NY 10003.

MultiPlan
Savings Nationwide

Rebooting Microsoft's risk financing program

Continued from previous page

And, even after Microsoft fully develops its risk-funding strategy, it likely will continue to buy insurance as long as markets offer the coverage cheaply and provide valuable services.

The risk management vista

A byproduct of Mr. Lange's risk funding discussions with senior management is an even greater appreciation among Microsoft's top brass for the importance of risk mitigation.

However, that would get any risk manager only so far—especially at Microsoft.

Informality and egalitarianism are woven intricately throughout Microsoft's corporate culture.

Polo shirts, cotton jerseys and khakis are the typical garb for senior management, product developers and clerks alike. Corporate campus buildings are oddly shaped to maximize the number of offices with windows, and all Microsoft offices are equally modest.

"It is not an edict-driven environment. Directing managers to make risk mitigation their top priority would create a company culture shock.

"You can't say, 'Here's what we're going to do,'" Mr. Brown said.

And, risk mitigation never will supersede profitability as the top priority at any company, Mr. Lange recognizes.

But, the concept can be woven gradually throughout the company.

For example, at Microsoft, a risk-mitigation score now will be part of the company's manager evaluations.

"We want to reward those people who are good at it and get the attention of those who are not," Mr. Lange said.

This level of strategizing and helping senior management assess and deal with all of the company's risks is what risk management should be all about, Mr. Lange said.

Risk managers' challenge is much like the one the fast growing and evolving information technology industry faces, according to Mr. Lange.

"You don't want to freeze your thinking with what you're looking at today," he said.

"There are a lot of companies out there that kind of bumble along" in managing risk, using the same risk management practices the company has always used, Mr. Lange said. "Their vision is locked in on the trees," rather than the forest of risks the company faces.

Of course, risk managers have to be sensitive to what their senior management wants to see, and that very well may not be a new group of uninsurable risks, especially at a low-margin company.

"But, I think it's their duty to develop a realistic risk profile," Mr. Lange said.

As far as covering those risks, "it may not have to be a matter of doubling your risk-funding expense," he said.

"You may have to re-engineer your program to get catastrophe coverage across a broader range of risk. But, you don't have to turn the company upside down," he said.

Mr. Lange believes risk managers have to ask themselves: "Are we trying to manage an insurance program, or is the insurance program part of a bigger program we're trying to manage?" BI

Scott K. Lange does not hide his opinion that there is no compelling financial reason for Microsoft Corp. to form a captive, but the company's director of risk management provides few other clues about the new risk-funding program that he and senior management are hatching surreptitiously.

Mr. Lange is helping Microsoft redefine what it considers risk and re-evaluate how to finance it, regardless of whether the exposures are insurable. The company likely will keep some or most of its commercial property/casualty insurance program in place after it completes and implements its new risk-financing plan. But, it will self-insure or make other financial arrangements to finance risks that the commercial insurance market does not cover.

Noting that a captive offers no tax advantages and would have little impact on Microsoft's risk financing costs, Mr. Lange said, "It's difficult to get a compelling argument for why you've got to have one. A captive may not be a totally effective solution, unless you can access the reinsurance market."

The money tied up in capitalizing a captive is another issue, he said. Cash-rich Microsoft would have no trouble meeting various captive domiciles' capitalization requirements, but Mr. Lange does not like the idea of not having accessibility to that money.

He admits that captives provide their owners with a formal, disciplined approach to retaining and financing risk. But, there is no reason a company cannot take the same approach, including establishing reserves through internal accounting measures, without forming a captive, he said.

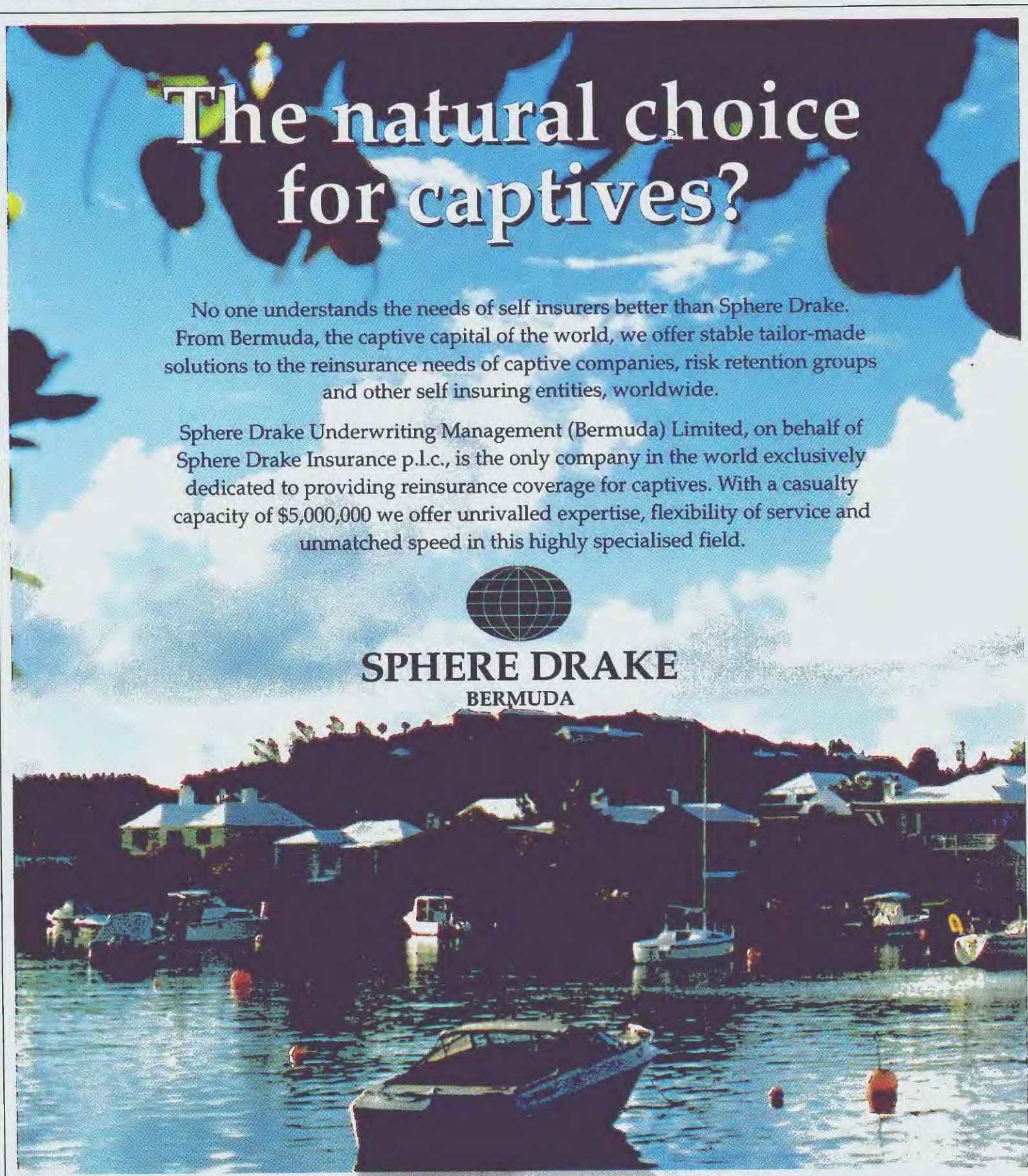
Microsoft, though, still may establish a captive, if only for an operational benefit it would provide, Mr. Lange said.

For example, a captive would greatly simplify accounting for the added risk management charge in the price of the company's new ergonomically designed computer keyboard (see story, page 98). The charge reflects the potential cost of defending repetitive strain injury lawsuits.

With a captive, the charge could be accounted for as a premium. Without a captive, accounting for the added charge is more complex, Mr. Lange explained.

Microsoft's new risk-financing program likely will consist of several funding approaches, Mr. Lange offered, refusing to elaborate. However, he did reveal that the company has looked into directly transferring risks to the reinsurance market. Mr. Lange hopes the program will be implemented within a year.

—By Dave Lenckus



Risk mitigation topped Lange's list of priorities

By DAVE LENCKUS

Buying property/casualty insurance for giant software developer Microsoft Corp. was not a priority for Scott K. Lange when he logged on as the company's first corporate risk manager in January 1990.

"They were doing a good job of managing the procurement of insurance," Mr. Lange recalled.

But, nearly every other facet of the company's current risk management program was missing.

"They were doing the right stuff, but it was very limited. All it was was insurance," said Mr. Lange, who was more accustomed to working with programs like loss prevention, property loss control, contractual risk management and employee education at The Boeing Co. of Seattle.

Though Mr. Lange hustled from the outset to build market relationships, his central, self-appointed assignment was engineering a comprehensive risk management program with risk mitigation at its core.

Another early priority was to self-insure Microsoft's workers compensation risks in Washington. He knew it would cut costs, make the system more accessible and provide a better understanding of the company's true risk for its largest employee group.

Revising vendor contracts

One of the earliest risk management programs Mr. Lange designed at Microsoft halted its routine acceptance of risk transfer to Microsoft under various service vendor contracts.

The vendors included construction contractors, grounds maintenance operations and professional services firms.

Under the typical vendor contract, Microsoft assumed liability for claims arising from injuries to vendor employees as well as its own that were caused by the vendor's actions.

Mr. Lange designed a handful of simple attachments to vendor contracts that stipulate the vendor agrees to accept liability for claims resulting from its own or its subcontractors' actions.

Microsoft also began requiring vendors to show proof of insurance if requested. Risk management verifies that small vendors are covered, but it often does not follow up with larger corporations with significant assets since Microsoft is not trying to ride on their insurance certificate.

The contract attachments also require vendors to follow a series of safety guidelines, including stopping work and notifying risk management whenever they discover unsafe working conditions.

Vendors also must notify Microsoft immediately of an accident so the company can investigate it.

According to Mr. Lange, two key features of the program averted significant vendor objections: The guidelines are fair and easy to understand.

The program's impact cannot be measured directly because Microsoft was not tracking losses due to vendors' actions before Mr. Lange arrived.

But, since the program was implemented, "basically, we have no claims," even though some injuries have occurred on the corporate campus, Mr. Lange said. "I would expect a lot worse loss experience."

Helping mitigate exposures

Developing an employee risk management training program was another early project for Mr. Lange. "No way can one guy take care of a company's risk. You have to get support."

He compiled a risk profile for Microsoft and then explained to its numerous operating groups their particular risk exposures, how those risks could affect the company and how the group, with risk management's help, could mitigate those risks.

For example, Mr. Lange is particularly vexed by municipalities that insist on transferring all liability for any risk associated with a public facility to the organization leasing it for a special event—even if the event does not create the exposure.

Microsoft runs numerous one-day marketing events and developer conferences that rival the size of the Risk & Insurance Management Society Inc.'s annual conference.

"Municipal governments think it's their God-given right to transfer all of their liability," Mr. Lange said.

Issuing edicts, even from the risk management department, violates standard operating procedure at the egalitarian Microsoft. But, Mr. Lange said, Microsoft's special events group understood how upset he would be if the group "signed an agreement with facilities that agree to indemnify the world" and hold Microsoft financially responsible.

Push came to shove with Houston city officials a few years ago over the city's insistence that Microsoft assume all liability for any losses that occurred while the company leased the George R. Brown Convention Center for a marketing event.

That liability extended to losses caused by the city's negligence and losses covered by the city's liability insurance program.

As a result, under the terms of the contract, Microsoft would have been liable for tragedies entirely out of the company's control, like a structural collapse or an armed, disgruntled facility worker shooting co-workers or facility guests.

After the special events group showed Mr. Lange their as-yet unsigned facility rental contract three or four weeks before the event, he sent a letter to city authorities asking for a more reasonable liability agreement.

Mr. Lange said Microsoft would

Continued on next page

A SUNSHINE WELCOME AWAITS YOU AT RIMS BOOTH 261

Barbados

Works for business

- We are an effective low-cost international business centre.
- Major international banks, accounting firms and management companies operate here.
- You'll find a highly literate top quality work force.
- We've experienced over 350 years of stable democratic institutions.
- There's up-to-date international financial legislation.
- Informatics and information technology are quickly developing in Barbados.
- Double taxation treaties are in force with the U.S., Canada, and some European countries.
- Asset management companies thrive in Barbados.

FULL INFORMATION AVAILABLE FROM:

Deputy Governor, Operations
Central Bank of Barbados
Bridgetown, Barbados
Tel (809) 436-6870, Fax: (809) 427-9559

The Director
International Business and Financial Services Unit
Insurance Corporation Building, Roebuck Street
Bridgetown, Barbados
Tel: (809) 436-9772, Fax: (809) 436-9775

Supervisor of Insurance
Treasury Building, Bridgetown, Barbados
Tel: (809) 426-3815, Fax: (809) 436-2699

Continued from previous page
cover the acts of its employees, contractors, service providers and guests. In addition, he offered to purchase far more liability coverage than the facility required.

His rationale was that Microsoft should not have to assume the city's risks when the company is paying a substantial rental fee and its event is generating significant tax revenue for the city.

"It's a slap in the face," he said of the city's posture with facility renters.

Mr. Lange said Houston officials did not respond until less than a week before the event. The city rejected Microsoft's request, except for its offer to post additional liability insurance.

That close to the event, with no time to find an alternate site, Microsoft had to agree to the terms.

But Mr. Lange informed city officials that he considered the rental agreement a contract of adhesion, opening the door to a legal battle over liability for any losses at the event for which Microsoft believed it or its agents were not responsible.

The city attorney immediately fired back that the city was investigating a claim against Microsoft for anticipatory breach of contract.

Mr. Lange has since black-listed the Houston facility, and the company's event planners and legal department have fully subscribed to his stand. The facility may have lost two or three big Microsoft events as a result, Mr. Lange said.

The Houston city attorney's office did not return phone calls.

"We use the experience as leverage elsewhere" with other facilities, Mr. Lange said. "At that point, the facility manager begins to realize, 'Hey, we are in business here. Yeah, maybe we can take our own risk.' "

Microsoft places the facilities that agree to its liability terms on a favored list.

A better solution would be a standard liability clause on which all public facilities and private organizations can agree, Mr. Lange said. "I'd like to see a group of risk managers in my situation get together with public risk managers and get out a standard."

Limiting brand new exposure

Still early at the helm of Microsoft's risk management department, Mr. Lange steered the company through a new exposure that was created when it began marketing a consulting service.

The company consults on, among other things, the development of software, codes for particular applications, network and e-mail systems.

Developing software is a "pretty clean" business—it breeds little third-party exposure, Mr. Lange said. "But when you start getting into consulting, you're getting into mission-critical work" for the client, which creates a big risk for Microsoft.

Contractually limiting Microsoft's professional liability to its clients was vital, considering Microsoft's deep pockets, he believed.

The company contractually limits its liability to the amount its consulting client has paid it to date for its services.

Microsoft has had some dissatisfied clients, who subsequently received refunds. But, it has not faced an errors and omission claim arising from its consulting work during the four years it has marketed the service.

Availing risk management's services to other Microsoft departments and promoting it as a resource was another early project for Mr. Lange. To that end, Mr. Lange also developed a section in the consulting group's business practices operations guide that assesses the group's risk factors.

The section notes the group's business risk factors—failing to achieve a business goal or leaving a customer dissatisfied—and its liability risk factors—causing bodily injury or a financial loss for a customer.

The section helps the group assess its risks, like errors and omissions and warranty liability, and how it can mitigate them. It also should help the group understand when to contact risk management for advice, Mr. Lange said.

Controlling workers comp

Workplace safety in its Washington operations was another area in which Microsoft was not mitigating risk as well as it could have, though the company's large office-oriented staff and its smaller computer disc manufacturing and distribution group work in a relatively safe environment.

Of Microsoft's approximately 16,400 employees worldwide, almost 9,400 are based in Washington. More than 8,000 work in office settings, while fewer than 1,000 work in manufacturing and distribution.

Mr. Lange theorizes that because the corporate culture disdains bureaucracy, some supervisors did not embrace workplace safety as ardently as they should have. He also was dissatisfied with the workers comp claims management system in Washington, which operates an exclusive state fund. He wanted more timely claim information as well as reports on claim status and analytical reports, which the state fund did not provide.

Microsoft had a great workers comp premium modification factor from the state reflecting its low level of workers comp claims. But, many Microsoft employees found that filing a workers comp claim under the state fund system was a bureaucratic headache. In addition, being out of work impinged on some of their incentives.

As a result, many injured workers instead sought medical coverage through their employee health plan so they could return to work the next day, Mr. Lange said. "That's where we got the reputation for our maniacal work ethic."

Mr. Lange believed that self-insuring Microsoft's workers comp risks would be the catalyst for cleaning up several workers comp areas in which Microsoft did not shine.

First, to self-fund, the company had to come up to speed in complying with all Occupational Safety and Health Administration workplace safety standards.

Some supervisors griped that some OSHA standards, like posting hazardous material communications, were bureaucratic. But, Mr. Lange reminded them that OSHA does not distinguish be-

See **Priorities** *on next page*

IF RISK IS YOUR WORST NIGHTMARE,

SWEET DREAMS.

Companies are waking up to a world of escalating claims costs. They realize risk must be managed effectively. And they're turning to Thomas Howell Group.

We're one of the world's largest loss adjustment firms and we provide a complete range of risk related services around the globe. That puts Thomas Howell Group in a unique position. We have an unsurpassed array of integrated resources at our disposal. And we use those resources to build a comprehensive risk management program tailored to meet your needs.

Yet all of these resources would be of little or no use without access to fast, accurate information. Experience has taught us that information is essential to accurately assess the extent of your risk, and to build an appropriate risk management program to match. That's why Thomas Howell Group employs state-of-the-art information systems which are easily customized to meet your precise information requirements, no matter how extensive they may be.

THOMAS HOWELL GROUP (AMERICAS)

You'll learn why top international companies have come to expect prompt, tailored service from experienced professionals at Thomas Howell Group. We can identify what others are more likely to miss. And ultimately, our precision will reduce your cost.

Risk is no nightmare. It's very real. Contact Thomas Howell Group (Americas)

at Six Concourse Parkway, Suite 3100, Atlanta, GA 30328. Or call 1-800-554-8697. And rest assured.

We See What Others Don't

VISIT OUR BOOTH 684 AT RIMS IN SAN FRANCISCO.

Priorities

Continued from previous page

tween low- and high-hazard workplaces. He also pointed out that complying with the standards should not take much time since Microsoft has a low-hazard workplace.

Second, Microsoft could implement a less bureaucratic system for reporting workplace injuries. Mr. Lange hoped that would steer workplace injury claimants back into the workers comp system so the company could obtain a clearer picture of those claims and understand where and how it may need to improve safety.

In addition, though the number of workplace injuries at Microsoft is relatively light, the frequency of low-severity claims was still high enough that this risk should be self-funded, Mr. Lange said (see story, page 90).

Of course, obtaining senior management support for his self-insurance plan was critical.

The president of operations sent letters to the company's Washington facilities advising them of Mr. Lange's role. In addition, the human resources department was asked to be more vigilant in directing employees with apparent workplace injuries into the workers comp system.

Since Microsoft began self-insuring its workers compensation risk in Washington in 1992, the program has accomplished much of what Mr. Lange set out to achieve.

For example, in 1992, there were 90 workers compensation claims at the corporate campus and nearly twice as many claims, 160, at the company's Canyon Park manufacturing facility north of Redmond.

By last year, the trend had completely flip-flopped: The number of claims at the manufacturing site had fallen 37.5% to 100, less than half of the 225 claims at the corporate campus. And, the campus claim figure represented a 150% increase in frequency since 1992.

Mr. Lange credits the creation of joint labor/management safety committees for helping curb claims in manufacturing and distribution, where the employee head count has remained stable over the last few years.

Mr. Lange said the rising number of claims by campus employees, which he does not find surprising, is attributable to three factors:

- A more accessible workers comp system.
- Concerted company efforts to steer workers who suffer workplace injuries into the workers comp system and away from their health plans.
- A growing employee population base.

The number of total claims over the two-year period has increased at a slightly quicker pace than the employee population has grown—also not a surprising development, he said.

In 1992, when Microsoft had about 7,400 Washington employees, there were 250 reported medical only and lost-time workers comp claims.

Last year, with about 9,200 employees, or about a 24% larger workforce, the number of claims increased 30% to 325. Lost-time claims, though, had fallen to 65 from 80 in 1992, while medical-only claims jumped to 260 last year from 170 two years before.

Self-insuring workers comp in Washington is saving Microsoft money, but Mr. Lange cannot determine definitively how much since some injured workers were not seeking coverage through the system before.

Workers comp costs for Microsoft now run between $600,000 and $700,000 annually in Washington, or about 3.2 cents to 3.7 cents per worker hour. That figure is based on a 40-hour work week for each of the company's approximately 9,400 employees in the state.

The company also must pay about a 4.7-cent per worker-hour supplemental assessment tax, or about $850,000 annually, to the Washington Department of Labor and Industries, bringing its overall costs to between 8 and 8.4 cents per worker hour.

In 1991, when Microsoft had 5,000 employees in Washington and many injured workers were not filing claims, the cost of coverage through the state fund was $662,000.

Meanwhile, the average cost per claim fell to about $1,800 last year from $2,500 in 1992, according to Mr. Lange.

Employers with a clerical workforce—how most of Microsoft's workers are defined—that purchase coverage from the state workers comp fund pay a premium of 9 cents per worker hour on average, according to the Department of Labor and Industries, which operates the fund. That includes the supplemental assessment tax.

But even more significant than the attendant cost savings, the self-funding effort is a success because injured employees now are in the system, and the company has a clear picture of its workers comp risks, Mr. Lange said.

Repetitive stress injuries are the most common workplace hazard. RSI accounted for about 37% of the number of workers comp claims and 41% of the cost of claims in calendar year 1994.

Because of the high percentage of RSI injuries, the company has long counseled workers on how to avoid such strain, and it is ordering more ergonomic office furniture.

Significant claims in 1994 also developed from back injuries, which accounted for about 20% of the claims and 22% of the cost, and sports injuries, which accounted for 10% of the claims and 11% of the cost.

Sports claims, which accounted for only 4% of system costs in 1993, are growing because of the company culture: Microsoft's employees are encouraged to burn off their frustrations or nervous energy during the workday on any of the campus' numerous sports fields.

The theory is that activity will induce their creative juices.

Microsoft's workers comp claims are administered by EPIC Insurance Services Inc. of Seattle, a unit of Eagle Pacific Insurance Co.

"In the big picture, I think there's thousands of companies that would trade places with me for my workers comp exposure," Mr. Lange said. BI

A NAME TO LEAN ON

STEWART SMITH GROUP

In today's competitive environment, your clients are demanding more for less. Lean on the Stewart Smith Group for performance you can depend on.

Since 1936, the Stewart Smith Group has provided retail brokers the support they need to market difficult risks.

Ranked among the top wholesale brokers, the Stewart Smith Group has offices in 16 major U.S. cities, offering innovation and reliability in solving complex insurance problems.

Call Stewart Smith, and deal with a company you can lean on, year after year after year.

Stewart Smith

Stewart Smith East • Stewart Smith Southeast • Stewart Smith Southwest • Stewart Smith Mid America
Stewart Smith West • Stewart Smith Specialty Risks • McAlear Asscciates

'Fang' sank his teeth into a defense claim

By DAVE LENCKUS

Microsoft Corp.'s multimillion-dollar recovery of defense costs from Chubb Corp. last year shows what a risk manager can do if he sinks his teeth into a problem.

In an undisclosed settlement, Warren, N.J.-based Chubb agreed to pay a portion of the $10 million that Microsoft had incurred in successfully defending a copyright infringement suit filed by Apple Computer Inc.

Microsoft had argued that Chubb owed it a defense under the personal injury/advertising injury endorsement to its $1 million per occurrence comprehensive general liability policy written by Chubb unit Federal Insurance Co.

Director of Risk Management Scott K. Lange's determination to recover the company's defense costs clearly was a key reason the company recovered from Chubb, said Roger Van Der Vliet, a vp with Johnson & Higgins of Washington Inc., Microsoft's broker.

"It was his tenacity that brought about a successful conclusion," Mr. Van Der Vliet said. "Without the critical input of Scott Lange, Microsoft would not have pursued Chubb with the same vigor—if at all."

Microsoft and Chubb officials would not comment on the dispute or the settlement. The defense coverage accord contained a confidentiality agreement.

However, court records and Mr. Van Der Vliet—who was not a party to the defense coverage agreement—provide a picture of Mr. Lange's influence on the case.

Microsoft began racking up the defense costs in 1988, a couple of years before Mr. Lange was hired as the computer software company's first risk manager. Apple sued Microsoft, alleging that visual displays, or icons, in Microsoft's Windows 2.03 and 3.0 graphics operating system violated Apple's copyrights.

Also named in the suit was computer manufacturer Hewlett Packard Co. of Palo Alto, Calif., a Microsoft licensee that developed the NewWave graphics operating system as an adjunct to Windows to make its computer system even more user friendly.

Apple alleged, among other things, unfair business practices and piracy and sought about $5.5 billion in damages. Apple's complaints were, for the most part, beyond the scope of any insurance policy that Microsoft could hope to tap for defense or indemnity coverage.

However, Apple also alleged some marketing and advertising improprieties by Microsoft.

"Those activities arguably fall within the scope of the general liability policy with Chubb, under the personal injury/advertising injury cover," Mr. Van Der Vliet said.

After examining Apple's suit and its own coverage position for some time, Microsoft filed a claim with Federal Insurance in 1989.

Mr. Van Der Vliet remembers the insurer "took a long time" to review the defense request before rejecting it in 1990, just a few months after Mr. Lange became risk manager.

Still, "Scott was full blown into it by then," Mr. Van Der Vliet recalled.

Mr. Lange, who eventually would earn the nickname "Fang" among J&H and his own staff for his dogged pursuit of his goals, insisted on pursuing the defense coverage.

But he had to walk a tightrope at first. He had to balance his sensibilities about what Microsoft should fairly expect from its insurer against the animosity he risked creating with Microsoft's own legal staff if they thought he was attempting to grab control of their turf.

In discussing his approach to working with other Microsoft departments facing risk management problems, Mr. Lange has said his department's role is to act as a silent resource. The departments being assisted should take credit for solving their problem, he has said.

At Mr. Lange's urging, another meeting was arranged with Chubb in early 1991, as the Apple litigation continued. Chubb's senior underwriting staff sat down with Mr. Lange, Mr. Van Der Vliet and William H. Neukom, Microsoft's senior vp-law and corporate affairs and corporate secretary, to discuss the claim further.

Chubb agreed to review the claim again when Microsoft agreed to give the insurer additional information that Microsoft previously had believed it had to hold back under a court order, Mr. Van Der Vliet said. Among the documents were examples of Microsoft's advertisements that included the disputed icons.

About six months later, Chubb again rejected the claim. The insurer eventually filed a motion in federal district court in Seattle seeking a declaratory judgment that it had no duty to defend Microsoft.

Mr. Lange already had prepared a detailed analysis of Microsoft's defense coverage claim against Chubb for the company's legal department.

He suggested refocusing the case away from some complex legal arguments and instead simply showing the court Microsoft ads featuring some of the disputed icons.

The Seattle federal district court in January 1993 found that Federal Insurance had a duty to defend Microsoft. Microsoft and Federal settled for an undisclosed amount last year, rather than fighting further.

Later in 1993, a federal district court judge in California found that Microsoft and HP did not violate Apple's copyrights. The 9th U.S. Circuit Court of Appeals upheld the ruling last year.

Mr. Van Der Vliet doubts that Microsoft would have been as successful recovering defense costs without Mr. Lange's involvement. "He galvanized the legal staff at Microsoft."

A similar coverage dispute between Microsoft and its current general liability insurer, Twin City Fire Insurance Co. of Hartford, Conn., an ITT Hartford Group Inc. subsidiary, is not likely to occur.

CGL policies still cover advertising injuries but generally respond now only when such losses arise directly out of advertising activities. CGL policies also no longer cover losses resulting from unfair competition and piracy. BI

SOME RISKS CAN ONLY BE HANDLED BY AN EXPERT. THAT'S WHY YOU NEED A HORSE OF A DIFFERENT COLOR.

Sometimes inland marine, property and ocean marine risks demand special attention. That's when you need Wm. H. McGee & Co.

THE EXPERIENCE TO ANTICIPATE NEEDS

Because we're specialists, our underwriters have a different way of looking at things and an uncanny ability to come up with innovative solutions you don't get from your average insurance market.

FLEXIBILITY YOU WON'T FIND JUST ANYWHERE

Take a policy we put together for a gallery specializing in Far Eastern art. We designed a single policy that combined ocean marine, inland marine and property coverages. It covered the artwork from the time it left the Far East until it arrived and was hanging at the gallery. We built in a special feature that extended coverage for the artwork if it was on loan to a museum.

So the next time you need special handling on inland marine, property or ocean marine coverages, don't take chances. Get a horse of a different color. And discover the difference a specialist makes. To find out more about what we can do for you, call 1-800-235-6029.

WM. H. McGEE & CO., INC.

WORLD WIDE COVERAGE · UNDERWRITING MANAGERS SINCE 1887

CORPORATE HEADQUARTERS
FOUR WORLD TRADE CENTER
NEW YORK, NY 10048
1-800-235-6029
OFFICES IN THE US AND CANADA
CORRESPONDENTS THROUGHOUT THE WORLD

Risk manager has a hand in keyboard project

Risk management concerns influenced Microsoft's development of this keyboard.

By DAVE LENCKUS

Microsoft Corp.'s new computer keyboard is a study in risk management as well as ergonomic design.

After 18 months of testing, the giant software developer last fall introduced its first keyboard product—an oddly shaped tool designed to literally force users' arms, shoulders and wrists into more comfortable working positions.

However, the Microsoft product group that developed the Natural Keyboard did not find that it was a natural sell to top management after the director of risk management stepped into the picture.

Scott K. Lange's concern was that no matter how well designed, the keyboard would immediately expose Microsoft to a liability that the company never faced before: users' claims for repetitive strain injuries.

Called into a briefing last year on the progress of the keyboard's development, Mr. Lange suggested that the low-margin product may not be worth the potentially high risk it would create for the company.

Thousands of computer users around the country have filed suit against several computer hardware manufacturers, claiming the designs of their keyboards subject their wrists to repetitive strain that leads to crippling wrist injuries.

Months before Microsoft introduced its keyboard, a jury refused to hold Compaq Computer Corp. liable in such a case (*BI*, Feb. 28, 1994). Several months after the Natural Keyboard was introduced, a jury hearing a similar case refused to hold International Business Machines Corp. liable (*BI*, March 13).

Mr. Lange, though, was not relieved much by the outcome of the Compaq case, which was only the first of the RSI cases to go to trial.

"You may make $5 million, but it may cost us $100 million" in damages to plaintiffs, he said he told the product group. "Then, what have you done?" The group, Mr. Lange and others at the meeting even discussed licensing the design to an independent manufacturer or even giving away the design just to get the keyboard on the market.

The legal consensus, though, was that neither action would remove Microsoft far enough from the product that it could not be dragged into subsequent litigation. If the manufacturer went out of business, for example, plaintiffs would surely look at Microsoft's very deep pockets for damages, Microsoft concluded.

Mr. Lange recalls that the keyboard developers left the meeting dejected but still determined to market the keyboard. Their faith in their ergonomic design and test results was not shaken.

The keyboard's main features include a split and slightly rotated alphabet keyboard, a palm rest and a wrist adjustment—all designed to promote more natural arm and wrist positions.

Though concerned about the new exposure the keyboard would create for Microsoft, Mr. Lange also was disturbed about the possibility of derailing a new product that could be beneficial to users.

Mr. Lange, the product group and Microsoft's attorneys consulted with Microsoft Chairman William H. Gates III. He liked the product but issued two conditions that had to be met before the keyboard could see the light of a business day in retail computer stores:

- The keyboard had to pass more product tests.
- Risk management had to develop and implement a plan designed to limit the company's exposure to RSI suits.

Mr. Lange's plan was to heighten customer awareness of RSI, not promise that the keyboard could eliminate RSI by itself and build into the price of the keyboard the potential cost of defending Microsoft in RSI litigation.

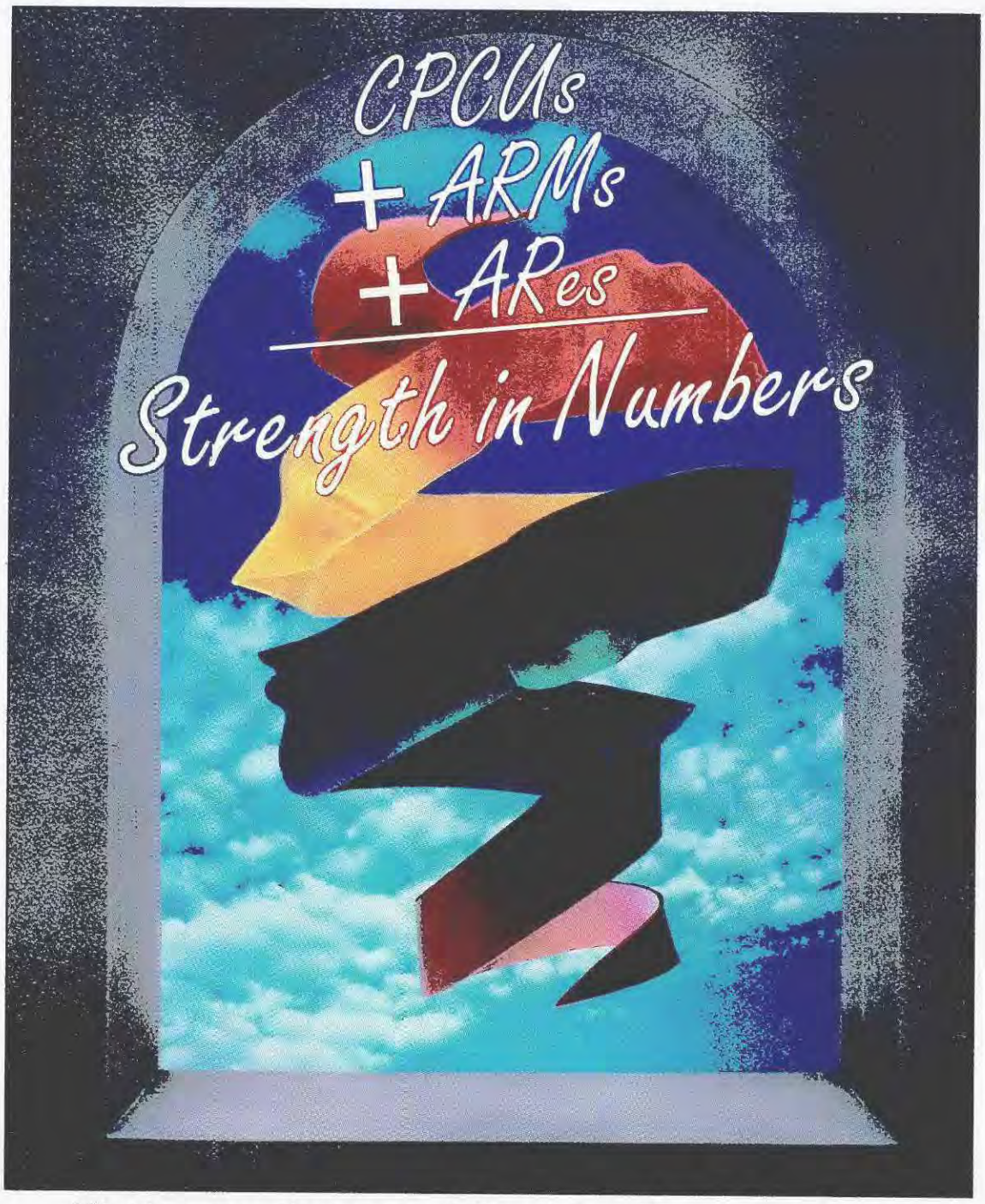
To thwart failure-to-warn claims, Microsoft posts warnings on the keyboard and includes written materials as well as information built into the keyboard software on proper posture and hand and wrist placement.

About a year ago, Compaq began affixing similar warnings to its keyboards (*BI*, Sept. 26, 1994). Irvine, Calif.-based Chicony America Inc., which makes keyboards for several major computer makers, for years has warned against prolonged use.

In promoting the keyboard, Microsoft says its design fosters comfortable and natural hand and wrist positions. But, Microsoft does not claim it is designed to prevent RSI or relieve the suffering of users who are already afflicted.

Mr. Lange was concerned that such assertions could lull some users who pay little attention to their posture and hand and wrist positions into a sense of complacency about their body positioning. The result could be that those users would develop RSI because of their own actions—not because of the design of

Continued on next page



When it comes to reinsurance, our industry-designated treaty underwriters are highly qualified to provide a superior level of broad-based knowledge and expertise. In fact, our ability to assist our producers and provide valuable insights and recommendations about treaty structure, pricing and conditions, for a wide range of classes, is well known. No wonder so many insurance professionals count on Skandia America Re for solutions to their treaty reinsurance needs.

Skandia

Skandia America Reinsurance Corporation
Rated "A Excellent" by A.M. Best Company
One Liberty Plaza, New York, NY 10006
Tel: (212) 978-4700 Fax: (212) 385-2169

Branch Offices

New York
Tel: (212) 978-4925
Fax: (212) 385-8660

Chicago
Tel: (312) 236-7833
Fax: (312) 236-3826
(800) 621-9260

Atlanta
Tel: (404) 303-9710
Fax: (404) 303-9712
(800) 242-7044

Norwalk
Tel: (203) 854-9966
Fax: (203) 853-4005

San Francisco
Tel: (415) 398-1700
Fax: (415) 398-1544

Skandia/Facman
Tel: (203) 854-9966
Fax: (203) 853-4005

Modified RMIS promises to be a time saver

Lange's enhancements serve as model for vendor's new system

By DAVE LENCKUS

Necessity may be the mother of invention, but inventors occasionally need a push in the right direction.

Microsoft Corp. Director of Risk Management Scott K. Lange discovered this while shopping for a risk management information system.

After browsing the available systems in the RMIS market, Mr. Lange did not find a system with all of the bells and whistles he wants. But, he found what he considers a good system offered by a vendor willing to develop additional features that not only will satisfy his needs but also could aid other risk managers.

New York-based Anistics, a subsidiary of Alexander & Alexander Services Inc., is developing several of Mr. Lange's ideas into programs and incorporating them into its OMEGA RMIS. Microsoft's system is scheduled to be installed sometime this summer.

"Being a firm believer in information technology, I believe a successful risk management program requires an effective information infrastructure," Mr. Lange said. "The information system should suck up as much information as it can."

With that information, he will be better armed to trend, model and analyze risk for Microsoft.

But, just as importantly, the system should create more time for him to produce more analytical work by providing additional administrative support—a valuable commodity for Mr. Lange and his two-person staff.

Mr. Lange's ideas do not involve developing new technology, but rather adapting what is out there already to help him—as well as other Microsoft departments that want to tap the system—pack more work with less effort in their workday.

The new system will run on a file server and be available to Microsoft subsidiaries globally. It will be integrated with an existing internal system that performs some peripheral administrative functions, like issuing certificates of insurance to leaseholders of buildings that Microsoft rents.

One of the new RMIS features about which Mr. Lange is most excited is the attachment file that Anistics is enhancing so his information system will be able to store information from a variety of media. As originally designed, the attachment file captures videos and some other images.

But, Mr. Lange wanted it to work harder. The enhanced version will allow Mr. Lange to store policies, spreadsheets, letters, videos of property walk-throughs, pictures, workers compensation medical provider invoices and various databases in his information system.

The attachment file promises to be a tremendous time saver for Mr. Lange and other risk managers, said Mary Villani, a global director with Anistics.

"Risk managers spend an inordinate amount of time on administration and filing of all of that," particularly when preparing for renewals, she said. "It will give them more time to spend on analytical work."

In addition, it brings risk managers much closer "to what we've all been hoping for—the paperless office," Mr. Lange said.

Anistics also tweaked its system's policy module so Mr. Lange

See **RMIS** *on next page*

Continued from previous page

the keyboard—but still blame Microsoft.

"It's really a user-controlled affliction," Mr. Lange said.

The company, though, believes that its development research would show in a lawsuit that the keyboard is ergonomically sound and does not put users at risk to RSI, he said.

Even counting on victory in such litigation, there is still the cost of mounting a defense. Mr. Lange was concerned that without building projected defense costs into the price of the keyboard, the product could turn into a money drain for Microsoft.

He figured that half of the users would be consumers with home systems, who typically do not develop repetitive strain injuries.

Of the other 50%, about half work in high-intensity environments. For that segment of the keyboard market, he estimated how many would develop injuries and how many of those cases would likely result in claims against Microsoft to arrive at the total cost of defending such suits.

The amount that Mr. Lange suggested adding to the price of each keyboard to cover potential product liability litigation costs was not well received by the product group.

The group wanted a low profit margin so the keyboard would be affordable to a wide market segment. After some haggling, Mr. Lange and the group agreed on a figure that would defray much of the potential defense costs while still keeping the product reasonably priced.

Mr. Lange admits that the additional price component amounts to a double charge, since Microsoft already purchases product liability insurance. But, in reporting to Microsoft's top management, "it would be naive of me to say, 'Don't worry about it—we've got insurance.' "

RSI is a long-term risk, and insurers at some point could say they are bailing out of providing coverage for that risk, Mr. Lange said.

There is precedent for insurers abandoning coverage for risks that generate mass tort litigation, he said, pointing to pollution and asbestos risks, among others.

Another reason Mr. Lange does not worry about the additional charge is that it apparently is not hurting sales. Through early March, Microsoft had sold 500,000 keyboards, and it is shipping 100,000 each month to the market. The sales success of the keyboard, which retails for about $100, was a complete surprise, said Keith Kegley, product manager for the keyboard. BI

Shhh. We've ignited a revolution.

Surprised? You shouldn't be. After all, as one of the world's leading risk management and human resource consulting companies, we're aware of how quickly our world is changing. Which explains why we're reshaping A&A...from our boardroom to the mail room.

Our management is committed to being engaged, accessible and responsive to your needs. Our professionals are increasingly focused on service and on delivering innovative products that address your bottom-line objectives.

Through offices in 80 countries, we can provide comprehensive risk and human resource consulting programs, technical capabilities and high-quality service. Whether you are in business locally or an established multinational, we want to work with you.

We've rebuilt, reconfigured and revolutionized our company. Now, we're better equipped than ever to help you master the changes that are transforming your industry.

Alexander & Alexander

RMIS

Continued from previous page
can easily produce budget reports that properly amortize the cost of Microsoft's numerous insurance policies, based on their inception and termination dates, on a monthly basis.

"That's not rocket science," Mr. Lange said. "But, it shows a little insight into what a risk manager does on a daily basis."

"I've had people at huge organizations tell me it takes them two days a month to do this," Ms. Villani said.

Also at Mr. Lange's suggestion, Anistics is putting the company's risk management manual on line.

Mr. Lange earlier had automated the risk manual on his department's existing administrative system, but Anistics will tie that into the new RMIS.

This system feature is designed to drastically reduce unnecessary calls to risk management about routine matters covered by written risk management guidelines. Those calls are productivity killers for Microsoft's microscopic risk management department.

For example, at the expense of helping various departments better control their risks, Mr. Lange and his department have spent much time answering questions about purchasing insurance for auto rentals outside of the United States or planning for special events.

"We have only a limited number of people in risk management. We don't want them bogged down all day doing traditional stuff," Mr. Lange said. He wants his staff to have time to be creative and work with various Microsoft groups on their problems.

With an online risk management manual at their fingertips, Microsoft's computer-adept employees will be able to find answers to their routine risk management questions without blowing in a call to the risk management department.

For example, with the aid of a Windows-style help screen, employees will be able to consult the online manual for guidelines on handling workplace injuries, cargo losses and car rental coverage.

Inherent with this feature is the ease of updating the manual. Risk management no longer will have to send out hard copies of update pages to Microsoft's various departments and hope someone takes the time to insert it into the department's copy of the manual.

Supplementing the online risk manual will be a kind of short-form version with answers to common department-specific questions.

The new information system will include many other features, as well.

Among those is a module that tracks the company's various properties by type of exposure—for example, whether it is a corporate campus facility or an off-campus manufacturing, distribution or sales site.

Property and contents valuation is a key chore the module performs.

Another module tracks all of the company's exposures by type, location and policy period.

The claims module, among other things, tracks the status of claims and produces various analytical reports designed to help the risk manager in fashioning risk-financing, loss control and cost control programs.

The policy module, among other things, records essential policy information and warns the policyholder when losses breach a predetermined threshold. It also tracks premium payments and expenses them, taking into account the various inception and expiration dates of policies.

With the risk-financing module, a risk manager can download loss and exposure data to allocate the cost of risk by location, determine loss development factors from loss triangle reports, produce loss forecasts and develop renewal submissions using all of this information.

Mr. Lange said he will not press Anistics to develop an allocation program that will meet Microsoft's specific needs, because such programs are user-specific. Instead, Mr. Lange envisions Anistics' program as something on which he and other users can build.

Microsoft likely will develop not only its own allocation program but also a "side-by-side system" to the Anistics RMIS that will perform analytical work for risk management, Mr. Lange said.

The OMEGA system also will be able to prepare numerous reports on property values, claims, policy information and cost allocation and prepare various ratios, like property value-to-loss and premium-to-loss ratios, in numerous currencies. This feature is designed to facilitate the preparation of reports for a global company's various foreign units as well as consolidated reports.

A new feature due out soon will allow a risk manager to produce global, national and regional maps that show where his or her company's properties are located. BI

corporate systems
THE RISK MANAGEMENT EDGE

1-800-9-CS-EDGE
(800-927-3343)
1200 Corporate Systems Center • Amarillo, TX 79102

See us at Booth 1158 RIMS 95

Lange inspires underwriter's auto program

A new self-insurance product designed to relieve the headache of dealing with rental car insurance and damaged rentals overseas was inspired by Microsoft Corp.'s director of risk management.

Because of Scott K. Lange's lobbying efforts, AIU North America Inc., a unit of American International Group Inc., is developing a fronted collision and comprehensive auto insurance product covering foreign rental cars.

The key to the program, though, is that AIU will adjust claims, including dealing with the rental car agencies over the damages and subrogating against third parties.

AIU is developing the program for Microsoft and will make it widely available to other auto insurance policyholders this year, said Douglas N. Smith, West Coast regional manager for AIU.

The program will relieve a headache for Microsoft employees overseas and for Mr. Lange, who hopes it will have a similar therapeutic effect on other multinational risk managers.

Microsoft instructs its employees not to purchase the coverage offered by U.S. rental car firms because Microsoft self-funds

See **Rentals** *on next page*

'A cheap way to buy other people's trust'

How Scott Lange keeps a low profile and gets high-profile results

By DAVE LENCKUS

Rejecting a shot at assuming authority over several functions that risk managers often control and instead acting as a behind-the-scenes staff consultant has not buried Scott K. Lange in obscurity at Microsoft Corp.

Just the opposite.

Microsoft's senior management has adopted the director of risk management's broad definition of risk and routinely directs corporate groups to Mr. Lange for his input on problems that traditionally are not associated with risk management.

As a result, Mr. Lange's fingerprints can be found in diverse areas of the company like employee benefits and unemployment compensation, among others.

"One thing we like about Scott is that he's played this broader role" of helping to mitigate a variety of company risks, said Michael W. Brown, vp-finance and chief financial officer.

Mr. Lange defines risk as any exposure—insurable or uninsurable—that could hurt the company. As director of risk management—a recent promotion from corporate risk manager—he believes that a big part of his role is to mitigate all such risks whenever he can.

"I'm not going to say, 'That's not an insurable risk; I'm not going to look at that,' " Mr. Lange said. "I'm not ever going to stop for a second and say, 'That's not in my job description.' I'm not doing my job if I'm not looking at all of that."

Of course, he added, "I might have to back out and say, 'You're doing a fine job. I was just curious.' "

To play that broad role, he tries to avoid a lot of administrative duties that could bog him down.

Those duties also would detract from another key role that he believes risk management should play: serving as an important resource to top management as it shapes Microsoft's business strategy.

With those goals in mind five years ago, when he was hired as Microsoft's first risk manager, Mr. Lange did not pick up where he left off at The Boeing Co., where he had assumed responsibility for as many risk management functions as he could (see story, page 106). For example, he took a pass on the opportunity to assume line authority over functions like workers compensation, security and health and safety at Microsoft.

"Then I'd be in the operations side rather than the strategy side, where I want to be," he said.

Instead, Mr. Lange and the risk management department serve those groups and others as staff advisers, quietly working with them and allowing them to take credit for resolving their problems.

"Zero recognition is a cheap way to buy other people's confidence and trust," Mr. Lange said. "Your rewards come later."

For Mr. Lange, the payoff is twofold:

- Other departments work cooperatively with risk management.
- Senior management, mindful of risk management's efforts and impact, recognizes that it is a vital element in the company's business strategy.

Mr. Lange currently is crafting a new risk-financing plan designed to protect Microsoft from uninsurable as well as insurable

See **Profile** *on next page*

Rentals

Continued from previous page

those risks domestically.

But, because of foreign compulsory insurance regulations, Microsoft employees have typically been advised to purchase the coverage when renting autos overseas.

Many employees, though, are tripped up by the conflicting guidelines and often do not purchase the insurance policies overseas.

That can create tremendous inconvenience for them when they are trying to leave a country after a rental car is damaged.

Troubled by this scenario, Mr. Lange wanted to offer employees a single, clear guideline: Don't purchase any rental car insurance anywhere in the world.

"When they rent a car, they should be able to leave the country freely," without having to worry about arranging to repair a damaged auto, Mr. Lange said.

He approached AIU, which already was participating in Microsoft's international auto insurance program, to develop a service product that would provide employees and Mr. Lange that peace of mind.

Under the program, AIU will front the cost of the repairs and then bill Microsoft for the repairs, plus a service fee.

Mr. Lange envisions that employees who return a damaged car to a rental agency will cut through the red tape they normally would face by producing a card that shows AIU provides this service for Microsoft.

The program will work similarly with other policyholders, Mr. Smith said.

Mr. Lange is scheduled to meet Mr. Smith and AIU North America President Steve Schleisman at the Risk & Insurance Management Society conference in San Francisco this week to hammer out some final details of the program.

AIU expects to launch the product sometime this year as part of a complete insured auto program. The service will not be offered on a stand-alone basis, Mr. Smith said.

—By Dave Lenckus

This List is Incomplete.

That's because there are more service businesses than you can think of, let alone list. And nearly every one of them has an errors and omissions exposure, meaning that in their everyday line of work, these companies risk getting sued for making mistakes. They may end up having to pay at least attorney's fees, even if they didn't make a mistake!

As America's E&O Authority,® Media/Professional Insurance underwrites and handles claims for a wider variety of these E&O risks than any other firm. And backed by A.M. Best-rated A+ Gulf Insurance Group, our Specialty E&O Plan can be tailored to large, medium or small service businesses.

So call today and find out more about E&O from Media/Professional. Because in today's atmosphere, any service business can be roadblocked by an unexpected lawsuit.

For a free Specialty E&O Kit, brokers may call **(816) 471-6118 x 281**.

Coverage is not available for licensed professionals such as doctors, lawyers, architects, engineers and accountants.

Media/Professional Insurance

A division of Aon Direct Group, Inc.
Two Pershing Square, Suite 800 • 2300 Main Street
Kansas City, Missouri 64108 • 816-471-6118
Facsimile: 816-471-6119

America's E&O Authority ®

Profile

Continued from previous page
risks that could hammer the company's financial statements and anger investors (see story, page 90).

Employee benefits is one area in which senior management has turned to Mr. Lange for his input—not only because of his approach to risk but also because of his background in financing. Mr. Lange holds a master's degree in business administration as well as a bachelor's degree in that field, with an emphasis in finance.

Mr. Lange's exposure to benefit-related risk issues was facilitated by Microsoft's former president of operations, Frank Gaudette, who died in 1993.

When Mr. Lange joined Microsoft, Mr. Gaudette was looking for a new administrator for the company's 401(k) salary reduction savings plan. He wanted a plan administrator that could provide employees with daily valuations, a user friendly reallocation system and a greater choice of mutual funds.

Human resources, which Mr. Gaudette oversaw, had worked 18 months evaluating various vendors and pitching its recommendation to senior financial management. But human resources had problems selling its recommendation because of the department's lack of experience in making financial presentations, Mr. Lange recalled.

His role was to package all of human resource's efforts into the type of presentation management needed to see before it felt comfortable acting on the proposal.

Valuing both his approach to risk and his background in finance, senior managers turn to Scott K. Lange for strategic assistance in areas including employee benefits.

The presentation was made in about six weeks, and management approved human resource's choice, 401(k) administrator Fidelity Investment Co. of Boston, shortly afterward.

