APRIL 25, 1983

business insurance®

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

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Risk Management Honor Roll

Large Corporation

Jerri Nelson MacMillian
Aetna Life & Casualty

Government Entity

Robert L. Sinclair
Nashville & Davidson County, Tenn.



John A. O'Connell
Holy Cross Shared Services Inc.
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Risk Manager of the Year

NEWSPAPER

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CAPTIVES MARKET REPORT... PAGES 3-111

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update

Diamond stolen from gallery insured, Sotheby's says

NEW YORK—Industry observers say Lloyd's of London most likely insured a 9.58-carat, uncut, pink, emerald diamond valued at $500,000 that was stolen from the Sotheby Parke Bernet Inc. gallery here last week.

Police theorize a Sotheby's customer substituted an inferior diamond painted with nail polish for the real gem while inspecting it at a counter or in a viewing room with Sotheby's se-

Continued on next page

The asbestos crisis (Part IV)

There's no guarantee of success for defendants in bankruptcy court

By STEPHEN TARNOFF

When three companies facing thousands of claims filed by asbestos-disease victims sought protection from creditors under Chapter 11 of the Federal Bankruptcy Act last year, they embarked on a legal journey fraught with danger and little, if any, precedent.

Simply put, no company had ever sought to use bankruptcy law to escape paying future product liability claims.

"They took a big gamble," one attorney connected with the bankruptcies says of the companies. "There's no question about it."

Today, nine months after the first filing by UNR Industries Inc., the risks are still there. It's still uncertain when the companies will emerge from the bankruptcy proceedings. And, there's the fear that some of them may never emerge.

For UNR and Amatex Corp. especially, their fate may hinge on whether the claims of future victims of asbestos-related diseases, who are as yet unknown, can be included in the companies' reorganization plans.

For Manville Corp., the largest defendant in asbestos litigation and the healthiest of the three companies financially, dealing with future claimants now is also a crucial issue, but the prospects for the company's survival appear considerably brighter.



"All three of these companies will survive," says David Rosen, a plaintiffs' attorney with the Los Angeles firm of Rose, Klein & Marias. But, Manville has a far greater chance of survival than UNR or Amatex, he adds.

To survive, the three companies say it is important, if not essential, to have future claims settled in bankruptcy court.

"The inclusion of future claimants is absolutely essential," says J. Gregg Miller, an Amatex attorney with the Philadelphia law firm of Pepper, Scheetz & Hamilton. "We can't reorganize unless we can deal with future claimants."

"There's no point in trying to continue to stay in business with the staggering number of future claimants," Mr. Miller says.

UNR attorney Malcolm M. Gaynor of the Chicago firm of Schwartz, Cooper, Kolb, & Gaynor acknowledges also that UNR may have to liquidate if future claimants aren't included in the reorganization plan.

But, he says, if insurers pay out the approximately $60 million of insurance the company says it has and if Congress sets up an alternate system for compensating asbestos victims, the company could survive even if future claims are not recognized by the bankruptcy court.

"It is possible, sure," to survive without a settlement of future claims, adds Richard Bendix an attorney representing UNR and a member of Mr. Gaynor's firm. "But I don't see it as a realistic possibility."

"I don't even like to speculate about that," adds Manville Senior Vp G. Earl Parker concerning the possibility of future claimants not being part of a reorganization plan. "I don't see that (liquidation) happening here at all.

"I think the claims are cognizable in Chapter 11 and have to be addressed and provided for."

In their fight to include future claimants in their reorganization plans, the three companies contend that current bankruptcy law provides for the handling of future claims.

The three asbestos defendants also contend that the number of

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Product liability proposal faces growing opposition

By JERRY GEISEL

WASHINGTON—The drive for passage of a uniform federal product liability law may be derailed by mounting opposition.

The powerful Assn. of Trial Lawyers of America, consumer groups and labor organizations all have stepped up their efforts to defeat federal product liability legislation, S. 44, proposed by Sen. Robert Kasten, R-Wis.

"We are dedicated to the defeat of this (Kasten) bill and the preservation of state sovereignty in this area," said Thomas Bendorf, executive director of the 40,000-member ATLA.

The AFL-CIO recently retained counsel to fight the Kasten bill, while David Greenberg, executive director of the Consumer Federation of America, says he is spending more time lobbying against proposed federal product liability legislation than any other bill.

This growing, broad-based opposition already is taking its toll on the drive to pass the legislation.

For example, Sen. Daniel Inouye, D-Hawaii, an influential member of the Senate Commerce Committee, had been a major legislative backer of federal product liability legislation.

But Sen. Inouye, a middle-of-the-road Democrat, recently dropped his endorsement and now is listed as neutral. "Without being coy, he is trying to draw out information from both sides," said Inouye aide Eric Lee.

Sen. Inouye changed his position after discussions with Hawaiian trial attorneys.

Legal groups also have been lobbying other members of the Commerce Committee, which has jurisdiction over product liability legislation, to try to get them to change their minds, too.

"The trial lawyers have made inroads," notes Tom O'Day, government relations officer of the Alliance of American Insurers, an industry trade group that supports federal product liability legislation.

But business groups also are scoring victories in their battle to line up the backing needed to pass the legislation.

For example. Sen. Barry Goldwater, R-Ariz., one of two Commerce Committee members to vote against the Kasten bill last year, now endorses the measure, along with 16 other senators, nearly all Republicans, after

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Consultants should be liable for inspections, survey says

By RHONDA L. RUNDLE

Risk managers think that consultants who are hired to conduct property and workplace safety inspections should be legally liable for their performance, but that insurers, agents and brokers should not be.

By nearly 2-to-1, risk managers responding to a *Business Insurance* Risk Management Board survey said that consultants bear a heavier burden than other inspection vendors because they are accountable only to the company that hires them and not to the underwriter.

rm board



Photo: FMC

Consultants are paid experts hired for a specific task whereas property insurers make inspections to protect their risks, observed the risk management director for a printing, publishing, and retailing company with $1.3 billion in annual gross sales.

Sixty-nine percent of the survey respondents said that consultants who perform workers compensation and property inspections should be liable for the completeness and accuracy of their work. Only about 35% said the same about insurance company inspections.

The perceived level of responsibility was only slightly less for agents and brokers than for insurers. But, if the broker is working as a consultant on a fee-for-service basis, then most risk managers are apt to apply the same standard to brokers as to consultants.

Only 29% of the respondents believed that commission-compensated brokers should be liable for workers compensation inspections vs. 32% for brokers who do property inspections.

The Risk Management Board includes risk managers in a wide variety of businesses and institutions who have volunteered to answer four annual surveys. Fifty of the 66 board members completed the most recent survey, an unusually strong 76% response rate.

The results suggest that risk managers distinguish between the legal liability of different types of vendors, but that they do not perceive much difference in liability related to the nature of the inspected risk. Most respondents gave identical answers to questions about property inspections and workers compensation inspections.

However, ultimate responsibility for workplace safety and property risk management lies with the company and not with outside inspection vendors, most of the respondents emphasized in a general comment section of the survey.

"This responsibility should never be delegated outside (the company) environment except through spe-

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update

Stolen diamond is insured

Continued from previous page
curity officials present. Police viewed videotapes of the display area. Sotheby's said the loss is covered by insurance, but declined to give further details. Marsh & McLennan Inc. is the gallery's broker.

Although a half-dozen U.S. insurers offer jewelers block insurance, few of them are equipped to insure the millions of dollars' worth of jewelry, furniture, paintings and valuables owned and traded by Sotheby's and its major competitor, Christie's Inc., which is covered by Lloyd's.

The diamond was to have been part of a $6.6 million jewelry auction the day after its theft.

Travelers protests paperwork

SAN FRANCISCO—Travelers Indemnity Co. is asking the California Supreme Court to temporarily stay a court order requiring companies involved in litigation over insurance coverage for asbestos defendants to produce hundreds of millions of documents.

The order by Judge Ira A. Brown Jr. required companies to produce by March 31 all documents relevant to litigation involving four defendants in asbestos litigation and 62 insurers. Companies are still producing the documents. Travelers alone has more than 30 million documents, according to its petition.

Travelers is also asking for an order to protect "privileged and confidential communications of both parties and non-parties," and to simplify the discovery process.

Social Security bill signed

WASHINGTON—President Reagan last week signed legislation that will pump more than $165 billion in new revenues into the Social Security program over the next seven years.

The new law, passed by Congress last month (*BI*, April 4) will accelerate future FICA payroll tax increases as well as gradually raise the Social Security retirement age to 67 from 65.

The law also will make Social Security coverage mandatory next year for non-profit employers and for newly hired federal employees.

Village sues stadium suppliers

CHICAGO—Another lawsuit, this one for $5 million, was filed last week against two firms that provided building materials for a roof that collapsed in 1979 on the Rosemont Horizon, an entertainment/sports center in a western Chicago suburb. Five persons were killed and 16 injured in the accident.

The lawsuit, filed by the village of Rosemont against Weyerhauser Co. in Tacoma, Wash., and Glow Steel & Ornamental Iron Co., alleges that the materials used on the roof were defective, said Village Attorney Peter Rosenthal. Glow Steel of South Holland, Mich., is no longer in business. The $5 million being sought would cover the property damage and loss of revenue to the village because of the eight-month delay in reopening the center.

It's expected that this suit will be consolidated with several other personal injury and death suits previously filed in Cook County Circuit Court against the two firms and others.

St. Paul hikes stake in Minet

ST. PAUL, Minn.—St. Paul Cos. Inc. has raised its stake in Minet Holdings P.L.C. to 24.96% and now owns more of the British-based broker than Corroon & Black Corp., the New York-based broker.

St. Paul said it acquired the additional 3.8 million shares for $8 million to $9 million. During 1982, it boosted its ownership in Minet to 20%.

Kong covered for wrong risk

NEW YORK—The last time King Kong scaled the Empire State Building, no one stopped to think about liability insurance. This time was different.

When a San Diego company decided to hoist a 72-foot, 3,000-pound Kong balloon to the top of the skyscraper to commemorate the great ape's 50th anniversary, Universal City Studios, holder of the rights to the beast, demanded that everyone be covered.

Robert Keith & Co., the balloon's maker, increased its normal $5 million liability umbrella policy to $10 million for the event, the company's agent said. An engineering consulting firm and the firm hired to tether the ape to the skyscraper's mast also had to present proof of insurance.

But all was for naught. Buffeted by high winds and drenched by rain, Kong sprung several leaks and looked more like a giant piece of plastic wrap than a monster from a jungle island.

The balloon, valued at $100,000, was not insured against physical damage, a Keith spokesman said, adding that the ill-fated ape will now be taken down, repaired and re-inflated on what everyone hopes will be safer ground: Central Park.

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NASA to compensate owner if satellite cannot be used

By DOUGLAS McLEOD

NEW YORK—the National Aeronautics and Space Administration says it is not sure how soon it will be able to correct the orbit of the damaged communications satellite launched by the space shuttle Challenger earlier this month.

The $100 million tracking and data relay satellite was one in a series of six owned by Space Communications Co. of Gaithersburg, Md., and leased to NASA to provide a network for tracking space traffic.

NASA is "absolutely" sure that the 5,000-pound satellite's problems will eventually be corrected, says James Kukowski, a NASA official.

But, if the satellite cannot be used, SpaceCom, which did not insure the satellite against loss during launch, may be compensated in any one of several ways under its service agreement with NASA, an attorney for the space agency said.

The satellite, known as TDRS-A, was intended to be placed in a circular geosynchronous orbit 22,300 miles over northeast Brazil. But the Air Force rocket that was to boost the probe into high orbit after it was deployed from the space shuttle shut off prematurely, leaving the satellite in an elliptical orbit with a high point of 21,950 miles and a low point of 13,540 miles.

NASA says that use of the satellite in its present orbit would be "very, very limited," and had planned to use the probe's 24 thrusters to correct the orbit. The agency found, however, that two of the thrusters had been damaged when the Air Force rocket, manufactured by Boeing Co., separated from the satellite.

Engineers at TRW Corp., the satellite's manufacturer, are now conducting computer studies to find a way of correcting the orbit without the use of the two thrusters, according to Mr. Kukowski. The study may not be finished before the end of the month, he said.

NASA may test-fire some of the satellite's thrusters in early May, but Mr. Kukowski said no one is sure it will actually begin correcting the straying satellite's orbit.

TDRS-A was to be the first of two satellites that would supplement ground stations, now the principal means of communicating with the space shuttles and other low-orbit vehicles.

The second satellite, TDRS-B, is scheduled to be launched on a Challenger mission in August. Whether the satellite will be launched as scheduled, though, will depend on the results of a study by NASA and Air Force engineers into what went wrong with the first orbiter's 32,000-pound Air Force rocket, known as an

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Court throws out $750,000 jury award

By BILL DENSMORE

Risk managers and their insurers are analyzing a state appeals court decision in California that could save millions of dollars in personal-injury claims if upheld and extended nationwide.

The decision involves whether juries should consider the effect of income taxes on lost future earnings when deciding how much to award a plaintiff.

In the California case, the appellate court did not disagree with the lower court's apparent decision to base the award on after-tax earnings, even though California law generally favors use of gross earnings. However, it still reversed a $750,000 damage award because the lower court did not instruct the jury on how to discount for the time value of money.

Federal and state courts have split on the issue of after-tax earnings vs. gross earnings, but some think a trend is emerging to recognize after-tax earnings. However, others say the dispute is far from resolved.

"It think it's an issue coming up more and more in tort law today," says Robert L. Alpert, a senior vp with New York-based United States Aviation Underwriters Inc., which handles insurance for many of the nation's airlines and follows personal-injury law nationwide. "The trend surely is to go to net income."

"I think the California case portends a trend across the country," says John J. Kennelly, a prominent plaintiffs' personal-injury lawyer in Chicago who handles many air crash cases.

"What you're really talking about is a diminution of damages in death cases that can be as high as 40% or 50% depending on the income of the victim."

However, another plaintiffs' lawyer disagrees

Continued on page 138

Panel to review plans for Canadian exchange

By LEN STRAZEWSKI

TORONTO—A committee of top Canadian insurance and finance executives will say yea or nay next month to Ontario's proposed Canadian insurance exchange.

The Insurance Exchange Advisory Committee, appointed by the Ontario Ministry of Consumer and Commercial Relations and chaired by Johnson & Higgins/Willis Faber Senior Vp Robert H. Hilborn, will review its first set of subcommittee reports this week, according to Mr. Hilborn.

"We are hoping that these reports can be reviewed and combined for an interim report to the ministry by the end of May," Mr. Hilborn explains. "If the report is positive, the next step will be establishing a framework for its operation."

A Canadian exchange, however, would still have a long way to go, Mr. Hilborn notes. "Right now, all we have is the advisory committee working on a feasibility study. We do not have enabling legislation or a marketing plan yet."

The proposed Canadian insurance exchange, originally conceived as an Ontario institution similar to those already operating in New York, Illinois and Florida, has already gone through a series of changes since it was suggested last November (*BI*, Nov. 15, 1982).

"If we do go ahead with the project, it clearly must be a Canadian exchange, not just an Ontario exchange," Mr. Hilborn explains. "Though our study was prompted by the Ontario provincial government, Ontario just does not have the pre-

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New comp form delayed until '84

By CAROL CAIN

CHICAGO—Computers usually make things go faster, but in the case of a new workers compensation and employers liability policy, computerization will mean a delay of seven months.

But the wait will be worth it to employers that buy workers compensation insurance from commercial insurers, says the National Council on Compensation Insurance. Employers should find the new policy easier to understand because of simpler language and easier-to-read because of larger typeface and format, says the ratemaking bureau.

It also liberalizes the employer liability section of the policy.

The final version of the new form and endorsements was scheduled to be in force nationwide by Sept. 1 (*BI*, Dec. 20, 1982). However, several insurers that are NCCI members asked for an extension because they are in the process of going on-line with computer systems, said Donald DeCarlo, NCCI vp and general counsel.

To meet their needs, the date for the policy to be in use nationwide was pushed back to April 1, 1984.

The NCCI is authorized to file workers compensation and employers liability insurance policies on behalf of member insurers in 31 jurisdictions and on an advisory basis in six other states.

The new policy replaces one that's been in use since 1954. While that form was adequate, it had to be rewritten in response to a change in state law or regulation in three states that required the language be simplified, Mr. DeCarlo said.

Specific legislation in Florida requires the new policy be used beginning Oct. 1, and in Maine a similar requirement sets July 1, 1984, as the filing date for the new policy.

Kansas is a bit more flexible, Mr. DeCarlo said. It put out a bulletin asking that new policies be filed "as soon as possible."

The new policy is liberal in comparison to the old one, Mr. DeCarlo said. The first part on workers compensation is basically the same, but has been rewritten in "plain English," he noted.

However, the second portion, which covers employers liability, has been extensively rewritten to reflect some of the questions with which the industry is struggling, Mr. DeCarlo said.

In that revised second section, the policy:

- Adds coverage for damages claimed against employers under the "legal theory of dual capacity." Under this theory, employees can sue employers for work-related injuries charging the employer was also acting in another capacity, such as manufacturer of a

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BERMUDA



Growth of captives slows, but they won't be abandoned

By RHONDA L. RUNDLE

ONCE A BOOM LAND of burgeoning captive insurance company growth, Bermuda today is entering a period of respectable middle-aged maturity.

New captive formations on the island slowed perceptibly in 1982, while liquidations soared to an all-time high. Twenty-five insurance companies "wound down" in 1982, compared with 11 in the entire preceding decade. Six more have liquidated so far this year.

Bermuda captive managers admit that many of their clients are using their captives less—opting to insure new risks in the commercial insurance market rather than keeping them in the captive.

And wholesale loss reserve transfers that wipe out the captive's long-tail liabilities have become a booming segment of Bermuda's reinsurance business (see related story).

Captive insurance company business continues to contribute heavily to the Bermudian economy. But government officials today, in contrast to a year ago, no longer expect this sector of their economy to outpace tourism as a revenue source.

In short, Bermuda's captive industry is suffering the effects of the soft worldwide insurance market. Fewer U.S. and international companies want to retain risk in their captives when the conventional insurance markets offer competitive alternatives that let the policyholder share in investment income.

Despite the slowdown in captive growth, nobody is predicting that Bermuda or the 2-decade-old captive movement will be abandoned. There were 1,195 registered Bermuda captives at the end of 1982, far more than all the other offshore and domestic captive domiciles combined.

Total premium underwritten by Bermuda captives will continue to be a guessing game until the government finishes compiling and publishes 1981 figures sometime later this year. Guesstimates range from $4.5 to $6 billion, including up to $1.5 billion contributed by about 30 Bermuda reinsurers.

One captive manager estimates that captive premium volume declined by 10% in 1982 based on his own managed companies' experiences and others with which he is familiar.

Eighty-nine new captives were registered in Bermuda last year, down from 118 in 1981, 119 in 1980 and 117 in 1979. Surprisingly, 30 new companies were formed during the first quarter of 1983, raising at least the possibility that last year's decline was more a blip than a trend.

"We've noticed a real upswing in the past six to eight months," says Arthur H. Deters, executive vp of International Risk Management Ltd. "Times are getting better—even though it's not going to be another 1970-75 period when you just pulled out your order book and the queue formed at the door."

However, it appears that there may be fewer active captives in Bermuda today than a year ago. That's because Registrar of Companies Verbena

Continued on page 28

Despite casualties, reinsurers say they're in business for good

By KATHRYN J. McINTYRE

TO PARAPHRASE Mark Twain, the reports of the death of the commercial reinsurance market in Bermuda are greatly exaggerated.

To be sure, unprecedented casualties and desertions in the last year from the ranks of reinsurers underwriting in Bermuda may well reduce premiums and capacity in the marketplace in 1983.

But, new recruits and new signs of activity among existing companies could pick up the underwriting pace abandoned by others.

It's a period of regrouping in the marketplace that sprang to life around 1977 from—and to complement—the thriving captive insurance companies.

Says Robert Baker, chairman of the Insurance Advisory Committee to Government and president of Hudson Reinsurance in Bermuda:

"There is no question that the professional reinsurance companies like ourselves are here for good. There probably will be a few more companies. And a few of the smaller ones may retire from reinsuance over the next two to three years. But the larger, well-financed companies, particularly those in business for seven or eight years, will continue to be here.

"What will help is the fact that captive formation hasn't ceased. It has changed character to association- and agency-owned. And the reinsurance on those tends to be marketed more in Bermuda now. That will help to maintain the market.

"There is too much of a solid structure put in place over 10 years for it all of a sudden to vanish," he concludes.

Nigel Harley, president of Continental Re (Bermuda) who soon leaves Bermuda for Continental Re New York, predicts: "Bermuda is never going to be a great center for international reinsurance. There is too much competition elsewhere, in London and New York.

"Bermuda will be first a captive center, then a U.S. facultative market and a market for financial reinsurance deals."

Bermuda's commercial reinsurance market today is 30-odd reinsurance companies and a half-dozen underwriting managers staffed by underwriters and courted by 30 Bermuda-based brokers and scores of American brokers.

The Bermuda reinsurers like to underwrite American casualty business, up to $10 million; financial reinsurance deals, which are specially suited to Bermuda's tax-free environment; and captive reinsurance business (see story, page 25).

International treaty reinsurance, of course, is underwritten by most of the companies.

Although the estimated premium volume of $4.5 billion to $6 billion in Bermuda makes it the third-largest concentration of reinsurers in the world behind London and New York, these 30-odd professional reinsurance companies underwrote only about $1.5 billion of those premiums. Captive insurance business, pooling programs and captives dab-

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CAYMAN
Cayman captive managers planning to diversify into other insurance activities.
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BAHAMAS
Proposal would ban taxes on captive insurers for next 15 years.
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U.K. DOMICILES
Guernsey, Jersey and the Isle of Man hope to lure European, U.S. captives.
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U.S. DOMICILES
Captives flock to Vermont, while Tennessee, Colorado see little growth.
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DIRECTORY
Learn what types of services 84 captive management firms provide.
PAGE 88

Bermuda reinsurers

Continued from previous page
bling in reinsurance through underwriting manager agreements generate more in premiums.

Half of the 30 reinsurers sprang from captive insurance companies; the other half were founded as reinsurers.

With capital and surplus ranging from a few million to almost $650 million, the Bermuda reinsurers offer a theoretical capacity of about $20 million per risk and a practical capacity of about $10 million.

It's capacity few brokers ignore today.

As broker Kerry Friel, director of Republic Hogg Robinson, says, "Bermuda is not a third market, but part of the worldwide market."

But, as brokers move into the island (see listing, page 111), some reinsurance capacity is leaving.

Most notable among the casualties is Phillips Petroleum Co.'s Walton Insurance Co. Ltd., which was ordered by the oil company to stop underwriting new business and is running off its business pending its sale (see story, page 10).

Brokers say they will miss the big lines that Walton offered, namely a couple million dollars on facultative risks and $50,000 to $100,000 on treaties.

Likely to feel the lost capacity the most is Insurance & Reinsurance Brokers (Bermuda) Ltd., which is partially owned by Walton and produced substantial business for it. Vp Derek Hutton, however, says the brokerage will be able to place enough business elsewhere to support its staff.

Other casualties involved companies much less active.

Ajax Insurance Co., with $7 million in capital and owned by Talbot Investors Inc. of Panama, was ordered in February by government officials to stop underwriting because its statutory return revealed it was insolvent, according to Bermudian officials.

Ajax's liabilities, stemming from business underwritten in London, are being run off in London and are monitored by Bermuda authorities who are ready to liquidate the company if necessary.

Dover Insurance Co., with $1.5 million in capital and owned in part by Irving Pfeffer, Pacific American Group of San Francisco and the investment company Crawford Group, was ordered into liquidation by the Bermuda government in February. The company underwrote professional liability insurance for podiatrists.

No longer underwriting by its own accord is Marbarch Insurance Co. Ltd., a subsidiary of Associated Communications Corp. in London. The new owners of ACC no longer want to engage in the insurance business and it will be run off.

Gone from ranks of underwriting agencies is Britamco, formed by Leslie Dew in 1978 to provide more capacity than available through Insco Ltd., Gulf Oil Corp.'s insurance subsidiary of which he is president.

Britamco was given up at the end of 1982, Mr. Dew said, because "some of the participants were reluctant to continue with all classes written by Insco."

Most notable among the deserters from the Bermuda market is Continental Re (Bermuda). Although the corporate entity will remain in Bermuda, its active portfolio of reinsurance business is to be consolidated with Continental Reinsurance Corp. of New York.

There no longer is a tax advantage to Continental in underwriting from Bermuda and operating costs will be greatly reduced by the consolidation, says President Mr. Harley, who is headed to New York.

Losing Continental hurts prestige more than market capacity. Brokers who could get Continental on an international slip prized it for its influence on other insurers,but only 2% to 3% of the reinsurer's 1982 gross premium of $147.4 million was developed in Bermuda.

Some smaller captive insurance companies also have pulled back from the front lines of open-market underwriting, discouraged by depressed rates.

Pepsico Inc.'s captive Anderson Hill, for example, stopped day-to-day open-market underwriting at year-end 1982 after just a year. "Once we got into it and saw what we were offered, we weren't getting what we wanted," said Allen Taft, its executive vp.

While "waiting for the market to change," Anderson Hill is looking to underwrite guaranteed-cost workers compensation and general liability insurance for companies with payout schedules similar to Pepsico's.

Anderson Hill underwrote $40 million in premiums in 1982, slightly more than half of which was unrelated to Pepsico risks, and made almost $1 million in underwriting profit.

Also no longer receiving brokers and telexes daily is Trent Insurance Co. Ltd., which was caught up in the disclosures of alleged inside-reinsurance dealings at Alexander Howden Group P.L.C. It had written $20.2 million in gross premiums in 1981, but now Alexander & Alexander Services Inc., which acquired Trent with Howden, is using it to underwrite specialized financial reinsurance.

The allegiance of the reinsurance subsidiaries of U.S. oil companies to Bermuda is questioned, too. The potential for new tax liabilities for oil companies with offshore insurers under the Tax Equity and Fiscal Responsibility Act of 1982 may ultimately convince them to move their operations to the United States.

So far, however, while Gulf's Insco Ltd. and Ocean Drilling & Exploration Corp.'s Mentor Insurance Ltd. are making inroads into the United States, none of the active oil company captives looks as if it is abandoning Bermuda.

Insco has a foot in the United States through a managing general agency, Transinsco, formed last year by Gulf through an underwriting agreement with Hartford Insurance Group to underwrite surplus lines risks. Insco receives a quota share of the business, 50% of the first $500,000.

In 1982, Insco underwrote $140.5 million in gross premiums, down from $154 million in 1981. "The decrease in premium volume was deliberate in marine and aviation," said Mr. Dew, "and we are declining casualty at what we think are rates incapable of producing an underwriting profit."

Nonetheless, Insco's 1982 net income decreased nearly 50% to $13.5 million after an underwriting loss of $9.6 million, compared with just an $285,000 underwriting loss in 1981. The company's combined ratio jumped to 111.5% from 100.2%.

Less than 10% of Insco's business comes from local brokers with more than 60% coming from the U.S. London and Europe are other production sources.

Insco underwrites against paid-in capital of $10 million, a general reserve of $35 million and retained earnings of $76.9 million. Its total assets are $299.4 million, up from $266 million in 1981.

Mentor Insurance Co. Ltd., the ODECO subsidiary, will relinquish underwriting of U.S. risks to new U.S. Mentor companies, says Douglas Higley, chairman of Mentor Insurance Ltd. in Bermuda.

Mentor Excess & Surplus Lines Insurance Co. and Mentor Insurance & Reinsurance Co. have been founded in Louisiana with $4 million and $2 million in capital, respectively.

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Are You Into Insurance Law? Reach for NILS

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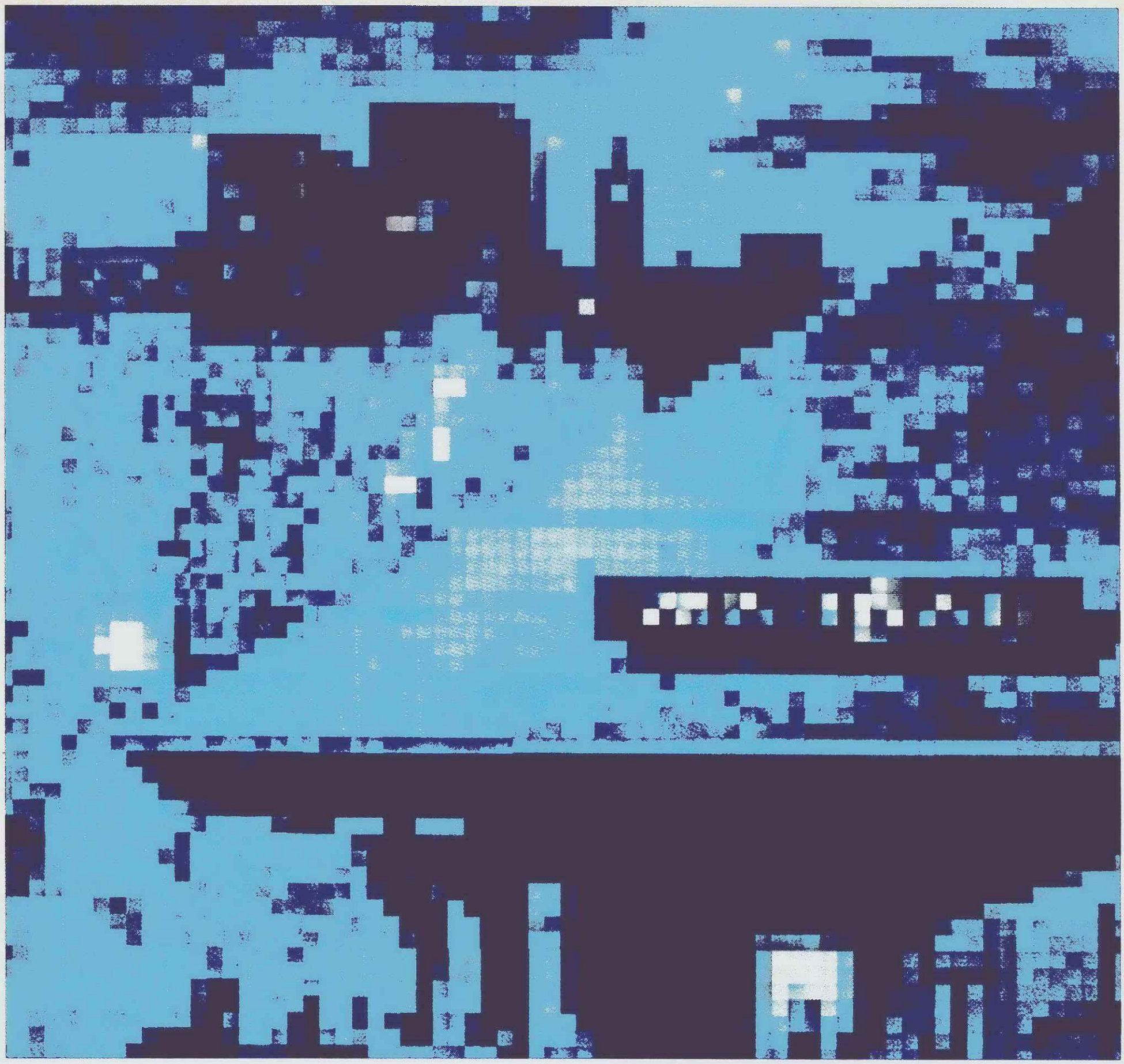
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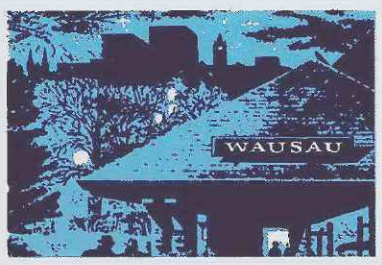
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Mentor's plans

Continued from previous page

The surplus lines company is expected to begin underwriting in 1983 to achieve "greater access to U.S. business," says Mr. Higley, who is also president of Mentor Holding Corp., the holding company for ODECO's insurance operations.

Mr. Higley is moving to New Orleans in July, but insists "we are very much committed to remaining here. This is going to be our international company."

Mentor's underwriting operations in Bermuda, and business being run off by Mentor U.K., produced net income of $8.3 million. The combined loss ratio of 116.2% on $5.5 million written premiums reflects an $8.5 million underwriting loss, including significant increases in IBNR reserves (for incurred-but-not-reported claims) in the British company, he said.

In 1983, Mentor in Bermuda will hold its premium volume to less than Mentor's capital and surplus of $57.6 million, $10 million of which is paid-in capital; the balance is retained earnings.

At Ancon Insurance Co., a subsidiary of Exxon Insurance Holdings Inc., Vp Malcolm H. McLachlan is directing a "careful, professional expansion" of international treaty business.

The former president of Great Lakes Re, a subsidiary of Munich Re in Toronto, Mr. McLachlan joined Ancon in September 1982 and is considered one of the most influential new arrivals since Mr. Dew arrived in 1977 from London.

The behemoth Ancon with $812 million in assets (including $50 million in paid-in capital, a $250 million contingent loss reserve and unappropriated retained earnings of $310 million) has never aggressively underwritten business, despite its huge capacity.

A staff of 10 at Ancon is dedicated to unrelated business, but it draws on the support staff of Ancon that serves Exxon business, which generated $164 million of Ancon's $181 million in gross premiums in 1982.

Non-Exxon business generated $17.2 million in gross premiums in 1982, almost double the $9.6 million of gross premiums from non-related business in 1981 but less than 10% of all Ancon's business.

"A lower rate of increase is planned for the current year, reflecting the continuing adverse market conditions and our own stringent underwriting standards," Mr. McLachlan said in a letter commenting on the 1982 results.

On net premiums written of $138 million, Ancon paid only $39.8 million in losses in 1982, producing net income of $150.9 million.

Among the few new underwriting operations in Bermuda of late is Fairway (Bermuda) Ltd., whose principal shareholder is Dana Corp.

Incorporated in August under Norman Doree, formerly vp of underwriting at Frank B. Hall Underwriting Managers, it started underwriting in January and projects a 1983 premium volume of about $2 million to $3 million.

Fairway Bermuda has authority to underwrite U.S. business for Summit Fidelity & Surety Co., a U.S. company, and international business for Solar Insurance Co. Ltd., a Bermuda company, both owned by Dana.

With retrocessions behind each of the two companies, Fairway has a $250,000 capacity every contract to underwrite conventional treaty reinsurance. But it averages a $100,000 line on about an equal mix of property and casualty risks.

Another new market in Bermuda is the Pearson, Webb Springbett North American Fire Pool, created in October 1982. PWS traditionally has underwritten all but American property risks through its PWS Fire Pool and the PWS Spectrum Pool.

The North American pool is comprosed of 10 Bermuda captive insurers that wanted to write unrelated risk business. It offers a $600,000 capacity and so far has underwritten about 30 cases for about $100,000 in premiums, says Vp A.W. Hunt of PWS in Bermuda.

Although a 4-year-old member of the market, a revived Aneco Reinsurance Co. Ltd., Bermuda's only publicly traded reinsurance company, is exhibiting new life and enthusiasm (see story, page 20).

Also growing are the reinsurers specializing in financial reinsurance transactions in which the financial risk is bigger than the fortuitous risk.

The contracts include surplus relief, funded excess covers, modified co-insurance contracts and discounted reserves or loss portfolios.

The leaders include Fencourt Re, a subsidiary of Abbey Insurance Co. Bermuda owned by International Telephone & Telegraph Crop.; Pinnacle Insurance Co.; and Belvidere Insurance Co.

Shippan Insurance Co., originally created to underwrite black-lung risks, is considering this kind of business, too (see story, page 26).

Almost two-thirds of Fencourt's 1982 premium volume of $135 million was generated by underwriting loss portfolio runoffs and other types of financial risk transactions for 28 new accounts. In 1981, it reported $85 million of premium income, half of which was related to financial reinsurance for unrelated parties.

The bulk of Fencourt's clients are insurance and reinsurance companies, but some are non-insurance corporations either transferring self-insured loss reserves or buying current-year funding programs, principally for product liability risks.

Graham Watson in Boston, which is owned by Hartford's Cameron & Colby, is the major producer of this business for Fencourt, which at year-end 1981 had $10 million in share capital, $26 million contributed surplus and $12 million in retained earnings.

Pinnacle, started in 1980 with $20 million from Lloyd's broker C.E. Heath & Co. in London, specializes in loss portfolio and runoff reinsurance of insurers and reinsurers.

The company underwrites about 10 to 15 such contracts a year, primarily for U.S. firms. Its 1982 premium income was $62.7 million and retained earnings of $10 million.

At Belvidere, President Francis Carter won't disclose his premium income on financial reinsurance transactions, including surplus relief and financial guarantees. He reports only the commissions earned on the business, $1.84 million in 1982, and excludes the "matched assets and liabilities" associated with the programs from the balance sheet.

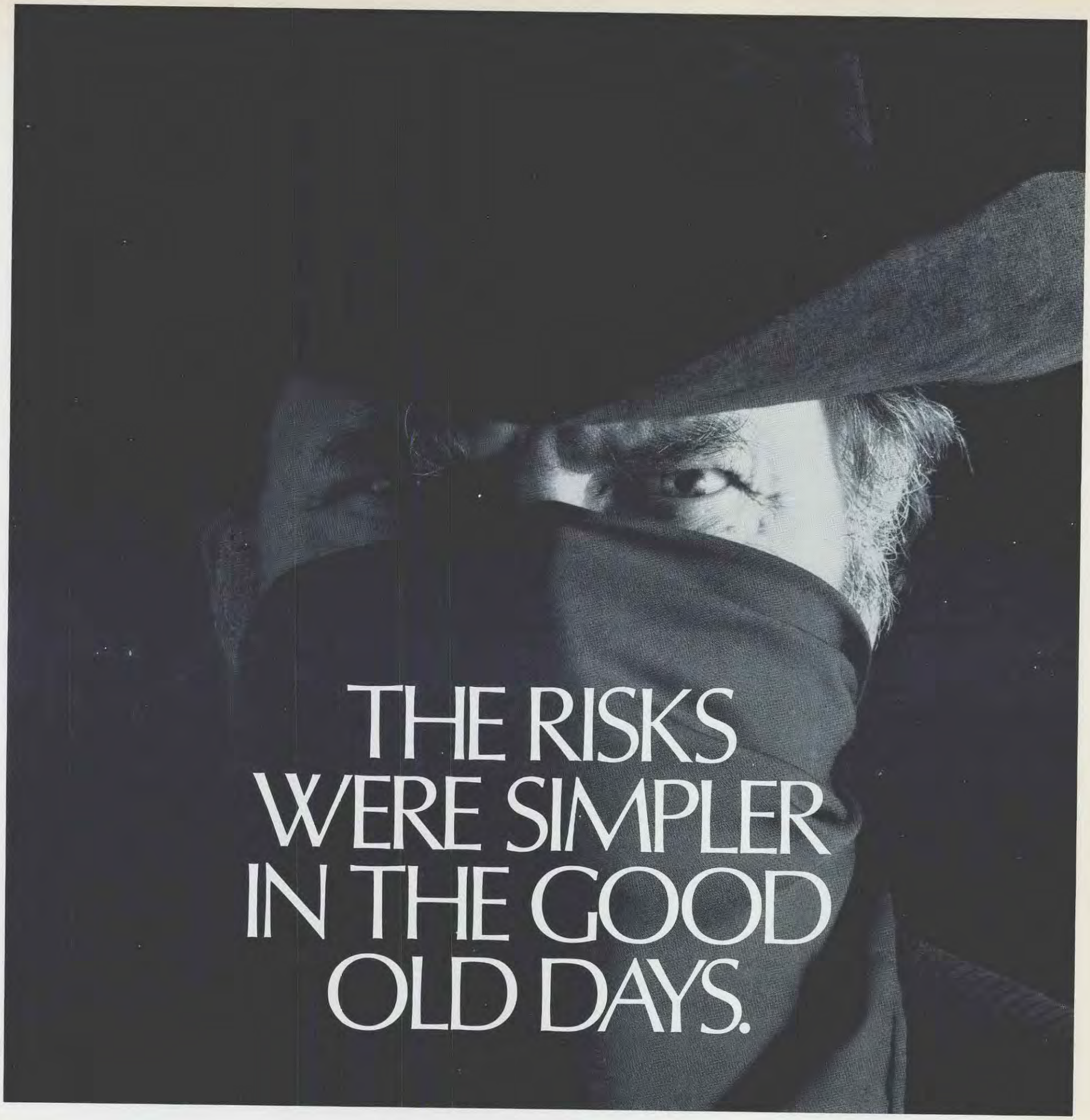
In conventional business, generally there is little dramatic growth because of the competitive rates worldwide in reinsurance, reinsurers and brokers say.

"It will be a tough year," says Brian O'Hara, treasurer of Trenwick Reinsurance Co. "We see business picking up in 1984," he adds.

Trenwick, with more than $24 million of contributed and share capital, underwrote $12.8 million in gross premiums and about $8 million net in 1982. Although that represents about a 30% increase in net premiums from 1981, Trenwick still is not writing anywhere near its capacity.

Rates offered by Bermuda underwriters generally are competitive with worldwide rates. Some brokers say Bermuda underwriters hardened their rates before the January renewals, but good deals can still be struck. ■





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A rich tradition

The list of *Business Insurance* Risk Managers of the Year is growing, and because of these winners' outstanding achievements and overall professionalism, the esteem attached to the annual award is growing, too.

Thanks to the caliber of these winners, the annual competition, now in its sixth year, is developing into a rich tradition.

From Howard T. Weber, the first winner in 1978, to this year's John A. O'Connell—with Edward L. Erickson, Thomas V. Hallett, Duane C. Allen and Eckart Russell in between—each of these winners has proven himself not only to be a good risk manager, but also a savvy businessman, a good manager and a decent person.

It's a tradition we are proud to have started on the 10th anniversary of *Business Insurance* in 1977.

Although traditions generate a pleasing sense of stability and identity, we were pleased to see some traditions attached to the Risk Manager of the Year award broken this year.

For the first time in the award's history, the winner is not the risk manager for a big-name corporation with multifaceted activities spread everywhere around the globe.

And, he doesn't report to profit-motivated business executives or work in a major metropolitan area where fellow risk managers, brokers and insurers can gather.

Instead, Mr. O'Connell is the risk manager for a not-for-profit organization engaged in health care and education, primarily in the United States. He reports to a congregation of Catholic Sisters, based in Norte Dame, Ind., a two-hour drive from Chicago.

We are jubilant over Mr. O'Connell's uniqueness.

First, his selection as the winner at last satisfies our intention that the competition recognizes outstanding risk managers in any type of organization located anywhere, not just those employed by big businesses with high profiles in metropolitan areas.

Mind you, there is nothing wrong with those characteristics, but they aren't essential to professional risk management.

And secondly, Mr. O'Connell's achievements for the Congregation of the Sisters of the Holy Cross prove that good risk management is not just for big companies. It is important to the success of any size company or organization.

Another unintended tradition also was broken this year with the selection of the Risk Management Honor Roll winners.

For the first time since the Risk Manager of the Year competition began in 1978 and since the Honor Roll was added in 1980 to recognize risk manangers from various types of organizations, a woman has been named a winner.

Thanks, Jerri Nelson MacMillian. To be honest, you saved us from having a sexist stigma attached to our contest.

We've seen more and more talented women enter risk management and move up the ladder to top positions. We're happy that at last the achievements of one were brought to our judges' attention and that they considered them award winning. The judges found Mrs. MacMillian's efforts in risk management in Aetna Life & Casualty Co.'s real estate investment department to be the most outstanding of the candidates nominated from large corporations.

And, we have our first winner to change jobs before the ink is even dry on his plaque. Robert L. Sinclair, our 1983 Honor Roll winner representing government entities, is now employed by Vanderbilt University. It goes to show that risk management talents are portable from one type of organization to the next.

To all the nominees—winners and those who did not win—our thanks for devoting the time it takes to participate in the competition. To every staffer, business associate or friend who was the moving force behind any of the nominations, a special note of appreciation is sent your way. It takes a special kind of person to work hard to generate glory for someone else.

And to our 11 contest judges, another special thank-you. We know the massive job we are asking you to perform when we send the nominating statements to you. Thanks for the conscientious way you execute the duty.

A final note on traditions.... There's one we were sorry to see broken this year. For the first time since the Honor Roll was instituted, we had no nominees in the small business (less than $300 million in sales) category.

We know there are a lot of deserving part-time and full-time risk managers at small companies. We encourage their staffs and business associates to bring them to the attention of the judges in next year's competition. Honoring them is a tradition we want to continue.

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Phillips won't lose money on Walton: Kemp

By KATHRYN J. McINTYRE

HAMILTON, Bermuda—Phillips Petroleum Co. could emerge from an aborted foray into international reinsurance through its Bermuda-based captive insurer with $28 million to the good, says the captive's current president.

The 1982 financial statements for the captive Walton Insurance Co., prepared to reflect the runoff of all insurance and reinsurance business written, show the company with a $28 million net worth.

At year-end 1981, its net worth was $89 million.

The good experience on Phillips' risks more than cover the losses on unrelated international reinsurance business Walton has underwritten since 1974, says Walton President John S. Kemp.

In the face of mounting losses on international reinsurance business Walton had written and the grim prospects for profits in the reinsurance industry, Phillips decided in January that Walton should stop underwriting risks unrelated to Phillips and be put up for sale.

Walton is the largest of the captive insurers that have plunged into the commercial reinsurance business to pull out on orders of a parent company discouraged by mounting losses.

Walton's current assets of $207 million will more than cover the cost of running off commercial reinsurance business that eventually will have paid Walton $750 million in gross premiums and $500 million in net premiums, Mr. Kemp says.

Walton is projecting it will pay out yet another $160 million in losses on the reinsurance business it has written, which Mr. Kemp says is a "worst case scenario."

Walton has earned in excess of $160 million in premiums from Phillips since it was formed in 1971, according to public records.

"Phillips will not have lost money, if you accept that the cost of insurance was a cost they would have had anyway," explained Mr. Kemp during an interview in his Bermuda office last month.

Mr. Kemp, the insurer's former vp and treasurer, became president after President Harold E. Tornquist resigned in protest over Phillips' decision on Walton.

Walton entered the commercial reinsurance business on the earnings from good loss experience on Phillips' property and casualty risks. From its intial paid-in capital of $150,000 in 1971, Walton developed $25 million in paid-in capital from earnings. Capital of $4.35 million was paid in at year-end 1976 and an additional $20 million was paid in at year-end 1980.

Over the years, Walton also paid cash dividends to Phillips totaling $8.7 million, starting with a $1.1 million dividend in 1977 and ending with a final dividend of $5.025 million paid in 1980.

But, in its 1981 financial statements, Walton reported its first underwriting loss of $21,935 based on 1981 reinsurance losses and additions to reserves for prior years. The loss would have been higher had Walton not paid reinsurers $29.5 million to take over a portfolio deemed to produce an ultimate net aggregate loss of $41.5 million.

The 1982 financial statement of Walton, as filed by Phillips with the Securities & Exchange Commission, shows a net underwriting loss of $80 million, including additions to reserves for prior years.

Walton's reported underwriting income of $124 million included $27 million paid by Phillips for property and casualty insurance. The $97 million of unrelated risk premium income was mainly from international treaty reinsurance and direct and treaty aviation risks.

With a net income loss of $61 million at Walton, Phillips took a $65 million charge against its fourth-quarter 1982 earnings.

Having retrenched from commercial reinsurance, Phillips has given critics of captive insurance companies entering the commercial reinsurance business the chance to say, "I told you so."

Since the first captives started underwriting commercial reinsurance, critics have asked whether the parent would stick it out through the troughs and peaks of the insurance industry cycle.

Indeed, Phillips and Walton were tested in the deepest and longest trough in the insurance industry's history, but critics see only that Phillips is pulling out.

"It was like they had a well out of control and they capped it," said one Bermuda underwriter in disdain for non-insurers diversifying into the reinsurance business.

"We took a responsible action, a responsible decision," counters Mr. Kemp. "I don't think the market is going to change for some time. I don't know what it will take to turn it around. And as an international reinsurer based in Bermuda, it will be one to two years after the turn before the financial results will be reflected."

Phillips couldn't make the decision any sooner, Mr. Kemp suggests, because loss development on reinsurance is so slow that only in 1982 did Phillips have the information to assess the captives' results.

Today, Phillips is maintaining a staff of 60 people at Walton to run off the business in an orderly fashion pending a sale of the company. The nearly 30 people laid off after the January decision were underwriting staff.

Whether Walton is sold as an insurance company or runs off its business, Walton will meet its obligations, Mr. Kemp stresses, wanting to calm any concerns of Walton's past clients.

Mr. Kemp traveled to London last month to personally tell major producers of business to Walton that it will conduct an orderly runoff of its business.

"We want to calm the marketplace. We want brokers to agree that it's in everyone's best interest to honor obligations—that no one party tries to seek an advantage."

Mr. Kemp wants to keep the cooperation of brokers who have maintained the flow of premiums due and loss information to Walton.

Walton also continues to underwrite property and casualty insurance for Phillips, reinsuring a portion of the risk with the oil industry captive Oil Insurance Ltd. as it has in the past. Phillips is a shareholder in OIL.

Phillips will sell Walton only to a respected insurance concern that will assure the orderly runoff of business, says Mr. Kemp.

Phillip's good risks placed with Walton "could play a role in the sale," Mr. Kemp said. If there is no agreement with the buyer to underwrite Phillips risks, Phillips can

Continued on page 12

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Walton runs off business

Continued from page 10
insure with OIL.

Despite Mr. Kemp's assertions that Walton has sufficient assets to run off its business, there have been suggestions that Phillips should guarantee that Walton will meet its obligations.

Mr. Kemp says such a guarantee is neither necessary nor desirable because Phillips wants to sell Walton and any such guarantee could be construed to extend beyond the point of sale.

In a February letter to Bermudian Minister of Finance J. David Gibbons, Mr. Kemp explained why Walton would not seek a guarantee from Phillips.

"First, the financial position of Walton is such that we believe that all contractual obligations can be met in accordance with underlying reinsurance contracts which make up Walton's portfolio. Thus, in those circumstances, no such guarantee from Walton's parent is necessary.

"The financial statement of Walton as prepared by the financial management team, as of Dec. 31, 1982, includes a provision for anticipated losses arising on the unreported premiums for all underwriting years 1978-1982 inclusive. After making provision for this and all other uncertainties, there is still a substantial net worth of Walton."

Regarding Phillips' desire to sell Walton, Mr. Kemp wrote to Mr. Gibbons:

"The financial management team wishes to manage the situation to a point where some of the present uncertainties will diappear, giving rise to a scenario where Walton can be sold. Such a sale is Phillips' first option. Two conditions will attach to any sale. First, the acquirer would have to be a professional entity seen to be acceptable within the marketplace and, secondly, on the basis of no recourse back to Phillips.

"It is considered possible that any statement by Phillips which guarantees the position (of Walton), may be construed to extend beyond a sale date point in time, and this we would wish to avoid."

Phillips' decision to pull out of the reinsurance business shocked Bermuda's reinsurance community, and has raised concerns about the ultimate effect on Bermuda's reputation as a reinsurance market (see story, page 16).

Former Chairman Mr. Tornquist, a retired executive of Allendale Mutual Insurance Co. where he had run liability underwriting, had been hired in June 1980 to reorder Walton's unrelated risk reinsurance business that had exploded since the first big push in 1977. He used his considerable reputation and business contacts to attract new underwriting talent and business.

He improved underwriting standards and enhanced the quality of risks accepted. But in a competitive reinsuance market, the tighter underwriting also reduced gross premium volume for 1982 to an undisclosed amount below the $215.6 recorded in 1981.

Mr. Tornquist had been optimistic during his tenure with Walton. In the spring of 1981, he told *Business Insurance* that he had strengthened reserves to pay losses on previously underwritten business. And, he said, the old business was "not massively awful."

The newly assembled underwriters at Walton would restructure the book of business and Walton would "do as good a job as other professional markets" in the face of competition for premium. "We hope to do better. We intend to act responsibly and to provide long-term continuity."

And last year, Mr. Tornquist talked about licensing Walton in foreign countries and increasing the staff to 120.

On Jan. 26 of this year, when the Walton board met to vote to stop underwriting, Mr. Tornquist was still committed to leading Walton into the future as a successful reinsurance company, his friends in Bermuda say.

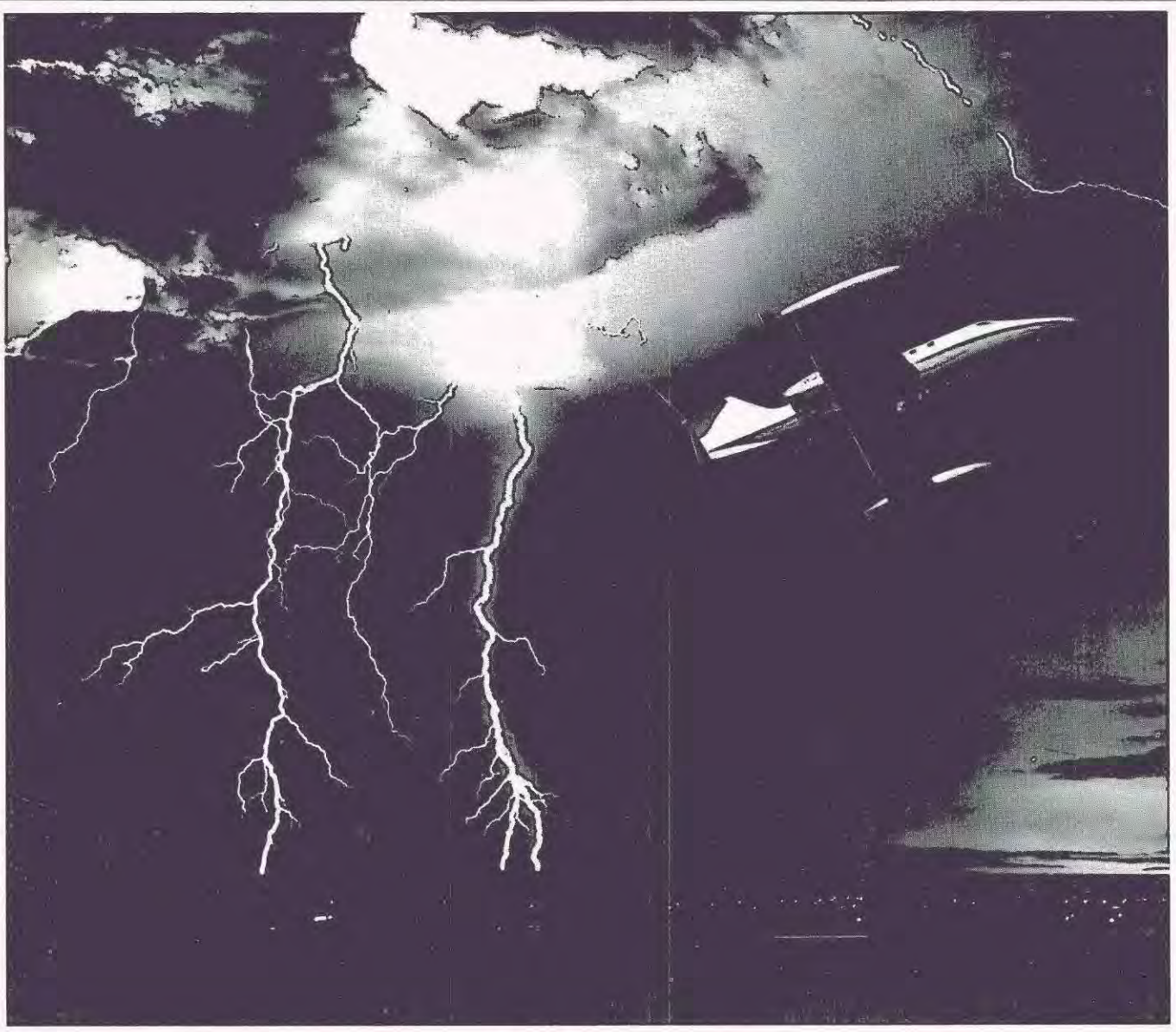
Mr. Tornquist argued throughout the day against the decision. In the end, he lost and resigned.

Since then, Mr. Tornquist has left Bermuda, but he could not be reached for comment at his Connecticut home.

Some suggest Walton should have written more premiums to weather the current market, to which Mr. Kemp replies: "It would have been suicidal."

All reinsurance underwriters in

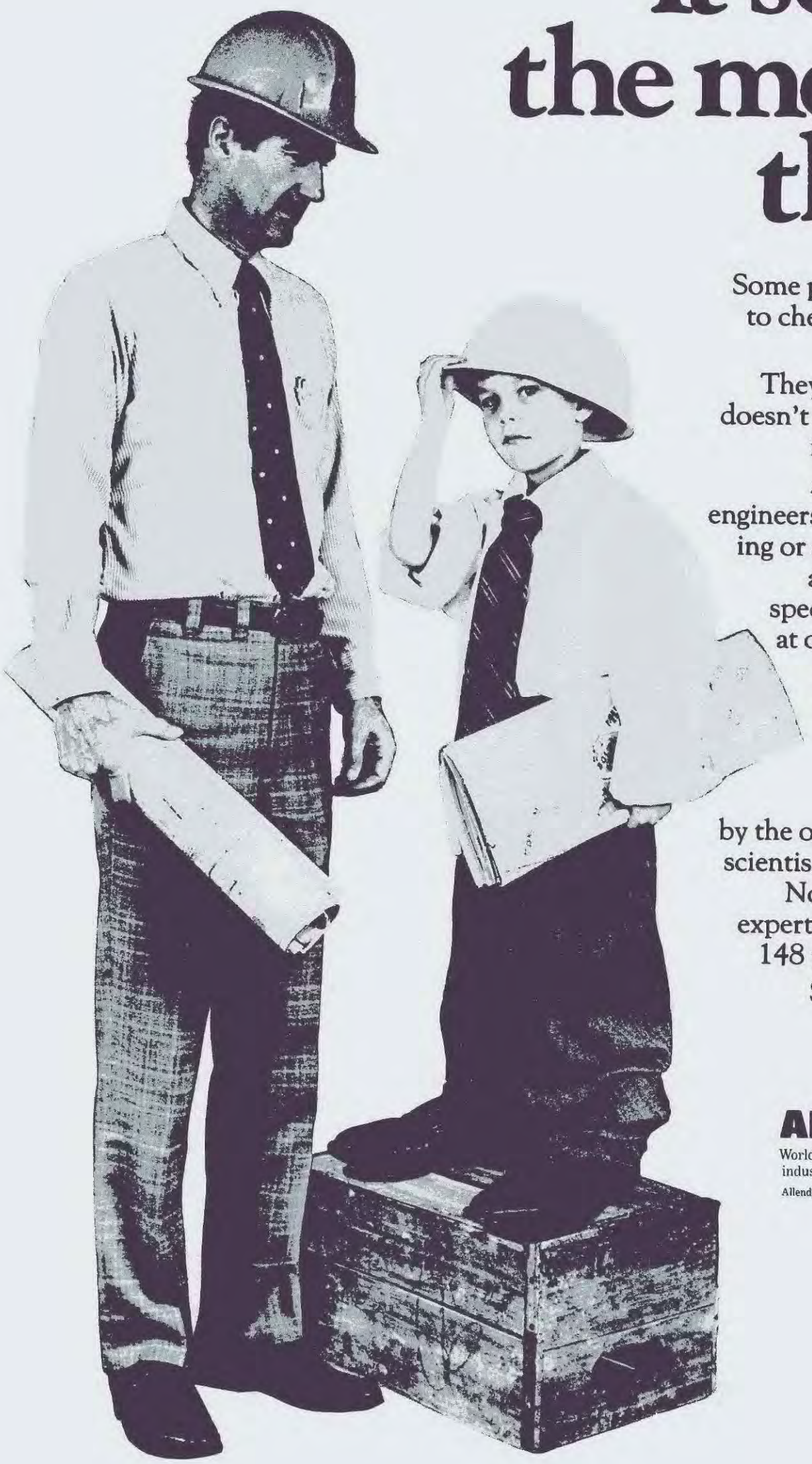
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Walton's future

Continued from page 12

Bermuda agree that the 2½ years Mr. Tornquist had, however, was not enough time to turn around Walton's results.

But, according to Mr. Kemp, Walton was at a crossroads at year-end 1982. Phillips had to decide whether Walton should dig its heels deeper into the business by becoming an admitted reinsurer or get out of the business.

"We were everywhere as a non-admitted reinsurer with all the disadvantages. The alternative was to license Walton where we anticipated playing a major role—such as license in the U.S. or acquire a licensed company in the U.S."

As all non-admitted reinsurers, Walton was suffering the penalties imposed by most countries that require ceding companies to withhold funds for unearned premiums and loss reserves.

U.S. regulators are more lenient, accepting letters of credit from non-admitted reinsurers. But only 40% of Walton's business came from the United States.

Walton also believed New York state's Regulation 98 "was bound to have an effect on the unlicensed companies."

That regulation puts much more responsibility on the intermediaries that place reinsurance with non-admitted reinsurers. "The broker would attempt to find an admitted company," Mr. Kemp explains.

Walton management had suggested to Phillips that licensing represented a new route.

But when Phillips executives began investigating the proposal in October, their survey "concluded that expansion into the U.S. was not something they wanted," Mr. Kemp says. "Everything Phillips heard about the industry was not encouraging. There was no opportunity in the foreseeable future for underwriting profits."

With that report and the 1982 results in hand, Phillips decided in January, "Let's sell it," he says.

The possibile adverse impact of the tax reform law on oil companies with offshore insurance companies was a very minor factor in Phillips' considerations, Mr. Kemp said.

In January, however, 1983 renewals had already been written, and, ironically, represented some of the best business Walton had ever written, Mr. Kemp confirms. Terms and conditions had been improved because "the reinsurance market this year was demanding a more realistic return on funds withheld or that contracts be on a written-paid basis," he explains. Prior interest rates of 2% to 4% on funds withheld were increased to 5% to 10%.

But Walton offered all its 1983 renewals and new 1983 clients an opportunity to replace Walton as their reinsurer "because we don't represent continuity," he says.

Out of 558 contracts written for 1983, 240 replaced Walton and 318 stayed with Walton for $36 million in premium.

Although the 1983 business could have improved Walton's ultimate financial position, it would have added to the runoff period.

Walton's largest portfolio had been in aviation risks, which generated about $35 million in annual premiums. "We were on every major airline slip," said Mr. Kemp.

About two-thirds of its business was treaty reinsurance, more proportional than excess-of-loss.

By type of risk, Walton's unrelated business portfolio was filled out by about equal amounts of property, casualty and marine.

Walton provided large lines by Bermuda standards, a couple of million dollars on facultative business, for example.

But, with so much of its business developed overseas, and with new underwriting standards, Walton was not a frequently used market by Bermuda brokers as is commonly believed.

Other Bermuda underwriters say they are surprised they have not seen an influx of new business as they had expected with Walton no longer underwriting.

The news that Walton's losses on unrelated reinsurance business were mounting, however, surprised no one. Comments had been circulating in Bermuda almost from Walton's first entry into commercial reinsurance that the business would prove unprofitable.

A large volume of reinsurance had been developed too quickly, observers agree. Former Walton President Veere Palmer, who directed the company's entry into commercial reinsurance, was more respected for his marketing talents than his understanding of reinsurance underwriting. He traveled extensively around the world producing business for Walton.

From 1974 until 1980, Walton each year reported larger and larger earnings, building capital and paying the parent company dividends on the geometric increases in premium volume that flooded the company with cash.

In 1974, its first year underwriting unrelated reinsurance business, Walton's net earned premiums on unrelated business totaled just $110,000. In 1975, the volume grew to $344,000 and in 1976, to $3.5 million.

With $5 million in paid-in capital, net unrelated premium volume exploded to $10.9 million in 1977, $23 million in 1978, $34.6 million in 1979 and $50.5 million in 1980.

Premiums paid by Phillips only doubled, from about $10.7 million 1974 to $21.3 million in 1980.

Gross premium was further boosted on the strength of several retrocession agreements made in 1978. Gross premiums in 1978 totaled $49 million, compared with total net written premiums of $39.5 million. In 1979, gross premiums ballooned to $78 million compared with $53.9 million net written and in 1980 jumped to $118.8 million, with $70 million net written.

The first confirmation that the unrelated business at Walton was going sour was in May 1980 when three Phillips executives were added to the board of directors.

And in June 1980, when Mr. Tornquist was appointed chairman and chief executive officer of Walton, Mr. Palmer resigned.

In the spring of 1981, Walton's 1980 financial statement further confirmed suspicions. Underwriting losses stemmed the growth of net income, which fell, for the first time in Walton's history, to $3.7 million from $13.3 million reported for 1979.

Almost another $100 million of gross premiums were added in 1981 under Mr. Tornquist, much of it attributable to business written before he arrived. He had canceled the previous retrocessional contracts and had structured new ones.

In 1981 financials, Walton reported its first net income loss: $578,000 on net written premiums of $118.7 million.

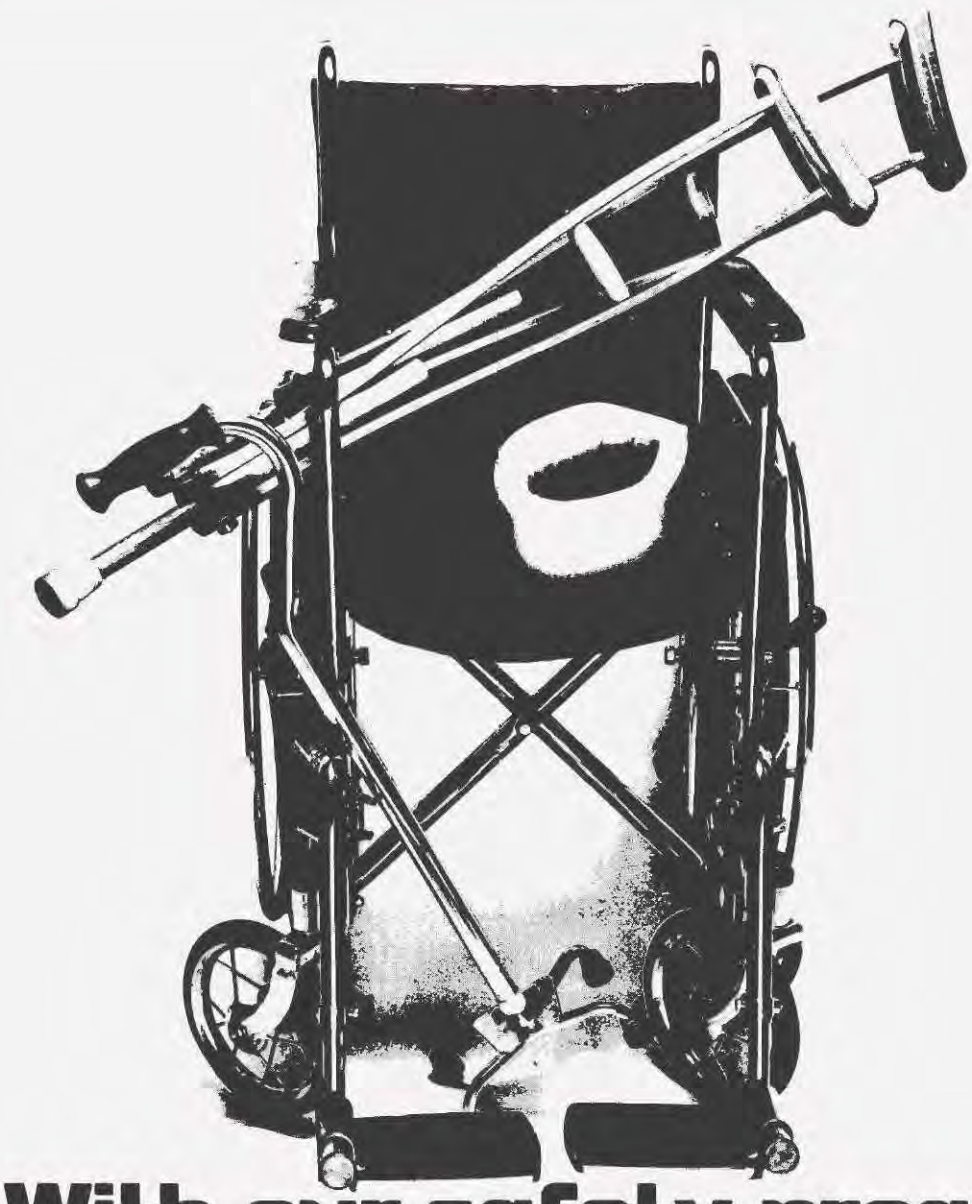
In 1982, Walton's net income loss grew to $61 million, on net earned premiums of $124 million.

Mr. Kemp declined to discuss the specifics of the losses. "I vowed I would not say anything that was a reflection on the people who have left. It is not the thing to do."

The retrocessions Mr. Tornquist had placed were terminated by a portfolio withdrawal because they had been placed anticipating Walton business would be profitable.

Mr. Kemp says he is committed to seeing Walton through a sale or the four to five years it will take to run off the business to the point that it can be sold as a port-

Continued on page 16



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Phillips' plans for Walton

Continued from page 14
folio transfer of liability.

Phillips already has received "quite a few inquiries," he says.

But it will be about a year before Walton will enter serious discussions, Mr. Kemp says. The time is needed for loss development to mature, reducing uncertainty about the business.

"In the international reinsurance business, there is a time lag on reporting premiums and losses. As of today, Walton is still recording information on 1978 business."

Mr. Kemp disputed rumors, however, that Walton is today receiving notices of claims on reinsurance treaties it had not recorded in earlier years.

Also up for sale are Walton's equity investments. At year-end 1981, the positions were $17 million in Transatlantic Reinsurance Co., $2.8 million in Trenwick Ltd. and $1.4 million in Insurance & Reinsurance Brokers (Bermuda) Ltd.

In the face of current concern about what effect Walton's decision to stop underwriting will have on other Bermuda reinsurers, Mr. Kemp says, "I'd like to think that at the end of the day the industry will say 'Here was a company that entered this market and didn't do it too successfully, but no one suffered in terms of failure to meet obligations.'

"And, I'd also like to think, although this may be farfetched, that we might be perceived as a catalyst to encourage other reinsurers to say, 'Enough is enough. What is the sense of maintaining a market share at any cost?'"

Judge reinsurers individually, executives in Bermuda say

HAMILTON, Bermuda—Executives of Bermuda-based reinsurers are building defenses against any fallout from Walton Insurance Co.'s withdrawal from reinsurance underwriting.

Every Bermuda-based reinsurer should be judged on its own balance sheet, the executives say.

It's feared reinsurers elsewhere, especially in London where there has been the most criticism of Bermuda reinsurers, could use Walton's withdrawal to their competitive advantage, claiming to offer more longevity than Bermuda companies.

A few brokers admit they have lost an order or two because the ceding company recently decided not to use Bermuda.

Walton's withdrawal could be "the death knell for Bermuda as far as captives writing commercial reinsurance," says Nigel Harley, president of Continental Reinsurance Corp. (Bermuda) who is transferring to Continental Re in New York. Even Bermuda-based subsidiaries of major insurance companies could be hurt, he speculates.

"It is going to be tougher than it ever was for people here. It's going to require that everybody work harder than they ever have to try and convince our friends on that side of the water," he said of London skeptics.

Walton is the third—and largest—Bermuda-based insurance subsidiary of a U.S. corporation to drastically revamp its approach or stop underwriting international reinsurance after an initial big splash under the direction of well-known underwriters.

Ford Motor Co.'s captive, Transcon Insurance Co. Ltd., overhauled its outside underwriting in 1979. Underwriters James Parkinson and Francois Benoit employed by Transcon had worked hard to put Transcon and Bermuda on the map as reinsurance markets, Mr. Parkinson in London and Mr. Benoit in Europe.

Beneficial International Insurance Co. Ltd., a subsidiary of Beneficial Finance, stopped underwriting international reinsurance in October 1981. Although underwriter Jonathan Crawley, now President of Aneco Reinsurance Underwriting Ltd. in Bermuda, had been there only since 1979, he had boosted Beneficial and Bermuda.

Harold E. Tornquist, employed by Walton in June 1980, also put his reputation on the line for Walton.

Phillips' decision regarding Walton was "unfortunate for Harold Tornquist personally and for the Bermuda market," observed Mr. Harley. "I've always felt people underestimated the damage of the Transcon situation."

With each company that withdraws from the business after someone has put his reputation on the line for it, "the greater the impact," Mr. Harley said.

Brian O'Hara, treasurer of Trenwick Reinsurance Co. in Bermuda, suggests guilt by geographic association is illogical. "American Reserve and Kenilworth were Illinois companies that went bankrupt. No one has stopped using Illinois security because of it."

Malcolm H. McLachlan, vp of Ancon Insurance Co. who is leading Ancon into international reinsurance, discreetly took the offensive against any adverse reaction to Ancon's Bermuda home in a letter dated Feb. 28 and mailed with Ancon's annual report. He wrote:

"The continuing support given to Ancon shows that security and service are still the criteria which responsible cedents and their brokers apply, and the domicile of the reinsurer is only one, and perhaps a minor, factor influencing their decision. It is commercially unsound to do business with a doubtful reinsurer, wherever it may be located."

Broker Roy Bray of Amberco Ltd., one of Bermuda's largest reinsurance brokers, isn't worried about a fallout from Walton's withdrawal. "People who have used Bermuda will continue to do so. Those who never liked Bermuda will say, 'I told you so.'" ■

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Aneco is turning out its best results yet

By KATHRYN J. McINTYRE

HAMILTON, Bermuda—Aneco Reinsurance Co. Ltd. is underwriting more reinsurance, losing less money on it and turning out the company's best results in its four-year history.

The only publicly traded reinsurance company based in Bermuda, Aneco increased 1982 written premiums 67% compared with 1981, reduced its underwriting losses to less than a third of 1981's and reported 1982 net income of $335,984, compared with a $961,072 loss in 1981.

The company's only other profitable year was its first full year of operations in 1979 when it reported net income of $72,373. It lost $529,507 in 1980.

The 1982 results have pushed the company's stock to $3.25 to $3.50 a share from $2.50 in late 1981.

The turnaround coincides with the first full year that Jonathan Crawley, the flamboyant 25-year veteran London reinsurance broker turned Bermuda underwriter, has been with the company.

Since Mr. Crawley joined Aneco in October 1981, Aneco has moved all its underwriting operations to Bermuda, placed them in one wholly owned subsidiary—Aneco Reinsurance Underwriting Ltd. under Mr. Crawley, its president—and sold its majority interest in a syndicate on the New York Insurance Exchange.

Mr. Crawley stomped world markets visiting old business ties to associate his name with Aneco and to drum up business.

Not only did Mr. Crawley stir up the interest of reinsurance buyers in Aneco, he also stirred up the ranks at Aneco.

There is a new morale at Aneco's offices in Bermuda, obvious to even the occasional visitor.

When Aneco's underwriting was conducted in New York, the Bermuda offices were almost sterile. The polished antique furnishings gave one the impression of standing in a museum, not a working office. Desks clean of paperwork didn't give the impression of work to be accomplished.

Today, even after 5 p.m., a visitor to Aneco's offices finds the antiques are being used. Half-empty coffee cups are sitting on the conference table, evidence of working meeting. Desks are covered—some more neatly than others—with tomorrow's work.

And, it's not only Mr. Crawley's booming voice that echoes through the offices. His enthusiasm is contagious. Other members of the staff are working late and a banter of people excited about their work reverberates.

"Aneco couldn't be happier with what Jonathan and his people have brought in terms of results that we have had since he joined," says Vp Robert Mulderig.

"He's been a big support to our Insurance Profit Center," said John Kessock, president of Aneco Marketing Co. Ltd. in Philadelphia, which markets Aneco's IPC rent-a-captive program in the United States.

"He brought a lot of credibility to the organization with his expertise in the reinsurance market. Attracting someone like Mr. Crawley was an asset."

The $1.3 million increase in net income at Aneco in 1982, however, cannot be entirely credited to Mr. Crawley.

In 1982, Aneco did not have to spend in excess of $350,000 fighting a takeover, which it did in 1981 against Cayman Islands Reinsurance Corp. As a result, general corporate expenses declined to $792,263 from $1.2 million, notes Chairman Francis Mulderig in his prepared statement on the company's annual results.

Aneco also made $250,812 in realized gains on the company's investment portfolio and $121,572 for the sale of Aneco's majority interest in its syndicate on the New York Insurance Exchange.

Other significant operating results include $44,519 in income from Aneco's agency operations, primarily Anexco in Boston but including its small captive management operation in Bermuda. Agency operations lost $68,665 in 1981.

The Insurance Profit Center rent-a-captive program suffered a $44,731 loss in 1982, slightly more than the $39,331 loss in 1981. IPC almost doubled its marketing and operating expenses in 1982.


Mr. Crawley

Investment operations produced $1.1 million in income, and after adjustments for other operations, Aneco showed an $85,172 operating income before realized gains.

The financial impact of Mr. Crawley's arrival at Aneco is most obvious in the underwriting results and the reorganization of Aneco.

The consolidated results—including Mr. Crawley's Aneco Reinsurance Underwriting, business underwritten by the parent company in the first quarter, the New York Exchange Syndicate and Aneco Insurance Co. for the first two quarters—show written premiums increased to $10.6 million in 1982, compared with $6.3 million in 1981. Underwriting losses were reduced to $168,494 from $516,875 in 1981, producing a combined loss ratio of 103.43% in 1982, compared with 125.96% in 1981.

The first nine months' results of Aneco Reinsurance Underwriting, created April 1, show net earned premiums of $3.8 million, a combined ratio of 107.9% and net income after investment income of $1.1 million.

These results will be "my marketing tool for the next 12 months," Mr. Crawley says.

Mr. Crawley recommended that all underwriting of reinsurance be conducted in Bermuda under Aneco Reinsurance Underwriting so he could show the reinsurance world one set of financial results reflecting the capital of the risk-bearing company.

Aneco Reinsurance Underwriting has $10 million of paid-in capital.

The parent company's sale of its majority interest in the New York Insurance Exchange to Transit Casualty Insurance Co. and other investors, retaining a 20% interest, finished the consolidation of all underwriting under Mr. Crawley in Bermuda.

"We wanted a simplified structure," Mr. Crawley says. "Before I boarded, they all knew what the world was saying—that Aneco had

Continued on page 22

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Aneco Reinsurance

Continued from page 20

too many fingers in too many pies. There was a criticism that the capital of the company was pyramided because what was in the syndicate was part of the same capital that was in the reinsurance company."

Mr. Crawley also had to contend with the "far too many people who were saying to themselves that the security of the syndicate was better than the security of the company.

"People were saying to me they would accept us if we wrote it in the syndicate and I was adamantly saying no," he explained.

The only disappointment in 1982 was "having to survive in a market that has not turned around anything as fast as I had hoped—but that was outside our control," says Mr. Crawley.

He responded with "two defenses against the horrific times through which we are living," referring to the cheap rates available for reinsurance. "One is to use all one's reinsurance skills learned through 25 years of broking and the other is to go bananas when I can when a good situtaion arises."

Mr Crawley uses his reinsurance skills to buy specific reinsurance protections and so reduce the chances for underwriting losses at Aneco.

Although Mr. Crawley reduced the combined loss ratio 22 percentage points through reinsurance, he disagrees it suggests he is "burning reinsurers."

"These are long-term relationships, as are all relationships in reinsurance," he says.

"And, it makes my point that Bermuda is not the soft market. There is a soft market out there and Bermuda underwriters can use it to their advantage."

Mr. Crawley considers "going bananas" taking all or a large portion of a risk he finds very attractive.

"The odd good situation does arise because of friends, or a Bermuda situation, or a captive situation," Mr. Crawley says.

"For instance, an agency captive situation moved into this office from a broker who said, 'What do we do with this?'"

An agent had created a Bermuda reinsurance company to reinsure a portion of the business he places with commercial insurers. This is a growing tactic among agents who want to capture a portion of the investment income on the business they produce, since their contingent commissions are falling with rising loss ratios.

This agent wanted to put 30% to 40% of his business into his captive. "It was fabulous business, with very low combined ratio for donkeys' years," Mr. Crawley said. "I was quite naughty about it. I said we would write a 50% quota share, which was against my principles."

The business generated about $1 million in premium income and Mr. Crawley bought excess loss protection.

"There are three or four situations like that where there are big premium dollars around," Mr. Crawley says.

The bulk of the business Mr. Crawley has underwritten is a continuing book of treaty reinsurance business he first developed for Beneficial International Insurance Co. in Bermuda after leaving the London market.

He had developed the business from old contacts in the reinsurance world from his days as chief executive officer and managing director of a Lloyd's of London brokerage, Bradstock, Blunt, Crawley Ltd. in London. And he started drumming up reinsurance business from Bermuda-based captives, which he considers excellent business.

When Beneficial decided to stop underwriting international reinsurance business based on poor underwriting results from business written before Mr. Crawley joined Beneficial, many of the accounts moved with Mr. Crawley to Aneco.

Mr. Crawley predicted in November 1981 that he would underwrite about $7 million in premiums in 1982, and he exceeded his goal.

The treaty reinsurance is more casualty than property, with a marketing emphasis on serving the captive insurance company market's needs for specific and aggregate excess-of-loss reinsurance.

Only a couple million dollars of premium come from London.

