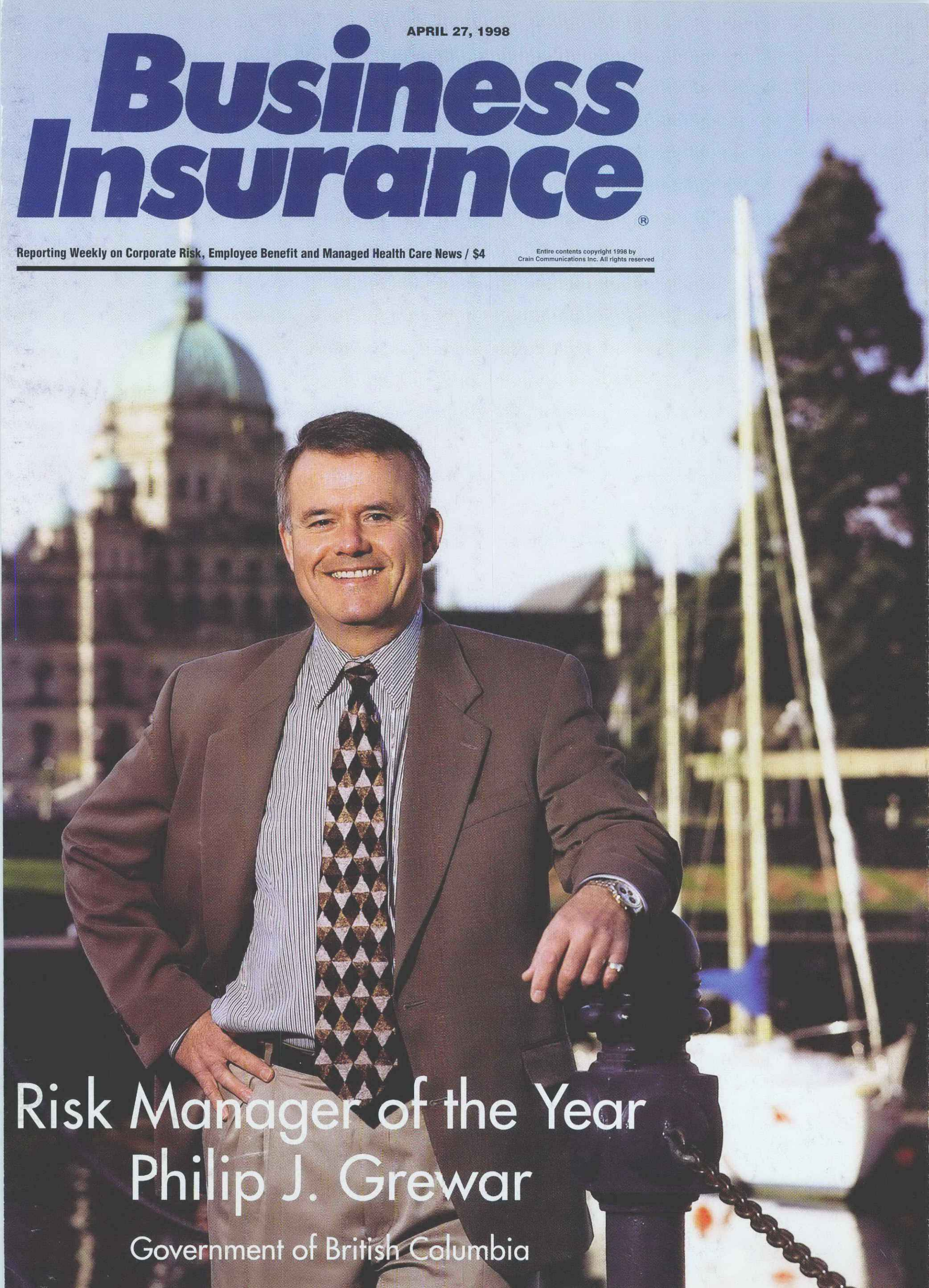
APRIL 27, 1998

Business Insurance®

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Risk Manager of the Year
Philip J. Grewar
Government of British Columbia

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MIAMI - SAN FRANCISCO - STAMFORD

HAMILTON - MILAN - LONDON

TORONTO - MONTREAL - HONG KONG

TOKYO - SYDNEY - SINGAPORE

PARIS - ABIDJAN - MADRID

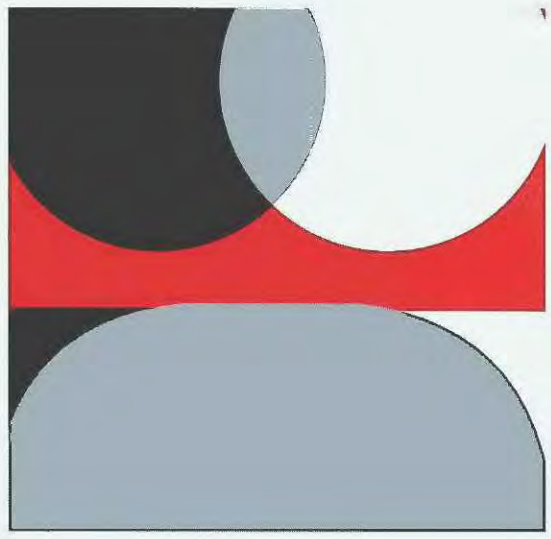
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HANOVER - BOGOTA - SEOUL

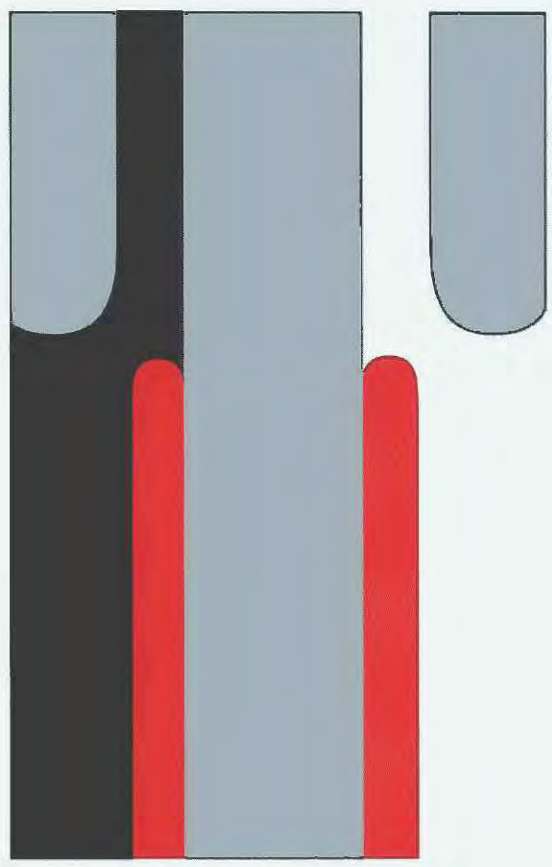
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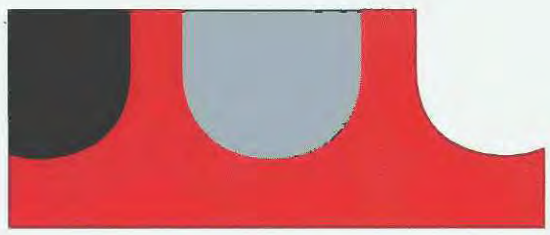
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Putting the Pieces Together







APRIL 27, 1998

Business Insurance®

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

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Updates

Pension reform bill expected to be introduced by next week

WASHINGTON—Employees would be allowed to contribute more to their pension and savings plans and employers' administrative burdens would be eased under legislation that Reps. Rob Portman, R-Ohio, and Benjamin Cardin, D-Md., are expected to introduce by next week.

While details still are being worked out, provisions that could be in the bill include increasing to $15,000 from $10,000 the maximum annual deferral to 401(k) plans and raising to $235,000 from $160,000 the

See **Updates** *on next page*

Privacy bill may delay workers comp claims

By MEG FLETCHER

WASHINGTON—A federal bill to increase the confidentiality of medical records may seriously hurt the ability of employers and insurers to promptly handle workers compensation claims.

If enacted as drafted, the bill would create a patient authorization process that would restrict the ability of employers and insurers to access an injured workers' medical files. That situation would increase delays and costs in handling workers comp claims, workers comp observers say.

The bill in its current form also would significantly affect workers comp claims-handling nationwide primarily because of the new authorization process.

At issue is the Health Care Personal Information Nondisclosure Act of 1998 (S. 1921), recently introduced by Sen. Jim Jeffords, R-Vt., and co-sponsored by Sen. Christopher Dodd, D-Conn.

The Jeffords-Dodd bill, which already has been discussed during three hearings, is the latest health care privacy bill introduced in Congress. Similar privacy-related legislation, which is generally supported by labor, also is being discussed in many states, and state insurance regulators have been working to draft a model bill (*BI*, March 30).

The new federal bill is getting special attention because Sen. Jeffords, who chairs the Labor and Human Resources Committee, said he plans to make enactment of privacy legislation "one of the highest priorities" for the committee.

Congress has until August 1999 to enact privacy rules or, under the 1996 Health Insurance Portability and Accountability Act, the secretary of Health and Human Services is required to promulgate regulations.

See **Privacy** *on page 134*

Profiting from loss control

3M's own ergonomics research leads to new products

By JOANNE WOJCIK

ST. PAUL, Minn.—Necessity is the mother of invention for one international company attempting to curb ergonomic injuries among its employees.

While most companies measure the success of their loss control efforts in terms of injury reduction, Minnesota Mining & Manufacturing Co.—better known as 3M—is hoping also to profit from the products it developed to enhance its internal ergonomics education program.





PHOTOS: COURTESY OF 3M

3M has designed several products to alleviate the strains of computer users.

The 3M Office Ergonomics product line actually evolved from the St. Paul, Minn.-based company's efforts to reduce discomfort and injuries among its computer operators, explained Claude Denais, office ergonomics and cleaning systems manager in 3M's Stationery and Office Supplies Division. Employees spending a significant amount of time in front of computers were complaining of neck, wrist, shoulder and back discomfort, including pain and numbness.

"Tom (Albin) was hired to develop an ergonomics program within 3M. Meanwhile, I was in the office products division with a mission to develop a new product line," he recounted.

"As we were looking at where 3M could make a contribution, we became aware of Tom's efforts. And soon the pieces started coming together," Mr. Denais said.

See **Ergonomics** *on page 135*

Contingent commissions under renewed scrutiny

By SARAH GODDARD

LONDON—The heated international debate over brokers' contingent commissions grew more intense in the London market last week.

Recent U.K. media reports have implied that large brokers, unbeknownst to their policyholder clients, have been using size and market share to strong-arm insurers into entering incentive commission arrangements.

The brokers strenuously deny these assertions.

"Of course we are committed to transparency in all of our dealings with our clients," said a spokesman for Aon Group Ltd. in London.

But less than 4% of U.K. risk managers polled in a survey released earlier this month by the London-based Assn. of Insurance & Risk Managers said that they were aware of incentive payments from insurers to brokers, and none said that they were given full information about contingent commissions.

"The view of risk managers internationally is that this calls into question the principle of 'best advice' and transparency," an AIRMIC statement said. "This is of particular concern in the light of the rules of agency and the code of conduct of the Insurance Brokers Registration Council and the Lloyd's code of practice for Lloyd's brokers."

The U.K. risk managers echo concerns voiced by their U.S. counterparts over whether some forms of contingent commissions could lead to brokers placing their business with an insurer that is not necessarily providing the best coverage for their exposures.

Volume override commissions, under which an insurer pays a broker a pre-agreed commission if

See **Brokers** *on page 133*



Supreme Court's sexual harassment docket

Employers' liability for sexual harassment is a key business issue before the high court this term.

Case: *Joseph Oncale vs. Sundowner Offshore Services, Inc. et al.*
Issue: Does Title VII of the Civil Rights Act of 1964 cover same-sex sexual harassment?
Status: Unanimous decision handed down March 4 that Title VII covers same-sex sexual harassment

Case: *Beth Ann Faragher vs. City of Boca Raton, Fla.*
Issue: Under what circumstances is an employer liable for a supervisor's sexually harassing acts that create a 'hostile' work environment?
Status: Argued March 25

Case: *Burlington Industries Inc. vs. Kimberly B. Ellerth*
Issue: Can a claim of quid pro quo sexual harassment be pursued against an employer when the employee has neither submitted to the sexual advances of the alleged harasser nor suffered any negative job-related consequences for resisting?
Status: Argued April 22

GRAPHIC BY JOHN HALL

More guidance from high court on harassment

By MARK A. HOFMANN

WASHINGTON—The U.S. Supreme Court is poised to give employers more guidance on their liability for sexual harassment in the workplace.

Specifically, in ruling in the case of *Burlington Industries Inc. vs. Kimberly B. Ellerth*, the high court will decide under which circumstances, if any, employers are liable for "quid pro quo" sexual harassment by supervisors if the target of the harassment rebuffed the advances and suffered no retaliation.

"A decision against Burlington may be a disincentive for employers to put a stop to sexual harassment if they're going to be held liable either way," said Sussan Mahallati, labor counsel for the Washington-based National Chamber Litigation Center, a unit of the U.S. Chamber of Commerce.

Kimberly Ellerth, the original plaintiff, received a promotion despite rebuffing the alleged sexual advances of a company vice president. He allegedly told her he could make her life "very hard or very easy" in the Chicago office of Greensboro, N.C.-based Burlington Industries Inc.

Ms. Ellerth took that comment to mean that she would have to engage in sexual relations with the supervisor to advance. But she did not, and subsequently suffered no cut in salary, demotion or other retaliatory action.

Although Burlington Industries had a written policy against sexual harassment, Ms. Ellerth did not file a complaint. In fact, upon her husband's advice, she removed references to the alleged harassment in her resignation letter.

Nevertheless, after resigning, Ms. Ellerth sued Burlington Industries under Title VII of the Civil Rights Act of 1964, which makes it unlawful for an employer to discriminate against any employee with respect to the conditions of his or her employment on the basis of the person's sex.

A federal district court dismissed her case, but the 7th U.S. Circuit Court of Appeals in Chicago—in the longest opinion it has ever issued, with eight separate signed decisions among its 11 judges—said last August that she could pursue the case.

See **Harass** *on page 128*

Updates

Pension reform bill near

Continued from previous page
amount of employee compensation that can be considered in calculating pension benefits. Also being discussed is a provision that would allow employees 50 and older to make additional contributions of up to $5,000 each year to their defined contribution plans.

Other provisions that could be included would be simplification of the separate lines of business non-discrimination rules, or SLOB rules, for employers that provide different pension plans to various corporate units.

"The object of the legislation is to create more incentives for employers to offer pension plans and to get employees to save more," said Lynn Dudley, director of retirement policy at the Assn. of Private Pension & Welfare Plans in Washington.

Benefits don't pre-empt ADA suit

SAN FRANCISCO—An employee who applies for disability benefits still can separately pursue a job discrimination claim under the Americans with Disabilities Act, a federal appellate court has ruled.

The April 21 decision by the 9th U.S. Circuit Court of Appeals in San Francisco held that a person could meet the requirements for receiving various kinds of disability benefits and still qualify for job protection under the ADA.

The ruling stems from an Oregon case in which Leslie Ann Johnson, an employee of the State of Oregon Vocational Rehabilitation Division, sought reinstatement to her job with accommodation for her disability. However, the district court rejected her claim, finding that "the combined representations in Ms. Johnson's application for disability benefits regarding her incapacity to work 'judicially estopped' her from claiming she was a qualified person with a disability who could perform the essential functions of her position."

On appeal, the 9th Circuit reversed, finding that "it is possible, due to the different definitions of disability employed by various agencies, to qualify for disability benefits and to satisfy the ADA's definition of a qualified person with a disability."

To adopt a contrary rule "would contravene the purposes of the ADA by forcing plaintiffs to choose between enforcing their rights under the ADA and seeking immediate, subsistence benefits," Judge Stephen Trott wrote for the court.

In the past few years, trial courts around the country have barred large numbers of ADA cases if plaintiffs also have made claims for disability benefits. However, federal appellate courts in the 1st, 3rd, 5th, 6th, 7th, 8th and 11th Circuits and the District of Columbia have countered with rulings similar to the 9th Circuit decision.

CNA, Protection Mutual team up

CHICAGO—CNA Insurance Cos. and Protection Mutual Insurance Co. have formed an alliance to offer integrated risk property casualty coverage.

The marketing alliance will allow the two companies to offer combined products with casualty coverage from CNA and highly protected risk property coverage from Protection Mutual, said James W. Black, president and chief executive officer of Protection Mutual, the Park Ridge, Ill., member of the Factory Mutual system.

"Integrated risk is becoming a bigger and bigger item," he said.

Integrated products are usually multiyear, multiline, single aggregate policies. CNA and Protection Mutual will use the alliance to offer similar products, Mr. Black said.

Similar alliances have been made by other insurers in recent years. For example, X.L. Insurance Co. Ltd. in Bermuda and CIGNA Corp. in Philadelphia teamed up in 1996 to offer integrated products.

Previously, CNA had been a significant investor in Industrial Risk Insurers, another HPR insurer in Hartford, Conn., that was backed by a consortium of insurers. CNA significantly decreased its investment in IRI in 1997. Late last year IRI was bought by Employers Reinsurance Corp., which also intends to offer integrated products (*BI*, Dec. 22, 1997).

U.S. names lose appeal bid

WASHINGTON—The U.S. Supreme Court has declined to review the dismissal of two cases brought by U.S. members of Lloyd's of London against Lloyd's in the United States.

This marks the fifth time since 1992 that the Supreme Court has declined to hear an appeal from U.S. Lloyd's members on judgments delivered against them by federal appellate courts.

Ron Sandler, Lloyd's chief executive, said the weight of legal opinion supporting the enforceability of contracts between Lloyd's and its U.S. members is now "very considerable."

U.S. Lloyd's members' contracts include clauses that any membership disputes would be subject to U.K. laws and be heard in U.K. courts. However, several U.S. members have sought to bring actions in the United States.

The latest cases refused by the Supreme Court let stand a decision in Lloyd's favor by the 5th U.S. Circuit Court of Appeals in New Orleans in August 1997. The appeals to the 5th Circuit originally stemmed from two decisions by the U.S. District Court for the Southern District of Texas in 1995. In the first case, *Haynsworth & Ors vs. Lloyd's*, the members were appealing a decision in favor of Lloyd's. In the second case, *Leslie vs. Lloyd's*, Lloyd's was appealing a decision in favor of a member. The 5th Circuit heard the two appeals together.

See **Updates** *on page 134*

Errors & omissions

• An April 20 Perspective article, "An Overview of Trends in RMIS," incorrectly stated that Crawford RSG has pulled support for its ParaRisk product.

Judge raps pension limits

Texas ban on investing in 'objectionable' music companies lifted

By MICHAEL BRADFORD

AUSTIN, Texas—A so-called "gangsta rap" restriction on investments by Texas state pension funds will not be enforced following a judge's ruling that its enactment was unconstitutional.

Fund beneficiaries and the music recording industry had sued to have the ban overturned.

The ban, scheduled to go into effect Sept. 1, would have prevented state pension funds from investing in any business that owns 10% or more of a company that records or produces music that glamorizes violence, denigrates women or advocates deviant sexual behavior. The restriction called for the pension funds to sell any existing investments in those companies, an amount estimated by an attorney in the case to be about $600 million to $700 million.

The Texas rule was the first "socially responsible" investment mandate to be passed related to music companies, according to the Washington-based Recording Industry Assn. of America.

Travis County District Court Judge F. Scott McCown ruled earlier this month that the ban did not meet the Texas Constitution's one-subject rule for legislation because it was tacked onto the 1998-99 state budget as a rider. It should have been considered as a separate bill, the judge said.

The language was passed as a Texas Senate bill last year. After failing to pass the House, it was

See **Pension** *on page 128*

New capital measures sought

Industry must assess own risk-based capital needs: Hutter

By GAVIN SOUTER

NEW YORK—The old rules of thumb used to assess capital at insurance and reinsurance companies are out of date and hold up progress, a reinsurer executive says.

Instead of using rudimentary ratios to determine capital levels or simply complying with regulatory requirements, insurers and reinsurers themselves should apply more complex tools to judge their capital needs, contends Heidi Hutter, chairman, president and chief executive officer of Swiss Reinsurance America Corp. in New York.

By studying risk-adjusted capital needs and taking a more comprehensive view of balance sheet management, insurers and reinsurers can use their capital more efficiently and increase their prosperity, Ms. Hutter says.



PHOTO: DAVID LUBARSKY

Ms. Hutter

"There is tremendous pressure on the insurance industry's capital," she said at a meeting last week sponsored by the Conference of Special Risk Underwriters.

Shareholders want greater returns; policyholders want high security and low rates; regulators seek security combined with affordability and availability; and rating agencies want to see high levels of capital, Ms. Hutter said.

As a result, the traditional method of measuring adequate capital, a premium-to-surplus

See **Hutter** *on page 136*

NCQA boosts quality tools

By MICHAEL PRINCE

WASHINGTON—The National Committee for Quality Assurance is unveiling a draft of the next upgrade for its health care measurement tool.

Called HEDIS 1999, the Washington-based nonprofit group's latest version of its Health Plan Employer Data and Information Set has expanded its existing set of health care measurements to make it more comprehensive than the version released two years ago (*BI*, July 22, 1996).

"HEDIS 1999 expands the scope of performance measurement to include new and better measures related to important chronic illnesses and member satisfaction," NCQA President Margaret O'Kane said in a written statement. "Yet the bulk of the measures remain unchanged, so implementation will not present any special challenges."

Added this year are measurements for behavioral health, cardiac care and a new consumer survey. Employers, consumers and health plans use HEDIS measurements of health care benchmarks to evaluate the quality of health plans and compare plans.

The behavioral health measure tracks health plans'

See **HEDIS** *on page 135*

Demand grows for integration

Medical, disability benefits focus of efforts: Sedgwick

By ROBERTO CENICEROS

A majority of employers agree that group health insurance should be included along with disability coverage when integrating benefits for occupational and non-occupational ailments, a new survey shows.

Nearly three-quarters, or 74%, of the 509 risk managers and human resources managers surveyed said "yes" when asked whether group health insurance should be part of a fully integrated benefits program, according to the survey by Sedgwick Claims Management Services Inc.

Large employer demand for fully integrated benefits will further drive vendors to marshal the resources and services needed for the integration of all occupational and non-occupational benefits, predicted Jack O'Connor, vp of integrated services for Sedgwick Claims Management Services in Phoenix.

"They are not demanding it so much now, but

See **Integrate** *on page 136*

Inside

• ON THE COVER: Philip J. Grewar, director of the risk management branch for British Columbia, is the 1998 *Business Insurance* Risk Manager of the Year. **PAGE 96**

• James E. Green, risk manager for Justin Industries Inc. in Fort Worth, Texas, is named to the 1998 Risk Management Honor Roll. **PAGE 110**

Cover photo: Michael Marcotte

• Michael L. Hubbard, vp for risk management and human resource management at Loma Linda University Adventist Health Sciences Center Inc. in Loma Linda, Calif., is named to the 1998 Risk Management Honor Roll. **PAGE 116**

• Edward J. Molloy, director-corporate risk management at Aetna Inc. in Hartford, Conn., is named to the 1998 Risk Management Honor Roll. **PAGE 122**

• A look at the judges for the 1998 Risk Manager of the Year contest. **PAGE 126**

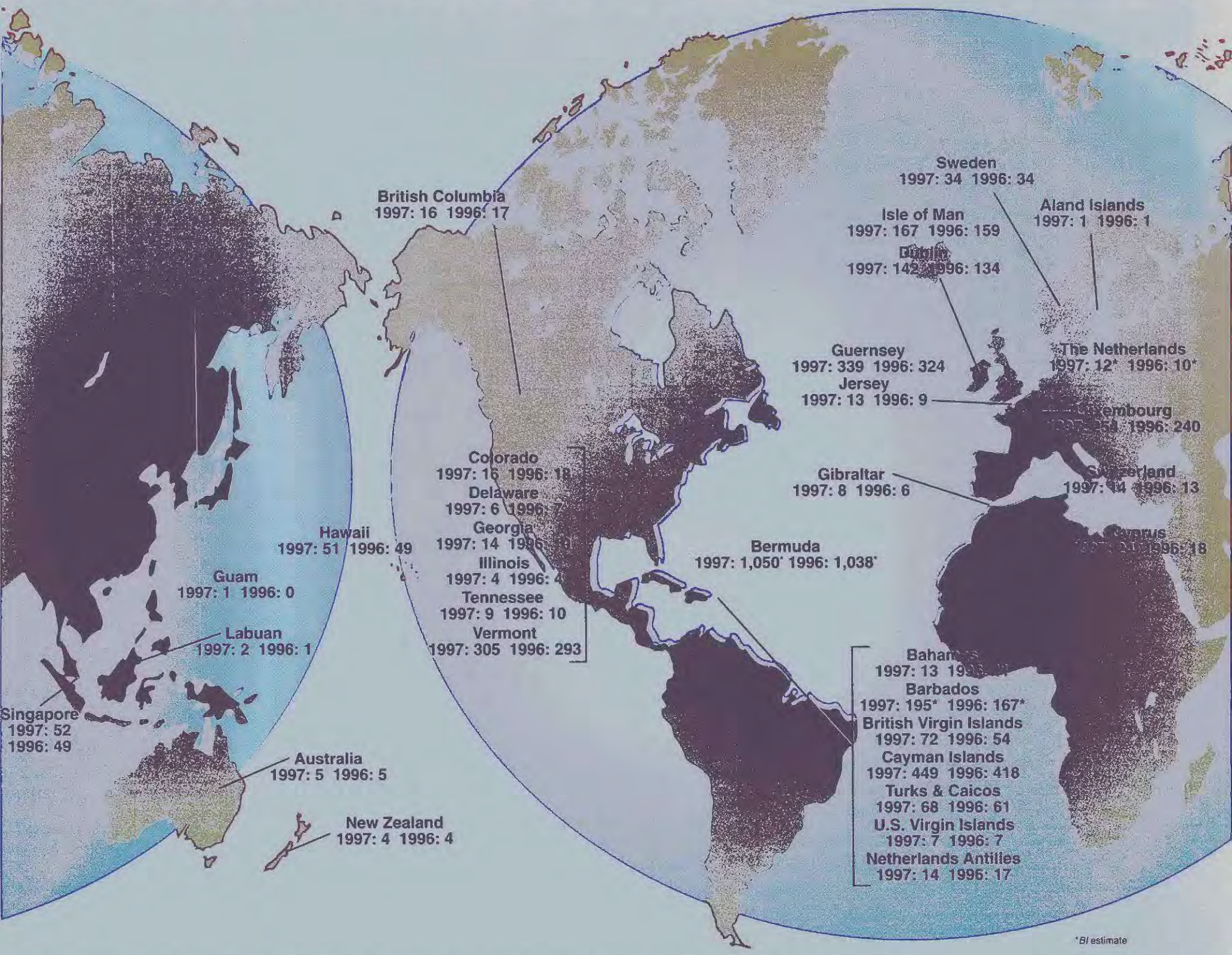
• A look at past winners and honor roll members. **PAGE 127**

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Captive Report



*BI estimate

Rate of captive increases dips in '97

Captive growth slowed in 1997.

In the 32 domiciles *Business Insurance* tracks, there were an estimated 3,361 captives at the end of 1997, up 5.6% over an estimated 3,184 at the end of 1996.

That gain is less than the 6.8% increase in captives reported in both 1996 and 1995 by a slightly different pool of captive domiciles (*BI*, April 14, 1997). The list of covered domiciles has increased with the addition of Guam, New Zealand, The Netherlands and Cyprus. In addition, some numbers reported last year for 1996 have since been restated.

The Cayman Islands had one of its best years ever for formations, with 50 licenses issued in 1997. After 19 captives surrendered their licenses, Cayman was home to 449 captives at year-end, up 7.4% from 418 at the end of 1996.

Captive managers in Cayman are surprised at the growth, given cheap commercial insurance prices worldwide. They attribute the gains to a more mature alternative risk financing market, a strong U.S. economy, and risk managers taking pre-emptive measures to avoid potential rate or capacity problems.

Bermuda remained by far the world's largest captive domicile, but its net gain was only an estimated 12 captives, giving it an estimated 1,050 captives at the end of 1997, up from a restated 1,038 in 1996.

With 339 captives at the end of 1997, Guernsey continues to lead Europe, with Luxembourg second at 254 captives.

In the United States, Vermont continued to dominate, with a net gain of 12 captives, to give the state 305 at year-end 1997. In fact, Vermont has almost three times as many captives as all the other U.S. domiciles combined.

Captive domiciles also are offering captive owners more options.

Cayman, seeking more rent-a-captive-like business, has enacted legislation similar to a Guernsey statute that allows Protected Cell Companies. Cayman is calling these facilities Segregated Portfolio Companies, which will be similar to rent-a-captives but will provide policyholders more security, as each portfolio's assets and liabilities will be isolated.

Vermont, too, is considering whether to permit rent-a-captives, although they would be called something else.

The next-largest U.S. domicile is Hawaii, which had a net gain of two captives for a total of 51, giving it the critical mass managers say it needs for growth to accelerate. Georgia saw its number of captives increase to 14 from 10; other U.S. domiciles showed small gains or losses, and Illinois remained flat at four captives. New York saw two captives form in 1998 after passing its law last year; Maine passed captive legislation last year but reported no formations.

Other U.S. domiciles with captive laws but no captives are Rhode Island, South Dakota and Virginia.

Other major gainers worldwide were Barbados, with an estimated jump of 28 captives, and the British Virgin Islands, whose number increased 18 for a total of 72 at year-end.

Around the world, Guam saw its first captive formation in 1997, while other newer domiciles—Hong Kong, New Brunswick, Malta and Montenegro—await their first captives. Panama got its first captive earlier this year, so it is not included in 1997 numbers.

Captive growth was mostly stagnant in other small international domiciles.

Lloyd's of London this summer might release plans for allowing captives to write business in the market beginning next year.

Mergers in the brokerage industry also affected the size of captive managers.

For example, after Marsh & McLennan Cos. Inc.'s acquisition of Johnson & Higgins, the combined J&H Marsh & McLennan Management Inc. manages 117 Vermont captives totaling $1.48 billion in gross premium volume. That premium volume figure is more than three times as much as the second-largest Vermont manager.

J&H Marsh & McLennan also dominated as a manager in Bermuda, Cayman and Hawaii.

Aon Corp.'s acquisition of Alexander & Alexander Services Inc. also boosted its profile in captive management around the globe. Aon, for example, more than doubled the gross written premiums and number of captives managed in Bermuda. Aon also managed $73 million in gross premiums last year in Cayman, making it Cayman's sixth-largest manager.

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Captive Report

Roadblocks hold up captives in benefits

By JOANNE WOJCIK

Employers that would like to use their captives to fund employee benefit programs still face significant hurdles, especially from the U.S. Department of Labor.

Despite these obstacles, funding benefits through a captive shouldn't be ruled out, experts say.

Some employers, for example, may be able to take advantage of a recent private-letter ruling from the Internal Revenue Service and use their captives to prefund retiree health benefits. It also is possible to use a captive to fund benefit plans for employees working outside the United States.

"There's a fair amount of interest in exploring the possibility" of using captives to write employee benefits, observed Paul Van Zuiden, a consultant in Watson Wyatt Worldwide's Chicago office. In particular, he said, some employers may be able to take advantage of a recent IRS private-letter ruling involving Energy Insurance (Bermuda) Ltd. of Hamilton, Bermuda (*BI*, Feb. 23).

And employers with employees scattered throughout Europe can consider using a captive to provide foreign benefits, according to Mr. Van Zuiden.

The recent IRS private-letter ruling permits the purchase of medical stop-loss insurance from an offshore group captive by an employer-established voluntary employee beneficiary association, or VEBA.

The Bermuda-based company was set up in 1992 and designed as a rent-a-captive-style insurer to write a broad range of insurance coverages, reinsurance or non-traditional financial deals for utilities that belong to Energy Insurance Mutual Ltd. of Tampa, Fla., an electric and gas utility excess liability insurer.

Prior to the ruling, at least one utility—Oklahoma Gas & Electric of Oklahoma City—had been using a VEBA to buy stop-loss coverage from Energy Insurance to prefund future retiree health care liabilities (*BI*, Nov. 13, 1995).

But even before the IRS ruling, the Denver-based Farm Credit System began using its captive to write medical stop-loss coverage for active employees covered by its members' VEBAs. The Farm Credit System Assn. Captive Insurance Co. launched its program in 1996, two years after Colorado's captive statute was amended to permit captives to write employee benefit coverages (*BI*, April 15, 1996).

The linkage of a VEBA, stop-loss insurance and an offshore captive insurer solves many problems, experts say. Advance funding reduces liabilities employers have to report on their financial statements under Financial Accounting Standard 106 and also helps to ensure enough money is available in the future to pay claims.

The design of a VEBA stop-loss insurance captive-linked program is simple. Employers make tax-deductible contributions to the VEBA. With those contributions, the VEBA buys stop-loss policies from the group captive. The policies provide coverage for claims that exceed a specified level. To maximize the earnings potential of the premium contributions, the policies could cover employees years away from retirement. That would allow a significant growth of investment income before claims are paid.

Still, not all employers want to prefund retiree health care obligations, benefit consultants point out. Employers may want to hold on to corporate cash to invest in their own operations, which may earn a greater rate of return than they would get from buying insurance policies, suggested Watson Wyatt's Mr. Van Zuiden.

While some consultants say the IRS ruling could be a boon to group offshore captives looking to increase their premium volume, Labor Department rules still restrict the use of a single-parent captive for funding benefits.

A 1979 Labor Department ruling sets tough restrictions on employers' ability to fund benefits through their captives. Among other things, the captive must be licensed in a domestic state, and its parent can generate no more than 50% of its business.

In fact, the Labor Department rejected an application by CSX Corp., the parent of CSX Insurance Co., to reinsure its group term life insurance program through its Vermont captive because too much CSX-related business would have flowed through the captive (*BI*, April 4, 1994).

Because of the CSX ruling, employers more likely are exploring the possibility of writing non-ERISA-regulated benefits through their captives, according to Mr. Van Zuiden.

International benefit pools, which have been around about 45 years, have been using captives as reinsurers for decades, according to Paul Pinckney, a principal at benefit consultant Tillinghast-Towers Perrin in Irvine, Calif.

Today "about 15 to 20 programs are reinsured through captives," he estimated. "Of those, less than half have U.S. parents."

However, more and more large multinationals are seeking to fund international benefit pool risks through their captives, he said.

"One of the motivations is to use the international benefit pooling business to act as third party, or unrelated, business to counter-balance the traditional property/casualty business," Mr. Pinckney said.

If at least one-third of the business written by the captive is reinsurance for international benefit pooling, "then they can argue for deductibility of their P/C premiums," under current IRS regulations, he explained.

In addition to benefit plans for employees overseas, a captive also "could be of value for writing cafeteria benefit options," said Mr. Van Zuiden.

For example, National Semi-Conductor Corp. Risk Manager Gene Kiernan had looked into using the Santa Clara, Calif.-based company's Hawaii captive to provide auto and homeowners insurance for employees on a payroll deduction basis, he said.

"We anticipated profits to be thin in auto," Mr. Kiernan said. "On the other hand, homeowners is like the life insurance side of a life/health program."

However, the company instead decided to purchase the coverage from American International Group Inc. because it was more cost-effective than self-insuring through the captive, according to Mr. Kiernan. BI

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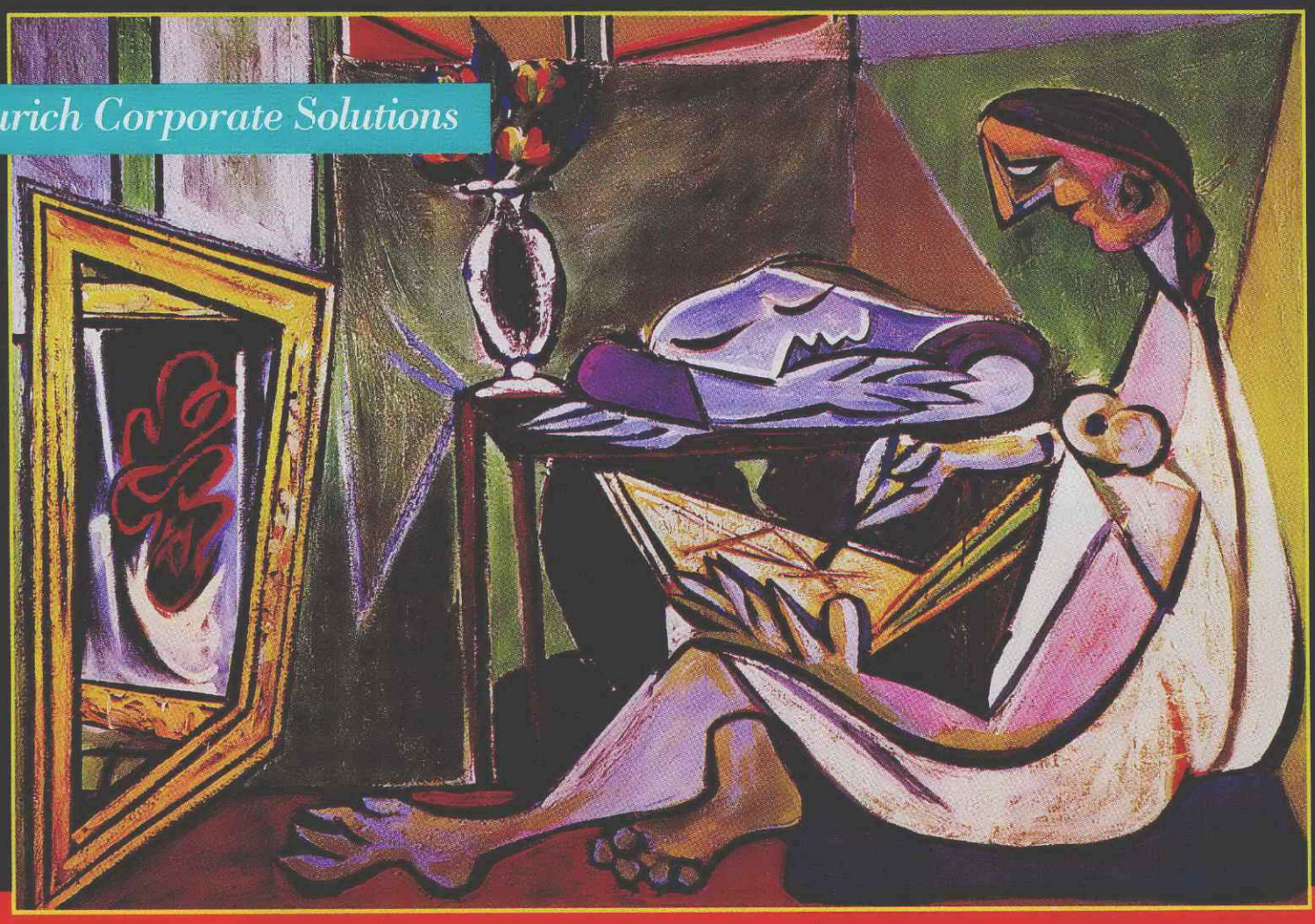
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Captive Report

Captives enjoy soft, eager reinsurance market

By JUDY GREENWALD

Reinsurance for captives is plentiful and cheap. And the close eye that corporate owners keep on their captives makes the business highly desirable for reinsurers eager to boost their premium.

As a result, many of the major reinsurers already are pursuing this line of business. And recently, both Bermuda-based ACE Ltd. and Chubb Atlantic Indemnity Ltd. announced new captive reinsurance facilities as well (*BI*, April 6).

Traditional reinsurance continues to be the predominant form of reinsurance for captives, with relatively few venturing into finite risk areas, though the number is increasing and interest in the area is growing.

Despite the publicity given to the encroachment of the capital markets into reinsurance, few, if any, of these deals have involved captives, though some believe they may play a more significant role in the future

Captive owners and managers have few problems these days finding sufficient reinsurance at reasonable prices as reinsurers pursue this business.

"The market is very soft particularly on casualty," said Charlotte Manca-Wells, vp at Silver Spring, Md.-based Adventist Risk Management Inc., which operates captive Gencon Insurance Co. of Vermont on behalf of the General Conference of Seventh-day Adventists.

"On property, I think there's some signs that it's beginning to hold," she said. "We're a worldwide organization, and (reinsurers have) become more cautious about, let's say earthquakes around the world and wind damage—some of our places are in the Caribbean—so that has entered into their underwriting. But we still have been able to get the capacity that we need, and our prices have gotten better, especially because our experience has improved."

"Overall, I would characterize the traditional captive market as having very similar characteristics" to the primary market, with reasonably soft pricing and adequate capacity, said Douglas G. Hoffman, managing director at New York-based Bankers Trust New York Corp., which has a Bermuda-based captive, Long-Tail Risk Insurers Ltd.

"The pricing is low," though perhaps less "brutal" within the Bermuda market than elsewhere, said David Ezekiel, president and managing director of Hamilton, Bermuda-based International Advisory Services Ltd., a captive manager.

The market for captive reinsurance continues to be pretty heated, highly competitive and very soft, with "not a significant amount of change from a year ago," said John Gantz, executive vp of Swiss Re America in New York. He heads the reinsurer's alternative risk transfer department.

"Part of the reason that pricing is as low for the captives as it is is that they're increasing their retentions, the attachment points at which they're covering the first loss," said Don Watson, director at rating agency Standard & Poor's Corp. in New York.

"They're able to do that because the loss history has been very good over the last three years," and as the captives increase their retentions, it puts the reinsurer one further step removed from the loss event, permitting it to lower its prices, said Mr. Watson.

Alternative risk business is very competitive, said Mike Mather, senior underwriting director at Odyssey Re (Bermuda), which focuses on reinsuring captives. "It is a buyer's market."

Reinsurers continue to be keenly interested in this business. "There's an interest on the part of reinsurance companies to continue to bring in the top-line growth. . .so they're clearly looking at and targeting the captive operations," said Mr. Watson. As a result, "captives are finding plenty of capacity at very low rates."

"The reinsurance companies typically like writing the captive business because it gives them direct access to the client, an ability to manage risk and to develop. . .risk management systems to reduce losses," he said.

"A lot of reinsurers see the captives as a means to bypass the broker, to go directly to the insured, in this case the corporation, and work with them on risk management," said Mr. Watson.

In addition, "a reinsurer can, in fact, get a better-quality book of business from a captive than it can by going to a multiline insurance company because they get to elect which companies they do business with," which are those companies with good risk management and low losses, he said.

"All the major markets are still very actively soliciting captive reinsurance," said Jill Husbands, senior vp and manager, sales and marketing, at J&H Marsh McLennan Management (Bermuda) Ltd.

At the same time, reinsurers are recognizing captive reinsurance cannot be handled by the same person who writes non-standard auto. It requires a more specialized approach, said John Andre, assistant vp at Oldwick, N.J.-based A.M. Best Co.

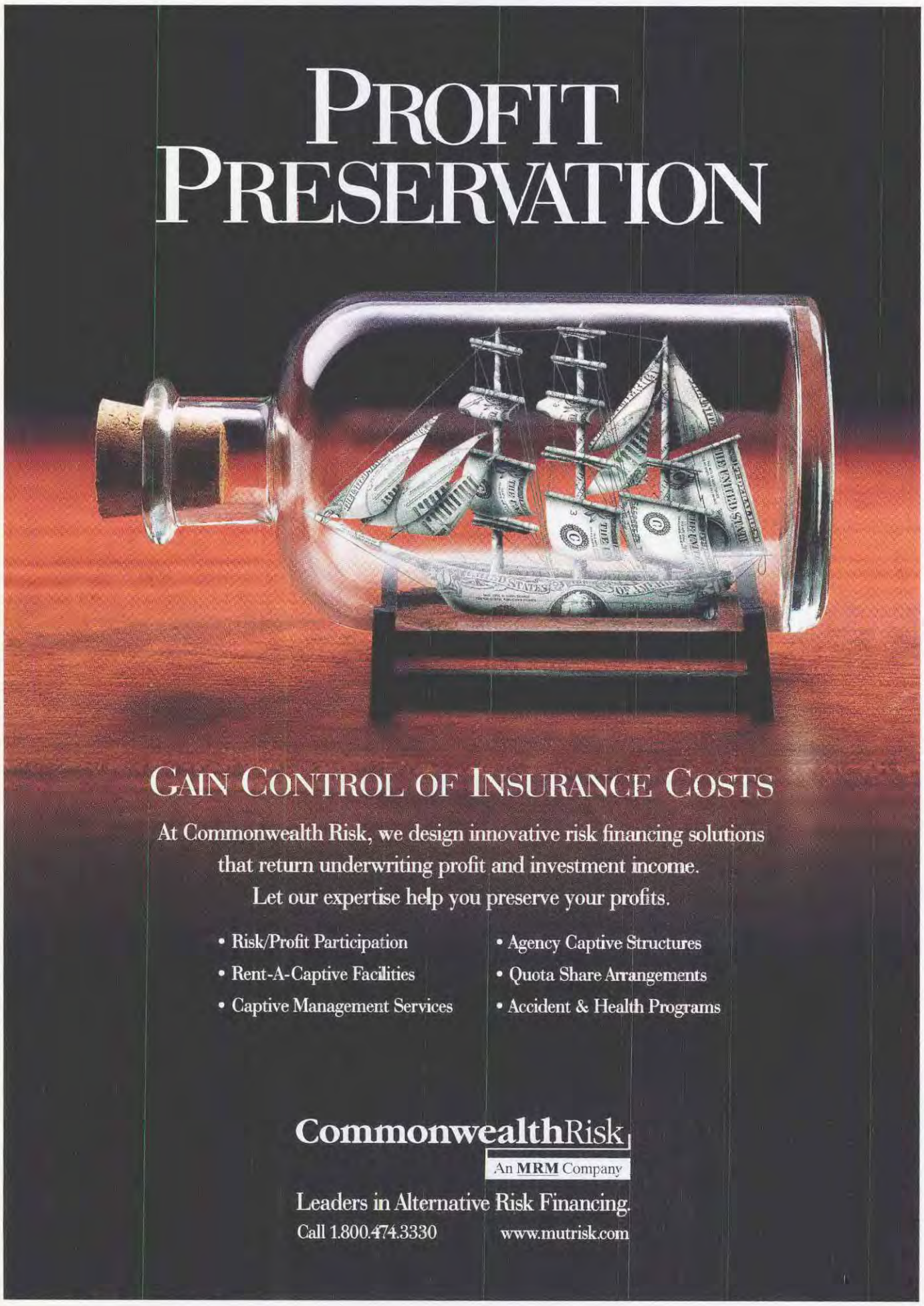
"I think the reinsurers recognize that they have to dig into numbers quite a bit here. You have to get much more involved at this level," said Mr. Andre.

Single-parent captives, he said, have the opportunity to make strategic use of reinsurance "yet take advantage of some very competitive reinsurance pricing."

"I think from the parent's perspective, reinsurance is always critical because it's important to take out the possibility of horrendous losses either in terms of a large single occurrence or an unanticipated frequency of smaller occurrences," said Robert A. Mulderig, chairman and chief executive officer of Bermuda-based Mutual Risk Management Ltd., which operates the largest rent-a-captive, manages captives and brokers reinsurance.

Traditional reinsurance continues to be the predominant, though not exclusive, form of captive reinsurance. "I would say that, given the current pricing of the traditional commercial market, captives are oftentimes more likely to find a better deal in that form of coverage as opposed to finite, with the exception of various especially

See **Reinsurance** *on page 12*



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Opinions

They add stature to the field

HELPING MANAGEMENT and others in their organizations to recognize the value of risk management sets apart the 1998 Risk Manager of the Year and members of the Risk Management Honor Roll.

Whether it's generating savings from a risk financing program, or communicating shared goals, or helping improve products and services, the winners profiled in this issue clearly have demonstrated to others that risk management can make a significant difference.

Through their achievements, they have made risk management a valued partner in their organizations' success.

This is perhaps most striking in the celebrated program of Philip J. Grewar, the 1998 Risk Manager of the Year. Mr. Grewar, the director of the risk management branch for the Canadian province of British Columbia, not only convinced the provincial government that it needed a full-time professional risk manager but also went on to demonstrate to government officials that risk management can help them achieve their public service goals at reduced cost.

Mr. Grewar's achievement resulted from persistence and creativity that yielded legislative and regulatory changes that assured the efforts of the risk management branch were not diluted by normal bureaucratic inefficiencies.

The resulting risk financing, claims handling and loss control programs built from the ground up by Mr. Grewar and his team have saved the government hundreds of millions of dollars over the past decade.

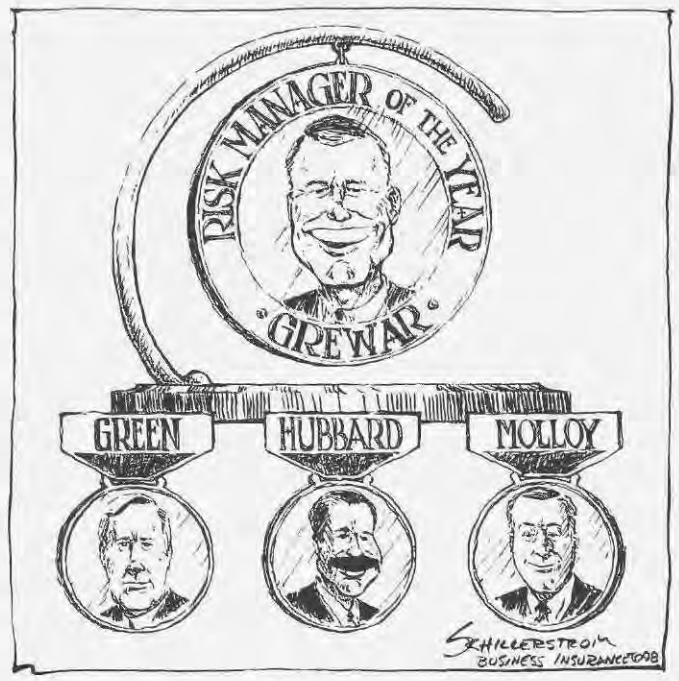
Those savings enable provincial hospitals, schools, social services agencies and other entities to devote more of their resources to delivering, and in some cases expanding, their services to the public. As a result, he was won the esteem of officials who very much value his contributions to a more efficient government.

Similarly, the three members of the 1998 Risk Management Honor Roll have won the respect and gratitude of their organizations.

• James E. Green, risk manager of Justin Industries Inc., helped his company become more productive, assured a healthier workforce and saved money by innovative ergonomics programs. He also contributed to efforts to design a safer product that not only reduced liability exposures but also gave the diversified manufacturer a competitive edge in some product lines.

If that weren't enough, he has attracted to these efforts the involvement of management, which clearly recognizes the value sound risk management adds to the bottom line.

• Mark L. Hubbard, vp for risk management and human resource management at the Loma Linda University Ad-



ventist Health Sciences Center Inc., has developed a risk management program that makes him an ally and not an adversary among the many physicians and health care professionals within the medical center. His programs save money and, more importantly, more closely manage liability exposures. That, and the trust he has earned, allow the medical professionals to devote more of their attention to life-saving care and research.

• Edward J. Molloy, director of corporate risk management for Aetna Inc., has taken risk management at the venerable insurer from an intuitive, seat-of-the-pants approach to one marked by quantitative analysis to get a true picture of exposures and risk financing needs. That by-the-numbers approach, though, is implemented in a collegial atmosphere that actively seeks the input and involvement of managers from all affected business segments to assure risk management efforts are accurate and beneficial.

One of his biggest challenges, and one that demonstrates the value of his approach, came in Mr. Molloy's handling of the transfer of a chunk of Aetna's own corporate risks in the sale of its property/casualty operations to Travelers Inc.

All four risk managers clearly are valued within their organizations for their many and continued contributions to the well-being of their organizations. And now, with the honors they have earned, it is clear to see their value to the risk management profession, as well.

Letters

Employers very interested in 24-hour cover

To the editor: I read with interest Joanne Wojcik's April 6 article ("24-Hour Cover Loses Another") noting the withdrawal of SinglePoint from the 24-hour market in California. As someone who has worked in the integrated benefits marketplace for the past five years, I can assure you that employer interest in "24 hour" is alive and well nationwide and in California.

In my view, employer interest in integration is only getting stronger, particularly among employers that find value in: a) providing streamlined benefits management for their employees; and b) returning savings to the company's bottom line. In California, for example, the Disability Management Employer Coalition began with one chapter in Southern California three years ago and now has five chapters statewide, plus chapters in six additional states. In addition, the California-based Integrated Benefits Institute has been focusing on research and development of the 24-hour marketplace for the past several years.

Different employers have different perceptions of the "value" of integration. Those that define value by premium alone are overlooking the "price" of the indirect costs of employee absence and the "savings" that come from improved employee morale, increased productivity and improved medical outcomes. In my experience, midsize to large employers are the candidates that currently are the most interested in integration because they realize that cost savings come from managing the total absence experience.

Carrie Craven
CIGNA IntegratedCare
San Diego

Demutualization transparent to policyholders

To the editor: Rodd Zolkos' March 9 article, "More Mutuals Changing Structures," illustrates how "consumer groups," as you identified them, frequently lose sight of what the consumer really wants in a product or service.

It is ludicrous for such a group to presume that the consumer wants anything other than the combination of the best coverage at the best price in an insurance policy. The best coverage has to include the financial strength needed to assume the risks offered to and accepted by the insurer. The demutualization of a mutual company, in addition to providing capital for expansion, will naturally strengthen the insurer's ability to maintain the risks already on its books, as well as the strength to add new ones without impairing its policyholders' surplus.

The idea that the "policyholders' ownership" of the company bears any importance to the consumer is wrong in the vast majority of cases. The days of conflict between stock and mutual companies ended long ago because the consumer just doesn't care. Value sought by consumers doesn't include the issue of policyholders' ownership and probably never did.

Prudential Insurance Co. of America made the transition from stock to mutual and is now pursuing demutualization. I doubt if the "destockization" (my term) made a lot of difference to their policyholders then, and I doubt the reverse will have an impact now.

Gus Beckham
Shreveport, La.

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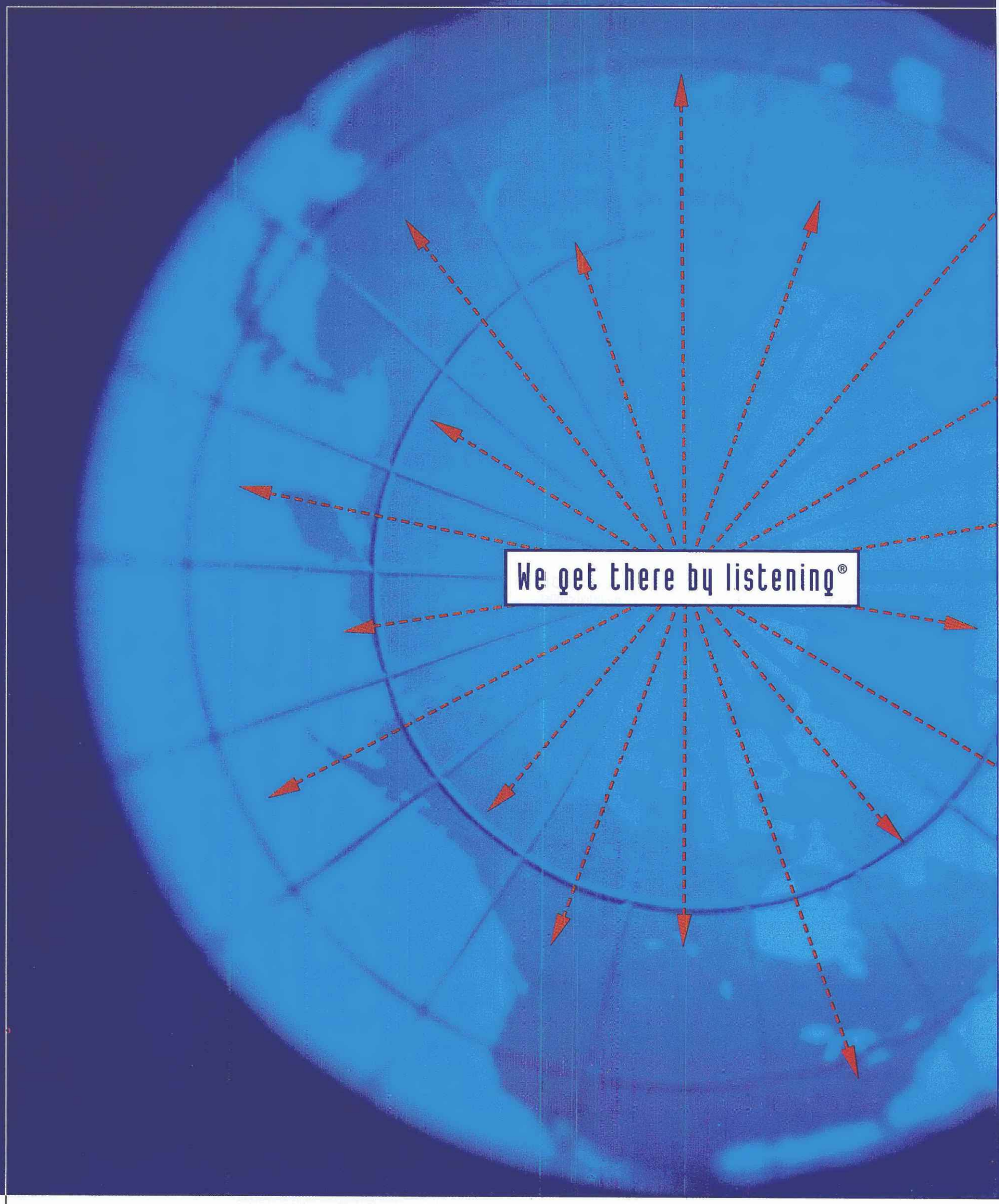
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Captive Report

Reinsurance

Continued from page 6

difficult to obtain coverages," said Jon Levenson, vp of Bermuda-based Stockton Reinsurance Co., which specializes in finite business.

"A growing number of captives look at the financial reinsurance alternatives in trying to make out their plans for buying reinsurance," said Mutual Risk Management's Mr. Mulderig.

But, he added, "excess-of-loss is still the fundamental purchase that's made by most captive companies, and then aggregate after that."

"It's much more the traditional stuff in terms of the new players," said Mr. Ezekiel. "There's an increasing amount of finite risk stuff being done behind captives, but those are pretty much from the established players in the field. A lot of the newer players are coming in very much on the traditional risk basis."

A complicated learning process is involved in captives' use of finite risk reinsurance, said Harry Richter, chairman of Stamford, Conn.-based Genesis Insurance Co., a General Reinsurance Corp. unit that focuses on the alternative market.

While some deals have been done, "I wouldn't characterize it as a sea change at this point in time," Mr. Richter said.

"I think it's gaining some momentum," Mr. Richter added. "I suspect that if there were any kind of material change in basic traditional insurance pricing, or excess pricing, you might see that happening pretty quickly.

R. Lincoln Trimble, vp-underwriting manager property/casualty at Chubb Atlantic, said, "Clearly, finite risk will only be used realistically in the absence of a viable traditional insurance market and is usually going to be used to address an issue that is largely uninsurable, but they want to run that risk through the captive."

However, Mr. Trimble added that more business is being written as part of combined lines programs. There used to be separate placements for general liability, auto liability and workers comp, he said.

"Now, particularly on a stop-loss basis, we're seeing combined lines, where they're adding up all their net retentions across all lines, coming up with an overall loss. . .and placing stop-loss on top of that," he said, noting this reduces the business' overall volatility and makes it more predictable.

"I think that is happening, frankly, everywhere. It's not just with a captive," said Gen Re's Mr. Richter. "Underwriters today, whether it be in the traditional venues or the alternative market, are looking more and more at providing multiline services to their customers," he said.

"Certainly captives, I would think, are an ingredient in the way that these programs are structured and risk ultimately retained or transferred by the corporate parent," Mr. Richter said.

There has been little, if any, capital market encroachment into the business. In most cases, single-parent captives' business may not be suitable for securitization of risk because of their concentrated risk portfolios, said Mr. Watson.

"From what I see, the major type of capital markets activity has been in catastrophe-type covers, which usually the captives are not involved in," said Roger Ablahat, assistant vp-alternative risk area for CNA Re, the reinsurance arm of Chicago-based CNA Financial Corp.

"I can see perhaps some larger captives that have large property capacity needs also being attracted" to the types of products offered by the capital markets, he said.

He added, however, "The traditional insurance market or reinsurance marketplace at this point has been considered very competitive, so I think that also has been a deterrent to inroads from the capital market."

Captives, though not using the capital markets per se, have borrowed some of its techniques, said Brian Kawamoto, a member of senior management at Swiss Re America's alternative risk transfer division in New York. He recently joined Swiss Re from Aon Worldwide Resources in San Francisco.

For example, "I have seen captives swapping books of business" to obtain premium tax deductibility, which is a classic type of derivative and capital market technique, Mr. Kawamoto said. BI

Bermuda captives diversify in soft market

By GAVIN SOUTER

HAMILTON, Bermuda—There were two sides to the captive coin in Bermuda in 1997.

On the positive side, formations continued briskly, with a total of 93 international insurers, reinsurers and captives setting up on the island.

Many of the new companies were captives being used in a more sophisticated manner than those in the past, covering the risks of third-parties, the health care industry, interest rates and even retiree health care benefits.

But, on the negative side, the number of international companies that shut down in the domicile increased sharply to 76 from 28 in 1996, as captive owners reverted to the cheap and plentiful capacity in the commercial insurance market.

Companies often need more attractions than simply retaining their own risk in order to enter the captive market, captive managers report. But, by showing corporations how to make better use of new and existing captives and pooling facilities, captive managers are able to keep the alternative market growing, they say.

Changes are also sweeping the managers themselves, as the broker mergers over the past year have significantly altered the makeup of the captive management companies on the island.

Captive formations in Bermuda in 1997 totaled 69, compared with 73 in 1996. For the first time, Bermuda has broken down the categories of new international companies. The captives formed include: six agency captives, compared with nine in 1996; five association captives, compared with 10 in 1996; 10 captives of property/casualty insurers, compared with five in 1996; one captive of a multiline insurer, compared with two in 1996; four captives writing unrelated third-party business, compared with six in 1996; nine captives writing connected business, compared with seven in 1996; 11 health care industry captives owned by hospitals or health maintenance organizations, compared with four in 1996; one multiowner captive, compared with two in 1996; 14 pure captives, compared with 23 in 1996; and eight rent-a-captives, compared with five in 1996.

Business Insurance estimates that the net gain in the number of captives in Bermuda in 1997 was 12, compared with an estimated increase of 52 in 1996. The total number of captives in Bermuda is now estimated by *BI* to be 1,050, up just 1.2% from a restated estimate of 1,038 captives in 1996, based on the most recent information released by the Registrar of Companies.

The gross premiums written by all Bermuda-based international companies in 1996, the latest year for which premium figures are available, is $25.1 billion, a 7% increase from1995.

A sharp decrease in the number of new pure captives and the increase in the number of captive closures reflects the soft commercial insurance market, said Kymn C. Astwood, registrar of companies.

"Captive owners are able to get very good prices in the commercial market," Mr. Astwood said.

However, increases in the numbers of other types of captives show that companies are still eager to enter the alternative market, and Bermuda is successfully attracting them, Mr. Astwood said.

For example, the increase in the number of health care industry captives formed in 1997 reflects the greater efforts Bermuda has made over the past several years to attract those captives that have traditionally set up in the Cayman Islands, he said. "We have been intensifying our marketing efforts in that regard, and we are pleased that our efforts are bearing fruit."

The increase in rent-a-captives points to heightened interest from companies that are not willing or not large enough to commit the capital for a single-parent captive but want to enter the alternative market, Mr. Astwood said. "The structure of a rent-a-captive is very cost-effective," he said.

And the consistent increase in the number of captives writing third-party business shows how companies are using captives to offer added service to customers and affiliates and to obtain tax deductibility of premiums, he said.

Bermuda's regulations provide an environment that is receptive to captives writing third-party business, said David A. Conway, vp at AIG Insurance Management Services, a unit of American International Group Inc.

Bermuda has four classes of insurance licenses, with tighter regulatory control imposed on captives writing third-party business (see related story, page 14). The regulations enable Bermuda regulators to more easily entertain different types of captives, where U.S. domiciles might discourage captives from venturing outside of the traditional path of insuring only the risks of the parent, Mr. Conway said.

"Regulators onshore are less keen on third-party business," he said.

Many captive owners in the United States want to write more third-party business because, generally, if they derive more than 30% of their premium from unrelated business, they can take a tax deduction for premiums paid to their captive. Over the past several years, captive owners have increased the amount of third-party business in their captives. The third-party business is usually for customers or affiliates of the parent or covers low-severity risks.

However, captive owners and managers are seeking to avoid a repeat of the disastrous period in the late 1970s and early 1980s, when many Bermuda captives wrote significant amounts of loss-making third-party business.

"We have clients who talk to us about uncontrolled business, but after we explain the facts of life to them, they decide that it is not in their best interests," said Gregory W. Springer, president and chief executive officer of Aon Risk Services (Bermuda) Ltd.

Less-volatile third-party business would be coverages such as extended warranties for customers, he said. "People are finding much more creative uses for their captives."

While the third-party business is often called "controlled business," in reality it is often uncontrolled but low-severity business that is well known to the captive owner and predictable, said John R. English, director of global captive operations for International Risk Management Group Ltd.

For example, an equipment leasing firm might offer property coverage for the equipment leased by customers, he said. "You don't have any control of the property loss for those pieces of equipment, but if you are doing it often enough, you have a very good idea of what the risk is."

Many of the captives that Sedgwick Management Services (Bermuda) Ltd. took on in 1997 are writing or plan to write third-party business, said Denville C. Reed, president and CEO. Traditionally, captive owners have used captives as vehicles for covering their own liabilities, but captives increasingly are being used to enhance earnings by writing third-party business, he said. "The motivation for setting up a captive has changed."

Several of the captives that Sedgwick has obtained from other managers are in the process of being converted from Class 1 companies, which are single-parent captives, to Class 2 or 3 licenses, which apply to group or association captives and captives writing third-party risks.

Despite attracting new and existing captives, Sedgwick saw a net decrease of six captives due to the liquidation of several captives that were no longer used by their parents, said Nigel M. Godfrey, senior vp. Sedgwick managed 50 captives at year-end 1997.

Among the new captives writing third-party business is New Age Insurance Ltd., set up by Ace Hardware Corp.

Ace is a cooperative owned by its retail dealers. In the past, it has acted as an insurance agent for the dealers and maintained a large-deductible program for the corporate risk, said Karl Zimmel, risk and insurance manager at the hardware wholesaler based in Oak Brook, Ill.

Ace studied the feasibility of establishing a captive for the corporate risk, the retailers' risk, and both the retailer and corporate risk, he said.

"We would not have gone forward if we had just had the corporate side. But when you add in the retail side, it made clear sense," he said. Ace benefits from the investment income on the premiums. Also, as the retailer part of the risk is third-party risk, it is able to deduct the corporate premiums for tax purposes. "It works very

See **Bermuda** *on page 14*

Largest managers of Bermuda captives

(Ranked by gross premium volume in millions of dollars)

Manager	Premium volume 1997	Premium volume 1996	Captives 1997	Captives 1996	Staff 1997	Staff 1996
J&H Marsh & McLennan Management (Bermuda)*	$2,481	$500	279	97	148	45
Aon Insurance Managers (Bermuda) Ltd.**	1,373	650	187	90	66	30
International Advisory Services Ltd.	1,050	925	97	90	56	50
Sedgwick Management Services (Bermuda) Ltd.	273	305	50	56	31	33
Skandia International Risk Management Ltd.	254	268	85	82	15	15
Mutual Risk Captive Group Ltd.	223	197	53	50	19	18
International Risk Management (Bermuda) Ltd.	220	240	71	76	36	39
AIG Insurance Management Services (Bermuda) Ltd.	200	198	20	23	9	9
Symphony Management Ltd.	175	100	19	14	7	6
Becher & Carlson Management Ltd.	155	129	13	12	6	5

Note: *1996 figures do not include Johnson & Higgins (Bermuda) Ltd. **1996 figures do not include Alexander Insurance Managers (Bermuda) Ltd.
Source: *BI* survey

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AON

Captive Report

Bermuda

Continued from page 12

nicely as far as our tax position is concerned," Mr. Zimmel said.

The Aon-managed facility provides broad property and casualty coverage. Ace selected Bermuda as a domicile for its stability, its history of encouraging captive formation and its infrastructure of service providers, Mr. Zimmel said.

Agency captives are also a trend in Bermuda, helping the domicile to grow its number of captives despite the soft market, managers say.

Insurers looking to secure business from agents are helping them form agency captives, said David Ezekiel, president and managing director of International Advisory Services Ltd. "A lot of companies are looking for premium and are finding ways to add value to agents, so they enable them to form agency captives, which gives the agents an incentive to produce more business."

As partners in the captive in which the risk is ultimately insured, agents are able to participate in the profit of the business, Mr. Ezekiel said.

And the agencies themselves are becoming more aware of the profit potential of captives and are keen to establish them, said Mr. Conway of AIG. "They have industry-specific business that they know to be profitable, and they want to participate in that profit."

Some specific industry groups are also continuing to establish association captives in order to access the alternative market, Mr. Conway said. Often association captives are established by groups where the individual members are not large enough to form their own single-parent captives.

Aon formed two new auto dealer association captives in 1997 and now manages 12 association captives for auto dealers, said Tracy E. Keill, managing director at Aon Insurance Managers (Bermuda) Ltd.

The new formations are including third-party business, such as credit life coverage, in the captives, she said.

The existing association captives managed by Aon continue to cover casualty risks, Ms. Keill said. But some members of association captives are being lured back into the commercial market by the low rates available, managers report.

"We haven't lost any captives, but the association captive side is very, very tough. The market out there is brutal," said Mr. Ezekiel of IAS.

Many of the association captives originally were formed at times when particular industry groups had problems obtaining reasonably priced coverage, but now nearly every business sector has access to cheap insurance coverage, he said. "We can't quote them anything in the captive that comes even close to the commercial market."

For example, IAS quoted an association captive a premium that was 60% less than it charged three years ago, but it was still 40% above the premium currently being charged by commercial insurers, he said.

However, the association captive members that are using the commercial market are maintaining the captive in case the market hardens. They also want the risk management and loss prevention services provided through the captive, Mr. Ezekiel said.

The closing of association captives accounted for some of the reduction in captives managed by IRM in 1997, where the number of captives managed slipped to 71 from 76 in 1996, said Mr. English. "They were set up when capacity wasn't available."

AIG also saw some association captives leave for the commercial insurance market as the captives were no longer necessary, said Mr. Conway.

Single-parent captives' owners, too, could take advantage of the cheap coverage available in the commercial market, but usually they choose to continue using the captives. "Sometimes they want to keep the captive as a profit center and as a means of accessing the reinsurance market," Mr. Conway said.

Morton International Inc. in Chicago still maintains its Bermuda captive, MI Insurance Co. Ltd., but it has far less use for it in the current soft market compared with when it set up the captive in 1986, said Jeffrey M. Sandburg, director of risk management. "We still use it, but it's not used to the degree that it once was, because we are able to do things in the marketplace that don't necessitate a captive."

For example, due to the soft market, reinsurers are now more willing to take business from a large-deductible program through a fronting company rather than accept the business through a conventional insurer or a captive, Mr. Sandburg said.

When the Pinehurst Management Co. Ltd.-managed captive originally was established, it provided coverage for workers comp, general liability, auto liability, product liability and some environmental liability, but now it mainly only services old claims, he said.

The captive likely will be used more if the market hardens and the market becomes less flexible in the manner it provides coverage, Mr. Sandburg said. "Also, we have not used it for any of our overseas operations, so there is some potential there."

Morton chose Bermuda mainly because it was the best established and dominant captive domicile in 1986, Mr. Sandburg said. Also, having a captive in Bermuda is convenient for companies such as Morton that place business with commercial insurers and reinsurers on the island. "You can have a captive meeting and talk about renewals at the same time, and that's a big attraction," Mr. Sandburg said.

Despite the soft market and the large number of captives already formed, there is still potential growth for captives, said Colin C. James, president and CEO of Atlantic Security Ltd. "There is still a lot of interest. . . .Overall, corporations have done so well, and balance sheets are becoming so much larger, that they are more than willing to accept higher levels of risk."

Captives still are attractive to risk managers who are looking to create an insurance plan for the long term, Mr. James said. "The market is short term, so if you are looking for long-term risk acceptance, you might as well do it in-house."

Chief financial officers also are becoming more interested in using captives, often trying to make unconventional use of them, said Mr. English of IRM.

For example, one IRM captive with a European parent now is used as an alternative to interest rate hedging. The insurance policy covered by the captive responds when interest rates move outside of a given band.

Another new use of captives in Bermuda is to cover retiree health care costs, said Nicholas S. Dove, president of Skandia International Risk Management Ltd.

Skandia manages Benefits Insurance Co. Ltd., a rent-a-captive formed last year to offer life insurance and retiree medical coverage for large U.S. employers. As the company is offshore, its investments are tax-free.

In February, the Internal Revenue Service issued a private-letter ruling that permitted corporations to purchase offshore coverage to prefund retiree health care (*BI*, Feb. 23).

Benefits Insurance has not yet signed up a client, but the IRS ruling should help generate business for the facility, Mr. Dove said. "It's a new idea, and it's a very specialized area."

In another noteworthy development, Skandia sold a captive last year, Mr. Dove said. "It was an old captive that had been around for many years, and the parent company had dramatically changed its business and wanted to get rid of the captive."

The captive had written some third-party business, so the buyer will likely try to make some deals on the claims and make some money on investment income, Mr. Dove said.

Skandia added 11 new captives in 1997 and lost eight, including five that were liquidated. Its year-end 1997 total of captives under management reached 85. Five of the new ones are Japan-related, either having Japanese owners or covering Japanese risks. "We have been marketing there for six or seven years, and we are building up relationships with people there," he said.

Pooling facilities in Bermuda had mixed fortunes in 1997.

Green Island, a pool set up at the beginning of 1997, has taken off and is attracting new members, said Jill Husbands, senior vp at J&H Marsh & McLennan Management (Bermuda) Ltd.

The number of members increased to 11 in 1998 from seven in January 1997, and the premium volume has increased to $82 million from $60 million, she said.

The pool reinsures the primary liability risks of members up to $100,000. "It allows them to diversify the risks in their captives," Ms. Husbands said.

Two of the 16 new captives that J&H Marsh & McLennan has taken on in 1998 were set up specifically to access Green Island, she said.

The Risk Exchange Assn., which has stagnated for the past several years, finally went into runoff in 1997, said Mr. English of IRM, which managed the facility. The facility allowed members to exchange risks on a selective basis. "The Risk Exchange was playing at a level where it was more like a facultative reinsurer. With the soft market, there was no need for it," Mr. English said.

The mergers of the past year that have dramatically changed the brokerage world have had a significant impact on Bermuda.

The former Johnson & Higgins was previously by far the largest captive manager on the island. Its combination with Marsh & McLennan Cos. Inc.'s captive operations has produced a Bermuda company that manages greater than a billion dollars more in gross premiums than its nearest rival.

The captive operations are headed by Andrew Carr, a managing director of J&H Marsh & McLennan who previously headed M&M's captive operations. Brian Hall, the former chairman of J&H in Bermuda, retired last year after the purchase of J&H.

While M&M has for many years been the leading commercial broker in the world, J&H has dominated captive management, and the two companies had different approaches to running captive operations. J&H had a more clubby atmosphere and actively promoted captives as a concept, whereas M&M focused on profits. Although M&M offered captive management and managed a significant number of captives, which made it the fifth-largest manager in Bermuda, it often saw the commercial market as the best place for coverage.

The combined operations will probably encompass a little bit of both strategies, Mr. Carr said. "Our brief within the captive management business is to grow and develop and build our business as successfully as we can and look for clients that would like to have a captive."

J&H Marsh & McLennan will aggressively try to grow the captive business, said Ms. Husbands, who came from the J&H side of the company. "At Marsh & McLennan, they did not have new business development staff that only did new business development, whereas we had new business development staff in Bermuda and New York, and they will be maintained."

Overall, the staff of the combined company is significantly fewer than the combined staffs of the former companies in Bermuda. In 1996, J&H's captive management company in Bermuda had 141 staff members, and M&M's had 45. In 1997, the combined operation has 148 staff members.

Among the highest-profile departures were two former senior vps at J&H: Roger C. Gillett, who left to join ACE Ltd., and Shaun A. Reape, who is due to leave the company soon.

In terms of the number of captives managed, J&H had 193 captives in 1996 and M&M had 97. The combined company had 279 at year-end 1997. The 11-captive drop in the number managed is due to the correction of a miscount in previous years, when some companies that were not captives had been included in the tally, said Ms. Husbands. When the companies were combined, it was decided to analyze and recount the numbers from scratch. That was when the previous miscounting was discovered, she said.

The purchase of Alexander & Alexander Cos. Inc. and Minet Group by Aon Corp. seems to have been less disruptive to the captive management arms of the companies. The senior captive personnel at the three companies are now employed by Aon: Aon's Ms. Keill is managing director, the former A&A's Alan C. Cossar is executive director, and the former Minet's Colin Newell is executive vp.

The captive operations of Aon and A&A were more comparable in terms of captives managed and staff numbers, but Minet had a much smaller captive operation. In 1996, staff numbers for the three companies were: Aon, 30; A&A, 35; and Minet, 15. In 1997, the combined companies that now make up the captive operation of



Aon had 66 staff members. "Almost all the folks that left, left voluntarily," said Mr. Springer of Aon.

In 1996, Aon had 90 captives, A&A had 85, and Minet had 16. In 1997, the combined company had four fewer, with a total of 187.