Though Mr. Lange also helps the human resources department evaluate benefit programs, risk management does not shape benefit programs at Microsoft—human resources does.

"Benefits is their business," Mr. Lange pointedly noted. "But, once they feel it's necessary to offer a benefit, we'll do the financial and insurance review of the benefit," which is the kind of strategic oversight role in which Mr. Lange wants risk management involved.

Sometimes the evaluation will affirm the soundness of the program or lead to only minor tweakings.

For example, Mr. Lange evaluated the financial soundness of participating in a multinational benefits pooling network that the human resources department had recommended.

The network would cover the several thousand employees at Microsoft operations in more than 40 countries.

Most of Microsoft's foreign operations begin as three- to five-person facilities, which grow as the market dictates.

Those facilities had purchased group health insurance programs tailored for a small company. Even among larger foreign operations, management had not always revisited the health insurance programs.

As a result, the operations failed to take advantage of the greater leverage they could have had with health insurers because of the improved claims predictability for their larger workforces.

Mr. Lange quickly recognized the benefits pooling network as a master control plan similar to the arrangement the company has to cover its international property/casualty risks. He then helped human resources sell the idea to senior management.

The Brussels, Belgium-based network, Insurope Secretariat, has helped Microsoft reduce its non-U.S. health insurance costs since 1993.

After the first year Microsoft participated in the network, it received a dividend of between $300,000 and $400,000 from the network for favorable loss experience, Mr. Lange said.

His evaluations also can send human resources back to the drawing board. In one case, the department handed him a piece of chalk as well.

Microsoft's German subsidiary a few years ago proposed what it said was a defined contribution pension plan.

But Mr. Lange determined that it was much closer to a defined benefit plan.

Working together, human resources personnel and Mr. Lange developed a hybrid defined contribution and benefit plan that would not have exposed the company to the kind of financial obligations it would have faced with a traditional defined benefit plan.

However, Microsoft decided not to offer the plan after the German economy softened, because it "no longer needed to attract labor," Mr. Lange said.

Mr. Lange also has helped human resources get a better grip on the company's unemployment compensation claims.

Always on guard for any risk that could hurt the company financially, Mr. Lange agreed to entertain a sales pitch from an unemployment claims management vendor that promised it could cut Microsoft's unemployment insurance tax.

Admittedly knowing little about this area, Mr. Lange consulted human resources department staffers, and they discovered the company typically did not verify whether ex-workers who applied for unemployment benefits were truly eligible.

Mr. Lange arranged a meeting between the vendor and human resources, which was impressed enough to retain the firm, Em-

Continued on next page

Medicode's new Comprehensive Healthcare Payment System is designed for one purpose: to help you make better decisions. And, in today's volatile healthcare climate, that could be the best way to protect your bottom line. Our system is more than just a database, and it goes far beyond traditional pricing methodologies. It's actually a powerful combination of eight pricing database modules, including Medical, Dental, Anesthesia, Outpatient, RBRVS, HCPCS, CareRates and Utilization Profiles, and Pharmaceutical. This unique system allows you to invest only in the modules you need, so you save money. At the same time, its flexibility, power and innovative "blended" methodology let you discover entirely new claim-paying techniques and ways to save. It's backed by the very same clinical expertise and technical support that have made Medicode the national leader in healthcare reimbursement and cost containment tools. Order your free demo diskette today and see why our Comprehensive Healthcare Payment System is becoming the new standard in cost containment solutions.

MDR's data is based on 350 million+ charges, meticulously scrubbed. No payment system offers more accuracy.

MEDICODE™
POWER TO MAKE THE RIGHT DECISIONS™

CALL 1-800-765-6088 TO ORDER YOUR FREE DEMO DISKETTE

© 1995 Medicode®, Inc. MDR Division. 5225 Wiley Post Way, Suite 500, Salt Lake City, Utah 84116

See us at RIMS booth #649

Lange eases property loss headaches

But, using the under-deductible fund comes with strings attached

By DAVE LENCKUS

A property loss that falls within Microsoft Corp.'s $100,000 property insurance deductible does not necessarily create a budget-busting expense for the aggrieved department.

Nor are departments inclined to purchase coverage unilaterally that would protect them against such losses.

With money from a reserve fund financed by an allocation against all Microsoft groups, risk management will pay for the loss—as long as some asset management and loss reporting rules are followed.

For employees, this means less grief and time wasted when they have to replace damaged or stolen equipment, because they do not have to go through one or more levels of management for approval.

And, there is a consistent approach to replacing this kind of property, since some managers are softer touches than others, observed Scott K. Lange, director of risk management.

For risk management, the greater quantity and quality of timely loss data helps it identify property loss patterns and improves the chances of recovering stolen Microsoft property.

For Microsoft, departments are not buying additional, unnecessary insurance to cover such losses.

The program "increases everyone's sensitivity to fixed asset tracking and accounting requirements," Mr. Lange said.

Though the $100,000 property deductible is low for a company as large as Microsoft, "you tell people that when a computer is stolen and they go nuts," Mr. Lange said.

Their knee-jerk response is, "Well, I'll go out and buy my own insurance," he said.

When he became Microsoft's first risk manager five years ago, Mr. Lange discovered that departments were doing just that to cover their portion of cargo losses that fell under the company's cargo insurance deductible.

The problem was the departments were not complying with the asset management rules that the under-deductible insurers imposed, "so they didn't have the coverage anyway," Mr. Lange recalled.

For property losses, he developed the reserve, or under-deductible reimbursement fund.

It covers expensed or fixed property with a value of at least $1,000. The property must be something which the department that suffered the loss is responsible for acquiring.

For example, a desk would not be covered because the company's facilities department is responsible for procuring and distributing office equipment. And, the company's departments already pay for those items under a separate allocation.

But, computer equipment that is stolen, damaged or destroyed would be covered.

Before risk management cuts a check, though, it has to be assured everything possible was done to prevent the loss, that it has a true property value figure and that the loss was reported without delay.

So, for example, when someone seeks reimbursement for a piece of equipment that was stolen six months earlier, Mr. Lange's response likely will be: "Wow, sounds like a real crisis. But, you know what? I can't follow up on it now."

A prompt loss report is crucial. For example, employees attending a trade show promptly reported that some equipment had been stolen from a storage room. An immediate investigation uncovered that only security for the facility had access to the room, and the Microsoft equipment was recovered from the responsible parties.

To recover from Microsoft's under-deductible fund:

- A claimant must report the loss within 30 days.
- The property must be covered under the company's property insurance program.
- If the property is on loan, the borrower must produce a written agreement in which he or she assumed liability for the property but not for consequential damages. The agreement also must state a mutually acceptable property value.
- The claimant must show he or she was not negligent in safeguarding the property. For example, the fund will not cover equipment stolen from an unlocked automobile.
- The department that files a claim must notify the accounting department formally that it is replacing the asset so the accounting department's books can be brought up to date. BI

Continued from previous page

ployers Unity Inc. in Seattle.

Employers Unity began managing unemployment claims against Microsoft in 1993.

By eliminating 28% of the company's ratable claim base, the vendor was a "major factor" in a $400,000 to $500,000 reduction in Microsoft's unemployment insurance costs even as its employee population was growing, Mr. Lange said.

The latest collaborative effort between risk management and the international human resources group is a study of the company's international employee benefits.

Risk management is paying for the study "to assess the benefits programs from a financing and funding standpoint."

For example, Mr. Lange wants to assess how defined contribution plan asset investments are performing and determine whether the company has any unfunded severance or termination liabilities.

But, given the nature of the study, he asked human resources for its input. The study will provide human resources a country-by-country overview of Microsoft's benefit program.

Mr. Lange hopes to see results by sometime in July. BI

OUR NEW INSURANCE FORM LEAVES A LOT TO THE IMAGINATION.

THAT'S WHERE WE COME IN.

Fireman's Fund Specialty

ESTABLISHED 1863 • MEMBER OF ALLIANZ GROUP • 'A' RATED BY A.M. BEST • CALL 800-528-4961

VISIT US AT RIMS — BOOTH #168

READER SERVICE

READER SERVICE

READER SERVICE

READER SERVICE

READER SERVICE

READER SERVICE

READER REPLY SERVICE

PRODUCTS & SERVICES LISTING

Issue of April 24

Reader Service #	Advertiser	Page #
1	Acordia	22-23
2	Acstar Insurance	B. Cov.
—	Aetna Life & Casualty/Bond	46
3	AIG/Claims Services	31
4	AIG/Intellirisk	85
5	Alexander & Alexander	99
6	Alexsis Incorporated	12-13
—	Allendale Insurance	40-41
7	American Excess	77
—	American Institute for CPCU	81
8	American Re-Insurance Co.	28-29
—	American Technical Svc.	82
—	Anistics	76
9	AON Re Worldwide	18-19
10	Assurex International	67
11	AXIA	54
12	The Bank of Bermuda, Ltd.	20
13	The Bank of Butterfield	30
—	Barbados Government	94
14	Bermuda Government	6
—	Bermuda Insurance Symposium	34
15	Brownyard/Chubb	120
16	Brownyard Group	66
17	Burns & Wilcox Ltd.	50
—	Business Insurance	37,38,69
—	Captive Insurance Co. Assoc.	78
—	Centre Cat	21
18	Claims Overload Systems	112
—	CACE	130
—	Comerica	129
19	Commonwealth Risk Service	42-43
20	Conning & Company	80
—	Continental Risk Services	114
21	Corporate Systems Corp.	100
22	CRA	16
23	Crawford & Company	26
24	David Corporation	36
—	Discover Re Managers	14-15
25	Dorn Technology Group Inc.	79
26	DPIC Companies	24-25
27	Employers Reinsurance Corp.	70-71
—	Fidelity & Deposit of MD	52
—	Fireman's Fund	103
—	Frankona Ruckversicherungs	63
28	Global Special Risks	50
—	Great American Insurance Co.	73
—	Hannover Reinsurance	59
—	Howard Bank	119
29	Illinois Insurance Exchange	58
—	Industrial Indemnity	64A/64B
30	InPhoto Inc.	110
—	IPC Re	72
—	Johnson & Higgins	27
31	LaSalle Re Limited	35
—	Leboeuf Lamb Greene & MacRae	136
32	Liberty Mutual	39
—	Matrix Risk Consultants	72
33	Wm. H. McGee & Co., Inc.	97
34	Media/Professional Ins.	101
35	Medicode	102
36	Met Disability	32-33
—	MetraHealth	60-61
37	MultiPlan Inc.	92
38	NAC Reinsurance Corp.	17
39	Near North Ins. Brokerage	89
40	North American Reinsurance	5
41	PMA Reinsurance Corp.	44
42	Protection Mutual Ins. Co.	74-75
43	Prudential DMO Benefits Div.	I. B. Cov.
44	Reliance National	55
45	Reliance National	7
46	Reliance National	45
47	Risk Engineering, Inc.	86
48	Royal Insurance	56-57
—	Safeco Insurance Company	48-49
49	Scor U.S.	Cov. 2,2A-2B
—	Sedgwick Re	83
50	Skandia America Group	98
51	Smith Bell & Thompson Inc.	84
—	Sphere Drake	93
—	Starr Excess Liability	111
52	Stewart Smith Group	96
—	Summit Global Partners	47
53	Thomas Howell/Gay & Taylor	95
—	TIG Insurance	87
54	Toplis & Harding	65
55	Travelers Insurance Co.	9
56	United National Group	4
57	U.S. Risk Underwriters, Inc.	125
58	Scott Wetzel Services	53
—	ZRC	10-11
59	Zurich-American Corporate	51

READER SERVICE

To obtain free information on the products and services advertised, turn to our post-paid Reader Service Reply Card bound in this issue, or complete the coupon at the right, and mail to:

BUSINESS INSURANCE
Reader Service Center
650 So. Clark St., 6th Fl.
Chicago, IL 60605-1702

Business Insurance®

FREE LITERATURE FOR READERS

Issue Date: APRIL 24, 1995
Card Expiration: JUNE 19, 1995

All questions must be answered to process inquiries.

PLEASE CHECK ONE ITEM FOR EACH CATEGORY:

1. My organization is best described as:
A ❑ Mfg/Svcs
B ❑ Association
C ❑ Union
D ❑ Government
E ❑ Educational Inst
F ❑ Ins Agent
G ❑ Ins Broker
H ❑ Ins/Reins Co
I ❑ Actry/Consit
J ❑ Attorney
K ❑ Adj/Apprs
L ❑ TPA
M ❑ Health care Inst
N ❑ Other ____

2. Number of employees:
1 ❑ 150 or less
2 ❑ 151 - 499
3 ❑ 500 - 999
4 ❑ 1,000 - 4,999
5 ❑ 5,000 or more
6 ❑ Unknown

3. My title is best defined as:
A ❑ Administrative Mgt
B ❑ Financial Mgt
C ❑ Risk Mgt
D ❑ Benefits Mgt
E ❑ Loss Prevention Mgt
F ❑ Other_____

4. My purchasing involvement for the requested products is to :
1 ❑ recommend only
2 ❑ specify
3 ❑ approve

5. Do you now receive a personally addressed copy of *Business Insurance*?
A ❑ Yes
B ❑ No, so please send subscription info

Circle the numbers below that correspond to the companies listed on our Advertiser Index for the **April 24, 1995** issue. Cards with more than 20 items circled will not be processed. This card expires **June 19, 1995.**

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
31	32	33	34	35	36	37	38	39	40	41	42	43	44	45
46	47	48	49	50	51	52	53	54	55	56	57	58	59	60
61	62	63	64	65	66	67	68	69	70	71	72	73	74	75
76	77	78	79	80	81	82	83	84	85	86	87	88	89	90
91	92	93	94	95	96	97	98	99	100	101	102	103	104	105
106	107	108	109	110	111	112	113	114	115	116	117	118	119	120
121	122	123	124	125	126	127	128	129	130	131	132	133	134	135
136	137	138	139	140	141	142	143	144	145	146	147	148	149	150

Please print clearly

Name _____

Title _____

Company _____

Address _____

City _____ State _____ Zip _____

Phone ( ) _____

Cutting a software giant's insurance costs down to size

By DAVE LENCKUS

Not even the sustained soft property/casualty insurance market can take much credit for Microsoft Corp.'s skimpy insurance costs.

The kudos go to an aggressive marketing approach by Director of Risk Management Scott K. Lange and his broker, Johnson & Higgins of Washington Inc., whose labor is strengthened by a solid risk mitigation effort and good loss experience.

But building and maintaining relationships with markets that can provide value-added services and are willing to negotiate policy terms is even more important than pricing, according to Mr. Lange.

During the five years that Mr. Lange has built a corporate risk management program at Microsoft, the company's worldwide operations have grown tremendously. Microsoft's annual sales have soared more than 450% to an expected $5.5 billion for the current fiscal year—and possibly to $6 billion or more if planned acquisitions are completed—from less than $1 billion. The company's employee population has more than tripled to about 16,400.

Despite that hefty growth, Microsoft's insurance cost increases have been relatively light.

Insurance costs have grown less than 200% over the same period to less than $3.6 million from $1.2 million.

Even factoring in the soft property/casualty insurance market, that is a meager increase, said Roger Van Der Vliet, a vp with J&H of Washington in Seattle.

While other manufacturers' property/casualty insurance costs typically amount to 1% to 2.5% of sales, Microsoft's insurance costs this fiscal year will total less than 0.06% of sales, Mr. Van Der Vliet pointed out.

Even more impressive than Microsoft's insurance costs is that Mr. Lange and J&H in many cases have obtained broader coverage terms and additional limits.

For example, Mr. Lange has picked up $250 million of business interruption coverage for a single event for the company, which is critical for such a high-margin enterprise.

And, he has significantly boosted earthquake coverage for the company's operations in the Pacific Northwest and in Japan. Now, Microsoft's headquarters in suburban Seattle, the company's central nervous system, is covered by $200 million of earthquake limits under the company's property insurance policy. The company had no earthquake coverage five years ago.

Several factors contribute to Microsoft's success in containing its insurance costs, according to Messrs. Lange and Van Der Vliet.

"Insurers are getting an industry leader, and they're getting an account that will continue to grow for them," Mr. Van Der Vliet said.

The marquee value to insurers of having Microsoft as an account also helps.

"Microsoft is seen as a highly desirable risk—its name gets their attention," Mr. Van Der Vliet said.

But, it doesn't automatically close an advantageous deal for Microsoft.

That takes aggressive marketing. "We know what we want to pay, and we understand our risk very well," Mr. Van Der Vliet said.

On the liability side, the company is mainly a low-risk office operation. On the domestic property side, its highly protected risk program exceeds industry standards in many cases, he explained.

Mr. Lange can be a tough negotiator. For instance, when he broke up a package program Chubb Corp. wrote for Microsoft and moved the property insurance to another insurer several years ago, he didn't blink when Chubb said it was toying with the notion of not renewing the umbrella liability program if it could not have the whole package.

Chubb eventually capitulated after Mr. Lange, who had made other arrangements to cover the umbrella risk, appeared willing to let it walk away from the entire program. A Chubb unit still writes the first layer of the umbrella program (see related story).

Mr. Lange switched the property insurance to Allendale Mutual Insurance Co. of Johnston, R.I., a member of the Factory Mutual System. Allendale was able to significantly cut rates for Microsoft because of its HPR program and offer the company earthquake coverage.

Mr. Lange, though, stressed that premiums do not drive most insurance deals at Microsoft.

The more critical factor is the level of service the insurer provides: its willingness to negotiate terms and conditions or its technological capabilities.

"I try not to deal based on price," Mr. Lange said. "I've spent several thousand to $100,000 more on renewal for a company because we've felt more comfortable with it."

Indeed, Mr. Lange does not subscribe to the notion that insurance is a commodity. He believes that insurance buyers should expect in the long run to pay their own losses and insurers' expenses plus provide them a profit.

"They have to make money. That's fine," he explained. "And, if you have a loss experience that's good, you'll pay less. If it's bad, you'll pay more."

In return, insurers should provide coverage that smoothes out the financial impact of policyholders' losses and provide value-added services, he said.

Mr. Lange's message to insurers is: "I'm willing to give you a profit. But, if you don't tailor your services, I'm not going to pay you then."

Of course, insurance buyers can ferret out the lowest premiums during each renewal.

"Especially if you have a marquee value, people will line up and cut prices," Mr. Lange said. "So, you'll either burn that market later or make them provide coverage below cost. Then, they won't want to tailor their services to your needs."

For example, Mr. Lange has worked out deals with his general and product liability and errors and omissions liability insurers that give Microsoft the right to manage litigation arising from insured claims.

MICHAEL A. MARCOTTE

Scott Lange counts J&H's Roger Van Der Vliet as part of his team.

"We tell insurers, 'If you're not giving me this, you're not meeting the service needs of the company,' " he said.

Microsoft is entering the second year of these agreements, which are not covered by policy endorsements but, rather, are worked out on the side.

"Prior to that, we had a lot conflicts with the insurers over whether they were adding value or just cost to the process," Mr. Lange said.

Mr. Lange's chief complaint was with the insurer attorneys' case management strategy. For example, insurer attorneys often would insist on defending claims that could be resolved more cheaply in the aggregate by settling them.

Failing to settle also meant that key company executives were taken away from their primary responsibilities for the company for long periods so they could support the litigation.

And, when the insurers did agree to settle claims, they often insisted on resolving their coverage issues with Microsoft first, which delayed and threatened the claim settlements.

Microsoft now can choose its own counsel and manage the litigation. The insurers agree to reimburse the attorneys according to a predetermined schedule. Microsoft absorbs any legal costs above that amount, but its attorneys largely have agreed to the reimbursement schedule.

Microsoft's attorneys, though, involve the insurers and ensure they are informed of case developments.

Microsoft and its insurers still may disagree over whether to settle claims, but those disagreements now are worked out without considering the complication of how much the insurers will contribute to the settlement.

Microsoft's relationship with its markets also gives it some clout when it wants to modify a policy, which is relatively often.

Mr. Lange characterizes many of the changes as "small stuff." But, he added, they are still important enough to avoid conflicts or unfavorable coverage interpretations later, he said.

For example, Mr. Lange persuaded Microsoft's umbrella liability insurer to change policy wording that would have prohibited him from making any changes in underlying policies.

He also persuaded his umbrella liability insurer to change its definition of when an incident becomes a claim, which had been defined as when a lawsuit is filed against the policyholder.

That definition disturbed Mr. Lange because it was "creating a disincentive for resolving" claims, he said. Between the notice of a claim and when a lawsuit is filed, "what do we do?"

Microsoft's policy now states a claim occurs when a notice is filed against Microsoft.

"It's good to press insurers on this kind of stuff," Mr. Lange said. "If you assume you're stuck with it, you're missing an opportunity to resolve it now rather than later." BI

J&H helps Microsoft run the right insurance program

By DAVE LENCKUS

Many of Microsoft Corp.'s domestic and international property/casualty exposures are covered under a controlled master program of umbrella and excess policies written by U.S. insurers.

Its foreign risks are covered by the umbrella program written excess of primary coverage provided by admitted insurers in foreign jurisdictions.

For the most part, the umbrella policy limits are reduced by the admitted coverage in foreign countries.

However, some of Microsoft's domestic risks are covered separately from its overseas exposures.

Johnson & Higgins of Washington Inc. and UNISON—the international brokerage network of which J&H is a leading member—place Microsoft's coverage domestically and worldwide.

Allendale Mutual Insurance Co. of Johnston, R.I., a member of the Factory Mutual System, provides Microsoft with nearly $1.37 billion of domestic property insurance per incident under a three-year, all-risks policy, which terminates July 1, 1996.

The property policy covers Microsoft's risks in the United States, Puerto Rico and Canada. It covers, among other things, the loss or damage of electronic data processing equipment and media, valuable papers and fine arts.

Allendale writes a $250 million sublimit for business interruption coverage. Another sublimit of $100 million for contingent business interruption losses applies to extra expense, research and development losses. Even after resuming operations, Microsoft would be covered for up to a year as it rebuilds its business.

The deductible for U.S. losses is $100,000. Microsoft has a $10,000 deductible for losses at its Canadian locations.

The all-risks international property insurance program is written by Great Northern Insurance Co. of Warren, N.J., a Chubb Corp. subsidiary. Great Northern writes $250 million in limits under the one-year policy.

Besides property losses, the program covers Microsoft for, among other things, income loss, including loss of royalty and licensing income, and continuing extra expenses. The deductible is $10,000 per incident, though subsidiaries with annual sales of less than $50 million can opt for a $1,000 deductible.

Under its domestic property insurance program, Microsoft has $200 million of U.S. earthquake coverage for its exposures outside of California and Puerto Rico. Sublimits of $15 million and $5 million, respectively, cover Microsoft in those regions. Microsoft's main operations are located in Washington, where the full limit applies.

Microsoft's $100 million sublimit for contingent business interruption would cover any losses it suffers if an independent manufacturer that produces computer mice for the company in Japan is shuttered due to an earthquake.

The deductible for earthquake losses in Alaska, California and Hawaii and for the Japanese contingent business interruption loss is 5% of the loss or $100,000, whichever is greater.

In Puerto Rico, the deductible is 1% of the loss or $100,000, whichever is greater.

There also is a windstorm loss deductible in Puerto Rico of 2% of the loss or $100,000, whichever is greater.

The $100,000 deductible applies to all other U.S. earthquake losses.

Allendale also covers Microsoft's U.S. flood risks under the domestic policy. Allendale writes $100 million of flood coverage per incident

See **Coverages** *on next page*

Coverages

Continued from previous page
and on an annual aggregate.

Microsoft has a total of $25 million of international earthquake limits under the Great Northern policy and a one-year excess program written by Affiliated FM Insurance Co., an Allendale subsidiary.

Great Northern writes $10 million of limits, and Affiliated FM writes $15 million of coverage excess of $10 million.

Microsoft has a $25,000 deductible under the primary policy.

Affiliated FM also writes $2.5 million of all-risks limits covering Microsoft's international cargo risks.

War-related cargo losses of up to $2.5 million are covered by New York-based New York Marine & General Insurance Co., a subsidiary of NYMAGIC Inc.

The policy does not cover shipments that originate and end outside of the United States, Canada and Puerto Rico.

Microsoft's coverage is subject to a $100,000 deductible, except for shipments from Puerto Rico, which carry a deductible equal to half of the gross loss and at least $50,000.

Microsoft also buys commercial insurance for almost all insurable casualty risks.

Some coverages protect it globally, while others cover only its domestic or international risks.

St. Paul Fire & Marine Insurance Co. of St. Paul, Minn., writes Microsoft's claims-made software E&O coverage, which provides $10 million of coverage per error and in the aggregate.

The policy covers only claims for consequential damages that result from an alleged defect or error in any service, software or electronic product that Microsoft furnishes.

St. Paul covers domestic claims retroactive to November 1982 and foreign claims retroactive to July 1984.

The policy excludes coverage for, among other things, losses due to copyright and patent infringement, professional liability and breach-of-security claims that result from Microsoft's failure to prevent unauthorized access to a customer's electronic system or program.

Defense costs are included within policy limits.

The coverage is subject to a $500,000 deductible per claim, up to a $1 million annual aggregate.

Claims alleging copyright, piracy, trademark infringement and defamation are covered under Microsoft's publisher's E&O policy, written by National Casualty Co. of Southfield, Mich., a subsidiary of Nationwide Mutual Insurance Co.

The coverage, to $5 million per loss and in the aggregate, excludes patent infringement and false advertising claims.

Defense costs are covered outside of policy limits. And, Microsoft is subject to a $100,000 self-insured retention for each loss.

Underwriting group Associated Aviation Underwriters of Short Hills, N.J., writes $5 million in global non-owned aircraft liability coverage for Microsoft.

Microsoft's $1 million per-occurrence/$2 million aggregate comprehensive general liability policy, which is written by Twin City Fire Insurance Co. of Hartford, Conn., a unit of ITT Hartford Group Inc., provides a separate $2 million annual aggregate limit for product liability and completed operations coverage.

The policy covers personal injury and advertising injury claims, as well as employee benefits-related liability claims.

Though it is a domestic coverage, the policy covers Microsoft for claims worldwide if they result from goods sold in the United States, its territories or possessions.

Hartford Fire Insurance Co., another ITT Hartford subsidiary, writes a $1 million per-occurrence commercial general liability policy that covers Microsoft's Canadian operations in British Columbia, Ontario and Quebec. The Hartford Fire policy also contains a separate $2 million annual aggregate for product liability and completed operations losses.

Hartford also writes a separate $1 million per-occurrence/$2 million annual aggregate employers liability policy for Microsoft's Canadian operations.

Microsoft's domestic automobile liability insurance, which also furnishes some limited coverage in Mexico, provides the company $1 million in liability limits per accident and $1 million in underinsured motorist coverage. The policy, written by Hartford, also covers $10,000 of third-party medical costs.

Because of Texas state regulations, Microsoft purchases a separate $1 million auto liability policy from ITT Hartford subsidiary Hartford Casualty Insurance Co. for its auto risks there.

Like many risk managers, Mr. Lange is not happy about Zurich's attempt to takeover the prime business of The Home. Unlike many others, though, he expects Zurich to pick up his coverage.

Mr. Lange for the most part has stopped buying collision coverage because self-funding that risk is cheaper for Microsoft.

However, for their few vehicles, Microsoft's Canadian operations purchase a policy that covers physical damage as well as providing $1 million in liability insurance. Chubb Insurance Co. of Canada writes the coverage.

Microsoft, which currently has operations in about 45 countries outside of the United States and Canada, continues to expand overseas. Great Northern writes its primary international casualty insurance, providing $1 million in occurrence-based limits to cover Microsoft's commercial and voluntary workers compensation and employer's liability exposures.

The international casualty limits also can be utilized as excess coverage above the local foreign compulsory auto liability insurance that Microsoft must maintain and its international auto insurance policy.

Insurance Co. of the State of Pennsylvania, a unit of American International Group Inc., writes the $1 million of international auto liability coverage. The compulsory local foreign auto programs and the international auto programs mesh so that Microsoft has a total of $1 million of underlying limits.

The compulsory auto liability program is written in many cases by admitted affiliates of AIU North America Inc. of New York, another AIG unit.

Mr. Lange also has arranged a controlled international automobile physical damage program that has relieved an administrative headache for Microsoft and its subsidiaries. For Microsoft affiliates that sign up for the program—and many have—AIU North America not only will cover their fleets more cheaply but also, more importantly, arrange for repairs and loaner vehicles.

Three insurers write the $100 million global umbrella liability program over many of the various primary global, domestic and international coverages that Microsoft purchases.

Chubb unit Federal Insurance Co. writes $25 million in per-occurrence/annual aggregate umbrella liability coverage.

The Home Insurance Co. of New York writes the next $45 million layer excess of $25 million. However, this layer excludes software and publishers E&O risks.

Mr. Lange is not too concerned that any losses would ever reach this layer of coverage, and he feels secure that the coverage will be rolled into Zurich Insurance Group, which has proposed taking over Home Holdings Inc.'s prime business (*BI*, April 10; April 3).

But, like many other risk managers, Mr. Lange is not happy about the proposed deal. "It's not a good way for them to go about terminating their agreements."

National Surety Corp. of Chicago, a subsidiary of Allianz A.G. Holding, writes the top $30 million excess umbrella layer, excess of $70 million. It also excludes software and publishers E&O risks.

To cover commercial crime risks worldwide, Microsoft purchases $25 million of limits from Federal Insurance. The policy, written on a per-loss basis, also covers various Microsoft stock option and other employee benefit plans that must be bonded under the Employee Retirement Income Security Act of 1974.

For joint ventures, the policy covers the portion of the loss that equals Microsoft's equity percentage.

Exclusions in the crime coverage include the loss of trade secrets.

Federal also writes Microsoft's worldwide fiduciary liability coverage, which provides $15 million of annual aggregate limits for ERISA-related claims.

Microsoft's workers comp coverage outside of Washington, where the company self-funds its risk (see story, page 94), is written by a variety of insurers. The insured coverage provides statutory limits and $1 million of employers liability limits for each accident and disease that causes bodily injury.

Twin City Fire Insurance writes the coverage in 34 states and the District of Columbia.

Hartford Casualty writes the coverage in New Jersey and Texas, and affiliate Hartford Underwriters Insurance Co. writes the coverage in California.

Microsoft's workers comp risks in Maine are covered by Maine Employers Mutual Insurance Co., which replaced the state's residual market three years ago. The competitive state fund writes most of the new insured business in the state.

In Rhode Island, Beacon Mutual Insurance Co., the state's competitive workers comp fund, writes Microsoft's coverage.

In Washington, Microsoft purchases statutory excess workers comp coverage and $1 million of per-occurrence employers liability coverage from Safety National Casualty Corp. of St. Louis. Microsoft retains $300,000 of losses per occurrence.

Safety National may cancel the coverage, though, if a claims-administration agreement between Microsoft and third-party administrator EPIC Insurance Services Inc. of Seattle, a unit of Eagle Pacific Insurance Co., is terminated. BI

Where D&O protection is a matter of trust (funds)

A multimillion-dollar trust fund covers Microsoft Corp.'s directors and officers against most D&O liability claims.

Top management decided seven or eight years ago against buying commercial D&O liability insurance because the amount of coverage available in the market was limited and "wasn't worth the money," explains Director of Risk Management Scott K. Lange.

Hired as the corporation's first risk manager five years ago, Mr. Lange played no part in that decision.

But, as far as protecting Microsoft's top officials, there is no reason to revisit the issue. The most crucial dynamic in making that decision hasn't changed: The amount of available coverage still does not approach the personal wealth of some cells in the company's brain trust.

Under contracts Microsoft extends to its officers and directors, the trust fund is obligated to defend and indemnify them against D&O claims.

If a dispute arises over whether a director or officer is entitled to coverage from the trust, the company contractually would bear the burden of proving its case.

The fund has been an even stronger protector of Microsoft directors and officers since 1993, when the company reincorporated in Washington from Delaware. Microsoft made that move to take advantage of Washington state laws that narrowed the number of cases in which Microsoft could not extend coverage to company officials.

Now, directors and officers would be unprotected only if they knowingly committed a few specific wrongdoings. "No one will be sympathetic to that," Mr. Lange said.

No one has drawn on the fund since it was established, according to Mr. Lange.

"It always helps when your stock is moving up," he observed. Since Microsoft's initial public offering of stock in 1986, its stock, which is traded over the counter, has climbed in value from $21 per share to as high as $72.50 in recent weeks.

Mr. Lange, though, is concerned that Microsoft does not have any D&O corporate reimbursement coverage.

He is considering how the company should protect itself against that risk as part of his current re-evaluation of Microsoft's risk-financing strategy (see story, page 90).

An outside director serves as the fund trustee. A local bank holds the fund.

—By Dave Lenckus

At Boeing, Lange found practical training ground

Scott K. Lange, who believes that risk managers' traditional role should be expanded beyond managing insurable exposures, launched his career at a company where few risk management staff saw how all of the department's programs fit together.

Only a few risk management staffers at his current employer, Microsoft Corp., see how the company's risk management programs dovetail.

But that is because the computer software company's risk management staff includes only three people in addition to Mr. Lange, who also counts his broker as part of his tiny staff (see story, page 107).

Mr. Lange began his risk management career at Seattle-based aircraft manufacturer The Boeing Co. about 15 years ago.

A cost accountant at that time, Mr. Lange was then promoted to the position of accounting supervisor in the company's insurance department.

He had graduated from the University of Washington in Seattle with a bachelor's degree in business administration less than a year earlier.

As Boeing's insurance department accounting supervisor, Mr. Lange was the only person in the department other than the risk manager who had an opportunity to see and become involved in all of the company's risk management functions, he said.

"Boeing was very functionalized," he said.

But, for himself, "Boeing was an incredibly rich training ground to learn risk management."

Not only did Mr. Lange have an opportunity to review the company's various risk management functions, he also quickly began taking on a growing list of risk management responsibilities that became available because of numerous staff retirements within a short period.

Those additional duties included an "invaluable" claims management position, which tied together prevention with claims handling for Mr. Lange; management of Boeing's non-aviation liability insurance program; commercial and government contractual risk management; aviation liability and aircraft hull risk management.

He was also given responsibility for environmental risk management.

Microsoft doesn't have any environmental risks, but the company's computer-centered working environment presented a different kind of challenge for its risk manager, a challenge which he has met successfully.

He has long understood computers but has "not always been proficient using them."

Now, Mr. Lange is working with a vendor to develop a risk management information system. The system not only will meet his needs at Microsoft but also has raised interest among other risk managers whom the vendor has consulted for feedback on his ideas for new features of the system (see story, page 99).

—By Dave Lenckus

RMOY award luncheon honors Scott K. Lange

Try not to be a man of success but a man of value

Invoking that inscription from a small plaque in his modest office at Microsoft Corp., Director of Risk Management Scott K. Lange says that is how he plans to approach the rest of his career.

In accepting the 1995 *Business Insurance* Risk Manager of the Year award, Mr. Lange said: "That's what I want to look at with this award. I want to value the things I'll work on the rest of my career," rather than focus on individual success.

The remark underscores his approach in guiding Microsoft's various departments toward mitigating whatever risk they face, regardless of whether those risks are insurable.

Mr. Lange accepted the 18th annual award, signified by a crystal obelisk, from *Business Insurance* Vp/Publisher/Editorial Director Kathryn J. McIntyre and Senior Editor Dave Lenckus at a luncheon in Mr. Lange's honor at Seattle's Columbia Tower Club last month.

Mr. Lange, who became the software giant's first risk manager five years ago, thanked many others for their support as he has built its risk management program.

Topping the list was his wife, Elizabeth, "without whom this never would have happened."

He noted that Microsoft's senior management team has "really supported" the program, which he continues to fashion. "That had to happen," he said. "The risk management program wouldn't have come together without their support."

Mr. Lange tipped his cap as well to his broker, Johnson & Higgins of Washington Inc. J&H is an integral part of his team because of his department's diminutive size—three staff members besides himself.

Calling J&H a "fantastic team," he said, "Sometimes I don't stop and thank them enough for the good work they do—things move quickly at Microsoft."

That means Mr. Lange has to move quickly and aggressively, which has earned him the nickname "Fang" at J&H, he said.

Mr. Lange also expressed thanks for the partnerships that he and his insurance markets have formed.

After Mr. Lange concluded, several guests offered their congratulations.

The warmest sentiments were expressed by Roger Van Der Vliet, a vp with J&H who began working with the risk manager more than a decade ago when Mr. Lange was the liability manager in The Boeing Co.'s insurance department. Mr. Van Der Vliet and Mr. Lange also occasionally team up to cruise the area's back roads on their motorcycles.

Mr. Van Der Vliet predicted that Mr. Lange will lead more risk management breakthroughs.

"The rest of us will be working hard to catch up with Scott," he said. "Scott is state of the art. He's extremely intelligent, with a fine analytical mind."

Richard Pflueger, another vp with J&H in Seattle, concurred.

"He is a genius," he said.

Mr. Pflueger also hinted at how lively a day at the office can be with Mr. Lange. "We've been with him through all kinds of hell—and he's reciprocated."

—By Dave Lenckus

Staff support helps Lange focus on risk strategy

By DAVE LENCKUS

With a risk management staff of only two, including a new recruit, Microsoft Corp. Director of Risk Management Scott K. Lange heavily relies on them, his broker and Microsoft employees for lots of support.

Indeed, his broker, Johnson & Higgins of Washington Inc., and its partners in the UNISON international brokerage network are largely responsible for acting as Microsoft's risk manager at its operations in about 47 countries overseas.

All of their efforts allow Mr. Lange to concentrate more on developing risk management strategy and less on administrative matters.

"I'm not convinced that risk management has to be this behemoth operation in the company," he says.

"My first approach is to see if risk management can be done in the operations world" by training the company's sales, facilities, safety, human resources and other groups in the proper strategies for reducing risk, he said.

"Actually, I get a better feeling as a risk manager if somebody else is doing it. I don't want to be really dealing with people. I want to focus on the strategy of risk management within the company. If I have a big staff, I'd tend to get away from that."

Mr. Lange said he may eventually add to his staff but added that he would like to keep it at three or four people for the next 20 years.

A strategic issue consuming much of his time these days is his project to evaluate every risk Microsoft faces, regardless of whether it is insurable; aid top management in determining the company's appetite for risk; and develop a risk-financing program that will cover all of those risks (see story, page 90).

Mr. Lange singled out three individuals on whom he relies to keep the risk management ship engines running while he mans the bridge: Risk Manager Diane Tompkins; Roger Van Der Vliet, vp of Johnson & Higgins of Washington Inc.; and John Tifft, the account manager for Microsoft at J&H Washington.

MICHAEL A. MARCOTTE

Scott Lange's superiors include, from left, Corporate Treasurer Gregory Maffei, Assistant Treasurer Jean-Francois Heitz and Vp-Finance Michael Brown.

"Diane Tompkins puts in long days to keep things rolling in a large number of areas that I couldn't possibly stay on top of without her help," Mr. Lange said.

Ms. Tompkins is project manager for the department's new risk management information system (see story, page 99). She manages litigation cases. She oversees property loss control. And, she administers many insurance programs.

MICHAEL A. MARCOTTE

Staff members Diana Haynie, left, and Diane Tompkins help Scott Lange tackle Microsoft's risk management tasks.

"Probably even more important to me, she serves as my social and political director, reminding me when it's time for a group morale function and advising me when it is time to get away from the computer screen and focus on internal networking," Mr. Lange said.

Mr. Lange and his broker, Mr. Van Der Vliet, have known each other for more than a decade. They began working together when Mr. Lange was liability manager in The Boeing Co.'s insurance department.

"Roger has been on Microsoft longer than I have, and his knowledge of markets and exceptional marketing skills have contributed greatly to innovation in several areas of our program," Mr. Lange said. "His involvement on the account has assured a focused and dedicated effort by J&H over the years," he said.

"John Tifft, as account manager, has the unenviable task of receiving my almost daily demands for state-of-the-art services," added Mr Lange, noting his aggressive pursuit of those services has earned him the nickname "Fang" at J&H.

Mr. Lange earlier this year was running Microsoft's risk management department with only Ms. Tompkins after another staff member accepted a more senior position at another company.

He has since hired Diana Haynie, previously an account representative with Arkwright Mutual Insurance Co. in Bellevue, Wash., as risk management administrator.

Ms. Haynie will be responsible for, among other things, Microsoft's global automobile insurance programs, policy filing and maintenance, risk management's internal accounting activities and day-to-day risk management services. BI

Lange's liking for motorcycles kickstarts hobby as restorer

By DAVE LENCKUS

Scott Lange is one risk manager who likes to take a ride on the wild side.

His fondness for motorcycles, particularly Harley-Davidsons, has shifted into a passion for restoring and riding the iron horses.

But there's more to this diversion from his professional responsibilities as director of risk management for Microsoft Corp. than just secluding himself in his parts-strewn garage for a few hours of heavy-duty motorcycle maintenance.

Shopping for parts is a big part of the process—with a byproduct being an extraordinary learning experience about people. Indeed, procurement often turns into a nationwide treasure hunt for rare parts of bikes made long before he was born 39 years ago.

And he needs lots of parts.

Mr. Lange, who also has pulled his father into this pursuit, now has a fleet of about 70 Harleys—about 18 big twins and 50 of the smaller two-stroke models built for about an 18-year period from the late '40s through the mid-'60s.

But Mr. Lange doesn't peel off his risk mitigation mentality when he dons his leathers: He avoids riding in car-choked urban traffic and he always wears a helmet.

Some of his bikes are more than a half-century old, like the 1939 EL model he currently is restoring.

That means his projects often turn into a pursuit for necessary but often rare parts at organized swap meets or specialty parts stores on the West Coast or across the country as far away as Iowa, Florida and Pennsylvania. "Any time it looks like there's a good prospect for parts that I'm looking for, I'm there."

The trips are always intriguing, he said. He generally heads off to places he has never visited, with no idea of where he will eat or sleep or whom he will meet.

The big thrills in the trip are "digging and scrambling to find those precious pieces" and then making a deal with the seller.

There is the occasional discovery of a rare part and "you know what it is and the person selling it doesn't."

More often, though, making a deal is more complicated than haggling over financial terms, he says.

"There always seems to be an angle to take with people to get them to sell their parts," he explained. That means learning to read and deal with a variety of personalities and personal agendas.

For example, some sellers will trade only for other parts.

Other Harley purists will not sell their parts if they believe the buyer plans to cash in on the deal by selling his machine after it is restored, he said. And "it doesn't matter how much money you have."

The trips also allow Mr. Lange to engage in some interesting character studies. "I'm mixing with a lot of people I otherwise would never mix with in my life."

There are the 80-year-olds who have ridden all of their lives and are more than willing to regale a neophyte with stories of their riding experiences decades ago. They also will share their knowledge about the older bikes, passing on information that often cannot be found even in reference books.

Mr. Lange also has encountered numerous members of the infamous motorcycle gangs of the 1950s and 1960s. They've mellowed, he said, but they will let you know where you rank in their social order. Mr. Lange, whom the bikers see as a yuppie still out of his element even after restoring bikes for several years, is known among them as "Pinhead."

However, he notes that some restorers now call him for his input on their projects.

Mr. Lange's wife of 16½ years, Elizabeth, has gone for a spin with her husband, but she doesn't share his enthusiasm for the machines.

For a more serene leisure activity, Mr. Lange fishes, but he has managed to incorporate a set of wheels into that pastime as well. On a parcel of property in Sekui, on Washington's Olympic Peninsula, Mr. Lange has converted a 1928 wooden train caboose into a fishing cabin.

The horse-hair-insulated getaway, which sits on a short set of rails under a cedar shade canopy, isn't insured, though: His agent said he doesn't cover rolling stock.

The Langes have three children: Danielle, 14; Michelle, 10; and Ryan, 8. They live north of Seattle in Edmonds, Wash. BI

MICHAEL A. MARCOTTE

Scott Lange and his wife, Elizabeth, have been married for 16½ years.

Lee D. Holland

Tennessee Municipal League Risk Management Pool

Self-insurance pool

By MARK A. HOFMANN

What do you do when you've made it to the top?

Make every effort to stay there, says Lee D. Holland, president of the Tennessee Municipal League Risk Management Pool in Brentwood, Tenn.

Under Mr. Holland's leadership, the TML Pool has become a leading source of coverage for Tennessee cities, as demonstrated by:

- Penetrating more than 90% of its potential market.
- Maintaining level rates for five years in a row.
- Pioneering innovative loss control programs.
- Keeping the customer satisfied, as evidenced by a 100% retention rate.

"Keeping what we've got—I don't think there's any challenge bigger than that and it permeates every part of this building, from client services to how we adjust claims to how I manage to how we do our financing, how we do our pricing and underwriting, the loss control—it's all geared to keeping the members in the pool and to giving them what they need," says Mr. Holland.

With the kind of market share the TML Pool currently enjoys, "where can you go but down?" asks Mr. Holland.

To keep from slipping, particularly when commercial insurers hunger for good lines of business, he strives to make sure the self-insurance pool never gets stale or complacent.

The aim is to assure "that we're always conscious as to whom we serve."

And that "whom" is a cooperative of Tennessee cities and city agencies. The Brentwood-based TML Pool currently provides liability, workers compensation and, in some cases, property coverage to 296 Tennessee cities and 143 municipal agencies.

"We insure well over 90% of our available market," said Mr. Holland, adding that the self-insurance pool is working to increase that penetration. "They're the only ones who are eligible right now to belong to the pool. We don't insure counties, we don't insure any private businesses whatsoever."

According to the TML Pool's charter, it probably could insure any local government agency, but it currently restricts its underwriting to cities, towns and any agency connected to the city, such as housing authorities and human resource agencies. However, the pool does not insure Tennessee's larger cities, such as Memphis and Nashville, which are self-insured.

Even without those big public entities, the TML Pool currently covers 30,918 people and 10,553 pieces of equipment.

Mr. Holland's stewardship of the TML Pool earned him a spot on the 1995 *Business Insurance* Risk Management Honor Roll, representing self-insurance pools.

That honor is well deserved, said George R. Harvell Jr., chairman of the pool's board of directors and mayor of Millington, Tenn.

"He's there to serve the cities and municipalities of the state of Tennessee," said Mr. Harvell. "He's always upbeat and extremely conscientious."

Mr. Holland's tenure has been marked by "real professionalism" by assembling a "tremendous staff," Mr. Harvell added. And despite Mr. Holland's success, he "doesn't sit back on his laurels."

"He is a sound manager. He's good at peering into the future and then working with his staff to execute it. I think his relationship with his senior management is critical," said Michael M. Kaddatz, a principal of Advanced Risk Management Techniques Inc. of Lake Forest, Calif., and one of two people who nominated Mr. Holland. The TML Pool contracted with ARM Tech to perform a pool membership survey last year.

Rather than micromanage his staff, Mr. Holland "macromanages" by allowing his managers to carry out their tasks without undue interference, Mr. Kaddatz said. As a result, they like their jobs and put in every necessary effort to do their best work.

And, as a result of that, the self-insurance pool is "the cost, service and coverage leader among insurance providers to Tennessee cities. No person is more responsible for that than Lee Holland," said Mr. Kaddatz.

"I know less about the individual parts of this organization than anyone in this building. Everybody in this building knows more about their specialty than I do. My job is obviously oversight and management, but also to give them what they need to do the job, and I consider that my biggest success," said Mr. Holland. In fact, "management has been my whole life," he added.

"I have been able to provide the resources and the atmosphere that has allowed the people in this building to do the kind of successful job they're doing," he said. The pool has been able to recruit, pay and keep "some extremely professional people, top-notch in their field."

"I would stack up the financial management of this pool against any insurance company," Mr. Holland said.

At the core of Mr. Holland's management style is a commitment to fairness. "If I can't do it for everybody, I won't do it for one person or one entity," he said. During his 13 years as city manager of Collegedale, Tenn., Mr. Holland said he never had a ticket fixed and wouldn't allow one to be fixed.

"When you insure 439 separate governmental entities, you're going to be subjected from time to time to political pressure. You'll have a city official who feels very strongly that a certain claim should be paid, that it would be politically expedient for that to be done. And my philosophy has always been if I can't do it for the other members of the pool, then I can't do it for this one," he said.

Mr. Holland said that his experience as a city manager also leads him to stress professionalism in all aspects of the self-insurance pool's operations.

A city manager is by definition professional and, indeed, the whole concept of the city manager form of government is "to have the politicians set the policy and to have the city manager carry it out," he said.

"We operate in a political arena, but this company is staffed by professionals and I brought that bent of management from city management. I guess that's the most important thing that I brought—was how to operate a professional organization, a business organization, that still operates in the political arena. And I think so far we've done pretty good," he said.

The staff at Brentwood consists of 22 people, including A.D. Caldwell, a former city manager who is executive vp of the pool. The pool also has two loss control consultants in the field, one in Jackson and the other in the Knoxville area (see story, page 109).

As president of the Tennessee Municipal League Risk Management Pool, Lee D. Holland has set his sights on providing high-quality service to maintain the pool's 90% market share and 100% customer retention rate.

"I'm enthusiastic about the pool, my employees are enthusiastic about the pool, and we can go out and sell it and market it and, more than that, make sure that our clients stay content more than any third party," Mr. Holland said.

Every person in the building and every claims person is a client services representative, he said. According to Mr. Holland, the receptionist who answers the phone is particularly valuable and in fact has more contact with pool members than he does.

"The way we relate to our clients has contributed more to the success of the pool that anything else," he said.

The pool has an in-house marketing and client services division, Mr. Holland said. That arrangement is atypical because many pools have chosen to contract these functions out to third parties.

"I feel very strongly that nobody can sell the TML Pool like its own people," he said. "We know it best. We grew up in it. We believe in it."

The pool also maintains an underwriting unit in the building. The unit is, however, a contract operation manned by employees of Berkeley Risk Services of Minneapolis. "We have never had in-house underwriting," he said.

When Berkeley bought the underwriting service used previously by the pool, it brought its operation into the Brentwood headquarters at Mr. Holland's request.

The pool also has a unique arrangement with Brentwood-based Public Risk Services, which handles the pool's claims. TML Pool is the firm's only client.

Mr. Holland explained that the pool receives between 4,000 and 5,000 claims a year. That makes claims a "tremendous operation all in itself, one that lends itself to a separate organization."

He says that the pool didn't want to go with a large firm because then it simply would be one of many clients.

That might not have worked because the pool is "an extremely specialized operation. We are a niche operation in the ultimate sense of the word," he explained. Because municipal claims and defenses are so specialized, the pool has developed with Public Risk "the absolutely leading municipal claims operation in the state," said Mr. Holland.

Most clients aren't even aware that Public Risk Services is a separate operation. "At our request, they answer their phone 'TML Pool,' " he said.

He stressed that the pool doesn't interfere with the claims service's professional work. It does, however, furnish the claims operation with the tools to do its work, such as hardware and software, so that both the pool and the claims service have integrated computer systems, with all the data being proprietary to the pool.

"Since pools are responsible to their members, they should actually either do the services or control as much as they can how these services are provided," said Mr. Holland, who is not a fan of farming out large chunks of the operation to third parties. Third parties have other clients and have their own ways of doing things.

There is, however, one more area that the pool does not do in-house: legal defense work. The pool's legal counsel is engaged in lobbying and bill tracking and serves as an in-house resource for cities across the state.

Mr. Holland said that the pool has 12 to 15 law firms across the state that have developed "specialty skills in defending municipalities because it is much different than your ordinary lawsuits, and we use those firms scattered across the state to defend our cities. We spend a lot of money on lawyers.

"We have a philosophy about defense work, about defending cities and about claims in general. I have a firmly held belief and have had all my life that if a claim is valid, we pay it with a minimum of fuss. There are lots of suits brought against municipalities because of their 'deep pockets' that don't have much validity. Some of them are nuisance claims, some of them are people just wanting some money," Mr. Holland said. "If that claim's not good, we don't like to settle just to get them out of our hair; we fight it. And we have developed a good reputation in the legal community across the state that if it's not a good claim, we're going to fight it."

Mr. Holland said he feels very strongly that the self-insurance pool's insistence on contesting dubious claims against its members has protected it from a lot of nuisance suits that otherwise might have been filed just to get a small settlement.

By the same token, if the TML Pool faces a suit that will set a precedent for cities, and the pool's case is good, the pool's lawyers will take the matter all the way to the Tennessee Supreme Court. Mr. Holland said the pool has won more cases than it has lost before that court.

The pool's success in meeting members' needs was underscored in the survey conducted by ARM Tech. Members rated services as higher than four on a five-point scale.

"When you've got the members as satisfied as this group, you're clearly a success," said ARM Tech's Mr. Kaddatz.

The pool's success in meeting its members' needs also has helped shelter it from cutthroat competition from other markets.

"We have very little organized competition, and that is not the usual case. Most of the states around us and in other parts of the country have heavy competition from the commercials. Over the years, the commercials have realized that their earlier fears were not realized and that they had basically abandoned a very profitable market," said Mr. Holland. "They have not been successful in Tennessee."