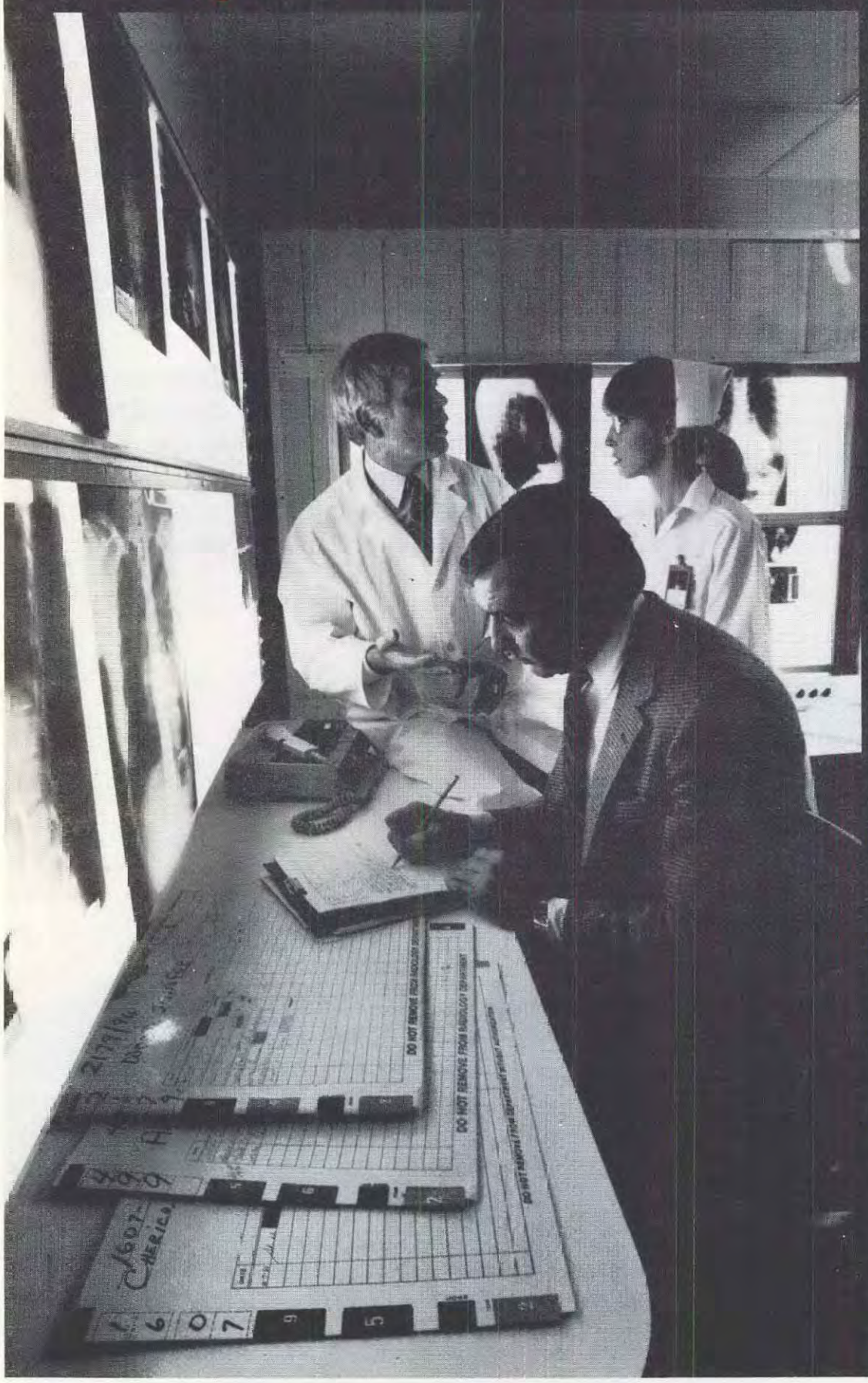
"My attitude toward the London market is still the same as it has always been, which is we don't try to write London business sitting here, but we do have certain proportional situations with a few good friends in the London market in which we share in a share of their non-proportional books. We now have about eight of them with first-class Lloyd's syndicates.

"My emphasis and enthusiasm for captive reinsurance business grows," says Mr. Crawley, who delivered a rousing speech on the subject at Bermuda Insurance Week last month sponsored by Risk Planning Group.

"My entrepreneurial efforts on this island have paid off. In terms of the number of reinsurance treaties for captive companies, I think we probably have as many if not more than any other reinsurance company on this island. I'm not saying we have the biggest premium income because we write smallish lines compared with some bigger companies. But in sheer

Continued on page 24

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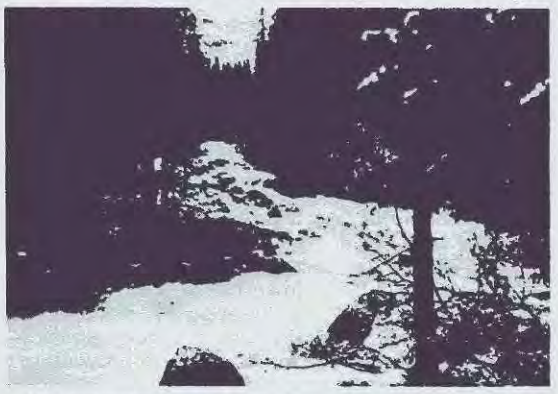
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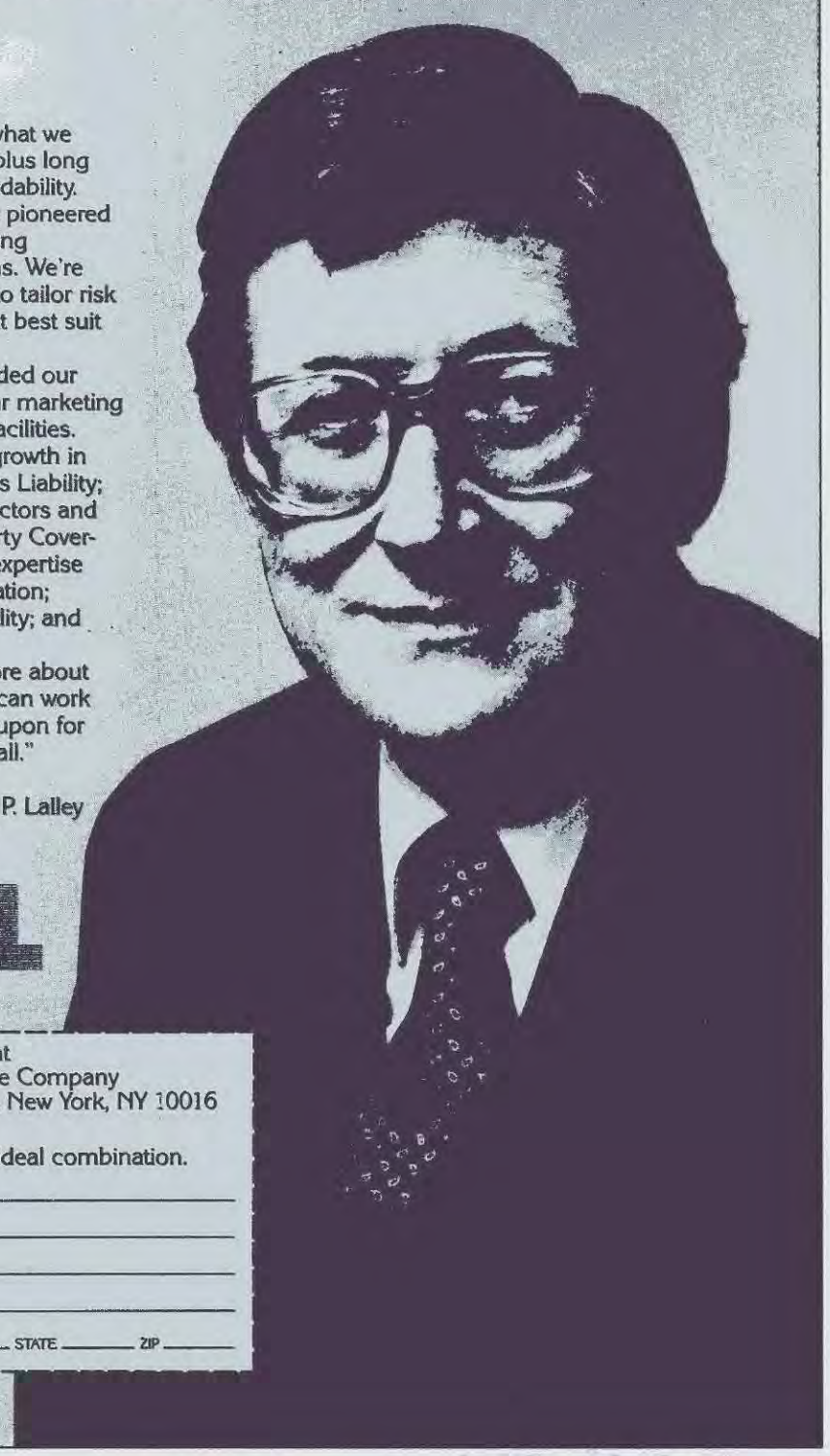
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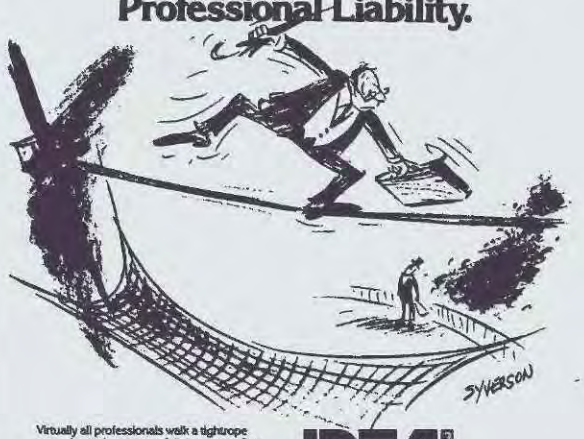
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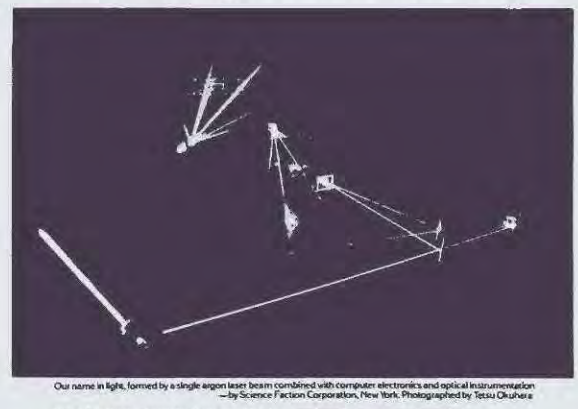
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Aneco has its best year

Continued from page 22
numbers, we're up to between 70 and 80 captive company clients."

Compared with 800 active captives domiciled in Bermuda, Mr. Crawley says his share of the market "is peanuts, but it's a beginning. And, one doesn't write everything one is shown." Also, some business quoted is lost to other underwriters.

Of the net premium of $8 million to $9 million Mr. Crawley expects to underwrite in 1983, about $1 million will be captive. "That's a bigger percentage than any other company," he says.

He predicts he will underwrite about $13 million to $14 million in gross premiums in 1983.

The vast majority of captive accounts are brokered to Aneco by the local Bermuda broker for independent managers or by the companies that both manage captives and broker reinsurance. One or two London brokers also have captive clients and use the Bermuda market.

U.S. intermediaries produce most of Aneco's business, far ahead of the couple million of dollars generated by the London arrangements and the $1 million in captive business.

"Our U.S. casualty book and U.S. cat book are most all household-name U.S. intermediaries," says Mr. Crawley.

Captive reinsurance is the only class of business that Mr. Crawley writes on a gross lines basis, retroceding some of the risk.

"I increase my net line to a gross line because I believe I can't stand up on stages and shout and scream the way I do and then when they do come not put down a decent line. We can put a line of $500,000 maximum, any one specific excess and any one excess aggregate," Mr. Crawley explained.

Outside of captive business, which is almost entirely workers compensation and general liability risks, Aneco underwrites a much smaller line, normally $37,000 to $75,000, and even as little as $25,000.

"We tell our reinsurers we write a maximum line of $125,000 but it's not true. I never go near it. If I do go up there, I do a specific protection."

Although there is some criticism in general of gross lines underwriting and questions raised about the financial security of some of the world's reinsurers, Mr. Crawley says he is proud of the reinsurance program he has put together.

Aneco voluntarily distributes information on its reinsurance program. Mr. Crawley's notes his report says that "our cat protection starts excess of $125,000 and goes up, the participants are the following companies and Lloyd's for the following total amounts. I've voluntarily sent this out, before Regulation 98 was implemented."

Regulation 98, promulgated in New York, requires reinsurance brokers to know more about the financial condition of reinsurers with whom they place reinsurance.

The only change in underwriting philosophy in 1983, Mr. Crawley says, is to move into the higher layers on property risks that would be tapped only after a major natural catastrophe. Aneco has been underwriting lower-layer property risks, "but we can't get a big enough book."

Mr. Crawley is quick to point to the other two Aneco profit centers as successful performers in 1982: Aneco Mutual and Anexco.

"John Kessock's operation has really taken off," says Mr. Crawley of the Independent Profit Center, the rent-a-captive product offered by Aneco Mutual.

At the end of 1982, IPC had an annualized premium volume of $23 million, compared with $3 million in 1980.

"Bear in mind that is all non-risk bearing for Aneco," notes Mr. Crawley. "The more you put on the better."

IPC has had a 100% renewal rate since 1980. Its clients are individual companies, associations and group captives and agency captives underwriting predominantly workers compensation, but also auto and general liability, and credit life and disability.

Aneco Mutual reaches clients in the United States through offices in Philadelphia and a new office in San Francisco.

The San Francisco office generated $2.5 million in annualized premium in two months.

"Being a publicly held company is a big, big asset when people are looking at security," says Mr. Kessock. In addition, the IPC differs from other rent-a-captive programs in that insureds buy nonvoting preferred shares in Aneco Mutual and the investment income on their business is returned as dividends on the shares.

IPC has paid $2.25 million in preferred share dividends.

Sometimes Mr. Crawley underwrites stop-loss reinsurance for IPC clients, but clients are free to use other reinsurers.

Anexco, an excess/surplus lines brokerage in Boston owned by Aneco and Anexco principals Ken Cook and Pat Ciano, "has continued to grow conservatively," said Mr. Crawley.

Anexco recently became a managing general agent for Imperial Casualty & Indemnity Co. Anexco primarily writes risks located in Massachusetts, Rhode Island, Pennsylvania, New York and Connecticut. Branch offices are located in Hartford, Conn., and Providence, R.I.

Although not deemed a profit center as such, Aneco Risk Management under Vp Robert Mulderig manages seven insurance companies. "We aren't really looking for new companies to manage. If they come our way, that's fine," says Mr. Mulderig. "We've become known a little as anti-captive because of the IPC program," he noted.

Investors have responded positively to the changed performance of Aneco, although movement in the stock price lags the public announcement of financial results.

"When we release to the press after our quarterly board meeting, it doesn't seem to have an effect," Mr. Crawley says. "It's after the quarterly statement lands in shareholders' post boxes at home that it seems to have an effect.

"The stock moved substantially after the third-quarter hit the post boxes," the second big price movement in 1982, he noted. The first was when sceurities broker Drexel Burnham Lambert released an encouraging report on Aneco in early 1982.

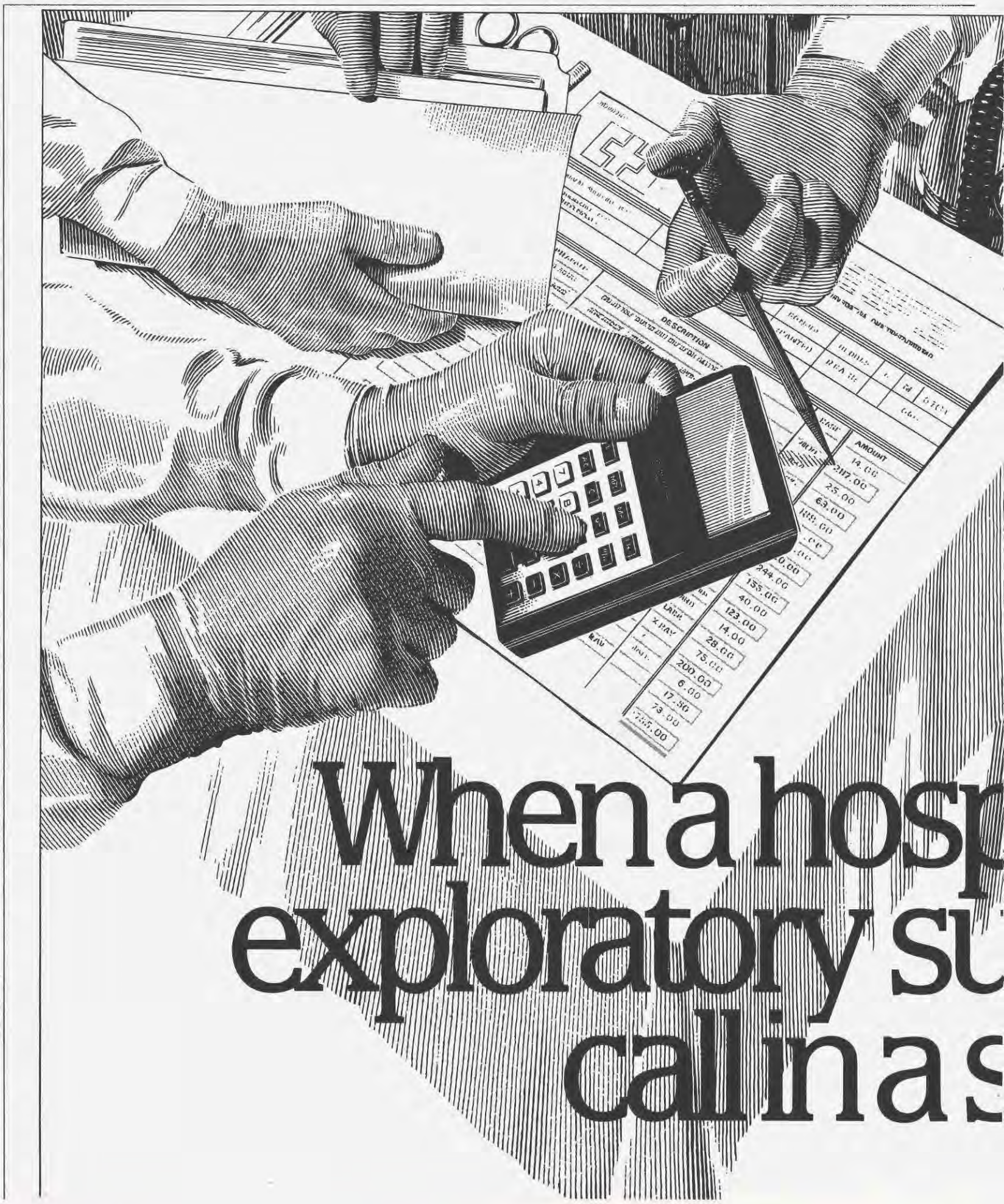
The annual 1982 results haven't arrived at shareholders' homes yet.

In 1983, Mr. Crawley is concentrating on "consolidation and lowering our profile."

"I set up a pretty high profile for the company in an almost flamboyant way but I don't want to over do it," Mr. Crawley said. "People will get bored."

Mr. Crawley wants people to see Aneco as a "professional reinsurance company that doesn't need to shout about itself."

He hopes that continued profitable results will speak for themselves. ■



Reinsurers seek business from captives

HAMILTON, Bermuda—Commercial reinsurers in Bermuda want a piece of what one local underwriter calls Bermuda's "bread and butter pudding."

It is underwriting specific and aggregate stop-loss reinsurance for the almost 1,000 active captive insurance companies in Bermuda.

No one is certain how much reinsurance of captives is written by local reinsurers, but everyone agrees the vast majority is placed by the U.S. retail brokers for the parent company and it is placed outside of Bermuda.

Reinsurance of captives is attractive business because a captive underwriting only its parent company's risks traditionally produces few losses for reinsurers.

Jonathan Crawley, president of Aneco Reinsurance Underwriting Ltd., the underwriting subsidiary of Aneco Reinsurance Co. Ltd. in Bermuda, is campaigning the hardest for captive reinsurance business to stay in Bermuda.

Mr. Crawley delivered a spirited speech on the issue last month at the International Insurance & Reinsurance Forum in Bermuda sponsored by Risk Planning Group.

"We are the only reinsurance market in the world not to have developed a taste or an appetite for bread and butter pudding," Mr. Crawley declared. The largest portions of the best reinsurance treaties of British companies are placed in Britain. The best reinsurance programs for Lloyd's syndicates are placed with other Lloyd's syndicates. European companies keep their best business at home, he said.

U.S. retail brokers unfairly control the reinsurance placed for Bermuda captives, he charged.

Captive owners should want their reinsurance business placed in the Bermuda market, Mr. Crawley contends.

It would curtail the chain of command of premium flow to the shortest available: insured to captive manager/reinsurance intermediary to reinsurer.

Using a Bermuda reinsurer also would give the captive owner an opportunity to meet the reinsurer, "which can only be mutually beneficial and enhance the likelihood of long-term relationships."

Using a U.S. retail broker to place the reinsurance outside of Bermuda also precludes capitalizing on one of the advantages of forming a captive: accessing the more flexible reinsurance marketplace. "Very few of these companies yet have that access, at least via the best possible routing, namely, through a professional reinsurance intermediary," he said.

Primarily, the independent captive managers and combination manager/brokers in Bermuda place their clients reinsurance business in Bermuda, Mr. Crawley said. "Their allegiance to Bermuda causes them to think in terms toward their indigenous markets."

Only one alphabet broker has both a management company and a reinsurance broker in Bermuda, Mr. Crawley said, referring to, but not naming, Johnson & Higgins, with its Bermuda management company and its intermediary Willcox Inc.

The other alphabet brokers without both captive management and reinsurance brokerage facilities in Bermuda have "helped to inhibit and prohibit the Bermuda market from becoming a prime market for captives' reinsurance programs," Mr. Crawley said.

His solution: "A more aggressive effort to work toward getting all of Bermuda's major management houses to add professional reinsurance broking to their stock-in-trade and for much closer cooperation between reinsurance underwriters and captive managers."

Although the U.S. retail brokers fight such a move, Mr. Crawley suggests the Bermuda office would reap two important benefits:

"First, their client captive companies are Bermudian insurance companies just as much as we are Bermudian reinsurance companies. No other jurisdiction competing with Bermuda in captive management has yet been blessed with the additional opportunities that exist here from the presence of a local reinsurance market. It is up to us all to keep it that way.

"Secondly, in dollars and cents, if 800 active captives write only $3 billion of purely related business and spend only 20% on reinsurance, if only a third of that reinsurance were to be placed in this market, then the brokerage generated here would be $20 million."

Mr. Crawley disputes suggestions that there is an inherent conflict of interest for a captive manager to employ a reinsurance broker to place reinsurance for the captive. A professional reinsurance broker will not place the business at high rates merely to inflate commissions, he contends.

A.W. Hunt, chairman of the Insurance Brokers Assn. of Bermuda and director of Pearson Webb Springbett Ltd., offered another alternative: Any of the 25 members of the association would be happy to broker business for a captive, he said.

Mr. Crawley acknowledged that Bermudian reinsurers do not have the capacity to reinsure all the risks of the Fortune 500 companies' captives. They do have the capacity to serve "many hundreds of small to medium-sized captives," he said.

Specifically, Bermuda's reinsurers can reinsure captives writing casualty risks for premiums of $1 million to $10 million which buy specific stop-loss reinsurance excess of $100,000 to $500,000 and aggregate stop-loss of 110% or more of net premium income.

In the mid- and late 1970s, Bermudian reinsurers provided such coverage when other markets were ignoring captives.

Most notably, Insco Ltd., Gulf's captive insurance company that went into commercial insurance, provided a market for "hundreds of captives," said President Leslie Dew. Today, many of those former clients now have accumulated surplus and no longer need the stop-loss protection, he said. Other captives needing the protection today find world reinsurers fighting for premiums with reduced rates, Mr. Dew noted, and Insco has far fewer captive clients.

Mr. Crawley, however, doesn't want Insco or any other Bermuda insurance company writing parent company risks also to write captive reinsurance business.

"It has its bread and butter business and it's the parent company's business. I haven't got any bread and butter business unless I go out and create it."

—By Kathryn J. McIntyre



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Shippan finds black lung business slow

HAMILTON, Bermuda—Shippan International Insurance Co. is off to a slow start in underwriting black lung risks.

With $27.5 million in capital from General Reinsurance Corp. and other investors, the Bermuda-based insurer underwrote just $2.6 million in premiums in 1982, its first year of operation.

Shippan is targeting the vast market of mining companies that self-fund black lung compensation risks.

Shippan's product is a prospectively rated black lung reinsurance product for self-insurers that charges premiums on a current-year basis or on a prefunded basis.

The product offers self-insurers an alternative to establishing a tax-exempt 501(c)(21) trust for funding black lung claims.

The sagging United States economy that has restricted coal mining and changes in the federal black lung law that reduced the volume of black lung claims approved have slowed demand for Shippan's special black lung funding product.

With fewer miners at risk and with liability for black lung claims reduced by the law, more mine owners believe they can fund their black lung claims themselves.

"The market at the moment is not as extensive as we had hoped," says George Lee, president of Shippan and vp of General Re Services Ltd., which manages Shippan.

When Shippan was being organized in 1981, there "seemed to be a need—before the changes in the economy and the laws," said Mr. Lee.

But he is optimistic. "With oil prices down, the auto industry will come back, and then the steel industry and then the coal industry."

Shippan International—named for Shippan Point in Greenwich, Conn., Gen Re's corporate headquarters—will be ready.

Shippan's rating recognizes the pattern of black lung claims. Claims are not only filed by disabled miners and the survivors of deceased miners, but also by miners when they retire or are laid off. The ages of the mine and the miners increase the risk.

On a current-year funding basis, a new mine with a young workforce would pay a lower rate than an older mine with older workers.

Alternatively, on a prefunded basis, Shippan would level out the premiums over the expected life of the mine.

A 501(c)(21) trust also allows the mine owner to level its annual costs. But if the liabilities are overestimated, the mine owner risks losing the money paid into the trust because once paid, the money can only be used to pay black lung claims. If Shippan overestimates the ultimate liabilities, premiums can be returned.

Nothing stops a mine operator from insuring with Shippan when its mine and miners are young and getting the lower Shippan rate and then insuring with a state fund that charges a flat rate when the mine and miners age.

The state fund would be liable for claims because under standard wording for occupational disease coverage, the policy in force covering the last responsible operator is liable for the claim.

Shippan's rates also reflect advantages of being in Bermuda.

One, Shippan is not subject to U.S. accounting principles so it can discount its loss reserves to reflect the investment income it expects to earn on the reserves until claims are paid. Two, since Shippan is not a controlled foreign corporation, its investment returns accumulate tax-free.

While a 501(c)(21) trust allows for tax-free accumulation of interest, a mine owner may not be able to generate the same rate of return as Shippan because of investment restrictions imposed on the trusts.

Although Shippan is interested primarily in black lung risks, it is looking at other kinds of non-traditional reinsurance business it can underwrite that will not compete with the traditional reinsurance business of its owners.

Mr. Lee explains that non-traditional reinsurance treaties contain little if any traditional risk but contain more of an investment risk.

In 1982, Shippan underwrote two very small policies of this nature.

One was a retroactive product liability policy for a company selling a subsidiary with a product liability risk. The policy covered the insured for suits filed against it for past occurrences in case the new owners reneged on their obligation to purchase and maintain product liability insurance.

Shippan also underwrote a reinsurance policy for a life insurance company to cover a reserve deficiency.

Life insurance companies often are faced with deficiencies in their statutory reserves. Extending rate discounts to non-smokers in states that don't recognize the discount and the large upfront commissions paid life insurance agents before the insurance company can expense the commissions, for example, can create the deficiencies.

Shippan also would consider underwriting the so-called financial reinsurance transactions including portfolio transfers of liability, but hasn't yet.

In addition to General Re, shareholders in Shippan include Hartford Fire Insurance Co.; GEICO; St. Paul Fire & Marine Insurance Co.; Federal Insurance Co., a subsidiary of Chubb Corp.; General Electric Pension Trust; Insco Ltd.; and two private investors who want to remain anonymous.

—By Kathryn J. McIntyre



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Bermuda observers expect growth in group captives

Continued from page 3

Daniels reports there are now about 200 inactive companies, compared with 100 at the same time 12 months ago.

Captive managers report that there is more interest today in group-owned and association captives than in pure, single parent-owned captives. But, the registrar's figures show otherwise. Sixty percent of the formations last year were pure captives vs. 40% group-owned captives.

Insurance agency ownership of captives appears to be increasing, too. Captive ownership is a way for agents to participate in the good underwriting experience of their best clients—and, perhaps justify an occasional trip to "the Switzerland of the warm-weather islands."

Bermuda, like Switzerland is spotlessly clean, superbly governed and "everything works," observes a New York travel writer. Its creature comforts, accessibility to the U.S. mainland and service infrastructure—especially accounting, computing and legal services—distinguish it from other domiciles.

Besides these strengths there is something else that makes Bermuda so popular as a captive home, observes Peter D. Lederer, partner in the New York law firm of Baker & McKenzie. "It's the need for company—other people with whom to exchange ideas," he says.

And the consensus of opinion within this close-knit community is that the captive movement is at a crossroads. Most experts concede that the boom years of new single-parent captives are over. But, some believe that group ownership will fuel a mild resurgence of formations throughout the 1980s. No one predicts an epidemic of captive closures.

However, the tax law signed by President Reagan last year is casting clouds of uncertainty over the future of many of Bermuda's largest captives, which are owned by U.S. oil companies. That law could substantially increase the tax liabilities of oil- and gas-producing companies that own offshore insurance companies (*BI*, Nov. 8, 1982).

No one seems to know for sure what impact the law will have on some of Bermuda's biggest captives, but no one is discounting its importance. The law could be one of many factors that together are beginning to make captives look less appealing to oil company owners, said one captive manager.

"I would be amazed if the oil companies closed up their captives —they have too much invested in them. But I wouldn't be surprised if they reduce their use to related business only," said a veteran observer of the Bermuda scene.

Indeed, future use of captives by parent companies is one of the burning questions in Bermuda today. Will captive owners seek to build their subsidiaries into full-fledged profit centers? Or will they maintain their captives for the purpose of underwriting only parent or related-company risks?

Spencer J. Traver, assistant treasurer of The BFGoodrich Co., which owns captives in Bermuda and Vermont, is bullish on the future of captives as parent company profit centers (see story, page 64).

But, the disappointing experience of Walton Insurance Co. and other captives-turned-reinsurance companies is putting a damper on the expansion ambitions of many captives, which have been pursuing unrelated business to underwrite (see story, page 10).

This appetite for third-party risks is fed by the widespread belief that U.S. tax authorities are more likely to treat premiums paid by the parent to its captive as tax deductible if the captive is writing outside business.

Captive managers, anxious to preserve Bermuda's reputation as a safe haven for pure captives, claim they are discouraging their clients from third-party underwriting. They want to put as much distance as possible between the concept of pure captives—which continue to be cost-effective funding vehicles for parent- and related-company risks—and senior captives writing outside risks, which have fallen prey to the same miserable underwriting results plaguing commercial markets.

No one knows how many of Bermuda's nearly 1,000 active captives

Continued on page 30

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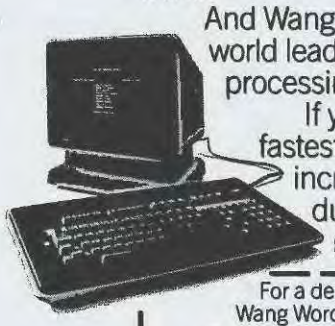
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Bermuda captives

Continued from page 28

underwrite third-party business. Moshe Porat at Temple University's School of Business Administration has written in Best's Review that broad captives—those writing unrelated business—constitute close to half of the total number of captive insurers.

However, this estimate seems too high based on *Business Insurance* interviews conducted last month with many of Bermuda's local captive managers.

Brian R. Hall, president of J&H Ltd., the largest Bermuda manager with about 130 companies and more than $500 million in premium volume under management, estimates that 15 clients underwrite in the open reinsurance market. Another eight or nine participate in reciprocal reinsurance pools with other captives.

"Barely half a dozen" out of Marsh & McLennan's 87 managed Bermuda captives underwrite outside business, reports Managing Director Basil M. Pimm. "And two of them are getting out of it because they don't like what they see in the commercial reinsurance market."



Mr. Pimm

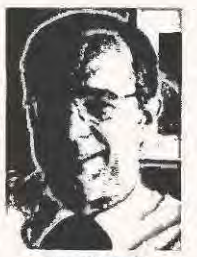
About a quarter of Alexander International Ltd.'s 50 captives are involved in outside underwriting; 10 out of 38 managed by Armco Insurance Management Ltd.; and six out of 28 managed by Corroon & Black (Bermuda) Ltd.

International Risk Management with more than 85 captives under management in Bermuda is a big exception. That's because a substantial percentage of the company's captives are active in two major reinsurance pools that IRM also manages. The majority of the 30 captives managed by American International Underwriters Overseas Ltd. also writes unrelated business.

A lot of people are rethinking their decision to undertake unrelated business, observes Stuart H. Grayston, manager of S.H. Grayston Management Co. Ltd. "People went into it helter-skelter and didn't understand what they were getting into. Now they're beginning to learn that it's burning their fingers."

The activity hasn't changed much in the past three years, observes William D. Scaff, managing director of Alexander International Ltd. "Unrelated business is something people talk about, but there just isn't much good third-party business available on any basis."

Many captive managers put risk-sharing pools in an entirely different category from third-party underwriting. That's because there's a maxim in Bermuda that captive reinsurance is the best reinsurance. Captive owners nurse their companies, and when a group of them share premium and losses, the pool experience bears scant resemblance to the open market.



Mr. Scaff

"Risk-sharing pools are the most predictable and safest way to generate outside business," he says.

Among these pools are: Hopewell International Co. Ltd. and United Insurance Co. (Caymans), managed by IRM; Corporate Insurance & Reinsurance Co. Ltd. (CIRCL), managed by Altamid Management Co.; and First Island Reinsurance Assn., managed by J&H Ltd.

Other attractive sources of third-party business do not actually involve risk-swapping by participants, but are controlled by major U.S. reinsurance companies with good track records. Prudential Reinsurance Co. and Kemper Reinsurance Co. offer such opportunities, but captives have a hard time getting into them, says Mr. Scaff.

Continental Corp. also is offering a small sliver of participation in some of its reinsurance treaties to attract new clients to Continental Risk Services Ltd., its fledgling Bermuda captive management company (see story, page 34).

Rather than using surplus funds to support expanded underwriting in the captive, many parent corporations prefer to bring the money home and use it in their own businesses.

"Treasurers are looking hard for surplus cash around the world these days," notes Mr. Pimm.

"Since interest rates have declined, the investment earnings here may not be as great as what companies can earn by investing in their own capital projects," points out Mr. Grayston.

Some companies opt to repatriate the money in the form of a dividend, others in the form of a low-interest loan.

If the parent company lost money last year—as many did in the recession-plagued U.S. economy—it can call home excess cash sitting in the captive without paying tax on it.

Ancon Insurance Co. paid a $60 million dividend last year to its parent holding company owned by Exxon Corp. National Steel Co. received $2.5 million from Riverside Insurance Co., and The Hanna Mining Co. received $2.4 million from Erieview Insurance Co. in two installments paid last June and February of this year.

Keystone Consolidated Industries used a buildup of cash in its Bermuda captive to capitalize a Vermont captive, noted Clive W. Himsworth, managing director of Armco Insurance Management Ltd. (see story, page 84).

Even if the parent company doesn't need the captive's extra funds back home, it is scrutinizing investment policies more closely.

Many captives started in the mid-1970s have accumulated substantial funds in reserves and surplus. Up until last year captives could earn 18% on these funds merely by investing them in short-term time deposits. Today, interest rates on the same instruments are only 8% or 9%. Mature captives also need more sophisticated investment management to match long-term liabilities with cash-flow needs.

Captive parents have started to show a lot more interest in investment policy in the past couple of years, says J&H's Mr. Hall. The largest captives retain their own professional managers to handle long-term investments. However, many of these captives and other smaller ones have a strong need for cash and short-term funds management.

J&H is currently reviewing a proposal that would increase its clients' short-term investment returns through pooling. Such an arrangement would enable J&H to invest in higher-yielding and longer-term financial instruments on behalf of its managed captives. Today, each captive needs a certain sum of highly liquid funds to meet its own individual cash-flow needs. The aggregate amount of funds needed by J&H captives for such purposes could be reduced through pooling.

At the same time that captives are anxious to increase their investment yields, they also are looking closely at the costs of administration.

Continued on page 32

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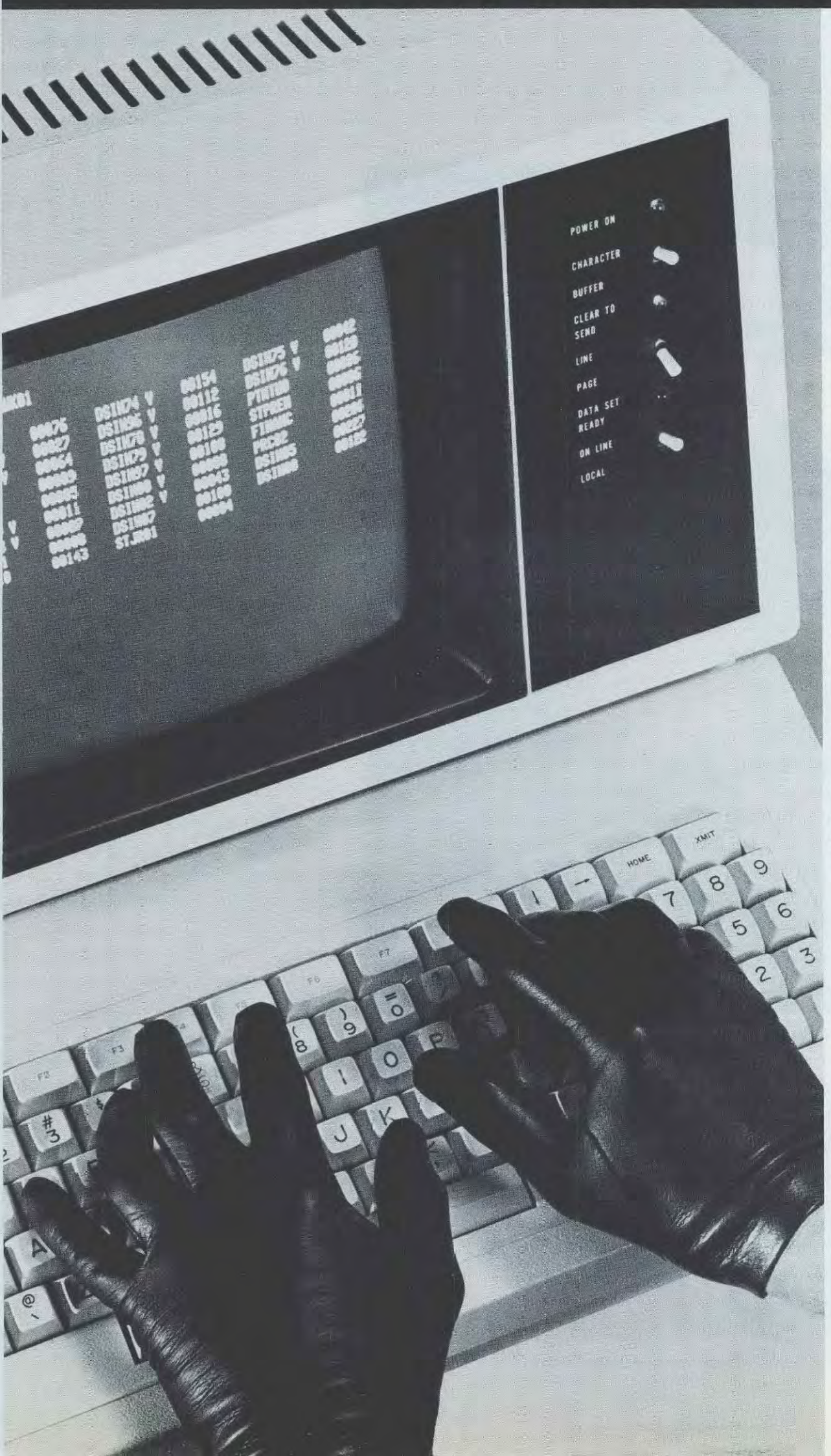
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Costs soar in Bermuda

Continued from page 30

Bermuda's insurance regulation enacted in 1980 has contributed to the higher costs of domiciling a captive on the island. Auditors charge from $400 to $4,000 to prepare the annual statement that must be filed with the registrar of companies. Legal costs for a typical captive are about $3,000 compared with $1,000 three years ago, says Mr. Grayston.

And living costs in Bermuda have skyrocketed, forcing companies to provide liberal housing allowances to managers they want to attract to the island. A three-bedroom house near Hamilton but not on the water rents for between $3,000 and $4,000 a month, island residents complain.

Inevitably, such costs must be passed along to captive insurance companies, which are the consumers of management and related services.

John J. Lorhan, president of Corroon & Black (Bermuda) Ltd., estimates that the average annual cost of captive management is about $34,500, not including an actuarial analysis of reserves.

Corroon & Black, one of the smaller management companies in Bermuda, was nevertheless one of the few to report significant growth in its client list this year. It added eight companies to bring its total of active Bermuda and Cayman Island captives managed from Bermuda to 28.

Accounting services are Corroon & Black's competitive edge, says Mr. Lorhan. "None of the other Bermuda management companies is headed by a chartered accountant."

Bermuda's new filing requirement has put a heavy strain on the island's supply of auditing services. Some parents have been dissatisfied with the accuracy and timeliness of financial reports—especially at the end of the fiscal year when they are scrambling to put together consolidated results.

To speed up financial reporting and reduce management costs, many Bermudian captive managers are upgrading their computer facilities.

"We offer 24 computerized reports that can be tailored any way the client wants them," notes Eliot H. Pardee, senior vp of American International Underwriters Overseas Ltd.

Marsh & McLennan, International Risk Management, Continental Risk Services and Johnson & Higgins are among the other management companies that tout their computer capabilities.



CIRCL searches for members

HAMILTON, Bermuda—Corporate Insurance & Reinsurance Co. Ltd., the group-owned reinsurance captive, hopes to attract new participants this year following the withdrawal of its largest shareholder.

Harbour Assurance Co. of Bermuda Ltd., a unit of International Harvester Co., on Dec. 1 became the first CIRCL member to withdraw from the captive pool. The departure reduces CIRCL's size based on 1982 gross premium volume by about 44%.

Harbour contributed $33.7 million of CIRCL's total $76.7 million in premiums written last year. The International Harvester captive paid CIRCL $32 million to purchase primary casualty reinsurance and $1.7 million to participate in the excess casualty program.

CIRCL's 15 other shareholder captives enjoyed a record-breaking year. All earned an underwriting profit on their participation.

The pool's net income in 1982 was $1.35 million compared with $596,000 in '81. (CIRCL's financial statements have been restated to reflect Harbour's departure.)

"It was mutually agreed between CIRCL and International Harvester that Harbour should withdraw," said Richard S. Thompson, president of CIRCL and its manager, Altamid Management Co. in Bermuda.

Executives at both Harbour and Chicago-based Harvester declined to comment on the withdrawal.

Harbour's departure is creating administrative headaches and the need for belt tightening at CIRCL, but these troubles are offset by the advantages, he stressed.

"There's no question that several potential participants shied away from CIRCL because of the financial difficulties of International Harvester, so we anticipate more interest since their withdrawal," he explains. Meetings were held recently with several prospective new CIRCL members, he said.

CIRCL also was devoting management time and legal fees to find out what protection there would be for the pool if one of its members should go bankrupt. This concern was fueled by Harvester's uncertain financial situation.

In addition, he says CIRCL, without Harbour, is a more homogeneous group because remaining members are more nearly the same size. This is generally desirable in reinsurance pools because participating members are sharing their risks as well as premium dollars.

Harbour contributed about $200,000 to CIRCL's $730,000 administrative budget last year. "We will have to pare back more in the area of controllable costs such as travel," said Mr. Thompson.

CIRCL was formed in Bermuda in November 1977 by eight captive insurance companies that wanted to pool their risks from $250,000 to $5 million because they considered commercial reinsurance rates for this layer too high. In 1978, a primary liability program was developed to cover risks up to $1 million per occurrence.

During 1982 CIRCL acquired two new members, both of which are Bermuda-based captives. They are Gibraltar Insurance Co. Ltd., a subsidiary of Fleetwood Enterprises Inc. of Riverside, Calif., and Pental Insurance Co. Ltd., a unit of Tidewater Inc. of New Orleans (*BI*, April 19, 1982).

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

Virgin Islands' captive bill dies

ST. THOMAS, U.S. Virgin Islands—A bill that would have provided tax incentives for companies locating insurers' subsidiaries here has died, but the sponsor says he will introduce a revised bill.

Corporations in the Virgin Islands pay federal income taxes at the same rate as a U.S. company would, says Sen. Lloyd Williams, D-St. Thomas. But the territorial government has authority to "rebate" other taxes to corporations to provide incentives for development, he adds.

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Continental offers captives chance to write reinsurance

By RHONDA L. RUNDLE

HAMILTON, Bermuda—Continental Risk Services Ltd. believes it has what captives crave to strengthen their status as bona fide insurance companies: a chunk of quality reinsurance business.

The captive management firm is offering its client insurance companies a chance to participate in a quota share retrocession assumption of risks from 10 different Continental Corp. reinsurance treaties.

"We have taken a little piece of each of these treaties and put them into a pool that is based on Continental's book of business," explains David B. Vaughan, president of Continental Risk Services Ltd., a 21-month-old Bermuda-based captive management company.

The underwriting opportunity, called CRS Treaty, boasts a wide spread of risks and an astoundingly low average loss experience of substantially less than 70%. Two of the treaties are new, but one is 18 years old and another has been in existence for a decade. The others range in age from one to five years.

Prudential Re and American International Group offer similar treaty programs. All three programs differ from other pooling arrangements because there is no risk swapping among the captives.

The risks that comprise CRS Treaty are ceded by Continental Corp. insurance and reinsurance subsidiaries underwriting all lines of property/casualty insurance including marine, workers compensation, fidelity and burglary.

"There is no potential for overlap or clash among the 10 treaties in the group," stresses Norman C. Amondsen, vp of the Bermuda management company.

Participation is restricted to Continental's management clients.

"This is something we know that captives are looking for and is a service we can provide to distinguish our management service," says Mr. Vaughan.

Six out of the 14 captives managed by Continental are currently underwriting third-party business. "There will be more," promises Mr. Vaughan. The management company has recently contacted its existing clients with information about the new treaty.

Some of them have known about the new plan since its inception last May, says Mr. Vaughan.

In recent years, many captive insurance companies have expanded their underwriting of risks unrelated to their parent companies. Some have pursued this strategy to enhance their claim with U.S. tax authorities to be a full-fledged insurance company. Others have tried to turn their captives into insurance profit centers.


Mr. Vaughan

Both strategies require using the captive to reinsure third-party risks unrelated to the parent company. Finding profitable reinsurance opportunities has proved difficult—if not impossible—for captives. And the acquisition costs associated with getting quality reinsurance business also have eroded the attractiveness of third-party underwriting.

Yet, captives continue to eye opportunities.

Mr. Vaughan describes CRS Treaty as "another source of access to third-party business with some of the downside risk substantially reduced from traditional third-party business." Participants will have the benefit of Continental's underwriting expertise and track record of underwriting prudence.

CRS Treaty is appealing, he says, because the historical loss ratio is highly favorable, the source of the business is a major U.S. insurance corporation, and the acquisition costs are low. Continental Reinsurance Corp. in New York, which will administer the treaty, is charging a 2.5% override on premiums paid.

About $5.6 million in premium participation among Bermuda captives has been planned this year. The limits of participation by any one captive will be determined by Continental Risk Services based on the strength and size of the company and its past underwriting experience.

"I hit upon this level for this year because we weren't sure how many people would want it," says Mr. Vaughan. "If we need more, we can get it in future years."

CRS Treaty is available for 12-month participation periods beginning this year. Captives that decide to participate will receive policies back-dated to Jan. 1. They may adjust their level of participation or withdraw from the facility at the beginning of each year. ■

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Nuclear Mutual Ltd. can withstand crises

By RHONDA L. RUNDLE

HAMILTON, Bermuda—Nuclear Mutual Ltd., which celebrates its 10th anniversary this year, is now strong enough to survive two policy limit losses of $500 million each in a single year.

However, to pay two catastrophic claims, NML's nuclear power plant owner members would have to cough up about 14 times their annual premium contributions in the form of a whopping retrospective adjustment—the maximum call permitted under their policies.

But, one such claim would require post-loss assessments of only 3.3 times annual premium if it had to be paid immediately after the accident. That's down from a factor of about eight since 1979.

"It's highly likely we could cover a full policy loss today without any call on members because of the time factor in claims payments and collection of future premiums," observes Quentin Jackson, general manager of the Bermuda-based mutual insurance company.

"We hope we shall never have to test that," he adds.

In its decade of existence, NML hasn't come close to requiring a retrospective call on members. Its worst year for losses was 1981 when it racked up about $18 million in liabilities, including two claims for about $6.5 million each.

Both were transformer problems—one at the Turkey Point plant owned by Florida Power and Light Co. and the other at the Alabama Power Co.'s Farley facility.

NML's preliminary report of net earnings in 1982 shows a record $64.4 million, which brings retained earnings to $170.7 million. The company earned investment income of $26.6 million last year and paid a $9.4 million distribution to policyholders.

Nuclear Mutual Ltd. has grown to 19 members and a projected premium volume of $66 million in 1983 up from 15 members and $7 million in premium 10 years ago.

Mr. Jackson has managed the company since its inception—first under the aegis of Marsh & McLennan (Bermuda) Ltd. and since 1980 as head of NML's independent management team.

No member has ever left NML, which provides coverage for builders risk, nuclear property in transit, physical damage and on-site decontamination. NML does not underwrite any liability coverages.

During NML's early years, it returned all underwriting earnings to members. "Then we figured we should keep some of that, along with the investment income, for the unlikely day when we actually need it," says Mr. Jackson. "In the past three or four years NML has returned 20% of its underwriting profits to policyholders."

NML's sole competitor for nuclear property insurance at the primary level is a pool of U.S. commercial insurers called American Nuclear Insurers, which provided coverage for Three Mile Island, the site of the worst nuclear accident in U.S. history. ANI is still paying property and decontamination clean-up claims stemming from TMI.

Although NML was not hit with losses from the Three Mile Island catastrophe, it has felt the profound effects of the incident.

"The biggest impact for us was on policy limits," says Mr. Jackson. The cost of cleaning up after the accident showed that higher limits were needed.

Bond rating services, banks and other financial institutions also are looking more closely at the adequacy of insurance.

When the Three Mile Island disaster occurred, ANI offered $300 million in coverage, the highest limits available. NML offered $225 million in coverage at that time. But, Three Mile Island proved overnight that those limits were not enough.

Three Mile Island was insured for the maximum—$300 million, says Mr. Jackson. What nobody estimated or anticipated was the cost of cleaning up the on-site contamination. The nuclear industry learned that massive contamination, and not physical property de-

Continued on page 38



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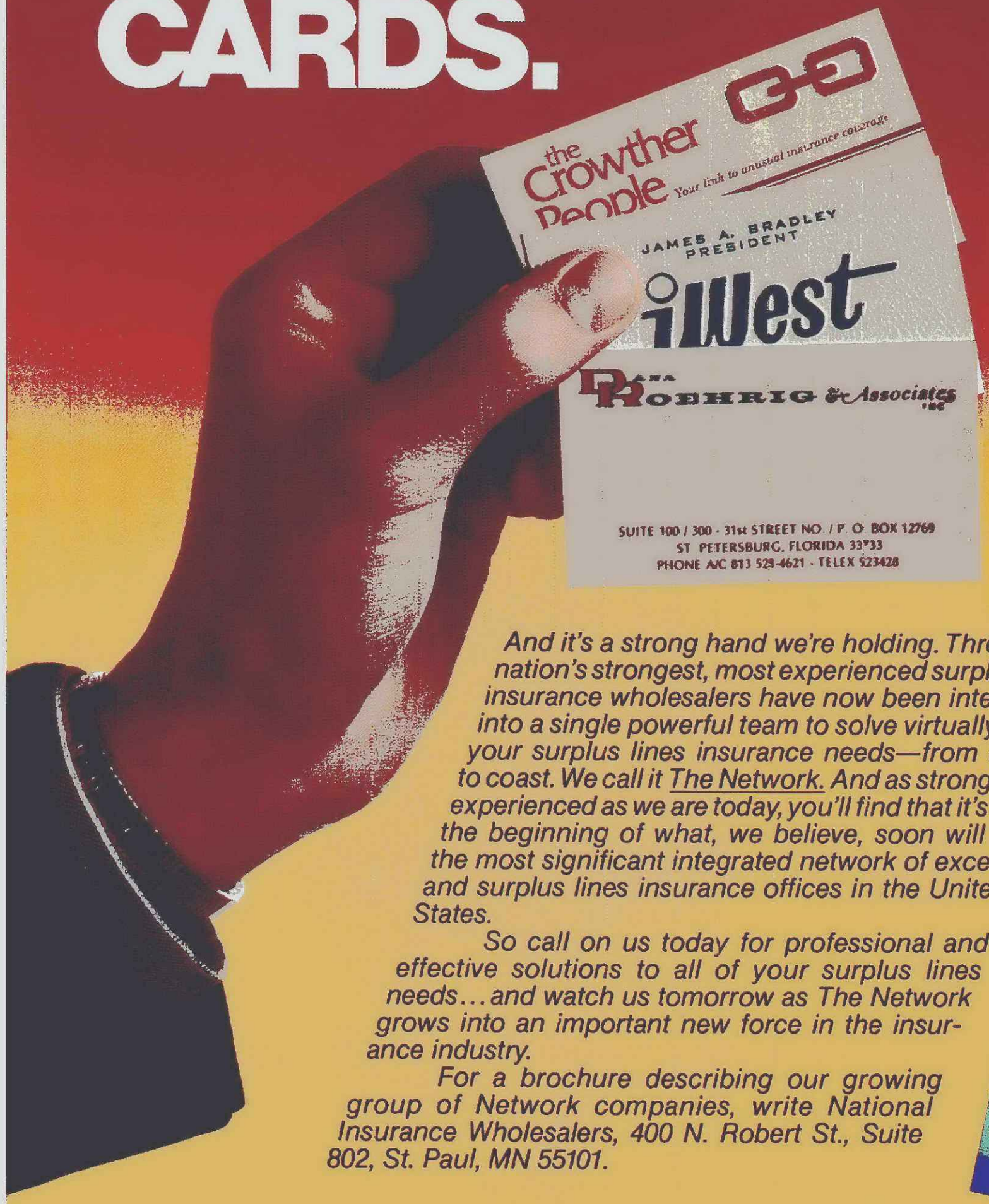
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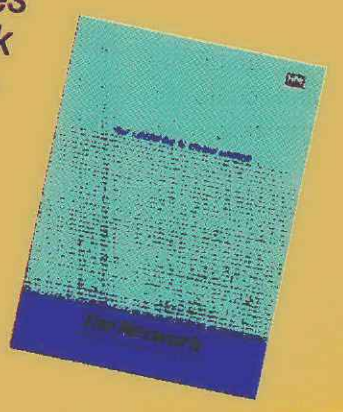
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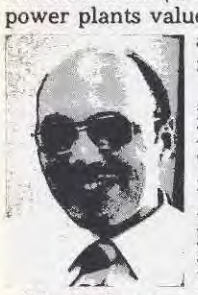
The Network

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Nuclear Mutual can withstand disasters

Continued from page 36
struction, is the major threat from a nuclear accident.

"Of course, we haven't been tested by an intense earthquake on the West Coast," admits Mr. Jackson. The facility at San Onofre, located on the Pacific coast about 50 miles north of San Diego, is valued at more than $2 billion. Nuclear power plants valued at $1.5 billion are not uncommon.


Mr. Jackson

Today, capacity of $915 million is available to insure these risks. NML and ANI each offer primary limits of $500 million. NML insures 29 sites for about 42% of the market *vs.* 58% for ANI. Nuclear Electric Insurance Ltd., a Bermuda company managed by Marsh & McLennan, currently provides excess limits of $415 million above $500 million. NEIL hopes to fill out a $500 million excess layer soon.

Is $1 billion enough?

"I think there is general acceptance that $1 billion is about the right amount," says Mr. Jackson. "Of course, there are different schools of thought and the Nuclear Regulatory Commission is studying the issue. Some buyers would take as much insurance as they could possibly get their hands on."

Prior to last August, when NML's limits increased to $500 million from $450 million, there was a $50 million gap between NML's primary and NEIL's excess coverages.

Most NML members opt for a $1 million deductible, although they may choose to retain as little as $250,000 on a per occurrence basis. "We have issued quotations (deductibles) as high as $10 million for plant operators that want it," notes Mr. Jackson.

Some members have up to three reactors on a single site. But, the cost of NML's $500 million coverage for one reactor above a $1 million deductible would run—very roughly—about $1.5 million, estimates Mr. Jackson. Excess coverage would add about another $700,000 to the plant's total property insurance bill.

Although there is an abundance of reinsurance available to back up most lines of coverage underwritten by direct insurers, this is not true for nuclear insurance. This year NML expects to find slightly more than $100 million in annual aggregate reinsurance, about two-thirds of the $150 million it wants.

"We place a large percentage of it with Lloyd's and then send our broker to beat the bushes in the U.S. commercial reinsurance market," he says. So far, NML, unlike ANI, has been unable to buy reinsurance in the U.S. market.

"I don't fully understand why," says Mr. Jackson. But, he believes that reinsurers fear an accident might hit them twice through the two direct markets, NML and ANI. This is highly unlikely because, with one exception, nuclear power facilities are insured through one or the other, not both, he says.

Competition between ANI and NML has been extremely healthy for the nuclear insurance market, believes Mr. Jackson. "We would like to have more members, but not the whole market," he says. "It is in everybody's best interests to share the market with ANI."

The opportunities for expanding the universe of policyholders are very limited. There are a handful of plants under construction that have not yet brought nuclear fuel on site and, therefore, may still be insured under builders' risk policies. There also is potential for poaching members from ANI.

"We have been approached by some Canadian and European power plants about membership in NML," says Mr. Jackson. And, although there's no legal reason why they couldn't join, the political implications are daunting.

It would be hard enough for people in Florida to accept increases in their electricity rates if a retro adjustment had to be assessed because of an accident in Illinois, points out Mr. Jackson. Imagine the consequences of such an increase attributable to an accident in France.

Also, nuclear industries tend to be highly nationalistic. Every country believes that its plants are engineered to a higher standard of excellence and safety. Therefore, Canadian, Belgian or Swiss policyholders might feel that they should pay less premium than their U.S. counterparts.

NML retains M&M Protection Consultants for safety engineering services including periodic inspection of the facilities it insures. Each NML member also is entitled to send a representative to sit on the engineering and insurance advisory committees that meet twice a year to discuss engineering standards, rate-setting and other coverage issues. ■



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Cayman Islands: Captive management firms foresee the need to diversify into different insurance activities

By STEVE SHERWOOD

GRAND CAYMAN, B.W.I.—Captive managers in Cayman are refocusing their energies.

While they do not unanimously agree that captive business has slowed in this domicile 500 miles south of Miami in the Atlantic, many are planning to diversify into other insurance activities.

Cayman Insurance Superintendent John Darwood says 260 captives were domiciled in Cayman as of February, an increase of 77 from the end of 1981. But many captive managers admit this is less business than they had hoped for and they had to work harder to get their share of it. They also say the captives they did help set up changed in nature last year, with more agency captives being formed rather than single-parent captives or association captives.

"There has been a change in thrust," says Ian Kilpatrick, president of Insurance Management Consultants (Cayman) Ltd., which has increased its clientele by seven in the past year to a total of 22 captives.

"We have come to the conclusion that captive management won't make a great deal of our income in the future," Mr. Kilpatrick says, adding that much of the work now is administrative. "We have done a lot of talking to people trying to put captives together and the number that fall through is high. This is extremely frustrating. You do a lot of work and get no money for it."

Although the other managers share this frustration, they all stress they are still actively seeking more captive business and, in fact, three new captive management companies opened offices on the island in the past year.



Mr. Kilpatrick

But like Mr. Kilpatrick's firms, most of the management companies are doing more administrative work for existing captives and less work setting up new ones. A few are getting involved in conventional insurance and reinsurance or forming syndicates to write business on the Insurance Exchange of the Americas in Miami (see story, page 51).

Mr. Kilpatrick says IMC has no intention of getting out of the captive business but, "We've decided to see if we can get into the insurance business proper."

IMC will do this through its recent merger with Cayman's Executie Life & Casualty Co., capitalized at $1 million, he says. "Through Executive Life we've invested in a syndicate on the Florida exchange. This way we can get our feet wet in the reinsurance business in a way that should be reasonably safe."

In addition, IMC has assumed administrative control of Universal Casualty & Surety Co. (Cayman) Ltd. Mr. Kilpatrick is quick to point out that Universal was incorrectly named in a report to the National Assn. of Insurance Commissioners as the reinsurer of a large insolvent American insurer.

"Universal has an extremely good balance sheet—$10 million—and we hope to participate in risks it writes. It will provide an in-house reinsurance facility if we can remove the smear from its name."

Another Cayman underwriting manager, Caribbean Risk Specialists Ltd., lost several clients during the past year but replaced them so it is still managing 11 clients.

"It appears from our office that the island is finally starting to feel some of the effects of the recession that has plagued the industry for so long in the states," says Kathleen Bodden-Evans, CRS' office manager. But, "We don't see an reason to go folding our tent. The fact the company is now getting into syndicates (on the Florida exchange) and focusing on other insurance subsidiaries means the business is changing, not disappearing."

The focus on new captives is definitely changing, she said. "We won't see anyone coming in anymore and saying, 'I have $1 million I don't know what to do with, let's form a captive.' That simply isn't happening anymore."

"It's been quiet, unfortunately, although we did start two captives in the last few months," says Roger Corbin, president of Absit Insurance Management Ltd.

"It seems that the general economy is slow. We are going through a period where those who would like to have captives have already formed them. There aren't many new ones developing and it's difficult to judge from the number of licenses granted which are new ideas and which are old ones that are finally being licensed."

He says he sees nothing in particular that is causing the slowdown in captive growth.

Others who see a slowdown point to a combination of reasons:

- The U.S. economic recession, which encourages corporate treasurers to keep their money home.
- The fact that most large U.S. corporations that would form captives have already done so.
- Renewed political stability on Bermuda with the re-election of its conservative party, dashing Cayman's hopes of picking up a windfall of captives fleeing Bermuda.
- The changing character of captives to more agency captives where insurance agents or their clients form a captive to share in their own risk.

But the perception of a slowdown in business is not shared by everyone. In fact, some have new captive projects going.

"We have seen no slowing down at all," says Donald J. Westmoreland, managing director of Transnational Risk Management Ltd., part of the Fred Reiss group that includes United Insurance Co., Cayman's largest insurer, with $181 million in premium volume. "We've had a steady flow of inquiries and a steady formation of captives."

Continued on next page

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INSURANCE MANAGEMENT

Cayman captives

Continued from previous page

In the past year Transnational has doubled its list of client captives to 30 from 15. This does not include United, a reinsurance pooling vehicle owned by 28 captives parented by Fortune 500 companies.

Transnational's new captives are premdominantly workers compensation insurers, but others are involved in general or product liability. A growing area is credit life coverage for automobile dealers, Mr. Westmoreland says.

Clients' reasons for setting up captives have changed as well, he says. Where the purpose once was to gain access to reinsurance and the benefits of risk retention, people are now looking for flexibility.

"There also is little emphasis on tax deferral; most are more concerned with being in control of their destinies, being able to design covers to suit their purpose," he says. "If there are advantages beyond this, they are a plus."

Transnational is providing a vehicle for offshore captives to diversify into mainstream onshore insurance through Transnational's most important project of the year: Delta Holding Co.

Delta, a Delaware-domiciled company that is slated for eventual capitalization of $30 million, will own a conventional U.S. insurance and reinsurance company with offices in New York and a subsidiary in London.

Delta is wholly owned by captive insurers under Transnational's management, including members of United.

"Delta will be writing reinsurance business that will be retroceded partly to the client groups of United (Insurance Co.) and partly to outsiders. If we can get licensed in all states, it will also act as a fronting company," he says.

Through Delta, the captives will have better access to outside business, he says.

The advantages are numerous: income from Delta's underwriting and fronting activities, rapid cash flow and the security of dealing with known retrocessionaires. Most will be Transnational's clients.

Scotia Insurance Services of the Bank of Nova Scotia Trust Co. (Cayman) Ltd. also is seeing a reasonably healthy influx of captives, says Anthony Stelling, its manager.

From the end of 1981 it has licensed 14 new captives, including one for a large insurance concern.

"There appears to be a resurgence in medical malpractice generally across the Midwest, and we have had a few this year starting up," he says. Scotia has four older medical malpractice captives alrady operating, including Harvard Medical School's group captive Controlled Risk Insurance Co. Ltd., or CRICO.

"We also saw a few agency-type captives coming in and a marginal increase in the number of offshore companies being established by onshore direct writers," he says.

Scotia had 50 client captives this time last year and still has about 50, says Mr. Stelling. "We had a turnover of companies. Some we felt weren't meeting our requirements, some decided that in the soft market it was not worthwhile to continue their venture—they may have gone offshore for a specific purpose and decided the purpose had disappeared."

Johnson & Higgins, which added two single-parent captives this year, now manages five Cayman captives. Insurance Services International Ltd. stayed even with 10 companies under management, three of which are captives.

Watford Insurance Services Ltd., in addition to managing two Texas-parented captives, is now broker Corroon & Black's representative on Cayman. Watford is managing two single-parent captives for Corroon & Black.

"They started turning captivs over to me last week," says R. William Rewalt, Watford's managing director. He expects to see a Watford-managed major medical association operating within 30 days.

"The reinsurance and insurance movement here continued to grow in accordance with projections. It is not hectic, but we haven't noticed a slowdown," says Timothy Ridley, an attorney with the law firm Maples & Calder, which provides licensing and other services to about 100 Cayman captives.

"The key to growth is if we continue to see an increase in the number of management firms coming here," he says.

Three management firms have opened offices in George Town, Cayman's capital, during the past 12 months.

Broker Marsh & McLennan, which has had a registered management firm on Cayman since 1980, staffed an office in November and has five client captives.

Continental Risk Services Ltd., a subsidiary of Continental Corp., also opened its Cayman operation in November and is managing Great Republic Insurance Co. Ltd., a large single-parent captive.

Overseas Insurance Services Ltd. opened in spring 1982 and General Manager Peter Mackay says his firm manages 11 captives on behalf of CSI International (Cayman) Ltd. and another eight on its own. The CSI captives insure their parents for workers compensation. Among the Overseas captives are two that write business interruption coverages for major New York advertising agencies. ■

U.S. dominates

GRAND CAYMAN, B.W.I. —The vast majority of Cayman's captives is owned by U.S. parent companies, according to data from Superintendent of Insurance John Darwood's office.

Of the 260 captives licensed, about 90% have U.S. parents while the rest are spread among British, Bermudian, European, Middle Eastern and Far Eastern companies.

"I would like to see us less dependent upon the American market," Mr. Darwood says.

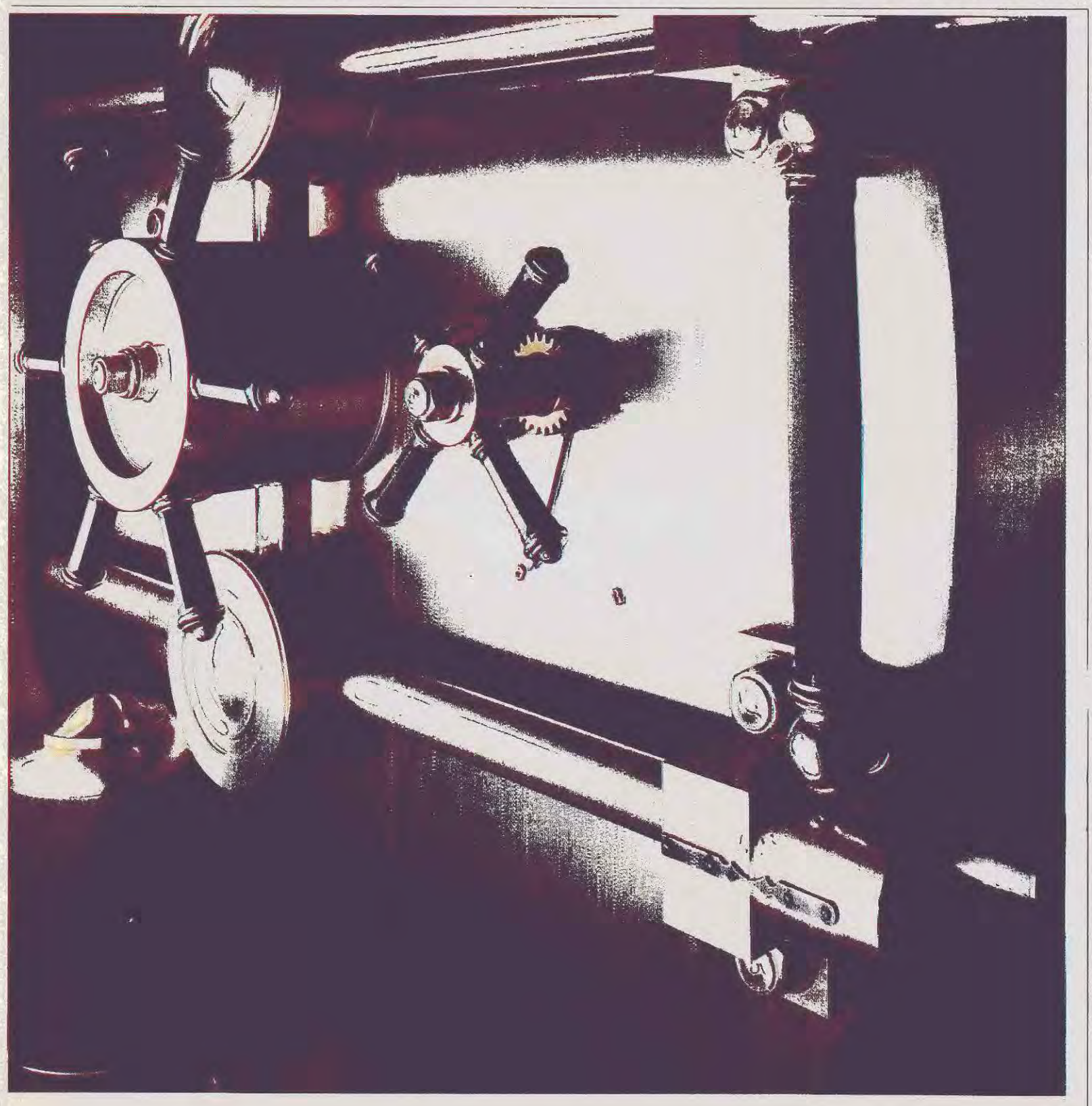
Most Cayman captives write workers compensation insurance, but there is a small but strong group of medical malpractice captives. And, almost all lines of insurance are written by island insurers.

Although there is no firm estimate of the premium volume written by Cayman captives, sources guess it may be in the range of $400 million to $500 million annually. Premium figures will be better known when Mr. Darwood completes an examination of the insurers' annual filings, which were required this year for the first time.

Although most offshore captives are licensed to write third-party reinsurance, very few are writing it, Mr. Darwood says.

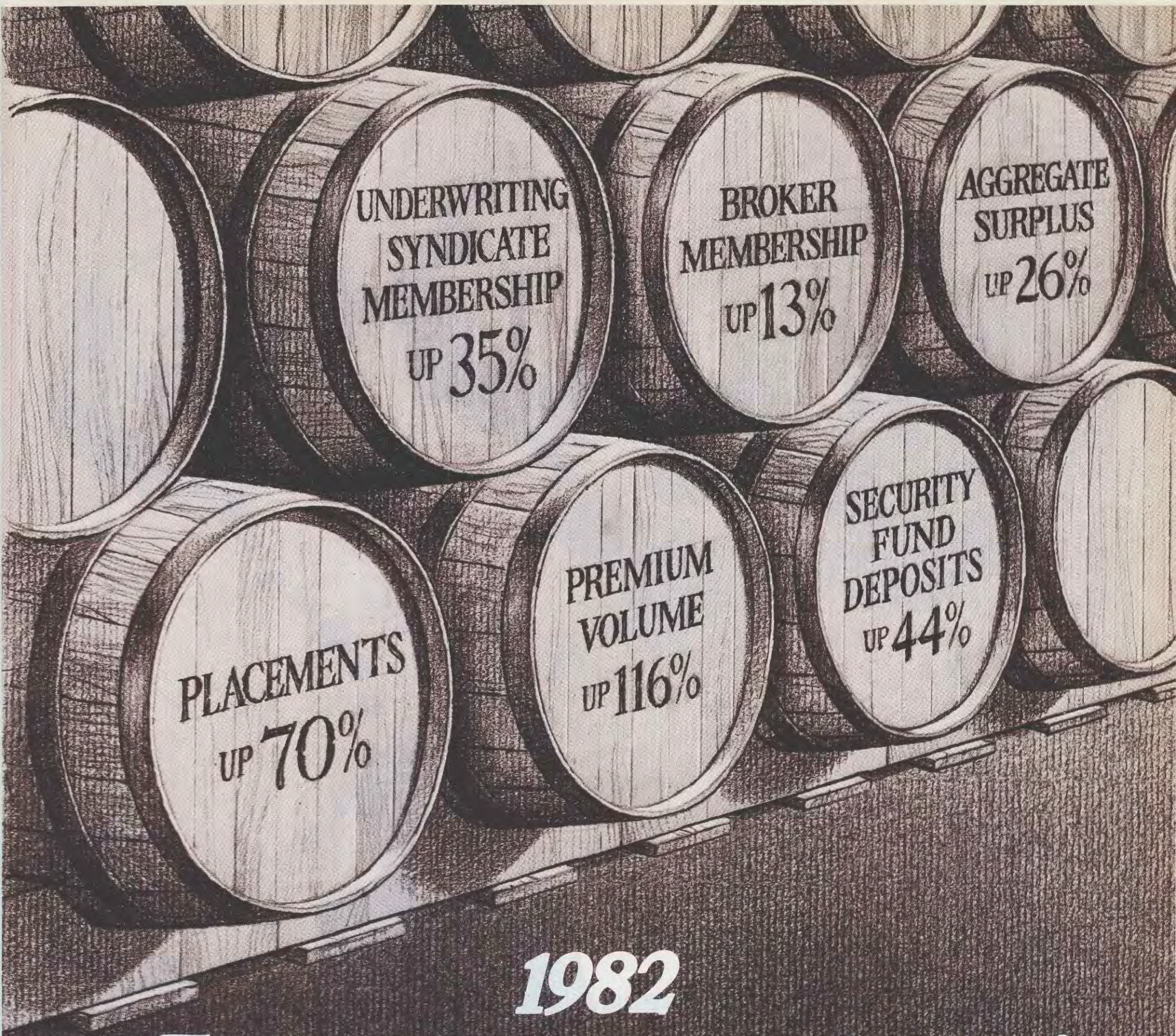
"I'm pleased to say they have been prudently cautious with their capacity since I would feel for a while yet that out insurers are vulnerable to the offering of less than good-quality outside business."

But, despite this prudence, the Cayman insurance industry is growing rapidly. Since the end of 1981, 77 new licenses have been issued while Bermuda, which is the largest offshore domicile, has licensed 86 new insurers.



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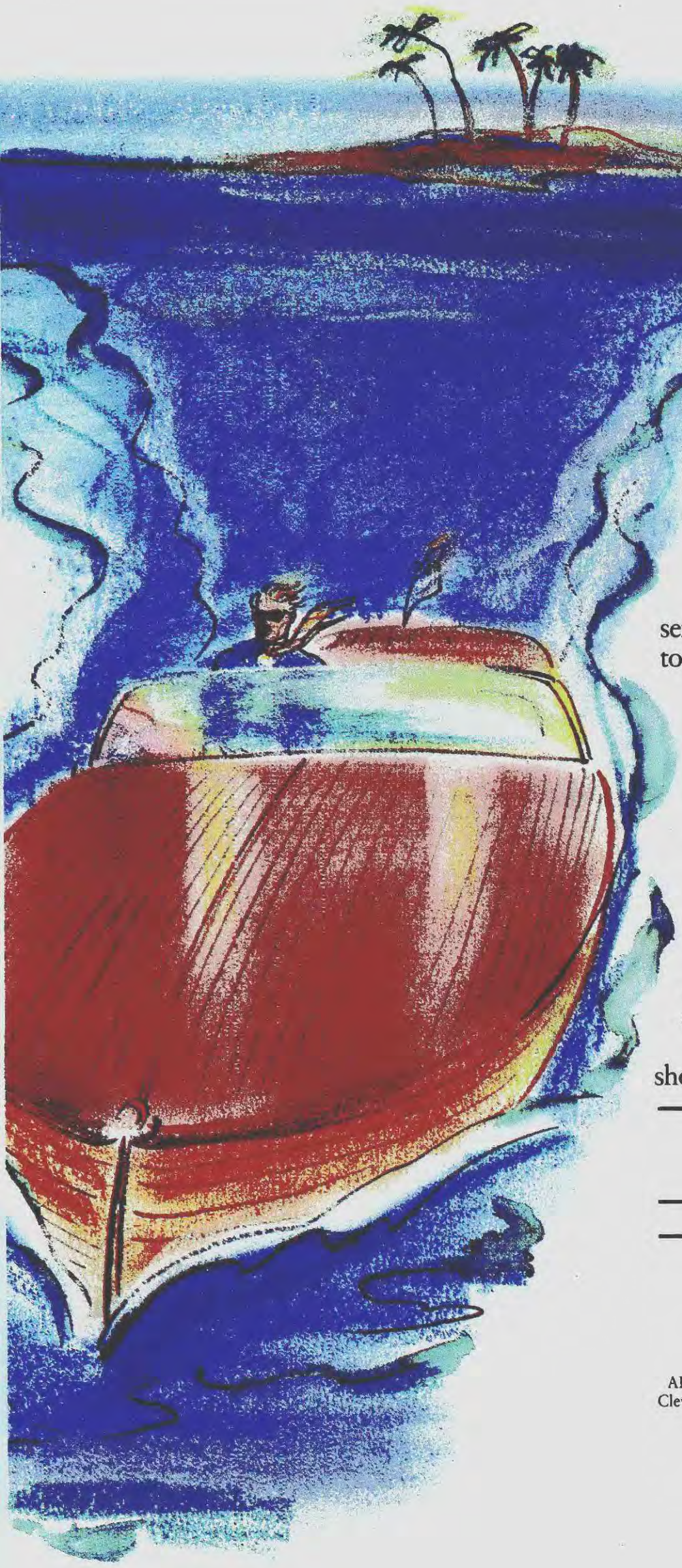
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Caymanians defend secrecy statute

By STEVE SHERWOOD

GRAND CAYMAN, B.W.I.—Caymanian insurance people say Cayman deserves a better image.

They say their nation has been maligned by U.S. officials and the media because the intent of the Cayman Confidential Relationships Preservation Law is misunderstood. Many outside of Cayman think this secrecy law invites criminals to stash their money in private banks there.

"Certainly people in the U.S. still take things coming from Cayman with a grain of salt," says Graham Cork, assistant underwriting manager of Insurance Management Consultants Ltd., a Cayman captive management firm. "They are sometimes frightened by the name. With Cayman in the press, they think everyone here is some sort of dark character."

After people visit the island, they generally leave with a better impression, he adds.

"It is important for Cayman to demonstrate it is not a refuge for criminals," says Donald J. Westmoreland, managing director of Transnational Risk Management Ltd., which manages a large number of captive insurers on Cayman. "But the press seems to pick on Cayman as a banking center for Mafia and drug money—quite unfairly, I think.

"Like anywhere else, bad things have happened here, but the government is conscious of it and is trying to prevent such things. That is why it brought in insurance and banking superintendents to monitor the industries."

The Cayman secrecy law says all legitimate business dealings are confidential, making it illegal either to actively seek such information or to provide it to third parties.

The law can be an irritating barrier to journalists reporting on activities on Cayman or to law enforcement officials investigating criminal activity, but residents say this protection is essential to provide an attractive business climate.

They also point out that if a foreign government agency can show that the object of its investigation has committed a crime, the law will not protect him.

However, the crime must be considered an actionable offense under Caymanian law, which can cause friction between Cayman and U.S. Internal Revenue Service agents seeking evidence of tax evasion. There can be no tax evasion on Cayman since residents and businesses pay no direct taxes.

"A certain amount of ignorance is attached to the current situation," says Anthony Stelling, manager of Scotia Insurance Services, an affiliated of the Bank of Nova Scotia Trust Co. (Cayman) Ltd.

"A great song and dance is being made over the success of one U.S. agency in securing the banking records of a suspect. All that happened is for the first time, a U.S. agency took the time to go through the due process of law down here."

The U.S. Justice Department recently convinced the Caymanian appeals court to order a Cayman bank to open the accounts of Joseph C. LeMire, who had been indicted for a $2 million fraud against his former employer, Raytheon Co. The evidence they found helped them convict Mr. LeMire (*BI*, Jan.24).

U.S. officials heralded the case as precedent-setting, saying that now Cayman banks must cooperate with certain requests from U.S. courts, particularly in criminal fraud cases.

"A lot of fuss is being made about the secrecy law," says Roger Corbin, director of Absit Insurance Management Ltd., a Cayman captive manager.

"I was kind of hoping that after the Justice Department's claimed success here, there would a better understanding of the law in the U.S., but this does not appear to be the case. The hassle in the LeMire case wasn't in obtaining information. The hassle was over the way in which the information was sought."

Peter Baker, a partner with accountant Peat, Marwick, Mitchell & Co., says, "The government's official policy is that confidentiality laws only protect what is legal here. It is perfectly willing to cooperate in investigations, within the context of our laws."

Cayman's image problem revolves more around banking than insurance.

"Wherever you are, you'll find illegal funds," says Mr. Stelling of Bank of Nova Scotia. "I think because the authorities can't come in at will and look into bank accounts, they are suspicious of them."

In insurance transactions, clients want to know whom they are dealing with. "There is growing recognition on the part of people who want to trade in insurance that if they wish to give credence to what they are doing, they need to be identified," says John Darwood, Cayman's insurance superintendent.

"They must stand up and be counted, letting people know who their backers are and what they are trying to achieve. Only this kind of information will allow trust to grow. Otherwise, you breed suspicion and that is what we need to get rid of."

The insurance superintendent, through the insurance licensing process begun in 1980, is able to check the credentials of each insurer in any depth he wishes, Mr. Darwood says.

"There is no way the licensee has a defense mechanism under the law as far as this office is concerned, but where the outside world is concerned, we are bound by this confidentiality law.

"We can't even divulge the parent company's name unless the company gives us permission to do so."

The same law prevents underwriting managers who manage Cayman captive insurers from divulging information about their clients without permission.

"We encourage companies to give us the authority to disclose more than simply the fact that they have licenses and are doing business," Mr. Darwood says.

"I would like to be able to confirm for those with legitimate interest that the parent is in good order and its financial situation is good."