Aon added 20 clients in 1997. Again, rearrangement of the combined companies explains the decrease in total numbers, said Ms. Keill. For example, in previous years Aon in Bermuda had counted eight captives that were legally based in other domiciles where Aon did not have an office, such as the Cayman Islands, but were overseen by the Aon staff in Bermuda. Now Aon uses the former A&A offices in those domiciles to manage the captives, she said.

Also, three Aon captives moved to other domiciles, and five were liquidated, Ms. Keill said.

Other managers on the island have mixed feelings about the creation of the two giants. Some clients with captives that had been managed by companies that were taken over have moved their captives to other managers, as they were not happy with the new ownership, said Mr. Dove of Skandia.

But, on the other hand, many of the managers in Bermuda that are not affiliated with large brokerages depend on independent brokers in the United States for business, and as more and more smaller brokers are bought out, there are fewer producers available, he said.

The disruptive effect that takeovers have on companies is largely beneficial to competing brokers, said Mr. Reed of Sedgwick. "When you bring two different cultures together, the people at those companies are often looking after their own survival rather than client needs," he said. BI

Licenses for captives vary in Bermuda

HAMILTON, Bermuda—Risk managers seeking to establish a captive in Bermuda have to meet a variety of regulatory requirements depending on how they wish to use the captive.

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

- Class 1 licenses are issued to single-parent captives insuring only the risks of the parent and its affiliates. Minimum capital for this class is $120,000.
- Class 2 licenses are issued to group and association captives that derive no more than 20% of net premiums from unrelated companies. Minimum capital for this class is $250,000, and the companies have to file an actuarial certification of loss reserves every three years.
- Class 3 licenses are issued to commercial insurers and reinsurers writing third-party business. This includes finite risk insurers and captives with more than 20% of their business from unrelated companies. Minimum capital for this class is $1 million, and companies must file annual actuarial certifications of loss reserves.
- Class 4 licenses are issued to excess liability insurers and catastrophe reinsurers. Minimum capital for these companies is $100 million, and they also must file annual actuarial certifications of loss reserves.

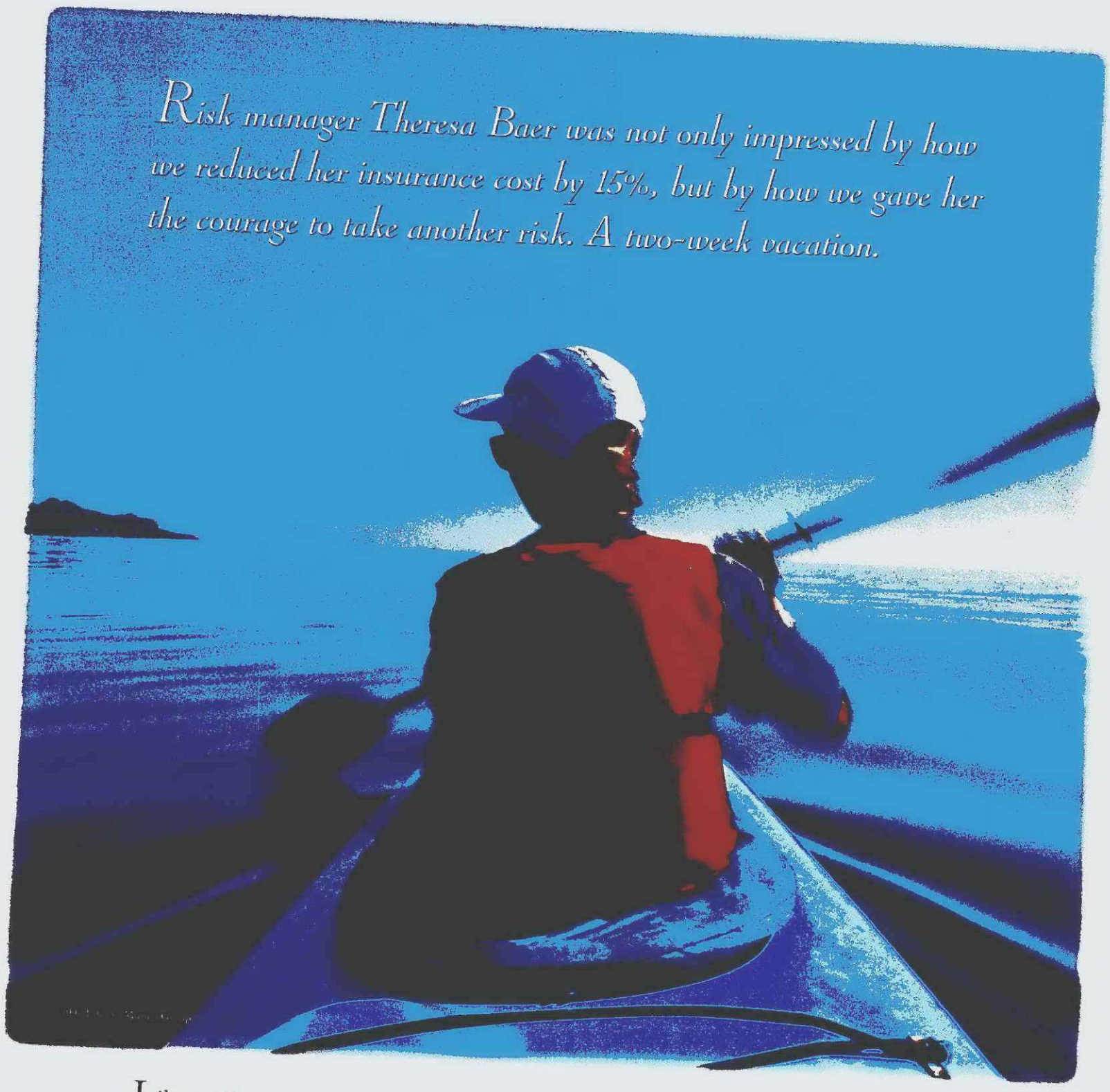
Fees for insurers in Bermuda vary by class of license, and some fees changed April 1.

Class 1 insurers pay a minimum $3,460 annual company tax and an $800 business fee; Class 2 insurers pay a $5,340 annual company tax and an $800 business fee; Class 3 insurers pay a minimum $5,340 annual company tax and a $2,500 business fee; Class 4 insurers pay a minimum $15,900 annual company tax and a $15,000 business fee.

Any insurer with capital in excess of $500 million pays a $26,500 registration fee.

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

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Captive Report

Excess liability insurers branch directly into U.S.

By GAVIN SOUTER

HAMILTON, Bermuda—After years of operating on the peripheries of the United States, Bermuda's insurers now are looking for a direct stake in the heart of the world's largest insurance market.

With the soft commercial insurance market continuing to drain premium income from Bermuda, the three largest insurers there all have recently announced plans to tap the U.S. market directly.

The direct operations in the United States will give the insurers access to lower layers of property and casualty business that would not normally make it to Bermuda for placement.

The success of what were formerly mainly excess liability insurers in Bermuda over the past 12 years has created some sizable companies that seem to have outgrown the island's market.

Gradually over the past few years, both EXEL Ltd. and ACE Ltd. have between them opened overseas operations in Ireland, the United Kingdom and Australia, and in 1998 they both opted to directly access the U.S. market.

ACE bought Westchester Specialty Group Ltd., and EXEL bought the shell company Folksamerica General Insurance Co.

Starr Excess Liability Insurance Co. Ltd. went one step further and opted to move onshore and redomicile in Delaware after American International Group Inc. bought out the other Starr shareholders earlier this year.

While Starr will retain a Bermuda branch office, it will now seek to directly access the U.S. market as a domestic insurer.



Bermuda's insurers have done more to increase business than forge ahead into new geographic territories.

Following a familiar trend, both ACE Ltd. and EXEL Ltd. bought into new markets in Bermuda and London and rolled out more coverages. Both of the insurers bought sizable reinsurance operations over the past year.

And the smaller Chubb Atlantic Indemnity Ltd. recently launched a reinsurance subsidiary to target the captive reinsurance market in Bermuda.

The Bermuda market has continued to feel the competitive pressures hitting the worldwide insurance market, particularly for excess liability risks, said Gregory W. Springer, president and chief executive officer of Aon Risk Services (Bermuda) Ltd.

"Bermuda is not immune to the forces of competition," he said.

The attraction of cash flow in the booming investment environment is bringing more and more competition to the market, Mr. Springer said.

Also, many insurers view excess liability as a useful segue into other large-account business, Mr. Springer said.

Excess liability rates have fallen as much as 30% to 50% over the past year, said Colin C. James, president and CEO of Atlantic Security Ltd., a Bermuda-based broker and captive manager.

"On harder-to-place accounts, the rates are not coming down so much, but generally if a risk manager picks a number, he can often get it," Mr. James said.

Bermuda's excess liability insurers are operating in an extremely competitive market, said Kathryn B. Winter, a managing director at J&H Marsh & McLennan Global Broking (Bermuda) Ltd.

But while there is plentiful capacity in Europe and the domestic U.S. market for excess liability business and Bermuda's insurers are increasing their attachment points, clients still are eager for Bermuda participation in their programs, she said.

"The companies are financially sound, they have a good claims-paying record, and they offer broad coverage," she said.

Risk managers like to keep up a relationship with Bermuda insurers despite the wide availability of cheap coverage elsewhere, agreed Paul Scope, president of Park International Ltd., another Bermuda-based broker. "Most buyers are being pretty smart about it. They take advantage of the market conditions, but they know that the business is cyclical," he said.

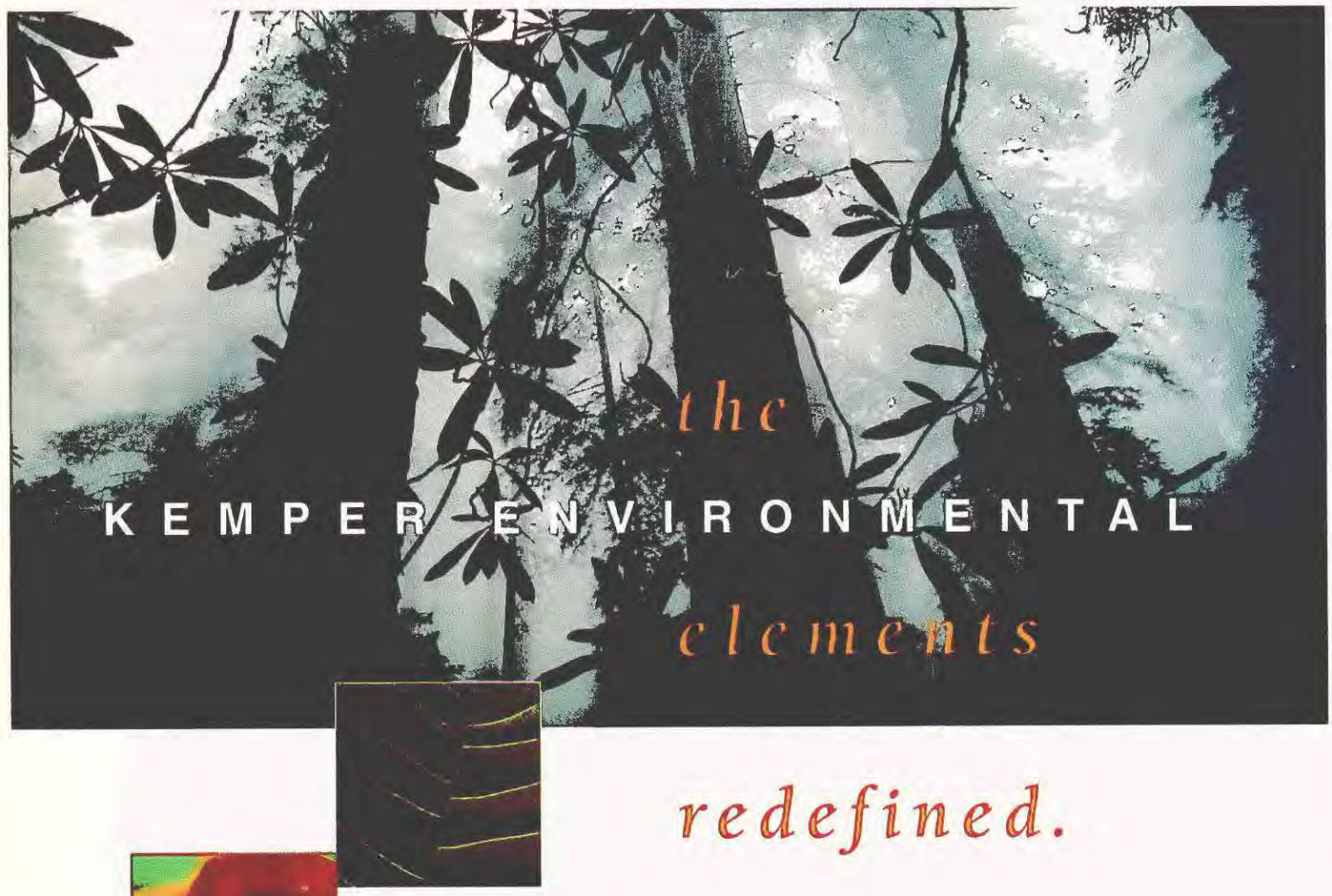
Also, buyers may keep some business in Bermuda in order to maintain the relationships that enable them to buy the new products that insurers there are introducing, Mr. Scope said.

By being flexible in pricing and coverage, insurers are holding on to clients, Ms. Winter of J&H Marsh & McLennan said.

"They are offering more coverages that are specifically tailored for clients' needs," she said.

For example, insurers in Bermuda are in some cases broadening the terms of their pollution coverage, Ms. Winter said.

See **Excess** *on page 18*



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Captive Report

Excess

Continued from page 16

In addition, X.L. Insurance Co. Ltd., the main operating unit of EXEL, has started offering first-party product recall coverage, she said.

Another popular coverage in Bermuda is punitive damages wraparound coverage, Ms. Winter said. The coverage protects U.S. policyholders with exposures in states that don't permit insured punitive damages.

In the event of a claim, the Bermuda insurer pays the claim to an offshore company owned by the policyholder.

Punitive damages coverage generates a sizable portion of Chubb Atlantic's book of business. Others in Bermuda offer the coverage, including Normandy Re, a unit of J&H Marsh & McLennan. Normandy Re's risk is 100% reinsured.

The coverage is becoming increasingly popular, agreed Mr. Springer of Aon. "It seems to be selling very well."

The directors and officers liability and professional liability markets also are seeing cuts in rates, but not as severe as excess liability. Insurers in Bermuda also are moving to higher attachment points for D&O and professional liability, said Mr. Springer.

"If our experience is anything to go by, total exposure is up, but they are attaching higher in Bermuda than they were before," he said. "So instead of attaching at $25 million, they might be attaching at $50 million."

Employment practices liability coverage offered by X.L. is attracting a lot of interest, said Mr. Scope of Park International.

While several U.S. insurers offer the coverage, X.L. offers broad coverage with large limits, which is attracting clients to Bermuda, he said.

The foreign currency insurance product EXEL launched last year has still not taken off.

The current currency market is extremely efficient, so any foreign currency insurance coverage would likely be part of a wider package, said Mr. Springer of Aon.

Although the soft liability insurance market has greatly reduced revenues for their traditional products, the strong investment market enabled the publicly traded insurers to post sizable profits last year.

EXEL Ltd.

EXEL Ltd. is continuing its move away from its core business both in terms of its attachment points on programs and in the makeup of its overall book of business.

As rates in the excess liability and D&O liability markets declined further in 1997, EXEL proceeded with its now-familiar strategy of entering other markets to boost premium volume. Over the past year, the insurer has bought a substantial stake in the property catastrophe reinsurance market and begun its first direct venture into the U.S. insurance market.

At the same time, business income for EXEL's main operating unit, X.L. Insurance Co. Ltd., has dropped as rates have fallen.

General liability gross premiums plummeted 41.5% to $252.8 million in 1997. The drop was in part due to multiyear premiums, which must be booked in full at the inception of coverage. But even taking that into account, general liability premiums still fell 25.4%, to $279 million in 1997 from $374 million in 1996.

Another factor in the premium drop is X.L.'s strategy of moving to higher attachment points to move further away from the working layers of a program, said Brian O'Hara, president and CEO of EXEL.

"We have lost some business," he said. "But we have also been moving up to higher attachment points, which we have traded premium to do."

While the excess liability insurance market remains soft in 1998, signs point to stabilization in premiums, Mr. O'Hara said.

"A lot of capacity that was buying into the market has now done so. We saw the same thing happen in D&O and E&O a couple of years ago, and that book has stabilized," he said.

But both of those markets still are soft. EXEL's D&O gross premiums fell 16.2% to $23.2 million in 1997. Professional liability premiums increased 2.1% to $57.7 million.

One line of liability insurance business that has grown rapidly is employment practices liability coverage, which X.L. first launched in 1996. Gross premiums more than quadrupled in 1997 to $12.1 million from just $3 million in 1996.

"There's growing publicity about the problem, and that has generated great concern at the top levels at corporations," Mr. O'Hara said.

X.L.'s property premiums fell 6% to $38.4 million from $40.7 million. The premiums increased slightly after allowing for multiyear premiums.

"The property market is soft, but you can still select better accounts than others, even at low premium rates," Mr. O'Hara said.

Last December, X.L. began writing property business on a quota-share basis. X.L. had only written excess-of-loss business since it entered the property market in 1994.

Premiums for Risk Solutions, X.L.'s large-limit multiline, multiyear coverage that is offered with CIGNA Corp., increased 38.8% to $34.4 million from the fairly low base of $24.8 million in 1996. Last year was the first full year the program was offered.

"It has not been a major growth area because you can buy each piece of the coverage so cheaply," Mr. O'Hara said. "But the programs we have are staying together."

In 1997 and 1998, EXEL greatly expanded its reinsurance business with the purchase first of Global Capital Holdings Ltd. and then Mid Ocean Reinsurance Co. Ltd.

The purchase of Mid Ocean in particular was hailed by analysts as a good deal for EXEL, because it greatly expanded its presence in Lloyd's of London (*BI*, March 23).

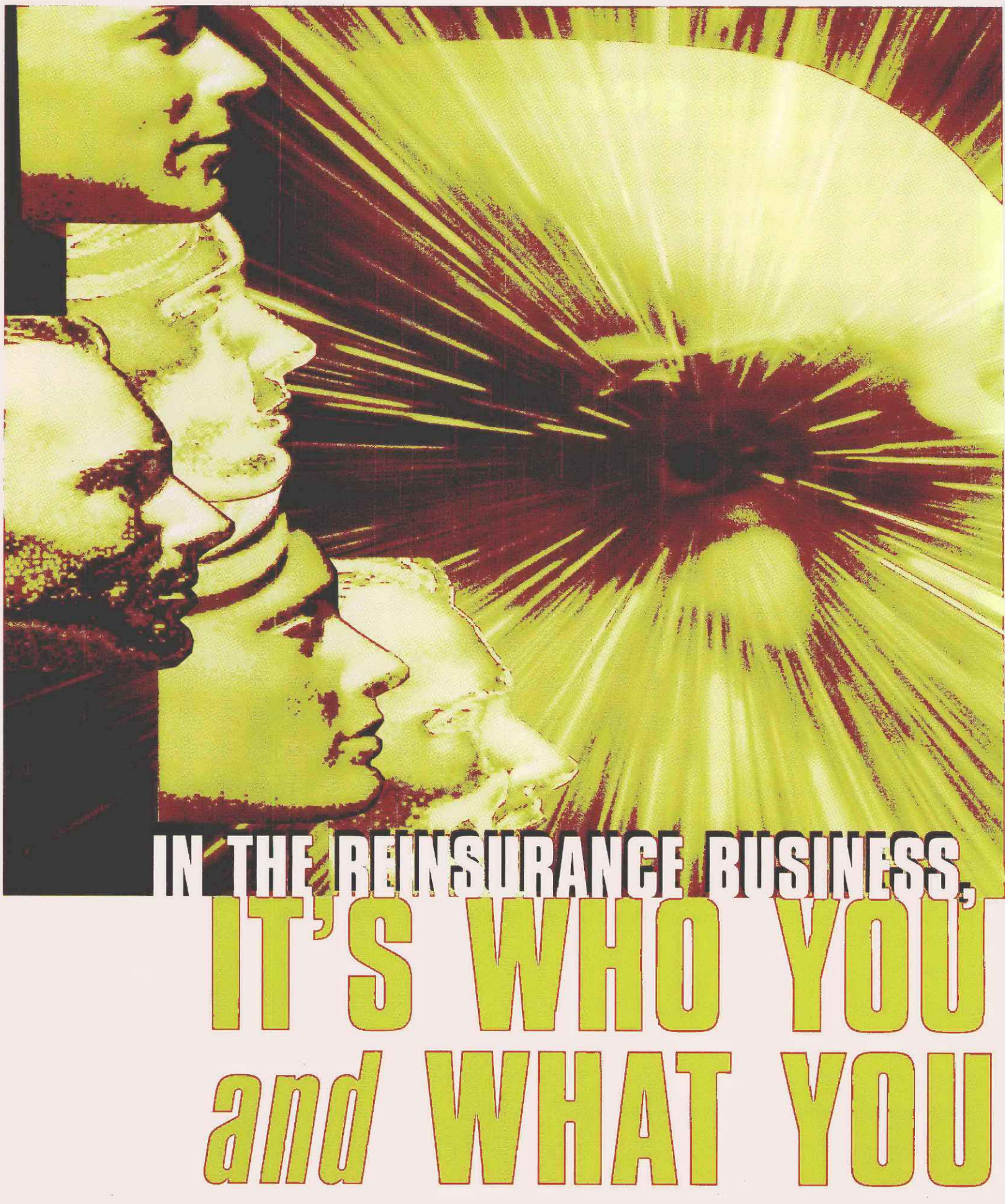
The combined reinsurance operation will be named X.L. Mid Ocean Reinsurance Co.

The actual reinsurance premiums written by EXEL's existing reinsurance arm, X.L. Reinsurance Co. Ltd., had dropped dramatically to $23 million in 1997 from $145 million in 1996. Most of the fall in premiums was due to the cancellation and rewriting of Triplicat policies, which respond to third-loss catastrophes after the first loss and first reinstatement have been exhausted. It is largely a funded coverage, and the full premium is not paid until the loss has occurred. Since the rewriting last year, the gross premiums reflect the margin paid for the coverage rather the full amount due to be paid in the event of a third loss.

Last September, EXEL also became the majority shareholder in a new reinsurance company, Latin American Reinsurance Co. Ltd. "It had a good start at the Jan. 1 renewals, and that generated several million dollars of premium," Mr. O'Hara said.

In 1997, X.L. started offering for-

Continued on next page



Continued from previous page
eign exchange insurance coverage in conjunction with its affiliate, Pareto Partners.

So far it has not signed up a customer. "We are a new player in this, and supplanting pre-existing suppliers is not easy," Mr. O'Hara said.

X.L. will consider writing more non-traditional coverages, such as cat bonds and financial guarantee, in the future, he said. Robert Lusardi, EXEL's new chief financial officer, worked on securitization deals as an investment banker prior to joining EXEL early this year, Mr. O'Hara noted.

"To the extent that capital markets are going to provide solutions in this area, we hope to be at the forefront in the packaging or the distribution of the solutions," he said.

Another aspect of EXEL's future will be a direct stake in the U.S. market with the creation of X.L. Insurance Co. of America Inc. out of a former shell company. As a Bermuda company, X.L. is not allowed to market directly in the United States, but the new U.S. arm will be able to seek business onshore.

Overall, EXEL's gross premiums fell 39% to $441.3 million in 1997. But when adjustments are made for multiyear policies, the fall was a more modest 2.2% to $552.8 million.

Despite the fall in premiums, the buoyant investment market propelled profits at EXEL to $677 million, up 37% from 1996.

ACE Ltd.

ACE Ltd. has expanded its reach and product offerings with the 1997 purchase of Atlanta-based Westchester Specialty Group, renamed ACE USA, as well as the acquisition of Cat Ltd.

ACE USA writes property and casualty insurance, and since January it has added divisions for program business, warranty business and E&O.

The warranty business will be headed by Marc Vivori, formerly with American International Group Inc., and the E&O division will be headed by Rosemarie Rogers, formerly at CNA Insurance Cos. Inc.

Other new products at ACE USA could include D&O, said Dennis Reding, president and CEO.

The launch of a U.S. arm will provide ACE an opportunity to write business it would not normally see through Bermuda brokers, he said.

Cat Ltd. has differentiated itself from other catastrophe reinsurers by concentrating on customized coverages. Its senior executives will join ACE and head a new unit, ACE Capital Products, which will concentrate on financial products such as securitization and asset management.

ACE also has expanded its products by pushing into the captive reinsurance market.

As is EXEL, ACE is battling a sluggish market for its core excess liability and D&O products.

Excess liability gross premiums fell 31.2% to $144.6 million for the fiscal year that ended Oct. 30, 1997.

"The premiums are not down because we have a wholesale reduction in clients, because our client retention rate is about 90%," said Brian Duperreault, chairman, president and CEO.

Instead, ACE has moved to higher attachment points on programs, and the soft market has reduced premiums, he said.



ACE also has increased the amount of reinsurance it buys. For 1998, ACE has purchased a quota-share reinsurance program for 25% of its exposures and excess-of-loss coverage that caps its single-occurrence exposure at $100 million. ACE writes gross limits of $200 million.

D&O premiums also reflect the soft market, with gross premiums falling 12.4% to $85.4 million in 1997.

But, property premiums increased by 53.4% to $25.4 million. "We've been very successful in cross-selling property coverage to our existing customers," Mr. Duperreault said.

And the premiums from the Lloyd's syndicates ACE bought in 1996 totaled $78.8 million in 1997.

In other areas: Gross premiums for financial lines increased 12.1% to $134.7 million in 1997; satellite premiums increased 7% to $111.2 million; and aviation premiums increased 6.6% to $35.5 million.

Property catastrophe premiums from Tempest Reinsurance Co. Ltd., which ACE bought in 1996, were $119.6 million.

The continued expansion of ACE since 1994 under Mr. Duperreault has led to substantial increases in the number of employees. "I was number 57, and now we have more than 600," Mr. Duperreault said.

The expansion and the booming investment market also led to increased profits, which jumped 59% in 1997 to $461.3 million.

Starr Excess Liability Insurance Co. Ltd.

Starr is undergoing substantial changes since AIG bought out the liability insurer's other shareholders earlier this year.

Although Starr will retain a substantial presence in Bermuda, it is redomiciling to Delaware in an effort to directly access the U.S. market, said Kevin Kelley, the new chief executive officer of Starr. He also is chairman and CEO of Lexington Insurance Co., an AIG unit in Boston.

"The plan is to domicile the company in Delaware, but we'll maintain a major presence in the Bermuda marketplace," he said.

By moving onshore, Starr—like its Bermuda-based competitors—will be able to tap the U.S. market more easily, Mr. Kelley said.

Also like its Bermuda rivals, Starr has seen little growth in premiums for its excess liability and D&O coverage over the past year.

Starr posted an 11.8% decrease in gross premiums, to $96.7 million in 1997, Mr. Kelley said. "We saw flat growth for 1997, but we think that in 1998 there will be positive growth because of the broader access we'll have to the U.S.," he said.

About 80% of Starr's premiums is excess liability business, with the remainder derived mainly from D&O and professional liability business. Starr also writes some employment practices liability insurance in conjunction with other AIG companies.

Over the past year Starr also started offering punitive damages wraparound coverage for policyholders in states that do not permit insurance for punitive damages.

The takeover of all of Starr and Starr's move to the United States also

See **Excess** *on page 22*



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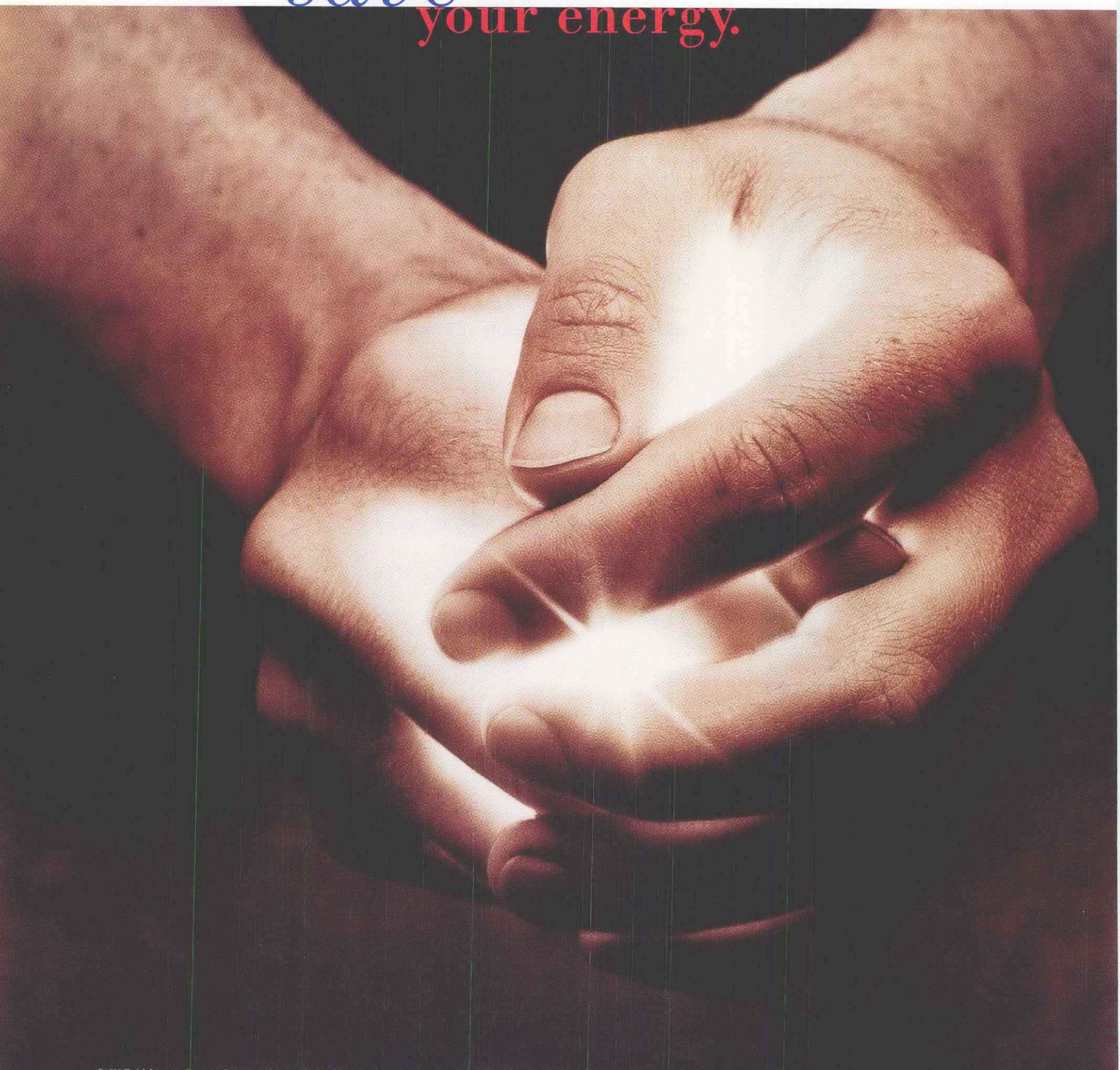
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Captive Report

Excess

Continued from page 19

will lead to the winding down of Lexington's own branch in Bermuda, Mr. Kelley said.

Lexington wrote little business in the few years it operated there. "The attachment points we were looking at were readily available in the U.S.," Mr. Kelley said.

Chubb Atlantic Indemnity Ltd.

Chubb Atlantic has carved out an identity in Bermuda's excess liability market as an innovator willing to look at most insurance problems.

While Chubb Atlantic, a Chubb Corp. unit, offers basic excess liability and D&O coverage, its willingness to cover arcane and hard-to-place risks has won it a small but important place in the market, brokers say.

And its role in the market could expand with its launch of Chubb Atlantic Reinsurance Specialists Ltd., a reinsurance subsidiary targeting captive insurers.

"It is attractive business that we are comfortable with. . . .Captive owners have an economic incentive to keep the business profitable," said President Christopher Longo.

As Bermuda is by far the largest captive domicile in the world, the new unit should have access to a large amount of business, Mr. Longo said.

Chubb Atlantic's approach has enabled it to increase its gross premiums consistently since it set up in 1994. In 1997, premiums grew 21.4% to $21 million. "We've been able to respond to insurance problems in an innovative way," said Mr. Longo.

Wrap-around punitive damages coverage is one of the coverages that has become a mainstay of Chubb Atlantic's book, accounting for about 15% of its gross premiums, he said.

Other coverages Chubb Atlantic offers include employment practices liability insurance and finite risk coverage. "Finite risk is an area where we don't concentrate on the megadeals with multi-exposures. We'll look at an individual client with a particular issue that they want to address that can't be done or the cost is prohibitive in the traditional market," he said.

The finite risk deals often are too small for most finite insurers to consider, Mr. Longo said.

"Often the deals can be in the $500,000 to $2.5 million range, which is below the radar screens of other finite risk insurers," Mr. Longo said.

Oil Insurance Ltd.
Oil Casualty Insurance Ltd.

Oil Insurance Ltd. declared its first-ever dividend at its annual general meeting in March.

The dividend results from an examination of capital management at the energy property mutual, said Jon R. King, president and CEO. "Last year, the focus was on rate stability and rate suppression," he said. "This year, we were able to declare a dividend."

OIL will pay a $200 million dividend, and it will give policyholders a $30 million premium credit that effectively will reduce their premiums by 29% for 1998, Mr. King said.

The dividend and premium credit were made despite a jump in losses at OIL to $246.8 million in 1997 from $52.4 million in 1996.

That 1997 toll included one major refinery fire, which resulted in a loss of more than $100 million, he said.

"This is the order of losses that we would expect in a normal year. Losses in the previous year were very low," he said.

Because OIL's premiums include a retrospective element to pay for losses, net premiums written increased to reflect the loss to $125.1 million from $101.7 million in 1996.

Despite the losses, OIL made a profit of $165.3 million in 1997 thanks to investment income. That compares with a profit of $238.3 million in 1996.

OIL increased its aggregation limit in January to $750 million from $562.5 million. The aggregation limit represents the amount OIL will pay under a common occurrence that results in multiple policyholder claims. It also removed its annual aggregate limit of $450 million.

OIL gained one new member in 1997 and lost one member, which left its membership unchanged at 45.

Oil Casualty Insurance Ltd.'s gross premiums fell 13.6% to $36.5 million in 1997 from $42.2 million in 1996.

"The excess liability market continues to be very soft. There is a lot of new capacity and a lot of new players," Mr. King said.

Earlier this year, one member of OCIL, Union Pacific Resources, wrote to other members suggesting that capacity in the commercial market was so plentiful that OCIL should be wound up or sold. However, the other shareholders rejected the suggestion.

Again, investment returns helped OCIL post an increase in profits despite the soft market. 1997 profits increased to $62.1 million, up 17.3%.

OCIL gained four new members in 1997 and lost four, leaving total members static at 66.

TOPS Insurance Ltd.

Plentiful capacity in the market and a decrease in the number of large offshore oil rigs led to stagnant premiums at TOPS Insurance Ltd.

An affiliate of OIL and OCIL, TOPS covers 16 members in the event of a total loss similar to the Piper Alpha loss in 1988, which cost insurers more than $2 billion.

"Some companies are winding down their large offshore platforms and replacing them with small, more efficient platforms," Mr. King said.

Gross premiums increased 3.1% to $8 million from $7.7 million in 1996.

Zurich Global Energy Ltd.

Zurich Global Energy Ltd. had a successful first full year in Bermuda despite the soft market, said Cathy Duffy, senior vp.

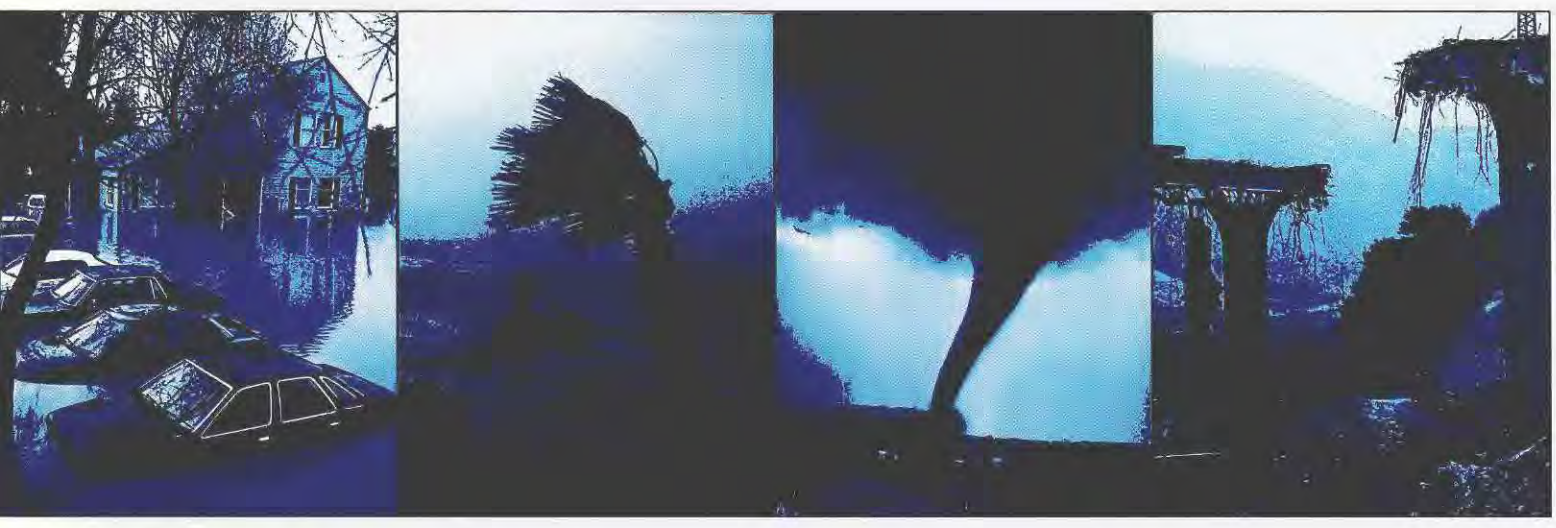
The existence of an energy market in Bermuda meant Zurich was able to meet with clients easily, she said.

"But, like everyone else, we are battling with price reductions," Ms. Duffy said.

Zurich Global Energy increased its liability limits in January to $100 million from $75 million excess of $25 million for selective accounts, excess of $50 million for refineries and excess of $100 million for major oil companies, she said.

It also increased its property limits to $125 million excess of primary policies from $75 million, she said.

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Captive Report

More tenants flocking to Bermuda's rental market



By GAVIN SOUTER

HAMILTON, Bermuda—Rent-a-captive business in Bermuda continues to defy the soft liability insurance market.

Over the past year, more clients have joined existing rent-a-captives, and new facilities are setting up as captive managers seek a share of the growing market, captive managers report.

Insurance agencies seeking to cash in on profitable business, associations that cannot raise the capital necessary for a group captive, and the ability to access unbundled services some of the factors helping the facilities grow, captive managers say.

But the generally sunny picture does have a few rain clouds. A U.S. Internal Revenue Service investigation is still ongoing at Bermuda's largest rent-a-captive, the Insurance Profit Center, and the continued soft insurance market ensures that gross premium increases mostly are not matching the increase in members.

Nevertheless, the growing popularity of rent-a-captives reflects the continued growth of the alternative market at the expense of the traditional insurance market, managers say.

IPC, a unit of Mutual Indemnity, saw buoyant growth in members in 1998, said Paul D. Watson, president of Mutual Indemnity, which is owned by Mutual Risk Management Ltd.

The facility added 60 new accounts in 1998, which led to a net increase of 27 to 477 from 450 in 1997. Of those, 205 accounts still are active, and the remainder are in runoff, he said.

Gross premiums slipped 2.3% to $158 million in 1998 from $161.3 million in 1997.

IPC also received its first A.M. Best Co. rating: A.

"We had a pretty good year considering the soft market," Mr. Watson said.

The soft workers compensation market, in particular, affects IPC as that line provides 81% of its premiums.

While the workers comp market appears likely to continue its low premiums, rate decreases may end in the California market, he said.

Agency business accounted for much of the growth in accounts at IPC, he said. Of the 60 new accounts, 36 were from insurance agencies, Mr. Watson said. By setting up rent-a-captive accounts for profitable business, agencies act as insurers and can share in the investment income and any underwriting profit, he said.

Another factor enabling rent-a-captives to grow in a soft market is the ability they give policyholders to select from a range of service providers rather than use the services provided by an insurer, Mr. Watson said.

For example, he said, they can use a specialist claims handler of their own choice.

Group and association captives made up the bulk of new accounts at SINSER Insurance Ltd., said Nicholas S. Dove, president of Skandia International Risk Management Ltd., which manages the rent-a-captive.

The number of members grew to 26 in 1997 from 19 in 1996. Gross premiums increased 7.1% to $22.5 million from $21 million in 1996.

Groups and associations often find that rent-a-captives are the easiest way for them to enter the alternative risk transfer market, Mr. Dove said.

"Associations have always had trouble raising capital for a captive, so this is an easy way for them to get into a self-insured situation where they can reap the benefits of good loss experience," he said.

The increased participation in rent-a-captives over the past two years also is in part due to increased awareness of the facilities, Mr. Dove said.

The middle-market brokers often set up rent-a-captives as a means of retaining profitable accounts as they compete for the business with larger rivals, Mr. Dove said.

"(The policyholders) perceive that they have a tremendous loss record and no matter how cheap the market is, for their particular situation, it is still costing them more than the loss cost," he said.

Aon Risk Services (Bermuda) Ltd. is seeing increased participation in its rent-a-captive, Gateway Insurance Co. Ltd., since it decided to market the facility jointly with Mutual Risk Management late last year, said Gregory W. Springer, president and chief executive officer of Aon in Bermuda.

Aon had set up the company with TIG Holdings Inc. in 1995.

Prior to the agreement with MRM in November, Gateway had one member, but now it has 11, Mr. Springer said.

That is partly due to increased marketing of the facility but also the prosperous U.S. economy, he said.

"A lot of smaller firms are becoming larger firms, and they are now capable of keeping a moderate retention," Mr. Springer said.

J&H Marsh & McLennan Management (Bermuda) Ltd. also is seeking a piece of the rent-a-captive market with the launch of Alternative Re last month. "We wanted to be able to offer a full array of services to our clients," said Andrew Carr, president of J&H Marsh & McLennan in Bermuda.

The facility will be attractive to policyholders who want to access the alternative market without injecting the amount of capital that would necessary to form a single-parent captive, he said.

Hurst Holme Insurance Co. Ltd. added three members in 1997, said Simon Everett, president of the facility, which International Advisory Services Ltd. manages.

Also, in December, Hurst Holme converted to a segregated account rent-a-captive. Under the segregated accounts, individual accounts in the rent-a-captive are protected from the losses of other rent-a-captive members. While in practice most traditional rent-a-captive members are not affected by the losses of other members, the segregated account facilities legally separate them and give members more comfort when other members of

See **Alternative** *on page 28*

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Captive Report

Alternative

Continued from page 24

the facility take on significant risks, captive managers say.

On the negative side, segregated accounts could provide fewer tax advantages as tax authorities may question whether the rent-a-captives are pools of risks and therefore entitled to take deductions for writing third-party business, managers note.

Hurst Holme will act as a hybrid rent-a-captive that will allow segregation of individual accounts but also will allow groups of members to pool their risks in individual cells, said Mr. Everett.

Segregated account rent-a-captives are set up as private transactions, rather than registering under Bermuda's existing regulations.

Atlantic Security Ltd. added another rent-a-captive facility, First Sterling Reinsurance Co. Ltd., in 1997, said Colin C. James, president and CEO.

The facility had one member at the end of 1997 but since has added three, giving it a total of four members, he said.

Atlantic's largest rent-a-captive facility, Universal Re-Insurance Co. Ltd., had a good year in 1997, said Hal Forkush, president of Universal.

The number of members increased to 33 from 29, and gross written premiums increased 20% to $30 million, he said.

The new members included two managing general agencies, which, like insurance agency members, are attracted to rent-a-captives as a means of sharing in the profits of good business, Mr. Forkush said.

"The industry has woken up to the fact that they can take books of business into this kind of program and basically increase their revenues," he said.

Gross premiums and membership at Universal International Reinsurance Co. Ltd. remained static at $20 million and 15 members, Mr. Forkush said. The facility is used for members that want to be taxed as U.S. corporations.

Gross premiums for the 14 members of Magna Carta, a conventional rent-a-captive covering West Coast risks, also remained static at $2 million, Mr. James said.

At Hanseatic Insurance Co., membership slipped to 10 from 12, and premiums fell 23% to $5 million from $7 million. BI

1997 among best ever for Cayman formations

By SALLY ROBERTS

GRAND CAYMAN, B.W.I.—1997 will go down on record as the third-best year for captive company formations in Cayman Islands' history as an insurance domicile.

Cayman issued 50 new licenses last year, the most since 1986 and 1987 at the height of the hard market, when the island issued 65 and 56 licenses, respectively.

Taking into account the 19 captive companies that surrendered their licenses last year, the world's second-largest captive domicile was home to 449 companies at year end, a majority of which are single-parent, group or association captives writing health care and workers compensation risks. The 24 licensed captive insurance managers on the island managed nearly $2.1 billion in premium volume that flowed into Cayman in 1997, a 7.8% increase over 1996.



The impressive growth does not seem to be stopping. In January, 21 new captives were approved, and by the end of the first quarter, Cayman licensed 12 new companies, according to William N. McCullough, head of insurance supervision on the island.

Leading captive managers on the island, while welcoming the growth with open arms, say they cannot point to a specific market event driving the swell of new captives to Cayman and are a bit surprised considering insurance rates in the traditional market remain very soft.

"There's nothing one can put one's finger on," summed up Anthony B. Stelling, director of HSBC Insurance Management/Midland Bank Trust Corp. (Cayman) Ltd., which added nine new captives in 1997, bringing its total under management to 84. "Before, the medical malpractice market or the liability market caused a rush to Cayman."

Overall, captive managers reason that the growth is a reflection of a more mature alternative risk financing market coupled with a robust U.S. economy and perhaps some pre-emptive action on the part of buyers who anticipate a change in market pricing.

"The U.S. economy is so strong," said Steven R. Butler, financial director of Chandler Insurance Management Ltd. "There is a huge amount of surplus cash for investment, and you can't set up a captive unless U.S. businesses have surplus cash." Chandler managed nine captives at the end of 1997, unchanged from 1996, but premium volume increased 10.5% to $24.6 million in 1997.

"People are recognizing that the current market cannot continue much longer, so why wait to form a captive," contends Wayne A.M. Cowan, senior vp and branch manager of J&H Marsh & McLennan Management (Cayman) Ltd. The island's largest captive manager added 11 new companies in 1997, bringing its total under management to 140.

While there may be no one specific reason behind the growth spurt in Cayman, there is no question where the domicile's growth is coming from.

United Services Automobile Assn.'s $477 million cat bond issue last June, through Cayman-based Residential Reinsurance

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Captive Report

Cayman

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Ltd., not only successfully provided USAA with a high-level reinsurance layer for East Coast hurricane risks but also proved to be a trend-setting event for similar cat bond deals to be sealed in Cayman during 1997 and into 1998.

By 1997's end, Cayman was home to eight special-purpose vehicles, independent reinsurance companies set up by insurers to be the bonds' formal issuers and reinsurance contract providers, and five more companies have been established so far this year.

In addition to more cat bond deals, legislation passed earlier this month allowing for segregated portfolio companies to form on the island is expected to spur continued growth in Cayman throughout 1998 (see story, page 38).

Overall, Cayman continues to attract captives writing diverse lines of business. While still considered a haven for medical malpractice and health care-related captives—13 new health care companies were formed in 1997 and still make up 35% of the total captive population—Cayman also logged new accident and health, automobile liability, credit life, deferred annuities, general liability, property, workers compensation and agency captives last year.

"Last year was a very good year, a busy year, and it was diverse in terms of the types of companies that came to Cayman," said Mr. McCullough, who came to head up the insurance supervision early last year after serving as general manager of a Commercial Union Assurance Co. P.L.C./Swiss Reinsurance Co. joint venture in Saudi Arabia.

"We've still managed to maintain our major influence in the medical side and, at the same time we have an infrastructure to handle all sorts of captives," Mr. McCullough said.

Captive managers say the volatile health care industry in the United States continues to prompt more hospitals to come to Cayman and form captives, while at the same time, existing health care captives are expanding in the types of risks they are writing on the island.

"Given the relatively unstable health care industry, there is this great uncertainty to the way in which HMOs will be treated from a liability standpoint," Midland's Mr. Stelling said. "We're receiving a fair number of inquiries in the establishment of captives in other areas of health care, like employee benefits and HMOs and capitation issues," he said.

"There is still a lot of interest coming from the health care industry," agreed Peter Jones, managing director of Aon Insurance Managers (Cayman) Ltd. "Health care in the U.S. is still under lots of pressure to control costs and provide a better product," he said. One element of reducing costs comes from insurance costs, and captives are one way to reduce those expenditures.

Aon Insurance Managers, which took over the business of Alexander Insurance Managers (Cayman) Ltd., added six new captives under management in 1997, while premium volume soared more than 500% to $73 million, making Aon the sixth-largest captive manager in Cayman.

Parent company Aon Corp. was in the midst of licensing a captive management company in Cayman, Aon Risk Services (Cayman) Ltd., when it acquired Alexander & Alexander Services Inc. in January 1997.

Captive managers say that while health care remains the dominant risk on the island, they are aggressively recruiting captives writing other lines of business.

Being known as the mecca of malpractice captives is a "mixed blessing," said Mr. Cowan of J&H Marsh & McLennan.

The positive thing is, "we are recognized as the No. 1 health care/medical malpractice domicile," he said. "Unfortunately, the negative is that many companies believe that's our only means of business and therefore take their business to other domiciles before considering Cayman."

"We'd like to be known as the domicile of choice for a whole spectrum of captive insurance companies looking for a welcome mat and quality service," he said.

As a combination of the former Marsh & McLennan Management Services (Cayman) Ltd. and much larger Johnson & Higgins (Cayman Islands) Ltd., J&H Marsh & McLennan Management (Cayman)'s combined captive population grew to 140 in 1997, of which about 75% of the captives came from J&H. After combining with J&H, Marsh & McLennan's captive premium volume soared more than 850% to $788 million.

Of the 11 new captives that came

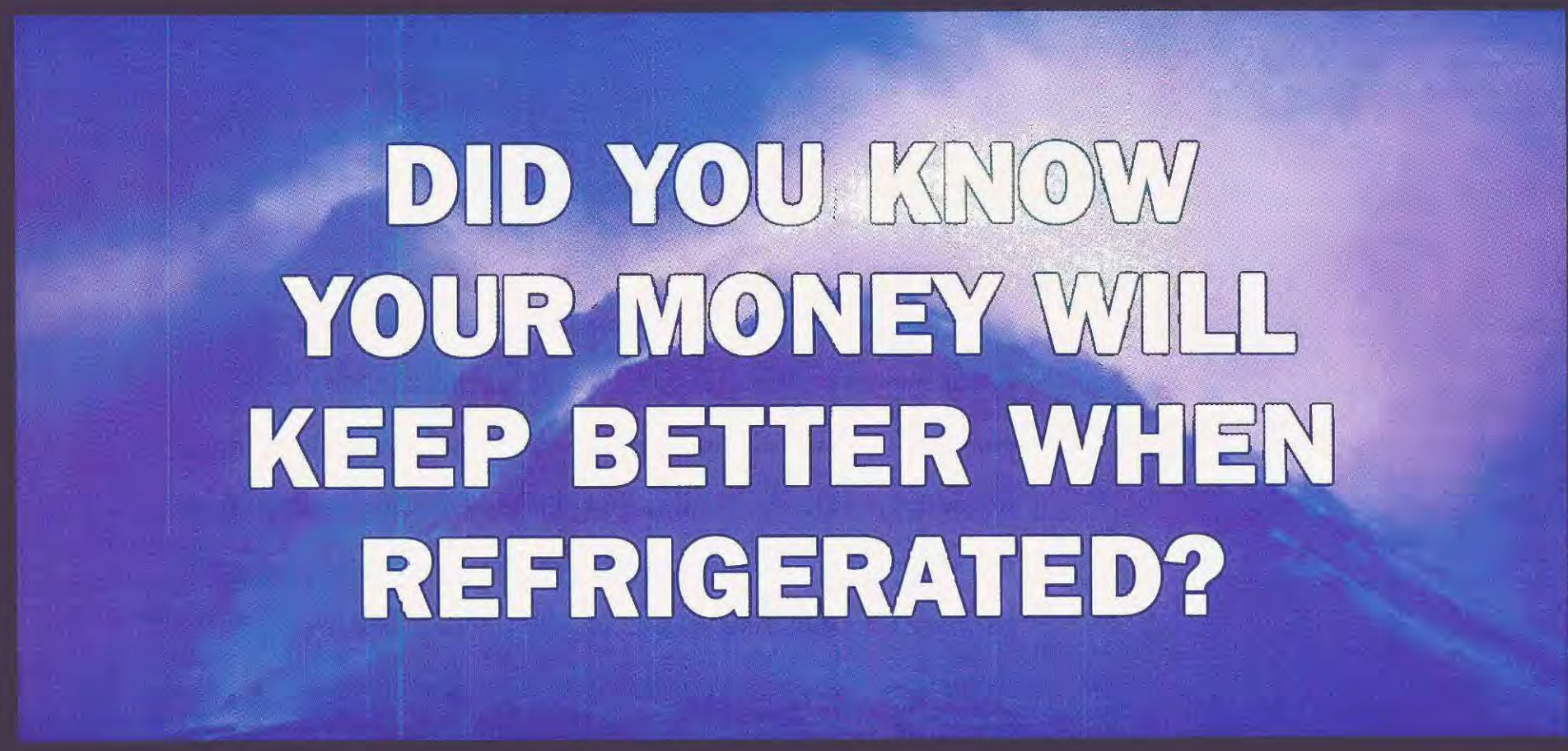
See **Cayman** *on page 32*

Largest managers of Cayman captives

(Ranked by gross premium volume in millions of dollars)

Manager	Premium volume 1997	Premium volume 1996	Captives 1997	Captives 1996	Staff 1997	Staff 1996
J&H Marsh & McLennan Management (Cayman) Ltd.*	$788.0	$83.0	140	34	44	6
International Risk Management (Cayman) Ltd.	395.0	413.0	30	32	20	21
HSBC Insurance Management/ Midland Bank Trust Corp. (Cayman) Ltd.	220.0	230.0	84	75	21	29
Willis Corroon Management (Cayman) Ltd.	218.0	283.0	32	19	4	4
Mutual Risk Management (Cayman) Ltd.	85.0	87.0	45	43	7	5
Aon Insurance Managers (Cayman) Ltd.**	73.0	NA	12	NA	3	NA
Cayside Insurance Management Ltd.	57.4	90.8	22	15	3	3
Chandler Insurance Management Ltd.	24.6	22.3	9	9	3	3
Crusader International Management (Cayman) Ltd.	18.0	64.0	8	13	14	8

* 1996 figures do not include Johnson & Higgins (Cayman Islands) Ltd.
**1996 figures do not include A exander Insurance Managers (Cayman) Ltd., whose parent company was acquired by Aon Corp. in 1997.
Source: *BI* Survey



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on board in 1997, three are association captives, one is a deferred annuity captive, one is a finite risk captive for a Bermuda-based insurance company, one is a life insurance captive set up by a Guatemalan financial group to underwrite products to clients of banking institutions, and several are medical malpractice captives, Mr Cowan said. "It's quite a mixed bag."

The 13 new captives that Willis Corroon Management (Cayman) Ltd. added under management in 1997—the largest new growth among the leading captive managers—are a mix of health care, liability, property and workers comp risks, said Tim Byrne, managing director.

"It was a varied year, which is good because it means Cayman is not being identified as relying on medical malpractice to survive," he said. The four-year-old manager now has 32 companies under management.

While Cayman continues to successfully diversify its risks, the Caribbean domicile gained attention during 1997 for the innovative catastrophe bond deals that took place during the year.

In addition to USAA's cat bond deal, Swiss Reinsurance Co. sealed a $137 million, two-year cat bond deal that provided $112.2 million in California earthquake coverage through Cayman-based SR Earthquake Fund Ltd., and Tokio Marine & Fire Insurance Co. Ltd. closed a $100 million deal that provided $90 million in reinsurance coverage for Tokyo-area earthquakes, through Cayman-based Parametric Re Ltd.

And earlier this year, Centre Solutions (Bermuda) Ltd. arranged an $83.6 million cat bond deal to provide $72 million in retrocessional coverage for Florida windstorm exposures through Trinity Re Ltd., also based in Cayman (*BI*, March 16).

Most of the special-purpose vehicles formed on the island last year are being managed by Midland Bank, and Mr. Stelling said Midland is "working on similar cat bond-type arrangements" with other companies.

He is admittedly cagey about elaborating on the number and type of deals due to the nature of private placement memorandums. However, he is quick to point out why Midland has been the dominant force in the cat bond deals in Cayman.

"We are the largest independent captive management operation (in Cayman) and are owned by one of the largest finance groups in the world," he said. "We can provide the trustee service and insurance management under one roof. So, it's logical to at least approach us," he said. Also, "these deals are not simple, so once you've done one, people have the tendency to come back."

Mr. McCullough and other captive managers say Cayman has become a popular home for these cat bond deals due to the island's flexible regulations, well-developed financial infrastructure, and past experience with other deals.

It's the "herd instinct," explained Mr. Cowan of J&H Marsh & McLennan, which established the first Cayman-based special-purpose vehicle, Georgetown Re, in 1996. It provided increased capacity for high windstorm property exposures for The St. Paul Cos. Inc.



Regulators here have "gone through the mill in understanding the program," he said. "The welcome mat has been put out."

Mr. Stelling added that because "Cayman is the fifth-largest financial center in the world," it has the understanding necessary to set up these transactions.

Indeed, Cayman's well-developed financial infrastructure is one of the domicile's biggest selling points. More than 550 banks, several major law firms, all the major accounting firms and many mutual fund companies have offices in Grand Cayman.

Other captive managers are hoping to embrace the risk securitization trend this year.

Mutual Risk Management (Cayman) Ltd., for example, has "recently been asked to be involved in a feasibility study of one such group," said John M. Pitcairn, president and chief operating officer, elaborating only to say it would be similar to the USAA cat bond deal.

John R. Lower, president of International Risk Management (Cayman) Ltd., said he, too, would like to take advantage of the new alternative risk financing trend. "We were not directly involved in the early cat bond deals, but I would anticipate more involvement in future deals, especially with Swiss Re," IRMG's parent company, Mr. Lower said.

Cayman also continues to keep its eye on the emerging Latin American market.

Located about 500 miles south of Miami, Cayman is ideally situated to take advantage of the Latin American insurance market, Mr. McCullough said, adding that an added feature is that many South American banks have offices on the island.

"We realized last year that our market is on this side of the world," Mr. McCullough said. "I don't see a major market coming out of Asia, South Africa, or Europe for that matter. We're going to try and put our attention to where we think we can do the best, which is in North and South America," he said, adding that there "has been noticeable improvement" in the number of captives writing South American business.

While the vast majority of the Cayman captives, 83%, have North American parents, by the end of 1997, 40 captives were writing risks located in Latin America and the Caribbean. That figure represents 9% of the total captive market.

"We're keen to develop opportunity in the Latin America market," said Mr. Pitcairn of Mutual Risk, echoing similar sentiments from other captive managers.

Chairman Peter R.L. MacKay added that Mutual Risk now is managing two captives underwriting Latin American risks—one new company and one company that expanded its risks into the Latin American market.

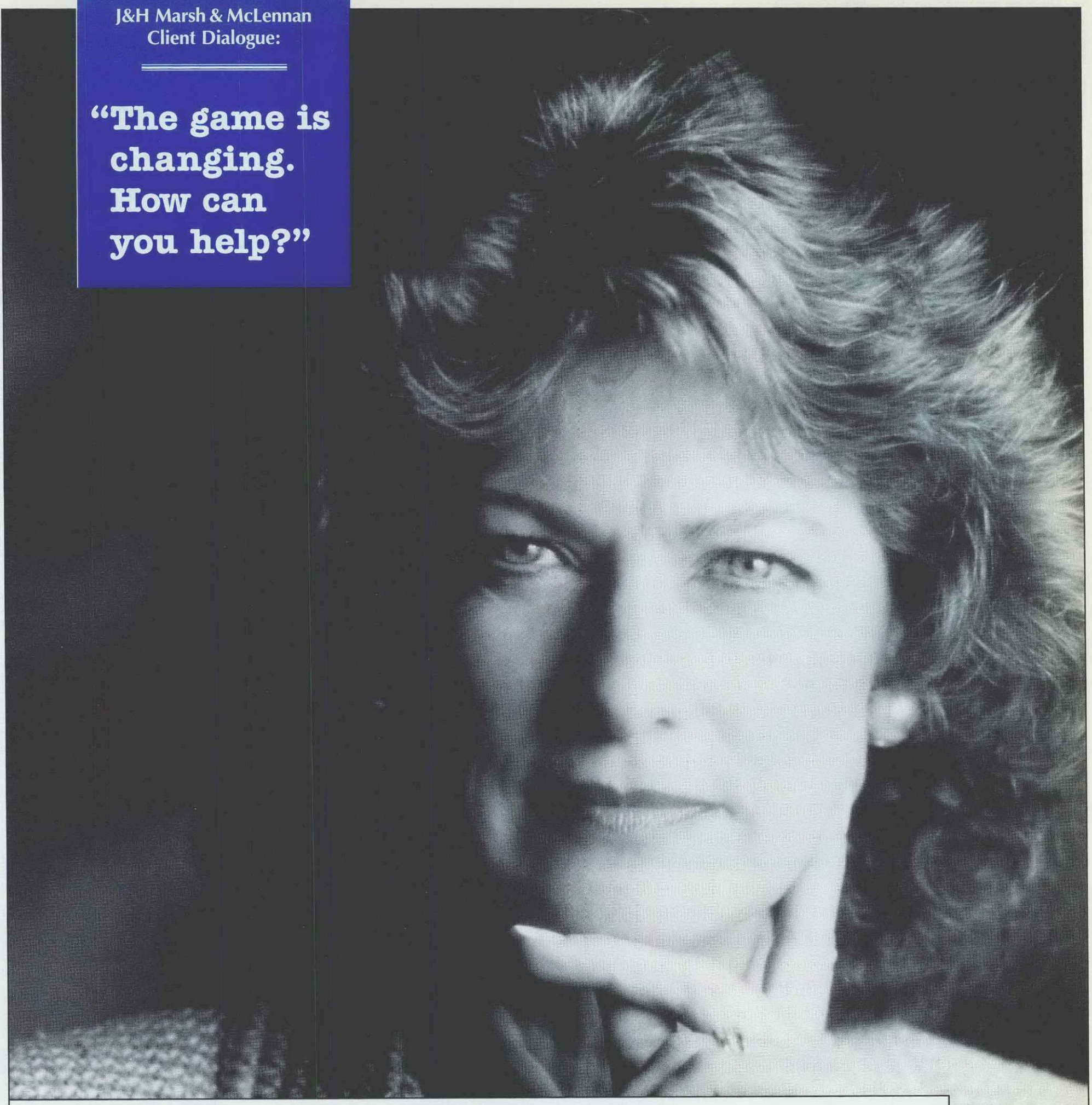
Overall, Mutual Risk added five new captives and lost three in 1997, bringing its total under manage-

See **Cayman** *on page 34*



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ment to 45. Of the new companies, two are health care, two are workers comp and one underwrites a variety of risks. Premium volume dipped 2.3% during the year to $85 million, a reflection of the soft pricing environment, according to Mr. MacKay.

In addition to experiencing increased business in Latin America, Cayman also is seeing growth coming from smaller employers.

"We're really seeing smaller companies coming down to Cayman and writing $1 million to $5 million premium captives," said Mr. Cowan of J&H Marsh & McLennan. Whereas other domiciles see that size of business as too small, "regulators and insurance managers are keen to have that business here," he said. "We have structured fees and costs to that size captive."

Mr. McCullough said companies with $1 million in premium is Cayman's target "because we fit in with the philosophy they have, and they fit into the philosophy we have."

The island's philosophy, according to Mr. McCullough "is to take advantage of the market at the moment, on a conservative approach, with the hope that it will grow successfully."

"We like to look at the middle-of-the-road company that is now looking at a captive because its premium is such that it may well be advantageous to them, and if that's the way it is, we'd like to work with them and see if we can't make it successful," Mr. McCullough said.

While last year will go down on record as one of the best years in Cayman history, Mr. McCullough is looking forward. There is "a lot we're trying to do this year," he said.

First of all, he said he plans on reviewing the island's 1979 insurance act in its entirety. The changes are intended to streamline, clarify and ensure Cayman is keeping pace with the changing times. It is not meant to be restrictive in any way,



Mr. McCullough stressed. "Some of (the law) is a bit ambiguous and out of date in how much Cayman has changed from 1980 to 1998," he added.

Mr. McCullough also plans on stepping up regulatory controls by taking a "serious look" at captive companies and insurance managers during 1998, he said. This too, will not be "onerous," he said. Basically, "if the law says something, then that's the way it should be obeyed," he said. "If someone is not doing something they're suppose to be doing, I'll give them a hard time. But if they're keeping up with the law, then they and I will get along fine. I want to ensure that everything is being complied with, which is not to suggest that it is not. I'm just suggesting I don't know whether it is or not without closer review."

Despite great gains achieved by many captive managers during 1997, several managers did not take part.

While there was lots of growth in Cayman last year, "unfortunately we didn't get to enjoy as much of the increases as the rest of the market did," said Mr. Lower of IRMG. IRMG managed 30 companies at the end of 1997, down two from 1996, and has since lost two more in 1998. 1997 premium volume is down 4.4% to $395 million. Mr. Lower said the decline "has to do with the nature of the underlying business." Some companies were put into runoff, while others moved as a result of mergers. And premium volume took a hit as a result of a "very substantial negative premium" coming from one company, he said.

1998 is "even busier in terms of prospects," Mr. Lower continued. IRMG is working on two to three things that may likely develop into new companies later this year, he said.

In addition to IRMG, business at Crusader International Management (Cayman) Ltd. slowed significantly in 1997.

Crusader's number of captives under management fell to eight from 13 in 1997, and premium volume dropped 72% to $18 million. Ian Kilpatrick, president of Crusader, said a majority of the decline can be attributed to the departure of Terry Burke, who left the company last year to form his own captive insurance management company, Britannia Insurance Management (Cayman) Ltd. He took two large Crusader clients with him that totaled about $40 million in premium volume, said Mr. Kilpatrick, adding that the departure was expected and amicable.

Crusader did add one new medical stop-loss captive in 1997 but lost two others to another manager. Another company merged with one of Crusader's companies to form a new rent-a-captive facility (see story, page 38).

Monkton Insurance Services Ltd. joined Britannia Insurance Management as a new manager on the Grand Cayman block during 1997. The two new companies offset the departures of Alexander Insurance Managers and Johnson & Higgins (Cayman Islands). BI



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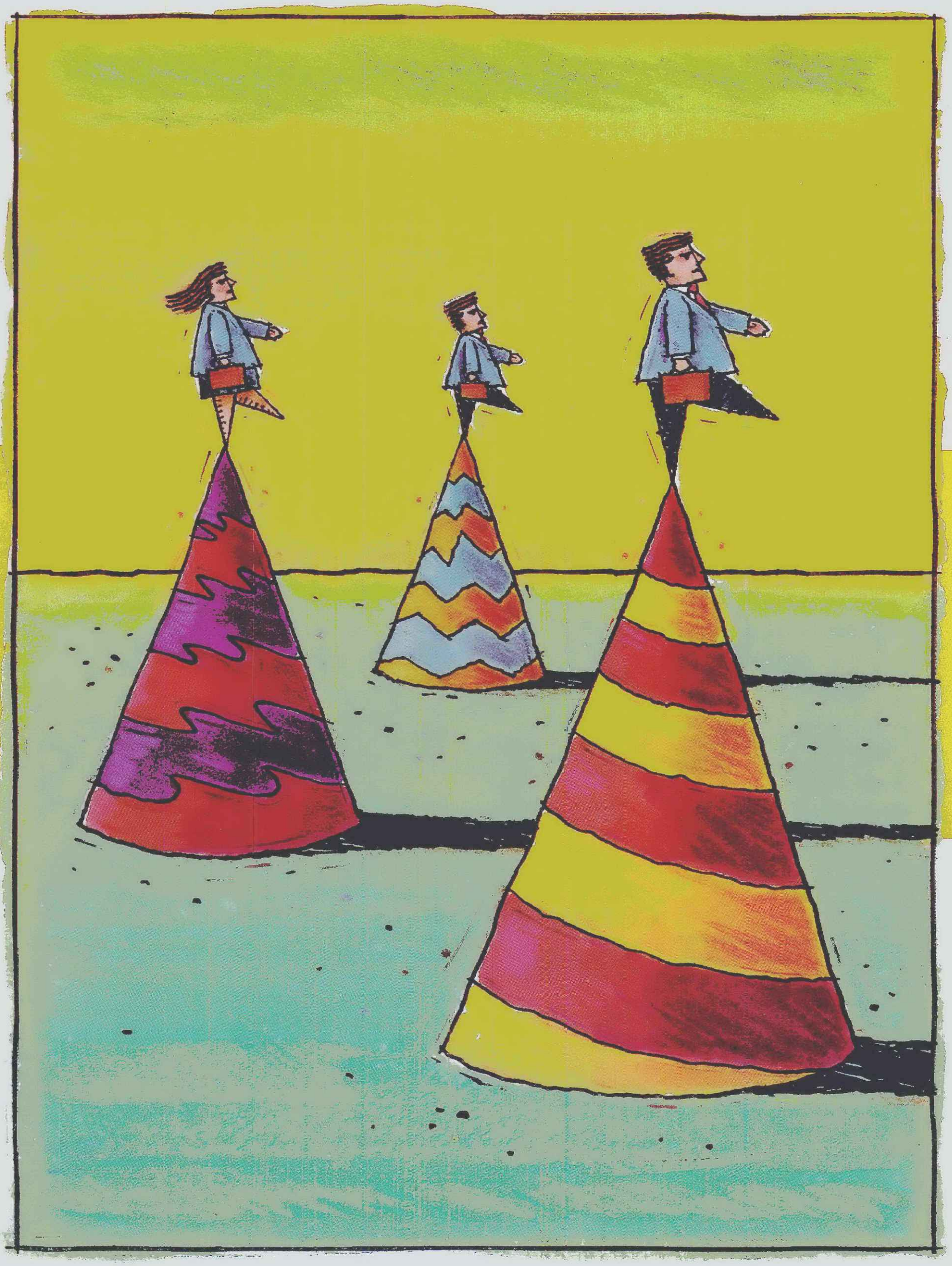
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Captive Report

Cayman anticipates more rent-a-captive business

By SALLY ROBERTS

GRAND CAYMAN, B.W.I.—Cayman Island captive managers and regulators hope new legislation passed in the Caribbean domicile earlier this month will spur growth in the already-popular rent-a-captive market on the island.

Companies interested but leery about forming a rent-a-captive facility due to the potential liabilities individual members face now have the option to form a new insurance facility in Cayman that provides the same benefits of a rent-a-captive but with individual-member security.

Following in the footsteps of Guernsey's Protected Cell Companies Ordinance passed last year, Cayman's legislature earlier this month passed a similar amendment to its Companies Law, allowing for the formation of what the island calls Segregated Portfolio Companies. The governor was expected to sign the legislation last week.

SPCs, like PCCs, are similar to rent-a-captive companies but offer more security to policyholders because the shell company is divided into individual portfolios, or cells, whose individual assets and liabilities are isolated and protected from each other.

"As far as we are concerned, in terms of the operation of it, we are going to treat every cell within the SPC company as if it was a captive insurance company in its own right," said William N. McCullough, head of insurance supervision in Cayman. "In other words, we want to see that it is capitalized sufficiently either by itself in the cell or that the shell company has sufficient capital in its ability to cover liabilities."

Capitalization requirements for portfolio companies are the same as those required for other Class B licenses (see story, page 40).

But unlike Guernsey's ordinance, which allows creditors of one liquidating cell to attempt to secure the capital assets of the core cell if that cell's assets are exhausted, under the Cayman law, creditors will not have access to the shell company's total assets if a portfolio company is liquidated.

"While each (cell) will be protected from the other, if one of them goes down and becomes liquidated, the shell company will be affected only to the extent that it has committed a portion of its capital to support the portfolio company," explained Mr. McCullough.

This means that if a portfolio company put up $60,000 of the $120,000 minimum capitalization requirement and the shell company put up the remaining $60,000, creditors would have access only to the $60,000 the shell company committed if the portfolio company went out of business, Mr. McCullough explained.

Overall, Mr. McCullough is a bit reserved about speculating on the new law's potential growth opportunity in Cayman.

"How much it will effect the market, I don't know," he said. He anticipates, though, that "some of the major insurance companies are going to be interested in setting up an SPC because they're seeing their major clients disappear to the captive market," he said. "Whereas if they set up their own captive on a cell basis, they can support their existing clientele." He said he knows of two or three insurers that are talking about setting up SPCs.

Captive managers, on the other hand, say they are gearing up to take advantage of the new law and have been receiving lots of inquiries from companies looking to establish SPCs.

"Demand for (rent-a-captive) products has increased recently, and the island has responded by encouraging the government to pass a special addition to the Companies Act allowing for the setting up of segregated portfolio companies," said John M. Pitcairn, president and chief operating officer of Mutual Risk Management (Cayman) Ltd. and chairman of the Cayman Insurance Managers Assn.

"We are well-positioned to take advantage of the recent legislation," he said, adding that Mutual Risk is conducting a feasibility study for two companies interested in forming SPCs.

"I'm especially encouraged by the enactment of the segregated portfolio company legislation," agreed John R. Lower, president of International Risk Management (Cayman) Ltd. "It's a real plus for Cayman in terms of growth."

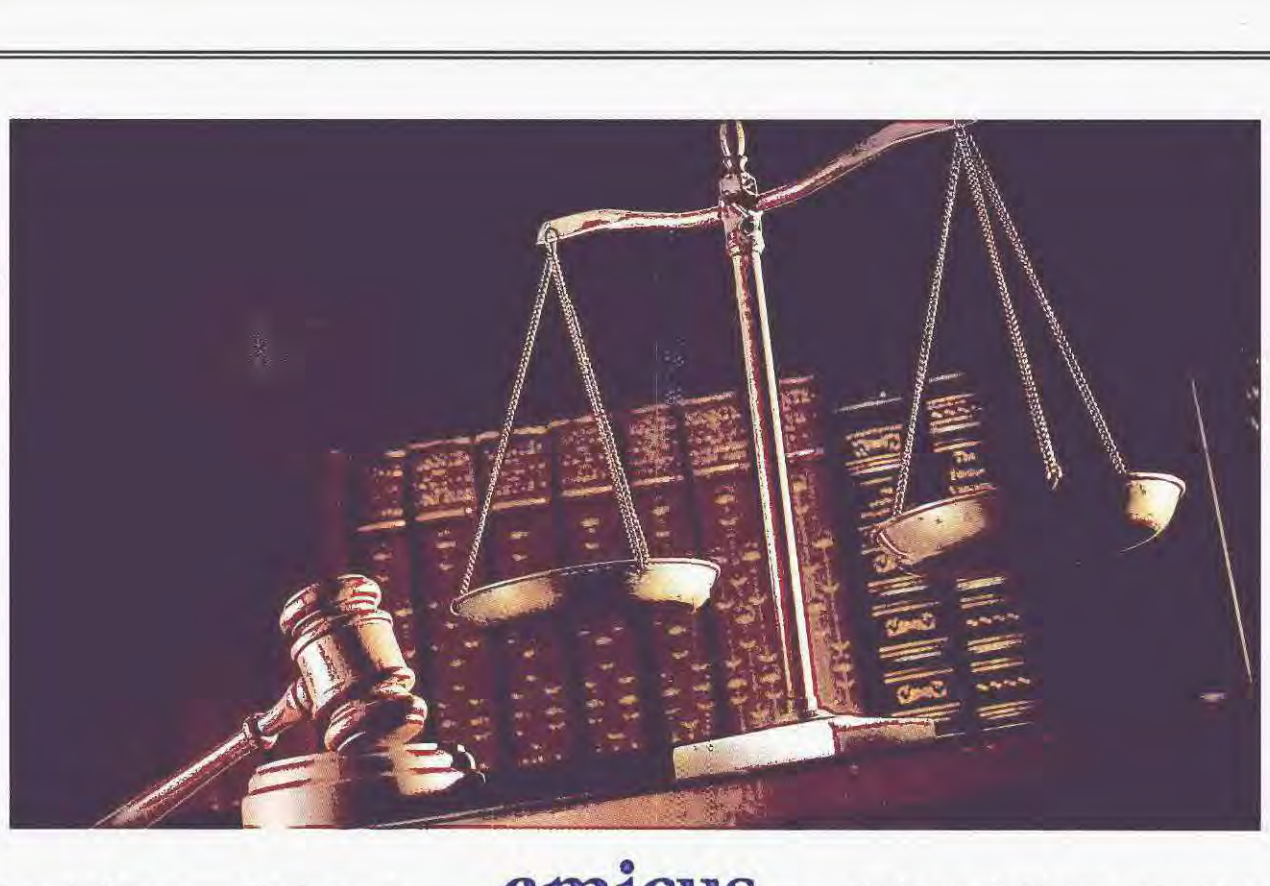
One of IRMG's long-established rent-a-captives "has toyed with the idea (of segregating accounts) over the last several years, and with the change in legislation, we may actually pursue that," Mr. Lower said.

"We've had lots of inquiries" about rent-a-captives, added Steven R. Butler, financial director of Chandler Insurance Management Ltd. "We have a facility available for clients if they're interested." Chandler manages one rent-a-captive that is about five years old. Mr. Butler said the new legislation "will assist that captive to bring in new business."