One reason conventional insurers have

Continued on next page

Continued from previous page

not made inroads into the self-insurance pool's business is that the pool's management spends "a lot of time thinking about how to preserve our market share," he said.

"When you're at the top, and I guess you could call having over 90% of the market share being pretty near the top, everybody aims at you. And your biggest challenge becomes not gaining more market share, because there's not a whole lot out there, but to preserve and to keep your members in," Mr. Holland said. "So a whole host of activities that come out of this building are aimed at keeping our members happy and content and in the pool."

One of the dangers of running a self-insurance pool is to forget the challenges city managers face, Mr. Holland said. He says the fact that both he and his chief deputy were city managers has helped the pool prosper.

"We looked at it from that side of the desk and we make sure that the pool people never forget that's the bottom line."

He doesn't view the entity's 100% retention rate as a reason to relax, either.

"It's so easy to get knocked off," he said. Competitors will come in and offer to cut rates by 25% or 30%, he said.

"It's happened in plenty of other states," said Mr. Holland, pledging that the pool is ready to take on any organized effort. "We'll fight," he promises, because the pool's leadership believes the cities that belong to the pool help control their insurance destiny.

Thus far, the pool has only had to remove one member, a city Mr. Holland declined to identify. The process was a "very wrenching experience."

But despite warnings to improve its risk management, "that city would not clean up its act in regard to the jail, personnel and some extremely serious claims," he said. When the city ignored the warnings, the pool's board voted to remove it.

"We looked 'em in the eye and told 'em why. We said, 'You won't clean up your act and we're not in business to be responsible for cities doing whatever they choose,' " said Mr. Holland. The city later made the changes required for readmission to the pool and returned in three years.

One of the changes Mr. Holland made in the pool's operation was to change the way cities that withdrew from the pool would be treated. For many years, the board required a former member to wait three years for readmission.

Mr. Holland advocated rescinding the rule, with a caveat: Require that any city seeking readmission pay a 5% surcharge on its premium for three years.

A conventional insurer, hungry for the business, will offer a city what Mr. Holland considers a "cut rate" for one year and then attempt to make up the difference with sharp rate increases during the second and third years, he said.

Without the option of returning to the pool, "the city has nowhere to go," he said.

The surcharge "provides the kicker," he said. It promotes stability but allows members to reconsider their decisions.

"We consider ourselves to be truly partners with our members. We're not just an insurance company and we're not here just to take in premium and pay claims. We're much, much more than that. We were meant to be more than that from the start, and I hope we never get away from that," he said.

"It's the best job in the world, it's the best job I could ever imagine," says Mr. Holland. "I'm so proud of being a part of this that I can't see straight." BI

Loss control effort reflects variety of city exposures

Training programs help keep pool's exposure in check

By MARK A. HOFMANN

The term "loss control" usually conjures up images of engineers and safety inspectors checking boilers and sprinkler systems to assure that an installation's physical plant can withstand fire, wind or accident.

For the Tennessee Municipal League Pool, loss control means safety inspections, and more. Because of the nature of the exposures municipalities face, the pool's loss control means reviews of police procedures and other policies. It also means training, training and training.

The pool's training programs are so highly considered that the Tennessee State Police Academy invites the pool's director of training to speak to officers on a regular basis on police liability matters.

"Loss control is one of the most important things we do. We feel that it is the only way over the long haul that we can even attempt to control claims and to help cities operate better," said TML Pool President Lee D. Holland.

The pool has assembled a large collection of videotapes at its Brentwood, Tenn., headquarters. It buys training tapes from a variety of sources and distributes them to the pool's members through a lending library.

And these aren't videos likely to grace the shelves of the local Blockbuster Video, either. Sample titles include "Bus Discipline: A Positive Approach," "Assertiveness Training for Codes Inspectors" and "Making a Difference: A Fire Officer's Role."

Mr. Holland notes that the commitment to loss control dates from the earliest days of the pool. In fact, the pool's first full-time employee hired in 1981 was a loss control consultant. Although that person recently retired, the "tradition keeps right on," said Mr. Holland.

The TML Pool currently has a loss control staff of five, he said. There is a dedicated loss control consultant for "each grand division of the state"—East, West and Middle. A consultant in the Knoxville area oversees the East while another in Jackson handles the West.

Three consultants, including the consultant responsible for Middle Tennessee, the director of loss control—who takes care of most of the training himself—and a dedicated administrative assistant operate out of the Brentwood headquarters.

Mr. Holland points out that participation in loss control programs is mandatory.

"We don't unbundle services. I'm not saying we never will, but we never have, and I don't foresee it in the near future. And I don't know that we would ever unbundle loss control. That is essential. If we're going to insure a town or an agency, they need our loss control and we need them to have it. I don't believe it should be optional," he said.

"We want the pool to be an active partner with our members in doing things right. That helps us from a claims standpoint. It helps them in the way they operate," said Mr. Holland.

Despite the mandatory nature of the program, pool members rarely resist it. Mr. Holland's approach—he believes in counseling rather than commanding—may explain the program's acceptance rate.

"We very, very seldom say, 'You have to do this.' If it is a serious enough situation where they're having some serious violations that are going to cost the pool enormous amounts of money because they will not follow certain procedures, then the pool can and has, on very, very few occasions, gotten tough, and the city has complied.

"But we don't like to do that, so we make recommendations in writing. They've been very, very well received by the department heads affected because they can take these recommendations to the city council and say, 'We need to do this and we need the resources because the pool says that we need to.' "

Mr. Holland notes that the pool's loss control efforts address all kind of situations, including workers compensation, general liability and police liability.

Since police tend to get sued a lot, the TML Pool recently funded a police consultant's position with the University of Tennessee's Municipal Technical Advisory Services. The program serves as a resource agency for cities on "every conceivable topic," Mr. Holland said.

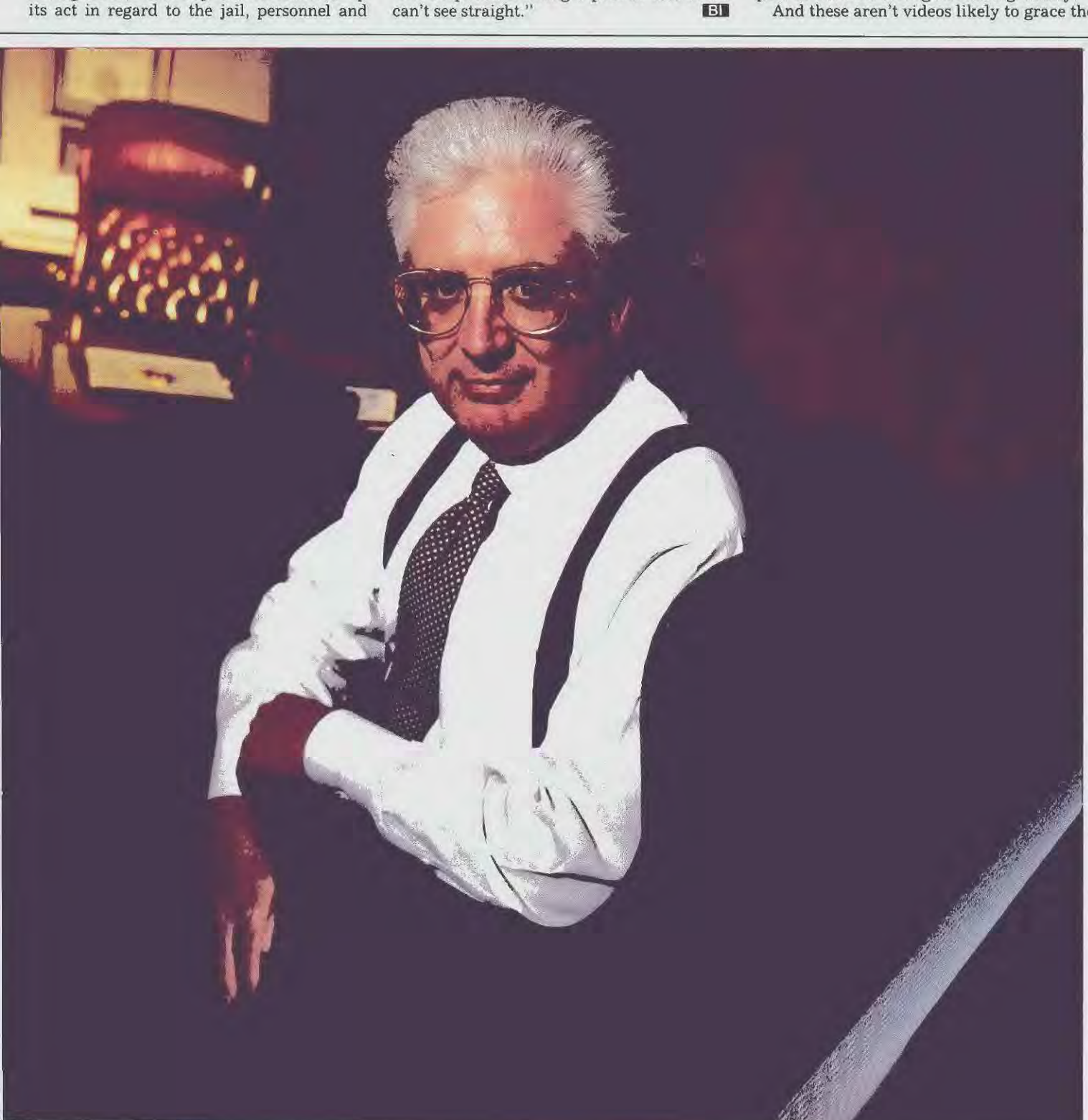
The consultant will not represent the pool, he said. The consultant won't be talking about liability as it concerns insurance. Instead, he will be talking about police procedures and "any problems they have in their police department that they need a resource to help them."

"We're paying for it because we see that as one of the biggest needs that is not currently being filled," said Mr. Holland.

"We do training all over the state. The State Police Academy uses our training director on a regular basis to do a section in the basic training of police officers on liability," said Mr. Holland.

"That's a real compliment to the pool to use our training director," he said.

See **Training** *on next page*



MICHAEL A. MARCOTTE

MICHAEL A. MARCOTTE

The TML Pool's top managers include, standing from left to right: Lee D. Holland, president; A.D. Caldwell, executive vp; Michael Fann, director of loss control. Seated from left to right: Laura Allen, director of underwriting; Dawn Crawford, controller; Jean Klockenkemper, chief financial officer.

Training

Continued from previous page

The pool conducts regular police in-service training. In addition, loss control personnel and the in-house legal director put on seminars on "hot topics," such as police chases, he said.

The Tennessee Supreme Court handed down a decision that made the state, as far as the pool is concerned, "the most restrictive state in the nation on police chases," said Mr. Holland.

The Aug. 29, 1994, decision in *Haynes vs. Hamilton County* removed "an enormous amount of immunity on police cases, particularly if they injure a third party, or if a third party is injured even by the fleeing party," he said. The decision had an immediate impact on police departments all over the state. The pool prepared an official policy for its members to follow to meet that challenge and then held a series of seminars on the exposure presented by the case and how to minimize that exposure, he said.

To aid in this and other loss control education efforts, the pool relies on desktop publishing, said Mr. Holland. In the case of a breaking development like the state Supreme Court decision on police chases, the pool issues a publication called "Top Priority." When the need arises, "those go out like bullets," he said.

More routine matters are dealt with in another publication—"S.O.P.," for "standard operating procedure," he said.

The pool's emphasis on loss control and training is one of the key elements that differentiates the pool from traditional insurers, Mr. Holland said. While commercial insurers supply such services, "they don't do it to the extent and the range we do," he said.

"We consider ourselves to be truly partners with our members. We're not just an insurance company, and we're not here just to take in premium and pay claims. We're much, much more than that; we were meant to be more than that from the start, and I hope we never get away from that," he said. BI

Two free books are yours - - just fill out this Surveillance Survey.

Simply complete this survey, and you will receive complimentary copies of *Greenhorn Witness* and *Fishy Claims Expert* (two of Bill Kizorek's books) .

Do you presently use surveillance? ❑ yes ❑ no

How many assignments per month? _____ assignments

Days per assignment? _____ days

Hours per day of surveillance? _____ hours

Average hourly rate? $_____

Do you prefer a flat or hourly rate? ❑ flat ❑ hourly

What is the average amount you pay per surveillance? $_____

Do you currently pay any travel or mileage charges? ❑ yes ❑ no

Would you be interested in a nationwide service with little or no travel charges? ❑ yes ❑ no

In what geographic area do most of your claimants reside? _____

What specific territory do you have difficulty finding investigators? _____

How do you prefer your written reports?

- ❑ narrative format, summarizing claimant activity
- ❑ detailed narrative format
- ❑ chronological timeline format

Do you have any special reporting requirements (verbal reports, frequency, deadlines . . .)?

_____

Prior to surveillance, what types of information do you want your vendor to develop?

_____

Do you have any special liability insurance requirements above the state-mandated minimums?

_____

Name _____ Company Name _____

Address _____

City, State _____ Zip Code _____

( ) _____ ( ) _____

Work Phone Fax

E-Mail Address ❑ Internet ❑ America Online ❑ CompuServe ❑ Other_____

GET A 3RD BOOK FREE!

Assign a case in the next 30 days, and you will receive a free copy of SIU 101, the latest book by Bill Kizorek and Scott Finger.

InPhoto Surveillance

1163 East Ogden Avenue, Suite 705-360, Naperville, IL 60563 • (800) 822-8220 • Fax (800) 752-0720

Respond via our toll free fax (attn. Bill Kizorek)

BI5/95

Members' needs drive TML Pool offerings

Upholding financial integrity is top priority

By MARK A. HOFMANN

The insurance that the Tennessee Municipal League Risk Management Pool offers its members has evolved slowly but steadily.

Born of a municipal liability insurance crunch in the 1970s, the self-insurance pool began by offering liability coverage in 1979. It added workers compensation two years later and property insurance in 1989.

But liability was the driving force behind the pool's formation. Fortunately for the pool's members, state law limits the liability faced by municipalities.

"Tennessee is a very conservative state and we have a fairly low tort cap," pointed out Lee D. Holland, president of the pool.

"Any legal claim brought under the state court system for a local government agency is limited to $130,000 per individual or $350,000 per incident. That's the cap, that's all you can recover, so our limits stop there."

He added that some members want more than that as peace of mind, and the pool is more than willing to help out those members. "If they want it, we will find it for them. In fact, there are several

Continued on next page

Continued from previous page
small lines of coverage that we choose not to provide ourselves, but we serve as the conduit for our members and we find it for them."

In fact, "we are a one-stop shop for them," he said. Say, for example, members want specialty coverage for airports, which the pool does not provide. The pool effectively becomes a broker for members. "If they have a problem, they call us and we call the reinsurer; we serve as their representative on any line that they need," he said.

The pool provides three types of insurance:

- Liability, with limits to the exposures set in the Tennessee Governmental Tort Liability Act. This broad form covers general liability, including automobile liability, automobile physical damage, errors and omissions liability, personal injury liability and law enforcement liability.

With the exception of E&O and automobile physical damage, which is set at the actual cash value or stated amount per schedule of vehicles, all of the liability coverages carry limits of $130,000 per person and $350,000 per occurrence for bodily and physical injury and $50,000 per occurrence for property damage. The TML pool provides a $350,000 per occurrence limit for "each other loss," which applies to federal claims or claims that fall outside the tort caps.

In addition, the pool offers an excess liability policy through the States Self-Insurers Risk Retention Group Inc. that provides an additional $650,000 per occurrence and/or aggregate excess limits of liability above the $350,000. The errors and omissions liability has a $1 million federal limit. Defense and legal costs are exclusive of the limits.

- Workers compensation, with the statutory limits set by Tennessee law, with unlimited medical coverage and indemnity coverage of up to $153,116—or $382.79 per week for up to 400 weeks.
- Property, with a limit of $50,000.

Mr. Holland noted that the pool once covered employee benefits as well, but no longer.

"We tried, it didn't work and we got out. In fact, that was one of my first duties when I became president—to shut down that ailing health group that was eating our lunch financially. And we shut it down and got out of the market without losing any member in any of our other pools, which was a trick, let me tell you," he said.

The pool's loss ratios compare favorably to those of commercial insurers, with estimated ultimate loss ratios actuarially projected at 82% on liability, 89% on workers comp and 50% on property.

For the year ended June 30, 1994, the pool generated net earned premiums of $23.48 million. Its total revenues reached $29.29 million. It paid losses and loss adjustment expenses of $11.96 million and had total expenses of $16.67 million.

The various policies currently offered by the pool cover 30,918 people and 10,553 pieces of equipment. The property program, launched in 1989, covers $780 million in property. This includes city halls, schools, fire stations and "every conceivable kind of public building," as well as computers and fixed equipment.

"We try to cover (the pool members) up to their needs," though the pool itself is responsible for only the first $50,000 of each loss, after which it is picked up by General Reinsurance Corp. Mr. Holland noted, though, that with more than 50 of the pool's members within the New Madrid fault zone—the area of the strongest earthquake to hit the United States in recorded history in 1812—those $50,000 hits could add up very quickly.

The Gen Re connection is one of the pool's very rare forays into the commercial insurance market. The TML Pool and a group of other municipal pools are also reinsured by a self-managed captive sponsored by the National League of Cities, the NLC Mutual Insurance Co. Mr. Holland says that the Washington-based league's captive reinsurer is a logical outgrowth of state municipal league pools.

"This concept of state municipal league pooling was taken one step further by a group of visionaries, pool leaders and municipal league leaders and they started, under the National League of Cities, a reinsurance pool, which has flourished and now has well over 20 members," said Mr. Holland.

Participation in the Tennessee-domiciled captive reinsurer is restricted to state league municipal pools. Mr. Holland serves on NLC Mutual Insurance Co.'s board of directors and its executive committee, and is chairman of its investment committee. The captive reinsurer, he said, is "on the verge" of being rated by A.M. Best Co.

"It preserves pools from the shocks in the commercial reinsurance market, just like pools shield their members from the ups and downs of the commercial insurance market. We had a need for reinsurance and we met that need in the same way we ourselves were formed and we're very proud of that."

He's also proud that the TML Pool's board has not had to increase rates for five years. He attributed that financial strength and stability to the pool's ability to retain members. The pool retains Arthur Andersen & Co. S.C. as auditor and Price Waterhouse & Co. as actuary.

'In order to keep workers comp rates steady, they have to give us their liability because that's where we make our money. Quite frankly, we subsidize comp rates out of liability,' says Lee D.Holland.

The pool also draws its financial strength from bundled coverages.

"We don't write workers comp stand-alone. A city has to give us their liability if they want us to write their comp because comp is the sick line in this state. In order to keep workers comp rates steady, they have to give us their liability because that's where we make our money. Quite frankly, we subsidize comp rates out of liability," he said.

The tort liability cap also plays a key role. "The tort cap is of tremendous value to us" and a tempting target, said Mr. Holland. The Tennessee Municipal League does the pool's lobbying, and "we fight big time to keep that cap where it is," he said. It is a battle that must be fought just about every legislative session because the state plaintiffs bar wants it raised, he said.

The pool protects itself by relying on its own experience rating, he said. For workers comp, the pool sets its own rates rather than use the National Council on Compensation Insurance's rates because the pool already has 90% of the municipal market, he said. For liability, the pool uses experience modifiers it has developed itself, he pointed out.

"If a city has bad experience, and it's not just the one bad claim, that's to be expected and we don't let that influence the rates a great deal. But if you have frequency and severity, it's going to impact," said Mr. Holland. To do so is simply fair, he added. But the rates are determined on a rolling three-year average so that no single year "can blow you out of the window."

No matter what the battles, Mr. Holland pledges, "I will not allow this pool to deteriorate financially."

A $27 million surplus, invested in U.S. bonds, allows the pool to keep rates stable.

Mr. Holland and the pool actuaries allocate that money with an eye toward long-term strength.

Half the surplus went into capitalization. Of the other half, about two-thirds is used to stabilize rates. "That's the shock absorber if we need to subsidize rates for a year," said Mr. Holland.

"The remaining one-third of that remaining half is used for a special catastrophe fund, in case we should have a major, major catastrophe like an earthquake," he said. "Because if we have an earthquake, we keep the first $50,000 of each loss, and if you have 50 to 75 towns with earthquake losses, that's a bunch of $50,000 hits you're going to take all at once. So this catastrophe fund would be the shock absorber for that."

Mr. Holland doesn't think the pool will offer any new coverages in the near future. But, if something comes up, "we'll meet it head-on." BI

MICHAEL A. MARCOTTE

Lee D. Holland with George R. Harvell Jr., chairman of the TML Pool's board of directors.

Lack of markets led Tennessee to dive into risk pool

By MARK A. HOFMANN

The birth of the Tennessee Municipal League Insurance Pool in 1979 exemplifies the truth of the old adage: Necessity is the mother of invention.

"If the commercial insurance industry hadn't dropped the ball as far as municipalities were concerned, we wouldn't be here. We would have no reason to exist," says Lee D. Holland, president of the TML Risk Management Pool, as the pool is now called.

"The cities of Tennessee as well as many other states felt that they had only one real alternative, and that was to go it alone," Mr. Holland says.

There was no blueprint to go by. The pool started small, under an interlocal compact in 1979. It didn't hire its first full-time employee until 1981.

When the pool received its first premium check from the city of Franklin, a county seat of about 20,000 people roughly 20 miles south of Nashville, that $25,432 check provided the pool with its first assets.

Mr. Holland said if there is one problem he has with the commercial insurance market as it relates to cities, it's "that when things are no longer profitable, by and large the commercial insurers are gone. And the cities are left out in the cold.

"That's what happened in the late '70s when we came into being. Most of the commercials abandoned the municipal market," he said.

"They had their own reasons for doing so. The legal climate was changing—the tort limits were being increased, and in some cases changing from absolute sovereign immunity to being allowed to be sued. The commercials got worried, got scared and backed out, by and large.

"And having been a city manager, I saw my town go from a wonderful insurance claims record to where we just couldn't buy insurance," he recalled.

"Early on, I was convinced that this sort of insurance cooperative was the only way to go. We're in for the long haul and we'll do whatever it takes to be there. We've been very fortunate to be able to build up as strong a financial base as we have," Mr. Holland explained.

"The reason we've done it and the reason we've gotten this surplus—and we intend to keep it—is to be here for the long term to shelter our members from the cycles of the insurance market," he said.

The pool was created under the auspices of the Nashville-based Tennessee Municipal League.

According to Mr. Holland, it was the first such pool to come into being.

In fact, the pool operated out of the league's Nashville offices for many years. Mr. Holland stresses the importance of the league connection.

"They are the ones that brought us into being. They got the legislation passed and authorized this pool to exist. We are authorized by an act of the Legislature," he said.

The league sponsorship meant that the pool would operate on a statewide basis and thus have the entire state as a potential market, said Mr. Holland.

That relationship makes the TML Pool and its counterparts in other states "a different animal" from either commercial insurance companies or many other governmental pools, according to Mr. Holland.

The pool, however, does not count among its members Tennessee's largest cities, Memphis and Nashville. Mr. Holland said that the larger cities have been self-insuring their risks for decades.

Mr. Holland stressed that the pool and the league are separate legal corporations. "We're joined at the head and not at the hip," he said.

The board of the municipal league appoints the pool board. The league's executive director is a permanent member of the pool board, as is the president of the municipal league.

Mr. Holland noted that some other people also serve on both boards. It is an arrangement that "works very well," he said.

He added that in most other states, the state municipal league is involved more closely in the active management of the pool.

In Tennessee, the league does the pool's lobbying in the state Legislature, "which is vastly important," particularly when the state's governmental tort immunity act is under siege, as it is almost every session, he said.

"Without the municipal leagues, I am convinced that these state league pools would not have prospered as they have," says Mr. Holland.

'The cities of Tennessee as well as many other states felt that they had only one real alternative, and that was to go it alone,' Lee D. Holland says.

"These leagues were our founders and are our sponsors, and in many cases are closely connected in the way that they do business. Each state has its own relationship with its pool. There is no standard relationship," he says.

The ties between leagues and their pools took on a new dimension in 1986, when the TML Pool joined other pools to form the NLC Mutual Insurance Co.

This Tennessee-domiciled captive reinsurer "has flourished and now has well over 20 members," points out Mr. Holland. Membership in the captive reinsurer is restricted to state league municipal pools.

The Washington-based National League of Cities sponsors the captive reinsurer, which is "on the verge of getting a Best's rating," he says.

Mr. Holland serves on the captive reinsurer's board and on its executive committee. He also serves as chairman of its investment committee. BI

Doing what comes naturally

Avid walker steps into role as pool manager

By MARK A. HOFMANN

When Lee D. Holland says that management has been his life, it's hard to argue with him—at least up to a point.

An accountant by profession, Mr. Holland has gone from running a small private hospital to serving more than a decade as a city manager to heading the Tennessee Municipal League Risk Management Pool in fewer than 25 years. His managerial skills at the pool have earned him a place on the *Business Insurance* 1995 Risk Management Honor Roll.

But Mr. Holland is no mere number-cruncher. He's a self-described "fanatic" about walking, a music enthusiast whose tastes run from Mozart to Bob Seger and the Silver Bullet Band, and a man who reads two or three books a week for pleasure.

The 50-year-old Nashville native had his college career interrupted by a summons from Uncle Sam during the Vietnam War. He spent much of his military career at Fort Detrick in Frederick, Md., before returning to Southern College in Collegedale, Tenn., to complete work on a bachelor of science degree in accounting.

Although he didn't know it at the time, he would not be away from Collegedale for long. And the circumstances of his return would put him on the path that led to the presidency of the TML Pool.

Mr. Holland's first job was overseeing the operations of a small, private hospital in Meridian, Miss. He stayed long enough to realize that this was not what he wanted to do with his life, he said.

After about two years in Meridian, Mr. Holland was approached by a pair of friends from Collegedale. One was a former professor and the other a dentist who had become vice mayor. They urged him to interview for the vacant city manager's job in Collegedale, a city of about 5,000 near Chattanooga.

Mr. Holland got the job in May 1975, and ended up staying for 13 years. "I thoroughly enjoyed it," he said.

Apparently, the mayor and city council enjoyed his tenure there as well—a certificate praising his work now hangs in his office at TML Pool's Brentwood, Tenn., headquarters.

As city manager, Mr. Holland brought Collegedale into the pool. The city simply "couldn't find good insurance," he said.

Working with the pool, he became increasingly interested in the whole concept of municipal league pools and volunteered to serve on committees. By the late 1980s, he had joined the pool's board.

Soon after Mr. Holland joined the board, a performance audit recommended that the pool's chief executive have a deputy and a chief financial officer. Mr. Holland saw this as an opportunity to become involved in the management of the pool. He abstained from voting on the performance evaluation because he wanted the job.

He soon began work as the deputy and chief financial officer on Aug. 1, 1988. Fewer than six months later, the pool's chief executive resigned to take a similar job in a Texas pool. Mr. Holland applied for pool's top job, and became its head.

The pool takes up much of his time, which restricts the amount of time Mr. Holland can devote to outside organizations, such as the Public Risk Management Assn. He has, however, served as chairman of the National League of Cities' Risk Information Sharing Consortium—a nationwide association of state municipal league pools.

He also leaves time for walking. He follows a daily circuit of more than two miles if weather permits. If it doesn't, Mr. Holland works out on a treadmill. The benefits of this regime are not solely physical, either. According to Mr. Holland, walking promotes peace of mind and mental acuity. In fact, he says that he's had more good ideas when walking than at any other time.

Mr. Holland is also a music aficionado, with eclectic tastes that run from the classics, such as Mozart and Beethoven, to the classics of rock 'n' roll, notably Bob Seger and the Silver Bullet Band. He also enjoys some New Age music, and as befits someone who lives only a few miles from Nashville, some country music.

But his favorite hobby is reading, something his mother, a teacher, taught him to do at the age of 4. He currently reads two or three books a week, with an emphasis on historical fiction, mysteries and science fiction.

By far, though, his favorite author is Patrick O'Brian, who gained cult hero status over the past two decades for his tales of the British Navy during the Napoleonic Wars. Mr. Holland began reading Mr. O'Brian's work in the late 1970s. He could find only five of his novels but never lost hope that there might be more.

About five years ago, Mr. Holland and his wife went to Seattle and took a day trip to Victoria, British Columbia. When he got off the boat, he asked someone where there was a bookstore and was directed to one of the largest in the city.

"I began to think to myself" that since O'Brian was an Irishman and his books originally were published in England, that the bookstore might know something about whether there were more, he said.

"I wandered toward the area where his books would be, and lo and behold, to my absolute astonishment, I saw a whole row of these books by Patrick O'Brian that I had not read and had no earthly idea existed. My wife told me I let out a yell right in the middle of this bookstore," he said.

Mr. Holland bought a copy of every O'Brian book in the store and "read them as quickly as I could." He now owns all 17 in the series, and has read and reread them—something he intends to continue doing for the rest of his life.

Mr. Holland's wife, Edna, is legislative assistant to the speaker of the state Senate, who also functions as the state's lieutenant governor. Mr. Holland's daughter, Jennifer, is finishing her junior year at Vanderbilt University in Nashville, Tenn. BI

CLAIMS
OVERLOAD
SYSTEMS

SETTING THE STANDARDS FOR TEMPORARY INSURANCE PERSONNEL

Providing Experienced
General Liability, Auto & Workers Comp. Adjusters,
Medical Claim Examiners, Underwriters/Technical Assistants,
That are . . .

Screened & Tested
■
Professional & Reliable
■
Hireable As Permanent Employees
■
Covered By Fidelity, GL, W/C and E&O Insurance

Immediate Service — Offices Nationwide
We Make It Easy!

CALL FOR THE LOCATION NEAREST YOU ■ 800-822-2422

K.C. Kidder

Norwest Corp.

Financial Institution

By SARA MARLEY

K.C. Kidder has a disturbing message for the insurance industry: She doesn't need you anymore.

"I've never been a proponent of buying a lot of insurance," says Ms. Kidder, vp and risk manager for financial services company Norwest Corp. in Minneapolis. "It just doesn't make sense. If we can predict our losses, so can the insurance company. And they're going to add a profit. It's not rocket science."

Armed with that attitude, Ms. Kidder took Norwest's risk financing to new heights, implementing a program under which the company retains most of its risk on an aggregate, long-term basis through a captive insurer, buying only catastrophe reinsurance and certain excess coverages from commercial insurers.

That program, called "concentric risk integration," saves Norwest millions of dollars each year and allows the company, not the insurance industry, to determine how much risk it will retain and how.

CRI is one of the innovations that earned Ms. Kidder a place on the 1995 *Business Insurance* Risk Management Honor Roll, representing financial institutions.

"K.C. is a true risk manager," said John T. Thornton, executive vp and chief financial officer of Norwest, which is the 13th-largest bank holding company in the country. "She personifies the transformation from insurance purchaser to the risk manager. She views her primary function as loss control, not buying insurance to cover losses."

To Ms. Kidder, sophisticated risk financing and old-fashioned loss control go hand in hand.

"If you're going to take this much risk, you'd better be doing everything you possibly can be doing at all levels of the company to prevent the big losses from happening," she said. "I do believe the whole idea of risk management is almost a cultural thing. But you can develop it."

"K.C. has a very innovative, creative mind that looks at gaps and questions why we do things the way they have always been done," said John F. Navin, the Marsh & McLennan Cos. Inc. senior vp who developed the Norwest program. "She's fun to work with as a broker."

She is so cutting edge, in fact, that some of her ground-breaking undertakings now have been rendered obsolete by her own CRI program.

Ms. Kidder strives to be viewed as an aide, not an impediment, to Norwest's units.

"I encourage thoughtful risk-taking," she explained. "I want to have a partnership with our businesses and add value. I don't want to be somebody who tells them what they can't do. I want them to make informed decisions about risk."

Ms. Kidder also makes it her business to be involved in all of Norwest's businesses. "Risk is everywhere. I don't think there's an aspect of this company that's outside of my realm."

Members of Norwest's nine-person risk management department participate in the management of all litigation that involves insurance or self-insured programs and in due diligence studies for mergers and acquisitions.

That alone could be a full-time job. Norwest has completed more than 50 acquisitions involving in excess of $25 billion in assets since January 1990.

At year-end 1994, Norwest had $59.3 billion in assets, 2,800 locations and nearly 40,000 employees in more than 50 separate business units in banking, mortgage lending and consumer finance.

Norwest has nearly tripled in assets and number of employees since Ms. Kidder became risk manager in April 1989.

The company owns the country's largest bank-owned insurance agency, Norwest Insurance Inc., which is the 14th-largest broker of U.S. business with $56.5 million in revenues (*BI*, July 18, 1994).

Norwest also owns the largest bank-owned title insurer, the second-largest automated clearing house processor for automatic bill payments, the third-largest student loan originator and farm management firm, the seventh most active automated teller machine network, and the eighth-largest stock transfer agent.

Norwest operates in all 50 states, all 10 Canadian provinces and in Argentina, Brazil, Hong Kong and Taiwan. In addition, Norwest has agreed to acquire ITT Corp.'s Island Finance Inc. business, with 82 locations in the Caribbean and Central America.

"What K.C. has had to face in the last several years is unbelievable growth at her company," said M&M's Mr. Navin. "Her due diligence program could be the model, it's so thorough and well thought-out."

That program proved reassuring for underwriters that were considering entering a long-term deal with Norwest but were concerned by the company's rapid expansion.

The directors and officers of companies acquired by Norwest are protected under a unique, retrospectively rated D&O liability insurance runoff policy that Ms. Kidder and Mr. Navin created in 1991.

D&O liability insurance policies terminate when a company is acquired, but directors and officers require ongoing protection for prior acts. In most cases, that is negotiated with the insurer that covered the acquired company. But because the relationship is ending, it is difficult to negotiate favorable terms and conditions.

"I got real frustrated with one particular fairly large acquisition that I was negotiating the D&O runoff program for and, quite frankly, I felt the pricing was outrageous," Ms. Kidder said. "Usually runoff means you're extending a tail on something that already exists. It's never been done like this before, but it doesn't mean it can't be."

Norwest continues to buy the portion of D&O insurance that covers the board members directly for risks for which the organization cannot indemnify them, such as certain securities law violations, from National Union Fire Insurance Co. of Pittsburgh, Pa.

The corporate reimbursement portion of the D&O coverage has been rolled into the CRI program.

The diversity among coverages, business lines and geographic regions allows Norwest effectively to comprise its own pool.

The company had been gradually increasing its retentions for years before plunging into nearly total self-insurance.

"You need to develop a philosophy where you're comfortable taking risk," Ms. Kidder said. "The minute we quit buying insurance we lost all of the related services, and it takes time to develop expertise in-house."

After reading an article about a British company that had taken a similar step, Mr. Thornton, the CEO, asked Ms. Kidder to pursue a new risk financing model.

"On a macro basis, I had a fairly clear vision that I wanted to combine retained and finite coverages," Mr. Thornton said. "Where K.C. really did a superlative job was in taking what was a macro vision and bringing it down to specifics. Where complexities are so great, many an idea better than the one we had failed to become a reality."

Like Norwest itself, CRI is neither entirely conservative nor entirely aggressive.

"This revolutionary step is a current step in a long-term evolutionary program," Mr. Thornton said. "If we were aggressive, we probably would have jumped right into it back in 1988 and spent a lot of time in the chapel. We've been working at this for half a dozen years. We don't see it reaching the more nearly mature stage for another half a dozen years. This hardly fills that definition of aggressive.

"But if we were just conservative, we wouldn't have even thought about this program. We'd still be paying whatever premiums we were paying back in 1988."

An important part of the process was determining just what Norwest's appetite for risk is.

"We're not averse to risk, but don't like to assume risk where if something happens

See **Kidder** *on next page*

MICHAEL A. MARCOTTE

Kidder

Continued from previous page

we're seriously impaired," Mr. Thornton said. "We can take minor cuts and scrapes that we can fix with a Band-Aid, but we're not out there for fractures. A sprain is OK."

"The support for risk-taking was already there," Ms. Kidder agreed. "As a financial institution, we are in the business of taking risk all the time—and the amount of our retention under a program like this pales in comparison to the loan loss reserves, for example."

Because the idea of retaining more risk came from Mr. Thornton, Ms. Kidder did not have the burden of selling it to senior management.

She reports directly to Mr. Thornton, as do the controller, treasurer, head of tax and head of investor relations.

"I am absolutely thrilled," she said. "It sends a clear message to the rest of the corporation that executive management has made risk management part of the core culture. It gives the function a lot of respect."

Ms. Kidder makes a presentation to the audit and examination committee of the board of directors annually. In 1994, she also gave a presentation on CRI to the finance committee.

In the future, she believes risk managers will not only report to a higher level of management, but also move into that rank themselves.

"The role of the risk manager will continue to become more and more important in their organizations," Ms. Kidder said. "Twenty years ago it was largely unheard of as a profession."

Disasters, the fact that more organizations have risk managers, and the increase of risk management courses at business schools all will contribute to the change, she said.

"I'm not saying the head of investments or the head of credit is going to start reporting to the risk manager," Ms. Kidder said. "Maybe the CFO of the future is just the ultimate risk manager and has the credit function and investment function and risk function and we work more as a team."

The fundamental principles and processes of managing risks are the same no matter what type of risk is involved, according to Ms. Kidder.

"We are all working for the same group, the shareholders. I don't worry about turf. I would hope that anybody could rise to the occasion and not worry about turf if it was in the best interests to work collectively and to even merge functions."

Risk management also will evolve beyond accidental risks to business risks, Ms. Kidder predicted.

"Risk managers will be far more proactive, far more involved in the strategic planning of their organizations and less reactive to the disasters and the problems. I think a lot of us already are, but I think that's going to continue to increase."

Strategic risk financing like Norwest's concentric risk program is the wave of the future, particularly at larger organizations, she said. More companies will unbundle services, as Norwest has done, to emphasize managing risk rather than simply insuring it.

"I think we've made great strides in not just being insurance buyers in the last 10 years," Ms. Kidder said. "I think we'll see even more of that, whether it looks like (CRI) or some other variation on the theme."

With CRI in place for more than a year, Ms. Kidder does not worry about continued challenges in her current post.

"Just managing CRI is going to be exciting for a couple of years."

As a company, and within the department, Ms. Kidder and her colleagues already are looking for other self-insurance opportunities, including some outside the expected realm of the risk manager. For example, this year she plans to explore using a captive to spread the cost of maintenance contracts on computers and office equipment.

"I think I'll continue to be challenged just by the dynamics of the company," Ms. Kidder said. "I believe that risk managers' responsibilities will expand. I don't necessarily mean I'll take over other functions, I just mean I might be more participatory on teams that deal with risk, no matter what kind of risk it is. I think that will continue to provide challenge and opportunity.

"Boredom is not a concern," she concluded. "I love Norwest. For the near future, I can't imagine being anyplace else. I love what I do, I love where I do it. I find it challenging, rewarding, exciting. I think there's a lot to follow in CRI." BI

Kidder's risk financing program satisfies bank's appetite for risk

By SARA MARLEY

It all started with a three-line memo.

"Why not cut the string now and insure only catastrophic-type risks?" John T. Thornton, Norwest Corp. executive vp and chief financial officer, quizzed K.C. Kidder, vp and risk manager, in an October 1992 memo.

Attaching an Economist story that noted how British Petroleum P.L.C. re-evaluated its purchase of midlevel insurance and decided to self-insure a much larger portion of its property/casualty risks, Mr. Thornton asked the risk manager to compare how much Norwest had paid in premiums over the past five and 10 years to how much it had collected in losses.

"The numbers were phenomenal," Ms. Kidder said. While there are a few different ways of measuring, the outcome was always the same: Norwest could expect to see less than 10% of its premiums ever again.

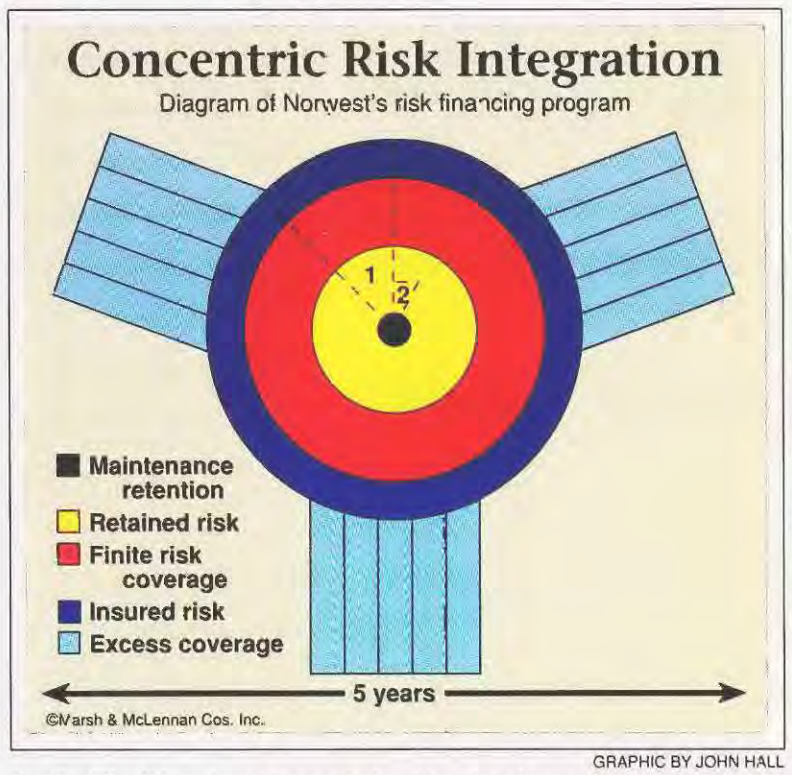
"Then it became a question of not whether we should increase our retention, but how," Ms. Kidder said.

That was the genesis of an entirely new way of viewing risk, retention and insurance at Norwest. On April 1, 1994, the Minneapolis-based financial services company stopped buying most commercial coverages altogether, opting instead for an aggregate retention covering all risks over five years and a single layer of catastrophe reinsurance.

Called "concentric risk integration," the program has cut Norwest's risk-financing costs for the lines it covers by 70%. Those coverages are: auto; a portion of directors and officers liability; fidelity bond; fiduciary; foreign excess/difference in conditions; general liability; non-owned aircraft; professional liability; property; workers compensation.

"I think it's just part of the insurance buying mentality, that, 'Wow we can buy $100 million worth of coverage and pay $1 million in premium.' But if you're never getting anything back, you're not getting $100 million worth of anything. It is nothing, and you need to look at it as, 'I'm going to give away $1 million for nothing.'"

"We were at a level of diminishing returns," Mr. Thornton said. "We had been increasing our retentions, but we needed to get over that last hurdle. We did an honest appraisal and discovered that, yes, our risk profile should warrant lower premiums. We present the lower risk because we are already spending money for controls and employee programs and sensitivity to risk."



GRAPHIC BY JOHN HALL

Norwest had not been buying too much insurance in the past, Ms. Kidder said, but what it did buy was dictated largely by what insurance companies offered.

"I had been forced, for lack of a better word, by the industry to look at risk and therefore risk tolerance in the buckets that they established for me called insurance policies," Ms. Kidder said. "Each retention decision was made separately."

Norwest made retention decisions policy by policy and year by year.

Ms. Kidder set her sights on self-insuring a middle layer of insurance above normal and expected losses, which Norwest was already retaining, but below catastrophic levels.

"If you're having losses in that level every single year, then it's not midlevel anymore. Then it's back down to normal and expected," she realized. "Why wouldn't you look at it as a long-term decision?"

The market also drove retentions by coverage availability.

"For a financial institution our size, pretty much regardless of what we might have been willing to pay, it would have been difficult if not impossible to buy a fidelity bond with less than a $5 million deductible. That's just what the marketplace will allow a then-$40 billion bank to buy."

So Norwest did some simple math, assumed the worst and added up all of its retentions in every line. While Norwest's total retention is now five times greater than its single largest retention under the old system, that total is still lower than the sum of its previous retentions.

"We ended up establishing a risk tolerance that was tied to the company's ability to tolerate risk, not tied to insurance decisions," Ms. Kidder said.

Once Ms. Kidder determined the organization's appetite for risk independent of the insurance industry, "I didn't know the form that the new risk financing structure would take," she said. "I knew that I would begin underwriting in a captive that layer of coverage we discontinued purchasing from the commercial marketplace, but at some level we would want catastrophe protection. We didn't want to be completely, 100% self-insured."

Norwest chose Marsh & McLennan Cos. Inc. from among a handful of brokerages it invited to bid on developing and marketing the program. It was M&M Senior Vp John F. Navin who coined the term "concentric risk integration" and developed a now-copyrighted diagram of the program (see diagram).

A black circle in the middle of three concentric circles represents where 95% of Norwest's normal and expected losses fall: Those losses do not exhaust Norwest's retention level.

Only the losses exceeding the first aggregate level begin exhausting the retention level. That actuarially derived retention level, represented by the next circle in the diagram, is significantly above what's expected over five years.

Norwest's Vermont captive, Superior Guaranty Insurance Co., covers those losses and some that fall into the black hole.

The next circle represents a finite risk-sharing agreement between Superior Guaranty and National Union Fire Insurance Co. of Pittsburgh, Pa., the American International Group Inc. unit that serves as Norwest's reinsurer.

None of the companies involved will discuss this agreement in detail. But executives do say that it contains a profit-sharing element and in some ways resembles a quota-share reinsurance agreement, in which a ceding insurer's share of loss remains constant from risk to risk.

Three wings projecting out from the outermost circle represent excess insurance that Norwest still purchases for property, liability and securities. In each case, the potential for losses exceeded the full amount of the program, Ms. Kidder said.

After developing the concentric risk program, Ms. Kidder and M&M set out to find an insurance partner, contacting about a dozen companies.

"Their responses ranged anywhere from 'Huh?' to keen interest," Ms.

Continued on next page

Continental Risk Management®

CONTINENTAL RISK SERVICES

Delivering a full range of captive management services

- Feasibility studies
- Captive formation and registration
- Corporate & accounting services
- Reinsurance brokerage
- Underwriting and rate making
- Claims processing

Continental Risk Services Ltd
Continental Building
P.O. Box HM 824
Hamilton, HMCX
BERMUDA
Thomas R. McMahon, A.V.P.
TEL: (809) 295-6015
FAX: (809) 295-1702

Continental Risk Services (Barbados), Ltd
ICB Building
Upper Roebuck Street
Bridgetown
BARBADOS
Fiona A. Williams, A.V.P.
TEL: (809) 427-3362
FAX: (809) 426-0426

Continued from previous page
Kidder said.

Norwest limited its search to insurers that wrote all lines of coverage, including those unique to financial institutions, she said. "One of the biggest restrictions that we placed on the market was that we were looking for an insurer that would give us their net capacity. We didn't want someone who was going to agree to reinsure the captive and then in turn run out and buy reinsurance themselves."

Earlier attempts at Norwest-style programs—called cap or basket programs—had fallen apart when the insurer lost its reinsurance support.

"So it was critical to us to find a company that was large enough that had the capacity and was willing to put their net capacity on the line for Norwest and not involve any other reinsurers, so we had one single relationship," said Ms. Kidder. "And only if that fell apart would we have a problem."

Another critical ingredient is that the policy is non-cancelable.

"We made it a condition that the program be non-cancelable," Ms. Kidder said. "We again and again and again and again emphasized this is long-term. They knew they were committed for five years."

Once AIG signed on, pricing had to be determined and a policy developed. Ms. Kidder did not want a pile of traditional policies combined.

"Automobile exclusions are there because it's intended to be covered under general liability, and you exclude things in general liability because they're supposed to be covered under professional liability," Ms. Kidder said. "Let's start all over with a clean slate."

Due to the long-lasting soft market and Norwest's favorable loss experience, the company had very broad coverage forms before CRI.

"When we put everything into the CRI program, it is as broad or broader than everything we had before," Ms. Kidder said.

Furthermore, AIG agreed to follow any reasonable form the captive issues. "In part that's because of the confidence they have in Norwest's ability to manage its risks, in part because the loss experience speaks for itself and in part because of where they attach," Ms. Kidder said. "They know that we're in the working layer and if we're willing to take the risk, they're willing to follow suit."

That is just one example of the collaboration between the companies, she said.

"They are absolutely as committed to it as we are. I think we really attained what we set out to attain, which is a true partnership."

Ms. Kidder hopes to roll over the five-year term of the contract. "We'll get into probably the second or third year and renegotiate a five-year deal with AIG. It should be long-term."

Ms. Kidder credits 18 months of planning and the participation of her entire eight-member staff for the smooth transition.

"We haven't had anything I would call an issue and certainly nothing approaching a problem," she said.

"If I had one piece of advice to give to risk managers, it would be plan, plan, plan," Ms. Kidder said. "Because that's one thing that made our transition from the way we used to do things to this approach easier, relatively speaking. There was a lot of work and there were lots and lots of details and it took a lot of time."

Ms. Kidder has received about 20 phone calls from brokers, consultants and risk managers regarding the Norwest program, including requests for speaking engagements.

"The interest has been virtually at all levels, from people who just had curiosity about it but no intention of doing something similar, to people who wanted to do something like it within their organization," she said.

Ms. Kidder finds it significant that it was a non-insurance person who first proposed the dramatic change.

"I didn't start thinking about it differently until somebody without the paradigm asked a question that caused me to look at it from a different perspective," she said. BI

MICHAEL A. MARCOTTE

'Why not cut the string now?' John T. Thornton, Norwest Corp.'s chief financial officer and K.C. Kidder's boss, asked in 1992 of Norwest's ties to the commercial insurance market. Together, they did just that.

Norwest staff now in control of its destiny

By SARA MARLEY

Now that Norwest Corp. no longer buys most insurance coverages, the risk management department's responsibilities have shifted to managing service providers.

Annual insurance renewals have been replaced by an April 1 anniversary for services ranging from third-party administration to fronting to loss control engineering.

"I was a little surprised at how much more time and how much more depth I need on staff to do what we do now, vs. managing the insurers," said K.C. Kidder, Norwest vp and risk manager. "We don't just have to accept the status quo that comes with how they would handle a claim because we bought insurance from them. We're able to set our own standards and tell the vendors how we want them to operate and how we want our account to be handled. And we've got some pretty high standards."

Norwest examined all of its service contracts on the first anniversary of a new risk management program it calls "concentric risk integration," in which Norwest buys only a five-year catastrophe reinsurance policy and certain excess policies.

Some of the examinations were informal, but in the case of the TPA, a full claims audit was conducted.

"We could have just rolled the TPA contract and not sat down and renegotiated, but that's not our style," Ms. Kidder said.

Before Norwest set up its concentric risk integration program, its services were not truly unbundled. Fronting and excess insurance arrangements still tended to determine which company would handle claims or provide loss control services.

"Determining what constituted the right level of quality at the right price was really something that took us some time," Ms. Kidder said. Now the company identifies the need for a service, sets its own standards for quality, sets pricing parameters and then invites service firms to compete for its business.

Determined to view risk retention in the aggregate and over the long term, Ms. Kidder only had to take an elevator ride to find brokers to give shape to that vision.

Marsh & McLennan Cos. Inc., which has offices in the Norwest building, beat out a handful of other brokerages invited to bid on the insurance program. Today it is the broker for the blanket catastrophe program underwritten by National Union Fire Insurance Co. of Pittsburgh, Pa., a unit of American International Group Inc.

"A lot of people ask me, 'Did Marsh New York put this together?' No. It was Marsh Minneapolis," Ms. Kidder said. "I wanted to work locally, but I never even thought about it in terms of whether or not Minneapolis could do it or had the expertise."

It was John F. Navin, an M&M senior vp, who actually developed the concentric risk integration program in 1993.

From the moment Mr. Navin presented his diagram of the program, "I never questioned whether or not he could make the paradigm shift, whether or not he could be creative or whether or not they needed any New York talent," Ms. Kidder said. "It was obvious he was the one for the job. They understand what we're trying to do. As different as it is, they're not going to keep trying to sell us insurance. A couple of brokers we talked to just didn't make the shift—and therefore didn't make the cut."

Until then, Norwest had used numerous brokers, including M&M. Sedgwick continues to broker Norwest's excess insurance for the securities it owns or holds for others. "It wasn't broken, so it didn't need to be fixed," Ms. Kidder said.

Norwest then looked over brokers again in search of help in choosing service firms.

It chose Alexander & Alexander Services Inc. to assist with TPA selection and the purchase of loss-control services, and Johnson & Higgins to do actuarial and underwriting work for the captive insurer.

A&A has stayed on as Norwest's risk management systems consultant, helping to implement a new system from Anistics, A&A's risk management consulting unit.

The new system is "faster, bigger and fully integrated," Ms. Kidder said, allowing for more sophisticated analysis of claims, exposure and policy information.

J&H maintains the database that produces thousands of certificates of insurance for Norwest each year.