He believes the underwriting managers feel it is good for them to be able to identify clients, he says. If they have a captive with a sub-

Continued on page 50

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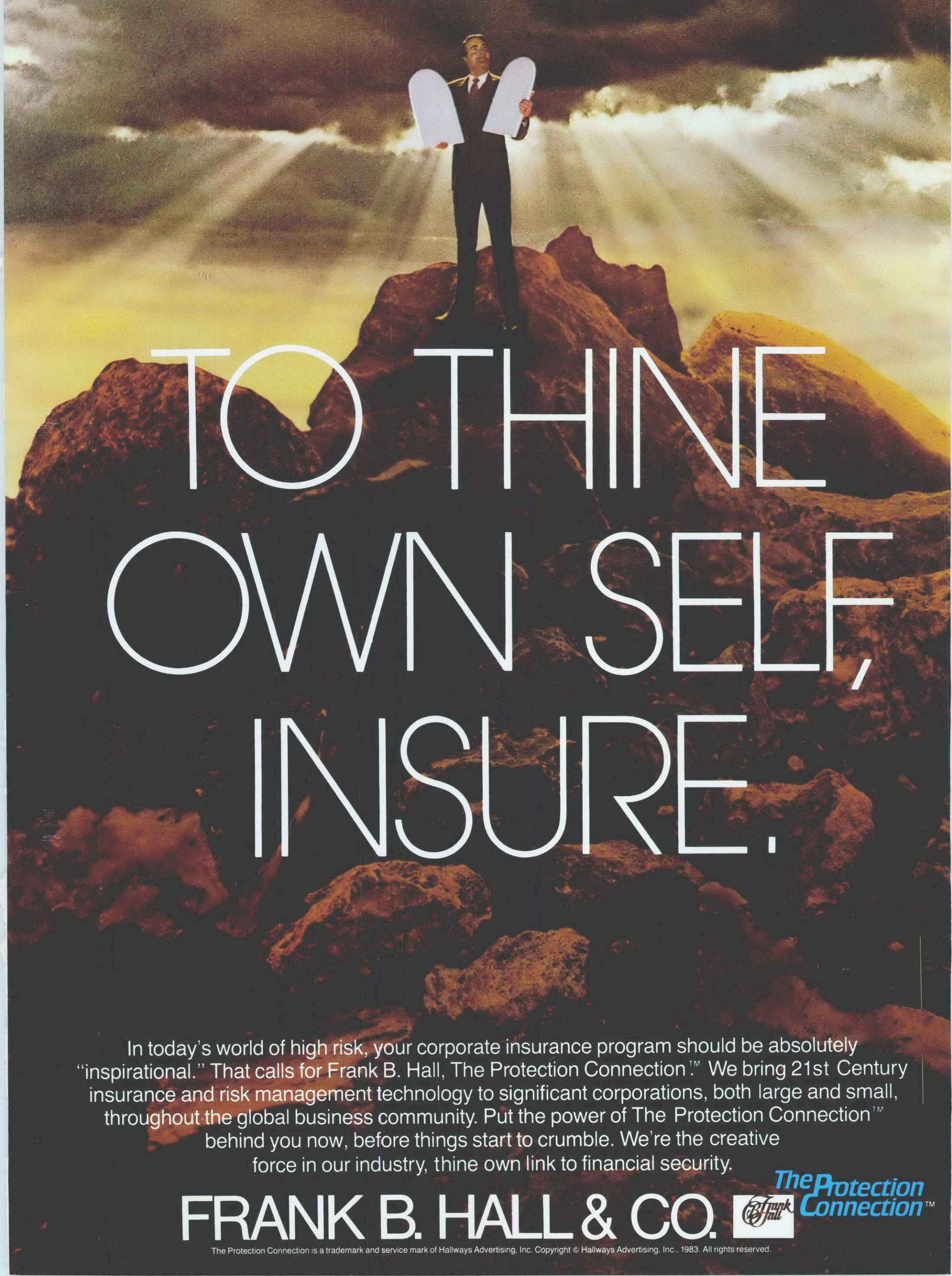
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Cayman's secrecy law misunderstood: Officials

Continued from page 48

stantial parent, it may be to their advantage if they can say so.

"The confidentiality law has a part to play in the overall development of Cayman as an offshore financial center," the superintendent says. "It has useful aspects in some areas but is a hindrance in others, particularly in the orderly development of the insurance market."

Peter Mackay, manager of Overseas Insurance Services Ltd., a new captive management firm on Cayman, says, "We get our clients to agree to allow us to reveal the information John Darwood needs. Normally, this is no problem since our clients have nothing to hide."

In fact, many in Cayman don't want to deal with clients that want to abuse the secrecy law.

"If anyone came in here to set up an insurance company and their entire goals and projects relied on the use of the confidentiality law, I would have to tell them that they cannot count on its protection and that we would not want to know what they are doing," said Peat, Marwick's Mr. Baker. "Anyone doing this is likely to be breaking tax or other laws somewhere and we would not want to be involved."

"We don't take a client that tells us we won't know any of its facts," says Klaus Gebhardt, chairman of Insurance Services International Ltd., a Cayman captive management firm. "We figure if we don't know what it is, it might get us into trouble."

He believes the confidentiality law works in favor of legitimate companies, saying, "The law is designed to keep private those matters that should be private for honest individuals."

One of ISIL's client companies was recently audited by the IRS, which wanted to disallow tax deductions the company had taken four years in a row for insurance premiums paid to its own Cayman captive.

"We were put in the position where the IRS demanded information, including a list of the captive's insureds, and the company's counsel said to supply it," Mr. Gebhardt says. "I said we couldn't do this. Legally and ethically, we could not give them the information without getting all of the insureds' permission (since the company wrote third-party business). Then we talked to local counsel and were advised that if the parent company gave its permission, we could release the information. We did so."

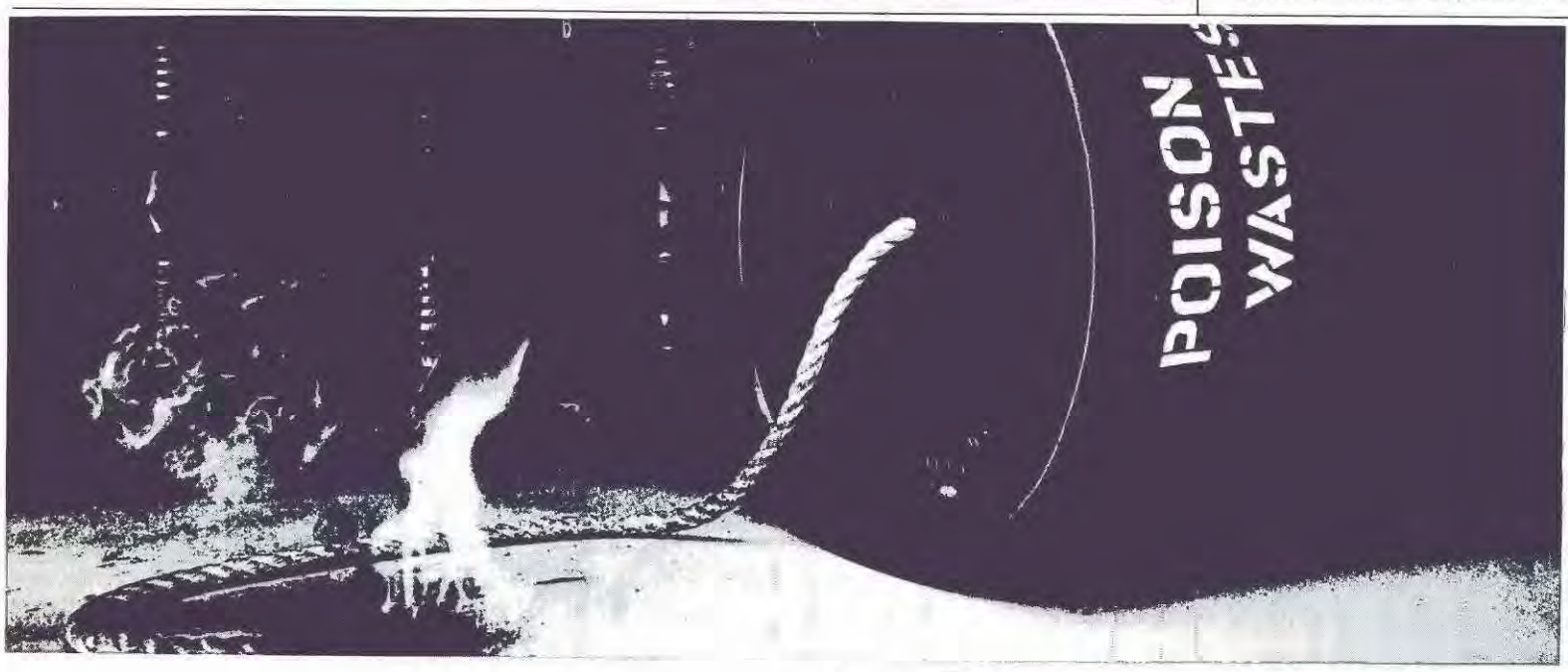
In the end, the parent and the IRS reached what Mr. Gebhardt says was an amicable agreement. "The deduction was disallowed for the first year, when the captive wrote virtually no outside business but was allowed for the next three, when it wrote increasingly more outside business."

Mr. Gebhardt sees this case as an example of a victory within the law for the parent company. The company's voluntary release of confidential information to a U.S. agency helped it.

Despite the debate over Cayman's confidentiality law, it does not seem to be having an adverse effects on insurance business on Cayman.

"We've not had any problems because of it," says Graham Cork of IMC. "But it is only fairly recently that items have been splashed across front pages, so it may be too early to tell."

Peat, Marwick's Mr. Baker says, "We've seen no adverse results in reference to negative statements. Overall, people who have set up insurance companies here know the lengths they had to go to meet licensing requirements. The onus is on all of to maintain professional standards. I think Cayman has a favorable reputation overall." ■



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Cayman, Florida exchange eye each other

GRAND CAYMAN, B.W.I. —The Cayman Islands and Miami's Insurance Exchange of the Americas are reaching out to each other.

Several Cayman captive managers are linked—directly or through related companies —with syndicates on the exchange, and its chief executive officer, Alan Teale, visited Cayman in March to deliver a progress report to the Cayman Underwriting Managers' Assn.

"There's a lot of play as to forming some meaningful relationship with the Miami exchange," says R. William Rewalt, managing director of Watford Insurance Services Ltd., a captive manager.

"The exchange will have tremendous capacity for reinsurance and insurance once it gets going—most anything a captive requires.

"They are hoping some of our business rubs off on them, and vice versa. Maybe some of our captives will defer reserves to form syndicates to write on the exchange."

"We're trying to get closer to Cayman," says Mr. Teale. "It is a very aggressive, well-run island with a good insurance supervisor."

Three exchange syndicates have registered as insurers in Cayman, and Mr. Teale expects to see more do the same before long, he said.

"Cayman Insurance Superintendent John Darwood is doing a super job there and this has given us the confidence to link up with Cayman rather than one of the other (captive) domiciles," he adds. "It is a calm, quiet, modest market. Together we can build something worthwhile."

The Florida exchange was granted its license to operate April 4. It now has 32 member syndicages, 54 broker members, 48 subscribers and 17 underwriting agencies. Four of the syndicates are already underwriting, and another eight will be licensed to do so soon.

He says the advantages the Cayman insurance market will gain through an association with the exchange include greater access to third-party business, a strong force of available producers and a guaranty fund to protect policyholders from syndicate insolvency and worldwide publicity.

Start-up of the exchange had been delayed several times in the last six months as it waited for authorization to operate from the Florida Insurance Department, educated its members and waited for the right time to start writing, says Mr. Teale (*BI*, April 11).

Insurance Management Consultants (Cayman) Ltd. has invested in a syndicate on the exchange through its sister company, Executive Life & Casualty Co., says Ian Kilpatrick, president of IMC and chairman of the Cayman Underwriting Managers' Assn.

"I see the exchange as exciting and I'm keen to work closely with it," Mr. Kilpatrick says. "We've gone into one (syndicate) and are hoping to put another together for our clients."

How well the two markets will work together is still unknown, but Mr. Kilpatrick sees the exchange as a boon to Cayman's insurance industry.

"I would like to think we can benefit from it if predictions made by Alan Teale are met. Having Cayman companies form syndicates with management here will give us the ability to overcome the offshore taint. Some people have felt that Miami constituted a threat to Cayman, but I think there are benefits to be had for both through a close association."

Another captive manager involved in the Florida exchange is Caribbean Risk Specialists Ltd.

"Our parent, Anderson, Greenwood Co. of Houston, has one syndicate on the Miami exchange as a joint venture with a large European insurance concern," says Office Manager Kathleen Bodden-Evans. "We also have an underwriting agency on the exchange."

It is conceivable that some of Caribbean Risk Specialists' clients might join resources to form another syndicate, Ms. Bodden-Evans says.



Mr. Rewalt

"One of the advantages to having a Cayman company in the syndicate rather than a Florida company is that any company formed for the exchange cannot do any business except that offered by the exchange.

"If for any reason the exchange doesn't fly, you still have a company set up here and can simply redirect its focus."

Her firm did have an independent reinsurance syndicate—TASCO—set up in Cayman but it is no longer in existence, she says.

"It didn't work out." The ownership was too diverse, making it too cumbersome, she explained.

"It's a shame, but I think everyone has learned from it. Now we know the ropes when it comes to setting up syndicates."

One aspect of the exchange that is particularly good for Cayman captives is its low capitalization requirements.

"It is $1.5 million for a syndicate in Florida, as opposed to $5 million in New York," Ms. Bodden-Evans pointed out. "This is a more realistic figure for a Cayman captive to look at. It's small enough that the captive could invest without being swallowed up."

"There is no doubt that it is in Cayman's interest that Miami has developed into a financial center," says Cayman attorney Timothy Ridley of the law firm of Maples & Calder. "Insurance is still very much a business where people need to meet face-to-face (Cayman is only about 500 miles from Miami). I hope the Florida exchange works."

However, some are still weighing the advantages of a link between Cayman and the exchange.

"I have yet to work out the benefits or the disadvantages of the exchange," says Anthony Stelling, manager of Scotia Insurance Services of the Bank of Nova Scotia. "Interest in it is barely visible. I don't have any clients really interested in it."

—By Steve Sherwood

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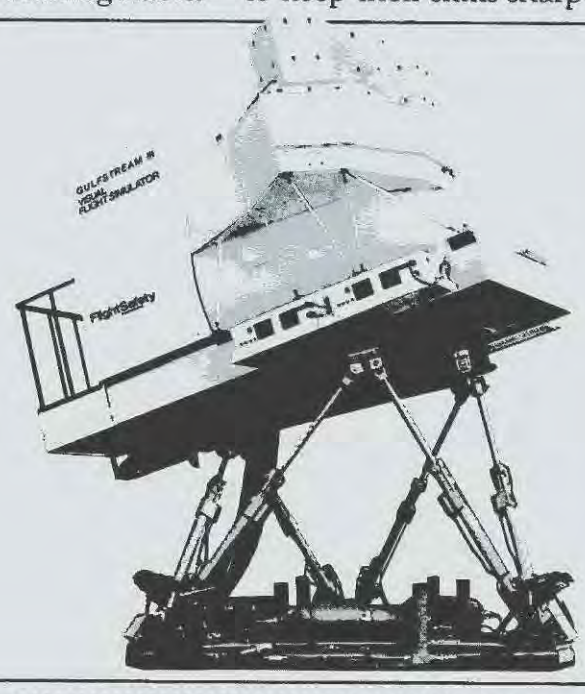
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Cayman Re's fate hinges on class-action suit

By STEVE SHERWOOD

GRAND CAYMAN, B.W.I.—During Cayman Islands Reinsurance Corp.'s first nine months as a public company in 1981, nearly everything that could have gone wrong did.

Now, as the company begins its third year, its present management is still attempting to put Cayman Re back on its intended course as a reinsurer. However, before this can be done, the company must leap the last of several major hurdles: a class-action lawsuit that combines three separate stockholder suits against the company and 15 of its directors.

If Cayman Re loses the suit, it may cease to operate because of a lack of capital, says its 1981 annual report. Even if it wins, "I think we will have to change the company's name. It is too badly tarnished; we can't get rid of that reputation," says Chairman and Chief Executive Officer Klaus J. Gebhardt, who is a defendant in the class action.

Cayman Re went public on Dec. 28, 1980. Since that time, it has written only four reinsurance contracts: two that were written and canceled in 1981, one that was written in 1982 and canceled earlier this year and a current one that brings in about $10,000 a year in premium.

According to its 1981 annual report filed May 14, 1982, "The company had no significant income from reinsurance business in the fiscal year ended Dec. 31, 1981, and for the year incurred a net operating loss of $1.37 million. The company has never paid a dividend to its shareholders."

The financial picture for 1982 is nearly the same, with a $1.36 million operating loss, but the reasons for the loss are different.

While 1981's loss was due largely to Cayman Re's real estate and stock transactions, 1982's came from the company's reinsurance business and from legal fees spent defending the lawsuits.

Cayman Re's troubles began with its December 1980 public offering and revolved around its prospectus that told stockholders the company's assets would be used as reinsurance underwriting capital and would be invested in short-term, fixed-income debt securities of major corporations and governments.

New York securities broker John Muir & Co., on behalf of Cayman Re, sold 6 million shares of stock for $6 million, raising a net operating capital for the reinsurer of about $4.7 million. The $1.3 million difference went to Muir to cover expenses incurred in the offering.

In the nine months that followed, the company:

- Had a substantial portion of its assets channeled into interests in two pieces of Toronto real estate by former managing director Michael C. Scott, leaving it in an impaired underwriting position.
- Had another large portion of its assets invested in securities underwritten or marketed by Muir, which plaintiffs in the class action say were highly speculative and violated the terms of the prospectus.
- Was informed that Mr. Scott, who as managing director had "full authority to exercise all the powers of the board, with specific limitations," had pleaded guilty to two counts of fraud in 1961 and was sentenced by a Canadian court to two years in prison. (Cayman law requires evidence that none of a company's directors or officers has a criminal record.)
- Assisted Federal Re in an unsuccessful attempt to take over Aneco Reinsurance in Bermuda.
- Saw the value of its stock drop from $1 a share to about 22 cents.

These events are the basis for charges made in the class-action suit and in a U.S. Securities and Exchange Commissions complaint against the company, which has been settled.

Cayman Re and two former top officers—former President Paul V. Miller and former Chairman William E. Thompson—settled out of court with the SEC in November. The SEC dropped its complaint in exchange for the defendant's pledges not to violate federal securities law in the future. No admissions of guilt were made.



Mr. Gebhardt

However, the SEC is proceeding with complaints against John Muir & Co., partner Raymond L. Dirks and two other associates.

The class-action suit, styled Nancy Spector vs. William E. Thompson, names as defendants Cayman Re, 15 of its past and present directors, Muir and four of Muir's general partners. It seeks damages equal to the amount that stockholders spent on Cayman Re stock for those still holding shares, the decrease in market value for those who sold their shares and recovery of legal expenses.

Filed Oct. 6, 1981, in the U.S. District Court for the Southern District of New York, the suit claims all defendents conspired to defraud stockholders and failed to carry out promises made in the prospectus.

Both the suit and the 1981 Cayman Re annual report outline the events leading to specific charges, but the report blames former managing director Mr. Scott for most of the company's problems.

Mr. Scott became managing director of Cayman Re in December 1980 and was removed from that position in August 1981, when an executive committee was elected to run the company.

At the same time, the executive committee asked the SEC to suspend public trading of Cayman Re stock due to concern over several transactions in which Mr. Scott had involved the company, lack of information about these transactions and Mr. Scott's prison term.

"While Mr. Scott was managing director, Cayman Re engaged in several business transactions unrelated to the reinsurance business," says the 1981 annual report. "As a result, a substantial amount of the company's working capital was utilized and its reinsurance underwriting capacity significantly diminished."

Mr. Scott allegedly gave Muir, as a condition of handling the public offering, power to invest a large portion of Cayman Re's capital in new equity securities Muir underwrote or marketed, the annual report says.

As a result, the company suffered a loss of $323,000.

Continued on facing page



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Although the SEC claimed in its complaint that former chairman Mr. Thompson and Mr. Miller knew of this agreement, the annual report says that both men deny this allegation.

The other major transaction was an unsecured loan of $3.27 million extended by Mr. Scott to Marsta Cessions Services Ltd., a Canadian company with which Mr. Scott was allegedly associated.

The loan was applied to the purchase of two Toronto buildings, the first worth $2.3 million and the second worth $6.75 million. Cayman Re's annual report says the loan was made without the consent or knowledge of many of its directors.

Following Mr. Scott's ouster, the executive committee—consisting of Mr. Thompson, Mr. Miller and Mr. Gebhardt—managed to recover about $3 million of the original loan through the purchase and resale of both pieces of property. This left about $200,000 of principal and $450,000 of interest unpaid by Marsta Cessions.

All of this prompted plaintiffs in the class action to charge that Cayman Re, instead of engaging in reinsurance or investing its capital in short-term, fixed-income securities, "invested the proceeds in highly speculative securities, made loans to related parties and was an investment tool of Muir."

Since the public offering, Cayman Re has been primarily engaged in the business of investing and trading in the securities of other companies, the suit says, adding that at one time Cayman Re owned investment securities amounting to 90% of its assets.

"As a result of the dissemination of false and misleading information, and the failure to disclose material facts, the market price of Cayman Re securities was artificially inflated (during the public offering)," the suit says. "In ignorance of the falsity of the reports and statements described above, members of the class relied, to their damage, on the prospectus."

The suit also charges that federal securities laws were broken in connection with the prospectus when defendants, by the use of the mails and interstate commerce:

- Employed devices, schemes and artifices to defraud.
- Made untrue statements of material facts and omitted facts necessary to make other statements in the prospectus not misleading.
- Engaged in acts, practices and courses of conduct that operated as fraud.

A trial date for the suit, which will likely determine the firm's future, has not been set.

In the meantime, "It is not anticipated that the company will generate significant revenues, except in interest income, until the litigation is resolved," the 1981 annual report says, adding that the company would continue to incur general and administrative expenses primarily in connection with the defense of lawsuits.

Much the same is true now, says Mr. Gebhardt, who replaced Mr. Thompson as chairman in February.

One of Mr. Gebhardt's first moves as chairman was to get Cayman Re out from under its biggest source of reinsurance business losses—a Thrifty Rent-A-Car System contract that generated an estimated $850,000 in premium for 1982, but brought just more than $1 million in losses.

The company's only remaining reinsurance contract, which covers health care expenses for a state teachers' group, had virtually no losses and generated $10,000 in premium, he says.

The stockholders equity, which reflects a substantial part of Cayman Re's total assets, has suffered large decreases in both 1981 and 1982. In 1981 the equity fell $1.4 million to $3.3 million from $4.7 million. Mr. Gebhardt says that last year equity fell another $1.4 million and now stands at $1.9 million.

In turn, the company's total assets fell from $3.6 million in 1981 to $2.6 million in 1982. Mr. Gebhardt says the $1 million difference is due to underwriting losses, legal expenses of $563,000 and general administrative expenses of $387,000.

He adds that administrative expenses for 1982 are down $158,000 from those of the previous fiscal year.

As for the future, Mr. Gebhardt says, "We will be ultraconservative now and will not write any business until the stockholders' meeting is held during the next couple of months and they decide how to use the remaining assets."

"We hope to stay in the reinsurance business, but we will look for the best option, no matter what it is." ■

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Bahamas: Managers say proposed regulation banning captive taxes for 15 years will enhance the island's attraction as a domicile

By BILL DENSMORE

NASSAU, Bahamas—Risk managers trying to choose a domicile for their captive insurance company may want to take a closer look at the Bahamas.

Prime Minister Lynden O. Pindling's government is expected to soon give final approval to a sweeping revision of the island-nation's laws governing captives.

Among the key provisions in the proposal are a 15-year ban on the imposition of any "tax, fee, duty or impost" on "external" insurers, new corporate secrecy provisions and reduced capitalization requirements for property/casualty captives (*BI*, Dec. 20, 1982).

The External Insurance Act of 1982, sponsored by Arthur D. Hanna, the Bahamian deputy prime minister and minister of finance, unanimously passed the House of Assembly on March 3 and is pending in the Senate. Supporters expect final enactment within a month.

"The bill is going to pass the Senate, there is no question about it," says Justin N. Tierney, president of British-American Management Ltd., one of several captive management companies on the island. Mr. Tierney, a former executive at Fireman's Fund Insurance Cos., has led insurance industry efforts to encourage a new captive law.

"It contains all of the essential features that we wanted to get into it," Mr. Tierney adds.

"I have no doubt it is going to pass the Senate," says William C. Allen, governor of the Central Bank of The Bahamas.

The central bank seeks insurance expansion, he says, because the flow of premiums into the Bahamas will improve the nation's balance of foreign reserves and generally help its tourism- and finance-based economy.

The key provision of the government's proposed captive law is the way in which it separates the regulation of captive insurers from other Bahamian-based insurers.

The law describes the "external insurance business" as "insurance business of which not less than a substantial amount of the value of the risks underwritten are risks of an affiliated company." However, the act does not further define "substantial."

"External" insurers will be exempt from the existing Bahamian premium tax as well as all other island insurance laws governing solvency, disclosure and captalization.

The law also prohibits any specific regulation of insurer investments as well as most other statutory regulation. However, it does give the Bahamian government the discretion to monitor the companies, require reports and even suspend operations of a captive that doesn't meet general principles.

And it gives the island's registrar of insurance, part of the Finance Ministry, the power to look at a captive's books, records, vouchers, documents, policies, contracts, cash and securities upon written notice.

For example, the government may cancel the registration of an external insurer that gives false, misleading or inaccurate information on a registration application or in annual reports or if it operates "in a manner likely to be detrimental to the public interest or to the interest of its creditors or policyholders. . ."

Under the new law, the minimum capitalization requirement for a property/casualty captive will be reduced to $100,000 from the current $140,000. Minimum capitalization for a life insurer will likewise drop to $200,000 from $300,000.

Besides the capitalization requirements, the proposal:

- Requires Bahamian-incorporated underwriting managers who handle captive affairs to register with the government. The manager is required to use "his best efforts" to only provide services to external insurers "of good reputation" and to report any problems with a captive to the government.
- Gives existing Bahamian insurers up to three months to register their captive operations with the registrar of insurance.
- Gives the government authority to require that a captive have a minimum amount of cash and cash equivalents on hand for prompt payment of claims, but specifies that the amount shall not be greater than 40% of its net premiums for the previous year.
- Requires the captive to segregate its assets and liabilities connected with non-insurance operations.
- Requires a captive insurer to file an annual report, inlcuding an audited balance sheet, no more than six months after the end of its fiscal year.
- Imposes a fine of $5,000 and/or six months' imprisonment upon any government employee who discloses information about a captive insurer to the public, except under a court order.

In light of the bill's likely passage, Mr. Tierney says many British and U.S. companies "are looking more favorably upon establishing (captives) in the Bahamas."

One captive manager on the islands has already helped form two captives and is currently setting up two more, he says, while a second manager has already created three captives and is in the planning stages on 10 or 12 more.

Mr. Tierney won't identify these or other potential parents, but he did say that of four Bahamian captives his management firm has been asked to help form, "two of them come from Michigan."

Mr. Tierney says he and two others drfted the new law: Sidney Pine, an expert in captive insurance law and taxation with the New York law firm of Trubin, Sillcocks, Edelman & Knapp, and Reginald Lebofsky, a Bahamian lawyer.

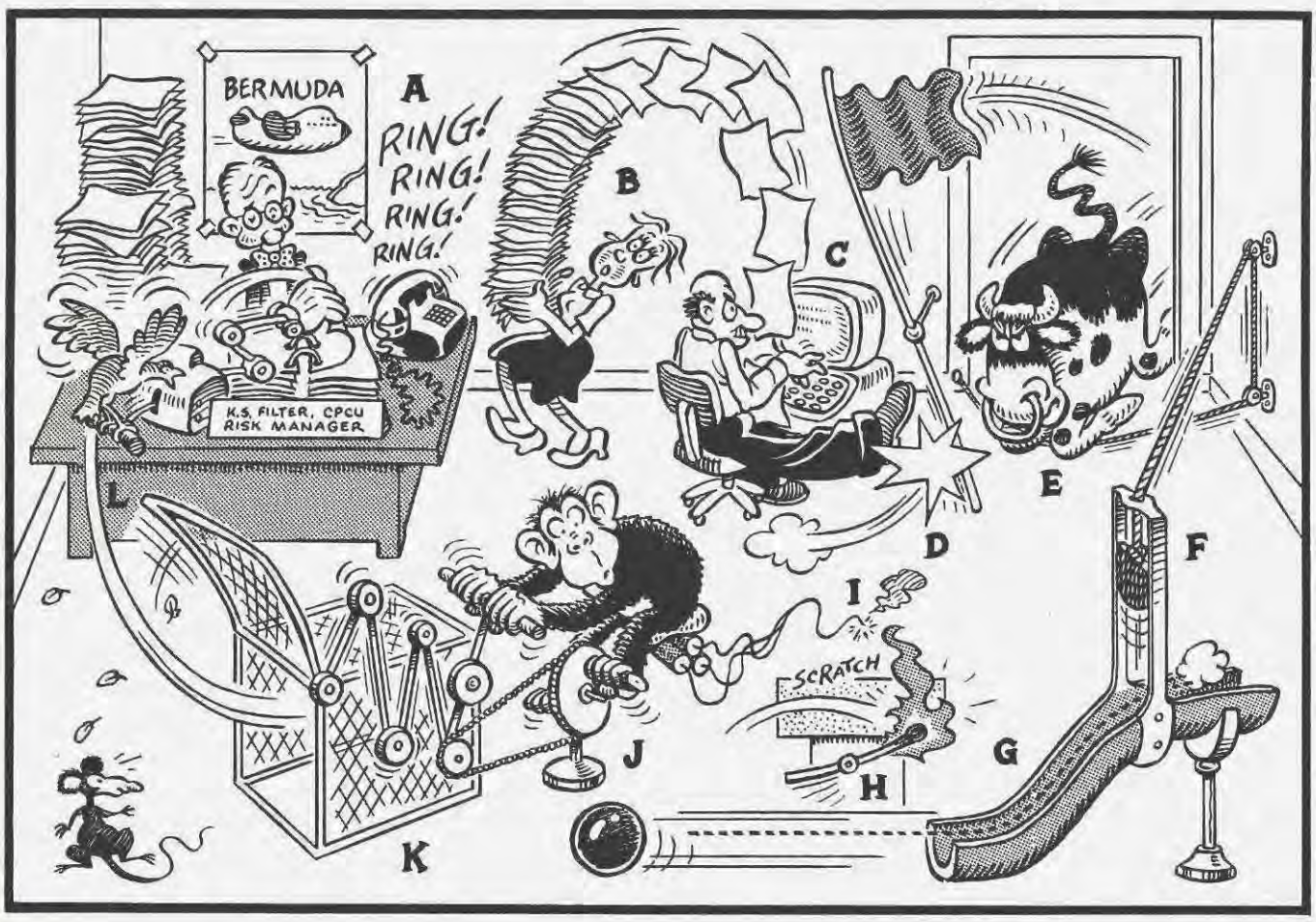
The new law is intended to restore the popularity of the Bahamas as a captive insurance haven.

Hundreds of captives were domiciled in the Bahamas before 1969, when a 1% premium tax and regulations on investments and financial reporting were passed. By the time the nation softened its insurance laws again in 1978, most of the captives had set up shop elsewhere.

Today, Bermuda is the center of captive activity even though the Bahamas are closer to the U.S. mainland and, with 348 banks, have well-developed financial support services.

Mr. Tierney estimates there are between 40 and 50 captive insurers incorporated or registered in the Bahamas today, up from just 20 a few years ago. He estimates that "at the topside" there will be up to 100 captives within a few years. ■

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ONCE AGAIN THE ANSWER IS AIG.

British domiciles: Many European and some American parents shipping risks to Guernsey, Jersey, Isle of Man

By STACY SHAPIRO

LONDON—Some dare to be different.

Instead of domiciling their offshore insurance subsidiaries in Bermuda or Cayman, some companies are taking advantage of tax and geographical conditions offered by Guernsey, Jersey and the Isle of Man, three British dependencies located off the coast of Britain.

For British and continental European parents, the advantages of these domiciles are obvious. The islands are a relatively short flight away from corporate headquarters, not to mention Lloyd's of London and other insurance centers.

But, North American corporations are looking at the alternative domiciles with interest because, their backers say, companies can form and operate captives more inexpensively than in inflation-plagued Bermuda.

For example, Guernsey has already attracted more than 150 insurance companies, including captives set up by American industrial giants like Gould Inc.

Some U.S. companies are especially interested in the Isle of Man because, under its Exempt Insurance Companies Act of 1981, captives are not taxed on non-island business.

In addition, the Isle of Man "is a good alternative to other offshore areas if you are worried about political instability," says Paul Bawcutt, managing director of Risk Research Group, a London risk management consulting firm. "And the costs are lower. I would say there are a number of American companies and Australian companies that are looking to the Isle of Man."

However, forming a captive on the Isle of Man, which is located midway between Ireland and Britain, has its disadvantages, too. Since the island is not a major financial center, like Bermuda, and is just starting to lure insurers, there are few support services, like accounting and law firms, to help serve the captive industry.

Jersey and Guernsey, two of the Channel Islands located off the coast of France, offer well-developed services for captive insurance companies, but they also levy taxes on the insurers.

This month, Jersey, the largest of the Channel Islands, is planning to enact legislation that will allow pure captive insurance companies and reinsurance companies on the island for the first time.

The new legislation complements an already inviting package of excellent banking, legal and accounting services. And, there's easy access to major European capitals from Jersey's international airport.

The States of Jersey, as the island's government is formally called, says it will not actively court the captive business.

"The intention of the Jersey law is not to make a big name for the captive insurance industry," said Richard Syuret, Jersey's commercial relations officer. "It is to provide this service to the customers of Jersey's banks and to maintain selectivity and high quality that we have on the island."

Jersey's neighboring island, Guernsey, is also planning to enact insurance legislation soon, but the new law will only formalize the regulations that currently govern its bustling insurance industry.

"This way we will have a way of controlling what goes on here in the insurance world," said Michael J. Savage, director and secretary of The Meadows Indemnity Co. Ltd., Gould's Guernsey-domiciled captive.

"We hope to prevent any scandals that might affect the good name of Guernsey," he added.

Although Guernsey and the Isle of Man are ready captive domiciles, and Jersey will be ready later this year, the islands haven't seen a rush of companies recently. Guernsey officials, for example, say only two new captives were formed there last year.

"Growth has been slow," says Bruce Riley, commercial relations adviser for the States of Guernsey. "This is partly because of the soft insurance market."

Because insurance rates are still low, some companies believe it is cheaper to buy coverage from commercial insurers than to set up a captive, he says. But, Mr. Riley adds, companies will be more interested in setting up captives when commercial insurance rates begin to rise.

Other island officials agree that the competitive market has dampened enthusiasm in starting new captives, even in established domiciles like Bermuda, but Mr. Bawcutt at Risk Research Group says a soft market may be the best time to set up a captive.

"Brokers are dissuading people from forming captives now when they probably should have done so," he said. "This way, the broker makes commission.

"But it may be a good time to set up captives when you can get better terms from captive management, which may not be there later."

There's yet another reason why interest in the three British dependencies as a captive haven is seemingly slow: the prospect of British taxes on offshore British companies. Up until now, Britian has not taxed offshore subsidiaries of British corporations.

The British government's Inland Revenue Service said last year that it planned to tax offshore companies. Although the measure was not included in the budget recently passed by Parliament (*BI*, April 4), Chancellor of the Exchequer Geoffrey Howe said that a tax on offshore companies would be passed next year.

According to a draft of the proposal, which some say resembles the Internal Revenue Service's rules on offshore subsidiaries, Britain would tax up to 50% of an offshore company's profits. However, offshore companies would not be taxed by Britain if it earned 50% of its profits from unrelated business. Hence, British captives could escape the proposed tax by writing more third-party risks.

"A dozen major U.K. companies have taken third-party business on a low level, but I would expect it to increase to avoid the tax charge," says Mr. Bawcutt.

In addition, according to the proposal, companies would not have to pay the tax if they own less than 10% of an offshore company, "so companies could form associations or group captives whereby each would have less than 10%," he adds.

In addition, if the offshore domicile imposes an income tax exceeding 25%, the parent would not have to pay the British tax. ■

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Pioneer captives endure Man's 'bracing' climate

By STACY SHAPIRO

DOUGLAS, Isle of Man—A new insurance company domiciled on the Isle of Man is advertising in British magazines for a senior underwriter to run its small office.

Like others attracted to this no-tax captive insurance colony, candidates must have unquestionable integrity, a wide knowledge of the insurance market and the stamina to endure the "bracing climate."

Many similar ads are expected soon as more companies take advantage of new, lenient legislation governing insurers on the island, located about midway between Great Britain and Ireland.

Unlike most captive domiciles, the island's drawing card is that it does not tax the income of insurers dealing in international risks.

"If I were a British company with minimal U.S. interests and I did not like the sun or golf, I would go to the Isle of Man," says Paul Bawcutt, managing director of Risk Research Group, a London risk management consulting firm.

The Isle of Man, under its Exempt Insurance Companies Act of 1981, offers companies a tax-exempt offshore haven that is near London's reinsurance market and European subsidiaries. And, as locals point out, the island has a very stable government. They claim it's the world's oldest.

Under the new law, captives and other insurers must be capitalized for no less than 50,000 pounds (approximately $75,000). In addition, assets, including premium income, must be 15% greater than liabilities, and captives must submit quarterly management reports to island officials, even though they do not have to be managed from the island.

So far, about 25 companies have become licensed insurers on the island including British National Insurance Co., Isle of Man Ltd., Calor Insurance Ltd., Isle of Man Assurance Ltd., Osiris Marine & General Insurance Ltd. and the latest, Galleon Insurance Co. Ltd., which is capitalized at 750,000 pounds.

"There are also a number of American companies and Australian companies that are looking at the Isle of Man," Mr. Bawcutt says. Others say that one of the American companies has a Bermuda captive and could shift tens of millions of dollars of premiums to the Isle of Man.

But, despite its advantages, there are many obstacles a company faces when it decides to domicile a captive on the Isle of Man. Since the insurance industry on the island is still in its infancy, the backup services needed to manage an offshore captive are just beginning to shape up.

Right now, only two captive managers have offices on the island, Royal Insurance Services (Isle of Man) Co. Ltd., which manages two captives including Gallagher, and Isle of Man Risk Management Ltd., which locally manages seven captives, including Armco's British National, and the island's only commercial direct insurer, Isle of Man Assurance Co. Ltd.

In addition, the captive management companies maintain offices on the island but actually manage captives from Guernsey, including Hogg Robinson (Isle of Man) Ltd. and Transnational Risk Management (Isle of Man) Ltd.

"We do not feel it is justifiable to open a managing office in the Isle of Man right now," said Roger Hall, managing director of Hogg Robinson (Guernsey) Ltd., which manages eight captives with $7 million in premiums, including an Isle of Man captive.

"The Isle of Man is probably more attractive to American companies because there is no tax at all," said John Parkinson, managing director of Transnational Risk Management (Guernsey) Ltd., which manages the firm's Isle of Man office. "But it is money well-spent if you go to Guernsey because they have better backup facilities. You would be a pioneer if you went to the Isle of Man now."

Presently, few accountants or attorneys with insurance expertise are on the island.

The Isle of Man's newly appointed insurance supervisor, Duncan Neil, understands companies' reservations about locating on the island. After all, he says, he has only held the new post since January, which shows that the government is just beginning to develop its system of regulating the industry.

"But it is a chicken-and-egg thing, really," said Mr. Neil. "The backup services will not come until the business is here and the business will not come until the infrastructure is set up.

"Compared to Bermuda and Guernsey, the infrastructure here is kind of amateurish, but we are building quite rapidly," he said.

"The growth has really been quite spectacular," said John Brigland, managing director of the Isle of Man Risk Management Ltd., which manages seven captives and is in negotiation stages with three more. "The progress is very steady."

The Isle of Man's hopes could be seriously damaged if Britain enacts legislation that would tax profits earned by British corporations' offshore subsidiaries (see story, page 56). But sources on the island are not worried.

"It will not be a handicap for the business that is set up for proper commercial reasons and not tax avoidance," said Mr. Neil. "It won't be a handicap and might even be a good thing. Then people will know where they are." ■



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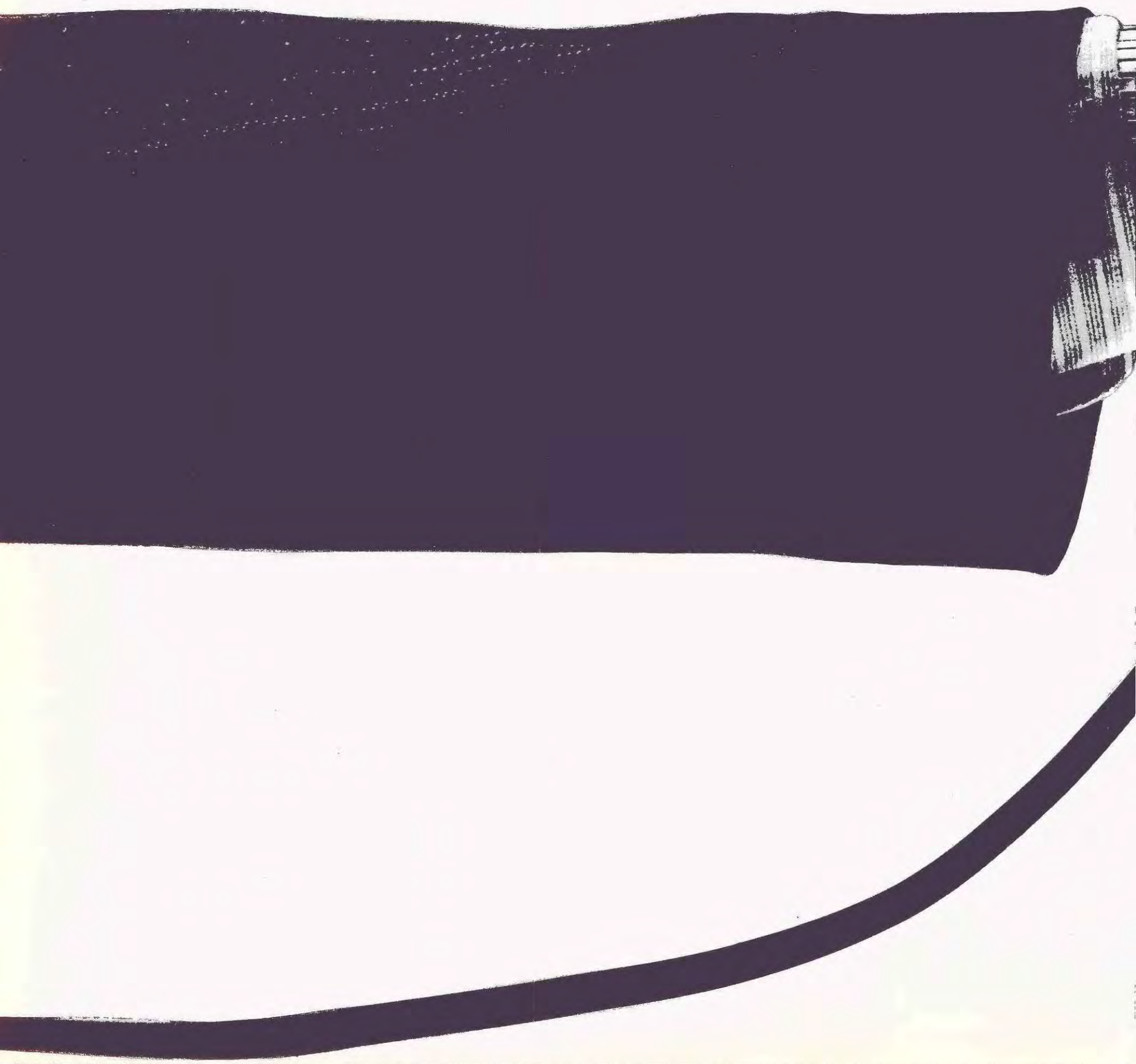
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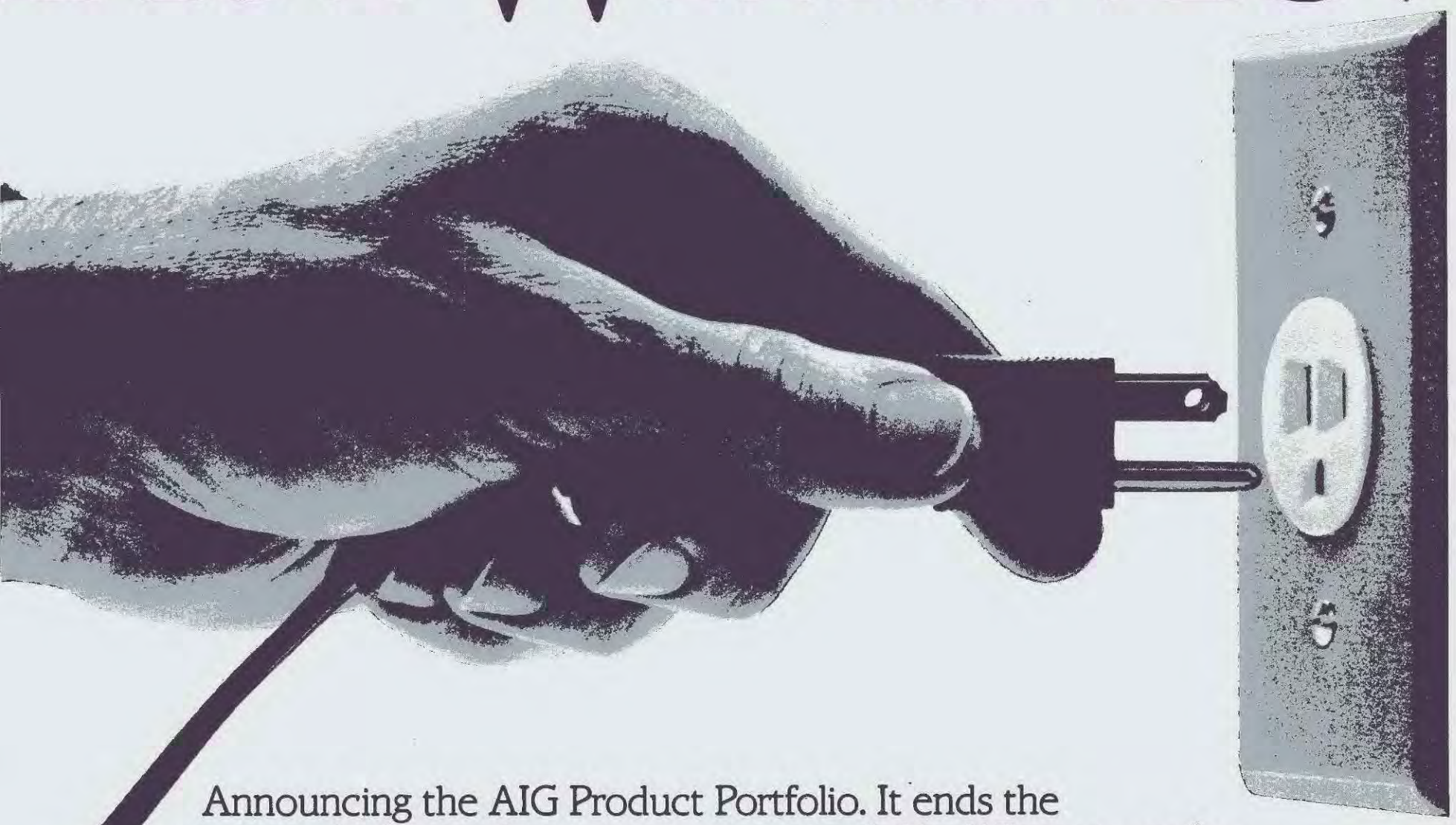
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Jersey opening doors to captive industry

JERSEY, Channel Islands—Jersey is opening its doors to captive insurance companies for the first time this month.

A new law replaces an embargo ratified in 1861 that prohibited most insurance transactions on the island.

Sometime later this year, captives not accepting unrelated business, reinsurers and primary insurance companies authorized by Common Market nations will be able to set up shop.

However, island officials are not expecting a stampede of companies to storm the island, even though the transportation links to Britain and the continent are excellent, support services are superb and Jersey's banks hold almost $200 billion in assets.

Even though the government is passing a law allowing captives, it is not looking forward to regulating an insurance industry in light of the financial problems that have hit underwriters on other offshore domiciles, like Bermuda.

"The intention of the legislation is not to make a big name for captive insurance, but to provide this service and maintain selectivity and a high quality on the island," says Richard Syuret, the States of Jersey's commercial relations officer. Mr. Syuret will be the one initially examining applications of companies wanting to form insurers on Jersey.

"One or two inquiries have already been made, but a lot will depend on the marketing efforts, weighing up the merits of the institutions already on the island. We anticipate much of the business will come from the banks' clients, which are already here."

Prospective companies may also be deterred by the new legislation itself.

The legislation calls for pure captives to pay a 20% tax on their investment income, while reinsurers must pay this income tax plus another 20% tax on their underwriting profits.

The amount of assets, including premium income, must be 15% greater than liabilities, although this solvency margin may be less for pure captives. Minimum capitalization is set at 100,000 pounds (approximately $150,000).

The remainder of the island's insurance regulations are more relaxed.

'The committee will be looking for a high status of management expertise,' Jersey's Mr. Syuret says.

For instance, Jersey will allow captives to be managed from foreign nations, although the managers must be approved by the island's Finance and Economic Committee.

Also, direct, non-captive insurers may operate on the island if they are approved by a Common Market country. These insurers will not be regulated by Jersey, but by the nation where their parent company is located.

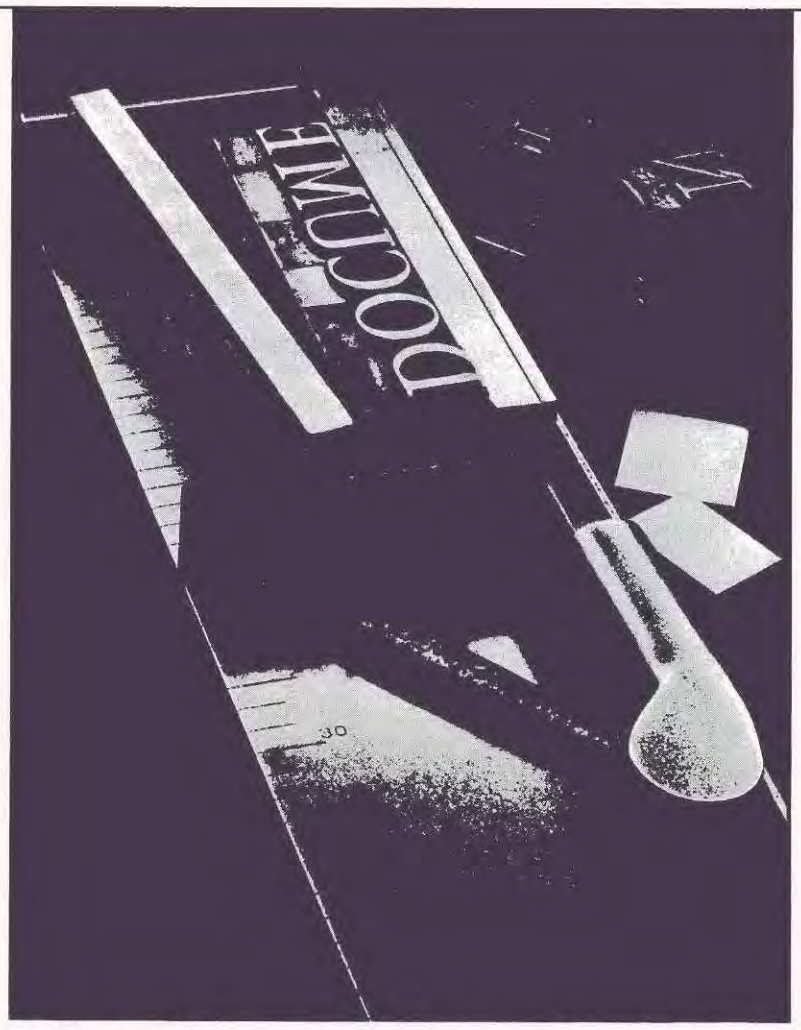
However, the island's Finance and Economic Committee can make exemptions to this rule and certify U.S. insurance companies to operate branches on Jersey, even though the United States is not a Common Market nation, "if they were adequately supervised," said Mr. Syuret.

"The committee will be looking for a high status of management expertise, too, from the reinsurers," he said.

Paul Bawcutt, managing director of London consultant Risk Research Group, advises parent companies to examine the legislation carefully before establishing a captive in Jersey. For example, captives may not be able to underwrite third-party risks from Jersey.

But, he adds, Jersey may be a good captive domicile in future years because the government is so particular about who can form an insurer now.

"They are worried of building up the Jersey insurance market," says Mr. Bawcutt. "They are terrified about bad apples." ■



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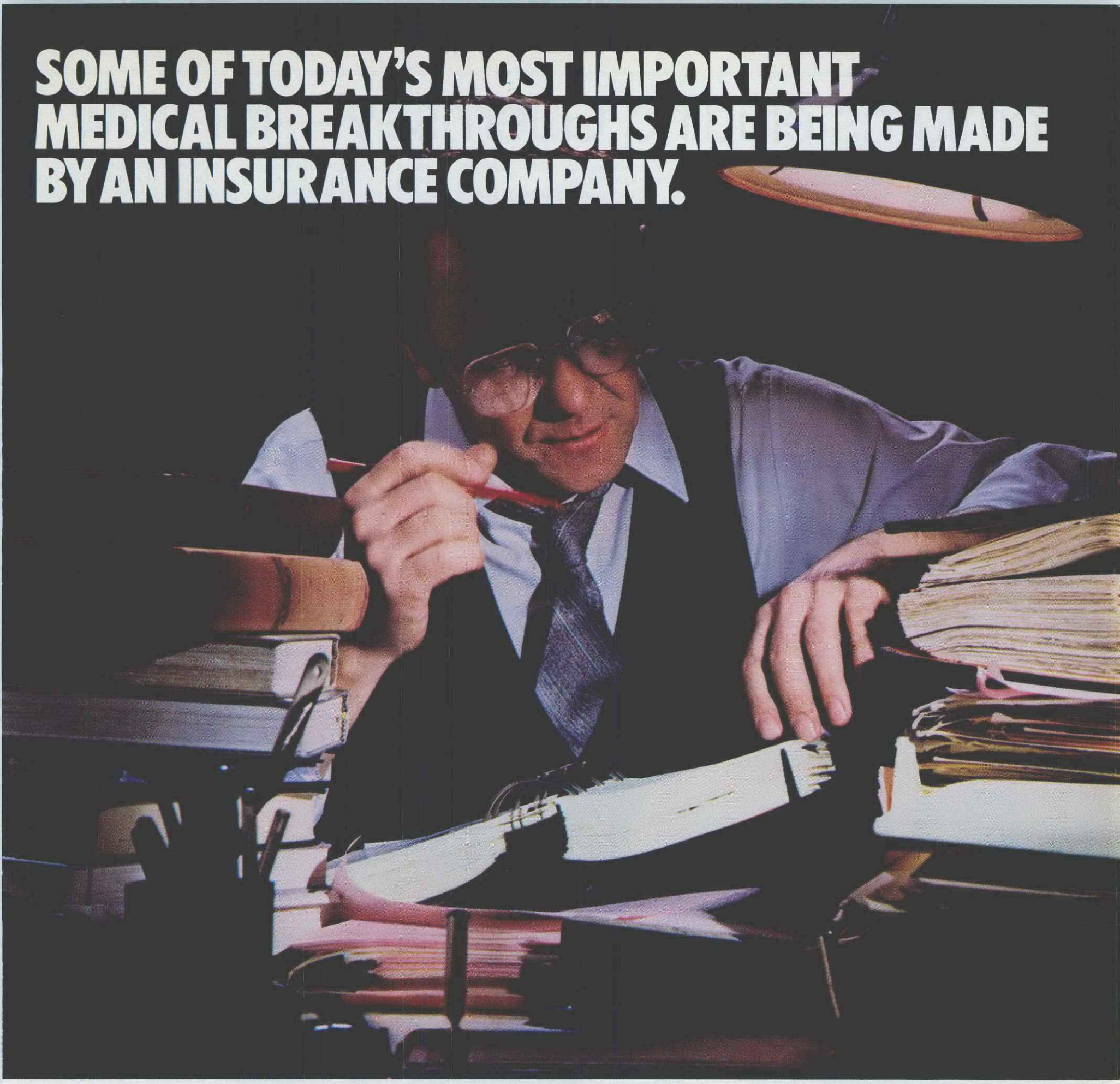
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Premiums eluding Guernsey—for now

By STACY SHAPIRO

GUERNSEY, Channel Islands—Growth in the captive and reinsurance markets on Guernsey is slowing, but island officials are still bullish about the future.

The worldwide recession and the soft insurance market ate into the premium volume that flows to Guernsey captives from British and continental parents during the past year.

Also, many would-be captive owners continued to buy coverage from commercial insurers at cheap rates rather than establish their own insurance subsidiaries.

However, there may be other reasons why insurance growth on Guernsey has slowed.

Some say that the recent scandals in the London insurance market, in which underwriters have had financial interests in offshore reinsurers accepting risks from their syndicates, have had an effect.

But Guernsey's commercial relations adviser, Bruce Riley, does not think this is true.

"There is no evidence the people are less willing to set up here in light of these instances," said Mr. Riley. "We have had some inquiries (from the City of London Fraud Squad) concerning the problem at Lloyd's of London. They were inquiring into companies owned by Lloyd's syndicates or directors of Lloyd's syndicates."

Others suggest few British companies are willing to form new captives on the island while awaiting legislation on offshore company taxation (see story, page 56).

Slowly but surely, Guernsey is becoming a prominent center for captive management and reinsurance.

It surpasses the two other islands off Britain that are competing for captive business in captive management skills and backup services. Unlike the Isle of Man or Jersey, Guernsey's captive community is firmly established with about 150 captives managed on the island.

One of the most significant events on Guernsey last year, according to Mr. Riley, was the opening of The Reiss Organization's captive management company, Transnational Risk Management (Guernsey) Ltd.

Transnational has operated an office on the island since the 1970s but never had its management based there.

"Guernsey is and will develop into a very attractive location for European and British companies," says John Parkinson, Transnational's managing director. U.S. companies with interests in Europe may also be interested in coming to Guernsey, he says.

"The backup systems are superb, second only to London, which is not far away. You have 41 banks, lawyers, auditors and the like."

In fact, Mr. Parkinson says, the island's excellent support services may be reason for companies to move from Bermuda to Guernsey.

"Bermuda is withered at the edges. There is so much business that if a lawyer there can give you a half-hour of his time, you are fortunate. Here, they are quick and efficient."

Guernsey's reinsurance business is developing quickly too, sources there say. Much of the reinsurance business actually comes by way of Lloyd's brokers to Guernsey's reinsurers, which include the Insurance Corp. of Ireland and Polygon Insurance Co. Ltd.

Polygon, managed by Transglobe Underwriting Management (Guernsey) Ltd., a subsidiary of Marsh & McLennan Cos. Inc., began in the last decade as a captive insurer owned by eight airlines, including KLM, Swissair and SAS. But the company, with 2 million pounds (about $3 million) of capital, can't be classified as a captive anymore, says Tony Taylor, director of English & American Insurance Co. Ltd., which oversees Transglobe in London.

"It is doing less and less captive business and more third-party business," says Mr. Taylor.

Polygon has been very successful in aviation lines, he says.

Like Jersey, Guernsey's is also putting new insurance legislation on the books. Its proposed legislation, now being drafted, will be the first formal insurance regulation for the island since it became part of the British Empire in 1066.

However, the legislation, scheduled to be put into law next year, will contain few changes, island sources say.

As before, Guernsey will tax 20% on all captive insurance company profits, but a pure captive will have the option of not being taxed on underwriting income if it does not conduct any third-party business.

Minimum capitalization will remain 100,000 pounds ($150,000) and total assets, including premium income, must be 15% greater than liabilities.

But, under the new law, captives must be managed on the island. Now, captives can be managed from London and other locations.

"We will have a way of controlling what goes on here in the insurance world," said Michael Savage, director and secretary for The Meadow Indemnity Co. Ltd., a subsidiary of Gould Inc.

Although there has been much speculation about what will happen if Britain does tax the profits of offshore companies, that legislation may give Guernsey a needed boost, some say.

British subsidiaries now domiciled in faraway places, like Bermuda, could be moved to Guernsey to be closer to their parents and to reduce travel expenses. ■



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Reiss expects resurgence of new captives

HAMILTON, Bermuda—Investment by Western smokestack industries in new plants and equipment will create a colossal demand for insurance capacity in the next decade, predicts a 38-year veteran of the insurance business.

The new technologies tapped to build these plants will frighten the direct insurance markets and force them to seek more and more reinsurance to protect them against the unknown and unrecognized loss, he believes.

Therefore, the worldwide reinsurance market will grow dramatically and dictate the ultimate price of the insurance product. The risk manager will negotiate directly with the worldwide reinsurance market, bypassing the normal "daisy chain of insurance marketing."

But, reinsurance capacity will not keep pace with demand.

Where then will protection-hungry insurance buyers turn?

To captive insurance companies, says Fred Reiss, chairman and president of International Risk Management Ltd. and the father of the captive movement.

"Every segment of industry will have to form or control its own captive to secure the capacity it needs to cover its exposures," he said in a speech at the Seventh International Captive Insurance Company Conference in Bermuda last month, sponsored by Risk Planning Group of Darien, Conn.

'Every segment of industry will have to form its own captive,' Mr. Reiss says.

To spread the risks, captives will be forced to pool and exchange their portfolios.

Captives, working hand-in-hand with the international reinsurance market, will be the only cost-effective method of providing needed underwriting capacity.

"Therefore, I see a dramatic growth in both the captive insurance company segment of the market and a similar growth in the reinsurance industry," summed up Mr. Reiss.

The cost of massive modernization via new technologies will be awesome, demanding large lines of credit that will reduce the individual corporation's ability to absorb loss, said Mr. Reiss. Financial institutions will want insurance to protect their loans or investments.

Already, Mr. Reiss said he has clients who have designed plants that will cost $1.5 billion in 1983 dollars to build. This figure is the value of the plant and equipment, but does not include the value of inventory or estimates of the business interruption exposure.

Laws will have to be passed to encourage the formation of captives. Corporations will need insurance subsidiaries so they can consolidate their cash flow and thereby increase their ability to borrow. Otherwise, they will be unable to finance this mammoth industrial renewal.

"If the above scenario does not occur, I hold out little hope for the insurance industry," added Mr. Reiss. The business is fraught with inertia and is "reactive rather than plan-ahead."

Mr. Reiss also predicted the following changes in the social, technological and regulatory environment that will affect the insurance business:

- Corporations will be forced to assume more responsibility for employee benefit programs, supplanting government participation.
- Corporations will not be judged solely on their profitability, but according to the benefits they provide to the community.
- Cash-flow underwriters will go broke or into voluntary liquidation.
- The insurance industry's combined loss and expense ratio will be 118% in 1983; 120% in 1984; 135% in 1985 and more than 180% in 10 years unless the rates on all classes of insurance (except life insurance) are increased by 40% before the end of 1983.

(But these combined loss ratios will not happen, says Mr. Reiss.)

- There will be fewer than 15,000 independent agents in 10 years, down from 50,000 today. Only the most efficient, innovative agents will survive.
- The alphabet brokers also will be squeezed because risk managers who continue to deal with brokers will demand more service at "an exposed fee rather than a concealed commission."
- Even though the price of oil will drop substantially, worldwide economic recovery will not be dramatic, but at a slow, deliberate rate.
- Interest rates will stay in the 8% to 10% range with temporary drops to 7% and increases to 13%.
- Inflation will be at an average worldwide-compounded real rate of 6%. This means that a 1983 dollar will be worth about 21 cents in 1993. ■

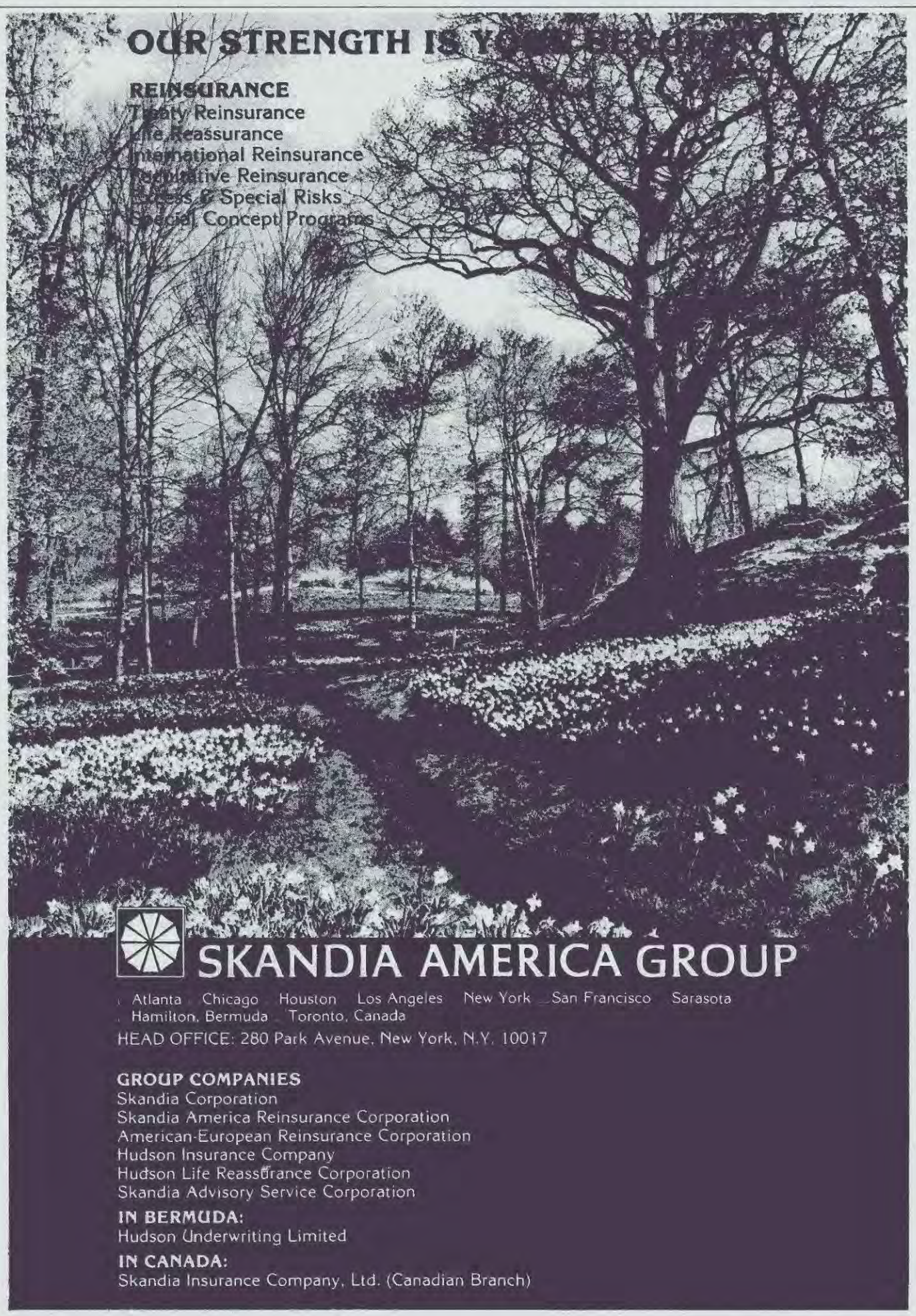
Captive conference

From a speaker bullish enough on captives to predict that they are the only way industry in the future will be able to fund the astronomical risks created by new technology to others offering advice on how to earn the most on captive investments by hiring outside investment experts, the Seventh International Captive Insurance Company Conference in Bermuda last month offered plenty for risk managers with captives on their minds.

Sponsored by Risk Planning Group of Darien, Conn., the conference gathered some of the top experts in the captive field to examine where the captive movement is headed and how risk managers can make a captive work to their company's advantage.

For example, the tax advantages of rent-a-captives were detailed, and a risk manager whose company already has two captives gave his reasons for being bullish on the subject.

A full report on the conference, which even looked at the future of the captive movement in Europe, continues through page 68.



Traver predicts captive growth, changes

By RHONDA L. RUNDLE

HAMILTON, Bermuda—Spencer J. Traver, assistant treasurer of The BFGoodrich Co., is bullish on captives.

"I'm bullish without any qualifications because the future of the insurance business and of captives is closely tied to the evolution of risk management."

Risk managers formed captive insurance companies in the past to reduce their parent company's cost of risk. In the future, however, the emphasis will be on turning captives into genuine profit centers, Mr. Traver explains.

"We have learned the science and art of underwriting, claims management, portfolio management and actuarial science," he stresses. Risk managers today have learned how to purchase or manage a vast assortment of insurance-related financial services.

Risk managers 'have learned the science and art of underwriting, claims management, portfolio management and actuarial science,' BFGoodrich's Spencer Traver says.



Now risk managers are being asked to "apply these hard-won lessons" to more efficiently utilize the money their parent corporations have invested in captives, Mr. Traver said in a speech at the Seventh International Captive Insurance Company Conference last month in Bermuda, sponsored by Risk Planning Group of Darien, Conn.

He believes that captive insurance companies in the next 10 years will take a sizable bite of the total premium pie away from inefficient traditional insurance markets.

The captive insurer's business will come first from the parent company's dealers, employees, vendors, and affiliates over which it exercises some influence or control, he said.

"The profit and premium potential in these risks are far greater than the portfolio of risks that are currently being transferred by BFGoodrich into its two captives," First Charter Insurance Co. in Vermont and Risktech Insurance Co. Ltd. in Bermuda, Mr. Traver explained.

The profits from this insurance business will exceed the parent company's yields, predicted Mr. Traver.

"Historically, the insurance business has produced returns on equity three (percentage) points higher than U.S. industry or the banking system," he pointed out.

That's why there isn't going to be any slackening in the development of new insurance capacity and why the current competitive market is not going to change "today, tomorrow, next month, next year, or perhaps in the next 10 years," he prophesized.

The movement of capital from smokestack industries to insurance can be compared to the movement of personal savings from thrifts into money market funds in recent years, said Mr. Traver. Even if people don't understand the difference in the financial mechanisms, they do understand the difference between 5.25% interest and—at one time last year—18% to 19%.

"We've got to get marketing-oriented," Mr. Traver said. Industrial companies lack marketing expertise to get into the insurance business today, but can learn from direct insurance writers like Allstate Insurance Co., a subsidiary of Sears, Roebuck & Co., the State Farm Group and the Nationwide Group.

Target markets for captives may be small commercial and personal lines including homeowners, automobile and excess coverages, which are overpriced in today's market. BFGoodrich also sees a market for its insurance-related services among major commercial customers in the United States, all of North America and Europe.

Mr. Traver predicted that in the future, such customers would view traditional retail brokers and direct insurance markets as "archaic instruments."

That's because corporations increasingly favor purchase of unbundled services, rather than an insurance package, Mr. Traver explained. They want to pay a fair market price for a wide assortment of highly specialized insurance-related services, rather than a commission.

Just as individuals turn to pediatricians, gynecologists and other medical specialists today, corporations prefer to consult loss prevention, claims and underwriting experts. That means dealing with a wide variety of service vendors.

"We're going to turn the primary insurance market into a fee-based vendor providing underwriting, rate-making and other services," said Mr. Traver. "We will not recreate the daisy chain" where premium dollars are passed through a long line of intermediaries before they reach the ultimate risk-bearer.

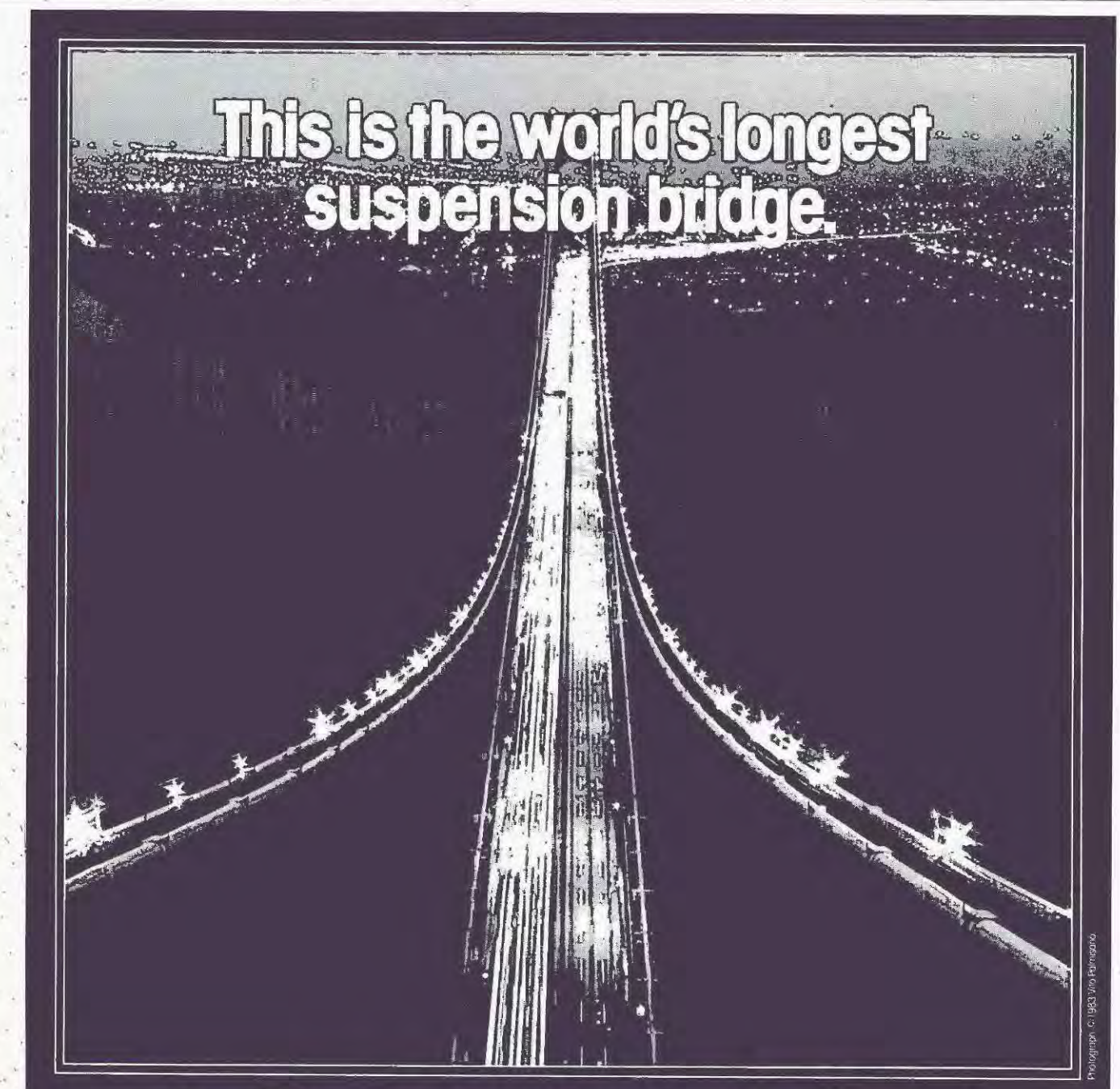
The fee concept will permeate every corner of the insurance business.

"We might like to buy fronting, reinsurance, excess/surplus lines and other special placement services. We'll be looking for investment and accounting services," said Mr. Traver.

"Each fee vendor we work with will earn a profit because you can never afford to do business in the long-term with a service that can't make a profit," stressed Mr. Traver.

Already, some brokers and insurers offer these unbundled services on a fee basis, he acknowledged. But, the people who provide the services still report to "a complex insurance administrative mechanism". The needs of the client get less attention than the needs of the parent insurance organization.

The ongoing war between brokers and insurers to buy each other out will not solve this problem—no matter which side wins, added Mr. Traver. ■



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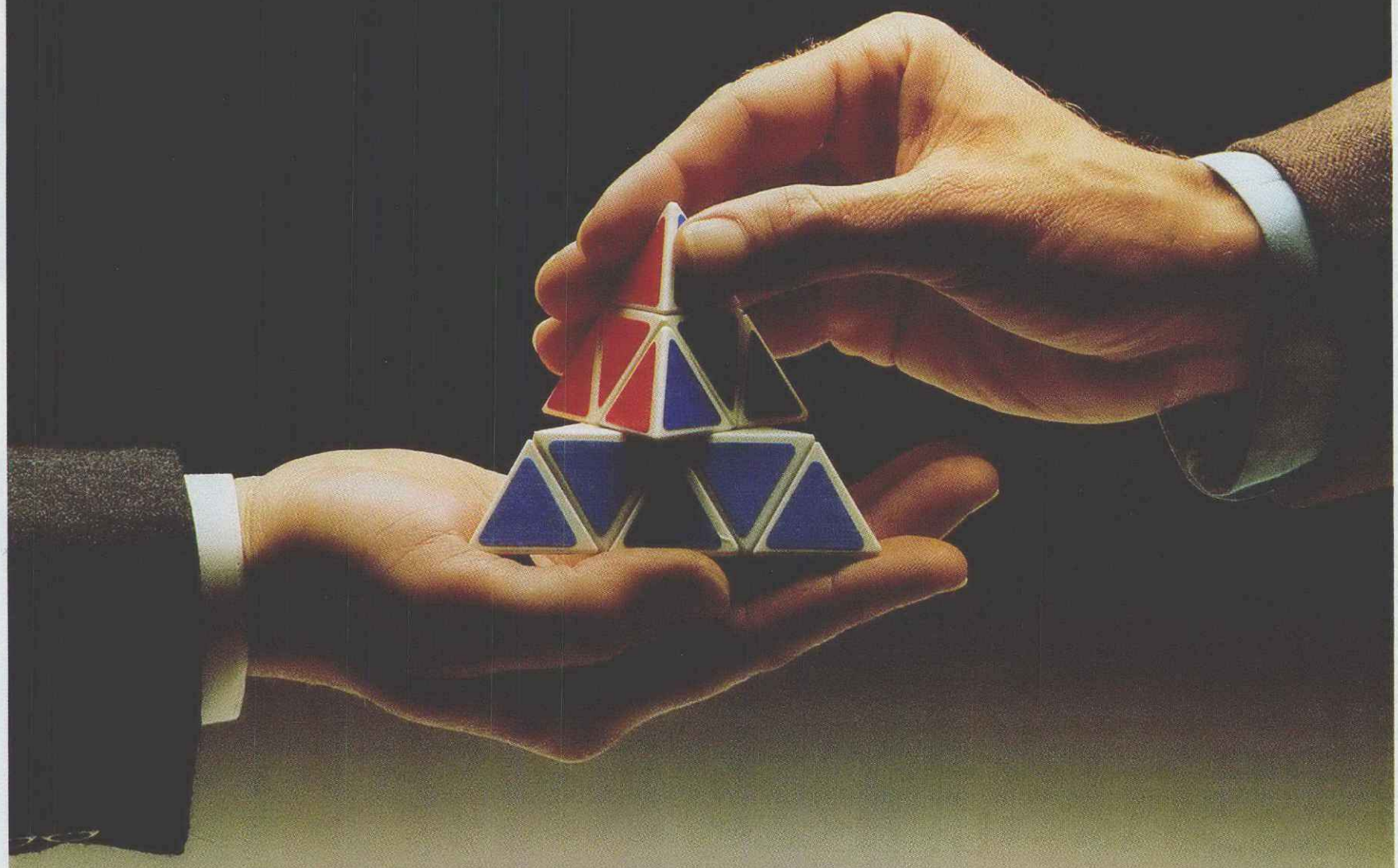
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Captives can profit from investment advice

HAMILTON, Bermuda—If you aren't using a professional investment counselor, chances are your captive insurance company is missing out on higher, safer investment returns, says a Bermuda banker.

"There are opportunities right now in the foreign exchange markets," says Cummings V. Zuill, assistant general manager of The Bank of Bermuda Ltd. "The dollar is very overvalued and should decline once oil prices sort themselves out."

Short-term interest rates will rise again toward the end of the year, he predicts. Therefore, captives should keep their funds in short-term deposits to take advantage of the upswing. Those holding bonds will see a decline in their value as they have in the past.

The trend toward money management will get a boost from all this volatility in interest rates, inflation and foreign exchange markets, Mr. Zuill said at the recent Seventh International Captive Insurance Company Conference.

But he admitted that the trend toward professional investment management will be slowed by the reappearance of higher short-term interest rates. There is no incentive for captives to lengthen the maturity of their investments if short-term bank deposits outperform longer-term financial instruments.

Typically, insurance managers handle the short-term deposits for the captive. But once the captive begins to acquire longer-term investment instruments, the manager usually prefers to bring in experts.

"Captive management companies in Bermuda are more and more recommending to their clients that they accept investment expertise," said Mr. Zuill.

However, he estimates that 65% of the investable funds of captives are still held in short-term bank deposits. This makes sense when short-term interest rates reach double digits—but is not so smart when such rates are low compared with other safe investments with longer maturities.

Mr. Zuill described three investment stages through which captives evolve in their lifetime.

During the formation stage and early years of the captive, the risk manager or other parent company executive is concerned about getting out the first policies and establishing relationships with auditors, bankers and captive managers.

During this stage, captives usually invest in short-term Eurodollar bank deposits. Security and liquidity are the first investment priorities. Maximizing investment returns is secondary.

As the captive matures and begins to develop loss experience, there is pressure to earn investment income to pay the losses. Also, a build-up in surplus and reserves attracts the attention of the corporate treasurer who is anxious to get the funds under control, or at least see them properly managed.

Risk managers and other corporate financial executives will be "hounded" by investment managers hungry for the captive's business. This pursuit of new business by portfolio managers will raise the captive managers' consciousness.

"Despite these influences, however, experience indicates that the movement from the initial into the second stage is a very slow process. It's surprising how many captives stick to their initial investment approach in short-term bank deposits," says Mr. Zuill.

The first step to take in lengthening maturities is to buy a certificate of deposit or a bond. This can be done with the objective of matching the security with a particular liability that will mature in a few years. Or, it may be done to increase the average return on the captive's investment portfolio.

The third step in the evolutionary process for captive investments is diversification into a wide range of investment vehicles with varying maturities and geographic exposures.

"Senior captives acquire experience that enables them to take a more diversified approach to both insurance activities and investment strategy," explains Mr. Zuill.

In some cases, the investment manager may be given discretion to buy bonds in foreign currencies to exploit differences between exchange rates and interest rates Some captives purchase or sell foreign currency forward contracts that provide hedges against fluctuations of bonds held in their portfolios.

The most common approach to investments if the captive underwrites casualty risks is to match liabilities with maturing investment assets. This involves an analysis of the captive's receipts and disbursements. It's no trick to analyze the premium inflows. Estimating the timing and size of payouts is more difficult, but can be done with reasonable accuracy through actuarial analysis.

It is not necessary to invest the full amount of the expected losses, since the investment income realized over time will fill the gap.

A typical senior captive's investment portfolio would show: 25% of assets in short-term deposits; 50% in bonds that match liabilities; and the remainder in widely diversified investments that are actively managed to maximize portfolio returns.

Although there is a trend among Bermuda captives toward use of professional investment managers, the movement has been gradual, sums up Mr. Zuill. "There's a lot more room to maximize returns and still stay within guidelines that do not sacrifice liquidity or security." ■



Rent-a-captive can offer tax advantage

By RHONDA L. RUNDLE

HAMILTON, Bermuda—The risk-taking rent-a-captive offers tax and continuity advantages over other cash-flow insurance plans, argues a reinsurance company executive.

Premiums paid to a risk-taking rent-a-captive should be deductible from current expenses because such arrangements meet risk-shifting and risk-distribution standards set by the Internal Revenue Service for insurance transactions, he argued.

If the rent-a-captive does not accept risk from its participants, it is likely to be termed a bank by U.S. tax authorities and payments will be viewed as deposits rather than premiums.

"It is the structuring and degree of risk retained by the rent-a-captive that determines whether it will be viewed as a banking or insurance facility," summed up Jacques Q. Bonneau, vp of Trenwick Ltd. in a speech at the Seventh International Captive Insurance Company Conference.

Rent-a-captives, sometimes called non-owned captives, are an arrangement by which participants use someone else's captive in lieu of a conventional insurance company to insure their risks. Participants earn investment income on reserves and receive premium returns if they are justified by favorable loss experience.

Some critics call such plans complicated alternatives to the retrospectively rated plans with attractive cash-flow features that are offered by primary insurers.