The new legislation will "make the island more attractive to companies looking at rent-a-captives," predicted Anthony B. Stelling, director of HSBC Insurance Management/Midland Bank Trust Corp. (Cayman) Ltd.

Midland is likely to take advantage of the growth opportunities, Mr. Stelling continued. There is "significant interest in rent-a-captives at the moment. We are

See **SPCs** *on page 40*



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Captive Report

SPCs

Continued from page 38

exploring the prospect of establishing our own facility," he said.

At least one captive manager in Cayman is deriving full gain from that significant interest. Crusader International Management (Cayman) Ltd. is in the process of raising the final $5 million in a private placement in order to sufficiently capitalize a new rent-a-captive facility called Clarion Indemnity Ltd., explained Ian Kilpatrick, Crusader's president.

Once the SPC amendment becomes law, however, Mr. Kilpatrick said he will re-submit the license to become a segregated portfolio company.

Clarion Indemnity is the result of last year's merger between Crusader Casualty Co. Ltd., Crusader's former specialized rent-a-captive, and Construct Re, a former captive under management.

Clarion is targeting medium-sized private manufacturing companies looking to fund workers comp, general liability and auto liability risks, but Mr. Kilpatrick said Clarion is not limited to those risks. The minimum premium is $500,000, and Frontier Insurance Co. is the primary fronting company, he said.

As a feature unique to Clarion, members can choose to allocate the profits on their books of business in Clarion to purchase life and annuity policies underwritten by Crusader International Insurance Co. Ltd., Mr. Kilpatrick added.

"We've got people already lined up," he said. BI

Cayman regulations for captives unchanged

GRAND CAYMAN, B.W.I.—Captive insurers licensed in the Cayman Islands are operating under the same regulations, capitalization requirements, tax laws, licensing fees and reporting requirements as in the past.

Captives with a Class B license—the most common license issued for single-parent captives writing property/casualty insurance—must be capitalized with at least $120,000, as required by the Insurance Law of 1979. Captives writing long-term coverages, such as life insurance, must maintain at least $240,000 in working capital, and those that write both long-term and general business need capital of at least $360,000.

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

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

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

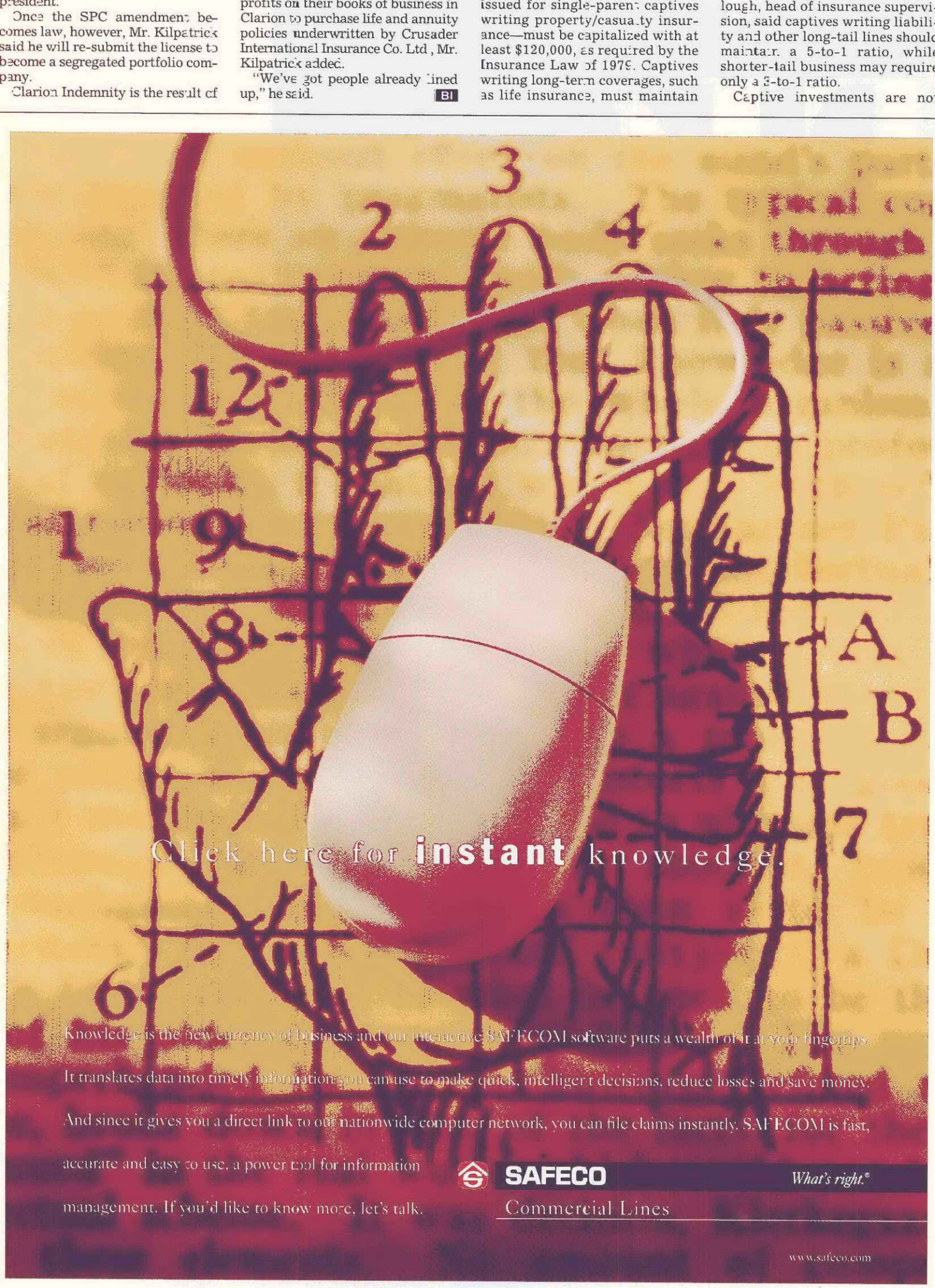
Solvency is monitored by the Monetary Authority through the review of audited financial statements that must be filed no later than six months after the close of a captive's fiscal year. Newly licensed captives must submit a financial report within six weeks after their first six months of operations.

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

An auditor also can provide the certificate of compliance.

For a list of captive management companies; more information on regulation, laws and licensing procedures; or more information on Cayman as an insurance domicile, access the Cayman Insurance Managers Assn.'s World Wide Web site at http//www.cima.ky. Or contact Mr. McCullough or Christopher Collins, deputy head of insurance supervision, Monetary Authority, Elizabethan Square, George Town, Grand Cayman, B.W.I.; 345-949-7089; fax: 345-949-2532.

—By Sally Roberts



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Captive Report

Guernsey captivates Europe as leading domicile

By EDWIN UNSWORTH

ST. PETER PORT, Guernsey—Guernsey's record as Europe's leader in captive domicile growth continues for the eighth-straight year.

With 24 new captives registered and nine others surrendering their licenses, Guernsey had a net gain of 15 captives in 1997, keeping it in the No. 1 spot in Europe both for the number of captives gained during the year and its 339 total at year end.

Figures for 1997 captive premiums will not be available before the summer, but Steve Butterworth, the island's director of insurance, estimates they will rise to about £2.0 billion ($3.4 billion) from £1.7 billion ($2.91 billion) in 1996. He anticipates assets under management will increase to £7.5 billion ($12.59 billion) from £6.4 billion ($11 billion) in 1996.

Of the factors helping continued growth, one of the most important is business gained under the island's Protected Cell Companies Ordinance of February 1997 (see story, page 46).

Since the legislation was passed, six PCCs have been set up, five in 1997 and one so far this year. In all, they operate 16 cells. One of those created last year is a life protected cell company, which is not counted by regulators in the figures given for Guernsey's captive growth.

Mr. Butterworth has great hopes that this is just the beginning of what will be a steady flow of PCC business. He said two more PCCs are "on their way" to being set up, while at the same time he and the island's captive managers are dealing with "plenty more inquiries."

The first PCC was set up April 1, 1997, by one of the island's independent captive managers, Wilde & Co. Insurance Managers Ltd.

Named City & Provincial Insurance (PCC) Ltd., it incorporated the business of two existing Guernsey captives plus one other client, giving it three cells.

Charles Scott, Wilde & Co.'s managing director, said a fourth cell is due to start May 1. The existing cells write liability risks for two vehicle rental companies and a travel company.

Mr. Scott said Provincial is "proving very successful. . .(and) is making the shareholders money." These shareholders are the policyholders themselves, who own both the core share capital and the preferred shares.

He said Wilde & Co. has just gotten approval to set up a second PCC on May 1. It will be called BBP (PCC) Insurance Ltd. and will write risks for a number of Caribbean companies.

Another PCC set up in 1997, Portway Insurance PCC Ltd., is a rent-a-captive PCC. U.K. insurer Commercial Union P.L.C. and banking group Kleinwort Benson are behind it, funding its £5 million ($8.3 million) of initial capital on a 50/50 basis.

John Copeland, general manager of J&H Marsh & McLennan Management Services (Guernsey) Ltd., which manages Portway, said the main difference between it and a traditional rent-a-captive is that if a company behind one of the PCC's cells has a run of bad years, it can draw on the core capital.

Merise Wheatley, a director of J&H Marsh & McLennan's Guernsey unit, added that another advantage of Portway is that it introduces risk transfer, so that the premium paid by a U.K. company should be deductible for tax purposes, resolving what has always been a problem with traditional rent-a-captives.

Portway is aimed at clients who would usually pay between £100,000 and £500,000 ($167,000 to $834,000) in annual insurance premiums and generally are not big enough to set up their own captives.

It is still at the stage of being marketed in Europe, and Mr. Copeland said inquiries so far have come from a whole range of industries, including some companies in Europe and one or two in North America.

Ms. Wheatley said J&H Marsh & McLennan expects one of its captives to transfer into a PCC.

So far in 1998 Guernsey has attracted six new captives, including the one PCC. Of these, two are captives with the same parent that have transferred under Guernsey's Migration of Companies Ordinance passed last August.

Malcolm Cutts-Watson said Willis Corroon Management (Guernsey) Ltd., of which he is managing director, would have used the migration legislation for at least one client transfer if it had been in place earlier, but the client chose not to wait and did a portfolio transfer before the legislation was in place.

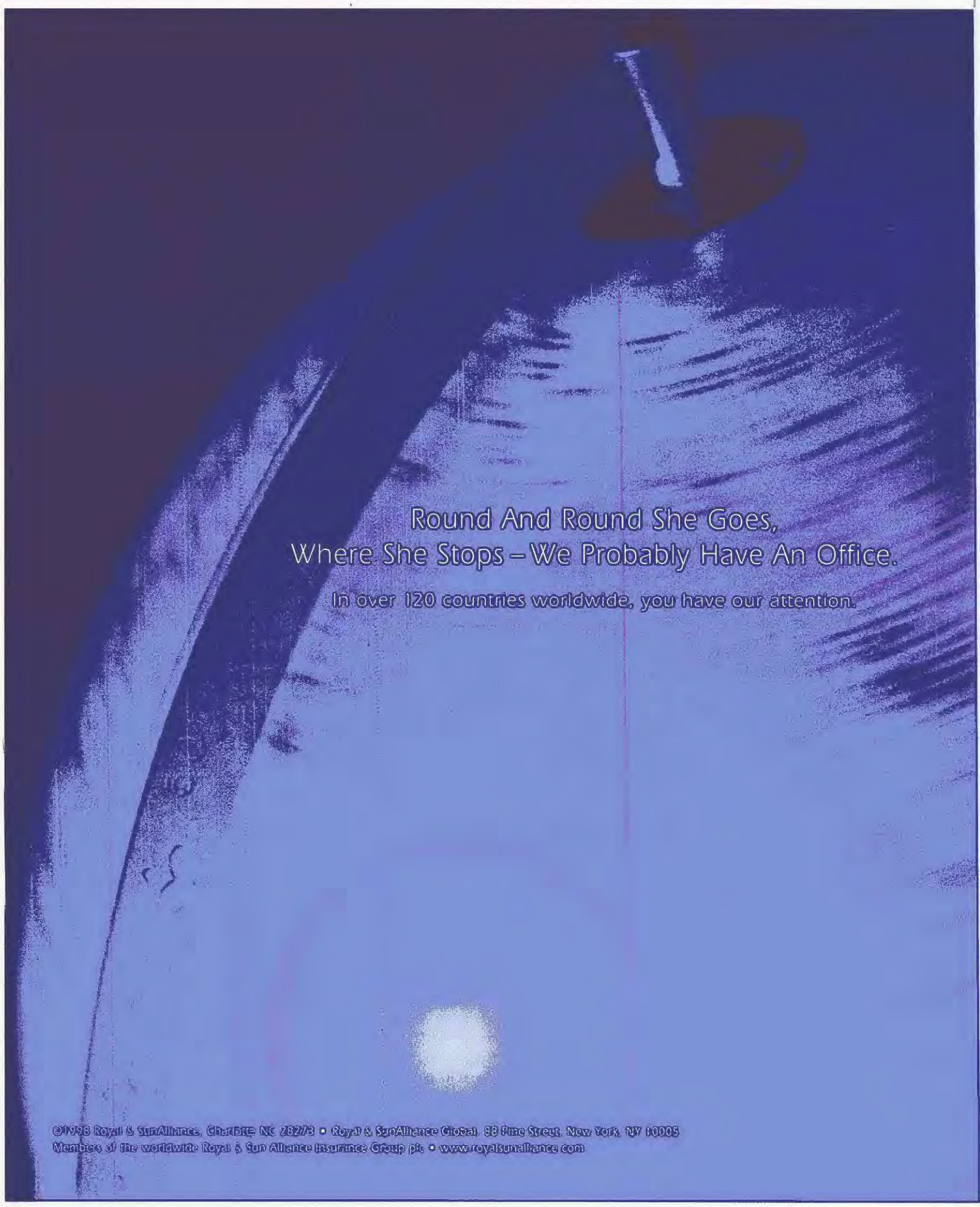
But he maintained this proves the demand is there. "I believe we still are going to pick up business" through this law change, he added.

Similarly, Don Lawson, client services director at International Risk Management (Guernsey) Ltd., said he is in the early stage of discussing a client's transfer to Guernsey, helped by the migration law. Otherwise, IRM has not yet won or lost any business through this change but welcomes it for making transfer between domiciles easier.

Although U.K. parents still account for 80% of total captives operating here, a figure unchanged for the past three years, there are signs of greater interest from other places. Only some 43% of Guernsey's new captives last year came from United Kingdom-based parents, making it the first year that U.K.-parented captive formations were not the majority of new captives in Guernsey.

This shift stems from a number of factors. For the past few years Guernsey has stepped up its marketing efforts in other countries, including Continental Europe, South Africa and the United

Continued on next page



Captive Report



Continued from previous page
States, while the migration legislation makes it easier for captives from other domiciles to transfer here. The shift also reflects a change in U.K. tax legislation that reduces the advantages of offshore captives for U.K. companies.

South African parents formed five more captives in Guernsey last year, though one surrendered its license, taking the total from South Africa to 16 captives. A relaxation of South Africa's exchange laws, combined with a visit to that country early last year by a delegation of Guernsey's captive managers headed by Mr. Butterworth, helped increase business.

"Probably over 50% of our new business is non-U.K. now," said Mr. Cutts-Watson. However, he thinks there is still room for continued U.K.-originating business, particularly in niche sectors.

Like other managers, he cited the Far East as an area from which interest is increasing. Willis Corroon has one Taiwanese captive doing a combined program of property and liability risks reinsured into London, and Mr. Cutts-Watson noted other interest from the same country. "I think the other countries around there are ripe for captives," he added.

Similarly, less than half International Risk Management's clients in Guernsey are U.K.-parented. Mr. Lawson said IRM, which gained six clients in 1997, including one from Asia, taking its total to 34, sees this diversification in client base continuing. He welcomes it because it means legislative changes in any one country should not have a major impact on IRM's business.

Ms. Wheatley also noted more interest in non-U.K. business for J&H Marsh & McLennan (Guernsey). Over the past year the manager has gained clients from Israel, Canada and South Africa, she said.

Like other captive managers, she said Guernsey does not generate a lot of interest from U.S. companies. The main reasons are that the island is not part of the European Union and so its captives are not free to reinsure in most E.U. countries, and U.S. companies have other good captive domiciles closer to home.

However, one of the targets of John Darwood, senior adviser to the insurance division of the Guernsey Financial Services Commission, is to improve U.S.-originating business. Immediately before coming to Guernsey in 1996, he was insurance supervisor in the Cayman Islands, and prior to that he was manager of the Non-Admitted Insurers Information Office in the United States.

Mr. Darwood, who attended the Risk & Insurance Management Society Inc. annual conference and exhibition in Atlanta last year and is attending its San Diego meeting this week, said, "I get a definite feeling that American advisers in the captive scene are now much more alive to the fact that there is a jurisdiction on this side of the Atlantic that could serve them well."

One of the reasons for the slowing growth of U.K.-parented captives is the United Kingdom's 1996 Controlled Foreign Companies legislation. This legislation requires foreign companies owned by U.K. parents, such as captives, to remit for tax purposes 90% of their annual taxable profits after capital gains and foreign taxes, rather than the 50% remittance previously required.

While Guernsey's Financial Services Commission and captive managers have maintained from the start that the legislation should make little difference to companies that set up captives for insurance rather than tax-avoidance purposes, Mr. Butterworth draws some consolation in a change to the legislation proposed in the March 1998 U.K. Budget. This will increase to 25% from 10% the minimum percentage shareholding in a CFC at which a U.K. parent faces a U.K. tax liability under CFC rules. So, whereas previously a captive needed the equivalent of 11 equal members in order for each U.K. parent to avoid CFC tax liability, now it only needs five members.

Peter Penneycard, head of the captive insurance tax practice in London at accountants KPMG, said that despite the CFC requirement "it's still very much worthwhile" for a U.K. company to set up a captive. However, he added that in order not to run afoul of all requirements of the legislation, "people have to focus on their good housekeeping."

He explained that greater vigilance in bookkeeping and accounting will be necessary because as of June 1999, U.K. companies will come under a "self-assessment" regime for filing tax returns. This will create a need for the captive owner to decide whether to put captive income and reserves on its tax return, combined with a new requirement to document fees assessed among companies in the group in order to demonstrate that it is done on commercially justifiable terms.

Mr. Cutts-Watson said the introduction of CFC legislation has led captive parents to conduct a fundamental review to determine if a captive provides the lowest cost of financing risks.

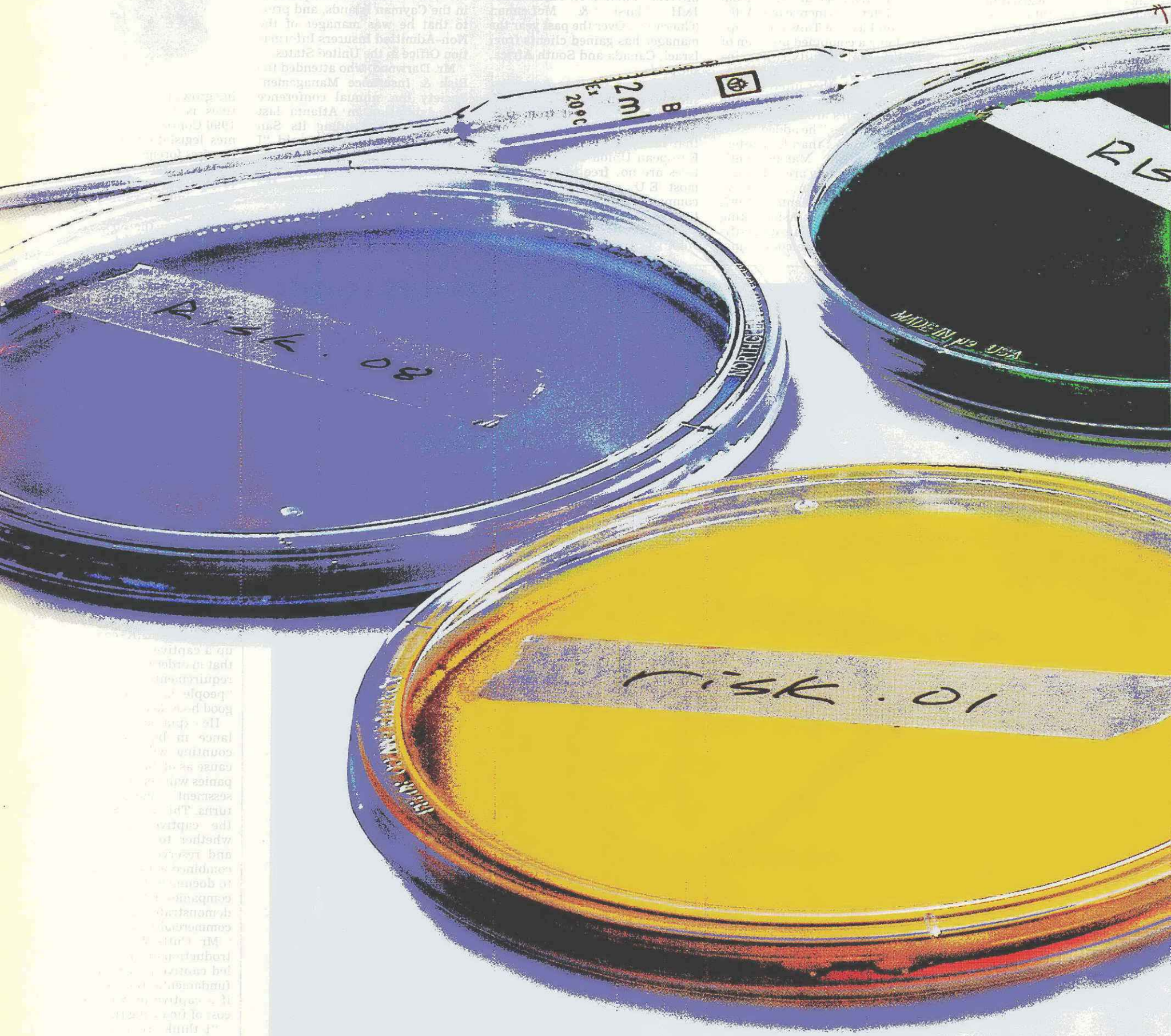
"I think from our client base people have performed that exercise, and they've come out with the conclusion that the captive does work, and they like Guernsey."

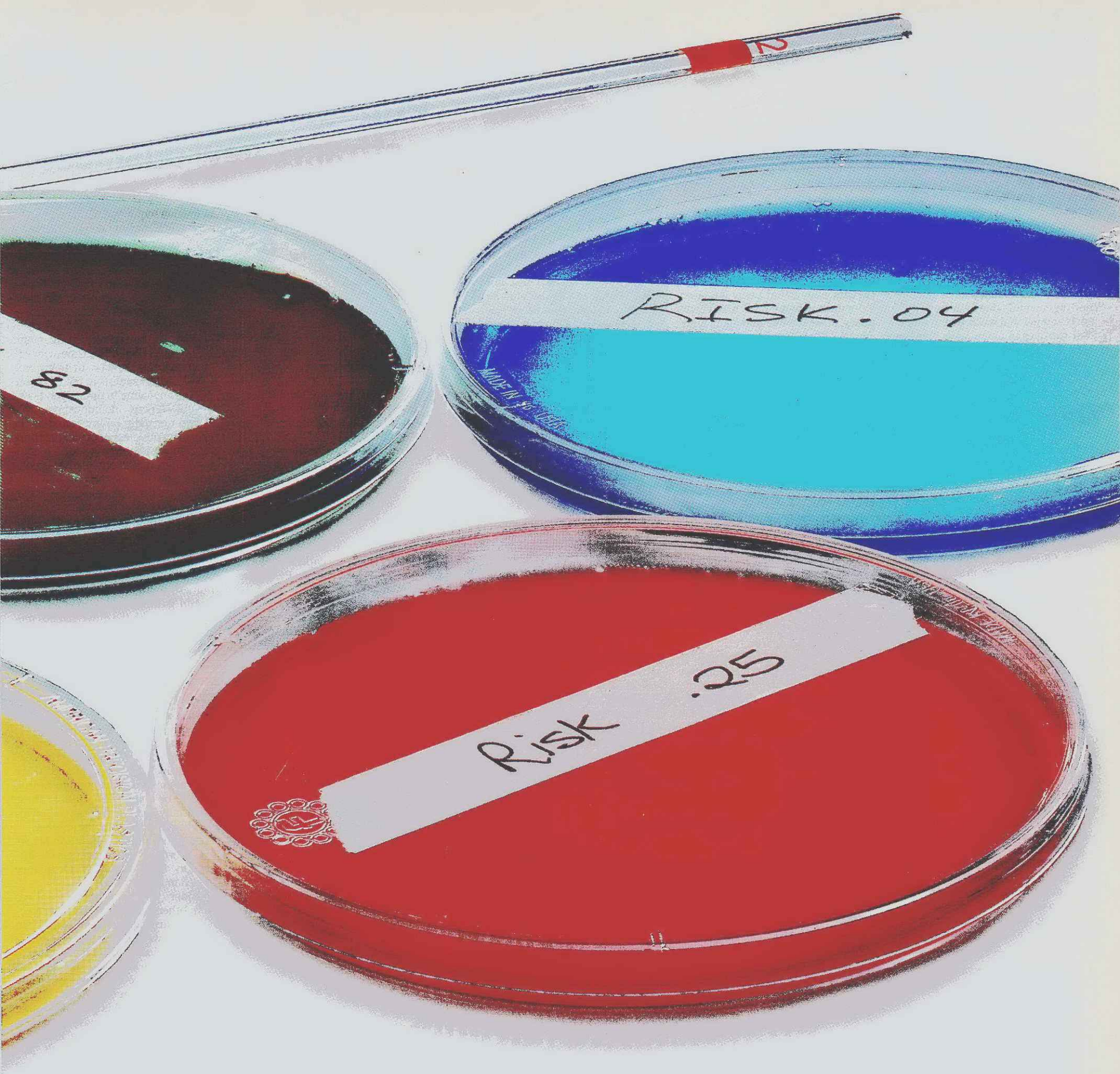
However, Ms. Wheatley at J&H Marsh & McLennan said she believes CFC legislation is part of the reason there's been a shift away from U.K. clients in Guernsey. That, combined with the soft insurance market and fears that the British government may increase its Insurance Premium Tax rate, particularly have made smaller clients think the costs of running a captive program could outweigh the benefits.

Mr. Copeland also thinks the soft global insurance market is deterring captive growth. He cited one client who managed to acquire insurance coverage at no in-

See **Guernsey** *on page 46*




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Captive Report

Vermont captives thriving on new opportunities

By RODD ZOLKOS

MONTPELIER, Vt.—Despite continuing competition in the conventional insurance market, Vermont's captive insurance industry is growing.

Whether measured by captive formations or premium volume in 1997, Vermont's vitality as a captive domicile is indisputable.

The state licensed 27 new captives in 1997 while dissolving 15, bringing the total number of active captives in Vermont to 305 as of Dec. 31, 1997, up from 293 a year earlier.

Gross premiums written by Vermont captives grew a robust 11.3% to $3.21 billion in 1997 from $2.89 billion in 1996.

"The captive industry continues to really boom as far as Vermont is concerned," said Ann W. Wick, regional director of AIG Insurance Management Services Inc. in Burlington. "Even though our (new) formations were level, the growth we have in the market today is phenomenal."

"We had a very good year again. No question about that," said Leonard D. Crouse, Vermont's director of captive insurance in Montpelier. "The industry in Vermont is still as strong as ever and getting stronger all the time."

Even more than the increase in premium volume, "the fact that the number of captives increases every year shows that the concept isn't lost in the soft market," said Julie Boucher, senior vp and branch manager at J&H Marsh & McLennan Management Inc. in Burlington.

Given a soft conventional insurance market and a captive universe that already includes many of the world's largest companies, many of Vermont's latest captives represent newer uses for the alternative risk transfer vehicle.

"The type of captives that are forming now are different from 10 years ago," said George A. Chaffee, president of Skandia International Risk Management (Vermont) Inc. in Bur-lington.

"It seems to be a little bit more complicated than it used to be," said W. Scott Frazier, executive director North America/Asia for Aon Insurance Managers in Burlington. "You're not looking at pure workers comp."

"I think the market changes, but captives seem to continue to be able to adapt quite well to new markets or new opportunities," said Elizabeth Costle, commissioner of the Vermont Department of Banking, Insurance, Securities and Health Care Administration in Montpelier. "Companies continue to find them a good risk management tool."

One of the major captive growth areas for Vermont is captives reinsuring private mortgage insurance. The state licensed the first such captive in 1995.

See **Vermont** *on page 50*

Largest managers of Vermont captives

(Ranked by premium volume in millions of dollars)

Manager	Premium volume 1997	Premium volume 1996	Captives 1997	Captives 1996	Staff 1997	Staff 1996
J&H Marsh & McLennan Management Inc.*	$1,484.2	$633.4	117	38	47	11
IRMG/American Risk Management Corp.	443.5	428.1	40	38	15	15
Yankee Captive Management Co.	286.6	273.7	4	4	4	4
Aon Insurance Managers (USA) Inc. **	286.3	17.9	45	6	14	2
AIG Insurance Management Services Inc.	176.0	127.5	12	12	7	7.5
Sedgwick Management Services (U.S.) Ltd.	116.3	14.0	5	4	***	
SB&T Captive Management Co.	95.6	129.5	13	13	7	8
Vermont Insurance Management Inc.	80.1	115.8	23	25	16	19
Willis Corroon Management (Vermont) Ltd.	68.9	57.9	12	9	7	7
Skandia International Risk Management (Vermont) Inc.	37.8	36.4	19	19	5	5

* 1996 figures do not include Johnson & Higgins Services Inc.
** 1996 figures do not include Alexander Insurance Managers
*** Subcontracts regulatory and accounting services to Vermont Insurance Management Inc./USA Risk Group.
Source: *BI* survey

20 largest Vermont-based group captives

(Ranked by 1997 premium volume)

Group captive Parent (Manager)	Gross written premiums	Net premiums	Net income
Attorneys' Liability Assurance Society Inc., A Risk Retention Group Law firms (Yankee Captive Management Co.)	$241,605,468	$7,765,137	$2,043,848
Controlled Risk Insurance Co. of Vermont Inc. (A Risk Retention Group) Harvard-affiliated medical institutions (J&H Marsh & McLennan Management Inc.)	40,643,373	10,223,562	766,530
United Educators Insurance Risk Retention Group Inc. Educational institutions (J&H Marsh & McLennan Management Inc.)	40,196,013	4,262,993	15,309
MCIC Vermont Inc., A Risk Retention Group Academic medical centers (J&H Marsh & McLennan Management Inc.)	33,911,089	19,173,611	(3,953)
ICI Mutual Insurance Co. Members of Investment Company Institute (SB&T Captive Management Co.)	30,709,903	16,585,610	7,547,353
AmHS Insurance Co. Risk Retention Group Hospitals (J&H Marsh & McLennan Management Inc.)	29,491,036	1,398,058	618,086
Housing Authority Risk Retention Group Housing authorities (Yankee Captive Management Co.)	26,240,781	23,659,067	4,397,207
NLC Mutual Insurance Co. Public entities (Yankee Captive Management Co.)	16,857,392	8,111,659	279,303
Ophthalmic Mutual Insurance Co., A Risk Retention Group American Academy of Ophthalmology (J&H Marsh & McLennan Management Inc.)	13,677,741	10,546,623	1,438,131
The Ordinary Mutual, A Risk Retention Group Corp. Catholic dioceses (IRMG/American Risk Management Corp.)	9,779,919	7,814,074	3,504,776
Bar Vermont Risk Retention Group Inc. New York City law firms (IRMG/American Risk Management Corp.)	9,434,075	935,304	101,213
American Safety Risk Retention Group Inc. Asbestos abatement contractors (Mutual Risk Management Vermont Ltd.)	8,618,130	3,326,795	92,411
Franklin Casualty Insurance Co. (Risk Retention Group) University of Pennsylvania trustees (J&H Marsh & McLennan Management Inc.)	8,205,000	709,500	(51,968)
VHA Risk Retention Group Voluntary Hospitals of America members (J&H Marsh & McLennan Management Inc.)	7,283,439	103,500	42,986
CPA Mutual Insurance Co. of America Risk Retention Group Accounting firms (IRMG/American Risk Management Corp.)	6,828,848	3,455,694	1,003,095
Consolidated Catholic Casualty Risk Retention Group Inc. Catholic health care systems (Skandia International Risk Management Vermont Inc.)	6,643,864	3,791,537	5,206,207
Mental Health Risk Retention Group Inc. Non-profit mental health centers (Skandia International Risk Management Vermont Inc.)	6,063,613	2,214,316	170,184
Terra Insurance Co. (A Risk Retention Group) Geo-science engineers (Vermont Insurance Management Inc.)	5,940,326	4,873,926	1,449,559
National Catholic Risk Retention Group Inc. Catholic dioceses (SB&T Captive Management Co.)	5,652,163	3,196,177	3,954,554
States Self-Insurers Risk Retention Group Inc. States Self-Insurers Trust (Berkley Risk Services of Vermont)	4,232,716	1,555,082	1,475,869

Source: Vermont Department of Banking, Insurance, Securities and Health Care Administration

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—By Edwin Unsworth

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Vermont

Continued from page 48

"We have several mortgage insurance captives and many prospects," J&H/M&M's Ms. Boucher said. "There's a lot of activity in mortgage insurance captives in general."

"I'm sure every captive manager is seeing some prospect activity in terms of mortgage reinsurance. Do I expect mortgage reinsurance captives? I think everybody is expecting Vermont is going to get a couple dozen of them over the next 18 months," said Aon's Mr. Frazier.

"Of course, the bigger banks are the ones in the forefront to set up these programs, but it will trickle down to the smaller banks," said Nancy Gray, vp at American Risk Management in Burlington.

"If we can get the smaller banks in on it on a group basis, obviously that's where a lot of the volume is," said Andrew Sargeant, president of Vermont Insurance Management Inc. in Montpelier. "That's a definite onshore kind of opportunity for Vermont, because you can't really do that offshore."

Mr. Frazier and Aon have been involved in crafting a group captive for smaller financial institutions, taking advantage of last year's changes to the state's captive law that allow captives to form as reciprocal insurers.

"It's organized as an association captive in the reciprocal form," Mr. Frazier said. "We put together a reciprocal format for a number of banks to do a mortgage captive primarily to avoid double taxation."

Vermont regulators have approved the captive pending the needed approvals from federal regulators at Office of the Comptroller of Currency, the Office of Thrift Supervision and the Department of Housing and Urban Development. "Everybody is expecting that we will get that," Mr. Frazier said.

"I think there are a number of opportunities for banks, reciprocals being one of them," he said. "I'm not suggesting that would be the best opportunity for everyone."

As part of Vermont officials' ongoing effort to fine-tune the domicile's captive law, the Legislature this year approved a bill, H.B. 582, that would allow existing captives to convert to the reciprocal form. That bill awaits the signature of Gov. Howard Dean.

The Legislature's and governor's commitment to the state's captive industry, along with the ability and accessibility of its regulators, continue to be touted as key aspects of the state's appeal as a captive domicile.

"We're a small state; captives will always be very important to us," Ms. Costle said. "There are very few things that everyone agrees on in the Legislature, but one of them is captives."

"Working with the state always is good because they have an open-door policy, and they're also involved in everything that risk managers are working with on a day-to-day basis," said Herbert R. Martin, risk/quality manager for Pat Salmon & Sons Inc., a Little Rock, Ark.-based shipping company that formed its Vermont captive, Specialty Transportation Insurance Co. Inc., in 1991.

"Basically I find that they're always available and open," Mr. Martin said. "They really are involved. There isn't anything too small for them to work with you on. If I've got a problem, I can talk to Len. I usually go through my captive manager, but I know I can talk to Len if I want to."

"If you've got a problem, you can grab Len Crouse and talk to him about it," agreed Brian Donovan, president of Steel Tank Insurance Co., a Vermont captive. "He's not going to violate the statute, but he will listen to your problem and try to do something about it."

"I think what a good domicile has to do is listen to the needs of its captives and work it from there," Mr. Crouse said. "I think we've shown over the years we listen to our captives. If it makes good business sense, we try to make it work."

Vermont's captive division has a staff of 13, "which is basically going up one a year," Mr. Crouse said. "We anticipate needing one or two more people in the next two or three years."

As the domicile grows, the added staff is necessary for the required surveillance and regular reviews.

The domicile's success and the support of the Legislature and governor feed one another, Mr. Crouse said.

"I think the regulatory success that we've had here is a strong indicator of our success in Vermont," Mr. Crouse said. "Every year, we have good steady growth, and with the support we're getting, I think we can manage it."

"You have no idea how proud I am of these guys," he said of the division's staff. "I've been in the business 25 years, and I'd put these guys up against any insurance department staff in the country. It's something we've been able to do because we're successful. We can go to the Legislature and say we need to hire."

Regulatory support in the captive business is "a balancing act," Skandia's Mr. Chaffee noted. "On the one hand, you're trying to promote business, but on the other hand you're trying to regulate it."

Although the domicile's managers credit its regulators for adeptly pulling off that dual role, Mr. Crouse noted that his job and those of Derick White, the division's assistant director, and Peter Raymond, its chief examiner are as regulators first and marketers of the domicile second. "Solvency is the issue. Policyholder protection is the issue," Mr. Crouse said. "Marketing is a job, but—number one—it's regulatory."

That "regulation before marketing" attitude has had much to do with the way Vermont's captive industry has approached its latest move, amending the law to permit rent-a-captives.

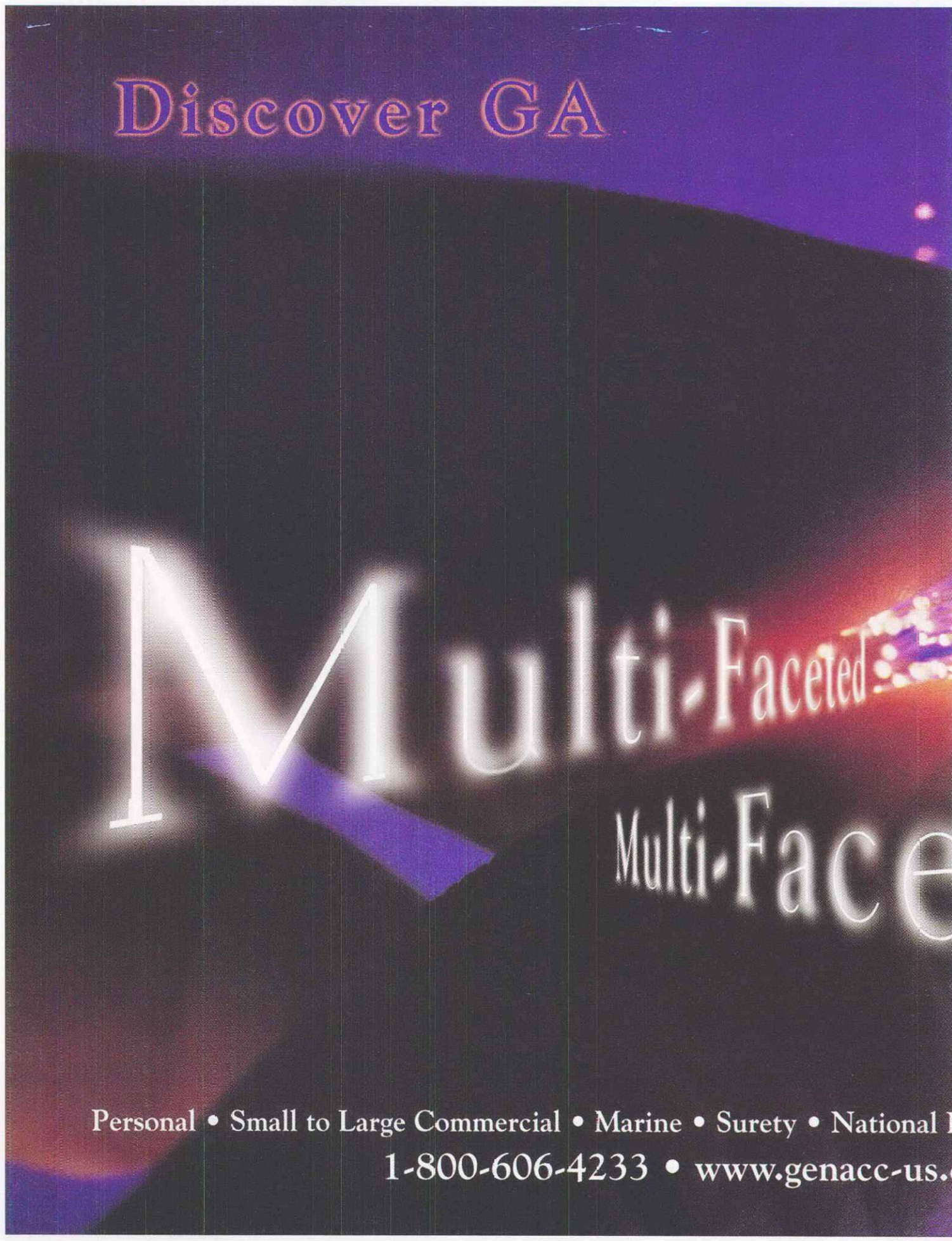
A committee of the Vermont Captive Insurance Assn. has been studying the issue, with a goal of drafting a formal proposal by the end of the year so that it can be introduced before the Legislature in 1999.

"We started probably nine or 10 months ago, at that point discussing the issue with our legislative committee," said Lisa Ventriss, president of the Burlington-based VCIA.

"We raised this as basically a competitiveness issue for the state and knew that at that time the regulators were not really comfortable with a rent-a-captive vehicle," Ms. Ventriss said. "So we were trying to answer these questions: What is it that's so desirable about the rent-a-captive vehicle, what are some of the issues surrounding rent-a-captives, and can we make it work in the Vermont model?"

"One of the questions that came up when we had the discussion at the VCIA is 'Is it worth it? Is there enough business there?' " VIM's Mr. Sargeant said. "My view is that there is."

Continued on next page



Continued from previous page

Guy Ragosta, managing director of Willis Corroon Management (Vermont) Ltd. in Burlington, noted that his company recently approached Vermont regulators about forming a rent-a-captive in the state before taking it to Barbados.

"Unfortunately, we had to put it offshore because the statute just wasn't going to be ready in time," Mr. Ragosta said. "But it will work when they get it in place."

"There's no reason why it shouldn't happen in Vermont,' said Ms. Wick of AIG. "We're mature enough. We've got our arms around regulating single-parent and group captives."

"We see it as kind of a natural development of the captive industry in Vermont," said Roger Teese, president and chief executive officer of SB&T Captive Management Co. in Burlington, and a member of the VCIA's rent-a-captive committee. "The Insurance Department is ready to handle that kind of regulation now. There is a track record; there are checks and balances that can be brought into the statute to insure solvency. It makes sense."

Mr. Chaffee likened the issues to those the state faced when it first decided to adopt a captive statute in 1981. "We knew we would have to watch out for bad actors," he said. "The same vigilance in the rent-a-captive area will stand Vermont in good stead, and I think Vermont can protect itself from the downside."

Ms. Ventriss said so far the committee's focus has been primarily on getting all the domicile's key players comfortable with the notion of allowing rent-a-captives, and it has yet to "put pen to paper" to actually start wording legislation.

"Our task then during the summer and fall months will be to work within our membership and with outside experts if we need that input to craft the language," she said.

But whatever the final wording, it won't mention "rent-a-captives," the VCIA president said, noting that there's a "shadow" over the word in some circles. Instead, the bill will refer to "sponsored captives," she said.

"Vermont has a reputation of being very thoughtful and selective in the types of activities it gets involved with," Ms. Ventriss said. "Vermont has been such a stable and mature domicile that I think it's feeling a lot more comfortable with some of these other types of vehicles."

"It's something we've talked about for a number of years. We're going slow with it," Mr. Crouse said. "The bottom line is, who's going to be responsible for the rent-a-captive company? There has to be someone behind it to take responsibility."

"I think it's something that Vermont didn't want to miss out on," he said. "If it's a good industry, we'll be there."

As with captives everywhere, some Vermont-domiciled captives weren't completely free from the effects of a soft insurance market in 1997, with low rates in the traditional market taking a toll on some risk retention groups and prompting owners of some pure captives to move policies back into the conventional market.

Continuing mergers among many of the world's largest companies also led to the dissolving of some captives that became redundant or didn't fit the post-merger insurance program.

Of the 15 Vermont-domiciled captives dissolved in 1997, "a lot of those were the result of mergers," Mr. Crouse said. "I think a few were results of market conditions where companies just did not want to keep them on the shelf for a period of time. A few were in runoff."

"With all the mergers and acquisitions going on in this country, I've had five captives that were affected," Aon's Mr. Frazier said. Two captives he manages are being dissolved. One is because of a merger, and the other is a RRG in runoff, he said.

"Risk retention groups are trying to find ways to retain their members. A lot of them have been very well run, and they have adequate loss reserves," Mr. Sargeant said. "They don't want to chase rates, because that's what got (RRGs) into trouble all those years ago."

Instead, he said, many are looking at other ways to compete, such as broadening coverage, offering dividends or changing attachment points.

"With the soft market, you have the market setting prices at less than the cost of losses. So you have the question of whether to go the traditional route vs. the captive route," said ARM's Ms. Gray. "But at some point that's going to change."

"We still talk about setting up captives in the soft market to be ready when the market turns," Mr. Sargeant said. "I get tired of talking about 'when the market hardens,' but I know risk managers are thinking about that."

Another factor confronting Vermont's captive industry is the formation of new—and relatively nearby—captive domiciles: New York and Maine.

But while saying they welcome the competition, most in Vermont's industry don't perceive those two states or any others in the United States as serious threats.

"Competition is good in this business," Mr. Crouse said. "I've always said that without Bermuda, Vermont wouldn't be where it is."

"I think we will continue our leadership basically because we have a good staff," said Ms. Costle, the Vermont insurance commissioner. "We know how to do it. We have our position of leadership in the United States and, next to Bermuda, in the world."

"Obviously there's always fair competition between Bermuda, Cayman and Vermont," Mr. Frazier said. "I think most U.S. corporations always look at those three domiciles."

"With the proliferation of individual states getting into the industry, is that going to fragment the industry further? I don't think so," he said. "You've got 15 years of experience, and you've got 300 companies that are operational and seem to be working."

"Our impression about New York is that they want to attract the large entities that are currently domiciled in New York, so they don't lose them to Vermont or anywhere else," SB&T's Mr. Teese said.

"As far as Maine goes, I can't imagine them being a presence in the marketplace," he said. "They might get a couple from Maine companies, but I can't imagine anybody starting a captive in Maine when the infrastructure already is here in Vermont."

"We have established ourselves with a lot of hard work since 1981," Mr. Crouse said. "We've shown it through our battles with the NAIC, our Legislature being involved, our lobbying in Washington, D.C., our governor being involved."

"We got 27 new captives. We don't get them all, and we don't expect to get them all. There's a lot of reasons captives go to other domiciles," he said. "We'll never get them all. But we'll get our fair share." BI



Captive Report

Managers' merger felt in Vermont

MONTPELIER, Vt.—With Johnson & Higgins and Marsh & McLennan s Vermont captive management operations already atop a ranking of Vermont managers by premium volume before the two parent companies' 1997 merger, it's no surprise the combined entity now ranks as the state's largest manager by a wide margin.

J&H Marsh & McLennan Management Inc. finished 1997 with 117 active Vermont captives under management, a net gain of seven from the two companies' combined 1996 totals. That total represented nearly 40% of all Vermont captives at the end of 1997, and the $1.48 billion in premium volume generated by the J&H/M&M managed captives was almost half the total business produced by Vermont captives last year.

"From a selfish Len Crouse perspective, I sort of miss having J&H, Marsh Mac," said Leonard D. Crouse, director of the state's captive insurance division. "They were both excellent management companies. And I sort of enjoyed the competition. But the shop they've set up together is an excellent company."

Julie Boucher, senior vp and branch manager at J&H Marsh & McLennan Management Inc. in Burlington, said the operation has a staff of 47, and the integration has been very smooth.

"Locally, two very good offices merged into one," she said. "I know Len would probably rather have two separate captive companies, but I don't think he has any serious complaints."

Ranking second among Vermont captive managers in 1997 was IRMG/American Risk Management Corp. in Burlington, with 40 captives and $443.5 million in premium volume.

Yankee Captive Management Co. in South Burlington, with four captives and $286.6 million in premium, ranked third, with the local product of last year's other insurance brokerage "megamerger," Aon Insurance Managers (USA) Inc., ranking fourth.

The Burlington-based management company that resulted from Aon Corp.'s acquisition of Alexander & Alexander Services Inc. finished 1997 with 45 Vermont captives—up from the 42 Alexander Insurance Managers and Aon Risk Services Inc. managed separately in 1996—with $286.3 million in premium volume last year. While Aon dwarfed A&A globally, in Vermont the situation was much different, with Alexander managing 36 captives in 1996 and Aon six.

"A&A has always run a good shop, and Aon ran a good shop," Mr. Crouse said. "With Aon buying A&A, I think the merger will fit well for Vermont."

"Through the various mergers that Aon has gone through over the past couple years—the Bain Hogg, Minet and A&A—our captive management operations remain the second-largest in the world," said W. Scott Frazier, executive director North America/Asia for Aon Insurance Managers.

The company is "virtually done" addressing the myriad logistical issues emerging from the merger, Mr. Frazier said, "and we're looking forward to continued growth."



Rounding out the top five Vermont captive managers in 1997 was AIG Insurance Management Services Inc. in Burlington with 12 Vermont captives under management and $176.0 million in premium volume.

—By Rodd Zolkos

Vermont's regulations

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

- Minimum capitalization of $250,000 for single-parent captives, $500,000 for industrial insured captives and $750,000 for association captives. Approved letters of credit can be used.
- A multitier tax structure for direct and reinsurance premiums. The first $20 million of direct written premiums is taxed at 0.4%. The rate falls to 0.3% for direct premiums between $20 million and $40 million and to 0.2% for premiums between $40 million and $60 million. The tax on direct premiums over $60 million is 0.075%.
- For reinsurance, the tax is 0.225% on the first $20 million of reinsurance assumed, 0.15% on premiums between $20 million and $40 million, 0.05% on premiums between $40 million and $60 million, and 0.025% on premiums exceeding $60 million.

Captives are also subject to a minimum annual premium tax of $5,000.

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

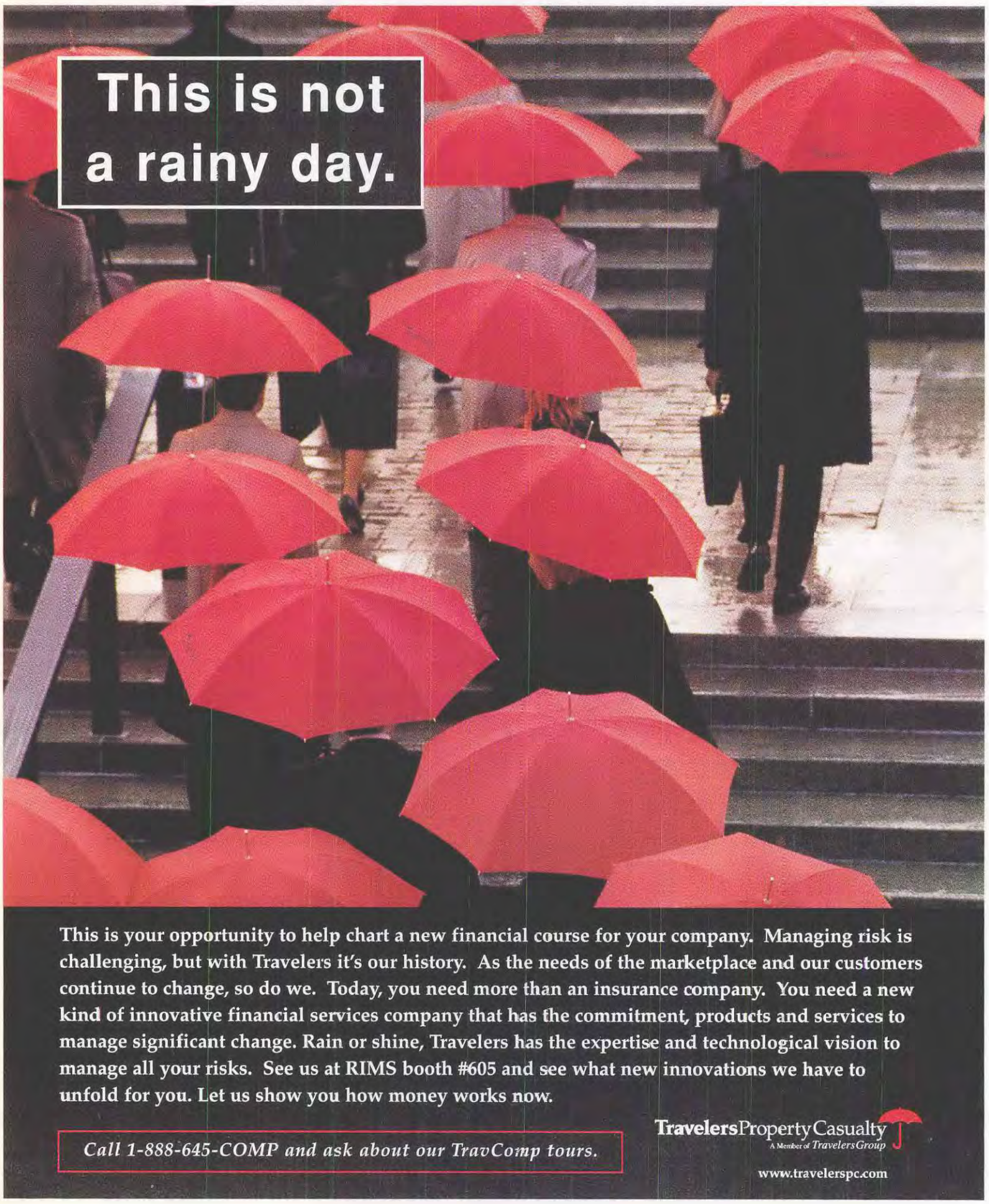
Single-parent captives may apply to file on a fiscal year-end basis consistent with the parent's fiscal year. If an alternative reporting date is granted, the annual report is due 60 days after the fiscal year ends. To support its premium tax return, the captive must file pages 1, 2, 3 and 5 of the "Captive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

- Captives can directly write all types of property/casualty insurance, except primary workers compensation coverage. Primary workers comp risks can be reinsured by a captive, however, while excess workers compensation coverage can be written directly or reinsured.
- A captive's financial records must be kept in the state, and its board of directors must hold an annual meeting in Vermont.
- A $200 initial application fee and a $300 annual license fee.

A prospective captive must have its actuarial assumptions reviewed by one of five actuarial/risk management consulting firms selected by the Department of Banking, Insurance, Securities and Health Care Administration. The review fee is $3,200.

For information about captives in Vermont, contact Leonard D. Crouse, Director of Captive Insurance, Vermont Department of Banking, Insurance, Securities and Health Care Administration, 89 Main St., Drawer 20, Montpelier, Vt. 05620-3101; 802-828-3304; fax: 802-828-3460.

—By Rodd Zolkos





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Captive Report

Slow beginning to '98 may not tell all in Luxembourg

Captive Report Luxembourg

By SARAH GODDARD

LUXEMBOURG—The low-profile approach Luxembourg has taken since it started allowing reinsurance captive formations 14 years ago is allowing slow but steady growth.

The domicile had a net gain of 14 captives in 1997, bringing the total established in the domicile to 254, according to Victor Rod, Luxembourg's insurance commissioner. The figure of 236 captives operating in 1996 reported in *Business Insurance* last year did not include licenses issued in 1997 but backdated to 1996, Mr. Rod said.

In total, 19 new captives were established in 1997. But two existing captives were liquidated at their owners' request. Three more merged with other existing captives, primarily due to parent company mergers, Mr. Rod said.

So far, two new licenses have been granted in 1998. "The bulk of the applications for licenses are in the final quarter of the year, so it is too early to say whether there will be an increase in captive numbers," he said.

The domicile does not publish its premium volume.

Frederick Gabriel, general manager of the Societe pour la Gestion de Captives, or GECALUX S.A., agreed that the start of the year has been quiet in terms of approaches for captive formations. "But it's early days, because people make decisions later in the year," he said. GECALUX had 58 captives under management at the end of last year, more than any other manager in the domicile.

Nevertheless, he expects captive formations to slow down because the market is maturing.

New territories are ripe for investigation, though. Last year, GECALUX found a "rich seam" of captives in Portugal, adding two to its books, Mr. Gabriel said. In addition, formations came from parents located in Germany and Belgium. Mr. Gabriel also sees opportunities in Italy.

Traditionally, France, Belgium and the Netherlands have been the main locations for parents of Luxembourg-domiciled captives, though the Scandinavian countries have provided a good source of business for SINSER (Luxembourg) S.A.R.L., which manages 34 captives.

SINSER's Luxembourg operations are divided into three companies: SINSER (International) S.A.R.L., which manages captives from German-speaking countries; SINSER (Luxembourg) S.A.R.L., dealing with Scandinavian parent companies; and SINSER (Europe) S.A.R.L., responsible for managing captives with parents in countries such as France and Belgium. The structure is set up this way "for historical reasons," as they were three different companies in the past, explained Tony Nordblad, managing director of SINSER (Luxembourg) S.A.R.L. Last year's growth from SINSER Luxembourg was small, with just two new captives brought on board. But Mr. Nordblad is hopeful there will be more growth this year, though "we don't have any hot cases at the moment."

In contrast, Claude Weber saw marked growth at J&H Marsh & McLennan Management (Luxembourg) S.A., where he is senior vp. The merger of Marsh & McLennan Inc. and Johnson & Higgins added seven captives to the roster of the former Marsh & McLennan Management Services, and five formations were added to its client list. M&M had 38 captives under management at year-end 1997 with $246 million in gross premiums. Previously, J&H captive business in Luxembourg had been carried out through UNISON Management (Luxembourg) S.A., as part of the UNISON network. Now UNISON primarily deals with the captive business from French broker Gras Savoye S.A., though uncertainties remain following Aon Corp.'s purchase of Gras Savoye earlier this year.

Of the other captives set up last year, one was Japanese and the majority came from Sweden, said Mr. Weber. Already this year, a captive is in the process of being set up by J&H Marsh & McLennan, and there are some in the pipeline. 'Luxembourg is an attractive place," explained Mr. Weber.

"The most important aspect is simply that it is not a tax haven but has a favorable environment from a legal point of view—it is flexible without being uncontrolled," he said.

For many continental European parents, the legal system is very similar to that in the parent company's home country, based on the Napoleonic code rather than the common law system of the United Kingdom and Ireland.

Luxembourg also has the advantage of being part of the European Union, as well as having mature financial markets and political stability, say captive managers.

"It is very difficult to quantify the advantages—it is a combination of different aspects," said Mr. Weber.

"If a captive parent wants to build up funds, Luxembourg is a better alternative" than other European jurisdictions, said SINSER's Mr. Nordblad. Reinsurance companies operating in the domicile—including captives—are able to build up funds between 12.5 and 20 times their average annual premium income over five years, depending on the type of business they are writing.

These catastrophe reserves are deductible from taxable income, making Luxembourg a particularly good domicile for liability coverages such as professional indemnity business and bankers blanket bond portfolios, said Mr. Nordblad.

However, Mr. Rod has noted a particular decline in French parent companies setting up captives, which he attributes to the French tax authorities' attitude toward the catastrophe reserves.

"There are currently a number

Continued on next page



Continued from previous page

of French companies that had plans to create a captive that have stopped their plans," he said. "I see no increase foreseeable in French companies'" interest in captives.

On the downside of Luxembourg's laws, redomiciling a captive to another location is particularly difficult. Redomiciliation legislation is not in place, so a captive must make a portfolio transfer, meaning it has to be liquidated and set up elsewhere. Releasing the reserves at that point incurs tax penalties and could be a reason why so few captives have moved. However, a number of parent companies have set up sister captives in other domiciles, often writing direct business, partly to avoid paying fronting fees.

Other disadvantages of Luxembourg include relatively high costs and taxes compared with other European countries, said SINSER's Mr. Nordblad. But "the funding opportunities are excellent, and Luxembourg has a good reputation and good services."

From a regulatory point of view, there are few limitations on the types of captives that can be established in Luxembourg, said Mr. Rod. For example, group captives are allowed, such as Indurisk Ruckversicherung A.G. of Luxembourg, which writes environmental coverage for Hoechst A.G., Bayer A.G. and BASF A.G. It is managed by J&H Marsh & McLennan. "Captives can adapt to the needs of their clients," said Mr. Weber. "I don't see a trend for special vehicles" such as protected cell companies, which serve several captives, he said.

Mr. Rod sees interest from parent companies located in Italy, Spain and Portugal. In the longer term, there could be captive growth from U.K. companies that currently have captive operations in other domiciles. Most are based in the offshore U.K. islands, but they can't write business across Europe in the same way they can from Luxembourg.

In the short term, however, captive managers see "no dramatic changes," said GECALUX's Mr. Gabriel. "The low-profile approach is very much what the authorities have aimed for, and it seems to have been successful."

While selling Luxembourg's advantages for reinsurance captives, captive managers also are looking at new opportunities.

In March 1997, Swiss Reinsurance Co. bought 40% of GECALUX's shareholding, and the two organizations are working together to develop alternative risk financing products. "We are working on one or two ideas with finite risk," said Mr. Gabriel. "Captives lend themselves to that sort of idea."

Currently, GECALUX is involved with large multinationals to explore opportunities for multiline/multiyear products. "From selected ones, there really is a lot of interest," said Mr. Gabriel. Although this is an area new to Luxembourg, "it's as good a place as anywhere" to develop such products.

Swiss Re also has a majority shareholding in captive manager International Risk Management Group Ltd., and GECALUX and IRM work on a network agreement. However, Mr. Gabriel emphasizes that GECALUX still is an independent management company.

Other captive managers operate as part of international networks within their own organizations, directing clients toward the most appropriate domiciles for their needs.

"We are not particularly looking to attract companies to Luxembourg," said J&H Marsh & McLennan's Mr. Weber. "We try to find the best domicile."

The soft market may have stunted captive growth, he said, but "whenever premiums go up, it will have a positive result for captives." BI

Grand Duchy tax laws appealing

LUXEMBOURG—Luxembourg's captive regulations remain unchanged, and Insurance Commissioner Victor Rod expects stability for the foreseeable future.

However, for the second year running, tax system changes in Luxembourg continue to make the domicile attractive to new captives.

According to Mr. Rod, corporate income tax has been dropped to 30% from 33% "in order to allow for better competition."

Additionally, the commercial municipal business tax in the city of Luxembourg has fallen to about 4% on income over 700,000 Luxembourg francs ($18,620) from 9.09%.

Claude Weber, senior vp at J&H Marsh & McLennan Management (Luxembourg) S.A., explained the overall corporate income tax has come down from 39.34% in 1996 to 37.45% in 1997.

However, captive reinsurers—direct-writing captives are not permitted in Luxembourg—will see little benefit from this because they are able to defer taxation using catastrophe reserves. These reserves range from 12.5 to 20 times the captive's average annual net premium volume over the last five years, depending on the type of business it is writing.

Regulation in Luxembourg is set out in the 1991 Insurance Law and Grand Ducal Regulations, with amendments in 1994, and Luxembourg is a full member of the European Union.

A new captives must pay 50,000 Luxembourg francs ($1,330) at incorporation, plus a 1% subscription tax on capital. The minimum capitalization level is 50 million Luxembourg francs ($1.3 million), or the equivalent in another currency, but if the captive is capitalized at or more than 200 million Luxembourg francs ($5.3 million), only 25% of share capital need be paid up. Captives also are subject to an annual fee of 100,000 Luxembourg francs ($2,660).

Solvency margins are set at unencumbered assets representing 10% of premium volume for non-life business, and 50% of unpaid share capital can be used for solvency margin calculations. Life business incurs a solvency margin of 2%.

Luxembourg regulations dictate that a captive must have a local manager and office, and a minimum of two shareholders and three directors, who need not be located in Luxembourg.

Accounts are filed annually with the Commissariat aux Assurances.

Further information is available from Victor Rod, Insurance Commissioner, Commissariat aux Assurances, 7 Blvd. Royal, B.P. 669, Luxembourg L-2016; 352-226911-1; fax: 352-226910.

—By Sarah Goddard



Captive Report

Largest managers of Barbados captives

(Ranked by gross premium volume in millions of dollars)

Manager	Premium volume 1997	Premium volume 1996	Captives 1997	Captives 1996	Staff 1997	Staff 1996
MIMS International(Barbados) Ltd.	$367.0	$514.0	20	20	5	5
IAS (Barbados) Ltd.	153.0	120.0	8	8	3	3
Merchant Corporate Management Ltd.*	115.0	115.0	15	15	5	5
Aon Insurance Managers (Barbados) Ltd.**	112.0	NA	21	2	11	3
Mutual Risk Management (Barbados) Ltd.	60.3	48.0	6	6	1	1
J&H Marsh & McLennan Management (Barbados) Ltd.***	55.0	40.0	31	6	11	3

*Formerly known as Watson Wyatt Management (Barbados) Ltd. **1996 figures do not include Alexander Insurance Managers (Barbados) Ltd. ***1996 figures do not include Johnson & Higgins (Barbados) Ltd.
Source: *BI* survey

Barbados might amend laws to allow insurers to register domestically

By DOUGLAS McLEOD

BRIDGETOWN, Barbados—The Barbados government may be moving closer to resolving tax questions that have kept the development of Canadian-owned captives in limbo for the past three years.

Growth of Canadian captives—one of the domicile's largest sources of business—slowed markedly after 1994 Canadian tax reforms denied tax benefits to companies that were not "residents" of Barbados. To qualify as a resident, a captive has to be subject to local taxation.

The Barbados government responded in late 1995 by amending its insurance law to impose taxes on captive earnings for the first time. The tax rate was 0%, though, resulting in no added costs for captive owners.

This "virtual taxation" didn't go over well: Canadian tax authorities quickly complained that the amendments were not in the "spirit" of the Canada-Barbados tax treaty and threatened to deny tax benefits to Canadian-owned insurers despite Barbados' actions.

Now, the domicile is taking new steps to address the problem. The Barbados parliament is expected next month to enact a new set of amendments to the Exempt Insurance Act of 1983 governing captives and the local Insurance Act governing domestic Barbados insurance companies.

Under the proposed changes, new and existing captives would have the choice of becoming licensed as domestic insurers, making them subject to local taxation at a current rate of 40%. Captives also would garner foreign currency tax credits, though, reducing the effective tax rate to as little as 2.8% on general insurance business.

Having already seen Barbados incur the wrath of Revenue Canada, captive industry officials are circumspect in discussing the new amendments. Most are unwilling to comment on the record about Canada's likely reaction or the status of talks between the two governments. In fact, a statement describing the amendments, released by the Barbados Exempt Insurance Management Assn., does not mention Canada at all.

Captive managers clearly are hoping, though, that the changes will solve the problem and allow captives to qualify as Barbados residents for Canadian tax purposes. "It would certainly clear things up if it were certain it was going to go forward," observed Denis C. Brown, a partner with Ernst & Young L.L.P. in Toronto.

In the meantime, Ernst & Young still is recommending Barbados as a domicile for Canadian-owned captives, and in the past year it has helped form four new insurers on the assumption that a favorable deal will be worked out, Mr. Brown said. If a deal doesn't come to pass, he added, the captives may opt to stay in Barbados and pay the Canadian tax or redomesticate to another jurisdiction.

The tax limbo affecting Canadian-owned captives is reflected in the figures on new captive formations for the past few years. After hitting a peak of 15 new Canadian-owned captives in 1994, Barbados saw the number drop to 10 in 1995—the year the tax reforms took effect—and to five in 1996. Last year, new Canadian formations held steady at five.

Overall, Canada has accounted for 106, or slightly less than a third, of the 341 exempt insurance licenses issued in Barbados since 1984, according to figures compiled by Towner Risk Management Ltd., a Barbados captive manager. The United States has accounted for 211, or almost two-thirds, and other countries have brought in the remaining 24.

While new Canadian business held

See **Barbados** *on page 58*

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Captive Report

Barbados

Continued from page 56

steady, Barbados saw overall exempt insurer formations fall last year to 18 from 23 in 1996. The U.S. accounted for 12 new licenses, compared with 15 in 1996, while other countries accounted for one new insurer last year compared to three the previous year.

Excluding 112 companies that have stopped underwriting, Barbados ended last year with 229 active exempt insurers, an increase of 33 active companies from the 196 recorded at the end of 1996, according to the Towner figures. Of these, *Business Insurance* estimates that 15% are commercial insurers or reinsurers set up primarily to write third-party business, leaving 195 licensed captive insurers at the end of 1997, up from an estimated 167 in 1996.

Despite the tax upheaval, some Canadian companies obviously continue to see opportunities in Barbados; last December, Toronto-based Connor, Clark & Co. Ltd. acquired the Barbados management operations of Watson Wyatt Worldwide, which has divested several units unrelated to its core benefit consulting business.

The management company, since renamed Merchant Corporate Management Ltd., is one of the domicile's largest captive managers and continues to manage Barbados clients of Sedgwick Group P.L.C. under contract, said Bill Andrus, managing director of Merchant International Insurance Ltd., a Barbados underwriting unit of Connor, Clark.

"I think it will pick up again," Mr. Andrus said of the domicile's Canadian business. "It will get better. Let's face it: It couldn't get any worse."

Merchant International Insurance, meanwhile, is planning to develop into a rent-a-captive facility, Mr. Andrus confirmed. The company is considering various structures for rent-a-captive programs, including sales of Merchant International preferred stock to its policyholders.

A large part of Merchant International's business, he added, will be "partnership reinsurance," in which captive clients of Merchant Corporate Management will be able to offset part of their management fees by ceding reinsurance to Merchant International.



Merchant International moved to Barbados in 1995 from Bermuda, where it was known as Halton Reinsurance Co. Ltd. Since then, it has largely been running off its former book of business, Mr. Andrus said.

While the domicile's Canadian business may improve, the tax reforms of 1994 have taken their toll on that business for the past three years.

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

After the 1994 reforms, though, the tax breaks for third-party Canadian business were eliminated, and income on all Canadian business now is taxable unless non-Canadian risks account for more than 90% of a captive's volume.

The change had a major impact on credit life and warranty captives set up by banks and auto dealers to insure their customers. While these captives previously generated tax-free earnings on third-party Canadian risks, owners saw that benefit disappear.

The new rules preserved the tax break for earnings on related non-Canadian risks, maintaining a benefit for Canadian multinational companies with captives. To qualify for this break, though, the captive must be a resident of Barbados under the tax treaty, meaning it must be subject to local taxation.

Barbados responded to this by amending its Exempt Insurance Act to create "virtual taxation," imposing a tax of 0% on exempt insurers' earnings for the first 15 years after the company is licensed. For the next 15 years, the rate is 2% on the first $125,000 of profits—or $2,500—which will be offset by a waiver of the government's annual $2,500 license fee.

Revenue Canada was not pleased with this move, though, and complained to at least one Canadian company that the Barbados amendments violated the spirit of the tax treaty.

Barbados officials went back to the drawing board and have developed a new set of amendments they hope will resolve the problems.

Under the proposed amendments—expected to come up for a vote in parliament next month—new and existing captives may decide to become licensed as Barbados domestic insurance companies rather than exempt insurers. As domestic insurers, captives would be subject to Barbados' 40% corporate income tax but would reduce this tax with credits generated by the foreign currency they bring in. The amount of these credits would vary depending on the insurer's proportion of foreign income to total income, but they could reduce the corporate tax rate to as little as 2.8% for general insurance business, which includes property/casualty business.

Life insurers pay a local tax of 5% on investment income, and foreign currency tax credits could reduce this tax to as little as 0.35%, according to the Barbados Exempt Insurance Management Assn.

See **Barbados** *on page 60*

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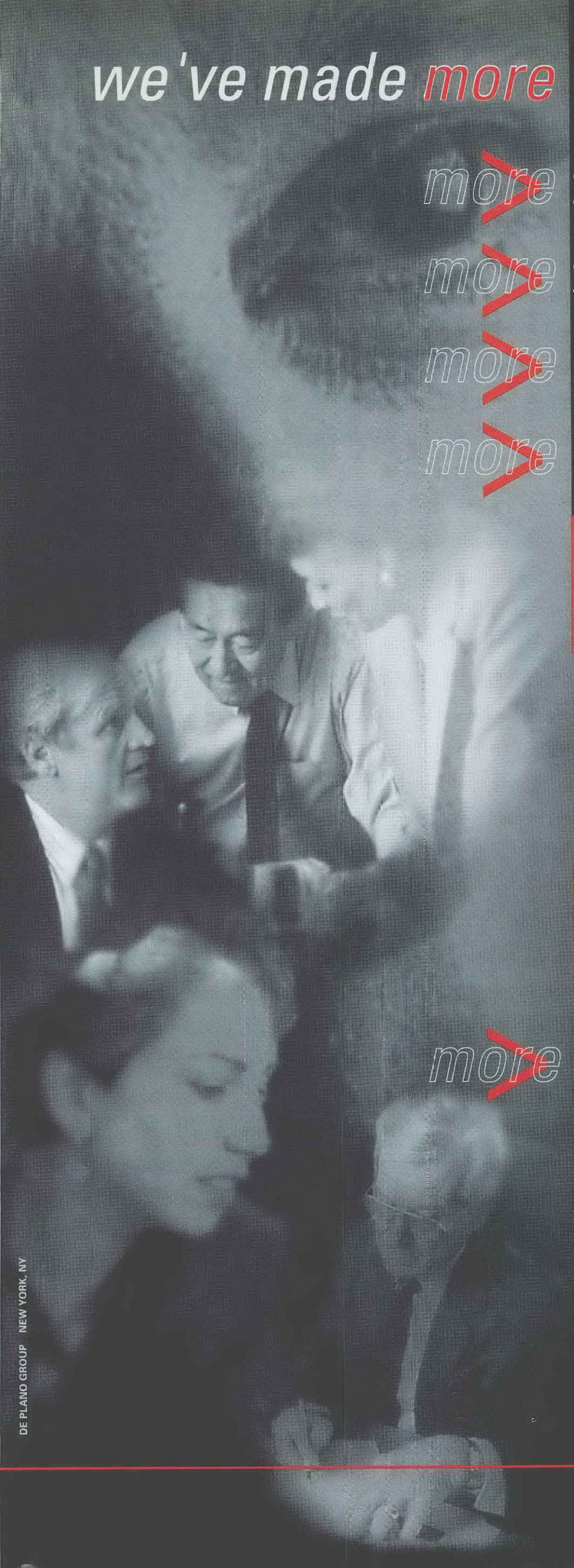
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Barbados

Continued from page 58

Also, "qualifying" domestic insurers—those that generate at least 90% of their premiums outside the Caribbean Economic Community—still could take advantage of other benefits provided by the Exempt Insurance Act, including exemption from exchange control and withholding taxes, according to the BEIMA.

The amendments also would not change the basic provisions of the Exempt Insurance Act; captives still could choose to be licensed as "offshore" companies and receive the act's guaranteed 30-year cap of $2,500 per year on taxes and fees.

A BEIMA statement on the proposed amendments does not mention the dispute with Revenue Canada. Instead, the statement says the amendments "are being viewed as part of a general convergence strategy on the part of the Barbados government between the domestic and offshore industries in Barbados."

"On the Canadian side, we have been in a sort of pending file" for development of new business, according to Christopher Towner, president of Towner Risk Management.

"Any resolution of the Canadian issue is obviously going to help us in that part of the marketplace. But we are not focusing on (tax) benefits to maintain growth," Mr. Towner said.

"It's nice when you have them, but we are not relying on them," Mr. Towner said.

Meanwhile, the mix of Canadian vs. U.S. business changed little last year from the previous two years, he observed, adding that he sees "a fairly healthy continuation of interest out of the States."

Christine M. O'Connor, manager of International Insurance Management Ltd., agreed. "I've found the U.S. market has been growing slightly recently," she said, attributing the growth to a wider recognition of Barbados as a viable offshore domicile.

"There has been a trend toward more captives from the U.S. market," Ms. O'Connor said.

IIM, an independent manager with 21 active clients, added four new insurers last year and manages reinsurance units of Lincoln National Corp., from which it generates a large part of its managed premium volume. Though perennially one of Barbados' largest managers, IIM did not report premium volume for 1997 and is not included in the accompanying management company chart.

The largest managers all have varying types of clients and varying results, especially during 1997, when broker mergers brought management company consolidation. The merged management units of U.S. brokers include:

• Aon Insurance Managers (Barbados) Ltd., a combination of the former Aon Risk Services (Barbados) Ltd. and Alexander Insurance Managers (Barbados) Ltd. The combined operation reported 20 active captives under management with $112 million in 1997 premiums.



Reporting separately in 1996, Aon had said it managed two clients, and Alexander Insurance said it managed 27 clients. Aon also managed one inactive captive at the end of 1997.

• J&H Marsh & McLennan Management (Barbados) Ltd., the combination of Marsh & McLennan and Johnson & Higgins management units.

The combined company reported managing 31 captives with total premium volume of $55 million in 1997. For 1996, J&H had reported managing 25 clients with $76.1 million in premiums, and M&M reported six clients with $40 million in premiums. BI

Laws stay the same pending May vote

BRIDGETOWN, Barbados—The Barbados government is considering amending its insurance laws to allow captives the choice of becoming licensed as domestic Barbados insurance companies, a move intended mainly to benefit Canadian-owned captives.

Other than the proposed amendments—expected to be voted on in the Barbados Parliament next month—there have been no major changes in the domicile's insurance laws. Under the Exempt Insurance Act of 1983, a captive must:

• Pay a one-time registration fee of $250 and an annual fee of $2,500.

• Maintain minimum capital of $125,000 in cash. A letter of credit drawn on a bank licensed in Barbados may be used for added capital.