Norwest now uses a single TPA, Constitution State Service Co., a unit of The Travelers Inc.

American Risk Management Corp. remains the captive manager for Norwest's two captives, domiciled in Vermont and Cayman Islands.

Continental Corp. provides fronting for workers compensation, general liability and auto coverages. Ms. Kidder does not expect the insurer's acquisition by CNA Financial Corp. to change the arrangement. "It is a relationship they would like to continue, we would like to continue it and neither of us has any reason to believe that the acquisition would change anything," she noted.

All nine members of the risk management staff were involved in shifting to CRI, especially in identifying, purchasing and ultimately managing the services Norwest now obtains separately.

"Virtually everybody on my team owned a piece of this project," Ms. Kidder said. "It was too big for me to micromanage. They had to each have a piece of it.

"I don't think anybody on staff would complain, but we're all a lot busier than we were when we used to buy insurance," she added. "I think they all love what they are doing. There's more ownership, more pride. But it's overwhelming, it's different."

The staff was apprised of the new risk retention philosophy and program from the beginning.

"I was surprised initially in terms of the change in my way of thinking," Ms. Kidder said. "This was like a revelation to me. Why do we look at it this way? So I shared that revelation with them."

Few of Norwest's 40,000 employees see any changes, though.

"It's very transparent from the affiliates' perspective," Ms. Kidder said. "We send out a summary of how they are protected and they still are protected, they're just protected by an insurance company called Superior Guaranty instead of one called Aetna, Chubb, Travelers, Hartford or whatever.

"It shouldn't be an issue for them," she said. "Their risk management services and the things they need from us should go on uninterrupted and they should go on and do whatever it is they do to make the company money." BI

Norwest staff rises to challenge

A motivated, hard-working group that still finds time for ice cream

By SARA MARLEY

The best part about being named to the *Business Insurance* Risk Management Honor Roll was being nominated, said K.C. Kidder, vp and risk manager for Norwest Corp. in Minneapolis.

And the best part about being nominated is that her entire staff made the nomination.

"K.C.'s enthusiasm regarding risk management is contagious," they wrote in her nomination. "She has worked extremely hard to create an environment within our department where each of us cares and is committed, individually and as a team, to do our best. She creates opportunities for personal growth, challenge and reward, while emphasizing the importance of having fun."

The nine-person staff's praise for Ms. Kidder is exceeded only by her kudos for them. "I have a great team, and I'm not shy about telling anybody that."

A hard-working group that still finds time for lunchtime shopping excursions and afternoon ice cream runs, the staff was instrumental in implementing Norwest's new total self-insurance plan (see story, page 114).

When Norwest stopped buying most insurance, it also lost all the services that go with policies and the staff had to pick up the slack.

"I don't think I thought it would be less work, but I'm not sure I recognized how much more work it would be," Ms. Kidder said. "It isn't just the volume; it's the degree. And that's why I was so thrilled I had the team in place that I have. If I had had a different kind of a department, I don't think we could do what we're doing today."

Jill M. Combs, assistant risk manager, reports directly to Ms. Kidder, as do Allan P. Harris, risk management analyst, and two of the department's five risk management specialists: Nancy M. Mesenbourg, financial institutions, and Ruth L. Harris, affiliates.

The three other specialists report to Ms. Combs: Marilou Calasanz, workers compensation; Deborah K. Hilleren, property; and Bradley J. Pint, casualty.

Department secretary Marilyn A. Hoglund completes the staff.

Eight of the nine members of the department have joined since 1989, and all have different backgrounds.

Ms. Kidder is particularly proud that three of her staff either majored

See **Challenge** *on next page*

Norwest withstands impact from 'routine' losses

By SARA MARLEY

Two of the biggest losses to hit Norwest Corp. since K.C. Kidder joined the risk management department are the oldest ones in the book.

They weren't employees embezzling millions, or derivative investments gone bad, or even a massive shareholder suit against the directors and officers.

They were fire and flood.

On Thanksgiving Day 1982, a fire began on the fifth floor of the Norwest headquarters building, which dated from 1929.

A fire wall contained the blaze to the upper 14 floors, but the 18-story building was a total loss.

Norwest submitted proof of loss in excess of $100 million, but the actual amount of the settlement remains confidential.

The St. Paul Insurance Cos. wrote the blanket replacement value property policy with an extra expense endorsement. That endorsement paid off immensely, as Norwest employees were scattered in 26 offices in Minneapolis for six years until the new building opened in 1988.

Ms. Kidder, who was senior risk management specialist at the time, participated on the claim management task force. A plaque commemorating that effort hangs on the wall of her office in the new 57-story headquarters, rebuilt on the same corner in the heart of downtown Minneapolis.

Other conversation pieces are a glass and bronzed-looking telephone warped by the intense heat of the 1982 fire.

Norwest was able to recover many more attractive items from the art deco-era building and incorporate them into the new one, so some of the same wrought-iron chandeliers and gold terra cotta ornamentation adorn the lobby of the new bank.

At the time, the fire was the worst office building fire in U.S. history.

Vying for that dubious distinction now is the February 1991 fire at One Meridian Plaza in Philadelphia (*BI*, March 4, 1991). The claim is still in litigation and the building remains unoccupied.

The Philadelphia building's owner, E/R Associates, maintains that it would cost $261.6 million to rebuild. But Aetna Casualty & Surety Co. contends the full replacement cost is $157.1 million (*BI*, Feb. 22, 1993).

Norwest's corporate disaster recovery plan was only a few months old at the time of the fire. It got another workout 11 years later when floods in Des Moines, Iowa, caused $16 million in water damage to several Norwest facilities.

The headquarters of its mortgage unit were destroyed, the national printing headquarters of its Norwest Financial Inc. unit were displaced and access was lost to the headquarters of both Norwest Financial and Norwest Bank Iowa N.A.

The flood came as Norwest was in the process of selecting a reinsurer for a radical new insurance program. Norwest is assuming its normal and expected losses over five years, buying a blanket catastrophe reinsurance policy to cover anything above its formidable retention (see story, page 114).

But the loss did not affect the program, and in fact confirmed Norwest's assertions that it can handle all but the largest losses.

"The fire was a huge loss, but there wasn't another catastrophe until the Des Moines flood in 1993," Ms. Kidder said. "Even having a significant loss, it was isolated. It was a one-time event."

She re-evaluated the loss forecast and appropriate retention level including the loss from the flood, but did not change her mind.

"We're still ahead financially with this structure, even if we had not had insurance on the flood," Ms. Kidder said. BI

Challenge

Continued from previous page

in risk management in college or took risk management courses, including Ms. Combs, who once participated in the student involvement program at the Risk & Insurance Management Society Inc. annual conference.

Ms. Hilleren and Mr. Pint both studied under Professor Peter Young, who started the undergraduate risk management program at St. Cloud State University in St. Cloud, Minn., before moving to the College of St. Thomas in St. Paul, Minn.

Mr. Harris joined the department as risk management analyst two months ago from Norwest's audit department. A certified public accountant, Mr. Harris previously worked for an insurance company.

Ms. Calasanz was a workers comp claims adjuster with CNA Insurance Cos. before joining the department 18 months ago.

Another important aspect of the Norwest risk management department is the network of 47 risk management and workers compensation liaisons, who serve as contact people in each geographical region or business line.

Duane Hansen, assistant vp-administrative services for Norwest Bank South Dakota in Sioux Falls, spends about 10% of his time handling workers comp and risk management issues, he said. He is the only liaison to handle both responsibilities.

"Sometimes I'm on the phone with them everyday, sometimes I'll go a whole week without talking to them," Mr. Hansen said. "It's a comfort to know that type of expertise is at the end of the telephone line."

Mr. Hansen contacts the department about complicated or lost-time workers compensation claims and to get answers to questions from banks in his region.

The nine-person department "is relatively large in this day and age," Ms. Kidder said.

When she became risk manager in 1989, there were six in the department. Norwest has almost tripled in size, but the department only grew by three.

The size of the department "has been tied to growth, but it's at a time when a lot of other companies are cutting back and outsourcing," she said.

Adding to staff was not difficult, Ms. Kidder said. "We are able to demonstrate that the cost savings more than offset resources."

"She has a big territory to cover with an extremely small staff," said John Thornton, Norwest's chief financial officer to whom Ms. Kidder reports.

"She has done a phenomenal job keeping the respect of the company," Ms. Combs said. "The function continues to receive respect, so we could add professional employees at a time when companies are downsizing."

"It's great working for K.C.," Ms. Calasanz said. "She empowers you and gives the green light to develop programs and implement them."

Ms. Calasanz has participated in Norwest's disability roundtable, a group of managers from the benefits, legal and human resources departments who meet weekly to promote consistency in the managing of disabilities throughout the corporation.

Collaborative efforts like that are made easier by Ms. Kidder's great relationships with other department heads, such as the vp of human resources.

"I've seen other companies attempt this, but due to the inability to clear hurdles, they met an impasse," Ms. Calasanz said. "It's the most innovative yet fun place I've worked. It's very cutting edge. It takes management with foresight to see the benefits of cooperation."

"She's a very fair person, creative and innovative," Ms. Harris said. "She gives direction without giving orders."

Creativity and innovation are at the heart of the risk management department's vision statement, which hangs in every cubicle in the office.

The superlative-laden sheet is modeled in part after Norwest's corporate philosophy, outlined in a brochure by President and Chief Executive Officer Richard M. Kovacevich, "How Norwest seeks to become one of America's great companies."

- "We will be the premier risk management department in the financial services industry—providing unparalleled service through extraordinary knowledge of and insight into risk management and its application to our businesses."
- "We are committed to attaining a partnership with the businesses in which they view the department and its function as adding value. We will do this by creating risk management approaches which are innovative, cost effective and responsive to their needs."
- "We will create a work environment where all employees care and are committed individually and as a team to do their best; where we respect diversity; where contributions are recognized; where there is opportunity for personal growth, challenge and reward; and above all, where people are excited and having fun!"
- "In achieving our vision we will enhance the corporation's ability to fulfill its responsibilities to its customers, shareholders, employees and the public." BI

MICHAEL A. MARCOTTE

Norwest Risk Manager K.C. Kidder, who is second from right, has high praise for her staff, from left to right: Nancy Mesenbourg, financial institutions risk management specialist; Jill Combs, assistant risk manager; Brad Pint, casualty risk management specialist; Ruth Harris, affiliate risk management specialist; Marilyn Hoglund, secretary; Marilon Calasanz, workers comp risk management specialist; Ms. Kidder; Debbie Hilleren, property risk management specialist.

K.C. Kidder's long trek leads to the summit of her profession

By SARA MARLEY

K.C. Kidder had nowhere to go but up.

Kay Cynthia Lilligren started out as a cook at a restaurant at the bottom of a Colorado ski run.

Even once she started in insurance, it was still an uphill trek to vp and risk manager at Norwest Corp. in Minneapolis.

Returning to her native Minnesota in 1974, she earned a degree in business administration from the College of St. Catherine in St. Paul, Minn. Then she began working as an office assistant at the Insurance Co. of North America. After a few weeks of pulling policies and photocopying, Ms. Kidder, now 40, expressed an interest in learning more about insurance.

"They put me in a conference room with a slide machine and a tape recorder," she recalled. "It was basically Insurance 101."

After a math aptitude test and some more training, Ms. Kidder became an assistant underwriter.

She left INA after about six months to join a brokerage firm. "I was interested in the field but I wanted more contact with people," she explained.

Ms. Kidder worked for several small Minneapolis-area insurance agencies, including Holmbeck & Associates, Quality First Cos. and Leighton Johnson Insurance, which she joined in 1976.

Three years later, that agency was bought by what was then Northwest Bancorp., which sold insurance through an exemption to the Bank Holding Company Act.

Dick Clovestead, who was then Norwest's risk manager, gave the bank-owned agencies a chance to compete on the corporate account. Ms. Kidder's agency won the property, general liability and automobile liability business.

It was her first exposure to large commercial insurance, having sold primarily personal and small business packages at the Stillwater, Minn.-based insurance agency.

In 1980, Mr. Clovestead asked Ms. Kidder to join Norwest's 5-year-old corporate risk management department as a risk management specialist.

"I was a little bit uncertain about what it would be like to be in the corporate office, but I was intrigued with the idea of risk management," she said. "Risk management seemed real cutting edge. It was a relatively emerging profession. I could utilize my insurance background and learn something new."

With her strong insurance background, Ms. Kidder's first responsibilities were to interact with affiliates, allocate premiums and obtain certificates of insurance.

Any apprehensions quickly faded.

In 1983, she was made assistant risk manager. When Mr. Clovestead resigned in 1989, she was named vp and risk manager.

"My career has lived up to all my expectations," she exclaimed. "I absolutely love what I do. It's challenging and interesting. The need to manage risk extends beyond employees to the safety of the general public. I feel like I've made a contribution to the company beyond the bottom line. And there's so much variety."

Ms. Kidder also has contributed outside the office, serving on several boards and committees.

She has held numerous leadership positions for the Minnesota chapter of the Risk & Insurance Management Society Inc., culminating with the presidency in 1988-89.

"It was a good opportunity to hone my leadership skills before I was in a management position here," Ms. Kidder said.

Among her accomplishments at RIMS were overseeing that chapter's largest one-day conference to date and modifying the bylaws to match the national organization's. She also boosted the activities of the chapter's educational and legislative committees.

Ms. Kidder currently is the chairman of the underwriting and claims committee and on the executive committee of group captive Bankers Insurance Co. Ltd. of Bermuda.

"BICL has really given me the opportunity to see the other side of an insurance company," Ms. Kidder said. "It gave me a new perspective."

She is also director and treasurer of Superior Guaranty Insurance Co., Norwest's Vermont captive insurer, and is a director of Northern Prairie Indemnity Ltd., Norwest's Cayman Islands captive.

She was treasurer and a member of the board of the Captive Insurance Cos. Assn. from 1990 to 1993.

In 1994, Ms. Kidder was appointed to a three-year term on the risk management advisory board at American International Group Inc.

Ms. Kidder's tidy office is decorated with Valentines from her three children: Keegan, 7, Korey, 4, and Kaitlyn, 2. She has been married to Kelly Kidder for 12 years.

A collection of neckties decorated with the Norwest corporate logo hangs from a well-organized cabinet. "What else would I do with them?" she asks, slightly miffed at the patriarchal corporate gifts. BI

Judith Payne

South Dakota

Government Entity

By RODD ZOLKOS

Judith M. Payne was South Dakota's revenue commissioner in 1987, when Gov. George Mickelson told her he had something else in mind for her.

"He asked me what I know about risk management and I said, 'What?' " Ms. Payne recalled. "And he said, 'I only know about five minutes more about it than you do but I'm told the state needs one and a risk management program.' "

Gov. Mickelson gave Ms. Payne a year to start a risk management program along with a generous budget to use to "go get educated in risk management."

Jeff Stroup, a consultant to the state who was Gov. Mickelson's commissioner of administration when the risk management program was started, recalls the circumstances that led up to Ms. Payne's appointment. While searching desperately for affordable insurance during the mid-1980s, "we talked to a number of people and one of the things they said was, 'You are the state's largest employer and yet you have no risk management program to speak of,' " Mr. Stroup said. "At that point the governor said, 'Let's create a risk management program.' "

Although Ms. Payne was named risk manager in 1987, the Mickelson administration created the risk management program without budget authority from the Legislature. When the budget process began the next year there was some explaining to do.

"We knew what we had to do and we did it and then we went and begged forgiveness rather than asking permission," Mr. Stroup said.

"When the Appropriations Committee found that the program existed they were really mad," Ms. Payne remembered.

Selling legislators on the necessity of a risk management program was one thing. There was also a matter of explaining: why Ms. Payne?

"The analogy I gave the Appropriations Committee when they said, 'Why Judy? Why didn't you go out and hire somebody else?'. . . I likened it to the Minnesota Twins, that they couldn't go out and buy the multimillion-dollar superstar so they had to develop their own guys and they went out and won the World Series that year," Mr. Stroup said. "We couldn't go out and get the Reggie Jacksons of the world so we had to develop the Kirby Pucketts. And they bought it."

"You have to understand this is Minnesota Twins territory," Mr. Stroup added. "They thought that was pretty cool."

Indeed, Ms. Payne has developed into a home-grown superstar, turning herself into a skilled risk manager and crafting a risk management program for South Dakota that earned her a spot on the 1995 *Business Insurance* Risk Management Honor Roll.

The risk management program she assembled has resulted in increased coverage at lower premiums for the risks the state does fund through traditional insurance, as well as more than $10 million in documented savings from actuarial projections in liability claims covered through South Dakota's Public Entity Pool for Liability, a self-insurance fund.

Though Ms. Payne manages state exposures at facilities ranging from prisons to parks scattered all over the state, she favors an "ambulatory" risk management style that has helped with identifying risks and with encouraging state employees to accept and contribute to loss control strategies.

"I think if you name the exposure, we have it," Ms. Payne said. Her office oversees coverage for six universities, four prisons, four state hospitals, two special educational facilities for the disabled, thousands of acres of state parks and recreational areas—including approximately 1,400 buffalo at Custer State Park—7,600 state vehicles and 14,000 state employees.

In any given week, Ms. Payne might find herself participating in a state-sponsored special event like the annual buffalo roundup in Custer State Park, then providing risk management services to University of South Dakota officials on the other side of the state, then returning to Pierre to negotiate a claim settlement.

"Probably the one thing that's unique about Judy and is a secret to her success is her orientation to getting out and interacting with the people," said Michael Kaddatz, a principal with Advanced Risk Management Techniques Inc. in Lake Forest, Calif., which provides risk management consulting to South Dakota and the public entity liability fund.

"She is out there and getting involved in the buffalo roundup," Mr. Kaddatz said. "At the state fair she is an integral part of their safety and security program."

Those who work with Ms. Payne agree that her emphasis on taking the risk management program out of her office and out to the various sites where the exposures occur is a key to the program's success.

"It really didn't become effective until we could get out in the field and show state employees how they could use these methods in their particular situation," said Jo Zschomler, a loss control analyst in Ms. Payne's office.

"I guess I've never felt I could have a good handle on what was going on without experiencing it," Ms. Payne said, and so she finds herself working long hours with security at the state fair, or involved in the buffalo roundup, an annual October event where the public is invited to watch as Custer State Park's free-roaming buffalo are herded, branded and vaccinated.

The roundup draws approximately 3,000 spectators, with attendance growing each year. And, of course, all the spectators want to be as close to the action as possible.

"In the past, that created situations where we were putting people in dangerous situations because you're talking about a wild animal," said Rolland Noem, Custer State Park's director. "You know, the public came, the public watched and we hoped that nobody got hurt."

Now Ms. Payne's office has prompted park workers and event officials to focus on handling the crowd in a way that minimizes the chances of spectator injury.

"Each year we do more things to better manage that activity," Mr. Noem said. "We're doing a lot of things now that we never thought about several years ago.

For example, a system of catwalks and walkways now puts spectators above the animals in the corral area, eliminating considerable risk.

"But that came about as a result of Judy coming and actually taking part in the roundup," Mr. Noem said.

Ms. Payne's success at Custer State Park, as at other state agencies and departments, has resulted from making employees more aware of risks and how to minimize them.

At Custer State Park, "employees have always tried to provide a good experience and a safe environment, but up until the involvement we've had here in recent years with Judy's office we haven't thought consciously enough about what we can do to minimize those risks for the visitors primarily and the liability that creates for the park and the state," Mr. Noem said.

And the park director credits not only Ms. Payne's visits to the park and her office's risk management audits, but also the fact that they're conducted in such a way that employees realize "that it's not an inspection, it's a review and a way to help the employees do a better job."

That sense that Ms. Payne conveys that she and her office are there to help state employees rather than make their jobs harder is another key to her success.

"She's very accessible, tries to give straight answers to things and doesn't muck things up with bureaucratic kinds of things," said Joe Class, warden of the South Dakota State Penitentiary in Sioux Falls.

"I think what could happen is that people who are managing risk for the state could have the type of approach that would make state employees hesitant to open up because of concern about the reflection that would

See **Payne** *on next page*

MICHAEL A. MARCOTTE

Payne

Continued from previous page
have on them or the job they're doing," Custer State Park's Mr. Noem said. "But what we've seen with Judy and her people is that they come in and do it in a way that gets people to open up and bring forth the various things that they see and openly share their ideas and their concerns."

When problems are identified, "there really is an awful lot of opportunity for back and forth," Mr. Noem said, with the outcome frequently "the result of the feedback that Judy gets from the employees combined with her expertise in the area."

Ms. Payne is applying that same kind of team approach to a risk management video training program she is developing.

The videos, which are geared to dealing with the particular risks existing in various state departments, are filmed on location at the agency or park sites, using state employees to present the information.

"I really think the video project is sort of leading edge," ARM Tech's Mr. Kaddatz said. "I don't think a lot of people have approached video the way she has in terms of incorporating actual people into a video instead of just buying something off a shelf that tells you how to lift a box or whatever."

ARM Tech is working with the risk management office on the four-year project. Among the videos to be produced this year are programs looking at: loss control for the state fair; the Department of Game, Fish and Parks; for volunteers at the buffalo roundup; a general "What Is Risk Management?" video; and another explaining the liability fund.

Future videos will cover physical plants throughout state government, university risk management, the four state hospitals and the state prison system.

"I know safety videos are boring," Ms. Payne said. "But when you involve the employees at their locations, they get the message by being interested enough to watch because they want to see what employee is up next, what park is going to be up next."

And those employees' involvement is critical, the risk manager believes. Though Ms. Payne says her program owes much of its success to support from the top—first as an initiative of Gov. Mickelson and now with the backing of Gov. Bill Janklow—she also stresses the importance of support for risk management from the front-line employees up.

"What Judy's been able to do is build that level of trust and program credibility with those people," Mr. Noem said.

Ms. Payne credits much of her success to her "great staff" of Ms. Zschomler and Teddi Martell, the office's secretary. She notes, though, "We have a small staff and a very large territory," so her office relies on a risk management contact person in every agency as a way of maintaining that essential communication with state employees.

The agency contacts are responsible for providing information to Ms. Payne, the state's claims manager and the employee involved when accidents or other incidents resulting in claims occur. That contact person also is responsible for disseminating information from the risk manager to employees and is the person to whom employees can bring risk management ideas to be passed on to Ms. Payne.

"That contact person is a real key to making the whole system work," the risk manager said.

The contact person also is a key link in the risk management training Ms. Payne's office provides state workers.

"We do an awful lot of risk management training," Ms. Payne said. Training topics have included defensive driving, law enforcement and safety and health management. Much of the training is contracted out, frequently with the South Dakota Safety Council.

Ms. Payne also has created a loss control training resource center to spread awareness of risk management. The center's catalog boasts more than 200 videos, all viewed by Ms. Payne and purchased by her office, on various loss control topics. The center is located in the state library and is open to anyone.

In addition, she has developed a risk management manual for state agencies, and her office produces a monthly risk management bulletin for state agencies.

Basically, Ms. Payne wants others in South Dakota government to view her office as a resource.

"We review numerous contracts for state agencies and assist them with insurance limits questions, what kind of coverages they should be requiring, what kind of hold harmless language or waiver indemnification they need," she said. "As a result, they know there is certain risk management language that has to be in every contract that comes through the Attorney General's office."

Their dealings with Ms. Payne's office also have left state employees well aware of how to deal with an angry or injured person with a possible claim against the state.

"They know it's fine to say, 'I'm sorry this happened to you,' but state employees all know they shouldn't say, 'I'm sorry. This is my fault,' " Ms. Payne said.

And they know the importance of documenting everything.

"Documentation is very, very, very important," Ms. Payne said. "Of all of your actions. I don't care if you're a social worker dealing with the sexual abuse of a child or if you're a Game, Fish and Parks worker seeing someone dive off a dock. If you don't have the documentation to back up your actions, it always comes back to haunt you."

"She's dealing with it before the problem occurs," said Brent Wilbur, a partner with the Pierre law firm May, Adam, Gerdis & Thompson and general counsel to the liability fund. "All state agencies have been made aware of the need for documentation and the need to follow the rules that they implement. Sometimes painfully aware."

Of course, not every case can be dealt with before problems arise, and much of the risk manager's job involves managing claims and litigation.

"I know managing claims and litigation plays a very large part in keeping these loss dollars down," Ms. Payne said.

She's not a lawyer, but much of her experience as risk manager and administering the PEPL fund has been law-related, giving her a knowledge of the law that aids in managing cases, knowing how much discovery should be done and when the state should cut its losses.

The state's philosophy in negotiating claims comes from the top, Ms. Payne said, and the message sent from Gov. Janklow is that "when we're right, we're right and we'll fight a case until Doomsday and when we're wrong, we're wrong and we'll offer a fair settlement."

Again, Custer State Park offers an example of that philosophy in practice and some of the exposures Ms. Payne confronts that most corporate counterparts would never see.

Though park visitors are warned about approaching the free-roaming buffalo, the state encourages them to approach the park's burros, to feed them and take pictures with them.

"So if a burro does bite a hole through the hood of someone's car (as has happened), we feel since we've invited the public to interact with the burros we'll take care of that," Ms. Payne said.

"On the other hand, if a member of the public was injured by a buffalo through the same actions, trying to feed a buffalo"—tourists have actually tried to put children on the buffaloes to take pictures—"we feel we've adequately warned the public and that sort of activity shouldn't be happening. If there was to be an injury, a claim from somebody trying to do that, we will fight it."

Of course, not every case is as open and shut as a burro biting a car hood. "There will always be times when one side or another is not being fair," the risk manager said. At other times, the liability or the extent of contributory negligence might be disputed.

"That's when negotiating comes in," Ms. Payne said. And there, she believes, she benefits from the combination of being a native South Dakotan, being active in politics and her experience dealing with the law and the courts, which have "given me a pretty good sense of lawyers, judges and juries across the state. And I'm able to judge whether we have a good case or a bad case based upon that, in addition to the facts of the case."

Clearly, Ms. Payne's experience would be valuable in the private sector. But it would be hard to find a risk management job in the corporate sphere offering the diversity of tasks she finds so attractive in her current post.

"I have had some very nice offers over the past few years, particularly as there was going to be a change in administration," she said. "And I just don't want to leave state government right now. And probably one of the key reasons is the diversity I get to experience in state government."

So, eight years after Gov. Mickelson charged her with learning to be a risk manager and creating a risk management program, Ms. Payne has more than lived up to the assignment.

And, though she admits she first received that assignment with mixed feelings, "I ended up falling in love with what I do and I'm still here," Ms. Payne said. "It's tough for me to imagine a job that I would enjoy more." BI

How state brought order to liability chaos

Led by Payne, public entity pool funds most South Dakota losses

By RODD ZOLKOS

Technically, half of Judith M. Payne's time is devoted to serving as executive director of the Public Entity Pool for Liability, the self-insurance pool that funds the bulk of the state's losses.

Of course, the reality is somewhat different.

"In actuality, I would say at least 80% of my time is spent on the public entity pool, on PEPL business," Ms. Payne said.

Part of the PEPL fund's mission is to provide loss control services to the state, a role that dovetails naturally with the activities of the state's risk management office.

"It's been a very incestuous relationship," Ms. Payne said jokingly.

South Dakota looked to the PEPL fund to finance liability losses after it could not find adequate coverage in the commercial market in the mid-1980s.

"PEPL started when the whole country was in its insurance turmoil, and I don't think anybody thought it would be as successful as it is," said Tom Gaerets, South Dakota's commissioner of administration and Ms. Payne's boss when she's wearing her risk manager hat.

The Legislature passed the PEPL law in 1986 to create a vehicle through which public entities could pool their tort liability and federal civil rights liability risks.

Though the PEPL fund actually was created as a pool for South Dakota municipalities, it never was. Instead, it ultimately became the state's fund after the attorney general ruled the state could use the fund if each state agency were treated as a member.

"When we first passed the legislation for the PEPL fund, there was a lot of opposition from the insurance companies," said Jeff Stroup, a consultant to the state who served as commissioner of administration from 1984 to 1991.

"All we wanted to do was to protect our employees and to somehow compensate people who were injured who should be compensated," Mr. Stroup said.

During the period in which South Dakota "went bare" prior to turning to the PEPL fund for coverage in 1988, the state relied on sovereign immunity as a defense against liability claims or found creative ways to settle them.

MICHAEL A. MARCOTTE

One admirer of Judith M. Payne's work at the liability fund is Tom Geraets, her boss and commissioner of the South Dakota Bureau of Administration.

For auto damage claims, for example, the state fleet manager was authorized to investigate claims and pay any claim up to $10,000 deemed legitimate, using money that otherwise would have been used to purchase traditional insurance.

"What we had been doing, we were paying claims illegally," Mr. Stroup said. "I had every attorney who worked for us just rolling his eyes about what we were doing."

The situation prompted many employees concerned about their own exposures to look to purchase their own umbrella policies, he recalled, while others transferred ownership of their assets to protect them from claims.

"During the period of time that we were bare, we relied totally on sovereign immunity as a defense—successfully, to the best of my knowledge," Ms. Payne said. But with "court after court in state after state chiseling away at sovereign immunity," South Dakota officials determined they needed to change their approach.

"We wanted to do it in terms of being good citizens, but also to have the courts look favorably on us in instances where we were not financially or otherwise able to provide coverage," the risk manager said. "So between the sovereign immunity defense losing

Continued on next page

Payne's toughest challenge: Inmates who want swords

By RODD ZOLKOS

Of all the far-flung responsibilities confronting a state risk manager, one of the most challenging and troublesome must be defending suits by inmates in state prisons.

Certainly that's the case in South Dakota, where about 1,450 adults are incarcerated at the South Dakota State Penitentiary in Sioux Falls and at a co-ed correctional facility in Springfield.

In the year ended June 30, the state's Public Entity Pool for Liability paid $108,708 in legal fees, of which $44,949 was related to inmate lawsuits.

"I'm convinced that there isn't much more we can do to stop them or to minimize our costs much more than we've minimized them," said South Dakota Risk Manager Judith M. Payne.

"I think the state has a major burden defending lawsuits that are constantly brought and that appear to have very little merit," said Brent Wilbur, a partner with the May, Adam, Gerdis & Thompson law firm in Pierre who is general counsel to the liability fund.

They're nearly all civil rights lawsuits, which automatically may be filed in federal court. "Unless one prisoner has filed repeated frivolous lawsuits, they have the right to file those cases and to obtain a waiver of filing fees to do it because they are *in forma pauperis*, as the court calls it," the attorney said.

Compounding the difficulty, he added, are new rules governing pre-trial discovery that make it harder for the state to win summary judgments.

The inmate suits Ms. Payne has dealt with include an effort by several prisoners to get access to the swords and daggers they say they need to practice Wicca, or witchcraft, which they say is their religion. Their suit seeks class-action status.

Then there are two contrasting smoking lawsuits brought against the state.

One is from an inmate involved in a 1993 prison riot. His suit claims his due process rights were violated after the riot and is demanding a law library and smoking rights, said Ms. Payne.

"Conversely, we have an inmate who has filed a lawsuit alleging he was double-celled with a heavy smoker and he wants $40 an hour for each hour he was exposed to smoke," the risk manager said.

But the state's most time-consuming inmate litigation to date is a case currently in the courts involving a female inmate who miscarried a child fathered by a prison guard. That guard is now a former employee.

"She filed her first lawsuit alleging inadequate medical treatment led to the miscarriage and also that she felt forced to have sex with the guard," Ms. Payne said.

While on parole, the woman became pregnant again, broke parole, was incarcerated again and had a second miscarriage. Again, she charged the state with providing inadequate medical care.

So far, defending that suit, which was filed in December 1992, has cost the state more than $50,000, with the state also having to provide an attorney for the former guard.

"I think that from the point of view of risk management and acting, so to speak, as a claims manager, civil rights litigation in federal court is particularly troublesome," Mr. Wilbur said. "Because it's not going to go away, it's very easy for almost anyone to avail themselves of and create a great deal of difficulty in defending, simply because of the myriad things people can claim under the guise of federal civil rights viola-

See **Inmates** *on next page*

PEPL fund

Continued from previous page

ground nationwide and wanting to be good citizens, the administration decided that we needed to provide liability coverage for state employees."

At the same time that Gov. George Mickelson was charging Ms. Payne with creating a risk management department in 1987, he tapped her to head the PEPL fund and work with an appointed board to implement a program to finance general, law enforcement, public officials, automobile and medical malpractice liability claims against South Dakota employees.

"We basically just said, 'Judy, save us,' and left her alone," Mr. Stroup said.

A month after the fund was up and running in July 1988, an incident proved the prudence of establishing it.

A patient at the state mental facility walked away after being allowed to participate in a bus trip to a state recreational area. While at large, he murdered a 46-year-old woman and her 12-year-old daughter.

"When all was said and done, it was determined that we had violated five of our own policies in taking this man on this outing and in what happened after he walked away," Ms. Payne said.

The husband and father of the two victims sued on his own behalf and that of the victims' estates.

"Ultimately, that case was settled, and should have been settled because there was substantial exposure to the state of South Dakota," said Brent Wilbur, a partner with the May, Adam, Gerdis & Thompson law firm in Pierre and general counsel to the PEPL fund.

There were 14 named defendants in the case, 12 of whom had additional personal insurance. The case was settled for $975,000, with the state contributing $435,000.

The claim was the first on the PEPL fund and its biggest to date. It was a harsh learning experience for the state's infant risk management program, but the errors that precipitated it stand in contrast to the state's approach today.

"That's one reason Judy has been so successful with her risk management program," Mr. Wilbur said. "She makes state agencies that adopt rules and regulations comply with those rules and regulations in order to avoid negligence claims."

In her capacity running the PEPL fund, Ms. Payne works closely with Gov. Bill Janklow. She benefits from also having worked in his earlier administration from 1979 to 1987, she said, "because I know how he works" (see story, page 121).

She also believes the governor's style and reputation as one of South Dakota's top attorneys benefit the fund in handling liability litigation.

"When you consider his hands-on management style and his reputation, those two things are going to work together to prevent litigation and aid in settling litigation," Ms. Payne said.

The state's annual contributions to the PEPL fund are based on a number of factors, including: state employees' exposure to liability losses and their historical loss experience; the costs of claim administration, legal defense, loss prevention and related services; PEPL's general administration and overhead costs; and the costs of any commercial insurance purchased by PEPL.

The contribution calculations also include any reserve fund or contingency contributions needed to keep the fund solvent, the amount needed to meet any shortfalls from previous coverage periods, PEPL's investment earnings and the limits PEPL provides state employees.

South Dakota relies on sovereign immunity as a defense against non-economic damage awards, which are not covered by the liability fund. Five cases challenging the notion of sovereign immunity are now on appeal in South Dakota.

The state hires Tiller Consulting Group Inc. of St. Louis, a qualified actuary, to ensure that all losses retained in the PEPL fund are adequately funded. Claims are handled bu GAB Business Services Inc. in Sioux Falls,.S.D.

PEPL currently provides state employees $1 million per occurrence in liability coverage, with defense costs outside limit. The fund does not extend coverage for non-economic damages, such as pain and suffering stemming from liability claims, however.

The exclusion for non-economic damages was made for financial reasons. And, while the PEPL coverage document sets out those instances when the state has agreed to waive its sovereign immunity, South Dakota has continued to rely on sovereign immunity as a defense against non-economic damage awards.

That non-economic damages exclusion has remained unchallenged for several years, though there are now five cases—all arising from vehicular accidents—on appeal in South Dakota challenging the notion of sovereign immunity. In all five cases, the plaintiffs are seeking non-economic damages. In four of the cases, circuit court judges ruled against the state, while in the fifth the judge ruled in the state's favor.

"I think it's an exceedingly close question which the court could decide either way, depending on which of several lines of precedent they choose to follow," Mr. Wilbur said. "There are precedents that go each way."

Under current law, state employees enjoy sovereign immunity whether they're performing ministerial or discretionary duties to the extent that no insurance is purchased or coverage provided.

"If the court rules against us, I'm hoping they only take away our immunity for ministerial acts and leave immunity in place for discretionary acts," she said.

"Regardless of how much immunity we lose, the results could have a tremendous fiscal impact on the state," she said. "As the state risk manager, I guess it would be my job to minimize the fiscal impact and ensure that our employees have the coverage they need and deserve." BI

Left to right: **Mark Wetmiller** - *Community Banking Officer, Senior Vice President;* **Cairn Cross** - *Captive Insurance Product Manager, Vice President, Corporate Lending;* **Deborah Terrill** - *Retail Banker, Assistant Cashier.* Seated: **Tina Truax McCuin** - *Business Trust Officer.*

THROUGH HOWARD BANK, VERMONT CAPTIVE INSURANCE COMPANIES MAY GROW AND PROPSPER

As a part of Banknorth Group, Inc., a $1.8 Billion multi-bank holding company, Howard Bank retains a unique local perspective while preserving the ability to tap the resources of its parent organization. Our commercial, cash management, investment and trust services are guided not merely by the wisdom of experience, but by even stronger traits of professionalism, integrity and character.

To see how these traits can help your insurance organization grow and prosper, put us to work for you.

Howard Bank

(800) 642-3145

111 Main Street • Burlington, Vermont 05401

Banknorth Group, Inc.
A Network of Financial Resources

Member FDIC

Liability risks in PEPL's hands

South Dakota pool covers most of what sovereign immunity doesn't

By RODD ZOLKOS

South Dakota self-insures its liability exposures through the Public Entity Pool for Liability, while relying on sovereign immunity to protect it from most other exposures for which it neither purchases insurance nor provides coverage.

The PEPL fund provides coverage for tort liability and actions brought under federal civil rights codes, including general liability, auto liability, law enforcement liability, public officials errors and omissions, product liability and all forms of professional liability, including medical malpractice.

Medical professionals at the University of South Dakota School of Medicine are not included in the PEPL fund's medical malpractice coverage, however, because medical professionals at the state's only medical school are part of a separate corporation that provides their professional liability coverage.

An easy-to-use manuscript coverage form designed by Risk Manager Judith M. Payne describes the scope of PEPL coverage.

Among the other exclusions to the PEPL fund—all of which the state contends it is not liable for under sovereign immunity—are: pollution liability; liability for asbestos-related injuries; liability stemming from acts, errors or omissions in the design, engineering or construction of roads or other transportation projects; and claims for which the claimant fails to provide notice within 180 days of injury.

While the state had bought commercial auto liability insurance prior to turning to the PEPL fund for its liability coverages, it realized a substantial savings by placing that exposure in the fund, said Ms. Payne.

"We rolled the auto liability coverage into the PEPL fund, saving roughly a half-million dollars in premium on an annual basis," she said.

The state only buys property coverage for revenue-producing buildings or those that are bond-financed where the terms of the bonds require coverage. Each year, Ms. Payne obtains the value of property to be covered, determines the appropriate coverage level and limits, and markets the coverage.

"Obviously we don't choose to insure most state-owned property," Ms. Payne said. "We don't insure state-owned vehicles. That is the choice of the administration that is in office at the time.

"I do know that in the area of collision damage on state-owned vehicles the premium would've far outweighed the cost of repairing any damage," she said.

In researching the state's insurance history when she took the risk manager's post, Ms. Payne couldn't find evidence of South Dakota ever purchasing much insurance for state-owned property.

"We've been extremely fortunate or extremely lucky, however you look at it, with damage to state-owned property," she said.

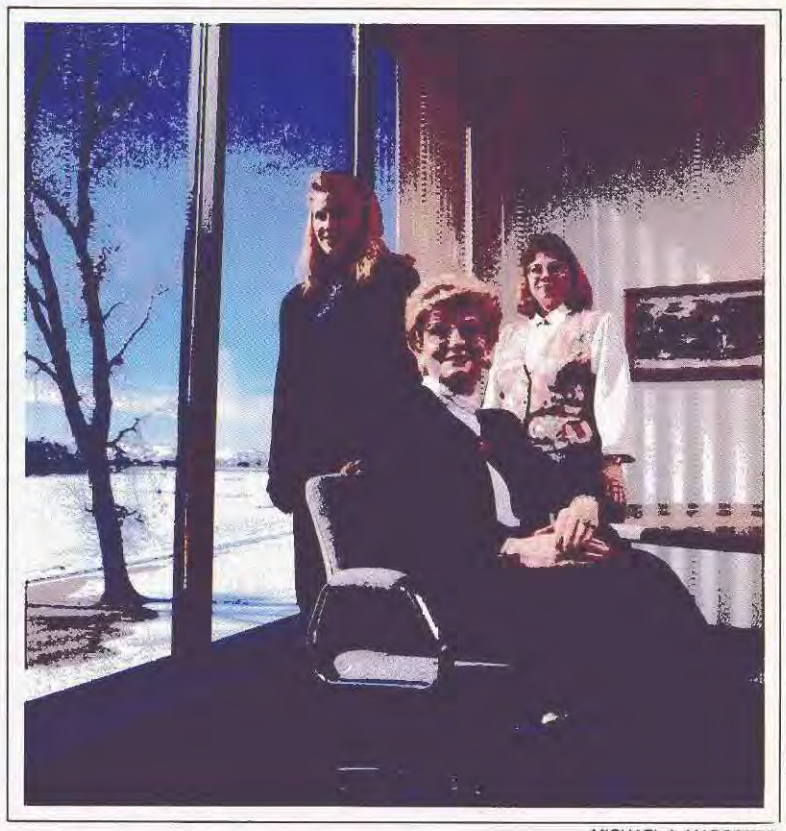
Her research when she took the job showed a single serious property loss—a university building rendered unusable by a lightning strike and subsequently replaced through a $1 million legislative appropriation.

Since she's been on the job, a prison riot in May 1993 caused substantial damage to the State Penitentiary, though again, repairs were financed through a legislative appropriation. "That's just the way we handle things here," Ms. Payne said.

South Dakota property that is insured is covered by Commerce & Industry Insurance Co., with the coverage placed by Williams Insurance Agency of Sioux Falls, S.D. The state has total property coverage of $204.2 million, and another $5 million in coverage for property at Custer State Park.

By consolidating the state's property insurance that it does buy, Ms. Payne has been able to reduce premiums and increase coverage.

Ms. Payne noted that the first time she marketed the state's property coverage, she reduced premiums by $48,000 "while substantially increasing coverage."



MICHAEL A. MARCOTTE

Judith Payne's risk management staff includes loss control analyst Jo Zschomler, seated, and secretary Teddi Martell.

Among the buildings covered is a domed stadium at the University of South Dakota.

"They had been trying to get the Dakota Dome insured and the last quote that they received was at a premium of $340,000 with a $250,000 deductible," she said. When Ms. Payne marketed the property coverage, she got the dome included in the coverage with a premium of $50,500 for total property limits of $160 million under a policy with a $2,500 deductible from National Union Fire Insurance Co. of Pittsburgh, Pa., an American International Group Inc. unit.

By consolidating the state's property coverage, South Dakota Risk Manager Judith Payne has been able to reduce insurance premiums and increase coverage.

South Dakota carries $10 million per occurrence aviation liability insurance on all of its 10-aircraft fleet, with the exception of the 11-passenger plane typically used by the governor, which is insured at $25 million per occurrence. The state carries hull coverage on four of its planes, including the governor's.

The aviation coverage is provided by American Eagle Group and is brokered by Travers & Associates in St. Louis.

The state has a boiler and machinery policy with the Hartford Steam Boiler Inspection & Insurance Co. providing boiler inspection services to about 45 sites in the state and $500,000 in property damage coverage.

"We have a low limit," Ms. Payne said. "We know it's low; we purchased the coverage primarily for the inspection." Purchasing the policy ensures the inspections will be performed while providing some level of coverage at a lower cost than the state would face just to hire someone to perform the boiler inspections.

A blanket crime bond covers the state's 14,000 employees up to a limit of $100,000, with additional coverage for certain officers and employees with exposures demanding higher limits. The fidelity coverage is provided by Fidelity & Deposit Co. of Maryland and is placed by Williams Insurance Agency of Pierre.

The state self-insures and self-administers its workers comp coverage through its Bureau of Personnel, though Ms. Payne's office provides loss control services. BI

THIRD PARTY FIDELITY

What is it?
Who needs it?
Why do they need it?
How can they get it?

For complete information on this important coverage, underwritten by Chubb, call or fax The Brownyard Group.

CHUBB

THE BROWNYARD GROUP
21 Maple Avenue, CN9175
Bay Shore, NY 11706-9175
(800) 645-5820 • In NY (516) 666-5050 • FAX: (516) 666-5723

Inmates

Continued from previous page

tions."

What's more, federal courts traditionally give plaintiffs "a great deal of leeway" in the time frames and deadlines imposed on them, the attorney said.

Still, South Dakota's record in inmate cases is a good one.

"To date, with one exception, we have not settled, nor have we lost one of these lawsuits filed by inmates," Ms. Payne said. The exception was "a small settlement" to a paraplegic inmate on a handicapped accessibility issue.

But the approach to dealing with the inmate suit problem is unlike that for dealing with many other risk management problems in that it doesn't yield easily to efforts to prevent the problem before it occurs.

Instead, the only solution is to "defend the suits vigorously," Ms. Payne said.

"Cases of that sort aren't something that you can ever totally guard against from a risk management point of view because as soon as you take care of one potential problem, somebody will think of another," Mr. Wilbur said. "Because it's a matter of federal statute, every state I'm sure has the same problem. It's unavoidable." BI

Can Business Insurance® Be of Service?

- Need to change your address?
- Want to enter/renew your subscription?
- Have a question about your subscription?
- Need a back issue?
- Want our *Directory of Corporate Buyers of Insurance, Benefit Plans and Risk Management?*

Just Call 1-800-678-9595 TOLL-FREE.
Outside of the USA call 313-446-0450 — We'll be happy to help.

44RSA

Nature's proximity keeps Payne in sporting spirits

By RODD ZOLKOS

She enjoys visiting major cities and the theater and dining opportunities those trips afford, yet Judy Payne's heart really belongs to South Dakota.

Ms. Payne considers herself an ambassador for her home state and certainly acts the part, whether it's treating a visitor to a chance to see eagles near the Oahe Dam north of Pierre or get a taste of a local country and western bar.

In particular, though, it is the "wonderful outdoor opportunities" of her native South Dakota she finds most appealing.

In Pierre, the great outdoors is always close at hand, even in Ms. Payne's office, where the window looks out on the Missouri River and a visitor easily can be distracted by flocks of geese flying by.

At other times, the risk manager politely will interrupt a conversation to ask her secretary Teddi Martell to bring the binoculars for a closer look at what appears to be an eagle outside.

Drawn by that outdoors, Ms. Payne, 42, has taken up fly fishing and hunting, and said, "I'm looking forward to going pheasant hunting with my husband and father this fall, as well as with some of my women friends."

"I grew up with a pheasant-hunting father," explained Ms. Payne, who is also planning to share the state's outdoor opportunities with her female friends.

With Susan Edwards, executive director of the South Dakota Game, Fish and Parks Foundation, and Maggie Hachmeister, a naturalist wildlife educator with the state's Game, Fish and Parks Department, Ms. Payne has co-founded a group that likely will be called the South Dakota Outdoorswomen's Assn.

Her inspiration came last fall, when she participated in an outdoorswomen's program organized by Ms. Hachmeister.

The weekend on a lake in the eastern part of South Dakota featured classes in archery, backpacking, boating, gun safety, fly tying, fishing, rifle marksmanship, shotgunning, water fowl hunting, canoeing and family camping.

"They asked me to come as the state's risk manager and risk manage the event, and I was so taken by the instructors, who were for the most part all professional women," Ms. Payne said.

She also was struck by the participants' attitudes. "They weren't there to giggle and have a slumber party."

For Ms. Payne, who had taken up fly fishing shortly before the event, the outing struck a chord. "I got very excited about doing something to continue the efforts the group had started."

As she works to promote the fledgling outdoorswomen's organization, Ms. Payne is also hard at work sharpening her shooting eye, under the tutelage of her husband, Dennis Doerr, who works for the South Dakota Lottery.

"We've been going out to a ranch that belongs to a friend of ours, and my husband has been teaching me to shoot a variety of rifles and shotguns," she said. "I'm very pleased with my marksmanship when it comes to non-moving targets. However, I was very humbled last weekend when I shot trap for the first time."

While hunting and fishing are popular pastimes for many in the state, Ms. Payne does break with what one might expect from a South Dakotan in some respects. Not surprisingly, Pierre is something of a hotbed of wildlife art, yet Ms. Payne will admit having a preference for Native American art over the images of ducks and deer.

She'll also allow that she doesn't like most country music, though she is a big fan of Mary Chapin Carpenter.

Born in Madison, S.D., Ms. Payne has a daughter, Jennifer, 24, who is completing her second year at the University of South Dakota School of Medicine. She also has four stepdaughters with Mr. Doerr and six grandchildren 4 and under "who keep us very tired and have an energy level I wish I still had."

A "non-traditional student," Ms. Payne graduated at age 28 from Dakota State University in Madison with a bachelor's degree in business administration and a minor in economics.

She had been working for 10 years for Wenk Produce Co., "more or less as an office clerk and worked my way up to an accountant," when following graduation she decided to "explore a new career path."

"Gov. (Bill) Janklow had offered me a job in the past, which I turned down because I wanted to finish college. So after I graduated, I picked up the phone and called him and told him I was interested in going to work for state government," she said. Ms. Payne had met Gov. Janklow in 1978 during his first campaign.

Ms. Payne moved to Pierre in June 1981 as an administrative assistant to the secretary of revenue. She served as a liaison between the secretary and six division directors as well as personnel officer for the department.

Her duties also involved serving as budget officer for the department and working with the Legislature drafting bills, testifying before committees and lobbying for and against tax legislation on behalf of the state's Revenue Department.

In 1983, she was asked to move to Sioux Falls in order to manage the implementation of the state's remittance center, a Janklow initiative that involved creating a state-of-the-art operation for receiving, processing and depositing taxes and fees collected by the state.

In 1985, Ms. Payne was asked to return to Pierre. As part of a government reorganization, Gov. Janklow abolished the Department of Public Safety, moving its programs into existing state agencies.

Among them was the Division of Motor Vehicles, which was moved into the Department of Revenue, with Ms. Payne named acting director of the division and charged with reorganizing the division and facilitating the transition.

"At some point along the way. . .I was promoted to assistant secretary of revenue," she recalled, and in March 1986 she was appointed secretary of revenue, serving in that capacity through the end of Gov. Janklow's term and the subsequent first legislative session under Gov. George Mickelson.

When Gov. Mickelson shook up the state cabinet in April 1987, he replaced Ms. Payne in revenue but told her he had something else in mind for her. A short time later, he named her the state's risk manager.

Besides her other interests, over the past few years Ms. Payne has taken up golf. That brought to the fore yet another appealing aspect of her home—Pierre's location on the extreme western edge of the Central Time Zone, making for late summer sunsets and the possibility of evening tee times, even if her schedule doesn't always cooperate.

"I'm just trying to figure out with the long, hard hours I work how I'm going to participate in all the golf, fishing and hunting activities I'd like to." BI

Governor praises risk manager

By RODD ZOLKOS

Gov. Janklow holds Payne in high regard

It was the late Gov. George Mickelson who turned Judith M. Payne's career toward risk management, but it was Gov. Bill Janklow who gave Ms. Payne her start in government.

Her admiration of the current governor is obvious. In fact, she wears it on her sleeve—or at least on her wrist, in the form of a "Janklow for Governor" wristwatch.

She credits him with giving her the chance to advance her career early on and for helping make her present job easier through his legal skills, management style and support for the risk management program.

"Because of the governor's reputation as a fine attorney and folks knowing that the governor is the one choosing the defense attorneys, no one has any qualms about what kind of representation they're going to get," Ms. Payne said. "Because everyone knows that Gov. Janklow is only going to choose the best."

What's more, she believes the governor's reputation as an attorney gives plaintiffs attorneys pause, warding off many nuisance claims against the state.

And she suggests that when Gov. Janklow returned to the governor's office this year after two earlier terms, some previous staff members took pay cuts to come back to the South Dakota government and work for him again.

As it turns out, the governor holds the risk manager in similarly high regard.

"When I met her she was a single mother who was working nights putting herself through school, working like a slave during the day and working nights as well," Gov. Janklow said. "If there has ever been a person who has turned her life around through hard work and perseverance, it's her."

He recalls meeting Ms. Payne during his first campaign for governor in 1978.

"She came up and shook hands with me," he said. "We talked about her background and stuff and we stayed in touch. I told her, 'When you graduate, I want to talk to you about coming to work for the state. We need people like you in the state.' "

A story from another campaign suggests the governor believes his judgment was correct.

"Last year, I was campaigning at the state fair and who's the first person I see, standing by some equipment? Judy, with a two-way radio in her hand, giving orders about how to reduce risk on some equipment, make it safer," the governor said. "She was there on a Saturday afternoon. She didn't have to be there."

And, while Ms. Payne has high praise for Gov. Janklow's skills as a lawyer, the governor is quick to note that though the risk manager might not be a lawyer, you'd never know it by the way she handles claims against the state.