However, Mr. Bonneau doubts that cash-flow plans will continue to be available if the markets harden. To the extent that insurers can earn higher returns elsewhere, they may withdraw their cash-flow plans, he suggested.

Rent-a-captives are targeted toward three groups of participants: corporations, associations and other groups and agents and brokers that wish to increase control over their books of client business, Mr. Bonneau explained.

Proponents of rent-a-captives claim that the present value after-tax cost of rent-a-captives is lower for many companies than cash-flow plans or ownership of a single parent-owned captive.

The parent company does not lose the use of its own money to capitalize a captive.

Since premiums are paid to an unrelated non-owned captive, participants believe they have a strong case for tax deductibility.

Typically, the rent-a-captive reinsures the primary limit of the participant's risks ceded from a fronting insurer and protects itself from losses above a certain level through purchase of excess-of-loss reinsurance, explained Mr. Bonneau.

However, the rent-a-captive is a banking facility and not an insurance facility if it responds to losses only up to the amount of funds ceded to it by the fronting insurer, he stressed. Under such circumstances, the deductibility of premiums is highly questionable.

To further enhance the case for tax deductibility, rent-a-captive participants must share in the overall underwriting performance of the facility. Inevitably, such risk distribution diminishes the individual participant's ability to recapture the total benefits of good loss experience.

The rent-a-captive's charges to participants should be based on costs of management and administration and for use of its capital and surplus in the facility.

Other expenses, such as the letter of credit required by the fronting insurer to meet its statutory requirements, should not be marked up to make a profit for the rent-a-captive.

Mr. Bonneau says prospective rent-a-captive participants should ask themselves the following questions about facilities they are considering to reinsure their risks:

- Has the captive segregated a portion of its capital and surplus solely for the purpose of engaging in rent-a-captive business? Failure to do so could jeopardize underwriting results and potential opportunity for good experience returns.
- Does the rent-a-captive provide strong underwriting expertise?
- Will the rent-a-captive's capital and surplus continue to be available if markets tighten in the future?
- Does the rent-a-captive offer segregated accounting, banking and investment functions to each participant?
- Is the investment function handled by professionals familiar with the loss characteristics of different lines of business—especially those with long tails?
- What is the strength and security of reinsurers, as well as of the captive itself, standing behind the segregated rent-a-captive business?
- Does the rent-a-captive offer flexibility of time commitment? Required commitments of more than one year may be "punitive and detrimental," said Mr. Bonneau.
- Does the rent-a-captive offer management reports that meet the participant's information needs?
- Does the rent-a-captive require a letter of credit or other advancement of capital that ties up participants' funds? If so, a major advantage of using a rent-a-captive is eroded. ■

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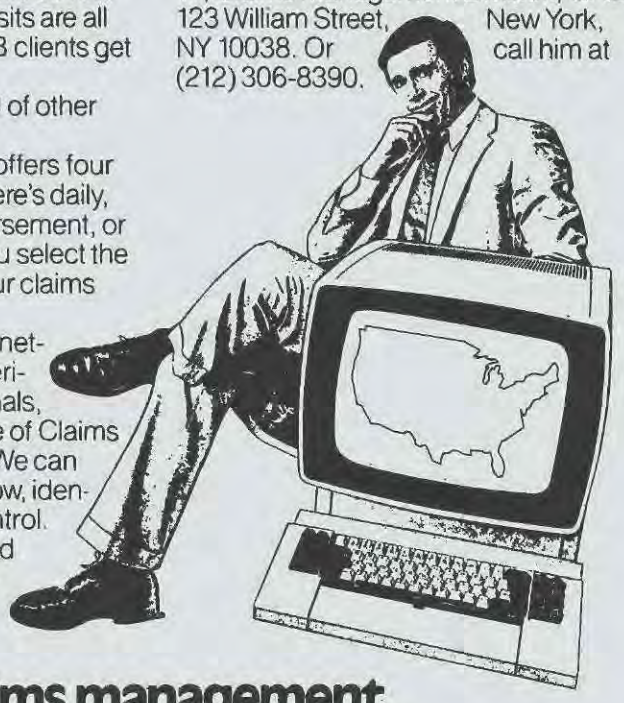
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Group-owned captives have future in Europe

By RHONDA L. RUNDLE

HAMILTON, Bermuda—Does the captive insurance company movement have a future in continental Europe?

There is strong potential for group-owned captives, but very little for single, parent-owned captives, agree two close observers of the risk management scene in continental Europe.

The outlook in the next 10 years is quite good for group-owned captives among European companies that belong to strong trade associations and that share common loss-control and risk-funding problems, believes Matthias G. Haller, managing director of the Institute of Insurance Economics at the Saint Gallen Graduate School of Economics, Business and Public Administration in Saint Gallen, Switzerland.

> 'Our firms are smaller and lack the financial means to self-insure,' says Matthias Haller of the Institute of Insurance Economics.
>
> 

But, after European governments siphon off a substantial portion of a corporation's premium potential into social security and other compulsory insurance programs, the remaining premium volume is insufficient to make single, parent-owned captives economically attractive to the vast majority of businesses.

Captives also go hand in hand with the U.S. concept of centralized risk management programs, points out Edgar Muller-Gotthard, a member of the board of management of Nordstern General Insurance Co. in Cologne, West Germany.

"The risk manager position does not exist in European companies," he says.

"Insurance manager is a more common function in Europe," continued Mr. Muller-Gotthard.

Each manager within the corporation is considered "his own risk manager" with responsibility for loss prevention and safety within the plant or division he oversees.

"You need a risk manager to manage a captive," added Mr. Haller.

Mr. Muller-Gotthard and Mr. Haller spoke at the Seventh International Captive Insurance Company Conference.

European companies tend to be more averse to risk than their U.S. counterparts, which discourages them from retaining large amounts of risk, said Mr. Haller.

Perhaps because of their relatively small size, especially in Switzerland, companies view survival as the key concern of risk management, he suggests.

> 'The risk manager position does not exist in European companies,' Mr. Muller-Gotthard says.

"The issue of risk management in Europe is how to create less vulnerability because our firms are smaller and lack the financial means to self-insure," said Mr. Haller.

"Captives are, therefore, better suited to large companies."

There are only 10 firms in Switzerland and 100 in Germany that correspond in size to U.S. corporations that own captives, he noted.

Commercially insured losses in European companies tend to be very severe, but infrequent. That's because high-frequency, low-severity losses are likely to occur in workers compensation and other employee benefits-type exposures insured by European governments.

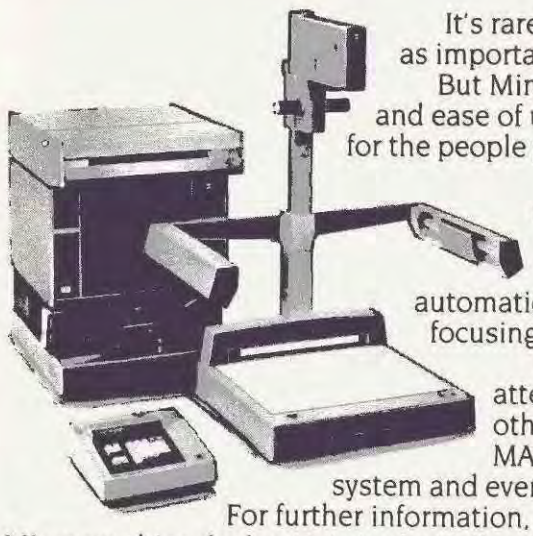
U.S. corporations typically retain the risk for these highly predictable losses and buy catastrophic coverages to protect themselves against infrequent, severe losses. Since European companies do not shoulder much responsibility for predictable losses, their appetite for risk retention is understandably diminished.

There are seven captive insurance companies owned by German corporations that operate as coinsurers with the conventional insurance market, noted Mr. Muller-Gotthard.

Although captive insurance companies are a rare breed in Germany, captive brokers are increasingly common. Forty-five of the 80 largest Germany companies own captive brokers and this acquisition trend is expected to continue.

This arrangement allows the insurance buyer to collect the commissions paid by the insurance market to the so-called industrial broker without assuming any of the risks inherent in a captive insurance company. ■





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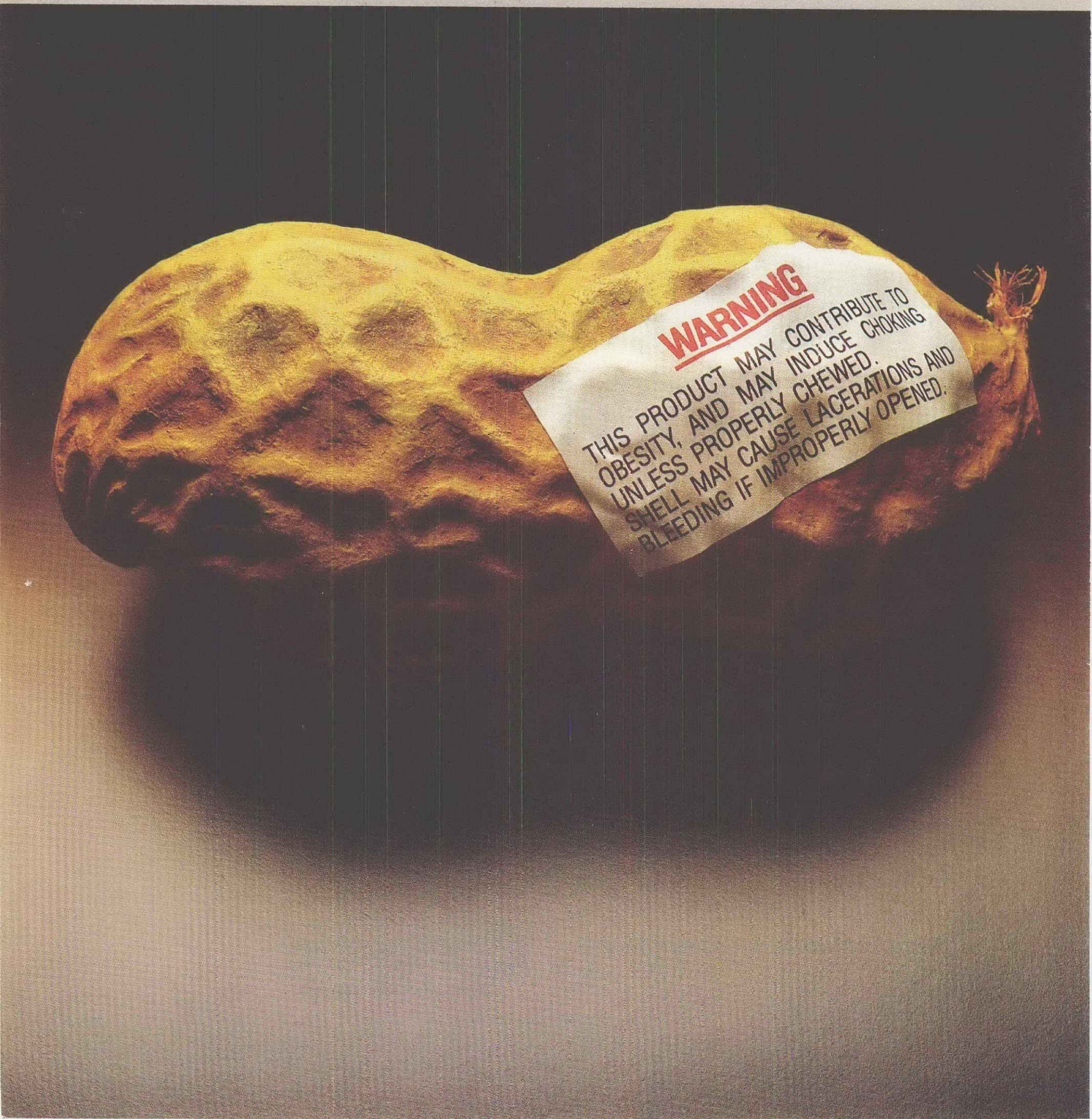
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TAKING A LOOK INSIDE TWO RENT-A-CAPTIVES

INCREASING NUMBERS of insurance buyers have become interested in rent-a-captives, the generic term for risk-financing programs that provide the insurance buyer with the advantages of a captive insurance company without having to set up one.

Corporate insurance buyers, associations, agents and brokers are all attracted to rent-a-captive programs.

In essence, the insurance buyer "rents" the capital of an offshore insurance company in order to insure its own risks as though it had its own captive. The user of the rent-a-captive benefits from the investment income earned on its premiums and any good underwriting experience.

In addition, the rent-a-captive program could reduce or eliminate the tax problems associated with the classic parent-captive insurance company arrangement: current taxation on income earned by the offshore captive and denied tax deductions for the parent paying premiums to its own captive.

A rent-a-captive program also can be less expensive than setting up a captive.

There are numerous rent-a-captive proposals on the market. They are offered by the offshore subsidiaries of domestic insurance companies if you buy stop-loss insurance from the parent, by captive insurance companies looking for third-party business to justify tax deductions for their parent company's insurance premiums and by insurance companies that set up a Bermuda company for a pooling program for clients' risks and also use it as a rent-a-captive.

In each case, these companies are controlled foreign corporations with the attendant international tax ramifications, the most important of which is current-year taxation of income.

Two other rent-a-captive programs are offered by Bermuda-based companies that are not controlled foreign corporations. They are the Insurance Profit Center offered by Aneco Mutual, a subsidiary of Aneco Reinsurance Co. Ltd., and Trenwick Guaranty Insurance Co. (TGIC)/The Uncaptive.

These two programs are the most popular among clients. Aneco reports $23 million in annualized premium in the IPC at year-end 1982. Trenwick reports a $10 million premium volume in its program at year-end 1982.

Business Insurance invited Trenwick and Aneco to describe their programs and what makes them different from other rent-a-captive programs. The articles on their programs begin on this page.

IPC's contractual agreements: Three ways it sets itself apart

By John Kessock Jr.

ANECO'S rent-a-captive program is the Insurance Profit Center offered by Aneco Mutual Ltd., a subsidiary of Bermuda's only publicly held reinsurance company, Aneco Reinsurance Co. Ltd. The company is a non-controlled foreign corporation which reports to the Securities and Exchange Commission. Financial information is as accessible as for any corporation publicly traded in the United States. As a non-controlled foreign corporation, Aneco also offers financial benefits rarely available from other rent-a-captives. Payment of tax on investment income and underwriting profit should be deferred until received in the United States.

Corporate and legal structure

The IPC's structure and contractual agreements guarantee return of underwriting profits and investment income on the insured's business. Most rent-a-captives repatriate funds as some form of policyholder dividend. This is achieved through the domestic policy-issuing company or through the rent-a-captive, but the policyholder dividends cannot be guaranteed. With this policyholder dividend approach, some domestic insurance companies are concerned that the rent-a-captive could be considered an agent of the insurance company with the implication of illegal rebating.

Aneco repatriates funds to the insured as a dividend on a separate investment by the insured in Aneco Mutual. The insured purchases non-voting redeemable preferred shares of stock in Aneco Mutual. A different series is issued to each participant and the dividends earned on the shares are equal to the investment income and, in certain situations, the underwriting profit from the insured's policy. The preferred shares are purchased only once and may be paid for with cash, a letter of credit or the use of Aneco surplus.

An important aspect of the preferred shares is their redeemable features. Unlike ordinary preferred shares, Aneco Mutual Ltd. contractually agrees to repurchase the shares for the full purchase price either on an agreed date (normally when all loss reserves are paid on the policy) or when the insured leaves the program, whichever comes first. The redeemable feature provides the participant a means of repatriating its capital if its leaves the program rather than tying up its capital until all loss reserves have been paid, as with other rent-a-captives.

Aneco uses three contractual agreements in structuring the program.

Continued on page 76



John Kessock Jr. is president of Aneco Marketing Co. Ltd. in Philadephia.

How TGIC sees its work: Specialized reinsurance

By Jacques Q. Bonneau

TRENWICK IS not a captive insurance company but rather a professional reinsurance group specializing in providing risk assumption, financial products and services to the captive and self-insurance market. Trenwick segregated capital to establish Trenwick Guaranty Insurance Co. (TGIC)/The Uncaptive to allow clients an opportunity to enjoy the benefits associated with rent-a-captive programs in a fashion consistent with the different underwriting, legal and tax issues confronting each market segment.

Corporate and legal structure

Although TGIC is a stock company with capital and surplus in excess of $2.5 million, the company's bylaws allow it to operate in part as a mutual insurance company.

TGIC's ability to operate as a mutual insurance company permits it to offer greater flexibility in the timing and magnitude of good-experience returns to mutual members without the need for mutual members to purchase various classes of stock.

TGIC's clients determine whether they wish to be subject or not subject to the company's mutual bylaws. Clients electing not to be classified as mutual members enjoy the same benefits offered to all TGIC mutual members and receive their underwriting and investment returns as contingent commissions. Typically, agents or brokers, as well as certain association groups, elect not to be subject to the mutual bylaws.

Clients electing mutual membership are subject to the provisions of TGIC's mutual bylaws. Mutual members' representatives are invited to join the TGIC's Mutual Business Committee.

This committee operates in an advisory capacity to TGIC's board of directors and provides the board with advice and counsel on the operation of the company's mutual business. As well, mutual members' good-experience returns are not contractually guaranteed but are subject to declaration and distribution by TGIC's board of directors, as provided for in the TGIC bylaws.

Therefore, mutual members are not construed to be in constructive receipt of funds and are not required to accrue taxable income prior to actual receipt of funds.

TGIC's bylaws explicitly distinguish between income attributable and pending distribution to mutual members and income attributable to the sole shareholder of the company, which is

Continued on page 77



Jacques Q. Bonneau is vp of Trenwick Guaranty Insurance Co. in Hamilton, Bermuda.

perspective

REGULATION BERMUDA-STYLE

'Unique system' protects policyholders without burdening insurance companies

speaking out

By Michael Bray

SOME OF YOU here may not be very familiar with the insurance industry. Therefore you might ask, "Why regulate the insurance industry?"

The short answer is that insurance is one of the few services or commodities where the buyer, at the time he pays the premium, does not know whether he is going to need the protection he has bought. If he does need it in the future, he doesn't know whether it will give him what he paid for because the insurer might no longer be in existence or, financially, might not be able to meet the full liability under the policy. Thus, the consumer must be protected.

We can see why a market like Bermuda has insurance laws by taking a look at some instances where regulation was needed.

Following the failure of some motor vehicle insurers after World War II, whose disappointed policyholders were valuable voters, the British government brought in consumer protection laws that required registration and regulation of insurers. Similar motives were behind U.S. legislation.

Before that, Lloyd's underwriters had perceived the commercial necessity to protect the Lloyd's policyholder and set up the Lloyd's Guarantee Fund, which acts as a long-stop should any Lloyd's member or syndicate be unable to meet its financial liabilities.

This fund, which now is very large, has been a great commercial advantage to Lloyd's over the years, as the security of a Lloyd's policy is now paramount in international markets.

So, like any other sophisticated and responsible insurance market, Bermuda also has an insurance act that lays down ground rules within which all sections of the market are to operate.

These rules were developed with the intention of protecting, within reason, the users of the market and, therefore, Bermuda's good name in the commercial world.

Insurance regulation in other parts of the world is usually either imposed by government, or the industry regulates itself. The former is apt to be heavy-handed, bureaucratic and resented by the industry. The latter, as shown recently by the troubles at Lloyd's, is no longer sufficient in the modern world.

The new basis of self-regulation adopted by Lloyd's under the 1982 act is different in important respects from the old basis. A new Council of Lloyd's has been created on which sit, in addition to the members of the committee, eight non-market members elected by the external Lloyd's members (the equivalent of the shareholders' representatives) and three completely unconnected members. These 11 council "outsiders" represent the necessary checks and balances to the views of the council insiders. It also brings a disinterested point of view to the council's decisions, thus giving it credibility.



Michael Bray is president of Stewart Wrightson Group (Bermuda) Ltd. in Hamilton. He delivered this speech at the International Insurance & Reinsurance Forum, part of Bermuda Insurance Week, sponsored last month by Risk Planning Group.

Regulation in Bermuda is neither imposed on the industry nor is it true self-regulation. Instead, we have adopted what Hugh Rosenbaum, consultant with Risk Planning Group, has called "a unique system of regulation by partnership," a partnership between the government and the industry.

The government passes the necessary legislation and polices the Insurance Act and the industry supplies the experience and ideas and advises the government, which may or may not accept the advice.

Not only is our system of regulation unique, but the makeup of the Bermudian market is unique. About 75% of the island's total premium income, which is estimated at some $5 billion to $6 billion, is earned by about 1,100 captive insurance companies incorporated and managed in Bermuda.

The great bulk of these captive companies does not have any staff, but is managed by professional firms based here. Therefore, the brunt of the regulatory requirements, and the necessary annual government filings, falls on these 60 or so management firms.

The Bermuda Insurance Act and related regulations of 1978, which came into force on Jan. 1, 1980, give the necessary regulatory powers to the minister of finance and empower him to appoint an Insurance Advisory Committee. This presently is composed of 14 people, mainly from the insurance industry, plus representatives from the legal and accounting professions, the registrar of companies and the foreign exchange controller.

In turn, the advisory committee has powers to appoint working committees within the government committee system. These are:

- The Accounting and Auditing Committee.
- The Actuaries and Loss-Reserve Specialists Committee.
- The Insurance Admissions Committee (which in certain cases reviews applications to incorporate new insurance companies).
- The Insurance Brokers Committee.
- The Insurance Managers Committee (managers of captives).
- The Life Insurance Committee.
- The Marine Underwriters Committee.
- The Property/Casualty Underwriters Committee.

These committees are composed of people active in that particular class of business, so considerable expertise is available to the committee system.

The working committees initiate discussions and recommendations on matters that arise from the everyday business experience of the committee members and from complying with the requirements of the act.

Discussions reviewing any information heard on the market "grapevine," which if reasonably substantiated, can be passed on to the government for confidential investigation.

In addition to the working committees, the chairman of each committee is a member of the Insurance Executive Council, which considers working committee reports and suggestions on matters that have been referred to them and which, if agreed, are submitted with recommendations to the advisory committee. The council also acts as an information exchange for the chairmen of the working committees, the members of those committees, and eventually, the whole industry.

Members of the government committee system are subject to the Official Secrets Act, so that confidential matters can be discussed. These members were originally paid so much for each meeting, which is a cheap way of employing temporary "civil servants." Now these civil servants are no longer paid by the government.

At present, some 70 people active in the insurance industry are involved in this committee system, successfully wearing two hats.

While this system has sometimes been described as self-regulation, this is not strictly correct. The only body that can actually make or alter the rules is the government, through the minister of finance, and the members of the committees can only advise the minister through the Advisory Committee.

This difference is important. It points out that regulation is carried out by the government, and not by the industry itself, which might seek to protect or give itself an advantage against the interests of the policyholders.

One important and unplanned side effect of the act was the creation of marketing associations representing the different sections of the market, whose members are elected by industry. These associations have helped form a strong cohesion between all market segments.

The most important of these market associations is the Bermuda Insurance Management Assn. Its members manage the bulk of the 1,100 or so captives registered in Bermuda. BIMA and some other market associations belong to the Bermuda Insurance Assn., which is the market's equivalent organization of the Insurance Executive Council.

These market associations now have many of their committee members on respective government committees.

With this good liaison, any problems in implementing the act or any amendments or additions to the act thought necessary are quickly fed into the government committee system, discussed, refined and submitted to the Advisory Committee. The committee in turn submits its recommendations to the minister of finance and then to Parliament for ratification. A number of important amendments have been made this way in the last two years.

A parallel organization to the government committee system is the Registrar of Companies Department, which is part of the Ministry of Finance.

The department employs an inspector of companies and a legal counsel to advise the registrar, who not only deals with the necessary annual insurer filings and the day-to-day requirements of the act, but also with the investigation of new insurance companies seeking registration in Bermuda.

Led by Registrar Verbena Daniels, who has grown up with all the discussions some eight years before the birth of the act and has two years' experience administering the act, the Registrar of Companies Department works closely with the minister and with the insurance industry.

The combination of all these organizations is an informed unpaid temporary civil service from the industry working, where necessary, with the Registrar of Companies Office. This temporary service group monitors the regulation process from its own practical experience, making recommendations to the minister of finance, who is advised by senior people from the industry and the supporting professional services, the registrar and the exchange controller.

The act, as it came into effect Jan. 1, 1980, was not perfect. Yet the partnership system, being alive and flexible and having the support of both the industry and government, has enabled suitable amendments to be enacted and to be continually monitored for any further necessary changes.

Any regulatory system, however good, will never entirely prevent insurance companies from getting into financial trouble, but it should reduce the number of those companies. In many cases, when it acts on information from sources, the system might be able to take steps to prevent companies from becoming casualties.

The system also provides a means whereby the users of the Bermudian market, if they have complaints or problems, can go to the government with their cases and, perhaps, get wrongs corrected.

Another necessary ingredient to a successful international captive and reinsurance market is a stable political and social environment, based on a strong economy.

Bermuda meets all of these requirements. In the February general election, 56.6% of the voters, from a 61% black and 39% white population, re-elected the United Bermuda Party, 26 seats to 14 seats in Parliament. This helps confirm the political and social stability.

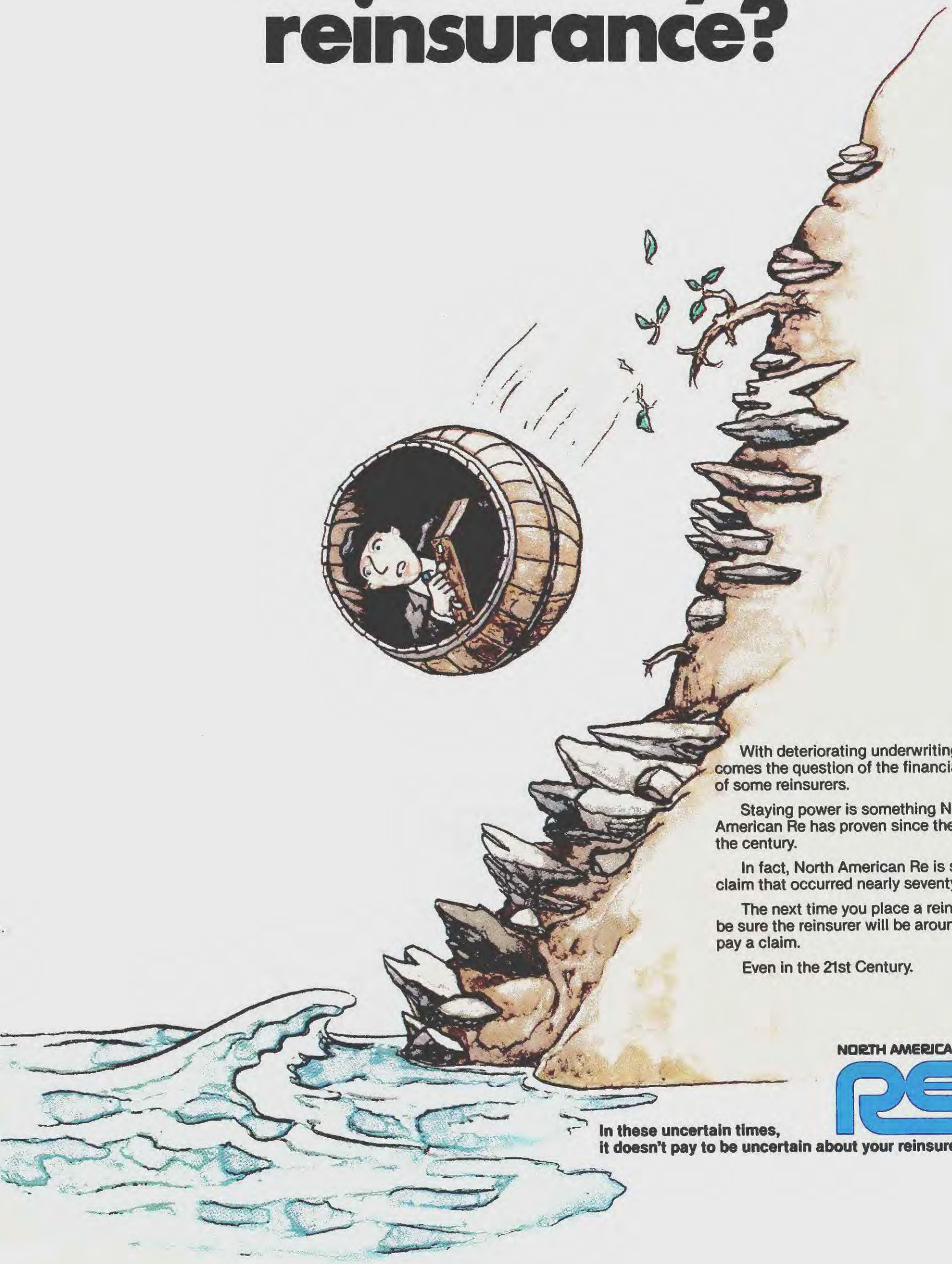
To conclude, Bermuda has a unique insurance industry. It comprises the biggest captive management center in the world, an important international reinsurance market with impressive financial resources, a total annual premium income larger than the whole Lloyd's market and a group of companies run and managed by responsible people.

Regulation is alive and well in Bermuda. In case you might have thought otherwise before you came, Mickey Mouse is not here, but in Disneyland, and the only bucket shops here are called hardware stores.

Bermuda is not only a good place to live and work in, it is a good place in which to do business.

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perspective

Three agreements set IPC apart from the rest

Continued from page 73

This is probably one of the biggest differences of the Aneco program in comparison with other rent-a-captives. The three contractual agreements provide inherent financial safeguards. One is that there is a contractual insurance policy between the insurance company and the insured. Second, there is a reinsurance agreement that is secured with a letter of credit where Aneco assumes the insured's self-insured retention. Third, Aneco, through a separate investment, sells to the insured preferred shares of stock as a contractual agreement to repatriate the investment income and, in certain situations, its underwriting profit.

Benefits

Through Aneco's preferred share structure, the IPC program has been designed to provide the maximum in financial stability. The financial safeguards built into the IPC program have enabled Aneco Mutual to be accepted by most of the major U.S. insurers.

- The IPC program is a vehicle to contractually return the investment income from an offshore company. Aneco Mutual sells preferred shares as a separate series for each participant who comes into the program and its dividend is based on the underlying policy. The account segregation is achieved by selling a separate series of preferred shares of stock to each participant.
- The preferred shares ownership has implications in a tax deductibility argument. If an insured owned non-voting preferred shares of stock in a non-controlled foreign corporation, Aneco believes the insured's chances of premium deductibility are much stronger. The funds would not be in the same economic family. The Internal Revenue Service's initial challenge to captive insurance companies in the Carnation case and later in Revenue Ruling 77-316 was against a single parent captive, Three Flowers Assurance Co., which was deemed not to be adequately capitalized. Aneco believes the next likely IRS attack will be against a paid-loss retro and a captive that is adequately capitalized. After that, the next likely attack by the IRS will be on a single-parent captive which writes some outside or third-party business.

Aneco believes that this process of challenge by the IRS is a long way away from the IPC program in which the insured does not own any voting shares of common stock and does not exercise any degree of control over its funds for the period that they remain in the IPC program.

Aneco believes the risk shifting and risk distribution of the IPC is identical to that of an incurred-loss retro and therefore should not affect the premium deductions taken by the insured.

- The Aneco program is structured so that an insured would be able to account for its participation in the IPC by listing its preferred shares on its balance sheet. The insured would not consolidate the assets and liabilities of the offshore company.

A participant purchases the preferred shares, either by paying cash or by providing Aneco with a letter of credit, or, similar to other rent-a-captives, Aneco gives an insured the option of utilizing Aneco's capital surplus. In the example of a $500,000 risk with a $100,000 purchase of preferred shares, Aneco would put a nominal value on the preferred shares of $5,000 and allow the insured to use $95,000 of Aneco's capital surplus to make the program work. Aneco would charge an additional fee for the use of the capital surplus.

- Aneco Mutual's ability to provide timely management and investment reports in a form convenient for companies that report to the Securities and Exchange Commission along with direct access to the parent company's legal resources, give an added dimension to Aneco Mutual's services.
- As an independent organization, Aneco Mutual is free to work with any brokerage house, independent agency, insurance company, consultant, claims firm or other professional as needed. This independent status enables individual participants to exercise a greater degree of control over their program. Independence has become a major asset in an era of increasingly unbundled services.

Insurance structure

In the IPC program, aggregate stop-loss reinsurance must be purchased. The per-occurrence risk (specific excess) and frequency risk (aggregate stop-loss) can be provided by the domestic policy-issuing company or one of its subsidiaries, the brokers reinsurance intermediary or by Aneco.

- A domestic insurance company can issue policies for statutory coverages and the participant can buy policies directly for non-statutory coverages.
- Investment income and, in certain situations, underwriting profit will be returned to the insured contractually as a dividend on the preferred stock. Each participant purchases a different series of preferred stock. Dividends earned on the shares are equal to the investment income and in certain situations may include underwriting profit, based on one's own loss experience.
- The Insurance Profit Center can be modified in a variety of ways to meet various coverage requirements. Either retrospectively rated, guaranteed-cost or dividend approaches can be employed. Investment and underwriting returns are timed to maximize their financial benefit. Reinsurance can be provided by the primary insurer or arranged separately, resulting in innovative solutions to difficult or unusual risk-funding problems.
- Each insured's program is a segregated account similar to an insurance company's accounting on a retro plan. Quarterly and annual investment reports are provided.
- The financial commitment is the one-time purchase of preferred stock. The preferred share's price is no more than 1/5 of the standard premium, is negotiable and may even be a nominal amount with the use of Aneco's surplus. The preferred shares can be purchased by cash, a letter of credit or the use of Aneco's capital surplus.

Pricing

Aneco Mutual Ltd. receives an underwriting fee equal to a percentage of the subject standard premium, plus 1% per annum on the loss reserves held in Bermuda. Aneco fees are negotiable subject to premium size.

Investment income can be paid to the insured quarterly or annually, or accumulated tax-free until all offshore loss reserves are closed. The dividend payment is subject to the structure of the underlying policy.

Target markets

Aneco's IPC program can be utilized by an individual corporation, an association/group or an agency/producer to replace a captive or to reduce a self-insurer's risk retention.

Aneco's book of business is becoming equally distributed to include individual corporations, association programs and producers' captives. For the association/group, the rent-a-captive can provide all the benefits of an association/captive and solve two major problems. One, the association does not have to set up a captive offshore and two, it does not have to go to each individual member and request a capital contribution on the program.

Aneco is seeing more and more specialty agencies establishing agency/captives. Again, the rent-a-captive is not for everybody. In the same sense the agency/captive or producer/captive is not for everybody. They can work for an agency that controls a book of business or has a specialty line of business.

Aneco has seen situations in which an agent has substantially increased his net income based on his underlying book of business. The agency/captive is becoming a wave of the future for certain insurance agencies. Aneco also is finding that in addition to the individual agency/captive, that three or four agents are combining their books of business in a sharing of risks to generate sufficient premium to obtain the benefits of the agency/captive. The agency rent-a-captive can provide an agency all the benefits of owning its own captive without the capitalization or administrative cost of establishing its own offshore insurance company.

In an approach that Aneco has discussed with some prospects, Aneco would exchange its non-voting preferred shares for the captive's common shares. Aneco would assume control of the captive, transfer the assets and liabilities from the captive into Aneco Mutual Ltd. and close down the captive. The objective of the program is to transfer the parent company's investment in a controlled foreign corporation to ownership of non-voting preferred shares in a non-controlled foreign corporation.

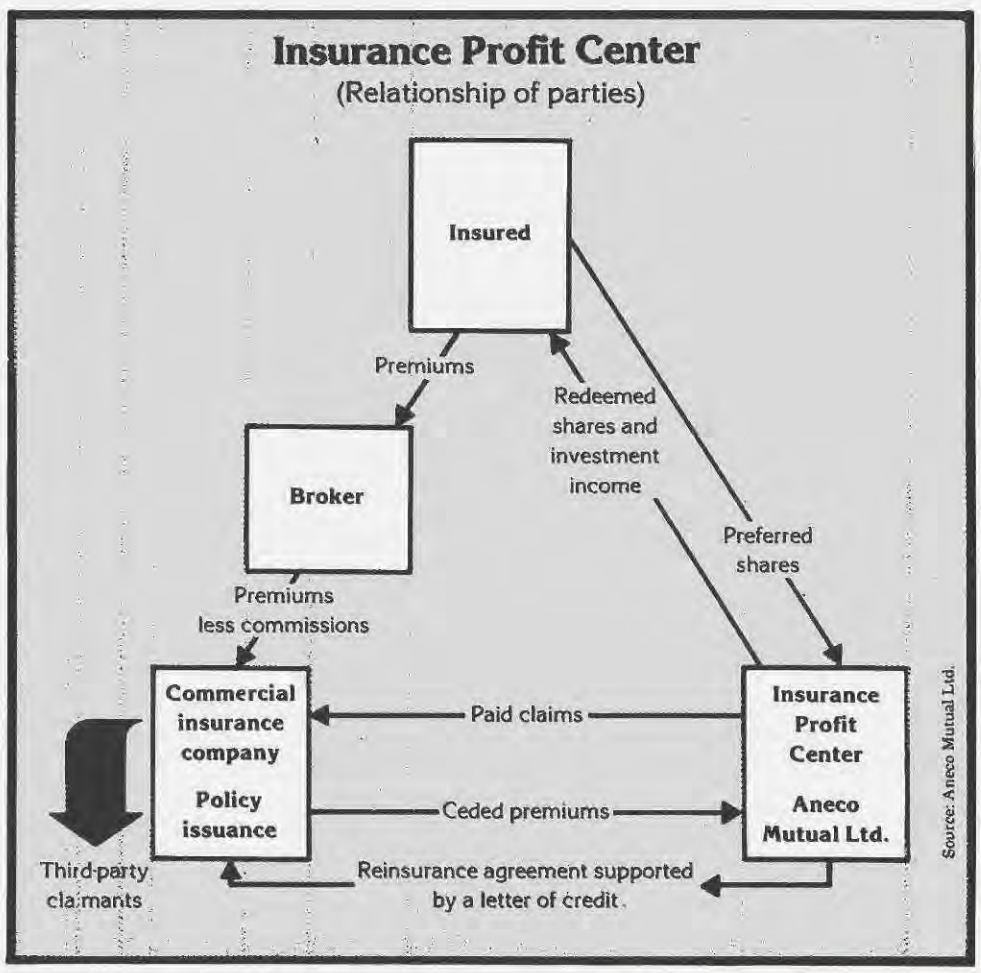
This transaction should have no adverse tax consequences and instead of the insured owning common voting stock in a controlled foreign corporation, the insured would now own non-voting preferred stock in a non-controlled foreign corporation. With the transfer of assets and liabilities to Aneco's rent-a-captive company, Aneco would assume the responsibility of closing down the insured's former captive.

With these transactions, the insured would participate in the plan with inherent financial advantages as an ongoing program.

Some of the advantages of the captive/IPC program are: Operating expenses may be less with lower premiums; the IPC program is supported by a tax opinion; the IPC program may provide for tax-free accumulation of funds; termination of the plan is as simple as non-renewal, while liquidation of a captive may take five to seven years; and there is no pooling of risk as in certain other rent-a-captive programs.

And finally, there is another benefit of the IPC program to the self-insured. The IPC can be structured to reduce the net aftertax cost of a self-insurer's risk assumption. A corporation may want to do this because its incurred-loss ratios are increasing, internal tax reasons, expansion in other states, etc.

One way to accomplish this without using a policy-issuing insurer is for the IPC to reinsure a portion of risk from the excess insurance company. This can reduce the self-insurer's cost in this transition to a funded program. The funded rent-a-captive portion of the self-insurer's program may provide financial benefits that were not available when the decision to self-insure was first made. ■



TGIC: Specialized reinsurance work

Continued from page 73

Trenwick Ltd.

Further, TGIC's board of directors is comprised of executives representing leading international insurance, reinsurance and non-insurance companies.

Benefits

TGIC provides the following benefits to all participants:

- Clients have an opportunity to recapture the total return attributable to the client's business. That is underwriting profit (defined as the difference between premiums and expenses and losses) plus net investment income on premiums and loss reserves.
- No requirement or commitment from the client beyond the initial 12-month period is necessary. Renewals are negotiated at each anniversary with no requirement for either party to renew the agreement.
- There is no need for the client to purchase non-voting preferred shares or issue notes or letters of credit to support premium writings.
- TGIC is a non-controlled foreign corporation and does not engage in a U.S. trade or business. As such, TGIC is not subject to U.S. corporate income tax. Therefore, undistributed mutual member income is not taxable to that member until the income is actually distributed to that mutual member.
- Each client receives quarterly status reports that include statutory and GAAP (generally accepted accounting principles) profit and loss statements, investment portfolio performance summaries and cash flow statement.
- The investment management function is performed with the assistance of Conning & Co. in Hartford, Conn., leading insurance consultants and investment analysts. The portfolio composition and maturity is normally based upon industry payout patterns by line of business modified by the client's historical experience.
- TGIC addresses and seeks to solve the issue of premium deductibility as a current business expense for clients by structuring risk shifting and managed risk distribution for those mutual members and non-mutual members concerned with deductibility. TGIC views the necessity to structure risk shifting and risk distribution as a means of quantifying premium deductibility. Failure to incorporate these elements within a rent-a-captive program could otherwise lead to future deductibility problems for TGIC's clients.

Risk shifting begins with the purchase of a guaranteed cost policy from a policy-issuing company which is subsequently reinsured by TGIC. However, TGIC also will reinsure a paid- or incurred-loss retro policy should this be the preferred approach. In such instances, risk shifting will be present depending upon the level at which the maximum premium is set.

TGIC offers managed risk distribution to mutual members by retaining a portion of the aggregate risk of each mutual member. It should be pointed out that mutual members are only exposed to the aggregate exposures retained by TGIC on mutual business. Thus the aggregate exposures of non-mutual members retained by TGIC do not jeopardize the potential good-experience returns of mutual members.

TGIC's mutual member profit and loss calculation and distribution of risk are different from the conventional pooling of risk. Pooling implies an approach whereby all participants share in the pool's results in proportion to their participation in the pool.

In contrast, TGIC's profit and loss calculation—pursuant to determining good-experience returns for mutual members—emphasizes each member's own experience and credits or debits it with TGIC's results from retaining the aggregate risk of all mutual members.

The management of risk distribution is achieved by four distinctive processes that serve to quantify the potential for loss.

First, TGIC underwrites each risk in order to determine the likelihood of profit or loss and eligibility for mutual membership. Potential candidates who have produced poor underwriting results or have displayed dramatic fluctuation in underwriting results are generally disqualified.

Second, TGIC purchases excess-of-loss reinsurance on an occurrence or per-risk basis to moderate the impact of severe individual losses for each account. This reinsurance is placed in the open market with financially secure reinsurance companies in order to protect TGIC's capital and surplus and the interests of TGIC's clients.

Third, TGIC purchases quota-share reinsurance for the portion of the aggregate risk it does not retain on each account. This reinsurance program moderates the debit and credit potential to each mutual member's good-experience return or non-mutual member's contingent commission.

Fourth, TGIC also purchases common account excess of loss reinsurance in order to further protect it and its clients from accumulations of loss on TGIC's net-retained portions of aggregate exposures.

Insurance structure

TGIC normally reinsures the primary limit of risk on a quota-share basis from a policy-issuing company and subsequently quantifies the result within the primary limit through the purchase of excess-of-loss and aggregate stop-loss reinsurance.

Unlike other rent-a-captive programs that only respond for losses up to the amount of funds ceded, which in effect are "banking" or "deposit" facilities, TGIC exposes its capital and surplus to risk.

The distinction between banking and insurance is an important one for several reasons.

A banking rent-a-captive program takes no risk, obviating risk distribution that is a necessary element to the achievement of premium deductibility. Further, since a banking rent-a-captive program never exposes its capital and surplus, the permanence of the transaction is controlled by the service providers and the reinsurers and not by the rent-a-captive.

Finally, auditors could qualify the financial statements of banking rent-a-captives as not operating as an insurance company.

Such a qualification could inhibit insureds and policy-issuing companies from entering into insurance and reinsurance transactions with banking rent-a-captives as the insured and/or the policy-issuing company could be construed to be making a deposit rather than purchasing insurance or reinsurance.

Pricing

TGIC utilizes a two-tier pricing structure in order to accurately reflect the costs incurred in providing the required services to clients under its program. It is anticipated that this pricing structure will result in overall favorable cost-savings to participants as contrasted with other rent-a-captive programs, which charge a percentage of the original gross premium to cover all expenses and generate their profit.

The first tier of the pricing structure represents the remuneration that TGIC receives. This includes:

- A flat administration fee charge by Trenwick Ltd., TGIC's parent and manager, to administer the program. This fee is intended to cover the administrative costs attendant to the financial management and underwriting for each program. The charge is negotiable at inception and annually, prior to each renewal.

This fee is intended to decrease in the second and subsequent renewal periods since first-year charges incorporate initial start-up costs. The fee will vary with the premium size, the reporting requirements and the number of transactions. The fee is generally subject to a stated maximum-dollar amount.

- A risk charge based on annual mean investable assets. This charge reflects the risk to TGIC's capital and surplus dedicated to the support of each client's program.

The second tier of pricing represents direct costs a client-owned captive would incur if one existed. These would include portfolio management fees, banking charges and letter-of-credit costs. These costs are charged to each program as they are incurred by TGIC and passed along at cost.

TGIC target markets

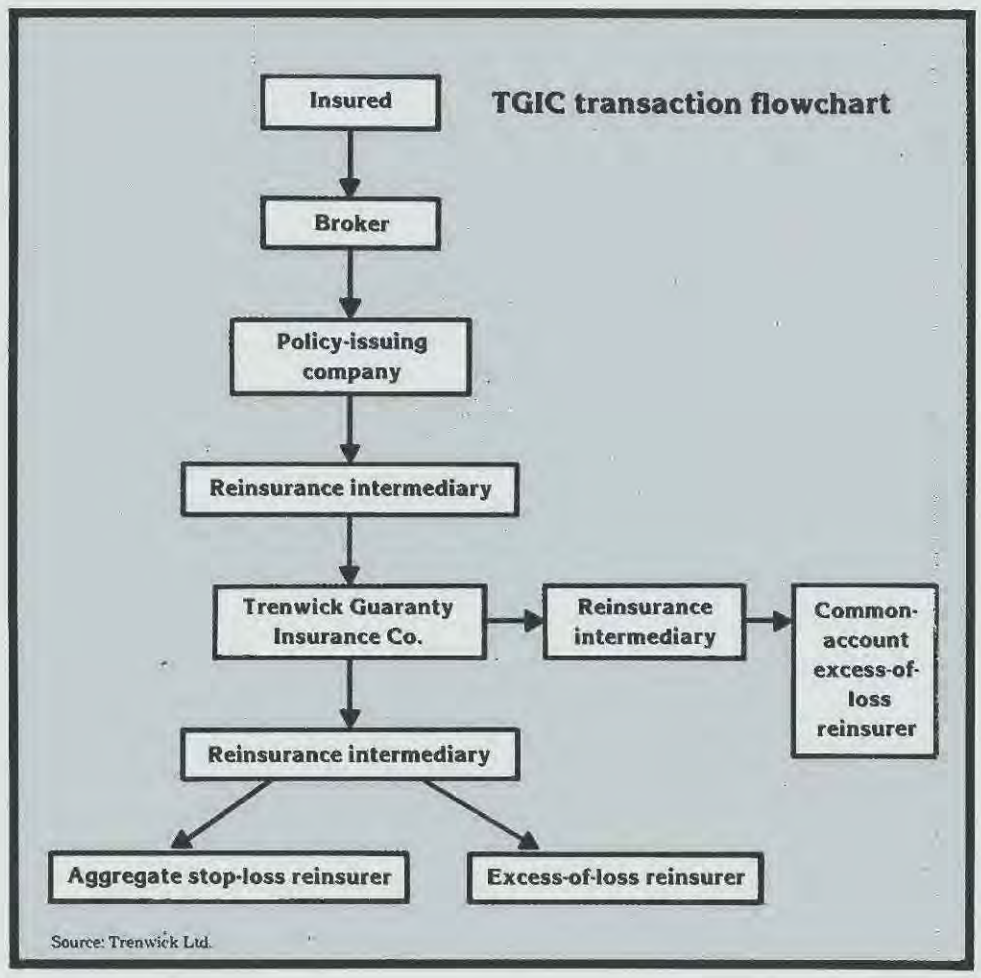
TGIC seeks single insureds who have demonstrated profitable underwriting results and are interested in achieving the lowest net present value after tax insurance costs. When rates charged by the commercial market for certain lines of business are cheaper than what insureds would write the risk for themselves, it follows that TGIC seeks lines of business where rates are less subject to market pressures and/or are adequate. At present, workers compensation is TGIC's preferred line of business. However, other lines (general liability, auto liability, etc.) are considered.

Single insureds with their own captives that are not interested in writing outside business in an attempt to achieve premium deductibility also are targeted clients.

Association groups demonstrating the ability to deliver or achieve positive underwriting results, in combination with successful market penetration, are likely candidates for TGIC. Although all lines of business will be considered, workers compensation is again preferred.

Brokers or agents who currently control profitable books of business having sound underwriting guidelines in place are also eligible for TGIC. Historically profitable results must be demonstrated as well as the continued adherence to underwriting standards. Most brokers and agents seeking to share in the overall returns of their books of business generally elect non-mutual membership in TGIC and receive their entitlement to good experience returns as contingent commissions.

While the rent-a-captive in itself is simple and straightforward, the achievement of lasting financial and tax benefits requires the proper assembling of interdisciplinary skills. TGIC seeks to distinguish itself from other rent-a-captives by providing and blending the necessary underwriting, reinsurance protections, administrative, financial reporting, investment management, claims control, accounting, legal and tax law knowledge to enable clients to achieve the desired benefits. ■



Source: Trenwick Ltd.

Captive parents still await their day in court

By RHONDA L. RUNDLE

Six years after a landmark Internal Revenue Service ruling, the U.S. Justice Department still has not met a taxpayer in court to decide whether a single parent-owned captive is a bona fide insurance company.

At least half a dozen U.S. corporations have filed suit to recover payments for tax deductions that were disallowed by the IRS on the strength of Revenue Ruling 77-316.

That IRS policy statement says that premiums paid to a wholly-owned offshore captive are not tax deductible.

Corporate legal challenges to the ruling have been plagued by one delay after another—most of them initiated by the Justice Department. Court dates have been set and postponed, and then reset and postponed. Pretrial discovery stretches into years in some cases.

But, it now appears that Stearns-Roger Corp., an engineering and construction company that owns a Colorado insurance company, will be the first to do battle on the captive issue. Trial has been set for May 23 in the U.S. District Court in Denver, reports Robert E. Benson, a Denver attorney with the firm of Holland & Hart that is representing Stearns-Roger.

Although IRS ruling 77-316 addresses the tax status of premiums paid to an offshore captive, it does not specifically discuss domestic captives. The IRS has said in the past, however, that its ruling applies to domestic captives. The Stearns-Roger case will test this.

Several million dollars in disallowed premium deductions for tax years 1974 through 1978 are at stake, said Mr. Benson. In 1979 Glendale converted to a multiline commercial insurance company.

As a captive, Glendale underwrote Colorado workers compensation, professional errors and omissions, damage to completed operations and comprehensive general liability coverages.

The trial will focus exclusively on the question of whether Glendale was a bona fide insurance company because other issues in the lawsuit will be resolved before trial begins, said Mr. Benson.

"It's surprising that the issue hasn't been tried yet," said a tax attorney at Texaco Inc., which also is challenging the IRS rule.

Texaco's case, which has been pending for two years in the U.S. District Court in Houston, involves about $15.8 million in disputed taxes in 1970 and 1971 (*BI*, April 19, 1982).

"Our case is complex and involves a lot more than just the captive," said the legal department spokesperson. A pretrial hearing is expected next month.

Mobil Oil Co.'s 5-year-old suit was set for trial last September when the court-appointed judge became ill and the case had to be reassigned. Subsequently, the Justice Department asked for more time to prepare its case, which is now proceeding toward an August trial date in the U.S. Claims Court.

Mobil is challenging the IRS's refusal to allow a tax deduction for more than $37.7 million in premiums paid to at least two overseas Mobil captives by 35 subsidiaries during tax years 1961 through 1969.

In January, Castle & Cooke Inc. expected its case pending in the U.S. Claims Court to come to trial in three to six months. But no trial date has been set and the parties do not seem to be any closer to setting one.

Castle & Cooke is suing for a refund of payments to the IRS, which disallowed deductions claimed by the parent company for premiums paid by its domestic and foreign subsidiaries in tax years 1971 through 1973 to Ashford Co. Ltd., a Bermuda-based captive wholly-owned by Castle & Cooke.

Ashford underwrote property risks of one Castle & Cooke domestic subsidiary and reinsured a portion of the risks of its parent's foreign subsidiaries under a primary policy issued by an unrelated U.S. insurance company, Birmingham Fire Insurance Co.

The terms of Ashford's policies were consistent with an arm's length transaction, Castle & Cooke argues in a court document outlining its position. "Ashford's assets were exposed to the risk that losses would occur under the policies it had written. Thus, the risk of such losses was shifted to Ashford."

There is widespread speculation about why the Justice Department has been dragging its feet in these cases involving captive tax issues.

Some observers believe that tax division attorneys are waiting to find the perfect facts that will support the revenue ruling and set a powerful precedent for other courts to follow.

"I think when some of them start to prepare a case, it comes as a shock to them that we have a strongly defensible position," said the Texaco attorney. "The Carnation decision is not the death knell to captives that some people say it is."

Although a federal appeals court ruled in favor of the IRS two years ago in a captive tax case involving Carnation Co., the case never answered if a captive is a bona fide insurance company (*BI*, March 16, 1981; Jan. 8, 1979).

"The tax division of the Justice Department is terribly understaffed and that's why they keep dragging their heels on this," suggests William Pratt, tax counsel for Mobil Oil Co.

There also are indications that the IRS's hardline position against tax deductions for premiums paid to captive insurance companies may be taking the fight out of some corporate taxpayers.

"The IRS is being a lot tougher and most single parent-owned captives are capitulating—they're just not going to fight," observed Stuart H. Grayston, president of S. H. Grayston Management Ltd. in Bermuda.

"Most captives are saying, 'okay, we give up' and are paying whatever the necessary taxes are," he explained.

Hugh Rosenbaum, editor of Captive Insurance Company Reports and vp of Risk Planning Group, a Darien, Conn., consulting firm, agrees.

"There is more and more IRS pressure against single-parent captives and we see more and more wondering in board rooms among financial officers as to whether it's (the tax deduction) worth all the trouble," he said in opening remarks at the Seventh International Captive Insurance Co. conference in Bermuda, which is sponsored by Risk Planning Group. ■

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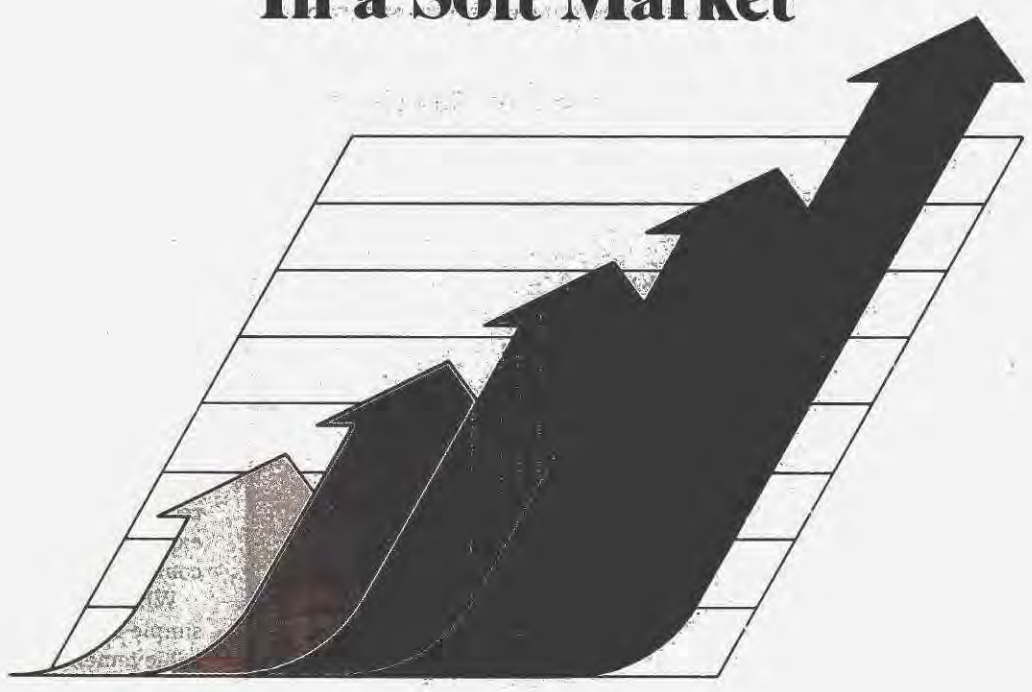
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Hopes still alive for deduction bill

By JERRY GEISEL

WASHINGTON—Despite a slow start, spirits are running high among supporters of legislation that would allow employers to take tax deductions for self-insured loss reserves and for premiums paid to captive insurance companies.

H.R. 6114, which would overhaul the Internal Revenue Code to allow the deductions, was introduced one year ago by Rep. Bill Frenzel, R-Minn., but never made it out of a congressional committee.

The measure, backed by a coalition of risk management and brokerage interests known as the Loss Reserve Deduction Committee, is now being fine-tuned and a new version will be introduced by Rep. Frenzel later this spring.

"Introduction of the bill gave us a lot of exposure," said Robert Reeves, chairman of the Loss Reserve Deduction Committee and president of the Health Services Division of Hospital Corp. of America in Nashville, Tenn.

Mr. Reeves acknowledges that the supporters of the legislation face an uphill battle that could take several years. But, he is confident that the legislation will be passed, especially when the insurance market tightens.

Under last year's bill, tax deductions would be allowed for reserves established under certain internal self-insurance programs as well as premiums paid to domestic captive insurance companies and offshore captives that are approved by any state (*BI*, April 26, 1982).

Currently, under the tax code, only insurance premiums and uninsured paid or fixed losses are tax-deductible as a business expense.

Tax deductions would be allowed for reserves to pay for liability, workers compensation and fidelity losses under the proposal.

The bill does not limit the amount of premiums paid to a captive. However, there are restrictions on the tax deductibility of self-insured reserves when a captive insurance company is not used.

The bill specifies that such reserves would have to be funded by either an operating self-insurance trust or by a standby insurance trust.

If an operating self-insurance trust were set up, the employer would have to fund the trust in the amount of the deduction in each taxable year, either with cash, marketable securities other than the employer's or a combination of both.

The trustee, who would have to meet certain criteria contained in the proposal, could loan up to 50% of the trust to the employer at prevailing rates.

A taxpayer using a standby self-insurance trust would have to maintain a reserve account and purchase a surety bond or letter of credit equaling the current liability for self-insured losses.

The standby trust would be the beneficiary of the bond or letter of credit to pay losses if the taxpayer did not pay them.

The amount deductible in any one year for a company maintaining a trust would be limited to the present value of the total current liability for self-insured losses, reduced by the amount in the reserve account or self-insurance trust. The methods for determining this amount would be:

- Actuarial evaluation.
- Using 90% of the amount quoted by a commercial insurer to assume the liabilities of the trust, or a written estimate by a recognized insurance brokerage firm.

Loss deductions during the year would be deductible only when, in total, they exceeded the contribution made to the trust or reserve account for the year in which the losses were incurred.

If, at the end of any year, the reserve account exceeds the current self-insured liability, the amount in excess would have to be included in the company's gross taxable income.

Under the bill, current self-insured liability would have to be computed at the end of every taxable year, regardless of whether a deduction under the law is taken for the year.

After a trust is established, it could not be dissolved nor could the letter of credit or surety bond be terminated.

However, if a bond or letter of credit were canceled, the taxpayer would have 30 days to replace it or be penalized with 125% of the trust amount included in its gross income. The trust would then be considered terminated.

Finally, the law would only effect taxable years after the date of enactment. ■

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Domestic domiciles: Captive formation in Vermont booming, but Tennessee, Colorado see little growth

By JERRY GEISEL

MONTPELIER, Vt.—When the sun breaks through the clouds, the golden dome of the Vermont capitol on State Street glistens brightly.

And, the future of Vermont as a major base for captive insurance companies is shining just as brightly.

At a time when captive growth has come to a virtual halt in Colorado and Tennessee, the two other leading domestic domiciles (see stories, pages 85 and 87), Vermont's captive roster is swelling.

Eighteen months ago, just one company had set up a captive in the Green Mountain State. In September 1981, BFGoodrich Co. became the first company to take advantage of Vermont's captive law, approved earlier that year. The big Akron, Ohio,-based tire manufacturer rolled out First Charter Insurance Co. to reinsure some of its property risks.

Since then, the number of captives has steadily grown. In 1982 three companies or trade associations—Elixir Industries of Gardena, Calif., the National Paint and Coatings Assn. and the National Telephone Cooperative Assn., both in Washington, D.C.,—opened Vermont captives.

And in the first four months of 1983, four captives have been licensed by Vermont Commissioner of Banking and Insurance George Chaffee. The newest captive sponsors include: Keystone Consolidated Industries of Dallas, Tex., the American Bureau of Shipping in New York; the Connecticut Hospital Assn. in Wallingford, Conn., and Aluminum Co. of America (Alcoa) in Pittsburgh.

This steady flow could develop into a captive flood, experts say. "In 1981, I said there would be 100 captives here in five years. I think that is still possible," said Mr. Chaffee.

Indeed, the growing number of Vermont captive managers report sharply rising interest in Vermont captives from employers and trade associations.

For example, American Risk Management, a highly regarded Fort Lee, N.J.,-based captive management firm expects to be managing a Vermont captive to be set up by a Fortune 500 company.

Vermont Insurance Management Inc., a Waterbury, Vt.,-based captive manager is talking to at least five possible captive candidates, including steel and communications firms and a European-based international construction company.

The growth is coming from both big and small firms. For example, BFGoodrich and Alcoa are both on the Fortune 200 list of largest companies.

On the other hand, the National Telephone Cooperative Assn., which set up an association captive in Vermont last November (*BI*, Dec. 13, 1982), is comprised of small rural telephone cooperatives with revenues of about $1 million.

Some Vermont captives are being tapped to cover just one risk. For example, the Connecticut Hospital Assn. wants to use its newly licensed Conn Med Insurance Co. to provide medical malpractice coverage when the market tightens. Others, like Elixir Industries' GarDen Insurance Co., are covering several risks.

Some firms are using Vermont as a domicile for their second captives.

For example, Keystone Consolidated Industries is using its Vermont captive—Keystone Insurance Co.—to reinsure property/casualty risks that previously were being reinsured by a Bermuda captive, while Elixir Industries is transferring risks to its Vermont captive from its 5-year-old captive located in Colorado.



On the other hand, the American Bureau of Shipping's new captive, ABS Boiler & Marine Insurance Co. is its first captive. It will be used to reinsure workers compensation risks.

Despite the differences among the captives, a common thread unites the companies and associations setting them up: The parents all say they were attracted to Vermont by the state's unique captive insurance law.

"There is no comparison with any other state. Vermont has it over any other state," said Marlin H. Henning, corporate risk and insurance manager at Keystone Consolidated Industries.

Vermont is the most desirable of all the domiciles, adds Dennis Neustel, executive vp at the National Telephone Cooperative Assn.

Some of the "desirable" features of Vermont's captive law include:

- Low capitalization requirements. A pure captive—one owned by a single company—can be set up with a capital and paid-in surplus of $250,000. An industrial insured captive needs $500,000 and an association captive $750,000.

By contrast, both Colorado and Tennessee require three times as much capital, or $750,000, for a pure captive, and $1 million in capital for a trade association to sponsor a captive.

- Vermont captives do not have to produce a minimum premium volume. Both Colorado and Tennessee require a pure captive to produce a minimum annual

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Continued from facing page
premium of $1 million.

- Companies or associations that want to establish Vermont captives do not have to prove that commercial insurance is unavailable or unaffordable.

In contrast, Colorado requires companies to show that adequate insurance is not available.

- Vermont offers freedom from prior approval for rates and forms. Colorado and Tennessee require prior approval.
- In the case of pure captives, Vermont has easier annual financial reporting requirements than either Colorado or Tennessee.

These attractions are no accident. The Risk & Insurance Management Society, which represents corporate risk managers' interests, helped draft Vermont's law so there would be at least one U.S state that could compete head-on with offshore domiciles.

"We wanted a law that would be less restrictive than other state statutes so there would be no advantage to going offshore," Mr. Chaffee said.

There are advantages to setting up a domestic captive as opposed to an offshore captive.

For example, as a domestic subsidiary, a domestic captive can purchase American securities, such as stocks and bonds, and not be slapped with the 30% withholding tax on dividends and interest that a foreign company, like a Bermuda captive, would have to pay.

In addition, U.S. companies must pay a 4% federal excise tax on direct premiums written by offshore captives.

"There is no advantage to going offshore," maintains H. Lincoln Miller, president of Vermont Insurance Management, which is managing Keystone Consolidated's Vermont captive.

"Offshore, you get hit with the excise tax and the 30% withholding tax," Mr. Miller said.

And recent legislative changes have increased Vermont's attraction. Vermont law now allows product liability pools established under the federal Risk Retention Act to automatically receive favorable treatment.


Mr. Miller

Under the amendment to the captive law, a risk retention group that wants to make Vermont its home only has to meet the general requirements for industrial insureds rather than the tougher rules for association captives.

As an industrial insured, a risk retention group would only have to put up $500,000 in capital and surplus to be chartered in Vermont. The capital and surplus requirement for association captives is $750,000.

In addition, an industrial insured is allowed to invest its assets more freely than an association captive and is governed by less restrictive financial reporting requirements than other captives.

The favorable treatment accorded to risk retention groups is why the National Assn. of Wholesaler-Distributors is considering Vermont as a domicile for its future risk retention group.

"I believe risk retention groups will be set up here. The law makes it very easy for them to come here," said Jonathan H. Stevens, a partner with Stevens & Clark, a Winooski, Vt., law firm which assisted Alcoa with its new Vermont captive, Three Rivers Insurance Co.

And Vermont has attractions as a captive domicile that extend beyond the law. Thanks to the recent

Continued on next page

Vital statistics on Vermont captives

Captive	Licensed	Parent	Management company	Lines written	Est. gross premium (in millions)	Type of captive
First Charter Insurance Co.	Sept. 1981	The BFGoodrich Co. Akron, Ohio	M & M Insurance Management Services Inc.	Property	$4.0	Pure
GarDen Insurance Co. of Vermont	July 1982	Elixir Industries Gardena, Calif.	Becher & Carlson	Work comp, auto, product liability, general liability	1.4	Pure
Verlan Ltd. (Vermont)	Sept. 1982	National Paint & Coatings Assn. Washington, D.C.	Green Mountain Captive Management Inc.	Property, work comp, general liability, product liability	3.8	Industrial insured
National Telcom Corp.	Nov. 1982	National Telephone Cooperative Assn. Washington, D.C.	Self-managed	Property, work comp, auto, general liability	2.0	Association

Continued on next page

Source: Vermont Department of Banking & Insurance

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Vital statistics on Vermont captives

Captive	Licensed	Parent	Management company	Lines written	Est. gross premium (in millions)	Type of captive
Continued from previous page						
Keystone American Insurance Co.	Feb. 1983	Keystone Consolidated Industries Dallas, Texas	Vermont Insurance Management Inc.	Property, work comp, auto, general liability	$1.3	Pure
ABS Boiler & Marine Insurance Co.	March 1983	American Bureau of Shipping New York, N.Y.	Johnson & Higgins Services Inc.	Work comp	1.3,	Pure
Conn Med Insurance Co.	March 1983	Connecticut Hospital Assn. Wellingford, Conn.	Donald F. Smith and Associates	Medical malpractice	Not operational	Industrial insured
Three Rivers Insurance Co.	April 1983	Aluminum Co. of America Pittsburgh	Self-managed	Broad range property/casualty	6.0 (in 1984)	Pure

Source: Vermont Department of Banking & Insurance

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Office space economical in Vermont

Continued from previous page
introduction of discount air service, Burlington, the state's largest city, is just a $35 and 60-minute flight away from New York City, the country's leading financial center.

In addition, with a population of only about 520,000, Vermont has plenty of room to grow. That means office space at $10 to $13 a square foot costs a third less than in crowded Bermuda.

With just eight licensed captives under its belt, Vermont doesn't seem about to challenge Bermuda, where more than 1,000 captives are domiciled.

But Vermont boosters point out that Bermuda's growth did not occur overnight. "It took five years for Bermuda to get going," said MacVicker Snow, senior vp with American Risk Management.

"Vermont now is very much like Bermuda was 15 years ago" with the real growth now beginning, said Harry Bonyun III, a former risk manager who helped set up Allied Chemical Corp.'s Bermuda captive and is now secretary-treasurer with Vermont Insurance Management.


Mr. Bonyun

Captive experts say the decisions of BFGoodrich and Alcoa to set up captives in Vermont will add enormous momentum to the Vermont captive movement. "It is, to some extent, a follow-the-leader business," Mr. Snow said.

The Vermont/young Bermuda analogy fits in other ways, too. Captive managers, who flocked to Bermuda during the great offshore captive boom of the late 1960s and 1970s, are now opening up offices in Vermont, too.

Last year, for example, Hanna Mining Co. in Cleveland and broker Smith, Bell & Thompson of Burlington formed a new management company, Altamid Management Co. (Vermont) Ltd., to manage Vermont captives.

"We saw the law as a fantastic opportunity," said Roger Teese, vp at Altamid (Vermont). Burlington, which has a population of about 38,000, will be a center of captive activity, Mr. Teese added.


Mr. Teese

Altamid Management Co. Ltd., which is owned by Hanna Mining Co. and based in Bermuda, now manages about 10 Bermuda clients.

And American Risk Management, which manages more than 100 captives in Bermuda and other domiciles, will be opening up a Vermont office in June in Burlington. "It is our policy to go where the business is. We see Vermont as a significant addition," said Mr. Snow.

Other captive management firms with offices in Vermont include: M & M Insurance Management Services Inc. in Burlington, a subsidiary of Marsh & McLennan Cos. Inc.; Risk & Benefit Management Systems Inc. in Montpelier, which also has an office in Aurora, Colo., where it manages six Colorado captives; Green Mountain Captive Management Inc. in Barre, which manages Verlan Ltd., the indus-

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Photo: Jerry Geisel
The shiny dome on the state capitol is a symbolic backdrop for Commissioner George Chaffee.

Banks serve captive needs

Continued from facing page
trial-insured captive sponsored by the National Paint & Coatings Assn. (*BI*, Oct. 18, 1982); Continental Risk Services Ltd. in Burlington and Yankee Captive Management in Burlington.

And Vermont's financial and legal communities now are taking notice of Vermont's captive law and are competing vigorously for all the captive business that is available.

For example, at least four Vermont banks—the Chittenden Trust Co. and the Merchants Bank in Burlington, the First Vermont Bank and the Vermont National Bank in Brattleboro, can provide the cash management services, like letters of credits and electronic transfer of funds, that captives and their parent companies need to operate their insurance businesses.

And more Vermont lawyers are boning up on the captive law.

Interest in the captive act among Vermont attorneys was perked by a recent article explaining the law's provisions written by Mr. Stevens, the Winooski attorney, and published in the Vermont Bar Assn. journal.

The only captive support area where Vermont lags behind is actuarial services.

But Insurance Commissioner Chaffee is confident that support services will grow as the number of captives increases.

"We have the nucleus of support services," he adds.

The emergence of Vermont as a captive domicile will mean that risk managers will have to more carefully consider the pros and cons of the different domiciles, experts say.

Because of the lack of a competitive law from a domestic state, "There may have been a tendency in the past to go offshore even in situations where it may not have been appropriate," said Mr. Volpe of M & M Insurance Management Services in New York. That won't be the case anymore.

But rather than seeing Vermont as a rival to popular offshore domiciles, Vermont supporters believe the state will complement offshore rivals.

"We have a symbiotic relationship with Bermuda," said Mr. Chaffee.

For example, a company with international and U.S. business might continue to place overseas risks in its offshore captive while domestic risks will be simultaneously placed in a Vermont captive, Mr. Chaffee said. ■

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Hospitals form Vermont's first group captive

MONTPELIER, Vt.—A group of Connecticut hospitals this fall may become the first association to operate a Vermont captive to provide medical malpractice insurance coverage.

The captive, Conn Med Insurance Co., sponsored by the Connecticut Hospital Assn., received its license to operate on March 9 from the Vermont Department of Banking and Insurance.

However, a decision on whether to start up operations won't be made until this fall, according to Thomas Redmond, a vp with Donald F. Smith & Associates, a Princeton, N.J.,-based brokerage and consulting firm, which is managing the program.

Conn Med's start-up date depends on market conditions, Mr. Redmond explained.

However, even if the captive doesn't begin operating this year, its formation could help Connecticut hospitals obtain affordable malpractice insurance.

> 'Vermont was the easiest domestic state (in which) to set up a captive,' Thomas Redmond says.

"The insurers know we have been working on it (Conn Med) and they may have priced their product lower. . .or more competitively," Mr. Redmond said.

Connecticut hospitals began considering formation of a captive about two years ago to contain malpractice insurance costs.

It was Vermont's liberal captive insurance company law that attracted the hospitals.

"Vermont was the easiest domestic state to set up a captive, particularly in regards to capitalization," Mr. Redmond said. The capitalization requirement for an industrial insured captive is $500,000.

Conn Med would operate as a reinsurance company and reinsure a domestic, licensed insurer that would issue policies as well as assume some of the risk.

Decisions still must be made on which insurer will issue the policies and how much risk Conn Med would take.

Mr. Redmond said it is too soon to estimate what Conn Med's potential premium volume would be.

Connecticut hospitals now have a choice of several commercial insurers from which to purchase malpractice insurance in the current soft market.

But some insurance experts say medical malpractice may be among the first casualty lines to tighten later this year because of mounting losses. *—By Jerry Geisel*

New captive taking risks from Bermuda

MONTPELIER, Vt.—Keystone Consolidated Industries Inc. is the first U.S. company this year to pull its offshore risks into a Vermont-based captive, but many more may follow.

The Dallas-based manufacturer of steel wire and cabinet hardware is making a portfolio transfer of parent company business from KEYCON Insurance Ltd., its Bermuda insurance subsdiary, to Keystone American Insurance Co., its newly opened Vermont captive.

"As a domestic company, there are no tax advantages to being in Bermuda," said Marlin H. Henning, Keystone's corporate risk and insurance manager. "Vermont's law is as good or better than Bermuda's. And there is no comparison with any other (U.S.) state," Mr. Henning adds.

Other companies soon will follow Keystone's lead, says George Chaffee, Vermont's commissioner of Banking and Insurance. "We'll get more Bermuda captives. There will be a major inflow."

Including the transfer of assets from Bermuda, Keystone American Insurance Co.'s capital and paid-in surplus should exceed $3 million.

Keystone is reinsuring portions of its parent's workers compensation, general liability, auto liability and auto physical damage policies issued by Wausau Insurance Cos. of Wausau, Wis.

Keystone reinsures the first $100,000 of casualty risks on a per-occurrence basis and the first $250,000 per occurrence of workers compensation risks. Keystone also is providing coverage for some high-limit property risks.

Wausau Insurance Cos. is providing claims adjusting and loss-control services. Vermont Insurance Management Inc. of Waterbury, Vt., is managing Keystone's captive.

During Keystone American Insurance's first full year, premium volume should exceed $1 million, Mr. Henning said.

Mr. Henning began considering Vermont as a captive domicile after listening to Mr. Chaffee describe the state's innovative 1981 captive statute at last year's Risk & Insurance Management Society conference in Washington.

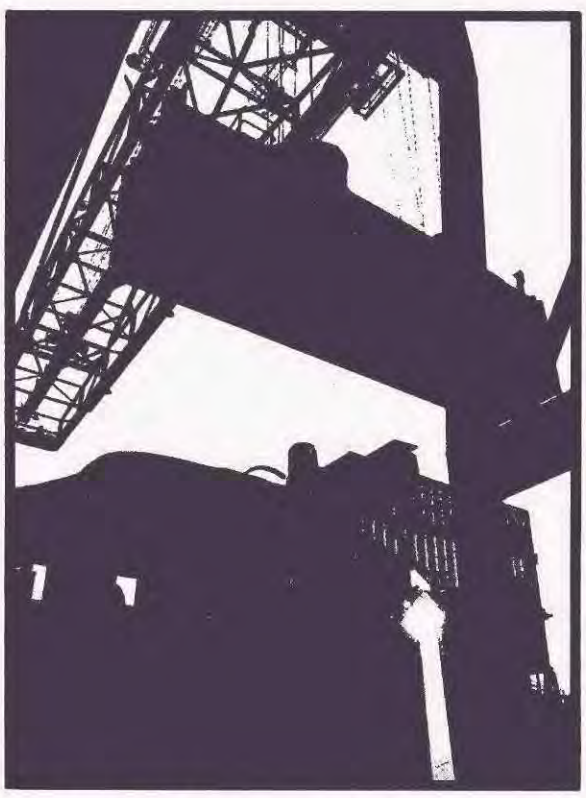
Mr. Henning then spent several months studying the Vermont statute and met with Mr. Chaffee before making a recommendation to Keystone's board of directors in September 1982 that a Vermont captive be set up. The board later accepted Mr. Henning's recommendation.

Vermont has several advantages that lured Keystone to the Green Mountain State, Mr. Henning said. Those advantages include:

- As a domestic subsidiary, the Vermont captive can purchase American securities, like stocks and bonds, and not be slapped with the 30% withholding tax on dividends and interest that a foreign company, like a Bermuda captive, would have to pay.
- Lower operating costs in Vermont. "Management costs are going up considerably in Bermuda. That concerns me," Mr. Henning said.
- The desire to do as much business as possible in the United States. "There is an element of patriotism," he said.

KEYCON Insurance Ltd., Keystone's Bermuda's captive, will continue to operate to write third-party business. Keystone American Insurance Co. also will be doing some third-party business. ■

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Colorado's law behind the times, some say

By JERRY GEISEL

DENVER—It's time to change Colorado's 11-year-old captive insurance company law, state captive managers say.

"Colorado has lost some of its edge," said Tom Littell, president of Risk & Benefit Management Systems in Aurora, Colo. The captive law "fit the times" when it was enacted in 1972, but times have changed, he adds.

The suggestions by some that the Colorado statute may need—at the minimum—some legislative fine-tuning, is a testimony to the competition the Rocky Mountain State faces from Vermont in attracting and keeping captives.

While at least seven new captives were licensed in Vermont since the beginning of 1982, the number of Colorado captives has remained stuck at 27.

The number of captives briefly crept up last year when Tyler Corp., a Dallas-based manufacturer and transporter of commercial and industrial explosives, set up a captive to reinsure workers compensation, automobile and product liability exposures (*BI*, April 19, 1982).

But the gain was short-lived after Health Care Indemnity, owned by Humana Inc. of Louisville, Ky., was converted from a captive into a commercial insurance company.

And to say that Colorado has 27 captives may, in fact, be slightly misleading. At least one captive—Constance Insurance Co., owned by Crawford Fitting Co.—is dormant, according to Constance President Norbert J. Tobbe.

In addition, other Colorado captives may be operating at less than full steam. For example, Elixir Industries, a Gardena, Calif.,-based manufacturer of components used by mobile home and recreational vehicle manufacturers, has announced that it would shift a majority of the casualty business written by its Colorado captive to its recently formed Vermont insurance subsidiary, GarDen Insurance Co.



Mr. Barnes

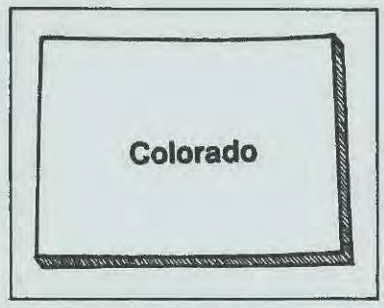
"We can expand our operations more quickly in Vermont than in Colorado," said Elixir's risk manager, Gwen Wamsley, when the Vermont captive was formed last year (*BI*, Aug. 16, 1982).

The last year in which a significant number of captives were formed in Colorado was 1978 when five captives were set up: Constance Insurance Co.; Elixir's GarDen Insurance Co.; Financial Servives Insurance Co., owned by Allis-Chalmers Credit Co. of Milwaukee; M.S.J. Insurance Co., owned by six hospitals; and United Insurance Corp., owned by Empire Gas Corp. of Lebanon, Mo.

To increase Colorado's appeal to companies trying to decide where to base their captives, Colorado captive managers have been meeting over the last several months to hammer out possible changes in the state's captive law.

Proposals that have received support from some captive managers include:

- Eliminate the current one-year waiting period before a new member of a trade association can buy coverage from the group's captive insurer.
- Modifying Colorado's requirement that a company or trade association must prove that insurance is not available at a reasonable price from commercial insurers and that they "need" a captive to meet their insurance requirements.



Colorado Insurance Commissioner J. Richard Barnes says his door is always open to those who say that changes in the state's captive law are needed. But he rejects suggestions that a massive overhaul is necessary—or desirable—to make Colorado's captive law comparable with Vermont's 1981 statute, the nation's most liberal.

And Mr. Barnes, who has served as the state's insurance regulator for 19 years, warns that a significant liberalization of Colorado's captive statute could endanger the legislation the state Insurance Department is drafting that would give parent companies tax breaks for premiums paid to captives.

The department hopes to have the proposal introduced in Congress this year.

That legislation, which Mr. Barnes put on hold last year after an ad hoc group of risk management and brokerage interests known as the Loss Reserve Deduction Committee unveiled a more sweeping measure (see story, page 79), calls for the same tax treatment for premiums paid to a captive as for premiums paid to a commercial insurer if there is equivalent regulation of the risk-bearing companies (*BI*, April 19, 1982).

If the proposal were to pass, formation of Colorado captives would probably mushroom because Colorado is the only captive domicile that requires equal regulation for commercial and captive insurance companies.

But, if the state's captive regulations were loosened, the justification for the tax deduction legislation would evaporate, Mr. Barnes warns.

Captive managers say they understand Mr. Barnes's point and wish him luck in his legislative battle. But they question if Mr. Barnes will find success in Congress.

"I'm not sure how receptive Congress will be," says Peter J. Volpe, president of M&M Insurance Management Services Inc. in New York, which manages five Colorado captives through its office in Denver.

On the other hand, liberalization of the state law would meant that "Colorado will get its fair share of new captives. It would put Colorado on a par basis as other states with captive laws," Mr. Volpe suggests.

Aside from the issue of tax deductions for premium contributions, some captive managers agree with Mr. Barnes that major changes in the Colorado captive statute are not needed—at least not yet.

Continued on next page

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Regulator blames inactivity on market

Continued from previous page

"We have strict regulation, but it is not a deterrent to setting up a captive," argues James Jaeger, president and chief executive officer of Frank B. Hall Management Co. in Denver.

"It is not difficult to form a Colorado captive and comply with the rules."

Furthermore, strict regulation, like Colorado's, is in the best interest of a parent company, Mr. Jaeger says.