• File annual audited financial statements with the insurance supervisor. These statements are not available to the public.

• Keep a register of policies, claims books and records in Barbados.

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

For more information, contact Ian Carrington, Supervisor of Insurance, Ministry of Finance and Economic Affairs, Bridgetown, Barbados; 246-426-3815.

—By Douglas McLeod



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Captive Report

Redomiciliations and diversification help Isle of Man maintain steady growth



By EDWIN UNSWORTH

DOUGLAS, Isle of Man—Captive formations in the Isle of Man grew for the fourth consecutive year in 1997, with a net increase of eight to a year-end total of 167.

Yet the island's captive managers characterized 1997 as a year of stability rather than impressive growth. The Isle of Man had 11 new captive formations and three closures in 1997.

Peter Foulger, a director of Willis Corroon Management (Isle of Man) Ltd., described 1997 as "a stable year overall. . .(with) no spectacular growth, but the existing client base has been very solid."

Willis Corroon is the island's largest captive manager, with 42 captives under management at the end of 1997—the same number as at the end of 1996 after two gains and two losses.

Similarly, Alan Rickett, managing director at Sedgwick Management Services (Isle of Man) Ltd., where captives under management also were unchanged last year at 33, said that for his company, "there hasn't been a great deal of movement over the last couple of years. . . .It's mostly maintaining the status quo."

The domicile's combined financial figures for captives for 1997 will not be available before the summer, but Bill Hastings, chief executive of the Isle of Man's Insurance and Pensions Authority, anticipates some modest improvement.

He expects total net premiums written by the island's captives in 1997 to rise to more than £1 billion ($1.64 billion) from £900 million ($1.47 billion) in 1996.

Funds under management in 1997 also are not yet available. In 1996, funds under management totaled £4.1 billion ($6.40 billion), compared with £6.4 billion ($9.98 billion) for Guernsey, which that year had twice as many captives as the Isle of Man.

That comparison demonstrates Mr. Hastings' claim that the Isle of Man generally tends to have Europe's biggest captives.

Of last year's growth in captive numbers, four gains were captives transferring to the Isle of Man from other jurisdictions.

Isle of Man Business Development Manager David Findlay said this takes to seven the total number of redomiciliations since legislation was amended in early 1996 to permit easier transfers. All have come from Bermuda, and all but one have been owned by U.K. concerns taking advantage of redomiciliation rules in order to move their captives nearer to home.

The law now allows a captive to transfer to the Isle of Man from another reciprocal jurisdiction without shutting down one captive and starting up another.

The seventh redomiciled captive is owned by a California company that moved to the Isle of Man because it needed access to the London market, "and it was just as easy to tie in a trip to the Isle of Man with a visit to London."

Mr. Findlay noted "further interest at the moment" from other companies considering a move to the Isle of Man under the redomiciliation legislation.

Mr. Rickett at Sedgwick also said, "We have got one or two inquiries pending at the present time where companies are looking to redomicile from jurisdictions further afield."

Of the two captives Willis Corroon took on last year, one was a redomiciliation. However, Mr. Foulger acknowledged that the redomiciliation legislation also was partly responsible for the manager losing a client last year to Guernsey. The reciprocal redomiciliation rules enabled a building society that was taken over by a bank with a captive in Guernsey—managed by Willis Corroon Management (Guernsey) Ltd.—to move its Isle of Man captive business to Guernsey. A building society is similar to a U.S. savings and loan institution.

Mr. Findlay's own appointment in April 1997 to what was then the newly created post of business development manager in the Insurance and Pensions Authority reflects the Isle of Man's interest in marketing its captive facilities more broadly.

The government until then had "been holding its light under a bushel."

An interest in promotion is shared by the island's captive managers, which at the end of 1997 formed the Manx Insurance Managers Assn. Most of the island's 35 captive managers—a number unchanged from the end of 1997—are members.

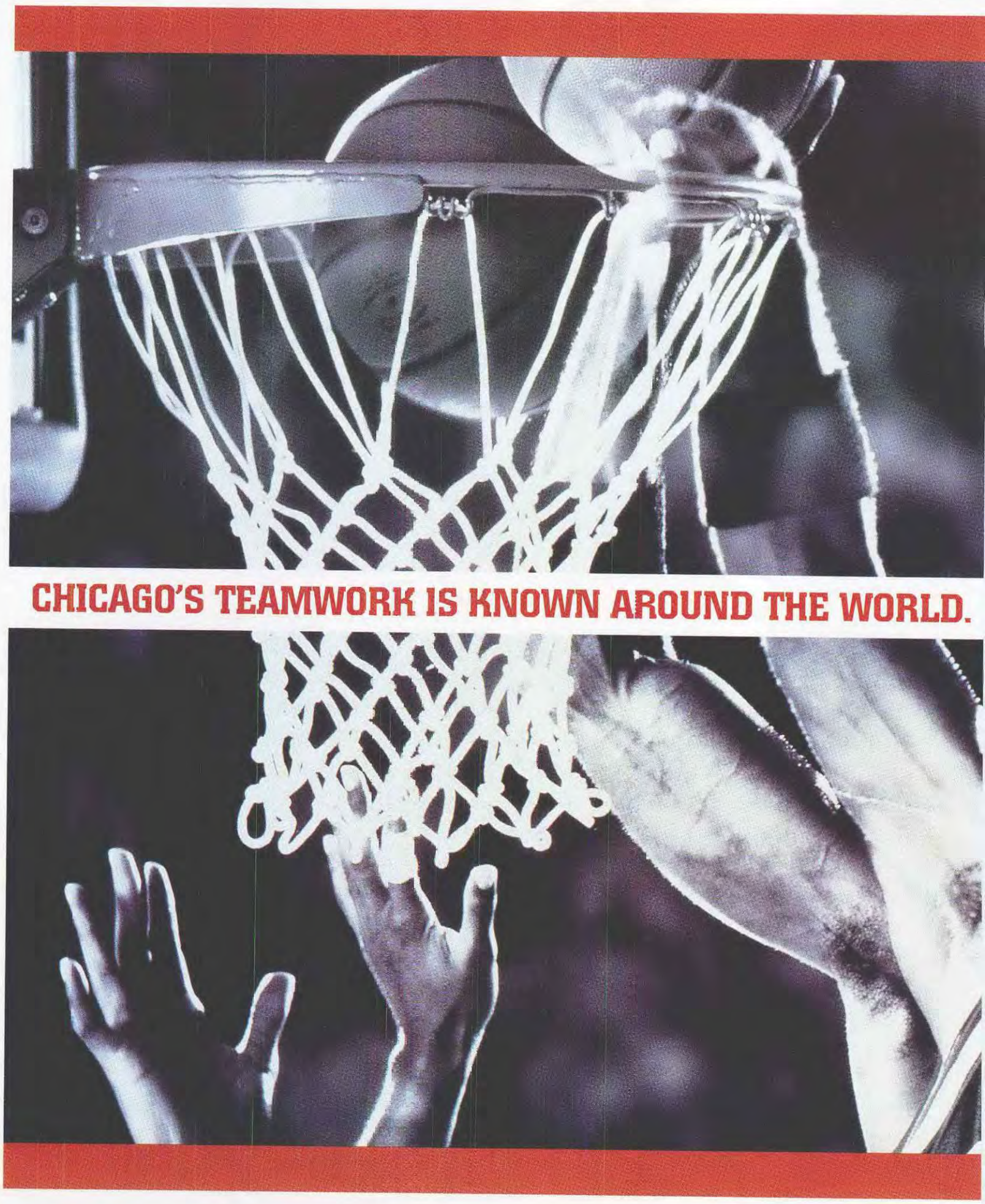
Geoff Hunt, managing director of Aon Insurance Managers (Isle of Man) Ltd., is the association's chairman.

Previously, the offshore insurance community had been represented by the Manx Insurance Assn., but captive managers thought that association was too focused on life and pensions business, Mr. Hunt said.

"We needed to have a more unified and succinct voice in terms of our dealings with the Isle of Man government and the supervisor's office, in particular, so that we're in a better position to promote the Isle of Man for the use of captives," he explained.

MIMA and Mr. Hastings are discussing how to best jointly promote

Continued on next page



Continued from previous page
the domicile.

Both the Insurance and Pensions Authority and the captive managers would like to see the Isle of Man diversify its clients from its strong base of U.K. parents. About 75% of its captives—125—are U.K.-owned, compared with closer to 80% for past years.

Mr. Hastings said this shift is due in part to the domicile's own efforts, which over the past few years have included promotional tours to South Africa and continental Europe.

Like its rival, Guernsey, the Isle of Man has benefited from South Africa's relaxation of exchange controls and now is home to eight South African-owned captives.

One of the two clients Willis Corroon (IOM) gained last year was a new South African-owned captive that had considered Guernsey. Mr. Foulger said that Willis Corroon is about to start its fourth South African-owned captive this year. Like the others, it comes from the industrial sector, he said.

One of the reasons to diversify clients is legislation in the United Kingdom that can make it less attractive for a U.K. company to operate a captive. The Controlled Foreign Corporation legislation, passed in 1996, requires U.K. companies to remit for tax purposes 90% of their annual taxable profits from abroad, less capital gains and foreign taxes, rather than the 50% remittance previously required.

Mr. Hastings said the Isle of Man has not lost any business because of the CFC ruling because companies use their captives for risk management rather than for tax avoidance.

Also, the Isle of Man passed legislation in 1996 allowing captives to pay tax at 75% of what they would pay in the United Kingdom, thus meeting a provision of the CFC legislation that exempts an offshore insurer from paying U.K. tax if it pays equivalent tax elsewhere. The U.K. corporate tax rate is 31%.

A number of client managers agree. Mr. Hunt at Aon said, "I think it undoubtedly caused people to stop and ponder, but we certainly can't point to anything where anybody was considering closing because of it."

While Mr. Foulger at Willis Corroon agrees that the CFC law has not led to any closures, he thinks it "has had a severe impact in terms of formations."

Mr. Rickett at Sedgwick also said it is making a difference to formations. "For a lot of U.K. companies, if they haven't already established a captive, given the changes in CFC legislation, it's obviously made the opportunity of establishing a new captive less attractive for them. I think that's due to a combination of both the CFC legislation and the soft market," he said.

Another factor both Mr. Rickett and Mr. Hunt cited as dampening U.K. companies' enthusiasm for captives is the United Kingdom's 4% insurance premium tax, payable on risks arising in the United Kingdom.

While Mr. Rickett said CFC and IPT concerns have not yet led to captive closures, he added, "I think at the present time there are several captives who are reviewing the viability of the companies in the light of the change in legislation."

Mr. Hunt said that while the current 4% rate of IPT is not really an issue, some companies fear it could be increased. He thinks that "if it rose significantly in the future, it could have a severe effect on the U.K. captive industry."

Managers also are concerned about the influence of the soft global insurance market on captive formations.

"The soft market is certainly not helping the industry," said Mr. Foulger. Yet, while some clients can buy coverage very cheaply from the market, "we're not seeing clients wholesale closing captives or taking huge chunks (of business) out," he adds.

Mr. Foulger said Willis Corroon has a client that last year put its captive into runoff because of the soft market and the CFC rules. Willis Corroon advised the client how it could reactivate the captive by putting in a different line of business, and the captive has reopened.

Earlier this year, the U.K. Home Office launched an inquiry into the offshore financial operations of the Isle of Man, Guernsey and Jersey.

No one on the islands acknowledges being worried about the possible outcome. On the contrary, they welcome it as an opportunity for the Isle of Man to demonstrate the strength of its financial regulations. BI

Isle of Man may authorize PCCs

DOUGLAS, Isle of Man—The Isle of Man continues to scrutinize protected cell companies in its rival domicile of Guernsey with a view toward passing similar legislation.

PCCs, allowed in Guernsey since February 1997, operate similarly to rent-a-captives but with a core cell around which any number of other cells operate as independent captives for different parents. The main difference between PCCs and rent-a-captives is that the business of each cell is protected from the liabilities of each of the other cells.

Bill Hastings, chief executive of the Isle of Man's Insurance and Pensions Authority, said no final decision on PCCs has been made by the Isle of Man Treasury, where the matter currently lies before being voted on by the parliament, Tynwald.

He said debate centers on the extent to which there is a real business opportunity arising from the PCC concept. Interested parties also are arguing whether it is more appropriate to limit the island simply to captive insurance companies or to give it a competitive edge by widening its laws to include other aspects of the financial services sector such as fund management.

"Whatever we do, if we do it

See **Isle of Man** *on next page*

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Isle of Man



Continued from previous page
we want to make sure there are no downside risks associated with putting such legislation in place," he said.

Mr. Hastings expects the Treasury to reach a decision soon, which would enable legislation to be passed if desired in 1998-1999.

Captive managers would like to see PCCs made available.

Geoff Hunt, managing director of Aon Insurance Managers (Isle of Man) Ltd., said, "Yes, we need to have it, because we need to have as many strings to the bow as we can possibly get."

By watching what happens in Guernsey, "hopefully, we're going to have the benefit of a bit of hindsight in coming up with a product that can benefit from the experiences of others," Mr. Hunt added.

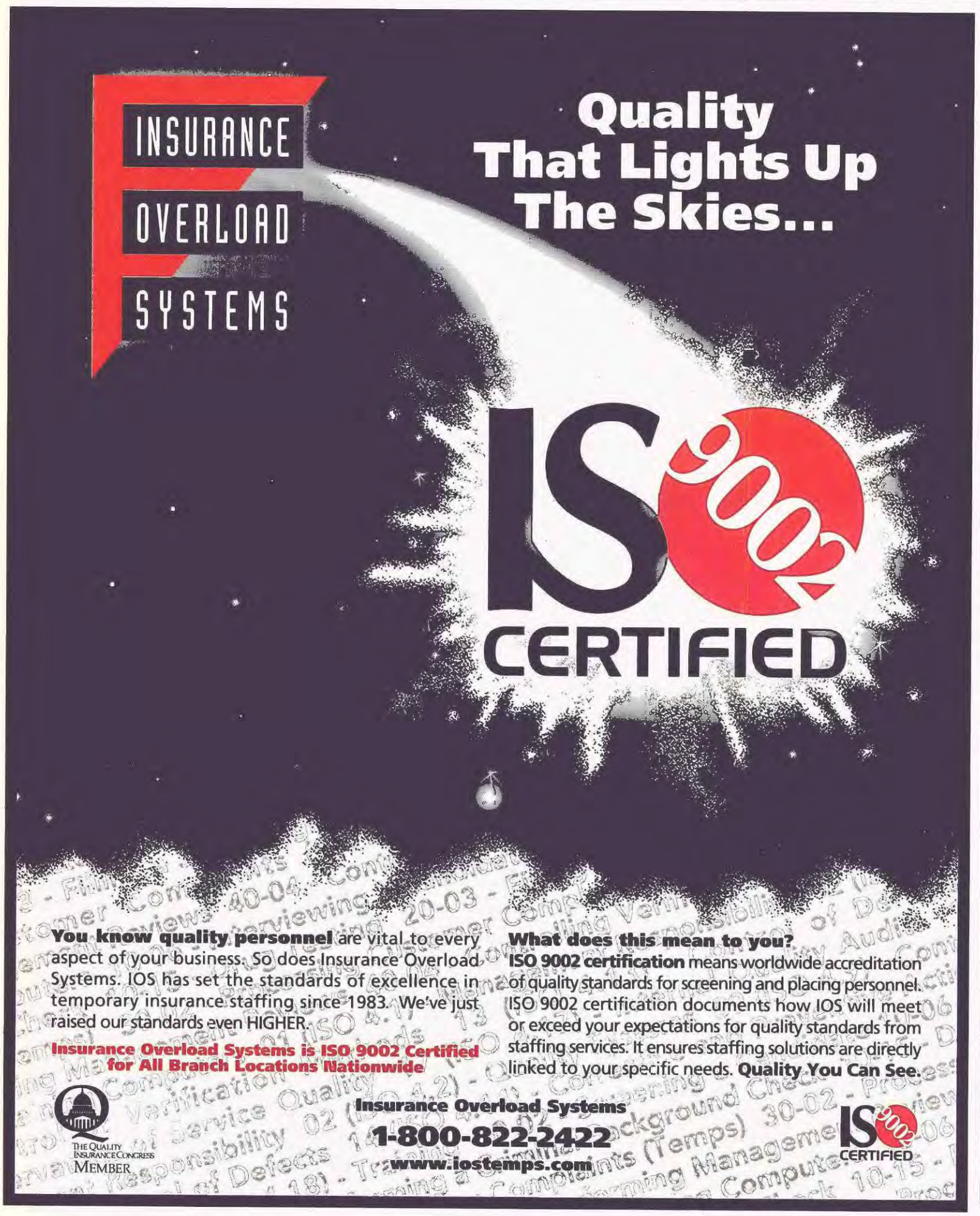
Willis Corroon Management (Isle of Man) Ltd. Director Peter Foulger views the PCC as a facility useful to offer clients and "another weapon in the armory." However, he added, "I don't think it's going to lead to selling captives wholesale. . . .I see it as fairly marginal."

Requirements for forming an Isle of Man captive have not changed over the past year. They include:

- Single-parent captives must have a minimum paid-up capital of £50,000 ($83,585). For captives writing third-party business, reinsurance or life insurance, the minimum capital requirements range from £100,000 to £500,000 ($167,170 to 835,850).
- The minimum capital requirements, plus 10% of any amount above £50,000 in capital, must be paid in cash and deposited in an Isle of Man bank, though this requirement can be relaxed at the regulator's discretion.
- Single-parent captives must maintain a solvency margin equal to the minimum capital requirement, plus an amount equal to 10% of net written premiums up to £2 million ($3.34 million) and 5% of net written premiums exceeding £2 million.
- Captives that write third-party business must maintain a solvency margin equivalent to 15% of net premiums written or an amount of not less than £150,000 ($250,755).
- Captives must present to the insurance supervisor a three-year business plan. This must include the maximum net retention per risk or occurrence and the aggregate retention after all reinsurance is ceded; policy limits; details of the reinsurance program, including the names of the reinsurance companies; projections for claims; projections for the captive insurer's cash flow; and projections for its profits.
- A "suitable" manager on the island, as determined by the domicile's insurance regulator, must manage the captive.
- A £1,000 ($1,672) registration fee is required for all new captives.
- Authorized insurance companies on the island must also pay an annual fee of £500 ($836).
- For captive insurers with tax-exempt status, there is an additional annual fee of £2,000 ($3,343).

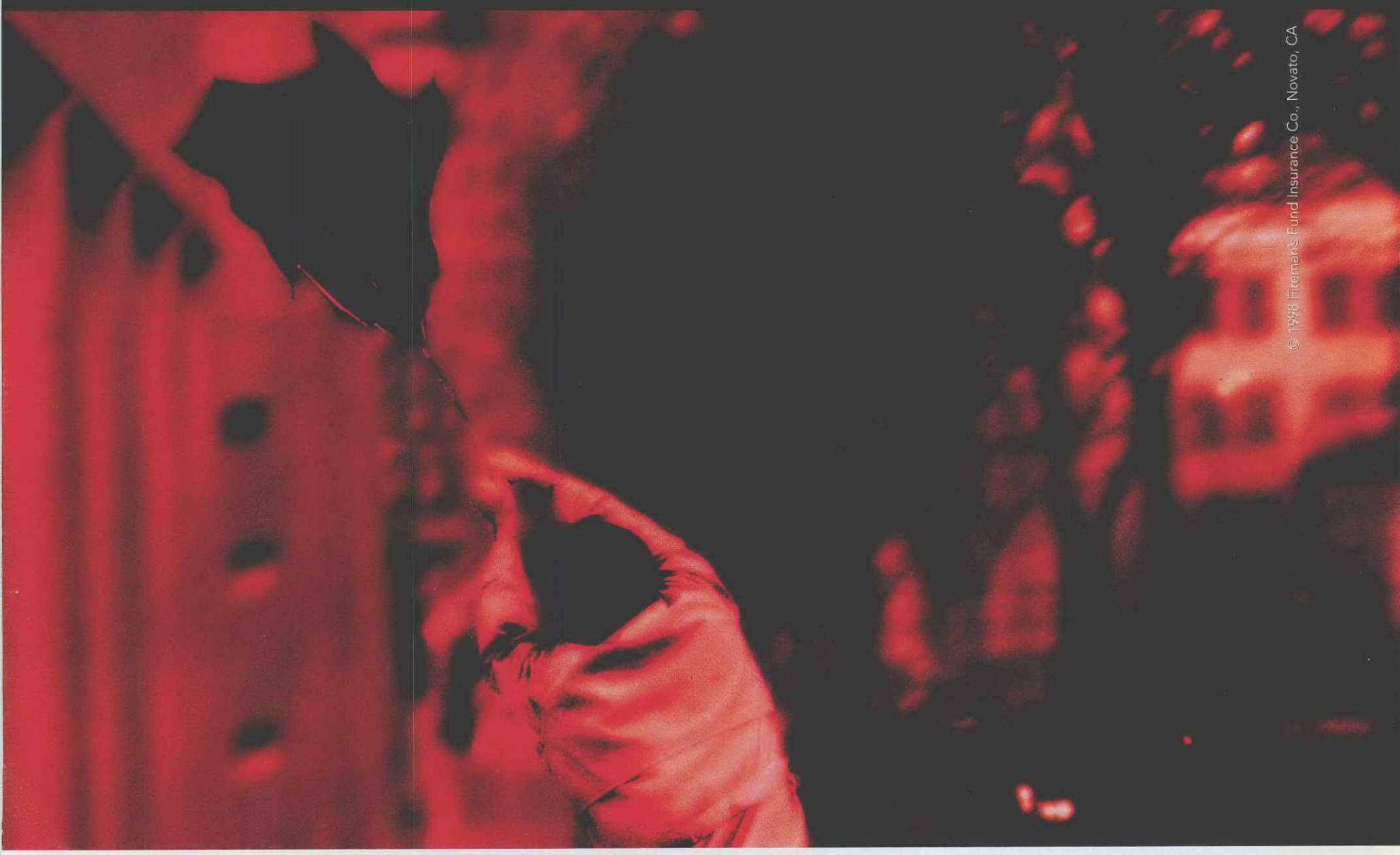
For more information on the captive insurance industry of the Isle of Man, contact Dr. Bill Hastings, Chief Executive, Insurance & Pensions Authority, HSBC House, Ridgeway Street, Douglas, Isle of Man 1M1 1ER, British Isles; 00-44-1624-646000; fax: 00-44-1624-646001.

—By Edwin Unsworth



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Captive Report

With tax question settled, Dublin eyes are smilin'

By SARAH GODDARD

DUBLIN, Ireland—"The Bermuda of Europe" is how Dublin is promoting itself as a captive domicile.

Although the pace of captive formations is slower than in past years, Dublin captive managers are confident the domicile is thriving and that a distinct Dublin market is emerging.

At the end of 1997, 142 captives were operating out of Dublin, eight more than in 1996.

Some captive managers concede the soft insurance and reinsurance markets may have played a part in slowing down captive formations, but they expect formations to continue as more European companies decide to take greater control of their overall risk management and insurance programs.

Uncertainties over the tax position of companies operating out of the International Financial Services Centre have been cleared up, giving companies a more certain tax outlook.

"A lot of people who look at captives are tax-driven," said Michael Trainor, managing director of Willis Corroon Management (Dublin) Ltd. Dublin's E.U.-approved 10% corporate tax rate, which applies for all IFSC companies, runs out at the end of 2005 and is available only for companies formed before 2000. In response, the Irish government has stated that it will implement a 12.5% tax rate for all companies trading in Ireland after 2005.

But Garry Cullen, managing director of Sedgwick Management Services (Ireland) Ltd., suggests that such a move most likely will require E.U. approval—particularly in light of tax harmonization proposals the European Commission is considering.

Other aspects of Dublin's financial services sector provide better reasons for setting up a captive in the jurisdiction than tax rates, Mr. Trainor contends.

To begin with, Dublin is now a mature captive market. The IFSC was set up in 1987, and in 1996—the last year for which figures are available—gross premiums written totaled 2.7 billion Irish punts ($4.48 billion), though this includes insurance and reinsurance companies as well as captives. No information is available about the percentage of that premium volume attributed to captives.

Captives formed in the IFSC can cover operations across Europe—with the exception of Ireland—under the European Third Life and Non-Life Directives, both for direct and reinsurance business, depending on the type of license.

Managers also emphasize the high level of expertise available in Dublin, the low cost of business and the modern telecommunications system.

But it is Ireland's entry into the Euro—the pan-European currency to be launched at the beginning of next year—that may be the attraction for European companies in the near future.



SINSER (Ireland) Ltd., traditionally a company providing captive management services to Scandinavian companies, has been promoting its services in continental Europe, said Managing Director Irene Ryan. SINSER'S Dublin operation, which manages 18 captives, is dealing with one formation already this year for a French company. Writing credit business, it originally set up as a reinsurance captive but is now establishing a direct-writing captive to handle business throughout Europe.

Ms. Ryan said one of the attractions for captives is "the ease and flexibility with which you can meet an insurance regulator" in Dublin. Emily Sheerin, assistant principal in the insurance division of the Department of Enterprise, Trade & Employment, confirms that her division wants to promote such accessibility, though she is swift to add that it in no way compromises regulatory standards.

The division is extremely busy with both formations and extensions in authorized lines to captives already operating in the domicile. "Our biggest challenge is to continue to provide an effective and efficient service," particularly because the department is understaffed, she said.

For captive managers, the challenge is different. "Marketing, marketing, marketing," is what Dublin needs, said Eamon O'Brien, managing director of Aon Insurance Managers (Dublin) Ltd. and chairman of the Dublin International Insurance & Management Assn. DIMA has teamed with consultant Tillinghast Towers-Perrin to produce a report spotlighting areas for future expansion.

The Irish government is backing the strategy through its Industrial Development Agency of Ireland, a government body that promotes overseas investment and oversee marketing of the IFSC.

One of the proposals implemented this month is the naming of a marketing specialist to promote Dublin. David Smith, a marketing executive at the IDA who has been dealing with the IFSC insurance sector for a couple of years, will assume that role as soon as details of the position are finalized.

"There has been great growth within all sectors of the IFSC," said Mr. Smith, including banking and treasury operations as well as insurance.

It is the more conventional insurance sector in particular that recently has seen growth. Earlier this year, ACE Insurance Co. Europe Ltd. was launched within the IFSC. Last year, Liberty International Underwriters set up a Dublin operation, and Starr Excess Ltd. is in the final stages of obtaining a license to trade in the IFSC.

"Our clients see Dublin as a fairly solid place with serious players," said Adam Mullan, underwriting manager with ACE.

Moves such as ACE's can be seen as the start of Dublin's transition toward being a fully fledged insurance—and, ultimately, an alternative risk financing—market.

Laurence Sherin, general manager of Zurich International Services (Ireland) Ltd., agrees that this could be the long-term future of the domicile.

Zurich Capital Markets has set up in Dublin, interacting with Centre Reinsurance Ltd., and "one of the ob-

See **Dublin** *on page 70*

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Dublin

Continued from page 66

jectives (of multinationals) is to consolidate worldwide risks into the management structure," said Mr. Sherin. "Multinationals are looking at how to use captives in the most efficient way."

There are mixed feelings within the Dublin captive management community whether new opportunities should include a provision in the law for rent-a-captives.

"I am very much in favor of rent-a-captives since they allow a broader number of companies to place risks into Dublin," said Ian Clancy, branch manager of J&H Marsh & McLennan Management (Dublin) Ltd.

But the regulators do not appear interested at the moment. "We are not in favor of them but we are open to discussing the possible benefits," said Ms. Sheerin.

The IDA's Mr. Smith said Ireland's depressed economy and high unemployment rate were the triggers that led the European Union to allow the formation of the IFSC and its beneficial tax environment.

Even now, new entrants to the IFSC have to fulfill employment criteria in order to become licensed, and this does not fit well with the concept of rent-a-captives, he explained. But it could be that when the 10% tax regime finishes in 2005, rent-a-captives will no longer have this barrier.

Aon's Mr. O'Brien is among those bullish about the future of the domicile. He anticipates the captive management sector doubling over the next three to five years.

Consolidations among captive managers have had a small effect on the rate of captive formations. The merger of Johnson & Higgins and Marsh & McLennan Inc. led to the incorporation of the UNISON captive management facility into Marsh & McLennan's operation. Other than UNISON, two captives were added to the combined operation in 1997, said Mr. Clancy, bringing J&H Marsh & McLennan's total captives under management to 35, with a gross premium volume of $772 million.

At the beginning of this year, J&H Marsh & McLennan reactivated its marketing initiative, and already it has submitted one license application. "We hope to have four or five in total by the end of the year," said Mr. Clancy.

Aon Group Inc.'s acquisition of Alexander & Alexander Services Inc. also took a captive management company off the Dublin list, but it hasn't particularly upset the Dublin apple cart. Aon had 12 captives under management at year-end 1997, with gross premium volumes of $93 million.

"We thought broker mergers would give rise to more opportunities than we have seen," said SINSER'S Ms. Ryan. She expects one or two more clients coming through, despite the soft insurance market.

Sedgwick also is confident of more captives coming under its wing this year. A recent corporate reorganization within Sedgwick, code-named Project Laser, has given the organization "a greater focus on customer service," said Mr. Cullen, and more inquiries now are being passed to the Dublin operation. Sedgwick had 10 captives under management at the end of last year. BI

Dublin law unchanged

DUBLIN, Ireland—The past year has brought no changes to Dublin's captive legislation.

Although the Department of Enterprise, Trade and Employment remains against the idea of rent-a-captives, Emily Sheerin, assistant principal of the insurance section, said it will consider proposals for legislation to govern rent-a-captives if there is a good case that they would benefit Dublin as a domicile.

Through Ireland's membership in the European Union, captives can write business throughout Europe, except in Ireland. In addition, Ireland



has 30 double taxation treaties with various countries around the world.

Ireland's E.U. membership also means captives are regulated in accordance with E.U. requirements. This means no specific regulations govern reinsurance operations, including solvency margins. But the Certification Advisory Committee, which handles part of the approval process for companies entering the International Financial Services Centre, requires minimum capitalization of 100,000 punts ($136,930).

Both direct-writing and reinsurance captives approved for business within the IFSC are able to take advantage of the E.U.-approved 10% tax rate, available until the end of 2005 for all companies setting up in the IFSC before the beginning of 2000. The Irish corporation tax rate for companies operating outside the IFSC is 32%, but the government has vowed to bring it down in steps over the next seven years so that when the E.U.-approved tax treatment ends, all companies operating in Ireland will pay a flat rate of 12.5%.

Applications for setting up captives start at the Industrial Development Agency of Ireland, which also determines the number of Irish people each applicant will be required to employ—one of the criteria of establishing in the IFSC, along with locating the business in the center.

There is an application fee of 4,000 punts ($5,477) and a 51-punt ($70) registration fee, down from last year's level of 142 punts ($194). Companies within the IFSC also pay capital duties of 1% of paid-up share capital.

Direct-writing captives are subject to more-stringent requirements. Capitalization is a minimum of 500,000 punts ($684,650), and solvency requirements follow the E.U. criteria of 18% of gross premiums or 26% of claims experience. In addition, direct-writing captives must have a registered office and file annual reports and quarterly returns with the DETE.

More information is available from David Smith, Financial Services Division, IDA Ireland, Wilton Park House, Wilton Place, Dublin 2, Ireland; 353-1-603-4000; fax: 353-1-603-4040; or Emily Sheerin, assistant principal, insurance division, Department of Enterprise, Trade and Employment, Setanta Centre, South Frederick Street, Dublin 2, Ireland; 353-1-661-4444; fax: 353-1-679-5710.

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Singapore expects reforms of captive laws

By KATE TILLEY

SINGAPORE—Singapore is expected to introduce new laws this year to reduce the capital and solvency requirements for Singapore-domiciled captives.

A Singapore government committee of inquiry, called the Competitiveness Study Committee, recommended a reduction to $400,000 Singapore from the current level of $1 million Singapore (to $248,920 from $622,300) for both the minimum capital requirement and the solvency margin. Captive managers expect the new regulations to become effective this year.

The government will also allow captives to write increased second-party business; captive owners and managers are awaiting draft regulations that will define second-party, or related-party, business.

Singapore captives now can write related-party business for majority-owned subsidiaries of a captive's parent company, but permission to do so is granted on a case-by-case basis. Since early February, captives also can write business for contractors and joint venture partners, provided the contractors and partners are advised in writing that the insurance is placed with a captive, said Brian Peele, managing director of Singapore's largest captive manager, Sedgwick Management Services (Singapore) Pte. Ltd.

Mr. Peele said he expects the new definition of related parties will allow captives to write insurance such as warranty coverage for their parent companies' customers.

Richard B.H. Tan, managing director of Aon Insurance Managers (Singapore) Pte. Ltd., said the rules relating to second-party business would formalize arrangements captive managers had been able to make on a case-by-case basis.

A spokeswoman for the Insurance Commissioner's Department in the Monetary Authority of Singapore said captives will get blanket approval to write non-related company risks "under certain conditions." Other aspects of captives' regulatory requirements are "under review," she said. She did not elaborate but said the new regulations will address these issues.

The government also may allow Singapore-based insurers, including captives, to establish tax-deductible catastrophe reserves. While the Singapore government had considered the U.K. model, which allows only a fixed percentage of premium to be set aside in a catastrophe level, a more flexible formula may better suit the smaller captive insurers, Mr. Peele said. No time frames have been set for the proposed legislative changes, he noted.

But despite an anticipated increase in leniency for captives, no captive managers are expecting a major boost in numbers domiciled in Singapore. As of year-end 1997, Singapore had a total of 52 captives, a gain of three from the previous year. Gross premium volume for 1997 was $263.8 million Singapore ($165 million), down slightly from $263.9 million the year before.

Since the end of 1996, four new captives have been registered—three with Japanese parents and one with a Singapore parent. One Australian captive was deregistered. Singapore has not gained any new captives so far this year.

Mr. Peele said Asian parent companies are the growth area for Singapore-domiciled captives and that the new regulations may make the island more attractive. He said two Japanese and two Taiwanese corporations are considering establishing Singapore captives.

"The Asian economic crisis has not stopped them, nor has the soft market been a factor," Mr. Peele noted. "Once the feasibility study unfolds, it makes a lot of sense to formally manage your own insurance."

George McGhie, managing director of J&H Marsh & McLennan Risk Management Services (Singapore) Pte. Ltd., said Japanese corporations continue to have a "conservative attitude" toward captives.

Although Taiwan, South Korea, Hong Kong, China and the Philippines all ought to represent good potential growth, he noted, "I've been saying that for five years."

The approval process is more complex in Asian corporations, and thus slower. "We spend a lot of time educating people about risk management, risk financing and captive concepts, but at the end of the day, they stay in the traditional relationships with traditional insurers," Mr. McGhie said.

Mr. Tan said Singapore-based companies are interested in establishing onshore captives. The Port of Singapore Authority established a captive that received its license last September; it was the island's first Singapore-owned captive, he noted. Sedgwick manages the captive, PSA Ins. Pte. Ltd.

Mr. Tan said the same rules for offshore-owned captives apply onshore, except Singapore-owned captives pay the full 26% corporate tax.

Aon is conducting captive feasibility studies for another Singapore corporation and for a Malaysian corporation, he said.

Mr. McGhie said the softness of the competitive Australian market takes away an incentive for Australian corporations to establish captives.

Despite the plethora of alternative risk financing options available to risk managers, such as finite risk transfer, blended programs, mutuals, and catastrophe programs funded by the capital markets, Mr. Peele said captives still are generally popular because they give corporations more control and are accountable.

Meanwhile, a tax change in Australia has effectively increased the taxation level for Australian-owned captives in Singapore, a popular domicile among Australian companies (*BI*, Feb. 24, 1997).

The Australian Tax Office in July reduced the so-called "white list" of countries the ATO deemed to have comparable tax rates. Under Australia's Controlled Foreign Corporation tax rules, introduced in 1990, Australian-owned companies operating in "white list" countries were exempt from Australian income tax provided that those companies paid the "white list" country's full corporate rate. The 60 former "white list" countries included Singapore and Malaysia.

However, the rule change, which took effect July 1, reduced the list to seven countries, none of which is a captive domicile Australian companies use. That means all Australian-owned controlled foreign corporations, including captives, must pay an additional tax in Australia.

Australian-owned captives, many of which are domiciled in Singapore, must pay an additional 10% tax to Australia.

Most captives already pay the difference between the Singapore and Australian tax rates, Mr. Tan noted.

Mr. Peele said the new law triggered many captive owners to reassess the value of their captives, but he does not expect any to move to Australia.

"There's still a wide gulf between the two regulatory environments," he noted. "The majority of Australian corporations don't have captives in Singapore for tax reasons. Talk of movement back to Australia is just that—talk."

The parent companies of both Australian-owned captives that Aon manages, chicken processor Ingham Enterprises Pty. Ltd. and plastics and paper manufacturer Amcor Ltd., considered relocation but decided to stay in Singapore, he noted.

But George Tarabaras, former managing director for Sedgwick Management Services (Singapore) Pte. Ltd., now general manager-risk consulting in Sedgwick's Melbourne, Australia, office, said at least one Australian parent company had decided to transfer its Singapore captive back to Australia. That captive was not yet re-registered in Australia. However, Mr. Tarabaras agreed there would "not be an exodus" from Singapore.

Meanwhile, Australia's captive owners are still awaiting a redraft of an Australian Tax Office ruling on the tax deductibility of premiums paid to offshore captives. The Canberra, Australia-based ATO began rewriting the draft after a federal court decision clarified that premiums paid to captives are eligible for full tax deductibility, as are other insurance premiums (*BI*, April 15, 1996).

The ATO's draft ruling, TR94/D36, was first issued Aug. 11, 1994 (*BI*, April 24, 1995). The ATO had delayed issuing a final ruling, pending the outcome of a court case. ATO officer Elliott Reich had anticipated the ATO's final ruling would be finalized by the end of 1996, but he now says it will not be issued before July of this year.

For more information about Singapore as a domicile, contact the Insurance Commissioner's Department, Monetary Authority of Singapore, 10 Shenton Way, MAS Building, Singapore 079117; 65-225-5577; fax 65-229-9694. BI

Hawaii passes 50 milestone with six new captives

By ROBERTO CENICEROS

HONOLULU—With six new captives added to Hawaii's roster, the state has topped its long-awaited goal of 50 captives, a milestone signifying that it has attained the critical mass managers say is needed to accelerate growth.

By the end of 1997, supporters of Hawaii's captive insurance industry could count 51 active facilities operating there. Six captives were formed in 1997, compared with four in 1996. But four Hawaii captives either dissolved or relocated to other domiciles.

Hawaii's captives wrote $246.8 million in gross premiums during 1997, compared to $204.7 million in 1996. As of April 6, there was one new captive licensed this year, similar to last year, when the first captive was licensed April 7.

But several Hawaii captive managers report a flurry of recent activity.

"The numbers seem to be coming through," said Marc Lapointe, managing director for Aon Insurance Managers Inc. in Honolulu. "I have had a lot of prospects for Hawaii for a couple of years. Now they seem to be getting ready to sign, so a lot of what I had on my prospect list will be turning into clients."

Broker mergers had their ramifications in Hawaii. The combination of M&M Insurance Management Services Inc. with Johnson & Higgins Services Inc. further widened the lead of Hawaii's largest captive manager. The combined J&H Marsh & McLennan Management Inc. managed 27 captives at the end of 1997, according to the Hawaii Insurance Division. In comparison, the domicile's second-largest manager, Becher & Carlson Risk Management Inc., managed eight captives.

Meanwhile, Aon Corp.'s purchase of Alexander & Alexander Services Inc. gave Aon a presence in Hawaii when Aon Insurance Managers (USA) Inc. assumed operations of Alexander Insurance Managers.

While four of the six new captives licensed during 1997 are units of West Coast companies, a Houston-based company, Rutherford-Moran Oil Corp., located its insurance unit in Hawaii because of the domicile's proximity to Asia.

"My company's assets are primarily in the gulf of Thailand," said Dave Chavenson, vp of finance and chief financial officer for Rutherford-Moran. Mr. Chavenson said he breaks up long flights to Asia by stopping in Hawaii to tend to the captive's business. Thai-Tex Insurance Corp. writes casualty and business interruption coverage for Rutherford-Moran's operations in Thailand. The captive is managed by Willis Corroon Management Ltd.

Adding another captive conducting business in Asia is a bonus for the Hawaii Captive Insurance Council. The HCIC has set its sights on attracting more business from U.S. companies operating in Asia and from Asian companies operating in the United States, said Craig Watanabe, senior vp of 50th State Risk Management Services Inc., an American International Group Inc. unit. Mr. Watanabe also is HCIC president and director.

Hawaii's proximity to California continues to be a plus for some companies forming new captives, as does the flexibility of the domicile's regulators, risk managers say.

Jeffrey Seilbach, director of risk management for Stanford University in Stanford, Calif., said he evaluated the Cayman Islands, Bermuda and Vermont as potential captive domiciles for a new joint venture between a hospital and clinics operated by the University of California at San Francisco and Stanford Health Services. Hawaii proved to be most receptive to health care entities.

The domicile has the least restrictive requirements for a captive's investment of Medicare funds paid into it, Mr. Seilbach said.

"One of the things I was pleased with was how we were received in Hawaii by the regulators," he said. "They are very health care-oriented. They want that type of business, and they have set up their laws and regulations to accept it." Medical Professional Liability Insurance Co. Inc. funds professional liability coverage for hospital, clinic and physician employees, as well as general liability, including employment practices liability. It was licensed in October, and it is managed by J&H Marsh &

See **Hawaii** *on next page*

Largest managers of Hawaii captives

(Ranked by gross premium volume in millions of dollars)

Manager	Premium volume 1997	Premium volume 1996	Captives 1997	Captives 1996	Staff 1997	Staff 1996
J&H Marsh & McLennan Management Inc.*	$154.3	$92.1	27	14	8	5
Becher & Carlson Risk Management Inc.	59.1	51.1	8	8	2	2
Sedgwick Management Services (U.S.) Ltd.	12.5	12.7	6	6	**	NA
Aon Insurance Managers (USA) Inc.* **	7.9	NA	3	NA	2	NA
Willis Corroon Management Ltd.	7.4	14.5	2	2	NA	NA
Hawaii Captive Insurance Management Inc./USA Risk Group	3.3	2.3	5	5	4	4
IAS Insurance Management	1.9	2.2	1	1	NA	NA
50th State Risk Management Services Inc.	0.3	0.4	0	1	4	4

* 1996 figures do not include Johnson & Higgins Services Inc.
** Subcontracts regulatory and accounting services to Hawaii Captive Insurance Management Inc./USA Risk Group
*** Entered Hawaii captive market in 1997 through acquisition of Alexander Insurance Managers

Captive Report

Hawaii

Continued from previous page

McLennan Management Inc.

The captive is seeking a private letter ruling from the Internal Revenue Service to make it a non-profit entity. It is following the lead of another Hawaii captive, Sutter Insurance Services Corp., which already is operating as a non-profit captive. MPLIC was set up similarly to Sutter Insurance Services to facilitate obtaining IRS approval, Mr. Seilbach said.

Setting up a captive in Hawaii was painless, he said. However, "when you go there for a board meeting, you don't necessarily want to come back."

Hawaii's regulators showed him just how flexible they can be. "At the start of their program, they were undecided on how they were going to form the captive, so we allowed them to submit two applications and we approved both," said Gordon Nishiki, an insurance program specialist with the State of Hawaii Insurance Division. "Then they decided which one they wanted." It was the first time Hawaii's regulators had approved dual applications, Mr. Nishiki said.

Five of the six captives formed in 1997 were pure captives. Professional Medical Insurance Risk Retention Group Inc., managed by Aon Insurance Managers and formed by Saint John Medical Center in Tulsa, Okla., and affiliated organizations, was the only group captive licensed in 1997.

The other captives licensed in 1997 were: Chesapeake Assurance Ltd., a unit of Oakland, Calif.-based Clorox Co., writing casualty and auto coverage; Edison Insurance Services Inc., a unit of Rosemead, Calif.-based Edison International Inc., writing property coverage; and Pacifica Insurance Corp., a unit of Irvine, Calif.-based Western Digital Corp. that writes property and casualty coverage.

All three captives are managed by J&H Marsh & McLennan Management. Their parent companies formed captives despite an extremely soft market in California, noted Peter Lowe, senior vp for J&H Marsh & McLennan in Honolulu. Establishing several captives under those conditions shows that the captive market is more mainstream and less "alternative" than was thought in the past.

The one captive formed this year, in April, is Primeguard Insurance Co. Risk Retention Group, managed by 50th State Risk Management Services Inc. It will write contractual liability coverage for Colorado auto dealers that sell extended service warranties.

Improving the captive growth rate is one of the top challenges facing the domicile, said Mr. Nishiki, who divides his time between regulating captives and other regulatory tasks. But legislation passed last year approved adding a full-time captive regulator and staff members.

Funding to fill those positions is expected to be available this year, and a new captive administrator is expected to be hired. The legislation that created the full-time position calls for the new administrator to help spur captive industry development.

The industry is also drawing the support of legislators who see nurturing it as a way to counter the state's slumping economy, said Gerald Yoshida, HCIC chairman and a partner at the law firm Char Hamilton Campbell & Thom in Honolulu. The two co-chairmen of the state's key Senate Committee of Consumer Protection and Information Technology, Democratic Sens. Wayne Metcalf and David Ige, attended the World Captive Forum last year in Orlando, Fla. They also traveled to Vermont to see its captive industry, Mr. Yoshida said. Sen. Metcalf was Hawaii's previous insurance commissioner.

Having that support is important as Hawaii continues to raise the domicile's competitiveness, observers said.

This year, lawmakers, at the request of the HCIC, introduced H.B. 2672 and S.B. 2586. The bills would expand the commissioner's powers to approve the lines of coverage a captive can write. For example, under the measures, which are expected to pass, the commissioner could allow captives to write benefit risks. Hawaii regulators have said captives can write that coverage, but it was not clearly stated in any statute, Mr. Yoshida said. Giving the commissioner such discretion will eliminate a need to enact law each time a unique type of captive arrangement is sought, Mr. Yoshida said.

The legislation also would allow the commissioner to exempt captives, on a case-by-case basis, from certain laws. For example, under the legislation, the commissioner could exempt risk retention groups from a law limiting them to retaining risk amounting to no more than 10% per member of the RRG's capital. The new law would let the commissioner consider other factors, such as the RRG's entire finances and its reinsurance contracts. The 10% limitation of risk played a part in one captive leaving the island in 1997, Hawaii observers said.

Another bill, H.B. 3393, would give the commissioner authority to approve service providers such as captive managers, auditors and actuaries. Currently, that is done as part of each individual captive application.

Two other companion bills, H.B. 2829 and S.B. 2840, call for group captives to file risk-based capital reports. Previously, they had done so on a voluntary basis, but making it a requirement will help with the oversight of group captives, provide a clearer picture of their business, and reduce the chance of insolvency, Mr. Yoshida said. It will also make other states where RRGs provide coverage to policyholder-owners more confident in Hawaii captives, he added.

All the legislation supported by HCIC either passed or was expected to easily pass before receiving Gov. Benjamin Cayetano's signature. During 1997, the governor signed bills supported by HCIC, including one that liberalized a captive's ability to write credit life and disability coverage (*BI*, April 14, 1997). BI

Hawaii's largest captives

(Ranked by 1997 gross premium volume)

Captive	Parent
Nissan Motor Insurance Corp.	Nissan North America Inc.
Meridian Pacific Insurance Co. Inc.	Nestle Holdings Inc.
National Liberty Insurance Co.	Equity Group Investment Inc.
Opcal Insurance Inc.	Occidental Petroleum Investment Co.
Entertainment Risk Management Insurance Co. Inc.	Draney Information Service Corp.
Medical Professional Liability Insurance Co.	University of California, San Francisco-Stanford Health Care
California Hospitals Insurance Services Co., A Risk Retention Group	California acute care hospitals
Sutter Insurance Services Corp.	Sutter Health
Attorneys Insurance Mutual Risk Retention Group Inc.	California law firms
Chesapeake Assurance Ltd.	The Clorox Co.

Source: State of Hawaii Insurance Division; premiums not released

Hawaii's requirements for captives

HONOLULU—The Hawaii Division of Insurance determines capital and surplus requirements on a case-by-case basis, but an applicant can expect minimum capitalization requirements to be $250,000 for pure captives, $750,000 for association captives, and $500,000 for risk retention groups.

Application review fees are about $3,500 for pure or single-parent captives and $7,500 for association captives and risk retention groups, depending on the degree of complexity of the filing.

License renewal fees for captives in the state are $300 annually.

Premium tax rates are 0.25% for single-parent captives and 1% for association captives and risk retention groups.

Other category requirements include:

- A minimum of one annual board of directors meeting in Hawaii.
- Maintaining the captive's principal place of business in the state.
- Appointing a resident agent to represent the captive company locally.
- Captive companies based in Hawaii normally are permitted to underwrite property, casualty, marine and transportation, surety, title and workers compensation coverages.

For more information on forming a captive insurance company in Hawaii, contact Rey Graulty, Insurance Commissioner, 250 S. King St., P.O. Box 3614, Honolulu, Hawaii 96811-3614; 808-586-2790. BI

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Colorado in uphill battle to spur captive growth

By JOANNE WOJCIK

DENVER—Supporters of Colorado's captive insurance industry are hoping that regulatory changes streamlining filing requirements will stimulate growth.

For the most part, however, the nation's oldest captive domicile is losing more business than it is attracting. Colorado had just 16 captives at year-end 1997, down from 18 the year before and 20 in 1995. While one new captive was formed last year, one moved to Vermont and two others merged into a single entity offshore.

"We're struggling," acknowledged Paul Froment, vp at J&H Marsh & McLennan Inc. in Denver, which manages four captives.

Mr. Froment says that Colorado is still fighting its old image as inflexible. "Some people wrote us off a long time ago," he said. However, "the perception should be different today because we've worked really hard to change it."

Indeed, Colorado has come a long way since the early 1990s, when captive owners and managers turned instead to more liberally regulated domiciles.

For example, in 1994, Colorado became the first domestic U.S. domicile to permit captive insurers to write employee benefits coverage.

Unfortunately, that same year the U.S. Labor Department rejected a proposal by transportation giant CSX Corp. to reinsure its group term life insurance business through its Vermont captive. The Labor Department ruling, a nearly insurmountable roadblock for an employer that wants to use its captive as a benefits funding tool, held that too much CSX-related business would have flowed through the captive.



As a result, so far only one captive has taken advantage of Colorado's law changes: the Farm Credit System Assn. Captive Insurance Co., which used its unique status as a government entity to form a captive writing medical stop-loss coverage for its members (*BI*, April 15, 1996).

Colorado's captive regulators also have changed, with Nancy L. Litwinski succeeding Frank

See **Colorado** *on next page*

Colorado

Continued from previous page

Dino as assistant commissioner for financial regulation in October 1996. She came to Colorado after working eight years in the Maine Bureau of Insurance, where she most recently was director of financial analysis. She was responsible for supervising the self-insured workers compensation market, as well as financial oversight and licensing of domestic and foreign insurers operating in the state.

Ms. Litwinski is viewed by captive owners and managers as very supportive of the state's captive industry. Over the past six months, Ms. Litwinski has held monthly meetings with members of the Colorado Assn. of Captive Entities "to discuss issues that were precluding Colorado from being a major player in the domestic captive industry," she said.

The decision to liberalize the filing requirements came out of those meetings. "We looked at the law, which we found was similar to other U.S. domiciles' laws, but decided that rewriting Regulation 231, which outlines filing requirements, would help make filing requirements for initial filings and for renewals as streamlined as possible," Ms. Litwinski explained.

Under the proposed new regulation, a single-parent captive no longer is required to file an annual statement with regulators. Instead, it can file either an audited financial statement or the jurat page from the annual statement, the balance sheet and an income statement, explained Alan Schmitz, a partner with the Denver law firm of Schmitz & Associates who worked with CACE and the division in drafting the change.

Mr. Schmitz, formerly with the law firm of Hall & Evans, also helped draft the 1994 captive reforms. He left the firm in February to start his own practice, specializing in insurance regulatory issues.

Hearings must be held before the proposed regulation can take effect, but Ms. Litwinski hopes that it will be reviewed and approved by Insurance Commissioner Jack Ehnes in time to be promoted at the CACE booth this year at the Risk & Insurance Management Society conference.

Besides liberalizing the filing requirement, the Colorado Division of Insurance also now has a dedicated staff member processing captive applications, reducing the turnaround time to fewer than 60 days, according to Ms. Litwinski.

Despite these moves, Colorado continues to lose business. For example, Richard Johnson, president and chief executive officer of Alternative Insurance Management Services Inc. of Englewood, Colo., was forced to move both Neumann Insurance Co. and M.S.J. Insurance Co. to the Cayman Islands because of the prohibition against captives writing third-party business in Colorado, he said.

Neumann is owned by the Franciscan Health System, and M.S.J. is owned by the Sisters of Charity. Both hospital chains are Cincinnati-based.

"They also needed to do third-party medical malpractice because they made a lot of joint ventures with other hospitals, but they didn't want those hospitals to become joint owners of the captive," he explained at the time. So the captives were merged and moved as of Jan. 1 to the Caymans, where they are being managed by Aon Risk Services (Cayman) Ltd.

As a result of the move, AIMS' total gross premiums under management dropped to about $5 million in 1997 from $22.3 million at year-end 1996. However, Mr. Johnson's company continues to do the claims administration work for the captives.

Also leaving the domicile in 1997 was Constance Insurance Co., a single-parent captive owned by Crawford Fitting Co. and managed by RiskCap. Constance redomesticated to Vermont.

The only new captive formed in Colorado in 1997 was by the National Auto Dealers Assn. The captive, NADA Indemnity Inc., covers the cost of car giveaways for holes-in-one in member-sponsored golf tournaments.

Finally, due to lack of interest, CACE decided to suspend holding its annual conference in Vail and instead put its efforts into marketing the domicile at the annual Captive Insurance Company Assn. conference.

"And, hopefully we'll get some mileage out of RIMS," said Mr. Froment of J&H Marsh & McLennan who remains optimistic. "We want to continue to make this a viable domicile." BI

Colorado regulations

DENVER—Companies can form both single-parent and group captives in Colorado to write insurance and reinsurance covering the risks, hazards and liabilities of their parent company and affiliated entities.

Changes to Colorado's captive law in 1994 permitted captives to write employee benefits coverage, too. But captives that write employee benefits must provide the minimum mandated coverage that commercial insurers provide under Colorado law.

Risk retention groups may be formed either as group captives or as commercial insurance companies.

Single-parent and group captives need at least $500,000—including $300,000 in capital and $200,000 in surplus—in initial capitalization.

The tax on captives is the greater of $5,000 or 0.5% of the first $25 million in direct premiums written, plus 0.25% of the next $50 million and 0.1% of premiums exceeding $75 million. Captives that write reinsurance pay 0.25% of the first $20 million in assumed reinsurance premiums, plus 0.1% of each dollar thereafter.

Captives that use a fiscal-year reporting method can pay the minimum $5,000 premium tax at the end of the calendar year, with the balance due 60 days after the end of the captives' fiscal year.

Home offices must be located in Colorado, and all books, records and claims-handling documents must be maintained in the state.

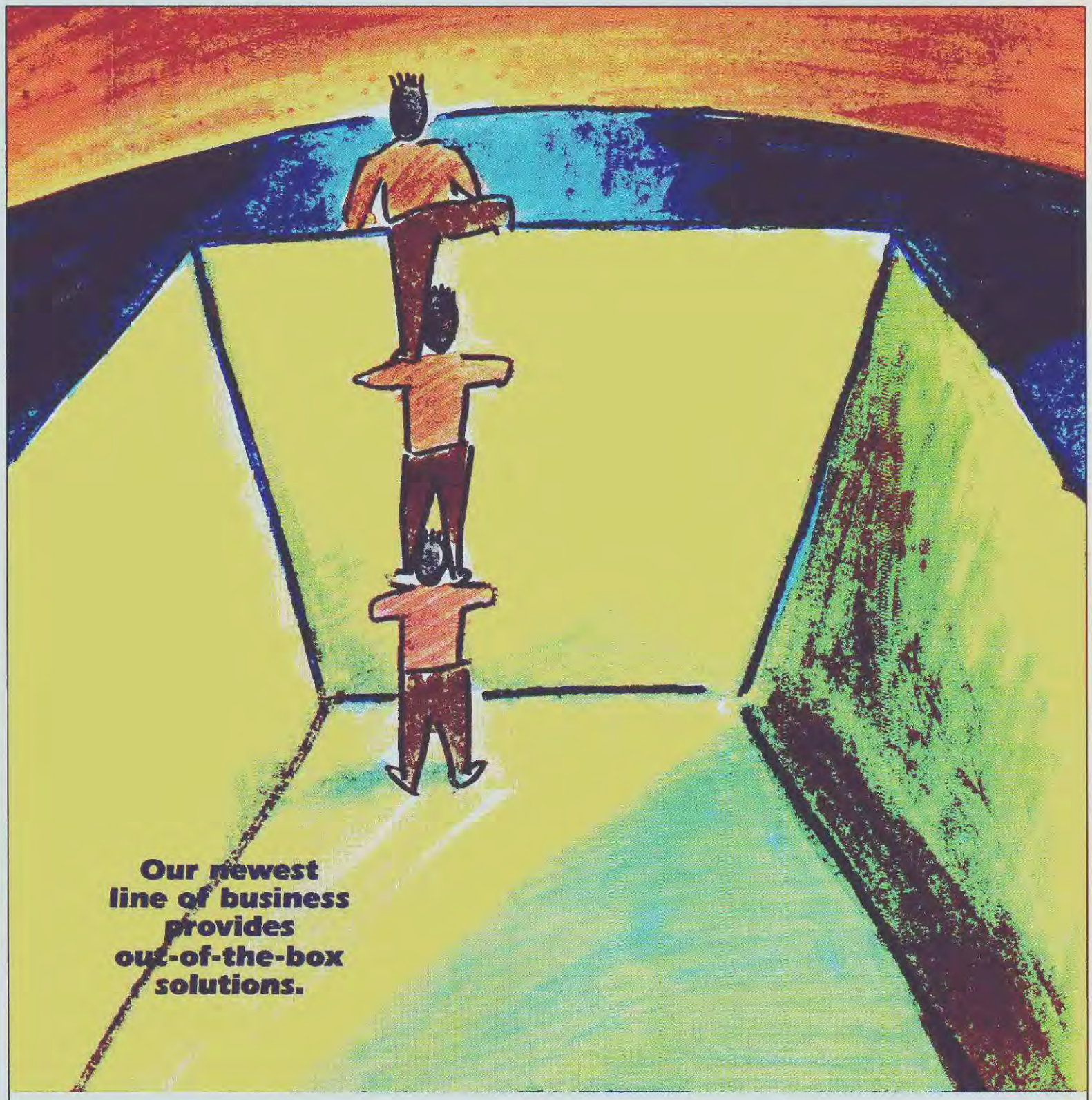
Both single-owner and group captives can establish joint custody accounts that require only the captive owner's and the commissioner's signature for withdrawals.

Single-owner captives may make loans to their owners if they maintain the minimum capital and surplus.

Captives pay an initial $200 application fee and an annual $300 fee.

The commissioner may require that a captive retain independent outside insurance examiners to supplement the division's evaluation in organizing a captive or for annual financial examinations of existing captives. All expenses related to the outside examiner must be paid by the captive.

For more information about forming a captive in Colorado, contact Jack Ehnes, Commissioner, Colorado Division of Insurance, 1560 Broadway, Suite 850. Denver, Colo. 80202; 303-894-7499, ext. 305. BI



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CNA RE

Captive Report

International offshore domiciles gaining captives

British Virgin Islands

The British Virgin Islands is seeing more interest in captive formations as it stakes out a position as a cost-effective domicile for small insurers.

The B.V.I. finished last year with 72 active captive insurers, a gain of 18 from the 54 captives licensed at year-end 1996.

Of the 72, though, only 58 were active as of earlier this month, according to Supervisor of Insurance Peter Bates. A few of the captives had shut down, and eight or 10 others were late in paying annual license renewal fees, making them temporarily ineligible to do business. Mr. Bates said he expects most of them to pay their fees and regain their active status.

The domicile is in the process of setting up a computer system to track captives' premium volume, but no such figures are available yet.

New license applications, meanwhile, are coming in at a faster clip so far this year, Mr. Bates reported.

"We are not swamped by any means, but we have (about a dozen) on the go at the moment, which is quite a bit more than last year at this time," he said.

"We are anticipating doing more business this year than last year, mainly from smaller-type companies," he said, noting that a number of B.V.I. captives generate less than $1 million a year in gross premiums.

Mr. Bates attributes this growth partly to greater marketing efforts for the domicile, partly to the addition of another licensed manager last year—the B.V.I. now has eight management companies—and partly to the relatively low cost of doing business in the B.V.I.

"We are less expensive, more cost-efficient, for a small captive than Bermuda or Cayman," he said.

Meanwhile, the B.V.I.'s roster of credit life reinsurers has continued to shrink: 58 such companies currently are licensed, down from 69 at the end of 1996. The B.V.I. saw several hundred credit life companies move to other domiciles after it imposed a $1,000 annual license fee and minimum capital requirements in January 1996.

The B.V.I. enacted its first international insurance law in 1994. Under The Insurance Act, 1994, captives must meet minimum solvency requirements, including:

- $200,000 in capital for property/casualty insurers writing up to $1 million in net premiums. The minimum for those writing $1 million to $5 million is 20% of net premiums and for those writing more than $5 million it is $1.2 million plus 10% of net premiums exceeding $5 million.
- $250,000 for insurers writing life/health business only.
- $250,000 plus the amounts required of property/casualty insurers for those writing both life/health and property/casualty.

Captive insurers must pay a $500 license application fee and a $2,000 annual fee for license renewal.

Huge growth in the B.V.I.'s other financial sectors—including expansion of B.V.I.-based international business companies—prompted the government to prepare a package of anti-crime legislation.

Some parts of this package, including anti-money laundering provisions, were enacted last year, according to Mr. Bates.

Additional legislation would impose a "code of conduct" on B.V.I.-licensed service providers, requiring them to subject all business referred by overseas professionals to due diligence and "know your client" reviews. These provisions are expected to be enacted later this year, according to Mr. Bates.

The B.V.I. is also interested in attracting insurance derivative deals, he added. Bermuda recently amended its insurance regulations to classify securitization contracts as investments, meaning that investors would not be deemed to be carrying on insurance business and would not have to register as insurers to participate in the deals (*BI*, March 30).

"It's the sort of business that obviously we would like to have," Mr. Bates said. "There is no reason we should not get in on that act."

Derivative deals should be possible under existing B.V.I. law, he said, explaining that the government has the power to exempt the participants in such deals from insurance regulations that might otherwise apply.

Sellers and buyers of derivative contracts, he added, are sophisticated parties that "do not need a vast amount of regulation because everyone knows what they are doing or should be doing."

Mr. Bates, a former Cayman Islands regulator, was named the B.V.I.'s insurance supervisor in May 1996 under a two-year contract paid for by the British Overseas Development Authority, a British government agency. Mr. Bates said he expects his contract to be extended by at least one year.

He reports to Robert Mathavious, director of financial services and commissioner of insurance.

For more information, contact Mr. Bates at the Financial Services Department, The Haycraft Building, Pasea Estate, Road Town, Tortola, British Virgin Islands; 284-494-4190.

—By Douglas McLeod

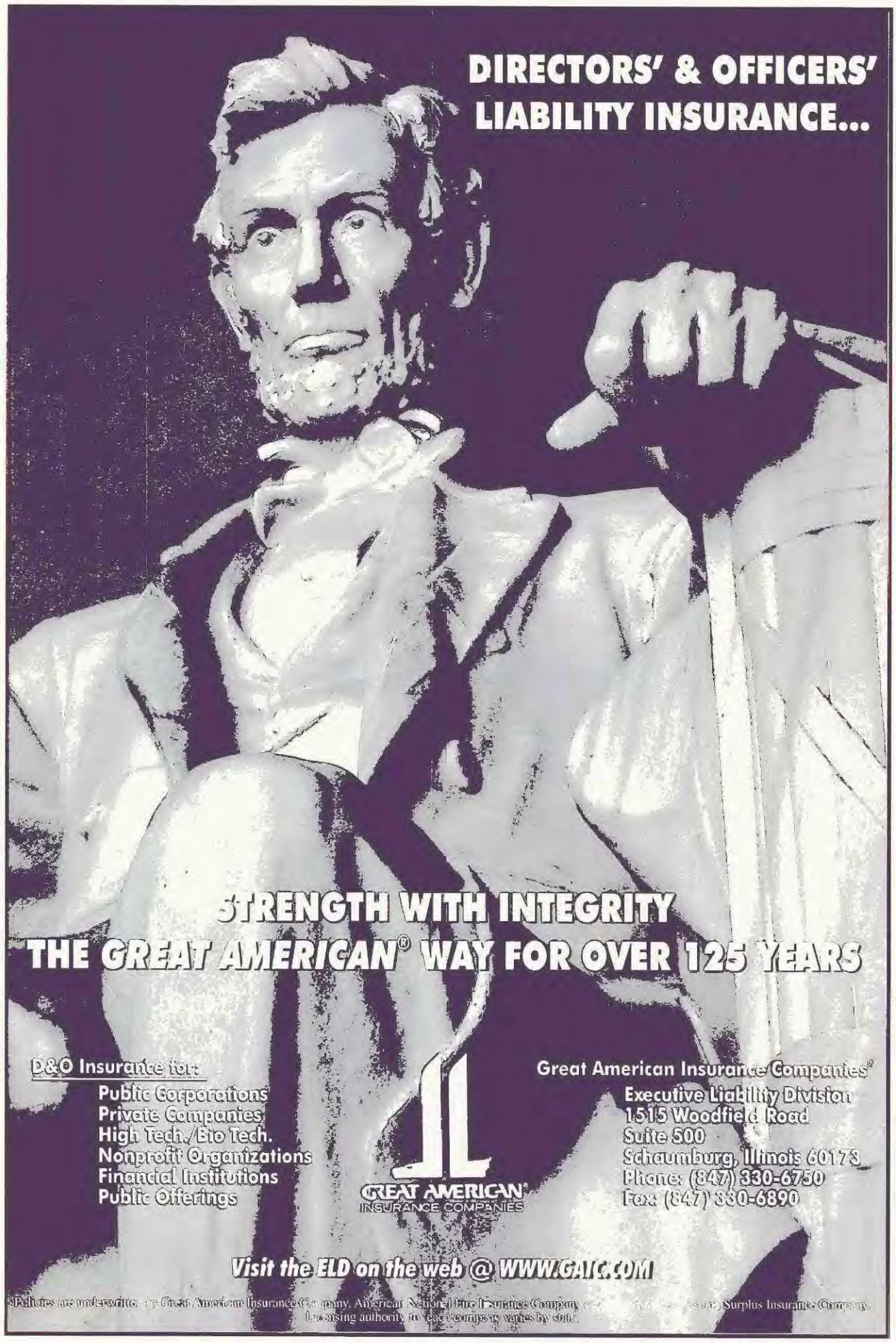
Turks & Caicos Islands

The captive insurance industry is expanding steadily in the Turks & Caicos Islands, though credit life reinsurance continues to make up the bulk of the domicile's insurance sector.

The Turks & Caicos finished last year with 68 active captive insurers, a net gain of seven captives from the 61 active companies licensed at the end of 1996, according to Superintendent of Insurance Colin Holder.

The new formations included single-parent and group captives, with most formed by owners in the United States and some by owners in the United Kingdom, Mr. Holder reported.

See **International** *on next page*



International

Continued from previous page

Captives have been formed for a variety of purposes in recent years, including funding deductibles for parent companies' workers compensation programs and providing high excess environmental liability coverage for the non-U.S. operations of companies that need coverage to meet local legal requirements.

Last year, the Turks & Caicos saw new captives being formed by funeral directors to offer "pre-need" funeral service products, Mr. Holder said.

The domicile's captive sector continues to be dwarfed, though, by its credit life reinsurance industry: The Turks & Caicos licensed 139 new credit life companies last year, bringing the total to 1,994 at year-end from 1,855 at the end of 1996.

Much of the growth in the past two years has been at the expense of the British Virgin Islands, which imposed a $1,000 annual license fee on the credit life companies in January 1996 and saw many change domiciles, Mr. Holder confirmed.

Credit life companies may be set up by auto dealers, for example, to assume life insurance coverage written for car buyers who finance their purchases. The coverage is designed to repay the balance of a loan if the borrower dies before repayment.

Licensing requirements under the Turks & Caicos Insurance Ordinance of 1989 have not changed in the past year, Mr. Holder said. Under the law, an insurer must submit a business plan that describes its risk exposure and asset base; types, sources and volume of business; its retentions and proposed reinsurance relationships; its loss ratio projections; and its reasons for choosing the Turks & Caicos as a domicile.

The superintendent can set minimum capital and solvency requirements based on a company's business plan. Regulators follow some general guidelines, though:

- General insurers should have a minimum of $100,000 in capital and may have to have more based on expected premium volume, types of business to be written, retentions and loss and expense ratios.

The government has encouraged non-domestic insurers—those writing business outside the Turks & Caicos—to keep at least $100,000 in assets within the domicile so that funds will be available to regulators in case the insurer is wound up.

- Insurers writing up to $5 million in net property/casualty premiums should maintain a net worth equal to 20% of premium volume. Those writing more should have a net worth equal to $1 million plus 10% of net premiums over $5 million.
- Those writing life business should have a minimum net worth of $180,000.
- Those writing both life and property/casualty premiums up to $5 million should maintain a net worth equal to 20% of premiums, and those writing more than $5 million should have a net worth equal to $1 million plus 10% of premiums over $5 million.

Annual fees are $2,000 for captives, $3,500 for insurance managers and $1,000 for brokers.

For more information, contact Colin Holder, Superintendent of Insurance, P.O. Building, Front Street, Grand Turk, Turks & Caicos Islands; 649-946-2791.

—By Douglas McLeod

Sweden

Sweden's captive roster remained unchanged at 34 in 1997, but two license applications pending with the country's finance authorities are expected to be approved this year.

It can take six to 12 months to establish a captive in Sweden, as applications are evaluated by the country's finance supervisory authority and then approved by its finance department.

Bo Goran Persson, chief operating officer of Swedish captive manager SINSER A.B. in Stockholm, said Sweden is neither promoted nor recognized as a traditional captive insurer domicile. But the country's insurance law is favorable for Swedish companies wishing to create a captive insurer, he said.

All of Sweden's current 34 captives are owned by Swedish companies.

"Companies can and do (set up captives) and will continue to in the future," Mr. Persson said

He said most of Sweden's recent captives have been established by operations that previously were state-owned, such as power stations and banking and postal services, and which have been privatized during the last few years.

Sweden's insurance law does not differentiate among insurer, reinsurer or captive companies. Basically, the law allows insurance companies to build up an untaxed security reserve against claims, with capital contributed from parent or subsidiary companies.

Reserve calculations depend on the business written. For direct insurers, the reserve is 50% of net retained premiums; for reinsurers, it is 150%; and for credit insurers, it can be up to 600% of net retained premiums.

Despite the slow growth in Sweden's captive market, Mr. Persson believes the advantages of establishing a captive domestically will continue to attract interest from Swedish companies. A major advantage, he said, is that captive and risk management staff are very close to and can work centrally with the parent company.

There have been discussions with companies—mainly from other Nordic countries—contemplating forming captives in Sweden but none has formally approached the government, Mr. Persson said.

The Nordic countries of Norway and Finland have insurance laws similar to Sweden, so companies there may opt to create domestic captives.

Swedish captives must have a minimum capitalization of 200,000 to 1.4 million ECU ($215,800 to $1.5 million). An application fee of 24,800 Swedish kronor ($3,100) is required.

For further information on establishing a captive in Sweden, contact Finansinspektionen (Finance Inspection), Regeringsgatan 48, Box 7831, S-103 98 Stockholm, Sweden; 46-8-787-8000; fax: 46-8-24-13-35.

—By Matthew MacDermott

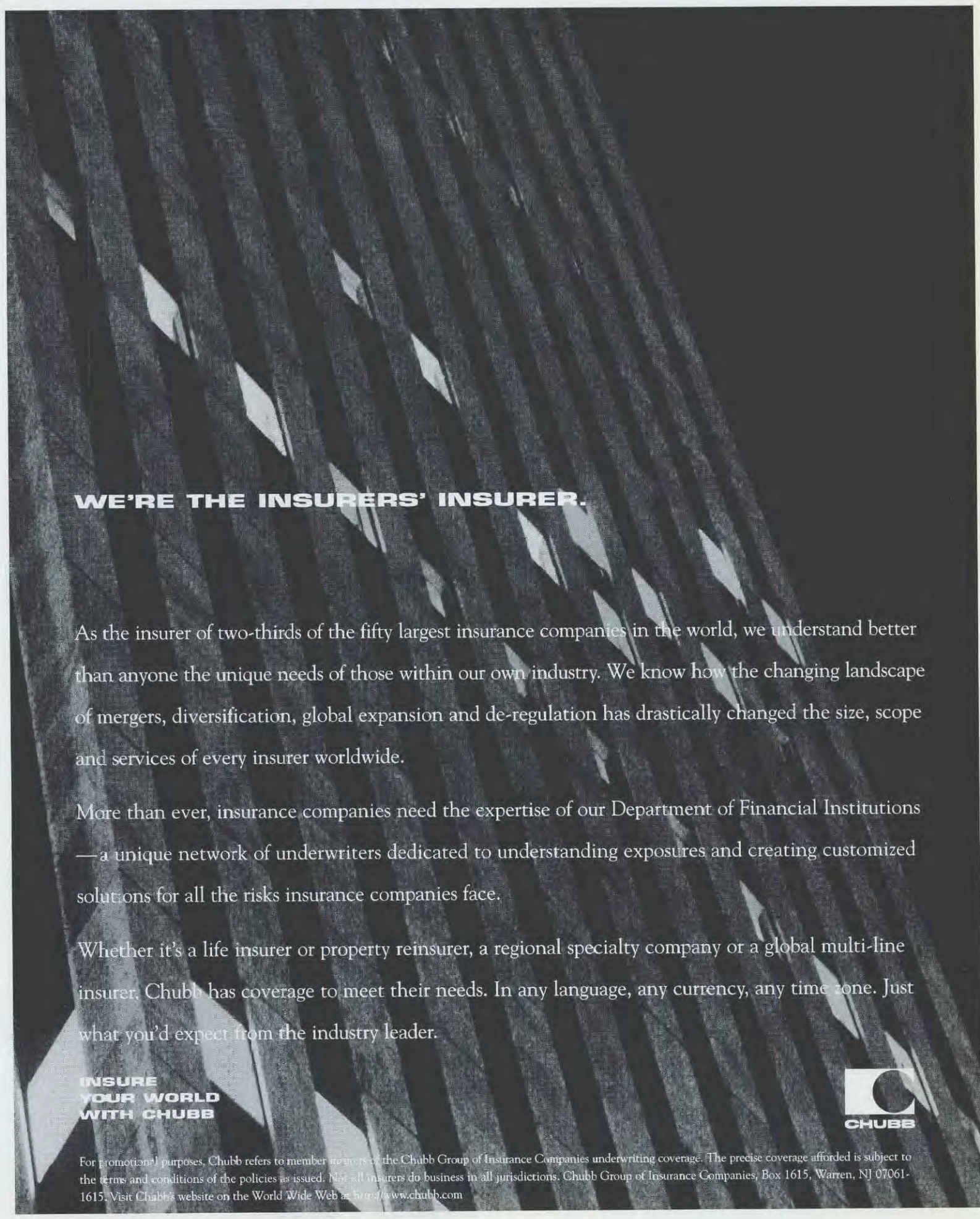
Cyprus

A favorable tax rate, a developed offshore infrastructure and a strategic geographic position continue to attract captives to the Republic of Cyprus in the Mediterranean.

The island had 24 captives at the end of 1997, an increase of six from the previous year.

Cyprus' first captive was licensed in 1991, when the country's Council of Ministers introduced a provision to exempt captives from specific sections of the law governing insurance companies.

Potential captives must submit a



Captive Report

International

Continued from previous page
cil of Ministers to be eligible for the exemptions.

Cyprus captives must have a minimum capitalization of £10,000 Cyprus ($18,700). There are no requirements regarding solvency margins, and captives are not required to have reinsurance arrangements. The corporate tax rate for offshore companies in Cyprus is 4.25%.

Cyprus is a well-developed offshore business center with more than 30,000 banking, trading and financial services companies.

The island has not been heavily promoted as a captive insurance domicile, but authorities now plan to increase marketing, particularly highlighting Cyprus' geographic position in Europe.

For more information on establishing a captive in Cyprus, contact Chrystalla Georghadji, Assistant Superintendent of Insurance, Service for Control of Insurance Companies, Ministry of Finance, Nicosia, Cyprus; 357-2-303-256; fax: 357-2-302-939.

—By Matthew MacDermott

British Columbia

A change to British Columbia's International Financial Business Refund Act effective April 1 makes captives in the Canadian province eligible for a refund of the provincial income taxes they pay on business related to non-Canadian risks.

This change could slash captive income taxes by as much as one-third, estimates William Morgan, managing director of Aon Insurance Managers in Vancouver.

British Columbia captive industry backers have sought the law change since the beginning of the decade.

Formerly, a captive in British Columbia that wrote non-Canadian risks paid 30% in federal income tax and 16% in provincial income tax. But, under the change, the portion of the 16% tax that is not related to Canadian risks will be refunded, Mr. Morgan explained.

Captive managers believe the change will attract Asian company-owned captives and Canadian captives that write a substantial amount of non-Canadian risks.

"And, technically we could even attract U.S. business, though the change was not aimed at that," observed Mr. Morgan.

The Pacific Rim has been a target of British Columbia captive managers because of its proximity and because many Asian businesses have branches in the Pacific Northwest.