"If you didn't know she wasn't a lawyer, you'd think she was one because she thinks torts," he said. "Judy thinks like a trial lawyer, and she minimizes our risks because of that."

Lauding her skills as a negotiator, the governor said, "there's nobody who takes advantage of her."

And despite the far-reaching risk exposures of a state government, "she's on top of everything," he said. "She avoids the holes in the road."

The governor's regard for Ms. Payne isn't limited to her skills as a risk manager.

"She's a marvelous lady," he said. "She acts tough and she talks tough but she's got a big heart. She's a soft touch for every kid."

"When you see her on her own time she's just down-home Judy," he said. "But when she goes to work, she throws the switch. She's a perfectionist."

Ms. Payne went into risk management in 1987, when then-Gov. Mickelson appointed her to the newly created risk management position. She holds the late governor, who died in a 1993 plane crash, in same high regard as the current governor.

While there was no sign of pilot or state mechanic error, ongoing litigation related to the accident names the state as a third party in some of the actions. "It's an uncomfortable situation for me to discuss, personally or professionally," Ms. Payne said. Beyond her professional involvement in the incident, however, she counted the late governor as a friend. And his widow, Linda, remains part of a close-knit circle of women in South Dakota state government, which includes Ms. Payne. They make occasional trips together to the Black Hills and go on golf outings.

As she talks about the late governor's death, shows a visitor the monument to him and the seven others who perished in the crash or reflects on the funeral procession that carried the governor's remains across the state, Ms. Payne's high regard for the man who pushed her into risk management is obvious, as is her sense of loss at his tragic death. BI

Business Insurance®

• SERVICES •

EDITORIAL INDEX
All news reports and feature articles published from 1981 through 1993 are indexed in annual bound volumes. Searching by subject, persons quoted and companies mentioned is as easy as turning the page. To order, write or call:

BUSINESS INSURANCE • Editorial Index
220 E. 42nd Street • New York, NY 10017-5806
phone: 212/210-0137 • fax: 212/210-0704

REPRINT SERVICES
BI's Reprint Department can provide reprints, in quantities of 100 or more, of any article appearing in the weekly newsmagazine. Legal permission, complying with U.S. copyright laws, also can be provided to companies wishing to reprint, on their own, material appearing in the newsmagazine. For information, write or call:

BUSINESS INSURANCE • Reprint Department
740 N. Rush Street • Chicago, IL 60611-2590
phone: 312/649-5319 • fax: 312/280-3174

ARTICLE FAX SERVICE
For article photocopies sent by fax on the same day, call us with your credit card information, specify *BI* issue date and article headline. The charge is $7.50 per copy/per article. In-publication directories are not available by fax.

BUSINESS INSURANCE • Reprint Department
740 N. Rush St. • Chicago, IL 60611-2590
phone: 312/649-5398 • fax: 312/280-3174

SINGLE COPY SALES
To order any current or back issue of *BI*, call the single copy sales division of *BI's* circulation department:

800/678-9595

For more information, call one of the numbers listed below:

Advertising information: 212/210-0228
Subscription information: 800/678-9595

Bruce Zaccanti

Jupiter Mechanical Industries Inc.

Small Companies

By DEBORAH SHALOWITZ COWANS

The construction industry is not known for its safety record. Then again, construction is a risky business.

Those are the kinds of assumptions Bruce Zaccanti wants to demolish.

As director of insurance and risk management for Jupiter Mechanical Industries Inc., a mechanical construction company based in Wheeling, Ill., Mr. Zaccanti has proved that a construction company can build a safety record to make it proud.

In his 2½ years as Jupiter's risk manager, the 31-year-old former claims adjuster has amassed an impressive string of accomplishments.

Under Mr. Zaccanti's guidance, Jupiter has saved almost $1.9 million in workers compensation costs over a two-year period.

And, the total number of workers compensation claims filed has dropped during each of the past two years, even though hours worked have increased during the same period. Furthermore, the average cost of a workers compensation claim dropped to $2,000 in 1994 from $7,500 in 1992.

These and other accomplishments earned Mr. Zaccanti a place on the 1995 *Business Insurance* Risk Management Honor Roll, representing small companies.

Mr. Zaccanti's accomplishments are "something that everyone in this industry would love to do but can't," said Don van Eeghen, Jupiter's president. Mr. Zaccanti "is an innovative thinker and a leader in our industry. In addition to his commitment to the dollars side of our business, he truly cares about the safety and welfare of all our employees."

For many construction companies, a bad safety record is simply business as usual.

Among the eight industries tracked by the Labor Department's Bureau of Labor Statistics, the construction industry had the highest non-fatal occupational injury and illness rate—12.2 per 100 full-time workers—in 1993, the latest year for which figures are available. The construction industry also had the highest injury and illness rate among the eight industries the previous two years.

"When I joined here, there was the theory that things were always done the old way," recalled Mr. Zaccanti. There was a "philosophy of invincibility of some of the field employees and a lack of training with regard to safety," he recalls. "We weren't controlling our workers compensation claims, so we were paying for all of the sins of the past and we weren't doing anything to try and change" them.

In an effort to familiarize himself with Jupiter's risk management problems, upon joining the company Mr. Zaccanti reviewed about 200 workers comp claims that had been filed since 1990, when the company began its self-insurance program. He found about 10 "questionable" claims.

These claims included "extreme late reporting of cases after termination," and "minimal claims resulting in extensive loss of time from work."

Mr. Zaccanti also discovered two claims that currently are being pursued as fraudulent. He declined to discuss one of the cases. The other case involves an individual who had been away from work for nearly three years, collecting disability payments because of a shoulder injury. However, with the help of a private investigator, Mr. Zaccanti discovered that the person is self-employed as a home remodeler.

Although the person no longer is collecting disability payments, Mr. Zaccanti has asked the state's attorney to file civil fraud charges against the individual. Mr. Zaccanti is awaiting a decision from the state's attorney about the request.

"The attorney handling the comp case is reeling backwards trying to settle the case and I refuse to settle it," he said. Mr. Zaccanti said he wants to try the case because "I will prove a point with other employees that we're not a soft touch and that if they try and steal from us, I have ways of determining that and I will protect the interests of this company before I will make a quick economic decision to get out of a difficult problem. It's one of those 'I'm going to prove a point' situations. If you try to steal from this company, it's not going to be tolerated."

Mr. Zaccanti's investigations into Jupiter's insurance program also revealed a host of problems.

Insurance coverage was poorly documented, he said. "The paperwork was secondary to getting the job done. Our job as a contractor was to build a building and that was priority No. 1. We weren't collecting certificates of insurance and we weren't qualifying or disqualifying contracts."

As a result of his findings, "I decided I wanted to change some things," Mr. Zaccanti said.

Mr. van Eeghen, who came aboard as Jupiter's new president shortly after Mr. Zaccanti was hired, gave him nearly free rein to overhaul the company's risk management and safety program. "I tend not to interfere in what he does," Mr. van Eeghen said. Mr. Zaccanti "is a self-starter; he knows what he has to do and he only checks to make sure he's not overstepping his bounds."

Mr. Zaccanti's domain is extensive; Jupiter Mechanical Industries is one of the largest mechanical construction companies in the Midwest. Jupiter fabricates and installs sheet metal, builds heating and air conditioning systems, installs fire protection systems like sprinklers and installs plumbing systems.

Jupiter's average job generates about $1 million to $3 million in revenues, although projects can be as large as $50 million. Jupiter works only on commercial or industrial projects. Generally, Jupiter is involved in 25% to 30% of the whole project, including portions of 140 skyscrapers in Chicago.

Jupiter also specializes in designing and building "clean rooms"—dust-free facilities where microchips are manufactured.

Jupiter's annual revenues are approximately $100 million.

The construction company currently has 450 employees: 100 office personnel and 350 field workers. But, its workforce ranges from 400 to 650 people, depending on the number of construction projects underway.

Jupiter Mechanical Industries is a division of Chicago-based conglomerate Jupiter Industries Inc. Jupiter Mechanical comprises four separate subsidiaries: Economy Mechanical Industries, The Robert Irsay Co., The A.H. Lamm Co. and Linear Flo Services Inc. Each of the four companies provides construction services or products.

As risk manager for Jupiter Mechanical, Mr. Zaccanti administers a combined risk management program covering each of the four subsidiaries.

Mr. Zaccanti abides by a central philosophy: "By controlling insurance costs and bringing them down, the cost that we're bidding with goes down. We become more competitive because our people are safe. You can show the people in the field that they're cycling themselves into an employment guarantee" by working safely.

Insurance costs—including workers compensation, property and liability insurance—decreased $1.06 per manhour worked from 1994 to 1993 and another $1.97 per manhour worked from 1993 to 1994. These kinds of savings enabled Jupiter to bid more competitively on projects, he said.

Mr. Zaccanti is quick to note that he is not solely responsible for the risk management program's success.

"This isn't just me performing this task. This is a team of people agreeing on concepts that I have developed and mutually cultivated with their assistance," he said. "This award is a reflection of everyone in this company, not just me."

Specifically, Safety Director Jeff Holmes and Mr. Zaccanti's administrative assistant, Lorrie Cooper, deserve much of the credit for improving Jupiter's risk management and insurance practices, according to Mr. Zaccanti.

Although Mr. Zaccanti is quick to give credit when it is deserved, he'll also place blame when necessary.

In 1993, Mr. Zaccanti worked with the accounting department to track workers compensation claims costs and allocate these costs to each job.

"A lot of people assumed that (workers compensation) was just an overhead cost and that's the way it was," he said. "I said, 'Well, the point is that if you're incurring claims we need to track it and show where the cost is. . .and what people are associated with it so that we can make some administrative decisions based on what's going on.'

"This way, the information automatically charges back to the job, and I'm aware of what's going on," he said.

Reports that show the cost of workers compensation claims subtracted from a job's profitability are distributed to everyone involved in a project—management, project managers, superintendents and foremen. As a result, big jobs do not automatically carry the same prestige within the company that they once did, unless they also are safe jobs.

The cost allocation system has helped Jupiter identify both strong and weak spots in its safety program, Mr. Zaccanti said.

He also has taken several steps to increase the visibility of risk management throughout the company.

For example, he created a procedural manual that describes the flow of insurance documents within the company, types of assistance the risk management department can offer and tips on when to contact the department.

And, Messrs. Holmes and Zaccanti jointly developed an extensive safety manual that is kept at every job site.

In addition to his risk management responsibilities, Mr. Zaccanti also serves as the company's equal employment opportunity compliance officer.

In this capacity, Mr. Zaccanti provides equal employment opportunity and affirmative action training for all management personnel. This training addresses issues that can arise in interviewing, hiring and firing employees. Mr. Zaccanti also serves as a troubleshooter on these issues.

Some of the accomplishments in this area Mr. Zaccanti is proudest of include helping three minority men be promoted to superintendents at a local construction project and helping two women be promoted from clerical positions to assistant project managers.

Mr. Zaccanti estimates that 25% of his time is spent on equal employment opportunity and affirmative action issues. BI

An organized assault on work comp claims

Zaccanti uses safety and modified duty programs to curb comp costs

By DEBORAH SHALOWITZ COWANS

Workers compensation claims can be the bane of a risk manager's existence.

Bruce Zaccanti, however, has in just two years managed to halve the number of workers comp claims per manhours worked at Jupiter Mechanical Industries Inc.

The main components in Mr. Zaccanti's assault on workers comp claims are a flexible modified duty return-to-work program and a variety of safety programs and incentives.

The programs are "a little bit of innovation and a lot of common sense," Mr. Zaccanti said.

In 1992, the year Mr. Zaccanti joined Jupiter, the company received 68 workers comp claims from a total of 650,000 manhours worked—or one claim per 9,559 manhours. The following year there were 45 workers comp claims and 676,000 man hours worked—or one claim per 15,022 manhours.

Last year, Jupiter received 44 workers comp claims from a total of 855,000 manhours worked—or one claim per 19,432 manhours.

The most frequent workers comp claims Jupiter receives under its large-deductible workers comp program are hand cuts, according to Mr. Zaccanti.

"Sheet metal workers historically have been known to be extremely averse to wearing Kevlar gloves because they like to feel the metal in their hands," he explained. However, without protective gloves, the workers cut themselves much more often.

Strains of the lower back, ankle and knee, as well as hernias, also are fairly common workers comp claims.

The average cost of a workers comp claim has dropped from $7,500 in 1992 to $4,600 in 1993 and $2,000 in 1994. "We've been winning," Mr. Zaccanti commented wryly.

The most expensive workers comp claims Jupiter receives are back claims. These claims, which generally involve injuries more serious than a simple strain, can cost the company $45,000 to $50,000, according to Mr. Zaccanti.

Back claims are "very, very difficult to deal with," Mr. Zaccanti said. "The problem with back claims is that the diagnosis and the complaints are very subjective." As a result, it is very difficult for a physician to

Continued on next page

Continued from previous page
determine if a worker is embellishing his or her pain complaint and what a worker's true capabilities are, Mr. Zaccanti explained.

"So most of the time when you have a back claim, because this is a heavy labor industry, it's very difficult to return an employee to work right away," Mr. Zaccanti said. "That's why we instituted the light duty return-to-work program."

Under Jupiter's modified duty program, a physician outlines an injured worker's restrictions and the company finds a position that the worker can perform within those restrictions.

Under Illinois law, an injured worker generally receives up to two-thirds of his or her average weekly wage tax free as temporary disability pay while home recovering.

However, if the worker returns to work in a modified duty position he or she receives full pay, Mr. Zaccanti said.

If a worker "comes back and he gives you one-third of productivity, for that one-third of additional pay, it's an even gain," Mr. Zaccanti observed. Furthermore, the modified duty position serves as "an acclimation period that works very, very well for us. It really reduced claim dollars.

"You're taking one of the most expensive components right out of the comp claim, which is paying a guy to stay home."

Modified duty assignments differ depending on a worker's experience and capabilities, Mr. Zaccanti said.

For example, one construction worker with 25 years of experience suffered a serious shoulder injury that resulted in permanent lifting restrictions. Jupiter put the worker on a project where there is always an apprentice available to assist the injured worker with any heavy lifting.

In another case, a plumber suffered a severe back injury and is incapable of doing any heavy labor as a plumber. "So we made arrangements for him to go from job to job to label drawings and fittings on pipes," Mr. Zaccanti said. "So he goes from job to job toward the end of the projects and he coordinates tagging valves and documentation for the owner with regard to the drawings so they know what controls what."

And Jupiter currently has a sheet metal worker with an elbow injury doing drafting work until his elbow recovers completely.

"There are a lot of positions that are available," Mr. Zaccanti said. "Each project involves work that is initially very heavy, then medium, then light, then clean-up time. We have such a large collection of work that work is always in different stages. So we can transition people from one area to another. We've always got light duty available because of the different stages of the different projects.

"What you have to do is put workers back in their environment. That is the most important part—reintroducing them to their work environment.

"It creates a lot of peer pressure on the employee who comes back because his buddies are 'dogging him' to get back to his real work," Mr. Zaccanti said.

Furthermore, accepting a modified duty assignment is not voluntary. If a physician says that a worker may return to work in a position that accommodates his or her restrictions and the worker refuses the position, then the lost-time compensation benefits terminate, according to Mr. Zaccanti.

"These are very highly compensated employees," he pointed out. "Plumbers earn somewhere in the vicinity of $30 an hour. So most of them are quite willing to come back."

One problem often associated with modified duty return-to-work programs is that workers who are not quite up to snuff may injure themselves more easily and then expose the company to another workers comp claim. To allay those concerns, Mr. Zaccanti or Safety Director Jeff Holmes check on the worker each week for the first few weeks to make sure that both the employee and supervisors understand the worker's restrictions.

In addition to helping Jupiter cut workers comp costs, the modified duty program seems to be one factor contributing to a reduction in the number of workers comp cases that are litigated, according to Mr. Zaccanti.

In 1992, Jupiter had 19 litigated workers comp cases. The following year only 11 cases were litigated and last year only six cases were litigated.

If workers are collecting their full wages, as they do when working at a modified duty position, they are less likely to sue the company, Mr. Zaccanti observed.

He also makes a point to be involved in each workers comp case, acting as a liaison between the claims adjuster and the injured employee when necessary. "Most of the time you can diffuse a situation very quickly" with tact and understanding, he said.

That understanding comes easily to Mr. Zaccanti. He noted that he brings a lot of experience to situations involving injuries because he has suffered many sports-related injuries, which have resulted in nine knee operations, three back surgeries and two ankle operations.

Another factor contributing to the reduction in litigation is a relatively new feeling among workers that Jupiter cares for them since the introduction of several new safety programs in the past two years, according to Mr. Zaccanti.

Mr. Zaccanti worked closely with Mr. Holmes, who joined Jupiter in mid-1993, to develop several safety initiatives.

The two men decided that they needed to make sure that all of the people in the field were capable of recognizing a hazard.

So, in 1993, all supervisory field personnel—which amounts to approximately 20% of field workers—were sent to a 10-hour safety training program run by the Illinois Occupational Safety and Health Agency. Supervisors also were trained in first aid and cardio-pulmonary resuscitation. All of the training was conducted during work hours.

As new people are promoted, they are trained as well. And training is ongoing as OSHA publishes new standards.

All OSHA standards are reprinted and are kept at each job site.

In an effort to make workers feel important and increase the use of protective safety equipment at work, Messrs. Zaccanti and Holmes decided to poll field workers about their equipment preferences.

The men took samples of different kinds of back belts, hard hats, goggles and gloves out to job sites for workers to examine and try on.

Workers selected their favorites and Jupiter bought the new safety equipment.

"The stuff we were using could have been maintained; it was pretty much industry standard kind of stuff that other people were using," Mr. Zaccanti said. "But if we were going to buy faith with our employees, you've got to get input. We had to bring them into the fold, so to speak, and make them feel that we weren't imposing these rules on them; they were part of the remaking process."

As a result, "the hard hats are on and the glasses are worn," Mr. Zaccanti said. "If you give workers a little bit of input, they like it. They feel like they're important, and they are."

Jupiter spent between $150,000 and $200,000 on the new safety equipment, Mr. Zaccanti estimated.

Mr. Zaccanti also developed several safety incentive programs.

Under one program, field workers are rewarded for reaching certain levels of accident-free hours of work.

For example, if an employee works 750 hours without an accident, he or she receives a baseball cap with the company logo. Other gifts and levels include: a jacket for 2,000 injury-free hours; a thermos for 4,000 injury-free hours; a $50 gift certificate for 10,000 injury-free hours; and a 20-inch color television for 20,000 injury-free hours.

The payroll department keeps track of hours worked and notifies the risk management department when an employee has reached a certain level. If an employee does suffer an injury, his or her accumulated hours revert to zero.

"Hundreds" of field workers have received gifts under the program, according to Mr. Zaccanti. He estimated that the company has spent as much as $100,000 on safety incentives since the program began in early 1992.

Another safety incentive program uses a bingo game. Under this program, which began in 1993, a number is selected each day that a job proceeds without an accident. Each worker has a bingo card on which he or she marks off squares. The first person to obtain a straight line receives $50. Other prizes are given for making a "T" or covering the whole card. Each company division and each job site has its own bingo game. The games run for approximately three months, or until someone either covers the whole card or there is an accident.

"It creates a tremendous amount of peer pressure for each one of the field employees to look out for each other," Mr. Zaccanti said. "It gets everybody involved in this thing. It's unbelievable."

Mr. Zaccanti estimated that Jupiter has spent approximately $4,000 on bingo prizes.

Mandatory weekly "Tool Box Talks" are

See **Safety** *on next page*

MICHAEL A. MARCOTTE

Distributing the risk—fairly

Jupiter uses contract language to limit risks

By DEBORAH SHALOWITZ COWANS

Risk management should begin even before breaking ground, according to Bruce Zaccanti.

When a contract for a project is being negotiated, Mr. Zaccanti examines it to make sure that Jupiter Mechanical Industries Inc. is not absorbing more than its fair share of risk.

For example, if Jupiter is one of several subcontractors on a project, Mr. Zaccanti makes sure that the indemnification agreements provided by the general contractor and all subcontractors on a project limit Jupiter's liability to only acts or omissions on the part of Jupiter. He also requires all the entities on a project that are contracted to Jupiter to name Jupiter as an additional insured.

"It's not exactly rocket science," Mr. Zaccanti observed. "All it is is good business sense—trying to limit your risk."

Although sometimes general contractors object to Mr. Zaccanti's proposed changes in the indemnification agreements, he pursues them relentlessly.

"I overcome objections by explaining my reasons for wanting to make changes," he said. And if a general contractor is particularly obstinate, "sometimes I'll go directly to the owner instead of the general contractor to explain my reasons," Mr. Zaccanti said.

Over time, however, the general contractors have become used to Mr. Zaccanti's approach.

"People are getting used to my method of doing things," he said. "Actually, I've started seeing some of the contractors that I have negotiated with start to mimic some of the things that I've done."

In addition to transferring risk from Jupiter through indemnification agreements with general contractors, Mr. Zaccanti makes sure that Jupiter's subcontractors are properly insured by obtaining certificates of insurance from them. The certificates of insurance describe all insurance coverage that the subcontractor has, including limits for all policies and the names of additional insureds on specific policies.

Mr. Zaccanti requires subcontractors to name as additional insureds all the other entities that Jupiter is required to indemnify in the event of a loss. These might include the owner, general contractor, construction managers and architect.

'There are checks in the system so that I know that everybody who is working on my jobs, and their subcontractors, have the appropriate coverage or they're not getting paid.'

"You have all these lists of additional insureds from all these contractors. And the guy at the bottom of the hill, the little painting contractor that comes in at the end, he is naming everybody in the world above him in the food chain as an additional insured. So if a lawsuit comes, the owner has the ability to invoke all these policies downhill to gain protection. They're shedding the risk of building their building through the contractors because the contractors are the ones who are creating the risk."

Furthermore, "most policies say that additional insured endorsements are issued on a primary and non-contributory basis," meaning that a subcontractor's policy would be triggered via tenders by Jupiter if the subcontractor was involved in the loss. If Jupiter was not named as an additional insured on the subcontractor's policy, a claim involving the subcontractor against, for example, the general contractor would therefore rest with Jupiter, which had named the general contractor as an additional insured.

Keeping track of all these certificates of insurance from Jupiter's subcontractors is quite a task, Mr. Zaccanti admitted.

Mr. Zaccanti counts on Lorrie Cooper, his administrative assistant, and a computer program that runs on the firm's mainframe computer to keep track of all the certificates of insurance.

Ms. Cooper enters into the computer information such as the name, address and telephone number of a subcontractor, which project the subcontractor is working on, all of its available insurance coverage and limits, and the expiration dates of its coverage. Each month, Ms. Cooper checks to see if any of the subcontractors' policies are expiring. If they are, she sends the subcontractor a letter reminding him or her to renew the policy.

If any subcontractor does not provide Jupiter with documentation of current insurance coverage, he or she does not get paid, Mr. Zaccanti said.

"There are checks in the system so that I know that everybody who is working on my jobs, and their subcontractors, have the appropriate coverage or they're not getting paid," he said.

Jupiter also has developed a certificate of insurance requirement form that is sent to all subcontractors for each project, outlining exactly what coverage is required and identifying all additional insureds. The subcontractor then can send the form to his or her broker and the broker can send a certificate of insurance to Jupiter.

"We're idiot-proofing the system," Mr. Zaccanti said. BI

MICHAEL A. MARCOTTE

Bruce Zaccanti's risk management staff includes Administrative Assistant Lorrie Cooper, sitting, and Director of Safety Jeffrey S. Holmes.

Jupiter constructs coverage carefully

By DEBORAH SHALOWITZ COWANS

Jupiter Mechanical Industries Inc.'s insurance program resembles the buildings it constructs.

A basic frame defines and supports the structure, complemented by different components for different needs. A sturdy roof provides a final layer of protection.

The frame of Jupiter's insurance program is a large-deductible fronting arrangement for workers compensation and general liability coverage. Traditional insurance arrangements cover auto liability, professional liability and property risks. A large umbrella policy provides further protection for workers compensation, general liability and auto liability risks.

Although Jupiter's insurance program has been the same since 1990, it was not until Bruce Zaccanti took over management of the program two years ago that the company began to realize any savings from self-insuring part of its exposure.

The key to saving money through the self-insured fronting arrangement, Mr. Zaccanti explained, is to control workers comp claims. As a result, once he implemented an extensive safety program, the self-insured fronting arrangement began to pay off (see story, page 122).

During the 1993-1994 fiscal year, which runs from May 1 to April 30, Jupiter saved some $680,000 in workers comp premiums. This past year, Jupiter saved another $1.2 million in workers comp premiums.

Under the program, Jupiter has a $350,000 per occurrence deductible for workers compensation claims and a $500,000 per occurrence deductible for general liability claims.

Limits for workers comp coverage are $1 million per occurrence/$1 million aggregate. Limits for general liability coverage are $2 million per occurrence/$5 million aggregate.

Orange, Calif.-based TIG Premier Insurance Co. underwrites both lines of coverage.

TIG uses manual rates to calculate a standard premium for both lines of coverage. Jupiter pays TIG a service fee to cover residual market charges and normal premium taxes.

Jupiter deposits into a cash collateral fund 20% of the standard premium. This money is used to pay workers compensation and general liability claims up to the deductible. If necessary, Jupiter adds to the fund on a quarterly basis to ensure there is enough cash to pay claims.

Jupiter has never exceeded its deductibles and is maintaining a substantial balance in the account.

If claims were to exceed the deductibles, TIG's coverage would be triggered

The unspent money in the account is used to fund the standard premium for the following year. Based on successful management of claims in 1993, the standard premium for 1994 for both workers compensation and general liability was reduced dramatically.

"It's a very creative way to finance risk because it lets you control your claim dollars. It's your money," Mr. Zaccanti explained. "It's incentive for you to control your claim dollars."

Jupiter is using TIG simply "to calculate a premium base for us to create our own funding."

Jupiter uses Gallagher Bassett Services Inc. of Arlington Heights, Ill., to handle workers compensation and general liability claims. The services Gallagher Bassett provides include computerized claims management, claims investigation, monthly loss runs, quarterly audits and year-end status reports.

But, Mr. Zaccanti takes an active role in managing claims.

Gallagher Bassett "handles the claims, I manage them," he said. "They can't make a decision or send a check or do anything without my approval. I keep it as tight as I possibly can because I like to be informed and understand the day-to-day operations of each one of my claims."

Other portions of Jupiter's insurance program are structured more traditionally.

Auto liability coverage with limits of $1 million per occurrence/$1 million aggregate is written by Allstate Insurance Group subsidiary Northbrook Property & Casualty Insurance Co., based in South Barrington, Ill. There is no deductible for the coverage.

Engineers professional liability coverage is written on a claims-made basis by Lloyd's of London syndicates with a limit of $1 million per claim. There is no deductible for the coverage.

Excess auto liability, workers compensation and general liability with a limit of $30 million is written by Westchester Fire Insurance Co. in Atlanta.

Property insurance, which covers the actual replacement cost of all facilities, equipment and tools, is written by Warren, N.J.-based Chubb Corp. There is a $5,000 deductible for property coverage. The property insurance covers: Jupiter's Wheeling, Ill., headquarters; a sheet metal specialty fabricating facility in Toledo, Ohio; company-owned office space housing a division in Chicago; a tool inventory worth between $18 million and $20 million; and company-owned equipment, including cranes, backhoes and excavators.

Jupiter uses Chicago-based Near North Insurance Broker Inc. to place all of its lines of coverage.

Safety

Continued from previous page

another safety program Mr. Zaccanti introduced.

These five-to-10 minute talks, which take place every Monday morning at each job site and are led by a superintendent, cover a different safety-related topic each week. Topics include concerns such as electrical grounding, heat exhaustion, frostbite protection and ladder safety.

Messrs. Zaccanti and Holmes hold quarterly safety meetings with all job superintendents, the presidents of each division and the president of Jupiter. The meetings cover legislation relevant to the company, upcoming OSHA inspections, previous workers comp claims, company safety policies that will be implemented or changed, and other topics as necessary.

"It's a good forum for management and labor to sit together" and discuss mutual concerns, Mr. Zaccanti said.

Written materials kept at each job site provide the foundation for all of the safety programs. The crux of the safety program, a 40-page manual developed by Messrs. Zaccanti and Holmes, is kept in the office-trailer at each site.

Job site safety checklists are kept at each job and filled out by superintendents. If a safety checklist reveals an unsafe working condition, Jupiter may tell employees not to continue working until the general contractor rectifies the situation.

For example, one time Jupiter pulled its workers off a job because a lot of snow and ice frozen to the concrete floor created a hazard, said Mr. Zaccanti. BI

Curiosity can lead to insurance solutions

By DEBORAH SHALOWITZ COWANS

The genesis for Bruce Zaccanti's latest project is what he calls his "problem with inquisitiveness."

"If something doesn't seem right, I'll look at it and try and put all the answers together and look at it some more," he explained. "And if it still doesn't seem right, then I'll really go after it."

As a result of this "problem," a Jupiter Mechanical Industries Inc. division that services large air conditioning and heating equipment soon might have insurance coverage for the first time since it began operating two years ago.

Jupiter's service division offers full service contracts for the maintenance of air conditioning and heating equipment for large commercial and industrial buildings.

Under the contracts, the company accepts responsibility for any damage or failure of the equipment in its care. While some of the equipment may be under a manufacturer's warranty, some of it is not and can cost $250,000 to $1 million to replace.

However, Jupiter charges far less for the maintenance service it provides than its potential exposure.

It struck Mr. Zaccanti one day that this division's lack of insurance was a gap in the company's insurance program. So, he decided to see if there was a way to provide "some kind of coverage for a completely catastrophic unforeseen event."

Mr. Zaccanti met with an insurance broker knowledgeable about boiler and machinery coverage and talked about what kind of information the broker would need to determine if this risk was insurable. The broker suggested Mr. Zaccanti collect historical information on the type, cost and frequency of equipment failures.

With a little help from manufacturers and distributors of the equipment, Mr. Zaccanti was able to assemble the needed data.

Then Mr. Zaccanti, the broker and an underwriter met and discussed the findings. Mr. Zaccanti declined to identify the broker and underwriter because the program is still under development. "We're trying to finish this piece of coverage right now," he explained.

And, as a byproduct of the inquiry, Jupiter realized the need to train its service personnel to inspect air conditioning and heating equipment uniformly. "Our people now know how to go in and look at the equipment and evaluate it and make sure it's a contract they really want to take," Mr. Zaccanti said. BI

MICHAEL A. MARCOTTE

Jupiter President Don van Eeghen, standing, gave Bruce Zaccanti nearly free rein to overhaul risk management and safety programs. The decision paid off.

Zaccanti's competitive spirit helps him shine in profession

By DEBORAH SHALOWITZ COWANS

"I call this my dream shot," said Bruce Zaccanti, describing his current position as director of insurance and risk management at Jupiter Mechanical Industries Inc. "A lot of people go through their whole lives saying if, if, if I would have had a chance. . .

"Well, at 30 years old I had the chance and I took it. Maybe at the beginning I was in a little bit over my head," said Mr. Zaccanti. "But I think right now that I can stand toe-to-toe with just about anybody and do what I have to do to be successful.

"I'm not afraid to put myself in a situation that I'm either going to succeed or fail. If I fail, I learn a lesson and I come back and try again."

Failure, however, does not seem to be a problem for Mr. Zaccanti.

Now 31, Mr. Zaccanti is one of the youngest members of *Business Insurance*'s Risk Management Honor Roll.

And while occasionally his "youth" seems to give other people pause, Mr. Zaccanti does not let it hold him back. "People don't think that I have enough experience to make informed opinions or suggestions. But once they do listen to my opinions or suggestions, they begin to realize that my wisdom is greater than my years."

Some of the qualities often attributed to youth—enthusiasm, aggressiveness and an ability to accommodate different situations easily—are integral to his success.

Mr. Zaccanti "couldn't do what he does without the ability to sip champagne and then walk out with the guys at night and have a beer—and be equally comfortable with both sides," said Don van Eeghen, president of Jupiter.

Furthermore, "he couldn't do what he does if he was not combative by nature," Mr. van Eeghen added. "In our business, that's an asset."

"I'm very competitive," agreed Mr. Zaccanti. "I challenge myself a lot."

That desire has taken him to several different insurance jobs.

Immediately after college, he went to work for Peterson Consulting L.P. in Chicago as a staff litigation consultant. Peterson provides accounting, economic and financial analysis to law firms as litigation support.

Mr. Zaccanti learned at Peterson that he liked damage modeling—quantifying what a claim is worth. After a year, he sought more insurance experience and went to work for Crawford & Co.

Mr. Zaccanti joined Crawford's Chicago office as a claim services representative, investigating workers compensation and casualty claims. He stayed there a year and a half.

His next effort to further his career landed him a position as a senior claim examiner at Sedgwick James in Chicago. While at Sedgwick James, Mr. Zaccanti specialized in extensively litigated workers comp claims.

Citing the "limited earning potential" in claims examination, Mr. Zaccanti began thinking about pursuing a career in risk management.

A newspaper advertisement led Mr. Zaccanti to Jupiter.

"When I came here, this was the perfect blend for me," Mr. Zaccanti said. "My father owned a plumbing business and my dad had a heart attack, so my brother and I ran the business for two years while I was in college. So I know the field mentality. I know how the guys in the field want to be treated and I know how I can motivate them or control them to get the things that I have to have accomplished on the management side of the company."

Outside of work, Mr. Zaccanti is active in organizations that serve those in the construction industry and the risk management field. He is a member of the Builder's Assn. of Greater Chicago, the Illinois Governor's Task Force on Workers Compensation Reform and the Risk & Insurance Management Society Inc.

He also counsels Wheeling High School students who are interested in careers in technical trades.

Mr. Zaccanti has a bachelor of science degree in enterprise management, from Northern Illinois University in De Kalb.

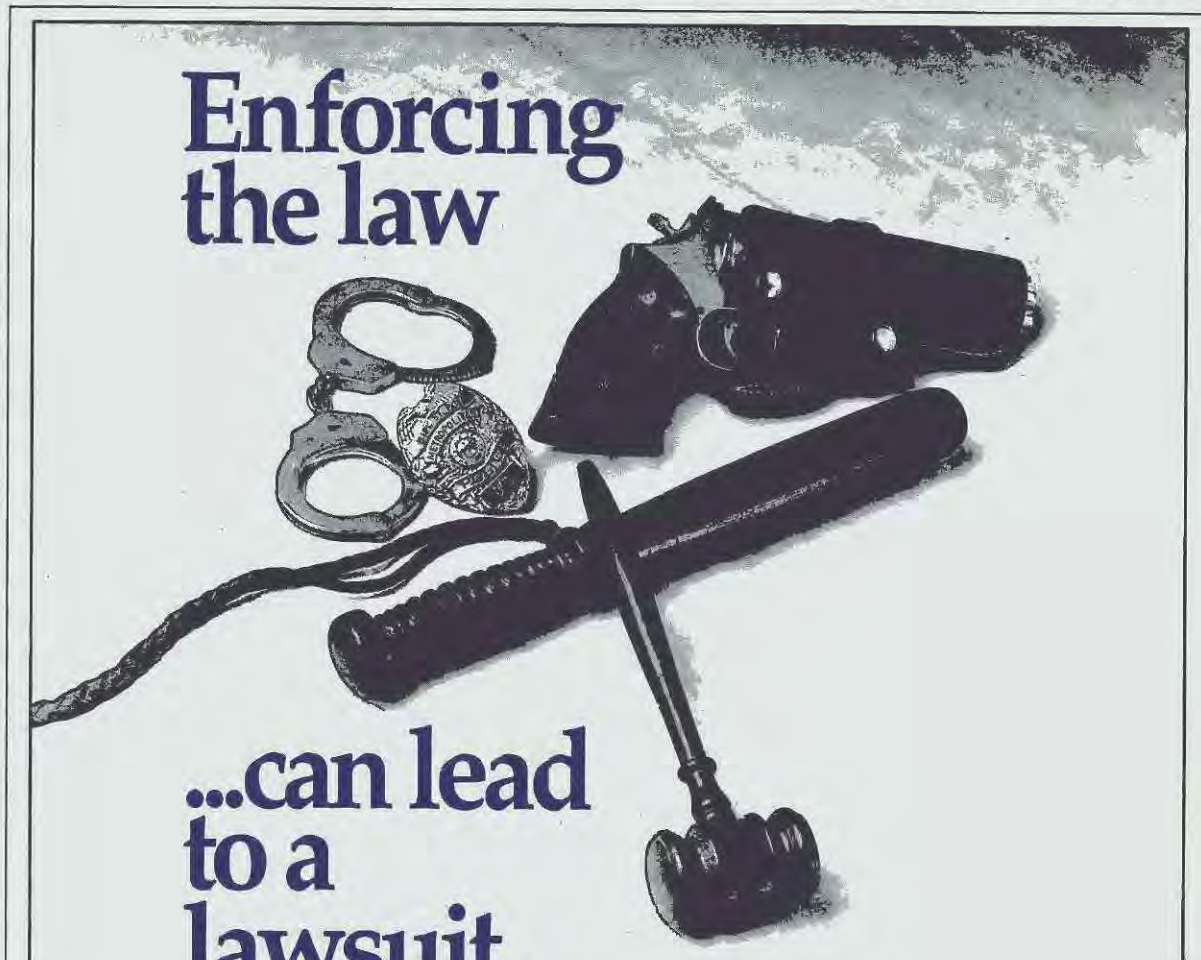
Mr. Zaccanti and his wife, Rosemary, live in suburban Chicago with a cockapoo puppy that is "spoiled rotten."

Skeet shooting, collecting wine and cooking are among Mr. Zaccanti's favorite leisure activities.

Last year, Mr. Zaccanti was a state skeet shooting champion in his class.

A wine cellar in the Zaccantis' basement houses between 200 and 300 bottles of wine of all types.

Mr. Zaccanti hopes to become an officer and director of Jupiter, and at some point to direct an even bigger risk management program. For now, though, he says he is quite happy: "I love going to work every morning. It's scary. I really do." BI



Meet the "new" firm with the most experience and broadest services in Public Entity Liability Insurance.

We'll help you get your share.

Come to the specialists to insure Governmental Programs such as:
Law Enforcement, Public Officials, Private Detention, School Board E&O, All Lines Aggregate Programs, Public Entity Pool Reinsurance, 9-1-1 E&O, S.I.R. Programs, Loss Control, Specialty Claims

U.S. Risk Underwriters, Inc.
Governmental Programs Division
5910 N. Central Expressway • Suite 1580 • Dallas, TX 75206
1-800-232-5830 • (214) 265-7090 • Fax (214) 265-4994
Contact: James W. Chapman or Bruce Henriksen

Panel of 10 independent judges selects risk manager honorees

Ten independent judges from all sectors of the risk management profession and the insurance business selected the 1995 *Business Insurance* Risk Manager of the Year and the Risk Management Honor Roll.

Recipients of the awards, which are presented annually by *Business Insurance* to recognize excellence in risk management, are selected by the 10 judges based on information provided in nominations.

"We're pleased that such a distinguished panel of experts selected the 1995 Risk Manager of the Year and the Risk Management Honor Roll," said Paul D. Winston, editor of *Business Insurance*.

"The four honorees serving on the panel bring first-hand knowledge of risk management excellence to the judging process. And the other panelists bring a variety of viewpoints to the competition," Mr. Winston said.

Candidate nominations for the 1996 awards must be submitted by Nov. 19.

"There are many risk managers that deserve consideration for Risk Manager of the Year and the Risk Management Honor Roll. It's impossible to give these risk managers the recognition they truly deserve unless somebody takes the initiative to nominate them," pointed out Mr. Winston.

A risk manager can be nominated by anyone familiar with his or her work—the individual's boss, for example. Members of a risk management department also may nominate the organization's risk manager. And, a broker, insurer, consultant or some other vendor can nominate a client.

"The judges require detailed information in order to evaluate the nominees, so now is the time to begin collecting information and prepare a nomination," said Mr. Winston.

Nomination forms are available from *Business Insurance*'s Chicago office.

The 10 judges for the 1995 competition were:

• Sal M. Bianchi, executive director of the Intergovernmental Risk Management Agency in Oakbrook Terrace, Ill. Mr. Bianchi was a member of the 1994 Risk Management Honor Roll representing self-insurance pools.

• Peter S. Christie, chairman and chief executive officer of Minet Group P.L.C. in London. Mr. Christie served on the panel for a second year, representing a global broker.

• George B. Flanigan, professor of insurance in the Katie Insurance School at Illinois State University in Normal. Mr. Flanigan served as a judge for the first time, representing insurance educators.

• Lucille A. "Lucky" Gallagher, vp of risk management at ConAgra Red Meat Cos. and Monfort Inc. in Greeley, Colo. Ms. Gallagher was the 1994 *Business Insurance* Risk Manager of the Year and is president of the Risk & Insurance Management Society Inc.

• Ronald J. Guilfoile, risk and employee benefits manager for the City of St. Paul, Minn. Mr. Guilfoile was named to the 1994 Risk Management Honor Roll representing municipalities.

• Thomas J. Hickey, risk manager for Malcolm Pirnie Inc. in White Plains, N.Y. Mr. Hickey was named to the 1994 Risk Management Honor Roll representing small businesses.

• Dean E. Johnson, chairman, president and chief executive officer of Park Ridge, Ill.-based Protection Mutual Insurance Co. Mr. Johnson served for the first time on the panel of judges, representing mutual insurance companies.

• Judith Moses McDonald, risk manager and vp of Comerica Inc. in Detroit. Ms. McDonald was named to the 1994 Risk Management Honor Roll representing financial institutions.

• Robert A. Mulderig, chief executive officer of Bermuda-based Mutual Risk Management Ltd. Mr. Mulderig served on the panel of judges for a second straight year, representing a stock insurance company.

• C.J. Spivey, president of C.J. Spivey Associates Inc. in Charlotte, N.C. Mr. Spivey served on the panel for the first time, representing risk management consultants.

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. Remaining nominees were then 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 category not represented by the Risk Manager of the Year was named to the Risk Management Honor Roll, subject to the judges' discretion. As many as five other nominees can be named to th

Continued on next p

Risk Managers of the Year

Lucille A. Gallagher
Vp of Risk Management
ConAgra Red Meat Cos.
Monfort Inc.

Richard C. Heydinger
Director of Risk Management
Hallmark Cards Inc.

Millicent W. Workman
Director of Corporate Risk Management
Belz Enterprises

Arnold L. Davenport
Vp-Risk Management
Marriott Corp.

Stephen M. Wilder
Director of Corporate Risk Management
The Walt Disney Co.

Jeffrey W. Pettegrew
Risk Manager and Chief Administrative Officer
Contra Costa County Municipal Risk Management
Insurance Authority

William L. Mather
Administrator of Risk Management
The Gillette Co.

Edith F. Lichota
Senior Vp
Irving Trust Co.

Donald Nelson
Director of Risk Management
ARA Services Inc.

Harold C. Lang
Director of Insurance and Risk Management
Leaseway Transportation Corp.

Richard M. Inserra
Director of Insurance and Risk Management
American Can Co.

John A. O'Connell
Executive Director and Risk Manager
Holy Cross Shared Services Inc.

Eckart Russell
Risk and Insurance Manager
Alcan Aluminium Ltd.

Duane E. Allen
Assistant Treasurer
Hanna Mining Co.

Thomas V. Hallett
Risk Manager
General Motors Corp.

Edward L. Erickson
Director of Insurance
American Broadcasting Cos. Inc.

Howard T. Weber
Director of Insurance
Minnesota Mining & Manufacturing Co.

GRAPHIC BY JOHN HALL

Risk Management Honor Rolls

Sal M. Bianchi
Intergovernmental Risk Management Agency
Self-Insurance Pool

Ronald J. Guilfoile
City of St. Paul, Minn.
Government Entity

Judith Moses McDonald
Comerica Inc.
Financial Institution

Thomas J. Hickey
Malcolm Pirnie Inc.
Small Corporation

David G. Adler
The Portman Cos.
Small Corporation

June Dickinson
SunTrust Banks Inc.
Financial Institution

Thomas E. Bell Sr.
Middle Cities Risk Management Trust
Self-Insurance Pool

C. David White
State of Oregon
Government Entity

Marc Darby
Bombardier Inc.
Large Corporation

Jerry Newsom
State of Georgia
Government Entity

Judith Tornese
Transamerica Corp.
Financial Institution

Donald D. Batchelor
Union Planters Corp.
Financial Institution

Mary L. DeCampli-Stewart
Metropolitan Washington Airports Authority
Government Entity

Rod Umscheid
University of California
Not-for-Profit Entity

Josephine Goode Johnson
University of Maryland Medical Service System
Self-Insured Fund

Roger D. Oaks
Tennessee Farmers Cooperative
Small Corporation

M. Michael Zuckerman
Thomas Jefferson University
Not-for-Profit Entity

John A. Lindquist
Browning-Ferris Industries Inc.
Large Corporation

J. Douglas Higley
State of Louisiana
Government Entity

Gregory L. Daniels
American National Red Cross
Not-for-Profit Entity

Stephen A. Finley
City of Lakewood, Colo.
Government Entity

Timothy G. Galarnyk
Lunda Construction Co./ Phoenix Steel Inc.
Small Corporation

Edward G. Weiss
First of America Bank Corp.
Financial Institution

Susan M. Werner
Hardee's Food Systems Inc.
Large Corporation

Mark F. Wilson
First Mississippi Corp.
Small Corporation

Delmer Ison
Washington Metropolitan Area Transit Authority
Government Entity

William E. Rogers
Conemaugh Valley Memorial Hospital
Not-fot-Profit Entity

Susan N. Weiner
Dade County Public Schools
Government Entity

Eva F. Goodrich
Cincinnati Electronics Corp.
Small Corporation

Sidney D. Blatt
Holloway Cos.
Small Corporation

Gene Snyder
State of Oregon
Government Entity

Jerri Nelson MacMillian
Aetna Life & Casualty Cos.' Real Estate Investment Department
Large Corporation

Robert L. Sinclair
Metropolitan Government of Nashville and Davidson County
Government Entity

Spencer J. Traver
BF Goodrich Co.
Runner-up

Paul B. Harvey
Ponderosa Homes
Small Corporation

George N. Pierce
Orange County, Fla.
Government Entity

Gene M. Marsh
General Conference of Seventh-Day Adventists
Not-for-Profit Entity

Robert Bieber
Westchester County
Government Entity

William Ryan
University of Michigan
Not-for-Profit Entity

GRAPHIC BY JOHN HALL

Continued from previous page
Risk Management Honor Roll.

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 his or her 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. BI

Mr. Bianchi | Mr. Christie | Mr. Flanigan | Ms. Gallagher | Mr. Guilfoile

Mr. Hickey | Mr. Johnson | Ms. Moses McDonald | Mr. Mulderig | Mr. Spivey

10 criteria used to score winners

Ten criteria are used to score the nominations submitted for the *Business Insurance* Risk Manager of the Year Award and Risk Management Honor Roll.

The 10 independent judges score each candidate in the competition on a scale of one to 10 according to how well he or she:

- Established and implemented an effective risk management program within the organization.
- Tackled and solved one or more major problems for his or her organization.
- Innovatively applies the diverse tools of risk management and insurance.
- Creatively and effectively uses the insurance markets to structure an insurance program that serves the needs of the organization (specifically addressing the types of policies purchased and manuscripted policies, if any).
- Established a workable intelligence system inside and outside the organization, culminating in a flow of information about events and activities that affect the organization's risk management and insurance. (How the risk manager secures information from other departments and the use of risk management information systems are addressed in this criterion.)
- Skillfully performs the functions of management in the overall organization and within the risk management/insurance department. (The functions include planning, organizing, directing and controlling.)
- Achieves the most effective program at the optimum cost over the long term.
- Developed technical expertise in any or all of the broad categories included within risk management, leading to a better managerial grasp of the 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).

CEO

Continued from page 1

What does that translate into in points in an expense ratio?

If you look at the expense ratio of Continental, it tended to run expense ratios in the low 30s. CNA was in the mid to high 20s. We believe the combined company can be run at or below the CNA ratio. It's a dramatic improvement.

That $300 million implies we will have a reduction in workforce of something like 3,000 to 6,000 people over the next year or so.

How many employees will be in the combined company?

As of Day One, it starts with 21,000. We believe we will end up in the range of 15,000 to 18,000 by a year from now.

What is your first priority in merging CNA and Continental?

There hasn't been a merger of this kind in the last 20 years or so in the industry.

What we're attempting to do is merge the two companies; we're not attempting to acquire Continental on a stand-alone basis. In fact, the economics of this transaction only work if they can be merged. We would not have acquired Continental for $20 a share. . .if it were not for the fact that we could merge and achieve significant marketing and operational efficiencies by doing that.

Therefore, the issue that is first and foremost on our minds is how to go about integrating these two companies.

Why haven't such mergers been done in recent years?

Mergers among casualty companies as we saw occurring in the '40s, '50s and '60s essentially stopped in 1970. There hasn't been a large casualty merger in the last 20 years. And it's been driven, I believe, by two or three things.

One is the change in the exchange rate of the dollar, where foreign companies have had an advantage over U.S. companies in acquisitions for the last 10 years or so because of the weak dollar. So it became more difficult for a U.S. company to outbid an Allianz or an AXA for what otherwise might have been acquired in the U.S.

Second, in the post-automation era integration is a more complex process. That, I think, has slowed the integration process itself.

Third, the whole issue of what to do with the entire range of liabilities stemming from the '50s, '60s and '70s before some exclusions were built into policies are a cause for concern.

If the integration of the two companies is your top focus in the year ahead, how do you keep everybody at CNA and Continental also serving the client?

It's a tough problem, because while our first priority must be the integration of Continental—and we have set a very short time frame for this, a one-year time frame—we've had to also in the same breath say, of course, we have a business to run and we must continue to do that. We can't let current operations slip. That's very difficult.

If you talk to people in our organization today, what you'll see is that the level of activity and the level of pressure is much greater than it would ordinarily be because of the nature of these two tasks that need to be accomplished. Now, of course that's felt strongly on the casualty side and not so strongly on the life and health side where, in fact, it's a non-issue.

What does it mean to try and accomplish the integration in one year?

We have about 250 people involved from both companies—about half and half—divided into about 25 transition teams. These teams have as their goal the integration of the major functions throughout the company.

One could think of the process of putting the two together as if you had a severed limb: you can't just join them together, but in fact have to put together all those little capillaries and veins. It's a function of putting together many, many things, not just plugging two organizations together. It gets down to a very low level of detail. Such things as, how do we integrate employee benefit plans, how do you decide which agent to use, what's your contract, what's your product?

The transition teams are expected to produce their plans by the time the merger is consummated, which is expected to be during May.

What has been done to date?

At this point, we've already announced most of our major organizational changes. We've made offers to people on both sides of the organization for what their new jobs will be, though we can't consummate any of this for antitrust reasons until after the merger is finalized.

We'll let people know where they'll be located and, by and large, the compensation attached with their job responsibilities. So we've gone ahead with a pretty aggressive program of laying out our transition.

Now what we've laid out is a program to then conclude the integration within a one-year time frame. Within that one year, we'll have decided not only which product we'll be using, but within that time we'll have filed new product forms and so forth.

We've also decided that we'll be using a renewal conversion approach. We're not going to do block conversions.

You're not going to do a cancel/rewrite?

No. Everyone stays on their existing forms, and then we'll have things in place so major policyholders will start converting by a year from now. So the first six months, December to May, was essentially the process of planning the transition. The year is the process of executing the transition. And the conversion period follows.

We expect by May of 1997 essentially to have all business on a single set of systems, whether it be in CNA or Continental's name. Both entities will continue to exist. CNA Financial will own Continental Insurance and it will also own Continental Casualty.

So there will still be Continental Insurance Co. paper on the street?

Yes, certainly for two years.

But then eventually it will be CNA?

Let me first answer another question you didn't ask, which is the identity question—what will we be called?

The company spent a fair amount of time on an identity/image study to determine what we should call the companies and what the issues are. First and foremost, the question is what you should call the company.

There is stronger franchise value and much stronger name identification in the CNA name than the Continental name. As a consequence, we've decided and have announced to our employees that the new company will market and operate under the name CNA.

Now we are in the process of studying what names we want to assign to individual companies and we have not made decisions on those We can either leave the names as they are, or we can convert them into a common set of names that carry the themes, such as CNA of Illinois, CNA of Connecticut.

We might keep the Continental marketing names, because CNA has a lot of Continental marketing names as well because of Continental Casualty.

I've always felt from a marketing standpoint that a name was better than initials.

What does CNA stand for?

Continental National American, the companies that form CNA: Continental Casualty, Continental Assurance, National Fire and American Casualty. The CNA name was adopted in 1968 with the formation of the holding company.

But when people ask me what CNA stands for, I tell them policyholder service and commitment.