"When a company considers setting up a captive, it is not only because a firm is looking at an alternative way to fund risk. The company wants a creditable, viable, seeable insurance company that is strictly regulated," he says.

Mr. Barnes says the soft commercial insurance market—not competition from states with more liberal captive statutes—is the major reason captive growth in Colorado has tapered off.

Indeed, now that the market has shown signs of tightening, Colorado captive managers report more interest from employers about setting up captives.

"Inquiries are picking up. More people are calling," reports Mr. Littell of Risk & Benefit Management Systems.

"We hope to have one or two trade association captives and one pure captive going in about a year," says Mr. Jaeger of Frank B. Hall Management Co.

Meanwhile, until business picks up, Colorado captive management firms are searching to tap new insurance and risk management areas.

For example, Hall manages a pool in which 42 Colorado school districts have banded together to self-fund general liability, property and auto liability exposures.

That pool, which self-insures the first $100,000 of risk and purchases excess coverages, now produces an annual premium flow of $2 million.

In addition, Hall is looking to provide more loss-control and claims adjusting services to Colorado companies that self-fund their property/casualty exposures.

And M&M Insurance Management Services manages a trust sponsored by the Colorado Medical Society through which Colorado doctors can obtain up to $5 million of medical malpractice insurance at rates 11% to 28% less than what they would pay in the commercial insurance market. ■

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Tennessee is waiting for tighter market

By JERRY GEISEL

NASHVILLE, Tenn.—Tennessee will snare its fair share of new captives once the commercial insurance market tightens, experts and observers say.

"We think there is a direct relationship between the market and captive growth," says James Farmer, supervisor of captives for the Tennessee Insurance Department.

"I'm bullish on Tennessee," adds John Matthews, an account executive with American Risk Management in Nashville. "The future is very good."

The optimism, which can be found both within the Insurance Department and among the state's captive managers, is partly based on last year's overhaul of Tennessee's 1979 captive insurance company law.

Under the legislation signed by Gov. Lamar Alexander, a parent corporation no longer needs proof that adequate U.S. markets do not exist to form an insurance subsidiary in Tennessee.

And, pure captives—those owned by a single company—now can offer all commercial property/casualty lines on a direct basis (*BI*, March 29, 1982).

To further enhance the state's appeal as a captive domicile, legislation, S.B. 1067, is now pending in the Tennessee Legislature that would give pure captives more freedom in deciding how to invest their assets.

"We think, with these changes, we can be a very attractive (captive domicile)," says Deputy Insurance Commissioner Roy Bess.



Mr. Reeves

So far, though, Tennessee isn't attracting the new captives it seeks. The number of captives domiciled in the state stands at five—the same number as last year.

And the stagnation in captive growth has taken its toll on at least one captive management firm.

M&M Insurance Management Services Inc., a subsidiary of broker Marsh & McLennan Inc., closed its 3-year-old Nashville branch last year after its sole Tennessee captive client, Hospital Underwriting Group, decided to go the self-management route.

However, Peter J. Volpe, president of M&M Insurance Management Services Inc. in New York, stresses that Marsh & McLennan's Nashville brokerage office can accommodate prospective captive business.

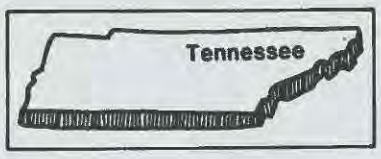
But Tennessee captive growth could take off soon as the market shows signs of tightening, observers say.

For example, the Insurance Department's Mr. Farmer says a large trade association may decide this summer to set up a captive in the state.

And Mr. Matthews of American Risk Management says he has two prospects brewing: a pure captive and an association captive.

Tennessee captive experts acknowledge that the state's captive law is not as liberal as Vermont's, the current hotbed of U.S. captive activity. For example, Tennessee requires $1 million in combined capital and surplus when forming an association captive and $750,000 for a pure captive.

By contrast, Vermont requires just $250,000 in capital and surplus for a pure captive, $500,000 for an industrial captive and $750,000 for an association captive (see story, page 80).



Furthermore, Tennessee requires $500,000 in minimum premium volume for pure captives and $1 million for association captives. Vermont's 1981 captive law requires no minimum premium volume for any type of captive.

But most oppose massive changes in Tennessee's current captive law.

"A law can be too permissive," sums up a risk manager at a company with a Tennessee-based captive.

"Minimal regulation of captives can play into the Internal Revenue Service's hands that a captive really isn't an insurance company," the risk manager maintained.

"The Tennessee law is a good compromise," said Robert Reeves, president of the Health Services Division of Nashville-based Hospital Corp. of America. Its insurance subsidiary, Parthenon Insurance Co., is Tennessee's largest captive with a annual premium volume of $45 million and $24 million in capital and paid-in surplus.

"The law strikes a middle ground between restrictive domiciles and overly liberal captive havens," Mr. Reeves adds.

When the market tightens, Tennessee has a number of attractions that will convince corporations to set up captives in the state, supporters of the law say.

> 'A law can be too permissive. Minimal regulation of captives can play into the Internal Revenue Service's hands that a captive really isn't an insurance company,' says a risk manager for a company with a Tennessee captive.

Those supporters, like Mr. Farmer, cite Tennessee's close proximity to major metropolitan areas, like Atlanta and Chicago, where many large corporations are based.

"Location is becoming more and more important," Mr. Farmer pointed out.

In addition, Mr. Bess, the deputy insurance commissioner, cites Tennessee's concentration of financial and legal facilities as other advantages.

"Memphis, Nashville and other major Tennessee cities are excellent places to do business," Mr. Bess said.

"This is a very business-oriented state," points out Mr. Matthews of American Risk Management. ■

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Directory of captive management firms

Where can you learn what services a captive manager provides?

Start with *Business Insurance's* annual captive management directory, beginning on this page, which this year lists 84 companies.

The captive managers listed report a combined total of 1,494 staff members and 1,349 clients, although not all of the companies answered questions concerning staffing and clients.

And, 39 of the listed companies reported that they managed a total of $2.6 billion in premiums.

Thirteen companies reported 1982 gross revenues totaling $6.8 million.

The listing includes name, address and phone number of each captive manager, the year the company was founded and its parent company if it is not independent.

Under the staff heading, you will find size of staff, number of professionals employed and their professional designations.

Under the client heading are listed the total number of clients, a breakdown of managed captives' premium income and the minimum-size client accepted by premium volume. Directly after clients, the total premiums under management are shown.

Captive managers were asked to identify services they perform from a list of 19 services ranging from captive feasibilty studies to special services for associations.

Under compensation, minimum annual fees, time and expense charges and whether commissions are taken for placing reinsurance are indicated.

Names and titles of principal officers are listed last.

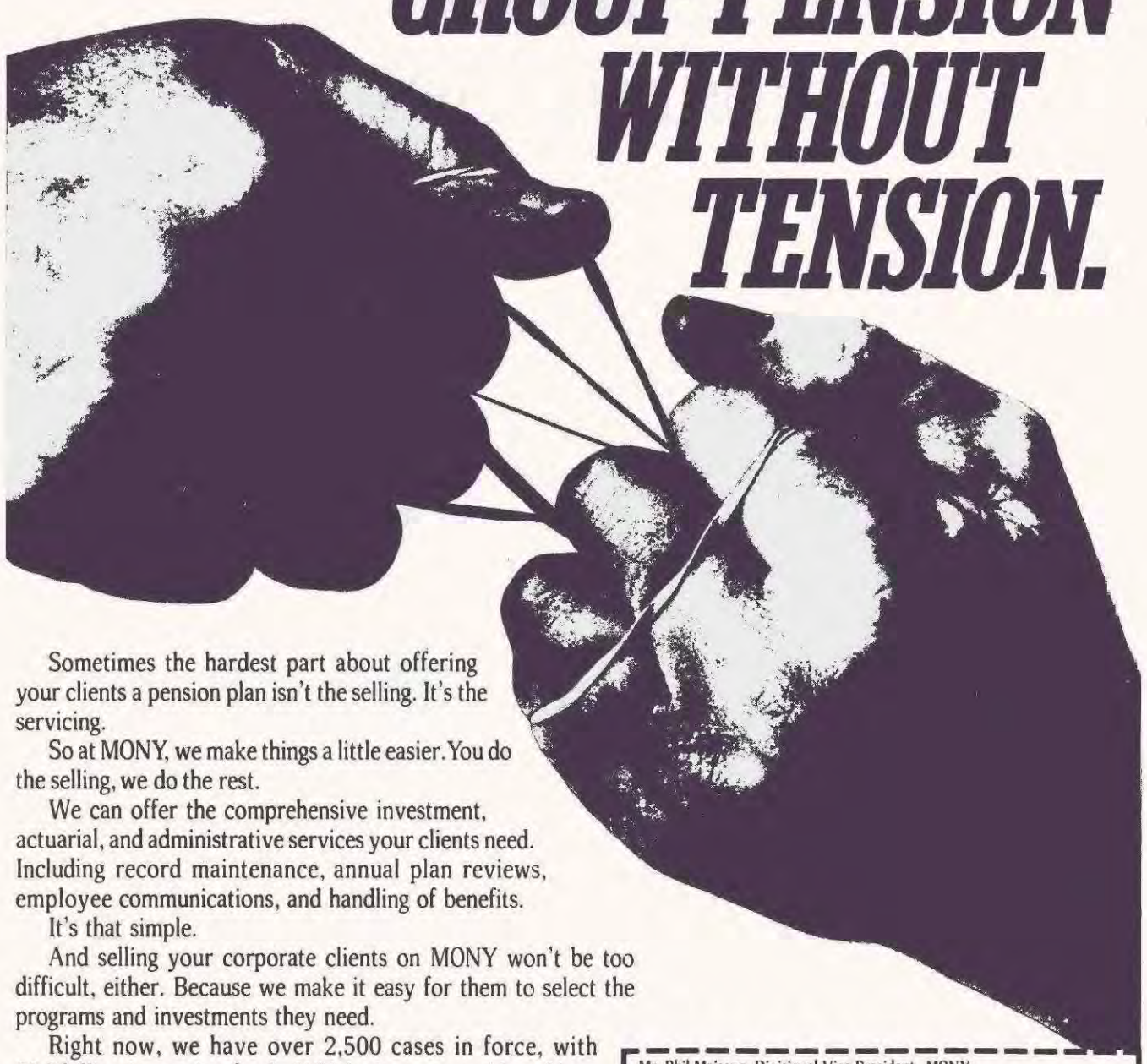
Companies were asked to list subsidiaries. If subsidiaries are involved in captive management in a different domicile from the main company, a separate listing is usually given.

To quickly locate a captive manager, check the geographical listing, arranged in alphabetical order, at the end of the directory.

The *Business Insurance* captive management directory is compiled from information submitted by the captive managers.

Here's a guide to the professional designation abbreviations: **ACA**, Associate of Conference of Actuaries in Public Practice; **ACCA**, Assn. of Certified and Corporate Accountants; **ACII**, Associate, Chartered Insurance Institute; **ACIS**, Associate, Chartered Institute of Secretaries; **ACMA**, Associate, Chartered Management Accountants; **AIIC**, Associate, Insurance Institute of Canada; **ARM**, Associate in Risk Management; **ASA**, Associate, Society of Actuaries; **CA**, Chartered Accountant; **CIC**, Certified Insurance Consultant; **CPA**, Certified Public Accountant; **CPCU**, Chartered Property/Casualty Underwriter; **CSP**, Certified Safety Professional; **FCA**, Fellow, Chartered Accountant; **FCAS**, Fellow, Casualty/Actuarial Society; **FCII**, Fellow, Chatered Insurance Institute; **FIA**, Fellow, Institute of Actuaries; **MAAA**, Member, American Academy of Actuaries; **MBA**, master of business administration; **PE**, Professional Engineer.

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Abbott Associates Ltd.

6845 Elm St., Suite 515, McLean, Va. 22101; 703-734-3830

Year founded: 1981.

Staff: Four total staff, of which three are professionals holding the following number of professional designations: one CPCU, one P.E.

Clients: Total clients not reported; minimum size client, $750,000.

Services provided: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, loss-control services, associations, specialized accounting services, onshore services for associations.

Compensation: Annual fee, $10,000 minimum; commissions for reinsurance brokered; time and expense, professional, $150; clerical, $110.

1982 gross revenues: Not reported.

Principal officers: LeRoy V. Abbott, president.

Absit Insurance Management Ltd.

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

Year founded: 1978.

Staff: Six total staff, of which one is a professional holding the following number of professional designations: ACII, ACA.

Clients: Eleven total clients, 90% with premiums less than $1 million; 10% $1 million to $3 million.

Total premiums under management: $7 million.

Services provided: Frequent government reporting, accounting, computerized accounting, claims reserves analysis, manual claims processing; occasional computerized claims processing, reinsurance brokered for captives, reinsurance brokered to captives, investment management.

Compensation: Minimum annual fee, $7,500; time and expense, professional, $125-$150; clerical, $50.

1982 gross revenues: Not reported.

Principal officers: Roger A. Corbin, president; James Gill, controller.

Alexander & Alexander Inc.

640 Fifth Ave., New York, N.Y. 10036; 212-541-6050

Year founded: 1965.

Parent company: Alexander & Alexander Services Inc.

Staff: Forty total staff, of which 20 are professionals holding the following number of professional designations: six chartered accountants, three MBAs.

Clients: Fifty total clients, 30% with premium volume of $1 million to $3 million; 66% $3 million to $10 million; 4% $10 million to 20 million.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, occasional captive feasibility studies, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, underwriting and ratemaking for captives, reinsurance brokered for captives, underwriting pools (Hem-

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isphere Marine & General Pool, six participants, approximately $12 million premium volume), associations, specialized accounting services, financial planning; occasional reinsurance brokered to captives, loss-control services (through A&A).

Subsidiaries: Denver (Anistics); Hamilton, Bermuda (Alexander International Ltd.).

Compensation: Time and expense (annual fee).

1982 gross revenues: Not reported.

Principal officers: William D. Scaff, managing director, Bermuda; Arnold Goldstein, managing vp, Denver.

Altamid Management Co. Ltd.

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

Year founded: 1978.

Parent company: Hanna Mining Co.

Staff: Fifteen total staff, of which nine are professionals holding the following number of professional designations: four CPAs, three CPCUs, one investment manager, one claims specialist.

Clients: Nine total clients, 15% with premiums less than $1 million; 40% $1 million to $3 million; 10% $3 million to $10 million; 25% $10 million to $20 million; 10% exceeding $20 million.

Services provided: Frequent government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, investment management, underwriting pools (Corporate Insurance & Reinsurance Co. Ltd., 15 participants, $65 million premium volume; membership requirement: $100 million in equity for parent), occasional reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, captive feasibility studies, captive formation, tax advice, legal advice.

Subsidiaries: Altamid Management Co. (Vermont) Ltd.

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

1982 gross revenues: Not reported.

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

Amberco Management Ltd.

International Center, Bermudiana Road, P.O. Box 1230, Hamilton 5, Bermuda; 809-292-9191

Year founded: 1982.

Parent company: Amberco Ltd.

Staff: Four total staff, of which one is a professional who is an attorney and FCII.

Clients: Two total clients, 100% with premiums of $1 million to $3 million; minimum size client, $1 million.

Total premiums under management: $3.5 million to $4 million.

Services provided: Frequent captive feasibility studies, captive formation, accounting, computerized accounting, actuarial studies, reinsurance brokered for captives, investment management, tax advice, legal advice; occasional computerized claims processing, claims reserve analysis, reinsurance brokered to captives, loss-control services, associations.

Subsidiaries: Amberco Brokers Ltd.

Compensation: Annual fee, minimum of $10,000; commissions for reinsurance brokered.

1982 gross revenues: Not reported.

Principal officers: John K. McGarrity, president; R.V. Bray, Walcott H. Outerbridge, directors; Anton Bisdell, vp.

American International Co. Ltd.

American International Building, Richmond Road, P.O. Box 152, Hamilton 5, Bermuda; 809-295-2121

Year founded: 1947.

Parent company: American International Group Inc.

Staff: 140 total staff, of which 28 are professionals holding the following number of professional designations: 16 CAs, 16 accountants, one CPCU, three actuaries, one attorney.

Clients: Thirty-three total clients.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies; occasional captive feasibility studies, reinsurance brokered to captives, underwriting and ratemaking for captives, underwriting pools (SUMIT pool), loss-control services, associations, fronting for captives not managed.

Compensation: Annual fee; commissions for reinsurance brokered.

1982 gross revenues: Not reported.

Principal officers: J.C.H. Johnson, president/chief executive officer; Eliot H. Pardee, director of captive operations.

Aneco Risk Management Co. Ltd.

Trimingham Building, Front St., Hamilton, Bermuda; 809-295-4239

Year founded: 1977.

Parent company: Aneco Reinsurance Co. Ltd.

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

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

Total premiums under management: $5 million.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting; occasional captive feasibility studies, claims reserves analysis, underwriting and ratemaking for captives, investment management, tax advice, associations, specialized accounting services, manages Aneco Mutual Ltd. (which operates as rent-a-captive; 35 participants in the program with annual premium volume of $23 million).

Compensation: Minimum annual fee negotiable.

1982 gross revenues: $75,000.

Principal officers: Robert A. Mulderig, president; Timothy B. Carr, vp/controller.

Anglo-American Management Ltd.

Argyle House, P.O. Box 1615, Victoria St., Hamilton 5, Bermuda; 809-295-9966

Year founded: 1983.

Continued on next page

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Continued from previous page

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

Clients: Two total clients, 50% with premiums less than $1 million; 50% $3 million to $10 million.

Total premiums under management: $7 million.

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

Subsidiaries: Anglo-American Insurance Co. Ltd.

Compensation: Minimum annual fee, $15,000.

1982 gross revenues: New company.

Principal officers: H. Clayton Chambers, president; Dean Gauntlett, vp/controller.

Argus International Management Ltd.

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

Year founded: 1971.

Parent company: Argus Insurance Co. Ltd. Bermuda.

Staff: Ten total staff, of which six are professionals holding the following number of professional designations: three CPAs, two ACII, one FIA, one ASA, one MAAA.

Clients: Twenty-one total clients.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, investment management, specialized accounting services for associations; occasional captive feasibility studies, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, onshore services for associations (all occasional services arranged through associated companies or suppliers).

Compensation: Minimum annual fee negotiable; time and expense, professional, $75-$135; clerical, $30-$50.

1982 gross revenues: Not reported.

Principal officers: Michael Hardy, manager; Stephen C. Williams, assistant manager; E.J. Sainsbury, executive director.

Armco Insurance Management Ltd.

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

Year founded: 1971.

Parent company: Armco Inc.

Staff: Twenty-two total staff, of which nine are professionals holding the following number of professional designations: three CAs and one ACII.

Clients: Thirty-six total clients, 40% with premiums less than $1 million; 25% $1 million to $3 million; 30% $3 million to $10 million; 5% $10 million to $20 million. Minimum size client: $250,000 in premiums.

Total premiums under management: $60 million.

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

Compensation: Minimum annual fee, $12,500 ($15,000 for association captives); time and expense, professional, $55; clerical, $30.

1982 gross revenues: $1.4 million.

Principal officers: Clive W. Himsworth, general manager/chief executive officer; John T. Berry, treasurer.

Association Insurance Consultants Ltd.

The Kenwood Building, P.O. Box 2003, Washington Lane, Hamilton 5, Bermuda; 809-295-3073

Year founded: 1978.

Parent company: Insurance Management Family of Companies.

Staff: Seven total staff, with the following number of professional designations: one CPA, one CPCU, one ARM.

Clients: Eight total clients, 60% with premiums of $1 million to $3 million; 40% $3 million to $10 million.

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

Subsidiaries: Association Insurance Consultants (Cayman) Ltd., Antilles Insurers Consortium Ltd., Tortola, British Virgin Islands.

Compensation: Annual fee, minimum of $10,000; commissions for reinsurance brokered; time and expense, professional, $150; clerical, $40.

1982 gross revenues: Not reported.

Principal officers: John J. Matternas, chairman; Richard C. Morauer, executive vp; Anthony J. Hicks, vp; Richard G. Cound, treasurer; David Alexander, controller.

Atlantic Security Ltd.

Spithead House, Reid St., P.O. Box 2018, Hamilton 5, Bermuda; 809-292-7801.

Year founded: 1974.

Parent company: Risk & Benefit Management Systems Inc.

Staff: Not reported.

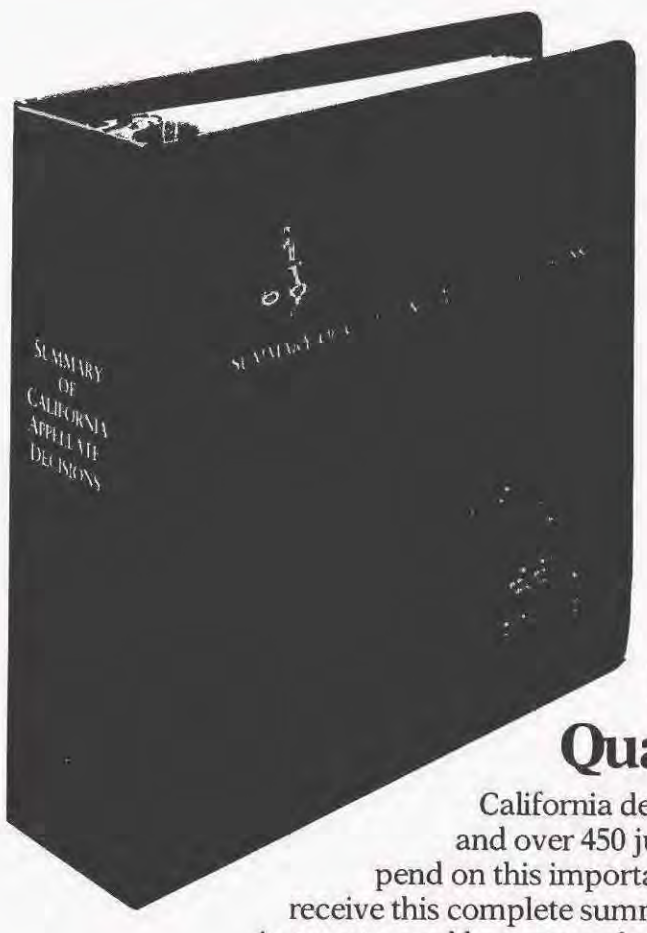
Clients: Five total clients, 30% with premiums less than $1 million; 40% $1 million to $3 million; 30% $3 million to $10 million; minimum size client: $500,000.

Total premiums under management: $15 million.

Services provided: Frequent specialized accounting services for associations; occasional captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, investment management, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, various funding programs.

Compensation: Annual fee, minimum of $15,000; commissions for reinsurance brokered; time and expense, professional, $200; clerical, $50.

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Continued from page 90

1982 gross revenues: Not reported.

Principal officers: Hal Forkush, president; Edgar Brown, vp/consultant; William Wanklyn, treaty consultant.

B

B.F. & M. Management Ltd.

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

Year founded: 1969.
Parent company: Bermuda Fire & Marine Insurance Co. Ltd.
Staff: Eight total staff, with six professionals.
Clients: 42 total clients.
Services provided: Frequent government reporting, accounting, manual claims processing, claims reserves analysis; occasional captive feasibility studies, captive formation, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives.
Compensation: Not reported.
1982 gross revenues: Not reported.
Principal officers: Sir James Pearman, chairman; Charles Collis, vp; C.R. Rance, managing director; K.R. Lugg, manager; J.A. Wilkins, treasurer.

The Bank of Nova Scotia Trust Co. (Cayman) Ltd.

P.O. Box 501, Grand Cayman, B.W.I.; 809-949-2001

Year founded: 1965.
Parent company: The Bank of Nova Scotia Trust Co. (Bahamas) Ltd.
Staff: Fifteen total staff, of which nine are professionals holding the following number of professional designations: one CPA, two ACII.
Clients: 52 total clients.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, computerized claims processing, investment management, banking; occasional captive feasibility studies, manual claims processing, claims reserve analysis, reinsurance brokered for captives, underwriting and ratemaking for captives, specialized accounting services for associations.
Compensation: Annual fee, minimum of $6,000; time and expense.
1982 gross revenues: Not reported.
Principal officers: David A. Whitefield, managing director-trust company; Anthony B. Stelling, manager-insurance division; Derek J. Webber, assistant manager.

Becher & Carlson Management Ltd.

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

Year founded: 1981.
Staff: Five total staff, of which three are professionals holding the following number of professional designations: one CPA.
Clients: Five total clients, 80% with premiums of $1 million to $3 million; 20% $3 million to $10 million.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, claims reserves analysis, loss forecasting, reinsurance brokered to captives (through affiliated company), investment management, onshore services for associations; occasional actuarial studies, reinsurance brokered for captives, tax advice, specialized accounting services for associations.
Compensation: Annual fee.
1982 gross revenues: Not reported.
Principal officers: William E. Becher Jr., chairman; David L. Carlson, president.

Becher & Carlson Management (Vermont)

25 Lake Shore Drive, Colchester, Vt. 05446; 802-878-4350

Year founded: 1982.
Staff: Two total staff, one of whom is a professional.
Clients: One client, 100% $1 million to $3 million.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, claims reserves analysis, loss forecasting, underwriting and ratemaking for captives, investment management; occasional actuarial studies, reinsurance brokered for captives, reinsurance brokered to captives, tax advice, associations.
Compensation: Annual fee.
1982 gross revenues: Not reported.
Principal officers: David L. Carlson, William E. Becher Jr., partners; A. Des Lauriers, managing director.

Bermuda Connexion

International Centre, Suite 401, P.O. Box 1721, Hamilton 5, Bermuda; 904-255-5470/313-360-1350

Year founded: 1978.
Parent company: Risk Research Institute Inc.
Staff: Seven total staff, of which five are professionals holding the following number of professional designations: one CPCU, one ARM, one FCAS, one attorney, one CLU.
Clients: Two total clients, 100% $1 million to $3 million; minimum size client, $100,000.
Total premiums under management: $4 to $5 million.
Services provided: Frequent captive feasibility studies, captive formation, claims reserves analysis, actuarial studies, loss forecasting; occasional government reporting, accounting, computerized accounting, computerized claims processing, onshore services for associations, seminars and conferences for professionals.
Compensation: Minimum annual retainer, $2,500; time and expense, professional, $75 to $100.
1982 gross revenues: Not reported.
Principal officers: H.G. Neville, J.E. Neville. J.T. Growney, M. Grossman.

Bott & Associates Ltd.

Cedar Park Centre, Cedar Ave., P.O. Box 1987, Hamilton 5, Bermuda; 809-292-6564/809-295-4063

Year founded: 1979.
Staff: Six total staff, of which three are professionals holding the following number of professional designations: two CPAs, one ARM, one ACIS.
Clients: Eleven total clients, 36% with premiums less than $1 million; 36% $1 million to $3 million; 28% $3 million to $10 million; minimum size client, $250,000.
Total premiums under management: $17 million.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, underwriting and ratemaking for captives; occasional captive feasibility studies, reinsurance brokered for captives, reinsurance brokered to captives, underwriting agents for Kansa General Insurance Co. Ltd., Kansa Reinsurance Co. Ltd., River Plate Reinsurance Co. Ltd.
Compensation: Minimum annual fee, $10,000; commissions for

Continued on next page

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reinsurance brokered; time and expense, professional, $80-$120; clerical, $25-$30.

1982 gross revenues: Not reported.

Principal officers: Michael F. Bott, president; Donald R. Storey, vp; Lawrence Dixon, vp-finance.

B.R.I. International Agency Inc.

156 William St., New York, N.Y. 10038; 212-233-7171

Year founded: 1981.

Parent company: B.R.I. Holding Co.

Staff: Six total staff, of which four are professionals holding the following number of professional designations: two CPCUs, two MBAs, one attorney.

Clients: Four total clients, 75% with premiums less than $1 million; 25% $1 million to $3 million; minimum size client, $500,000.

Total premiums under management: $3.5 million.

Services provided: Frequent captive feasibility studies, captive formation, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives; occasional accounting, computerized accounting, reinsurance brokered to captives, loss-control services.

Compensation: Not reported.

1982 gross revenues: $200,000.

Principal officers: Donald P. Ferrarini, president; Joseph Zweig, senior vp; Bruno Rumignani, vp.

British-American Management Ltd.

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

Year founded: 1979.

Parent company: British-American Insurance Co. Ltd.

Staff: Seven total staff, of which one is a professional holding the following professional designations: CPCU, ARM, attorney; 41 on support staff.

Clients: Four total clients, 25% with premiums less than $1 million; 50% $1 million to $3 million; 25% $3 million to $10 million. Minimum size client: $500,000 in premiums.

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

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

1982 gross revenues: $350,000 fee and commission income.

Principal officers: Justin N. Tierney, president; Michael Stoll, vp; David Watson, vp/financial officer; Judy Higgs, assistant vp.

British-American Management (Cayman) Ltd.

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

Year founded: 1979.

Parent company: British-American Insurance Co. Ltd.

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

Clients: Five clients, 40% with premiums less than $1 million; 60% $1 million to $3 million. Minimum size client: $500,000 in premiums.

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

Compensation: Minimum annual fee, $12,000.

1982 gross revenues: Not reported.

Principal officers: Justin N. Tierney, president; Michael Taylor, vp and senior operating officer; Edlin Myles, assistant manager, finance and accounting.

C

CSI International Underwriting (Cayman) Ltd.

P.O. Box 1389, Transnational House, Grand Cayman, B.W.I.; 809-949-4535

Year founded: 1982.

Parent company: Captive & Self-Insurance Services Inc.

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

Clients: Twenty-three total clients 5% with premiums less than $1 million; 87% $1 million to $3 million; 8% $3 million to $10 million; minimum size client, $250,000.

Total premiums under management: $32 million.

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

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Continued from facing page

Subsidiaries: CSI International (Bermuda) Ltd.

Compensation: Annual fee, minimum of $15,000.

1982 gross revenues: Not reported.

Principal officers: Douglas Helm, James E. Little, Donn McVeigh, William Yocke, John Igoe, directors.

Capacity Resources Ltd.

5 Bridle Close, Surbiton Road, Kingston, Surrey, England; 01-549-5761

Year founded: 1981.

Parent company: Stewart Wrightson London Ltd.

Staff: Fifteen total staff.

Clients: Total clients not reported.

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

Subsidiaries: Capacity Resources Ltd. of Bermuda, Channel Islands, Isle of Man, Cayman Islands, Gibraltar and Jersey.

Compensation: Not reported.

1982 gross revenues: Not reported.

Principal officers: R.R. Goodge, B.T. Smith, P.D. Spall, M. Peters, D. Petts.

Capacity Resources (Bermuda) Ltd.

Washington Mall 1, Church Street, P.O. Box 447, Hamilton 5, Bermuda; 809-292-3146

Year founded: 1981.

Parent company: Capacity Resources Ltd.

Staff: Total staff not reported.

Clients: Four total clients.

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

Compensation: Annual fee, minimum of $15,000; commissions for reinsurance brokered.

1982 gross revenues: Not reported.

Principal officers: F.A.M. Bray.

Capacity Resources (Channel Islands) Ltd.

Suite 3, Tower Hill House, The Bordage, St. Peter Port, Guernsey, Channel Islands; (04)812-0049

Year founded: 1981.

Parent company: Capacity Resources Ltd.

Staff: Total staff not reported.

Clients: Six total clients.

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

Compensation: Annual fee and commissions for reinsurance brokered.

1982 gross revenues: Not reported.

Principal officers: P.E. Ball.

Capacity Resources (Isle of Man) Ltd.

Derby House, Athol St., Douglas, Isle of Man; (06)242-4141

Year founded: 1981.

Parent company: Capacity Resources Ltd.

Staff: Total staff not reported.

Clients: One total client.

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

Compensation: Not reported.

1982 gross revenues: Not reported.

Principal officers: M.T. Cordwell.

Caribbean Risk Specialists Ltd.

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

Year founded: 1980.

Staff: Three total staff, of which three are professionals holding the following professional designations: one CPA, one MBA.

Clients: Ten total clients.

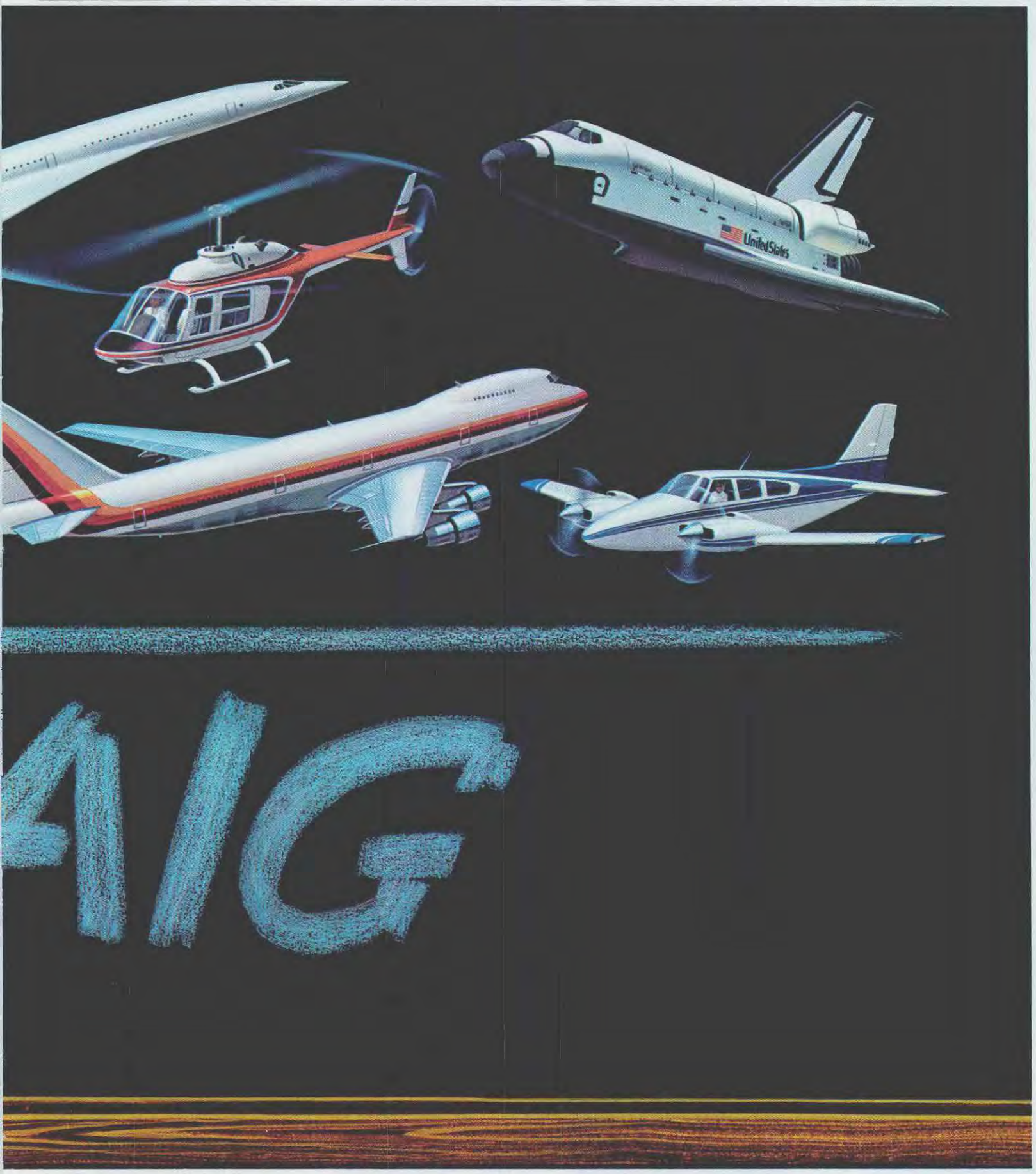
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, reinsurance brokered to captives, investment management; occasional captive feasibility studies, claims reserve analysis, reinsurance brokered for captives, underwriting for captives, underwriting pools (Master Pool, five participants; membership requirement, must also be managed by Carribean Risk and minimum participation of 5% to 10%), legal advice, specialized accounting services, syndicate formation for Insurance Exchange of the Americas.

Compensation: Annual flat fee or premium percentage scale.

1982 gross revenues: Not reported.

Principal officers: Kathleen Bodden-Evans, corporate administrator; Turney Rankine, financial

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manager.

Cedar Hill Management Ltd.

Ground Floor, Global House, Church St., Hamilton 5-24, Bermuda; 809-292-8450

Year founded: 1980.
Parent company: Joint venture of The Home Insurance Co., Republic Steel Corp. and Hogg Robinson Group P.L.C.
Staff: Three total staff, of which two are professionals holding the following number of professional designations: one ACCA, one CPCU.
Clients: Three total clients, 33.3% with premiums less than $1 million, 33.3% $3 million to $10 million; 33.3% exceeding $20 million.
Total premiums under management: $36 million.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, reinsurance brokered for captives, investment management, specialized accounting services for associations; occasional computerized claims processing, loss forecasting, claims reserves analysis, actuarial studies, underwriting and ratemaking for captives, tax advice, legal advice, loss-control services, onshore services for associations.
Compensation: Annual fee, minimum of $10,000; time and expense, professional, $70; clerical, $30.
1982 gross revenues: Not reported.
Principal officers: F.A. Mina, president. Gary Bliss, vp/general manager; J.I. Cline, D.W.T. Mackenzie, vps.

Channel Islands Insurance Consultants Ltd.

P.O. Box 160, Estate House, Arn's Place, St. Peter Port, Guernsey, Channel Islands; (04) 812-8203

Year founded: 1982.
Parent company: Insurance Corp. of Ireland Ltd.
Staff: Six total staff, of which three are professionals holding the following number of professional designations: two FCAs, one ACII.
Clients: Total number of clients not reported.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, manual claims processing, underwriting and ratemaking for captives, underwriting pools, tax advice; occasional computerized accounting, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered to captives, associations.
Compensation: Annual fee, minimum of $10,000; commissions for reinsurance brokered credited to client; time and expense by negotiation.
1982 gross revenues: Not reported.
Principal officers: Michael J. Savage, director and chief executive.

Continental Risk Services Ltd.

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

Year founded: 1981.
Parent company: The Continental Corp.
Staff: Twelve total staff, with the following number of professional designations: two chartered accountants, one ACII, one FCII, one CGA.
Clients: Fourteen total clients, 43% with premiums less than $1 million; 43% $1 million to $3 million; 14% $3 million to $10 million.
Services provided: Frequent captive formation, government reporting, computerized accounting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives; occasional computerized claims processing, claims reserves analysis (through subsidiaries), actuarial studies (through subsidiaries, loss forecasting (through subsidiaries), underwriting pools, loss-control services (from New Jersey), associations.
Subsidiaries: Continental Risk Services (Cayman) Ltd.
Compensation: Time and expense, occasionally by annual fee.
1982 gross revenues: Not reported.
Principal officers: David B. Vaughan, president; Norman C. Amondsen, vp-underwriting; Graeme M. Harper, vp-finance.

Corroon & Black (Bermuda) Ltd.

Dallas Building, Suite 500, 7 Victoria St., Hamilton 5, Bermuca; 809-295-3246

Year founded: 1979.
Parent company: Mincor Ltd.
Staff: Eight total staff, of which one is a professional holding the following professional designations: CPA and MBA.
Clients: Twenty-two total clients, 30% with premiums of $1 million to $3 million; 70% $3 million to $10 million.
Total premiums under management: $37 million.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, claims reserves analysis, actuarial studies, loss forecasting, investment management, onshore services for associations; occasional computerized accounting, manual claims processing, computerized claims processing, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, underwriting pool in formation (Lockhart Retrocessional Pool; membership requirement, actuary must study losses), tax advice, legal advice, loss-control services, specialized accounting services for associations.
Subsidiaries: Corroon & Black (Cayman) Ltd.
Compensation: Annual fee; commissions for reinsurance brokered.
1982 gross revenues: $475,000.
Principal officers: John J. Lorhan, president and chief executive officer.

Corroon & Black (Cayman) Ltd.

West Wind Building, P.O. Box 878, Grand Cayman, B.W.I.; 809-949-4035

Year founded: 1980.
Parent company: Corroon & Black (Bermuda) Ltd.
Staff: Two total staff, of which one is a professional holding the following professional designations: CA, MBA.
Clients: Six total clients, 50% with less than $1 million in premiums; 50% $1 million to $3 million.
Total premiums under management: $2.5 million.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, claims reserves analysis, actuarial studies, loss forecasting, investment management, onshore services for associations; occasional computerized accounting, manual claims processing, computerized claims processing, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, underwriting pool in formation (Lockhart Retrocessional Pool; membership requirement, actuary must study losses), tax advice, legal advice, loss-control services, specialized accounting services for associations, onshore services for associations; occasional government reporting, actuarial studies, investment management.
Subsidiaries: Associated Company Management of Ebasco Ltd., Hamilton, Bermuda, and Cayman Islands.
Compensation: Annual fee;

Continued on facing page

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E

Ebasco Risk Management Consultants Inc. (Bermuda)

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

Year founded: 1905.
Parent company: Ebasco Services Inc.
Staff: Seventy-nine total staff, of which 68 are professionals holding the following number of professional designations: 14 CPCUs, six ARMs, 15 MBAs, five attorneys.
Clients: Eight total clients, 80% $1 million to $3 million; 10% $3 million to $10 million; 10% exceeding $20 million.
Services provided: Frequent captive feasibility studies, captive formation, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, underwriting and ratemaking for captives, loss-control services, specialized accounting services for associations, onshore services for associations; occasional government reporting, actuarial studies, investment management.
Subsidiaries: Associated Company Management of Ebasco Ltd., Hamilton, Bermuda, and Cayman Islands.
Compensation: Annual fee;

Continued on facing page

Continued from facing page
time and expense.

1982 gross revenues: Not reported.

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

Ebasco Risk Management Consultants Inc. (Cayman)

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

Year founded: 1905.

Parent company: Ebasco Services Inc.

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

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

Total premiums under management: $4 million.

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

Subsidiaries: Associated Company Management of Ebasco Ltd. of Hamilton, Bermuda, and Cayman Islands, B.W.I.

Compensation: Annual fee; time and expense.

1982 gross revenues: Not reported.

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

G

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

P.O. Box 279, Hamilton, Bermuda; 809-292-4654

Year founded: 1973.

Parent company: Arthur J. Gallagher & Co.

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

Clients: One client, 100% with premiums less than $1 million.

Total premiums under management: Less than $1 million.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, manual claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, loss-control services (in Rolling Meadows, Ill.), onshore services for associations.

Compensation: Commissions for reinsurance brokered, time and expense.

1982 gross revenues: Not reported.

Principal officers: Jean-Francois Jelot, managing director; John P. Gallagher, Robert E. Gallagher.

S.H. Grayston Management Ltd.

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

Year founded: 1977.

Parent company: The Grayston Corp. Ltd.

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

Clients: Twenty-eight total clients.

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

Compensation: Minimum annual fee, $20,000.

1982 gross revenues: Not reported.

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

Green Mountain Captive Management Inc.

P.O. Box 628, Barre, Vt. 05641; 802-476-4191

Year founded: 1982.

Staff: Six total staff, of which three are professionals holding the following number of professional designations: one CPCU, three attorneys.

Clients: One client.

Services provided: Captive formation, tax advice, legal advice, associations.

Compensation: Monthly fees.

1982 gross revenues: Not reported.

Principal officers: Thomas Salmon, president; James Mulligan, executive vp; George Nostrand, secretary/treasurer; Robert Duffy, Richard Huskes, vps.

Continued on next page

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Continued from previous page

Guernsey Insurance Management Service Ltd.

P.O. Box 160, Estate House, Ann's Place, St. Peter Port, Guernsey, Channel Islands; (04) 812-8203

Year founded: 1982.
Staff: Six total staff holding the following number of professional designations: two FCAs, one ACII.
Clients: Total clients not reported.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, manual claims procesing, underwriting and ratemaking for captives, underwriting pools, tax advice; occasional computerized accounting, computerized claims processing, manual claims processing, claims reserves analysis, loss forecasting, reinsurance brokered to captives, associations.
Compensation: Annual fee, minimum of $10,000; time and expense by negotiation.
1982 gross revenues: Not reported.
Principal officers: Michael J. Savage, director and chief executive officer.

H

H&H Management Services Ltd.

H&H House, Hurst Holme, Trott Road, Box 1861, Hamilton 5, Bermuda; 809-295-3342/292-2770,4623

Year founded: 1977.
Staff: Seven total staff, of which four are professionals holding the following number of professional designations: one CPA, one ACII, four MBAs, one attorney.
Clients: Nineteen total clients, 80% with premiums less than $1 million; 10% $3 million to $10 million; 10% $10 million to $20 million.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, reinsurance brokered for captives, investment management, legal secretarial services; occasional manual claims processing, claims reserves analysis, actuarial studies, loss forecasting, underwriting and ratemaking for captives, legal advice, associations, specialized accounting services for associations, consulting.
Compensation: Annual fee; commissions for reinsurance brokered; time and expense.
1982 gross revenues: Not reported.
Principal officers: Simon C. Everett, John S. Orridge, David P. Pickering, Michael T.D. Budge

Frank B. Hall & Co.

Craig Appin House, Hamilton 5. Bermuda; 809-295-5454

Year founded: 1965.
Parent company: Frank B. Hall & Co. Inc.
Staff: Sixty-two total staff, with professionals holding the following number of professional designations: 12 CPAs, three CPCUs, two ARMs, six MBAs, three FCAS, one attorney.
Clients: Eighty total clients, 20% with premiums less than $1 million; 22% $1 million to $3 million; 40% $3 million to $10 million; 10% $10 million to $20 million; 8% exceeding $20 million.
Total premiums under management: $450 million to $500 million.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, underwriting pools (four pools, 15 to 20 participants, $75 million to $100 million premium volume; membership requirements, a minimum capital requirement), associations, specialized accounting services for associations; occasional investment management, legal advice, loss-control services, claims reserves analysis, manual claims processing.
Subsidiaries: Frank B. Hall Management Co., Englewood, Colo.; Frank B. Hall Underwriting Managers; Frank B. Hall Intermediaries; Parker & Co. Interocean Ltd.; Frank B. Hall (Caymans) Ltd.; Leslie & Godwin (Guernsey) Ltd.
Compensation: Annual fee, minimum of $15,000; commissions for reinsurance brokered; time and expense, professional, $50-$150; clerical, $20-$30.
1982 gross revenues: Not reported.
Principal officers: George E. Corde, senior vp, Frank B. Hall & Co. Inc.; Robin Spencer-Arscott, executive vp, Frank B. Hall Bermuda Ltd.; James E. Jaeger, president, Frank B. Hall Management Co., Colorado.

Hogg Robinson (Guernsey) Ltd.

Provident House, Havilland St., St. Peter Port, Guernsey, Channel Islands; (04) 812-6049

Year founded: 1978.
Parent company: Hogg Robinson Group P.L.C.
Staff: Five total staff, of which three are professionals holding the following number of professional designations: one FCII, one FCA, one BSc.
Clients: Six total clients, 33% with premiums less than $1 million; 50% $1 million to $3 million; 17% $3 million to $10 million.
Total premiums under management: $6.5 million.
Services provided: Frequent captive feasibility studies, government reporting, accounting, manual claims processing, investment management, tax advice; occasional captive formation, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives.
Compensation: Time and expense.
1982 gross revenues: Not reported.
Principal officers: Roger A. Hall, general manager; Graham M. Powell, secretary.

Hudson Underwriting Ltd.

P.O. Box 1514, Craig Appin House, Wesley St., Hamilton 5, Bermuda; 809-295-2482

Year founded: 1979.
Parent company: Skandia Corp.
Staff: Twenty-one total staff, of which four are professionals holding the following number of professional designations: two CPAs, two CPCUs.
Clients: Six total clients, 50% with premiums less than $1 million; 17% $1 million to $3 million; 33% $3 million to $10 million.
Total premiums under management: $12 million.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting; occasional captive feasibility studies, manual claims processing, investment management, associations.
Compensation: Annual fee, minimum of $15,000; time and expense, professional, $75-$100; clerical, $40.
1982 gross revenues: Not reported.
Principal officers: Robert A. Baker, president; Glen A. Brown, vp/comptroller.

I

INA International Insurance Managers Ltd.

Craig Appin House, Wesley St., P.O. Box 1181, Hamilton 5, Bermuda; 809-295-7777

Year founded: 1978.
Parent company: INA International Insurance Co. Ltd.
Staff: Sixty total staff, 10 of which are professionals holding the following number of professional designations: three CPAs, two MBAs, one attorney.
Clients: Fifteen total clients, 45% with premiums less than $1 million; 33% $1 million to $3 million; 22% $3 million to $10 million.
Total premiums under management: $30 million.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, reinsurance brokered for captives, reinsurance brokered to captives, underwriting pools (INA International-Underwriting Facility, 29 participants, $14 million premium volume, must meet certain financial prerequisites to be a member), investment management, loss-control services, associations, onshore services for associations, financial management services; occasional design reinsurance programs, specialized accounting services for associations, underwriting and ratemaking for captives, captive feasibility studies.
Compensation: Minimum annual fee, $5,000; commissions for reinsurance brokered; time and expense fees are negotiable.
1982 gross revenues: Not reported.
Principal officers: Franklin Marsteller, president; Garry A. Madeiros, vp/treasurer; Bernard J. Cutts, vp; Irmgard Viera, vp-underwriting.

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Continued from facing page

Insurance Management Consultants (Cayman) Ltd.

Box 1063, Grand Cayman, B.W.I.; 809-949-5722

Year founded: 1980.
Parent company: Anchor Holdings Ltd.
Staff: Nine total staff, holding the following number of professional designations: one CPA, one MBA, one ACII, one attorney.
Clients: Twenty total clients, 85% with premiums less than $1 million; 15% $1 million to $3 million.
Total premiums under management: $15 million.
Services provided: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, reinsurance brokered for captives, reinsurance brokered to captives; occasional manual claims processing, claims reserves analysis, actuarial studies, underwriting and ratemaking for captives, investment management, tax advice, legal advice, associations.
Subsidiaries: IMC (Bermuda) Ltd. and IMC (Turks & Caicos) Ltd.
Compensation: Minimum annual fee, $10,000; commissions for reinsurance brokered; time and expense, professional, $80-$120; clerical, $40-$60.
1982 gross revenues: Not reported.
Principal officers: Ian Kilpatrick, managing director; Alwin Tamosius, director; Brian Allen, treasurer; Graham Cork, assistant underwriter.

Insurance Managers Ltd.

Dorchester House, P.O. Box 2020, Hamilton 5, Bermuda; 809-295-0265

Year founded: 1969.
Parent company: Reed Stenhouse Cos. Ltd.
Staff: Thirty-one total staff, of which eight are professionals holding the following number of professional designations: three CAs, two ACII, three CII training.
Clients: Forty-nine total clients, 49% with premiums less than $1 million; 39% $1 million to $3 million; 8% $3 million to $10 million; 4% $10 million to 20 million; minimum size client, $500,000.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, manual claims processing, claims reserves analysis, loss forecasting, reinsurance brokered to captives, reinsurance brokered for captives, underwriting and ratemaking for captives, underwriting pools, loss-control services, investment management, legal advice, loss-control service, associations; occasional computerized accounting, computerized claims processing.
Subsidiaries: Insurance Managers (Guernsey) Ltd., Channel Islands; Westwinds Insurance Managers Ltd., Cayman Islands.
Compensation: Annual fee; time and expense.
1982 gross revenues: Not reported.
Principal officers: David A. Brown, president; Robert E. Barclay, executive vp; Donald C. Wiseman, senior vp; David J. Perry, Bernard S.Y. Fung, vps.

Insurance Services International Ltd.

Box 1345, Grand Cayman, B.W.I.; 809-949-5499

Year founded: 1978.
Staff: Four total staff, of which three are professionals holding the following number of professional designations: one CPA, two ARMs, one MIM.
Clients: Ten total clients, 30% with premiums less than $1 million; 60% $1 million to $3 million; 10% $3 million to $10 million.
Services provided: Frequent government reporting, accounting, computerized accounting, investment management; occasional captive feasibility studies, captive formation, manual claims processing, actuarial studies, underwriting and ratemaking for captives, reinsurance brokered for captives, reinsurance brokered to captives, loss-control services, associations.
Compensation: Annual fee, minimum of $5,000.
1982 gross revenues: Not reported.
Principal officers: Klaus J. Gebhardt, chairman; Anthony Verchinski, president; Mark D. Gebhardt, vp.

International Advisory Services Ltd.

P.O. Box 1760, Hurst Holme, Trott Road, Hamilton 5, Bermuda; 809-295-3688

Year founded: 1981.
Parent company: UMI Holdings Inc.
Staff: Four total staff, of which two are professionals holding the following number of professional designations: two CPAs.
Clients: Ten total clients, 50% with premiums less than $1 million; 20% $1 million to $3 million; 20% $3 million to $10 million; 10% $10 million to 20 million.
Total premiums under management: $35 million.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, computerized claims processing, manual claims processing, claims reserves analysis, loss forecasting, investment management; occasional captive feasibility studies, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, associations.
Compensation: Annual fee, minimum of $5,000; commissions for reinsurance brokered; time and expense.
1982 gross revenues: Not reported.
Principal officers: David Ezekiel, president/managing director; Terence J. Power, vp/controller.

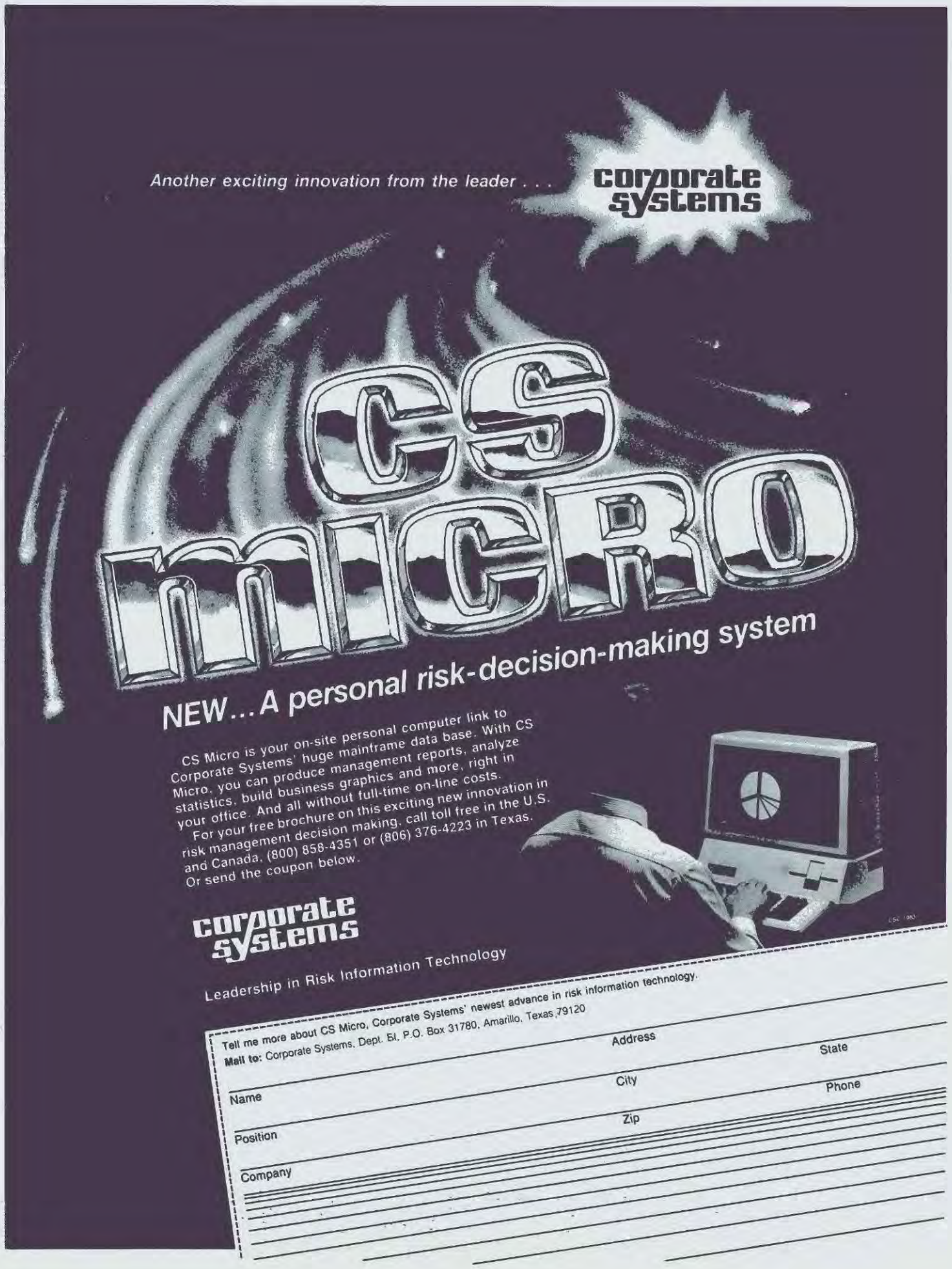
J

J&H Ltd.

Box 1826, 30 Cedar Ave., Hamilton 5, Bermuda; 809-292-4402

Year founded: 1969.
Parent company: Johnson & Higgins.
Staff: 101 total staff, of which 44 are professionals holding the following number of professional designations: two ACIIs, two FCIIs, 10 accountants.
Clients: 130 total clients, 42% with premiums less than $1 million; 28% $1 million to $3 million; 24% $3 million to $10 million; 4% $10 million to $20 million; 2% exceeding $20 million.
Total premiums under management: $420 million.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, computerized claims processing, manual claims processing, loss forecasting, reinsurance brokered for captives (through J&H affiliate), reinsurance brokered to captives, underwriting and ratemaking for captives, underwriting pools (First Island Reinsurance Assn., nine participants, more than $50 million premium volume; membership requirement: J&H brokered account), loss-control services, specialized accounting services for associations, onshore services for associations; occasional captive feasibility studies, claims reserves analysis

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(through Johnson & Higgins), actuarial studies, tax and legal advice (pertaining to Bermuda only).

Subsidiaries: Johnson & Higgins (Cayman Islands) Ltd. and Johnson & Higgins Services Inc. in Denver and Bennington, Vt.

Compensation: Annual fee; time and expense.

1982 gross revenues: Not reported.

Principal officers: P.J.T. Stephenson, B.R. Hall, A.D. Carr, W. Morgan, J. Hodge.

James (Bermuda) Ltd.

Belvedere Building, Pitts Bay Road, P.O. Box 509, Hamilton, Bermuda; 809-292-6667/809-295-8662

Year founded: 1977.

Parent company: Fred S. James & Co. Inc.

Staff: Twenty-one total staff, of which six are professionals holding the following number of professional designations: five CPAs, one ACII.

Clients: Forty total clients.

Total premiums under management: $200 million.

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

Compensation: Annual fee; commissions for reinsurance brokered.

1982 gross revenues: Not reported.

Principal officers: Stanley Mayhew, director/president; Warren D. Sproule, managing director/executive vp; Alastair G. Ritchie, senior vp; Pamela Lambarth, vp; Philip Davies, reinsurance executive.

Jemark Management Ltd.

P.O. Box 1007, Hamilton 5, Bermuda; 809-292-5229

Year founded: 1977.

Parent company: Jemark Corp.

Staff: Total staff not reported.

Clients: Total number of clients not reported.

Services provided: Include captive feasibility studies, captive formation, government reporting, accounting, computerized claims processing, manual claims processing, claims reserves analysis, underwriting and ratemaking for captives, loss-control services (through U.S. company).

1982 gross revenues: Not reported.

Principal officers: A.R. Killingworth, president; John Wilkins, vp/treasurer; J. Douglas Robinson, secretary.

J.S. Johnson & Co. Ltd.

Box N8337, Centerville House, Collins Ave., Nassau, Bahamas; 809-322-2341

Year founded: 1977.

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

Clients: Three total clients, 33% with premiums less than $1 million; 67% $1 million to $3 million.

Services provided: Frequent captive formation, accounting, investment management; occasional government reporting, manual claims processing, computerized claims processing, reinsurance brokered for captives.

Compensation: Annual fee; time and expense.

1982 gross revenues: Not reported.

Principal officers: C.T. Fernie, managing director.

K

Kitson Management Services Ltd.

Spithead House, Reid St., Hamilton 5, Bermuda; 809-295-2525

Year founded: 1979.

Parent company: Kitson & Co. Ltd.

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

Clients: Ten total clients, 40% with premiums less than $1 million; 40% $1 million to $3 million; 2% $3 million to $10 million.

Total premiums under management: $10.5 million.

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

Compensation: Annual fee; time and expense.

1982 gross revenues: Not reported.

Principal officers: Gordon Veale, financial director; Stephanie J. Brydon, insurance manager-technical; David J. Goodman, Richard Krupp, G. Kirkham Kitson, directors.

L

Landmark International Management (Bermuda) Ltd.

14 Queen St., Box 1428, Hamilton 5, Bermuda; 809-292-1240

Year founded: 1977.

Parent company: Landmark Insurance Group Inc.

Staff: Six total staff, of which four are professionals holding the following number of professional designations: one CA, one ARM.

Clients: Nine total clients, 30% with premiums less than $1 million; 60% $1 million to $3 million; 10% $3 million to $10 million; minimum size client, $500,000.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, underwriting and ratemaking for captives, specialized accounting services for associations, onshore services for associations; occasional reinsurance brokered for captives and reinsurance brokered to captives (through outside brokers), claims reserves analysis, loss forecasting, investment management.

Compensation: Annual minimum fee, $20,000; time and expense, professional, $150; clerical, $50-$75.

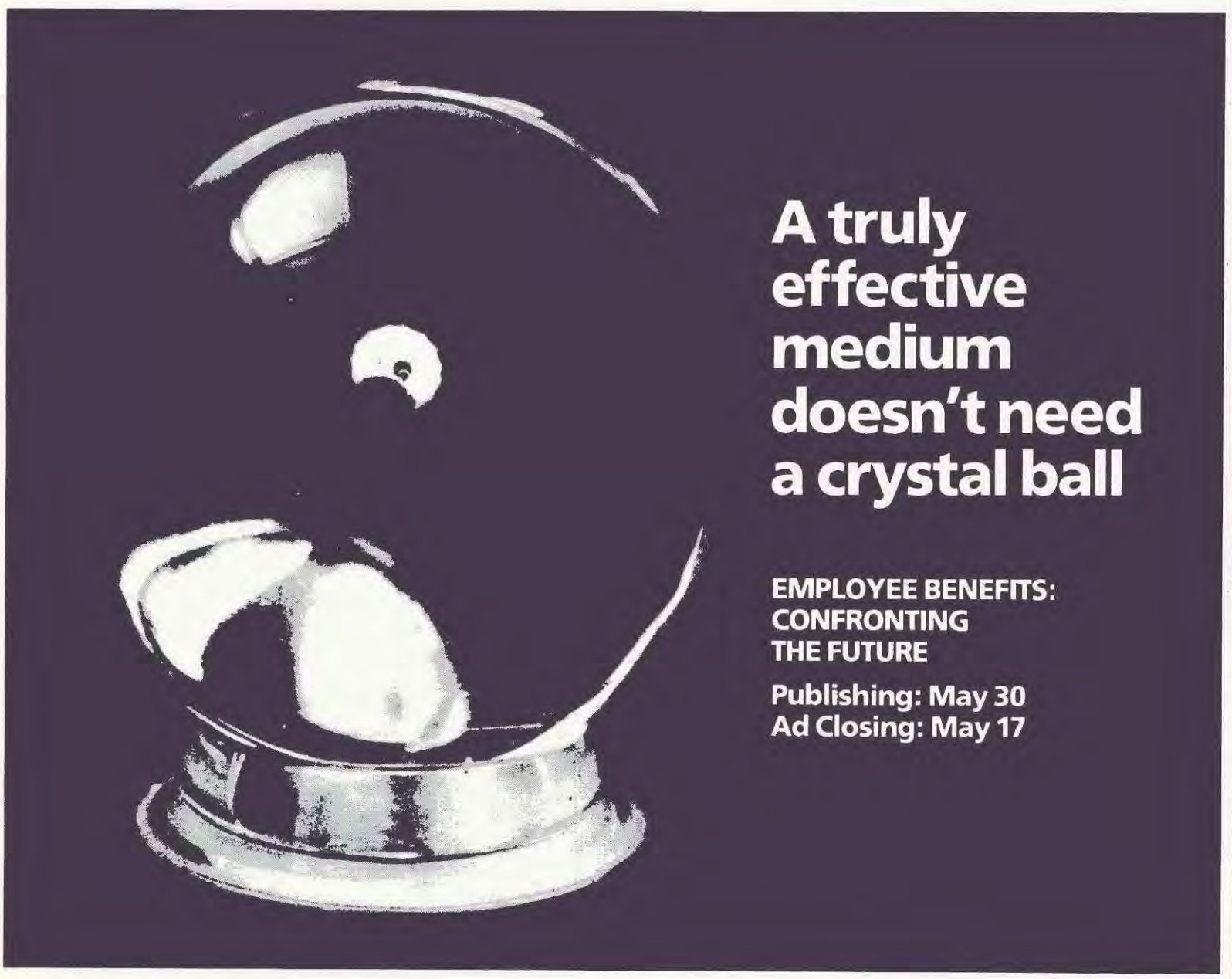
1982 gross revenues: Not reported.

Principal officers: William E. Thompson, chairman; Stuart H. Grayston, president.

Landmark International Management (Cayman) Ltd.

Heritage House, Box 1549, George Town, Grand Cayman, B.W.I.

Continued on facing page



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*An Audience Profile of the B.I. 'Buyer' Reader, 1982

Continued from facing page

Year founded: 1978.

Parent company: Landmark Insurance Group Inc.

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

Clients: Nine total clients, 40% with premiums less than $1 million; 50% $1 million to $3 million; 10% $3 million to $10 million; minimum size client, $500,000.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, underwriting and ratemaking for captives, specialized accounting services for associations, onshore services for associations; occasional reinsurance brokered for captives and reinsurance brokered to captives (through outside brokers), claims reserves analysis, loss forecasting, investment management.

Compensation: Annual minimum, $20,000; time and expense, professional, $150; clerical, $50-$75.

1982 gross revenues: Not reported.

Principal officers: Roger A. Corbin, general manager; William E. Thompson, chairman.

M

M&M Insurance Management Services Inc.

1221 Ave. of the Americas, New York, N.Y. 10020; 212-997-5519

Year founded: 1976.

Parent company: Marsh & McLennan Inc.

Staff: Eight total staff, with the following number of professional designations: two CPAs.

Clients: Nine total clients.

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

Subsidiaries: M&M Insurance Management Services Inc., Denver, South Burlington, Vt., and Nashville, Tenn.

1982 gross revenues: Not reported.

Principal officers: Peter J. Volpe, president; Erroll Hossack, vp, Colorado; James W. Burns, vp, Vermont.

Marsh & McLennan (Bermuda) Ltd.

King and Front Streets, P.O. Box 1262, Hamilton 5, Bermuda; 809-295-3278

Year founded: 1970.

Parent company: Marsh & McLennan Inc.

Staff: Fifty-nine total staff, of which 22 are professionals.

Clients: Eighty-seven total clients.

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

Subsidiaries: Marsh & McLennan (Cayman Islands) Ltd., P.O. Box 2196. George Town, Grand Cayman, B.W.I.

1982 gross revenues: Not reported.

Principal officers: Basil M. Pimm, managing director; B. Timothy Marsh, vp/manager, Marsh & McLennan (Cayman Islands) Ltd.

McNeary Insurance Consulting Services Inc.

6525 Morrison Blvd., Charlotte, N.C. 28222; 704-365-4150

Year founded: 1956.

Parent company: Booke & Co.

Staff: Twenty-one total staff, of which eight are professionals holding the following number of professional designations: six CPCUs, one ARM. one MBA one PE, one CSP, one RN, one FCAS.

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

Services provided: Frequent captive feasibility studies, captive formation, government reporting, claims reserve analysis, actuarial studies, loss forecasting, underwriting and ratemaking for captives, loss-control services; occasional accounting services.

Compensation: Time and expense, professional, $60-$110; clerical, $25.

1982 gross revenues: $1.03 million.

Principal officers: W.C. Moore Jr., president; T. Stephen Helms, senior vp; A.M. Ingco, vp; W.D. Yeager, C.W. Malmberg, assistant vps.

O

Overseas Insurance Services Ltd.

P.O. Box 1389, Transnational House, Grand Cayman, B.W.I.; 809-949-5199

Year founded: 1982.

Parent company: Werner & Dudley Associates Ltd.

Staff: Six total staff, of which three are professionals holding the following number of professional designations: one CPA, two attorneys.

Clients: Twelve total clients.

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

Compensation: Time and expense, professional, $100; clerical, $25.

1982 gross revenues: Not reported.

Principal officers: Gordon Werner, chairman; Spottswood P. Dudley, president; Peter MacKay, managing director.

P

Pinehurst Management Co.

Dorchester House, Box 1752, Church St., Hamilton 5, Bermuda; 809-295-4864

Year founded: 1969.

Parent company: Emett & Chandler Cos. Inc.

Staff: Ten total staff, of which two are professionals holding the following number of professional

Continued on next page



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Continued from previous page

designations: one CPA, one CPCU.

Clients: Forty total clients, 15% with premiums less than $1 million; 60% $1 million to $3 million; 25% $3 million to $10 million; minimum size client, $250,000.

Total premiums under management: $100 million.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, underwriting pools (Dorchester Pool, seven participants, $15 million premium volume; membership requirement: must be managed by Pinehurst Management), investment management, associations.

Subsidiaries: Pinehurst Management Co. (Cayman) Ltd.

Compensation: Commissions for reinsurance brokered.

1982 gross revenues: Not reported.

Principal officers: Robert C. Whiting, president; Harry B. Kast, vp; Cyril H Whitter, assistant vp.

Pinehurst Management Co. (Cayman) Ltd.

The Washington International Bank Building, Edward St. and Cardinal Ave., P.O. Box 1063, George Town, Grand Cayman, B.W.I.

Year founded: 1979.

Parent company: Pinehurst Management Co. Ltd.

Staff: Total staff not reported.

Clients: Three total clients, 67% with premiums less than $1 million; 33% $1 million to $3 million; minimum size client, $250,000.

Total premiums under management: $4 million.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, underwriting pools (Dorchester Pool, seven participants $15 million premium volume: membership requirement: must be managed by Pinehurst Management), investment management, associations.

Compensation: Annual fee, negotiable.

1982 gross revenues: Not reported.

Principal officers: Robert C. Whiting, president; Harry B. Kast, vp; Cyril H. Whittr, assistant treasurer.

Polaris International Insurance Managers (Bermuda) Ltd.

P.O. Box 2004, Hamilton 5, Bermuda; 809-295-5207

Year founded: 1983.

Parent company: Bramada International Inc.

Staff: Three total staff, with the following number of professional designations: one CPA, one MBA.

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

Total premiums under management: $15 million.

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

Compensation: Annual fee, minimum of $5,000; 1%-2% commissions for reinsurance brokered; time and expense, professional, $75-$85; clerical, $25-$30.

1982 gross revenues: Not reported.

Principal officers: S.O. (Scott) Vartija, managing director; Allin Karls, president, Bramada International; Russ Wilson, Ed Driscoll, Stanley R. Nelson, directors, Bramada International.

Polaris International Insurance Managers (Cayman) Ltd.

P.O. Box 501, Grand Cayman, B.W.I.; 809-949-2001

Year founded: 1983.

Parent company: Bramada International Inc.

Staff: Five total staff, with the following number of professional designations: one MBA, four ACIIs.

Clients: Two total clients, 25% with premiums less than $1 million; 75% $1 million to $3 million; minimum size client, $1 million.

Total premiums under management: $3 million.

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

Compensation: Annual fee, minimum of $5,000; 1%-2% commissions for reinsurance brokered; time and expense, professional, $75-$85; clerical, $25-$30.

1982 gross revenues: Not reported.

Principal officers: S.O. (Scott) Vartiga, managing director; Allin Karls, president of Bramada International; Russ Wilson, Stanley R. Nelson, Edward J. Driscoll, directors of Bramada International.

Polaris International Insurance Managers (Grand Turks & Caicos) Ltd.

Harbour House, P.O. Box 103, Front St., Grand Turk, Turks & Caicos, B.W.I.

Year founded: 1982.

Parent company: Bramada International Inc.

Staff: Three total staff, with the following number of professional designations: one MBA, one attorney.

Clients: Three total clients, 33% with premiums less than $1 million; 66% $1 million to $3 million; minimum size client, $1 million.

Total premiums under management: $3 million.

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

Compensation: Annual fee, minimum of $5,000; 1%-2% commissions for reinsurance brokered; time and expense, professional, $75-$85; clerical, $25-$30.

1982 gross revenues: Not reported.

Principal officers: S.O. (Scott) Vartija, director; Allin Karls, president of Bramada International; Russ Wilson, executive vp.

Professional Risk Management

8300 Bissonett, Houston, Texas 77001; 713-777-3561

Year founded: 1971.

Staff: Eight total staff, with the following number of professional designations: one attorney.

Clients: One client, 100% with premiums from $1 million to $3 million; minimum size client, $1 million.

Total premiums under management: $2.2 million.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, computerized claims processing, manual claims processing, claims reserves analysis, legal advice, loss-control services, associations; occasional captive feasibility studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, underwriting pools (Texas Citrus & Vegetable Insurance Exchange, 150 participants, premium volume, $2.2 million; membership requirement: must be member of Texas Citrus & Vegetable Assn.), investment management.

Compensation: Percent of premium volume.

Continued on facing page

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1982 gross revenues: $700,000.

Principal officers: Steve Banister, Tony Tijerina, Bill Chanslor, Barbara Wilson, Gwilda Martin.

R

Regency International Ltd.

Bermudiana Arcade, Queen Street, P.O. Box 1224, Hamilton 5, Bermuda; 809-295-5921

Year founded: 1977.

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

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

Clients: Eight total clients.

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

Subsidiaries: Regency Reinsurance Brokers Ltd.

Compensation: Annual fee, minimum of $15,000-$20,000; commissions for reinsurance brokered; time and expense.

1982 gross revenues: Not reported.

Principal officers: Derrick J. Bennett, president; Donald A. Thomas, Phillip R.S. Hancock, vps.

The Reiss Organization

c/o American Risk Management, 1 Executive Drive, Fort Lee, N.J. 07024; 201-592-7100

Year founded: 1958.

Staff: 300 total staff, of which 200 are professionals holding the following number of professional designations: 30 CPAs, 20 CPCUs, 20 ARMs, five MBAs, five attorneys, 55 loss-control consultants.

Clients: More than 100 total clients, 1% with premiums less than $1 million; 44% $1 million to $3 million; 40% $3 million to $10 million; 10% $10 million to 20 million; 5% exceeding $20 million; minimum size client, $1 million.

Total premiums under management: $500 million.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, underwriting pools (Hopewell International Insurance Co. of Bermuda and United Insurance Co. of Cayman, more than 50 participants, $250 million premium volume, membership requirements: must be captive managed by member company of Reiss Organization), loss-control services (throughout U.S.), associations, specialized accounting services, onshore services for associations, onshore consulting services; occasional manual claims processing.

Subsidiaries: American Risk Management Inc., in 12 U.S. cities; International Risk Management Ltd., Hamilton, Bermuda; European Risk Management Ltd., Weybridge, England; Transnational Risk Management Ltd., George Town, Grand Cayman, B.W.I.; Universal Management Ltd., Shannon, Ireland; Transnational Ltd., St. Peter Port, Guernsey, Channel Islands; Transnational Risk Management (Isle of Man) Ltd, Isle of Man.

Compensation: Annual fee, minimum of $25,000; time and expense, professional, $50-$200; clerical included.

1982 gross revenues: Not reported.

Principal officers: Fred M. Reis, chairman and chief executive officer; Arthur H. Deters, chief operating officer; Alan E. Chilvers, Bryan D. Murphy, William F. Nehls, John J. Ryan, William F. Sennett; Macvicker Snow, Donald J. Westmoreland.

Risk & Benefit Management Systems

3025 S. Parker Road, Suite 825, Aurora, Colo. 80014; 303-752-4912

Year founded: 1973.

Parent company: National Business Services Inc.

Staff: Seven total staff, of which six are professionals holding the following professional designation: one attorney.

Clients: Seven total clients, 85% with premiums of $1 million to $3 million; 15% $3 million to $10 million.

Total premiums under management: $11 million.

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

Continued on next page

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Continued from previous page
loss-control services (Denver and New York), associations, onshore services for associations.

Compensation: Annual fee; time and expense, professional, $35-$100; clerical, $20-$35.

1982 gross revenues: More than $350,000.

Principal officers: W.R. Kersten, chairman; Thomas G. Littell, president; Duane W. Metcalf.

Risk & Benefit Management Systems

141 Main St., Montpelier, Vt. 05602; 802-223-2381

Year founded: 1981.

Parent company: National Business Services Inc.

Staff: Total staff not reported.

Clients: One client; 100% with premiums $1 million to $3 million.

Total premiums under management: $2 million.

Services provided: Frequent captive formation, government reporting, accounting, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives; occasional captive feasibility studies, reinsurance brokered to captives, investment management, loss-control services (New York), associations, onshore services for associations.

Compensation: Annual fee; time and expense, professional, $35-$100; clerical, $20-$35.

1982 gross revenues: More than $20,000.

Principal officers: W.R. Kersten, chairman; Thomas G. Littell, president; D.W. Metcalf.

Risk Management Ltd.

Invicta House, Candie Road, St. Peter Port, Guernsey, Channel Islands; (04) 812-3612

Year founded: 1978.

Staff: Fourteen total staff, of which eight are professionals holding the following number of professional designations: five FCIIs, one ACII, one FCA, one AIL.

Clients: Minimum size client: $10,000 in fees.

Services provided: Frequent government reporting, accounting, computerized accounting, manual claims processing, reinsurance placed for captives, underwriting and ratemaking for captives, tax advice; occasional management of domestic insurer, captive broker management, investment management, loss forecasting, claims reserves analysis, computerized claims processing, captive formation, captive feasibility studies.

Compensation: Annual fee, minimum of $10,000; time and expense, professional, $38-$55; clerical, $20-$30.

1982 gross revenues: Not reported.

Principal officers: Michael A. Ward, managing director; Diane J. Ward, Michael A. Dallamore, directors; M. John Palin, accountant/secretary; Peter Rowe, underwriter.

Risk Treatment Services (Bermuda) Ltd.

Spithead House, Box 2018, Hamilton 5, Bermuda; 809-295-5425

Year founded: 1973.

Parent company: Risk & Benefit Management Systems Inc.

Staff: Twelve total staff.

Clients: Twenty-six total clients, 20% with premiums less than $1 million; 65% $1 million to $3 million; 15% $3 million to $10 million. Minimum size client: $500,000 in premiums.

Total premiums under management: $36 million.

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

Compensation: Annual fee, minimum of $15,000; commissions for reinsurance brokered; time and expense, professional, $200; clerical, $50.

1982 gross revenues: More than $500,000.

Principal officers: William R. Kersten, chairman; Hal Forkush, president; Edgar Browne, vp; Willie Wanklyn, consultant, Treaty Consultants Ltd.

Rollins Burdick Hunter Co. of Bermuda Ltd.

P.O. Box 2004, Global House, Hamilton, Bermuda; 809-295-0723

Year founded: 1972.

Parent company: Rollins Burdick Hunter Co.

Staff: Twenty-two total staff.

Clients: Thirty-two total clients, 70% with premiums $1 million to $3 million; 25% $3 million to $10 million; 5% $10 million to 20 million.

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

Subsidiaries: Rollins Burdick Hunter Co. (Cayman), Cayman Islands, B.W.I.

Compensation: Annual fee; time and expense.

1982 gross revenues: Not reported.

Principal officers: L.R. Hoehne, president, RBH Management Co.

S

Sedgwick Group Overseas Management Services Ltd.

P.O. Box 1368, Sterling House, City Hall Square, Hamilton 5, Bermuda; 809-295-4863

Year founded: 1972.

Parent company: Sedgwick Group.

Staff: Eighteen total staff, of which 14 are professionals holding the following number of professional designations: five CPAs, two FCII, one ACII.

Clients: Twenty-five total clients; minimum size client, $500,000.

Total premiums under management: $70 million.

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

Compensation: Annual fee, minimum of $10,000.

1982 gross revenues: More than $1 million.

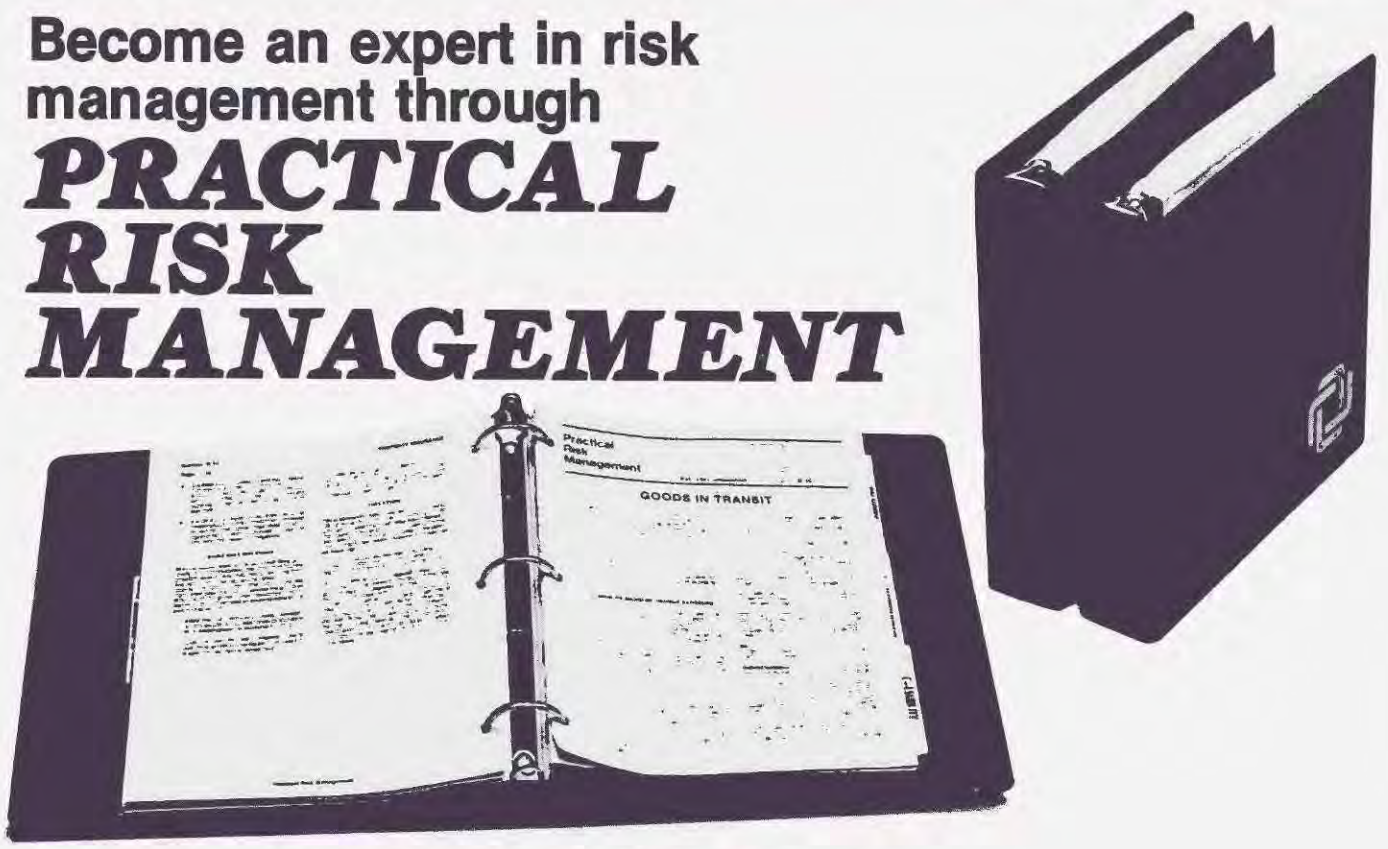
Principal officers: John C. Speller, chief executive officer; Bryan H. Cooper, deputy general manager; David C. Francis, Mark G. Randall, managers.