Meanwhile, hoped-for growth as a result of another federal tax law change designed to make offshore captives less attractive to Canadian companies has yet to materialize.

Since the 1995 tax year, Canadian companies owning offshore captives have been subject to a foreign accrued business income tax unless more than 90% of the captive's premium volume is generated by non-Canadian risks.

British Columbia captive management experts had hoped the tax assessment would induce many Canadian-owned offshore captives to come ashore.

Instead, British Columbia's captive roster slipped to 16 at year-end 1997 from 17 at year-end 1996.

While one new captive was formed, two others were dissolved: Mazda Casualty Co. Ltd., owned by Mazda Canada Inc., and Concrete Casualty Inc., owned by Atlas Concrete Inc.

The new captive was formed by the British Columbia Railway Co. of Vancouver to write property and liability coverages, according to Mr. Morgan of Aon, which manages the captive. Aon is the domicile's largest captive manager with nine captives in management.

The British Columbia Insurance (Captive Company) Act of 1987 permits the formation of three types of captives: single parent; association; and "sophisticated insureds," which, unlike association captives owned by companies in a related industry, are owned by unrelated companies with insurance expertise and minimum combined premiums of $500,000 Canadian ($350,500).

Applicants must pay a non-refundable application fee of $500 Canadian ($350) and an initial registration fee of $2,500 Canadian ($1,753). Annual renewal fees are $2,500 Canadian. Minimum capitalization of $200,000 Canadian ($140,200) and $100,000 Canadian ($70,100) in reserves are required.

Captives may write property and liability insurance including product liability, directors and officers liability, and marine insurance. They cannot write life, health, accident or motor vehicle insurance on a personal lines basis, though such risks can be written on a commercial lines basis. Annual reports including audited financial statements and actuarial reports are required.

For information, contact Larry A.W. Neilsen, Deputy Superintendent, Insurance and International Financial Business, Suite 1000, 1050 West Pender St., Vancouver, B.C. V6E 3S7; 604-660-2947.

—By Joanne Wojcik

Netherlands Antilles

The Netherlands Antilles lost three captives in 1997, dropping its captive registry to 14 from 17 at the end of 1996.

Despite the decline last year, the Netherlands Antilles plans to market itself more aggressively as a captive domicile, said Raynold Nivillac, superintendent of insurance at the Central Bank, which regulates captives.

Most of the domicile's captives are owned by Dutch companies, but as Spanish is widely spoken in the Netherlands Antilles, captives from Latin America should find the domicile attractive, Mr. Nivillac said.

The increased promotional activity includes the formation of the Captive Assn. of Curacao. Its chairman is Richard Pietermella, who manages Ahold Insurance N.V., the captive of Royal Ahold Group in the Netherlands.

The minimum amount of assets a captive must maintain is $225,000 for life insurance and $170,000 for non-life insurance. There are no premium-to-surplus requirements in the Netherlands Antilles. Capital requirements are determined by a review of the business plan.

Captives pay a one-time license fee of $3,400 and an annual fee of $1,700. Captives must submit an audited financial statement within six months after the end of the financial year.

Captive insurers are governed by a Special Insurance License Decree that was enacted in May 1992. No changes have been made to the law since its enactment.

For further information, contact Raynold Nivillac, Superintendent of Insurance, Bank van de Nederlandse Antillen (Central Bank),

Continued on next page

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Breedestraat 1(P), Curacao, Netherlands Antilles; 599-9-461-3600; fax: 599-9-461-5004 or 599-9-461-7425.

—By Gavin Souter

Switzerland

Switzerland, traditionally recognized as a leading insurance and reinsurance center, is starting to gain momentum as a captive domicile.

Switzerland's first captive was established in 1991. At the end of 1997, 14 captives were domiciled in Switzerland, and five license applications await approval of the Swiss Insurance Commissioner, Bundesamt fur Privatversicherungswosen. Switzerland had 13 captives at the end of 1996.

Hans Erik Engelbrekts, managing director of Nordic Mutual CMO Zurich A.G., Switzerland's largest captive manager, said the country continues to develop as a captive domicile and that its future looks bright.

He said Switzerland is a place that "makes business sense to be in" for captives.

Its strategic position in central Europe, plus the insurance strength and range of risk management services available from Swiss companies, are Switzerland's biggest attractions for captive owners, Mr. Engelbrekts said.

He said there is a growing trend toward onshore domiciles and that Switzerland is positioning itself as a quality location based on the stability of its insurance, reinsurance and banking infrastructure.

The majority of Switzerland's captives are based in Zurich, though a few are based in Zug, only 20 minutes away.

Most of Switzerland's managed captives' parent companies are from Denmark, Sweden and the Netherlands. There are also captive parents from Poland and Mexico. Shell Group (Switzerland) has a self-managed captive in Zurich, Solen Zurich A.G.

Mr. Englebrekts said Switzerland's supervisory and tax authorities have an "open-minded" attitude toward the establishment of captives. Accordingly, there is much flexibility for reserving, he said.

Swiss tax laws do not specify any limitation for allocations to pre-tax equalization reserves provided certain minimum profits are earned in the third year of operation.

Minimum capitalization for Swiss captives is 1 million Swiss francs ($654,900) for reinsurers that do only related business, 8 million Swiss francs ($5.2 million) for reinsurers that do unrelated, third-party business, and 8 million Swiss france for direct insurers. Stamp duty is 1% of equity.

License application fees range from 25,000 Swiss francs to 30,000 Swiss francs ($16,373 to $19,647).

For more information, contact BPV, 50 Gutenberg Strasse, CH 3003 Bern; 41-31-322-7906; fax: 41-31-381-4967.

—By Matthew MacDermott

Bahamas

Two new captive insurance companies were licensed in the Bahamas during 1997, bringing the island's total to 13.

All Bahamian captives are single-parent companies writing property/casualty and life risks, according to Beryl Roll, an analyst with the Bahamian Ministry of Finance and Planning's Insurance Section in Nassau.

While yet to be amended under its 1983 insurance law, Bahamian regulators are requiring a $1 million minimum capitalization for all new and existing non-life insurance captive companies and a $2 million minimum capitalization for all new and existing life companies. The 1983 law set minimum capitalization at $100,000 for non-life companies and $200,000 for captives writing life insurance.

Parliament is expected to vote on the amendment to raise capitalization soon, Ms. Roll said.

Fees set under the 1983 law remain unchanged. Captives are required to pay a $2,500 annual fee, a $650 fee for the captive manager and a $100 business fee. Captives also must file an audited annual financial statement with the registrar's office.

Seven captive managers are licensed in the Bahamas: British-American Management Ltd.; Captive Managers Ltd.; Corporate Captive Management Ltd.; J&H Marsh & McLennan Management (Bahamas) Ltd.; Russian Investment Insurance Management Ltd.; Beta Management Ltd.; and Equitable Underwriting & Sales Agency (Bahamas) Ltd.

For more information on forming captives in the Bahamas, contact Kendal C. Munnings, Insurance Registrar, Bahamian Ministry of Finance and Planning's Insurance Section, P.O. Box N-3017, Nassau, Bahamas; 242-328-1068; fax: 242-328-1070.

—By Sally Roberts

Jersey

Jersey is confident the establishment of a new, independent Financial Services Commission this year will attract more captives and heighten the island's standing as an international financial services center.

The commission has been approved by the States of Jersey parliament and awaits final consent from the U.K. Privy Council. Nigel Woodroffe, deputy director-insurance division of Jersey's Financial Services Department, said the new commission can be established after it receives consent, which is expected in July.

According to Mr. Woodroffe, the new commission will be more independent of government, bringing Jersey in line with other offshore financial centers.

The new commission also will lead to improved "internal housekeeping" and ultimately will enable Jersey to respond more efficiently to the needs of its financial services clients, Mr. Woodroffe said.

The Financial Services Commission will replace the current Financial Services Department, which reports to the States of Jersey Finance and Economics Committee.

At the end of 1997, Jersey had 13 captives, up from nine at the end of 1996.

Mr. Woodroffe said the growth is mainly due to Jersey's new insurance law, which took effect Oct. 1, 1996.

The Insurance Business (Jersey) Law 1996, which updated the previous 1983 legislation, removed many of the restrictions to setting up captives, such as limitations on the kinds of owners and the types of business written.

See **International** *on next page*

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Captive Report

International

Continued from previous page

Minimum capitalization to establish a captive in Jersey is £100,000 ($167,000) but is "not cast in stone." The broad capitalization policy is based on ensuring there is enough capital to support the captive for the first three years.

Application fees range from £1,500 to £5,000 ($2,500 to $8,332), depending on the type of business written. Captives must pay stamp duty of 0.5% on authorized capital up to a maximum of £2,500 ($4,168). Jersey's standard tax rate is 20%, though companies can be structured to reduce overall tax levels.

For more information on Jersey captives, contact Nigel Woodroffe, Deputy Director, Insurance Division, Financial Services Department, P.O. Box 267, Cyril Le Marquand House, The Parade, St. Helier, Jersey, Channel Islands JE4 8TP; 44-1534-603647; fax: 44-1534-89155. e-mail: jsyfsd@itl.net

—By Matthew MacDermott

The Netherlands

No specific legislation governs captives in The Netherlands, but companies are forming them under the country's insurance laws.

Paul Kabel, manager of Aon Insurance Managers (Nederland) BV, of Rotterdam, estimates there are about 11 pure insurance captives domiciled in The Netherlands. He said the lack of governing legislation and supervision makes it difficult to determine the exact number.

Aon manages two single-parent captives in The Netherlands, and London-based international consumer products manufacturer Unilever P.L.C. has a self-managed captive in The Netherlands.

Basically, Dutch insurance law does not differentiate among insurance, reinsurance or captive insurance companies. Therefore, the requirements for captives are the same as those for insurance companies. Minimum capitalization starts at 300,000 ECU ($326,490).

Mr. Kabel said the Dutch insurance authorities always have had a liberal attitude toward supervision and that companies have established captives in The Netherlands for a long time. He described captive growth as "stable."

For more information on establishing a captive in The Netherlands, contact: Verzekeringskamer, 32 John F. Kennedy Laan, P.O. Box 9029 7300EM, Apeldorn, The Netherlands; 31-55-355-0888; fax: 31-55-355-7240.

—By Matthew MacDermott

Gibraltar

Gibraltar expects to attract many more captives following its approval last year to regulate companies writing business across the European Union.

The British dependent territory's Financial Services Commission gained standing when the U.K. Department of Trade and Industry approved it to license and regulate pan-European insurance companies (*BI*, June 16, 1997).

Gibraltar added two captives in 1997, bringing its total at year end to eight. The domicile had a total of 22 insurance companies, including captives, at year-end.

License applications carry a £500 ($833) fee and cover aspects such as shareholding structure, financial resources, business plans and reinsurance. The annual license fee is £2,000 ($3,333).

Reinsurance and direct-writing captives are permitted. Gibraltar welcomes other structures, such as rent-a-captives, though none has been established.

Solvency levels are in line with E.U. standards: 18% of annual premiums or 26% of average claims over the previous three years. Solvency margin requirements determine minimum share capital, set on a case-by-case basis. Companies also must maintain a guaranty fund, with the amount varying by type of business but generally 200,000 to 400,000 ECU ($219,820 to $439,640).

Captives that do not write Gibraltarian business and have no Gibraltarian shareholders may set up as "exempt" companies, paying £225 ($375) in tax each year for 25 years from the start date. Alternatively, "qualifying company" status allows captives to be taxed at a rate up to 35%, agreed between the captive's parent and the Financial and Development Secretary. This arrangement incurs a £250 ($417) fee, plus £1,000 for the qualifying certificate.

For more information, contact Jim Costin, Insurance Supervisor, Financial Services Commission, P.O. Box 940, 943, Europort, Gibraltar; 350-40-283; fax: 350-40-282; e-mail: fsc@gibnet.gi

—By Sarah Goddard

Australia

Despite new Australian tax rules governing controlled foreign corporations, little growth is expected for onshore captives.

Last year Australia's federal government changed the controlled foreign corporations law by reducing the number of countries on its so-called "white list" of identifies countries considered to have comparable tax rates.

That means captive owners now must pay the difference between their domicile's tax rate and the Australian rate of 36% (*BI*, Feb. 24, 1997).

The most popular offshore domicile for Australian-owned captives, Singapore, was on the white list before the change. The countries remaining on the white list—Canada, France, Germany, Japan, New Zealand, the United Kingdom and the United States—are not currently used as domiciles by Australian-owned captives.

As of Dec. 31, 1997, Australia had five captives, the same number as at the end of 1996, plus four Section 37 insurers and three medical defense insurers. Those numbers are unchanged from year-end 1996.

Russell Stenhouse, assistant commissioner-non-life for the regulatory authority, the Insurance and Superannuation Commission, said gross premium volume for Australia-domiciled captives at year-end 1997 fell to $78.5 million Australian from $98.1 million Australian (to $51.1 million from $63.8 million).

The ISC has received a draft application for another captive. Mr. Stenhouse said he expects it to be registered by July.

Mr. Stenhouse would not name the captive, but *Business Insurance* has confirmed it will be owned by Melbourne, Australia-based Orica Ltd. Orica was called ICI Aust. Ltd. until February, when it was renamed to reflect the 1997 sale by former parent company ICI P.L.C.

While Orica's captive is new, captive managers and the ISC expect growth to come from Singapore-based captives moving to Australia because of the 1997 changes to the controlled foreign corporation laws.

George Tarabaras, general manager-risk consulting with the Melbourne head office of Sedgwick Ltd., said one corporation, which he would not name, has decided to put its Singapore captive into runoff and establish an as-yet-unregistered onshore captive, he said.

"Others, at least three, have decided to stay in Singapore after having conducted reviews. I'm not expecting an exodus out of Singapore," Mr. Tarabaras said. He said there were "still a lot of gray areas" in the Australian regulations and captive managers who expected a major increase in onshore captives were "highly optimistic."

With the soft market, the lack of tax benefits and the opportunity for risk managers to use alternative risk transfer products, captive formation in Australia is "not so attractive," Mr. Tarabaras noted.

A potential growth area, however, is for banks and other financial institutions offering mortgage insurance through captives.

Under Australian law, captives have the same capitalization requirements as other non-life insurers—minimum capitalization of $2 million Australian ($1.3 million), 20% of premium income, or 15% of outstanding claims, whichever of the three is greater—and can write unlimited third-party business, unless they are licensed under Section 37 of the Insurance Act 1973.

Despite major changes to the regulation of Australia's finance sector, following a report by the Wallis Inquiry (*BI*, April 14, 1997; Nov. 11, 1996), no changes are expected to the regulation of captive insurers.

Captives, like other insurers, will come under the responsibility of a new regulatory authority, to be called the Australian Prudential Regulatory Authority, which will replace the ISC and other financial regulators. No time frame for the beginning of the new authority has been established.

Mr. Tarabaras said the new regulatory authority may increase license fees and that was a potential concern for onshore captives.

For more information, contact Mr. Stenhouse, assistant commissioner-non-life, Insurance & Superannuation Commission, GPO Box 9836, Canberra, Australian Capital Territory, Australia, 2601; 61-2-6247-2299; fax: 61-2-6213-5100.

—By Kate Tilley

New Zealand

New Zealand's regulatory climate has made it an attractive domicile for onshore captives, but it has yet to attract any captive owners from afar.

New Zealand had four captives at the end of 1997, the same as at the end of 1996. Owners are Wellington-based Telecom NZ Ltd., the nation's main telecommunications company; Auckland-based brewer Dominion Brewing Group; Wellington-based coal miner Solid Energy Ltd., and the Wellington-based Electricity Corp. of New Zealand.

Government-owned Electricity Corp., which generates power and sells it wholesale, established a captive, ECNZ Insurance Pty. Ltd., in 1988 that is self-managed.

Telecom NZ manages its own captive in-house. Telecom Risk Manager Jules Maher would not disclose the captive's premium income; he said it originally wrote only property, business interruption and some workers' compensation risks but since April 1 has begun writing liability coverage.

"It was our objective to structure our insurance program with combined policies and standard retentions, and we can do that through our captive," Mr. Maher said.

The Dominion and Solid Energy captives are managed by CRM Group Ltd., a risk management adviser/captive management company based in Napier, on New Zealand's north island.

John Gifford, CRM's managing director, said "four or five" other New Zealand-based captives are "in the pipeline," and he expects one or two to be registered before Dec. 31.

New Zealand is advantageous for captives because under the Insurance Companies Deposits Act 1953 they are required to deposit only $500,000 NZ ($275,800) in government-approved securities.

The New Zealand corporate tax rate is 33% and, because New Zealand remains on Australia's "white list," Australian-owned captive owners would not be required to pay an additional 3% to the Australian Taxation Office to achieve the Australian rate of 36% (*BI*, Feb. 24, 1997).

Premium income for the CRM-managed captives is $6.5 million New Zealand ($3.6 million).

Dominion Brewing Group and Solid Energy established their captives about three years ago.

Mr. Gifford said a $30 million to $35 million New Zealand ($16.5 million to $19.3 million) claim, which still was not settled after about seven years, had been the catalyst for coal producer Solid Energy to consider alternative risk financing, including establishment of a captive.

Mr. Gifford said many New Zealand companies are "questioning the purpose and value of conventional insurance" and "demand for traditional insurance products is shrinking."

Because the Australian and New Zealand governments have implemented a Closer Economic Relations agreement, and because New Zealand was kept on Australia's CFC white list, it is a feasible domicile for Australian companies seeking captives, he noted.

Last year Anthony B. Cope, general manager-risk advisory services with International Risk Management (Aust.) Pty. Ltd., the Australian arm of Bermuda-based IRM, said IRM was in the process of forming a captive in New Zealand for an Australian parent company (*BI*, April 14, 1997).

However, he said the proposal is "still in the melting pot."

For information on forming captives in New Zealand, contact Ministry of Commerce, Business and Registries Division, Private Bag 5901, Wellington, New Zealand; 64-4-471-1028; fax: 64-4-495-1252.

—By Kate Tilley

Labuan

One new captive was domiciled in this Malaysian island off the Brunei coast, bringing its total to two.

Changes to government regulations and the Asian economic crisis have made it cheaper for captives to operate in Labuan, says Izzuddin Tajudin, director/general manager of MNI Offshore Insurance (L) Ltd.

The two captives are Hong Kong-owned New World Insurance Co. (L) Ltd. and Liberian-owned Olympic Alianza Insurance (L) Corp., which obtained its license in July 1997.

A Labuan Offshore Financial Services Authority spokesman said the government had approved an application from Australian-owned BGC Insurance (L) Ltd., but BGC had to provide additional information before it could receive a license.

BGC Insurance (L) Ltd. is managed by MNI Offshore Insurance, Olympic Alianza is managed by Aon Insurance Managers (Singapore) Pte. Ltd., and New World Insurance is self-managed, the spokesman said. He would not identify the parent companies of any of the captives.

In mid-1997, the Malaysian government lowered captives' capital requirements to 300,000 ringgit ($82,100) from 1 million ringgit ($273,600). The reduced capital requirements, combined with a tax rate of the lower of 3% of audited profits, or at least 20,000 ringgit ($5,472), make Labuan a good domicile, Mr. Tajudin said.

He said the economic crisis in Asia means more favorable exchange rates for offshore multinationals wanting to establish captives in Labuan.

Additionally, in March 1997, the Malaysian government permitted Malaysian companies to set up captives in Labuan, but on a "case-by-case basis," Mr. Tajudin said.

Growth in Labuan captives will not be dramatic, Mr. Tajudin said. He predicts only one or two captives a year will be launched in the domicile during the next few years.

For more information on Labuan captives, contact Awang Hadek, Director-General, LOFSA, Level 17, Main Office Tower, Financial Park, Jalan Merdeka, 87000 FP Labuan; 60-87-408188; fax: 60-87-413328.

—By Kate Tilley and Yvette Higgins

Aland Islands

Political differences between the Aland Islands and its ultimate political authority, Finland, as well as the European Union's cool attitude toward offshore tax havens, have delayed and altered the islands' plans to become a captive domicile.

Originally, the strategy for the Aland Islands—an archipelago of some 6,500 islands and 25,000 people in the Baltic Sea—called for it to use its expertise in shipping. It was to develop a new international registration center for shipping and promote insurance services to match. "Forty percent of our GDP comes from shipping," said Ragar Jansson, head of the provincial government of the Aland Islands.

But delays have developed as other E.U. countries, such as the Netherlands and Greece, are trying to draft new shipping policies, which must be approved by the European Commission.

Attempts to reach agreements on shipping policies and insurance regulations with Finland, which represents Aland in the European Union, have become difficult, Mr. Jansson said.

The main sticking point is taxation. The Finnish government is not keen on differences in corporate taxation that would be advantageous to the Aland Islands.

The Aland Islands continue to have a corporate tax rate of 16.8%, though Finland's tax rate is 28%.

"The (tax) differences will be minor. We will never compete with international centers such as the Channel Islands or the Isle of Man. But within the framework, it will be interesting for our own companies," Mr. Jansson said. He added that the Aland Islands do not wish to become a tax haven.

Mr. Jansson did not rule out further development as a captive domicile, though the Aland Islands has only one licensed captive, unchanged from 1996.

Adding more captives "is a possibility in a few years. But we have not been very active in marketing ourselves, so the result is not a very good job," he said. A few companies, predominantly from Nordic countries, have expressed interest in the Aland Islands' offshore status and have contacted the government.

For more information on Aland captives, contact Ragar Jansson, Head of Lanskapsstyrelse, the Provincial Government of the Aland Islands, Mariehamn, Aland, Finland; 358-18-25000; fax: 358-18-19155.

—By Maria Kielmas

Captive Report

Markets eye captives, await first formations

Panama

Panama last week incorporated its first captive under its 1996 insurance law.

Portland Re S.A. is owned by a Latin American industrial conglomerate and is managed by Corporate Risk Management (Panama) S.A.

The captive will initially write property risks, eventually expanding to include liability risks, said Oscar Perez Nation, general manager of Corporate Risk Management.

While it has taken nearly two years to gain its first captive, Panama has attracted a number of captive managers that see the domicile as being attractive to companies in Latin America. In 1997, four new captive managers were licensed in Panama, bringing the total to seven.

International Risk Management Group Ltd. is in the process of setting up a captive management and consultancy company in Panama, said John R. English, director of global captive operations in Bermuda.

"I do see Panama as having real potential in the Latin American market," he said.

Requirements for setting up a captive in Panama remain unchanged since it passed the captive law, Law 60, on July 29, 1996.

Captives insuring non-life risks must meet a minimum capital and surplus requirement of $150,000, and captives insuring life risks must meet a minimum capital and surplus requirement of $250,000. The premium-to-surplus requirement is 5-to-1.

The premium-to-surplus mandate fulfills the domicile's solvency requirement for captives insuring non-life business; solvency requirements for captives insuring life risks are 6% of mathematical reserves.

There is a one-time application fee of $1,000 and an annual licensing fee of $2,000. Captives must file an insurance or reinsurance risk report, an audited financial statement and any changes to information that was included in the original application.

Neither premiums nor profits are taxed, and Panama holds no double taxation treaties. Captives must invest a minimum of 35% of reserves in authorized instruments in the country.

For more information, contact Elisa M. De Carrizo, Superintendent of Insurance and Reinsurance, Ave. Ricardo Arias y Calle 51, P.O. Box 832/1683, World Trade Center, Panama City, Republic of Panama; 507-214-7484 or 507-214-7487; fax: 507-214-7482 or 507-214-7483.

—By Gavin Souter

Lloyd's of London

Plans for admitting captives into Lloyd's of London could be unveiled this summer, allowing them to start writing business in the market beginning next year.

Although Lloyd's has been studying the issue for more than a year, it has yet to decide whether to allow captives to participate in the market. But support for the principle appears strong.

"There is a real will within Lloyd's to see captives coming into the market," said Paul Archard, deputy chairman of Whittington Group Ltd., the Lloyd's agency championing the proposals.

The Lloyd's Market Board earlier this year published a document outlining its priorities for 1998. The document says the board "will continue to explore the basis on which captive insurers may be able to establish corporate syndicates at Lloyd's."

See **Worldwide** *on next page*

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Captive Report

Worldwide

Continued from previous page

If the Lloyd's Market Board and its ruling Council decide to admit captives, Lloyd's would target large multinationals. Lloyd's would be marketing its captive facilities to Fortune 500 and FTSE-100 companies, said Christopher Moore, who has been coordinating a working party studying the possibility of captives establishing within Lloyd's.

Mr. Moore intends to have a proposal ready for the Market Board early in the summer. If the proposal is accepted, trials would take place over the summer to test the plan before it would be activated at the beginning of 1999.

Mr. Moore, a senior adviser to Lloyd's, says the market has to position itself as a leader in risk management, as opposed to its current stance as an insurance market. He says admitting captives would be a major starting point.

The working group's objective "is to come to a conclusion which commercially makes sense for Lloyd's and can be structured in a way that is commercially attractive to captives but does not expose the chain of security and the Central Fund to any undue risk," he said.

Distinctions that might make Lloyd's attractive to captives include that Lloyd's requires only a letter of credit as capital, rather than more tangible assets, explained Jenny Hill, an associate with Willis Risk Solutions in London. In addition, its network of more than 60 licenses worldwide would allow a captive to underwrite directly in those countries, saving fronting fees.

Other advantages include the "powerful marketing tool" that is Lloyd's brand name, said Ms. Hill, and the three-year accounting system, which means tax payments can be deferred until year four.

On the downside, costs at Lloyd's are high, representing just over 3% of premiums and including a 1.1% levy for the reconstruction and renewal of the market in 1996—though this levy has only three more years to run. Also, solvency requirements may be very high—up to 200% if the Lloyd's risk-based capital model is used for captive syndicates—and underwriting costs could be high if each captive syndicate is required to have its own underwriter, said Ms. Hill.

One proposal is to "have an arrangement that is not a syndicate" for each individual captive, with one underwriter running several captive accounts, Mr. Moore explained, using the services of a managing agency for other areas as well, such as accounting.

Additionally, captive owners also may be able to write third-party business in the future.

Risk-based capital is "at the core of the discussions," he said.

Mr. Archard predicted different capitalization levels for captives at Lloyd's from other syndicates, with different levels of Central Fund contribution.

"The idea is to engineer a captive book so that the Central Fund is very remotely exposed," he said.

—By Sarah Goddard

Malta

Malta's development as a captive domicile is expected to speed up this year with parliamentary approval of the government's long-delayed Insurance Business Act.

"It is the intention to promote Malta as a captive domicile, and plans are in hand for a marketing campaign which will start as soon as the new laws come into force, probably during the second half of the year," said John Bonett, director of insurance at the Malta Financial Services Centre, a government entity that supervises all financial services in Malta.

The act would, among other things, eliminate legal differences between "onshore" and "offshore" insurance business and classify captives as "affiliated insurance companies," Mr. Bonett said. Affiliated insurers are defined as Malta-registered companies underwriting risks originating from their parent companies and the parents' subsidiaries.

According to Mr. Bonett, captives must have capital of at least 100,000 Maltese lire ($252,800). While a directive will specify eligible funds, these may include paid-up share capital and subordinated loans.

Solvency requirements would follow those of the European Union directives.

An affiliated insurer, underwriting risks located outside Malta, could apply for status as an "international trading company."

ITCs are taxed at the normal corporate rate of 35%. Non-resident shareholders receiving dividends are taxed at 27.5%, however. An ITC is also exempt from stamp duty on the issue, acquisition and transfer of shares and other marketable securities. Audited accounts will need to be filed yearly.

Insurance in Malta is still governed by a 1981 law that provided a dominant market position—but not a monopoly—to the Middle Sea Insurance Co. P.L.C., the largest Malta-based insurer.

The gradual liberalization of the insurance market during the late 1980s caused Middle Sea to shift its operations from mainly reinsurance to direct insurance to adapt to more competition. As part of this strategy, Middle Sea created Malta's only captive manager, International Insurance Management Services Ltd., in cooperation with London-based broker Willis Corroon P.L.C.

IIMS will not be trading until the new Insurance Act is passed, said Ivan de Bourg, company secretary for Middle Sea, though IIMS executives are busy promoting the company and training personnel.

Once the law is in force, Mr. De Bourg believes a number of new captive managers will be created to serve the first wave of captive formations.

For more information, contact: John Bonett, Director-Insurance, Malta Financial Services Centre, Attard, Malta; 356-441155; fax: 356-441188; or Stephen Gauci, International Insurance Management Services Ltd., Middle Sea House, Floriana, Valletta, Malta; 356-235860; fax: 356-248774.

—By Maria Kielmas

Montenegro

While its laws have permitted the creation of offshore companies since 1996, the government of Montenegro, an autonomous region of the Federal Republic of Yugoslavia, as yet has no captive insurers.

Along with insurance services, offshore companies are permitted to trade in banking, shipping, consulting management and international trade.

Two forms of company registration are permitted: limited liability companies, which may be established with one founding member; and joint stock companies, which require at

Continued on next page



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Captive Report

Continued from previous page

least two founding members.

Minimum capital required for a limited liability company is $1,000, while the requirement for a joint stock company is $10,000.

Offshore companies may be registered within 10 days, according to the Montenegran government, and are taxed at a rate of 2.5% of profits. Offshore companies are exempt from exchange controls and do not pay customs taxes on imports for their own use. These tax incentives are guaranteed until the year 2011.

The Montenegran government hopes to become a captive domicile for companies throughout Europe as well as the former Soviet Union, but so far the government has not announced any captive formations.

Tensions between Montenegro and Serbia, its partner in the Yugoslav Federation, have prompted concerns about the future of Montenegro's economic reforms, business executives say.

Milo Djukanovic was elected president of Montenegro in October, defeating incumbent Momir Bulatovic, who was regarded as the preferred candidate of former Serbian President and now Yugoslav Federation President Slobodan Milosevic.

The elections were followed by Belgrade-inspired riots in the streets of the Montenegran capital, Podgorica.

Mr. Djukanovic's government has received the support of the U.S. and European Union governments, among others.

Financial and trade transactions are now permitted with Yugoslavia except as stipulated by the U.S. Office of Foreign Assets Control. However, the U.S. government has suggested that Montenegro may be exempt from any new international sanctions that may be imposed against Yugoslavia.

For more information, contact Drasko Goranovic, Finance Minister, Bulevar revolucije 1, Podgorica, Montenegro, Yugoslavia; 381-814-5994; fax: 381-814-2825.

—By Maria Kielmas

Hong Kong

Hong Kong, one of the world's most sophisticated financial centers, last year adopted legislation enabling captive formation.

The Insurance Companies (Amendment) Ordnance 1997 was enacted May 1, a month before the transition to Chinese from British rule.

No captives have yet been domiciled in Hong Kong, but there is a lot of interest, according to Geoffrey Foster, a director of London-based captive management consultant Aon Management (Hong Kong) Ltd.

Mr. Foster, who was involved in the drafting of captive legislation in Hong Kong, said China is keen to encourage captives to form in Hong Kong. Beijing projects there will be 50 captive formations over the next 10 years.

Hong Kong's major attraction as a captive domicile is the ease of access to mainland China, Mr. Foster said. As Chinese business markets open up, Hong Kong will be used as captive base, he said.

Minimum capitalization for a captive in Hong Kong is $2 million Hong Kong ($258,000). The solvency margin is 5% of net premiums written or 5% of net claims outstanding. There is no tax payable on underwriting profits earned in the domicile even if they are repatriated back into Hong Kong.

For more information on establishing a captive in Hong Kong, contact the Office of the Commissioner of Insurance, 21st Floor, Queensway Government Offices, 66 Queensway, Hong Kong; 852-2867-3511; fax: 852-2869-0252; e-mail: mail@oci.gov.hk

—By Matthew MacDermott

New Brunswick

No companies have yet expressed an interest in forming a captive insurance company in New Brunswick, says Superintendent of Insurance Reginald Richard.

Although legislation allowing captive insurers has been passed by the Canadian province, New Brunswick provides no tax incentives. Regulations have not yet been drafted, as they will be designed to accommodate the first captive to show interest.

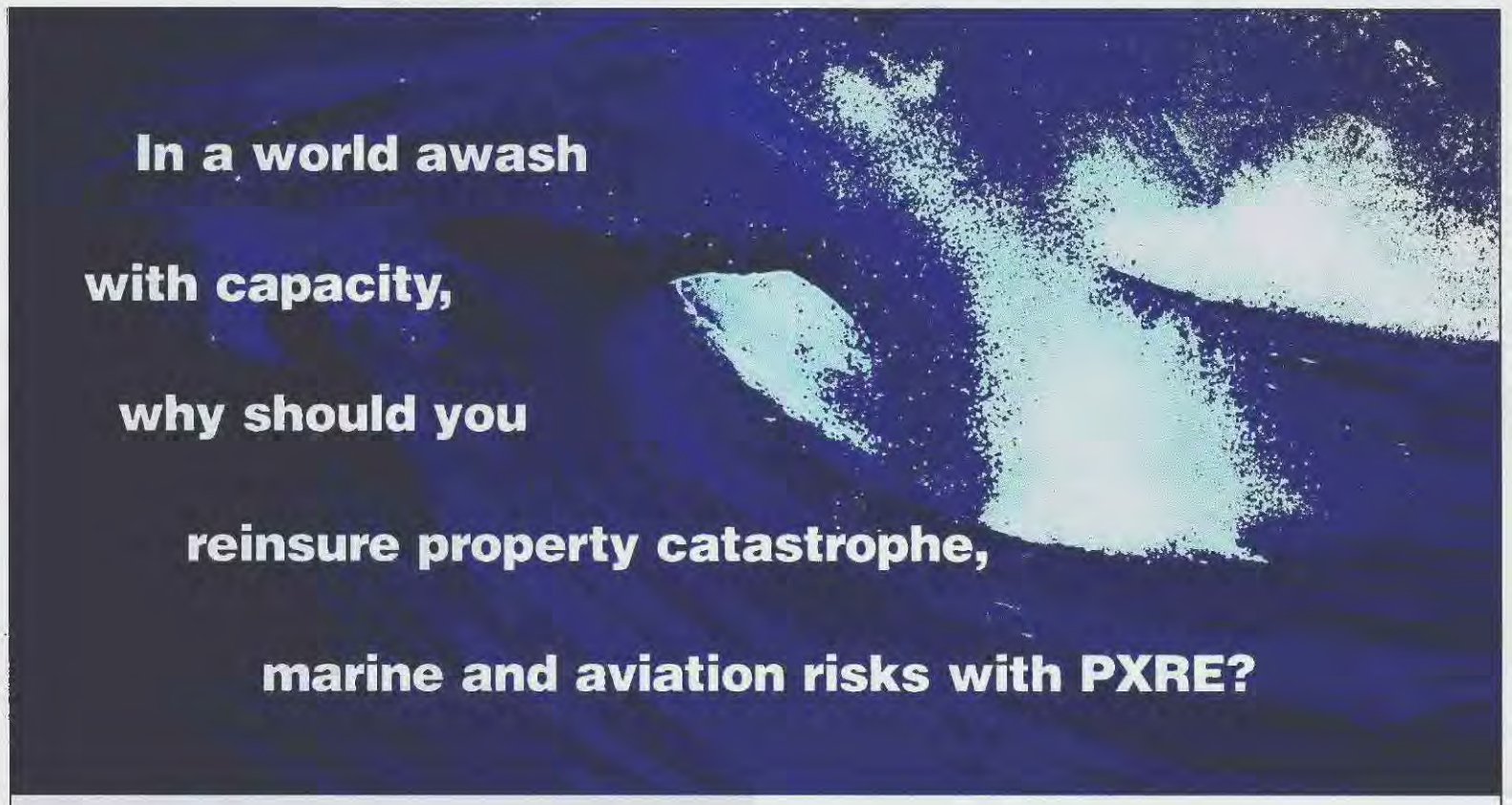
For more information, contact Reginald Richard, Superintendent of Insurance, Department of Justice, Province of New Brunswick, P.O. Box 6000, Fredericton, New Brunswick E3B5H1; 506-453-2512; fax: 506-453-7435.

—By Michael Prince

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Captive Report

Growth of captives slow for small U.S. domiciles



Georgia

At the end of 1997, Georgia had 14 captives, up from 10 the previous year.

Three new captives were formed, and one that was converting to a traditional insurer reverted back to captive status.

The three new association captives all write property/casualty insurance for the tax industry. They are American Captive Insurance Co., United Group Captive Insurance Co. and VFH Captive Insurance Co.

Also, Commerce Mutual Captive Insurance Co., a retailers association captive, was unsuccessful in converting to a conventional insurance company and has reverted to captive status.

Georgia's captive insurance law did not change in 1997.

To qualify for membership in a captive in Georgia, a company must pay at least $25,000 for insurance in addition to meeting one of these criteria: 25 employees; $5 million in gross sales; or $3 million in assets.

Georgia law also requires captives to have capital and surplus of at least $500,000, while the premium tax is based on the amount of assets invested in Georgia.

For more information, contact Amanda Jamison, Department of Insurance, Regulatory Services Division, 604 West Tower, 2 Martin Luther King Jr. Drive, Atlanta, Ga. 30334; 404-656-2074; fax: 404-657-7743.

—By Michael Prince

Tennessee

Tennessee at year-end 1997 had nine captives, one fewer than the previous year.

CM Insurance Co. Inc., the captive for Columbus-McKennon Inc., moved to New York.

Tennessee's captive law did not change last year. Under the law, single-parent captives need at least $750,000 in capital and surplus while group captives need at least $1 million.

The minimum gross premium volume requirement is $500,000 for single-parent captives and $1 million for group captives.

Annual fees are $5,000 for single-parent captives and $10,000 for group captives.

Captive insurers must pay a one-time certificate of authority fee of $500 upon formation. Also, Tennessee-domiciled risk retention groups with out-of-state members must pay a $10,000 regulatory fee.

For more information, contact Bill Hosea, Director of Financial Affairs, Department of Commerce and Insurance, 500 James Robertson Parkway, Nashville, Tenn. 37243-1135; 615-741-1692; fax: 615-532-2788.

—By Michael Prince

U.S. Virgin Islands

The U.S. Virgin Islands' captive population remained unchanged at seven companies in 1997.

One new captive was licensed during the year, but that was offset by another captive leaving the domicile.

Six of the seven captives are single-parent companies writing mainly property/casualty insurance; one is an association captive.

Lincoln Duggins, the island's chief examiner, said the U.S.V.I.'s insurance division does not have enough money to fund a marketing effort for U.S.V.I. as a captive domicile.

In addition, unresolved conflicts between 1994 U.S.V.I. legislation and U.S. Department of Labor guidelines have stymied growth in the formation of employee benefits captives, U.S.V.I.'s original intended selling point.

Due to the territory's regulatory status as a "state," U.S. employers can fund employee benefit programs for U.S. employees through U.S.V.I.-domiciled captives and still comply with the Employee Retirement Income Security Act.

ERISA prohibits U.S. companies from funding benefit plans through non-U.S. domiciled captives.

Because "we're under the American flag," the U.S.V.I. "had intended" to market and grow employee benefit plan captives, Mr. Duggins said.

However, U.S.V.I. laws only allow employee benefit captives to fund benefits if 50% or more of premiums come from the captive's owner, which conflicts with the DOL's guidelines that generally allow employers to fund employee benefit risks through a domestic captive insurer only if the parent generates no more than half the captive's premiums.

Mr. Duggins said amendments to change the ratio of non-related business "did not materialize" last year as the insurance division had hoped.

Under the U.S.V.I.'s captive insurance company laws, single-parent captives must have $125,000 in capital and surplus; industrial insured groups owned by companies in the same industry must have $175,000 in capital and surplus; and associations must have $320,000 and must have been in existence for more than one year.

Rent-a-captives are not permitted.

Captives pay no local taxes. The annual licensing fee is $6,000 and there is a $1,000 initial application fee.

Captives must file an audited financial statement with regulators within 180 days of the close of the fiscal year.

For more information, contact the Division of Banking and Insurance, Kongens Gade No. 18, St. Thomas, U.S.V.I. 00802; 340-774-2991; fax: 340-774-9458.

—By Sally Roberts

Delaware

The merger of Nuclear Mutual Ltd. into Nuclear Electric Insurance Ltd. on Dec. 31, 1997, reduced the population of Delaware-domiciled captives and risk retention groups to six from seven.

"We merged because the membership in the two organizations was virtually the same, and in light of the changing environment for the utility industry, we wanted to have the maximum flexibility going forward. With assets of well over $4 billion and surplus of $3.5 billion, NEIL will be well-equipped to achieve this objective," said Quentin Jackson, president and chief executive officer of Wilmington, Del.-based NEIL. NEIL has about 70 policyholders.

With the merger of the two nuclear utility captives, five captives and one risk retention group are domiciled in the state. The Delaware Captive Act of 1984 requires that single-owner captives have at least $100,000 in capital. Association captives must have four times that amount—$400,000—in capital.

Captives must also pay a $300 annual registration fee.

For more information, contact Donna Wysopal at the Delaware Insurance Department, P.O. Box 7007, Dover, Del. 19903; 302-739-4251, ext. 169, to request a $25 domestic admission packet.

—By Mark A. Hofmann

Illinois

Illinois' captive population held steady at four last year.

The state, which had been home to as many as eight captives only three years ago, currently has one association and three single-parent captives.

A change in the state's captive law in 1995 required that group captives be regulated as traditional insurance companies and that captives could not be formed as risk retention groups. This led one captive to redomicile in Vermont and two others to become risk retention groups. A fourth was already in runoff.

All captive insurers must have an initial capitalization of $2 million. As much as 80% of that can be met through letters of credit, and as much as 67% through contractual obligations.

There are no investment restrictions on single-parent captives, but association captives must operate under the same restrictions as licensed insurers.

Captives can write commercial property/casualty insurance, with the exception of workers compensation, which they can reinsure.

For more information, contact Etta Mae Credi, Assistant Deputy Director, Illinois Insurance Department, 320 W. Washington St., Springfield, Ill. 62767; 217-782-4515.

—By Mark A. Hofmann

New York

New York has licensed two captive insurers under the East Coast's newest captive law, which took effect Dec. 5.

New York's Metropolitan Transportation Authority earlier this year announced it had formed First Mutual Transportation Co., a captive providing station liability and other coverages (*BI*, Feb. 9).

The New York Insurance Department also has licensed CM Insurance Co. Inc., which redomesticated from Tennessee. CM Insurance is the captive of Columbus-McKinnon Inc., a New York-based manufacturer.

Regulators now are reviewing additional license applications and are likely to approve a couple of additional captives in the near future, according to an Insurance Department spokesman.

After two years in the state Legislature, Gov. George Pataki signed the legislation into law last August.

The New York law allows for the formation of single-parent and group captives by entities with a net worth of at least $100 million. These could include individual employers, groups of companies with an aggregate net worth of $100 million or non-profits or public authorities with annual budgets of $100 million.

Single-parent captives must maintain minimum capital of $250,000, and group captives must have a minimum of $500,000.

New York captives may write nearly all lines of property/casualty coverage but are barred from writing life/health, title, mortgage guaranty or financial guarantee products.

Captives also are barred from writing mandated coverages, such as workers comp or auto insurance, on a direct basis, but they can reinsure those lines if they are written by a licensed fronting insurer. The law also allows captives to reinsure third-party business with regulatory approval.

Captives are not subject to rate or form regulation and do not participate in state guaranty fund or residual market mechanisms.

New York imposes a tax on captive premiums related to New York risks. The tax rate is on a sliding scale that declines with rising premium volume. On direct insurance premiums, the tax ranges from a high of 0.4% for the first $20 million of gross premiums to a low of 0.075% for premiums exceeding $60 million. On assumed reinsurance premiums, the tax ranges from 0.225% on the first $20 million to 0.025% for premiums exceeding $60 million.

Like other New York-domiciled insurers, captives also must pay annual assessments to the New York Insurance Department. Assessments generally amount to between 0.02% and 0.03% of New York direct written premiums, a department spokeswoman said.

For more information, contact Mike Moriarty, Supervising Examiner, New York Insurance Department, 25 Beaver St., New York, N.Y. 10004; 212-480-5127. Information is also available on the department's World Wide Web site at http://www.ins.state.ny.us.

—By Douglas McLeod

Guam

Guam has licensed its first captive and expects to add two more this year.

Terrace Guam Inc., owned by Auckland, New Zealand-based Fletcher Construction Co., was formed under legislation effective last year to allow captives to locate in the U.S. territory. The captive writes workers compensation insurance for its parent.

The captive legislation is intended to attract captives to broaden the Guam economy. Local government officials hope to make Guam the financial hub of the Pacific.

The law also has spurred the formation of domestic insurers and reinsurance companies, and the activity has attracted four captive management companies and one actuarial firm to the island.

The law allows for abatement of all taxes levied on insurance premiums and investment income earned by underwriters.

Ed Untalan, administrator at the Guam Development Authority, said at least two more captives are expected to be licensed this year.

Mr. Untalan said he wants growth to be manageable and is optimistic that in 10 years the Guam captive insurance industry could be generating revenues of $1 billion.

The tax exemptions are available through the Qualifying Certificate Program of the Guam Economic Development Authority. More information is available from the authority at 590 S. Marine Drive, Suite 511, Tamuning, Guam 96911; 671-647-4332; fax: 671-649-4146.

—By Michael Bradford

Maine

Maine passed its captive legislation last year, but the state has yet to attract its first captive.

The Maine law requires capitalization of $250,000 for single-parent captives, $500,000 for industrial insured captives and $750,000 for association captives.

Also, the law permits captives to write insurance for "controlled unaffiliated business," which are separate businesses that have a contractual relationship and a close association with the captive owner.

Premium taxes vary based on captive volume, with a minimum premium tax of $4,000 annually. New captives are assessed a one-time $1,000 initial fee.

For more information on forming a captive in Maine, contact Joel Thomsen, Director of Financial Analysis, Maine Bureau of Insurance, 34 State House Station, Augusta, Maine 04333-0034; 207-624-8495; fax: 207-624-8599.

—By Michael Prince

Continued on next page



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Continued from previous page | Founded: 1988. | 1997. | Witkowski, senior vp; Hal Forkusn, chairman. | BF&M Management Ltd.

Captive Report

Continued from previous page

Rhode Island

No captives have been formed yet under Rhode Island's 1996 captive law.

The law allows the creation of pure, association and industrial insured captives. Pure captives, which would be incorporated as stock insurers, must have minimum capital and surplus of $250,000. Association captives must have minimum capital and surplus of $750,000, and industrial insured captives must have minimum capital and surplus of $500,000. The insurance commissioner may require additional capital.

The law allows captives to write commercial property/casualty insurance. Captives cannot write personal lines or life/health risks.

Captives are subject to a premium tax of 1% on gross written premiums not otherwise subject to tax. There is a $1,000 application fee.

For more information, contact James Abraham, Chief Examiner, or Thomas Gauthier, Principal Insurance Examiner, Department of Business Regulation, Insurance Division, 233 Richmond St., Suite 233, Providence, R.I. 02903-4233; 401-222-2223; fax: 401-751-4887.

—By Mark A. Hofmann

South Dakota

No captives have been formed under South Dakota's 1996 law, which allows pure—but not association or group—captives.

The law requires that captives have minimum capital of $100,000 and minimum surplus of $100,000, with letters of credit allowed with the Division of Insurance's permission. Each captive also must pay $500 for a certificate of authority.

South Dakota captives face no restrictions on investments. The law does not specifically restrict captives to writing property/casualty insurance. The captive must maintain its principal place of business and its records in South Dakota, and its board must meet in South Dakota once a year.

Captives are not subject to corporate or individual income taxes, though they must pay premium taxes equal to 0.25% of premium, with a minimum tax of $5,000.

For more information, contact Wendell Malsam, Chief Examiner, South Dakota Division of Insurance, Department of Commerce and Regulation, 118 W. Capital Ave., First Floor, Pierre, S.D., 57501-2000; 605-773-4359.

—By Mark A. Hofmann

Arizona

While Arizona does not have a captive insurance law, a 21-year-old statute permits companies to establish facilities that can 100% reinsure disability and life risks.

Since the law was enacted in July 1977, many automobile dealers in the state have established such facilities to reinsure part or all of the credit life and disability insurance their customers purchase from a direct writer when buying a vehicle, said Greg Harris, executive assistant director of the Arizona Department of Insurance.

The state currently has a total of 366 licensed life and disability reinsurance facilities, he said.

The law imposes relatively low capital and surplus requirements, but it holds the direct writer, or fronting insurer, ultimately responsible for ensuring that claims are paid.

Since 1985, the statute has required such a reinsurance facility to maintain at least $100,000 of capital stock.

A facility initially must have at least $50,000 of surplus. But, the statute—without specifying a time period—permits surplus to fall to $25,000. Mr. Harris said the department would allow surplus to drop that much only if the decrease is consistent with both a "sound" business plan and insurance principles.

—By Dave Lenckus

Virginia

Although Virginia permits captive insurers, none has been formed.

For information on the domicile, contact Jim Ware, State Corporation Commission, Bureau of Insurance, Company Licensing and Regulatory Compliance, Commonwealth of Virginia, P.O. Box 1157, Richmond, Va. 23218; 804-371-9636; fax: 804-371-9511.

—By Michael Prince

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Continued from previous page

ing consulting and interest income.
Officers: Irmgard Viera, vp; Elizabeth A.C. Durrant, manager; John Wilkins, treasurer.

Becher & Carlson Cos.

84 Pine St., 600 Financial Plaza,
P.O. Box 5599, Burlington, Vt. 05401;
802-658-7831; fax: 802-658-7843
http //www.amre.com/bandc

Founded: 1982.
Parent: American Re-Insurance Co.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; actuarial studies; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking; investment management; loss control.
Staff: Three; two professionals.
Clients: Six active captives managed at year-end 1997. Captive premium volume, $30.8 million. Capital and surplus managed, $32.9 million. No minimum size client.
Compensation: Annual fee.
Officers: David L. Carlson, president/CEO; Robert L. Glicksteen, senior vp/CFO; James J. Kofmehl, Robert W. Hessel, senior vps; Ann C. DesLauriers, general manager.

Becher & Carlson Management Ltd.

25 Church St., P.O. Box HM 2461,
Hamilton HM JX, Bermuda;
441-295-0159; fax: 441-295-0933
http://www.amre.com/bandc/index.html
Founded: 1981.
Parent: American Re-Insurance Co.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; managing underwriting pools/facilities.
Staff: Six; three professionals.
Clients: 10 active captives and three inactive captives managed at year-end 1997. Captive premium volume, $155 million. Capital and surplus managed, $345 million. No minimum size client.
Compensation: Annual fee, hourly.
Officers: Robin Mehta, senior vp/general manager; William Wood, vp; Krystalle Davis, assistant vp.
Contact: Pam Brooskin, 818-598-4250.

Becher & Carlson Risk Management Inc.

Pacific Tower, Suite 2788, 1001 Bishop St., Honolulu, Hawaii 96813;
808-521-1121; fax: 808-521-1288
http://www.amre.com/bandc

Founded: 1991.
Parent: American Re-Insurance Co.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking; investment management; loss control.
Staff: Two; one professional.
Clients: Eight active captives managed at year-end 1997. Captive premium volume, $59.1 million. Capital and surplus managed, $110.1 million. No minimum size client.
Compensation: Annual fee.
1997 gross revenues: Of gross revenues, 100% from fees charged for captive management.
Officers: David L. Carlson, president/CEO; Robert L. Glicksteen, senior vp/CEO; James J. Kofmehl, Robert W. Hessel, senior vps; Wanda L. Jong, vp/manager.
Contact: 21700 Oxnard St., Suite 1800, Woodland Hills, Calif. 91367.

Bott & Associates Ltd.

Sterling House, Wesley St., P.O. Box HM 1087, Hamilton HM EX, Bermuda;
441-292-6564; fax: 441-292-5796

Founded: 1979.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; managing underwriting pools/facilities; association captive management services, including specialized accounting services and onshore services.
Staff: Six; four professionals.
Clients: 11 active captives managed at year-end 1997. Captive premium volume, $15 million. Capital and surplus managed, $30 million. No minimum size client.
Subsidiaries: Bott & Associates (Barbados) Ltd.
Compensation: Annual fee: $12,000 minimum; commission.
1997 gross revenues: 50% from fees charged for captive management, 40% from commissions charged for brokering insurance/reinsurance, 10% from other services, including consulting.
Officers: Michael F. Bott, president; Roy V. Bray, executive vp-broking; Scott W. Nickerson, executive vp/CFO.
Contact: Roy V. Bray.

CNA Risk Services Ltd.

Continental Building, 25 Church St.,
P.O. Box HM 824, Hamilton HM CX,
Bermuda; 441-295-6015;
fax: 441-285-1702

Founded: 1980.
Parent: CNA Financial Corp.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; investment management; managing underwriting pools/facilities; loss control; association captive management services, including specialized accounting services.
Staff: Five; three professionals.
Clients: Seven active and two inactive captives managed at year-end 1997. Captive premium volume, $93.1 million. Capital and surplus managed, $303.4 million. No minimum size client.
Subsidiaries: CNA Risk Services (Barbados) Ltd.
Compensation: Annual fee, hourly.
1997 gross revenues: Of gross revenues, 79% from fees charged for captive management, 21% from other services, including principal representative and managing group companies.
Officers: Peter Conway, chairman; Hector Mendez, COO; Thomas R. McMahon, vp; Richard Spurling, secretary; Judy Taylor, assistant secretary.
Contact: Thomas R. McMahon.

CNA Risk Services (Barbados) Ltd.

ICB Building, Upper Roebuck St.,
Bridgetown, Barbados;
246-427-3362; fax: 246-426-0426

Founded: 1986.
Parent: CNA Risk Services Ltd (Bermuda).
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; loss control (New York).
Staff: Two; all professionals.
Clients: Eight total captives managed at year-end 1997; three are active. No minimum size client.
Compensation: Annual fee, hourly.
1997 gross revenues: Of gross revenues, 100% from fees charged for captive management.
Officers: Peter Conway, chairman; Hector Mendez, senior vp/COO; Fiona Williams, president/general manager; Trevor Carmichael, secretary; Andrew Ferreira, assistant secretary.

CPA Mutual Management Inc.

2811 N.W. 41st St., Suite A-2,
Gainesville, Fla. 32606;
352-375-7843; fax: 352-375-0429
http://www.cpamutual.com

Founded: 1987.
Services*: Accounting; claims processing; reinsurance brokered for captives; underwriting and ratemaking; investment management; tax advice; managing underwriting pools/facilities; association captive management services, including specialized accounting services.
Staff: Six; all professionals.
Clients: One captive managed at year-end 1997. Captive premium volume, $7 million. Capital and surplus managed, $12 million. No minimum size client.
Compensation: Annual fee: $250,000 minimum; commission.
Officers: Ben Silberstein, consultant actuary; William W. Thompson, vp-underwriting; Paul Merson, vp-marketing; Douglas H. Thompson, president.
Contact: William W. Thompson.
** Some services subcontracted to IRMG/American Risk Management Corp. in Vermont.*

Caledonian Management Ltd.

73 Front St., P.O. Box HM 2455,
Hamilton HM JX, Bermuda;
441-295-1683; fax: 441-295-1704

Founded: 1988.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking; investment management; consulting.
Staff: Two; one professional.
Clients: Six total captives managed at year-end 1997. Captive premium volume, $12 million. Capital and surplus managed, $314 million. No minimum size client.
Compensation: Annual fee, hourly.
1997 gross revenues: Of gross revenues, 90% from fees charged for captive management, 10% from other services, including consulting.
Contact: David A. Brown, president; Rhonda M. Caza, vp.

Caledonian Management Ltd.

Highbury House, 3 Parliament Square,
Castletown IM9 1LA, Isle of Man;
44-162-482-5399; fax: 44-162-482-5309

Founded: 1988.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking; investment management; consulting.
Staff: Three; two professionals.
Clients: Four total captives managed at year-end 1997. Captive premium volume, $9 million. Capital and surplus managed, $14 million. No minimum size client.
Compensation: Annual fee, hourly.

Continued on next page



fax: 44-148-171-6565
Founded: 1994.

rector; Hans Frederich Christoph Blumentritt, director; Patricia Smith, assistant secretary.
Contact: Ross Blumentritt.

Staff: 66; 29 professionals.
Clients: 178 active captives and nine inactive captives managed at year-end 1997. Captive pre-

Le Gallais Chambers, 54 Bath St.,
St. Helier, Jersey; 44-148-170-7909;
fax: 44-148-171-2428

accounting; claims processing; claims reserves

Continued on next page

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1997 gross revenues: Of gross revenues, 90% from fees charged for captive management, 10% from other services, including consulting.
Officers: David A. Brown, managing director; Karl G. Grieves, manager.

Capital Management Services Ltd.

48 Par-La-Ville Road, Suite 502,
Hamilton, Bermuda;
441-295-3974; fax: 441-292-9250
http://www.cms_bda.com

Founded: 1993.
Services: Feasibility studies; captive formation; government reporting; computerized accounting; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; investment management; tax advice.
Staff: Four; one professional.
Clients: Two active captives managed at year-end 1997. Captive premium volume, $8 million. Capital and surplus managed, $6 million.
Compensation: Annual fee: $35,000 minimum; commission.
Officers: Lawrence Dixon, president; Elizabeth Powell, vp.

Captech Management Services (Barbados) Ltd.

CGM Building, Collymore Rock,
St. Michael, Barbados;
246-436-8296; fax: 246-426-7336
http://www.cms_bda.com

Founded: 1994.
Officers: Lawrence Dixon, president; William Tomlin, Elizabeth Powell, Tina O'Connor, vps.
Subcontracts for captive management services with International Insurance Management in Barbados.

Captive Resources Inc.

201 E. Commerce Drive,
Schaumburg, Ill. 60173-5338;
847-781-1400; fax: 847-781-1455

Founded: 1981.
Services*: Feasibility studies; captive formation; government reporting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; reinsurance brokered for captives; reinsurance brokered to captives; investment management; managing underwriting pools/facilities; loss control; association captive management services, including specialized accounting services and onshore services.
Staff: 45; 39 professionals.
Clients: 20 active captives and one inactive captive managed at year-end 1997. Captive premium volume, $190 million.
Subsidiaries: Captive Benefits Services Inc., Ill.
Compensation: Annual fee.
1997 gross revenues: Of gross revenues, 90% from fees charged for captive management, 10% from other services.
Officers: Karl von Heimburg, chairman; George V. Rusu, president; Jennifer Beard, senior vp-operations; Michael Kilbane, CFO/treasurer.
Contact: George V. Rusu.
** Subcontracts for local services with J&H Marsh & McLennan Management (Cayman) Ltd.*

Caribbean Insurance Management Ltd.

Columbus Centre, P.O. Box 362, Road Town, Tortola, British Virgin Islands;
284-494-4884; fax: 284-494-6850

Founded: 1990.
Services: Feasibility studies; captive formation; government reporting; accounting; claims processing; reinsurance brokered for captives; audits by arrangement.
Staff: Two; one professional.
Clients: Five total captives managed at year-end 1997, four are active.
Compensation: Annual fee: $5,000 minimum (negotiable); hourly.
1997 gross revenues: Of gross revenues, 80% from fees charged for captive management, 20% from other services.
Contact: Richard H. Clayson, managing director.

Cayside Insurance Management Ltd.

P.O. Box 2322, Bank America Building,
Fort St., Grand Cayman, B.W.I.;
345-949-8184; fax: 345-949-7228
http://www.cayside.com

Founded: 1984.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss forecasting; underwriting and ratemaking; investment management; association captive management services, including specialized accounting services.
Staff: Three; two professionals.
Clients: 22 total captives managed at year-end 1997. Captive premium volume, $57.4 million. No minimum size client.
Compensation: Annual fee, hourly.
1997 gross revenues: Of gross revenues, 100% from fees charged for captive management.
Officers: John E. Smith, managing director; Desmond Campbell, director.
Contact: John E. Smith.

Chandler Insurance Management Ltd.

Anderson Square, Fifth Floor,
P.O. Box 1854, Grand Cayman, B.W.I.;
345-949-8177; fax: 345-949-8376

Founded: 1990.
Parent: Chandler Insurance Co. Ltd.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; association captive management services, including specialized accounting services.
Staff: Three; one professional.
Clients: Nine total captives managed at year-end 1997, seven are active. Captive premium volume, $24.6 million. Capital and surplus managed, $70.4 million. Minimum size, $500,000.
Officers: W. Brent Lagere, chairman/director; Steven R. Butler, director.

Channel Islands Insurance Consultants Ltd.

26 Cornet St., St. Peter Port,
Guernsey GY1 1LF; 44-148-171-0336;
fax: 44-148-171-0696

Founded: 1982.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking; investment management; tax advice; loss control (London, Guernsey).
Staff: Six; three professionals.
Clients: 13 active captives and two inactive captives managed at year-end 1997.
Subsidiaries: Guernsey Insurance Management Services Ltd.
Compensation: Annual fee, hourly.
1997 gross revenues: Of gross revenues, 100% from fees charged for captive management.
Officers: Michael J. Savage, managing director; Timothy A.M.B. Spafford, chairman; Tracey Turberville, Mike Bubb, directors.
Contact: Michael J. Savage.

Commonwealth Risk Management Inc.

P.O. Box 834, Montpelier, Vt. 05601;
802-229-5000; fax: 802-229-5000

Founded: 1987.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; investment management; tax advice; legal advice.
Staff: Three; two professionals.
Compensation: Annual fee; commission; hourly: professional, $135; clerical, $40.
Officers: Peter D. Sanger, president; Judith A. Sanger, vp.
Contact: Peter D. Sanger.

Cranham Management Ltd.

P.O. Box HM 397,
Hamilton FL BX, Bermuda;
441-295-8441; fax: 441-292-1210

Founded: 1996.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; reinsurance brokered for captives; run-off management
Staff: Three; two professionals.
Clients: Eight active captives and two inactive captives managed at year-end 1997. Captive premium volume, $7.4 million. Capital and surplus managed, $16 million. No minimum size client.
Compensation: Annual fee.
Officers: Stephen W. Pearce, president; Toni E. Tavares, vp.
Contact: Stephen W. Pearce.

Crusader International Management (Cayman) Ltd.

Crusader House, 102 Mary St.,
P.O. Box 2185, George Town,
Grand Cayman, B.W.I.; 345-949-1599;
fax: 345-949-0520

Founded: 1992.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; reinsurance brokered for captives.
Staff: 14; four professionals.
Clients: Eight total captives managed at year-end 1997. Captive premium volume, $18 million. Capital and surplus managed, $14 million. No minimum size client.
Compensation: Annual fee: $30,000 minimum; hourly: professional, $200; clerical, $125.
Officers: Ian Kilpatrick, president; Gavin Foggon, finance director; Fiona Moseley, senior account manager.
Contact: Ian Kilpatrick.

D

Down East Captive Services Inc.

251 U.S. Route 1,
Falmouth, Maine 04105;
207-781-4747; fax: 207-781-8507

Founded: 1997.
Services: Captive formation; government reporting; legal advice; bookkeeping/recordkeeping.
Staff: Two; one professional.
Contact: Richard L. Suter, president.

E

Eaglehurst Insurance Management Ltd.

P.O. Box 16, Analyst House, 20-26 Peel Road, Douglas IM99 IAP, Isle of Man;
44-162-467-3811; fax: 44-162-462-9983

Founded: 1986.
Parent: Pannell Kerr Forster.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; investment management; tax advice; legal advice.
Staff: Three; all professionals.
Clients: Three total captives managed at year-end 1997, two are active. Captive premium volume, $858,000. Capital and surplus managed, $3.9 million. No minimum size client.
Compensation: Hourly: professional, $80 to $305; clerical, $50.
1997 gross revenues: $100,000, 100% from fees charged for captive management.
Officers: I.M. Foster, J. Scott, J.H. Nugent.
Contact: Isobel Foster.

EURCO A.G.

Freigutstrasse 26, Zurich 8002,
Switzerland; 41-1-283-6030;
fax: 41-1-283-6035

Parent: D.V.V. Insurance Ltd.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; investment management; tax advice; legal advice; managing underwriting pools/facilities; association captive management services; risk audits; derivatives; fiduciary services.
Staff: Three; all professionals
Clients: One active captive managed at year-end 1997. Captive premium volume, $31 million. Capital and surplus managed, $10 million. Minimum size, $500,000.
Compensation: Annual fee: $25,000 minimum; commission; hourly: professional, $150; clerical, $60.
1997 gross revenues: $276,000, 80% from fees charged for captive management, 5% from commissions charged for brokering insurance/reinsurance, 15% from other services, including feasibility studies and risk audits.
Officers: Eddy Van Cutsem, managing director.

EURCO Ltd.

International House, 3
Harbourmaster Place, Dublin 1, Ireland;
353-1-829-0444; fax: 353-1-829-0433

Founded: 1993.
Parent: D.V.V. Insurance Ltd.
Offers rent-a-captive services.
Services: Feasibility studies captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; reinsurance brokered for captives; reinsurance brokered to captives; investment management; tax advice; legal advice; managing underwriting pools/facilities.
Staff: Nine; all professionals.
Clients: Five active captives and one inactive captive managed at year-end 1997. Captive premium volume, $91.7 million. Capital and surplus managed, $248.7 million.
Compensation: Annual fee, commission; hourly.
1997 gross revenues: Of gross revenues, 79% from fees charged for captive management, 21% from other services.
Officers: Hugo Azijn, managing director; Tom Kenny, finance director.

EURCO S.A.

25B, Boulevard Royal,
L-2449 Luxembourg;
352-22-7343; fax: 352-22-7347

Founded: 1993.
Parent: D.V.V. Insurance Ltd
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; investment management; tax advice; legal advice; managing underwriting pools/facilities.
Staff: Five professionals.
Clients: Nine active captives managed at year-end 1997. Captive premium volume, $50.6 million. Capital and surplus managed, $200.2 million. No minimum size client.
Compensation: Commission; hourly: professional, $110; clerical, $55.
1997 gross revenues: $414,458 84% from fees charged for captive management, 16% from commissions charged for brokering insurance/reinsurance.
Officers: Vincent Demeuse, managing director; Veronique Pirotte, Stephane Menant, captive administrators.

F

50th State Risk Management Services Inc.

6 Waterfront Plaza, Room 405, 500 Ala Moana Blvd., Honolulu, Hawaii 96813;
808-543-9786; fax: 808-523-9027
http://www.50thstate.com

Founded: 1991.
Parent: American International Group Inc.
Services: Feasibility studies; captive formation; government reporting; accounting computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; investment management; loss control (Hawaii); association captive management services, including specialized accounting services and onshore services; risk management and finite risk programs.
Staff: Four; all professionals.
Clients: One inactive captive managed at year-end 1997. Captive premium volume, $400,000. Capital and surplus managed, $1.2 million. No minimum size client.
Compensation: Annual fee; commission; hourly: professional, $50 to $100; clerical, $20 to $30.
Officers: Robin K. Campaniano, chairman; Linda K. Gilchrist, president; Craig M. Watanabe, senior vp.
Contact: Craig Watanabe, 808-543-9786 or Ann Wick, P.O. Box 1687, Burlington, Vt. 05401; 802-658-9405.

FBD International Captive Management Ltd.

2/3 Exchange Place, IFSC,
Dublin 1, Ireland; 353-1-670-1340;
fax: 353-1-670-1342

Founded: 1990.
Parent: FBD Holdings P.L.C.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; loss forecasting; investment management; tax advice; legal advice.
Staff: Two; all professionals.
Clients: Three active captives managed at year-end 1997. Captive premium volume, $5.2 million. Capital and surplus managed, $36.9 million. Minimum size, $1.4 million.
Compensation: Annual fee: $35,000 minimum.
1997 gross revenues: $55,000, 100% from fees charged for captive management.
Officers: Philip Fitzsimons, Paul O'Callaghan, directors; John H. Prosser, general manager.

FINNCAP-Oy Finnish Captive & Risk Services Ltd.

Vattuniemenkuja 8 A, FIN-00035
Helsinki, Finland; 358-10-515-12;
fax: 358-10-514-5388

Founded: 1988.
Parent: Risk Management Ltd. (U.K.)/Industrial Insurance Co. (Finland).
Officers: J. Toivola, chairman; R. Kamarainen, vice chairman; E. Holma, J. Ettala, J. Hutchin, D. Douglas, directors.
Subcontracts for captive management services with International Risk Management Ltd. in Dublin, Ireland; Guernsey; and Isle of Man.

G

Arthur J. Gallagher Management (Bermuda) Ltd.

Sofia House, 48 Church St.,
Hamilton HM 12, Bermuda;
441-292-4654; fax: 441-292-8231

Founded: 1972.
Parent: Arthur J. Gallagher & Co.
Offers rent-a-captive services.
Services*: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; loss control (Itasca, Ill.); association captive management services, including specialized accounting services.
Staff: Five; three professionals.
Clients: 13 total captives managed at year-end 1997, 12 are active. Captive premium volume, $45 million.
Subsidiaries*: Gallagher Captive Services (Cayman) Ltd.
Compensation: Annual fee: $20,000 minimum; commission.
Contact: Peter Mullen, president.
** Subcontracts for captive management services with Mutual Risk Management Ltd. in Grand Cayman.*

Gecalux S.A.

5 Place de la Gare, L-1616
Luxembourg; 352-403-8801;
fax: 352-492-706

Founded: 1985.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; investment management; tax advice; legal advice; managing underwriting pools/facilities.
Staff: 52; 25 professionals.
Clients: 60 active captives managed at year-end 1997.
Compensation: Annual fee, hourly.
Officers: Roland Frere, managing director; Arnaud Bierry, administration manager; Frederick Gabriel, Jean-Francois Mirarchi, Claude Stiennon, general managers.
Contact: Frederick Gabriel.

Green Mountain Captive Management

P.O. Box 628, 81 Washington St.,
Barre, Vt. 05641;
802-479-1046; fax: 802-479-2761

Founded: 1981.
Services: Association captive management services.
Staff: Three; two professionals.
Compensation: Annual fee.
Officers: Richard Huskes, James Mulligan.

Griffiths & Wanklyn Management Ltd.

Craig Appin House, 8 Wesley St.,
Hamilton HM 12, Bermuda;
441-295-1639; fax: 441-295-1638
http://www.gw.bm

Founded: 1985.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; investment management; managing underwriting pools/facilities; loss control.
Clients: Two active captives and one inactive captive managed at year-end 1997.
Compensation: Annual fee: $12,000 minimum; commission.
Officers: Julian Griffiths, William Wanklyn, Lisa Robinson.

Guardrisk Insurance Co. Ltd.

P.O. Box 62018, Marshalltown 2107,
Johannesburg, South Africa;
27-11-484-4906; fax: 27-11-484-3010

Founded: 1993.
Parent: Guardian National Insurance Co. Ltd./Forbes Group Ltd.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; accounting; computerized accounting; claims processing; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking; investment management; tax advice; legal advice; loss control (Johannesburg); association captive management services, including specialized accounting services and onshore services.
Staff: 27; 12 professionals.
Clients: 52 active captives and one inactive captive managed at year-end 1997. Captive premium volume, $96 million. Capital and surplus managed, $40 million. Minimum size, $100,000.
Compensation: Annual fee.
1997 gross revenues: $4 million. 100% from fees charged for captive management.
Officers: Roger Voysey, managing director; Volker von Widdern, operations/finance director; Charles Nortje, business development director; Walter Cronje, chief actuary; Dave Sandeman, underwriting manager.

H

H&H Management Services Ltd.

P.O. Box HM 1760,
Hamilton HM HX Bermuda;
441-295-3688; fax: 441-295-2584

Founded: 1977.
Parent: International Advisory Services Ltd.
Captive management services provided by International Advisory Services Ltd in Bermuda.

HSBC Insurance Management-HSBC Gibbs Ltd.

8 Alasias St., Christodulides Building,
P.O. Box 3250, 3301 Linassol, Cyprus;
357-5-373-279; fax: 357-5-355-869

Founded: 1989.
Parent: HSBC Holdings P.L.C.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; investment management; tax advice; legal advice.
Staff: 10; all professionals.
Officers: Robin Harman, general manager; Costas Th. Joannides, manager.
Contact: Robin Harman.

HSBC Insurance Management-HSBC Gibbs (Guernsey) Ltd.

P.O. Box 156, 22 Smith St.,
St. Peter Port, Guernsey GY1 4EU;
44-148-171-7857; fax: 44-148-171-7941

Founded: 1997.
Parent: HSBC Holdings P.L.C.
Services: Feasibility studies; captive formation; government reporting; computerized accounting; claims processing; claims reserves analysis; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking.
Staff: Three; all professionals.
Clients: Four active captives managed at year-end 1997.
Compensation: Annual fee, hourly.
Officers: Gabrielle Allen, director/manager; Stewart McLaughlin, financial controller.
Contact: Gabrielle Allen.

HSBC Insurance Management-HSBC Gibbs Harnett & Richardson Ltd.

75 Front St., P.O. Box HM 836,
Hamilton, Bermuda;
441-292-7500; fax: 441-292-1243

Founded: 1987.
Parent: HSBC Holdings P.L.C.

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Services: Feasibility studies; captive formation; government reporting; computerized accounting; claims processing; claims reserves analysis; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; managing underwriting pools/facilities.
Staff: Four; three professionals.
Clients: 17 active captives and one inactive captive managed at year-end 1997.
Compensation: Annual fee, commission, hourly.
Officers: Roy Fellowes, managing director; Michael Freisenbruch, director.
Contact: Roy Fellowes.

HSBC Insurance Management/Midland Bank Trust Corp. (Cayman) Ltd.

P.O. Box 1109GT,
Grand Cayman, B.W.I.;
345-949-7755; fax: 345-949-7634

Founded: 1984.
Parent: HSBC Holdings P.L.C.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; investment management; association captive management services, including specialized accounting services; banking.
Staff: 21; eight professionals.
Clients: 70 active captives and 14 inactive captives managed at year-end 1997. Captive premium volume, $220 million. No minimum size client.
Compensation: Annual fee; hourly: professional, $125 to $250; clerical, $85.
Officers: David A. Whitefield, managing director; Anthony B. Stelling, director; Thomas Clark, assistant director; Linda Haddleton, manager-insurance; Nicholas Clements, assistant manager-insurance.
Contact: Tony Stelling or Tom Clark.

Hartford Management Ltd.

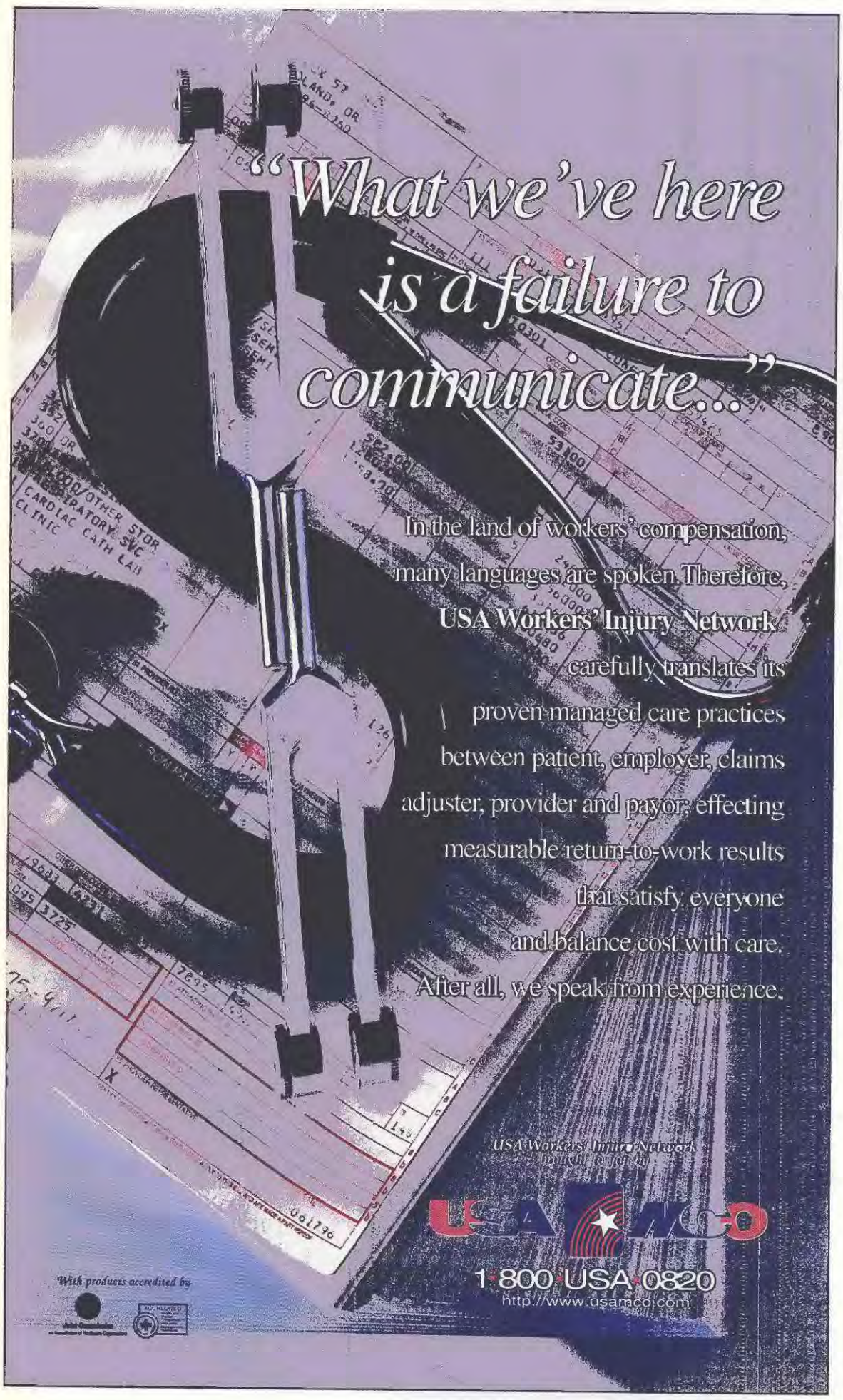
Crawford House, 50 Cedar Ave.,
Hamilton, Bermuda;
441-295-5243; fax: 441-295-4460
http://www.hartford.bm

Founded: 1975.
Parent: ITT Hartford Group Inc.
Offers rent-a-captive services.
Services: Captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; underwriting and ratemaking; investment management; managing underwriting pools/facilities; loss control (Hartford, Conn.); association captive management services, including specialized accounting services and onshore services.
Staff: 10; four professionals.
Compensation: Annual fee: $25,000 minimum.
Officers: C. Robert Burns Jr., president; Jean Sennett, treasurer/chief information officer; Thomas S. Johnston, vp.
Contact: C. Robert Burns Jr., 860-547-2457.