What sort of corporate culture are you going to try and create within the merged company?

That, in fact, is the subject of a joint planning meeting we are having of CNA and Continental officers together, and I'm going to present the officers with our strategic direction and culture as part of that.

Are the cultures different? Yes. They have some things in common, but they've grown up with different cultures. CNA has had more of an orientation toward relationships than most companies within the industry. More of an orientation of staying with a market, staying with a very narrow set of producers who produce a very high proportion of our total business.

That was less true of Continental. Continental has launched a recent cultural re-evaluation and culture change itself over the last two years as it shifted its focus toward underwriting profitability, which is something we share.

CNA has a management style that we've been trying to develop over the last several years that was similar to what Continental was trying to do.

In fact, at the first transition meeting back in January, one of

See **CEO** *on next page*

CEO

Continued from previous page

our officers commented to me that you really couldn't tell who was from Continental and who was from CNA, because the people had so much in common. There was a lot of similarity in the types of people the companies hired, so the cultural blending is less difficult than it would be for some other companies.

Continental has a real team orientation, and CNA is trying to build that as well. In their working relationships, people got along very, very well, which is a real plus.

Nevertheless, are there any morale problems among employees?

Well, the day after the merger, we met with about 1,000 employees in New York and about 1,500 or so in New Jersey, and we explained to people what our longer-term directions were going to be. So that there would be some understanding that, yes, in fact, we are going to merge these two companies, but we are going to consolidate them into a single location. The home office would be headquartered in Chicago, so there would be a substantial reduction in the workforce in the New York vicinity. That was not a positive message, obviously, for people who have worked for Continental for a long time.

But at the same time, we explained that, location by location, we'd be determining who the best person for the job would be, and we have made an offer to a lot of Continental people who will join the new organization.

To give you an idea, among our three major casualty units—commercial, specialty and diversified—two will be headed by former CNA people and one by a former Continental person.

Carolyn Murphy will head commercial, specialty is going to be headed by Bernie Hengesbaugh, and diversified is going to be headed by Adrian Tocklin (the president and chief operating officer of Continental).

Diversified is going to contain the personal lines, surety, Marine Office of America Corp., international, inland marine and discontinued operations.

CNA in fact will have six business segments. The three that I described, plus three others, which will be our life insurance business, our group insurance business and our reinsurance business.

What is CNA's commitment to the six business segments? Are they equal?

Yes, they're roughly equal units in terms of importance and commitment. The senior officers running them are comparable in terms of stature within the organization.

What about your position within these markets as a result of the merger?

As a result of the acquisition, CNA will be a considerably larger company than it was. CNA was already a major factor, but the merger will now make it one of the market leaders in virtually every business it is in.

It will either be the top or near the top in virtually every market. That is package personal lines, commercial multiperil, personal auto, workers compensation, surety and inland marine.

How difficult is growth going to be, going forward as a merged company, in a soft property/casualty market?

In some markets, you won't grow in some years. We don't have a mandate for growth in any one year, but a recognition of the fact that if you're going to ride a bike to get to the top of the mountain and you come to some dips, that's fine as long as your long-term trend is up. But if the long-term trend is down or flat, then you're going out of business.

Some markets, like surety, I'd be scared to death to see it growing rapidly. But we want to see a regular addition of new customers at a level that's appropriate.

Given the nature of the markets today, I'd say it would be harder for us to experience any significant growth in the property market.

Our workers compensation business has been growing, and the market's been improving. There, I think, as one of the market leaders, we can achieve significant market growth.

In our commercial affiliation marketing business, we have the ability to grow dramatically. We are the largest writer of commercial affiliation or affinity business, and I think we do that better than anybody.

What will happen to your mix of business from brokers vs. agents after the merger?

We have always had both brokerage business and agency business. As an example, prior to the acquisition of Continental, about half of our business was broker-produced and half was agency-produced, and we expect that to continue in the future.

Also, the distinction between what's an agent and what's a broker is blurring. What do you call ABI, for example? Well, it's a broker that's acquired a lot of agents.

Some brokers have noted that CNA has a close affiliation with Aon on a lot of special product lines. What does that mean for other brokers?

There are a number of programs that are produced through Aon, but we also have some similar programs through other brokers. For example, Marsh & McLennan produces our architects and engineers business, Poe & Brown produces dental business.

Our intention is to work with brokers to put together comprehensive programs of that nature; that has been our strategy for 30 years, and this is no different.

A complaint we've heard from some brokers is that CNA's underwriting managers are more responsive to CNA's top agents than they are to brokers?

This is probably because we have two different systems in place: one that focuses on brokers and one on agents, so if you're one and try to get into the other, it's going to be harder to do business.

What if a broker has a nice piece of regional business that wouldn't fit the national accounts?

It doesn't matter whether you're a broker or not. If you have a single piece of branch business and that's all you have, we don't care whether you're an agent or broker, we don't want to do business with you.

We want to do business with someone who gives us a flow of business and is a major factor in those branches, that's our strategy. Whether you're an agent or broker doesn't matter.

Let me give you an example. Alexander & Alexander is a broker, right? One of our biggest producers in Milwaukee is A&A out of Green Bay. Now why are they big? Because we have a very strong, long-term relationship. Now, you take A&A in some other city, perhaps, and they may not be a factor because they want to give us only a few accounts.

The issue isn't agent vs. broker. The issue is if you're coming to our branch, don't come to us with one account; we don't want it. Come to us with a flow of business of the nature of what we write there, so we can develop a relationship between you and our underwriter.

Large accounts are a different situation. If an agent or broker approaches our large-account offices with a million dollar or larger account, paid-loss retro or anything like that, we'll evaluate it one at a time. These kinds of accounts are individually underwritten.

Are there any lines of business you'll be getting out of?

At the present time, we believe that the lines of business we are in are appropriate. We believe that the current lines are ones that we can make money in. Continental's lines essentially integrate with them. They also bring some lines we really like, such as inland marine, international operations, for example. There are some businesses they are in that we are not in.

In regard to businesses that we would exit, at the present time, there are a few things that we are looking at, for example a pension administration trust company and the bank, which we are looking at possibly disposing of.

We have recently reached an agreement in principle to sell the asset management business of Continental.

What about Continental's captive management operations?

While we are still looking at our final plans for our large-accounts operation, it is likely that we will be expanding on the risk management and captive management services that Continental already has in place, because we were in the process of developing those anyway.

In fact, Randy Clouser of Continental will be heading that, along with expanded responsibilities for CNA's major account offices.

What will CNA's commitment to middle market vs. large risk management accounts look like?

We're committed to both and have been in both in the past. Both are important markets to us, managed through two different distribution systems.

They'll be roughly equal in size when we start out. There will be approximately $3 billion in middle market, depending on how you define small, and about $2.5 billion in the large.

Any products or services, or segments of the market that will be new to CNA after the merger?

We will have significant improvement in both our surety operations and our personal lines operations.

In the commercial businesses, there are some advantages but also challenges because we pick up a lot more agents, which is a plus and a minus. We've tended to operate with a narrower agency plan, since we have to make sure that we have the commitment from the agents that we pick up and the right kind of long-term relationships.

How many agents does CNA have compared with Continental?

We had 2,600; they had 2,700—but we had twice the volume.

There's some overlap between the two, about 900 of overlap. So out of the 2,700 we pick up about 1,800. If you add that to our agents, you get 4,400. That's what we start with, but it's still too early to tell what will happen.

Part of the reason we don't know yet is that until the deal is approved, we can't ask Continental questions about its market relationships.

Has there been any difference in the way Continental and CNA agents have greeted this merger?

Yes. Continental agents in general have viewed this positively, because they see themselves as getting stronger credit behind their contract. CNA agents who do not have a Continental agent located in their same market have viewed this positively, as they see it as an expansion of services. The CNA agent who has a major Continental agent as a competitor views this with mixed emotions: positively in terms of expanded services and what it does for the company, and views it negatively from the vantage point that one of its major competitors now has a CNA contract and a stronger franchise.

What about policyholders?

Policyholders are very positive. They see this as an expansion of available services, more international skills, inland marine skills, stronger skills all around.

If I'm a Continental policyholder and I'm up for renewal, do I have any special concerns?

It's business as usual, but with the caveat that we are re-looking at each product and will decide which paper to write it on. And, over a period of time the business will be converted to one set of companies. CNA may even be converted into Continental. We'll end up with one set of companies, one set of products. It will take us a year to complete that.

Given that time frame, do you expect heavy competition for Continental's business?

Absolutely. It's happening now. Companies are out there with all sorts of marketing strategies attempting to dislodge business from Continental. It's happening in a significant way.

Are they succeeding?

In some cases, yes; in some, no. Volume isn't declining dramatically, but Continental is losing business in some markets.

Some of it's purposeful. Continental had $5 billion in volume, and they were trying to cut that to $3.5 billion. Continental was trying to reduce its volume, so we would expect net volume of a little over $3 billion.

How have reinsurers viewed the deal?

The reinsurers are very interested in discussing our future reinsurance needs.

CNA was not a heavy purchaser of reinsurance in the past. Continental, as a result of its lower surplus, used a significant amount of reinsurance. As a result of the combined entity, with greater exposures, we will probably purchase more reinsurance in the future.

Can you comment on the adequacy of Continental's long-tail reserves?

One of our biggest concerns, and I think it was a concern of other companies that looked at Continental, was the nature of the long-tail liabilities attached to Continental. Studies have been done by people like A.M. Best, for example, that look at the nature of the environmental liability and attempt to take the current history and project it forward. I believe those studies are fairly accurate and do a good job of showing what the current situation would be like if the problem continues. If those numbers are accurate, they will essentially bankrupt everyone in the business. Continental, CNA, Aetna, AIG, everybody goes bankrupt under that scenario, because there's not enough money to pay for the kind of liabilities that emerge. It's bigger than the capital and surplus of all the companies.

Now, I believe that's such an irrational conclusion that a more logical result will occur: it will either be scheduled over a long, long period of time, so it's a cost to the industry of $5 billion or more per year, or there'll be a more rational law put in place, because this law is stupid, it makes no sense.

From Continental's point of view, the real question was not are the environmental liabilities big. With or without Continental, we—and everyone else in the industry—are out of business if you have the Superfund liabilities carried to the illogical extreme.

We did a very thorough review in the due diligence process of Continental and were pleasantly surprised to see that Continental had very early on—in the mid-1980s—put together an environmental unit that had taken a more aggressive posture in settling environmental cases and, as a consequence, Continental's liabilities in our judgment are not on an order of magnitude to cause us any special or unique problems. Continental has the same problems all of us have.

What is CNA doing in the group life and health, employee benefits markets?

In the group insurance markets, we are in group major medical, which is a significant business for us, and we are also in other health lines, like long-term care, long-term disability, and AD&D.

Those are all major businesses for us, and they are businesses that we have a continuing emphasis on and want to try and grow them. They are not directly related to the Continental merger, because Continental was not in those businesses.

Will you still provide managed care services through Private Healthcare Systems?

We have some pretty clear strategies for each of the major casualty markets, where we could tell you where we're going. In the individual life insurance business, that's absolutely true as well.

In the health insurance business, our strategy needs further definition. In particular, it needs further definition because of the evolving nature of managed care. PHCS is our PPO option, but that's not managed care. That's a PPO and that's all it is.

We are in the process of defining our health care strategy. And while we have a successful base in a number of businesses, now the question is where do we go from here because health care is changing so dramatically. Where do we take these businesses as a result of the changing nature of managed care?

We've been expanding our thrust, but it's changing so rapidly we can't articulate a managed care strategy as clearly today as I believe we need to.

Have we missed anything, any final comments?

The issues are one product, one set of systems, one company, one structure behind it. All of those things are what we're trying to communicate. You're going to be contracting with a company called CNA, and you're going to see the same sort of philosophies, in general, that CNA had in place in the past. BI

Residual

Continued from page 2

markets went from underwriting a relatively small segment of the market—accounting for 4.8% of direct written premium in 1984—to the largest single provider of workers comp coverage, with 21% of premiums in 1994, and 26% in 1993.

In many states, residual market losses are spread among voluntary market insurers, which then may pass those expenses on to policyholders.

As the residual market's mission blurred—and as insurance rates soared in the late 1980s—individual state programs often became the only source of workers compensation coverage.

Policyholders ranged from new, small employers with good safety records to established, large employers with poor records that preferred the guaranteed cost coverage available from these pools to experience-rated coverage from commercial insurers.

Picture the residual market's previous burden on the industry "as a vast, murky pool fed by three toxic pipelines—growth, losses and expenses," Mr. Rabenstine said.

The residual market's estimated nationwide average combined ratio of 116% in 1994 "is very gratifying, considering that it was only a couple of years ago that the industry was reporting combined ratios, including the voluntary markets, of over 120%," Mr. Rabenstine said.

In the 23 states—plus the District of Columbia—where the NCCI manages assigned risk plans, the residual market combined ratio was 114.4%.

The NCCI also operates a national reinsurance pool for all those residual market pools, plus four additional state pools.

In the NCCI-managed states, managers trimmed operating losses 17.5% in 1993 and a whopping 33.3% in 1994. Last year's reduction saved pool members more than $120 million for policy year 1994.

Developments encouraging depopulation of the nation's residual markets include better financial results for the workers compensation line as a whole, increased use of self-insurance, managed care and establishment of state funds to replace money-losing residual markets.

"This trend will continue during 1995, with Missouri moving to a single carrier responsible for all residual market paid losses up to a 115% loss ratio," after which losses are shared, he said. Also, Kentucky is scheduled to bring its state fund online Sept. 1, to replace its residual market.

Together, the two states accounted for $92 million, or 38%, of nationwide pool operating losses and more than $300 million in premiums in policy year 1994.

Residual markets use a variety of carrots and sticks to encourage insurers and employers to participate instead in voluntary markets.

One approach is to make residual market coverage more expensive for employers, which may have other options, by applying a variety of pricing programs.

For example, six states and the District of Columbia have adopted a new Loss Sensitive Rating Plan for employers generating at least $200,000 in premium that meet other criteria.

Mr. Rabenstine justified the pricing plan by saying, "It's unlikely that there are very many large accounts in the voluntary market today that are not written on some type of rating program. We don't believe these accounts should be able to receive a guaranteed cost approach in the residual market. LSRP encourages large accounts in the residual market to seek voluntary coverage and, for those that remain, provides an important safety incentive."

The plan could apply to 535 accounts nationwide, which generate 4% of total premiums, Mr. Rabenstine said.

He expects more states to approve the new pricing program this year.

Such programs generated almost $600 million in additional premiums in policy year 1994 through surcharges, differentials and the removal of premium discounts.

For example, residual market premiums are an average of 21.7% higher than voluntary market premiums in NCCI-administered states.

Picture the past residual market burden on the industry 'as a vast, murky pool fed by three toxic pipelines—growth, losses and expenses,' says Jim Rabenstine.

In addition, NCCI programs like take-out credits provide incentives for workers comp insurers to remove risks from residual markets by ensuring that their new business does not increase their residual market assessments or assignments.

These programs' success is seen in the decline in residual market premiums, which were an estimated $3.2 billion in 1994, down from $4.2 billion in 1993 and $4.9 billion in 1992.

The NCCI also improved results by reducing expenses.

Among other things, the NCCI consolidated field offices serving residual markets to one in Boca Raton, Fla., from six nationally, while continuing to have four regional representatives. The centralized and better-trained staff is expected to improve operations, Mr. Rabenstine said.

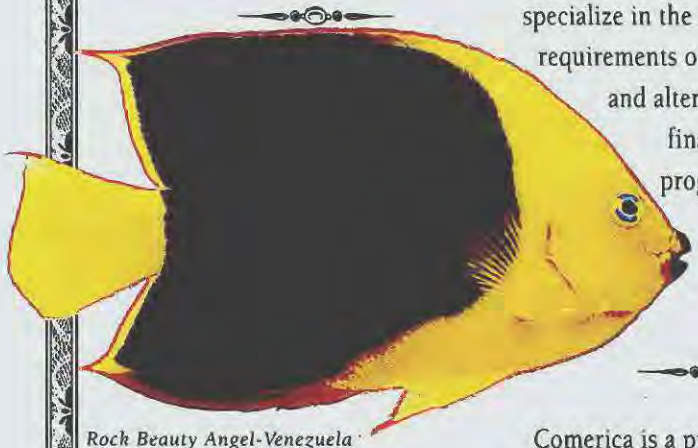
Overall, "a major goal in the effort to make the residual market fair to all workers compensation stakeholders is to move it to a self-funded basis, through which it does not place a financial drain on the voluntary market," Mr. Rabenstine said in a statement.

As a result of the NCCI's efforts, "the prospect of smooth sailing over the coming years is greatly improved," he said.

How low will combined ratios and operating losses go?

"That will depend on further premium depopulation and whether or not this market returns to its intended function as a true market of last resort," according to Mr. Rabenstine. "If that occurs, at some point we expect to see combined ratios begin to increase again, as we are left with the truly high hazard exposures historically associated with residual markets." BI

See that blue spot on the fish from the Philippines? Well, that spot tells you it's not the same as the fish on the left. It tells you he swims in a different ocean, prefers fairie shrimp to algae and brings a nicer sum at the fish store.



Rock Beauty Angel-Venezuela

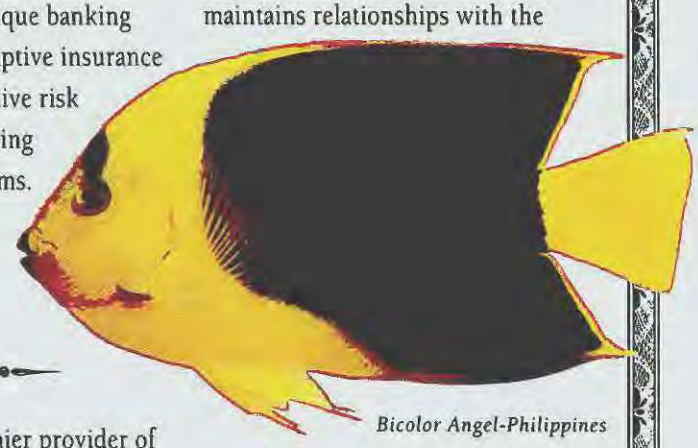
Now if you're not a fish aficionado, you may not care about blue spots and fairie shrimp. But what if, instead of fish, we were talking about captive insurance programs? The differences can be just as subtle, but much more important.

For instance, Bermuda is the ideal domicile for most companies, although Barbados may offer advantages for certain Canadian companies and Ireland may be preferred for writing OECD risks.

Fortunately, the do's and don'ts of international banking needn't cause grey hairs. At Comerica Bank, we specialize in the unique banking requirements of captive insurance and alternative risk financing programs.

Comerica is a premier provider of letters of credit. Our financial strength offers the assurance of established market acceptance when issuing standby letters of credit to capitalize your captive or to assure payment to the reinsurance company. We structure letters of credit to meet your needs at competitive rates.

You can also rely upon Comerica's experience and full range of trust and investment services when establishing a Regulation 114 trust. Moreover, we have the deposit and international treasury management services to help you manage the flow of funds and information wherever you need them. Comerica maintains relationships with the



Bicolor Angel-Philippines

world's leading insurance, legal, consulting and captive management firms. We work with all major domiciles and are active in Bermuda.

With all the complexities of doing business internationally, you need a bank that knows what it takes to help you succeed around the world. Or at least, one that knows its right from its left. Call Eugene Justus at (313) 222-0230.

HOW WELL CAN YOUR BANK SPOT SUBTLE INTERNATIONAL DIFFERENCES?

Comerica

WE LISTEN. WE UNDERSTAND. WE MAKE IT WORK.™

Member FDIC

NCCI targets self-insurers

By MEG FLETCHER

ORLANDO, Fla.—The National Council on Compensation Insurance is expanding its customer base from primary insurers to include individual self-insurers and the reinsurance industry.

And, it is succeeding, said Walter E. Farnam, chairman of the NCCI's board of directors, at that organization's recent issues symposium in Orlando, Fla., held April 12-13.

"Almost a quarter of the 500 self-insurance groups we identified countrywide became affiliated with the NCCI in 1994," Mr. Farnam said. "Not bad for a single year's effort. But it is only a start. We are expanding our campaign to include individual self-insurers."

Self-insurers funded 36% of workers compensation payments in 1993, up from 30% in 1992, according to estimates by the NCCI and broker Johnson & Higgins.

The NCCI also is targeting reinsurers, with which the Boca Raton, Fla.-based organization had only distant relations in the past.

NCCI's members traditionally have been primary insurers that paid the NCCI assessments based on their share of the workers compensation market.

Now, the NCCI has converted 95% of its members to fee-for-service from the assessment-based payment system, Mr. Farnam said. State regulators strongly encourage the conversion from membership to fee-for-service by data-gathering and ratemaking organizations like the NCCI and the Insurance Services Office Inc. to become less dependent on insurers.

There are two categories of affiliation with the NCCI, members and subscribers. Membership is open to primary insurers, reinsurers and self-insured employers or groups. Both membership categories must adhere to the organization's bylaws and pay service fees.

But, in return for higher affiliation fees, members receive discounts on products and services, have the opportunity to serve on NCCI committees and to vote during NCCI meetings.

In addition, "in the unlikely event of a dissolution, members also have the right to participate in the distribution of assets," according to the NCCI.

Subscribers, whose affiliation fee is lower, receive some lesser discounts and may not serve on committees or exercise voting or dissolution rights.

Other third parties that are non-affiliates are sometimes charged higher fees than members or subscribers for NCCI products and services.

Those higher fees have angered some agents, brokers and consultants who are considered non-affiliates and face increases in the price of data they previously received from the NCCI at little or no cost.

They had been subsidized in the past by insurer members that paid 100% of data costs, even though those insurers represented only one-third of the users of some products, said John L. McCarthy, the NCCI's senior vp of marketing.

"It's a new environment," he said. For the first time in more than 70 years, all users must pay their fair share.

Some critics of the new subscriber/member pricing formulas complain that the information should cost less because states require insurers to file it with the NCCI.

Mr. McCarthy counters that the raw data is worth little without the NCCI's checking and analysis of it.

The NCCI also is branching into new products and services.

"One of the most promising possibilities is a new family of benchmarking products that will allow us to break out a variety of individual company performance characteristics and compare them to norms for the industry or a segment of the industry," Mr. Farnam said. Comparative performance data in areas like claim severity and duration, and medical and wage-loss costs will be available soon by state, region and countrywide.

In addition, the NCCI and Amarillo, Texas-based Corporate Systems Ltd. launched an automated reporting process to help employers and workers comp insurance providers manage first and subsequent reports of injury in accordance with all state and federal regulations. The service currently is being test marketed with insurers, state funds and self-insurers. BI

NCCI conference draws 550

ORLANDO, Fla.—The National Council on Compensation Insurance plans to use its 70-plus years of statistical data as the foundation for a new future.

The Boca Raton, Fla.-based NCCI is seeking to generate revenues from the sale of database products, software, publications and consultation services instead of relying on assessments of primary insurers to fund its operations.

However, many primary insurers still were represented among the 550 people at the NCCI's annual issues symposium in Orlando, Fla., April 12-13.

In recent years, the NCCI's efforts to increase its independence also have included limiting insurers' role in decision making and increasing public members on its board.

Those actions are in response to criticism from some state insurance regulators and consumer groups. They argue that states should no longer rely on insurance-industry supported groups for claims and loss data because the public may perceive the data as inaccurate and self-serving (*BI*, Dec. 13, 1993).

Supporters of the NCCI counter that a 1991 study by the National Assn. of Insurance Commissioners generally upheld the validity of the NCCI's data handling and actuarial methods.

The NCCI and other rate making organizations say any public image problems are not based on fact and can be solved by greater regulatory scrutiny—rather than elimination—of existing organizations.

The NCCI is located at 750 Park of Commerce Drive, Boca Raton, Fla. 33487; 407-997-1000.

THE COLORADO ASSOCIATION
OF CAPTIVE ENTITIES

(CACE)

INVITES YOU TO PARTICIPATE IN ITS

**FIFTH ANNUAL CAPTIVE CONFERENCE
FOCUSING ON ALTERNATIVE MARKET ISSUES**

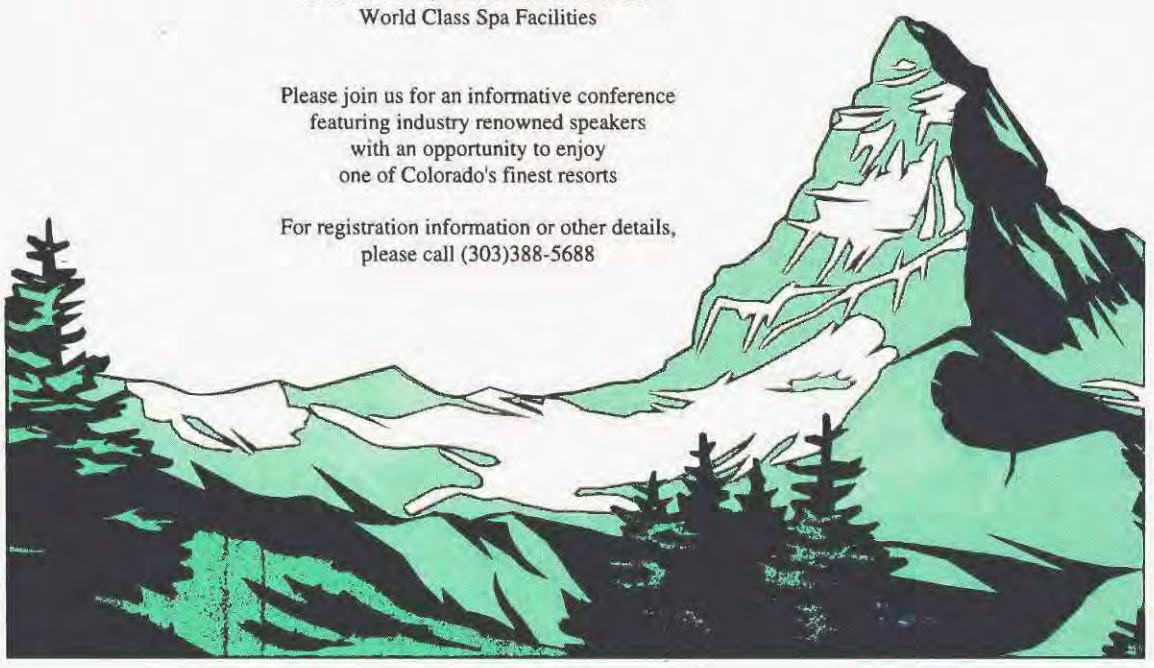
**July 12-14, 1995
Sonnenalp Resort in**

VAIL

The Sonnenalp Resort in Vail, Colorado
is a four-star hotel
located in the heart of Vail Village
Amenities include:
The Sonnenalp Golf Club (formerly Singletree)
Outdoor Pool , Four Tennis Courts and
World Class Spa Facilities

Please join us for an informative conference
featuring industry renowned speakers
with an opportunity to enjoy
one of Colorado's finest resorts

For registration information or other details,
please call (303)388-5688



Managed care achieves aims of work comp: Experts

By MEG FLETCHER

ORLANDO, Fla.—A managed care approach to treating workers compensation claimants offers employers and insurers more than short-term savings and the prospect of long-term gains, experts say.

According to a few documented studies, managed care typically can lower workers comp medical costs by 10% to 30%—and as much as 50%—according to David Appel, director of economic consulting with Milliman & Robertson Inc. in New York (*BI*, Oct. 18, 1993).

Savings from the use of managed care "is a large part of the turnaround" in the workers comp line, said Richard W. Palczynski, senior vp of Travelers Insurance Co. in Hartford, Conn.

The workers comp combined ratio improved to 101% in 1994 from 109.1% a year earlier, estimates the National Council on Compensation Insurance. That marks a dramatic improvement in the last two years and a sharp contrast with 1984 to 1992, when the annual combined ratio for workers comp each year exceeded 117% (*BI*, April 17).

But perhaps more important than the lower costs, the quality of care injured workers receive is enhanced by appropriate utilization of medical services, said Dr. Norman C. Payson, president and chief executive officer of Healthsource Inc., a managed care company in Hooksett, N.H.

The speakers participated on a panel discussion at a recent symposium sponsored by the Boca Raton, Fla.-based NCCI.

"The workers comp market is ripe for more providers," Milliman & Robertson's Mr. Appel said. It does not require a "24-hour" coverage product for managed care to be effective, though in the minds of many the two are linked, he said.

Obtaining physicians' services as providers of managed workers comp medical care can be challenging because they are concerned that managed care will be "cookbook medicine," said Eric J. Oxfeld, assistant general counsel at the American Insurance Assn. in Washington, who moderated the panel.

Employers and insurers can alleviate that concern by demonstrating knowledge of appropriate treatment practices for specific workplace injuries and "a culture" that invites physicians to participate in the system, Dr. Payson said.

The key to making managed health care succeed "is lining up incentives," said Traveler's Mr. Palczynski.

"I would not overplay the financial incentives to the provider," Dr. Payson said. However, it is important to give a physician a "report card" on his handling of a group of cases.

For example, it may be appropriate to reduce a provider's compensation if disability durations are prolonged.

It is also important to provide incentives for employees to use the managed care system, said Lewis Palca, a vp at General Reinsurance Corp. in Stamford, Conn. But he noted that labor unions are likely to balk at any effort to require deductibles for workers comp claimants who do not use network providers.

Panelists generally predicted greater use of a managed care approach in the future.

"There is no future for workers compensation in the absence of managed care," Dr. Payson said.

"Managed care is just a piece of the puzzle, but managed care is the most dynamic piece of the puzzle," Travelers' Mr. Palczynski said. Anyone who wants to participate in the workers compensation industry in the future must be flexible and willing to experiment, he said.

However, there are still challenges ahead. For example, there are still some states like New York where it is a misdemeanor to use managed care in the workers compensation system, which is "far behind where the rest of the world is," AIA's Mr. Oxfeld said. BI

Environmental cleanup liability on the table

By STACY SHAPIRO

NOTTINGHAM, England—Environmental legislation now before Britain's Parliament could result in joint, strict and retroactive liability being imposed on U.K. businesses for cleaning up contaminated sites, some observers fear.

But others contend The Environment Bill, which is designed to create a U.S.-type Environmental Protection Agency in the United Kingdom, will not introduce any new liabilities for industry or expose companies to additional cleanup costs.

The Assn. of Insurance & Risk Managers in Industry & Commerce plans to distribute a summary of the bill to its members to seek views on the legislation's content, said Geoffrey Saunders, risk management adviser for The RTZ Corp. P.L.C. in London and a member of AIRMIC's council.

The bill—which has passed through the House of Lords and had a second reading in the House of Commons last week—will go to committee in the House of Commons this week, where interested parties can submit proposals to change or argue certain aspects of the legislation. Parliament is expected to pass the bill by its summer recess in late June, though debate could postpone passage of the measure until the autumn.

Once the bill is passed, the Secretary for State for the Environment is expected to issue implementation guidelines. These are eagerly awaited because they will determine several key aspects of cleanup liability, such as the degree to which a site must be restored and who is responsible for cleanup costs.

"We're actually facing quite a strict regime in the future," Mr. Saunders said of the legislation in an interview at AIRMIC's annual conference earlier this month. "We're going out to AIRMIC members shortly with a summary of the bill to seek their views on it. There's still opportunities for amendments, but more particularly the guidelines haven't been issued on its implementation. What we need to see are those in some detail,

See **Liability** *on next page*

AIRMIC

Managing workplace stress

Risk managers seek ways to measure bottom line

BY STACY SHAPIRO

NOTTINGHAM, England—A death in the family, commuting to work or taking on extra responsibilities when a company lays off employees can be very stressful, leading to irritability, insomnia and a loss of concentration at work.

These symptoms can be short-term, in a "snapshot" form—which pose no problem for employers—or they can become "established," causing long-term problems for the employee and the company, said Jill Jenkinson, practice manager of corporate health and welfare for consultant Alexander Clay & Partners in London, a unit of Alexander & Alexander Services Inc.

It's difficult for risk managers to identify the cost of stress in the workplace. However, solutions can be identified to reduce the long-term corporate problems that stress can cause, she said.

Ms. Jenkinson led a lively end-of-day workshop on stress management at the Assn. of Insurance & Risk Managers in Industry & Commerce annual conference earlier this month. It was clear that many of the estimated 35 risk managers, underwriters and brokers who attended the workshop had either experienced adverse symptoms of stress themselves, or were trying to cope with it in their workplace. Quite a few delegates seemed to work for companies that recently had "downsized."

Ms. Jenkinson asked delegates to identify the causes of stress. The list included death, layoffs, commuting by train each morning when the service is unreliable, missing appointments, taking on extra jobs or jobs not trained for, and confrontation with colleagues.

Symptoms of stress, delegates noted, include irritability, medical problems such as heart palpitations, and insomnia.

The effects of established stress include lack of concentration and motivation, fatigue, and drug and alcohol abuse.

Delegates discussed the impact that these types of stress-related problems can have in the work-

See **Stress** *on next page*

AP/WIDE WORLD

Passengers forced to flee listing ferry

By MARIA KIELMAS

SAINT AUBIN, Jersey—The operator of a ferry damaged last week when it struck rocks off an island in the English Channel is insured for hull and liability losses arising from the accident.

Operations were underway late last week to salvage and possibly repair the French catamaran ferry "Saint Malo," which was beached on April 17 at Saint Aubin, Jersey, after hitting rocks off the island.

The ferry was en route between St. Helier in Jersey and the island of Sark when it appeared to take a short cut near the Corbieres Lighthouse.

A spokesman for Channiland, the Granville, France-based operator of the ferry, said that 23 passengers were injured as they jumped from the ferry to life rafts. There were no casualties.

The hull is insured by a pool of mostly French insurance companies and some foreign insurers, including at least one Swiss insurer, according to the spokesman. He was unable to provide the coverage limits. The insurance was placed by Nantes, France-based broker Cabinet Blesse.

Liabilities for personal injury and pollution are covered by the London-based protection and indemnity club, West of England Ship Owners Mutual Insurance Assn., the Channiland spokesman confirmed. He said that there had been no reports of pollution from the vessel, which was beached dry when the tide went out.

He said that passengers' claims for personal injury could be brought in any of a number of jurisdictions, including France, Britain and the Channel Islands. Most of the passengers on board were German tourists.

The 585 gross ton "Saint Malo" was built in Sweden in 1993. It belongs to a generation of "fast ferries," capable of a speed of more than 36 knots, or approximately 41 mph, and is designed to carry up to 300 passengers.

Channiland is a subsidiary of the French transport company, Societe Nationale d'Armement Transmarche, which in turn is controlled by the French state-owned railroad company, Societe Nationale des Chemins de Fer.

Ruling may cost E&O writers

By EDWIN UNSWORTH

LONDON—Errors and omissions underwriters may have to pay a far larger share of any settlements with Lloyd's of London members—while reinsurers would pay far smaller shares—if a London Court of Appeals ruling is followed by other courts.

The April 11 ruling in *Caudle vs. Sharp*, though, is not expected to affect the total amount of coverage available to pay claims by members.

The ruling centered on the definition of "event" as used in 32 runoff reinsurance contracts written by Richard Outhwaite at Lloyd's between 1980 and 1982.

Those contracts produced millions of dollars in losses and prompted a negligence suit against 81 managing agencies by 987 members of syndicate 317/661, which was managed by R.H.M. Outhwaite (Underwriting Agencies) Ltd. That suit ended with a £116 million settlement ($187.5 million) in 1992 (*BI*, Feb. 17, 1992).

After paying £7.4 million as its share of that settlement, E&O insurers led by syndicate 839, and its lead underwriter Alec Sharp, went to court to try to collect that amount on four reinsurance contracts written by B.F. Caudle Agencies Ltd.

The trial court held that Mr. Outhwaite had been negligent in writing the original contracts, mainly for asbestos claims in the United States, and that his negligence was a single event.

Under that ruling, all subsequent contracts affected by this negligence would be treated as part of that same event and reinsurers would have had to pay all but the first claim.

But on appeal, the court determined that Mr. Outhwaite's negligence "of itself was not an event."

Therefore, each time E&O insurers paid out on a claim resulting from Mr. Outhwaite's negligence, the claim should have been treated as a separate "event" and the E&O underwriters have to pay a portion of each claim.

The E&O underwriters had hoped to recover from reinsurers most of their estimated £80 million ($129.3 million) share of the 1992 settlement, but now will have to pay the bulk of it themselves.

The ruling has implications beyond the immediate dispute, said Michael Mendelowitz, a lawyer with Barlow Lyde & Gilbert of London who represented the reinsurers in the appellate case.

See **E&O** *on next page*

U.K. employers retaining more risk

A growing number of major U.K. companies are retaining a "significant" proportion of their risks due to dissatisfaction with the coverage being provided by commercial insurers, according to a survey by Alexander & Alexander Services Inc.

Currently, 85% of major U.K. companies are retaining the first £250,000 ($401,750) of losses, 30% more than were doing so four years ago. The fourth Biennial Risk Financing & Insurance Survey is based on the responses of 176 of the top 2,000 U.K. public and private companies. The actual research was done by Underline Marketing & Research of London.

Ken Davis, A&A's chief executive in the United Kingdom and Europe, noted that 44% of companies said the insurance market is not meeting their needs. "They seem particularly unimpressed by insurers withdrawing certain covers at short notice, insurers' apparent unresponsiveness to buyers' needs and a failure to recognize risk management initiatives made by companies," he noted.

Pricing did not appear to be a factor in this dissatisfaction as surveyed companies noted a slowing down in the rate of premium increases over the last two years.

However, the survey detected what it called an alarming trend, in that some 22% of companies had not arranged "failsafe" aggregate stop-loss insurance to protect themselves against a high volume of claims.

The survey also noted a growing worry among companies about the potential ability of U.S. insurers to meet claims. Some 35% of responding businesses expressed concerns about the solvency of U.S. insurers, up sharply from 13% in the 1993 survey.

The reason cited by A&A for this concern was the increase in environmental liabilities in the United States over the last two years, compounded by general worries over the impact of a "litigious society" on the financial performance of U.S. insurers.

In contrast, worries about the solvency of U.K. insurers has fallen to 21% from 37% in the 1993 survey, reflecting mainly the improved financial performance of key insurers and higher margins generally.

More U.K. companies also are forming their own captive insurance companies. Of businesses surveyed, 57% now have their own captives, up from 49% in 1993. The main reasons cited were reduced costs, program flexibility and the provision of coverage.

Another trend noted was the move away from purchasing centrally negotiated global insurance programs in favor of arrangements with a greater degree of local management autonomy. This, said A&A, appears to be because a number of multinational companies feel that local management decision making is undermined by a central approach to purchasing insurance.

Copies of the survey cost £40 ($64.64) and are available from John Trayhern, Alexander & Alexander (UK), 10 Devonshire Square, London EC2M 4LE; 011-441-171-621-9990.

—*By Edwin Unsworth*

INTERNATIONAL

Liability

Continued from previous page
and maybe have some constructive input into the guidelines."

The Confederation of British Industry also is calling for the implementation guidelines to be published as soon as possible.

The Environment Bill, first published last autumn, would establish an Environment Agency for England and Wales and an Environment Protection Agency in Scotland. The bill's intention is to amalgamate several government agencies already in existence—known as the National Rivers Authority, Her Majesty's Inspectorate of Pollution and the Waste Regulation Authorities—under one umbrella in England and Wales.

Within the bill is a provision, Clause 54, that would introduce an amendment to the Environment Protection Act 1990 to define powers and duties of the new environmental agencies as well as local governments with regard to contaminated land.

Although a register of contaminated land and system of liability for pollution cleanups was introduced in the Environment Protection Act 1990, it was regarded as so onerous that it was repealed after the act was passed. As a result, there currently is no environmental regulation controlling U.K. cleanup activities.

"We thought we'd lost the contaminated land register, but it's back in a different form," said Mr. Saunders of the new measure.

The bill defines contaminated land as "any land which appears to the local authority" to cause "significant harm" or has the possibility of causing harm to the health of living organisms and/or property. The bill would authorize local authorities to inspect and identify such sites within the guidelines to be issued by the Secretary for State for the Environment.

The local authorities, with advice from the environment agencies, then would publish a document specifying what is to be done to remedy the situation by cleaning up the site or minimizing the pollution. Remediation specifications would also be determined in the guidelines from the Secretary for State.

The bill states that the person or persons responsible to clean up the contaminated site would be those "who caused or knowingly permitted the (polluting) substances" to be on or under the land. If no such person can be found, then the "appropriate person is the owner or occupier for the time being of the contaminated land in question."

If two or more parties are responsible for the contamination, then who shall pay will be defined in the guidelines to be issued by the Secretary for State.

The bill as it stands could be described as bringing in joint, strict and retroactive liability, according to Brian Street, director of operations at ECS Underwriting Ltd., a specialty environmental liability insurer in London.

"But it's not talked about in those terms," noted Mr. Saunders of RTZ.

The government has decided not to fund the cleanup of the country, so "the cost of it is going to be borne by industry. In the absence of known polluters, then the incumbent owner of the contaminated land will bear the cost and that will be implemented by the serving of remediation notices."

AIRMIC is seeking risk managers' views on whether that is a fair approach, said Mr. Saunders.

The government's intention is for the guidelines only to require that sites be cleaned up enough to be "suitable for use," he noted. "However local authorities implement the environment bill, they must take into account suitability for use. So it's not cleanup to squeaky clean. It's cleanup according to whatever the land is going to be used for. That's a subjective area."

The Confederation of British Industry supports the environmental bill, and Clause 54, according to a Parliamentary brief the CBI issued last week.

By requiring local authorities to inspect sites, Clause 54 fills a vacuum that was created when the land register was repealed under the Environment Protection Act 1990, said Richard Taylor, adviser on environmental affairs at the CBI in London. The fact that the site must be cleaned up so that it is "suitable for use," rather than to a pristine state, also is important to industry, he said.

The CBI, however, would like to see what would fit the "suitable for use" approach stated in the legislation. "It is open to interpretation whether any new liabilities are being created" for industry by the measure, said Mr. Taylor. Insurers think new liabilities might be created, he said.

There is the "potential" for environmental claims to increase under old British insurance policies, said a spokeswoman for the Assn. of British Insurers. However, the ABI still is reviewing the details of the bill and is discussing its implications with the government's Department of the Environment, she said.

The CBI believes the government has no intention of introducing new liabilities with the passage of the bill and the issuance of guidelines, said Mr. Taylor.

The government has no intention of bringing in "joint and several liability," he contended. However, the CBI does call for the government to "provide clarity over the division of liability where there is more than one person responsible for the contamination," according to its Parliamentary brief.

Meanwhile, new environmental regulations in the United States also could affect British as well as American industry, consultants warned at a workshop on the financial consequences of environmental risks during the AIRMIC annual conference earlier this month.

In particular, the U.S. Securities and Exchange Commission's Staff Accounting Bulletin No. 92 now requires public companies "to identify, quantify and disclose environmental and product liabilities" in their annual accounts, said consultants from Woodward-Clyde Consultants.

Under SAB 92, companies whose shares trade on U.S. stock exchanges—including 130 British companies—must give "best estimates of contingent product and environmental liabilities" in their financial statements and year-end report of business activities, according to James H. Schaarsmith, managing director of Woodward-Clyde in Oakland, Calif., and Douglas J. Gardner, managing director of the consultant's U.K. office in Windsor, England.

To comply with these new regulations, companies not already doing so should establish formulas to calculate future losses from environmental exposures based on data available today, say the Woodward-Clyde consultants.

In this way, a company can decide whether to take alternative measures to reduce the cost of future environmental loss, such as selling a problem site or closing down a certain process, or whether to increase liability coverage or seek a reduced premium because the future liabilities are less than expected. BI

Surveys tap risk managers' insights

By STACY SHAPIRO

NOTTINGHAM, England—Surveys of British risk managers seem to be the fashion these days.

The Assn. of Insurance & Risk Managers in Industry & Commerce has conducted a survey with hopes of finding out more about the make-up of its membership.

AIRMIC

Academics at England's University of Nottingham conducted another survey to find out why companies expend resources on risk management.

And, Alexander & Alexander (U.K.) Ltd. recently conducted its 4th Biennial Risk Financing & Insurance Survey to find out whether major British businesses are retaining more risk (see story, page 131).

AIRMIC will use its survey to better understand its members' needs and the topics they are interested in discussing, AIRMIC Chairman Peter Lerwill said during the association's annual conference earlier this month.

"We, as you know, are an association of insurance and risk managers. I really wonder if we have the order correct. Should we not be an association of (risk) valuers and possibly insurance (assessors)?" he asked rhetorically.

AIRMIC members also work in other areas, such as contingency planning for natural and manmade disasters, he said, mentioning past terrorist bombings in London and the earthquake earlier this year in Kobe, Japan.

Airlines also must be prepared for disaster down to the finest detail, said Mr. Lerwill, who is risk manager for British Airways P.L.C. British Airways' planning includes an employee at Heathrow Airport who knows where to obtain hundreds of pairs of shoes for passengers should they have to remove their shoes before sliding down an aircraft's emergency chutes. "This is the type of contingency planning we have to consider when looking after our customers," said Mr. Lerwill. "We cannot afford to be complacent. As risk managers we must consider every eventuality, because the unusual happens with greater frequency these days."

AIRMIC's confidential survey results will be released to its membership, but will not be available to the public.

Meanwhile, senior lecturer Stephen Diacon and graduate student Simon Ashby of the school of management and finance at the University of Nottingham have carried out a survey to "identify the real reasons why firms spend resources on risk management."

The survey—based on 127 replies to 310 questionnaires—discovered that most of the largest U.K. companies spend money on risk management to protect employees, consumers and third parties from physical injury. Only a few of those surveyed felt that risk management was important in protecting the interests of creditors and shareholders.

The study worked from the premise that risk doesn't affect a company, but rather the stakeholders of the firm, namely the shareholders, creditors, consumers, employees and third parties, said Mr. Diacon.

Adverse risk can affect share price, debt repayments, employee productivity and consumer support, he noted.

The survey of risk and insurance managers, finance directors and other corporate officers shows:

- The majority of respondents placed the "most emphasis" on risk management to reduce costs associated with employee, consumer and third-party injury.
- Approximately 80% thought that risk management was most important in reducing the costs associated with liability claims and fines for failure to meet government regulations.
- Risk management is useful in maintaining a good public image. "With the general public becoming increasingly aware of the dangers of defective products and pollution, the better a company's record is for good product and environmental safety, the greater should be the demand for its products," the study concludes.
- Companies do not spend money on risk management to reduce the costs associated with the risk of financial distress and/or bankruptcy, such as increased debt interest premiums, or larger employee wage demands for increased safety risks in their jobs.

The last result surprised both Messrs. Diacon and Ashby. "There is a lot of data to suggest that creditors and shareholders are very worried about the effects of fortuitous risk on a firm," said Mr. Ashby. "And it has been suggested that risk management may be able to do something about this. However, we found that U.K. risk managers do not believe this to be the case. We're not sure why." BI

AIRMIC draws 700 to annual meeting

NOTTINGHAM, England—The Assn. of Insurance & Risk Managers in Industry & Commerce's annual conference earlier this month was its largest ever, attracting about 700 people.

Nearly 500 delegates and 200 exhibitors gathered at the University of Nottingham for speeches and workshops under the theme "Communication of Risk Management."

The association, with 700 individual members and 110 corporate members, has a new executive director, Ina Barker, retired risk manager for Fisons P.L.C. She replaces Alan Fleming, who has become risk manager for Guinness P.L.C. Ms. Barker has accepted the position for at least three years.

Among those attending the annual conference were representatives of Risk & Insurance Management Society Inc., the South African Insurance & Risk Management Assn., and risk management groups throughout Europe and Australia.

Next year's AIRMIC conference will be held at the University of Nottingham on March 26-29. For more information, contact the AIRMIC office, 6 Lloyd's Ave., London EC3N 3AX, England; 011-441-171-480-7610; fax: 011-441-171-702-3752.

Stress

Continued from previous page
place. These included poor decisions made, increased absenteeism, reduced productivity, poor office morale, increased industrial accidents, physical complaints such as repetitive strain injury, and theft or sabotage caused by disgruntled employees.

Ms. Jenkinson asked whether anyone had an idea of how much money stress-related problems cost a company. One risk manager said it can cost a company about 5% of total payroll annually.

Ms. Jenkinson said that a number of formulas exist that would shock executives into doing something about the causes of stress.

Alexander Clay, for example, estimated that stress cost one company about £7 million ($11.2 million) per year, including absenteeism.

Employers can estimate the cost of absenteeism caused by stress, the number of accidents that have occurred but have not been reported and the cost of poor decisions, she noted.

One delegate pointed out that employees often don't say that they are home sick because of stress-related illnesses.

But Ms. Jenkinson responded that companies can learn if there is a problem by comparing attendance records. Delegates said that longer absences can indicate a stress problem.

Employers can use "stress indicator" questionnaires to determine if applicants might be more vulnerable to stress-related illness. But Ms. Jenkinson noted that employees who work well under stress and are high achievers because they'll go an extra mile for the company also could be weeded out by such tests.

Once a stress-related disorder has been identified and quantified, Ms. Jenkinson suggested that employers try to tackle the problem by interviewing employees so they feel they are being listened to, training people for new positions if necessary, and remotivating staff by changing work practices. BI

E&O

Continued from previous page
The judgment "will provide guidance," he said, in other Lloyd's litigation, such as suits by members of lossmaking syndicates managed by Gooda Walker Ltd. and Feltrim Underwriting Agencies Ltd.

Kathryn Hyde, a lawyer with Walton & Morse of London, which is representing the E&O insurers in the appeals case, said they had not quantified how much extra the E&O insurers will have to pay.

The appeals ruling also is "perceived as marking a massive shift of levy as to who pays what in terms of forthcoming Lloyd's initiatives" to settle outstanding legal cases, according to Michael Dayton, a lawyer with Clyde & Co. who also represents E&O underwriters.

A spokeswoman for Waltons & Morse said the E&O insurers are considering an appeal to the House of Lords.

Meanwhile, recent U.K. press reports say Lloyd's plans to levy members to fund a settlement of member litigation. A Lloyd's spokesman called the reports "mere speculation." BI

Congress gears up for legislative action

Action may be near on both Superfund, product liability

By MARK A. HOFMANN

WASHINGTON—Business groups that last year were stymied in their efforts to shape product liability and Superfund laws may see some progress after the 104th Congress returns from Easter recess.

The Senate is expected to begin debating its product liability bill this week.

The House already has passed a more comprehensive bill and business groups, which have been disappointed for more than a decade, predict that some reform measure will be enacted.

Also high on the congressional risk management agenda are attempts to end Superfund's retroactive liability for pollution and to apply less rigorous cleanup standards depending on the intended future use of the land. Superfund reform was among the most contentious issues faced by Congress last year.

Other issues that the Republican-dominated Congress probably will confront in coming months include: natural disaster funding; bank sales of insurance; and risk assessment requirements for federal regulatory agencies.

The Risk & Insurance Management Society Inc. has issued its blueprint for product liability and general tort reform (*BI*, March 27). RIMS did not endorse either the House or Senate bills, which differ on several matters including the use of arbitration in product liability disputes and the time limits on bringing liability suits once a product is on the market.

Though business groups prefer the House measure, the chances of President Clinton signing such a bill approach zero, said Joel Wood, vp-government affairs for the Council of Insurance Agents & Brokers in Washington. He urged lobbying groups to be "realistic" about what the president would approve.

And it would be "very challenging" to get the 60 votes in the Senate that would be necessary to cut off debate and force a vote, even on the Senate bill, he added.

Several earlier business-backed product liability bills died when supporters did not have the votes needed to cut off debate (*BI*, July 4, 1994).

If a bill "remains focused on product liability" and is not expanded to include other civil justice proposals, there is a good chance it will pass, said David M. Farmer, senior vp-federal affairs with the Alliance of American Insurers in Washington. Other civil justice proposals that are currently receiving attention cover securities litigation and medical malpractice.

Simply in terms of congressional procedure, a "clean" bill has a better chance of passage, said Mr. Farmer.

Superfund reauthorization, the issue that split the insurance industry in 1994 before dying during the last days of the 103rd Congress, appears to be on a fast track this year.

Rep. Michael Oxley, R-Ohio, chairman of the House Commerce Committee's Subcommittee on Commerce, Trade and Hazardous Materials, hopes to have a bill drafted and approved by his panel before the July 4 recess, according to Timothy Johnson, his senior legislative assistant.

"There's no comparison between last Congress and this Congress. This is a high-priority item for this Congress, largely because the program embodies broken government that needs fixing," said David Pratt, director of the American Insurance Assn.'s Clean Up Superfund Now project in Washington.

"The other factor is that the taxes that fund this program expire at the end of this calendar year, and Congress needs to do something which helps create a climate for meaningful reform," he said.