The Somerset Group (Turks & Caicos) Ltd.

Doyle House, Grand Turk, Turks & Caicos Islands, B.W.I.; 809-946-2504

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Year founded: 1981.
Parent company: The Somerset Group.
Staff: Four total staff, of which one is a professional holding the following professional designation: CPA.
Clients: Twelve total clients, 90% with premiums less than $1 million; 10% $1 million to $3 million.
Total premiums under management: $6 million.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, reinsurance brokered for captives, investment management; occasional captive feasibility studies, manual claims processing, computerized claims processing, reinsurance brokered to captives, underwriting pools (Hamilton Underwriting Agency Ltd., one participant, $8 million premium volume) tax advice, specialized accounting services for associations.
Compensation: Annual fee; commissions for reinsurance brokered; time and expense.
1982 gross revenues: Not reported.
Principal officers: Paul Peary, president.

Somerset Underwriting Management Ltd.

Washington Mall, P.O. Box 2009, Hamilton 5, Bermuda; 809-295-1646

Year founded: 1974.
Parent company: The Somerset Group.
Staff: Twelve total staff, of which five are professionals holding the following number of professional designations: one CPA, four accountants.
Clients: Twenty-two total clients, 50% with premiums less than $1 million; 35% $1 million to $3 million; 15% $3 million to $10 million.
Total premiums under management: $40 million.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, reinsurance brokered for captives, investment management; occasional captive feasibility studies, manual claims processing, computerized claims processing, reinsurance brokered to captives, underwriting pools (Hamilton Underwriting Agency Ltd., one participant, $8 million premium volume), tax advice, associations, specialized accounting services.
Subsidiaries: Somerset Broking Ltd.
Compensation: Annual fee; commissions for reinsurance brokered; time and expense.
1982 gross revenues: Not reported.
Principal officers: John Harris, president; Peter Strong, executive vp.

Southwest Offshore Management Ltd.

P.O. Box 1571, Grand Cayman, B.W.I.; 809-949-6424

Year founded: 1979.
Staff: Three total staff, of which two are professionals holding the following number of professional designations: two CICs.
Clients: Six total clients, 100% with premiums less than $1 million.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, manual claims processing, claims reserves analysis, actuarial studies, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, loss-control services (from Texas), specialized accounting services for associations, onshore services for associations; occasional computerized claims processing, loss forecasting, reinsurance brokered to captives.
Compensation: Annual fee, minimum of $3,600, subject to percent of standard premium.
1982 gross revenues: Not reported.
Principal officers: Jack W. Hoffman, president; Winnie Chung, executive vp; J. Scot Teachout, secretary/treasurer.

Stewart Wrightson Group (Bermuda) Ltd.

Third Floor, Washington Mall, P.O. Box 447, Hamilton 5, Bermuda; 809-292-3146

Year founded: 1978.
Parent company: Stewart Wrightson Holdings P.L.C.
Staff: Three total staff.
Clients: Eight total clients.
Services provided: Frequent captive formation, government reporting, computerized accounting, manual claims processing; occasional captive feasibility studies, claims reserves analysis, reinsurance brokered for captives, underwriting pools (Medip Ltd.), investment management.
Subsidiaries: Capacity Resources, Bermuda and Cayman, Associated International Insurance (Bermuda) Ltd.
Compensation: Annual fee, minimum of $15,000.
1982 gross revenues: Not reported.
Principal officers: Michael Bray, president.

T

Tate & Lyle Management & Finance Ltd.

129 Front St., P.O. Box 337, Hamilton 5, Bermuda; 809-295-9911

Year founded: 1981.
Parent company: Tate & Lyle P.L.C.
Staff: Six total staff, of which three are professionals holding the following number of professional designations: one CPA, one ACII.
Clients: Nine total clients, 80% with premiums less than $1 million; 10% $1 million to $3 million; 10% $3 million to $10 million.
Services provided: Frequent captive formation, government reporting, accounting, manual claims processing, reinsurance brokered for captives, underwriting and ratemaking for captives; occasional reinsurance brokered to captives.
Compensation: Annual fee, minimum of $15,000.
1982 gross revenues: Not reported.
Principal officers: Robert C.

Continued on next page



"I smelled fumes, but couldn't find the source."

Someone neglected to thoroughly check out a hot work area. These things happen. Everyone makes mistakes. But in this case, someone's oversight was part of a chain reaction of human error and unforeseen circumstance. A lack of pre-emergency planning. Paint scrapings which had not been removed. Improper hot work procedures during an impairment. Flammable liquids allowed to collect in a sluiceway and create fumes. When cutting and welding sparks were added to the scenario, the stage was set for disaster. And $3.2 million went up in smoke.

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3807 Wilshire Boulevard, Los Angeles, CA 90010, (213) 387-4432

Continued from previous page
Brownridge, Michael Egan, Vivian Tierney.

Transatlantic Management Co. Ltd.
Fifth Floor, Trimingham Building, P.O. Box 508, Flatts 3, Bermuda; 809-295-9319

Year founded: 1982.
Parent companies: Delaney Offices Inc., Ebbtide Indemnity Ltd., Meadowbrook Risk Management Ltd.
Staff: Six total staff, of which two are professionals holding the following number of professional designations: one CA, one ACII.
Clients: Twenty total clients, 65% with premiums less than $1 million; 20% $1 million to $3 million; 10% $3 million to $10 million; 5% $10 million to 20 million.
Total premiums under management: $30 million.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, loss-control services, specialized accounting services for associations, onshore services for associations; occasional reinsurance brokered to captives, tax advice, legal advice.
Compensation: Annual fee, minimum of $4,000; commissions for reinsurance brokered; time and expense.
1982 gross revenues: Not reported.
Principal officers: Merton J. Segal, president; Richard J. Dunlap, chairman; Timothy D. Delaney, vice chairman; William R. Storie, managing director; Norma M. Cross, vp/secretary.

Transglobe Underwriting Management (Guernsey) Ltd.
P.O. Box 34, LeRiche House, 50 High St., St. Peter Port, Guernsey, Channel Islands; (04) 812-8136

Year founded: 1975.
Parent company: English & American Insurance Co. Ltd.
Staff: Nineteen total staff, of which three are professionals holding the following number of professional designations: one CA, one ACA, one ACII.
Clients: Seven total clients, 86% with premiums of $1 million to $3 million; 14% $10 million to $20 million; minimum size client, $750,000.
Total premiums under management: About $25 million.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, computerized claims processing, manual claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, tax advice, legal advice, specialized accounting services for associations; occasional captive feasibility studies, reinsurance brokered to captives.
Compensation: Annual fee, minimum of approximately $11,000.
1982 gross revenues: Approximately $600,000.
Principal officers: G.E. Bowring, chairman; A.R. Taylor, vice chairman; D.J. Mills, managing director; I.G. Daish, deputy managing director; F.H. Bowditch, secretary.

Transnational Risk Management Ltd.
P.O. Box 60, Grand Cayman, B.W.I.; 809-949-4555

Year founded: 1975.
Parent company: Transnational Ltd.
Staff: Twenty-one total staff, of which six are professionals holding the following number of professional designations: two FCIIs, two FCAs, one FAII, one HND.
Clients: Twenty-one total clients, 24% with premiums less than $1 million; 38% $1 million to $3 million; 24% $3 million to $10 million; 5% $10 million to 20 million; 9% exceeding $20 million.
Total premiums under management: $315 million.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, underwriting pools, loss-control services (from Cleveland), specialized accounting services for associations, onshore services for associations, full range of risk management services; occasional actuarial studies, loss forecasting.
Subsidiaries: Universal Management Ltd., Transnational Risk Management (Guernsey) Ltd., Transnational Risk Management (Isle of Man) Ltd.
Compensation: Annual fee, commissions for reinsurance negotiable.
1982 gross revenues: Not reported.
Principal officers: F.M. Reiss, chairman; A.H. Deters, B.D. Murphy, G.R. King, directors; D.J. Westmoreland, managing director.

Trenwick Ltd.
P.O. Box 462, Trenwick House, 9 Church St., Hamilton 5, Bermuda; 809-295-3009

Year founded: 1978.
Staff: Twenty total staff, of which six are professionals holding the following number of professional designations: two CPAs, one CPCU, two MBAs, two attorney.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking for captives, underwriting audits; occasional underwriting pools (statutory Workers Compensation Reinsurance Group, 18 company participants), loss-control services, investment management, strategic planning, loss forecasting, actuarial studies, computerized claims processing, captive feasibility studies.
Subsidiaries: Trenwick Inc.
Compensation: Time and expense, negotiable.
1982 gross revenues: Not reported.
Principal officers: James F. Billett Jr., chairman/president; Mark W. Hinkley, senior vp; Robert E. Brownley, Jacques Q. Bonneau, vps; Alan H. Hunte, assistant vp/controller.

V

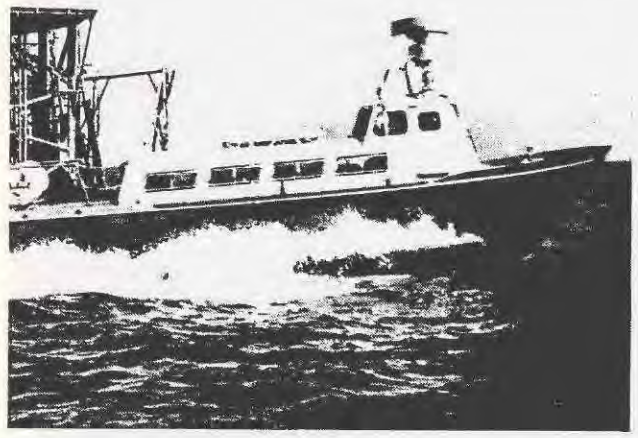
Vermont Insurance Management Inc.
87 S. Main St., Waterbury, Vt. 05676; 802-244-8711

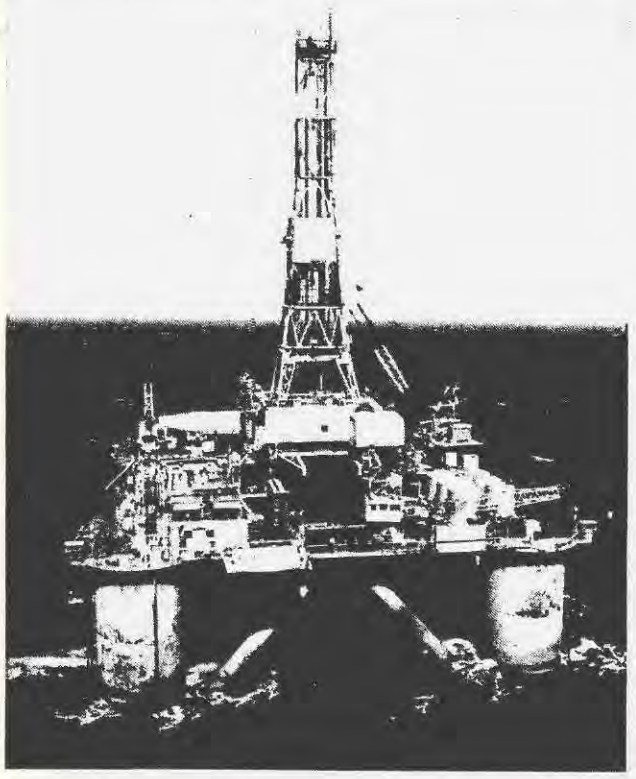
Year founded: 1981.
Staff: Five total staff, of which three are professionals holding the following number of professional designations: one CPA, two EDPs.
Clients: One client, 100% with premiums of $1 million to $3 million.
Services provided: Include captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, reinsurance brokered for captives, reinsurance brokered to captives, investment management, tax advice, specialized accounting services for associations, onshore services for associations, network computer communication facilities providing accounting and information services.
1982 gross revenues: Not reported.
Principal officers: H. Lincoln Miller Jr., president; Marilyn P. Jaeger, vp; Hary A Bonyun III, managing director, Elbert G. Moulton, director.

W

Waite Hill Services Inc.
1000 Virginia Center Parkway, Richmond, Va. 23295; 804-264-5820

Year founded: 1978.
Parent company: Figgie International Inc.
Staff: Fifty-five total staff, of which 38 are professionals holding the following number of professional designations: two CPCUs, one ARM, one MBA, two Ph.Ds, one P.E., two CSPs, one certified workers compensation administrator.
Clients: One client, 100% with premiums $3 million to $10 million.
Total premiums under man-
Continued on facing page





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Correspondents at Lloyds of London

Continued from facing page
agement: $1 million.

Services provided: Frequent loss-control services, claims management services, rent-a-captive consultants; occasional captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, manual claims processing, reinsurance brokered for captives, associations, specialized accounting services, onshore services for associations.

Compensation: Annual fee, minimum of $25,000.

1982 gross revenues: Not reported.

Principal officers: Bruce L. Fowler, president; Donald H. Garlock, executive vp; Keith E. Barenklay, Jack A. Mangus, vps; George W. Pearson, national safety director.

Watford Insurance Management Ltd.

Westwind Building, P.O. Box 878, Grand Cayman, B.W.I.; 809-949-5587

Year founded: 1981.

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

Clients: Three total clients, 100% with premiums less than $1 million.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, reinsurance brokered for captives, investment management, legal advice, associations, specialized accounting services; occasional actuarial studies, reinsurance brokered to captives, underwriting and rate-making for captives.

Compensation: Annual fee, minimum of $5,000; time and expense, professional $60-$100; clerical $18-$30.

1982 gross revenues: Not reported.

Principal officers: J. William Rewalt, managing director; Robert H. Nunes, secretary/director; A. Jacques Scott, director. ■

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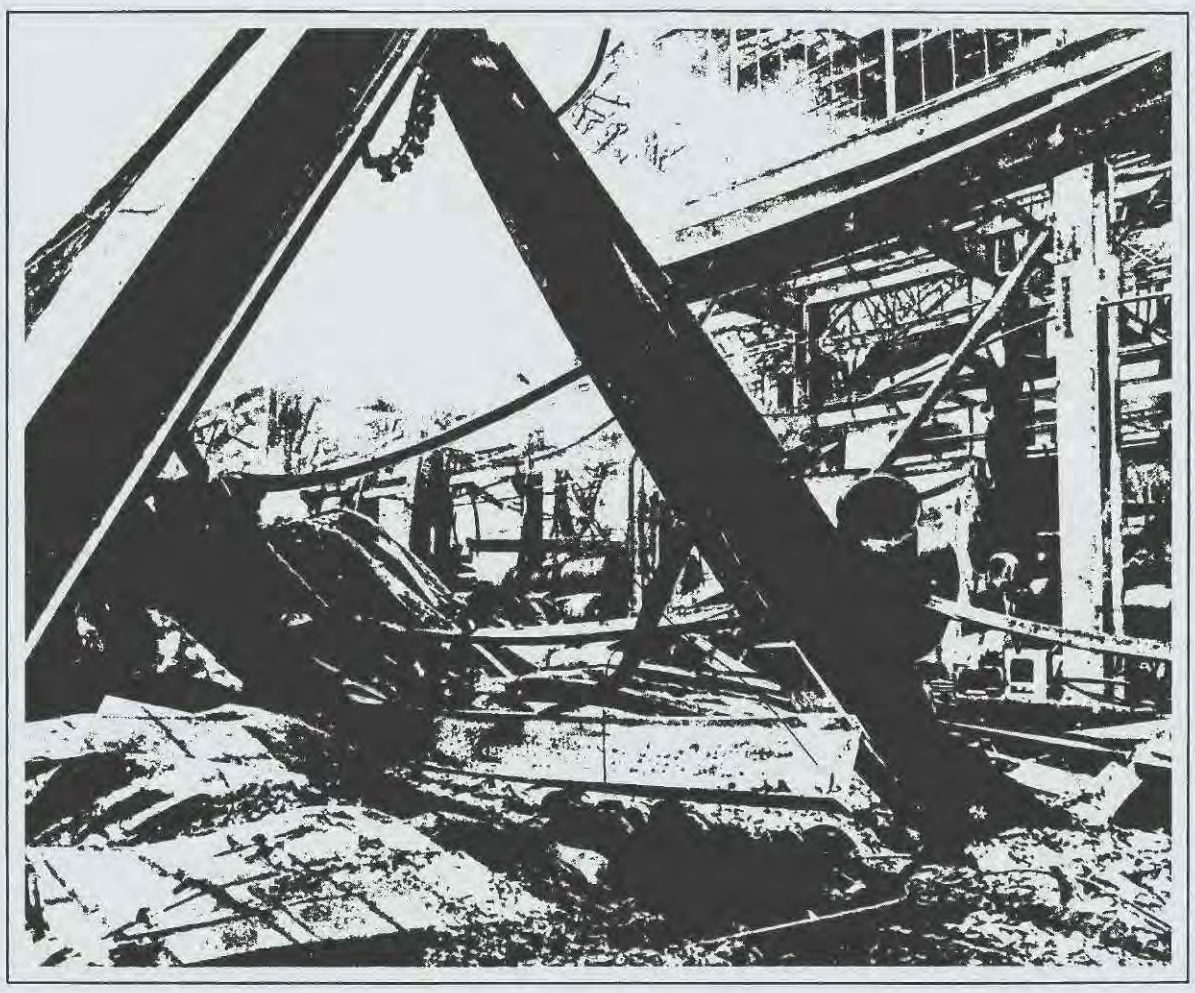
Bahamas

British-American Management Ltd.
J.S. Johnson & Co. Ltd.

Bermuda

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Amberco Management Ltd.
American International Co. Ltd.
Aneco Risk Management Co. Ltd.
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Armco Insurance Management Ltd.
Association Insurance Consultants Ltd.
Atlantic Security Ltd.
B.F. & M. Management Ltd.
Becher & Carlson Management Ltd.
Bermuda Connexion
Bott & Associates Ltd.
Capacity Resources (Bermuda) Ltd.
Cedar Hill Management Ltd.
Continental Risk Services Ltd.
Corroon & Black (Bermuda) Ltd.
Arthur J. Gallagher & Co. (Bermuda) Ltd.
S.H. Grayston Management Ltd.
H&H Management Services Ltd.
Frank B. Hall & Co.
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INA International Insurance Managers Ltd.
Insurance Managers Ltd.
International Advisory Services Ltd.
J&H Ltd.
James (Bermuda) Ltd.
Jemark Management Ltd.
Kitson Management Services Ltd.
Landmark International Management (Bermuda) Ltd.
Marsh & McLennan (Bermuda) Ltd.
Pinehurst Management Co. Ltd.
Polaris International Insurance Managers (Bermuda) Ltd.

Continued on next page



"We shouldn't have gone to lunch."

They weren't gone long. Half hour at the most. But they broke a cardinal rule for impairments: Don't stop working until the job is done.

The plant engineer had directed a shutdown of the incoming fire protection water supply to permit an outside contractor to replace two obsolete dry pipe valves. The crew worked all morning, then broke for lunch. Afterward, as the contractor was finishing the connection, someone yelled, "fire!" But there was no water to fight it.

The result was a multimillion dollar disaster that could have been avoided. If the crew had stayed to finish the job. If the connection had been completed earlier. If the main valve could have been opened to allow water through the sprinkler system. If, if, if.

Every day, thousands of impairments put millions of dollars worth of property into jeopardy. Yours too. Be sure your people know how to handle impairments by getting them a copy of OVERVIEW, a new management system from Industrial Risk Insurers. For more than 90 years IRI has been a leader in loss prevention innovation and total property insurance programs. For a free, six-page brochure describing OVERVIEW, contact your agent or broker, or write to P.A. Sasso, Industrial Risk Insurers, 85 Woodland Street, Hartford, CT 06102.

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Trenwick Ltd.

Cayman Islands

Absit Insurance Management Ltd.
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Watford Insurance Management Ltd.

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Guernsey

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Isle of Man

Capacity Resources (Isle of Man) Ltd.

Turks & Caicos

Polaris International Insurance Managers (Grand Turks & Caicos) Ltd.
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MAY 23-25. Employee Benefits symposium in San Francisco, sponsored by the International Society of Certified Employee Benefit Specialists; $420 for members; $495 for non-members. ISCEBS, Box 209, Brookfield, Wis. 53005; 414-786-6700.

MAY 23-25. Fundamentals of Industrial Exhaust Ventilation course in Long Grove, Ill., sponsored by the National Loss Control Service Corp.; $350. John Garis, NATLSCO, Long Grove, Ill. 60049; 312-540-2026.

MAY 23-25. Techniques of Loss Control course in New York City, sponsored by the Risk & Insurance Management Society; $345 for members; $445 for non-members. Education Department, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

MAY 23-25. An Advanced Course in Employee Benefits in New York, sponsored by the American Management Assns.; $695 for members; $800 for non-members. AMA, 135 W. 50th St. New York, N.Y. 10020; 518-891-0065.

MAY 23-27. Basic Safety Management seminar in Atlantic City, N.J., sponsored by the International Safety Academy; $570. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77224; 713-932-9400.

MAY 24-26. Benefits in Crisis conference in Washington, sponsored by the Assn. of Private Pension & Welfare Plans; $315 for members; $345 for non-members. APPWP, 1201 Pennsylvania Ave. N.W., Suite 340, Washington, D.C. 20004; 202-737-6666.

MAY 24-27. Ergonomics seminar in San Jose, Calif., sponsored by the International Safety Academy; $375. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77224; 713-932-9400.

MAY 25. Insurance Accounting & Statistical Assn. conference in Detroit; $135. International Office, IASA, Mutual Plaza, Durham, N.C. 27701; 919-683-2356.

MAY 26. Employee Health & Fitness: The Corporate View conference in Chicago, sponsored by Campbell Soup Co. and Universal Gym Equipment; $150. Employee Health & Fitness, Box 741, Cedar Rapids, Iowa 52406; 319-365-1663.

MAY 26-28. Litigation in Aviation and Space Law second national institute in Washington, sponsored by the American Bar Assn.; $393 for members; $418 for non-members; $368 for tort and insurance practice lawyers; $343 for young lawyers and government employees; $75 for law students. ABA, Division of Professional Education, 10 W. 35th St., Chicago, Ill. 60616; 312-567-4675

JUNE 1-3. Fundamentals of Insurance seminar in Chicago, sponsored by the Risk & Insurance Management Society; $345 for members; $445 for non-members. Editorial Department, RIMS 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

JUNE. 1-4. Public Risk and Insurance Management Assn. annual conference in St. Paul, Minn.; $220 for members before April 25; $275 for members after April 25; $425 for non-members; $375 for subsequent non-member registrants from the same organization. PRIMA, 1120 G St. N.W., Suite 707, Washington, D.C. 20005; 202-737-7556.

JUNE 2-3. Principles of Petroleum Insurance workshop in Denver, sponsored by Professional Development Institute; $395. Also **June 9-10** in Oklahoma City. PDI Accounting & Insurance Center, Box 13288, NT Station, Denton, Texas 76203; 817-565-3383.

JUNE 7. Health Care Cost Containment briefings in Kansas City, Mo., sponsored by the International Foundation of Employee Benefit Plans; $130 for members; $155 for non-members. Also **June 8** in Milwaukee, **June 28** in Pittsburgh and **June 29** in Tarrytown, N.Y. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

JUNE 7-8. Legal Aspects of Occupational Safety & Health course in Los Angeles, sponsored by the University of Southern California; $250. USC, Institute of Safety & Systems Management; Office of Extension & In-Service Programs, Los Angeles, Calif. 90089; 213-743-6523.

JUNE 7-9. Risk and Insurance Management in Banking seminar in New Orleans, sponsored by the American Bankers Assn.; $395 for members; $595 for non-members. Robin Craighill, ABA, 1120 Connecticut Ave. N.W., Washington, D.C. 20036; 202-467-4047.

JUNE 10. Workers Compensation Cost Containment seminar in New York, sponsored by the National Council on Compensation Insurance; $90 for members; $125 for non-members. NCCI, One Penn Plaza, New York, N.Y. 10119; 212-560-1095.

JUNE 13-15. Techniques of Risk Management conference in New York City, sponsored by the Risk & Insurance Management Society; $345 for members; $445 for non-members. Editorial Department, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

JUNE 13-17. Basic Safety Management seminar in Houston, sponsored by the International Safety Academy; $570. ISA, 1600 Arch St., Philadelphia, Pa. 19101; 215-241-3176.

JUNE 19-22. Collection of Employer Contributions institute in Lake Tahoe, Nev., sponsored by the International Foundation of Employee Benefit Plans; $390 for members; $465 for non-members. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

JUNE 22-23. Health Care Cost Containment workshop in Boston, sponsored by the Health Research Institute; $395. HRI, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

JUNE 22-29. Safety for the Oilfield seminar in San Francisco, sponsored by the International Safety Academy; $395. ISA, 1600 Arch St., Philadelphia, Pa. 19101; 215-241-3176.

JULY 21-23. Labor-Management Trustees and Administrators institute in Toronto, sponsored by the International Foundation of Employee Benefit Plans; $390 for members; $465 for non-members. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

JULY 27-30. Corporate Benefits Management conference in Monterey, Calif., sponsored by the International Foundation of Employee Benefit Plans; $470 for members; $545 for non-members. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700. ■

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Contact: Roy Bray

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Contact: Alain Wattiez

Freisenbruch-Meyer Insurance Services Ltd.
No. 1 Parliament St.
Front and Parliament Streets
809-295-9208
Contact: Michael Freisenbruch

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Perry Building
Church Street
809-292-4654
Contact: Jean-Francois Gelot

Grayston Minugh Associates
Knudsen Building
Queen Street.
809-292-1240
Contact: Skip Minugh

H&H Re-Insurance Brokers Ltd.
Trott Road
809-292-4623
Contact: Simon Everett

Frank B. Hall (Bermuda) Ltd.
Craig Appin House
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Contact: Michael Jenkins

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Harnett & Richardson Building
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Contact: Nick Cochrane

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809-295-3063
Contact: Monica Dobbie

Insurance & Reinsurance Brokers (Bda) Ltd.
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809-295-4169
Contact: Ian Wilks

Intere (Bermuda) Ltd.
189 Reid St.
809-292-3933
Contact: Robert Hedges

Johnson & Higgins, Willcox (Bda) Ltd.
Barclays International Bldg.
Church Street
809-292-1552
Contact: Roger Gillett

Kitson & Co. Ltd.
Spithead House
Reid Street
809-295-2525
Contact: David Goodman

Montgomery & Collins Int. Ltd.
Craig Appin House
Wesley Street
809-295-0169
Contact: Bernard Cutts

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Global House
Church Street
809-295-3434
Contact: Patrick Figorito

Pearson Webb Springbett (Bda)
American International Building
Richmond Road
809-292-1443
Contact: A. W. Hunt

Reed Stenhouse International Insurance Services Ltd.
Dorchester House
Church Street
809-295-0265
Contact: Donald Wiseman

Regency International Ltd.
Bermudiana Arcade
Queen Street
809-295-5921
Contact: Philip Hancock

Reinco International Ltd.
Bermudiana Arcade
Queen Street
809-295-8614
Contact: Simon Blakeway

Republic Hogg Robinson I.I.S. (Bda) Ltd.
Belvedere Building, Suite 14
Pitts Bay Road
809-292-6319
Contact: Kerry Friel

Somerset Brokers Ltd.
Washington Mall
809-295-1646
Contact: John Harris

Treaty Consultants Ltd.
Spithead House
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809-295-8255
Contact: William Wanklyn

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Contact: Allan Thompson

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Clarendon Building
1st Floor, Church Street
809-292-3434
Contact: Alan Brown

Wigham Poland (Bermuda) Ltd.
Spithead House
Reid Street
809-295-2525
Contact: Stephanie Bryden ■



"We neglected to clean oily lint out of the ducts."

They weren't just spinning yarn. They were courting disaster. At 5:58 p.m., fire started in a spinning frame and spread through ductwork to other frames. At 5:59, while a few employees tried to put it out, someone called the Fire Department, which arrived at 6:04. But it was too late. With smoke and flame spreading rapidly, the plant was evacuated at 6:09.

Twelve hours and two million dollars later, the fire was under control. Poor housekeeping was a major contributing factor to the loss. Oily lint had been allowed to accumulate in non-sprinklered ductwork and crawl spaces. An electrical malfunction ignited the lint, and that was that.

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Industrial Risk Insurers

New Zealand insurer focuses on few lines

The U.S. branch of The New Zealand Insurance Co. Ltd. will discontinue underwriting all lines except marine coverage and treaty and facultative reinsurance.

New Zealand Insurance Co. Ltd., a member of The New Zealand South British Group, had previously written a broad range of property/casualty insurance lines through U.S. managing general agents.

The move is "not intended to reflect unfavorably on the company's MGAs," but merely reflects the insurer's intentions to expand its business in a few lines, the company says.

Insurers acquired

Crown Controls Corp., an Ohio-based heavy equipment manufacturer, has acquired Gamut Indemnity Co. and its wholly-owned subsidiary, Old General Insurance Co., for about $7 million in cash, the company announced.

The acquisitions will allow Crown to diversify beyond the heavy manufacturing area, where "meaningful growth would be a very slow process," according to Richard W. Rogers, a vp with the privately held maker of forklift trucks.

The two insurers will continue to offer a full line of property/casualty coverages and will insure Crown's exposures only on a "selective" basis. "That was not the reason we bought them," Mr. Rogers said.

Both insurers will become units of a newly created holding company called Legion Financial Corp.

The names of the insurers have also been changed. Old General's name was changed to Legion Insurance Co. and Gamut Indemnity's name was changed to Legion Casualty Co., Mr. Rogers said.

The two insurers will maintain their present offices in Shawnee Mission, Kan., and will open new offices at 12700 Park Central Drive, Suite 1600, Dallas, Texas 75260.

markets

Program for dentists

Poe & Associates Inc., the insurance brokerage based in Tampa, Fla., has signed an agreement with Fanwick & Rubin Co. to acquire management responsibility for Fanwick's insurance operation in New York state.

Fanwick had been administrator of the Professional Protector Program, a multicoverage insurance program for dentists that includes professional liability coverage. The program is endorsed by the Dental Society of the State of New York.

The program is underwritten by Whiting National Insurance Co., a Poe subsidiary.

The program will now be administered through Poe & Associates of New York Inc.

Acquisitions

Capital Assurance Co. Inc., a reinsurance subsidiary of Ryder System Inc., has acquired a one-eighth interest in **The First New York Syndicate Corp.,** one of the 13 original underwriting members of the New York Insurance Exchange.

J.R. Prewitt & Associates Inc., a property/casualty insurance agency based in Birmingham, Ala., has acquired the insurance division of **Roy Smith-Metro Inc.,** also of Birmingham.

USLife Corp. has agreed to sell its consumer credit division to **Dial Corp.,** a Des Moines, Iowa, subsidiary of **Northwest Bancorporation.**

The James B. Oswald Co., a Cleveland-based insurance agency, has announced its merger with **The George L. Blaha Insurance Agency,** also of Cleveland.

New offices

Johnson & Higgins has opened a new office in Riyadh, Saudi Arabia, to complement the activities of its J&H (Arabia) Ltd. unit, which is headquartered in Al Khobar.

The Al Khobar office will continue to serve the Persian Gulf area while the Riyadh office serves the central and western parts of Saudi Arabia.

The Insurance Corp. of Singapore Ltd. has announced the renumbering of its address to 6 Shenton Way, #05-00, DBS Building, Singapore 0106. The company's post office box, telex, cable and telephone numbers are unchanged.

TRC Environmental Consultants Inc. has opened a new office at 3377 S. Oakwood St., Salt Lake City, Utah 84109; 801-485-9466. TRC, headquartered in East Hartford, Conn., also has offices in San Diego and Englewood, Colo.

The Pace Group, a Dallas-based health care management and consulting firm, has moved to new offices at 14841 Coit Road, Suite 300, Dallas, Texas, 75248; 214-991-1410

Industrial Risk Insurers has opened a production office at 3250 Wilshire Blvd., Suite 900, Los Angeles, Calif. 90048. ■

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RISK MANAGER OF THE YEAR

JOHN A. O'CONNELL

By KATHRYN J. McINTYRE

NOTRE DAME, Ind.—To risk manager from purchasing manager.

John A. O'Connell converted quickly to become a pioneer in hospital and institutional risk management as executive director/risk manager of Holy Cross Shared Services Inc. in Notre Dame, Ind., the management arm of the 950-member Congregation of the Sisters of the Holy Cross.

In the 16 years since the Sisters first asked him, as a certified purchasing manager, to centralize the insurance purchased to protect their employees and their property at hospitals, schools and convents around the country, he has built a centralized risk management and employee benefit management program for their activities.

His program answers not only financial needs but also the Sisters' expressed commitment to social justice.

He consolidated insurance policies, started self-funding risks, directed investment of trust funds, developed a captive insurance company, wrote a new hospital professional liability insurance policy and orchestrated a national quality assurance/loss-control program that is holding malpractice claims below national averages.

The national property/casualty insurance programs protect $523 million in assets and $450 million in annual revenues, and the employee benefit plans cover 12,000 lay employees. Insurance and self-funded costs total about $25 million annually.

The congregation's national activities include nine hospitals with almost 3,000 beds, a four-year college, three secondary schools and 119 convent locations in 17 states and the District of Columbia. Campuses and foreign missions are located in five foreign countries.

The hospital risk management program has saved in the last six years at least $1 million and perhaps as much as $6 million on hospital professional liability insurance costs alone.

"At first, I saw this as a purchasing project—a group purchase contract," recalled Mr. O'Connell, sitting in his modest office in Bertrand Hall, a more-than-a-century-old building on the campus of St. Mary's College in Notre Dame.

The 125-year-old college was the first corporate venture of the Sisters of the Holy Cross, who came from France to assist the priests and brothers of the Holy Cross in the mission that became the University of Notre Dame.

"But as I moved into it, and as I became familiar with it, we developed a real risk management program," he said in his quiet voice, revealing pride in a job well-done by all without a hint of self-congratulation.

Mr. O'Connell's achievements in developing a centralized and effective risk management program for the Sisters' multitude of activities were the most outstanding from the field of candidates presented, according to the panel of independent judges that selected him as the 1983 *Business Insurance* Risk Manager of the Year.

The sixth person to be named *Business Insurance* Risk Manager of the Year, Mr. O'Connell, 57, is the first employed outside of a multinational corporation.

With all the same risks as for-profit organizations engaged in education and health care, Mr. O'Connell uses the same corporate risk management techniques: self-funding for predictable risks; a captive insurer to underwrite self-designed policies, control costs and access reinsurance markets; insurance and unbundled services from insurers and the services of outside consultants; and a computerized claims information system for instant access to claims data.

But there is a different element to his risk management program, a tone that pervades all the activities of the Sisters of the Holy Cross.

"Generally, people are interested in protecting assets," Mr. O'Connell observes. "The Sisters are interested in protecting assets, but they also are committed to doing justice for other people. They see moral responsibilities that are critical. We have a responsibility to protect the people who would suffer injury on our premises."

The Sisters' commitment to moral responsibility extends beyond their employees and patients. They insure all their volunteers, not only under their liability insurance, but also under their travel accident program with The Hartford Insurance Co.

The policy provides $25,000 of protection to all sisters, volunteers and lay employees and $50,000 to lay board members. "So if you are working for the Sisters in almost any capacity, they want to provide protection," Mr. O'Connell says.

The directions from the Sisters to design and maintain a risk management program that not only answers to financial needs but also to moral responsibility does not necessarily make Mr. O'Connell's job of maintaining an effective risk management program easier. The broader cov-

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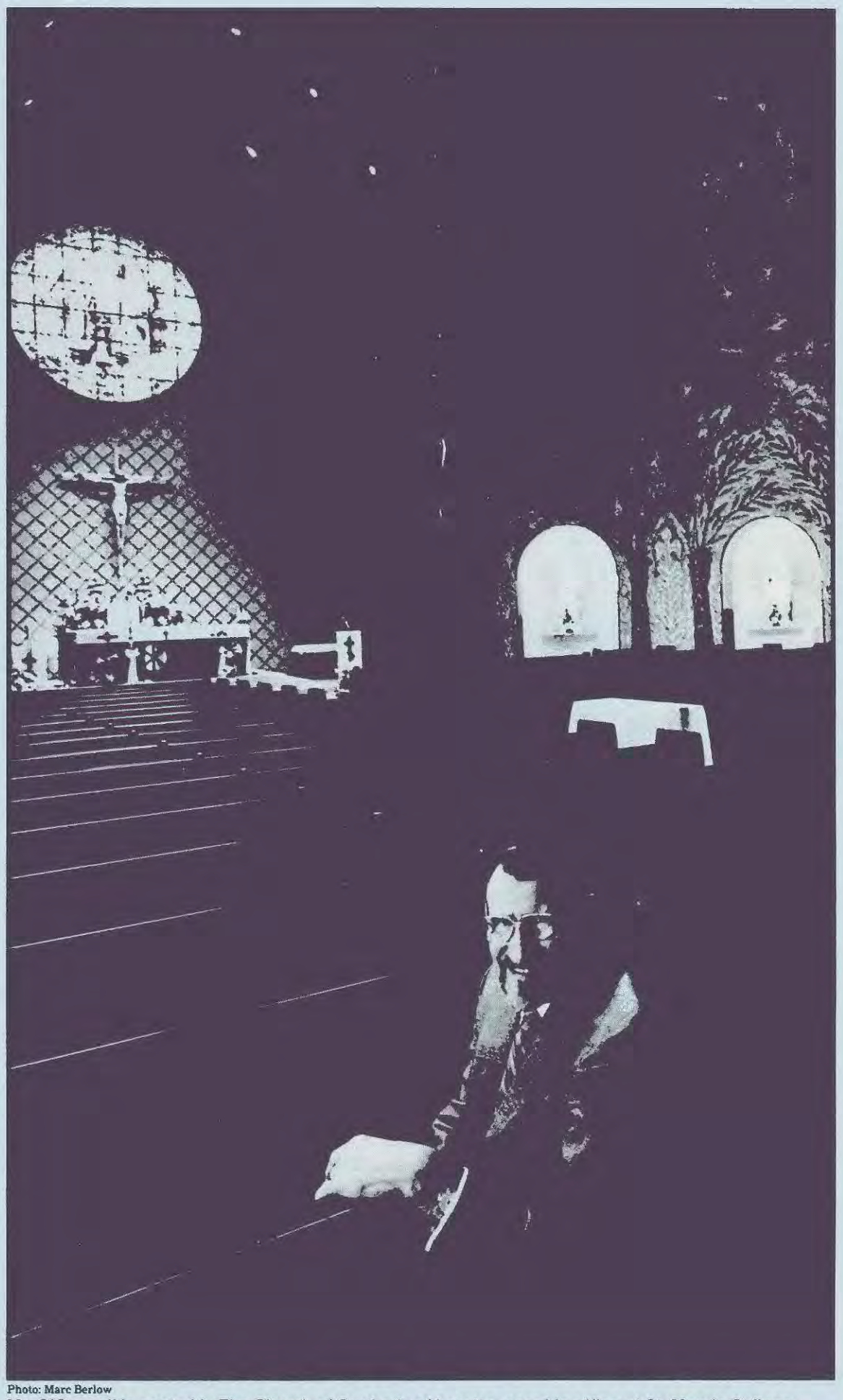


Photo: Marc Berlow

Mr. O'Connell is seated in The Church of Our Lady of Loretto, near his office at St. Mary's College.

Honor Roll winners

The 1983 *Business Insurance* Risk Management Honor Roll recognizes two outstanding risk managers for their response to the challenges presented by the distinctive scope and type of their employers' activities.

Jerri Nelson MacMillian is recognized for her achievement in the field of risk management for a corporation with sales exceeding $300 million annually. Mrs. MacMillian's accomplishments as risk manager for Aetna Life & Casualty Co.'s real estate investment department in Hartford, Conn., are described in articles beginning on **page 128**.

Robert L. Sinclair is recognized for his achievement in the field of risk management for a government entity, the Metropolitan Government of Nashville, Tenn., and Davidson County. Articles describing his risk management program begin on **page 128** also.

The *Business Insurance* Risk Management Honor Roll is designed to recognize exemplary risk management in various types of organizations. The winners of the honor roll designation are selected after the Risk Manager of the Year is determined by totaling all the scores given by the judges to all the nominees. The remaining candidates are then segregated into employment categories, with the category represented by the Risk Manager of the Year eliminated. The highest-scoring candidate in each remaining category is named to the Honor Roll.

The judges of the 1983 competition and the criteria they used are detailed on **page 135**.

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John O'Connell

Continued from previous page

erage needed may be more expensive than what a competing local broker could offer an institution.

"We're not only looking at insurance being competitive but also from the standpoint of social justice, so sometimes we are not as competitive as we might be. We have to convince people who are not always sisters."

Although an institution has to request permission to opt out of the congregation's national insurance program and all but two of the nine hospital administrators are sisters, the national risk management program was assembled through persuasion and not mandate.

"It took us better than 10 years to consolidate the whole program," said Mr. O'Connell, referring to not only consolidation of insurance policies, which took three years, but also of employee benefit and loss-control programs.

While committed to social justice, Shared Services also is results-oriented. The current program has achieved "excellent savings and better coverage," but, Mr. O'Connell recalls, "It took us a long time to convince people and to prove it."

The Sisters first tried to develop a centralized insurance program in 1960 as part of the management consolidation program that brought Mr. O'Connell to the congregation as a purchasing manager.

Centralized insurance purchasing under the congregation's general treasurer met with limited success, primarily because insurance was so inexpensive there was no compelling need to reduce some of those expenditures.

The philosophy of risk management also had been very broad. Although the Sisters were committed to an insurance program that would not only protect growing assets but also protect the people they employed and the people they served, their instructions to the various institutions were to purchase certain types of insurance.

The result: multiple policies and safety services designed and provided by multiple insurers.

As materials manager—a profession that evolved from purchasing management as risk management evolved from insurance management—and the newly appointed risk manager in 1967, Mr. O'Connell had one helper, Administrative Assistant Diana Hullinger.

Ms. Hullinger had been hired during the 1960 centralization as a secretary, was promoted to administrative assistant and is now assistant to the executive director, Mr. O'Connell.

Mr. O'Connell's plan of attack in 1967 was to learn something about insurance. "I had to learn the concepts first. I had to find out, 'What is this professional field?' I read books, texts, journals and signed up for a course in insurance."

With a foundation for his new assignment, Mr. O'Connell decided he had to consolidate the policies.

He hired EBS Management Consultants Inc., today's Ebasco Risk Management Consultants Inc. It was the beginning of a relationship with consultant Warren Brockmeier that continues today though Mr. Brockmeier later left EBS to join The Wyatt Co. in Chicago.

"I asked him to come in and survey the various insurance policies and coverages," including benefits, explained Mr. O'Connell.

At risk then were nine hospitals, three colleges, four secondary schools and numerous convents and retirement facilities throughout the nation and abroad.

What Mr. Brockmeier found were "more policies than I care to struggle through again," says Mr. O'Connell, recalling 11 different fire policies, five workers compensation policies and four different crime policies. Benefit programs, including pensions and health insurance, were scattered.

The purchase of insurance had been left to three geographic regions, with differing policies, brokers and risk management programs. There were gaps in protection, overlapping policies and limited cost-effectiveness. Policies almost completely lacked deductibles.

There also was "no coverage where the exposure was serious and coverage where the exposure was light," Mr. O'Connell remembers. "It was an insurance program, not a risk management program."

Mr. O'Connell digested Mr. Brockmeier's report and started to develop a new program. Mr. Brockmeier recalls, "It was very apparent that John was not going to take the responsibility for risk management lightly."

First, Mr. O'Connell consolidated insurance purchasing under one broker, O'Rourke, Andrews & Maroney Inc. in Fort Wayne, Ind., which already had placed some insurance for the Sisters.

"They were the most responsive to our needs," Mr. O'Connell said.

Since then, O'Rourke has helped Shared Services move into self-insurance, develop a captive insurance company, create and maintain loss-control programs and revamp its employee benefits programs, primarily on a fee-for-service basis.

The regional broker, now handling about $16 million in premiums, has held the account since 1967 because "they recognized at an early stage that they could do a real job for us in consulting and not necessarily in placing insurance and that is essentially what has happened," says Mr. O'Connell.

Mr. O'Connell instructed O'Rourke to package the property insurance for all facilities and for it to be written on a replacement value basis. Hartford Insurance Co. got the account, as it would more and more of Shared Services' business. Today, institutional property is insured at replacement values totaling $602 million.

Liability insurance coverages, merged and standardized by nature of risk, were insured under a retrospectively rated program with The Hartford. Consolidated were medical malpractice, workers compensation and general liability risks.

Umbrella liability insurance limits were increased to about $2 million from differing limits. Later limits were raised to $5 million, then $10 million, and eventually to today's $75 million per occurrence and $80 million aggregate for hospital professional liability insurance.

Although the Sisters had asked for a coordinated insurance program, Mr. O'Connell wanted the individual institutions to accept it willingly. He visited more than a dozen locations and by 1970 was successful in implementing a program that increased coverage 15 times at a cost of $147,000 less than the prior year.

He also wanted to upgrade the quality of the insurance purchased.

He suggested in 1970 that Mission Hills Hospital in California buy earthquake insurance, but the hospital said no.

Mr. O'Connell did not press the issue. "We've always tried to avoid going in with a mandate. We want to convince people." And, he was not in a position to fight a battle over earthquake insurance. "We had other programs to sell."

When the February 1971 quake struck California, the hospital was not knocked down, but the structural damage was so extensive that the building had to be torn down.

The congregation borrowed to rebuild the hospital and immediately purchased earthquake coverage under a builder's risk policy.

In the end, the congregation benefited from the federal government relief given to the earthquake victims, covering much of their loss.

Now all institutions, regardless of location, are insured against earthquake and flood losses under a difference-in-conditions policy with limits of $50 million underwritten by First State Insurance Co. and Northbrook Excess & Surplus Lines Insurance Co. Each institution assumes a $50,000 deductible on earthquake and flood losses under the DIC, except in California where the deductible for earthquake is 2.5% of value, with a $200,000 minimum and a $600,000 maximum.

Employee benefit plans were consolidated after the property/casualty programs (see story, page 123). There were, for example, four institutions with individual retirement plans with the National Health, Welfare & Retirement Assn., a retirement plan sponsored by the American Hospital Assn. The plans were not closed, however, because covered employees would have lost some investments, Mr. O'Connell said.

Instead, those plans were frozen and to this day the benefits from the older plans are used as an offset against the consolidated retirement plan benefits.

After packaging the property/casualty insurance policies, "I realized if we were to have reasonable losses and to reduce premium, we needed good loss control," recalls Mr. O'Connell.

Good loss control at that time entailed "annual visits by the insurance loss-control representatives to

Continued on facing page

On the cover

The cover photograph of John A. O'Connell was taken by Chicago photographer Marc Berlow at St. Joseph's Hospital in South Bend, Ind., one of the nine hospitals owned by the Congregation of the Sisters of the Holy Cross.

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Continued from facing page
the various institutions." And, the visits primarily concerned property loss evaluations.

Loss-control services were coordinated using specialists from O'Rourke and The Hartford.

"It was not until years later that we realized there was a great deal more to it than property and that we had to respond much more to what the institutions needed before we could bring it around to a solid program."

But he was realizing that there was more to his job than insurance and loss control, "and that's when we moved into risk management."

Mr. O'Connell's expanded risk mangement policy included: identifying and measuring risks, extending the existing system of funding for self-insurance, establishing insurable values and limits and developing programs for loss control, education and reporting.

Mr. O'Connell was relatively content with the insurance programs and his plans in 1974 but he saw problems developing on the horizon.

"John anticipated the malpractice crisis," says Jacquelyn Norris, assistant to the general treasurer and a member of the Shared Services staff.

"We had our malpractice and workers compensation in a retro program," recalls Mr. O'Connell, "so we had close tabs on our claims and losses. I saw losses going up and up." He also reviewed major claims around the country that exceeded those in the congregation's hospitals. "I figured it would lead us into real problems."

In the fall of 1974, Mr. O'Connell assembled a panel of experts to ask them what they thought of medical malpractice risks and how they thought the insurance industry would repond. The experts included representatives of The Hartford, attorneys handling malpractice defense and Jim Groves, director of risk management at the American Hospital Assn.

After the roundtable, the risk management department was "scared to death," recalls Ms Norris.

"We decided it was more than likely we would have to go to a captive insurance company," said Mr. O'Connell. "But we wanted to wait until the last minute because of the capital involved and the transition."

The project appeared awesome at first, but careful research and planning made the transition easy when the captive was needed and allowed Mr. O'Connell to introduce several other innovations including a new self-designed hospital professional liability insurance policy, allocation of insurance costs to institutions based on losses and upgraded loss-control and quality assurance programs.

Mr. O'Connell marks the creation of the captive, Havican Insurance Co., as the major turning point from an insurance to a risk management program. He had everyone's attention.

"The captive gave us the forum to expand upon the concept of risk management. We had to explain risk management to sell the captive."

Today, Havican underwrites hospital professional liability and unemployment compensation insurance and reinsures a portion of workers compensation risks (see story, page 117).

A self-insurance fund, known as the general insurance fund, and commercial insurance are also used (see story, page 116).

Looking back at 1967 and considering if he had known what he was getting into, Mr. O'Connell says: "Yes, I would have taken the job. I always enjoy a challenge and to research a project—planning about tomorrow and five years from now."

He is completely out of purchasing management now, a responsibility that was transferred to the congregation's Health System Corp. when management of the hospitals was reorganized in 1979.

The transition to risk manager from materials manager was not difficult, he says. "I really have tried—since I was not that knowledgeable of insurance—to look at the job as risk management.

"The purchasing manager's background provided the foundation for negotiations, which are extremely critical, and the concept of researching a product before deciding if it's a good or a bad buy. I followed the same approach in purchasing. I wasn't content in just purchasing. I was instrumental in the development of materials management. There is more to it than buying a product."

Is there another step beyond risk management?

"I'm planning on staying where I am" says Mr. O'Connell. "There is a great deal of work to do yet. As quickly as I work myself out of a job, the more there is to do.

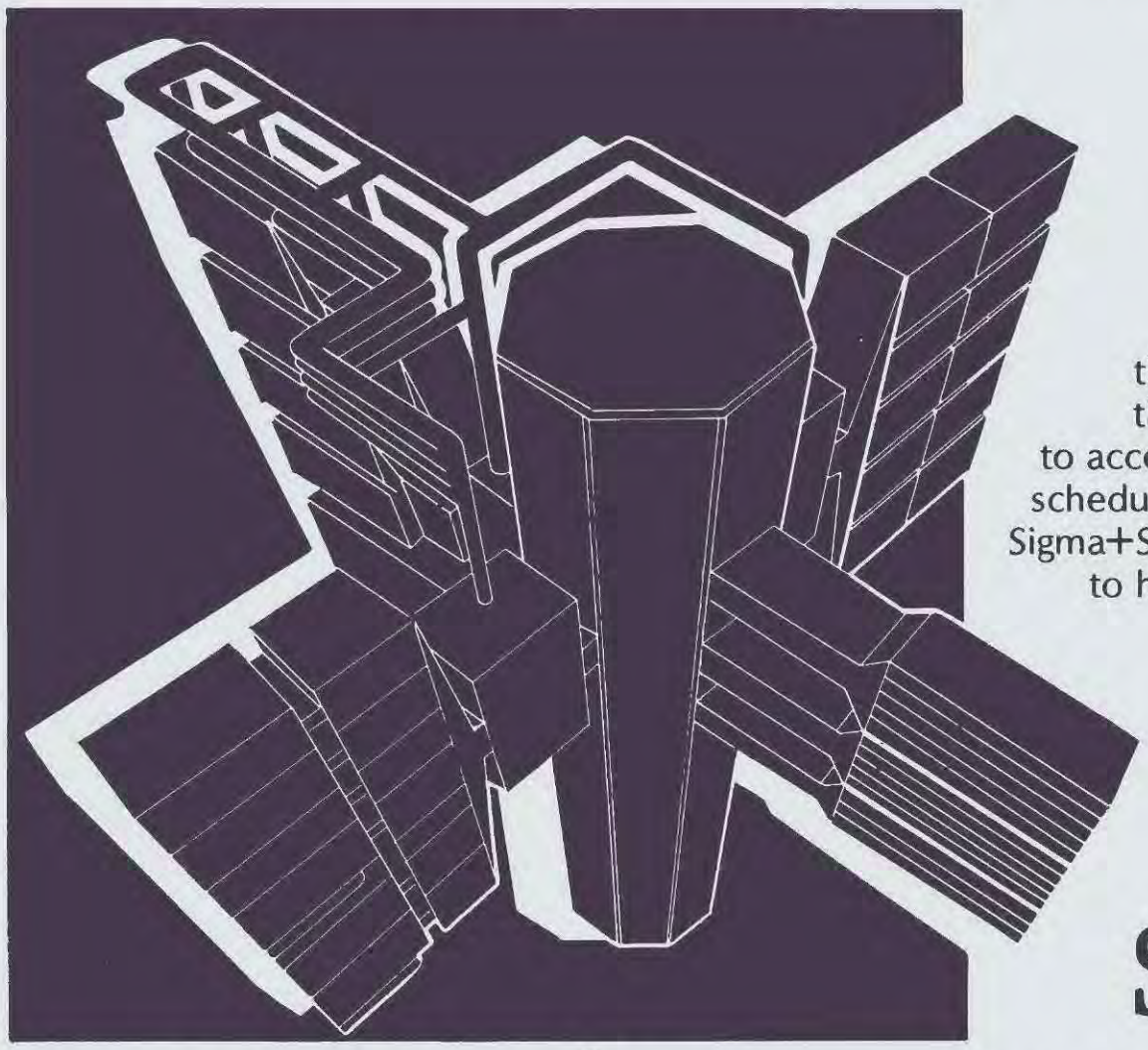
"Anyone who is successful does work himself out of a job. You reduce it to simplicity. But then you spend more time on a whole new facet. No job is static. You grow out of it, and you expand your thinking and the job grows with you. That's when you've been successful." ■



Photo: Marc Berlow

John O'Connell is flanked by Sister M. Bertrand, left, general treasurer of the Congregation of the Sisters of the Holy Cross, and Sister Olivia Marie, the congregation's superior general.

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O'Connell uses wide variety of risk-funding techniques

NOTRE DAME, Ind.—Holy Cross Shared Services Inc. uses self-insurance funds, a captive insurance company and commercial insurance to finance the risks created by activities sponsored by the Sisters of the Holy Cross.

Each of the Congregation's institutions is charged premiums based on its loss exposure and loss history. In total, almost $25 million is charged annually, $5.7 million for property/casualty risks, $521,000 for unemployment insurance, $13 million for life, health and long-term disability insurance and $5.7 million for retirement benefits.

A general insurance fund covers the package policy deductible of $10,000 over the $1,000 deductibles assumed by various institutions. It also covers the first $25,000 of business interruption losses and all auto physical damage losses over a $100 dedictible for the more than 300-car fleet used by Shared Services and the institutions.

If the general insurance fund builds up, the surplus pays for additional insurance. Currently, travel accident and the directors and officers liability insurance policies are purchased with the fund's surplus.

The travel accident policy is underwritten by The Hartford Insurance Group, providing $25,000 of protection to all sisters, volunteers and lay employees and $50,000 to lay board members.

The D&O policy, with a $5,000 deductible and a $10 million limit, is underwritten by International Insurance Co., a subsidiary of Crum & Forster.

Shared Service's captive insurance company, Havican Insurance Co., underwrites professional liability insurance for the first $1 million per occurrence and $5 million aggregate and unemployment compensation insurance.

It also reinsures The Hartford Insurance Group for the first $200,000 per workers compensation claim with a $1.2 million aggregate.

Commercial insurance markets are used to buy coverages that the insurers can offer more economically than Havican can and for protection against catastrophic losses.

Under the current program, which expires June 1, The Hartford provides the bulk of Shared Services' insurance policies. Specifically, The Hartford also underwrites:

- Two first-dollar comprehensive general liability insurance policies with combined single limits of $1 million, one for hospitals, excluding professional liability as insured by the captive, and one for non-hospital activities.
- One excess general liability policy for non-hospital activities with limits of $2 million per occurrence and $3 million aggregate excess of $1 million combined single limits.
- One excess hospital professional liability insurance policy for $2 million per occurrence and $3 million aggregate excess of the underlying $1 million/$5 million provided by Havican.
- One umbrella liability policy excess of the underlying policies with a $10 million limit.
- One excess umbrella liability policy excess of the underlying insurance and an intervening excess umbrella liability policy, with a $45 million limit.
- Workers compensation insurance for all lay employees in all states except Ohio, where it self-insures because the state fund monopoly precludes using commercial insurers. The Hartford reinsures with the captive Havican the first $200,000 per claim and $1.2 million aggregate.
- A specific stop-loss policy excess of $200,000 of self-insured retention for workers compensation claims in Ohio to a $5 million limit.
- Institutional property insurance at replacement value with a $10,000 deductible, including business interruption and miscellaneous property coverages.
- Property insurance on dwellings at specific limits per dwelling with a $100 deductible.
- A share of the difference-in-conditions policy through The Hartford's subsidiary First State Insurance Co.
- Automobile liability insurance nationwide, producing 300,000 per occurrence and $1 million aggregate for bodily injury and $100,000 for property damage with a $250 deductible.

Continued on facing page

Self-funding creates cash for captive

NOTRE DAME, Ind.—A successful self-insurance plan begun in 1972 provided the cash needed when Holy Cross Shared Services Inc. formed a captive in 1976.

A fund established in 1972 to reimburse state unemployment compensation funds for benefits paid to workers laid off by Holy Cross hospitals and St. Mary's College had accumulated far more than it needed to pay claims.

The fund was created after federal law for the first time allowed states to require not-for-profit organizations to participate in unemployment insurance plans. Instead of paying a payroll tax, however, non-profit institutions can reimburse the state funds as payments are made to former employees.

Shared Services opted to reimburse the state, in essence self-insuring the risk, because historically not-for-profit institutions laid off fewer workers and were not as strike-prone. The choice was based on an in-house study and the opinions of two claims servicing and consulting firms, Gates, McDonald & Co. and The Gibbons Co.

The institutions' losses were projected, appropriate fees charged and the money was set aside in an informal fund. Stop-loss insurance was purchased from Safety Mutual Insurance Co., initially to cover annual losses exceeding $50,000.

In 1976, when the Congregation of the Sisters of the Holy Cross needed cash to capitalize its new captive, the fund provided $1.5 million. Although Shared Services had been charging the institutions ever-decreasing rates for the coverage, there had been few claims.

When the federal government said in 1979 there had to be an insurance policy or a trust fund for hospitals to be reimbursed under Medicaid and Medicare for unemployment insurance costs, "We developed a primary policy," said John A. O'Connell, risk manager for Shared Services. Since Havican could underwrite the unique policy, it was more efficient than creating another trust.

Rates were developed actuarially and premiums were developed on a loss-sensitive basis, as the charges had been before. On average, the charge is 0.1% of payroll, compared with an average state rate of 3% of taxable payroll.

The only time Safety Mutual's stop-loss protection was tapped was in the mid-1970s doctors' strike in California. The doctors were protesting the medical malpractice insurance capacity crisis and the hospitals had to lay off people under the reduced services. When the losses climbed to just over the $50,000 retention and Shared Services called on its stop-loss coverage, Mr. O'Connell decided to raise the retention to $100,000. ■

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Continued from facing page

- A computer equipment floater with a $5 million limit and a $10,000 deductible.
- Four builders risk policies with limits ranging from $2.2 million to $16 million to cover four construction projects. Each policy has a $5,000 deductible.

John A. O'Connell, risk manager for Holy Cross Shared Services, places the bulk of his insurance with The Hartford because "as long as an insuring organization is competitive, I would like to keep as much of my business with them as possible to maintain my position as a valuable client."

Filling out the liability insurance program, for $80 million aggregate protection for hospital liability and $76 million aggregate for non-hospital actitivies, is Federal Insurance Co., a unit of the Chubb Group, with $17 million excess of the underlying insurance with The Hartford and Havican but below the $45 million excess layer with The Hartford.

New policies purchased for the current year ending in June include retroactive liability insurance and school board liability insurance.

Two hospital professional liability cases surfaced that involved treatment of children 20 years ago. "Had they come to court and the awards requested paid, it would have been way over our $1 million limits purchased at the time," said Mr. O'Connell.

"We were not underinsured at that time," he noted, since $1 million limits were not considered insufficient coverage 20 years ago.

The retroactive insurance was purchased from North Star Insurance Co., a subsidiary of General Reinsurance Corp. The policy, technically called prior acts liability insurance, adds $10 million of coverage to the limits purchased for each location for each year from June 1960 to July 1970.

The policy was not very expensive, just about $10,000, because the underwriter had the benefit of years of loss development to see the unlikelihood that claims would pierce the insurance. Other than those two cases, there has not been any claim exceeding existing coverage.

"We don't intend to use it," says Mr. O'Connell.

The school board liability insurance also was inexpensive, but it is a "great public relations item," says Mr. O'Connell. Although no teaching sister or employee has ever been sued, "we felt it was an exposure that should be covered."

Agricultural Excess & Surplus Insurance Co. underwrote the insurance with a combined single limit of $1 million and a $2,500 deductible.

Other property and liability policies purchased by Shared Services include:

- First-dollar liability insurance to protect a campus in Rome with combined single limits of $300,000 for bodily injury and $100,000 for property losses, underwritten by Chubb. Other foreign operations in Ireland, Israel, Bangladesh, Uganda and Brazil are insured under policies purchased locally through local brokers located with the help of broker O'Rourke, Andrews & Maroney Inc. of Fort Wayne, Ind.
- Boiler and machinery insurance with a $15 million limit per occurrence and a $10,000 deductible, underwritten by The Hartford Steam Boiler Inspection & Insurance Co.
- Fiduciary liability insurance with a $5 million limit and a $1,000 deductible, underwritten by Chubb.

In the employee benefits program, Aetna Life & Casualty Co. underwrites the health insurance plan on a split-funded basis and the life insurance on a one-way retro. Lloyd's of London underwrites stop-loss insurance on the trust that covers the Sisters' health care costs and an aggregate stop-loss policy on the split-funded health plan with Aetna that provides only specific stop-loss insurance.

All other benefits are self-funded, although investment contracts are placed with several insurers (see story, page 116).

Noticeably absent from the line-up of insurers for property/casualty risks are Lloyd's of London and the London market.

"We tried London when we first established the captive and for some excess insurance and found better markets in the United States," Mr. O'Connell said.

He also prefers the "closer control" a buyer has over a domestic company compared with the London market. "We know more about them. And, we do routinely analyze the financial stability of insurers."

Annually, consultants at The Wyatt Co. review all insurance policies, the insurers and the broker. It was a Wyatt study that convinced Mr. O'Connell to stop buying insurance from some foreign markets that had been on the account "because we realized some were in areas where economic conditions very poor."

Other studies have suggested certain coverages be improved and have noted developments of new markets.

Mr. O'Connell also instructs broker O'Rourke to test the markets, generally about every three years, with a different lineup for reveiw every year. "You wouldn't want to remarket all the coverage at the same time," he explains.

—By Kathryn McIntyre

Captive dividends offsetting premium hikes for hospitals

By KATHRYN J. McINTYRE

NOTRE DAME, Ind.—Dividends paid by its captive insurance company are mitigating the rising cost of professional liability claims for the nine hospitals affiliated with the Congregation of the Sisters of the Holy Cross.

Claims against the hospitals are increasing in number and size, forcing annual premiums up for the first time since the mid-1970s. But good loss experience from five and six years ago is helping to offset the rising premiums charged to the hospitals.

The hospitals also enjoy broad hospital professional liability insurance under a special policy issued by the captive, Havican Insurance Co., and accepted by excess insurers.

Havican has saved the hospitals a minimum of $1 million and as much as $6 million on hospital professional liability insurance over the last six years. Since professional liability claims can be filed years after treatment, the actual savings are still uncertain.

A unique unemployment compensation insurance policy also is underwritten by Havican for the lay employees of the Sisters, and Havican reinsures a portion of workers compensation risks for additional savings.

New coverages could be underwritten in the future by the 6-year-old captive, based on the results and recommendations of a consultant's report that is due soon.

Holy Cross Shared Services Inc. Risk Manager John A. O'Connell recommended that the Sisters create Havican in June 1976 because there was no other source of reasonably priced HPL insurance.

But the recommendation was not hastily made in desperation.

Mr. O'Connell and his staff had been researching the development of a captive insurance company for two years because Mr. O'Connell predicted that hospital professional liability insurance markets could disappear. Other hospital risk managers operating captives and consultant Warren Brockmeier at The Wyatt Co. helped Mr. O'Connell.

As he feared, by 1976 all insurers were running scared of medical malpractice risks, hiking rates to unprecedented levels at best and at worst, refusing to write the coverage.

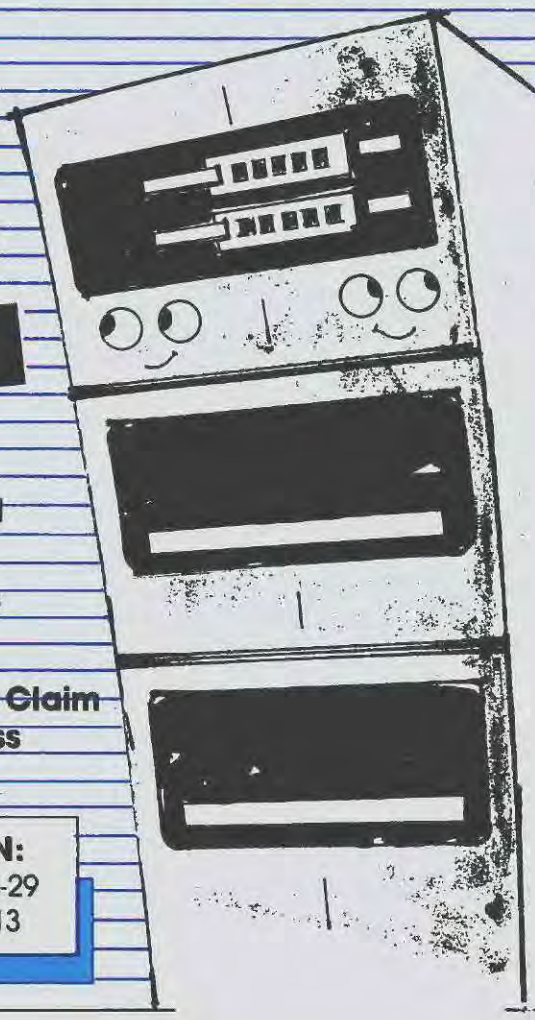
The Hartford, which by that time had insured the Sisters' affiliated hospitals for more than 10 years, offered a conventional retrospectively rated insurance program providing $1 million of coverage per location for a minimum premium of $3.9 million and a maximum of $7.1 million.

The expiring three-year retro plan with The Hartford, which in-

Continued on next page

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Captive covers hospital liability

Continued from previous page
cluded hospital professional liability, general liability and workers compensation insurance, had carried a maximum premium of $1.7 million.

"We could get claims-made (coverage), but we aren't interested," Mr. O'Connell said. "Our philosophy is that we will only provice occurrence coverage."

The reasons reflect concerns about moral as well as financial responsibilities.

The Sisters do not hesitate to close facilities if they are not meeting their purpose or to open new ones if they see a need. "Because we have a history of closing institutions and opening new ones, we don't want a latent liability we haven't provided for. We want to assure people working for us that they have the coverage, if they are sued today or 10 years from now," explains Mr. O'Connell.

On a strictly financial analysis, Mr. O'Connell says the savings offered by claims-made policies are illusionary for long-tail risks like professional liability. The claims and the cost of claims-made insurance catch up, he explains.

"We tried every possible alternative," recalls Jacquelyn Norris assistant to the Sisters' general treasurer and a member of the Shared Services staff. "None would work. We were trying to keep our excess in place, but over what?" The excess insurers would not pick up liabilities without an underlying insurance program.

Mr. O'Connell and Ms. Norris were so determined to test every possible insurance program that they even answered the late- night call of a Chicago broker who said representatives from the London market would be in Chicago the next day to discuss a program.

They were driving to Chicago the next morning when Mr. O'Connell suddenly remembered he was supposed to meet with the board of trustees of St. John's Hospital in Anderson, Ind.

A call to the hospital administrator did not extricate Shared Services from the commitment to address the trustees. Needed in two places at once with only one car, Mr. O'Connell and Ms. Norris solved the dilemma by calling the Shared Services offices and ordering a plane from a nearby chartering service. Mr. O'Connell dropped Ms. Norris at the airfield and he drove to Chicago.

Ms. Norris' presentation to the trustees was more successful than Mr. O'Connell's trip to Chicago. The London offer was unacceptable.

Mr. O'Connell and Ms. Norris also recall a meeting with an insurer in New York that was to be conducted over lunch. But before the sandwiches were delivered, the meeting was over. The offer was a "burning-cost retro and we knew who was going to get burned," said Ms. Norris.

A burning-cost retro allows for far greater swings in cost than a standard retro. The minimum and maximum premiums are set at much wider intervals. The adjusted premium is determined by dividing settled losses by a predetermined constant of less than 1, with the premium subject to the maximum and minimum.

No program better than Hartford's was found, and the market then was so volatile that offers made one day were withdrawn the next. To Hartford's credit, says Ms. Norris, it never withdrew its offer.

But the staff under Mr. O'Connell would not accept that offer. "We were convinced we were not going to have the losses they projected," she said.

Looking at self-funding alternatives, Mr. O'Connell was concerned, as were all hospital administrators, that whatever mechanism would be recognized by the federal government so that insurance charges would be reimbursed for Medicare and Medicaid patients.

"There was a great deal of discussion in '76 about what costs the goverment would reimburse. The indications were you needed a captive or a trusteed fund. We looked at both and we felt the captive had advantages over the trust," he said.

As it turned out, the government does require either a captive or a trusteed plan for reimbursement of self-insured malpractice costs. Hospitals insured with Havican never have had any problem receiving reimbursement.

A well-capitalized captive would be able to negotiate better reinsurance than a trust, Mr. O'Connell predicted. A trust fund always raises a question about control of the funds. Will the money be there to pay claims?

This issue of control over the funds also was a factor in Mr. O'Connell's decision to incorporate the captive in Colorado, the only state at the time that had enacted a specific law encouraging the formation of captives. Colorado had the credibility of higher capitalization requirements, an insurance regulator looking over his shoulder and public access to captives' financial data. "A reinsuer can check with the commissioner."

Mr. O'Connell also was looking forward to achieving tax-exempt status for the captive, which he did in 1977, removing any tax concerns that profit-making organizations using a captive must consider.

Finally, he was convinced that Colorado would be a stable environment for a captive insurer because the Colorado insurance commissioner is a civil service employee, not a political appointment that is subject to high turnover.

Mr. O'Connell did consider placing the captive in the offshore domiciles of Bermuda or the Cayman Islands, but "we didn't see any advantages to going offshore."

The proposal to form a captive to provide hospital malpractice insurance was presented at three meetings in the spring of 1976 in Chicago attended by representatives of the hospitals, usually chairmen and financial officers.

After the General Council of the Sisters, which also is the board of directors of Shared Services, approved the captive, Mr. O'Connell explained the captive to boards of trustees at all of the hospitals.

"Nothing brought this group together so much as forming this captive. It was something the businessmen trustees could understand," said Ms. Norris.

The new captive was incorporated in June 1976, just in time to provide the underlying insurance necessary to hold the excess insurance with Hartford in place. It was named Havican Insurance Co., after the religious order's late superior general, Sister M. Rose Elizabeth Havican, in the Sisters' tradition of naming trust funds after deceased superior generals. Sister Rose Elizabeth was very instrumental in developing financial programs for the congregation.

Havican was capitalized at $7.5 million, $1.5 million in cash and $6 million in letters of credit. The $1.5 million in cash was readily available from the self-insurance trust that had been created in 1972 to reimburse state unemployment funds after not-for-profit hospitals were required to participate.

Havican's good loss experience as created $6.4 million in surplus, allowing for two reductions in the letter of credit, the first time to $3 million and last year to $1 million.

Frank B. Hall & Co. of Colorado was selected as the resident manager of Havican and continues in that capacity.

Setting the first year's premium for $300,000 in per-occurrence and $5 million aggregate coverage was not easy. With the high quotes from commercial insurers compared with the previous, much lower costs, Mr. O'Connell on the advice of The Wyatt Co.'s actuaries set the first year's premium at $3 million for the nine hospitals and nursing school at St. Mary's. It was double the expiring three-year premium but $1 million less than the best commercial quote.

"While this was a conservative stance, it was appropriate at that particular time due to the uncertainties involved in entering into an area of insurance where turmoil was generally the order of the day," Wyatt comments in an actuarial report. Each institution was then charged a premium reflecting its loss experience.

In the second year, 1977-78, the premium was reduced to $2.7 million because of lower charges for services. In 1978-79, Havican increased its limits to $1 million per occurrence and $5 million aggregate while reducing its premium to $2.5 million based on loss projections by The Wyatt.

The premium continued to drop in 1979-80 to $2,163,867 and in 1980-81 to $2,042,411.

For the 1981-82 policy year

Continued on facing page

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Photo: Marc Berlow

Members of the Holy Cross Shared Services Inc. staff managing risk and employee benefits are, left to right, Director of Quality Assurance/Loss Control John Ramirez, Assistant to the General Treasurer Jacquelyn Norris, Risk Manager John A. O'Connell, Chief Accountant Mary Ann Merryman, Benefits Manager James Fitzpatrick and Assistant to the Executive Director Diana Hullinger.

Continued from facing page

Wyatt changed certain elements in its procedure for setting premiums and the resulting premium was increased to $2,248,304 in 1981-82.

For the current 1982-83 policy year, the premium was increased to $2,797,524, an increase of 24.4% compared with the previous year. The increase was "in line with the current frequency and severity trends seen by the industry and Havican for the professional liability exposure," Wyatt commented.

"Countrywide, the frequency and severity has historically been 9% and 12.9%. The corresponding Havican trends this year are 8.7% and 12.9%, slightly better than industry trends."

This year, however, the hospitals didn't feel the increased premium. It was offset by the dividends they received for excellent experience in the captive's first years.

Havican paid its first dividend in the 1981-82 policy year, $315,000, representing 10% of the total Havican expects to return on the first year premium of $3 million over 10 years. In 1982-83, Havican paid a total dividend of $735,000, of which $420,000 was the second-year dividend on the first policy year and $315,000 was the first-year dividend on the second policy year.

Against the first year's premium of $3 million, a dividend of $715,000 has been returned already. At this dividend rate, the hospitals will receive more in dividends than they paid for their HPL insurance in 1976-77, thanks to investment income earned on the reserves.

Havican waits five years before paying a dividend because "our claims peak in five years, then drop and stabilize."

In calculating the dividend, Wyatt analyzes the captive's losses and its surplus from either investments or loss reserves. The dividends are paid over 10 years, with the last dividend paid in the 15th year following the policy year.

With current increasing claims costs and the need to increase premium, Mr. O'Connell isn't ready to say that dividends paid in the 1983-84 policy year will offset the increased premium.

While Havican's premiums are rising to reflect increasing claims, commercial rates have been decreasing since 1978-79, according to Mr. O'Connell's market monitoring. But despite low rates from premium-hungry commercial insurers, Mr. O'Connell has not yet found commercial insurance coverage that would be less expensive than Havican's premium.

Of course, it would have to be exactly the same coverage provided under Havican's HPL policy, "and we don't believe we'd get a quote that would be much less. If it were, we would consider buying it."

The HPL policy issued by Havican was written by Mr. O'Connell with the assistance of Frank B. Hall's Colorado management staff, broker O'Rourke, Andrews & Maroney and the Shared Services staff. It is much broader than the typical HPL policy since Havican's HPL policy covers anything that happens to a patient, even a slip-and-fall injury. "And we deleted miscellaneous exclusions, to bring in any liability that exists now or could exist in the future in our health care program," Mr. O'Connell said.

Claims filed by visitors are covered by the general liability policy, which is still written by Hartford because it is less expensive than it would be for Havican to underwrite.

The primary insureds are the individual members of the Congregation, and then the institutions in order to provide broad coverage to the Sisters. This is essential, he says, because a large number of nuns administer and work in health care. "Say a sister consults for a clinic, a diocese or a nursing home. We can bring her under that policy as soon as we know she is doing the work. We would name her on the policy, but it is not required. The policy insures all the sisters of the congregation."

The first $100,000 of unemployment compensation claims also have been funded by the captive since the 1978-79 policy year.

Starting in 1980, Havican began reinsuring Hartford for the first $200,000 per workers comp claim with a $1.2 million aggregate. Before 1980, workers compensation risks were insured under a conventional retro plan with The Hartford.

Although all signs say Havican is a success, Mr. O'Connell is looking for an outside opinion.

On the endorsement of his current consultant, Mr. Brockmeier, Mr. O'Connell selected Betterley Consulting Group, a division of Tillinghast, Nelson & Warren, to study how well Havican has fulfilled the goals over the last six years of providing less-expensive insurance and a stabilized insurance market that is more responsive to the institutions' needs.

He also wants an analysis of what other lines of insurance Havican could underwrite more effectively and efficiently for the Congregation's activities. ■

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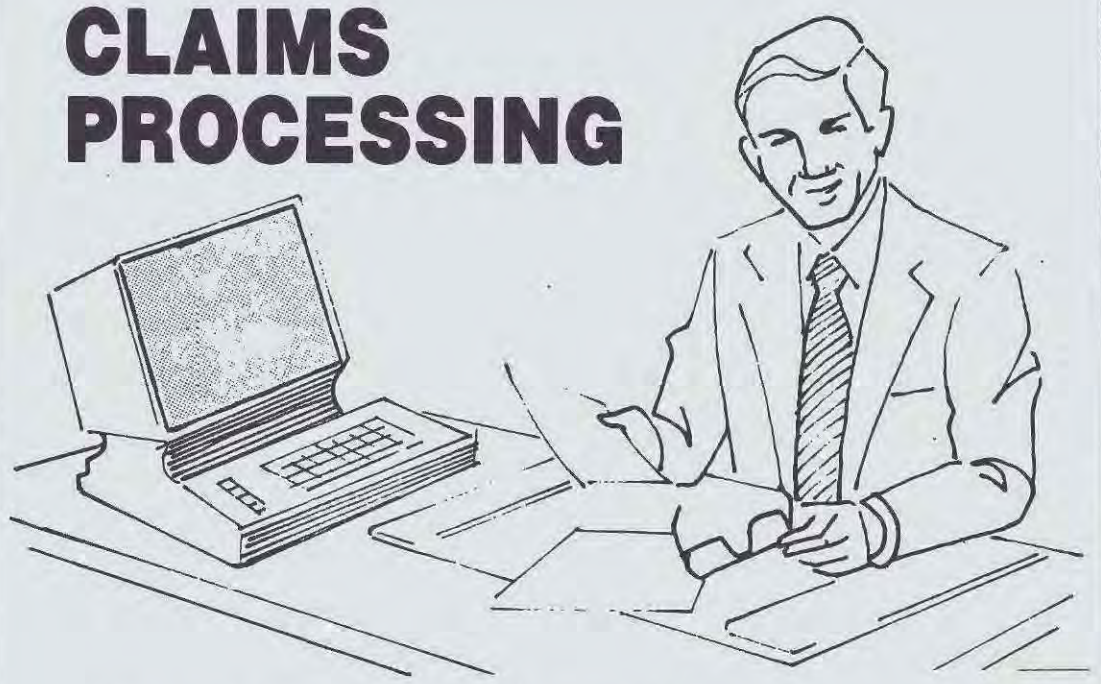
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O'Connell's program stresses loss control

By KATHRYN J. McINTYRE

NOTRE DAME, Ind.—In the smallest convent or in the largest hospital, Holy Cross Shared Services Inc., under the direction of John A. O'Connell, is concerned about preventing injury to people and losses to property.

A commitment to preventing losses wherever the Sisters of the Holy Cross work, live and sponsor activities is evident in structured quality assurance and safety programs and the addition six months ago of John Ramirez as Shared Services' director of quality assurance/loss control."The thing that truly has impressed me about John is his steadfastness of purpose in attacking the root cause of claims and the fundamental causes of loss," wrote consultant Warren Brockmeier of The Wyatt Co. in endorsing Mr. O'Connell's nomination for the *Business Insurance* Risk Manager of the Year award.

"The financing alternatives are fun, they are exciting and they can create instant heroes. However, while the results of firm involvement in loss control may not be as immediate or, at times, as visible, they can be much more meaningful over the long run. This is a fact that John O'Connell has never lost sight of."

Speaking at the luncheon held earlier this month by *Business Insurance* for Mr. O'Connell to celebrate his Risk Manager of the Year award, Mr. Brockmeier added, "Other risk managers may be more concerned about short-range results, but he wants to protect the assets of the congregation and keep the congregation doing its work not just this year but all the years this earth is here."

Mr. Ramirez attests to that commitment. "I've grown more professionally in the last six months than I did in the last 12 years. It's wonderful to work for a man who understands loss control."

Mr. O'Connell hired Mr. Ramirez with a long list of assignments, among them to coordinate the existing team of loss-control specialists Mr. O'Connell had assembled from Hartford Insurance Group and broker O'Rourke, Andrews & Maroney Inc. of Fort Wayne, Ind.

While highly complimentary of the loss-prevention and loss-control work performed by Hartford and O'Rourke, Mr. O'Connell wanted a loss-prevention specialist on staff for both effectiveness and efficiency.

Mr. Ramirez, who previously worked for M&M Protection Consultants, will work more closely with Hartford and O'Rourke and will assume more of the loss-control responsibilities in-house.

"We want to bring loss control in-house because loss control has got to be a concern of the institution or it is totally ineffective. It can't be dictated from outside." Mr O'Connell says.

"We want to make this as much of an in-house program as we can, where it is financially feasible and there are real advantages," he explains. "If we can't do it ourselves, or others can do it better, we buy it. We are not building an empire. But we want to do that which is efficient for us to do."

Loss control is more efficient for Shared Services to handle, Mr O'Connell believes.

Many of the small institutions, like the small schools and convents, need loss-control services. It's difficult to interest large insurers in such small risks. "They would do it, but we can handle it better," Mr. O'Connell says.

Already, Mr. Ramirez has toured the Sisters' convents on the East Coast. "I am concerned that they get interested in protecting themselves, with fire protection programs," he explains.

Mr. Ramirez will survey major facilities twice a year and the smaller ones once a year.