Hawaii Captive Insurance Management Inc./USA Risk Group

1164 Bishop St., Suite 1411,
Honolulu, Hawaii 96813; 888-872-5084
or 808-538-7766; fax: 808-533-7780
http://www.usarisk.com

Founded: 1986.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; investment management; tax advice; association captive management services, including specialized accounting services and onshore services.
Staff: Four; two professionals.
Clients: Five active captives managed at year-end 1997. Captive premium volume, $3.3 million. No minimum size client.
Compensation: Annual fee; commission; hourly: professional, $100 to $250; clerical, $50 to $80.
1997 gross revenues: Of gross revenues, 100% from fees charged for captive management.
Officers: Sherman S. Hee, president; Gary H. Osborne, Reid Richards, vps.
Contact: Reid Richards.



I

IAS Insurance Management Inc.

1562 Parkway Loop, Suite E,
Tustin, Calif. 92651;
714-258-2150; fax: 714-258-1750

Founded: 1987.
Parent: International Advisory Services Ltd./H&H Management Services Ltd.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; reinsurance brokered to captives; managing underwriting pools/facilities.
Staff: One professional.
Clients: One total captive managed at year-end 1997. Captive premium volume, $1.9 million. Capital and surplus managed, $2.7 million. No minimum size client.
Compensation: Annual fee: $20,000 minimum.
Officers: John Berry, David Ezekiel, David Pickering, Terry Power.

IAS (Barbados) Ltd.

CGM Building, Collymore Rock,
Bridgetown, Barbados;
246-436-8296; fax: 246-426-0433

Founded: 1987.
Parent: International Advisory Services Ltd.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; investment management; tax advice; managing underwriting pools/facilities; association captive management services, including specialized accounting services and onshore services.
Staff: Three; one professional.
Clients: Five active captives and three inactive captives managed at year-end 1997. Captive premium volume, $153 million. No minimum size client.
Compensation: Annual fee: $10,000 minimum; commission; hourly.
1997 gross revenues: Of gross revenues, 100% from fees charged for captive management.
Officers: David Ezekiel, president/managing director; William Tomlin, Terence Power, vps.

IRMG/American Risk Management Corp.

5 Burlington Square, Fourth Floor,
Burlington, Vt. 05401;
802-862-4400; fax: 802-862-7797

Founded: 1958.
Parent: International Risk Management Group Ltd.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; loss control (North America, Europe); risk management consulting; primary/excess insurance placement services.
Staff: 15; 13 professionals.
Clients*: 45 active captives managed at year-end 1997. Captive premium volume, $447 million. Capital and surplus managed, $325 million. No minimum size client.
Subsidiaries: American Risk Management of Hawaii.
Compensation: Annual fee; hourly: professional, $50 to $175; clerical, $30 to $50.
1997 gross revenues: Of gross revenues, 100% from fees charged for captive management.
Officers: Peter A. Joy, president; Gary O'Hare, Nancy Gray, vps; Cynthia Reer, Mary Wrenn, assistant vps.
** Includes captives in other domiciles.*

Independent Management Group Ltd.

P.O. Box HM 2070, Williams House,
Hamilton HM HX, Bermuda;
441-295-1646; fax: 441-292-8062

Founded: 1984.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; investment management; managing underwriting pools/facilities.
Staff: Five; three professionals.
Clients: 23 total captives managed at year-end 1997, two are inactive. Captive premium volume, $66 million. Capital and surplus managed, $220 million. No minimum size client.
Compensation: Annual fee; commission; hourly: professional, $150.
Contact: Peter J.N. Strong, president.

International Advisory Services Ltd.

Chevron House, 11 Church St.,
P.O. Box HM 1760,
Hamilton HM 11, Bermuda;
441-295-3688; fax: 441-295-2584

Founded: 1981.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives*; reinsurance brokered to captives; underwriting and ratemaking; investment management; tax advice; managing underwriting pools/facilities; loss control; association captive management services, including specialized accounting services and onshore services.
Staff: 56; 25 professionals.
Clients: 94 active captives and three inactive captives managed at year-end 1997. Captive premium volume, $1.1 billion. No minimum size client.
Subsidiaries: H&H Management Services Ltd., Bermuda; IAS (Barbados) Ltd.; IAS Insurance Management Inc., California; International Advisory Services Inc, Vermont.
Compensation: Annual fee: $15,000 minimum; commission; hourly.
1997 gross revenues: Of gross revenues, 95% from fees charged for captive management, 5% from other services, including feasibility studies, consulting and communications.
Officers: David Ezekiel, president/managing director; Terence Power, David Pickering, executive officers; Simon Everett, David Lampit, Lal Gunawardene, Kathy Dain, David Sykes, senior officers.
** Provided by sister company.*

International Insurance Management Ltd.

CGM Building, Collymore Rock,
St. Michael, Barbados;
246-436-8296; fax: 246-426-0433

Founded: 1986.
Services: Captive formation; government reporting; computerized accounting; investment management.
Staff: Four; three professionals.
Clients: 21 active captives and four inactive captives managed at year-end 1997. No minimum size client.
Compensation: Annual fee: $5,000 minimum; hourly: professional, $55; clerical, $25.
Officers: William M. Tomlin, director; Christine M. O'Connor, manager.
Contact: Christine M. O'Connor.

International Insurance Services Inc.

P.O. Box 61, 655 Main St.,
Lewiston, Maine 04243-0061;
207-784-4566; fax: 207-783-6778

Founded: 1986.
Parent: Hartford Inc.
Services: Feasibility studies; captive formation; accounting; computerized accounting; claims processing; underwriting and ratemaking; managing underwriting pools/facilities; loss control (Lewiston, Maine).
Staff: 13; five professionals.
Clients: Two active captives managed at year-end 1997. Captive premium volume, $5 million. Capital and surplus managed, $9 million. Minimum size, $1,000.
Compensation: Annual fee: $20,000 minimum; hourly: professional, $90; clerical, $35.
1997 gross revenues: $750,000, 60% from fees charged for captive management, 40% from other services, including inspections, risk management and claims adjusting.
Officers: Lucas B. Hartford, president; Robert A. Hartford, vp-marketing; Rodney A. Shaw, treasurer.
Contact: Lucas B. Hartford.

International Risk Management (Australia) Pty. Ltd.

5/347 Flinders Lane, Melbourne,
Victoria 3000, Australia;
61-3-9629-7655; fax: 61-3-9629-6922

Founded: 1993.
Parent: International Risk Management Group Ltd.
Services*: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss forecasting; underwriting and ratemaking; investment management; loss control (Europe, North America); association captive management services, including specialized accounting services and onshore services; risk management consulting; primary/excess insurance placement.
Staff: Three; all professionals.
Clients: Two active captives managed at year-end 1997. Captive premium volume, $630,000. Capital and surplus managed, $13.3 million. No minimum size client.
1997 gross revenues: $940,000, 4% from fees charged for captive management, 96% from other services, including risk management consulting and loss control engineering.
Officers: Anthony B. Cope, general manager.
** Subcontracts for captive management services with IRMG in Bermuda.*

International Risk Management (Barbados) Ltd.

P.O. Box 1264, Second Floor,
Thos. Daniel Building, Hincks St.,
Bridgetown, Barbados;
246-436-7541; fax: 246-436-8814
http://www.irmg.com

Founded: 1986.
Parent: International Risk Management Group Ltd.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; loss control (Europe, North America); association captive management services, including specialized accounting services; risk management consulting; primary/excess insurance placement services.

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Staff: One professional.
Clients: Four active captives managed at year-end 1997. No minimum size client.
Compensation: Annual fee, hourly.
1997 gross revenues: Of gross revenues, 100% from fees charged for captive management.
Officers: Richard E. Ince, general manager/director; John Lower, Michael Goulet, directors.
Contact: Richard E. Ince.

International Risk Management (Bermuda) Ltd.

Belvedere Building, P.O. Box HM 660, Hamilton HM CX, Bermuda; 441-295-0713; fax: 441-295-1712

Founded: 1963.
Parent: International Risk Management Group Ltd.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; managing underwriting pools/facilities; loss control (Europe, North America); association captive management services, including specialized accounting services; risk management consulting, primary/excess insurance placement.
Staff: 36; 14 professionals.
Clients: 71 active captives managed at year-end 1997. Captive premium volume, $220 million. Capital and surplus managed, $805 million. No minimum size client.
Compensation: Annual fee: $10,000 minimum; hourly.
Officers: J.R. English, president; P. Bailie, executive vp; M. Searson, vp/company secretary; S. Arrowsmith, vp.
Contact: Paul Bailie.

International Risk Management (Cayman) Ltd. (IRMG)

British American Tower, P.O. Box 69GT, Grand Cayman, B.W.I.; 345-949-0155; fax: 345-949-0002

Founded: 1975.
Parent: International Risk Management Group Ltd.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; managing underwriting pools/facilities; loss control (Europe, North America); association captive management services, including specialized accounting services and onshore services; risk management consulting; primary/excess insurance placement services.
Staff: 20; 10 professionals.
Clients: 28 active captives and two inactive captives managed at year-end 1997. Captive premium volume, $395 million. Capital and surplus managed, $309 million. No minimum size client.
Compensation: Annual fee: $25,000 minimum; hourly.
1997 gross revenues: Of gross revenues, 95% from fees charged for captive management, 3% from commissions charged for brokering insurance/reinsurance, 2% from other services.
Officers: John R. Lower, president; Roger Phelps, senior vp; Lawrence J. Walters, Michael S.A. Donnolly, vps.

International Risk Management (Dublin) Ltd.

Block 3, Harcourt Centre, Harcourt Road, Dublin 2, Ireland; 353-1-790-2600; fax: 353-1-790-2606

Founded: 1990.
Parent: International Risk Management Group Ltd.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; loss control (Europe, North America); association captive management services, including specialized accounting services; risk management consulting; primary/excess insurance placement.
Staff: Seven; five professionals.
Clients: 10 active captives managed at year-end 1997. Captive premium volume, $70.8 million. Capital and surplus managed, $40.7 million. No minimum size client.
Officers: A. Halsall, director/general manager; J. Stuart, director.

International Risk Management (Guernsey) Ltd. (IRMG)

IRM House, Le Bordage, St. Peter Port, Guernsey GY1 1BR; 44-148-172-7220; fax: 44-148-171-2443 http://www.irmg.com

Founded: 1988.
Parent: International Risk Management Group Ltd.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; loss control (Europe, North America); risk management consulting; primary/excess insurance placement services.
Staff: 26; 10 professionals.
Clients: 34 active captives managed at year-end 1997. Captive premium volume, $320 million. Capital and surplus managed, $400 million. No minimum size client.
Compensation: Annual fee; hourly.
Officers: Nick Wild, managing director; Ian McCathie, operations director; John Stuart, financial director; Don Lawson, client service director.
Contact: Nick Wild or Don Lawson.

International Risk Management (Isle of Man) Ltd.

Peveril Buildings, Suite Three, Fourth Floor, Douglas, Isle of Man IM1 2BS; 44-162-462-9198; fax: 44-162-462-9199

Founded: 1985.
Parent: International Risk Management Group Ltd.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; loss control (Europe, North America); risk management consulting; primary and excess insurance placement.
Staff: Six; three professionals.
Clients: Eight active captives managed at year-end 1997. No minimum size client.
Subsidiaries: Risk Management Consultants (Africa) Pty. Ltd.
Compensation: Annual fee, hourly.
Officers: N.H. Wild, managing director; M.A. Skehan, director/general manager; J. Stuart, director.

J

J&H Marsh & McLennan Management Inc.

1225 17th St., Suite 2100, Denver, Colo. 80202; 303-313-8385; fax: 303-313-8386

Parent: Marsh & McLennan Cos. Inc.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; managing underwriting pools/facilities; loss control; association captive management services, including specialized accounting services and onshore services.
Staff: One professional.
Clients: Three total captives managed at year-end 1997. Captive premium volume, $1.1 million. Capital and surplus managed, $5.5 million. No minimum size client.
Compensation: Annual fee, commission, hourly.
Contact: Andrew D. Carr, managing director; Paul A. Froment, vp.

J&H Marsh & McLennan Management Inc.

1099 Alakea St., Honolulu, Hawaii 96813; 808-531-4211; fax: 808-535-5525

Parent: Marsh & McLennan Cos. Inc.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; managing underwriting pools/facilities; association captive management services, including specialized accounting services and onshore services.
Staff: Eight; six professionals.
Clients: 27 active captives managed at year-end 1997. Captive premium volume, $154.3 million. Capital and surplus managed, $335 million.
Compensation: Annual fee, commission, hourly.
Officers: Peter Lowe, senior vp; Fay Okamoto, vp; Denys Kazama, Linda Kamisato, assistant vps

J&H Marsh & McLennan Management Inc.

7 Burlington Square, Sixth Floor, P.O. Box 530, Burlington, Vt. 05402-0530; 802-864-5599; fax: 802-864-5764 http://jhmarshmc.com

Parent: Marsh & McLennan Cos. Inc.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; managing underwriting pools/facilities; loss control; association captive management services, including specialized accounting services and onshore services.
Staff: 47; 39 professionals.
Clients: 117 active captives managed at year-end 1997. Captive premium volume, $1.5 billion. No minimum size client.
Compensation: Annual fee, commission, hourly.
Officers: Andrew Carr, senior vp; Julie Boucher, vp.

J&H Marsh & McLennan Ltd.

Canada Trust Tower, 161 Bay St., BCE Place, Toronto, Ontario, Canada M5J 254; 416-868-2600; fax: 416-868-2174

Parent: Marsh & McLennan Cos. Inc.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; managing underwriting pools/facilities; loss control; association captive management services, including specialized accounting services.
Staff: One total.
Clients: Three total captives managed at year-end 1997. Captive premium volume, $3.1 million. Capital and surplus managed, $5 million. No minimum size client.
Compensation: Annual fee, commission, hourly.
Contact: Les Rowley.

J&H Marsh & McLennan Management (Barbados) Ltd.

P.O. Box 1274, Whitepark House, White Park Road, Bridgetown, Barbados; 246-436-9929; fax: 246-436-9932

Parent: Marsh & McLennan Cos. Inc.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; managing underwriting pools/facilities; association captive management services, including specialized accounting services.
Staff: 11; four professionals.
Clients: 31 total captives managed at year-end 1997. Captive premium volume, $55 million. Capital and surplus managed, $37 million. No minimum size client.
Compensation: Annual fee, commission, hourly.
Officers: Andrew Carr, president; Kevin Walton, vp; Nicholas Crichlow, assistant vp.
Contact: Kevin Walton.

J&H Marsh & McLennan Management (Bermuda)

Victoria Hall, Victoria St., Hamilton HM HX, Bermuda; 441-295-3278; fax: 441-292-1563

Parent: Marsh & McLennan Cos. Inc.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; managing underwriting pools/facilities; loss control; association captive management services, including specialized accounting services.
Staff: 148; 50 professionals.
Clients: 279 total captives managed at year-end 1997. Captive premium volume, $2.5 billion. Capital and surplus managed, $4.7 billion. No minimum size client.
Compensation: Annual fee, commission, hourly.
Officers: Andrew D. Carr, president.
Contact: Rory Gorman, 441-298-6617.

J&H Marsh & McLennan Management (Cayman) Ltd.

P.O. Box 1051, Third Floor, Barclays House, Grand Cayman, B.W.I.; 345-949-7988; fax: 345-949-7849

Parent: Marsh & McLennan Cos. Inc.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; managing underwriting pools/facilities; loss control; association captive management services, including specialized accounting services.
Staff: 44; 18 professionals.
Clients: 140 total captives managed at year-end 1997, 133 are active. Captive premium volume, $788 million. Capital and surplus managed, $1.1 billion. No minimum size client.
Compensation: Annual fee, commission, hourly.
Officers: Wayne A.M. Cowan, senior vp/branch manager; Seamus B. Tivnan, vp/deputy branch manager; Peter O'Leary, Michael Gibbs, Paul Macey, Toni Silich, Graham Manchester, vps.
Contact: Wayne A.M. Cowan.

J&H Marsh & McLennan Management (Dublin) Ltd.

Treasury Building, Second Floor, Lower Grand Canal St., Dublin 2, Ireland; 353-1-676-2748; fax: 353-1-678-9636

Parent: Marsh & McLennan Cos. Inc.
Services: Captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; managing underwriting pools/facilities; loss control; association captive management services, including specialized accounting services; treasury company management.
Staff: 22; 17 professionals.
Clients: 35 total captives managed at year-end 1997. Captive premium volume, $772 million. Capital and surplus managed, $302 million. No minimum size client.
Compensation: Annual fee, commission, hourly.
Officers: Ian Clancy, branch manager; Tim Hennessy, assistant branch manager.

J&H Marsh & McLennan Management (Guernsey) Ltd.

P.O. Box 34, Albert House, South Esplanade, St. Peter Port, Guernsey GY1 4AU; 44-148-172-8136; fax: 44-148-171-3617

Parent: Marsh & McLennan Cos. Inc.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; investment management; managing underwriting pools/facilities; association captive management services, including specialized accounting services.
Staff: 14; five professionals.
Clients: 35 total captives managed at year-end 1997. Captive premium volume, $179.4 million. Capital and surplus managed, $163.6 million. No minimum size client.
Compensation: Annual fee, commission, hourly.
Officers: John Copeland, general manager; Merise Wheatley, director; Brian Allen; Kevin Poole.
Contact: John Copeland.

J&H Marsh & McLennan Management (Isle of Man) Ltd.

Peveril Buildings, Suite Two, Fourth Floor, Peveril Square, Douglas, Isle of Man IM1 2BS; 44-162-466-1063; fax: 44-162-467-6447

Founded: 1982.
Parent: Marsh & McLennan Cos. Inc.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking; managing underwriting pools/facilities; loss control; association captive management services, including specialized accounting services.
Staff: Four; three professionals.
Clients: 11 total captives managed at year-end 1997. Captive premium volume, $63.2 million. Capital and surplus managed, $283.3 million. No minimum size client.
Compensation: Annual fee, hourly.
Officers: Graham R. King, director/general manager; Stephen P. Winrow, director/accounts manager.

J&H Marsh & McLennan Management (Luxembourg) S.A.

65 Avenue de la Gare, L-1611 Luxembourg; 352-496-951; fax: 352-496-936

Parent: Marsh & McLennan Cos. Inc.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; managing underwriting pools/facilities; loss control; association captive management services, including specialized accounting services.
Staff: 13 total.
Clients: 38 total captives managed at year-end 1997. Captive premium volume, $246.1 million. Capital and surplus managed, $113.4 million. No minimum size client.
Subsidiaries: Eurocaptive Management, Luxembourg.
Compensation: Annual fee, commission, hourly.
Officers: Claude Weber, Jacqueline Pearson, Elisabeth Schenckbecher.

J&H Marsh & McLennan Management (Singapore) Ltd.

435 Orchard Road, 21-01 Wisma Atria, Singapore 238877; 65-732-4090; fax: 65-732-4091

Parent: Marsh & McLennan Cos. Inc.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; managing underwriting pools/facilities; loss control; association captive management services, including specialized accounting services.
Staff: Six; all professionals.
Clients: Five active captives managed at year-end 1997. Captive premium volume, $34.6 million. Capital and surplus managed, $22.9 million. No minimum size client.
Officers: George McGhie, managing director; Bernard Sze, vp.

Jardine Risk Management Ltd.

16th Floor, 1111 W. Georgia St., Vancouver, British Columbia, Canada V6E 4G2; 604-682-9528; fax: 604-682-3520 http://www.jardine.ca

Founded: 1987.
Parent: Jardine Insurance Services Canada Inc.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking; investment management; managing underwriting pools/facilities; loss control (Vancouver, British Columbia); association captive management services, including onshore services.
Staff: Four total.
Clients: Two active captives managed at year-end 1997.
Compensation: Annual fee; commission; hourly.
Officers: M.D. Ogdon, president; P. Kelly, secretary; H.W.R. Harrison, director.
Contact: Peter T. Kelly, general manager.

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L

Lambert Fenchurch Insurance Management (Guernsey) Ltd.

P.O. Box 308, 11 Westerbrook Centre, South Side, St. Sampson's, Guernsey; 44-1481-49984; fax: 44-1481-48304

Founded: 1979.
Parent: Lambert Fenchurch Group P.L.C.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; investment management; tax advice; legal advice.
Staff: 12; eight professionals.
Clients: 14 active captives and two inactive captives managed at year-end 1997. Captive premium volume, $250 million. Capital and surplus managed, $160 million.
Compensation: Annual fee: $20,000 minimum.
1997 gross revenues: Of gross revenues, 100% from fees charged for captive management.
Officers: L.J. Banks, chairman, R.A. Heaume, A. Lindsay, D.B. Marcrett, B.R. Soutar, directors.

Liberty International Management (Bermuda) Ltd.

Craig Appin House, 8 Wesley St., P.O. Box HM 1064, Hamilton HM EX, Bermuda; 441-296-2131; fax: 441-292-6763

Founded: 1998.
Parent: Liberty Mutual Group.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; investment management; tax advice; legal advice; managing underwriting pools/facilities; loss control (United States); association captive management services, including specialized accounting services; fronting arrangements.
Staff: Eight; five professionals.

Refer to the index on page 95 to locate captive managers in a particular domicile. The index includes companies that provide direct service and those that subcontract for services in each domicile.

Clients: 42 total captives managed at year-end 1997.
Officers: Michael Hardy, Danie T.N. Forsythe, senior vps.

M

Meadowbrook Insurance Group Inc./Meadowbrook Risk Management Ltd.

P.O. Box 724, I.C.B. Building, Roebuck St., Bridgetown, Barbados; 246-426-4684; fax: 246-426-4878

Founded: 1992.
Offers rent-a-captive services.
Services: Captive formation; government reporting; computerized accounting.
Staff: Three; one professionals.
Clients: 10 active captives and four inactive captives managed at year-end 1997. Captive premium volume, $13.5 million. Capital and surplus managed, $7.5 million.
Compensation: Annual fee: $15,000 minimum.
1997 gross revenues: $226,625, 100% from fees charged for captive management.
Officers: Omar Cordial, president; Diana Gooding, manager.

Meadowbrook Insurance Group Inc./Meadowbrook Risk Management Ltd.

P.O. Box 2340, Hamilton HM JX, Bermuda; 441-292-7569; fax: 441-292-3299

Founded: 1979.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; investment management; loss control; association captive management services, including specialized accounting services and onshore services.
Staff: Four; two professionals.
Clients: 13 total captives managed at year-end 1997; nine are active. Captive premium volume, $23 million. No minimum size client.
Compensation: Annual fee: $15,000 minimum; hourly.
1997 gross revenues: Of gross revenues, 100% from fees charged for captive management.
Officers: Merton J. Segal, president; Brian Stephenson, managing director/vp; Jim Kelly, vp.

Merchant Corporate Management Ltd.

Third Floor, International Trading Centre, Warrens, St. Michael, Barbados; 246-425-4959; fax: 246-425-2170

Founded: 1989.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; loss forecasting; underwriting and ratemaking; association captive management services, including specialized accounting services.
Staff: Five; two professionals.
Clients: 15 total captives managed at year-end 1997; 11 are active. Captive premium volume, $115 million. Capital and surplus managed, $53 million. No minimum size client.
Compensation: Hourly: professional, $245; clerical, $110 to $145.
Contact: Roland F. Wilson.

MIMS International (Barbados) Ltd.

Chelston Park, Building 2, Collymore Rock, St. Michael, Barbados; 246-426-6467; fax: 246-249-8517 http://www.sunbeach.net/mims

Founded: 1986.
Services: Captive formation; government reporting; accounting; claims processing; claims reserves analysis; reinsurance brokered for captives; underwriting and ratemaking.
Staff: Five; three professionals.
Clients: 19 active captives and one inactive captive managed at year-end 1997. Captive premium volume, $367 million. Capital and surplus managed, $390 million. No minimum size client.
Contact: Martin R. Hole, president.

Mutual Coyle Hamilton Managers Ltd.

7/9 S. Leinster St., Dublin 2, Ireland; 353-1-676-5043; fax: 353-1-676-7957

Founded: 1990.
Parent: Coyle Hamilton/Mutual Risk Management Ltd.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives.
Staff: Two; one professional.
Clients: Two active captives managed at year-end 1997. Captive premium volume, $5 million. Capital and surplus managed, $115 million. No minimum size client.
Compensation: Annual fee, commission.
Officers: Paul Sinnott, managing director; William Cooney, chairman; Hugh Governey; Jim Kelly; Robert Mulderig.
Contact: Paul Sinnott.

Mutual Risk Captive Group Ltd.

P.O. Box HM 2064, 44 Church St., Hamilton HM HX, Bermuda; 441-295-5688; fax: 441-292-1867 http://www.mrm.bm

Founded: 1977.
Parent: Mutual Risk Management Ltd.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking; investment management; managing underwriting pools/facilities; association captive management services, including specialized accounting services.
Staff: 19; nine professionals.
Clients: 53 active captives managed at year-end 1997. Captive premium volume, $223.1 million. Capital and surplus managed, $176.7 million. No minimum size client.
Subsidiaries: CFM Insurance Managers Ltd., Bermuda.
Compensation: Annual fee.
1997 gross revenues: $3.8 million, 100% from fees charged for captive management.
Officers: C. Simon Scupham, chairman; Colin M. Alexander, senior vp; P. Christopher Regan, vp.

Mutual Risk Management (Barbados) Ltd.

The Business Centre, Upton Road, Christ Church, Barbados; 246-436-5887; fax: 246-427-5328 http://www.mutrisk.com

Founded: 1986.
Parent: Mutual Risk Management Ltd.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking.
Staff: One professional.
Clients: Six active captives managed at year-end 1997. Captive premium volume, $60.3 million. Capital and surplus managed, $58.1 million. No minimum size client.
Compensation: Annual fee.
1997 gross revenues: Of gross revenues, 100% from fees charged for captive management.
Officers: Robert Mulderig, president.

Mutual Risk Management (Cayman) Ltd.

Genesis Building, Second Floor, P.O. Box 1363, Grand Cayman, B.W.I.; 345-949-7966; fax: 345-949-8068 http://www.mutrisk.com

Founded: 1982.
Parent: Mutual Risk Management Ltd.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; reinsurance brokered for captives; investment management; managing underwriting pools/facilities; association captive management services, including specialized accounting services.
Staff: Seven; four professionals.
Clients: 45 total captives managed at year-end 1997, seven are inactive. Captive premium volume, $85 million.
Compensation: Annual fee.
Officers: Robert Mulderig, John Kessock, Spottswood Dudley, directors; Peter MacKay, chairman/director; John Pitcaim, president.
Contact: Peter MacKay or John Pitcaim.

Mutual Risk Management (Vermont) Ltd.

1 Lawson Lane, Burlington, Vt. 05401; 802-860-1717; fax: 802-864-2533 http://www.mutrisk.com

Founded: 1994.
Parent: Mutual Risk Management Ltd.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; reinsurance brokered for captives; investment management.
Staff: One professional.
Clients: Two active captives managed at year-end 1997. Captive premium volume, $7.8 million. Capital and surplus managed, $6.6 million. No minimum size client.
Compensation: Annual fee: $25,000 minimum.
1997 gross revenues: Of gross revenues, 100% from fees charged for captive management.

N

Nordic Mutual CMO Zurich A.G.

Schipfe 2, P.O. Box 4558, CH-8022 Zurich, Switzerland; 41-1-212-4455; fax: 41-1-212-4465 http://www.nordic.ch

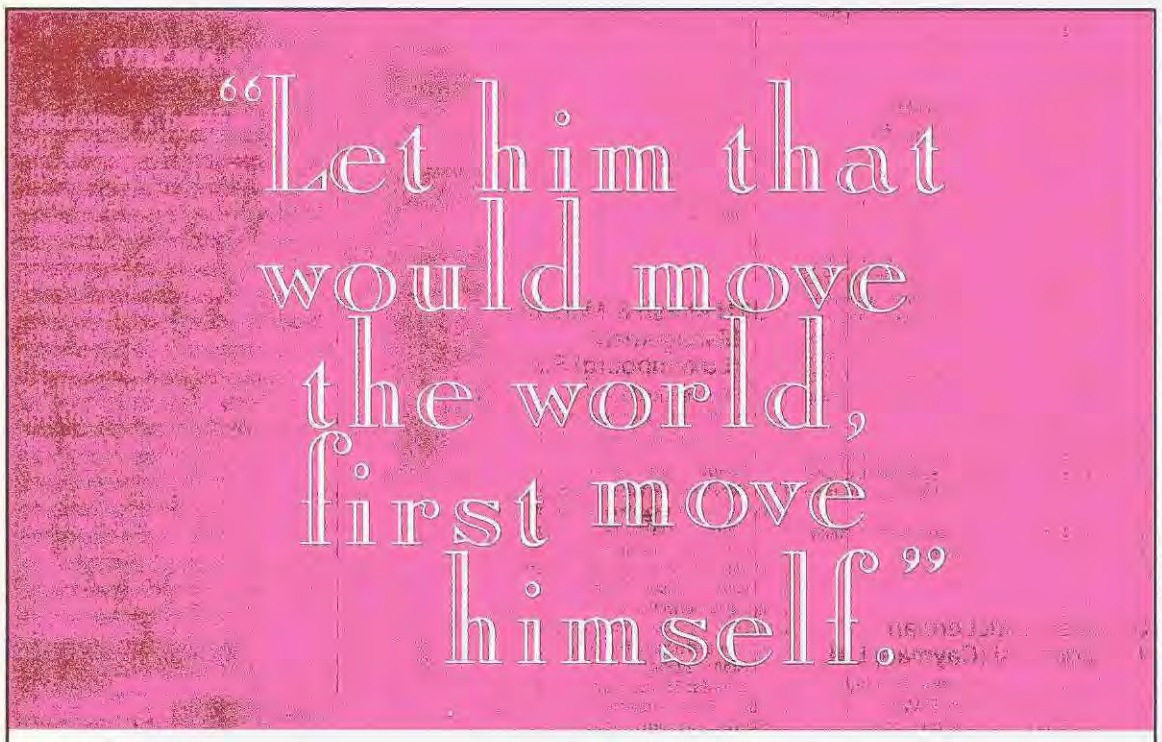
Founded: 1991.
Parent: LF Insurance Ltd.
Services*: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; investment management; tax advice; legal advice; alternative risk transfers.
Staff: 10; eight professionals.
Clients: 12 active captives managed at year-end 1997. Captive premium volume, $70 million. Capital and surplus managed, $625 million. Minimum size, $1 million.
Compensation: Annual fee: $35,000 minimum; commission; hourly: professional, $300; clerical, $100.
1997 gross revenues: Of gross revenues, 60% from fees charged for captive management, 10% from commissions charged for brokering insurance/reinsurance, 30% from other services, including insurance consulting and risk management.
Officers: Hans Erik Engelbrekts.
** Subcontracts for some captive management services with IRMG in Bermuda.*

Norwich Union Fire Insurance Society (Gibraltar) Ltd.

P.O. Box 45, Regal House, 3 Queensway, Gibraltar; 350-48324; fax: 350-70942

Founded: 1984.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss forecast-

Continued on next page



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Continued from previous page

ing; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; managing underwriting pools/facilities; company secretarial.

Staff: Two; all professionals.

Clients: Four total captives managed at year-end 1997; three are active. Captive premium volume, $18 million. Capital and surplus managed, $42 million. No minimum size client.

Compensation: Annual fee: $40,000 minimum; hourly: professional, $130; clerical, $90.

1997 gross revenues: $275,000, 95% from fees charged for captive management, 5% from other services.

Officers: Paul L. Savignon, managing director; Chris W. Johnson, manager-captive management division.

Contact: Chris Johnson.

O

Richard Oliver International Pte. Ltd.

78 Shenton Way, Suite 23-01,
Singapore 079120; 65-221-8561;
fax: 65-221-8569

Founded: 1989.

Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking; investment management; loss control (Asia Pacific).

Staff: 10; four professionals.

Clients: Two active captives and two inactive captives managed at year-end 1997. Captive premium volume, $8 million. Capital and surplus managed, $18 million. No minimum size client.

Compensation: Annual fee.

Officers: Moss Pellen, managing director; Ng Hwee Hong, finance/administration.

Contact: Moss Pellen.

Optimum Risk Research (International) Ltd.

P.O. Box 627, 26 Cornet St.,
St. Peter Port, Guernsey GY1 4PP;
44-148-172-4212; fax: 44-148-171-0696
http://www.guernsey.net/~orrintl

Founded: 1989.

Offers rent-a-captive services.

Services: Feasibility studies; captive formation; claims processing; claims reserves analysis; reinsurance brokered for captives; investment management; offshore company management/fiduciary.

Staff: Three; all professionals.

Clients: One active captive managed at year-end 1997.

Subsidiaries: Optimum Risk Research (Channel Islands) Ltd.

Compensation: Annual fee; commission; hourly.

Officers: Jean-Francois Gelot, managing director; Francoise Gelot, executive director; Rosemary Le Messurier, company secretary/manager.

P

Pinehurst Management Co. Ltd.

Dallas Building, Fifth Floor,
7 Victoria St., P.O. Box HM 1752,
Hamilton HM GX, Bermuda;
441-295-4864; fax: 441-292-7375

Founded: 1967.

Parent: Charles Taylor Group P.L.C.

Offers rent-a-captive services.

Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking; investment management; tax advice; legal advice; loss control (London); association captive management services, including specialized accounting services and onshore services.

Staff: 10; five professionals.

Clients: 30 total captives managed at year-end 1997.

Officers: Carl Daly, managing director; Norman Long, director; Shawn MacMullen, Nicole Rozon, assistant vps.

Powerscourt Management Ltd.

Windsor Place, 18 Queen St.,
Hamilton HM 11, Bermuda;
441-295-8495; fax: 441-292-1196
http://www.powerscourt.bm

Founded: 1984.

Parent: The Powerscourt Group Ltd.

Offers rent-a-captive services.

Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; investment management; managing underwriting pools/facilities; association captive management services, including specialized accounting services; reinsurance run-off consulting and management.

Staff: 10; eight professionals.

Clients: 30 captives total managed at year-end 1997.

Compensation: Annual fee, hourly.

Officers: Andrew McComb, president/CEO; Steven Western, senior vp; Wanette Vann, vp-insurance services; Adrian Kimberley, assistant vp.

Contact: Andrew McComb or Steven Western.

Q

Qstion Managers Panama Inc.

Global Bank Building, 16th Floor,
50th St., Panama;
507-269-8446; fax: 507-269-8609
http://www.qmriesgo.com

Founded: 1996.

Officers: Stavros Costarangos, president; David Perez Almillano, Abdiel Terau, Apostolos Costarangos, directors.

Contact: Stavros Costarangos, 507-223-5397.

Quail Street Management Ltd.

34 Church St., P.O. Box HM 2635,
Hamilton HM KX, Bermuda;
441-292-2582; fax: 441-292-1880
http://www.quailstreet.com

Founded: 1986.

Parent: Western Growers Assn.

Offers rent-a-captive services.

Services: Feasibility studies: captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking; investment management; loss control (Irvine, Calif.); foreign sales corporation management.

Staff: Eight; three professionals.

Clients: Four active captives and one inactive captive managed at year-end 1997. No minimum size client.

Compensation: Annual fee: $7,500 minimum.

Contact: Mark G. Moffat, president/director.

If your company was not included in the directory and provides captive management services, please call Assistant Directory Editor Matt Scroggins at 312-649-5483 to receive a questionnaire next year.

R

Risk Management Consultants (Africa) (Proprietary) Ltd.

P.O. Box 1284, Johannesburg 2041,
South Africa; 27-11-447-1200;
fax: 27-11-447-3809

Founded: 1993.

Parent: International Risk Management Group Ltd.

Contact: Johan C.M. Wethmar or Andrew Tennick.

Subcontracts for captive management services with Professional Risk Management CC in South Africa.

Risk Services (Bermuda) Ltd.

Armory Building, Second Floor,
37 Reid St., P.O. Box HM 397,
Hamilton HM BX, Bermuda;
441-295-8441; fax: 441-295-1210

Founded: 1998.

Officers: Stephen Pearce, Michael Rogers, G. Wayne Harris, Jon Harkavy.

Subcontracts for captive management services with Cranham Management Co. Ltd. in Bermuda.

RiskCap

1655 Lafayette St., Suite 200,
Denver, Colo. 80218;
303-388-5688; fax: 303-388-5585

Founded: 1976.

Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking; managing underwriting pools/facilities; loss control; association captive management services, including specialized accounting services and onshore services; management/consulting assistance to other alternative market programs.

Staff: 21; 14 professionals.

Clients: Nine active captives managed at year-end 1997. Captive premium volume, $26.5 million. Capital and surplus managed, $34.1 million. No minimum size client.

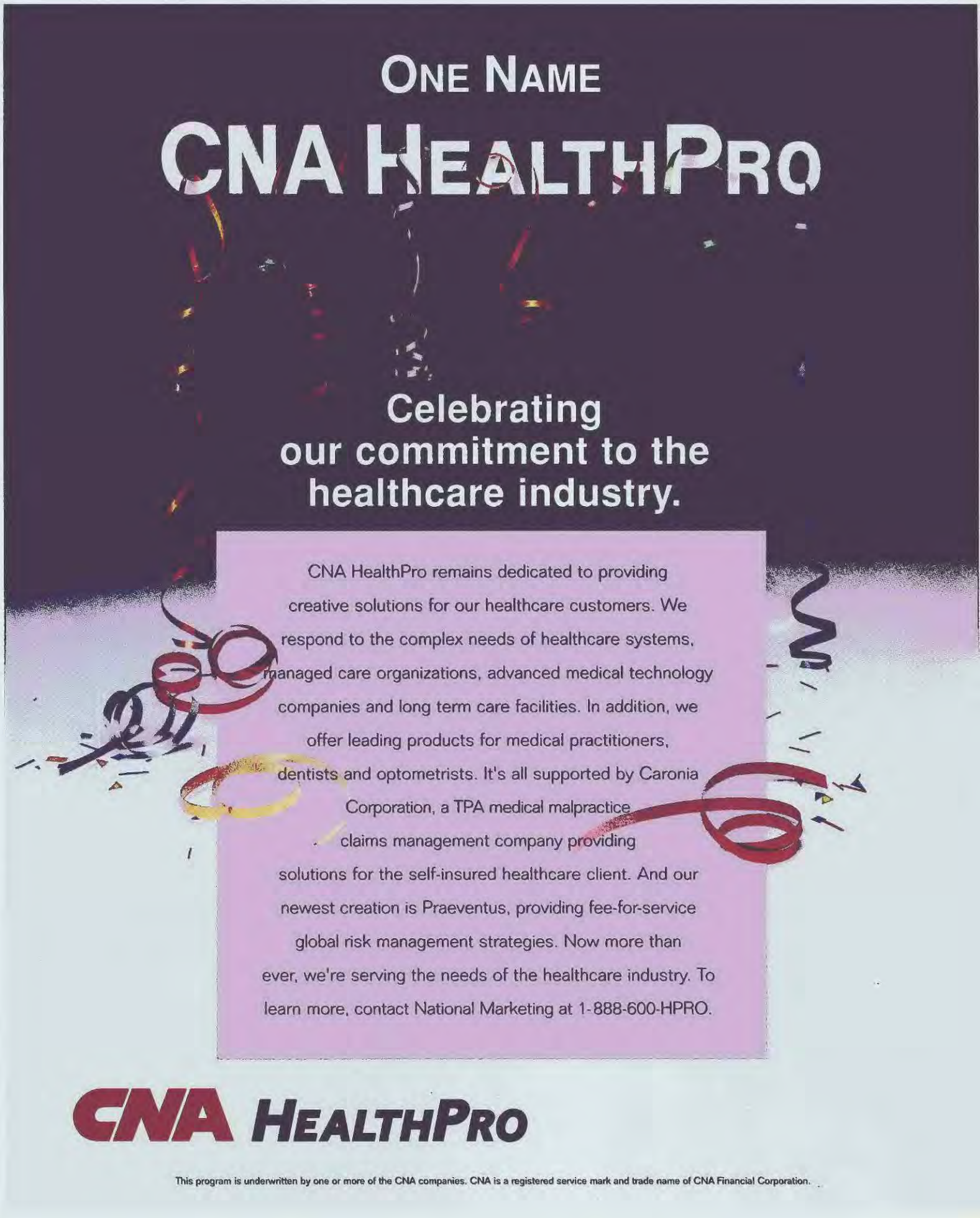
Subsidiaries: RiskCap Cayman Ltd.

Compensation: Annual fee; hourly: professional, $175 to $200; clerical, $35.

1997 gross revenues: $1.8 million. 52% from fees charged for captive management, 48% from other services, including risk management services with special emphasis on alternative market programs.

Officers: Michael Murphy, principal consultant; Sherlyn Farrell, J. Lawrence Lawson, senior consul-

Continued on next page



Continued from previous page

tants; Richard Poling, Donna Holstlaw, consultants.

SB&T Captive Management Co.

102 S. Winooski Ave., P.O. Box 730,
Burlington, Vt. 05402-0730;
802-863-5774; fax: 802-658-6191

Founded: 1982.
Parent: Smith, Bell & Thompson Inc.
Services: Captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; reinsurance brokered for captives; underwriting and ratemaking; tax advice; managing underwriting pools/facilities; association captive management services, including specialized accounting services.
Staff: Seven; six professionals.
Clients: 13 active captives managed at year-end 1997. Captive premium volume, $95.6 million. No minimum size client.
Compensation: Annual fee, hourly.
Officers: Roger D. Teese, president/CEO; Bradley D. Matulonis, vp/CFO; William D. Thompson, senior vp; Carolyn S. Kovac, vp.

SLR Management (Bermuda) Ltd.

Continental Building, Church Street,
P.O. Box HM 1978,
Hamilton HM HX, Bermuda;
441-295-8270; fax: 441-292-8611

Founded: 1978.
Parent: International Nederlanden Group.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; underwriting and ratemaking; investment management.
Staff: Five; four professionals.
Clients: Eight active captives and three inactive captives managed at year-end 1997. No minimum size client.
Compensation: Annual fee.
Officers: Nicholas E.J. Wheeler, president; Angus G. Hyslop, vp; Duarte de Frias, assistant controller.
Contact: Nicholas E.J. Wheeler or Angus G. Hyslop.

Sartor Resources Ltd.

2 Le Marchant St., P.O. Box 391,
St. Peter Port, Guernsey GY1 2JJ;
44-148-171-4792; fax: 44-148-171-5071
http://www.guernsey.net/~sartor

Founded: 1990.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; association captive management services, including specialized accounting services; general risk management studies.
Staff: Six; three professionals
Clients: Seven total captives managed at year-end 1997.
Compensation: Annual fee, hourly.
Officers: Roger Taylor, George Freeman.

Sedgwick Management Services (Bermuda) Ltd.

Cumberland House, Level Six,
1 Victoria St., P.O. Box HM 2280,
Hamilton HM JX, Bermuda;
441-292-6667; fax: 441-292-0498
http://www.sedgwick.com

Founded: 1973.
Parent: Sedgwick Group P.L.C.
Services: Feasibility studies*; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis*; actuarial studies*; loss forecasting*; reinsurance brokered for captives; underwriting and ratemaking; managing underwriting pools/facilities; loss control*; association captive management services, including specialized accounting services and onshore services; serve as principal representative; assist in selection of services providers; arrange and participate in meetings; establish asset management/underwriting policies.
Staff: 31; 15 professionals.
Clients: 33 active captives and 17 inactive captives managed at year-end 1997. Captive premium volume, $273 million. Capital and surplus managed, $633 million. No minimum size client.
Subsidiaries: Sedgwick Management Services (Cayman) Ltd.
Compensation: Annual fee, commission, hourly.
1997 gross revenues: Of gross revenues, 67% from fees charged for captive management, 33% from commissions charged for brokering insurance/reinsurance.
Officers: Denville C. Reed, president; A. Trevor Metcalf, senior vp-broking; Peter J. Willitts, senior vp-captive development; Nigel M. Godfrey, senior vp-corporate services.
Contact: Denville C. Reed, ext. 200.
** Services provided by other divisions within the Sedgwick Group.*

Sedgwick Management Services (Guernsey) Ltd.

P.O. Box 309, Dixcart House,
St. Peter Port, Guernsey GY1 4NB;
44-148-171-0555; fax: 44-148-172-1857

Founded: 1978.
Parent: Sedgwick Group P.L.C.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking; legal advice; managing underwriting pools/facilities.
Staff: 13; eight professionals.
Clients: 24 active captives and two inactive captives managed at year-end 1997. Captive premium volume, $128 million. Capital and surplus managed, $1.4 billion. Minimum size, $500,000.
Compensation: Time and expense.
Officers: Granville Michael De Cruz, managing director; Lawrence Graham Bird, director/underwriter; Mary Mooney, Pauline Chapman, assistant directors; Peter Touzeau, account manager.

Sedgwick Management Services (Ireland) Ltd.

25-27 Adelaide Road, Dublin 2, Ireland;
353-1-604-8116; fax: 353-1-661-9869

Founded: 1988.
Parent: Sedgwick Group P.L.C.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; investment management; managing underwriting pools/facilities.
Staff: 10; nine professionals.
Clients: 10 total captives managed at year-end 1997.
Compensation: Annual fee.
Officers: Gary Cullen.

Sedgwick Management Services (Isle of Man) Ltd.

Atlantic House, 4-8 Circular Road,
Douglas, Isle of Man IM1 1AG;
44-162-462-5313; fax:44-162-462-4523

Founded: 1982.
Parent: Sedgwick Group P.L.C.
Services: Feasibility studies; captive formation; government reporting; accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; underwriting and ratemaking.
Staff: 22; 15 professionals.
Clients: 33 active captives managed at year-end 1997.
Compensation: Annual fee, hourly.
Officers: A.P. Rickett, managing director; G. Crease, director; C. Kniveton, P. McDonald, account executives.

Sedgwick Management Services (Singapore) Pte. Ltd.

51 Bras Basah Road, Suite 08-03,
Plaza By The Park, Singapore 189554;
65-336-8383; fax: 65-336-2409

Founded: 1984.
Parent: Sedgwick Group P.L.C.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss forecasting; underwriting and ratemaking; investment management; tax advice; loss control (Singapore); benchmarking; annual stewardship reporting; internal auditing.
Staff: 17 total.
Clients: 24 active captives managed at year-end 1997. Captive premium volume, $150 million. Capital and surplus managed, $300 million. No minimum size client.
Compensation: Annual fee.
1997 gross revenues: Of gross revenues, 95% from fees charged for captive management, 5% from other services, including risk control, feasibility studies and risk consulting.
Officers: Brian Peele, managing director; Ross Bovill, Alan Cheah, Andrew Smith, Moey Park Moon, directors.
Contact: Brian Peele, 65-336-5179.

Sedgwick Management Services (U.S.) Ltd.

2000 S. Colorado Blvd.,
Denver, Colo. 80222;
303-691-1300; fax: 303-758-2302

Founded: 1982.
Parent: Sedgwick James Inc.
Officers: Jane Hill Fleming, president.
Contact: Andrew Sargeant, P.O. Box 306, Montpelier, Vt. 05601; 802-229-5042.
Subcontracts for regulatory and financial services with Vermont Insurance Management Inc./USA Risk Group.

Sedgwick Management Services (U.S.) Ltd.

1164 Bishop St., Suite 1411,
Honolulu, Hawaii 96813; 888-872-5084
or 808-538-7766; fax: 808-538-7780

Founded: 1982.
Parent: Sedgwick James Inc.
Officers: Jane Hill Fleming, president.
Contact: Reid Richards.
Subcontracts for regulatory and financial services with Hawaii Captive Insurance Management Inc./USA Risk Group in Hawaii.

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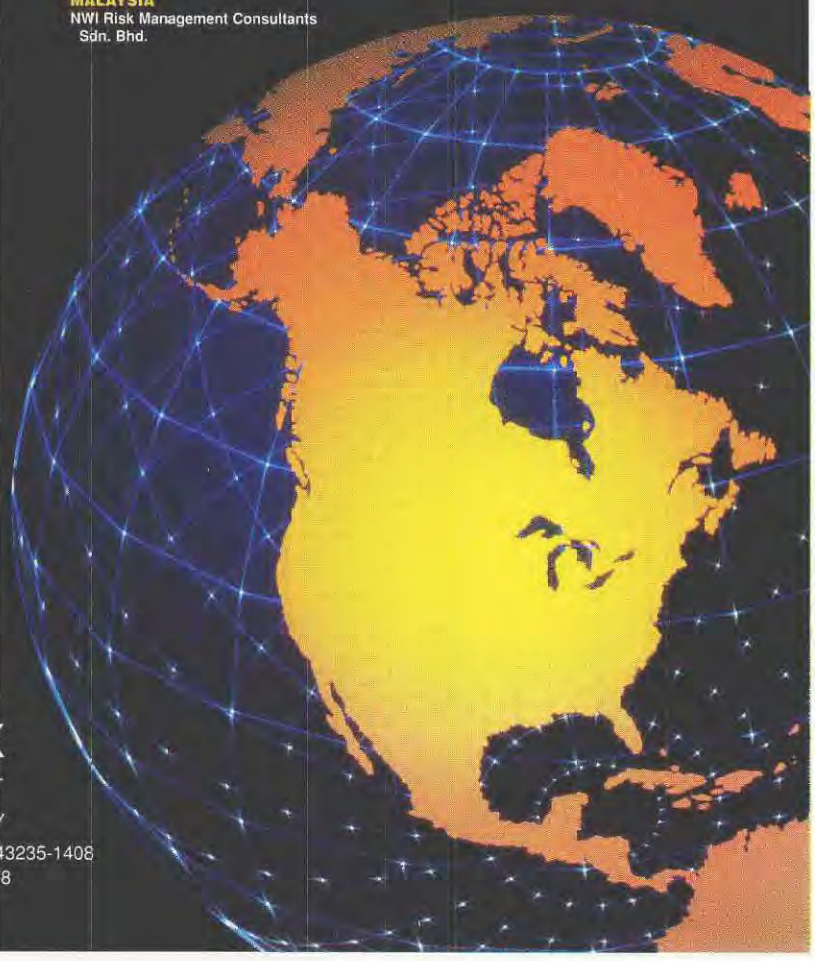
ALABAMA
McGriff, Seibels & Williams, Inc.
Thames Batré Mattei Beville & Ison
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The Mahoney Group
ARKANSAS
Ramsey, Krug, Farrell & Lensing, Inc.
CALIFORNIA
Barney & Barney, LLC
Bolton and Company
Woodruff-Sawyer & Co.
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The Watson Group
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Davis Baldwin, Inc.
J. Rolfe Davis Insurance Agency, Inc.
Seitlin & Company
GEORGIA
Hamilton Dorsey Alston Company
Palmer & Cay, Inc.
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Insurance & Risk Management
M-J Insurance, Inc.
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Hatch-Leonard/Markin-Shaw, Inc.
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Berwanger Overmyer Associates
The James B. Oswald Company
Picton Cavanaugh, Inc.
Schiff, Kreidler-Shell, Inc.
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North American Group
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JBL&K Insurance, Inc.
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Howalt-McDowell Insurance, Inc.
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Polk & Sullivan Group, Inc.
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Catto & Catto
Roach Howard Smith & Hunter
John L. Wortham & Son, L.L.P.
UTAH
Fred A. Moreton & Company
VERMONT
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WASHINGTON
Parker, Smith & Feek, Inc.
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Laub Group inc.

CANADA

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Ryan Gateway Insurance Brokers Inc.
NEW BRUNSWICK
Wilson Insurance Ltd.
NEWFOUNDLAND
Anthony Financial Inc.
NOVA SCOTIA
Fraser & Hoyt Insurance Ltd.
ONTARIO
Binks Insurance Brokers Limited
Keilty Muntz & Beatty Limited
Stevenson & Hunt Insurance Brokers Limited
QUEBEC
Roger Viau & Fils Inc.

INTERNATIONAL

ARGENTINA
Herzfeld & Levy S.A.
AUSTRALIA
J.M.D. Ross Insurance Brokers Pty. Ltd.
Western United Insurance Brokers Pty. Ltd.
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Ch. Le Jeune Limited n.v.
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Harnett & Richardson Ltd.
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CHILE
Errazuriz Y Fisher S.A.
COLOMBIA
Correcol - Corredores Colombianos De Seguros Ltda.
ENGLAND
Robert Fleming Insurance Brokers Limited
FRANCE
SGAP
GERMANY
Assekuranzgeschaft Joh. Leonh. Orth GmbH
Gayen & Berns Homann GmbH
GREECE
Koumbas Risk Services Group
GUATEMALA
Asesores Profesionales de Seguros Internacionales S.A.
HONG KONG
New World Insurance Group of Companies
IRELAND
Coyle Hamilton Limited
ISRAEL
S. Madanes Insurance Agency Ltd.
ITALY
Assiteca S.p.A.
JAPAN
The Kyoritsu Co., Ltd.
MACAU
New World Insurance Consultants Ltd.
MALAYSIA
NWI Risk Management Consultants Sdn. Bhd.
MEXICO
Lorant Martinez Salas y Cía
NETHERLANDS
Kamerbeek Assurantiemakelaars b.v.
PANAMA
KAM & ASOCIADOS, S.A.
SHANGHAI
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SINGAPORE
New World Insurance Brokers (Singapore) Pte. Limited
SOUTH AFRICA
GIB Insurance Brokers (PTY) Ltd.
SPAIN
Comercial Gestora, S.A. (COGESA)
SWITZERLAND
Kamerbeek Schweiz AG
THAILAND
PAP New World Insurance Brokers (Thailand) Limited
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Continued from previous page

Sedgwick Management Services (U.S.) Ltd.

230 W. Monroe St., Chicago, Ill. 60606;
312-346-3000; fax: 312-346-1693

Founded: 1982.
Parent: Sedgwick James Inc.
Officers: Jane Hill Fleming, president.
Contact: Andrew Sargeant, P.O. Box 306, Montpelier, Vt. 05601; 802-229-5042.
Subcontracts for regulatory and financial services with Vermont Insurance Management Inc./USA Risk Group.

Sedgwick Management Services (U.S.) Ltd.

3401 West End Ave., Suite 690,
Nashville, Tenn. 37203;
615-298-1414; fax: 615-298-9811

Founded: 1982.
Parent: Sedgwick James Inc.
Officers: Jane Hill Fleming, president.
Contact: Andrew Sargeant, P.O. Box 306, Montpelier, Vt. 05601; 802-229-5042.
Subcontracts for regulatory and financial services with Vermont Insurance Management Inc./USA Risk Group.

Sedgwick Management Services (U.S.) Ltd.

P.O. Box 306, Montpelier, Vt. 05601;
802-229-5042; fax: 802-229-6280

Founded: 1982.
Parent: Sedgwick James Inc.
Officers: Jane Hill Fleming, president.
Contact: John Harrington.
Subcontracts for regulatory and financial services with Vermont Insurance Management Inc./USA Risk Group.

SINSER A.B.

Grev Turegatan 9, S 114 46
Stockholm, Sweden;
46-8-614-1700; fax: 46-8-678-1800

Founded: 1983.
Parent: Sinser Holding A.B.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; actuarial studies; loss forecasting; investment management; tax advice; legal advice; managing underwriting pools/facilities; association captive management services, including specialized accounting services and onshore services; conferences and seminar activities.
Staff: 15; all professionals.
Clients: 19 active captives managed at year-end 1997.
Compensation: Annual fee, hourly.
Officers: Mats Lindkvist, managing director; Bo Goran Persson, COO.

SINSER (Aland) A.B.

Kopmansgatan 6, SF-22100
Mariehamn, Aland;
358-18-27698; fax: 358-18-27699

Founded: 1996.
Parent: SINSER Holding A.B.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; investment management; tax advice; legal advice; association captive management services, including specialized accounting services and onshore services; conferences and seminar activities.
Staff: One professional.
Officers: Mats Lindkvist, managing director; Bo Goran Persson, Bo Sture Sjolund, directors.
Contact: 46-8-614-1700.

SINSER (Denmark)

Stamholmen 161, DK-2650
Hvidovre, Denmark;
45-3687-4693; fax: 45-3687-4694

Founded: 1992.
Parent: SINSER.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; tax advice.
Staff: Two; all professionals.
Clients: Two active captives managed at year-end 1997.
Contact: Nikolaj Boysen.

SINSER (Europe) S.A.

P.O. Box 593, L-2015 Luxembourg;
352-223-422-310; fax: 352-470-251

Founded: 1988.
Parent: SINSER Holding A.B.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; actuarial studies; loss forecasting; investment management; tax advice; legal advice; association captive management services, including specialized accounting services and onshore services; conferences and seminars.
Staff: Seven; all professionals.
Clients: 17 active captives managed at year-end 1997.
Compensation: Annual fee, hourly.
Officers: Charles Besrehard, managing director.

SINSER (Gibraltar) agy.

P.O. Box 371, 13 Ragged Staff Wharf,
Queens Way Quay, Gibraltar;
350-43-578; fax: 350-45-579

Founded: 1996.
Services: Feasibility studies; captive formation; government reporting; claims processing; claims reserves analysis; actuarial studies; underwriting and ratemaking.
Compensation: Annual fee, hourly.
Officers: Penny Murray-White, Irene Ryan, Tomas Wittbjer.
Contact: Penny Murray-White.

SINSER (Guernsey) Ltd.

P.O. Box 14, Commerce House,
St. Peter Port, Guernsey GY1 3AQ;
44-148-171-0502; fax: 44-148-171-0524

Founded: 1992.
Parent: SINSER Holding A.B.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; actuarial studies; loss forecasting; investment management; tax advice; legal advice.
Staff: Six; all professionals.
Clients: 20 active captives and four inactive captives managed at year-end 1997.
Compensation: Annual fee, hourly.
Officers: Callum A. Beaton, managing director.

SINSER (International) S.A.R.L.

P.O. Box 593, L-2015 Luxembourg;
352-223-422-219; fax: 352-470-250

Founded: 1994.
Parent: SINSER Holding A.B.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; actuarial studies; loss forecasting; investment management; tax advice; legal advice; association captive management services, including specialized accounting services and onshore services; conferences and seminars.
Staff: One professional.
Clients: Four active captives managed at year-end 1997.
Compensation: Annual fee, hourly.
Officers: Thomas Wittbjer, managing director.

SINSER (Ireland) Ltd.

11 Windsor Place, Lower Pembroke
Street, Dublin 2, Ireland;
353-1-676-8766; fax: 353-1-676-8792

Parent: Sinser Holding A.B.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; actuarial studies; loss forecasting; tax advice; legal advice; association captive management services, including specialized accounting services and onshore services; conferences and seminars.
Staff: Seven; all professionals.
Clients: 18 active captives managed at year-end 1997.
Compensation: Annual fee, hourly.
Officers: Irene Ryan, managing director.

SINSER (Isle of Man)

P.O. Box 276, Douglas, Isle of Man;
44-162-461-4901; fax: 44-162-461-4284

Founded: 1995.
Parent: SINSER Holding A.B.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; actuarial studies; loss forecasting; investment management; tax advice; legal advice; association captive management services, including specialized accounting services and onshore services; conferences and seminars.
Clients: One active captive managed at year-end 1997.
Compensation: Annual fee, hourly.
Officers: Irene Ryan, managing director.

SINSER (Luxembourg) S.A.R.L.

P.O. Box 593, L-2015 Luxembourg;
352-223-4221; fax: 352-470-250

Founded: 1984.
Parent: SINSER Holding A.B.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; actuarial studies; loss forecasting; investment management; tax advice; legal advice; managing underwriting pools/facilities; association captive management services, including specialized accounting services and onshore services; conferences and seminars.
Staff: 15; all professionals.
Clients: 32 active captives managed at year-end 1997.
Compensation: Annual fee, hourly.
Officers: Tony Nordblad, managing director.

Skandia International Risk Management Ltd.

Skandia International House,
16 Church St., P.O. Box HM 2062,
Hamilton HM HX, Bermuda;
441-295-2185; fax: 441-292-8637

Founded: 1979.
Parent: SINSER Holding A.B.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; investment management; managing underwriting pools/facilities; association captive management services, including specialized accounting services.
Staff: 15; eight professionals.
Clients: 85 active captives managed at year-end 1997. No minimum size client.
Compensation: Annual fee, hourly.
Officers: Nicholas S. Dove, president; Robert J. Rosser, Adrian Lee-Emery, senior vps; Nicholas M. Frost, Larry Turnbull, vps.

Skandia International Risk Management (Vermont) Inc.

346 Shelburne Road,
Fourth Floor, P.O. Box 64649,
Burlington, Vt. 05406-4649;
802-658-1474; fax: 802-658-0692

Founded: 1986.
Parent: SINSER Holding A.B.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; investment management; managing underwriting pools/facilities; association captive management services, including specialized accounting services and onshore services.
Staff: Five; four professionals.
Clients: 17 active captives and two inactive captives managed at year-end 1997. Captive premium volume, $37.8 million. No minimum size client.
Compensation: Annual fee.
1997 gross revenues: 100% from fees charged for captive management.
Officers: George A. Chaffee, president; Patricia L. Henderson, vp/secretary; David M. Boardman, vp.

Sogecore

6B Route de Treves, Senningerberg,
2633 Luxembourg;
352-346-8661; fax: 352-346-840

Founded: 1987.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking; association captive management services, including specialized accounting services.
Staff: 18; 18 professionals.
Clients: 45 active captives managed at year-end 1997.
Subsidiaries: Sogecore Ltd. Bermuda; Sogecore France; Sogecore International (Luxembourg); Sogecore Ireland Ltd.; Sogecore Management Ltd. Jersey; Sogecore AG Zurich.
Officers: Jean Thilly, CEO; Giles Coremans; Sophie Vandeven.

Symphony Management Ltd.

P.O. Box HM 1538,
Hamilton HM FX, Bermuda;
441-295-2447; fax: 441-292-0511

Founded: 1991.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; investment management; managing underwriting pools/facilities; association captive management services, including specialized accounting services.
Staff: Seven; six professionals.
Clients: 19 active captives and one inactive captive managed at year-end 1997. Captive premium volume, $175 million. Capital and surplus managed, $80 million. No minimum size client.
Compensation: Annual fee; commission; hourly: professional, $135 to $210; clerical, $80 to $100.
Contact: John G. Neal, president or Helen J. Trundle, vp.

Synergy Insurance Services Inc.

1845 The Exchange,
Suite 200, Atlanta, Ga. 30339;
770-916-1908; fax: 770-995-8339

Founded: 1993.
Parent: American Safety Insurance Group.
Offers rent-a-captive services.
Services*: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; investment management; tax advice; legal advice; managing underwriting pools/facilities; loss control (Atlanta); association captive management services, including specialized accounting services and onshore services; policy issuance; marketing.
Staff: 20; 10 professionals.
Clients: Three active captives managed at year-end 1997. Minimum size client, $2,500.
Compensation: Annual fee; commission; hourly: professional, $150; clerical, $65.
1997 gross revenues: $3.0 million, 75% from fees charged for captive management, 20% from commissions charged for brokering insurance/reinsurance, 5% from other services.
Officers: Lloyd A. Fox, president; James G. Leach, senior vp; Steven Crim, executive vp; Steve Clarke, vp/financial officer.
Contact: Lloyd Fox.
** Subcontracts for some services with Mutual Risk Management Ltd. in Bermuda and Vermont.*

W.A. Taft & Co. Ltd.

P.O. Box HM 2210,
Hamilton HM JX, Bermuda;
441-295-8495; fax: 441-292-1196

Founded: 1982.
Offers rent-a-captive services.
Services*: Captive formation; government reporting; accounting; claims processing; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; association captive management services, including specialized accounting services.
Staff: Two; one professional.
Clients: Two inactive captives managed at year-end 1997.
Compensation: Annual fee, commission; hourly.
Contact: W. Allen Taft, president, 610-430-7757 or Richard Goff, executive vp, 410-296-1500.
** Some services are subcontracted to Powerscourt Management Ltd. in Bermuda.*

Tate & Lyle Management & Finance Ltd.

Jardine House, 33-35 Reid St.,
P.O. Box HM 337,
Hamilton HM BX, Bermuda;
441-295-9911; fax: 441-292-6139

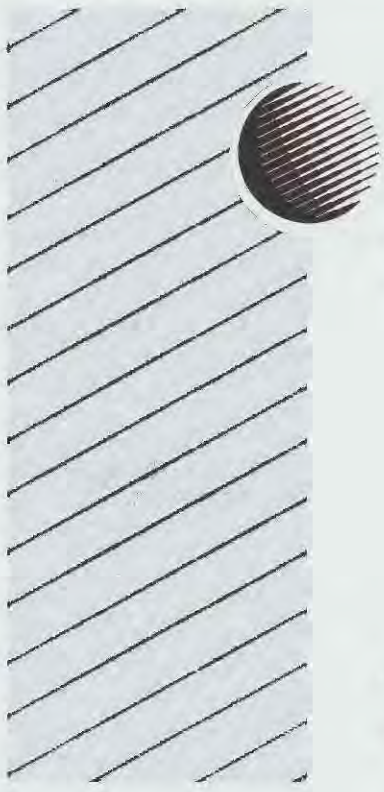
Founded: 1979.
Parent: Tate & Lyle P.L.C.
Offers rent-a-captive services.
Services: Captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; investment management.
Staff: Four; three professionals.
Clients: Five active captives managed at year-end 1997. Captive premium volume, $34.8 million. Capital and surplus managed, $109.3 million. No minimum size client.
Compensation: Annual fee: $25,000 minimum.
1997 gross revenues: $4.1 million, 12% from fees charged for captive management, 1% from commissions charged for brokering insurance/reinsurance, 87% from other services.
Officers: James A. Kemp, managing director; Dermot P. Caslin, controller; Georgi C. Barbosa, assistant controller.
Contact: James A. Kemp.

Towner Risk Management Ltd.

Second Street, Holetown,
St. James, Barbados;
246-432-5950; fax: 246-432-5952
http://www.towner-group.com

Founded: 1987.
Parent: The Towner Management Group.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; reinsurance brokered for captives; managing underwriting pools/facilities; association captive management services, including specialized accounting services.
Staff: Seven; three professionals.
Clients: 10 active captives managed at year-end 1997.
Compensation: Annual fee, commission; hourly.
Officers: Christopher Towner, president; Ricardo Knight, Lindell Earle, account managers.

Continued on next page



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www.medinsights.com

Continued from previous page

Triangle Insurance Management Ltd.

The Phoenix Building,
2 Reid St., P.O. Box HM 1838,
Hamilton HM HX, Bermuda;
441-292-4364; fax: 441-295-3982

Parent: Jardine Lloyd Thompson Group P.L.C.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; association captive management services, including specialized accounting services.
Staff: Four; three professionals.
Clients: 10 active captives and seven inactive captives managed at year-end 1997. Captive premium volume, $19.9 million. Capital and surplus managed, $46 million. No minimum size client.
Compensation: Annual fee, commission, hourly.
Officers: Bruce A. Fenton, president; Janice E. Witkowski, vp.

TRISTAR Risk Management

6133 Bristol Parkway, Suite 300
Culver City, Calif. 90230;
310-342-0500; fax: 310-342-0503
http://www.tristarrisk.com

Founded: 1987.
Parent: TRISTAR Risk & Insurance Management.
Offers rent-a-captive services.
Services*: Feasibility studies; captive formation; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; investment management; managing underwriting pools/facilities; loss control; association captive management services, including specialized accounting services.
Staff: 15; 11 professionals.
Clients: 13 total captives managed at year-end 1997, 10 are active. Captive premium volume, $16 million. Capital and surplus managed, $41 million. No minimum size client.
Compensation: Annual fee; commission; hourly: professional, $45 to $150; clerical, $25 to $50.
1997 gross revenues: $45 million, 11% from fees charged for captive management, 5% from commissions charged for brokering insurance/reinsurance, 84% from other services, including loss prevention, claims management and claims investigation.
Officers: Tom Veale, president; Kevin Burke, Ken Beck, Linda DeVreugd, vps; Kathie Schaap, controller.
** Some services subcontracted to Caledonian Bank & Trust Ltd. in Cayman.*

U

USA Offshore Management

The Phoenix Building, 2 Reid St.,
Hamilton HM 11, Bermuda;
441-295-3952; fax: 441-295-3982

Officers: H. Lincoln Miller Jr., president; Gary Osborne, vp; Andrew Sargeant, treasurer.
Contact: Gary Osborne, 800-872-7575.
Subcontracts for captive management services with Triangle Insurance Management Ltd. in Bermuda.

United Insurance Management Co.

2 Wisconsin Circle, Suite 1040,
Chevy Chase, Md. 20815;
301-907-4740; fax: 301-907-4830
http://www.ur.org

Founded: 1991.
Parent: SCUUL Ltd.
Services*: Accounting; computerized accounting; claims processing; claims reserves analysis; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking; investment management; managing underwriting pools/facilities; loss control (Chevy Chase, Md.).
Staff: 42; all professionals.
Compensation: Annual fee.
1997 gross revenues: $500,000, 100% from fees charged for captive management.
Officers: Burton Sonenstein, president; Janice Abraham, senior vp; Davison Obenauer, vp.
Contact: Burton Sonenstein.
** Some services contracted to Victor O. Schinnerer & Co. in Vermont.*

V

Vermont Insurance Management Inc./ USA Risk Group

P.O. Box 306, Montpelier, Vt. 05601;
800-872-7475; fax: 802-229-6280
http://www.usarisk.com

Founded: 1980.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; investment management; tax advice; legal advice; managing underwriting pools/facilities; association captive management services, including specialized accounting services and onshore services; policyholder services to group captives.
Staff: 16; four professionals.
Clients: 40* active captives and two* inactive captives managed at year-end 1997. Captive premium volume, $80.1 million**. No minimum size client.
Subsidiaries: Hawaii Captive Insurance Management; USA Offshore Management, Bermuda.
Compensation: Annual fee, commission.
1997 gross revenues: Of gross revenues, 75% from fees charged for captive management, 25% from commissions charged for brokering insurance/reinsurance.
Officers: H. Lincoln Miller Jr., chairman; Andrew Sargeant, president; Edward E. Meehan, executive vp.
** Figures reflect all USA Risk Group captive clients.*
*** Figure specific to Vermont Insurance Management Inc.*

Vermont Risk Services Inc.

45 State St., Unit 395, P.O. Box 2100,
Montpelier, Vt. 05601-2100
802-223-2200; fax: 802-223-3911

Founded: 1997.
Services: Captive formation; government reporting; accounting; computerized accounting; reinsurance brokered for captives; reinsurance brokered to captives; association captive management services, including specialized accounting services.
Staff: Five; four professionals.
Clients: No minimum size client.
Compensation: Annual fee, commission.
Officers: Daniel George, Charles Halstead-Johnson, Pamela Roy.

W

Welbeck Management Ltd.

P.O. Box HM 2446, 504
International Centre, Bermudiana Road,
Hamilton HM JX, Bermuda;
441-295-2240; fax: 441-295-2269

Founded: 1988.
Services: Captive formation; government reporting; accounting; computerized accounting; claims processing; investment management; association captive management services.
Staff: Two; one professional.
Clients: One active captive and six inactive captives managed at year-end 1997. Captive premium volume, $15.3 million. Capital and surplus managed, $98.5 million. No minimum size client.
Compensation: Annual fee.
1997 gross revenues: $300,000, 100% from fees charged for captive management.
Officers: Jonathan C. Richmond, vp/treasurer.

Willis Corroon Management (Bermuda) Ltd.

F.B. Perry Building, 40 Church St.,
Hamilton HM 12, Bermuda;
441-295-1272; fax: 441-295-4143

Founded: 1962.
Parent: Willis Corroon Group P.L.C.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; managing underwriting pools/facilities.
Staff: Six; two professionals.
Clients: 14 active captives and one inactive captive managed at year-end 1997. Captive premium volume, $40 million. No minimum size client.
Compensation: Annual fee.
Officers: Guy Ragosta, president; J. Oliver Heyliger, senior vp/managing director; Paul M. Pereech, controller.

Willis Corroon Management (Cayman) Ltd.

P.O. Box 30600 SMB,
George Town, Grand Cayman, B.W.I.;
345-949-6039; fax: 345-949-6621

Founded: 1993.
Parent: Willis Corroon Group P.L.C.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; managing underwriting pools/facilities.
Staff: Four; all professionals.
Clients: 28 active captives and four inactive captives managed at year-end 1997. Captive premium volume, $218 million. Capital and surplus managed, $54.5 million. No minimum size client.
Compensation: Annual fee: $15,000 minimum.
Officers: Tim Byrne, managing director; Guy Ragosta, president.
Contact: Tim Byrne.

Willis Corroon Management (Dublin) Ltd.

80 Harcourt St., Dublin 2, Ireland;
353-1-407-4932; fax: 353-1-407-4990
http://www.williscorroon.com

Founded: 1990.
Parent: Willis Corroon Group P.L.C.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; online access to claims data; claims reserves analysis; underwriting and ratemaking.
Staff: Eight; five professionals.
Clients: 13 active captives and one inactive captive managed at year-end 1997. Captive premium volume, $50 million. Capital and surplus managed, $200 million.
Compensation: Annual fee.
1997 gross revenues: $750,000, 100% from fees charged for captive management.
Officers: Christine L. Douse, Kenneth V. Mahony, Michael P. Trainor.

Willis Corroon Management (Gibraltar) Ltd.

Suite 18, Portland House, Glacis Road,
Gibraltar; 350-43-636; fax: 350-43-870

Founded: 1986.
Parent: Willis Corroon Group P.L.C.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking.
Staff: One total.
Officers: Bruno G.R. Callaghan, managing director; Peter A. Isola, director; Christine L. Douse, chairman.
Contact: Bruno G.R. Callaghan.

Willis Corroon Management (Guernsey) Ltd.

P.O. Box 384, The Albany, South
Esplanade, St. Peter Port, Guernsey;
44-148-172-0049; fax: 44-148-171-0455

Founded: 1980.
Parent: Willis Corroon Group P.L.C.
Offers rent-a-captive services*.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss forecasting; underwriting and ratemaking; managing underwriting pools/facilities.
Staff: 24; 19 professionals.
Clients: 43 total captives managed at year-end 1997, three are inactive. Captive premium volume, $300 million. Capital and surplus managed, $230 million. No minimum size client.
Subsidiaries: Willis Corroon Management (Jersey) Ltd.; Willis Corroon Management (Malta) Ltd.
Compensation: Annual fee, hourly.
Contact: M.J. Cutts-Watson, managing director; R.W. Falla, director.
** Services provided by an affiliated company.*

Willis Corroon Management (Isle of Man) Ltd.

Third Floor, 10 Finch Road,
Douglas IM1 2PT, Isle of Man;
44-162-462-0274; fax: 44-162-466-1586

Founded: 1982.
Parent: Willis Corroon Group P.L.C.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; managing underwriting pools/facilities.
Staff: 21; 10 professionals.
Clients: 42 total captives managed at year-end 1997, 40 are active. Captive premium volume, $300 million. Capital and surplus managed, $1 billion.
Officers: Christine L. Douse, Peter J. Foulger, David G. Prince, directors.
Contact: Peter J. Foulger.

Willis Corroon Management (Vermont) Ltd.

76 St. Paul St., Suite 501,
Burlington, Vt. 05401;
802-658-9466; fax: 802-658-5520
http://www.wilcor.com

Founded: 1992.
Parent: Willis Corroon Group P.L.C.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking; tax advice; managing underwriting pools/facilities; loss control (Nashville, Tenn.); association captive management services, including specialized accounting services and onshore services.
Staff: Seven; four professionals.
Clients*: 22 total captives managed at year-end 1997, 17 are active. Captive premium volume, $95.4 million. Capital and surplus managed, $92.1 million.
Compensation: Annual fee, hourly.
1997 gross revenues: 100% from fees charged for captive management.
Officers: Guy F. Ragosta, managing director-North American captive management operations; James R. Girardin, vp.
Contact: Guy Ragosta.
** Includes captives in Hawaii, New York, Tennessee and Vermont.*

Y

Yankee Captive Management Co.

140 Kennedy Drive, P.O. Box 2127,
S. Burlington, Vt. 05407-2127;
802-658-1100; fax: 802-658-9419

Founded: 1983.
Services: Captive formation; government reporting; accounting; claims processing; claims reserves analysis; investment management.
Staff: Four; three professionals.
Clients: Four active captives managed at year-end 1997. Captive premium volume, $286.6 million. No minimum size client.
Compensation: Annual fee, hourly.
Officers: L.F. Hackett, president; James F. McNally, executive vp.
Contact: James F. McNally.

Z

Zurich International (Bermuda) Ltd.

Crawford House, 50 Cedar Ave.,
P.O. Box HM 2268,
Hamilton HM JX, Bermuda;
441-292-8155; fax: 441-292-7368

Founded: 1977.
Parent: Zurich Insurance Co.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; investment management.
Staff: 12; five professionals.
Clients: 12 active captives managed at year-end 1997.
Compensation: Annual fee.
1997 gross revenues: $486,000, 100% from fees charged for captive management.
Officers: Markus Rohrbasser, president/CEO; Michael Deevy, vp/COO.

Zurich International Services (Ireland) Ltd.