"All indications are encouraging, even though we haven't seen a bill. The leaders in Congress, the business community and the insurance industry all seem to be saying the same thing, and that's the need for fundamental Superfund reform," said Francis D. Bouchard, federal affairs representative for the Reinsurance Assn. of America in Washington.

RIMS is "definitely" optimistic that reform will occur, said David R. Haight, director of risk management for CF Industries Inc. in Long Grove, Ill., and vp-environmental of RIMS. "We plan to continue" pushing for reform, he said, adding that RIMS members have met with key congressional staffers to discuss the need for change.

If a bill is not approved soon, it risks being pushed aside later, cautioned Mr. Wood of the agent and broker group.

Legislators have changed their approach toward employee benefits. Seldom are the words 'federal health care reform legislation' even heard on Capitol Hill anymore.

"Everybody whose judgment I trust believes if we don't get it by this fall," Superfund reauthorization could get lost in the frenzy of presidential primary politics, he said.

"Generally speaking, the next three months will be the defining moment" for any issues involving risk managers, insurers, agents and brokers, said Mr. Wood.

One of those issues that has been simmering for years but might be resolved this year is a national catastrophe reinsurance facility.

Bills designed to create a private facility that could borrow federal funds in the case of a catastrophe are expected to be introduced in the House and Senate this spring (*BI*, March 27).

"I'm finally optimistic that something may occur this year," said Peter A. Lefkin, vp-federal affairs for Fireman's Fund Insurance Co. in Washington. Mr. Lefkin noted the idea enjoys bipartisan support and has generated what he called a "surprising" amount of backers in Congress.

If Congress actually passes bills that would require federal regulations to be subjected to cost-benefit analysis and risk assessment, it could have a positive effect on risk management concerns, said Mr. Lefkin.

As an illustration, he cited the regulatory handling of buildings contaminated by lead paint. Not long ago, this problem appeared potentially to be the "next asbestos," a morass of liability and accelerating cleanup costs for business. But health and safety regulators learned "learned from the asbestos experience" to carefully consider costs and risks before requiring wholesale retrofitting. That type of thinking, Mr. Lefkin said, is reflected in the risk assessment bills.

A risk assessment bill has passed the House and two competing bills are under consideration in the Senate.

Proposals to expand the permissible range of activities for banks are also receiving renewed attention. Were Congress to permit commercial banks to buy insurance companies, as some current bills would, risk managers could ultimately see more competition in the market and perhaps more efficient and standard distribution (*BI*, April 17).

There also is the possibility that sleeper issues will emerge.

Paul Brown, RIMS director of government affairs, said the group also is monitoring tax simplification efforts to make sure that certain captives aren't slapped with unfavorable tax treatment.

And Mr. Farmer said that insurers are watching for legislation that would limit the use of managed care under the medical portions of workers compensation and automobile insurance. BI

Benefits focus shifts to individuals

By JERRY GEISEL

WASHINGTON—A commitment to individual responsibility, not big government, is dictating the direction of employee benefits legislation in the 104th Congress.

One year ago, the congressional Democratic leadership began its fateful—and ultimately disastrous—run at sweeping health care reform.

Their approach—under which the federal government would have required all employers to pay for health care coverage, dictated how premium costs would be split between employers and employees and decided which health care benefits had to be offered and which employers could self-insure—died in only a few months amid near unanimous Republican opposition and deep divisions among Democrats.

The first 100 days of the 104th Congress shows just how much legislators have changed their approach to employee benefits legislation in a year.

Seldom are the words "federal health care reform legislation" even heard on Capitol Hill anymore.

"The momentum is gone on comprehensive health care reform," said Edward J. Davey, national director of the health and welfare practice at Buck Consultants Inc. in New York.

Instead, Congress is moving in the direction of giving individuals new benefit options through changes in the Tax Code.

"The driving force in Congress is to empower the individual," said Greg Scandlen, executive director of the Council for Affordable Health Insurance, an Alexandria, Va.-based insurer group.

That individual empowerment drive is taking several forms. A sweeping tax cut bill passed by the House of Representatives this month would give new tax breaks for individuals purchasing long-term care policies offered by their employers, while employees could take money out of their 401(k) plans—tax-free—to pay for long-term care premiums.

The same tax package also would create a new type of individual retirement account that would allow workers to pull funds—if certain conditions were met—from the accounts without paying taxes.

In the health care arena, the focus on individual empowerment is taking still another form.

The only type of reform with much chance of passage is one in which employers moving from health plans with low cost-sharing to those with high deductibles could transfer—tax-free—some of their premium savings to so-called medical savings accounts established for their employees. Employees could withdraw money to pay for uncovered health care expenses during the year and at yearend take out as cash any funds remaining in their accounts.

Congressional interest in MSAs is not new; the House Ways and Means Committee last year included an MSA provision as part of a comprehensive health care reform measure it passed.

What has changed is that with Republican control of the House and Senate MSA backers, including Reps. Newt Gingrich, R-Ga., Bill Archer, R-Texas, Sens. Bob Dole, R-Kan., and Bob Packwood, R-Ore., now are in key leadership positions.

"Capitol Hill has new sheriffs and deputies. The new leaders endorse MSAs," said Dan Perrin, executive director of The Business Coalition for Affordable Health Care, a pro-MSA Washington-based lobbying group primarily made up of small businesses.

But whether congressional interest in individual employee benefit empowerment—so strong during the first 100 days of the session—will translate into new laws during the next few months will depend strongly on a long-standing issue: deficit reduction.

The long-term care and IRA provisions are part of a broader House-passed tax bill, which would cut taxes by nearly $190 billion over five years.

The Senate has been cool toward the tax bill because in the absence of offsetting spending reductions, the measure would widen the federal deficit.

Ultimately, the fate of the benefit provisions—as well as the tax measure itself—will depend on whether legislators can cut spending or raise revenues to offset the cost of the tax bill.

"The numbers will drive the debate," said Frank McArdle, a consultant with Hewitt Associates L.L.C. in Washington.

Similarly, the future of MSA legislation will become clearer when Rep. Archer, chairman of the Ways and Means Committee, unveils his proposal, which he is expected to do next month. Support for the proposal will depend at least in part on whether it is crafted so as to not add to the federal deficit.

Other issues of concern to benefit managers could also be resolved in coming months.

One is whether some states will be given exemptions—formally known as waivers—to a provision in the Employee Retirement Income Security Act that pre-empts state laws that "relate" to benefit plans. That provision, among other things, prevents states from taxing benefit plans or requiring employers with self-funded plans to offer certain benefits.

That issue could come to a head when the Supreme Court rules in a closely watched case. In that case, a federal appeals court struck down a New York state surcharge of 13% on the inpatient hospital bills of patients covered under self-funded employer plans and plans sold by commercial insurers (*BI*, Jan. 23).

If the law is struck down, Sens. Daniel Patrick Moynihan, D-N.Y., and Alfonse D'Amato, R-N.Y., are expected to push for an ERISA waiver for the New York law. The two senators already led a successful drive for an interim measure that effectively requires employers to pay the 13% surcharge through the end of this year.

Some benefit lobbyists say Congress is unlikely to waive ERISA pre-emption for New York or for any other state.

"Business groups have made tremendous headway in convincing legislators on the importance of preserving ERISA pre-emption," said Kenneth Feltman, executive director of the Employers Council on Flexible Compensation in Washington.

Other observers, though, point out that congressional Republicans have conflicting goals.

On the one hand, notes Mr. Davey, Republicans favor giving states flexibility. But Republicans also are sensitive to increasing the regulatory burden on employers, which would happen if individual states were allowed to regulate benefit plans.

The question is whether congressional Republicans can find a middle ground.

One longtime concern of employee benefit managers—the tendency of legislators to surreptitiously slip provisions that increase benefit plan costs or administrative burdens in broad, unrelated bills without any hearings—hasn't gone away.

Indeed, observers say they are anxiously awaiting the broad budget bill that is expected to be unveiled in June. They will be watching deficit cutting devices such as shifting more Medicare costs to employer plans.

"Regardless of who is in charge, there has been a tendency to take a whack at employee benefit plans for instant economic gratification," said Stuart J. Brahs, vp-federal government relations in Washington with The Principal Financial Group. BI

The Professional Marketplace

RATES AND CLOSING TIME:

Rates: *Display classified is $142.00 per column inch, minimum of one inch. Straight classified is $12.50 per line, minimum of 5 lines. Count 34 characters per line (include each space and punctuation as a character). Additional $20.00 charge for all blind box ads. Only those responses which fit into a business size envelope will be forwarded. Responses are forwarded daily.*

Closing: *Published every Monday. Copy must be in typewritten form by 5:00 p.m. Tuesday, 6 days preceding publishing date. No verbal phone copy accepted. Prepayment required for all advertisements. Mail ads to, Cheryl Butler, Classified Advertising, 740 N. Rush St. Chicago, Il. 60611. For more information call 312-649-5340. FAX 312-649-7799*

HARVARD AIMES GROUP
Executive Search
Corporate Risk Management
Exclusively
6 Holcomb St. PO Box 16006
West Haven, CT 06516
(203)933-1976

BUSINESS INSURANCE ADVERTISING GETS RESULTS!
Call Cheryl to reserve your space.

"Where Professionals Insure Their Careers"

EXECUTIVE RECRUITERS NATIONWIDE

- ❑ Risk Management
- ❑ Safety & Loss Control
- ❑ Claims Management
- ❑ Insurance Brokerage
- ❑ Risk Management Consulting

See You At The RIMS Conference In San Francisco, Booth #647

15 James Street, Main Level, Florham Park, NJ 07932
Call 201-765-9000 • Fax 201-765-9009

RMA RICHARD MEYERS & ASSOCIATES, INC.

Casualty Underwriter Construction and Wrap-Up Specialist

Liberty Mutual Group, a $20 billion leader in the insurance and financial services industry, has an exceptional opportunity available to market and underwrite large construction accounts. Applicants must have 3 or more years of underwriting experience with an emphasis on contracting and construction risks, joint ventures, and wrap-up projects. Position is located in our Boston, MA office.

We offer a full benefits package. Please send resumes to Liberty Mutual Group, Business Markets Human Resources, 175 Berkeley St., Boston, MA 02117. Attn: Lorene Duffy.

Liberty Mutual Group is an equal opportunity employer committed to workforce diversity.

LIBERTY MUTUAL®

Director of Employee Benefits

Black & Veatch is one of the nation's premier engineering and construction firms. Headquartered in Kansas City, MO, our nearly 5,000 employees in 45 locations make up a network providing professional services to power and water/wastewater utilities, governmental, petrochemical and other industrial clients around the world.

Our evolution into a world-class organization has created a need for someone with a global perspective to take charge of our employee benefits programs. In this position you will be responsible for policy development, plan concept and design, negotiation, operation, and financial administration for all benefit plans and for directing the efforts of a staff of approximately 10 people. Your challenge will be to provide equivalent levels of benefits that are responsive to the needs of an increasingly diverse and mobile workforce in a cost-effective manner.

Consequently you must have extensive experience in design, management, and administration of a full range of multinational benefit programs including health and other customary insured benefits, retirement, and participatory savings plans. You must be a strong communicator, astute as to legal and financial issues in the benefits arena, and have some experience with benefits information systems.

For immediate consideration, send your resume including most recent compensation to Joe Sewards, Employment Manager, Black & Veatch, Dept. BI 04/24, P.O. Box 8405, Kansas City, MO 64114.

BLACK & VEATCH

An Equal Opportunity Employer M/F/D/V

COORDINATOR, RISK MANAGEMENT

Requirements:

- Bachelor's degree in Business Administration or related field.
- Successful experience in the administration of insurance programs encompassing the areas of comprehensive, general and fleet liability, property and fringe benefit programs.
- Knowledge of federal and state laws and regulations relating to school insurance, general insurance, general school laws, and safety rules.
- Experience in the administration of a self-insurance program.

Annual Salary: $54,453 - $77,622

To Apply: Send a letter of interest (SS# appreciated), resume, copies of degree(s) or transcripts, and three (3) current letters of recommendation by May 30, 1995, to:

THE SCHOOL DISTRICT OF PALM BEACH COUNTY
Melinda Wong, Coordinator • Personnel Administration
3356 Forest Hill Boulevard, A-106
West Palm Beach, Florida 33406-5870
AA/VP/EOE

MARINE PROFESSIONALS

Roanoke Brokerage Services, Inc.,
one of the nation's oldest and largest insurance brokers with offices in nine major port cities, has immediate openings in several locations for experienced marine producers and technicians. If you have a marine background, specifically in ocean cargo, and would like more information on exciting growth opportunities, please send your resume including salary history to:

Janet Elder
Roanoke Brokerage Services, Inc.
1930 Thoreau Drive, Suite 101
Schaumburg, Illinois 60173
Written inquiries only please.

SINCE 1935
ROANOKE
BROKERAGE SERVICES, INC.
INTERNATIONAL INSURANCE BROKERS

REQUEST FOR PROPOSALS REQUEST FOR PROPOSALS

NOTICE

The Kansas State Employees Health Care Commission will issue a request for proposal(s) (RFP) on May 3, 1995 for all components of its health plan—medical, dental, prescription drug, and health maintenance organization coverage.

Currently, 39,350 active employees and 8,843 retirees select coverage options from among six HMOs, a Point-of-Service option and a traditional indemnity plan. While prescription drug coverage is presently a component of all medical plan options, the Commission will entertain bids for a stand-alone prescription drug program.

If interested in receiving a copy of the RFP, please contact:

KANSAS STATE EMPLOYEES HEALTH CARE COMMISSION
Health Benefits Administration
900 S.W. Jackson Street, Room 509-N
Topeka, Kansas 66612-1251

Proposal Number 31089, Closing Date June 14, 1995
Phone: 913/ 296 - 7483 • FAX: 913/ 296 - 2664

The RFP will be available in either disk or paper format. Demographic information on the State group will be available in disk format only. Please specify the format desired when making your request.

State of Kansas Health Benefits Administration

REQUEST FOR PROPOSALS REQUEST FOR PROPOSALS

HELP WANTED

DISABILITY CLAIMS ADMINISTRATOR

Responsible for administration of our self insured short term & extended term disability & workers' compensation programs. Will manage claims, interact with third party administrators, conduct periodic case management & clinic reviews & assist department in providing first aide treatment.

BS plus 2 years comp & disability mgmt experience working with self insured programs. Prefer IEA certification, knowledge of Compwatch, WordPerfect & Paradox.

For information regarding position, call **(800) 554-4333**. E.O.E. MFDV.

GROUP HEALTH PRODUCERS

Established (10 years) TPA/PPO looking to joint venture with aggressive group health producers in all locations. Combine our experience, expertise and extremely competitive fees with your existing self-insured clients/prospects and we'll show you how to maximize revenues.

We set-up, administer and service accounts while you maintain control and receive a larger share of compensation.

For additional information, please contact John C. at (800) 247-7114.

INSURANCE OPPORTUNITY

National independent adjusting company is seeking a results oriented executive to join its management team. Candidate must have hands on experience in the management of the daily operations of an independent adjusting company with at least 10 years multiline claims handling experience. Candidate must be detail oriented with a strong knowledge of financial management. For confidential consideration, please submit resume with salary history to: S. Meadows, P.O. Box 81888, Atlanta, GA 30366 or fax: (404) 368-3356.

HELP WANTED

CLAIMS ADMINISTRATOR

Spectrum Healthcare Services is seeking a Claims Administrator to manage the defense of malpractice lawsuits. Some travel is required. Candidate should have 3-5 years adjusting experience, preferably with physician owned or sponsored insurance company, be able to evaluate reserves, make recommendations to outside counsel, and attended at least one trial. Qualified persons send resume to: Spectrum Healthcare Services, Attention: Sheryl Steele, P.O. Box 410917, St. Louis, MO 63141. Fax: 314-851-1071. EOE/AA.

RISK MANAGEMENT ANALYST

A staff position responsible for professional and technical duties in support of the City's risk management programs, including loss analysis and prevention, self-funded workers' compensation and safety. Requires a bachelor's and two years of professional and technical administrative experience in workers' compensation, liability claims, occupational health/safety or risk management. $40,204-$51,298. Excellent benefit package, including deferred compensation with partial City match and 100% PERS retirement. No State Income Tax. Completed applications must be received by May 22, 1995. To obtain an application packet contact: Department of Human Resources, P.O. Box 1900, Reno, NV 89505 - Phone (702) 334-2285 or FAX (702) 334-2045. AA/EOE/ADA.

Looking for a candidate to fill the job?

Business Insurance Classifieds assure top quality results! Call Cheryl Butler at 312 649-5340 for advertising details.

NOTICE

PUBLIC SALE OF SURETY AND CASUALTY INSURANCE COMPANY

PUBLIC FORECLOSURE SALE by private secured creditor of 100% of capital stock of AMERICAN BONDING COMPANY, an Arizona insurance company presently in receivership in Arizona and a wholly owned subsidiary of Pace American Group, Inc. Qualified bidders able to demonstrate financial capacity and insurance management expertise (particularly surety bond experience) are invited to submit bids for a foreclosure sale scheduled for 3:00 p.m. EDT on May 15, 1995 in the offices of Allen C. Ewing & Co., Investment Bankers, 50 North Laura Street, Jacksonville, Florida. Successful bidder must receive regulatory and judicial approval of its rehabilitation plan before sale of capital stock can close and company can be discharged from receivership. CONTACT: Ben Bishop at (904) 354-5573 for information concerning the bid package.

RECENT COLLEGE GRADUATES

Establish your OWN RISK MANAGEMENT PRACTICE

for a demonstration tape on our **RISK MANAGEMENT FRANCHISE**

send:
your background
outline & a check for
$5.99 to:

Risk Man...® Cassette

RISK MAN...®
Director of Franchising
13 Franklin Circle
Northboro, MA 01532-1212

Business Insurance®

Circulation Breakdown
Commercial Consumers

Administrative:	
CEO's, Presidents, and Owners	2,009
Vice Presidents, General Managers and Other Administrative Personnel	5,645
Financial:	
Chief Financial Officers and Vice Presidents of Finance	3,539
Secretaries, Treasurers, controllers and other Financial Personnel	3,279
Risk/Employee Benefits:	
Vice Presidents, Directors, Managers, and other related department personnel of: insurance, risk, employee benefits, personnel, compensation, pension, safety, security, industrial relations, human resources and employee/labor relations	15,529
Sub-total	**30,001**
Associations	343
Government, Unions and Educational Institutions	950
Commercial Consumers	
Sub-total	**31,294**
Insurance Agents and Brokers	8,285
Insurance Companies	7,687
Accountants, Actuaries, Attorneys & Consultants	3,563
Adjusters, Appraisers, TPA's, Captive Managers & Health Care Providers	1,844
Others Allied to the Field	1,028
Total Qualified	**53,701**
Non-qualified	74
Single Copy Sales	6
TOTAL CIRCULATION	**53,781**

★ *Source Business/Occupational breakdown of qualified circulation, November 28, 1994 Issue, as submitted to BPA for December 1994 BPA Publisher's Statement*

Salaries

Continued from page 1

with annual sales of more than $4 billion—earned more than $100,000 in combined salary and bonus last year, according to the study.

"I think the salaries risk managers are earning are comparable to those being earned by other middle managers in accounting, finance and employee benefits, though I believe risk managers are still better paid than benefits people," said Bill Perry, president of Logic Associates Inc., a New York-based executive search firm specializing in risk management personnel.

Logic commissioned Computerized Accounting Management Inc. to conduct the 14th annual "Risk Management Salary Survey," which generated responses from 1,401 risk managers in 20 different industries. A total of 3,963 surveys were distributed.

Although the survey focuses only on compensation, and total compensation last year was quite flat, risk management as a profession rebounded in 1994 from a couple years of hard times, Mr. Perry said.

"While there probably isn't any exciting news to report on the salary front, I think risk management, after getting hit over the head for a couple years by the outsourcing craze, seems to be in the midst of a revitalization. The so-called down cycle seems to have passed. We're getting back toward full employment in the field."

As could be expected, risk managers' total compensation was highest at companies with the highest sales.

Among risk managers at the largest companies—those with more than $7 billion in annual sales—the average salary in 1994 was $119,621, up 5.5% from $113,424 a year earlier. The average bonus for these risk managers was $13,268 last year, up 11% from $12,283 the year before.

As a result, combined salary and bonus for risk managers at the largest companies totaled $132,889 in 1994, a 5.7% increase from $125,707 in 1993.

At companies with $4 billion to $7 billion in annual sales, the average 1994 salary was $104,363, up a mere 0.9% from $103,388 in 1993. The average bonus was $9,227 in 1994, up 3.6% from $8,907 the previous year.

Total compensation for these risk managers was $113,889, up 1.2% from $112,295 in 1993.

Risk managers at companies with sales of $2 billion to $4 billion saw their average salary increase 1.4% last year to $95,209, up from $93,925 in 1993. Bonuses for this group averaged $6,366, down 4.6% from $6,672 in 1993.

Total compensation, therefore, was $101,575, up 1% from $100,597 in 1993.

For risk managers at companies with $1 billion to $2 billion in annual sales, salaries averaged $87,035 in 1994, up 3.1% from $84,415 the year before. These risk managers received an average bonus of $5,564, which was up 2.9% from $5,408 in 1993.

Total compensation among this group averaged $92,599, up 3% from $89,823 in 1993.

At companies with $501 million to $1 billion in yearly sales, risk managers' average salary was $73,523, up just 0.6% from $73,084 the previous year. These risk managers received an average bonus of $3,847 last year, down a full 9% from $4,228 in 1993.

Total compensation among these risk managers was $77,370, an increase of just $58 from the year before.

Among risk managers that work for companies with sales of $201 million to $500 million, the average salary was $66,123, up 0.6% from $65,718 in 1993. They received bonuses that averaged $3,102, a drop of 1% from $3,463 in 1993.

Total compensation for these risk managers averaged $69,225, up only 0.6%, or $44, from the previous year.

At smaller companies—defined as those with less than $200 million in annual sales—risk managers received $57,915 in average salary, down 1% from $58,509 in 1993, while their bonuses totaled $2,190 on average, down 2% from $2,751.

This group of risk managers suffered the only reduction in average total compensation—down 1.9% to

See **Salaries** *on next page*

Size of company shapes risk division

From the smallest to the largest corporations, the size of the average risk management staff remains fairly small, though a majority have computer systems to help lighten their load.

And, as would be expected, the larger the company, the more likely it uses a captive to finance risk.

The 1994 Risk Management Salary Survey provides an overall view of the companies and a profile of their risk management departments:

- Among risk managers at 312 companies with less than $200 million in annual sales, the size of the workforce ranged from 1,000 to 3,000 employees. The professional risk management staff averaged less than two people.

Ninety-three percent of these respondents said their company does not have a captive insurer, though 61% said they do have a computerized risk management information system.

- At 361 companies with $201 million to $500 million in annual sales, the number of employees was generally between 3,000 and 5,000. Professional staff again was less than two, including the risk manager. Twenty-five percent of these companies had captives, and 72% had an RMIS.
- At 307 companies with $501 million to $1 billion in annual sales, the size of the workforce ranged from 8,000 to 10,000 people. Professional staff was slightly more than two people, while 24% had captives and 82% had an RMIS.
- At 195 companies with sales of $1 billion to $2 billion, the size of the workforce ranged from 10,000 to 15,000. But the professional risk management staff averaged only slightly more than two people. Thirty-seven percent of these companies have captives and 87% have an RMIS.
- At 115 companies with sales of $2 billion to $4 billion, the employee population ranged from 15,000 to 20,000. The professional risk management staff was more than two, on average. Forty-eight percent had captives and 92% reported having an RMIS.
- At 59 companies with sales of $4 billion to $7 billion, the workforce was 40,000 to 50,000 people, and the professional risk management staff averaged slightly more than four people. Forty-five percent of these companies owned a captive insurer and 98% used a computerized RMIS.
- For 52 companies with more than $7 billion in sales, the number of employees ranged from 70,000 to 80,000. The professional risk management staff was slightly more than five people, and 75% of these companies owned a captive. All but 2% had a computerized RMIS.

—By Michael Schachner

Insurance Services Guide

CPCU® and IIA candidates
I guarantee you will learn more in less time with The Burnham System — or your money back.
Ray Burnham, CPCU, CLU, ARM
19 Everett Street, Southbridge, MA 01550
Call 1-800-GET-CPCU Now!

WATER DAMAGE?
RENT DESICCANT DRYING TRAILER
Self Contained Units Include:
- Desiccant Dehumidifiers
- Electric Heater
- Diesel Generator
- Hydraulic Lift Gate

800-368-3824
RENTAL TOOLS & EQUIPMENT CO.
15 Depot Locations • Over 40 Years Service

SBPA SYSTEMS
- MEDICAL
- DENTAL
- VISION
- DISABILITY
- LIFE

Innovative benefit administration systems for today and beyond.
1-800-444-1189
10777 Westheimer, Suite 125
Houston, TX 77042
FAX 713-974-3544

Don't Miss Your Chance To Advertise In These Upcoming Issues:

RIMS Report:
Employee Benefits & Workers Comp
Issue Date: May 1st
ISG Closing: April 25th

RIMS Report:
Risk Management
Issue Date: May 8th
ISG Closing: May 2nd

Call Cheryl Butler ***NOW***
to advertise in these issues!
312 649 5340

WLT FULLY INTEGRATED SYSTEMS SOLUTIONS
- Benefit Administration/Risk Management Systems
- Bill Editing Systems/Review Services
- Premium Billing Systems
- EDI/Auto Adjudication
- Managed Care/24 Hour Coverage
- National PPO Access/PPO Repricing
- PC/Network-based Systems
- Purchase/Finance/Lease/On-line options

Call Today For More Information Or A Free Demonstration
813-442-9296
851 N. Hercules Ave.
Clearwater, FL 34625
A Commitment To Excellence

Make The Strategic Move To Medata.

Introducing Medata Strategies, the industry's most affordable, comprehensive medical billing review software system.
Medata Strategies can review medical bills for:

- reasonable and customary charges
- fee schedule compliance
- appropriate use of procedures with diagnostic codes
- drug and supply charges
- number of visits (utilization review)
- unbundling of procedure codes
- duplicate billings
- appropriateness of physical therapy
- compliance with billing procedures
- levels of service...and more.

This system saves insurance companies, third party administrators and self-insured/self-administrated companies more money and costs less than any other billing review program or service on the market. Guaranteed.
Call Medata today for information and a free demonstration diskette.

Medata|Strategies
The Originator Is Still The Leader.
(800) 935-9995

Pyramid services inc. *the technology leader*

PYRAMID CLAIMS & RISK MANAGEMENT SOLUTIONS

PYRAMID SYSTEMS	PYRAMID TECHNOLOGY
Risk Management	Windows
Claims Administration	DOS
Policy Adminstration & Rating	LANs
Medical Management	*Novell, Banyan, etc.*
fee schedules, bundling, clinical edits	File Server
800 Claims Reporting	*dBase, Paradox*
Data Conversions	Client Server
Paperless Office	*Oracle, DB2, Sybase*
(Imaging)	*Gupta, etc.*

Call Gary Michaels at 203-438-3883 x244
Pyramid Services, Inc. An Aon Company
Ridgefield, CT • Pittsburgh • Kansas City • San Francisco • Ann Arbor

For advertising information in the INSURANCE SERVICES GUIDE Contact: Cheryl Butler, Classified Advertising
740 N. Rush Street, Chicago, Illinois 60611. Telephone (312) 649-5340

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

Hearing Date:
March 27, 1995
10:00 a.m.

In re

Petition of Gareth Howard Hughes, and Nigel James Hamilton, as Joint Provisional Liquidators of SCAN RE INSURANCE COMPANY LIMITED,

Debtor in Foreign Proceedings

In Petition under Section 304

Case No. 93-B-42419 (CB)

PERMANENT INJUNCTION ORDER

This matter has come before the Court on application (the "Application") by Gareth Howard Hughes and Nigel James Hamilton, as Joint Provisional Liquidators (the "Petitioners") of Scan Re Insurance Company Limited ("Scan Re") for a permanent injunction, pursuant to sections 105 and 304 of title 11 of the United States Code (the "Bankruptcy Code"), with respect to property and proceedings in the United States relating to Scan Re and in furtherance of the foreign proceeding (the "Foreign Proceeding") before the High Court of Justice, Chancery Division, Companies Court, London, England (the "High Court"). The court has considered and reviewed the petition filed in this case the Application, the Declaration of Nicholas James Angel, duly sworn to on March 16, 1995, the Declaration of Gareth Howard Hughes, one of the Petitioners herein, duly sworn to on March 16, 1995, and the memorandum of law in support of the Application and, having held a hearing and heard arguments by counsel on March 27, 1995, and based upon the foregoing, the Court finds and concludes as follows:

1. The Petitioners have demonstrated that Scan Re is a company subject to foreign proceedings and that the Petitioners are the foreign representatives of Scan Re;

2. The Petitioners have demonstrated that any hardships caused by the requested permanent injunctive relief are outweighed by the benefits. Unless a permanent injunction order is issued, it appears to this Court that one or more persons may relinquish or dispose of property of Scan Re, or may commence or continue the prosecution of actions or proceedings against Scan Re or its property, or may attempt to enforce judgments or claims against Scan Re or its property, thereby interfering with, and causing harm to, the Petitioners' efforts to administer the Scan Re estate pursuant to the Foreign Proceeding and that as a result, the Petitioners will suffer irreparable injury for which they have no adequate remedy at law;

3. The Petitioners' request for relief, and the terms of this Order, are subject to the provisions of the Order of Conservation obtained by the New York Superintendent of Insurance in the New York Supreme Court for New York County in relation to Scan Re (the "Order of Conservation");

4. The relief sought by the Petitioners will best assure an economical and expeditious administration of the Scan Re estate by:

(a) the scheme of arrangement, dated December 13, 1994 (the "Scheme of Arrangement"), (a true and correct copy of which is annexed to this Order as Exhibit A, and shall be served herewith upon the parties in interest appearing in this case at the time of such service, except with respect to service by publication, in which instance a copy shall be made available by the Petitioners or their counsel upon request) being binding and enforceable against the United States creditors of Scan Re as of the date that the Scheme of Arrangement becomes effective under English law

(b) permanently enjoining and restraining all persons from relinquishing or disposing of property of Scan Re, or the proceeds of such property, to third Parties except to the extent permitted under the Scheme of Arrangement and the Order of Conservation;

(c) permanently enjoining and restraining all persons from commencing or continuing any action or other legal proceeding (including, without limitation, arbitration or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) against Scan Re or any of its property, except as provided in the Scheme of Arrangement;

(d) permanently enjoining and restraining all persons from enforcing any judicial, quasi-judicial, administrative or regulatory judgment, assessment or order, or arbitration award and commencing or continuing any act or any action or other legal proceeding (including, without limitation, arbitration or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) to create, perfect or enforce any lien, set-off or other claim against Scan Re or any of its property, including, without limitation, funds held under trust agreements, except as expressly permitted in the Scheme of Arrangement and the Order of Conservation;

(e) not preventing in any respect the continuation or commencement of proceedings against or involving London Market insurers or any insurance company defendant other than Scan Re;

(f) permanently enjoining and restraining all persons from commencing or continuing any action or other legal proceeding (including, without limitation, arbitration or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) against the Petitioners, Scan Re, the members of the informal creditors' committee of Scan Re (the "Informal Creditors Committee"), or any of their respective officers, directors, agents, employees, representatives, financial advisors or attorneys (the "Protected Parties"), or any of them, with respect to any claim or cause of action, in law or in equity, arising out of or relating to any action taken or omitted to be taken as of the effective date of the Scheme of Arrangement by any of the Protected Parties in connection with this section 304 case or in preparing, disseminating, applying for or implementing the Scheme of Arrangement or this Order;

(g) permanently enjoining and restraining all persons, except as otherwise provided below, from commencing or continuing any action or other legal proceeding (including, without limitation, arbitration or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) against the Scheme Administrators (as defined in the Scheme of Arrangement), Scan Re, the members of the creditors committee (to be established pursuant to the Scheme of Arrangement), or any of their respective officers, directors, agents, employees, representatives, financial advisors or attorneys (the "Scheme Parties"), or any of them, with respect to any claim or cause of action, in law or in equity, which may arise out of the construction or interpretation of the Scheme of Arrangement or out of any action taken or omitted to be taken by any of the Scheme Parties in connection with the administration of the Scheme of Arrangement;

(h) the High Court having exclusive jurisdiction to hear and determine any suit, action or proceeding and to settle any dispute which may arise out of the construction or interpretation of the Scheme of Arrangement, or out of any action taken or admitted to be taken by any of the Scheme Parties in connection with the administration of the Scheme of Arrangement, provided, however, that nothing in this Order shall affect the validity of provisions determining governing law and jurisdiction, whether contained in any contract between Scan Re and any of its Scheme Creditors or otherwise;

(i) authorizing the transfer to the Foreign Proceeding, for distribution pursuant to the Scheme of Arrangement, all assets of Scan Re located in the United States which the Petitioners (or the Scheme Administrators) may hereafter recover except as may be otherwise provided in the Order of Conservation;

(j) this Court retaining jurisdiction with respect to the enforcement, amendment or modification of this Order or requests for any additional relief in this section 304 case;

(k) making no action taken by the Petitioners or the Scheme Administrators, their successors, agents or representatives, or any of them, or their counsel, in preparing, disseminating, applying for, implementing or otherwise acting in furtherance of the Scheme of Arrangement, this Order, or such further orders for additional relief in this section 304 case as this Court may make, being deemed to have waived the immunity afforded to the Petitioners or the Scheme Administrators, their successors, agents or representatives pursuant to section 306 of the Bankruptcy code;

THEREFORE, IT IS HEREBY:

ORDERED that the Scheme of Arrangement shall be binding and enforceable against the United States creditors of Scan Re as of the date that the Scheme of Arrangement becomes effective under English law; and it is further

ORDERED that all persons are hereby permanently enjoined and restrained from relinquishing or disposing of property of Scan Re, or the proceeds of such property, to third Parties except to the extent permitted under the Scheme of Arrangement and the Order of Conservation; and it is further

ORDERED that all persons are hereby permanently enjoined and restrained from commencing or continuing any action or other legal proceeding (including, without limitation, arbitration or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) against Scan Re or any of its property, except as provided in the Scheme of Arrangement; and it is further

ORDERED that all persons are hereby permanently enjoined and restrained from enforcing any judicial, quasi-judicial, administrative or regulatory judgment, assessment or order, or arbitration award and commencing or continuing any act or any action or other legal proceeding (including, without limitation, arbitration or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) to create, perfect or enforce any lien, set-off or other claim against Scan Re or any of its property, including, without limitation, funds held under trust agreements, except as expressly permitted in the Scheme of Arrangement and the Order of Conservation; and it is further

ORDERED that nothing in this order shall prevent in any respect the continuation or commencement of proceedings against or involving London Market insurers or any insurance company defendant other than Scan Re; and it is further

ORDERED that all persons are hereby permanently enjoined and restrained from commencing or continuing any action or other legal proceeding (including, without limitation, arbitration or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) against the Petitioners, Scan Re, the members of the informal creditors' committee of Scan Re (the "Informal Creditors Committee"), or any of their respective officers, directors, agents, employees, representatives, financial advisors or attorneys (the "Protected Parties"), or any of them, with respect to any claim or cause of action, in law or in equity, arising out of or relating to any action taken or omitted to be taken as of the effective date of the Scheme of Arrangement by any of the Protected Parties in connection with this section 304 case or in preparing, disseminating, applying for or implementing the Scheme of Arrangement or this order; and it is further

ORDERED that, except as otherwise provided below, all persons are hereby permanently enjoined and restrained from commencing or continuing any action or other legal proceeding (including, without limitation, arbitration or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) against the Scheme Administrators (as defined in the Scheme of Arrangement), Scan Re, the members of the creditors committee (to be established pursuant to the Scheme of Arrangement), or any of their respective officers, directors, agents, employees, representatives, financial advisors or attorneys (the "Scheme Parties"), or any of them, with respect to any claim or cause of action, in law or in equity, which may arise out of the construction or interpretation of the Scheme of Arrangement or out of any action taken or omitted to be taken by any of the Scheme Parties in connection with the administration of the Scheme of Arrangement; and it is further

ORDERED that the High Court shall have exclusive jurisdiction to hear and determine any suit, action or proceeding and to settle any dispute which may arise out of the construction or interpretation of the Scheme of Arrangement, or out of any action taken or admitted to be taken by any of the Scheme Parties in connection with the administration of the Scheme of Arrangement, provided, however, that nothing in this Order shall affect the validity of provisions determining governing law and jurisdiction, whether contained in any contract between Scan Re and any of its Scheme Creditors or otherwise; and it is further

ORDERED that the Petitioners are hereby authorized to transfer to the Foreign Proceeding, for distribution pursuant to the Scheme of Arrangement, all assets of Scan Re located in the United States which the Petitioners (or the Scheme Administrators) may hereafter recover except as may be otherwise provided in the order of Conservation; and it is further

ORDERED that this Court shall retain jurisdiction with respect to the enforcement, amendment or modification of this Order or requests for any additional relief in this section 304 case; and it is further

ORDERED that no action taken by the Petitioners or the Scheme Administrators, their successors, agents or representatives, or any of them, or their counsel, in preparing, disseminating, applying for, implementing or otherwise acting in furtherance of the Scheme of Arrangement, this Order, or such further orders for additional relief in this section 304 case as this Court may make, shall be deemed to have waived the immunity afforded to the Petitioners or the Scheme Administrators, their successors, agents or representatives pursuant to section 306 of the Bankruptcy code; and it is further

ORDERED that this order shall be served: (a) by U.S. mail, first class postage prepaid, along with a copy of the Scheme of Arrangement, on or before March 29, 1995, upon the parties in interest appearing in this case at the time of such service; and (b) by publication in Business Insurance Magazine on or before April 26, 1995, and that parties wishing to obtain a copy of the Scheme of Arrangement may request a copy in writing from the following:

Ernst & Young
Becket House
1 Lambeth Palace Road
London SE1 7BR England
Attention: Gareth Howard Hughes

- or -

LeBoeuf, Lamb, Greene & MacRae L.L.P.
125 West 55th Street
New York, New York 10019
Attention: Peter A. Zisser

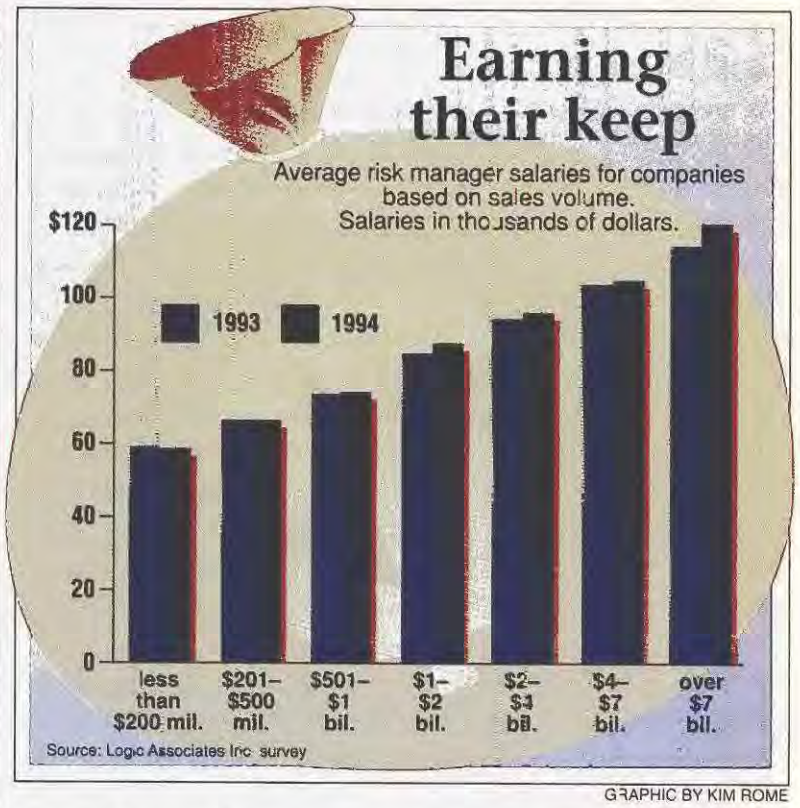
and it is further

ORDERED that service pursuant to the foregoing paragraph shall be good and sufficient service and adequate notice for all purposes.

Dated: New York, New York
March 27, 1995

Cornelius Blackshear

U.S.B.J.



GRAPHIC BY KIM ROME

Salaries

Continued from previous page

$60,105 from $61,260 in 1993.

The average total compensation package for risk managers varied by industry. Those in entertainment, drugs and pharmaceuticals, cosmetics, manufacturing, the hotel industry, oil and petrochemicals, consumer products and conglomerates saw average compensation exceed $90,000 per year. The entertainment industry had the highest paid risk managers, with total compensation of $99,031 on average.

Even within a specific industry, the survey shows the larger the company, the larger the salary and bonus structure. For example, at manufacturers with more than $7 billion in annual sales, risk managers reported average total compensation of $133,300. At manufacturers with annual sales under $200 million, total compensation averaged $63,920.

The lowest-paid risk managers among those surveyed were in the construction and metals and mining industries—with average compensation of $76,841 and $67,807, respectively. But even in these two industries, risk managers at companies with more than $2 billion in annual sales received total compensation packages valued at more than $100,000 the survey shows.

Copies of the 1994 Risk Management Salary Survey are available for $65 from Logic Associates Inc., 170 Broadway, New York, N.Y. 10038; 212-227-8060.

Improvements for risk managers: Survey

Risk managers' job responsibilities and budgets, as well as their salaries, are higher now than five years ago, a survey of 725 risk managers reports.

Risk managers make more decisions that affect their company's bottom line than they used to and, thus, job pressures have escalated.

The survey by Logic Associates Inc. was attached to a salary survey sent to 3,963 risk managers (see story, page 1). The attachment, titled "So You Want to be a Risk Manager?" found that over the past two to five years, risk managers have assumed greater responsibility for captive insurers, disaster recovery, environmental exposures, international risks and loss control.

With increased duties, risk management departments have grown in size, the survey found. Today, the average professional risk management staff is 2.5 people, up from just 2.0 people several years ago.

Risk managers' salaries, meanwhile, have increased 11% over the past two years, according to the respondents, and increased 27% over the past five years. These increases are higher than the larger group of risk managers responding to the salary survey reported, mainly because these 725 respondents tended to be from larger companies.

Risk managers also spend more, as 68% of respondents said their operating budget, including loss costs, insurance and administration, is higher now than two to five years ago.

With risk managers doing more, reliance on outside vendors is greater today than in previous years, according to 58% of the respondents. And 65% said vendors are more helpful today than in previous years. Last year, vendors were seen as threats to risk managers, who feared their departments would be outsourced. "The fact that 65% say outside vendors are more helpful is quite a departure from where they were even a year ago," said Barry Citron, a vp with Logic Associates in New York.

More risk managers have full authority for selecting their brokers. Sixty-five percent indicated that they now select brokers without gaining anyone else's approval, up from 56% five years ago.

"Risk managers are now required to make firing-line decisions that impact their company in a significant way. They're not low-impact middle-managers," said Mr. Citron.

The majority of risk managers—68%—said that they are communicating better with their company's chief financial officer now than during the previous two years, while 84% of the respondents said senior management values risk management personnel more now.

With risk management becoming more of a premium position within most companies, those in the field are in higher demand now than during the past few years.

As a result, movement between jobs is occurring at a higher pace. Twenty-eight percent of risk managers said they were working for a different company today than five years ago. "This supports our belief that movement occurs every two to four years and that people are interested in bettering their careers," Mr. Citron said.

Of those responding, 48% said their title was Risk Manager, 45% said their title was Director of Risk Management, and 6% said their title was Assistant Treasurer.

—By Michael Schachner

Pro+

Continued from page 1

When the product was rolled out in January 1994, five or six self-insured employers belonging to MVEHAC opted to offer it as an additional health plan option for their employees. As of this January, 13 self-insured employers offer the Pro+ plan to roughly 9,500 employees and dependents, a 33% increase from 1994 enrollment, said Jack O'Neil, executive director of MVEHAC.

Other self-insured members of the coalition are waiting to see how the plan works before offering it to their employees. Pro+ is not yet available as a fully insured option to coalition members.

MVEHAC's three-year contract with Community Mutual stipulates that claims costs cannot increase more than increases in the overall Consumer Price Index. Community Mutual is required to meet administrative services goals—or be financially penalized. And, hospitals and physicians in the Pro+ network must adhere to specific quality and performance guidelines.

MVEHAC recently released a report card measuring the claims processing and customer service performance of Pro+, and the plan is getting high marks for both.

In terms of health care cost savings, however, the results are mixed. At least one self-insured employer has reported significant health care cost savings with the Pro+ plan, but other employers are waiting for additional data before they can measure Pro+' financial performance.

"Costs haven't decreased, but there has been a leveling," Mr. O'Neil said. "Dayton was experiencing 15% to 18% health care cost inflation three or four years ago. For January 1995 renewals, though, increases are in the 4% to 5% range."

As of March, the annual inflation rate was 2.9% for all items.

Mr. O'Neil said he doesn't expect Pro+ to consistently produce dramatic savings over other managed care plans. "There are too many factors beyond our control that are pushing up costs, including the proliferation of high-tech medical care and research. I'm just hoping from year to year Pro+ can hold its own."

Nevertheless, the plan is producing enviable cost savings for at least one MVEHAC member: manufacturer Robbins Myers Inc. of Dayton. About 100 employees and dependents—or 10% of the company's eligible workforce in the Dayton area—signed up for the Pro+ plan in 1994, said Hugh Becker, director-human resources and corporate relations.

"The success rate was astronomical. Actual claims costs for the Pro+ plan in 1994 were 25% lower than our comparable self-insured indemnity plan," he said.

In annual costs per employee, Mr. Becker said Robbins & Myers spent $1,000 per employee enrolled in Pro+, vs. $2,000 per employee enrolled in its comparable self-insured indemnity plan.

Part of the cost reduction may be because the Pro+ plan attracts younger, healthier employees, Mr. O'Neil noted. "I was shocked at the Pro+ enrollment. About 8% were 50 years or older and 92% were younger. That's surprising, because Dayton has a big population of older employees."

To encourage more employees of all ages to enroll in Pro+, Robbins & Myers reduced employee contributions for the Pro+ plan and raised contribution levels for the two other self-insured indemnity plans it offers.

For its salaried workforce, Robbins & Myers requires monthly employee contributions of $200 for family coverage under its self-insured indemnity option that pays 90% of eligible medical expenses; $50 per month for family coverage under another self-insured indemnity plan option that pays 80% of eligible medical expenses; and only $20 per month for family coverage under the Pro+ plan, which pays 100% for routine preventive care and 80% for most other eligible medical expenses.

As a result of those changes, enrollment in the Pro+ plan doubled in 1995. "We anticipate as we get more awareness among employees, we should see the same improvement for next year," Mr. Becker said. "A lot of employees in this area still don't comprehend managed care or the point-of-service concept. It's still an educational process, but we are working on it and are encouraged."

Charles Mazza, vp of human resources for wood products giant Mead Corp., also a Dayton, Ohio-based member of MVEHAC, isn't yet convinced that Pro+ is the most economical health plan.

"We get deep discounts from Pro+ providers, but I don't have the data on utilization to see if frequency of services" offsets those discounts, he explained.

Furthermore, Mead lost some employees who had been enrolled in Pro+ when it sold one of its units last year, so those employees' costs cannot be easily measured against the company's remaining workforce.

While employees seem satisfied with the plan, Mr. Mazza wants to see more data on quality and frequency. "I'd like to see data on the number of hospital admissions per 1,000 members, lengths of stay per admission and outpatient utilization. Also, we should develop consistent best practices for treating specific diagnoses, like low back pain and cardiac care," he said. "It's part of our contract with Wright Health, but none of the data has been released yet."

Pro+ is getting high marks for both claims processing and customer service performance.

Mr. Mazza also wants a broader benchmark against which Pro+' cost and quality performance can be measured. "We should be able to measure our results against the community, the Health Plan Employer Data & Information Set, or HEDIS, and nationwide."

Robbins & Myer's Mr. Becker agreed. "We can measure Pro+ against our self-insured indemnity plans and Community Mutual's book of business, but how does it measure up to the community as a whole? We are going to try to gather normative data to see how it stacks up."

While the coalition predicted that some employers would replace their other benefit plans with the Pro+ plan if it proved to be the most cost-effective, none has yet chosen to do so.

"I probably won't offer Pro+ as the only plan," said Mr. Becker. "Once you start introducing choice to people, it's tough to take it away. What I'd love to do eventually is to offer a choice between an HMO and Pro+." BI

Worries

Continued from page 2

New York-based Alexander & Alexander Services Inc. asked approximately 300 risk managers to rank the importance of 64 legislative and regulatory issues.

Workers compensation is no longer a dominant issue because the environment has changed, explained Robert Murphy, senior vp at the brokerage.

"It's clear that reform efforts of workers comp have been pretty successful," he said.

One beneficiary of those changes has been workers comp insurers. Industrywide, the estimated combined ratio after policyholder dividends improved to 101% in 1994 from 109.1% a year earlier.

The National Council on Compensation Insurance attributes that improvement to higher rates, effective benefit reforms, managed care initiatives, lower trends and self-funding of residual markets (*BI*, April 17).

Risk managers also have benefited as rates have fallen. Rate and loss cost changes filed by rating organizations decreased by an average of 1.9% countrywide, the first overall decline since 1982, according to the NCCI.

"We have found a great deal of relief" in the workers comp market, said Jeffrey W. Pettegrew, vp-risk management and insurance for Western Staff Services Inc. in Walnut Creek, Calif.

With four workers compensation issues off the worry list, the door was left open for several other risk management concerns to edge into prominence in 1995. Among them was the abolition of attorney contingency fees, which was the seventh-largest concern, ranked of high or above-average importance by 66% of those surveyed.

Two other civil justice issues joined punitive damages and contingency fees on the list. Modification of joint and several liability was the third-biggest concern, ranked of high or above-average importance by 76% of the risk managers. And the use of alternative dispute resolution mechanisms was the 15th-biggest concern, cited by 61%.

Civil justice measures are becoming more important than workers compensation because they affect all commerce, said Mr. Pettegrew. "Without tort reform, we will not be able to compete with the Asian and European markets in the future, where these issues don't exist."

Despite progress on bills in both the House and Senate and a Republican Congress, many risk managers are not convinced that Congress actually will reform the civil justice system.

Only 41% of those surveyed said they are optimistic that some form of tort reform will pass; 27% take a dimmer view; and 32% are undecided, according to the A&A survey.

Senate debate could begin as early as this week on S. 565, the Product Liability Fairness Act of 1995 (*BI*, March 20). That bill, which applies only to product liability cases, is otherwise very similar to H.R. 956, the Common Sense Product Liability and Legal Reform Act, which the House approved last month for all civil cases (*BI*, March 13).

Even as risk managers grew less concerned about workers compensation issues, they began to worry more about one workplace health issue in particular. They ranked liability for repetitive motion injuries their No. 4 worry, with 68% deeming it of high or above-average concern. Last year, it ranked 16th.

Gibson Greetings Inc. of Cincinnati has found more doctors characterizing carpal tunnel syndrome cases as work-related, "when we've found that not to be the case," said Carol Fox, corporate risk manager.

While more and more companies are trying to manage repetitive stress claims through loss control programs and workplace modifications, the number of claims "are still on their way up," Ms. Fox said.

The Bank of Montreal in Toronto has yet to see any repetitive stress claims, said Risk Manager Tony Bridger. "But I'm worried that with all the publicity it is getting in the United States, we'll see it move up here."

One issue that may be starting to trail off risk managers' worry list is health care costs.

Last year, tort reform barely edged it out as the No. 1 concern of risk managers (*BI*, April 18, 1994). It was No. 2 again this year but was cited by only 79% of risk managers, down from 83% in 1994.

In recent months, "the consolidation in the health care industry as well as a significant move toward managed care, I think, has had a real braking effect on health care costs," said David Adler, risk manager for The Portman Cos. in Atlanta. In 1994, health care costs were a much bigger concern to him.

Right now, insurer and broker industry consolidation is a major issue.

"It's a precarious time in the industry," Mr. Adler said, citing Zurich Insurance Group's acquisition of Kemper Corp. and of much of Home Holdings Inc.; CNA Financial Corp.'s acquisition of Continental Corp.; as well as Acordia Inc.'s acquisition of Bain Hogg Robinson earlier this year.

While industry consolidation did not make risk managers' top 15 concerns in 1995, insurer solvency issues ranked sixth as posing the greatest challenge to risk managers three to five years from now, the survey said.

And while risk managers say workers compensation does not pose a major threat right now, it is their No. 1 future concern, according to the survey, which attributes that contradiction to risk managers' beliefs that the stable workers comp market will be short-lived.