Other assignments for Mr. Ramirez include developing a procedures manual for loss control, particularly documenting the working relationship between the institutions and the loss-control specialists, and more closely monitoring and analyzing claims.

"With more self-insurance we need to become more involved in monitoring claims to approve settlements and suits," Mr. O'Connell says.

Mr. O'Connell started the philosophy of in-house attention to loss prevention in 1976 when he developed the idea of a quality assurance program to measure the effectiveness of preventive programs and the quality of care.

"It was one of those things we really had struggled with for a long time," Mr. O'Connell says. "How could we impress on the institutions the need for loss control over and above hitting them with premium increases?"

When the captive Havican Insurance Co. was established, "we felt this would be a good mechanism to continue the education that had begun in developing The Havican and in alerting the hospitals to what the problems were in the malpractice area.

"It seemed natural to continue that education and involvement in the hospitals."

To accomplish this, Mr. O'Connell developed an Executive Quality Assurance Committee, composed of the chief executive officers of all the hospitals. "It took off from there," he says.

Mr. O'Connell's brainstorm for the quality assurance program reflects how "astute and perceptive," Mr. O'Connell is, says Garth Newman, vp-loss control for broker O'Rourke.

"Loss control has a negative concept. You are already talking about a loss. He perceived quality assurance as the way to go. He came up with the ideas to gear activities to preventing losses from occurring in the first place."

"He is very astute and perceptive. He doesn't come from a hospital background but he can see things out of his field. It's a challenge for me to work with him, to be a step ahead," says Mr. Newman, who has worked with Mr. O'Connell for 10 years.

"John truly believes in loss control—it is not lip service," says the account executive from O'Rourke, Carl Hogan. "And it is not easy with institutions coast to coast, which like to do their own thing. It is a real talent to pull people together. He has done it by avoiding dropping the hammer, or having the congregation do it."

Along with the Chief Executive Officers' Executive Quality Assurance Committee, a Quality Assurance Committee was created composed of the local quality assurance coordinators appointed by each chief executive.

No manual as such was created for the quality assurance program because Mr. O'Connell wants to avoid a canned program.

Instead, Mr. O'Connell and O'Rourke's Mr. Newman developed a list of various loss-control criteria, from literature and their experience, for which reporting was possible.

The original list of 30-odd criteria was eventually boiled down to 21.

Among the criteria are incident reports, appointment and reappointment of professional staff, patient communications and medical documentation control.

Incident reports, for example, are reviewed for quantity and quality. (An incident is any occurrence that could result in a claim).

Reporting on appointment and reppointment of professional staff —including medical staff, midwives and technicians—involves reviewing how credentials and privileges of professionals practicing in the hospitals are checked. The percentage of references checked and the percentage of physicians who are staff- and board-certified are among the statistics reported. These areas closely follow the criteria established by the Joint Commission on Accreditation, which certifies hospitals.

Patient communications programs also are reviewed. The program can be written or oral, but Mr. O'Connell stresses that "it is important to provide patients with the opportunity to complain, if they have complaints. A just gripe like, 'My aunt lost her ring while she was visiting me,' can end up in a lawsuit for a gallbladder operation."

The patient goes home, still doesn't feel well and, on top of the aggravation over the lost ring, decides to sue for inadequate treatment, he explains.

"But if you buy the aunt a new ring, just gripes don't end up in lawsuits," he says. The patient may not feel as well as she hoped, but she doesn't blame the hospital.

Medical documentation control reporting involves reviewing patient files to be sure that all pertinent information is documented. The information required includes the patient's history, signed consent forms and a chronological history of the treatment and care.

The 21st criteria covering contracts is still being refined. Standards are being developed for the the local institutions to check their contracts with doctors, clinics, contractors and others so that every contract is not sent to the risk management department.

The local quality assurance coordinators are charged with coordinating the patient safety programs and this reporting. The same people generally coordinate the employee safety programs.

They meet twice a year as a group to review the measurement criteria, refine data collection techniques and study how to improve their work.

The CEOs' committee also meets twice annually to review systems and establish policy.

Every quality assurance coordinator completes all reports on a quarterly basis. Mr. Ramirez reviews the reports and they are presented to the joint quarterly meeting of the Executive Quality Assurance Committee and the risk management staff. The meetings are chaired by Mr. O'Connell.

The General Council of the Congregation of the Sisters of the Holy Cross also receives an annual report from Mr. O'Connell, including information on the quality assurance committee and losses.

In addition to completing reports, the local quality assurance coordinator works with the loss-control specialists from The Hartford and O'Rourke—and now Mr. Ramirez —to identify areas that need the most study and work.

The result is a master action plan that outlines the goals for the year, such as how certain reports will be used and reviewed. At one hospital, for example, all the incident reports may be reviewed.

"The master action plan responds to the critical needs, the areas that have the highest potential for loss," Mr. O'Connell explains.

The status of the master action plan is reviewed. If a project has

Continued on facing page

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Continued from facing page
been deferred, Shared Services will follow up and ask the quality assurance coordinator why.

After Shared Services reviews the reports and recommendations, they are sent to Holy Cross Health Care System Corp., the umbrella organization for the congregation's nine hospitals.

The Health Care System officials cooperate with risk management "generally to the extent needed," says Mr. O'Connell. The Health Care System's quality assurance program is handled by the sister in charge of apostolic services for the congregation, and she is the chairwoman of the Executive Quality Assurance Committee.

The quality assurance reports also are checked for thoroughness by on-site review. Early this month, for example, O' Rourke's Mr. Newman was meeting with representatives from The Hartford at one hospital to survey the appointment/reappointment reporting.

"I've talked with my contemporaries in the field, and the congregation's quality assurance program is far-advanced," notes Mr. Newman.

Mr. O'Connell says it is difficult now to compare the results of the quality assurance program with other hospitals'. "Generally, our claims are less than national averages, but how much is difficult to come up with. We are trying to do that now. It is something John Ramirez will work on."

Before developing the quality assurance program in 1976, the emphasis had been on controlling losses to the physical facilities, which was the concern of most institutions in the early 1970s.

Even though the quality assurance program was introduced in 1976 and Hartford's claims and loss-control services were retained on an unbundled services basis, Mr. O'Connell marks 1979 as the start of a "sound loss-control program."

That was the year "we were able to convince The Hartford that the loss-control program should be more tailored to what the institutions' needs were instead of a canned program. It took us until 1979 to get The Hartford to agree that quality assurance was the way to approach it. Before then, the master action plans were developed by The Hartford."

Mr. O'Connell believes the current system of asking the quality assurance coordinators what the needs of the institutions are in developing the master action plan with The Hartford is far more effective. The people in the institutions are setting their own loss-prevention goals.

"The Hartford has been extremely cooperative working with us to define our program, our needs," Mr. O'Connell stresses. "Hartford has responded extremely well."

In addition to helping the quality assurance coordinators prepare reports, and reviewing them, Shared Services provides the local quality assurance coordinators with "information to help them develop a program, including loss data (and) trend factors, so they can relate it to their own situation. If, for example, they are opening a new OB department, we tell them about potential risks and control factors that should be put in."

The loss data comes from data compiled by Shared Services from the nine hospitals and from national statistics. The national statistics are gleaned from the mammoth study of malpratice losses prepared by the National Assn. of Insurance Commissioners and from information from insurers.

Information from insurers is somewhat limited, however, because insurers consider much of their loss data to be proprietary.

As a result, about 10 hospital captives are working together to develop data, a project in which Mr. O'Connell is involved. Initially, the captives will use a computer service at a university to compile their data.

> **'The workers compensation safety programs at Holy Cross hospitals are better than in the average hospital, but we can see claims increasing. This is one of my priorities,' says Shared Services' John Ramirez.**

"This is the preventive approach. Loss control is retrospective—someone fell, why. We attempt to provide an assurance of quality in our health care so we don't have incidents later to deal with," he says.

Mr. O'Connell also is very cautious about assuming another organization's incidents.

The hospitals are expanding capacity, through mergers with other hospitals and clinics. Before a merger or acquisition, all new operations are evaluated for existing property and liability exposures by the risk management staff and the broker.

The hospitals are expanding because they average an 81.6% occupancy rate, which is higher than the industry average of 77.9% in 1981.

The system's high occupancy rate, which goes as high as 89.2%, is efficient use of medical care facilities, but it also increases the risk of accidents. Not only does the increased number of patients increase the risk, but personnel working at higher capacity are more likely to make an error than someone working at reduced capacity.

Shared Services' concern for safety doesn't stop with patients. Comprehensive safety site plans also cover employee safety, security, fire prevention and disaster planning.

Employee safety programs also are on Mr. Ramirez's list of projects. "The workers compensation safety programs at Holy Cross hospitals are better than in the average hospital, but we can see claims increasing. This is one of my priorities," says Mr. Ramirez.

The Sisters' safety while at the wheel of a car is tended to by Diana Hullinger, assistant to the executive director. She teaches sisters around the country defensive driving.

Ms. Hullinger began to teach the classes in 1975 soon after the Sisters decided to drive. Previously, once a woman joined the congregation, she stopped driving. When the congregation permitted driving again, some who had not driven for years "got in the car and just started driving," Mr. Hullinger recalls.

"After some experience, we decided we had better teach some defensive driving."

Only the teen-agers in the secondary schools and college students living on the campus of St. Mary's College in Notre Dame elude Shared Services' detailed loss-control programs.

"The greatest liability exposure is in our schools, but how do you teach several hundred teen-agers risk management?" asks Mr. O'Connell.

The three-day schools in and around Washington, D.C., enroll about 1,000 students.

"At St. Mary's College, we have 1,700 resident students. Some live in old buildings. And we don't have control over all their activities," Mr. O'Connell says.

But Shared Services can control the environment, and Mr. Ramirez already has surveyed the Eastern day schools and St. Mary's College for proper fire protection and programs.

The Eastern day schools, which are subject to state fire laws, are well-prepared, he said.

However, at St. Mary's College, the congregation's largest educational facility, Mr. Ramirez and O'Rourke's Mr. Newman surveyed every dorm to evaluate the exposures.

Recommendations written include "the standard," Mr. Ramirez says, such as keeping the hallways clear of posters that would fuel a spread of fire. In addition, they recommended that the college establish a safety committee.

The convent at Notre Dame "has a food safety committee chaired by Mr. Newman. It is very active," Mr. Ramirez noted.

Monitoring claims that do occur is another assignment for Mr. Ramirez.

He uses Hartford's new OSCAR system, an on-line information system that Hartford has just publicly announced. Shared Services' OSCAR system was installed in 1982, making Shared Services one of the first clients able to immediately access their claims files with The Hartford.

Every Monday, assistant Mary Anthony dials up the Hartford's computer and on a typewriter-size printer requests a printout of all claims exceeding $25,000. She compares the current week's report with the previous week's report to find any new claims. When new claims appear, a status report on each claim is then printed out, available in short and long forms.

A report on claims also can be requested by line of business, location, date of loss, type of claim or injury. Information on policies can be requested and a new customized loss-reporting feature allows the user to decide the criteria for selection, sorting and display of claims information, in summary or detail.

Shared Services still receives large reserve memos from Hartford. The regional claims office sends these memos describing all claims for $15,000 and up.

Shared Services requires that Hartford seek approval before settling claims above certain limits. On malpractice, Hartford can settle up to $15,000. "We want to monitor the claims more than to control The Hartford," Mr. O'Connell notes. "We are very pleased with The Hartford's reserves."

And, Shared Services is still on the regular loss-reporting system from The Hartford. It receives monthly statements on hospital professional liability losses and quarterly for all other lines. In these reports, claims are analyzed by location.

Analysis shows that the largest claims have been filed against hospitals in the Midwest, although the hospitals in the East and West receive far more claims. Claims settlements are handled by Mr. O'Connell, the hospital administrator and The Hartford. "We review every lawsuit and follow up on it," Mr. O'Connell says.

The largest liability loss suffered was $1.1 million, which stemmed from a misdiagnosis in an emergency room. The event occurred in the 1978-79 fiscal year, and the claim was settled in 1981. It was the first and is the only claim exceeding $1 million. And this was from a hospital with practically no loss experience at all.

Claims are increasing in both frequency and severity. "It is the mentality of the people because it is difficult to find redress in any other manner—so people go to the courts. The mediation panels have had limited results. In states with patient compensation funds, the funds are in serious trouble."

To assist in analyzing claims and to complement Hartford's OSCAR system, Mr. Ramirez hopes to purchase a microcomputer.

Besides claims analysis, he would like to compare workers compensation claimants to benefit claimants. "We think the same people filing accidents are filing benefit claims," Mr. Ramirez said.

If that is true, Shared Services could alert the manager that these people need closer supervision and maybe even wellness programs, says Mr. Ramirez. ■



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O'Connell listens to others to gather new program ideas

By KATHRYN J. McINTYRE

NOTRE DAME, Ind.—John O'Connell asks a lot of questions as executive director/risk manager of Holy Cross Shared Services Inc.

He asks questions of his staff, his colleagues and the experts he has hired to help him to get the best information he can to develop and refine the risk management program for the Congregation of the Sisters of the Holy Cross.

He doesn't let preconceived ideas prejudice him against the answers he hears, those who work with him say.

And now that he has 16 years of accumulated answers in risk management, he shares them with others who are newer to the profession.

Open to new ideas, willing to share information, ethical, insightful and accomplished, low-key in appearance but a bundle of energy, decisive and very modest is how associates describe Mr. O'Connell.

His staff stresses his style of participative management.

"He believes in participative management," says Diana Hullinger, assistant to the executive director. "He always asks us for our opinions and our ideas. Never in 23 years have I been told, 'That is a stupid idea.'"

"He gives us huge freedom," says Jacquelyn Norris, assistant to the general treasurer of the Sisters of the Holy Cross and the resident expert on investments, financial statements and computers at Shared Services.



Photo: Marc Berlow

John O'Connell is described by associates as ethical, insightful, open to new ideas, willing to share information and very modest.

"We are supposed to come up with ideas and he always listens," Ms. Norris adds. "Most of the time, he says, 'Let's try it.' Or he may say, 'Not yet.' If it is not a good idea, he will say so and he explains why."

His participative style also extends to his dealings with his insurance agent, says Carl Hogan, who has worked on the account for broker O'Rourke, Andrews & Maroney for six years.

"John is very open with me so that I know where he wants to go," he says. "He makes me more effective as his agent by dealing with me on a participative basis. I don't have barriers. If I need to talk to

Continued on facing page

Sisters offer benefit variety

Continued from previous page

The life insurance benefit drops at age 65 and again at age 70 with a minimum benefit of $5,000, which is soon to be raised.

The long-term disability plan, also employer-paid, dates back to 1974 when personnel directors of the various institutions said there was a growing need for a disability program to cover non-exempt as well as exempt employees. Insurers were reluctant to write one plan because so many women were employed and women traditionally file more LTD claims. Mr. O'Connell eventually found two or three markets and chose Lincoln National.

Now, LTD benefits are self-funded in the national benefits trust held at Continental Illinois National Bank & Trust in Chicago and, as of this month, are self-administered. The administration was brought in-house to have more control over the payment of claims.

The health insurance benefit is the only benefit designed by each local institution, but all the plans are funded through the national benefit trust under a split-funded program with Aetna Life & Casualty, which administers all claims.

Each location is charged a premium actuarially based on losses and employees' share in the costs. But, if one location has an odd bad year, its premiums do not necessarily rise thanks to the pooling of funds. If a bad loss trend continues, the institution's premiums would be increased.

Aetna is paid for claims services and the remaining money is paid to the trust, which is drawn on by Aetna to pay claims. A stop-loss policy provision caps losses at estimated claims.

Although the local institutions design their own benefit plans, Shared Services does offer advice on how to control rising costs. One of the recommendations, to use more outpatient services, almost seems to run at cross purposes to the nine hospitals, which have varying levels of outpatient services. About 57% of all hospital costs covered by the institutions' health plans are paid to affiliated hospitals.

None of the health care plans will pay for the cost of a voluntary abortion or sterilization, as dictated by Roman Catholic doctrine. "I think employees understand the position of a Catholic institution," observes Mr. Fitzpatrick.

Standing behind its support of adoption, the Sisters recently added an adoption benefit program. It provides up to $1,000 to reimburse the expenses associated with adopting a child. Medical and surgical expenses for the natural mother and legal and agency fees are reimbursed. The first adoption claim has just been paid out of the national benefits trust.

All benefits are explained to employees through a new series of benefit handbooks being prepared with the assistance of consultant Hewitt Associates of Lincolnshire, Ill. Slide shows, also prepared by Hewitt, were used to explain the retirement and savings plans.

Mr. O'Connell, Mr. Fitzpatrick and Jacquelyn Norris of the Shared Services staff toured all the institutions across the country to show the slide show, hand out booklets and answer questions.

Because the sisters take a vow of poverty when they join the Congregation, they are not covered by any of the benefit plans provided lay employees. Their health care costs are paid by the Congregation out of a separate self-funded health care plan with stop-loss insurance provided by Lloyd's of London. Money also is reserved to care for retired sisters, but it is not really a pension plan.

The sisters are covered by Social Security by their own choice. ■

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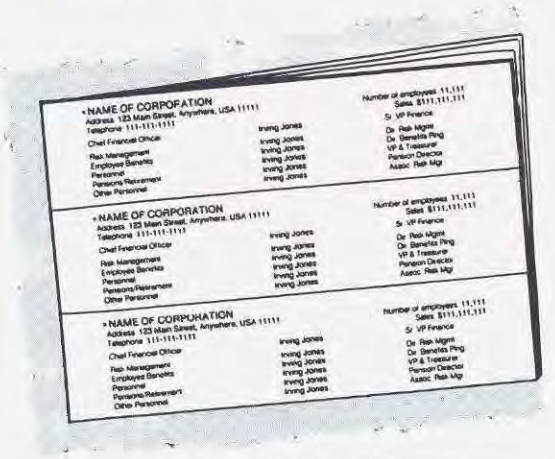
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him, he'll take the time."

"I'm impressed with John," says Benefits Manager James Fitzpatrick, "because he seems to have all the time in the world. I can go in there any time and he is very patient."

Mr. O'Connell also reaches out beyond his own staff for opinions.

Soon after he started handling insurance for the Sisters, he developed a risk management manual, which he sent to experts in risk mangement he had met at an insurance seminar. He asked them to tear it apart, and he says the comments he received were very helpful in preparing the final manual.

When he started working on a captive insurance company, he asked for the opinions of those who had worked on captives. Among them was Gene Marsh, who had just set up a captive to insure the professional liability risks of the hospitals operated by the Seventh-day Adventist Church. Mr. Marsh, who was named to the 1982 *Business Insurance* Risk Managment Honor Roll as the outstanding risk manager for a not-for-profit institution, is now president of CHA Insurance Services Inc., which provides insurance services to California Hospital Assn. members.

After spending a day with Mr. O'Connell and his board of directors in 1975, Mr. Marsh recalls, "He struck me then as someone with a very open mind to considering a wide range of alternatives. So often risk managers have pet approaches to solving problems."

After Shared Services' captive, Havican Insurance Co., was first formed, Mr. O'Connell asked for an advisory board comprised of representatives from the facilities insured, including St. Mary's College. Serving on the board was an education for the trustees.

Three years ago, at Mr. O'Connell's request, the board was reconstituted. Insurance and financial experts were asked to volunteer their time as individuals, to attend meetings and advise Mr. O'Connell.

Those who accepted the invitation and are still on the board are: Richard Fister, president of Fister & Associates in St. Louis; Clinton Greene, director of the national accounts department at Aetna Life & Casualty Co.; Eugene Cudworth, president of Hospital Underwriters Mutual Insurance Co. in Albany, N.Y.; and Raymond Roberts, a retired judge living in Auburn, Calif.

These men meet once a year to review what the risk management group is planning to do for the coming year. One thing they have done is encourage Mr. O'Connell to buy higher limits of excess insurance for reasons outside of malpractice risks, including the liability assessed in recent hotel fires and the growth of lawsuits.

Asking the Betterley Consulting Group division of Tillinghast, Nelson & Warren to review the performance of Havican continues in the O'Connell style of taking every opportunity to ask others what they think of what he is doing in hopes of improving his programs.

"He is intellectually honest and an easy person to work with," observes Charles T. Tagman Jr., a Betterley vp and principal, who has recently met Mr. O'Connell.

"He is very candid, open and very receptive to new ideas. He is not protective of what has been done. He wants constructive criticism and an objective evaluation. Sometimes people say they want an objective evaluation and then they try to convince about what they have done."

Once he has answers, Mr. O'Connell delegates the work.

"He is very comfortable sending other people to do something," says Ms. Norris of the Shared Services' staff. "He is very supportive and the first to say, 'You have done a good job.'"

"John could be spread very thin," observes broker Mr. Hogan. "but when he trusts people, he has confidence in them to do the job."

There is an obvious espirit de corps at Shared Services, with staffers casually popping their heads into Mr. O'Connell's office to give him an update on a project.

Mr. O'Connell succeeds at participative management and in geting the most out of other peoples' opinions, Mr. Hogan suggests, because "he doesn't have a giant ego that one can find with people with his responsibilities. And that makes him far more effective. He doesn't patronize. He doesn't just ask a question to ask it. He is genuinely interested in other people."

"He is very modest," Ms. Norris adds. "He never toots his own horn. It's one of the reasons this is such a different place to work. He is not pushing for his place, his glory.

"When he found out he had been selected Risk Manager of the Year, he came out and gave me a hug," she said.

In accepting the award earlier this month, Mr. O'Connell accepted it also on behalf of his staff and the congregation.

Ms. Hullinger says Mr. O'Connell is a good manager because he truly practices what he believes in. "He is extremely ethical."

Ethical is a word almost everyone uses when asked to describe Mr. O'Connell.

"I have known him 23 years. He, above any other individual I have ever known, lives what he believes," says Ms. Hullinger.

"His dedication to social justice is reflected in all of the decisions he has made," she adds. "Look at the benefit program. We have a lot of small locations around the country that may have one or two employees but they have always been included in our benefit programs that otherwise would not be available to them."

In insurance buying, Mr. O'Connell is extremely ethical.

Mr. Fitzpatrick recalls that when he was hired, Mr. O'Connell stressed that he should never let brokers or insurers or other suppliers always pick up the bills for lunches or other meetings.

"We don't want to feel obligated, so we always trade off on the checks," Mr. Fitzpatrick explains.

In Ohio, Shared Services buys a special specific stop-loss policy for its self-funded workers compensation risks. The Ohio hospital is precluded from participating in the nationally insured program with The Hartford Insurance Group by the state's ban on commercial workers compensation insurance.

Ohio also does not permit the purchase of aggregate stop-loss insurance for workers compensation risks, leaving self-insurers with a huge potential uninsured liability in a major catastrophe.

As any good broker, Mr. Hogan suggested once that there might be a way to structure an insurance program to cap this liability, but there would be a risk of being found in violation of the prohibition.

Mr. O'Connell said no, instructing his broker to buy the permitted specific stop-loss insurance.

"I don't believe in being unethical," Mr. O'Connell explains. "There is too much we can do without moving out of being perfectly ethical. I believe in being ethical and the organization I work for believes in it."

Mr. O'Connell believes that if a regulation is so cumbersome, a risk manager should "work to remove the regulation, correct the inequity, instead of circumventing it."

In Ohio, Mr. O'Connell notes, "there are some changes in the works and we are hoping they will come around."

People who work with Mr. O'Connell also comment frequently on his instincts and foresight.

He predicted that insurance markets for medical malpractice would contract during the last decade and so started investigating a captive insurance company.

He saw that the congregation's workers compensation insurance costs were rising at a rate that would soon make it feasible for the captive Havican to reinsure The Hartford for some of the risk.

He suggested that Havican begin reinsuring The Hartford for the lower layers of workers compensation claims before Holy Cross' activities were generating $1 million in premiums, which many believe is needed to make self-funding of this nature work.

"We were a year or two early as far as premium," said Mr. Hogan. "We were at $750,000, but the best deal is never cut in the first year, and we redesigned the program as it went along." It is now operating at maximum efficiency since Holy Cross' activities generate $1,755,849 million in premium volume.

"He has good instincts," says Mr. Hogan.

"I felt that moving earlier would get a little more experience and a better base for Havican," Mr. O'Connell says.

He is always looking ahead. "There are very few subjects that we haven't discussed," says Mr. Hogan.

Under discussion now is the possibility of another medical malpractice insurance crisis.

"There more than likely will be a lack of market not only for hospitals but also doctors. So we are directing our thinking to not only what hospitals can do but what doctors can do.

"We can't sell insurance to doctors under Havican but we are trying to investigate ways we might help doctors obtain coverage."

Mr. O'Connell also is concerned about indications that the liability of doctors and the hospitals is "very much one and the same." Several court cases are holding hospitals liable for the competence of doctors practicing in their institutions. "I am trying to evaluate what that means. How will we respond to that?"

In addition, Mr. O'Connell is concerned about "more and more risks and liability exposures for not-for-profit institutions.

"There was a time when a not-for-profit institution was not sued for anything. Now there is the risk of an antitrust suit or a discrimination suit."

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O'Connell doesn't want any surprises

Continued from previous page
antitrust suits, which for Shared Services would come primarily from doctors suing for denial of privilege.

Mr. Hogan recalls that on the first meeting with Mr. O'Connell, the risk manager told him he didn't want any surprises. "He has one overriding concept: no surprises. He wants to know about problems so that he can deal with them."

Linda Crookshanks, business manager for The Hartford Insurance Group's medical malpractice line, who has known Mr. O'Connell for four years, suggests he does think about—and understand—all aspects of his profession.

"One of the areas I admire most is his understanding of the integration of all the pieces in a risk management program and his tremendous knowledge of all the various elements" from insurance to loss control to alternative risk treatment techniques.

Ms. Crookshanks usually doesn't get involved in day-to-day account activities but says, "I stay involved with this one. It is an important account, but it also is the caliber of people involved. It's a growing opportunity for me as well."

Says Mr. Tagman: "Mr. O'Connell has demonstrated a well-rounded knowledge to respond to all the areas of risk management, insurance, finance and investment strategy. Not all risk managers can. They generally are strong in certain areas."

Mr. O'Connell's expertise is shared outside of Holy Cross. "He has developed a reputation. Other congregations call him up and ask him for help," says Mr. Hogan.

In the height of the medical malpractice crisis, he and Ms. Norris spoke to other hospitals that were just waking up to the problems and searching for solutions. Mr. O'Connell also convinced a magazine called Catholic Hospitals to run articles on risk management, one of which he wrote.

"I do try to make myself available to other people, other religious organizations, with the blessings of the congregation," Mr. O'Connell says. "I'm interested in seeing risk management develop as a real professional area. I am willing to help anyone who wants to pursue that."

He has made more than a dozen presentations on risk management since 1974, written articles, taught risk management for not-for-profit institutions at Notre Dame and is a member of the Risk & Insurance Management Society and the American Risk & Insurance Assn. He is a charter member of the American Society for Hospital Risk Management.

Mr. O'Connell also served on a committee of the Catholic Hospital Assn. to evaluate the creation of a captive to reinsure self-insured hospitals.

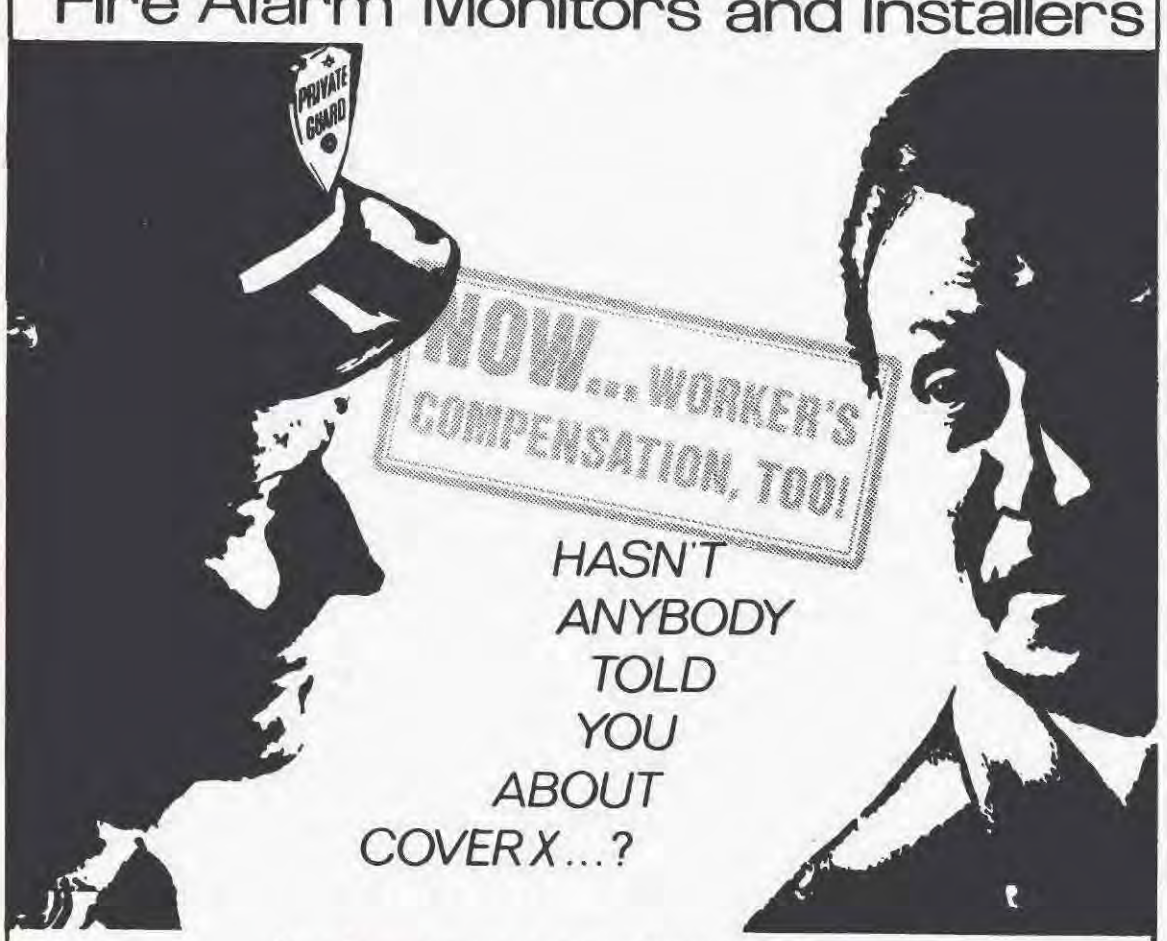
Mr. O'Connell updates his knowledge by attending at least two seminars every year.

But he asks questions in other areas, too. A 1947 graduate of St. Louis University with a bachelor of science degree, Mr. O'Connell is now a thesis away from a master's degree in business administration from the University of Notre Dame.

His thesis is on the reorganization of a cooperative venture between St. Mary's College and the convent, another of his projects. It is not on risk management because he took the MBA courses to expand his knowledge in management areas relating to health care and education.

"I want to better understand them and so I can better understand the risks," he explains.

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Sisters establish non-profit agencies to carry out works

NOTRE DAME, Ind.—In its 140-year history, the Congregation of the Sisters of the Holy Cross have opened schools, orphanages and infirmaries, volunteered as nurses in the Civil War, founded hospitals around the United States, volunteered to assist refugees of the wars in Southeast Asia and the Middle East and staffed missions in foreign nations.

A religious order founded in France, the Sisters of the Holy Cross sent some of the first members to the United States in 1843 to what is today Notre Dame to assist the priests and brothers of the Congregation of the Holy Cross.

From their first corporate venture, St. Mary's College in Notre Dame, the sisters have founded three other not-for-profit institutions to carry out their work.

The institutions, with $523 million in assets, generate $450 million in revenues annually.

Holy Cross Health System Corp. operates nine hospitals. Sisters of the Holy Cross Inc. operates St. Mary's Academy in Alexandria, Va., and retirement houses, convents and other congregation property.

Holy Cross Shared Services Inc. is the management arm of the congregation, operating the risk management programs for all the other activities and Havican Insurance Co, a Colorado domiciled captive insurance company.

The 950-member Congregation of the Sisters of the Holy Cross controls all of these organizations, either directly or indirectly, through its elected General Council of Sisters.

The members of the General Council not only govern the congregation and two day schools St. Cecilia's Academy in Washington, D.C., and the Academy of the Holy Cross in Kensington, Md., but they also direct the activities of the sponsored subsidiaries through memberships on their boards or through a shareholder/corporate member relationship.

The members of the General Council, for example, are the members of the board of directors of Shared Services.

Holy Cross Shared Services Inc. was created by the Sisters "so that we could perform the management functions for the congregation," explains Executive Director and Risk Manager John A. O'Connell.

Although the same team performed management functions before incorporation, "we wanted to expand, and so it was advisable legally and practically to incorporate and to define the areas we acted in." Shared Services was incorporated just shortly before the captive Havican Insurance Co. was formed.

Shared Services is involved in more than risk and employee benefit management.

The Shared Services staff provides campus management services, primarily for St. Mary's College, legal services, financial management, an automobile fleet and safety program and other services needed by the congregation and its sponsored institutions.

For example, campus management alone encompasses plant operations, housekeeping, nursing services, personnel, dietary and purchasing services.

Legal services provided by Holy Cross Shared Services include the Sisters' individual income tax returns when required because of estates, tax exemptions, contract reviews and consulting on benefit and insurance administration.

Financial management offered by Shared Services ranges from financial assistance required by the congregation in such areas as accounting, payroll tax reporting, preparation of financial statements and government reporting to the administration of the Sisters' health care plan, administration of employee benefit trusts and the retirement plan, investment accounting, reporting for benefit plans and computer support for the congregation.

The automobile fleet is owned and leased by Shared Services, which delivers vehicles to the instituions, rents vehicles when needed, disposes of worn-out cars, consults on maintenance, assists with claims and repairs and provides defensive driving courses.

In addition, under other services, Shared Services supervises the in-plant print shop, assists with property management at St. Mary's College and all convents around the country, assists in general management and provides volunteer assistance to other religious organizations that call for help.

Mr. O'Connell says he can spend 70% of his time on risk management and 20% on employee benefit management while overseeing all these other management chores by "delegating" duties to the 13-person staff. He divides duties based on the most effective use of skills while retaining ultimate authority for decision making.

Holy Cross Health System Corp. was created in January 1979, a major organizational change in the corporate management of the association of the eight hospital corporations.

The system and its board of directors are ultimately accountable to the congregation's superior general and the General Council in Notre Dame. The members of the board and the president of the corporation are appointed by the congregation's General Council.

Since 1967, each hospital has been governed by its own board of trustees, composed of an equal number of lay persons from the local community and sisters.

The hospitals are Holy Cross Hospital in Salt Lake City; St. Joseph's Hospital in South Bend, Ind.; Mount Carmel Medical Center and East Columbus hospitals in Columbus, Ohio; St. Alphonsus Hospital in Boise, Idaho; St. John's Hospital in Anderson, Ind.; St. Agnes Hospital in Fresno, Calif.; Holy Cross Hospital in San Fernando, Calif.; and Holy Cross Hospital in Silver Spring, Md. ■



Photo: Marc Berlow

John A. O'Connell, executive director and risk manager of Holy Cross Shared Services Inc., receives the 1983 *Business Insurance* Risk Manager of the Year award from Kathryn J. McIntyre, editor of *Business Insurance*, and Publisher Alfred Malecki.

Staff, superiors extend praise to Risk Manager of the Year

NOTRE DAME, Ind.—Holy Cross Shared Services Executive Director and Risk Manager John A. O'Connell accepted the 1983 *Business Insurance* Risk Manager of the Year award at a luncheon in nearby South Bend sponsored by *Business Insurance*.

With his wife Mary Ann at his side and his staff, supervisors and consultants around him, Mr. O'Connell thanked them all for their support.

"The Sisters of the Congregation have supported me. My excellent staff has supported me.

"They often say I don't call an idea stupid. The reverse is true, too. They never say, 'The boss is way off today.'

"On behalf of the staff, the Congregation and myself, I thank you," he said, in accepting the award from *Business Insurance* Publisher Alfred Malecki and Editor Kathryn J. McIntyre.

Each member of his staff attending the luncheon congratulated Mr. O'Connell and thanked him for touching their lives, revealing the warm friendship as well as professional respect that they share for their boss.

They included Assistant to the Executive Director Diana Hullinger, Assistant to the General Treasurer Jacquelyn Norris, Benefits Manager James Fitzpatrick, Quality Assurance/Loss Control Manager John Ramirez and Chief Accountant Mary Ann Merryman.

The superior general of the congregation, Sister Olivia Marie, extended Mr. O'Connell one of the highest compliments an organization's leader can give a risk manager. "One of the reasons I sleep well at night is because of John and his staff. The Sisters of the Holy Cross couldn't fulfill their purpose without John and his staff," she said.

The general treasurer of the congregation, Sister M. Bertrand, recalling she was in charge of insurance buying in a previous term as general treasurer before Mr. O'Connell was appointed the job, said, "It was a great joy to return to find John O'Connell doing all those things I was supposed to do."

Mr. O'Connell's close advisers—Carl Hogan of broker O'Rourke, Andrews & Maroney Inc., consultant Warren Brockmeier of The Wyatt Co. and Havican Insurance Co. advisory committee member Eugene J. Cudworth, who is president of Hospital Underwriters Mutual Insurance Co.—also attended the luncheon to extend their congratulations to Mr. O'Connell upon receiving the *Business Insurance* Risk Manager of the Year award.

The award signifies that Mr. O'Connell's achievements in risk management were considered the most outstanding from the field of candidates presented to the 11 independent judges of the 1983 competition.

Mr. O'Connell's staff submitted their boss's nomination to the competition, attacking the nominating statement with the same dedication they give their risk management work.

The nomination for Risk Manager of the Year requires that the candidate's achievements in 10 areas be addressed. One sheet of paper, single-spaced typewritten, is allotted for each criterion (see story, page 135).

The rules encourage that each page be used fully, a problem the staff at Holy Cross Shared Services didn't have. They had more trouble fitting all the information into the allotted space.

When they first decided to prepare the nomination, they believed Mr. O'Connell could be selected as the outstanding risk manager for a not-for-profit institution. But as they began to write the nomination, they believed Mr. O'Connell could win the top honor.

When they received the news, there were cheers of excitement all around.

Both Ms. Hullinger and Mr. Ramirez had the idea to nominate Mr. O'Connell for the award. Mr. Ramirez moved the idea into action when he clipped an announcement of the competition from a copy of *BI* and sent it to Ms. Hullinger.

Mr. Ramirez had only recently joined Shares Services in the fall of 1982 when nominations were being accepted for the 1983 award. "I was very impressed with Mr. O'Connell. Having worked in other hospitals, I saw he was far ahead," he said.

With the decision made to nominate Mr. O'Connell, Ms. Hullinger started poring through old files to compile a description of Mr. O'Connell's achievements. Broker Mr. Hogan supplied an outline. Ms. Norris contributed portions.

Mr. Ramirez and Ms. Hullinger wrote the nomination, and Ms. Norris edited it to make it fit the allotted pages.

The nomination was completed and turned over to another new employee, Mary Anthony, to type on the word processor. "It took me two or three days," said Ms. Anthony, secretary to the director of quality assurance/loss control and the employee benefits manager.

Three weeks later, the nomination was sent Federal Express to make the Dec. 6, 1982, deadline.

Although his staff used every available inch of space to describe his achievements, Mr. O'Connell sums up his greatest achievement briefly: "My greatest achievement? It was coming up with a program that I believe responds to the needs of the people in the field.

"Their needs are, from a risk management standpoint, protection from concern when they are doing the job they are assigned, whether it is the professional who needs assurance that if he is sued, someone will be there to assist in the defense, or if it is an employee who needs assurance that he will be protected if he is sick or disabled.

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RISK MANAGEMENT HONOR ROLL

LARGE CORPORATION
JERRI NELSON MACMILLIAN

By DOUGLAS McLEOD

HARTFORD, Conn.—In the real estate investment department at Aetna Life & Casualty Co., Jerri Nelson MacMillian is the chief insurance surveyor.

The landscape she looks out on includes property and liability insurance programs that cover the company's more than $2 billion in real estate and oil and gas investments.

That landscape is looking better these days, thanks to her efforts, Aetna officials say. But the terrain wasn't always so smooth.

The department didn't have a risk manager until Mrs. MacMillian took the job in 1981 and her first assignment was to put the department's disorganized insurance house in order.

This she has done in the space of two years simplifying insurance programs, increasing limits, paring back premiums and reducing losses.

"That's why it's a peach of a job," she laughs, seated in her office under a map of U.S. oil reserves.

"You can create anything you want and it's bound to have some kind of astounding result because there was nothing there before," explains Mrs. MacMillian, who was named to the 1983 *Business Insurance* Risk Management Honor Roll, representing large corporations.

Here is what she has created:

- Revised property and liability insurance programs that consolidated 20 separate policies into three. Values insured under the policies have doubled since she became risk manager, while premiums have been cut in half.
- An insurance program to cover Aetna's investments in oil and gas wells, coverage that previously was left to the company's investment partners.
- The real estate department's first safety and loss-control program, which reduced total losses by two-thirds between 1981 and 1982.

These programs are used to cover a big territory. Aetna has invested its assets in a wide range of properties, including:

- Three wholly owned hotels and five more owned in partnership.
- Thirty-six wholly owned retail properties and 12 owned in partnership.
- Fourteen wholly owned office buildings and 28 owned in partnership.
- Eighty-seven wholly owned industrial properties—including warehouses and light industrial plants—and another 12 owned with partners.
- Fifty-two wholly owned parcels of land and another 26 owned with partners.
- About 150 active oil and gas wells, in which the company has a percentage interest.

Added to all of this is a multibillion dollar mortgage portfolio and several farms and houses that Aetna has acquired in foreclosures.

Before Mrs. MacMillian came along, Aetna didn't assume nearly as much responsibility for insuring property and liability exposures on many of these investments.

"Most of the time, what they did was lay off insurance responsibilities to the partner or sometimes to the tenants," she says, and Aetna would just share in the premium costs.

"Many times, they just didn't address the (insurance) issues, or didn't know to address them. A lot of that got left up to other parties."

As soon as Aetna management realized that the oversight was costing them money, that changed, she says. And it was Mrs.

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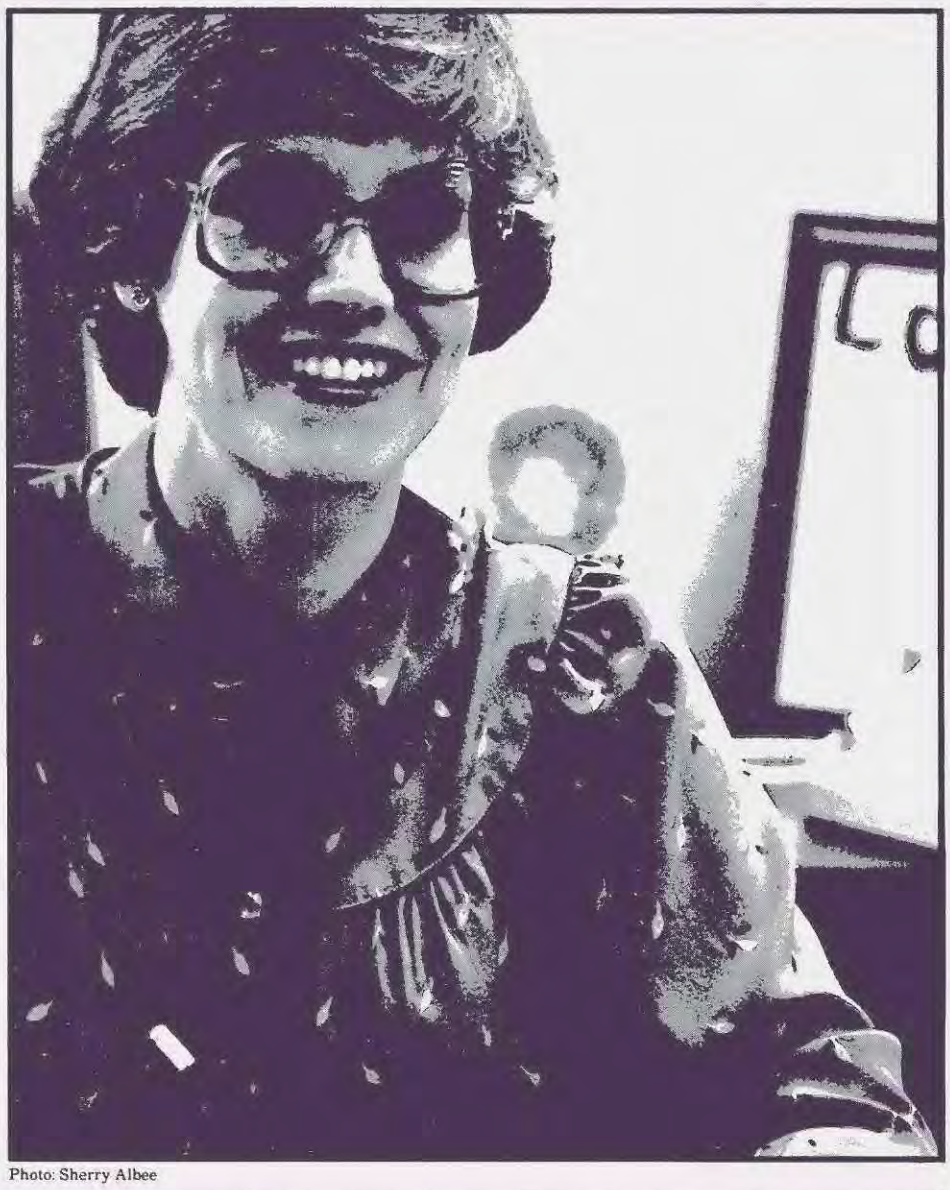


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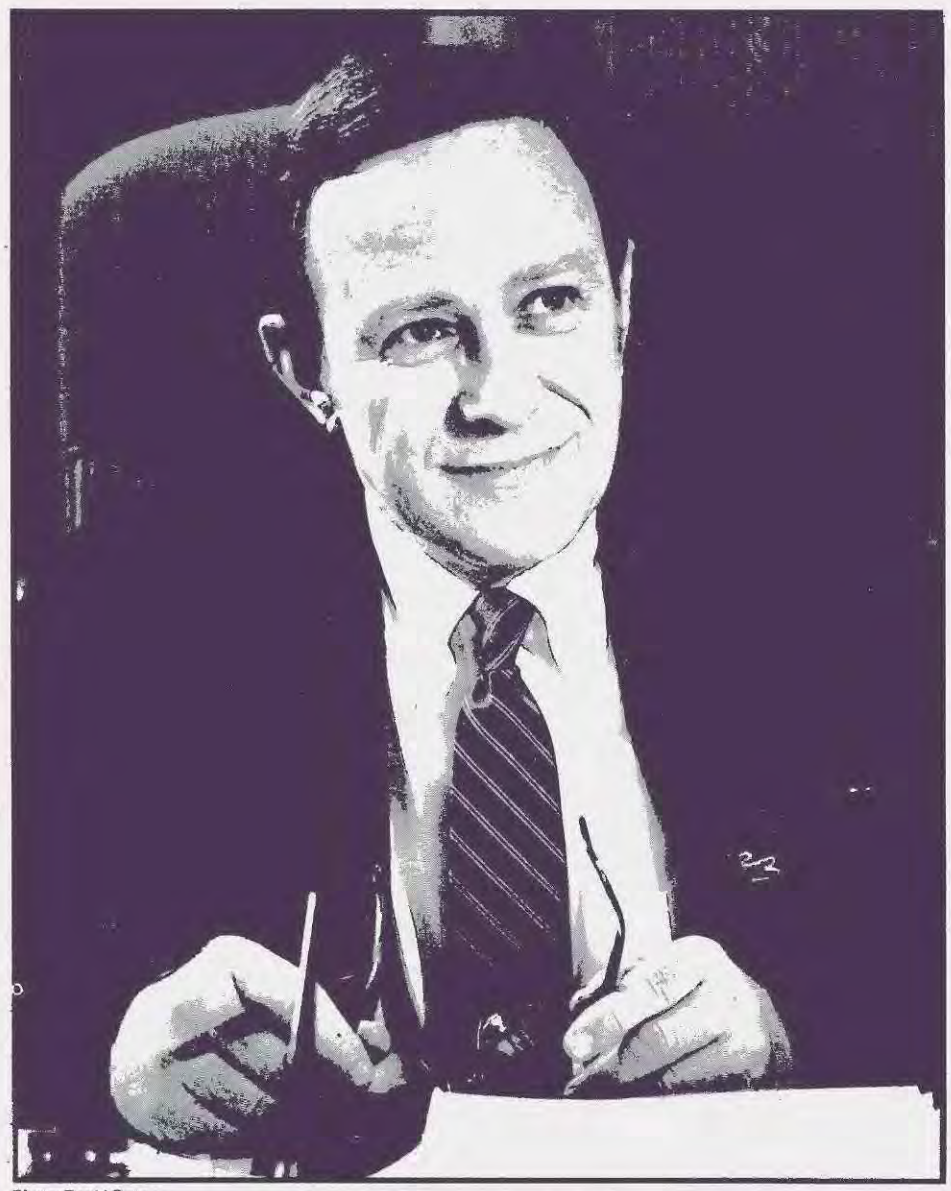


Photo: David Rogers

GOVERNMENT ENTITY
ROBERT L. SINCLAIR

By LEN STRAZEWSKI

NASHVILLE, Tenn.—Nashville Mayor Richard H. Fulton says he has one last request for the director of risk management who saved the Metropolitan Government of Nashville and Davidson County millions of dollars in five years:

"Don't quit until 1987, which, by law, is the last year I can serve."

"I'd like to be able to honor it," says Robert L. Sinclair. "But at 53, I think I've got just about one more career change in me. I just hope that what I leave behind me continues to do the job."

Mr. Sinclair, whose risk management program for the Metro government has earned him a place on the 1983 *Business Insurance* Risk Management Honor Roll in the government entity category, left to become director of risk and insurance management at Vanderbilt University in Nashville, effective April 1.

Although he worked for the Metro government for just five years, colleagues, local agents and government officials say Mr. Sinclair used his risk management skills, communications expertise and Southern charm to convert an outdated insurance purchasing system to a risk management program stressing self-funding and loss-prevention techniques.

According to the Risk Management Department's 1982 annual report, the program has saved city taxpayers more than $8.5 million since 1978.

"It wasn't particularly easy," recalls Mr. Sinclair, a former insurance agent and executive at Cherokee Insurance Co. in Nashville. "There were plenty of people who didn't understand what I wanted to do, including some in the Metro Council.

"But I always felt that I had the support of the mayor and his staff and could win the rest of them over eventually."

Forming Nashville's self-funded property and liability risk management plan required as much in communications skills as it did in design expertise.

For example, one of the first steps Mr. Sinclair took to consolidate the government's insurance coverage shortly after he joined the department in February 1978 was political.

Until that time, an ordinance prohibited any agent or broker from receiving more than 10% of the commission generated by the government's insurance purchases. A consortium of five of the area's largest agents was empowered to parcel risks out to themselves and other independents to comply with the law.

Although the ordinance guaranteed that nearly all sizable local agents and brokers participated in the government's insurance package, it also created a stack of 300 separate policies and diluted the government's buying and risk-funding power.

The members of the agents' consortium—Martin Hayes Co., Corroon & Black of Tennessee, Gail Smith & Co., Crump-Nashville and Wade & Lee Inc.—fought against the repeal of the ordinance and won the ears of several local councilmen, Mr. Sinclair says.

"The first vote of the council—a motion to table the issue—was a close victory. We won 16-15," Mr. Sinclair recalls.

The support of Mayor Fulton and an advisory committee composed of Metro government purchasing officials and local businessmen turned the tide, and later that same year Mr. Sinclair won the freedom to introduce contemporary risk-funding methods to Nashville.

He then quickly combined all of the Metro government's property coverages—which then covered about $600 million in

Continued on page 132

MacMillian increases limits, cuts premium

Continued from facing page
MacMillian who made them realize it.

She started working on the real estate portfolio before she had actually moved into the department as its risk manager. While still working as an administrator in Aetna's corporate risk management department, she began streamlining the real estate insurance program by consolidating several of its 20 separate policies. She also started developing the oil and gas insurance program.

In 1980, the first year she tackled the real estate account, she squeezed out $400,000 in savings on insurance costs, mainly through rate reductions due to the larger volume of coverage and the soft insurance market.

"What I did was market the account as an account for the first time in its history," she says. "I marketed it as a package rather than keeping things separately in different cubbyholes with different companies."

"I couldn't manage the account the way I inherited it," she adds. "I'm just too lazy to have done that much."

The fact that she was a newcomer to real estate investment also helped her, she pointed out.

"The way things had been put together didn't make sense to me because I didn't grow up with it. So it didn't make any sense not to change it to something I could work with."

But there were still problems handling the insurance queries of real estate folk while sitting in the corporate risk management department, she says.

One problem was that with multiple responsibilities, Mrs. MacMillian couldn't devote enough time to the real estate area.

The main problem, though, was that the real estate people weren't used to talking to corporate risk managers at all.

"The first person they ran to when they made an acquisition was not going to be somebody over in corporate," she said.

"It was very, very difficult to get information. I think it was just because there hadn't been any great credibility established as to what can be done as far as risk management is concerned. But it's difficult to demonstrate what you can do unless you have the information to work with."

All it took was that first year of work and the $400,000 savings for Mrs. MacMillian to establish her credibility. The real estate department may not have understood deductibles and self-insured retentions, she says, but it did understand bigger numbers on the bottom line of the balance sheet.

So, in July 1981, she moved over to an office in the real estate investment department and began to work exclusively on the department's insurance programs.

Her first move was to put her three-woman staff to work on a complete study of the department's 2,500 leases, purchase agreements, partnership agreements and property management contracts. The study took 18 months and uncovered numerous situations in which exposures were either insured twice or not insured at all (see story, page 131.)

One reason the study took so long, Mrs. MacMillian says, is that contracts were often not kept in the department's files and had to be brought in from various locations around the country. That situation has changed.

"We don't let anything get acquired now without that information here, so it should be easy to keep current," she explained.

Mrs. MacMillian also has been made a member of the department's property acquisition team, which reviews real estate deals before deciding whether Aetna will invest.

Investments aren't made unless everyone on the team approves the deal, and Mrs. MacMillian doesn't approve until she's looked over all of the relevant documents to be sure their insurance provisions are suitable. If they are not, she has a free hand in negotiating changes.

She hefts from her desk a three-inch stack of papers—construction management agreements, right-of-entry agreements—all pertaining to Aetna's interest in the new Citadel Center shopping mall in Colorado Springs, Colo.

"This is great because I can get into these before I have to accept and accommodate whatever was agreed to," she says.

When she can review contracts before it's too late to change them, "I can usually find great areas for improvement," she says.

She added, though, that insurance problems rarely prevent an investment in a deal that otherwise looks good.

One of Aetna's properties is a helipad in downtown Houston which, at the time the company bought it, was already leased under an agreement that made Aetna responsible for placing liability insurance.

"It would have been my first choice to have the tenants that lease that helipad responsible for insuring it. In liability, I like to have the party that's going to create the loss responsible for insuring it," Mrs. MacMillian said. "But we didn't have that option because (the helipad) was pre-leased. . .so I had to go out and get a policy myself. But that kind of accommodation wasn't expensive enough to impact the decision to purchase or not."

While the study of the department's contracts was under way, Mrs. MacMillian continued to consolidate its numerous policies into what are now three basic insurance programs.

The property program carries a blanket limit of $900 million. A $20 million primary layer is divided between Employers Insurance of Wausau and Affiliated FM Insurance Co. An $80 million excess of $20 million layer is split among Great American Insurance Co., The Home Insurance Co., Mutual Inland Marine Office Inc. and Hartford Insurance Group. Fireman's Fund Insurance Cos. then provides an $800 million excess of $100 million layer to round out the $900 million in coverage, with a drop down to $100 million excess of $100 million for flood and earthquake coverage.

An analysis of Aetna's properties in California and Florida has prompted Mrs. MacMillian to quadruple the limits on flood and earthquake cover to $200 million from $50 million since she took over the insurance program.

She has also lowered the deductible on the property program from $100,000 per occurrence to $1,000. One reason for this, she explains, was that the coverage was available cheaply. Another reason is that while Aetna can pass through increased insurance premiums to its tenants, it can't pass through the costs of losses that fall below its deductible.

Since she has been in the risk management post, Mrs. MacMillian has doubled the amount for which Aetna's $1.5 billion in real estate property is insured to $900 million in replacement costs. The growth is partly because of new acquisitions and because the company is assuming exposures previously covered by partners' policies.

Despite all this, though, premiums for property and liability insurance have fallen dramatically. As Mrs. MacMillian expresses it, Aetna paid property and liability premiums equalling 24 cents per $100 of insured value in 1979; in 1981, this fell to 16 cents per $100; in 1982, it was 13 cents per $100 and with this year's April 1 renewal, Aetna will pay only 11.5 cents per $100.

Hartford covers all of the real estate department's liability exposures with three underlying policies and an umbrella policy. The underlying comprehensive general liability policy has a $1 million limit and $5,000 deductible; an auto liability policy also has a $1 million limit and no deductible; and a garagekeepers liability policy carries a $500,000 limit with a $100 deductible. The CGL policy also now includes coverage for the Houston helipad.

The liability umbrella policy includes a $10,000 self-insured retention covering losses not picked up by the underlying policies. Mrs. MacMillian didn't want to reveal the umbrella's limit, but did say it had been increased, partly in response to disasters such as the Kansas City Hyatt Regency Hotel skywalk collapse.

Continued on next page



Photo: Doug McLeod

Jerri N. MacMillian poses with two of her superiors, Brian J. Murray, left, assistant vp of real estate accounting, and James Richmond Jr., vp of Aetna's real estate investment department.

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MacMillian uses deductibles

Continued from previous page

The Hyatt tragedy also prompted a closer look at the additional insured language in Aetna's various contracts, Mrs. MacMillian added.

"Considering we've got partnerships, we've got tenants and we've got (property) managers, all potentially carrying insurance on our behalf, we want to make sure that it's very clear in their program and in ours who's covering and when."

Another of Mrs. MacMillian's innovations was adding deductibles to the liability program as a loss-control measure. The deductible is $5,000 on the CGL policy. (Mrs. MacMillian did try to get that deductible lowered this year to $2,500, but Hartford would only do that if she were willing to pay a higher premium, and she wasn't.)

"There hadn't been accountability between the people who could control the losses—the on-site, hands-on type people—and us," she said. "You can put into effect some kind of written loss-control program, but unless you back that up with something that will show up on a bottom line, it's not real."

Mrs. MacMillian says she had mixed feelings when she started working on the company's $500 million oil and gas portfolio.

"When I was wearing my business suit, I was saying, 'Oh boy, the prices are rising, we're really doing great!' But when I went home and turned the thermostat up, I said, 'I don't need this.'"

Lloyd's of London is the provider for Aetna's well-control insurance policy, which would pay the costs of bringing a wild oil or gas well under control. The policy carries a $30 million limit for wells in nine Western states and southern Texas, and a $10 million limit in all other states. The deductible is $100,000.

A general liability policy on the oil and gas wells, also with Lloyd's, carries a $25 million limit with a $5,000 deductible.

The oil and gas investments have presented Mrs. MacMillian with several problems, one of which was hammering out the details of Aetna's own policies.

She made sure that several limiting provisions of the standard Lloyd's well-control policy were eliminated but in the process she says she cross-examined her broker at Johnson & Higgins to the point of distraction.

"I think he was halfway amused and halfway annoyed that somebody would come in and tear that policy completely apart when he'd assured me several times that (everything) was in there."

Another problem is the fact that there's no such thing as a standard partnership agreement in the oil and gas business.

"You can really do almost anything you want to do," she says. "Unfortunately, because of that, (contracts haven't) always been tested, so it makes for new waters every time you dive in."

To make sure the waters aren't unexpectedly shallow in cases where Aetna signs onto another party's insurance, Mrs. MacMillian makes sure that Aetna is specifically covered either as a named insured or under a blanket additional insured provision and that subrogation is waived not only against Aetna, but also against its directors and officers or any affiliate.

Mrs. MacMillian says that since Aetna's oil and gas insurance program is so new, and since there is no loss history yet, rates are "pretty good."

Even when the company program is not used to insure a particular risk, it can be used as leverage in getting a better deal from the partner's insurer, she pointed out.

For example, Aetna was considering buying an interest in an oil well that was insured by the well operator. After comparing the cost of the operator's insurance—of which Aetna would have had to pick up its share—and the cost of Aetna's own program, Mrs. MacMillian delayed approving the deal.

"What I told the operator was, 'I'm not going to go with your program because my program can achieve the same end with a lower premium.'"

The operator came back with a 20% reduction of its original premium estimate, and Mrs. MacMillian gave the deal her OK.

"If I didn't have a program (of my own) in the first place, I would never have known that savings could be achieved," she said.

Johnson & Higgins brokers all of the real estate department's insurance programs with the exception of one small piece.

That piece is the boiler and machinery policy, which is written through The Hartford Steam Boiler Inspection & Insurance Co. with a $10 million limit and a $10,000 deductible. Mrs. MacMillian purposely removed that piece from J&H's plate and gave it to John Ingersoll Agency Inc. of Hartford, Conn.

She says she is satisfied with J&H's service.

"But I don't want anybody to get complacent. So on occasion, I'll market part of the program."

"J&H suggested that (the boiler and machinery policy) be reworked," she adds, "so I took that opportunity and had another broker bid on it and he came through. He's been a delight to work with."

The only part of Aetna's real estate investment exposures insured by Aetna itself is the mortgagee errors and omissions exposure, where the company has a $10 million limit and where it has had no claims.

"That's a lamb from a risk management point of view," Mrs. MacMillian says.

Overall, the savings Mrs. MacMillian has generated since taking the real estate risk manager's spot are substantial. To the $400,000 savings on insurance costs she rang up before actually moving into the real estate investment department, she added another $400,000 in savings during her first six months on the job.

About $100,000 of the savings resulted from reappraisals that lowered the values of several properties. The remaining $300,000 came from moving the insurance on several risks from the policies of partners to Aetna's own programs.

The increase in volume also prompted an additional $200,000 savings on the premium Aetna's insurers charged in the April 1982 renewal of the real estate property and liability policies.

Mrs. MacMillian is doing pretty well for her insurers, too. In 1981, total property and liability losses—both paid and reserved for—mounted to 19 cents per $100 of insured value. Last year, the losses had dropped to 6 cents per $100.

She credits the safety and loss-control program she implemented, the first in the history of the real estate investment department (see story, below).

Along with the more mundane problems Mrs. MacMillian faces as risk manager for the real estate department was one particularly exciting one. When she moved from corporate risk management in July 1981, she was six months pregnant. Her son, Loyal—named after her grandfather—was born in September and during her first two months as risk manager, she worked at home.

It was there that she got the complete reorganization of the department's insurance programs under way, conferring with her staff on the phone and even holding a couple of staff meetings in her house.

She decided she couldn't just take that time off and let her new responsibilities go, she says.

"I knew that I couldn't take a leave of absence and divorce myself from the job. I knew that I'd lose everything," she says. "If there was momentum to get me here and I walked away from it temporarily, it'd be gone."

"The support was here," she adds. "The whole area was tremendous, even though they knew there was an impending delivery." ■

MacMillian adds 'loss control' to vocabulary

HARTFORD, Conn.—Before Jerri Nelson MacMillian came along, the words "loss control" were not in the vocabulary of Aetna Life & Casualty Co.'s real estate investment department.

The managers who operated the hundreds of properties Aetna owns wholly or in part—hotels, retail outlets, office buildings and industrial facilities—got no safety, loss-control or loss-reporting guidelines from the company.

So when Mrs. MacMillian signed on in July 1981 as the department's first risk manager, loss control was one of the first lessons she gave.

In her first year on the job, she:

- Wrote and distributed a safety and loss-control manual for on-site property managers.
- Analyzed losses at Aetna's properties to spot loss trends and took action to correct them.
- Started following up on the department's loss-control and engineering recommendations.
- Generally stepped up communication between the department and the property managers in the loss-control area.

The safety manual provides Aetna's on-site property managers with guidelines in several areas of loss control.

A section on emergency plans and procedures advises managers what to do in case of fires, bomb threats, riots and natural disasters like hurricanes, tornadoes, earthquakes and floods. It also offers suggestions for coping with less-catastrophic problems like stuck elevators and medical emergencies.

Another section of the manual covers insurance and other requirements that Aetna now demands that its property managers include in agreements for contract work at Aetna-owned properties.

These guidelines require, among other things, that agreements with outside contractors include hold-harmless provisions covering Aetna and its directors, officers and affiliates.

In addition, Aetna now requires its contractors to show evidence that they have insurance policies covering:

- Workers compensation risks to statutory limits and employers' liability exposures to a limit of at least $100,000.
- Comprehensive general liability risks to a $1 million combined single limit. The policy must include broad-form property damage, completed operations, blanket contractual and several other coverages.
- Comprehensive auto liability risks to a $1 million combined single limit.

The guidelines also set out detailed safety procedures that contractors and property managers must follow while work is being performed.

To help the property managers survey safety conditions in their buildings, the manual also includes a self-inspection checklist covering scores of potential trouble spots in all areas of the buildings.

And if all of the above guidelines fail, the manual includes procedures for property managers to follow after a loss has occurred, along with forms to file for property and liability losses.

"The purpose is not to have everybody implement a program that's going to meet each (criterion), but it is to give them an idea of what an emergency program can entail. Then on-site property managers tailor that to the specific needs of the property," she explains.

However, Aetna is also requiring its property managers to sign a form saying that they've read the manual and implemented loss control and emergency programs that comply with guidelines.

"It makes them a lot more cognizant of what's in here if they know that that is going to be held in a permanent file," she says.

Along with the manual, Mrs. MacMillian has begun analyzing the real estate department's losses for the first time, trying to spot trends that can be reversed.

When she spots a trend, especially in the liability area, she gets on the phone to the property manager right away and follows up with letters, she says.

"(If) there's a trend at a shopping center, for instance, that people are slipping and falling on ice, and that's costing us X number of dollars in claims, (I suggest that) it would make sense to apply those dollars to removing the snow and ice instead of paying it in claims," she explains.

Safety recommendations made by the real estate department staff in the process of acquiring a property, or in the course of a safety inspection, also are getting more attention these days.

"We're hitting particularly hard on following up on engineering recommendations," Mrs. MacMillian says.

The lines of communication between the home office and the field are also being improved. Property managers can now send contractors' agreements and insurance certificates directly to Mrs. MacMillian for review and she encourages questions about any aspect of safety and loss control.

"My staff has phone bills that go on for pages," she laughs.

And the efforts have paid off, she said.

Property and liability losses in 1981—both paid and reserved for—totaled 19 cents per $100 of insured value. That dropped to only 6 cents per $100 in 1982.

"I'm attributing a good part of that to raising the consciousness of the people in the field and of our in-house managers about how much claims ultimately cost," she says.

Still, she faces some problems in getting all of Aetna's property managers to get with the program.

"You can't just point a gun at somebody and say, 'You will institute a loss-control program.' It costs money and you have to demonstrate that there are some savings achievable in relation to what you're asking people to spend," she explains.

But she thinks an improving loss picture will convince the non-believers.

"As we gain credibility, I expect that the current reluctant parties will get on board," she said. "We're patient."

—By Douglas McLeod

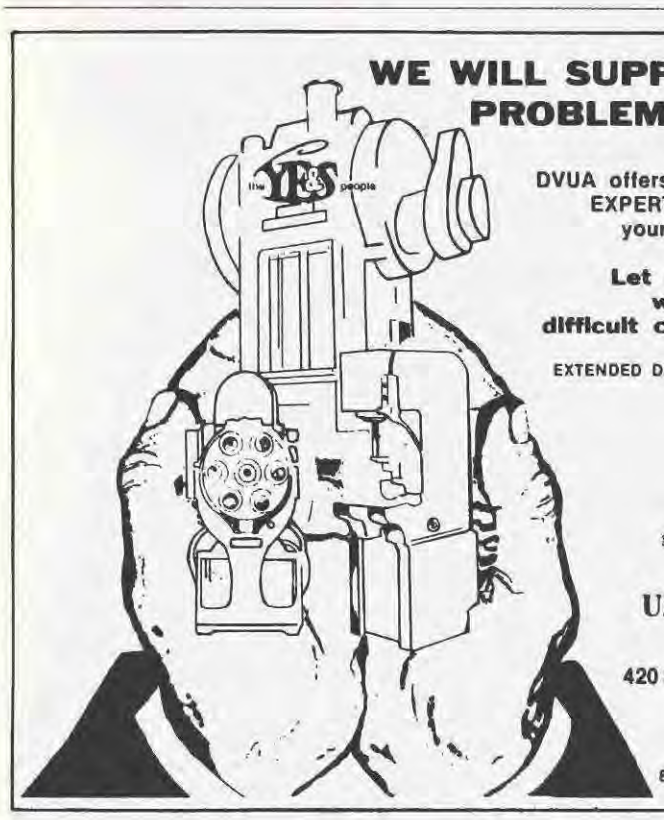




Photo: Doug McLeod

Jerri N. MacMillian, second from left, risk manager for Aetna Life & Casualty Co.'s real estate investment department and a member of the *Business Insurance* Risk Management Honor Roll for 1983, is flanked by her staff members: Esther Fernandez, left, administrative assistant; Laurie Girardin, risk management analyst; and Sherry Albee, senior risk management analyst.

MacMillian's work began with mountains of contracts

HARTFORD, Conn.—Leases. Property management agreements. Purchase agreements. Partnership agreements.

Aetna Life & Casualty Co.'s real estate investment department had 2,500 of them when Jerri Nelson MacMillian became the department's first risk manager. And the first thing she and her staff did was examine every single one.

What they were looking for, Mrs. MacMillian says, were the provisions of the contracts that spelled out who was to carry insurance and who was to monitor loss exposures at the hundreds of properties Aetna invests in.

No wonder Mrs. MacMillian cites risk identification as her first principle as a risk manager.

"We wanted to find out if there were provisions for insurance in there, and if there were, were they being met?" she said.

"We found in many cases that they weren't being met, and in many cases it was we who were not meeting them."

Often what had happened, Mrs. MacMillian said, was that Aetna's on-site property managers had allowed the tenants of an office building or industrial facility to buy their own property and liability insurance when the terms of the lease specified that Aetna was to provide coverage.

"I obviously prefer never to have anybody else responsible for carrying insurance on an asset that I'm supposed to be protecting," she explains.

> 'We found out that every automobile that we were insuring was insured someplace else, and that there were automobiles out there that weren't insured,' Mrs. MacMillian says.

"So whenever I found any situation like that, I moved the other party over, pointed to the lease and said, 'As of this date, we're going to honor the terms of the lease.'"

This wasn't the only problem that Mrs. MacMillian uncovered, though.

"Other times we'd find out that we were carrying coverage where a tenant was supposed to be carrying (it) according to the terms of the lease," she explained.

"There, obviously, we're not interested in paying for something twice, even though we'd prefer to carry it ourselves."

Another problem was bared when Mrs. MacMillian was notified of an accident involving a truck hired to move furniture for one of the tenants at an Aetna property.

Some of the furniture had fallen out of the truck and damaged another car, and it was found after the accident that the only automobile liability insurance was the standard coverage arranged by the truck rental company.

Although the rental company's insurance paid the loss after it was pressured to do so, Mrs. MacMillian said that the incident prompted her to survey all of Aetna's properties to find out what kind of vehicles they were operating and whose insurance policies were covering them.

"We found out that every automobile that we were insuring was insured someplace else, and that there were automobiles out there that weren't insured anywhere," she says.

"Everything was backward."

The review of leases and other contracts revealed the cause of the problems, she adds.

"In a lot of cases, there were no insurance provisions (for automobiles), which is how a situation like that could arise," she explains.

Now, Mrs. McMillian points out, automobiles are either insured under Aetna's policy, or she has to have an insurance certificate in her files from the party carrying the coverage.

Collecting all of this information to correct gaps and double-coverages was Mrs. MacMillian's biggest challenge as the real estate investment department's new risk manager, she says.

A few simple procedures made the job of reviewing those thousands of leases and other documents easier, though.

Mrs. MacMillian drew up a list of clauses that she considered standard and acceptable for the various contracts under review.

Her three-member staff then compared the language in each contract with the standard that Mrs. MacMillian had prepared. Only when there were important deviations from the standard were individual contracts turned over to Mrs. MacMillian herself for review.

While Mrs. MacMillian's staff was reading over all the contracts, they were also taking down basic information about each—parties, expiration dates and other information—that has since been included in a computerized data base covering the department's real estate dealings.

"When you study leases, the prudent thing is to take out the parts you need and include them in the data base so you don't have to go back to the lease unless you have a loss," Mrs. MacMillian explains.

All of the information collected for the data base will soon be stored in a computer that the department has ordered for her use, Mrs. MacMillian adds.

Most of the study of department contracts was finished in six months, she says, but it wasn't wrapped up completely for 18 months.

This was largely because many of the required documents weren't in the home office files and had to be dug out of the offices of property managers and others, she says.

Mrs. MacMillian is keeping a much closer eye on the department's various contracts now.

She gives her staff credit for shouldering much of the burden the study imposed.

"Each person on my staff does the work of two or three," Mrs. MacMillian points out.

"I thought I was going to get the General Patton award for cracking the whip."

But the work put risk management in the real estate department back on track, and Mrs. MacMillian says that she had cleared the biggest hurdle simply by finding out what problems she faced.

"From then on, it's really a piece of cake," she asserts.

"Once you know about something, you can deal with it." ■

The Puzzle of the Poisonous Wall Covering



A wall covering manufacturer was threatened by bankruptcy from lawsuits arising from a major hotel fire. Its product allegedly released poisonous fumes in lethal doses. Many of the defendants were leaning toward settling out of court.

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Sinclair's self-funding works

Continued from page 128

insured values—into a single policy over a $100,000 self-insured retention.

The retention itself was structured with a $10,000 per-occurrence deductible that was charged to the Metro department suffering the loss and a $90,000 aggregate retention paid from a property loss fund managed by the municipal Finance Department.

The property program was the Metro government's first test of the self-insurance concept and, in retrospect, the program passed with flying colors, Mr. Sinclair says.

"In five years, we never pierced the aggregate. That makes us very popular with our excess carrier."

In fact, CNA Insurance Cos., which won the coverage in 1978, is still the excess property insurer today. It underwrites the entire excess coverage between the retention and the total replacement value of the government property.

The CNA excess program was marketed by Nashville agent Fred Viehmann of Security Insurance Agency, who had served on Metro's insurance advisory committee, a fact not overlooked by the other agents that lost their hold on the Metro insurance earlier in 1978.

"It raised quite a stir," Mr. Sinclair recalls. "But Fred, a German immigrant, always felt he should give something back to the city in which he made his career.

"His bid contained a provision by which he received only $1 in commission and direct billed the premium to the insurer, bypassing any float for his agency. He has retained the coverage on bids every year under the same terms. In fact, we still owe him his dollar for the renewal," Mr. Sinclair remarks.

Mr. Sinclair also made some new friends in related Nashville-area government agencies. The Nashville Airport Authority, Nashville Transit Authority, Nashville School Board and the Nashville Electric Service—all separate entities apart from the Metro government—joined Mr. Sinclair's central self-funded property insurance program in 1978, increasing the government's buying power and helping it build a loss reserve of more than $1 million.

"We made 16% interest on our reserves last year and, of course, use it to reduce costs. Even though the Metro Risk Management Department charges other agencies $20,000 a year (each) to process claims, the rates are significantly reduced."

As insured property values increased, eventually topping $940 million in 1983, Mr. Sinclair continued to tinker with the coverage and retentions, frequently winning concessions from CNA.

In 1982, the Metro government's retention had increased to more than $327,000, but rates had dropped significantly and Mr. Sinclair was able to completely drop separately negotiated boiler and machinery coverage by manuscripting his own property policy.

"I rewrote the usual B&M exclusion to add coverage for boiler vessel damage, which is most of the boiler and machinery coverage we need. It got through the underwriters with no problem. They didn't say a word," he says.

Earlier this year, Mr. Sinclair again rewrote the policy to include coverage for earthquake and tornado damage, something the government had not previously purchased. Competition also led to still lower rates and a smaller retention of about $285,000.

"I've got a 9-mill rate. That's nine-tenths of 1 cent per $100 of value. That is very low, but then considering CNA has never had to pay a claim, it's still probably a good deal for the company," he says. The 9-mill rate includes both the rewritten boiler and machinery exclusion and the earthquake and tornado coverage.

In 1978, at the same time Mr. Sinclair was revamping the government's property coverage, he was also switching from an array of commercial liability policies to a single, totally self-funded liability coverage plan.

"Metro had purchased commercial liability (coverage) on its proprietary functions as well as all vehicles, except those operated by the police and fire departments," Mr. Sinclair explained in his 1982 report to Mayor Fulton. The police and fire departments are not included in the self-insured liability claims plan. Any claims they do incur are paid from a general fund.

"It was determined that losses incurred (under those programs) had amounted to about 30% of the cost of the commercial insurance. At that time, the cost of commercial insurance was increasing sizably along with a restriction in the availability."

There was no reason for Metro to buy commercial coverage, recalls Mr. Sinclair. Clearly, the government body was paying much more in premiums than its claims record indicated was fair. So, Mr. Sinclair began the self-insured liability program covering general liability, fire and theft coverages and general liability and collision coverage on leased and owned vehicles.

To pay liability claims, Metro initiated a claims and judgment fund by assessing government departments a percentage of what they would have paid for standard commercial liability coverage.

In 1981, for example, the Risk Management Department charged its government agencies approximately 40% less than standard rates. In 1983, thanks to improved loss prevention, Metro divisions are paying 23% less than standard premium, according to Mr. Sinclair. The amount of the discount appears to be less this year compared with 1981 since liability insurance rates have decreased drastically.

All liability claims are paid from the fund. The government does not need to purchase excess insurance to cap claims cost because Tennessee state law limits the liability of government entities.

Other agencies outside the Metro government are taking advantage of Mr. Sinclair's liability insurance expertise, just as they are tapping the property insurance plan. In 1981, for example, Mr. Sinclair designed a similar self-funded liability plan for the Nashville School Board, funding the claims reserve with a charge equal to the cost of standard coverage.

The result of the program for the schools has been outstanding.

"It worked so well that the board hasn't budgeted for insurance in the past two years (1982 and 1983). Interest on the reserves paid for all necessary contributions and my department's claims management fees," he says.

"We made over 16% on the reserves last year—more than enough to cover all costs. Of course, the board will be lucky to get 8% or 9% this year, but that should be enough to cover costs for 1984."

Apart from its self-funded reserves, the Metro government purchases only occasional liability coverage for special events and separate liability coverage for government vehicles used out of state, in case other states do not honor the Metro government's self-funded physical damage responsibility.

Only one thing could upset the self-funded liability coverage, Mr. Sinclair notes, and to an extent, it already has.

Pointing to the state limits on the amount of government liability for an accident, which makes excess coverage unnecessary, Mr. Sinclair explains that "there's been a strong movement to increase those limitations."

Tennessee law currently limits liability for vehicular accidents to $50,000 per individual, $300,000 per accident and $50,000 for physical damage. Non-vehicular accidents have even smaller liability restrictions: $20,000 per individual, $40,000 per occurrence and $10,000 for physical damage.

But special interest lobbies, knowing the limits make it easier for municipalities to budget claims than private companies, have been intent on increasing the liability limits.

"I fought the Trial Lawyers Assn. lobby tooth and toenail on this one," Mr. Sinclair says, "and I pretty much had to carry the battle on my own. Tennessee's other big cities virtually ignored the issue."

Tennessee will revise the liability limits effective July 1, but the new maximums are less than half of what the Trial Lawyers requested as a direct result of Mr. Sinclair's negotiation.

Under the new law, governmental liabilities increase to $100,000 per individual, $300,000 per accident and $50,000 in physical damage for vehicular accidents. Limits for non-vehicular accidents will increase to $40,000 per individual, $80,000 per accident and $20,000 for physical damage.

With both the property and liability self-funding plans in place, the future success of the Metro government's risk management program lies in improved claims management and loss prevention, Mr. Sinclair points out.

Although the Risk Management Department, which processes all claims, managed to recover more than $667,000 in claims owed to it over the past five years, the department had to pay out more than $270,000 in property and liability damages and reserve more than $507,000 for more than 1,200 other claims in 1982 alone.

"There can be little success in a risk management program without an effective loss-prevention and safety program," Mr. Sinclair says. "Though under Tennessee law Metro doesn't have to carry workers compensation, it still must pay medical benefits for injured employees and its liability claims. Without a safety program, you can't expect those costs to go down."

In 1978, Mr. Sinclair convinced Mayor Fulton to issue the municipality's first major safety edict. Because of the high number of accidents involving Metro vehicles, Mayor Fulton mandated a course in defensive driving for all employees that drive municipal automobiles (see story, page 134).

Taught by the risk management department staff in accordance with National Safety Council guidelines, the program had an almost immediate effect.

In 1979, before all employees completed the course, the government recorded 718 accidents. By 1980, driver training reduced accidents to 532. The number of accidents continued to decrease until this past year. In 1982, employee auto accidents jumped more than 15% to 433 from 374 in 1981.

The reason was simple, according to Mr. Sinclair: New employees had ignored the mandate to take the course, and some employees needed a refresher.

"Mayor Fulton issued a 'reminder' and the risk management department is teaching the two-day course again. Next year, the accidents will go down," he says.

In 1981, the Metro government took another step forward by adding the Office of Employee Safety to the Risk Management Department's authority. With Mr. Sinclair's encouragement, the office cracked down on worksite inspections, job safety training and accident investigation, reducing disabling injuries to 580 in 1982 from 656 in 1981.

Mr. Sinclair expects even better results in 1983, thanks to a new addition to the department—an occupational health nurse. The nurse, according to Mr. Sinclair, helps injured employees receive immediate and proper health care and acts as a liaison between the safety office and the employee.

"Of course, part of her job is to eliminate malingering and get workers back on the job as soon as possble. But, more than that, she can, and often does, take the side of the employee. If light-duty work is called for, she can help find the light duty and keep the employee from returning to a more demanding job too soon," Mr. Sinclair notes.

For future safety ideas, Mr. Sinclair also organized a Metro Safety Advisory Board consisting of local safety experts from private industry. "Metro will never need a consultant; it's got the best in the business giving us advice now."

Leaving the Metro government won't be easy, Mr. Sinclair says, but he says a new challenge is called for. However, he leaves behind Acting Director of Risk Management James Luther, Assistant Director Janis McCormick and eight other staff members at the helm of the programs that he developed.

"I guess you could say I'm a workaholic, because I'm not one for vacations. I spend my time off in consulting for other municipalities, sometimes on loan by Mayor Fulton. I'm in the office by 7 a.m., don't leave until 6:30 p.m. or 7 p.m. and usually work at home," Mr. Sinclair sums up.

"I enjoy finding solutions and I'm looking forward to something new at Vanderbilt." ■

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Photo: David Rogers

Mr. Sinclair looks over work with Janis McCormick, assistant director of risk management.

Sinclair shows keen risk awareness

NASHVILLE, Tenn.—"I've only been scared on this job once, and that was when I saw that!" exclaims Robert L. Sinclair, former director of risk management for the Metropolitan Government of Nashville and Davidson County.