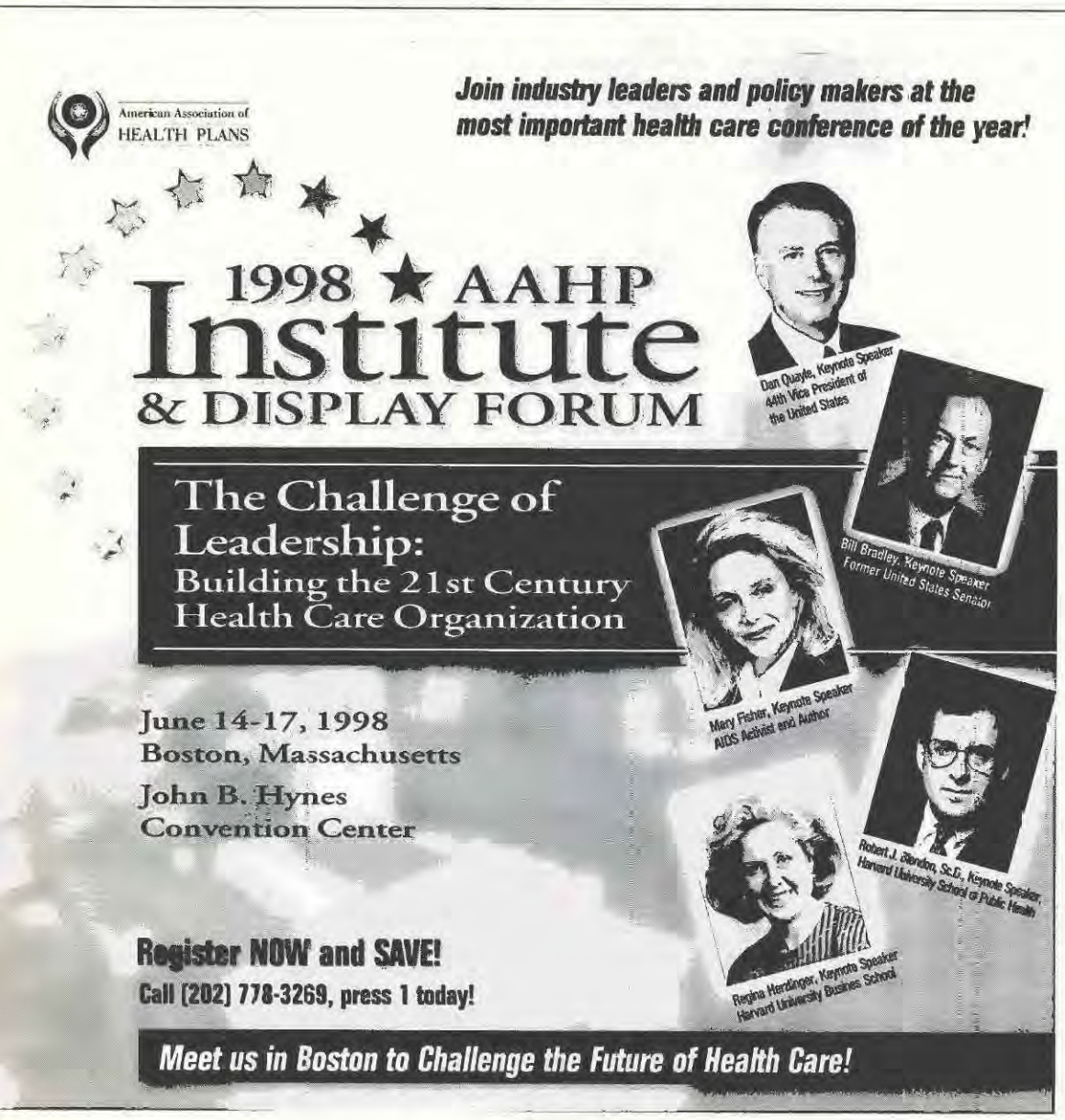
IFSC House, Custom House Quay,
Dublin 1, Ireland;
353-1-670-0988; fax: 353-1-670-1108

Founded: 1991.
Parent: Zurich Insurance Co.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; managing underwriting pools/facilities.
Staff: Two; all professionals.
Clients: Four active captives managed at year-end 1997. Captive premium volume, $17 million. Capital and surplus managed, $10 million. No minimum size client.
Officers: Laurence Sherin, general manager; Frank Coyle, financial manager.

BI

The extended deadline is May 8 for companies to be listed in the policyholder-owned alternative risk financing facilities and rent-a-captives directories.

If you manage an alternative facility or rent-a-captive and you have not yet received a questionnaire, please call Matt Scroggins at 312-649-5483.



Geographical listing of captive insurer managers

The geographical index lists organizations appearing in the directory along with their subsidiaries and sister companies by the domiciles served. Organizations that subcontract for captive management services also are listed by domicile. Subsidiaries for which a separate directory listing was not provided are identified with a footnote.

Aland

SINSER (Aland) A.B.

Australia

International Risk Management (Australia) Pty. Ltd.

Barbados

AIG Insurance Management Services (Barbados)
Aon Insurance Managers (Barbados) Ltd.
BF&M Management (Barbados) Ltd.*
Bott & Associates (Barbados) Ltd.*
CNA Risk Services (Barbados) Ltd.
Captech Management Services (Barbados) Ltd.
Chandler Insurance Management (Barbados) Ltd.*
IAS (Barbados) Ltd.
International Insurance Management Ltd.
International Insurance Services Inc.
International Risk Management (Barbados) Ltd.
J&H Marsh & McLennan Management (Barbados) Ltd.
Meadowbrook Risk Management Ltd.
Merchant Corporate Management Ltd.
MIMS International (Barbados) Ltd.
Mutual Risk Management (Barbados) Ltd.
Sedgwick Management Services Ltd.*
Towner Risk Management Ltd.

Bermuda

AIG Insurance Management Services (Bermuda) Ltd.
Aon Insurance Managers (Bermuda) Ltd.
Atlantic Security Ltd.
BF&M Management Ltd.
Becher & Carlson Management Ltd.
Bott & Associates Ltd.
CNA Risk Services Ltd.
Caledonian Management Ltd.
Capital Management Services Ltd.
Cranham Management Ltd.
Arthur J. Gallagher Management (Bermuda) Ltd.
Griffiths & Wanklyn Management Ltd.
H&H Management Services Ltd.
HSBC Insurance Management-HSBC Gibbs
Harnett & Richardson Ltd.
Hartford Management Ltd.
Independent Management Group Ltd.
International Advisory Services Ltd.
International Risk Management (Bermuda) Ltd.
J&H Marsh & McLennan Management (Bermuda)
Liberty International Management (Bermuda) Ltd.
Meadowbrook Risk Management Ltd.
Mutual Risk Captive Group Ltd.
Pinehurst Management Co. Ltd.
Powerscourt Management Ltd.
Quail Street Management Ltd.
Risk Services (Bermuda) Ltd.
SLR Management (Bermuda) Ltd.
Sedgwick Management Services (Bermuda) Ltd.
Skandia International Risk Management Ltd.
Sogecore Ltd. Bermuda
Symphony Management Ltd.
Synergy Insurance Services Inc.
W.A. Taft & Co. Ltd.
Tate & Lyle Management & Finance Ltd.
Triangle Insurance Management Ltd.
USA Offshore Management
Wellback Management Ltd.
Willis Corroon Management (Bermuda) Ltd.
Zurich International (Bermuda) Ltd.

British Columbia

Aon Insurance Managers (Vancouver)
J&H Marsh & McLennan Ltd.
Jardine Risk Management Ltd.
Sedgwick Management Services Ltd.*

British Virgin Islands

Caribbean Insurance Management Ltd.

Cayman Islands

AIG Insurance Management Services (Cayman) Ltd.
Aon Insurance Managers (Cayman) Ltd.
Captive Benefits Services Inc.*
Captive Resources Inc.
Cayside Insurance Management Ltd.
Chandler Insurance Management Ltd.
Crusader International Management (Cayman) Ltd.
HSBC Insurance Management/Midland Bank Trust Corp. (Cayman) Ltd.
International Risk Management (Cayman) Ltd.
J&H Marsh & McLennan Management (Cayman) Ltd.
Mutual Risk Management (Cayman) Ltd.
RiskCap Cayman Ltd.*
Sedgwick Management Services (Cayman) Ltd.*
TRISTAR Risk Management
Willis Corroon Management (Cayman) Ltd.

Colorado

AIG Insurance Management Services*
Aon Insurance Managers (USA) Inc.
Alternative Insurance Management Services Inc.
J&H Marsh & McLennan Management Inc.
RiskCap
Sedgwick Management Services (U.S.) Ltd.

Cyprus

HSBC Insurance Management-HSBC Gibbs Ltd.
Sedgwick Management Services Ltd.*

Delaware

Aon Insurance Managers (USA) Inc.

Denmark

SINSER (Denmark)

Dublin

AIG Insurance Management Services (Ireland) Ltd.
AIM Associated Insurance Management (Ireland) Ltd.
Aon Insurance Managers (Dublin) Ltd.
Eurco Ltd.
FBD International Captive Management Ltd.
FINNCAP - Oy Finnish Captive & Risk Services Ltd.
International Risk Management (Dublin) Ltd.
J&H Marsh & McLennan Management (Dublin) Ltd.
Mutual Coyle Hamilton Managers Ltd.
Sedgwick Management Services (Ireland) Ltd.
SINSER (Ireland) Ltd.
Sogecore Ireland Ltd.
Willis Corroon Management (Dublin) Ltd.
Zurich International Services (Ireland) Ltd.

Gibraltar

AIG Insurance Management Services*
Aon Insurance Managers (Gibraltar) Ltd.*
BDO Fidecs Insurance Management Ltd.
Norwich Union Fire Insurance Society (Gibraltar) Ltd.
SINSER (Gibraltar) agy.
Willis Corroon Management (Gibraltar) Ltd.

Guernsey

AIG Insurance Management Services (Guernsey) Ltd.
Aon Insurance Managers (Guernsey) Ltd.
Channel Islands Insurance Consultants Ltd.
FINNCAP - Oy Finnish Captive & Risk Services Ltd.
Guernsey Insurance Management Services Ltd.*
HSBC Insurance Management-HSBC Gibbs (Guernsey) Ltd.
International Risk Management (Guernsey) Ltd.
J&H Marsh & McLennan Management (Guernsey) Ltd.
Lambert Fenchurch Insurance Management (Guernsey) Ltd.
Mutual Risk Management (Guernsey) Ltd.*
Optimum Risk Research (Channel Islands) Ltd.*
Optimum Risk Research (International) Ltd.
Sartor Resources Ltd.
Sedgwick Management Services Ltd.*
Sedgwick Management Services (Guernsey) Ltd.
SINSER (Guernsey) Ltd.
Willis Corroon Management (Guernsey) Ltd.

Hawaii

American Risk Management of Hawaii*
Aon Insurance Managers (USA) Ltd.
Becher & Carlson Risk Management Inc.
50th State Risk Management Services Inc.
Hawaii Captive Insurance Management Inc./USA Risk Group
IAS Insurance Management Inc.
J&H Marsh & McLennan Management Inc.
Sedgwick Management Services (U.S.) Ltd.
Willis Corroon Management (Vermont) Ltd.

Illinois

Sedgwick Management Services (U.S.) Ltd.

Isle of Man

AIG Insurance Management Services (Isle of Man) Ltd.
Aon Insurance Managers (Isle of Man) Ltd.
Caledonian Management Ltd.
Eaglehurst Insurance Management Ltd.
FINNCAP - Oy Finnish Captive & Risk Services Ltd.
International Risk Management (Isle of Man) Ltd.
J&H Marsh & McLennan Management (Isle of Man) Ltd.
Sedgwick Management Services (Isle of Man) Ltd.
SINSER (Isle of Man)
Willis Corroon Management (Isle of Man) Ltd.

Jersey

Aon Insurance Managers (Jersey) Ltd.
Sogecore Management Ltd. Jersey
Willis Corroon Management (Jersey) Ltd.*

Luxembourg

AIG Insurance Management Services (Luxembourg) S.A.*
Aon Insurance Managers (Luxembourg) S.A.
Eurco S.A.
Eurocaptive Management*
Gecalux S.A.
J&H Marsh & McLennan Management (Luxembourg) S.A.
SINSER (Europe) S.A.
SINSER (International) S.A.R.L.
SINSER (Luxembourg) S.A.R.L.
Sogecore
VITAL Reinsurance S.A.*
Zurich Copagnie D'Assurances*

Maine

Down East Captive Services Inc.

Malta

Willis Corroon Management (Malta) Ltd.*

Netherlands

Aon Insurance Managers (Nederland) B.V.

Netherlands Antilles

Aon Insurance Managers (Antilles) N.V.
Sedgwick Management Services Ltd.*

New York

Willis Corroon Management (Vermont) Ltd.

Panama

Aon Insurance Managers (Panama)
Qstion Managers Panama Inc.

Singapore

Aon Insurance Managers (Singapore) Pte. Ltd.
J&H Marsh & McLennan Management (Singapore) Ltd.
Richard Oliver International Pte. Ltd.
Sedgwick Management Services (Singapore) Pte. Ltd.
SINSER (Asia) Pte. Ltd.*

Sweden

SINSER A.B.

Switzerland

Eurco A.G.
Nordic Mutual CMO Zurich A.G.
Sogecore A.G. Zurich

Tennessee

Sedgwick Management Services (U.S.) Ltd.
Willis Corroon Management (Vermont) Ltd.

Turks & Caicos

Aberdeen Insurance Managers (Turks & Caicos) Ltd.
Ashford Management Co.

Vermont

AIG Insurance Management Services Inc.
Alternative Risk Management & Consulting Inc.
Aon Insurance Managers (USA) Ltd.
Becher & Carlson Cos.
CPA Mutual Management Inc.
Commonwealth Risk Management Inc.
Green Mountain Captive Management
IRMG/American Risk Management Corp.
International Advisory Services Ltd.*
International Insurance Services Inc.
J&H Marsh & McLennan Management Inc.
Mutual Risk Management (Vermont) Ltd.
SB&T Captive Management Co.
Sedgwick Management Services (U.S.) Ltd.
Skandia International Risk Management (Vermont) Inc.
Synergy Insurance Services Inc.
United Insurance Management Co.
Vermont Insurance Management Inc./USA Risk Group
Vermont Risk Services Inc.
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RISK MANAGER OF THE YEAR

Grewar succeeds in uncharted waters

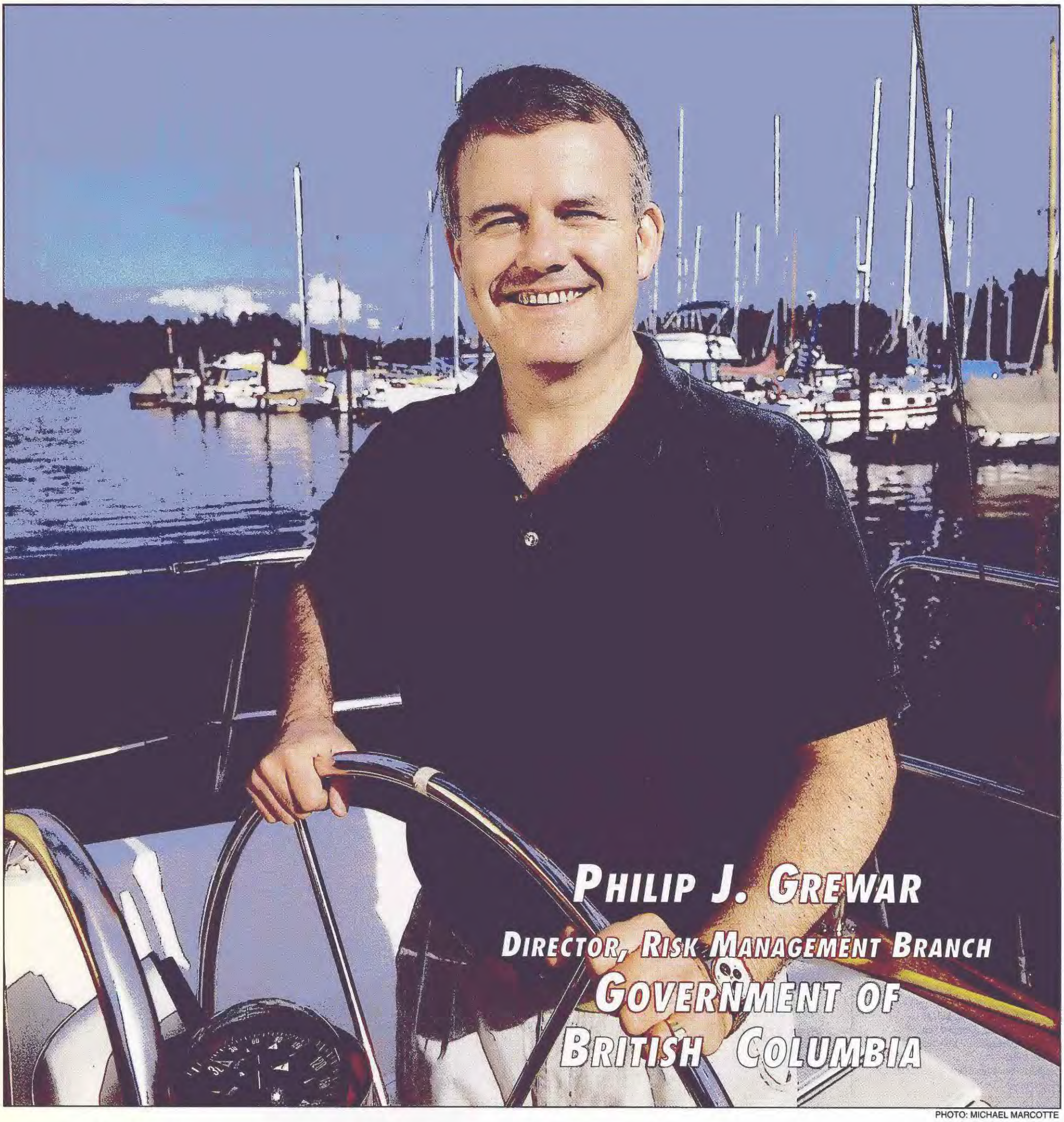


PHOTO: MICHAEL MARCOTTE

By DAVE LENCKUS

Pondering what he might have done differently if he knew then what he knows now, Philip J. Grewar rubbed the back of his neck and groaned slightly through a chuckle.

Twelve years ago, when he was hired, Mr. Grewar did not expect the amount of red tape and politicking he would have to muddle through to build a risk management program for the Canadian province of British Columbia.

It started, he said, with a six-month delay in obtaining permission to hire staff. A prophetic insurance broker with political clout complained that Mr. Grewar's expected approach would mean the broker's firm would lose a substantial amount of the province's insurance business.

It continued as Mr. Grewar maneuvered his way through crown, or government, bureaucracy and ideology to obtain the approval he needed to forge the province's current risk management structure, the cornerstone of which is self-insurance.

Speculating that 12 years ago he might have doubted his ability to cut through government bureaucracy if he had known what that entailed, Mr. Grewar said: "I really didn't understand what I was getting into. If I knew then what I know now, I wouldn't have set up these programs. I would have thrown up my hands and said, 'I can't do this.' "

But because of high-priced liability insurance market conditions and Mr. Grewar's quick alliance with the government's budget managers, his earliest projects may have been the easiest to set up, giving him the impetus to forge ahead with other programs.

"One of the things that Phil did early on was to figure out who his allies would be in the system," observed Chris Trumpy, the new deputy minister of the Ministry of Finance and Corporate Relations. Until his recent promotion from assistant deputy minister, Mr. Trumpy had been Mr. Grewar's immediate supervisor.

Mr. Grewar "convinced the people who controlled the spending side of government that the cost cuts would not be offset by increases in risk," Mr. Trumpy pointed out. "Once he got

Continued on next page

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the budgeting people on his side, self-insurance took off easily."

Mr. Grewar commands British Columbia's risk management branch from a sparse office on the top floor of a three-story government building in downtown Victoria. A ramp here and a step there in a couple of hallways are reminders that the building's blueprints did not quite dovetail when the structure was erected in two stages a couple of years apart during the early 1900s.

Since being appointed director of the province's risk management branch in December 1985, Mr. Grewar has fashioned a governmentwide organization—founded on self-insurance—in stages. The organization, though, is far more seamless than the branch's Front Street building.

Before Mr. Grewar was appointed risk manager, the province was not aware of its exposures and did not manage them "in a coherent fashion," Mr. Trumpy said. "He certainly forced government to take a hard look at its way of managing risk and the money it was spending."

And he has not deviated from his programs during the longest soft-market stretch in history.

"Phil stayed with self-insurance for all the right reasons," observed Stuart R. Messenger, an executive vp with Aon Reed Stenhouse Inc. in Vancouver, British Columbia. The broker provides administrative services for some of the province's self-insured programs.

"The government is in a position to stabilize its cost structure because of his work and his vast access to capital. It's not in Phil's best interest to be cycling in and out of a relatively unstable marketplace," Mr. Messenger said.

The crown jewel of the crown's risk management program is a self-insured program that covers the general liability and medical malpractice liability risks of the province's health care institutions. The self-insurance program earlier this month was expanded to cover the institutions' crime and property risks.

The health care institutions expanded the program because of the savings the province's educational institutions had realized in their self-insured program, which included a broader array of risks. Mr. Grewar established the educational program, which has covered property and liability risks since its inception, shortly after the hospitals' program.

> ***Philip J. Grewar 'certainly forced government to take a hard look at its way of managing risk and the money it was spending.'***
>
> **—Chris Trumpy**

He also fashioned a fronted, self-funded program that covers the general liability, directors and officers-style liability and medical malpractice liability of thousands of private vendors that deliver social service programs for the crown. Those vendors had faced exorbitant insurance cost hikes that they largely would have passed along to the government.

Another couple of self-insured programs cover the directors at crown, or government-run, corporations and the appointees to hundreds of government agencies, boards and commissions.

Those programs, according to the latest available figures from the province's risk management branch, saved the crown $310.7 million Canadian ($217.3 million) during the 12-year period from March 1986 through last month.

Mr. Grewar also eventually managed to convince provincial lawmakers that the private-sector operating efficiencies he wanted to bring to the risk management side of government were worth the legislative changes required to do so.

A crucial change allowed the risk management branch to establish a special account in which it could hold money from one year to the next—a novel idea for government but a crucial requirement for a prefunded self-insurance program.

In addition, Mr. Grewar has won special approval to award service contracts for more than one year at a time, which he said has improved the quality of service delivered.

Other ambitious steps Mr. Grewar has taken include:

- Winning the authority to review the appropriateness of many types of government contracts to limit the liability the province assumes under the contracts' indemnity provisions.
- Bringing claims examinations in-house to a staff he maintains is better qualified than any outside firm to review the province's claims.
- Reining in legal and adjustment fees by developing fee and reporting schedules.

In his latest project, Mr. Grewar is pushing the government to develop contingency plans to keep the most crucial elements of government running in the aftermath of a disaster.

Not only has Mr. Grewar, the province's first professional risk manager, built a risk management program from the ground up, he also convinced the government that it needed central risk management in the first place. A report he submitted on his last day in another government position before he took a private-sector position for a few years pointed out how the government was wasting money in its hodgepodge risk-financing approach at that time.

Those accomplishments have earned Mr. Grewar the 1998 *Business Insurance* Risk Manager of the Year Award.

"I really felt he had a comprehensive approach to his risk management responsibilities and that his accomplishments—which were many and significant—were throughout many government entities," said award judge Jeannie Sedwick, managing director of the property/casualty department of Chicago-based American Hospital Assn. Insurance Resource Inc., an AHA subsidiary. Ms. Sedwick was a Risk Manager of the Year Honor Roll member last year for her work at Wake County Hospital Systems Inc. in Raleigh, N.C.

Mr. Grewar is the first government-entity risk manager who has been honored with the Risk Manager of the Year award during its 21-year history.

He is only the second recipient representing a Canadian organization. BI

Name: Philip J. Grewar

Birthplace: St. Catharines, Ontario

Age: 50

Title: Director, risk management branch of the Canadian province of British Columbia.

Previous experience: Property insurance manager for MacMillan Bloedel Ltd. in Vancouver, British Columbia, 1981-1986; property tax and insurance manager at the British Columbia Buildings Corp. in Victoria, British Columbia, 1977-1981; insurance assistant at Cominco Ltd. in Vancouver, 1973-1977; insurance assistant at Rio Algom Ltd. in Toronto, 1970-1972; staff assistant at North American Life Assurance Co. in Toronto, 1967-1970.

Honors/professional affiliations: Member of the Insurance Institute of British Columbia, British Columbia Risk & Insurance Management Assn., Risk & Insurance Management Society Inc., Canadian Assn. of Risk Managers, and Government Risk & Insurance Management.

Education: Various university-level business courses, grade XIII.

Family: Daughters Vicky, 25, and Sarah, 4. Engaged to be married to Jan Noble, a media saleswoman with Victoria television station CHEK 6.

Hobbies: Wine tasting, cooking, sailing and skiing.

British Columbia's resources are many and diverse

More than 130 years ago, two British-controlled colonies—one on Vancouver Island, off Canada's Pacific shore, and the other on Canada's mainland—officially united as the Crown Colony of British Columbia. Five years later, on July 21, 1871, the colony became Canada's westernmost province, with Victoria as its capital.

A century and a quarter later, the province still boasts of abundant wildlife within borders that encapsulate mountains, forests and wetlands. But the province's economy has evolved from its male-dominated logging and mining roots to largely a service economy in which women are an important segment of the labor pool.

The following is an overview of the land, the government, the people and the economy of British Columbia, according to statistics compiled by the province's Ministry of Finance and Corporate Relations.

The land

At 95 million hectares, or more than 234.6 million acres, British Columbia is Canada's third-largest province in area; it comprises 9.5% of the country. The province is four times the size of Great Britain and is larger than any U.S. state except Alaska.

The province's geography is diverse: mountains, plateaus, forests, grasslands, meadows, wetlands, intertidal and subtidal zones. Rivers, lakes and streams account for more than 1.5% of the province's total area.

The environment supports the greatest diversity of plants and mammals of any Canadian province. Indeed, a large percentage of the world's total population of several species dwell in British Columbia. The province is home to 75% of the world's stone sheep, 60% of the mountain goats, half of the blue grouse and trumpeter swans, and 25% of the grizzly bears and bald eagles.

The climate ranges from mild temperatures and ample rainfall in the coastal region to the interior's continental climate.

The government

At the federal level, the province is represented by 32 elected members to Canada's Parliament and six appointed senators.

British Columbia's government maintains its roots to British parliamentary tradition. The province's legislative powers are held by the lieutenant governor and a single chamber of 75 members, who are elected for a maximum five-year term.

For the 1997/1998 fiscal year, which ended April 1, government expenditures totaled an estimated $19.57 billion Canadian ($13.72 billion). The largest expenditures were:

- $7.3 billion Canadian ($5.12 billion), or 35.6% of the total, for health care. On average, the province spent nearly $1,900 Canadian ($1,332) per resident for health care.
- $5.84 billion Canadian ($4.09 billion), or 28.5%, for education. As of September 1996, there were 1,709 public elementary, secondary and correspondence schools, with a total enrollment of 623,317 students.

See **History** *on next page*



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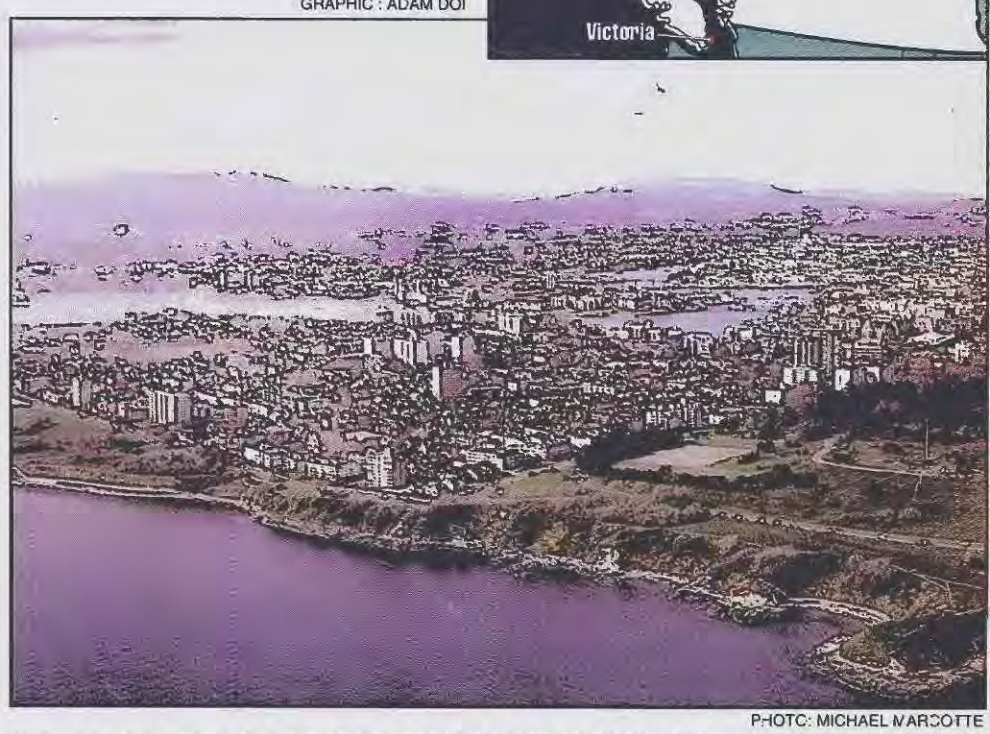


PHOTO: MICHAEL MARCOTTE

Victoria, seen from the air, is the capital of British Columbia, which was created by the union of two British-controlled colonies more than 130 years ago.

History

Continued from previous page

• $2.98 billion Canadian ($2.09 billion), or 14.5%, for social services.

The people

British Columbia initially was populated by loggers, miners, fishermen and farmers. One hundred years ago, men outnumbered women two to one, and 40% of the population was under age 30. British Columbia accounted for 2% of Canada's population.

Since the 1960s, the male and female population has been nearly equal. As of 1997, there were 1.95 million men and nearly 1.98 million women.

The province's 3.9 million population, which now has a median age of 36, comprises 13% of Canada's population and is growing at an annual rate of 2.5%. There were 4.1 persons per square kilometer and an estimated 1.5 million households in the province as of 1997. With a population of 1.9 million, greater Vancouver is one of the largest metropolitan areas in Canada.

Seventy-four percent of the province's growth is due to net migration. Historically, most of the migration has been from Europe, but Asia now accounts for much of the growth. The remainder of the increase is due to natural increases.

Life expectancy from birth during the 1992-1996 period was 78.5 years, ranging from 76.3 years in the Northern Interior to 80.8 years in Richmond, just south of Vancouver.

Per capita personal income in current dollars rose 47.4% to $23,857 Canadian ($16,723) in 1996 from $16,184 Canadian ($11,345) in 1986. In all of Canada, income during the same 10-year period rose 39.1% to $22,681 Canadian ($15,899) from $16,305 Canadian ($11,430).

The economy

As of 1996, gross domestic product at 1986 prices was $69.02 billion Canadian ($48.38 billion). Total service production was $50.7 billion Canadian (S35.54 billion), or 73.5% of total GDP.

The top service-producing industries were finance, insurance and real estate, which accounted for nearly $14.16 billion Canadian ($9.93 billion), or 20.5%, of total GDP; retail trade, with $4.8 billion Canadian ($3.36 billion), or 7%; and transportation and storage, with $4.43 billion Canadian ($3.11 billion), or 6.4%.

Total goods production was nearly $18.32 billion Canadian ($12.84 billion), or 26.5% of total GDP. The top three goods-producing industries were manufacturing, with $8.10 billion Canadian ($5.68 billion) of GDP, or 11.7%; construction, with $4.2 billion Canadian ($2.94 billion), or 6.2%; and mining, with $2.16 billion Canadian ($1.51 billion), or 3.1%.

Exports totaled $25.2 billion Canadian ($17.66 billion) in 1996. The province's top three trading partners were: the United States, with $13.81 billion Canadian ($9.24 billion), or 54.8% of the total; Japan, with $5.945 billion Canadian ($4.17 billion), or 23.6%; and the Republic of Korea, with $860 million Canadian ($602.8 million), or 3.4%.

Imports, including goods destined for other Canadian ports, totaled $19.4 billion Canadian ($13.6 billion) in 1996. The province's top trading partners were the United States, with $10.44 billion Canadian ($7.32 billion), or 53.8%; Japan, with $2.91 billion Canadian ($2.04 billion), or 15%; and the People's Republic of China, with $1.09 billion Canadian ($761.3 million), or 5.6%. BI

Hospital risk financing brought back from brink

By DAVE LENCKUS

Risk-financing troubles for the provincial government of British Columbia during the 1980s hard liability insurance market first exploded to the forefront in the health care sector.

In a not insignificant feat, Philip J. Grewar, then the new director of the province's risk management branch, created a self-funded liability program for British Columbia's hospitals that has saved the province more than $100 million Canadian ($70.1 million) over the past 12 years.

In addition to the savings, the changes in government policy he has orchestrated along the way to facilitate the hospital risk financing program have brought a private-sector business approach to public service that has benefited many other risk management endeavors.

Most notably, Mr. Grewar persuaded lawmakers to allow risk management to pre-fund liability losses and hold over that funding from one year to the next—a financing move that was unheard of in provincial government budgetary circles previously.

The funds also now can earn interest, another novel idea for a branch of government.

Mr. Grewar, as part of a provincial budgeting committee staff, also mustered committee support to separate the risk management branch's budget from the aggregate budget for all other ministries. That action spares the ministries' budgets from assessments in time of abnormally high claims-payment activity.

Pulling all of that together took years of patience, given the pace of change the provincial government sets.

In mid-February 1986, just a couple of months after he was named the province's first professional risk manager, Mr. Grewar was immersed in assessing the hard market. The crown was determining whether it could assist local exporters that faced tough product liability insurance demands from their U.S. buyers but no interest from Canadian insurance markets in writing the coverage.

The government shortly discovered, however, that it had severe risk-financing problems of its own.

In a meeting with an executive of the ministry of health and representatives of the British Columbia Health Assn., Mr. Grewar learned about the pressing coverage problems the association's member hospitals faced. The insurer that wrote the hospitals' group general liability and medical malpractice coverage was boosting the premium fivefold to $10 million Canadian ($7 million) at renewal in six weeks.

A few of the 150 or so big hospital facilities in the province that had not joined the group plan and individually had purchased their insurance were losing their coverage altogether.

Under Canada's universal health care system, British Columbia funded hospitals with bloc grants. The hospitals used grant proceeds to, among other things, purchase general liability and medical malpractice insurance through the program that the now-shuttered BCHA offered.

The whopping premium hike the insurer sought would have created budget problems for the crown. Its budget arm had not anticipated an $8 million Canadian ($5.6 million) premium hike for coverage in the upcoming fiscal year, which began in six weeks.

Even absent the budget problem, Mr. Grewar chafed at what he saw driving the increase: the U.S. civil justice system, which, at that time, imposed few limits on tort awards. By comparison, the limit on pain and suffering awards in British Columbia at that time was the then-inflation-adjusted value of $100,000 Canadian ($70,100) in 1978 dollars. Today, that value is still a relatively conservative $265,000 Canadian ($185,765).

A Marsh & McLennan Cos. Inc. office, now J&H Marsh & McLennan Ltd., placed the coverage with Toronto-based Scottish & York Insurance Co. Ltd., a subsidiary of General Accident Group (Canada) Ltd. Under that program, each hospital had $1 million Canadian ($701,000) of occurrence-based, combined single limits covering general liability and medical malpractice risks.

In place of that coverage, the BCHA wanted to set up a less expensive Bermuda captive program. But, the BCHA was not specific about how the captive program would be set up, Mr. Grewar recalled.

Even more problematic was that no matter what the plan for a captive would entail, the facility could not be set up in the few weeks that remained before the existing coverage expired, he said.

Mr. Grewar also grimaced at the stop-gap coverage proposal that Scottish & York offered: a six-month policy for an approximate $5 million Canadian ($3.5 million) premium but written on a claims-made basis. The expiring coverage had been written on an occurrence basis.

Mr. Grewar advised the BCHA to reject that offer. "The lights came on that, basically, you'd waste a pile of money," especially if the group changed underwriters after six months and did not secure an extended claims reporting period for losses that happened during the six-month policy period, he said.

A multimillion-dollar solution

Mr. Grewar took a few days to check some figures and devise a plan.

He was struck most by the program's loss history, which showed that losses came nowhere near the $10 million Canadian ($7 million) premium the insurer sought.



PHOTO: MICHAEL MARCOTTE

Among some of Philip Grewar's staff (from left to right): Mr. Grewar; Graham L. Sanderson, manager, claims administration; Tammy Keating, claims examiner; Ed McGuigan, claims examiner. Seated: Susan Hyatt, legal counsel; Barbara Webster-Evans, legal counsel.

"In fact, we have not had a $10 million annual loss in the program since we took it over," he pointed out.

Eyeing the acute care hospitals that would make up the bulk of the program's participants, Mr. Grewar also saw a good spread of risk. A few publicly financed long-term care and intermediate-care facilities that were covered by their own commercial insurance also would move to the self-funded program.

"I had six weeks and no staff," Mr. Grewar recounted. Whatever plan he devised, "it had to work in the event of claims," he said. "It had to have the infrastructure to service them."

Mr. Grewar recommended that the crown self-insure the hospitals' liability risks through a program fronted by the incumbent insurer, Scottish & York. The insurer would continue to examine claims, and M&M would continue to administer the program.

The proposed Hospitals Protection Program, though, would provide $25 million Canadian ($17.5 million) in coverage for general liability and medical malpractice losses.

The program's limits were doubled to $50 million ($35.1 million) on April 1, with the reorganization in the province's health care system. Mr. Grewar noted that the limits were increased to mollify new directors of the health care system.

There is no aggregate limit.

And, the deductibles are nominal: $1,000 Canadian ($701) on losses from improperly administering the facility's employee benefits program and $1,000 on third-party property losses up to $1,000. There is no deductible on larger third-party property losses.

The hospitals approved the fronting plan for the liability risks, but they continued to commercially insure their property risks through a BCHA program until earlier this month.

Mr. Grewar set up the fronted program by the time the existing coverage expired, without the time delays and politicking he faced with some later efforts. "I guess it was a desperate buy on their part," he observed.

That "desperate buy," though, led to some remarkable results.

The program saved the crown nearly $10 million Canadian ($7 million) in 1986 alone. Losses totaled only $9,000 Canadian ($6,309) that year, the program's lowest-loss year ever, according to Mr. Grewar.

From the program's inception in April 1986 through last month, savings have totaled nearly $128.9 million Canadian ($90.4 million), according to risk management branch figures.

The savings are calculated at the difference between the amount the branch estimates it would have paid for commercial insurance during the period and the self-insurance program's incurred costs.

The estimated commercial insurance costs are based on the $10 million Canadian premium that Scottish & York sought on renewal of the hospitals' general liability and medical malpractice insurance in April 1986.

According to Laura Hughes, manager insurance operations, the branch has bumped up that figure 5% annually to account for:

• Rising medical malpractice insurance premiums in the commercial market. While the general liability market has softened drastically over the past decade or so, the medical malpractice market has not, she said. And, medical malpractice accounts for the bulk of the claims filed against the health care facilities.

• The growing number of health care facilities that the program is covering.

Savings also can be traced to the branch settling losses much more quickly than the insurer did, Mr. Grewar said.

In 1987, Mr. Grewar abandoned the fronting arrangement. Besides eliminating the fronting fees, that move erased his concerns about the potential of the insurer losing its claims examination edge because its capital no longer was at stake. Mr. Grewar noted, though, that Scottish & York "did a good job" examining claims in the year it fronted the program.

In place of the fronting arrangement, the Ministry of Health established the British Columbia Health Care Risk Management Society, a non-profit entity, in a move that served several purposes.

Perhaps most significantly, it established a way to fund the program. Because the Ministry of Health could fund only hospitals, the society was designated technically as a hospital, although it did not function as one.

The BCHCRMS also gave the health care industry a voice in their risk financing. The society's board includes hospital executives, chiefs of medicine and nurse management as well as Mr. Grewar, the Minister of Health and Treasury Board staff.

And, creating the non-profit legal entity shielded the society's board from personal liability in the event problems with the program triggered lawsuits.

Continued on next page

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Today, the society provides health care facilities with loss control services and fields claims from program participants. The society moves the claims to the risk management branch, which manages them.

The BCHCRMS, whose top two officials are nurse/lawyers, receives claim reports for use in its loss control efforts.

In its first few years, though, the BCHCRMS was a shell entity. Mr. Grewar and an M&M broker ran it, with M&M managing the program's claims until Mr. Grewar brought claims management in-house in 1993.

Big changes in government operations

The BCHCRMS, though, did not resolve some critical HPP funding issues.

Mr. Grewar's patient but persistent efforts did.

The program initially was funded "on a hope and a prayer" at $5 million Canadian ($3.5 million). Mr. Grewar was confident that amount, half of the premium the hospitals would have paid for commercial insurance, would more than cover any losses that year.

Nailing down the appropriate funding in subsequent years was trickier. Because Scottish & York considered the self-funded program competition, after March 1986 it would not provide the risk management branch loss development information on claims filed against the BCHA program.

The branch had to use some creative accounting for a few years to resolve two more huge problems. No formal mechanism existed for the branch to pre-fund losses, and government entities could not hold over unspent funds from one year to the next.

Mr. Grewar bypassed those potential program busters by using a "deferred revenue" system that involved not immediately recognizing the premiums the branch was charging hospitals.

But, to use the system, the branch could not invoice the Ministry of Health directly for the premiums the hospitals paid it. An administration vendor Mr. Grewar hired invoiced the ministry, and then the branch invoiced the administration vendor for the funds.

Under the deferred revenue system, the branch recognized only a portion of the premiums it received from the hospitals and only as much as the branch paid out in claims. The remaining funds sat in a "deferred revenue" fund.

The branch was able to hold over the money in that fund from one year until the next for a few years.

But, when the fund reached a substantial size, it caught the attention of the auditor general, who raised questions about the fund.

The program's funding had to be changed at that point. "But, it got us over the initial hump of not losing money at the end of the year," Mr. Grewar said.

Another drawback of that system was that those funds did not earn interest.

That all stopped in 1989, when Mr. Grewar, allied with the controller general and legislative counsel, finally mustered support from provincial lawmakers to amend the province's Financial Administration Act to create the insurance and risk management account. At the same time, oversight of the risk management branch was moved to the Ministry of Finance and Corporate Relations, where the branch would have more clout.

The 1989 amendment creating the special account formally allows the branch to charge premiums to prefund the program based on losses, hold funds over from year to year for the hospitals as well as other self-funded programs. The branch then also was given unlimited claims-paying authority.

In addition, the 1989 amendment allows the branch to earn interest on the money in the fund, which helps reduce program costs.

Mr. Grewar said he sold lawmakers on the plan by convincing them the branch was acting as an insurance company and therefore had to pre-fund losses.

"If we didn't do it this way, costs would escalate down the road" for the various ministries with self-insured programs, if there were huge losses or if claims were paid faster in some years. Those additional costs then could threaten the amount of funding a ministry would have available in its budget for other projects, he explained.

Pre-funding would help smooth out those potential financial bumps, he explained.

If, when paying claims, the branch needs to spend more money than is available in the insurance and risk management account to pay claims, Mr. Grewar has that statutory authority as well under the Financial Administration Act. Those funds would come from the government's central fund. The central fund would be replenished over time by the premiums the ministries pay.

Even with that unlimited claims check-signing authority, Mr. Grewar is subject to a couple constraints.

The Treasury Board, the powerful budget committee of the premier's Cabinet, insists on signing off on such expenditures. "The people on the financial side have to be aware of how much money we're spending, and I have to explain why my budgets are off. There's nothing wrong with that," Mr. Grewar said.

And, he takes any claim payment exceeding $100,000 Canadian to the branch's claims committee for prior approval.

"It's protection for me, in a sense, that it's a group decision."

In some cases, Mr. Grewar's unlimited claims check-signing authority might not have been worth the paper on which the checks are printed if Mr. Grewar did not have the flexibility to overrun his budgets.

That flexibility began developing when the risk management branch was moved to a more powerful level in government.

The branch originally was in the provincial secretary office, which is part of government services.

Shortly before the Financial Administration Act was amended, the Deputy Minister of Finance and Corporate Relations succeeded in moving the branch to his ministry, where the branch's oversight first was assumed by the Treasury Board. The ministry already had been using Mr. Grewar as an adviser about the hard liability insurance market.

"That move gave us a lot of power and credibility with people who held the purse strings," Mr. Grewar said.

A few years later, the Treasury Board staff, which included Mr. Grewar by that point, pulled the

See **Hospitals** *on next page*

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Hospitals

Continued from previous page

branch's budget out of the Ministry of Finance's budget.

"The ministry would not be able to meet its budget with us in it," Mr. Grewar said.

The branch's budget was folded into the government's "other appropriations," which means the branch does not compete with any other government entity for funding. That also gave the branch the budget overrun flexibility it needed to "take the bumps" for ministries when claim payments exceeded funding.

Mr. Grewar's ability to influence his office's position in the government's hierarchy as well as procure a flexible budget foreign to government operations "was very significant," said Jeannie Sedwick, a Risk Manager of the Year judge.

Ms. Sedwick is the managing director of the property/casualty department of Chicago-based American Hospital Assn. Insurance Resource Inc., an AHA subsidiary. She was a Risk Manager of the Year Honor Roll member last year for her work at Wake County Hospital Systems Inc. in Raleigh, N.C.

Of all of the changes, the one aspect with which Mr. Grewar is not completely satisfied is the investment earnings the insurance and risk management account earns.

The Treasury allocates only a small investment return for the fund, regardless of the actual returns the Treasury generates in investing those and other government funds.

Mr. Grewar is working on persuading the Treasury to provide the account a better investment return.

But, "the biggest hump, I think, was getting the concept that we're existing as a business unit" and that the funds in the branch's account should earn interest, Mr. Grewar said. "That was our top sell."

A new direction

The hospitals' program is undergoing a face lift this year because of changes in the structure of the health care system.

By region, the province has created a health board to serve as the umbrella organization over all of the health care societies responsible for delivering care.

One of the intended benefits is to better coordinate seamless health care for patients. For example, the new system should facilitate the coordination of home health care for a stable patient currently taking up a bed in an acute care facility.

As a result, the hospitals self-insurance program, renamed the Health Care Protection Program, will cover more and different types of health care facilities. Now, the program covers the risks of many more long-term and intermediate care facilities and home health care operations.

In addition to liability risks, the HCPP in April began covering property and crime risks.

Self-insuring hospitals' property and crime risks should save the province at least $2 million Canadian ($1.4 million) in the first year. And, that is figuring in only the savings for the facilities the hospitals program previously covered, according to Mr. Grewar.

Referring to the new property and crime coverage, Mr. Grewar said, "Initially, I thought it should come in, but the timing had to be right."

The opportunity to bring the property and crime coverage under the new program presented itself when the BCHA, which had arranged that coverage for hospitals, recently folded because of the reforms in the province's health care system.

In addition, the facilities were open to self-insuring those risks because of the success the province's schools have had in self-insuring those risks.

Property losses will not be prefunded. Mr. Grewar explained that unlike liability losses, the government pays for property losses only out of its capital fund. That fund is capitalized only with borrowed funds. Borrowing money now to prefund for future losses would not be economically prudent, he said.

The crime coverage limits are:

- $5 million Canadian ($3.5 million) for losses resulting from employee dishonesty.
- $100,000 Canadian ($70,100) for losses resulting from health care employee infidelity at third-party locations.
- $25,000 Canadian ($17,525) for losses due to counterfeit money orders and paper currency.
- $1 million Canadian ($701,000) for depositors forgery.
- $5,000 Canadian ($3,505) for credit card forgery.
- $5,000 Canadian for misappropriation of taxi, bus and airline transportation tickets intended for health care system use. BI

Hospitals' success provides a lesson schools learn

By DAVE LENCKUS

The adage "nothing breeds success like success" is embodied in the self-insured property/casualty programs for British Columbia's schools.

The schools adopted the self-insurance programs because of the success of a similar program that Philip J. Grewar, director of the province's risk management branch, had developed for the province's hospitals.

Unlike the hospitals, though, the schools opted from the start to self-insure their property and crime risks along with their liability risks.

That winning combination, in turn, convinced the newly reformed health care system in the province to add property and crime risks to its self-insurance program this fiscal year, which began April 1.

Along the way, Mr. Grewar also has vastly reduced potential continuity problems in brokerage services. Early in the schools' programs, Mr. Grewar obtained authority to award broker contracts for three to five years. Provincial regulations before then prescribed that he annually seek bids for the work. Several government entities since have been allowed to let bids similarly.

Mr. Grewar now is working on bringing greater administrative continuity to the programs by bringing in-house administration services that brokers have provided since its inception.

The schools' self-funding project was the second major project that Mr. Grewar, British Columbia's first professional risk manager, developed for the province.

Approximately 2,000 elementary and secondary schools are covered in the Schools Protection Program. Three universities and 22 colleges and other learning institutions are covered in the separate University, College & Institute Protection Program.

Like the health care program, the schools programs have been a big money-saver for the province, according to the latest available figures. In the 11-year period from March 1987, when the programs were implemented, through last month, the two programs collectively have saved the province more than $138.6 million Canadian ($97.2 million), according to the risk management branch.

The savings reflect the difference between the province's self-funding costs and the amount the branch estimates the province would have spent purchasing commercial insurance for the schools.

The schools' self-insurance programs, like many others Mr. Grewar has developed for the provincial government, are rooted in the hard insurance market of the mid-1980s. Exacerbating the situation was a spending cap at the Ministry of Education, which purchased insurance for the schools.

The combination of those two factors in 1986 led to a 50% co-insurance requirement for the schools' liability claims and a $5 million Canadian ($3.5 million) deductible for each property loss. The schools had never had a property loss approaching $5 million Canadian, Mr. Grewar noted. And, the new coverage cost the same as the schools' expiring coverage, which had far lower co-insurance requirements and deductibles.

Earlier that same year, Mr. Grewar had devised a stop-gap self-insurance program for the province's hospitals because of the exorbitant commercial liability insurance premiums those facilities faced (see story, page 98). The millions of dollars the hospitals saved caught the attention of the Ministry of Education, which invited Mr. Grewar to propose an alternative risk-financing program for the schools.

The self-insurance concept was sold to the schools "quite easily because we were saving a lot of money in the health care side," Mr. Grewar recalled. Indeed, the schools embraced the self-insurance concept even more than the hospitals did. The schools agreed to self-insure their property and crime risks as well as their liability risks.

"To me, the logic was there for both. But logic, common sense and government don't always go hand in hand," Mr. Grewar observed.

Compared to the hospitals, the somewhat greater control the government had over the schools also helped Mr. Grewar fold the schools' property and crime risks into the self-funded program from the start.

Among the several thousand schools, institutes, colleges and universities in the province, only three of six universities do not participate in the programs. Those facilities instead participate in the Canadian University Reciprocal Insurance Exchange. Mr. Grewar said the schools programs are cheaper, but the three universities objected that the Ministry of Education has the discretion to refuse to replace any lost elementary or post-secondary school asset when doing so would not be economically expedient.

Take, for example, the case of an elementary school destroyed in a fire. The ministry may choose not to rebuild the school if it originally was designed to serve several hundred children but had been drawing only a small fraction of that amount because of the changing demographics in its neighborhood. The more economically sound action might be reassigning the students to another nearby school.

"But, in fact, it's a non-issue, because all losses have been funded," Mr. Grewar said.

Under the schools programs, the schools have $50 million Canadian ($35.1 million) in liability limits per occurrence for general liability and directors and officers-style claims, though the programs do not specifically refer to D&O coverage, Mr. Grewar explained. The programs immediately dropped the 50% co-insurance requirements that the schools' lead insurer had imposed.

School districts are responsible for up to $2,000 Canadian ($1,402) of third-party property damage if a loss does not exceed $2,000 Canadian.

If a third-party property loss exceeds that amount, the program provides first-dollar coverage. First-party property is covered at replacement value, subject to a $3,000 Canadian ($2,103) deductible.

The federal government picks up between 50% and 90% of a cat-

Continued on next page

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RISK MANAGER OF THE YEAR



PHOTO: MICHAEL MARCOTTE

Among attendees at the Risk Manager of the Year luncheon honoring Philip J. Grewar, center, are Chris Trumpy, left, the new deputy minister of Finance and Corporate Relations, and Mr. Grewar's fiancee, Jan Noble.

Continued from previous page
astrophic loss. That indemnity is based on a per capita loss calculation. British Columbia has 3.9 million citizens.

For losses of $1 to $3 per capita, or $3.9 million to $11.7 million Canadian ($2.7 million to $8.2 million), there's a 50/50 sharing arrangement between the federal and provincial governments.

For losses of more than $3 to $5 per capita, or more than $11.7 million to $19.5 million Canadian ($13.7 million), the federal government's share of the loss jumps to 75%. For losses greater than $5 per capita, or $19.5 million Canadian, the federal government picks up 90% of the loss.

The programs' crime coverage provides essentially the same limits the schools had with their commercial insurers:

- $250,000 Canadian ($175,250) for losses resulting from employee theft.
- $100,000 Canadian ($70,100) for loss of money from premises.
- $100,000 Canadian for losses in transit.
- $100,000 Canadian for depositors forgery.

The deductible for most crime losses is $3,000 Canadian. The exception is when a loss involves student dishonesty during a work/study assignment with an employer. The deductible for those losses is $100 Canadian ($70). Student dishonesty losses usually are small, so the low deductible allows the risk management branch to get involved in most settlements of those losses, Mr. Grewar explained.

Besides the lower costs that result from lower premiums and deductibles and the elimination of coinsurance, another advantage of the schools programs was the elimination of several exclusions. The exclusions were not relevant to the schools' coverage, but they caused confusion over the extent of coverage, Mr. Grewar said.

For example, one exclusion the branch removed barred coverage for lawsuits that were not filed within certain geographic boundaries. The property coverage's only current exclusions are for normal wear and tear; fidelity, which the crime package covers; and mysterious disappearances, which protects the program from covering the cost of misplaced items.

The schools' construction risks are split between the schools' self-funded programs and commercial insurance. Until two years ago, all of the school-related construction risks were commercially insured, because Mr. Grewar did not want the province to get involved in losses for which third-party contractors were liable.

But after a $9 million Canadian ($6.3 million) fire loss at a framed facility that was under construction, the insurer of the schools' course of construction policy insisted that the province provide 24-hour watchman service at all new framed construction projects.

The loss occurred just before renewals, and the insurer insisted on immediate compliance before renewing the coverage. But the risk management branch could not line up watchman service for so many new projects on such short notice, especially for projects in small, relatively remote towns.

The risk management branch and the elementary and secondary schools decided to roll course of construction coverage for all new projects into the Schools Protection Program. There was no premium increase, because the province does not prefund property losses.

Coverage for the course of construction risks for projects that were under way at the time remained with the insurer, because the insurer did not require watchman services at those site.

The colleges and universities program continued to purchase course of construction coverage for new projects, even with the watchman requirement, because few of their projects involve framed construction.

That coverage is underwritten on a pro rata basis, with a unit of Royal & SunAlliance Insurance Group P.L.C. covering 55%; American Home Assurance Co., a unit of American International Group Inc., with 20%; Reliance Insurance Co., 15%; and Ecclesiastical Insurance Office P.L.C., 10%.

The province still purchases $10 million Canadian ($7.1 million) of wrap-up construction liability coverage for all elementary, secondary and post-secondary school projects. AXA Pacific Insurance Co. writes the coverage.

The schools prefund their liability and crime coverage, but that required a legislative change that Mr. Grewar brokered. The risk manager had to persuade British Columbia lawmakers to establish a special account in which the branch could hold money over from one fiscal year to the next, a novel tactic in provincial government financing. Mr. Grewar obtained that authority in 1989. The prefunding account is available for all risks the province prefunds under its various self-insurance programs (see story, page 96).

Property losses, though, are not prefunded, because all property losses are paid out of the province's capital fund. Because the provincial government's budget is running at a deficit, the government capitalizes the fund only when necessary and only with borrowed funds. As a result, prefunding property losses would require the government to borrow money now. "To have this kind of money tied up wouldn't make any sense," Mr. Grewar said.

The brokerage relationship was another aspect of the schools' risk-financing programs in which Mr. Grewar found that the schools were not adequately protecting themselves.

"We weren't an informed purchaser," Mr. Grewar said. "The people who were doing the buying didn't know what to buy and what performance to look for" from their broker. As a result, the broker contract was not very specific regarding the performance the government expected. Fortunately, "the broker at the time did a reasonable job." But, Mr. Grewar no longer wanted to leave that to chance.

The contracts with brokers, which provide third-party administration services now, are far clearer about the services the schools expect. Because of the dearth of TPAs in the province, the risk management branch has hired brokers to provide administrative services for the programs. Those services include forwarding claims to the risk management branch, issuing certificates of insurance and meeting with schools over coverage issues.

Mr. Grewar, though, did more than just hold the broker to more specific job-performance requirements. By again persuading the government to modify regulations—this time relating to letting contracts—he vastly improved the continuity of the program's broker services.

Like all other government contracts, those for the schools programs' administration services had to be put out to bid annually. The winning bidder, though, would not add the staff necessary to handle the job if it were guaranteed the work only one year. And, when the incumbent broker lost the bid, the programs' administration suffered a loss of continuity. Bringing the new service provider up to speed would take about half of the length of the one-year contract.

Mr. Grewar wanted to be able to award a five-year contract so the winning bidder would have the incentive to staff up adequately to handle the programs' workload. "That's my biggest challenge—trying to run a private sector-like business in public service," Mr. Grewar said.

The government did not approve Mr. Grewar's request for a five-year contract. But about a year after the programs started, the controller general and legal services approved an alternative that is close: a three-year contract with two one-year extension options.

Since then, other areas of government have won the right to award contracts similarly.

The original broker, Reed Stenhouse Inc., now part of Aon Group Inc., won the account. Over the years, the account has bounced between it and a local office of Marsh & McLennan Cos. Inc., now J&H Marsh & McLennan Cos. Inc.

As much as the continuity in the programs' administrative services was improved by the modified contract bidding process, more improvements are possible, according to Mr. Grewar. To that end, he is bringing many of the administration services in-house.

Even now when the account switches to another broker, "We spend basically half of one person's time in the first year bringing the new guy up to speed," he said.

Bringing those program administration services in-house will solve that problem, he said. "We feel we can more efficiently handle this in-house." Mr. Grewar estimates the costs will be "reasonably comparable" after the risk management branch adds staff to handle the additional workload. "But it achieves continuity and somewhat greater control" of the program for the branch, he said.

A broker still will have to place the construction-related insurance the province purchases for the schools. And, loss control services, which the broker on the account has outsourced to another firm, still will be contracted out to a specialist. The Vancouver, British Columbia, office of the Insurers' Advisory Organization Inc., which is owned by a group of Canadian insurers, provides the program's loss control services. BI

Risk management offers legal savings—at a price

By DAVE LENCKUS

British Columbia's risk management branch is offering the province's schools and hospitals a chance to drastically trim some legal costs that arise from certain risks not covered by their self-insurance programs.

In return, they would have to turn over some oversight of their litigation on these cases to the risk management branch, which wants to build a "bank" of legal knowledge and experience, as well as cut their legal costs.

The offer likely will be too attractive for the schools and hospitals to pass up, said Philip J. Grewar, director of the province's risk management branch.

Even so, there is no guarantee the facilities will jump at the opportunity. Political issues and autonomy concerns could override the attraction of the program's promised economic benefits, Mr. Grewar said.

Under the proposed program, the law firms that handle covered claims against the British Columbia schools and hospitals also would handle certain types of uncovered claims. For schools, from kindergarten through 12th grade, the program would apply to claims for injunctive relief, in which a plaintiff does not seek a monetary award but instead wants a school to either take or halt some kind of action, Mr. Grewar explained. For hospitals, the proposed program would provide legal assistance for cases in which a surgeon appeals to a medical review board a hospital's decision to limit the surgeon's privileges at the facility.

The province already pays legal costs arising from claims related to the schools' and hospitals' covered risks. Under the proposed program, the risk management branch would pick up a percentage of the entities' legal costs for defending these uncovered claims.

The branch has negotiated fees and reporting schedules with its preferred law firms, which, because of the amount of work they handle for the province, have built up considerable experience in the province's risks, Mr. Grewar said. "We're not solely looking at the best bang for the buck but the best talent at a reasonable cost."

Mr. Grewar has not yet approached the law firms about the proposed program, but he does not anticipate any problems on that front. "We first want to get authority, or buy in, from the clients before approaching the law firms," he said.

Three self-insurance programs for the province's hospitals and schools cover general liability, directors and officers-style liability, and property and crime risks. The hospital program also covers medical malpractice liability.

For both the schools and the hospitals, the branch would not cover the cost of action they would be compelled to take under either a judgment or settlement with plaintiffs.

However, if a physician who appeals a hospital's certification decision also, for example, raises defamation allegations in a personal injury suit, any judgment against the hospital would be covered under the self-insurance program.

Under the proposed legal cost-sharing program, the risk management branch is offering to partially cover legal costs arising from a far greater number of risks for schools than for hospitals. The reason for the discrepancy in coverage between the two proposed plans is elementary, Mr. Grewar explained: "There are different wants and desires coming from the clients. We're trying to respond to the program participants' request for additional coverage."

Likewise, though colleges are covered by a self-insurance program, they are not being offered a similar legal cost-sharing program at this time. The colleges did not approach the risk management branch for additional defense cost coverage as the schools and hospitals had, said Mr. Grewar.

The offers, which the province's schools and hospitals are weighing, promise several striking benefits for facilities, Mr. Grewar said.

The clearest gain would be that legal costs will be cut by two-thirds to four-fifths in some cases. Those cuts would be achieved through a two-step process.

First, the facilities could take advantage of the much-lower schedule of fees that the risk management branch already has negotiated with law firms that are representing the province in other liability claims. "We see some clients using the same firms, but we're paying two-thirds of what they are," said Mr. Grewar, referring to the schools and hospitals.

Second, the branch would pick up a large portion of those legal costs, though the costs would be factored into the programs' claims experience.

The branch is offering to pick up 50% of the schools' legal costs for injunctive relief claims. If the schools accept the proposal, the 33% reduction in lawyers' fees under the fee schedule, combined with the

See **Legal costs** *on next page*

Legal costs

Continued from previous page

branch's 50% cost-sharing offer, could slash the schools' legal costs, in some cases, by about 67%.

The branch has not determined the legal cost split it ultimately will offer hospitals, but Mr. Grewar anticipates that the branch will propose picking up about 75% of their tab for defending surgeon's actions. If such a deal is proposed and the hospitals accept it, the lower legal fees, combined with a 75% cost-sharing arrangement, could shave hospitals' legal costs for these cases by as much as 83%.

"We think it's something that will save, collectively, a lot of money," Mr. Grewar said.

The cost-sharing split is designed to both encourage the facilities to buy into the program and to maintain some accountability for their decisions to enter into litigation. "We have to build in some pain for them so they think about taking action," Mr. Grewar said.

A second, though not as immediately apparent, benefit of Mr. Grewar's offer is that the schools and hospitals should be able to build up valuable legal experience for themselves and others. Now they are letting that legal research and experience slip by them when they do not retain the same legal counsel from one case to the next.

In subsequent cases handled by different law firms, the facilities and the lawyers "have to go through a learning curve that the branch and its lawyers don't have to go through," Mr. Grewar said. "It's already done. Why do it again?"

For their part, the schools and hospitals would have to agree to allow the risk management branch to offer defense advice based on the experience of other facilities in similar cases. The facilities also would have to turn over bill reviews to the risk management branch, which has a long-established legal billing review process. "The schools and hospitals don't have the same expertise we do to review these costs," Mr. Grewar said.

Despite the facilities' requests for additional legal cost coverage, Mr. Grewar foresees a chance that one or both groups might walk away from the proposals. That could happen if the groups hold local politics and autonomy more sacred than pruning expenditures. "The elected officials in school boards can get themselves into issues that are very particular to their own vent and that perhaps other school boards in the province are not supportive of," Mr. Grewar explained.

If a school board decides to fight a complaint that other school boards would not contest, the action drives up the board's and the province's legal costs. Those costs eventually will be factored into the claims experience for all of the schools and affect their coverage rates. "So (among the school boards), there's some mistrust of what other school districts are doing," Mr. Grewar said. "They don't want to spend their own money for decisions other school boards have made."

Noting the independence of the locally elected boards from the provincial government, Mr. Grewar added, "It's not our job to opine on which lawsuits should be pursued."

Mr. Grewar said the expected negotiated legal fees under the cost-sharing plan should more than make up for any increase in self-insurance program rates because of complaints that school boards decide to fight. The problem is that he cannot quantify that expectation at this time. "We're dealing largely with the perceptions of individuals as far as what's reasonable and proper," he said.

For the hospitals, the concern may be whether the cost-sharing proposal threatens their governance, Mr. Grewar said.

Mr. Grewar expects the benefits of the proposed cost-sharing programs will far outweigh the schools' and hospitals' concerns and that the facilities will sign off on the proposals within the next couple of months. That would allow the branch to implement the programs by early July.

If the programs are approved and they work as well as Mr. Grewar expects they will, they could be expanded. Mr. Grewar foresees rolling contract dispute litigation into the program, even when those disputes would not involve covered risks.

Such a program expansion may not include a legal cost-sharing agreement between the facilities and the risk management branch. Even so, the schools and hospitals still would enjoy the lower negotiated legal fees for those services as well as the experience the law firms and the branch would build in those cases, Mr. Grewar said.

Self-funding gives social services more security

By DAVE LENCKUS

Even when government is acting in its most benevolent capacity—when the impersonal business of tax collections and utility operations give way to child protection, victim assistance and back-to-work programs—there is a cold and hard business side.

At one point a decade ago in British Columbia, that business side threatened the foundation of the relationship between the government and the many small organizations it enlists to deliver social programs.

But a fronted, self-funded risk financing program developed by Philip J. Grewar, director of the province's risk management branch, has fortified the government's relationship with the organizations, many of them non-profit societies. At the same time, the program has saved the government millions of dollars of insurance costs, according to the risk management branch.

In addition, due to the program's design, the government has been able to keep its deep pockets buttoned up when plaintiffs have sought large awards, said Mr. Grewar.

The provincial government and Mr. Grewar stepped up to help the social service organizations, or societies, "rather than sit back as big government and say, 'Them's the breaks,' " said Stuart R. Messenger, an executive vp with Aon Reed Stenhouse Inc. in Vancouver, British Columbia. The broker, an Aon Group Inc. subsidiary, provides administrative services for the social services self-funded program.

Thousands of organizations contract with various ministries in British Columbia's government to provide a wide range of social services. In each year over the past decade, the government has had 7,000 to 9,000 contracts with nearly as many social service providers.

Among the programs they deliver are youth correction, health, disease control, victim assistance, child and woman protection, foster parenting, family care, life skills training and back-to-work programs. In addition, since mental health care has been deinstitutionalized, societies help place mentally disabled individuals in more homelike settings in their hometowns.

In their government contracts, the service providers must guarantee they will indemnify the province for any losses for which the providers are liable.

Before the last hard liability insurance market, the service providers purchased general liability insurance themselves. The contract fees the government paid the providers covered some or all of those insurance costs, depending on how much of the providers' revenues were generated by their government work.

During the mid-1980s hard market, though, that general liability coverage either dried up or became exorbitantly priced.

The problem came to light with the providers of youth corrections programs. With the hope of reining in the runaway premiums, the Ministry of the Attorney General asked the risk management branch to forge a group insurance program for all of the province's providers of youth corrections services, recalled Graham Sanderson, manager of claims administration for the risk management branch. But the number of providers was not great enough for a group plan to make much of a price difference, Mr. Sanderson said.

At that time, the problems that other social service providers were having finding affordable coverage became apparent. A committee consisting of Mr. Grewar, Mr. Sanderson and representatives from various social programs and ministries was formed to find coverage for the organizations.

By that time, Mr. Grewar already had developed self-insurance programs that were saving millions of dollars annually for the province's hospitals and schools. A similar, though not identical, program emerged for the social service providers.

The Master Insurance Program is a self-funded program fronted by Commonwealth Insurance Co. of Vancouver, British Columbia, a unit of Fairfax Financial Holdings Ltd.

Program limits, which were doubled a year or so ago, provide $2 million Canadian ($1.4 million) of general liability coverage that is broader than commercially available coverage, Messrs. Grewar and Sanderson said. The program also covers medical malpractice and directors and officers-style claims.

The service providers, many of which do not purchase excess coverage despite its availability at inexpensive rates, sought the additional protection. The branch approved the limits increase, because "our loss experience was well within the $1 million range" per claim, Mr. Sanderson said.

The service providers receive Commonwealth Insurance paper and file claims with Aon Reed Stenhouse, which forwards the claims to the risk management branch. The branch examines, adjusts and pays the claims, which are prefunded by the ministries that contract out the social service programs. The claim checks, though, are issued by Commonwealth Insurance.

The insurer originally handled claims examination and adjusting, but the risk management branch brought that function in-house a couple of years after the program's inception in April 1989. The branch was not dissatisfied with how the insurer handled claims, Mr. Sanderson said. But the branch's claims-handling staff had a better understanding of the covered risks and claims. And the branch already had negotiated fee schedules with adjusters and lawyers who were providing services under the province's hospitals and schools self-insurance programs, Mr. Sanderson explained.

Over the past nine years, the program has resulted in several benefits for both the service providers and the province.

> ***'The government is always seen as having an extremely deep pocket.'***
>
> **—Philip J. Grewar**

The most obvious benefit is the cost savings. Since 1989, the branch estimates that the province has saved more than $33.2 million Canadian ($23.3 million) by self-funding many of the service providers' risks, rather than picking up the cost of commercial insurance under the providers' contracts.

The bulk of those savings, though, have been realized since 1994, according to Laura Hughes, manager of insurance operations with the branch. Before then, many ministries still mistakenly purchased coverage for their social service providers, she explained.

All of the risks of the smallest organizations that generate all of their business through government contracts are funded. Those organizations provide the majority of the contracted social services. For larger organizations that generate only about half of their work from government contracts, the MIP covers only the risks that pertain to the government work.

MIP coverage is not offered to large organizations for which government work comprises only a small part of their business. "A large society doesn't need us. The smaller ones needed it," Mr. Grewar said.

As a result of the savings, British Columbia's ministries are able to either deliver services to more people or fund more services.

Another benefit of the program is that it delivers stable coverage to social service providers, which leads to administrative savings for the risk management branch, according to Mr. Grewar. The branch does not have to ensure that the covered organizations have purchased coverage and have provided the branch with valid certificates of insurance.

The estimated $33.2 million of savings takes into account a total of $989,000 Canadian ($693,289) of fronting fees and program administration charges over the life of the program. But those fees are well worth the benefits of keeping the insurer's paper out in front of the program and the government behind the scenes.

There, the government does not attract the attention of plaintiffs' attorneys or politicians who, for political reasons, would want the government to settle claims for more than they are worth, according to Mr. Grewar. "The government is always seen as having an extremely deep pocket," he explained.

The first claims ever filed under the MIP were to cover the cost of damage to third-party vehicles caused by paint overspray, Mr. Sanderson recalled. The damage occurred when a society employee decided to spray-paint a bookcase in the organization's parking lot, Mr. Sanderson explained.

Today, though, many of the claims filed against the social service providers allege discrimination, human rights violations and wrongful dismissal, he said.

British Columbia within the past year began prefunding the program on an incurred-loss basis. But Mr. Grewar expects the government ministries will be funding on an actuarial basis within two or three years.

Previously, the funding mechanism was "not as firm," because of the "diversity of size and wills of the ministries," Mr. Grewar said. The largest ministries typically wanted a pay-as-you-go system, because they could easily afford that approach. Smaller ministries, though, wanted to pay a little every year so they would not get clobbered with a huge premium increase after a huge loss.

That situation was exacerbated by the program's lack of loss experience, which precluded the branch from performing actuarial work on claims.

Now, with that experience and all of the participating ministries agreeing to prefund, the branch will phase in charges for incurred-but-not-reported claims. Funding losses on an actuarial basis will not result in additional savings, Mr. Grewar said. But it "will give more credibility to the numbers we're putting out" on, for example, the branch's confidence levels of expected losses and the expected adverse deviations.

Mr. Grewar's one frustration with the program was the lag time between recognizing the problem the social service providers had and moving government along to address it.

But even though the liability insurance market already was softening by the time the program was implemented in April 1989, premiums still were too high for many social service providers, he noted. And the program has continued to save millions of dollars since then. BI

Program protects province's directors, appointees

By DAVE LENCKUS

A self-insured program that covers the directors of government corporations saved British Columbia $9.9 million Canadian ($6.9 million) in its first eight years, the province's risk management branch estimates.

Compared with the commercial insurance the province purchased previously, the self-insurance program also covers more directors, according to Philip J. Grewar, director of British Columbia's risk management branch. In addition, the program encourages the directors to report potential claims more quickly, he added.

A separate self-funded program covers the directors and officers-style risks that appointees to hundreds of government agencies, boards and commissions face. Before the inception of that program eight years ago, the appointees did not have any coverage.

Mr. Grewar began developing both programs during the throes of the hard liability insurance market a decade ago, when affordable D&O coverage was scarce. The $9.9 million Canadian savings that has resulted from the D&O program for crown corporations' directors reflects the amount the risk management branch estimates it would have paid for commercial coverage from March 1990, when the program was implemented, through last month, the end of the provincial government's fiscal year.

A crown corporation is a government entity set up to deliver certain services in a private-sector fashion and, ideally, more efficiently than government could. The crown corporation program, called the Directors Indemnity Protection Program, and the appointees' D&O program support the government's efforts to attract qualified candidates as directors on the boards of 34 government corporations and hundreds of government agencies, boards and commissions. Without such coverage, the province would have trouble attracting people to serve as directors, according to Mr. Grewar.

During the hard market, directors became concerned about their liability exposure, even though claims against directors are infrequent, Mr. Grewar said. "There was not the same legal climate here, and it was not likely the shareholder, which is the government, would take action against them," he said.

Some directors and appointees, not all of whom were paid, also did not want to serve because of coverage questions. The amount of D&O coverage the province previously purchased was "all over the map," with limits varying from one group of directors to another, according to Mr. Grewar. And, at the time, the government did not obtain any coverage for appointees to agencies, boards and commissions. Now, the limits are unspecified.

The self-insured risk is not prefunded, however. "We don't charge for it. It's a pay-as-you-go system," Mr. Grewar said of the D&O program.

Nevertheless, according to Mr. Grewar, directors and appointees have not questioned the resolve of the government to protect them through the unfunded program. After accepting their posts, the directors receive a certificate of coverage from the crown corporation they are serving. Appointees receive a comparable certificate from the provincial government. The D&O program imposes the traditional exclusions for dishonesty or improper behavior.

Each director and appointee is required to sign onto the coverage and to agree to abide by its terms. The chief term requires the directors and appointees to provide the risk management branch ample notice of potential claims. Before the program was implemented, there had been a notification problem. "We don't want to be shut out of their defense," Mr. Grewar said.

A judgment against a director or appointee would be paid from the provincial government's consolidated revenue fund, which is the government's central pot of money. "It's the government who appointed the individual. So it's the government, we feel, that should bear any costs that arise out of them," Mr. Grewar explained. If the government ever failed to indemnify a director who faced a judgment, it "would never be able to appoint another director again," Mr. Grewar said. "People should be protected, or they will not serve."

> ***'People should be protected, or they will not serve.'***
> **—Philip J. Grewar**

Judgments, though, have been few. Mr. Grewar said there have been only a handful against directors of agencies, boards and commissions and none against crown corporation directors. The size of the few awards are "not even worth" totaling, he said.

Like many commercial D&O policies, the DIPP covers employment practices claims, though the coverage does not use that vernacular. Indeed, a few plaintiffs have lodged personal harassment and improper dismissal claims against government entity directors, according to Mr. Grewar. In that area, though, the program has had only one loss, an unsubstantial one "in the tens of thousands of dollars," according to Mr. Grewar.

Even with the essentially unlimited D&O coverage the province provides, some crown corporations continue buying commercial liability coverage for this risk, according to Mr. Grewar. For those entities, the DIPP protection serves as excess coverage.

Mr. Grewar said he does not understand why a British Columbia government entity would buy the commercial D&O coverage when the self-insured program exists. "They just said their counsel said to buy it. It doesn't make sense," he said. "I don't see it as my place to police these things. The boards are set up to be autonomous." BI

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RISK MANAGER OF THE YEAR

Agreements limit province's contractual liability

By DAVE LENCKUS

Contracts entered into by British Columbia's provincial government today likely do not include overly generous indemnity agreements that could compel the government to unfairly enrich its contract partners.

That has not always been the case.

Ironically, at the same time commercial insurance was drying up for various government programs during the hard insurance market of the mid-1980s, various government entities were approving contracts that promised indemnities in amounts far beyond reasonable expectations. In some cases, the government entities promised to indemnify their contract partners for losses resulting from incidents over which the government had no control.

The problem was not a lack of controls over contract indemnity agreements. It was just the opposite. The controls that had been designed to prevent such giveaways were so onerous that government entities were more likely to evade them than follow them.

That changed in February 1988, after a two-year crusade by Philip J. Grewar, director of the provincial government's risk management branch. Mr. Grewar first struggled and then worked with the highest levels of the provincial government to overhaul the indemnification regulations in the province's Financial Administration Act.

Another alternative that some other provinces have gone to but Mr. Grewar rejected is eliminating indemnity agreements altogether. That approach can complicate contract negotiations tremendously, he said. Instead, the retooling of the regulations dramatically streamlined the indemnification approval process, which encouraged government entities to comply with the new contract approval regimen.

Equally important, the new process gave the risk manager authority to nix many contracts in which the indemnity provisions are out of line.

A key benefit from the regulatory change is that the provincial government is far better protected in contracts, according to Mr. Grewar. In addition, the government has a much better accounting of the indemnities for which it is liable.

The revamped contract indemnity agreement procedure also allowed the risk management branch to facilitate some social good (see related story).