Other future areas of concern include alternative markets, market capacity, environmental liability, tort reform and insurer solvency.

The survey also found that workers compensation issues were not the only ones to decline in importance between 1994 and 1995.

Corporate disaster planning fell to No. 20 from No. 11 a year ago, and there was also a decline in concern over liability for the transfer of contaminated property and over the unpredictability of insurance price swings.

Taking their place among risk manager concerns were other Superfund issues. Limiting joint and several liability ranked ninth, and limiting retroactive liability ranked 14th.

Drug-free workplace requirements made it to the top 15 worry list, coming in as the 10th-largest concern for risk managers, cited by 65% of the risk managers as being of high or above-average concern.

Concerns over limits and availability of directors and officers liability insurance was the 13th-largest worry, with 62% of the respondents ranking it as a high or above-average concern in 1995.

Alternative risk-financing mechanisms made the list for the first time since 1992. Sixty-four percent of the respondents ranked it as high or above average in importance, putting it at No. 11.

Top risk manager concerns

- ❒ Caps on non-economic and punitive damages.
- ❒ Spiraling health care costs.
- ❒ Modification of joint and several liability.
- ❒ Liability for repetitive stress injuries.
- ❒ Managed care programs.
- ❒ Self-insurance trends, state regulation and identifying tax efficiencies
- ❒ Abolition of attorney contingency fees
- ❒ Workplace safety: corporate policies to prevent back injuries, slipping, etc.
- ❒ Superfund: limiting joint and several liability
- ❒ Drug-free workplace requirements
- ❒ Alternative risk financing
- ❒ Court rulings on liability coverage for cleanups
- ❒ Limits on directors and officers liability
- ❒ Superfund: limiting retroactive liability
- ❒ Use of alternative dispute resolution mechanisms

Source: Alexander & Alexander Services Inc.

Overall, about half of the risk managers responding to the survey had responsibility for international operations. These risk managers were asked to separately rank their international risk management concerns.

Tying for the No. 1 international concern were currency instability, and increased litigation and higher court awards outside the United States. Both were ranked as high or above-average concerns by 55%.

Fifty-four percent of the risk managers with international responsibilities also cited a reduction in property insurance capacity and increasing deductibles as a significant concern.

The decrease in property capacity is most pronounced in areas with high catastrophe exposure, such as: earthquake coverage in Japan, Mexico and Italy; flood coverage in the Netherlands; and windstorm coverage in the Caribbean and South Pacific, the survey said.

•

For a free copy of the 1995 U.S. Risk Management Survey, contact Alexander & Alexander's corporate communications department at 1185 Ave. of the Americas, New York, N.Y. 10036; 212-840-8500; fax: 212-444-4697; Internet: alexalex@all.com. Free copies also will be distributed at A&A's booth at the Risk & Insurance Management Society Inc. conference this week in San Francisco.

Insurers seize opportunities at The Home

By GAVIN SOUTER

NEW YORK—Zurich Insurance Group is not the only company picking up business from The Home Insurance Co., the beleaguered insurer whose profitable business Zurich is trying to take over in one deal.

Several other insurers are landing pieces of The Home's extensive lawyers professional liability insurance account as clients seek security and stability, brokers and insurers say.

Professional Liability Underwriting Managers, the Willis Corroon Corp. unit in Minneapolis that placed lawyers liability business with The Home, likely will lose about 40% of its business as a result of the troubles at The Home and competition in the professional liability market, said Ken Pinkston, chief executive officer of Willis Corroon Corp. in Nashville.

Portions of the lawyers professional liability insurance that The Home used to write now are spread around the market, said Charles Ruoff, senior vp at Sedgwick James Inc. in New York.

Zurich-American, however, anticipates it will take on 70% to 80% of lawyers professional liability premiums written by The Home, said Robert Fishman, senior vp in New York.

Zurich is seeking accreditation to write the coverage as an admitted insurer in 30 states. It has been admitted in 16 so far and should be admitted in the other 14 by June 1, said Mr. Fishman. Previously, Zurich has written the coverage for large law firms on a non-admitted basis.

During the time between Zurich filing for and being accepted as an admitted insurer, though, The Home has lost some business, he said.

For example, Interstate Fire & Casualty Co., a Chicago-based unit of Fireman's Fund Insurance Co., has taken on the $60 million premium New York State Bar Association endorsed program, Mr. Fishman said.

Coregis Group Inc. in Chicago and Tamarack American, a New York unit of Great American Insurance Co., also both have taken several accounts, Messrs. Ruoff and Pinkston confirmed.

The Home has been a major insurer of lawyers professional liability risks. "It was very difficult to place lawyers liability business without going to The Home," Mr. Ruoff said.

But rating downgrades cost it much of its appeal with policyholders (*BI*, Nov. 14, 1994).

Shortly after Zurich proposed its takeover of Home Holdings Inc.'s profitable business in December, it implemented a cut-through endorsement to Zurich security for The Home policies. Many policyholders were unhappy with that, so Zurich enhanced the deal with Zurich-American Insurance Group issuing policies and reinsuring them with The Home.

That action was too late to save some accounts, though. "The endorsement was not enough. The lawyers buying the professional liability coverage were some of the first clients to say they didn't like it. They just wanted a straight policy and not an endorsement," said Mr. Ruoff.

The Home wrote a significant amount of business that carried endorsements by state and local bar associations. Sedgwick since has moved about five such programs from The Home, Mr. Ruoff said.

But it was not just questions about security and Zurich's initial reluctance to offer its security for The Home policies that encouraged the moves.

Competing underwriters aggressively pursued the profitable states that were covered by The Home and offered better coverage for the same premium, Mr. Ruoff said.

The Home's professional liability business was not all profitable. Last November, Home added $115 million to its reserves for professional liability insurance, which is about 60% lawyers coverage.

The Home does not release its gross written premiums for professional liability insurance.

PLUM expects to lose about 40% of the $280 million in premiums it wrote in 1994, said Mr. Pinkston of Willis Corroon.

Parent company Willis Corroon P.L.C. in London has said its profits would be off about £7 million ($11.3 million) due to PLUM problems.

PLUM had moved its business to Zurich before the Zurich deal was announced, but The Home's troubles and the push by other insurers to write professional liability business combined to drive the business away from PLUM, Mr. Pinkston said.

PLUM, which is in the market for the long term, always has said that it will lose market share when rates fall too much, Mr. Pinkston said. "But this is obviously a blow to us."

Coregis has taken on about 10 program accounts with a total of $50 million in premium that were formerly written by The Home, said Courtney Smith, Coregis' chairman and CEO.

Included among the accounts are programs endorsed by the Pennsylvania Bar Assn. and the Colorado Bar Assn., he said.

"Clients were concerned about the reduced ratings. . .and they were looking for an alternative. But they also were aware that we have been in the professional liability market for a while and we have the capacity to write it," Mr. Smith said.

Most of the accounts picked up by Coregis formerly were written through PLUM, he said.

And the movement away from The Home is likely not over yet, Mr. Smith said. "There is still a lot of uncertainty with the Home/Zurich deal," he explained.

Zurich's proposal to take on about $1 billion of The Home's business without taking over the whole company is pending the approval of regulators, who could delay a decision until June (*BI*, April 10). BI

GM rethinks settlement options

By RODD ZOLKOS

PHILADELPHIA—General Motors Corp. may have to open its checkbook to settle a class-action lawsuit following last week's rejection by a federal appeals court of a proposed settlement in which owners of allegedly dangerous GM trucks receive only $1,000 coupons good for more GM trucks.

Under a settlement approved by a federal district judge in 1993, GM was to give the coupons to the owners of 5.7 million older model trucks, which allegedly pose high fire risks in side-impact collisions.

But a group of pickup owners who had not agreed to that deal challenged it, and last week the 3rd U.S. Circuit Court of Appeals rejected the settlement proposal.

"The case was simply settled too quickly with too little development on the value of the certificates that may well be worth significantly less than the $1.98 billion to $2.18 billion estimate accepted by the district court," the appeals court stated.

"Although the degree to which a settlement hurts a defendant is not ordinarily a measure of the settlement's adequacy, the fact that this settlement might actually benefit GM by motivating current owners to buy new trucks from the company—the settlement may arguably be viewed as a GM sales promotion device—certainly does little to allay the concern that the settlement did not advance the interests of the class as much as it might have," the court's opinion declared.

The court concluded that the settlement was not fair and adequate, and also that the class was not properly certified, noting that the settlement treats owners of individual trucks differently than it does fleet owners, creating intra-class conflict.

The court noted that budgetary constraints might prevent fleet owners from taking full advantage of the coupons during the 15-month period they were to be valid. The appellate panel also said truck owners of lesser financial means also might not be able to benefit from a $1,000 coupon good only toward the purchase of a new GM pickup, which could cost anywhere from $7,000 to $30,000.

The court also expressed concern over the $9.5 million in fees and expenses GM had agreed to pay attorneys for the class.

With the non-cash nature of the settlement already spurring concerns that truck owners' interests weren't adequately served, "the separate negotiation of the fee agreement and the failure to disclose the amount of the award in the class notice only enhance this sense that counsel may have pursued a deal with the defendants separate from—and perhaps competing for the defendants' resources with—the deal negotiated on behalf of the class," the court said.

GM would not say what its next move would be. "There are a number of options that we and plaintiffs can take. But we're just not going to telegraph that," said a spokesman at Detroit headquarters. "We're studying."

Robert Graham, staff attorney for the Center for Auto Safety in Washington, said the appeals court's suggestion that the value of the settlement was inadequate makes it likely that GM will have to make monetary restitution to the plaintiffs.

The Center for Auto Safety, a non-profit safety advocacy group, filed an amicus brief opposing the settlement.

"The trial court really does have a clean slate here," Mr. Graham said. "There's an off chance that this would go back to the trial court and the judge would just reapprove the settlement and make all the requisite legal findings he didn't make in the first place. But I think that's doubtful."

The long-running dispute centers on full-size Chevrolet and GMC pickups made between 1973 and 1987. The gas tanks on these trucks are located outside the frames, a feature which safety advocates say makes the tanks more susceptible to rupturing and causing fires in side-impact collisions.

GM consistently has denied that claim. And while Secretary of Transportation Federico Peña last year said a federal inquiry had found the trucks did pose a safety risk, he later chose not to seek a recall of the pickups.

The coupon settlement that was approved in 1993 was meant only to compensate GM truck owners for reductions in their vehicles' resale value. People participating in that settlement still could pursue claims for injury damages.

The class action combined 34 class-action claims and represented truck owners in 49 states and the District of Columbia.

Last year, a Texas appeals court struck down a similar settlement between GM and a class of 645,000 truck owners. Both sides now are asking the Texas Supreme Court to review that ruling.

•

In Re General Motors Corporation Pick-Up Truck Fuel Tank Products Liability Litigation, 3rd U.S. Circuit Court of Appeals, Nos. 94-1064, 94-1194, 94-1195, 94-1198, 94-1202, 94-1203, 94-1207, 94-1208, 94-1219.

High court reviewing airline case

WASHINGTON—The U.S. Supreme Court's review of damages for "loss of society" in international airline disaster cases governed by the Warsaw Convention may sway rulings in many pending suits.

The high court's decision last week to review a 2nd U.S. Circuit Court of Appeals ruling involving the 1983 downing of Korean Air Lines Flight 007 over the Soviet Union also could affect as many as 180 pending suits from both the KAL downing and the 1988 explosion of Pan American World Airways Flight 103 near Lockerbie, Scotland.

In addition to accepting that appeal, the high court last week handed down several other opinions on damages or the right to sue for damages.

In both airline disaster cases, juries found the airlines guilty of willful misconduct, meaning the Warsaw Convention's $75,000 per passenger liability cap does not apply (*BI*, March 20). When that limit does not apply, federal law governs.

The Supreme Court is being asked to decide whether a victim's family can recover for non-pecuniary damages for loss of society—love, companionship and affection. Such recoveries, which are barred by the Death on the High Seas Act, were allowed by the 2nd Circuit.

"We're going to ask the Supreme Court for a damage rule on all Warsaw cases that does not allow for loss of society damages," said KAL's lawyer, George N. Tompkins Jr. of Tompkins, Harakas, Elsasser & Tompkins in White Plains, N.Y. "It could very well impact on the Lockerbie cases."

A Supreme Court ruling also could affect the appeal of a $19 million jury verdict last week for the widow of a Pan Am passenger. Some $5 million of that award was for loss of companionship.

Pan Am's insurers, led by U.S. Aviation Insurance Underwriters, had offered the widow $5 million to settle the case earlier this year, said her attorney, Aaron J. Broder in New York. USAIU executives were unavailable for comment.

Altogether, Pan Am's liability insurers have paid at least $144 million so far from their reserve of $475 million for the Lockerbie disaster.

Among its damage-related decisions last week, the Supreme Court said bankruptcy courts, rather than federal district courts, have jurisdiction over how and when victorious personal injury plaintiffs receive damages from bankrupt companies and their insurers.

In a 7-2 ruling, the high court ruled that if a bankruptcy court bars payment by a bankrupt company and an insurer that issued an appeal bond for the company, plaintiffs that have won a judgment from the company may challenge that decision only in bankruptcy court.

The ruling may give insurers and bankrupt defendant companies more time to pay damages.

The ruling stems from a $281,000 judgment that an asbestos installer won from Celotex Corp. in 1989, when the unit of Tampa, Fla.-based Jim Walter Corp. still was viable. Celotex lost on appeal and a final judgment was entered in 1990. Under the weight of many asbestos claims, Celotex filed for bankruptcy in 1990 and bought an appeal bond under which Northbrook Property & Casualty Insurance Co. promised to pay the award if Celotex couldn't.

In 1991, when the installer attempted to collect on the bond, a bankruptcy judge blocked payment, saying it would jeopardize Celotex's reorganization plan. A federal court ordered the insurer to pay, and the 5th U.S. Circuit Court of Appeals upheld the ruling.

"While this could potentially help a lot of insurers that wrote these types of appeal bonds delay payment for a while, we don't think it's that bad of a decision because it gives us guidance as to where we need to appeal," said Brent Rosenthal of Baron & Budd in Dallas, the law firm representing Mr. Edwards. "We still believe the plaintiff should have every right to execute that bond."

Another Supreme Court opinion issued last week will make it harder for some people to receive compensation under the National Childhood Vaccine Injury Act for injuries allegedly caused by vaccination.

In *Shalala vs. Whitecotton*, the high court ruled unanimously that those seeking compensation under the federal act must prove they had no symptoms of the injury allegedly caused by the inoculation before they received the vaccine.

The decision reversed a 1994 ruling by the U.S. Court of Appeals for the Federal Circuit, which held that even if there was pre-existing evidence of the injury, claimants still could make a prima facie case if they proved the injury or condition occurred within the time period specified by a vaccine injury table that lists vaccines and injuries associated with them.

Writing for the court, Justice David H. Souter held that the act holds that the onset of the condition or injury determines whether compensation is due.

Also last week, the court ruled in a pre-emption case that an absence of federal safety standards requiring antilock braking systems on trucks did not constitute federal policy and should not pre-empt negligence suits under Georgia law.

In *Freightliner Corp. Vs. Myrick*, the court held that claims against Freightliner and Navistar International Corp. alleging that the trucks' lack of ABS constituted a negligent design defect are not expressly pre-empted by the absence of standards for truck stopping distance or stability in the 1966 National Traffic and Motor Vehicle Safety Act.

•

Stacy Shapiro, Mark Hofmann and Rodd Zolkos contributed to this report.

D&O

Continued from page 1

surers.

"The corporation is getting a free ride on the back of D&O insurers. The corporation does have liability here," said Joseph P. Monteleone, senior vp and claims counsel with Reliance National Insurance Co. of New York, one of the insurers that filed an amicus brief in the case.

Policyholder attorneys counter that a tighter market is not inevitable. Corporations may not think that more expensive or reduced D&O coverage is worthwhile, said Carolyn H. Rosenberg, a partner at Sachnoff & Weaver Ltd. in Chicago, who provided insurance advice to Nordstrom in the case.

Though two other federal appeals courts already have handed policyholders allocation victories, policyholders and insurers were anxiously awaiting the 9th Circuit's decision because:

- The 7th Circuit's 1990 decision in *Harbor Insurance Co. vs. Continental Bank Corp.* (*BI*, Dec. 24, 1990; June 18, 1990), which first adopted the "larger settlement" standard, came early in the life of allocation litigation.

The 8th Circuit's favorable ruling for policyholders was even earlier, and the court did not establish a specific standard in that 1989 case.

- Many more federal securities law cases, which spark D&O lawsuits, are filed in the 9th Circuit than in the 7th Circuit.

By far, the largest percentage of D&O claims—41%—are based on alleged securities law violations, and they are nearly eight times more costly to resolve than other D&O claims (*BI*, March 6).

The coverage dispute between Seattle-based Nordstrom and Warren, N.J.-based Federal stems from a $7.5 million settlement of a class-action suit that Nordstrom shareholders filed against the company and six directors and officers in 1990.

The shareholders charged that the defendants misled them about the company's financial risk from allegations that Nordstrom had violated labor laws by sometimes requiring employees to work "off the clock."

Nordstrom's stock value dropped 15% in February 1990 after a state agency found the company had violated state wage laws and owed millions of dollars in back pay.

Nordstrom attorney Larry S. Gangnes, though, noted that the company at that time also announced that its yearly earnings had fallen for the first time.

Nordstrom and Federal settled the shareholders' suit for $7.5 million in 1991, but Federal agreed to fund only half of the agreement and half of Nordstrom's nearly $1.1 million of defense costs.

Federal had covered Nordstrom's directors and officers under a November 1989 to November 1990 D&O policy that provided $25 million in limits with a $350,000 deductible.

Nordstrom sued in federal court in Seattle, which ordered Federal to cover the settlement and the defense costs.

In affirming that ruling in an opinion written by Judge Dorothy W. Nelson, the appeals court cited policy language that Federal agreed to pay any loss for which the insured executives are held liable. The court found that Nordstrom reasonably could have expected full coverage, even if the corporate entity's wrongful actions mirrored its executives'.

"Only if the corporation were liable for a claim for which the directors and officers lacked any responsibility, or if the corporate liability increased the amount of the loss, would the amount of liability exceed that amount for which Federal was 'legally obligated' to pay," the court ruled, quoting the "larger settlement" standard that the 7th Circuit established in *Harbor*.

The court found the dissemination of misleading statements by uninsured Nordstrom employees did not create independent corporate liability vicariously, because the named executives in the D&O lawsuit approved the statements.

The court also rejected Federal arguments that Nordstrom may have had direct corporate liability for the securities fraud. The insurer reasoned that a jury may have found that the corporate entity, because of the cumulative knowledge of its executives, intended to commit fraud.

But, the appeals court ruled that Federal could not prove that argument without showing that some executives also intended to commit fraud. That concurrent liability, though, would prevent Federal from allocating liability, the court ruled.

In a footnote, the court also refused to consider how factors other than liability—like Nordstrom's fear of negative publicity—may have increased the underlying D&O settlement.

Ms. Rosenberg said the Nordstrom decision, which liberally cited many other allocation rulings, could be influential elsewhere because "you have a court that looked at the national landscape and came down on the side of policyholders."

But, other allocation cases on the docket involve policies that contain provisions stating that policyholders and insurers will make their "best efforts" to resolve allocation issues, insurer attorneys pointed out.

Though the provision is not very specific, at least one jury that reviewed a policy with such a provision did not apply the "larger settlement" standard, the attorneys noted.

But, Reliance's Mr. Monteleone added: "It's fair to say that after *Nordstrom*, many insurers may go back to the drawing board and make their policies more specific."

Recent insurance history suggests that the market will react to the decision, said insurer attorney Ronald Glancz, a partner with Venable, Baetjer, Howard & Civiletti in Washington.

Until the Financial Institutions Reform, Recovery and Enforcement Act of 1989 codified the legitimacy of the regulatory exclusion in bank D&O policies, insurers largely had stopped writing D&O coverage for weak banks.

Mr. Monteleone also wondered how the Securities & Exchange Commission may react "now that we have a ruling that the entire securities loss can be passed through to D&O insurers."

The SEC would not comment.

The ruling also makes the entity coverage endorsements offered by Chubb, Reliance and American International Group Inc. unattractive, policyholder attorneys said. Insurers began offering such endorsements in 1993 (*BI*, Dec. 27, 1993).

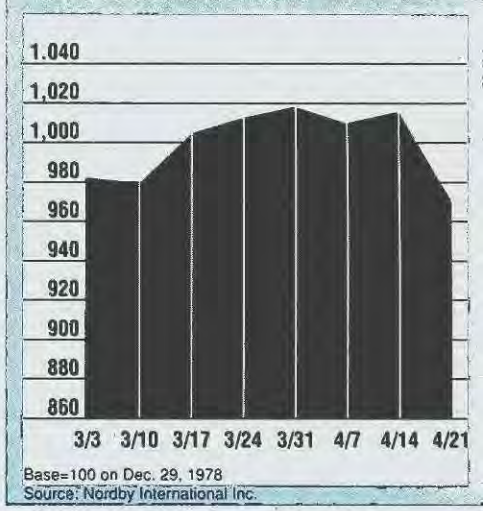
"This decision strengthens the argument that entity coverage endorsements are redundant, at least in some circumstances," said Nordstrom attorney Mr. Gangnes, a partner with Lane, Powell, Spears, Lubersky in Seattle.

Chubb has not decided whether it will appeal or whether it will change its market practices in light of the ruling, a spokesman said.

•

Nordstrom Inc. vs. Chubb & Son Inc. and Federal Insurance Co., 9th U.S. Circuit Court of Appeals; No. 93-35495.

BI Insurance Index



Base=100 on Dec. 29, 1978
Source: Nordby International Inc.

Catastrophe insurance option call spreads

As of April 21

Call spread	Price bid/ask	Rate on line %	Call spread	Price bid/ask	Rate on line %
Eastern September 1995			Western Annual 1995		
45/65	6.2/7.0	31/35	20/30	—/—	—/—
50/70	5.7/5.9	28.5/29.5	30/40	0.3/1.8	3/18
60/80	4/5.5	20/27.5	30/50	0.5/2.5	2.5/12.5
100c	8.5/12	8.5/12	50/70	0.6/1.8	3/9
150c	3.5/5	7/10	60/80	0.3/3.5	1.5/17.5

Total volume: 250 Total open interest: 1,694

For quotes, call the CBOT trading floor at 312-341-3342. For general information, call 312-435-3674.

Source: Chicago Board of Trade

British Issues

April 20 Companies	Price pence	P/E	Div. pence	Yield %	1 week high—low
Commi Union	552	11.1	33.0	6.0	568—551
Genl Accident	575	8.4	36.3	6.3	589—575
Gdn Royal Exch	189	N/M	10.3	5.5	193—189
Independent	270	7.5	11.9	4.4	270—270
Royal	296	5.6	15.0	5.0	300—293
Sun Alliance	331	11.1	19.7	6.0	337—330
Brokers					
Bradstock	83	9.3	7.1	8.6	83—83
Fenchurch	145	10.1	10.0	6.9	145—144
CE Heath	233	11.7*	20.0*	8.6	237—233
JIB Group	128	11.1	9.4	7.3	129—128
Lloyd Thmpson	151	10.05	9.8	6.5	151—151
Lowndes Lmbrt	157	9.2*	10.4*	6.6	157—157
Nelson Hurst	153	11.9	8.3	5.4	156—153
PWS Holdings	17	N/M	0.8	4.7	17—17
Sedgwick Grp	161	14.6	8.1	5.0	161—160
Steel Brl Jones	101	11.9	11.3	11.2	102.5—101
Willis Corroon	154	N/M	8.3	5.4	158—154

Source: Philip Olsen, London * Estimated 1994 data

BI Industry Stock Report APRIL 17, 1995, THROUGH APRIL 21, 1995

		Price	Weekly % change	Year to date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt./Bk. value
BROKERS												
Acordia Inc.	NYS	33.00	0.38	-1.49	34.50	24.63	7	0.72	2.18	16	13.24	2.49
Alexander & Alexander	NYS	22.88	0.55	23.65	23.75	14.00	137	0.10	0.44	-8	6.08	3.76
E.W. Blanch Holdings Inc.	NYS	19.13	0.66	-7.27	23.00	17.25	61	0.40	2.09	16	4.55	4.20
Gallagher Arthur J. & Co.	NYS	35.25	-2.08	10.16	36.13	29.00	53	1.00	2.84	16	6.48	5.44
Hilb, Rogal & Hamilton	NYS	11.38	7.06	-6.19	13.38	10.50	119	0.56	4.92	14	4.72	2.41
Marsh & McLennan	NYS	81.25	-1.07	2.52	88.75	71.25	519	2.90	3.57	16	19.40	4.19
Poe & Brown	NDQ	23.38	1.63	7.47	24.00	18.50	21	0.48	2.05	15	4.49	5.21
BROKERS	AVERAGE		1.0	4.1					2.6	12		
INSURERS/REINSURERS												
ACE Ltd.	NYS	26.63	2.40	13.90	28.88	20.75	639	0.44	1.65	-9	22.45	1.19
Acceptance Insurance Cos.	NYS	14.75	0.00	-1.67	18.00	12.00	64	0.00	0.00	9	9.83	1.50
AEGON N.V.	NYS	77.50	4.91	22.05	77.50	49.75	33	2.92	3.77	13	43.84	1.77
Aetna Life & Casualty	NYS	56.75	-2.58	20.42	59.00	42.25	3911	2.76	4.86	14	57.21	0.99
AFLAC Inc.	NYS	39.88	0.31	24.61	42.75	29.25	488	0.46	1.15	14	57.21	0.70
Allied Group Inc.	NDQ	29.00	0.87	17.17	31.00	22.00	67	0.68	2.34	6	23.43	1.24
Allmerica Prop. & Casualty	NYS	18.75	-0.66	11.11	20.13	14.25	94	0.16	0.85	11	19.45	0.96
Allstate Corp.	NYS	30.00	4.35	26.32	30.00	22.63	2131	0.78	2.60	10	19.60	1.53
American General	NYS	32.50	3.17	15.04	33.25	24.88	1754	1.24	3.82	13	20.39	1.59
American Heritage Life Ins.	NYS	18.13	0.00	-4.61	19.75	16.25	22	0.64	3.53	11	12.42	1.46
American Indemnity/Fin'l	NDQ	12.75	6.25	25.93	14.25	10.00	3	0.24	1.88	3	15.92	0.80
American International	NYS	103.25	-1.08	5.36	108.25	83.50	2627	0.46	0.45	15	49.75	2.08
American Re Corp.	NYS	37.38	4.91	15.89	37.38	25.25	115	0.32	0.86	19	16.85	2.22
Aon Corp.	NYS	37.25	-1.32	16.41	38.00	29.25	347	1.36	3.65	12	21.96	1.70
Argonaut Group	NDQ	30.00	2.56	6.19	31.25	26.25	32	1.16	3.87	10	29.80	1.01
AVEMCO Corp.	NYS	17.63	-3.42	14.63	18.25	13.38	24	0.44	2.50	14	6.30	2.80
Baldwin & Lyons Inc.	NDQ	16.75	3.08	13.56	17.63	14.00	73	0.24	1.43	12	13.56	1.24
Berkley W.R. Corp.	NDQ	39.00	1.63	4.00	42.00	32.50	61	0.48	1.23	27	36.47	1.07
Berkshire Hathaway Inc.	NYS	22500.00	-0.44	10.29	25200.00	15400.00	0	0.00	0.00	28	9157.79	2.46
Capital RE Corporation	NYS	22.88	0.55	-16.44	27.38	15.63	15	0.20	0.87	9	21.48	1.06
Capsure Holdings Corp.	NYS	13.00	1.96	-11.11	16.13	12.13	85	0.00	0.00	14	13.72	0.95
Chubb Corp.	NYS	78.88	-1.10	1.94	82.63	68.63	1231	1.96	2.48	12	48.40	1.63
CIGNA Corp.	NYS	71.00	-3.57	11.59	76.38	57.00	2555	3.04	4.28	9	80.98	0.88
CNA Financial Corp.	NYS	74.75	0.17	15.22	76.50	60.00	28	0.00	0.00	147	73.83	1.01
Continental Corp.	NYS	19.75	0.00	3.95	23.38	12.00	271	0.00	0.00	-2	29.69	0.67
EMC Insurance Group Inc.	NDQ	10.70	3.16	12.66	10.88	8.50	26	0.52	4.86	8	10.77	N.A.
Emphesys Financial Gr. Inc.	NYS	27.38	-17.36	-13.78	39.50	23.13	1150	0.60	2.19	7	N.A.	N.A.
EXEL Ltd.	NYS	46.50	-0.27	17.72	47.50	35.00	774	1.32	2.84	21	31.62	1.47
Fremont General Corp.	NYS	21.13	0.60	-9.63	26.00	19.88	262	0.76	3.60	6	22.90	0.92
Frontier Insurance Group	NYS	25.25	0.00	15.43	37.50	16.75	84	0.48	1.90	19	14.94	1.69
Gainsco Inc.	ASE	10.00	-1.23	21.21	11.00	7.25	195	0.04	0.40	14	3.79	2.64
General RE Corp.	NYS	128.38	-4.20	3.95	135.13	104.50	857	1.96	1.53	16	57.17	2.25
Guaranty National Corp.	NYS	16.50	2.33	-10.20	18.50	14.63	14	0.48	2.91	9	11.84	1.39
Harleysville Group	NDQ	25.00	3.09	3.09	26.50	19.75	52	0.68	2.72	18	20.18	1.24
Hartford Steam Boiler	NYS	44.13	4.75	10.66	47.38	35.88	99	2.20	4.99	17	14.62	3.02
HCC Insurance Holdings	NDQ	22.75	-7.14	8.33	25.75	16.75	105	0.00	0.00	15	10.75	2.12
Home Holdings Inc.	NYS	9.63	1.32	2.67	15.00	3.00	138	0.00	0.00	-1	22.36	0.43
ITT (Hartford Group)	NYS	106.25	5.20	19.89	106.25	77.00	1116	1.98	1.86	12	49.95	2.13
Lincoln National	NYS	40.00	-1.23	14.29	43.88	34.63	941	1.72	4.30	12	31.99	1.25
Markel Corp.	NDQ	50.75	2.53	22.29	51.75	38.75	17	0.00	0.00	15	25.15	2.02
Mid Ocean Ltd.	NDQ	28.25	-1.31	3.67	30.50	22.25	303	1.00	3.54	12	20.24	1.40
Mutual Risk Mgmt. Ltd.	NYS	30.13	1.69	14.76	31.00	21.13	147	0.32	1.06	17	9.11	3.31
NAC Re Corp.	NDO	33.00	0.00	-1.49	34.00	24.25	208	0.16	0.48	17	19.75	1.67
National Re Corp.	NYS	28.75	-1.71	9.52	31.75	22.25	68	0.16	0.56	17	17.31	1.66
Navigators Group	NDQ	14.25	-5.00	-1.72	20.00	13.75	49	0.00	0.00	-4	10.21	1.40
Nobel Insurance Ltd.	NDQ	9.38	1.35	13.64	9.63	7.63	33	0.20	2.13	4	6.84	1.37
Ohio Casualty Corp.	NDQ	33.00	-2.94	16.81	34.25	26.50	319	1.52	4.61	14	24.68	1.34
Old Republic Int'l	NYS	25.50	4.08	20.00	25.50	18.88	214	0.48	1.88	10	24.60	1.04
Orion Capital Corp.	NYS	35.38	0.71	0.35	37.88	28.13	32	0.80	2.26	9	25.86	1.37
Partner Re Holdings Ltd.	NDQ	23.13	-3.14	11.45	24.13	18.50	186	0.40	1.73	9	N.A.	N.A.
Penn-America Group Inc.	NDQ	7.75	10.71	5.08	8.00	6.50	38	0.00	0.00	10	6.21	1.25
Phoenix RE Corp.	NDQ	24.50	1.03	-13.27	29.25	21.75	260	0.60	2.45	5	22.86	1.07
Provident Life	NYS	21.25	0.00	-2.30	29.88	20.50	630	0.72	3.39	8	27.09	0.78
Re Capital Corp.	NDQ	18.31	-0.34	49.49	18.63	12.00	38	0.32	1.75	16	17.63	1.04
Reliance Group Holdings	NYS	5.38	-2.27	3.61	6.75	4.88	367	0.32	5.95	14	3.48	1.54
Reliastar Financial Corp.	NYS	35.75	1.78	23.28	35.75	27.00	327	1.00	2.80	11	24.81	1.44
RLI Corp.	NYS	24.13	1.58	17.68	24.13	19.88	20	0.60	2.49	-28	20.51	1.18
St. Paul Companies	NYS	50.25	-2.43	12.29	51.88	37.69	772	1.60	3.18	10	31.88	1.58
SAFECO Corp.	NDQ	56.06	-0.55	7.81	59.75	46.75	504	1.96	3.50	12	46.94	1.19
SCOR U.S. Corp.	NYS	7.75	1.64	-7.46	12.25	7.50	19	0.20	2.58	-17	13.60	0.57
Seibels Bruce Group	NDQ	1.13	12.50	-55.00	3.50	0.88	138	0.00	0.00	-1	1.05	1.07
Selective Ins. Group	NDQ	29.25	0.86	15.84	29.75	23.25	96	1.12	3.83	11	23.36	1.25
Sphere Drake Holdings	NYS	15.75	1.61	13.51	17.00	10.75	46	0.16	1.02	8	13.15	1.20
TIG Holdings	NYS	23.25	3.33	24.00	23.25	17.00	1546	0.20	0.86	29	17.25	1.35
Titan Holdings, Inc.	NYS	10.50	0.00	7.69	11.13	7.75	102	0.28	2.67	8	9.31	1.13
Tokio Marine & Fire	NDQ	61.38	3.59	1.03	66.00	49.88	83	0.44	0.72	-	57.72	1.06
Torchmark Corp.	NYS	40.38	-1.82	17.03	44.50	32.38	483	1.12	2.77	11	17.49	2.31
Transatlantic Holdings	NYS	62.00	-1.59	10.96	64.00	45.63	233	0.40	0.65	14	32.43	1.91
Transnational Re Corp.	NDQ	20.00	-1.84	-14.89	25.50	17.75	121	0.00	0.00	7	N.A.	N.A.
Travelers Corp.	NYS	39.38	0.00	21.62	40.50	30.38	4046	0.80	2.03	10	24.26	1.62
Trenwick Group Inc.	NDQ	44.00	1.15	3.83	44.25	35.88	59	1.12	2.55	11	29.20	1.51
United Fire & Casualty	NDQ	28.50	-1.72	3.01	29.81	24.66	1	0.80	2.81	9	28.96	0.98
Unitrin	NDQ	48.13	0.00	11.92	51.50	38.50	153	2.00	4.16	15	38.64	1.25
UNUM Corp.	NYS	43.25	-1.70	14.57	54.75	35.13	2360	1.06	2.45	21	27.78	1.56
US Facilities Corp.	NDQ	13.38	-3.60	33.75	14.63	9.13	84	0.20	1.50	13	11.07	1.21
USF&G Corp.	NYS	14.25	0.88	5.56	15.50	12.13	1368	0.20	1.40	7	10.04	1.42
USLIFE Corp.	NYS	37.75	0.00	8.24	38.75	30.88	136	1.32	3.50	9	40.82	0.92
Washington National	NYS	18.50	0.00	-2.63	23.13	17.75	142	1.08	5.84	7	23.61	0.78
Zenith National Ins.	NYS	20.38	-1.81	-10.44	27.38	19.38	182	1.00	4.91	10	17.54	1.16
Zurich Reinsurance Centr.	NYS	30.13	-0.82	4.33	30.88	24.50	9	0.00	0.00	-25	22.26	1.35
INSURERS/REINSURERS	AVERAGE		0.3	8.8					2.3	12.5		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	NDQ	24.31	-10.78	-5.58	31.00	20.75	4612	0.00	0.00	14	12.22	1.99
Humana Inc.	NYS	21.63	-16.83	-4.42	27.13	15.88	20725	0.00	0.00	20	6.04	3.58
Pacificare Health Sys.	NDQ	67.13	-9.44	3.07	79.50	44.25	442	0.00	0.00	21	14.21	4.72
Safeguard Health Enter.	NDQ	9.50	5.56	2.70	15.00	8.25	11	0.00	0.00	35	6.16	1.54
Sierra Health Services	NYS	27.38	-10.98	-13.44	33.63	21.25	745	0.00	0.00	16	6.04	4.53
United Healthcare Corp.	NYS	40.38	-11.99	-10.53	55.38	37.75	21935	0.03	0.07	24	6.57	6.15
U.S. Healthcare	NDQ	29.75	-29.59	-27.88	49.00	29.75	64129	1.00	3.36	12	5.04	5.90
Wellpoint Health Networks	NYS	30.25	-7.28	3.86	39.00	24.25	1095	0.00	0.00	14	12.73	2.38
HMOs	AVERAGE		-11.4	-6.5					0.4	17		
ALL COMPANIES	AVERAGE		-3.4	2.1					2.5	15		

Top advancing issues: Seibels Bruce Group; Penn-America Group Inc.; Hilb, Rogal & Hamilton. Leading decliners: U.S. Healthcare; Emphesys Financial Gr. Inc.; Humana Inc. Most active issue: U.S. Healthcare. The BI Index fell 4.6%; the Dow Jones 30 Industrials rose 1.5%; the S&P 500 dropped 0.2% and the NYSE Composite fell 0.1%.

System design: Nordby International Inc.

Bombing

Continued from page 1

The blast is expected to result in a variety of other insured losses, though, including heavy damage to some nearby buildings, possible business interruption and extra expense claims, automobile claims and workers compensation and general liability medical losses.

Even if the bombing is considered a terrorist act, most property policies are expected to provide coverage, as they did in the 1993 World Trade Center bombing (see related story).

Meanwhile, the bombing has led to tightened security at other federal facilities across the country and has stirred some general interest—possibly only short-lived—in anti-terrorist loss prevention measures (see related story).

Several observers noted, however, that the kind of large car bomb involved in the Oklahoma City explosion is difficult to protect against.

"To be a free and open society, we are going to have these exposures," said Harold Pumford, chief executive officer of the Oklahoma Municipality Assurance Group, an Oklahoma-based public entity risk pool.

The bomb, believed to have been concocted of more than 1,000 pounds of fuel oil and fertilizer packed into a rented van, exploded in front of the nine-story Murrah building last Wednesday just after 9 a.m.

The explosion, felt for several miles, blew away the building's outside wall and buckled its massive floors.

Desks, chairs, file cabinets and other office equipment hung precariously from the sliced-away facade, much of it wrapped in a tangle of cables, steel and air-conditioning ductwork.

Of the 57 confirmed dead last week, 12 were children at a day care center that was located on the building's second floor.

With hopes fading, rescue workers continued to search for survivors, hampered by mounds of debris and slowed by efforts to shore up unstable walls and quivering floors in the building's remains.

More than 500 people worked in the Murrah building, which housed a variety of federal agencies, including the Drug Enforcement Agency, Bureau of Alcohol, Tobacco & Firearms, army and marine recruiting offices, the U.S. Customs Service and the Agriculture and Housing and Urban Development departments.

As federal, state and local authorities continued their search for the missing, risk managers, agents, adjusters and others began cleaning up and assessing damage.

The Property Claim Services division of the American Insurance Services Group has assigned the bombing a catastrophe number, which means that it caused at least $5 million in insured property damage.

Damage estimates will probably take some time because the four-block area around the federal building has been sealed off as a crime scene, said Bruce Coates, chief executive officer of the Oklahoma Assn. of Insurance Agents.

"The FBI indicated to us (Thursday) that it will probably be a week before they can release the crime scene" and allow adjusters and others to enter the area, he said.

"There's enough work on the periphery to keep the adjusters going," he added, likening the area to downtown Beirut. "There's much more damage on the periphery than I anticipated."

Mr. Coates said he spoke with a large insurer that insures seven buildings in downtown Oklahoma City "and all seven have major structural damage. I'm concerned that the insurance loss will be substantial. In the tens of millions, certainly."

Downtown buildings that have suffered significant damage include the offices of the Journal Record publishing company, the local YMCA, two churches, the offices of the state risk management department and Water Resources Board and Regency Towers, an apartment building.

The state's risk management staff hasn't been allowed back into its office, which "took an extensive hit," said John Zakariassen, director of risk management for the state of Oklahoma.

The department, which was leasing space in a building across from the blast site, is relocating to another Oklahoma City office, he said.

The state's $1.5 million self-insured retention for property losses has already been exhausted by other 1995 losses, Mr. Zakariassen said.

This means the state will look to its excess insurer, Commerce & Industry Insurance Co., an American International Group Inc. unit, to cover property damage, loss of contents, extra expense and business interruption claims from the bombing, he said.

"I would call this a major claim for the insurance industry," said Peter Bove, executive vp with Sedgwick James of New England Inc. in Boston.

Along with property damage, business interruption and auto physical damage claims for dozens of cars that were damaged or destroyed, losses could include lost rents and extra expense claims from building owners and even losses from leased equipment in the Murrah building, he said.

The severity of the business interruption losses will depend on how long companies' operations are disrupted.

While property damage is typically a prerequisite to this coverage, Mr. Bove noted that policyholders without such damage could still have limited business interruption coverage if they are kept out of their offices by civil authorities searching for clues to the bombing.

Mr. Bove and other industry sources agreed that even if the bombing were a terrorist attack, all risk and named perils property policies will likely cover the losses.

Meanwhile, observers expect few liability claims for anything beyond medical expenses, since it would be difficult to show anyone was negligent in the blast.

"You can't protect against a man driving up in a van and parking it in front of your building with 1,000 pounds of explosives in it," noted Donald Glaspey, executive vp with North American Insurance Agency Inc. in Oklahoma City.

Insurance adjusters began arriving late last week and are adding to the swell of officials and investigators that includes as many as 200 agents of the FBI; 75 from the Bureau of Alcohol, Tobacco and Firearms; 45 U.S. Marshals; 30 Internal Revenue Service criminal investigators; and others from the Federal Emergency Management Agency and state and local bureaus.

The Oklahoma Insurance Department, whose offices three miles from the federal building were rattled by the explosion, was putting a plan into action at the end of the week to certify adjusters and limit confusion in claims handling.

John P. Crawford, Oklahoma Insurance Commissioner, said representatives of up to 50 insurers may be in place by the weekend at a location the Insurance Department was preparing to help speed claims handling. He warned that adjusters credentials will be closely checked.

Adjusters that operate at the site will have to secure a temporary license to operate in Oklahoma, he said.

Mr. Glaspey said last Thursday that of 150 policyholders in the area, his agency had received claims from 40 or 50, many of them tenants in buildings with broken glass and water damage.

The explosion blew out windows as far as 23 blocks from the federal building and did other damage, such as knocking down ceiling tiles, as far away as 30 or 40 blocks, he said.

Adjusters hadn't seen the most seriously damaged buildings last week, he suggested.

"I'm sure no adjuster has been within blocks of anything there," he said.

Some downtown businesses were lucky.

Oklahoma Gas & Electric Co. had only last week closed a walk-in office for customers in the company's former headquarters building a block away from the federal building. The explosion blew out windows and tore away ceiling tiles at the old headquarters. "If we were still in that former headquarters, we would have had some injuries," said Gerald Wilkins, risk manager at the utility.

Mr. Wilkins said he doesn't expect that the utility will suffer any major property losses from the blast.

Brokerage Hilb, Rogal & Hamilton Co.'s Oklahoma City office is two blocks from the Murrah building and "some of (our windows) were blown open but not blown out," according to Robert H. Hilb, chairman, who said none of the office's 50 employees was injured.

Hilb's employees were not allowed back into the building last week, though, and were working from their homes or cars, he said.

Mr. Hilb added that while he was uncertain of the extent of the losses among Hilb's clients, he did not believe the bombing will cause a "terribly, terribly extensive insurance loss."

M&M's office is on the 11th floor of a building two blocks from the blast site, but suffered no damage or injuries, a spokeswoman said, adding that M&M workers were also unable to return to the office last week.

Liberty Bancorp Inc., located in Oklahoma City's tallest downtown building, rocked with the concussion but didn't appear late last week to have sustained damage at its site eight blocks from the federal building.

Banking business was halted after the blast when the building was evacuated and its mainframe computer was shut down, but Liberty's computer operations were transferred to another site in Little Rock and wire transfers were handled from the bank's Tulsa location, said Mischa Gorkuscha, chief executive officer. BI

AP/WIDE WORLD

Cleanup workers and news media surround the Alfred P. Murrah Federal Building in Oklahoma City following last week's bombing.

Bombing spurs heightened attention to security

OKLAHOMA CITY—Last week's bombing has led to heightened security at federal buildings across the country and may spur renewed interest in security and crisis management.

"The more space you can put between a car bomb and your building, the better," said E.C. "Mike" Ackerman, managing director of Miami-based Ackerman Group Inc., which is a security consultant to Chubb Corp.

"Basically, the name of the game is perimeter security and access control," he said.

For example, access to underground garages can be restricted to employees, and other vehicles can be subjected to searches to minimize the car bomb exposure, said Mr. Ackerman, who served in the Central Intelligence Agency's Clandestine Services in the 1960s and 1970s.

The 1993 World Trade Center bombing led to increased precautions in underground garages for a while, but the heightened security soon dissipated, he said.

The obvious solution is to prevent parking near a building, he said. This must be enforced, either through erecting a perimeter or physically removing vehicles.

Such an approach is under consideration in Washington, after a Colorado man parked in front of the White House and opened fire in an attempt to kill President Clinton last October. Security officials have advised that the portion of Pennsylvania Avenue between the White House and Lafayette Park be closed to prevent future incidents.

Architectural design and landscaping can play a key role in protecting a building from car bombs, said John Horn, senior managing director-corporate security and risk management practice for Kroll Associates in New York, which is partially owned by American International Group.

"Security has typically been a very low priority" among architects, who are more concerned with aesthetics and cost, he said. But corporations can retrofit their buildings and make changes to the landscape that decreases their exposure.

For example, a circular driveway leading to a building's front door should be torn up and replaced with moguls, trees and other obstacles, he said. Curb heights can be increased, with legally permitted boundaries, to make it harder for a car to drive up to the building. Concrete furniture bolted to the ground and planters, preferably filled with wet earth or a tree, can be placed strategically to deny vehicles access to the site, he said. The area can be monitored by closed circuit television and, if allowed by local authorities, "no parking, no standing" signs can be put up, said Mr. Horn.

Interest in security wasn't evident everywhere.

"We haven't had any calls at all—we were expecting them, but we haven't received them," said Richard Wong, assistant director of the Public Risk Management Assn. in Arlington, Va.

PRIMA has not focused much on terrorism, but it does stress the importance of crisis management plans and disaster preparedness to its members, Mr. Wong said.

—By Mark A. Hofmann

Insurers unlikely to invoke exclusions

OKLAHOMA CITY—War risk exclusions in property insurance policies probably will not apply to damage from the Oklahoma City bombing because insurers would have to show that the damage was done by agents of a foreign government.

But, insurers did not even raise that contention in the case of the World Trade Center bombing.

"I would not expect any (coverage issues) to be raised in the Oklahoma City bombing," said Daniel F. O'Donovan, managing director with Marsh & McLennan Inc. in New York. "The best clue is the way the World Trade Center was treated. . . .It was only a question of quantum—how big was the loss, not whether it was covered," he said.

"What we may see happen—starting with the reinsurance community—is some concern about providing this coverage in the future," added Mr. O'Donovan, explaining that reinsurers and then insurers may try to exclude or restrict coverage for terrorist acts under property policies.

Philadelphia-based CIGNA Corp., which was hit hard by the World Trade Center blast, started offering monoline terrorism coverage during Operation Desert Storm in 1990 to clarify a "gray area" created by the war risk exclusion, according to a CIGNA spokesman, who said the insurer has not restricted terrorism coverage under its standard property policies.

—By Douglas McLeod

Become familiar with the industry's first in-depth managed dental report card, because what you don't know may hurt you and your employees.

1994 DMO® CLIENT REPORT CARD

		DMO Standards	1994 Actual Results
I. Access/Credentialing			
a.	Percentage of members with 2 dentists in 10 miles	95%	91.0%
b.	Percentage of Dentists credentialed bi-annually	100%	81.1%
c.	Open office percentage	92%	82.2%
d.	Annual Dentist Retention	94%	94.8%
e.	Number of GPs per 1,000 members	4	3.2
f.	Number of Specialists per 1,000 members	2	2.0
II. Member Satisfaction with DMO			
a.	Overall Satisfaction with DMO	95%	91.1%
b.	Annual complaints per 1,000 members	47	44
1.	Appointment Availability Access	25	21
2.	Dental Office Interpersonal Relations	15	17
3.	Office Aesthetics	2	1
4.	Quality of Care Issues	5	5
c.	Member Disenrollment from DMO	5%	7.8%
d.	Member Services satisfaction	95%	94.1%
e.	Group Client Lapse Rate	5%	4.2%
III. Member Satisfaction with Dentist			
a.	Explains Diagnosis/Treatment	95%	91.7%
b.	Satisfied with time dentist spends with patient	95%	88.5%
c.	Confidence in Dentist's Care	95%	90.3%
d.	Satisfied with hygienist and staff	95%	92.2%
e.	Dentist scheduled recall appointments	95%	79.5%
f.	Staff was courteous	95%	95.3%
g.	Facilities were clean and well kept	95%	97.8%
h.	Dentist wore mask and gloves	95%	97.0%
i.	Dentist took medical and dental history	95%	94.5%
j.	Member received convenient appointments	95%	82.8%
k.	Dentist holds convenient office hours	95%	90.9%
l.	Waiting time in office was reasonable	95%	93.6%
m.	Dentist responded in 24 hours to emergencies	95%	87.1%
n.	Overall satisfaction with Dentist	95%	91.5%
IV. DMO Service			
a.	Member Services abandon rate	5%	7.2%
b.	Member Services calls answered in 45 seconds	90%	74.0%
c.	Percentage of claims paid in 15 calendar days	85%	88.3%

		DMO Min. Standards	DMO Results	Indemnity Norms
V. Quality of Care				
a.	Percentage of children with annual fluoride applications	75%	30.8%	24.4%
b.	Percentage of children with annual sealant application	50%	11.7%	7.6%
c.	Annual frequency/1,000 members (all)			
1.	Exams	1,000	543	539
2.	X-rays	600	524	376
3.	Prophylaxis	1,000	483	530
4.	Amalgam restorations	250	216	192
5.	Resin restorations	75	84	86
6.	Endodontic procedures	35	41	38
7.	Root planning and scaling	75	67	53
8.	Other periodontic procedures	10	10	17
9.	Oral surgery procedures	75	82	88
10.	Crowns	40	21	79
11.	Dentures	10	3	10

Overall Grade B+ John LeDell

Copyright 1995 The Prudential Insurance Company of America. All rights reserved. No part of this material may be reproduced without the written consent of The Prudential Insurance Company of America. DMO is a service mark of The Prudential Insurance Company of America, registered in the U.S. Patent and Trademark Office.

Here's how the DMO® rates...

Needs a lot of improvement

Better than I thought

96% without complaints

Not bad

Good work on prevention

When selecting a dental benefits plan, don't just look at the bottom line. Cost is always an issue, but service and quality are equally important. That's why The Prudential Dental Maintenance Organization (DMO®) developed the industry's first in-depth Client Report Card.

After all, improvement can't take place until strengths and weaknesses are identified and measured. And the DMO's state-of-the-art systems allow us to analyze member survey results, encounter submissions, claims data, member complaints, and information stored on the DMO Quality Improvement Program database.

Achieving member satisfaction and other criteria are just guessing games without the type of intricate statistical data we track and analyze. Since there are currently no professionally accepted industry standards, we developed our own.

We're aware the results of the DMO Client Report Card identified specific areas of our plan in need of improvement. We view this as a challenge to meet and surpass our high self-imposed standards. In fact, the higher we set our standards, the more likely your employees will enjoy an increased level of dental care satisfaction with the plan.

For more information about our DMO Client Report Card, contact your insurance advisor or call us directly at **1-800-PRU-DMO1.**

The Prudential Insurance Company of America, 56 Livingston Ave., Roseland, NJ 07068

Copyright © 1995 The Prudential Insurance Company of America. All rights reserved. No part of this material may be reproduced without the written consent of The Prudential Insurance Company of America. DMO is a service mark of The Prudential Insurance Company of America, registered in the U.S. Patent and Trademark Office.

ThePrudential

SURETY

Done in a way that makes the difference.

Agents and Brokers contact the industry leaders.

ACSTAR INSURANCE COMPANY

Bonding • Treasury Listed

United Coastal Insurance Company

Liability Insurance • Treasury Listed

233 Main Street, New Britain, CT 06050-2350

(203) 224-2000

© Copyright 1994 ACSTAR Insurance Company
and United Coastal Insurance Company