He points to a ridge overlooking a residential area several miles outside downtown Nashville. The ridge, used as a government vehicle storage area, is lined with schoolbuses parked cheek to jowl.

"Until I saw that for the first time, that was a $10 million uncovered risk," Mr. Sinclair says. "It's on the highest point in the area and directly in a tornado alley that leads right up to our medical center. If a tornado came through here, those buses would be tossed around like straw."

Mr. Sinclair recalls that he drove home, had a drink and didn't stop worrying until he arranged for expanded property insurance that covered tornadoes the next day.

"It's Easter vacation now, so the buses aren't in use. But usually when school is in session, the drivers park their buses at home. It makes it easier to get started in the morning and also spreads the risk," he notes.

Mr. Sinclair's eagle eye has also spotted other unusual risks. He points to a wall surrounding the Metro government's repair center that overlooks the Cumberland River.

"The first time I was up here, I noticed workmen walking off with buckets of old paint, cleaning fluid and other stuff. They came back with empty buckets and I wondered where all of it was going."

He followed them and watched the workers dump the buckets over the wall and into the brush that grew on the bluffs. Though it wasn't likely that refuse would pollute the river, he says it was possible that the flammable liquids could ignite, setting the whole ridge on fire.

The practice was quickly discontinued to Mr. Sinclair's relief.

Risk awareness was a hallmark of Mr. Sinclair's tenure at Metro government, colleagues say. Frequently investigating claims payable under the government's self-insured retention by himself, Mr. Sinclair has pointed out many contradictions in accident reports, claims or loss explanations.

A large rock quarry owned by the local government prompts lots of vibration damage claims that are frequently unjustified, he says.

"We had one claim filed by a lady whose home was more than a mile away. She claimed that the quarry's blasting has cracked plaster and generally shook her house, weakening it," he recalls. "The day I called on her, I had the quarry set off another charge which she and I couldn't even feel while we were both there."

The damage came from another source, Mr. Sinclair discovered. "The quarry blast wasn't the answer, but we later found out what was. The home was built during a local housing boom some years ago and wasn't of the sturdiest construction. When a jet taking off from the local airport passed over, it shook the whole house. We denied the claim."

Mr. Sinclair has also tried his hand as an automobile accident investigator. Mr. Sinclair shared accident investigation duties with two other claims investigators on his staff and frequently was called in the middle of the night to begin claims reporting for accidents involving government vehicles.

While examining damage to a Metro Police patrol car that was hit by another car while it was being used as a roadblock, Mr. Sinclair noted that the damage seemed too severe for a broadside collision, even at high speeds.

"Plus the driver was injured. If the officer was using his car for a roadblock, don't you think he'd get out of the car?"

Because of Mr. Sinclair's investigation of the damage claim, the Police Department is now investigating the officer's conduct.

Another auto damage claim also prompted investigation.

"The driver reported that the back axle just fell out. I suppose that's not impossible, but it didn't seem very likely, especially when I noticed that the front axle had a big nick in it, as though it bounced over something."

He believes the driver ran off the road, hit an object in its path and continued until the object ripped out the back axle—another reason why the government now mandates that employees take a defensive driving course.

"I didn't handle all the claims, but I did try to oversee claims investigation. Sometimes it pays to be on the scene," he says.

—By Len Strazewski

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HOME

At Vanderbilt, Sinclair to join safety, risk management plans

NASHVILLE, Tenn.—Vanderbilt University, one of the South's counterparts to the Ivy League, chose its first full-time risk manager from good company—he's a member of the 1983 *Business Insurance* Risk Management Honor Roll.

Robert L. Sinclair, who represents government entities on this year's Honor Roll, was Vanderbilt's first choice for the newly created position, says William T. Haywood, the university's vice chancellor for business and finance.

"When I came to Vanderbilt two years ago, I noted that it needed an in-depth review of its exposure to loss and its protection from loss," recalls Mr. Haywood. "Since the late 1960s and early 1970s, universities seem to have lost their favored status with insurers. Risk management has become an essential part of a university's business operations."

Mr. Haywood confirmed his view by commissioning a risk and insurance management study from consultant Towers, Perrin, Forster & Crosby.

The study recommended a more sophisticated approach to the university's handling of risk, beginning with a consolidation of its insurance purchasing and employee safety offices.

Both departments, the study suggested, should be coordinated by a professional risk management department.

A nationwide search led Vanderbilt right back home to Nashville and Mr. Sinclair, director of risk management for the Metropolitan Government of Nashville and Davidson County.

Mr. Sinclair, however, rejected two offers from the university before finally accepting the post, effective April 1.

"Bob was our first choice and we are pleased he accepted," Mr. Haywood says.

Mr. Haywood defines the role of Vanderbilt's new risk and insurance manager in textbook risk management terms. "Bob will introduce an entirely different approach to risk management here at Vanderbilt."

"He will be completely responsible for identifying our risks and choosing the best approach for handling the exposure: risk avoidance, risk transfer, self-funding or insurance," he said.

Mr. Sinclair will also work in close coordination with the Vanderbilt University Medical Center claims staff, which currently oversees medical malpractice and workers compensation claims.

"Moreover, he will integrate our safety program into risk management by directing our safety department, observing our compliance with fire and building codes and overseeing our Occupational Safety and Health Act compliance."

Safety, Mr. Haywood affirms, is one of the keys to proper risk management, and thus an essential part of Mr. Sinclair's duties.

While Mr. Sinclair has had experience dealing with safety problems with the Metropolitan government, safety at Vanderbilt will be a special challenge, Mr. Haywood adds.

"No place on earth is more diverse than a comprehensive university. We have everything from neurosurgeons to maintenance staff," he explains.

"Bob will be dealing with all kinds of people, including scientists and lab technicians who have lived their life in petri dishes and whose world begins in their laboratory."

Mr. Sinclair agrees that getting to know Vanderbilt's department heads will be one of his first priorities. "As with Metro, I will quickly have to convince department heads that I want to make their jobs easier, not complicate their work.

Mr. Sinclair also faces some technical risk-funding challenges. "My first technical tasks will be introducing self-funding to our medical malpractice coverage and consolidating our property and liability funding programs."

Vanderbilt's past property and liability insurance plans involve about 500 separate insurance policies with varying deductibles, Mr. Sinclair explains. "These policies will be combined into two consolidated general liability and property plans built on excess insurance over a large deductible or self-insured retention."

Following the technique he used with the Metro government, Mr. Sinclair also expects to establish an aggregate deductible fund out of which claims within the aggregate retention may be paid.

Excess property insurance is a must, Mr. Sinclair adds. Much of the university's more than $500 million in property values includes historic buildings that go back to Vanderbilt's founding in the mid-19th century.

"Tornado is probably Vanderbilt's biggest property exposure. Nashville is in the heart of tornado country and a twister coming through the heart of campus could be devastating," he says.

Small claims will probably be charged back to individual departments.

"For example, the university owns millions of dollars worth of fraternity residences. It may help to deter property damage if a fraternity knows it, not the university, will pay for broken windows," Mr. Sinclair notes.

Both Mr. Sinclair and Mr. Haywood expect cooperation at all levels, especially from students.

"Tennessee is a very conservative state and Vanderbilt is a very conservative university with a conservative student body," Mr. Haywood explains. "During the periods of campus unrest in the 1960s and 1970s, while many universities experienced conflict and damage, Vanderbilt had virtually no major problems with campus unrest.

"Freedom of expression and open communication have always been important here, and our students conduct themselves as ladies and gentlemen. I'm sure Bob will be greeted with such conduct."

—By Len Strazewski

Here's what the judges had to say

Here is what the judges said about Robert Sinclair:

"He maintained excellent rating in every category, indicative of the diligence, creativity and professional manner with which he conducted his duties. His superior performance is clearly evident in the areas of intelligence systems, technical expertise and advancing the profession."

"An excellent risk manager. His programs demonstrate the work of a real professional. Excellent background and performance."

"Development of ways to meet the problems. . .and the results show through his program."



Photo: David Rogers

Mr. Sinclair confers with Nashville and Davidson County's computer operator Judy Fox.

Sinclair has the key (literally) to communicating with boss

NASHVILLE, Tenn.—Sometimes the key to good communication is really a key.

"When I first joined Metro (the Metropolitan Government of Nashville and Davidson County) as risk manager in 1978, my first office was in the basement of the Metropolitan Courthouse, the mayor's office building," recalls Robert L. Sinclair.

"Since Mayor (Richard H.) Fulton and I both get into the office about 7 a.m., it was easy to sit and chat over morning coffee and discuss what needed to be done.

"No one else was in, so there were no interruptions and I could catch him before other matters came to his attention."

When Mr. Sinclair moved his expanding risk management department across the street to another building, he took his books, files, coffee mug and the key to the backdoor of the courthouse so he could slip into the building in the early morning to meet with his boss.

"If I would meet him in the hall and get a 'hello,' I knew that the time wasn't right to pop a new project on him.

"If he leaned against the wall and said 'Hi, Bob. How's it going?' I knew he was willing to talk a while," recalls Mr. Sinclair.

One of the projects that resulted from such informal meetings was the government's defensive driving requirements for all the municipal employees who use government vehicles.

The program was initiated by a mayoral executive order several years ago and will soon be mandated again in light of the number of new employees who have not yet taken the course (see story, page 128).

Mayor Fulton gives Mr. Sinclair high marks for his work in risk management and especially high marks for communication.

"Bob has done an excellent job for us and I'm sorry to see him go. I've always felt that he kept me informed of all of his projects and I am pleased to say that there hasn't been much that Bob has requested that we have not been able to accomplish."

Mr. Sinclair generally recommends his informal communications technique and expects to continue to apply it in his new position as director of risk and insurance management at Vanderbilt University in Nashville.

"I'd rather talk to an executive or department head informally over a cup of coffee or drink than sit through a formal meeting," Mr. Sinclair says.



Photo: David Rodgers

Mr. Sinclair likes to communicate on informal basis with his superiors, especially the mayor.

"People are generally less receptive in a formal meeting and usually are not prepared to listen.

"As soon as you tell them what the topic of a future meeting is, they prepare their opinion in advance and may not be willing to listen to a new idea."

Keep meetings short and relaxed and know what you want from the person you are talking to, Mr. Sinclair says.

"Always explain that you are trying to make the other guy's job easier, not get in his way." ■

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RISK MANAGER OF THE YEAR JUDGES

11 from all segments of risk management choose the winners

Eleven independent judges selected the 1983 *Business Insurance* Risk Manager of the Year and Risk Management Honor Roll.

The judges, who accepted invitations to volunteer their time to score the nominations, represented all aspects of risk management and the commercial insurance business: practicing risk managers, brokers, insurers, consultants and academicians.

Practicing risk managers were represented by the winners of the 1982 Risk Manager of the Year and Risk Management Honor Roll Awards.

They were the 1982 Risk Manager of the Year, Eckart Russell, risk and insurance manager of Alcan Aluminium Ltd. in Montreal, recently promoted to manager of foreign exchange risks in addition to his risk management responsibilities; Spencer J. Traver, assistant treasurer at The BFGoodrich Co. in Akron, Ohio, the first runner-up in the 1982 competition; George N. Pierce, risk manager of Orange County, Fla., the honor roll winner representing public entities; Paul B. Harvey, risk manager of Ponderosa Homes in Irvine, Calif., the honor roll winner representing small business; and Gene M. Marsh, now president of CHA Insurance Services Inc. of the California Hospital Assn. and the honor roll winner representing not-for-profit institutions for his work then with the General Council of the Seventh-day Adventists in Washington.

Judges from the brokerage community were John A. Bogardus, chairman and chief executive officer of Alexander & Alexander Services Inc., representing large commercial brokers, and Robert R. Treweek, past president of the Independent Insurance Agents of America when he was president of his own agency, Cannon-Treweek Agency Inc. of Gainsville, Fla. Mr. Treweek is now executive vp of USF&G Corp.

Judges from the insurance community were James J. Meenaghan, president and chief operating officer of Fireman's Fund Insurance Cos., representing stock insurers, and John Schoneman, chairman and chief executive officer of Wausau Insurance Cos., representing mutual insurers.

Representing the risk management consulting community was Mary Lou Kirk, a consultant with Crain, Langner & Co. in Rocky River, Ohio, and a director and past president of the Insurance Consultants Society.

From the insurance academic community was James S. Trieschmann, professor of risk management and insurance at the University of Georgia in Athens.

The *Business Insurance* Risk Manager of the Year Competition was created by *Business Insurance* in 1977 on the 10th anniversary of its publication to honor outstanding achievement in risk management. The first award was presented in 1978.

Each year a panel of independent judges scores the nominations submitted. The highest-scoring candidate is named the Risk Manager of the Year.

Other past winners of the Risk Manager of the Year Award are:

- Howard T. Weber, director of insurance at 3M Co. in St. Paul, Minn., in 1978.
- Edward L. Erickson, director of insurance at American Broadcasting Cos. Inc. in New York in 1979.
- Thomas V. Hallett, then risk manager of General Motors Corp. in Detroit in 1980. Mr. Hallett is now vp and director of risk management at Frank B. Hall & Co. Inc. in Briarcliff Manor, N.Y.
- Duane C. Allen, assistant treasurer of Hanna Mining Co. in Cleveland in 1981.

A Risk Management Honor Roll, created in 1980 to recognize outstanding achievement in different types of employment, also is named. The honor roll is composed of the highest-scoring candidate in each of the employment categories not represented by the Risk Manager of the Year.

The employment categories are: Large corporations (more than $300 million in sales); small corporations (less than $300 million in sales); government entities; and not-for-profit institutions.

Since the 1983 Risk Manager of the Year, John A. O'Connell from Holy Cross Shared Services Inc., represented not-for-profit institutions, the 1983 Risk Management Honor Roll is composed of representatives of large corporations and government entities:

Jerri Nelson MacMillian of Aetna Life & Casualty Co.'s real estate investment department and Robert Sinclair of the Metropolitan Government of Nashville and Davidson County, Tenn.

No nominations were submitted in the small corporation category.

Other past risk managers on the honor roll are:

- Robert Bieber, then risk manager of Westchester County, N.Y., representing government entities. Mr. Bieber is now a consultant with Ebasco Risk Management in New York.
- William Ryan, insurance and risk manager of the University of Michigan in Ann Arbor, representing not-for-profit institutions.



Nominations graded in 10 different areas

The 11 independent judges of this year's *Business Insurance* Risk Manager of the Year competition scored each of the nominated candidates on his or her performance in 10 areas.

Each nomination described how well the candidate has:

- Established and implements an effective risk management program within the organization.
- Tackled and solved one or more major problem 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.
- Established a workable intelligence system inside and outside the organization, culminating in access to a flow of information about events and activities that affect the organization's risk management and insurance.
- Skillfully performs the functions of management in the overall organization and within the risk management/insurance department.
- 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.
- Is developing in his or her risk management career, exhibited by the candidate's resume and job description.

In addition to the nominating forms answering the 10 criteria, each nomination included a letter from the sponsor nominating the candidate and a letter of endorsement of the candidate from an executive of his of her organization or corporation.

The letter of endorsement also certified the accuracy of the information submitted in the nomination. ■

Not too early

It's not too early to submit your request to receive nominating forms and instructions to nominate a candidate for the 1984 *Business Insurance* Risk Manager of the Year and Risk Management Honor Roll Awards.

The nominating forms will be mailed in August and the deadline for their return is Dec. 5.

To request a form, write *Business Insurance* Risk Manager of the Year, 740 N. Rush St., Chicago, Ill. 60611.

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Computer worries delaying comp policy's introduction

Continued from page 2
product, and thus not protected from suits by work comp laws.

This change may be revised again, Mr. DeCarlo said. Instead of using the words "theory of dual capacity," the policy will paraphrase what that theory means, he said.

- Adds coverage for employers in subrogation actions in which a third party tries to recover damages from the employer.

For example, an employee injured when using machinery in the workplace might sue the manufacturer of the machinery, charging a defect in the equipment caused an injury. In return, the manufacturer might sue the employer, saying it let the machinery be used in an unsafe manner. In this situation, the employer would be covered under the new form.

- Eliminates an exclusion that said occupational disease claims had to be filed within 36 months of the expiration of the policy. Under the new policy, there would be no time limitation.
- Adds coverage for consequential bodily injury to the family of the injured employee.
- Specifically excludes co-employee lawsuits as a covered exposure for insured employers.

Several trade groups have seen the policy, according to Mr. DeCarlo who chaired a one-day seminar in Chicago April 15 to explain the new forms. Other seminars are slated in New York in May and in Texas in September.

The proposed form has been in the hands of state insurance departments for a few months and has been approved by 16 jurisdictions: Arizona, the District of Columbia, Florida, Hawaii, Idaho, Indiana, Maine, Massachusetts, Mississippi, Montana, Nebraska, New Mexico, Rhode Island, South Dakota, Tennessee and Utah.

Initially, NCCI was looking for final responses from the states by Feb. 1. "But we don't need approval of all the states to begin using the new form, just a majority," he said.

Copies of the policy are available from the NCCI, 1 Penn Plaza, New York, N.Y. 10119; 212-560-1000. ■

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Panel studies exchange

Continued from page 2
mium volume to sustain such a marketplace on its own."

And although the exchange was first conceived as a means of retaining more of the approximately $1 billion in Canadian insurance premium that is paid to foreign insurers, Mr. Hilborn believes that the exchange should seek foreign risks and their premiums.

"We believe that a Canadian exchange should not just be a Canadian insurance market, but a world insurance market that will attract foreign risks and premium to Canada and a financial vehicle that will attract foreign investment to Canada."

Informal response to the idea has been positive so far, Mr. Hilborn adds. "We (the committee) are approaching the idea from a positive point of view and I have already been contacted by some potential investors who are simply waiting for formal approval."

The Insurance Exchange Advisory Committee includes: Daniel Damov, president of Travelers Insurance Co. of Canada; Cedric G.E. Gyles, president of Reed Stenhouse Ltd.; Bruce R. Harvey, senior vp of Marsh & McLennan Ltd.; David Horsely, senior partner in the Toronto law firm of Fraser & Beatty; Rolf R. Kern, president of Gerling Global Reinsurance Co.; Huntly McKay, vp of the Toronto Stock Exchange; William G. Munro, president of Imperial Life Assurance Co.; Jean Robitaille, president of the Royal Insurance Co. of Canada; and Harley B. Vannan, president of Canadian Indemnity Co.

Ex-officio members of the committee are Ontario Superintendent of Insurance Murray A. Thompson and Mrs. Dagmar Stafl, chief economist for the province's Ministry of Consumer and Commercial Relations.

Two Canadian risk managers, Keith Exon of Rio Algon Ltd. and Claude Smith of Gulf Canada Ltd., serve on subcommittees. ■

Florida damage

NEW YORK—Insured property damages caused by wind, hail and tornadoes that swept through parts of Florida March 24 are estimated at $15 by the American Insurance Assn.

The bulk of the storm damage occurred in the central portion of the state.

The storm was assigned Catastrophe No. 87 by the Insurance Services Office. ■

NASA will pay owner for unusable satellite

Continued from page 2
Inertial Upper Stage, Mr. Kukowski said. A report from the engineers is expected by the end of the month.

The same type of rocket is to be used with TDRS-B and TDRS-C, a third satellite that will be used as a spare in case one of the others fails. TDRS-C is tentatively scheduled for launch in the spring of 1984, but "perturbations" in the launch schedule may also delay this launch, Mr. Kukowski said.

The remaining three satellites in the six-satellite series will be kept on the ground as spares.

Although TDRS-A's orbital problems are more serious and will take longer to correct than first suspected, NASA officials express confidence that the problems will be ironed out.

To adjust the orbit, TDRS-A's thrusters will probably use up to 900 pounds of the satellite's total supply of 1,300 pounds of hydrazine fuel. The fuel use is not expected to shorten the satellite's 10-year lifespan, Mr. Kukowski said.

But if NASA loses use of TDRS-A because of the malfunctioning Air Force rocket, SpaceCom would not be stuck with the loss, according to Lawrence F. Watson, NASA's deputy chief counsel at the Goddard Space Flight Center in Greenbelt, Md.

SpaceCom developed the six-satellite TDRS system with a $975 million loan from the Treasury Department's Federal Finance Bank, Mr. Watson said. While SpaceCom continues as owner of the system, it will more than recoup its development costs by leasing all of the system's services to NASA over a 10-year period. After 10 years, NASA will have the option of buying the entire system from SpaceCom for $1, he said.

The current value of the 10-year service contract is $1.8 billion, based on an amortization of the system's construction costs, $975 million, plus interest.

And, the amount of the contract will increase, Mr. Watson said, when payments to SpaceCom for maintaining and servicing the system are added. The system includes the satellites' ground tracking station at White Sands, N.M.

Under the contract, NASA will begin paying SpaceCom for its services after the second TDRS satellite is successfully placed in orbit. But if a launch failure prevents SpaceCom from delivering the satellites' services, SpaceCom is entitled to an "equitable adjustment" under the service contract, Mr. Watson said.

"Equitable adjustment" is not defined in the contract, Mr. Watson said, but he explained that it could take several forms. For example, he said SpaceCom might only supply five satellites, instead of six, without changing the value of the contract. Or, NASA might elect to have SpaceCom build an additional satellite if one is lost, in which case the space agency would pay an additional amount for the new orbiter.

These adjustments would only be made if a launch failure were beyond SpaceCom's control, Mr. Watson says. If SpaceCom were found to be at fault for a launch failure, SpaceCom would be in some way penalized by NASA for the loss.

If TDRS-A is found to be useless because of a malfunction in the Air Force rocket, the failure will be considered the government's fault, not SpaceCom's, says Robert O. Aller, the TDRS program director for NASA.

SpaceCom's understanding of the agreement is that NASA is self-insured for the launch exposure, a company spokeswoman said, confirming that the only insurance SpaceCom placed on the satellite was for prelaunch exposures.

SpaceCom bought a $125 million policy to cover any damage to the satellite from the time it arrived at the Kennedy Space Center at Cape Canaveral, Fla., until it was loaded into the shuttle's cargo bay. SpaceCom also bought a $50 million policy covering the costs of continuing operations during any delay caused by damage to the satellite in transit to Florida.

Although some domestic markets were used, most of the coverage was placed with Lloyd's of London underwriters through Inspace, a brokerage subsidiary of Corroon & Black Corp., the spokeswoman said.

As required by the standard NASA launch services agreement, SpaceCom also had a $500 million liability policy underwritten by Lloyd's and other London markets, the spokeswoman added.

SpaceCom will also insure its liability in case service is interrupted during the lifetime of the satellites.

Under the terms of the contract, NASA may penalize SpaceCom to a maximum of $2.4 million per year for any interruption in service.

The insurance will be placed with Lloyd's underwriters, says Joseph Bell, insurance director at Space Com.

In addition, TRW, the spacecraft's manufacturer, had a $150 million policy covering all risks of damage to the satellite while it was in transit from TRW's facility at Redondo Beach, Calif., to Cape Canaveral, according to Gary Swinhart, TRW's insurance manager. ■

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CPCU exam review May 14

BLOOMINGTON, Ill.—Candidates for the National Chartered Property & Casualty Underwriters exam in June will have a review day May 14.

The review sessions will be held at Wesleyan University's Sherff Hall in Bloomington.

Concurrent sessions for test segments four, six, eight and 10 will start at 8 a.m.

Test candidates should bring notebooks, topical outlines and their latest study materials to the sessions.

The cost is $7 per session.

For more information on the CPCU review day sessions contact Larry Hailey, State Farm, One State Farm Plaza, Bloomington, Ill. 61701.

Candidates for the CPCU exam should indicate the session they're interested in and possible questions or topics. ■

If you missed the brochure in the March 21 issue of BI, call now for program details 212/210-0137

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About the Speaker
Dr. Kenneth R. Oppenheimer, President of Decision and Risk Analysis, Inc., of Palo Alto, California, specializes in executive education and the application of decision and risk analysis to corporate decisions in the insurance, fire protection, banking, wood and paper products, data processing, cattle feeding, and oil and gas drilling industries. Prior to founding Decision and Risk Analysis, Inc., he spent five years with the Decision Analysis Group at S.R.I. International (formerly Stanford Research Institute). His academic background includes a B.S. in mathematics from Tufts University, and a M.S. and Ph.D. in Engineering-Economic Systems from Stanford University. While at Stanford, he was a member of the Decision Analysis Group at Xerox Corporation.

Seminar Dates

May 16	New York	Grand Hyatt
May 18	Dallas	Doubletree Inn
May 23	Los Angeles	The Biltmore
June 13	New York	Grand Hyatt
June 15	Chicago	Ritz Carlton
June 20	San Francisco	The Fairmont

Agenda
1. Introduction to decision and risk analysis
2. A risk management decision (case study)
3. Assessing the probabilities of loss
4. Assessing the corporate attitude toward risk
5. Analyzing risk transfer alternatives (case study)
6. Analyzing risk control alternatives (case study)
7. Conclusion

Inspection insights should be shared: Survey

Continued from page 1
cific contractual arrangements for very precise duties," said an assistant finance manager for a $70 million a year service company.

"If you (the risk manager) don't like the inspection, change the insurer or the inspector," he advised. "If you are the owner (and are dissatisfied with your company's risk management), fire the risk manager."

Liability should be a function of how the vendor represented its services, many respondents agreed. A comprehensive inspection to resolve a certain problem should create liability. A general inspection should not.

Although 65% of the respondents opposed holding property insurers liable for the completeness and accuracy of their inspections, 55% said that insurers should be obliged to inspect the policyholder's property for unsafe conditions and to report those conditions to the risk manager.

"Such inspections provide protection for both of us," said the controller for a wholesale food distributor with $100 million in sales.

"Sometimes one cannot see the forest for the trees," noted the risk manager for a $7 billion financial institution. "These people (outside inspectors) can pick up little things that result in costly accidents."

Several other respondents pointed out the value of an objective outside opinion in helping the risk manager to identify exposures the company may have overlooked. They also noted that inspections are included in the premium paid by companies to their insurance companies.

But, most seemed to think that inspectors who work for insurance companies are more interested in protecting their employer's financial risk than in helping the company.

"While it is a valuable service to the insured, the inspection is ultimately for the underwriting benefit and financial knowledge of the insurer," said the manager of insurance for a $2.8 billion forest products company.

Three respondents divided the questions into two parts: They said that the insurer should not be obliged to inspect the property; but if it does, then it should be obligated to report unsafe conditions to the policyholder.

Should property insurance inspectors—distinct from the insurance company that employs him or her—be held legally liable for failing to detect and advise on situations that later result in losses? Thirty-six of the 50 respondents, or 72%, said no.

"The inspector could be given false or incomplete information causing him to miss the situation that later resulted in losses," said the director of risk management for a $400 million manufacturing company.

"In my opinion, the insured should replace insurance inspectors who are incompetent and insurers should not renew coverage for insureds who refuse to make a reasonable effort to correct deficiencies," he added.

Once again, many respondents stressed that owners—and not the inspectors they hire—must shoulder the responsibility for loss prevention. Outside inspectors are there to help, not to manage the operation, they say. Inspectors cannot be expected to detect all situations that might result in a loss.

However, if an inspector discovers an exposure and fails to advise the client, then many risk managers believe there would a case for legal, if not criminal, prosecution.

The 28% minority of respondents who believed that inspectors should be legally liable said that the policyholder must be able to rely on the thoroughness of an inspection.

"Insurance inspectors should stand behind their inspections," declared the manager of administrative services for a $20 million manufacturer of adhesives and resins.

Seventy percent of the respondents were opposed to state laws to protect insurers against liability suits charging them with negligence in property inspections. An even larger majority of 78% opposed such laws to immunize insurers from suits charging them with negligent workers compensation inspections.

Most of the respondents who opposed statutory protection gave one or more of the following reasons:

- There are already too many laws.
- Liability should only arise out of a contract entered into by the vendor and the client.
- Liability should be determined by the courts on a case-by-case basis after a thorough examination of the facts.
- Such protection goes too far in separating the insurer from responsibility for its acts.

"Negligence should not be protected," summed up the controller for a $7 million electric utility.

All of the respondents said they do not rely solely on their property or workers compensation insurer to inspect their facilities for unsafe conditions. About 94% added that they personally or someone on their staff makes such inspections.

Twenty-one of the risk managers who answered the questions, or 42%, said they hire a consultant to help identify property exposures. Twenty-two, or 45%, of the 49 respondents who answered the question said they retain a consultant to spot workers compensation risks.

Although the Risk Management Board includes participants from both small and large companies, the responses to this survey tended to be skewed toward the larger companies, which are more likely to retain a consultant.

More companies use a broker to inspect their premises for property exposures than for workers compensation-related hazards. About 48% of the respondents' brokers are active in conducting property inspections compared with only 41% broker involvement in workplace safety inspections.

Thirty-two out of 48, or 67%, of the respondents said that the quality of inspections would increase if there were greater liability imposed on vendors. However, 95% said that such liability would increase the cost of inspections. And 88% said that this heavier legal burden would result in an increase in the number of impractical or economically unfeasible recommendations to clients.

Most of the 66% of respondents who said the quality of inspections would improve with greater liability explained that vendors would make certain to provide qualified inspectors to limit their future exposure.

"Carelessness, unconcern and laziness would be too costly" under such rules, noted one administrative manager with risk management responsibilities.

"We need to stop the cursory inspections by insurance company people and make inspections more meaningful without shifting the overall ownership responsibility to others," summed up the vp-insurance for a $350 million diversified company.

But one respondent worried that inspectors would begin to practice "defensive medicine," if they felt constantly threatened by legal liability. This could create difficult problems for a risk manager who might face unreasonable demands for costly changes.

"On occasion, we could save $10 in losses by applying $10,000 worth of modifications," pointed out the corporate risk manager for a $320 million tax preparation firm. "The risk manager has to decide the proper balance. Insurers could require the modification to prevent the loss."

Three respondents said that carriers might stop making inspections or sharing their reports with policyholders rather than accept the additional risk of professional liability losses.

"Carriers would pull in their horns and share minimal information with the policyholder. They would constantly protect their own hindside rather than trying to solve problems," said one risk manager.

Another respondent agreed. Insurers might take the position that the inspection report is confidential and proprietary so that the policyholder couldn't see it, he pointed out.

Inspections would become more conservative and reports more self-serving to inspectors, said the corporate secretary-treasurer of a $60 million metals fabrication company.

The whole nature of the inspection would change, said the director of risk management for a $420 million electrical equipment manufacturer. There would be greater concern for "covering one's exposure" than in providing an objective survey.

Two other respondents said the same thing using less polite language.

But, if loss control and safety professionals want to be recognized as professionals, they should be held liable as professionals, suggested the risk manager for a $115 million electric utility.

Several respondents said they do not expect a lot of expertise from their insurance company inspectors. They recommend spending the money for a bona fide loss prevention engineer to inspect major risks.

Also, one risk manager pointed out that there are times when the best life safety and property risk management measures clash.

For example, Factory Mutual inspects a warehouse and recommends that automatic smoke and heat vents be removed or placed in a manual mode to suffocate a fire. To enable occupants to evacuate, however, the vents should be used to remove smoke and heat from the building.

But one dissenter who said that the quality of inspections would not increase if there is greater liability also has a higher opinion of insurance company inspection services. He thinks that only the volume of paperwork would increase.

"Safety management is more an art than an exact science, and individuals and their carrier should not be expected to be subject to finite scientific principles," said this director of risk management for a county with $494 million in annual revenues.

In the same vein, the corporate insurance administrator for a $100 million manufacturing and service conglomerate railed against the tendency of legislatures to try to regulate perfection. He also had some positive words for insurance inspection services.

"The good carriers are competent professionals and I'll give Factory Mutual for property and Liberty Mutual for comp as sterling examples!" he enthuses.

Another respondent said that the quality of inspections might actually deteriorate if liability were increased because a major loss could cripple a financially ailing company.

Some respondents expressed concern that increasing liability would contribute to an adversarial relationship with vendors. Good safety management requires cooperation among all the parties in a position to make a positive contribution, they said.

"A good relationship between insured and carrier is important and can result in better trained inspectors and more complete inspections. If insurers are to be held liable for the quality of an inspection, they may offer this service only for an additional fee," said the risk manager for a $800 million public agency.

"I dislike the negative approach to the problem. This approach rarely leads to constructive results," says the assistant vp for a $2.1 billion consumer goods and services company. "Inspections and reports are important and must be used in risk management. The final responsibility must lie with the owner and company management."

"This sounds like a potential area for the plaintiff's bar to scout out potential income and, of course, all such costs would have to be passed on to consumers," said the risk management director of a $400 million manufacturing company.

No one would benefit from such heavier liability except the legal profession, groused the assistant treasurer for a $3 billion electronic equipment manufacturer.

Unbundled professional services will solve these issues, suggested the assistant treasurer for a rubber and chemical manufacturer. "The controversy exists because services are not unbundled in most cases and the buyer is deluded into believing that the underwriter is protecting the client and not the underwriter. . .that's ridiculous!"

Large companies should perform the unbundling function themselves, recommended the risk manager for a $1.1 billion company providing personal lines insurance and auto club membership services.

"Large insureds should know about how much money is included in the premium for inspection services and can demand services equal to the charge," he said. ■

Award reversed

Continued from page 2
with Mr. Kennelly.

"There is no trend," says Ned Good, a lawyer with the Pasadena, Calif., firm of Good and Novack, which represents the plaintiffs in the recent California case.

The new California decision came March 31 in a case filed by the wife of a dynamics engineer aboard a Pacific Southwest Airlines 727 that collided in mid-air Sept. 25, 1978, with a private plane and plunged in flames to the ground over San Diego.

The wife and two children of the engineer, Joseph Reed Canavin, who was earning $32,000 at the time of his death, were awarded $750,000 by a San Diego Superior Court jury after a damage trial.

The trial judge had declined to tell the jury whether to use pretax or after-tax earnings when it calculated the value of the victim's lost earnings over his expected lifetime.

The judge also declined to tell the jury what interest rate it should use in calculating the likely investment appreciation on the lump-sum award—the rate available on taxable as opposed to non-taxable investments.

Mr. Good objected to this lack of instruction and, based on his calculations, which would have netted a larger award, surmised that the jury, which does not have to explain its reasoning, probably based the award on net income instead of gross income. And, the award was appealed.

A three-judge panel of the California Court of Appeals in San Diego, ruling 2-1, reversed the $750,000 jury award. However, it did not object to the use of after-tax earnings, but said the lower court judge "prejudicially erred in refusing to instruct the jury on applicable discount rates."

The appeals panel majority hinted it opposes use of gross earnings in figuring damages.

"Failing to reduce decedent's gross earnings by the amount of income taxes the decedent would have paid effectively awards claimants greater financial support than they would have received had decedent lived," the appeals majority says. "This overcompensation has been characterized as punitive."

But the appeals court did think that some instruction on discount rates was in order.

The discount rate is the figure used to "discount" the the value of damages to "present value." It is based upon the assumption that a person receiving $1,000 in 1983 will have more money at the end of 10 years than if he had received $100 a year for 10 years. That's because he is earning interest on $1,000 for the entire 10 years.

Similarly, a person's income is received over time. Thus juries are supposed to reduce their awards by an amount equal to the time value of money.

One factor that determines the earning power of invested money is whether the dividends or interest amounts received are taxable. Jury awards are not taxable under federal law, but *income* from an award is.

If the $1,000 is invested in tax-free municipal bonds or similar tax-free investments, the interest earned is tax-free. If it is invested in common stocks or corporate bonds, the interest or dividends are taxed.

Thus an important question for the jury working with a net income figure is whether to "discount" its award using the generally available interest rates on tax-free or taxable investments.

In the PSA case, the appeals court notes, the jury may have relied on both net income and taxable investments.

"This would have denied the Canavins full measure of their award because they would have been subjected to double taxation," the appeals panel says. "The first when take-home pay was used, rather than gross, and the second when the higher discount on taxable bonds was applied to the total loss of future earnings based upon that take-home income."

However, because the question of after-tax earnings vs. gross earnings was not addressed by the appellate court, attorneys for the Canavins have asked the appeals panel to review its decision and, if it doesn't, they will appeal to the California Supreme Court.

If juries want to consider the effect of taxes in reducing net income, they should also consider the fact that plaintiffs often pay contingent legal fees that reduce their award by 25% or more, says the Canavins' attorney Mr. Good.

"If they want to talk about take-home pay, they should talk about the take-home verdict amount, too," he says. ■

Opposition to federal tort reform mounting

Continued from page 1
being wooed by business groups.

While this jostling for votes will intensify as the Commerce Committee moves closer toward a vote on the Kasten legislation, the only major product liability bill pending in the Senate, there is no agreement on what the outcome will be.

"A bill can pass, if the business community stays united," argues Victor Schwartz, counsel for The Product Liability Alliance, a broad-based group that is trying to establish a business consensus on federal product liability issues.

On the other hand, an insurance industry attorney says that the momentum now is with consumer and legal groups that oppose enactment of federal tort reform.

But everyone does agree that the stakes are high in the battle to pass federal product liability legislation.

Ever since product liability insurance rates soared during the mid-1970s, business groups have been fighting for legislation to cure what they say was the cause of those high rates: a legal system that had become tilted toward the side of the injured consumer.

In state after state, employer groups, like local chambers of commerce, lobbied for legislation that placed limits on the right of a plaintiff to recover damages.

For example, about 20 states passed legislation between 1977 and 1982 that bars injured consumers from filing product liability suits a certain number of years, usually 10, after a product was sold or manufactured. This reduces manufacturers' exposure to product liability suits on very old products.

Those bills were strongly opposed by legal and consumer groups who viewed them as an emasculation of the common law that protected people injured by defective products.

But the drive to pass state product liability bills began to sputter in 1981. As product liability insurance rates eased because of intense competition in the commercial insurance market, employers lacked a strong incentive to support lobbying efforts.

In addition, more employers realized that the passage of different state bills did little to reduce the uncertainty that manufacturers and insurers face in defending product liability cases.

Only one uniform federal law, which would pre-empt state product liability statutes, would give that certainty, more and more manufacturers argued.

As a result, beginning in 1981, the drive to pass product liability legislation shifted from state legislatures to Capitol Hill.

To get a federal bill passed, many employers and insurers banded together to form an ad-hoc group known as The Product Liability Alliance. In addition, a separate group, the Coalition for Uniform Product Liability Laws, was formed to represent manufacturers' interests in federal product liability issues.

The coalition worked closely with Rep. Norman Shumway, R-Calif. He introduced a product liability bill in the House last year but it died in committee and did not generate the publicity the Kasten bill did.

Meanwhile, The Product Liability Alliance established a close relationship with Sen. Kasten. The Kasten connection was important because the freshman Republican from Wisconsin chairs the Senate Commerce subcommittee that controls product liability legislation.

Working closely with the alliance, Mr. Kasten last year proposed federal legislation that would limit manufacturers' exposure to product liability suits in several ways:

- In the case of capital goods, a product liability suit would be barred against manufacturers 25 years after a product was sold.
- Punitive damages only would be allowed if a plaintiff could show "clear and convincing" proof that a manufacturer showed a reckless disregard for consumer safety. In addition, a judge, not a jury, would determine the amount of the award.
- Manufacturers no longer would be strictly liable for the design of their products. Under strict liability, a plaintiff only has to prove that a product was defective; he does not have to establish that a manufacturer's negligence caused the accident.
- Manufacturers would not be liable if an unauthorized product alteration or modification caused an accident.

The Kasten bill passed the Senate Commerce Committee at the tail end of the last congressional session on an 8-2 vote. An identical version was introduced this year.

The passage of a bill last year triggered stronger opposition from legal and consumer groups. "We are more involved than in the past," said ATLA's Mr. Bendorf.

The increase in opposition probably was inevitable. "The closer you get (toward the passage of a bill), the more intense the opposition becomes," said Les Cheek, vp-federal affairs for Crum & Forster.

And the opposition from consumer groups is most deadly to the bill's chances, observers say.

"The continued negative input from consumer groups disturbs some senators," said Mr. O'Day of the Alliance. "Congress would like to see consumers and employers reach a middle ground.

But that middle ground may be elusive. Mr. Greenberg of the Consumer Federation of America, for example, says a federal bill that "would be acceptable to us probably wouldn't be acceptable to manufacturers."

Even without opposition, passage of a federal bill faces tough odds. "Frankly, there is not much interest or knowledge (about product liability issues) in Congress," said Donald Jordan, executive director of the National Assn. of Insurance Brokers.

Mr. Jordan says a major legal event—a decision, for example, that completely throws the tort liability system out of kilter—will be necessary before Congress will act.

"You need a major legal event that people can point to and say that is why a federal law is needed. It isn't enough to say that there are differences among the states in product liability law," he adds.

One lobbyist says a major obstacle to passage of a federal bill may be money. He contends, for example, that The Product Liability Alliance is running short of funds.

Alliance members deny that funds are running out. But they do concede that about five members of the 234-member group have been contributing the bulk of funds.

Because of the higher costs that will be incurred to ward off the challenges now facing the Kasten bill, the alliance plans to impose uniform dues, possibly $5,000 each, on its members. ■

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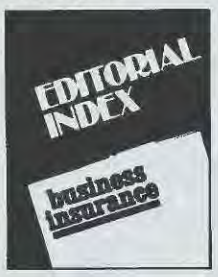
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Legal uncertainty clouds firms in bankruptcy

Besides the uncertainty over what will happen to the three asbestos defendants that have filed for bankruptcy, there is perhaps a more fundamental question: What will happen to the bankruptcy law itself?

Since Dec. 24, federal bankruptcy courts have been operating under emergency rules that some say are unconstitutional, thereby casting any decisions made by the courts into the realm of uncertainty.

Among those challenging the jurisdiction of the bankruptcy courts to consider reorganization petitions—such as those filed by asbestos defendants Manville Corp., UNR Industries Inc. and Amatex Corp.—are two of their co-defendants.

The confusion over the status of the Federal Bankruptcy Act of 1978 stems from a decision by the U.S. Supreme Court last summer. The court declared that the power granted to bankruptcy judges by Congress to hear non-bankruptcy cases was unconstitutional because it did not guarantee certain salary and tenure protections that other federal judges possess.

The court ultimately gave Congress until Dec. 24 to pass legislation remedying the defect, but Congress failed to do so.

Since then, bankruptcy courts have been working under emergency rules promulgated by U.S. District Courts. However, the ability of the bankruptcy courts to work under those rules has come under attack.

"It's a very serious question whether any court has jurisdiction over bankruptcy," said Harvard University Professor Vern Countryman. "In my opinion, the answer is no."

If an appellate court or, ultimately, the Supreme Court declares the current interim rules unconsititutional, it could have the effect of dismissing all pending bankruptcy cases including the asbestos defendants' reorganization filings under Chapter 11 of the bankruptcy law, he said.

"The emergency rules are invalid, patently invalid, and everyone knows it," says bankruptcy attorney George M. Triester of the Los Angeles firm of Stutman, Triester, & Glatt P.C.

But the courts will continue to apply the emergency rules because the only alternative is no bankruptcy system at all, he says.

"Everyone is intellectually dishonest," he adds, "because the contrary is worse."

He says he expects all courts below the Supreme Court to uphold the interim rules and the Supreme Court to duck the issue until Congress passes legislation remedying the plan. Congress, though, will not apply the new law retroactively, so the companies in bankruptcy won't be affected, he says.

Professor Robert Ginsburg of the De Paul University Law School in Chicago, a bankruptcy expert, agrees the rules are probably invalid and unconstitutional but he does not believe that this will interfere with the courts' operations. That's because the U.S. District Courts that drew up the interim rules are the same ones that will review their constitutionality, he says.

"It's a very important question for bankruptcy law in general," adds Malcolm M. Gaynor, a bankruptcy attorney with the Chicago firm of Schwartz, Cooper, Kolb & Gaynor who represents UNR.

But, he maintains, the controversy over the bankruptcy law in "relatively unimportant" to the asbestos defendants hoping reorganization will resolve the massive numbers of claims pending against them.

Moreover, he says, the bankruptcy law controversy will be over before the asbestos bankruptcies are resolved.

So far, three federal appellate courts have declared the emergency rules valid; no court has ruled they are unconsitutional.

Recently, though, asbestos defendants Keene Corp. and GAF Corp. have challenged the ability of the bankruptcy courts to exercise their powers under the emergency rules.

The petition—filed in the 2nd U.S. Circuit Court of Appeals in New York, which has jurisdiction over the bankruptcy court hearing the Manville case—asks that the bankruptcy court be barred from staying claims against Manville because the high court decision invalidated the 1978 bankruptcy act.

The petition is similar to one the two companies earlier filed with Supreme Court. The high court refused to grant the petition in February.

In the meantime, Congress is considering several bills that would remedy the defects in the current bankruptcy law.

—By Stephen Tarnoff

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Firms in reorganization face uncertainties

Continued from page 1
future plaintiffs can be accurately estimated, that a dollar value can be placed on these potential claims and that they can be adequately notified.

Moreover, they argue that considering potential claims now is the only way to benefit future claimants. Liquidating the companies or throwing the litigation back to state and federal trial courts would provide compensation for only current plaintiffs, not those who file in the future.

But plaintiffs' attorneys counter that handling future claims in bankruptcy proceedings would violate claimants' constitutional rights and the bankruptcy law.

They contend that the the number and monetary amount of future asbestos claims cannot be estimated and that it is premature to say future plaintiffs can't be compensated adequately.

For example, plaintiffs' attorneys point out that Manville is a healthy company with substantial assets, adding that they believe its Chapter 11 petition was filed in bad faith and should be dismissed.

The three asbestos companies currently in reorganization are all deploying different legal strategies to have future claims recognized now.

However, they are all intently watching each other's bankruptcy proceedings. So are their co-defendants in the asbestos litigation, which may be contemplating a similar route.

The three companies suffered a severe setback in the first major decision to be handed down in the bankruptcy proceedings. U.S. District Court Judge William Hart in Chicago said future claimants could not be part of UNR's reorganization plan and that the company's request that the court appoint a legal representative for future claimants could not be approved.

"A court may be creative in modifying and adjusting old remedies to suit new problems," the court said. "But a court cannot rewrite or add to the applicable binding statute. The debtors would have the court do that here.

"The (bankruptcy) statute under which the court labors does not contemplate the resolution of all problems faced by entities with substantial financial exposure, and does not provide for such a resolution here."

Judge Hart added that he was aware that by refusing to include future claimants in the proceeding claimants could wind up with judgments against a corporation that has only one asset: a corporate charter.

UNR, Amatex and Manville all disagree with the decision, saying that Judge Hart went beyond the issue before the court.

The three companies contend the ruling addressed the question of handling future claims in the proceedings, a point that had not even been argued.

The only issue that should have been decided, UNR's attorney Mr. Gaynor says, was whether a legal representative could be appointed for the future claimants.

"We believe the decision is wrong," Mr. Gaynor says.

"The decision was just wrong," Mr. Parker of Manville adds. "We're still going in that direction," asking the New York bankruptcy court handling its case to include future claimants in its forthcoming reorganization plan.

Even if the courts ultimately turn down UNR's approach for a legal representative, Manville and Amatex have their own methods for having future claims decided in bankruptcy court.

> 'The inclusion of future claimants is absolutely essential. There's no point in trying to continue to stay in business with the staggering number of future claimants,' explains J. Gregg Miller, an attorney for Amatex Corp.

Manville, for instance, has filed a class-action suit in bankruptcy court in an effort to bring under the court's jurisdiction all future claimants, to have the court estimate their number and to have it set an amount that must be paid to indemnify them.

And Amatex has petitioned a bankruptcy court in Philadelphia to appoint a guardian to represent future claimants.

Manville's class-action suit, filed Feb. 3 in U.S. Bankruptcy Court for the Southern District of New York, includes in the class all present and future claimants, including those who have been exposed to the substance but do not as yet have any symptoms of an asbestos-related disease.

At the same time as the filing, Manville proposed what it calls "Elements of a Plan of Reorganization", the conceptual framework of a reorganization plan. It provides for a settling future claims through a defined benefits scheme.

A hearing on the class action may come as early as next month.

In addition to this action, Manville is currently negotiating with other asbestos defendants, plaintiffs' attorneys and general creditors in an effort to work out a consensual plan that could provide a "global solution" to the asbestos problem.

According to Manville's Mr. Parker, such a solution could be worked out by the end of the year (*BI*, April 18; April 11).

"We are trying to reach a plan everybody can agree to and to avoid lengthy litigation," Mr. Parker says. "We don't want to emerge from Chapter 11 with unlimited liability that can't be controlled as to time and the amount of payment."

However, plaintiffs' attorneys are not so optimistic about an early settlement. "We're not seeing that kind of progress at all," says Mr. Rosen.

He points out that there is a question whether the amount of money under discussion would pay for both current and future claimants.

Plaintiffs' attorneys say a global solution would not be opposed if the victims can get fair compensation, a right to a jury trial and have future claims handled individually.

According to plaintiffs' attorney Stanley J. Levy of the New York firm of Kreindler & Kreindler, 90% of the claims could be settled without trials by a solution that includes such methods as a voluntary arbitration system for the parties, a centralized claims handling system and a resolution of the defendants' insurance problems.

Robert Rosenberg, counsel for the Committee of Asbestos-Related Litigants and/or Creditors appointed by the bankruptcy court in the Manville case, adds that a global solution, including other asbestos defendants not in bankruptcy, is possible as long as the right to a jury trial is maintained.

Manville's Mr. Parker acknowledges as well that a consensual plan leaves open the possibility of including co-defendants.

The stakes in the current negotiations and bankruptcy proceedings are just as high for the claimants as they are for the asbestos defendants.

If the courts say future claimants can't be included in a reorganization plan and a consensual plan is not worked out, Mr. Parker says there's the possibility that future claimants may wind up without any legal recourse against Manville.

It may mean that Manville, Amatex and UNR will just take care of existing claims and emerge from Chapter 11 reorganized, he says.

After reorganization, the companies could be free and clear of future claims or they could be back into the same position they were in before they entered Chapter 11, Mr. Parker adds.

But, according to Professor Douglas Baird of the University of Chicago Law School, any of the asbestos companies would still be liable for future claims after reorganization.

Mr. Bendix, a UNR attorney, says even if future claimants aren't included in his company's bankruptcy proceedings, the company would attempt to propose a plan of reorganization.

"Future claims are certainly important," he says. "We would like to have a fund to compensate future claimants in a non-judicial setting."

But, he adds, it is possible a plan could be formulated to satisfy the claims of existing claimants and creditors and, by the time the company comes out of bankruptcy, it would be able to meet future claims.

If, for example, UNR stayed in bankruptcy for three years, all claims that are filed within that time period could be dealt with by the court as present claims.

Mr. Bendix then suggest that UNR could possibly handle claims filed after the bankruptcy proceedings end if they are filed at a slower rate than they were before.

But Mr. Miller, who represents Amatex, doesn't agree that claim frequency will be reduced after the bankruptcies are resolved. He points to studies conducted by Manville, which show the company will face 52,000 total claims over the next 20 years.

"I don't feel that the passing of five years will be that helpful," he says.

Mr. Miller adds, however, that it is possible that federal legislation may be passed within the next five years that would set up an alternate compensation system to deal with asbestos claims that may make it easier for the companies to emerge from Chapter 11.

Rep. George Miller, D-Calif., has indicated that he will soon introduce legislation that would force all asbestos claimants to seek compensation from a federal system funded by contributions from the workers' employers and asbestos companies (*BI*, April 18).

Some asbestos defendants have said they don't favor this solution, however.

Manville's Mr. Parker says there may not be much support for Rep. Miller's bill and that it may not be introduced. It is unacceptable to many asbestos companies because it does not provide for government contributions to victims' compensation, he explains.

Mr. Parker says also that Manville and other companies will continue to seek to bring in the government as a third party for their share of the liability, an effort that could ease defendants burden significantly, if successful.

The asbestos defendants say that many of the workers claiming asbestos injuries worked in government-owned shipyards or at private companies that used asbestos materials to meet government specifications.

Amatex's strategy for dealing with future claims is to ask the bankruptcy court to appoint a guardian to assist in representing future claimants.

Although a guardian usually has different responsibilities than a legal representative, the approach UNR is taking, Professor Baird at the University of Chicago says that the two strategies serve basically the same purpose in bankruptcy cases.

Judge Hart in the UNR decision indicated that guardians should only be appointed to represent mental incompetents or infants, but Amatex attorney Mr. Miller said that guardians have been used for determining unascertainable parties in a legal proceeding, similar to unknown future claimants.

A decision could come on Amatex's request by the end of May, Mr. Miller adds, noting that the company is asking the court to first appoint a guardian and then decide if future claimants can participate in a reorganization plan.

Amatex is currently not negotiating any form of settlement with asbestos plaintiffs and other creditors because it would be inappropriate until a guardian is appointed, Mr. Miller adds.

Earlier this year, plaintiffs' attorneys involved in the Amatex bankruptcy asked the court to either move up the deadline for the company's reorganization plan or begin proceedings to liquidate it.

They asserted that the value of all claims against Amatex is at least $20 million, far exceeding the company's assets.

In response, Amatex filed a plan last month that calls for setting up a trust fund from insurance proceeds and contributions from corporate earnings that would compensate present—and future—asbestos claimants.

Mr. Miller noted, however, that the company's insurance proceeds would barely be enough to take care of present claimants.

Although the three asbestos companies now in reorganization desperately want to settle future claims now, plaintiffs' attorneys oppose including future claims, explaining that this would violate constitutional prohibitions and the bankruptcy law.

They contend that there is no way to accurately estimate the number and dollar value of future claims.

"The bankruptcy statute doesn't provide for it," says Mr. Rosenberg, attorney for plaintiffs in the Manville bankruptcy. Future claimants don't have a "claim" under the bankruptcy law, he says.

In addition, plaintiffs' attorneys believe plaintiffs have a constitutional right to jury trials for their individual claims and should not have to accept a defined benefit plan or workers compensation scheme as a method for compensating asbestos injuries. They also believe there is no adequate way to notify future claimants of a settlement.

"We won't sacrifice our clients' rights in bankruptcy," says plaintiffs' attorney Mr. Levy.

"In our view, future claimants don't belong in bankruptcy and shouldn't be in bankruptcy. Our goal is to protect our clients and see they get full, fair and adequate compensation."

Mr. Levy says that plaintiffs should have the right to file claims as they mature. Each claim has its own peculiarities and problems and should be evaluated separately. "We're not prepared to adopt a system and then plug in the numbers."

Mr. Levy also questions the statistical basis for Manville's projections that it faces 52,000 total claims, the major reason it filed under Chapter 11.

"I'm not convinced it is within the realm of science to make those predictions," he says. "I believe the filing of cases has slowed down and probably have plateaued and are on the downward side of the curve."

Plaintiffs' attorneys want to see Manville's assets preserved for "very selfish reasons," the benefit of their clients, Mr. Levy adds. Plaintiffs want to make it clear that bankruptcy is not an easy way out of product liability litigation, adding that if it is in the plaintiffs' interest to have the defendants liquidate, they will seek that remedy.

"We want other companies to know it is bankruptcy and it is not business as usual," he says. "It is not a desirable way to solve tort litigation."

Mr. Rosenberg adds that Manville could have dealt with claims for "a good long time" and did not have to file for Chapter 11.

Companies that say they will have to liquidate if they can't include future claimants are posing a "doomsday argument," he contends. "It's a problem to be confronted with in the future," he adds.

Some argue that there are other reasons why plaintiffs' attorneys don't want future claimants to be included in current proceedings. They suggest that plaintiffs' attorneys don't want to lose their contingent fees, which could happen if a bankruptcy court disposes of the claims.

Plaintiffs' attorneys are quick to discount this. "That's a false issue," Mr. Levy says.

Despite the optimism of some of the attorneys involved in the bankruptcy proceedings, experts say that the answers to all the financial and legal questions won't be known for quite a long time.

They add that the resolution of the litigation will come from legislation, either specifically permitting the current bankruptcy law to consider future claims or setting up a compensation scheme for asbestos victims, like Rep. Miller's.

"I think the bankruptcies won't be wound up for a decade," says Professor Robert Ginsberg of De Paul University Law School, noting that some bankruptcy cases have lasted as long as two or three decades.

"The problem will not be solved in the courthouse, but only through legislation in Congress," another attorney adds. ■

HMO enrollment increasing: Study

EXCELSIOR, Minn.—Enrollment in health maintenance organizations jumped to 11.6 million from 10.8 million in the second half of 1982, according to InterStudy, a health policy research group.

That 7.4% increase is one of the biggest percentage increases in HMO enrollment during any six-month period, it reports.

The average monthly family premium charged by HMOs between June 1981 and June 1982, rose to $151 from $132, a 14.4% increase. ■

Here are key players in asbestos crisis

By STEPHEN TARNOFF

An estimated 300 companies have been brought into the asbestos litigation by workers claiming they have contracted asbestos disease.

But, for many of the companies, that's where similarities end.

Some of the defendants are industrial giants, while others are relatively small firms. Some mined asbestos, others manufactured products containing the mineral, while still others sold or distributed those products.

And, almost all the companies differ in the methods they are using to determine how much insurance coverage they have to ultimately pay the claims.

According to information compiled from corporate annual reports, court documents and interviews with company executives and attorneys involved in the litigation, the main defendants in the asbestos crisis and the problems they face include:

Manville Corp.

Formerly called Johns-Manville Corp., Denver-based Manville is the largest producer of asbestos in the world and the company thought to be facing the largest number of liability claims from asbestos injuries.

Manville surprised the business community when, on Aug. 26, 1982, it filed for reorganization under Chapter 11 of the Federal Bankruptcy Act, citing the approximately 16,500 claims that it then faced and that it could ultimately face 52,000 it estimated would be filed in the future (see story, page 1).

The bankruptcy petition was a surprise in that Manville earned $49.2 million from continuing operations last year. However, extraordinary charges of $136.9 million resulted in an operating loss of $87.7 million and a net loss of $97.6 million for the company.

The company, which estimates it has more than $500 million in liability insurance to cover the claims, is currently locked in litigation with about 27 insurers in California over the interpretation of its comprehensive general liability insurance policies, as well as over charges of bad faith and breach of contract. Manville is also seeking $5 billion in punitive damages from the insurers.

Keene Corp.

Facing more than 12,000 legal cases as of Dec. 31, 1982, there was a net increase of 2,939 cases during the year.

Keene is linked to the asbestos industry through its 1968 purchase of Baldwin-Erhet-Hill, a small fabricator of thermal insulation products, some of which contained asbestos. Keene was out of the asbestos business by 1972, but its liability for related injuries lingers.

New York-based Keene won a major 1981 court decision against its insurers, which said that all of its liability insurers on the risk, from the time a worker is exposed to asbestos through manifestation of an asbestos-related disease, are liable for claims.

The company has approximately $300 million in insurance under this coverage theory.

Owens-Corning Fiberglas Corp.

Based in Toledo, Ohio, Owens-Corning said it faced 15,615 claims at the end of 1982. The company manufactured and distributed high-temperature insulation products containing asbestos from 1958 through 1972. It also distributed, but did not manufacture, such products from 1953 through 1958 and in 1973.

The company says it has disposed of 4,680 claims through settlement or dismissal as of the end of last year at an average cost to the company of $9,858 per claim. During 1982 it says it disposed of 2,363 claims at an average cost of $10,500. Defense fees and expenses average approximately $2,600 per claim through 1982.

The company has made an interim agreement with its insurers whereby the insurers on the risk at the time a victim was exposed to the company's high-temperature insulation products handles the resulting claim.

Owens-Corning is unique from almost all of the other major asbestos defendants since it has not been involved in litigation against its insurers.

Eagle-Picher Industries Inc.

The manufacturer of a variety of industrial insulation products containing asbestos, Cincinnati-based Eagle-Picher has been named in more than 13,500 outstanding claims, of which about 5,000 were filed in 1982.

During fiscal 1982, the company says it disposed of about 3,200 claims at an average cost of about $6,200, including legal fees. A portion of that cost was covered by insurance, it says.

Eagle-Picher did not purchase liability coverage until 1968, but it says that it has approximately $155 million in unused insurance coverage for the period between 1968 and 1978.

The U.S. Supreme Court recently left intact a decision by a U.S. Circuit Court of Appeals that said Eagle-Picher's primary insurers on the risk at the time asbestos-related diseases appear in victims should provide coverage, the so-called manifestation theory, a decision favorable to the company. It recently also filed suit against its excess insurers hoping for a decision supporting the Keene triple-trigger approach.

Raymark Corp.

Formerly called Raybestos-Manhattan Corp., the Trumbull, Conn., company said it faced 11,768 claims at the end of 1982, including approximately 5,000 that were filed last year alone.

Expenses from asbestos claims, including legal expenses, settlements, verdicts, insurance protection and workers compensation, increased by 31% in 1982 to $10.9 million. However, it says that its share of settlement costs per case fell from $10,724 in 1980 to $3,364 in 1982.

During 1982, Raymark says it won 23 out of 36 asbestos cases that went to trial.

Raymark is currently engaged in litigation in an Illinois state court with its liability insurers from 1951 through 1981.

Raymark supplied heat-resistant cloth, tape and thread for securing insulation and fire protective matting used in ship construction, all of which contained tightly woven asbestos. The company also produced asbestos blankets for engine room insulation.

It no longer manufactures these products.

Pittsburgh-Corning Corp.

The company, which is facing more than 13,500 suits, purchased a pipe-covering business that used asbestos, although it stopped manufacturing the product on Feb. 1, 1972.

The Pittsburgh-based company, with only about 640 employees and annual sales of less than $40 million, is currently engaged in litigation with its insurers over interpretation of policies.

UNR Industries Inc.

Like Manville Corp., UNR has filed for reorganization under Chapter 11. When it filed last July, Chicago-based UNR said it was facing 17,000 claims, all of which have been stayed pending the resolution of the bankruptcy. In addition to the bankruptcy proceedings, it is also engaged in coverage litigation in Chicago with its insurers.

The company, formerly named Unarco Industries Inc., supplied asbestos and asbestos materials to the Navy, the Federal Maritime Commission and oil refineries, though it quit handling asbestos products by the early 1960s.

UNR, which was self-insured prior to 1958, entered into an agreement with its insurers during the mid-1970s to share claims and defense costs based upon the exposure theory. UNR supervised the litigation and was reimbursed under the formula. The agreement broke down in late 1981 following the decision rendered in Keene Corp. vs. INA, which said all insurers from the time of exposure through manifestation should be liable.

UNR employs approximately 4,000 people and reported annual sales of $346 million in 1981.

Amatex Corp.

Based in Norristown, Pa., the company filed for reorganization under Chapter 11 last November. It manufactures asbestos textiles—like asbestos cloth, tape, thread and rope—that are used in the laminating, wire and cable and safety clothing industries. Its products are also used in the packing, automobile and shipbuilding industries.

It recently reported it is facing more than 10,000 claims, with about 200 to 300 new suits being filed each month.

One of the smaller companies in the asbestos litigation, it employs approximately 250 workers and reports annual sales of about $10 million. It reportedly has about $7 million to $9 million in insurance.

Celotex Corp.

A Tampa, Fla., subsidiary of Jim Walter Corp., the company made an acquisition in 1972 that included Phillip Carey Co., which had manufactured asbestos pipe insulation but had halted that production prior to the acquisition.

Today the company says it faces approximately 17,900 separate claims contained in 12,700 lawsuits. It says suits are being filed at the rate of approximately 400 per month, while it is disposing of more than 100 a month.

Celotex is involved in insurance litigation with primary underwriters in a Florida state court.

Fibreboard Corp.

This subsidiary of Louisiana-Pacific Corp., which is based in Portland, Ore., manufactured and sold products containing asbestos from 1928 through 1972.

It faced 12,400 pending claims as of Dec. 31.

Under an interim agreement with primary insurer Fireman's Fund Insurance Cos., the insurer is paying claims, though Fibreboard is contributing 10% of the payments.

Armstrong World Industries Inc.

From at least 1940 to mid-1969, the company, formerly called Armstrong Cork Co., sold or installed various insulation products that contained asbestos, including Amraspray and LT Cork Covering.

Although the Lancaster, Pa.,-based company is now litigating with its insurers in California, it had an agreement with primary insurer Liberty Mutual Insurance Co. from 1977 to 1981.

Under the agreement, Liberty Mutual handled all asbestos claims, but Armstrong reimbursed the insurer for defense costs and judgments and settlements for claims less than $50,000 until 1980 and $100,000 in 1981. Liberty Mutual paid all defense, settlement and judgment costs for claims exceeding this amount.

Subject to a reservation of rights by both parties, Liberty defended claims against Armstrong according to manifestation construction of the policies. Armstrong also agreed, without waiving its right to recover amounts at a later date, to pay Liberty additional fees of up to 35% of defense and settlement costs for each claim.

Owens-Illinois Inc.

From 1948 through 1958, the Toledo, Ohio-based company manufactured and sold pipe and block thermal insulation products containing asbestos under the name Kaylo. It got out of the asbestos business in mid-1958 when it sold its Kaylo manufacturing operations.

As of Dec. 31, 1981, it had been named in 6,000 lawsuits in 40 states.

Other defendants that are or have been prominently involved in asbestos litigation include Crown Cork & Seal Inc., Nicolet Industries Inc., H.K. Porter Co. Inc., Standard Asbestos Manufacturing & Insulating Co., Forty-Eight Insulations Inc., GAF Corp., Flinkote Corp. and Lake Asbestos of Quebec. ■

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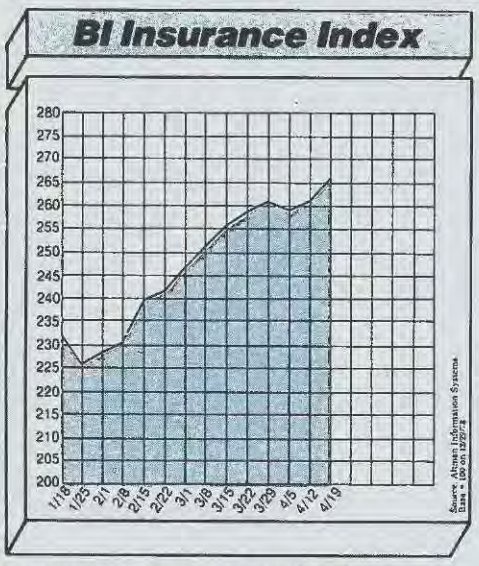
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The *Business Insurance* stock index rose to a record of 266.7 on April 19, a gain of 5.8 points from 260.9. The previous record, 261.1, was set March 29. As insurance industry stocks continued to climb, 37 issues were up, 12 were unchanged and 15 closed down. The largest gains were reported by Statesman Group Inc., 16.7%; Kemper Corp., 15.8%; Crawford & Co., 9.3%; The Travelers Corp., 8.6%; and Zenith National Insurance Corp., 7.6%. The largest losses were reported by American Indemnity Financial Corp., 10.1%; Continental Corp., 5.3%; Reed Stenhouse Cos. Ltd., 4.0%; Mission Insurance Group Inc., 3.8%; and Corroon & Black Corp., 3.3%. The *BI* index gained 2.2% during the period, more than the New York Stock Exchange Composite, but less than the Dow Jones 30 industrials.

British Issues

19 Apr Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Comml Union	149	45.2	16.86	11.3	149—	147
Eagle Star	410	16.3	24.29	5.9	410—	398
Genl Accident	433	13.8	24.29	5.6	433—	427
Gdn Royal Exch	460	12.2	27.86	6.1	460—	455
Phoenix	332	18.1	25.00	7.5	334—	332
Royal	523	13.5	37.86	7.2	525—	522
Sun Alliance	1212	16.6	68.57	5.7	1238—	1187
Brokers						
CE Heath	356	10.2	18.71	5.3	360—	356
Hogg Robinson	105	8.1	8.57	8.2	106—	105
JH Minet	138	12.5	5.43	3.9	142—	132
Sedg Grp	243	13.9	10.00	4.1	253—	243
Stenhouse Hldg	119	11.1	7.86	6.6	119—	113
Stew Wrightson	275	10.0	20.43	7.4	275—	260
Willis Faber	575	15.2	25.00	4.3	577—	573

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

Reduced catastrophe losses won't be big help to industry

By MYRON M. PICOULT

Special to Business Insurance

AS WE WRITE THIS month's column, we are anxiously awaiting this year's first-quarter insurer results. While some deterioration from the 109.3% combined ratio (after policyholder dividends) posted by the stock property/casualty industry at the end of the first quarter of 1982 appears inevitable, the relatively low level of catastrophe losses sustained by the industry so far this year provides a cushion.



Mr. Picoult

For the three months ended March 31, catastrophe losses were estimated to total $126 million, compared with the $404.2 million in such losses the industry was hit with in last year's first quarter. We estimate the decline in catastrophe losses will "save" the stock segment of the industry about 1.0 to 1.2 percentage points on its combined ratio for the first quarter of 1983.

However, notwithstanding this good news, there are several other factors that continue to plague the industry:

- Premium growth remains very sluggish. Although premium rates in the personal lines arena—especially the automobile sector—are being increased by amounts exceeding the rise in claims costs, efforts to raise commercial insurance rates continue to be illusionary. We sense that more underwriters are walking away from business. However, what is most disturbing is that there is still a sufficient number of underwriters willing to take the plunge at what appear to be severely depressed premium rates.
- Investment income growth, virtually the only source of earnings for property/casualty insurers, continues to slow. Approximately half the insurers we track posted a decline in pretax net investment income in the fourth quarter of 1982, compared with 1981's final reporting period. And more will show a decline in the first quarter, reflective of the decline in the yield curve and the drying-up of cash flow.
- Excluding catastrophe losses, overall loss levels are still on the rise and expense ratios—for most companies—will continue to reel under the weight of slow premium growth and the absence of definitive expense controls.

When you put all these factors together, it is not difficult to see why we view 1983 as a basket case for the industry, a view that we have held for quite some time. What is beginning to concern us more, though, is the prospect that the long-awaited underwriting recovery in 1984 may prove to be far less ebullient than industry observers perceived just several months ago.

Clearly, the inability of the industry to get its act together on commercial pricing is the key. Currently, June and July renewals are being priced—hence, it is difficult to see any meaningful improvement in commercial underwriting results for another 12 months.

In all fairness to the industry, however, it should be noted that the traditional commercial lines underwriting cycle may be a concept that is no longer applicable to the business, as commercial underwriters react more to marginal returns and the effective use of financial leverage than the traditional combined ratio benchmark.

Put another way, attempts to compare the illusionary underwriting recovery of the mid-1980s with the recovery following the 1974-75 debacle may be outdated. Furthermore, premium growth patterns exhibited by the industry through the 1970s are not likely to be repeated if the rate of inflation is contained, commercial underwriting precepts are reshaped and pressure comes to bear on the most efficient distribution of personal lines coverages.

Perhaps the premium growth rates recorded by the insurers in the 1950s and through most of the 1960s are more appropriate standards.

In any event, our current stock property/casualty industry model for 1984 shows a 14% gain in earnings, based on an 8% rise in written premiums, a 7.5% increase in investment income and about a one percentage point improvement in the combined ratio to the 112% level.

This fundamental outlook makes it difficult to be overly aggressive about property/casualty stocks as a group. There will always be exceptions to the rule, and the exceptions this time revolve around those companies that have a demonstrated marketing and expense-control capability and, in certain instances, a skewed mix of business. The differences in members of the group obviously reflect the stock market as a whole and the return of the disinflation concept once again.

With most industry equities selling at or near record highs, it is no wonder that most insurance company chief executive officers are smiling despite the fundamental morass that engulfs the industry.

But then again, the CEO who is smiling as things continue to go wrong probably has thought of someone on whom he can blame the mess. ■

Myron M. Picoult is senior vp and senior insurance analyst with Oppenheimer & Co. in New York. He is the past president of the Assn. of Insurance & Financial Analysts and a member of the New York Society of Security Analysts. His column appears the fourth Monday of every month.

BI Industry Stock Report

APR. 19, 1983 4/13/83 THRU 4/19/83

Insurance Cos.		Price	% Chg	P/E	$ Div.	% Yld.	High	Low	Vol. (000)
Aetna Life & Cas Co	NYSE	41.75	7.1	7.2	2.64	6.3	41.75*	39.50	1,528.4
American Bankers Ins Group	OTC	14.25	5.6	11.1	0.50	3.5	14.88*	13.88	173.3
American Gen Ins Co	NYSE	69.75	5.3	9.5	2.20	3.2	69.88	65.75	370.7
American Indty Finl Corp	OTC	18.88	-10.1	18.7	1.12	5.9	20.38	18.88*	26.8
American Intl Group Inc	OTC	91.75	0.5	13.1	0.55	0.6	93.25*	91.50	285.8
American Natl Ins Co	OTC	18.38	-1.3	7.7	0.84	4.6	18.75	18.38	68.7
American Sts Life Ins Co	OTC	27.50	0.0	7.8	0.88	3.2	27.50	27.50	0.9
Aneco Reins Ltc	OTC	3.25	0.0	81.2	0.00	0.0	3.50	3.25	21.0
Avemco Corp	AMEX	16.38	5.6	9.8	0.58	3.5	16.38	15.50	30.8
Banks Iowa Inc	OTC	42.00	0.0	11.7	1.52	3.6	42.00	42.00	3.6
Bitco Corp	OTC	39.00	2.6	6.8	2.00	5.1	39.00	38.00	3.2
Carolina Cas Ins Co	OTC	7.75	6.9	11.4	0.32	4.1	7.75*	7.25	2.8
Chubb Corp	OTC	59.50	1.9	9.9	2.92	4.9	59.50	58.50	136.5
Combined Intl Corp	NYSE	33.50	4.7	11.3	2.00	6.0	33.50*	31.88	214.3
Continental Corp	NYSE	33.75	-5.3	16.5	2.60	7.7	36.00	33.75	603.4
Crawford & Co	OTC	20.50	9.3	14.9	0.57	2.8	20.50	18.75	23.3
Crown Life Ins Co	OTC	99.00	3.1	6.5	3.10	3.1	99.00*	96.00	0.8
Employers Cas Co	OTC	38.75	2.0	8.1	1.20	3.1	38.75*	38.00	24.1
Equifax Inc	NYSE	31.25	1.2	15.3	1.40	4.5	31.38*	30.63	31.0
Excelsior Ins Co	OTC	11.00	0.0	0.0	0.70	6.4	11.00	11.00	0.3
Farmers Group Inc	OTC	42.38	0.3	11.5	1.36	3.2	42.38*	42.00	793.2
Foremost Corp Amer	OTC	52.00	7.2	16.5	1.24	2.4	52.00*	48.50	16.0
Fremont Gen Corp	OTC	27.00	4.3	50.0	0.48	1.8	28.88*	26.25	622.7
Great West Life Assurn Co	OTC	194.00	3.2	10.5	10.00	5.2	194.00	194.00	1.8
Hanover Ins Co	OTC	49.25	4.2	7.4	0.88	1.8	51.50*	49.25	31.2
Hartford Steam Boiler Insptn	OTC	52.00	2.0	11.5	3.00	5.8	52.00	50.50	10.7
Jefferson Natl Life Ins Co	OTC	48.50	-1.0	12.5	0.76	1.6	49.50*	48.50	34.4
Kemper Corp	OTC	47.75	15.8	9.0	1.80	3.8	47.75*	41.38	200.0
Lincoln Natl Corp Ind	NYSE	52.25	5.0	9.3	3.00	5.7	52.88*	50.00	217.0
Mission Ins Group Inc	NYSE	38.00	-3.8	9.5	1.00	2.6	39.75*	38.00	150.1
Nationwide Corp Ohio	OTC	41.75	0.0	15.3	0.70	1.7	41.75	41.75	0.0
Northwestern Natl Life Ins	OTC	34.25	-2.1	24.0	1.50	4.4	35.00	34.25	32.8
Ohio Cas Corp	OTC	50.13	3.6	10.2	2.52	5.0	50.13	48.63	80.4
Old Rep Intl Corp	OTC	32.88	0.0	8.4	0.92	2.8	33.13	32.88	83.2
Orion Cap Corp	NYSE	24.88	6.4	13.2	0.66	2.7	24.88*	23.75	156.3
Preferred Risk Life Ins Co	OTC	29.50	-0.8	8.0	1.00	3.4	29.50	29.38	1.5
Provident Life & Acc Ins Co	OTC	64.50	6.6	9.0	2.60	4.0	64.50*	60.50	52.1
St Paul Cos Inc	OTC	69.13	1.1	7.1	2.80	4.1	69.13	68.25	77.5
Safeco Corp	OTC	52.50	-0.7	12.5	2.40	4.6	52.75	52.38	125.1
Sri Corp	OTC	44.75	1.1	9.0	1.12	2.5	45.00	44.25	136.3
Seibels Bruce Group Inc	OTC	26.88	19.4	13.2	0.80	3.0	26.88	23.63	355.2
Statesman Group Inc	OTC	8.75	16.7	6.4	0.15	1.7	8.75*	7.50	122.5
Tokio Marine & Fire Ins Co	OTC	107.75	-1.8	17.3	0.92	0.9	109.25	107.75	12.2

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		Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol. (000)
Travelers Corp	NYSE	33.13	8.6	9.0	1.80	5.4	33.50*	31.25	1,364.0
United Fire & Cas Co	OTC	31.50	0.0	10.3	0.88	2.8	31.75	31.50	0.6
United States Fid & Gty Co	NYSE	49.00	-2.7	12.3	3.84	7.8	50.38	49.00	160.1
United Svcs Life Ins Co	OTC	21.50	6.2	6.4	1.00	4.7	21.50*	20.50	37.1
Uslife Corp	NYSE	26.88	7.5	7.2	0.88	3.3	26.88*	24.50	193.1
Washington Natl Corp	NYSE	27.25	3.3	13.2	1.08	4.0	27.88*	26.88	167.4
Zenith Natl Ins Corp	OTC	21.25	7.6	10.3	0.80	3.8	21.25*	20.00	32.7
INSURANCE COMPANIES	AVERAGE			10.3		3.8			
Agents/Brokers									
Alexander & Alexander Svcs	NYSE	20.88	4.4	0.0	1.00	4.8	21.50	20.25	746.5
Baldwin & Lyons Inc	OTC	41.50	0.0	7.5	0.80	1.9	41.50	41.50	17.6
Corroon & Black Corp	NYSE	25.50	-3.3	12.2	1.80	7.1	26.50	25.50*	27.8
Crump E H Cos Inc	OTC	10.38	2.5	15.0	0.40	3.9	10.38*	10.13	66.0
Emett & Chandler Cos Inc	OTC	10.88	0.0	0.0	0.00	0.0	10.88	10.88	7.8
Hall Frank B & Co Inc	NYSE	30.50	0.0	14.7	1.70	5.6	31.00	30.50	248.9
Integrated Res Inc	AMEX	49.88	6.1	13.8	0.00	0.0	49.88*	49.13	198.8
Marsh & Mclennan Cos Inc	NYSE	43.88	4.5	13.1	2.20	5.0	43.88	43.00	298.4
Poe & Assoc Inc	OTC	6.75	0.0	63.1	0.40	5.9	6.75	6.75	8.5
Reed Stenhouse Cos Ltd	OTC	15.00	-4.0	14.3	0.60	4.0	15.75	15.00	18.4
AGENTS/BROKERS	AVERAGE			14.6		3.5			
Conglomerates/Holding Cos.									
American Express(Fireman's Fd)	NYSE	66.38	4.3	13.8	1.80	2.7	68.50*	66.25	3,165.7
Anderson Clayton(Ranger/PanAm)	NYSE	30.88	-1.2	12.8	1.32	4.3	31.50	30.88	85.0
Armco Inc	NYSE	18.63	0.7	0.0	0.80	4.3	18.63	18.25	468.9
City Investing Co. (Home Ins.)	NYSE	32.25	3.6	8.9	1.80	5.6	32.88	31.38	396.2
CNA Finl Corp (CNA)	NYSE	18.38	-0.7	7.6	0.00	0.0	18.50	18.25	102.6
Control Data (Comml. Credit)	NYSE	50.63	8.9	12.3	0.60	1.2	51.50*	47.50	1,030.0
General Re Corp	NYSE	68.00	1.9	14.6	1.28	1.9	68.50	67.75	182.4
Gulf Utd Corp	NYSE	26.63	-2.3	8.6	1.32	5.0	27.13	26.63	1,603.4
Cigna Corp	NYSE	49.50	3.7	7.4	2.48	5.0	50.00*	47.63	1,375.2
ITT (Hartford Group)	NYSE	38.13	1.3	8.0	2.76	7.2	38.38*	37.50	1,730.3
Optimum Hldg Corp	OTC	7.88	-1.6	7.6	0.00	0.0	7.88	7.75	22.5
Sears Roebuck & Co. (Allstate)	NYSE	37.38	0.3	15.2	1.52	4.1	39.00*	37.38	4,566.4
Baldwin Utd Corp	NYSE	10.13	-30.8	4.8	0.88	8.7	13.38	10.13*	1,913.2
Teledyne Inc (Argonaut)	NYSE	140.25	-4.6	12.1	0.00	0.0	147.75	140.25	1,262.2
Transamerica Corp (Occidental & Fred S. James)	NYSE	29.13	6.4	10.2	1.50	5.2	29.75*	27.25	482.6
CONGLOMERATES/HOLDING COS.	AVERAGE			12.2		2.9			

*Record high/low since Jan. 1, 1983

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Financial briefs

Fireman's Fund

First-quarter property/casualty earned premiums grew 7.8% to $655 million at American Express Co.'s insurance subsidiaries, which consist mostly of Fireman's Fund Insurance Cos. American Express reported that its property/casualty units' combined ratio for the quarter was 108.0%, up from 104.4% in last year's first quarter. Gross property/casualty investment income grew 18.2% to $111 million.

Net income attributed to insurance services, including life insurance operations, rose 9.2% for the quarter to $63 million.

American Express Chairman and Chief Executive James D. Robinson III attributed the premium growth—higher than the industry average of about 2% during 1982—to Fireman's Fund's "conservative pricing, which has proved attractive to agents seeking stable insurance markets."

Swiss industry

All sectors of the Swiss insurance industry reported a good year in 1981, according to the Federal Private Insurance Office in Berne.

The 1981 report, which has just been completed by the office regulating all insurance companies in Switzerland, shows that all Swiss insurers, including life insurers, reported 11.48 billion Swiss francs (about $5.57 billion) in premium, 706 million francs ($342.4 million) more than in 1980.

Life insurance accounted for 48.6% of total premium written, the office reports, followed by liability insurance, 12.5%; accident insurance, 9.4%; health insurance, 6.2%; automobile insurance, 6.2%; fire insurance, 5.5%; and transport insurance, 2.0%.

The office also reports that Swiss-based reinsurance companies wrote premiums totaling 24.9 billion francs ($12.08 billion) in 1981, while paying out 14.7 billion francs ($7.12 billion) in claims and dividends.

BC/BS of Minnesota

Blue Cross & Blue Shield of Minnesota has reported improved operating results for 1982, including a 2.7% increase in subscriber income to $312 million from $303.7 million in 1981.

Overall, Blue Cross & Blue Shield of Minnesota suffered a net loss of $4.6 million, or 1.5% of subscriber income, compared with a 1981 net loss of $7.7 million, or 2.5% of subscriber income.

Health care claims rose 1.7% to $293.4 million or 94% of subscriber income. Administrative expenses totaled $30.2 million, or 9.7% of subscriber income. ■



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