The indemnity agreements included in the contracts of British Columbia's provincial government and its crown corporations often are incidental elements of the contracts. For example, in a contract with a consultant, a government entity would agree to indemnify the consultant for any of its losses resulting from faulty information the government provides.

Indemnity agreements also are contained in many other types of contracts, including equipment purchases.

An indemnity agreement also can be the centerpiece of a government contract, which is uncommon in the private sector. An example is a hold-harmless agreement for the receiver the government appoints to handle the bankruptcy of a regulated entity or any entity in debt to the government.

In either case, government entities before 1988 could enter into contracts containing indemnity agreements only after submitting to a long and complicated contract approval process. Large dollar-value contracts required approval from the highest levels of the provincial government. That meant the appropriate minister and then the Treasury Board committee of the Premier's Cabinet first had to approve such contracts.

"It literally took months" to obtain contract approval during the summer, the peak vacation season, Mr. Grewar noted. At best, contract approvals took several weeks. By the time the contracts were approved, "the job should have been done," he said.

"Because the controls were inappropriate and onerous, they were being evaded and avoided," he said. The loophole that government entities used was a lease agreement, which was exempt from the contract approval requirements. "An enormous number of things were being called leases to get around the controls—everything from equipment purchases to service contracts," Mr. Grewar said.

Government entities were able to push through their contracts faster, but they gave away indemnities without due care, he said. An indemnity "was quite easy to give up" when no price was attached to it and there was little understanding of the cost of risk, Mr. Grewar said.

Many government employees "believe contractors who say, 'We can't sign this unless you put in all these clauses' " that compel the government to assume all or much of the risk in a contract, including losses resulting from criminal activity, he said.

As a result of the contract indemnity regulations Mr. Grewar engineered, the risk management branch sees "a lot of these contracts up front and puts a risk management perspective on them."

The new indemnity regulations are designed to meet several objectives:

- Control the government's contingent liabilities.
- Limit the amount and duration of risk where possible.
- Ensure the underlying risks are fully understood.
- Establish consistent contract wording.
- Maintain records of all outstanding indemnities.

Under the regulations Mr. Grewar advocated, government indemnities may not be given in a contract without prior permission by the Treasury Board, the Minister of Finance and Corporate Relations or the director of risk management.

Treasury Board approval of indemnities is required for indemnities that have not been previously approved by Minister of Finance when the indemnity does not arise out of an approved government or government corporation program. Treasury Board approval also is necessary when the liability the government assumes would be greater than that which would be generally accepted for the successful completion of the activity or program.

In many other situations, though, the Treasury Board delegates its authority over indemnity agreements to the risk management branch. The branch has approval authority when:

- The liability assumed by the entity is no greater than the liability that would be imposed on the entity—under common law, for example—without an indemnity agreement.
- The indemnity is given using a standard contract form for that program or activity. The form must have been previously approved by government lawyers and the risk management branch.
- The indemnity agreement is necessary for the government entity to complete an approved program and the risk management branch considers the assumed liability reasonable.

The Treasury Board resolves disputes between the risk management branch and a ministry over whether the liability that would be assumed under in an indemnity agreement would be reasonable.

For contracts that do not fall under those criteria but still contain indemnity agreements, ministries must develop procedures for reviewing and submitting the agreements to the risk management branch for approval.

To further encourage all parties to a government contract to make sure the contract approval process

Continued on next page



PHOTO: MICHAEL MARCOTTE

Philip J. Grewar, director of British Columbia's risk management branch, stands outside the rear entrance of British Columbia's historic Parliament building in Victoria.

New province contract rules yield added benefits

When British Columbia's government overhauled regulations governing when it may include indemnity agreements in contracts, it was trying to eliminate liabilities it needlessly had been assuming.

The social good that also resulted soon afterward was serendipitous.

The modified regulations—which were tight but more workable—actually facilitated the approval of an indemnity agreement that allowed a group of First Nations people—North American Natives—to win a government project.

Concerned about the liabilities that were being foisted on the government under contractual indemnity agreements, Philip J. Grewar, director of the province's risk management branch, persuaded the government to limit those agreements. Under the modified regulations, which first were revised in 1988, the provincial government's risk manager has the authority to decide the fate of many types of contracts in which the government agrees to indemnify another party in the event of prescribed losses.

Besides limiting the liability the government assumes in contracts, Mr. Grewar planned to speed up the sluggish contract approval process, which previously dragged on weeks and sometimes months.

> ***The revised regulations 'allowed us to facilitate a social program that allowed the Natives to bid on certain jobs.'***
>
> **— Philip J. Grewar**

Mr. Grewar promises a three-day turnaround on contracts that his office reviews.

In 1988, the same year the new regulations were approved, a group of Natives—the Kitwancool, now known as the Gitanyow—bid on a government project that required a large government indemnity agreement if the group was to have any chance of winning the contract.

British Columbia Hydro & Power Authority, an electric utility, was looking for a contractor to clear some right of ways. The Gitanyow are not normally in the business of performing government contract work. But the project was in the group's back yard in the interior of the province, and the authority often encourages Native bands to bid on such work.

The contractor awarded the work normally would have had to post performance bonds totaling more than $233,000. But Canadian federal law, designed to protect Natives' assets, makes it impossible for Native bands to secure such bonds. The law prohibits Natives' assets from being pledged, which means bonding companies cannot put liens on their assets. That puts Native bands at a great disadvantage when bidding on contracts, Mr. Grewar explained.

Under the old regulations, the Gitanyow likely would have spent weeks and even months obtaining the approval it needed from the Cabinet's Treasury Board for a government indemnity agreement in place of the bonds.

The typical delay in obtaining an indemnity agreement from that high level of government could have knocked the Gitanyow out of consideration for the project. Under the revised regulations, however, the risk management branch brokered a solution that the Treasury Board approved in about a week, according to Mr. Grewar.

In exchange for the bonding company's agreement to issue the Gitanyow a bond, the government agreed to indemnify the bonding company. The Gitanyow agreed to reimburse the government if they failed to perform the work, but that agreement was not anchored with a lien on the group's assets. "We didn't have the security the bonding company requested from the Native band," Mr. Grewar said.

While the risk manager has the authority to approve such indemnities, Mr. Grewar, in that case, sought the approval of the minister of finance and corporate relations. "If we do the deal, we don't approve the indemnity," Mr. Grewar explained.

Still, the revised regulations "allowed us to facilitate a social program that allowed the Natives to bid on certain jobs," Mr. Grewar said.

The Gitanyow were awarded the B.C. hydroelectric project.

—By Dave Lenckus

Continued from previous page
is followed, the Financial Administration Act voids indemnity agreements in contracts that are not properly approved.

But, that provision "could be difficult for the government to hang its hat on," Mr. Grewar said. The better course is ensuring the contracts are properly approved in the first place, he said.

For government entities, the big payoff for complying with the revised process is a three-day turnaround of contracts submitted to the risk management branch for review, regardless of whether the branch approves or rejects the contracts. Because of the simpler and speedier process, "now there's a lot better compliance," Mr. Grewar said.

Crown corporations, to which the government extends great autonomy, can and often do opt out of the contract indemnity approval process. But they have to submit their own indemnity review process to the risk management branch for approval.

"All we ask of them is that they have a policy they use to review and approve indemnities they give," Mr. Grewar explained. "We say that, provided you follow these policies in the normal course of your business, go ahead."

Crown corporations that opt out of the approval process, though, still have to seek the risk management branch's approval of any contracts that involve projects or activities outside of their normal course of business.

That happened with British Columbia Transit. The crown corporation normally operates bus lines, a monorail commuter rail line within Vancouver and a commuter ferry.

But several years ago B.C. Transit created a subsidiary, West Coast Express, to construct a commuter rail system between Vancouver and its eastern suburbs.

The project was far beyond B.C. Transit's normal operations. The project entailed upgrading rail and vehicle crossings on a line shared by other railroads, as well as building and refurbishing rail stations. " There were a lot of chances for business interruption claims from other parties," Mr. Grewar said.

Like some other risk management projects Mr. Grewar has spearheaded, the ultimate benefits of revamping the contract indemnity regulations were not immediately apparent to those whom Mr. Grewar had to win over to change the status quo.

Contrary to adopting a new risk-financing approach, for example, the contract indemnity proposal involved policy change. As a result, Mr. Grewar had to lobby hard to both persuade the Treasury Board and Cabinet to review his proposal and convince them the branch had the expertise to assume its responsibilities under the plan.

The primary concern was that the risk management branch would be assuming responsibility for something that previously required Cabinet approval, Mr. Grewar said. BI

Grewar aims to keep public officials safe

Raising awareness of need to manage security risks a challenge

By DAVE LENCKUS

The state of security in British Columbia for the provincial government's high-ranking officials, personnel and financial documents is troubling the province's risk manager.

Provincial government officials and personnel are not under siege. With the exception of the leak to the press of a finance minister's budget speech a couple years ago, official documents are where they belong and are seen only by authorized individuals.

But Philip J. Grewar, director of the province's risk management branch, no longer wants the government to count on continued good fortune.

He wants to bolster—and in some areas establish for the first time—security measures to prevent a loss, rather than waiting to respond to one.

The British Columbia government's good loss history, though, is complicating some of his efforts to prevent a tragic human loss or a serious political problem from occurring. Some of those in government who may be at risk see little need to develop security measures in a society with little history of violence.

Mr. Grewar last December succeeded in attaining control of coordinating government security. The internal audit unit in the Office of the Controller General previously had that responsibility.

"It's something that I felt for quite some time belonged to us," Mr. Grewar said.

The risk management branch long has addressed security issues that have arisen in the guise of loss control concerns by various areas of government and within various risk management programs the branch operates.

"We were having a lot of people do security services" on an outsourcing basis, Mr. Grewar said. "But, there was no expertise and responsibility in the branch to handle this issue."

And, overall, "security was done very ad hoc," Mr. Grewar said.

The measures that were taken rarely resulted from risk analysis and identification, he said.

Often, the security measures that were taken were not the most appropriate for the risk involved. Government employees would buy "what a local security company was selling them," with no independent oversight of what was truly required, Mr. Grewar said.

And just as often, the highest priority security concern was not the one addressed. "It was the squeaky wheel that got the grease," Mr. Grewar observed.

A high-profile incident highlighted the need for the government to address security more seriously.

About two years ago, the finance minister's budget speech was leaked to the public before he delivered it in a televised address to the Legislature.

The speech, the contents of which traditionally have been kept secret until the address, sets out the government's spending priorities and revenue sources for the fiscal year. It also outlines the government's new initiatives.

True to another government tradition, the finance minister resigned because of the embarrassing leak.

That incident and the downsizing of the Office of the Controller General facilitated the shift in responsibility for security to the risk management branch.

With the aid of a couple of committees, Mr. Grewar is eyeing security improvements in several areas.

One committee, which was forming when Mr. Grewar took over security coordination, consists of the senior security contacts for the government's various ministries. It



PHOTO: MICHAEL MARCOTTE

Rick Lawson, left, manager of security and loss control with the British Columbia risk management branch, reports to Philip Grewar, director of the branch.

serves as an interface between the risk management branch and the ministries, allowing the branch to disseminate information to and obtain information from the ministries at a senior level.

An advisory committee, which Mr. Grewar has established, consists of about a half-dozen individuals with direct responsibility for security in certain areas.

For example, individuals responsible for security in government buildings, for government personnel and for the government's information technology sit on the committee. Rick Lawson, manager of security and loss control with the branch, chairs the committee.

"We're coming in with the overall responsibility for security, but you can't steamroll over everyone," Mr. Grewar said. "You need to establish government policy, so you need their input and their buy-in to make it work. That's part of what the advisory committee does."

The risk management branch currently is only in the earliest stages of retooling security for the government.

Among the security areas Mr. Grewar would like to revamp is the protection provided high-ranking government officials, beginning with the premier and extending to ministers and deputy ministers.

Referring to the officials' security, Mr. Grewar complained: "Nothing is being done about it."

> ***'Nothing has has happened here, but people don't realize what could happen.'***
>
> **—Philip J. Grewar**

Mr. Grewar allowed that there is some measure of security for the officials. Security precautions are taken after a threat, he said.

But, Mr. Grewar, who was used to seeing executive security programs while in private industry more than a decade ago, maintained that public officials' security is inadequate.

"Nothing has happened here, but people don't realize what could happen," he said.

Mr. Grewar pointed out that the access the public has to government buildings allows anyone to find a deputy minister's office easily.

A draft security policy calls for establishing security zones within buildings. "So, physical security is going to lend itself to the executive protection program in terms of access control," Mr. Lawson said.

Public officials have not embraced Mr. Grewar's concerns for their personal security.

"They're questioning the need for it. There's so little history of violence here," Mr. Grewar said.

Some provinces provide their public officials far more security, while others see little need for it, he said. "It depends on the history of the province."

But, Mr. Grewar does not want to see a "knee-jerk reaction" by the province after a breach of security.

The security of government personnel, especially in social services and welfare offices, also has to be tightened in a coordinated effort with personnel and building security, according to Mr. Grewar. These offices and personnel have received threats of physical damage and personal harm in the past, though no significant disturbances have occurred, he said.

However, the offices have been disrupted and were even taken over by protesters who chained themselves to doors and furniture.

And, distraught citizens have sometimes damaged offices in the heat of disputes with social service workers, he said.

The risk management branch has linked ministries with experts who can instruct personnel in "verbal judo" so they can snuff out, rather than inflame, an incendiary situation, Mr. Lawson noted.

Another security project was born from the budget leak. Mr. Grewar is studying how the government can better safeguard its information.

While such a security breakdown at the provincial level may not be as dire as it would be at the federal level, it still can cause significant problems.

One is the political fallout like the former finance minister suffered.

And, depending on what kind of material is leaked, some individual could be unjustly enriched with the aid of prior knowledge of government action, like a new tax that would go into effect immediately after it is announced.

Many measures to safeguard Cabinet documents were implemented immediately after the budget incident, according to Mr. Lawson.

The focus now is on ensuring the confidentiality and preventing the corruption and unauthorized dissemination of other government information, such as health records, he said.

That involves identifying sensitive information and setting rules for how government employees should handle it, Mr. Lawson said.

Many ministries had taken such precautions already, but the branch's efforts standardize the process across the government and provide ministries additional guidance, he said.

Where security is lacking, Mr. Grewar wants to implement "reasonable steps" to protect government material. "It's my personal bias not to go out with a big club and go overboard in putting in place measures."

He thinks much of the problem can be eliminated by limiting photocopying, e-mailing and faxing of official or confidential material.

The faxing process, for example, could be made more secure by either using encryption or simply forgoing faxes between nearby government offices and instead delivering the material personally.

A compromise may be locating the fax machine in a secure area to minimize the opportunities for someone to fax sensitive material to unauthorized individuals.

Then there are always the little but annoying security problems that do not threaten personal safety or government papers and do not even have much of a budget impact.

For example, there was the time thieves, disguised as plant servicemen, made off with plants from some government buildings.

Mr. Grewar has set up a voluntary coordinated crime watch program among the offices of the many ministries located within minutes of each other in Victoria.

He hopes the effort, which largely involves electronic reporting of suspicious activity, will help ministry employees spot potential trouble and report it to security personnel. BI

RISK MANAGER OF THE YEAR

Grewar promotes government disaster plans

By DAVE LENCKUS

Whether a fire guts one floor of a government building or an earthquake off the Pacific Coast causes widespread property damage throughout Victoria, British Columbia, the province's risk manager wants the government to have a plan on how it will continue delivering essential services.

The province's numerous ministries and even top government offices in Victoria now are developing contingency plans, with prodding by Philip J. Grewar, director of risk management for the province.

British Columbia already had a Provincial Emergency Program, its civil defense plan, responsible for providing aid to the population during disasters.

The province, though, lacked a business continuation plan for continuing the operations of government, such as keeping hospitals open and issuing welfare checks, in the immediate aftermath of a local disaster that damages or destroys a single building or a widespread disaster affecting greater Victoria.

The capital of British Columbia has a considerable natural catastrophe exposure: A major earthquake fault lies off Vancouver Island's Pacific coast.

Earthquakes at sea, in fact, occasionally trigger tsunami watches for Victoria and the rest of Vancouver Island. A tsunami is a dangerous high-powered wave of water that seismic activity can trigger.

But until about a year ago, developing a plan for the government to keep operating in case of a disaster has been a frustrating endeavor for Mr. Grewar.

"Nothing was being done about it" four or five years ago, when Mr. Grewar pressed for and obtained authority for government contingency planning.

That was the easy part.

"It was a tough sell to get them to put their resources behind it and keep it up," he said.

The risk management branch itself did not get the resources it needed, though, to direct contingency planning.

And managers throughout the government and its crown corporations—quasi-private entities created by the province—have not been self-motivated to plan for anything other than success, Mr. Grewar said.

"By and large, managers do not plan for contingencies" or things that will go wrong, Mr. Grewar said.

"They plan for success," which is something they can control. Since managers have no control over a disaster, "they don't want to put up the money for a (disaster response plan)," Mr. Grewar said. "Contingency planning is something that has to be forced on them to an extent."

Since receiving clearance to hire Dave Johnson as manager of business continuation planning and information security last year, the branch has been able to press the rest of government to plan for disaster.

Mr. Johnson was with a crown corporation responsible for developing a contingency plan for the province's information technology system, the one area of government that has been "way ahead on this," Mr. Grewar said.

The information technology area already has a business continuation plan that includes a backup site for the government's mainframe computers, which support, among other things, government e-mail, the public financial system, the payroll system, pension plan records and the records of all payments for the public health system.

The systems group has since been moved to a government agency, and the crown corporation previously responsible for the group no longer exists.

Other areas of government now are developing their specific business continuation plans.

"We're kind of driving it now, because we have the availability of somebody to do that," Mr. Grewar said. Mr. Johnson is responsible for providing the government's various ministries and corporations with contingency plan templates to use as starting points for their individual plans.

Based on a framework plan and advice the risk management branch provides, the province's ministries are developing their own plans. They are determining how they would respond if a single building of theirs is damaged or destroyed, as well as how to respond if a disaster strikes greater Victoria.

The ministries have to identify the essential services they must provide and plan to move to emergency sites if a disaster strikes Victoria.

That involves finding alternate office sites and backup computer sites, as well as arranging for executives to meet after a disaster.

As part of the planning process, the ministries have to keep in mind seasonal priorities. For example, the ministry responsible for the province's voters list would have to have a plan ready so it could maintain the list during an election period.

Most ministries still are preparing their plans, though the Ministry of Finance and Corporate Relations is ahead of most, Mr. Grewar said.

Mr. Grewar is working with the ministries on establishing a deadline for completing the plans.

At the same time, the risk management branch is working with the Premier's office and the Cabinet on their own contingency plan. The government's top officials not only have to have an emergency meeting site, they also have to be aware of where they should meet in the event of a disaster so they can be contacted for direction and to provide information to the media.

The risk management branch does not have jurisdiction over crown corporations, but they are expected to have contingency plans as well. The branch, though, wants to make sure it has first addressed government operations, Mr. Grewar said. BI



PHOTO: MICHAEL MARCOTTE

Philip Grewar's staff at the province's risk management branch includes, standing left to right,: Laura Hughes, manager-insurance operations; Glen Frederick, manager-risk management operations; Leoni Gingras, manager-finance and administration; Dave Johnson, manager-business continuation planning and information security; Mr. Grewar. Seated left to right are: Margo Steffens, administration clerk; Janet G. Hoefer, risk and insurance analyst; Irene Wallace, administration clerk. Not pictured are Cindy Costello, administration clerk; and Rick Lawson, manager-security and loss control.

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Victoria job crowns a career in risk management

By DAVE LENCKUS

In the two decades before he joined the British Columbia government as the Canadian province's first bona fide risk manager, Philip J. Grewar typically grew restless for a new career challenge every three or four years.

His path took him from stints with a life insurer and a mining and specialty steels company in Canada's Great Lakes region to mining and forest products companies and even to a different government position in Canada's westernmost province.

But in Victoria, British Columbia, Mr. Grewar has found a challenge that has sustained him for the past 12 years. Part of the reason may be that he not only shaped the British Columbia risk management branch, he also literally created it.

Mr. Grewar said he also is "enamored with Victoria," the quaint and lush green provincial capital on Vancouver Island, which stretches slightly south of the mainland Canadian and U.S. border on the temperate Pacific Coast.

Mr. Grewar, 50, grew up in St. Catharines, Ontario, where the winters are much harsher but more conducive to schoolchildren with dreams of firing in the winning goal in pursuit of professional hockey's Lord Stanley's Cup. Mr. Grewar recalled how he and his friends in their youth took advantage of the long, cold winters and played hockey nearly every day after school.

His father worked for the federal government in an employment services agency. His mother was a homemaker. He has one sister.

Mr. Grewar, who lived in St. Catharines until the age of 18, attended school through Grade XIII, which is equivalent to university freshman-level studies. Since then, he has completed various university-level business courses, including economics, statistics, law, principles of government and public administration, and a course on Canadian securities. In the early 1970s, he earned an Associate of the Insurance Institute of Canada designation, which is comparable to the Chartered Property & Casualty Underwriter designation.

For the past 30 years, Mr. Grewar has held an insurance or risk management position of some sort. "It's a hoot" that his career took that course, Mr. Grewar observed, explaining that his grandfather and two uncles were life insurance salesmen.

In 1967, shortly after completing Grade XIII, Mr. Grewar took a staff assistant position with North American Life Assurance Co. of Toronto. He handled agent financing, market survey and agency field force administration duties there.

Mr. Grewar began his risk management career three years later. Like many past Risk Managers of the Year, Mr. Grewar did not set out to be a risk manager. The profession chose him.

Rio Algom Ltd., a mining and specialty steels concern in Toronto, needed to fill an administrative position within its insurance program department and sought job candidates through an employment agency. At the same time, Mr. Grewar was looking for something different. The agency consultant advised Mr. Grewar to apply for the position at Rio.

"I said I had no experience," Mr. Grewar recalled. "The agency said, 'No problem. You're the closest one I've seen (who fits the requirements.)' "

During an interview at Rio, Mr. Grewar was asked a question pertaining to the company's vehicle fleet. "I knew something about auto insurance, because I had a car," he said. Rio liked Mr. Grewar's responses enough to hire him as an insurance assistant in 1970.

Ironically, the risk management philosophy at Rio then could not have been much more diametric to the one Mr. Grewar has adopted at the British Columbia risk management branch. "We bought a lot of insurance," said Mr. Grewar, who was responsible for junior duties such as keeping track of property values for the company, which mined uranium, copper and gold and manufactured stainless steel.

> ***A multifaceted insurance assistant job at Cominco Ltd. 'was quite a learning experience for me.'***
> **—Philip J. Grewar**

By 1972, Mr. Grewar was looking for a change in scenery as well as a different professional challenge. In response to a local newspaper advertisement, he applied for an insurance assistant's position in Vancouver, British Columbia, with Cominco Ltd., an international mining and smelting company with fertilizer manufacturing operations as well.

At Cominco, Mr. Grewar's risk management responsibilities were greatly broadened, particularly in risk identification and claims management. He was responsible for purchasing property and business interruption insurance, handling claims, producing property value statements, overseeing site inspections, acting as risk management's liaison with the company's operations division, and contributing risk management's perspective during the planning of new operations. "It was quite a learning experience for me," he said.

A few years later, the experience also led to his first tour of duty with the British Columbia government. While at a crown

See **Grewar** *on next page*



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Divisions of Statutory Benefits Management Corporation

Grewar

Continued from previous page

corporation, he created the provincial risk management position he would eventually assume. A crown corporation is an entity the government sets up much like a private company to handle a particular government function.

In 1977, the British Columbia government was looking for someone to create a risk management department in the British Columbia Buildings Corp., a new crown corporation the provincial government had set up as its landlord. To control costs and coordinate rental space, the BCBC owns or leases all properties that British Columbia governmental entities use.

Mr. Grewar jumped at the opportunity, which not only was a huge professional leap forward but also brought him to Victoria, "which is a nice place to live." The position gave him ownership in a program he would build from scratch and would be in charge of running. "It would be my program," he said.

When he arrived at the BCBC in 1977 as manager of property tax and insurance, not only was there no risk management program, but there also was little or no administrative infrastructure to support recovering any losses, he said. "People with the policies and those reporting losses never talked to each other, so you could never make a claim. It wasn't coordinated. It didn't make a lot of sense. They were spending a lot of money they didn't need to."

one. "We didn't know, because the government didn't keep track, what assets the government had," Mr. Grewar recounted.

Many assets were not insured. And, even with those that were covered, there was little hope of

Involvement in captive insurance and fronting operations 'really helped when I came back to the government.' —Philip J. Grewar

From 1977 through 1981, Mr. Grewar built the BCBC's risk management function, from controlling risk, to financing risk, to negotiating claim settlements. He also helped standardize wording in various contracts and established a system of authority for signing contracts.

As Mr. Grewar shaped risk management at the BCBC, he observed that risk management problems were pervasive in the provincial government. For example, he found that the lack of coordination by provincial entities in purchasing automobile coverage alone was wasting tens of thousands of dollars annually.

"I thought there was a need to look at it," said Mr. Grewar, referring to how the provincial government was wasting money in managing risk. He recommended that the government study the issue.

A powerful government committee took Mr. Grewar up on his offer. Indeed, the committee asked Mr. Grewar to act as an insurance and risk management consultant to the government and conduct the study. The committee consisted of assistant deputy ministers from the provincial secretary, government services and finance, as well as Treasury Board staff. The board is the budgeting control committee of the Cabinet for British Columbia's premier.

Over a six- to eight-month period, Mr. Grewar surveyed the government's various ministries about their highest-valued assets and how they were protected. "Everything was budget-driven," Mr. Grewar said he discovered. "Each ministry would view from its own limited perspective what it could buy." Ministries would insure copy and fax machines because that was affordable under their budgets, but other building contents were left uninsured.



PHOTO: MICHAEL MARCOTTE

1998 Risk Manager of the Year Philip J. Grewar owns a sailboat and is a wine aficionado, even doing television feature segments on wine for a local station. He is pictured with his fiancee, Jan Noble.

In a 20- to 30-page report, Mr. Grewar suggested creating a central office that would be responsible for coordinating the government's risk management function more efficiently and effectively. The submission of the report was Mr. Grewar's last major task with the BCBC. A day after submitting the report in 1981, he left the crown corporation to join MacMillan Bloedel Ltd., Canada's largest integrated forest products company, in Vancouver as the manager of property insurance.

While MacMillan already had a risk management program, the size of the company and its operations worldwide greatly attracted Mr. Grewar. And because of dramatic downsizing at MacMillan, he found himself handling far more risk management duties within a year.

Mr. Grewar had major input in MacMillan's risk management programs worldwide. He restructured the property and casualty insurance programs, using captives to finance many of the company's risks. But, he still purchased loss control and claims-handling services on the far more cost-effective unbundled basis from insurers. He was an adviser on insurance and contractual matters to operating divisions and was involved in the mediation and settlement of large casualty as well as property claims.

For the first time, Mr. Grewar also got involved in captive insurance and fronting operations. "That really helped when I came back to the government," he said.

But even while he was busy at MacMillan, Mr. Grewar continued to play a role in provincial government, with one of the assistant deputy ministers on the Cabinet committee occasionally calling him for advice. Eventually, the committee accepted Mr. Grewar's report and decided to create the central risk management office he recommended. But government infighting over where in the governmental hierarchy the office would sit delayed its creation.

Eventually, the office was squirreled away within the provincial secretary, a part of government services, where the risk management branch had little power to effect change. The branch, though, since has been moved to the Ministry of Finance and Corporate Relations, a more powerful area in government, where it has far more visibility and leverage and a much larger budget.

The government also was downsizing at that time. Some displaced government employees were not laid off but were moved in and out of job responsibilities while they waited for a better place to land. Often, they were not the most qualified candidates for the risk management positions they held.

After a few years of such caretaker risk managers, the British Columbia government asked Mr. Grewar to take the position. He couldn't refuse, he said 12 years later. "It's a fantastic position."

But his acceptance, he recalled, underscored his ingenuousness at that time about how the government functioned. "I was really naive. I accepted the offer and quit my job." The offer, though, really was not an ironclad job guarantee at that time, he discovered. Three weeks later, another call informed him that his nomination only then had cleared all of the governmental red tape and that he officially was awarded the position.

Mr. Grewar says he still continues to find more new challenges at the risk management branch.

And, living in Victoria, Mr. Grewar has plenty of opportunity to sail. He owns his own sailboat, an Ericson 32-footer named "Grand Cru." The name is a wine industry term meaning great growth. He cruises mostly around the San Juan islands between Vancouver Island and Canada's West Coast.

Mr. Grewar also skis, usually on Vancouver Island.

But it's wine—from the harvesting of grapes to the aging process to the bouquet of the final product—that he speaks about with alacrity. Mr. Grewar is one of 11,000 members of the Opimian Society, a wine-purchasing cooperative in Canada. He is the representative of society members on Vancouver Island.

He also recently began shooting a series of television feature segments on wine for a local TV station, CHEK 6. A segment airs weekly on a noon-hour public affairs program. Mr. Grewar's fiancee, Jan Noble, a media saleswoman for the station, alerted him that a station producer was creating the spot.

Mr. Grewar has two daughters: Vicky, 25, and Sarah, 4. BI

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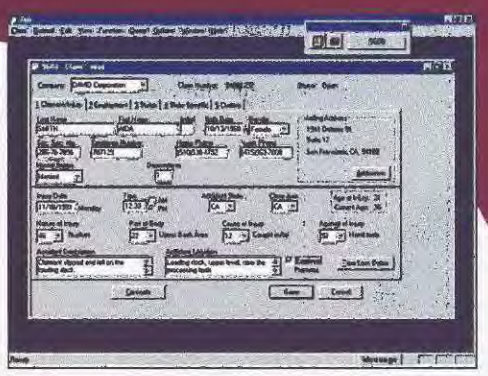
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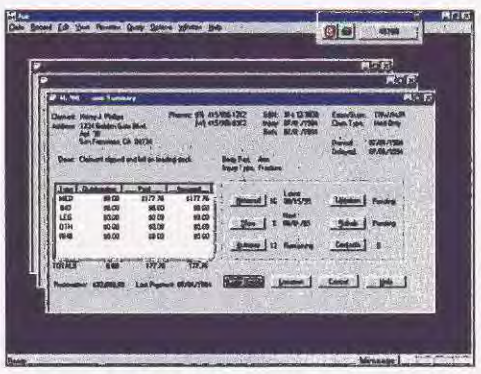
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Risk manager earns praise of colleagues

By DAVE LENCKUS

At its core, Philip J. Grewar's concept was simple enough—he wanted to bring private-sector business efficiency to governmental risk management in British Columbia.

In reality, he had to plow through government red tape, impractical policy and rules and strong political will that opposed his efforts in many cases.

Despite those barriers, Mr. Grewar, the province's director of risk management, largely has been able to infuse those efficiencies into the crown's risk management program. Along the way, his efforts have saved the province $310.7 million, according to risk management branch estimates.

At a recent luncheon where Mr. Grewar accepted the 1998 *Business Insurance* Risk Manager of the Year Award for his hard-fought accomplishments, high-ranking government officials, staff, business associates and peers paid him tribute.

Mr. Grewar was presented with the 21st annual award, signified by a crystal obelisk, by *Business Insurance* Publisher/Editorial Director Kathryn J. McIntyre, Editor Paul D. Winston and Senior Editor Dave Lenckus at the April 7 affair in Victoria, British Columbia.

In accepting the award, Mr. Grewar said he was "somewhat speechless." He had not fully realized the magnitude of the events surrounding the award—particularly the festive award presentation and lengthy magazine interviews required to prepare the articles on his program.

Mr. Grewar, who has spent just about all of his professional life in risk management, called his work in the field "a very fascinating career" and one he has enjoyed. "It's an area in which you can get involved to any extent you wish in the organization in which you work," he said.

Regarding his efforts to build a private-sector-style risk management organization in a government setting, Mr. Grewar acknowledged that government policies and rules challenged many of his efforts.

But, he pointed out, "to the credit of the government," the branch has been allowed to break from government policy in many cases. As a result, the branch has been able to operate a more efficient and effective risk management program.

He noted, for example, that the branch has been allowed to hold funds over from one year to the next to facilitate prefunding of risks. In addition, the branch's budget has been segregated from the Ministry of Finance and Corporate Relations' budget, which means the branch is not in competition with the crown's numerous ministries for funds. Administratively, though, the branch remains within the Ministry of Finance and Corporate Relations.

That support shows "the government has been behind us," Mr. Grewar said.

He thanked his 50 guests for attending, especially because most of them came from out of town. Those with whom he worked and those for whom he worked in the past have provided him valuable advice, he said.

Mr. Grewar's warmest thanks went out to his staff of 14. "The staff I have probably is the best risk management staff in Canada, for sure. I think we'd be hard-pressed to find any group better than them in the world. I'm here because of their encouragement, interest and desire." And they have fun at their work, he said.

Mr. Grewar also expressed his appreciation to four staff members who clandestinely prepared the 13-page award nomination. That quartet—Laura Hughes, manager of insurance operations; Glen Frederick, manager of risk management operations; Janet Hoefer, risk and insurance analyst; and Graham Sanderson, manager of claims administration—were able to complete 12 of the 13 pages for the nomination. But they needed Mr. Grewar's input to complete the candidate's resume portion of the nominating package.

The four called Mr. Grewar into a meeting several months ago, "which was unusual," Mr. Grewar observed. "Usually, I'm the one calling the meetings."

At the meeting, they explained what they had been working on and what they needed from Mr. Grewar. "It was quite a surprise and quite a shock to me," he said.

The province's recently appointed Minister of Finance and Corporate Relations led off the tributes to Mr. Grewar with some lighthearted as well as gracious remarks. "The award is truly a very great honor, and Phil is a very deserving winner," said Joy K. MacPhail, who was appointed minister a month and a half earlier. "He's a strong leader, and he's worked very hard to turn his vision of a well-run risk management branch into reality."

"I personally would like to claim credit for his birth, his growth, his success," she said, drawing laughter from the gathering. "Unfortunately, it would have to be a six-week gestation, and I don't think that's even possible in our government," she added.

"Phil, the credit goes solely to you. You have built the risk management branch into an organization with a great deal of credibility in government," the minister said.

As an example of that credibility, Ms. MacPhail noted the frequent invitations the risk management staff receives from various British Columbia ministries to speak "on a wide range of topics."

She also praised his "successful communications program," which she called "a very important part of the work of the branch."

As part of his communications effort, Mr. Grewar publishes three quarterly magazines:

- *At Risk*, which is written for government entities and some crown corporations and deals with critical risk management issues. It also goes to risk managers of federal, provincial and territorial government entities across Canada.
- *Risk Ed*, which is written for schools in the kindergarten through 12th grade system. It covers pertinent risk management issues for school district trustees, principals and teachers.
- *Risk 101*, which is written for colleges and universities.

He also publishes manuals for the government's various self-insurance programs. Each manual explains the program and coverage wordings. The manuals also include summaries and recommended risk management practices and contract wordings.

Ms. MacPhail concluded by noting the importance of the branch to her, given her responsibility for preparing the province's budget. Pointing to the hundreds of millions of dollars the branch has saved the government over the past 12 years under Mr. Grewar's leadership, the minister credited the branch with helping the government achieve its objective of keeping down costs and spending.

"Thank you very much, Phil, for that money," she said.

Another high-ranking government official, Chris Trumpy, the new deputy minister of Finance and Corporate Relations, ribbed Mr. Grewar while also praising his accomplishments. Until his recent promotion, Mr. Trumpy had been Mr. Grewar's immediate supervisor.

Referring to Mr. Grewar's ability to change governmental policy and rules that otherwise would impede the risk management program, Mr. Trumpy said: "Phil's been able to get things done that typically don't happen in a bureaucracy we work in. He's done that by not following the rules." Mr. Trumpy added: "Phil has managed to be as successful as he has by staying away from the rest of us" in government.

Mr. Trumpy observed that Mr. Grewar doesn't ask if he may try to solve a problem. "He just goes ahead and does it." Mr. Grewar also has "worked on building a strong team, and a strong team is what he has now," Mr. Trumpy said.

Steven Butz, who retired from the risk management branch last year as manager of loss prevention and who arrived at the branch before Mr. Grewar, commended Mr. Grewar for largely realizing his "vision" of risk management for the government.

"Phil. . .a very deserving award," Mr. Butz said.

Russ Fountain, risk manager-casualty at MacMillan Bloedel Ltd. in Vancouver, has known Mr. Grewar since the two were colleagues at Canada's largest integrated forest products company in the early- and mid-1980s.

He said Mr. Grewar learned many of his risk management practices when the two worked together at MacMillan. "In fact, I recognize some of the forms you use for certificates of insurance. I think I'm entitled to some royalties," he said.

Ed McGuigan, a claims examiner for the branch, also roasted Mr. Grewar. Reminding the gathering that Mr. Grewar has spent almost all of his career in risk management, Mr. McGuigan said: "I have it on very good authority that he couldn't get anything else." After a pause, he added: "That's not true."

Mr. McGuigan then explained why the risk management branch is "a very good place to work." "Phil is very clear and the managers are very clear on where we're going. Some of us are not told where we're going, but we're led to believe it's very clear in the managers' minds. We're comfortable with that," he joked.

On a more serious note, Mr. McGuigan thanked Mr. Grewar for managing the staff in a way that everyone knows his or her job without being constricted by limits on how to accomplish that work.

"It's a comforting place to be in, in many ways, and I think Phil is the reason for that," he said.

Mr. Grewar "makes it a great place to work, and he has assured us all we'll be paid more," Mr. McGuigan concluded.

Mr. Trumpy quickly chimed in: "You've been there only five years, right?"

Mr. Sanderson, one of the four staff members who nominated Mr. Grewar for the award, expressed the warmest sentiments to Mr. Grewar that afternoon.

He related a story of a star football quarterback who, in quite an unusual and risky play for himself, threw a key block that allowed his running back to score a game-winning touchdown. But the team coach, while congratulating the quarterback on the victory, did not comment specifically on the block.

A few days later, the star player asked the coach the reason for the snub. The coach replied that the quarterback long had known he had the coach's respect and appreciation for the effort the quarterback gave on every play in every game. "Well," the quarterback responded, "if you want me to ever throw another block, you'll tell me when I do a good job on one."

Turning to Mr. Grewar, Mr. Sanderson said, "Phil, this staff has seen the blocks. The nomination was our way of saying we appreciate what you do, and please, keep it up." BI





Philip J. Grewar, at top, second from right, accepts the 1998 Risk Manager of the Year award from *Business Insurance* Publisher/Editorial Director Kathryn J. McIntyre, Senior Editor Dave Lenckus and Editor Paul D. Winston at a recent luncheon in Victoria, British Columbia. At right, Mr. Grewar is flanked by Joy K. McPhail, the province of British Columbia's minister of Finance and Corporate Relations, and Chris Trumpy, deputy minister of Finance and Corporate Relations.

PHOTOS: MICHAEL MARCOTTE



Officials of the British Columbia government join Philip J. Grewar at the Risk Manager of the Year luncheon. From left, J. E. Woytack, deputy commissioner, Superannuation Commission; Doug Pearce, chief investment officer, Ministry of Finance; Thea Vakil, assistant deputy minister, Ministry of Attorney General; Brenda Eaton, vp-operations of the capital health region. Mr. Grewar has reported to each of them during his government career.

Keeping manufacturer on firm footing

By MICHAEL BRADFORD

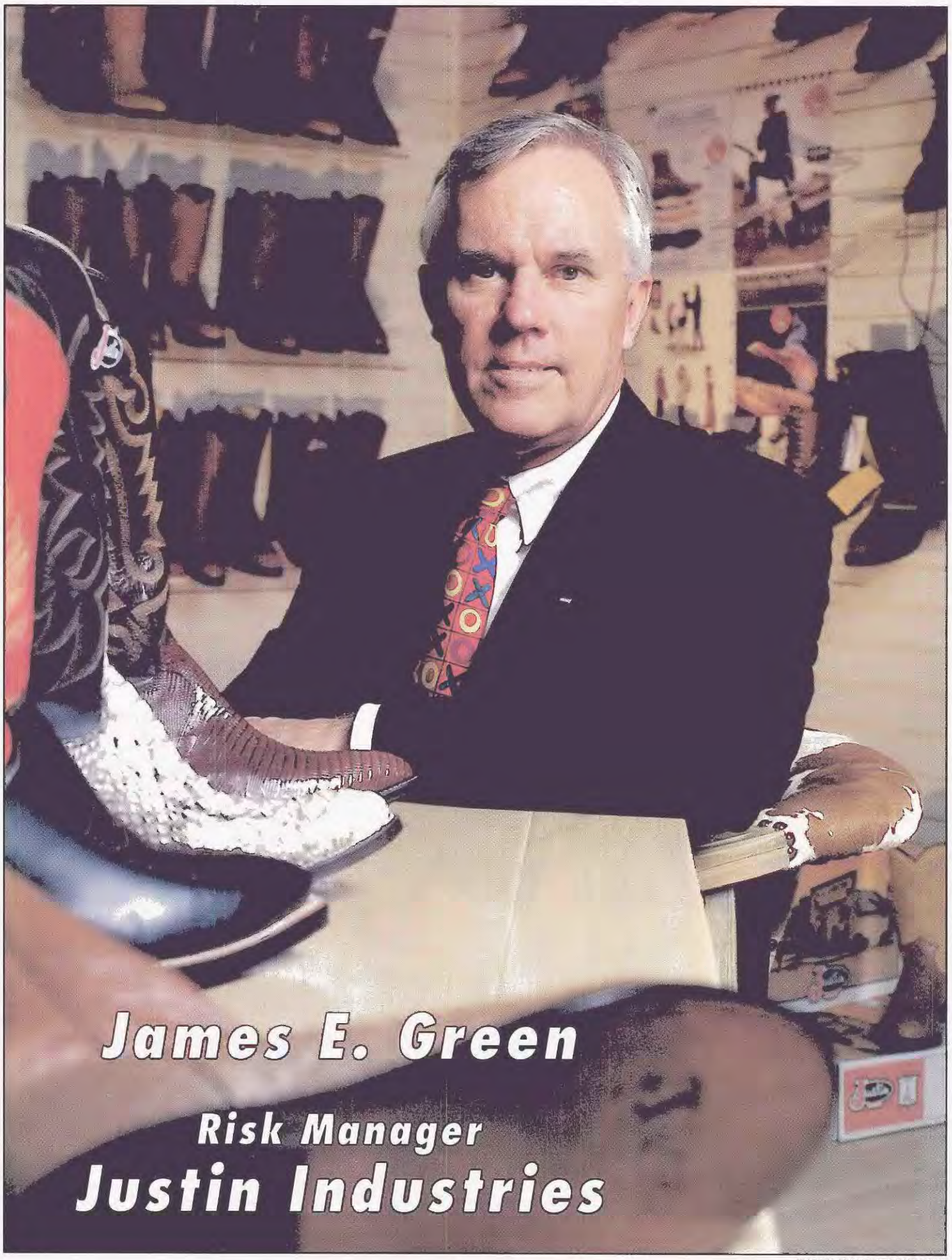


PHOTO: MICHAEL MARCOTTE

His timing could have been better.

James E. Green was in charge of security and safety programs at Justin Industries Inc. when he expressed an interest in expanding his responsibilities.

"I began handling some of the insurance purchasing and negotiation in '84," Mr. Green said, "and had all of it by the end of '85."

Those last months of 1985 were a memorable time for risk managers, he says, calling it "the beginning of the worst hard-market turn we've ever experienced. The timing wasn't real good for getting into risk management."

As his first renewal date approached, Mr. Green thought he had prepared Justin's management for what he knew would be a shock. He sent his bosses news clippings on insurance market conditions and tried to warn them they were going to see a sizable increase in premiums.

They weren't ready.

"Nothing prepared them," Mr. Green recalled. "Our umbrella liability premium was thousands times higher than it had been before. And the limits were lower."

Management's initial surprise was not well-concealed, he said. "I thought I was going to have the shortest risk management career in history."

But, with that experience behind him, Mr. Green continues in his role as risk manager at Justin, a Fort Worth, Texas-based company with subsidiaries that feature a disparate lineup of products.

No longer known only for its high-quality Western footwear, Justin's operating companies employ about 4,300 workers, who also produce building materials, evaporative coolers, bricks and books. Justin's 1997 revenues were $475 million.

In the years since his hiring in 1982 to head security at Justin, Mr. Green has integrated a culture of risk management into a company where previously the mention of such a concept would have drawn stares as wide as the Texas prairie.

His accomplishments are particularly visible within Justin's Western footwear division. Long a respected name among boot makers, the company was plagued by injuries to workers producing the largely handmade product. An ergonomics program that changed work styles and work stations has saved the company hundreds of thousands of dollars.

A claims control program he put in place has helped cut workers compensation costs by more than $6 million since 1991 (see story, page 111).

In his 16 years on the job at Justin, Mr. Green has become recognized among his peers as their point man on state and national legislative issues concerning insurance and risk management. He is frequently in Austin, Texas, testifying in the state capital on those matters and often is at the podium, speaking in front of civic and professional groups.

"Jim's concentration over the last six or seven years in the areas of workers compensation, ergonomics and safety have dramatically reduced our costs, probably in the range of 50% to 75% from what they were in the beginning of this decade," said Richard J. Savitz, Justin's chief financial officer and Mr. Green's boss. "It's been a tremendous accomplishment."

Because of his accomplishments, Mr. Green was selected this year as a member of *Business Insurance*'s Risk Management Honor Roll in the large-company category.

When he arrived at Justin in 1982, Mr. Green relied on his experience in law enforcement to develop a security program for the company and its subsidiaries.

He had spent 10 years as a patrol officer, crime lab investigator and assistant to the chief of the Dallas Police Department before taking a job as a management consultant with Peat Marwick, Mitchell & Co., whose name later changed to KPMG Peat Marwick L.L.P.

As prognostication was not among his talents, Mr. Green picked the mid-1980s to ask for an expanded role at Justin.

"The vice president of personnel handled all the insurance at that time," he said. "There was no centralized coordination of claims or safety programs or anything like that."

"I said: 'Look, I'm already doing the security, I spent four years as a crime lab investigator. Reconstructing crime scenes and accident scenes is a big part of safety. So why don't you let me take safety on, and once I get some information developed for our people to use. . .I'll take some of the insurance programs off you.' "

The approach worked. "Having someone offer to take part of your workload is not a hard sell," Mr. Green noted.

Today, he describes his role as that of a "consultant to the operating companies" at Justin. "Their products are different. So the risk management problems are different at each one."

Justin Industries' building materials group includes Acme Brick Co. in Fort Worth and subsidiary American Tile Supply Co. in Dallas; Featherlite Building Products Corp. in Austin; and Tradewind Technologies Inc. in Phoenix.

The footwear side of the business is a lineup of high-profile companies: Justin Boot Co. and Chippewa Shoe Co. in Fort Worth, Texas; Tony Lama Co. in El Paso, Texas; and Nocona Boot Co. in Nocona, Texas.

Justin Industries also owns Northland Publishing Co., a Flagstaff, Ariz.-based publisher of books with Southwestern themes.

More than 100 manufacturing, sales and distribution sites are spread over eight Southwestern states. The companies own about $330 million in property.

The diversity of exposures and locations among Justin's operations is one reason Mr. Green uses a collaborative style to involve all management in the effort to reduce losses. He relies on two full-time staff members and a secretary who splits her duties between risk management and benefits management. As a "consultant" to the operating

Continued on next page

Continued from previous page

companies, Mr. Green works closely with their managements to identify exposures and implement solutions to risk management problems.

"Jim really believes in collaborative thought, using the best opinions of many to come up with the best decisions," said Susan J. Albrecht, president of the major markets division at The St. Paul Cos. Inc., the insurer that writes much of Justin's coverages.

"He does that with his carriers as well," she said of Mr. Green's knack for including everyone in decision-making. "We truly are partners."

An example of Mr. Green's penchant for involving management can be seen in the claims control program he developed. As part of the program, plant managers are required to send a letter to various Justin management when a lost-time injury occurs, explaining why it happened and what will be done to prevent a recurrence.

That communication sometimes results in a phone call to the manager from John Justin, chairman of the board, who wants a little more information. Such involvement, and the commitment of top management to participate, is crucial to a successful risk management effort, Mr. Green stressed. Mr. Justin understands that "it's a lot easier to save a dollar than it is to make a dollar," Mr. Green said. He added that the chairman is aware that most of Justin's coverage is written above a high deductible, and therefore a dollar saved generally is the company's money, not an insurer's.

Jimmy Rogers Jr., chairman and chief executive officer of Rogers & Belding Insurance Agency Inc., Justin's El Paso-based brokerage, said Mr. Green's emphasis on risk management as a discipline that affects profitability shows that "he understands that there is more to risk management than the cost of insurance."

"He understands his mission," Mr. Rogers said. "He looks out for his employer's best interest at all times." And that means preventing losses and controlling the ones that do occur, Mr. Rogers noted, tasks at which Mr. Green has been successful in his tenure with Justin.

With such diverse operations to oversee, Mr. Green faces risks that run the gamut from mundane slips and falls in a sales center parking lot to more exotic exposures, such as, for example, the one posed by South American alligators.

"We are one of the largest importers of exotic materials in the country," Mr. Green explained. "We ran into a situation where we believed we were buying legitimate materials. The documentation looked good. It turned out it wasn't."

He pointed out that federal regulations govern what kinds of skins can be imported. Buying skins of endangered species is outlawed, while purchasing skins from animals classified "exotic" but not endangered is allowed with restrictions on how the materials are transferred across national boundaries.

Justin had purchased a large quantity of alligator skins from South America when U.S. Fish and Wildlife Service representatives showed up to check the paperwork. After several months of investigating, authorities declared the documents forgeries and seized the skins. No fines were assessed against Justin.

> ***'Jim really believes in collaborative thought, using the best opinions of many to come up with the best decisions.'***
>
> **—Susan J. Albrecht**

The company now has new safeguards in place to make sure all imported materials are properly documented. "It's really due diligence," Mr. Green said.

Before materials are purchased, a Justin representative travels to the buyer's location to confirm where the animals are raised, how they are killed and the process by which the skins are prepared. Documents are carefully checked to make sure they are proper, and dealers that provide the skins are checked to make sure they are legitimate.

Far from South America, product liability and workers comp risks provide entirely different challenges.

A product liability problem led Justin to redesign Tradewind Technologies' evaporative cooler because of the fire risk it posed. The redesign left the company with a product unique among its competitors.

Evaporative coolers, made for homes and businesses, function as air conditioners without compressors and are effective in cooling the air in areas of the country with low humidity. The cabinet in Tradewinds' product is made from polypropylene, which doesn't rust from exposure to the moisture it draws from the air.

A problem developed in some cases, however, when moisture saturated the electrical components inside the cabinet. In a few instances, the cabinets caught fire, and Justin was handed product liability claims. One of those claims reached seven figures.

The redesign included changes to wiring so that short circuits aren't as likely, and higher-quality electric pumps now are used in the units. "We did a substantial amount of research and developed some flame-retardant additives for the polypropylene," Mr. Green noted. The owner's manual was improved, and new warning labels were developed.

As a result of the changes, Tradewinds now has the only evaporative cooler on the market with Underwriters' Laboratories approval.

"I think we've dramatically reduced the exposure and have a safer, better product," said Mr. Green.

His persistence in problem-solving is one of the traits that makes Mr. Green a top-notch risk manager, according to Kenneth N. Mitchell, president of Rogers & Belding.

"He is very proactive in attacking these kinds of things," Mr. Mitchell said. "He was very much involved in redesigning that product."

Mr. Mitchell pointed out that Mr. Green has such a grasp of product liability issues that St. Paul made him part of a task force to help its policyholders understand and address issues related to that exposure.

"As far as his knowledge in the industry is concerned, he knows much more than a lot of underwriters we deal with," Mr. Mitchell said.

Justin's boot-making operation, where work largely is done by hand, means there have been some particularly challenging workers comp problems. Mr. Green's efforts to reduce cumulative trauma disorders in the footwear division led to an ergonomics program that can detect potential disorders before they develop (see story, page 112). A dramatic decrease in the number of cumulative trauma claims in 1996 resulted in a $356,000 drop in developed claims costs, or the ultimate expected cost of claims, from the year before.

Even more dramatic are the savings from the claims control program put in place for all the operating companies (see related story). The program "takes control of the claim from the moment it occurs," Mr. Green said. One of four claims coordinators activates the program once a worker injury is reported.

The coordinator or supervisor accompanies the injured worker to the treating physician and is available to meet with the doctor to learn how the worker will be treated and whether he or she will be able to return to work or an alternate job. The claims coordinator also makes sure the injured worker's questions about treatment, return-to-work or other issues are answered. The program saved Justin millions of dollars a year in workers comp costs, drastically cut the number of lost-time work days and virtually eliminated attorney involvement in work comp cases.

Justin's "broad approach to risk management" means he is active in a lot of areas, Mr. Green pointed out. The company's philosophy is that "almost anything that can cause a loss to the company—other than not selling enough product or not selling it at the right price—is considered a manageable risk," Mr. Green said. "That includes not only the traditional property and casualty issues," he added, but also those related to regulatory matters such as import/export laws, governmental activities and litigation, "including trademark infringement, licensing contracts, all of those kinds of things."

When the company is sued, Mr. Green is among the first to know. "Our registered agent is right down the hall, and the first thing she does is walk up and hand me a copy of the lawsuit," he said. Mr. Green reviews the suit and determines whether damages would be covered by insurance. If so, the suit is forwarded to the proper insurer, who is instructed to respond on Justin's behalf.

"If there's any question about whether it's covered, I notify them and the corporate counsel, which is an outside law firm here in Fort Worth," Mr. Green said. "I let the insurance companies tell me if they don't think it's covered. My philosophy is I don't adjust claims, I report them. If they want to tell me it's not covered, then we'll discuss that later."

Mr. Savitz, Mr. Green's boss, pointed out that while Mr. Green is not a lawyer, "he has enough knowledge of business law that he is our liaison with our outside counsel in most cases. He is always involved in any kind of litigation" filed against Justin or a subsidiary. BI

Program gives comp claim costs the boot

By MICHAEL BRADFORD

Control injury claims early, and workers compensation costs will fall.

That's the philosophy at Justin Industries Inc., where "we've reduced our workers comp costs by several million dollars a year," said James E. Green, risk manager at the Fort Worth, Texas-based company.

Justin's program, which is in place in its operating companies that produce Western footwear, building materials and other products, "takes control of the claim from the minute it occurs," Mr. Green said.

Apart from saving money, the program has almost completely eliminated attorney involvement in workers comp claims and significantly whittled down lost-time days related to employee injuries.

The experience of one operating company shows how well the program has worked.

In 1990, the year Justin purchased Tony Lama Co., the El Paso boot maker had $5.2 million in workers comp losses. In 1995, losses were less than $28,600, largely attributable to the claims control program.

For all of Justin Industries, 1990 workers comp losses were $7.1 million; in 1995, the amount had fallen to $1.2 million.

In early 1991, Mr. Green said Justin realized that while it "had a pretty good safety program" that was reducing the number of injuries, "we just weren't doing a good job of controlling the claims once they occurred."

In establishing the program, Mr. Green put in place four claims coordinators, all licensed workers comp claims adjusters. Three have other duties within Justin, and one works in Fort Worth for Justin solely as a claims coordinator. Each coordinator is responsible for claims coming from separate operating companies. "If a claim occurs, their responsibility is to activate the claims control program," Mr. Green explained. That has changed the way Justin companies initially deal with an injured worker.

"We used to do like everybody else," Mr. Green noted, sending an injured worker to a clinic and letting the doctors and nurses take control. "Now we don't do that. A supervisor or claims coordinator goes with that person to the clinic and stays with them at the clinic until they're through. Then, they're available to talk to the doctor and both ask and answer questions about the person's injury, job and the alternatives for return-to-work."

The person accompanying the patient will, if needed, make a trip to the pharmacy to pick up prescriptions "so the employee does not have to worry about having to pay for that and getting reimbursed," and to make sure the patient understands the doctor's directions on how the medication is to be used, Mr. Green said.

In determining what kinds of alternative work an employee might be fit for, "our approach is, we don't ask what a person's restrictions are; we ask the doctor what the person's capabilities are," he said. "We're very often able to get the person back to work without any lost time," Mr. Green pointed out. "We've had carpal tunnel surgeries on Friday afternoon and the person back to work on Monday with no lost time."

If a worker is unable to return to work, Justin wants the employee to be informed about the workers comp procedure. A letter is sent with answers to frequently asked questions, and a telephone number is provided for the worker to call for additional information.

"Our internal slogan is that we don't want any injured worker or a member of their family to go to bed at night with any unanswered questions," Mr. Green noted. "If they've got questions, we want them to get their answers from us, not from their next door neighbor or from the TV ad they saw while they were at home."

There is some added incentive, directed at management of the operating companies, that makes the program work. "When we put this in place, we knew that the only way it was going to work was if we started at the top of the company and went down," Mr. Green remarked. Commitment to the program "from the chairman of the board all the way down," shows its importance to Justin.

To drive home that point to plant managers, a manager who has a lost-time injury must write to the chairman of the board, the president of Justin Industries, the president of the operating company and Mr. Green. That letter has to explain the injury, why it happened, and how it will be prevented from happening again.

"They hate to write those letters," Mr. Green said. But the point of the letter-writing requirement is to send a message to each location that employee care and safety is important, he added. "We don't want inattentive management to be a cause for somebody being injured. We want everybody to go home with the same number of fingers and toes they came to work with that day."

Mr. Green knows that while the system has proved effective, Justin must pay constant attention to controlling claims. "We're not there yet," he said. "We work on it every day."

Reporting procedures are in place like the weekly "Monday report" that includes information on all lost-time injuries and vehicle-to-vehicle accidents. "That goes to every company president and the top executives at corporate."

John Justin, the company's chairman, often calls Mr. Green or others with knowledge of injuries or accidents to get more information. Those reports and the chairman's involvement reinforces the importance of safety and risk management and that "it starts at the top," Mr. Green said.

RISK MANAGEMENT HONOR ROLL

Ergonomics relieves cumulative trauma injuries

By MICHAEL BRADFORD

It was an item with an unusual name that began the evolution of Justin Industries Inc.'s ergonomics program.

Jim Green was wandering through the exhibit hall at the Risk & Insurance Management Society Inc. conference about six years ago when a vendor's display of a device called a "vibro tactile tester" caught the risk manager's eye.

The device, a tester of fingertip sensitivity, didn't turn out to be the panacea for Justin's workplace injuries that Mr. Green had hoped for. But it began a process that led to a program that has sharply reduced injuries among the footwear division's 1,300 workers.

Mr. Green recalled that employers were recognizing repetitive motion injuries as a problem around the time he spied the vibro tactile tester. Media attention had turned the spotlight on the problem nationwide, and Justin was becoming aware of the scope of its problem among footwear workers in seven of its plants.

Mr. Green began to take an approach to the problem different from most of his colleagues. He believed cumulative trauma injuries could be better controlled if they were diagnosed earlier.

"I believed then, as I believe now, that if, in fact, they are cumulative, then they start small and get bigger," he said of the injuries. "And if they start small, there is probably a period of time that the person developing this injury doesn't even really know they have it yet." Or if they do, the symptom is so minor that the worker doesn't understand it is work-related.

If the injury is cumulative, the symptomology must be as well, Mr. Green reasoned. "So there ought to be a way to identify those symptoms," test for them and control them before they become acute, he explained.

At Justin, Mr. Green faced the problem of reducing injuries among a work force that produced 2.5 million pairs of boots and shoes each year. Much of the work is done by hand, and by 1993, four plants were producing not only footwear but millions of dollars in claims related to cumulative trauma disorders. In 1993 alone, 84 cumulative trauma injuries among Justin's footwear workers totaled about $814,000.

The vibro tactile tester got a thorough look-see from Mr. Green. "I got their brochures and their studies," he recalled, and he sent the material to four doctors who were treating Justin employees for workplace injuries.

Three of the four responded and indicated that identifying symptoms was a good way to attack the cumulative trauma problem. The vibro tactile tester, however, didn't appear to be the proper way to do it, the doctors said. The physicians also told Mr. Green the technology probably wasn't available to take such measurements.

Undeterred, Mr. Green continued his attack on the cumulative trauma problem. Finding a solution took on some new urgency in 1994, when the Occupational Safety and Health Administration inspected Justin's footwear plants and expressed concern about the number of cumulative trauma injuries. While the problem "already had our attention," Mr. Green said, OSHA's concern added impetus to the effort to reduce the incidence of repetitive motion injuries.

Even before the OSHA inspection, he had decided to bring an ergonomics engineer on board at Justin. In 1995, Robert Greenlee was hired as risk management engineer. Mr. Greenlee, formerly an engineer at Vallio Inc., an automotive industry engineering firm, is based at the Justin headquarters and reports to Mr. Green.

> ***The physiatrist 'will treat the people with conservative treatment and get them back on the job.'***
>
> **— Jim Green**

Mr. Greenlee said that when he arrived at Justin, he wasn't exactly starting from ground zero. The risk manager had "put a lot of study into it. He was pretty well up to date and seeking approaches" to lick the cumulative trauma problem. He said that while Mr. Green "may not have a Ph.D. in ergonomics, he goes out and searches for new techniques to prevent the injuries rather than treating them, which is what most people do now."

Mr. Greenlee attacked the problem at the site, changing work stations and helping redesign tools used to make footwear. Work styles were modified so that repetitive motions were reduced. These were "some very simple interventions," he recalled.

Dr. Pat Evans, who for years was the team physician for the Dallas Cowboys, was asked to develop a stretching and range-of-motion program for Justin workers. He put together a three-minute routine that workers complete four times a day.

Mr. Greenlee and Mr. Green studied the work of Prevention First, a physician group in Missouri that used a multidisciplined test to develop certain baselines in work environments. Such baselines are developed to measure, for example, workers' hearing. Periodic test results are plotted on a graph that indicates whether hearing loss is occurring. The information lets employers know if a worker needs care and if job modification is in order.

Mr. Green figured if baselines could be developed for Justin workers, their physical capabilities could be monitored over time. That way, symptoms of cumulative trauma disorders could be detected before they led to injury.

It was an idea he and Mr. Greenlee found only one other company was using. Mr. Greenlee said Tyson Foods Inc. had a program in its early stages and was "having very positive results" in bringing down cumulative trauma injuries.

"Our goal was to treat (workers) ergonomically, not medically," Mr. Green emphasized, and in 1996, the baseline program was put in place. "We believe it's been tremendously successful." That year, the number of upper-extremity claims at the footwear division fell to 50 from 96 in 1995. Developed claims costs, or the expected ultimate cost of claims for that year, fell to $168,000 from $524,000.

While the ergonomics program is not solely responsible for the drop in claims and costs, it has been a big factor. Mr. Green also credits other factors, such as a claims control program, for helping reduce costs.

The baseline program requires workers to fill out a medical history and then complete tests that measure range of motion in their shoulders, elbows, wrists, hands and fingers. Manual dexterity, pinch and grip strength, tactile sensitivity and nerve conduction also are checked. The testing looks for edema, or swelling, in the hands.

After the baseline tests are administered, a worker who shows what could be early signs of cumulative trauma disorders is retested a week or two later. That double-check verifies whether the first test was flawed or if the worker needs attention.

If early symptoms are found, Mr. Greenlee then analyzes the employee's work station, tools and work process to look for ways to address the problem ergonomically rather than to transfer the worker to another job.

"We've changed the height of machines. We've bought new machines, changed tool design," which are all ways to alleviate the repetitive motions that lead to injuries, Mr. Green said.

The program has addressed problems related to the footwear maker's automatic computer stitching operation, where workers were developing carpal tunnel syndrome in both wrists from the movements required by the machinery.

"We changed several of the components of the machinery and the way that people handled material," Mr. Green said. The number of claims related to that stitching process has been "reduced rather dramatically," he said.

Tools were developed to improve the way employees guided material for stitching. Devices for cutting and trimming were designed so that less of that work was done manually.

The baseline testing also produced an unanticipated benefit: a morale boost. "You take a worker off the floor" and administer the test, Mr. Green explained. "You spend about an hour with them, and you run them through this battery of tests and ask them how they feel. . .They fill out some forms, and you pat them on the back, and they go back on the floor to work. I think there's a real feeling then of, 'Gee, I passed the test,' even though it's not a pass/fail test and we never tell them it is."

The cost of implementing the testing program has been "pretty nominal," Mr. Green noted. Testing equipment and training by Prevention First for footwear workers cost about $80,000.

The number of lost-time days recorded at the plants has dropped to just 21 in 1997, falling every year since 1994, when 346 were recorded. Light-duty days in 1997 were 187, down from 1,519 in 1994.

Mr. Green pointed out that Justin's efforts to eliminate cumulative traumas led the company to change the way it works with the doctors who treat Justin workers. Instead of taking workers with non-acute injuries to emergency medical clinics, where they generally were treated with anti-inflammatory medications after X-rays were taken, workers now are first seen by a physiatrist, a doctor who specializes in musculoskeletal disorders.

X-rays are not helpful in treating the disorders, Mr. Green contends, pointing out that the physiatrist "doesn't even own an X-ray machine." He does use some of the same drugs—analgesics and anti-inflammatories, for example—as doctors who previously treated Justin workers for the condition.

"He will treat the people with conservative treatment and get them back on the job," Mr. Green said. And, "he will counsel with us on things we can do to keep them from exacerbating the problem."

Along with medication, the physiatrist adds physical therapy to the treatment regime. He also probes into the employee's non-work life to determine if any activities outside the job could be contributing to a cumulative trauma disorder.

For example, a worker who knits in the evenings while watching television or one who frequently rides a motorcycle could have wrist ailments that are not entirely work-related, Mr. Green pointed out.

There is further good news about the results of ergonomics, Mr. Green emphasized: It doesn't get in the way of turning out a quality product.

"You don't slow somebody down; you don't have a negative impact on their quality or their production," he said. BI

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Justin's diversity helps spread risk

Property/casualty program covers all operations, from boots to bricks

By MICHAEL BRADFORD

A boot maker, a brick maker, a book maker and more.

It's a tongue twister that describes the diversity of companies Jim Green protects as risk manager of Justin Industries Inc.

Not only are the risks a diverse lot, they also are scattered among more than 100 manufacturing, sales and distribution locations throughout the Southwestern United States. Add 4,300 employees, and a challenging workers compensation exposure becomes a part of the mix.

Here's the lineup of operating companies:

The footwear group is made up of Justin Boot Co., Tony Lama Co., Nocona Boot Co. and Chippewa Shoe Co. All are based in Texas.

The building materials group consists of Fort Worth, Texas-based Acme Brick Co., Dallas-based American Tile Supply Co. and Austin, Texas-based Featherlite Building Products Corp. Tradewind Technologies Inc., which makes evaporative coolers, is based in Phoenix.

Northland Publishing Co. is a book publishing subsidiary in Flagstaff, Ariz.

Insuring such a mix of businesses means keeping things as simple as possible. One property/casualty program covers all locations, with the exception of some specialty coverages that aren't needed by all the operations. Publishers liability insurance, for example, is purchased for Northland, while the coverage would be of little use for a brick-making subsidiary.

Otherwise, Justin's property/casualty primary and excess program "covers everybody," Mr. Green explained. "And I think that's helpful; it spreads the risk for the carrier a little bit, and I don't think there's any question it helps my companies. If they were to try and buy stand-alone coverages, there's no question in my mind that it would cost more."

Mr. Green buys the insurance for all operations, then "resells" the coverage to the subsidiaries through an allocation program.

He explained Justin's insurance arrangement with the operating companies as an "incurred-loss retro-type plan." The companies are charged a minimum premium, and "that's all they have to pay if they have no losses," Mr. Green said. "At the end of the year, they may get a very sizable return, hundreds of thousands of dollars in some cases."

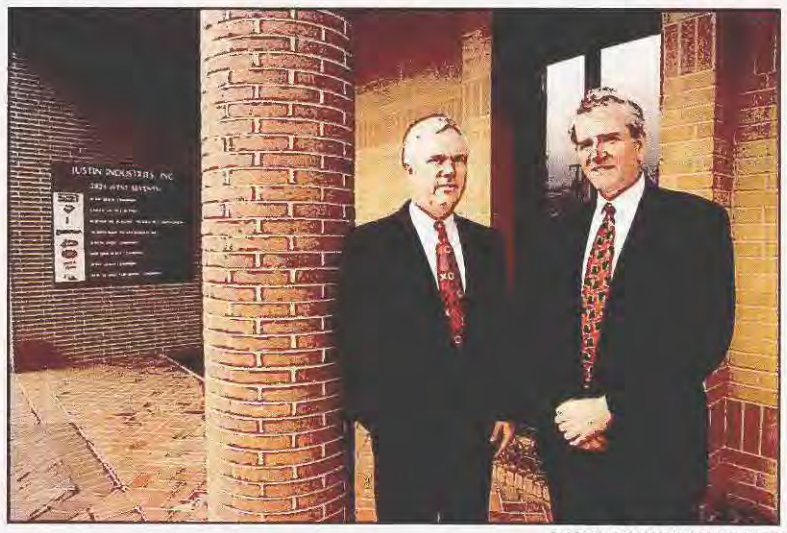


PHOTO: MICHAEL MARCOTTE

Jim Green stands outside Justin's headquarters in Dallas with Richard J. Savitz, chief financial officer and the man to whom Mr. Green reports.

Justin assumes a $250,000 deductible on all casualty losses. "That's your working layer of claims," Mr. Green noted. "We very, very rarely get beyond that." The St. Paul Cos. Inc writes a $1 million layer above that deductible and a "substantial umbrella" sits on top of that coverage. Fireman's Fund Insurance Co. writes a $10 million layer of the umbrella, and TIG Insurance Co. writes $40 million in coverage above that.

Great American Insurance Co. and St. Paul unit Athena Assurance Co. write Justin's directors and officers liability coverage to limits of $25 million.

Mr. Green said Justin currently doesn't buy employment practices liability insurance but eventually might as insurers are improving coverage terms and pricing. "We are giving that consideration," he said.

Even without the coverage, Mr. Green is making sure Justin reduces the risk of employment practices claims.

"You need to do the things that reduce the possibility of litigation, obviously," he explained, which means having "good policies and procedures in place that spell out the authority of supervisors and managers in handling their employees—hiring, disciplining and terminating employees."

A good training program and system of communicating those procedures to managers is needed, along with a strong employee education effort, Mr. Green said. "Better-informed employees obviously are less likely to be ones to cause problems for you."

Employment practices liability is a tricky exposure, he said. Like product liability, "it's a moving target. What's expected of you today may not be enough tomorrow because of some court case somewhere."

To stay on top of that exposure, Mr. Green attends at least two employment law seminars each year, subscribes to newsletters that cover the topic and uses the Internet to research employment law issues. That effort is necessary, he said, because "it's fertile ground out there for the plaintiffs' lawyers."

Most of Justin's primary property/casualty coverages are placed by El Paso, Texas-based Rogers & Belding Insurance Agency Inc. The Brants Co., a Fort Worth, Texas, broker, places D&O, excess layers and specialty coverages.

Justin's workers comp program is a large-deductible plan, with St. Paul writing statutory limits excess of a $250,000 deductible.

At times, Mr. Green has worked with brokers and insurers to develop specialty coverages.

Before Justin sold a subsidiary that made ceramic cooling towers, Mr. Green realized a need for a coverage that would pay to retrofit the units if they failed to meet contracted performance standards. Cooling towers are used in a variety of settings, from office buildings to nuclear power plants, to cool air with circulated water. American International Group Inc. developed an insurance product specifically for that risk. "It didn't have the word 'warranty' in it, but it pretty much was," Mr. Green noted.

Justin bought the coverage for five years and collected about $5 million on one claim to retrofit a tower at a Utah nuclear power plant. Considering the amount of premium paid for the coverage and the cost of the repairs, Justin realized about a $2 million savings, Mr. Green said.

On the property side, Wausau Insurance Cos. has written Justin's coverages for the past three years. The highly protected risk program includes a $25,000 deductible. "It's a blanket policy covering all our locations," Mr. Green said.

Justin's operations span eight states, with around 100 manufacturing, sales and distribution facilities. The properties are valued at about $330 million.

Mr. Green pointed out that the company's insurers not only write coverage but also serve as a resource to help make Justin's operations safer.

Wausau, for example, sends representatives to Justin's 35 manufacturing facilities once a year. "They do a report that comes to me. We keep those on file and send them out to the locations from here."

The reports often contain recommendations intended to improve safety and reduce losses. "We get some feedback from our managers on getting those recommendations implemented," Mr. Green said.

"We do the same thing with our casualty lines," he added. The casualty insurers' representatives usually visit the plants twice a year to do a "safety walk-through," meet with plant managers and participate in safety training programs.

Mr. Green's work to protect Justin's assets has impressed his boss.

"His knowledge of the insurance industry and the insurance markets could be his biggest strength," said Richard J. Savitz, Justin Industries' chief financial officer and the man to whom Mr. Green reports. "He's always on top of everything that's going on."

Mr. Savitz said his risk manager "needs little or no supervision. I trust he is constantly working on ways to do his job better, to protect the company." BI

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Green well-prepared for new beat at Justin

By MICHAEL BRADFORD

From the streets of Dallas to the plant floor at Justin Industries Inc., Jim Green is still on patrol.

And his mission is pretty much the same as it was in 1968: to protect and serve. Only this time around, he's protecting his company's workers and assets as its risk manager.

Mr. Green spent 10 years with the Dallas Police Department, the first three as a patrol officer, then three as a crime lab investigator. In his last four years with the department, he was the assistant director of research and planning and the assistant to the police chief.

At the same time, he was attending Texas Christian University, where in 1974 he graduated with a bachelor of arts degree in government.

Mr. Green's years with the police department constituted a tour of duty that prepared him for a career in risk management. "I think a lot of risk management is taking problems apart," Mr. Green explained. It's possible to analyze the various components of risk management much the way problems related to crimes and accident scenes are dissected, he pointed out.

His stint with the police department was followed by four years as a management consultant with Peat Marwick, Mitchell & Co. in Dallas.

"Jim's background prepared him to do a lot of things," said Richard J. Savitz, chief financial officer at Justin Industries. "He doesn't just handle risk management," Mr. Savitz said, pointing out that Mr. Green also is in charge of security for Justin's operations. He's the first one called when there are security-related problems at any of the company's locations.

In 1982, a job search consultant called Mr. Green to let him know that Justin was looking for someone to develop and head a security program. He asked Mr. Green for some names of candidates he could submit.

"So I gave him some names, and they interviewed them," Mr. Green recalled. The consultant called back and asked Mr. Green to submit his own resume, even though both knew the salary for the position was too low to be very attractive. After a little badgering by the consultant, who said he needed additional resumes for his client, Mr. Green agreed to submit his own.

That led to an interview. And while Mr. Green wasn't particularly interested in the salary connected to the security post, he had learned that Justin also was searching for an executive assistant to John Justin, who at that time held titles that included chairman of the board of directors, president of the boot-making and holding companies and several other titles.

> ***'Jim's background prepared him to do a lot of things . . . He doesn't just handle risk management.'***
>
> **— Richard J. Savitz**

"He was really overextended," Mr. Green said.

After three interviews, the company offered to kill the search for a security head and combine those responsibilities with the executive assistant's duties if Mr. Green would sign on.

The offer was to concentrate first on security and, subsequently, as he got to know the company and Mr. Justin better, to become an assistant to him and "attend meetings he can't go to and be places he can't be," Mr. Green said. "I thought that sounded pretty interesting, and I said, 'Yeah, I'll do that.' "

However, it didn't work out that way.

During the six weeks he remained at Peat Marwick to finish his duties there, a president was hired at Justin Industries Inc., "which changed everything," Mr. Green noted, because it meant the executive assistant chores were no longer so vital.

After a few months working in the security position, Mr. Green suggested to his boss, the vp of personnel, that because the original structure of his job had changed, he could take on some of the safety and insurance duties. With that suggestion, Mr. Green's job slowly but surely evolved into its current form.

As the years rolled by, Mr. Green became more active in his profession. In 1992, he earned the Associate in Risk Management designation from the Insurance Institute of America and has taught ARM courses at Tarrant County Junior College in Fort Worth.

He is active in the Dallas/Fort Worth chapter of the Risk & Insurance Management Society Inc., serving on the local group's board of directors and as legislative chairman.

Mr. Green has become recognized as the point man on legislative issues concerning Texas risk managers. He spends time in Austin, the state capital, representing employers on matters such as the rules dispute between Texas workers compensation insurers and the Texas Department of Insurance (*BI*, March 16). Mr. Green was among those who testified at hearings on the dispute, which ended with insurers agreeing to refund millions of dollars to policyholders.

In 1995, he led employers in drafting S.B. 391, a law that changed how some Texas employers were assessed for state guaranty fund payments. The law's passage saved Justin about $2.1 million and Texas businesses about $110 million.

"As a risk manager, you really need to be aware of what's going on in government," he said. "Every day, people at the state Capitol are making decisions that affect you. If you don't know what they are doing and you're not part of the process, you're not going to like what they're doing."

Mr. Green is an executive committee member of the Texas Assn. of Business & Chambers of Commerce and is chairman of the oversight committee of the Health Partners Task Force, a group of state businesses and associations that focuses on state and national managed care legislative issues. He also serves as a board member of the West Area Council of the Fort Worth Chamber of Commerce and is a board trustee for the Fort Worth Police Awards Foundation.

With all of that, and with frequent speaking engagements at local and national RIMS meetings, area civic organizations and business groups, it would seem Mr. Green has little time for anything else. But away from work, he can be found on the golf course or tennis court.

At the court, Mr. Green often has the best seat in the house in his perch as an official for the U.S. Tennis Assn. At this time of year, he's calling college and professional matches every month or so in Texas and Oklahoma.

Golf and tennis allow him to spend more time with his wife, Susan, who also is an avid player of both sports. The Greens have three children: two sons, ages 30 and 26, and a daughter, 20. BI



PHOTO: MICHAEL MARCOTTE

Jim Green's risk management department includes, from left: Cheryl Elliston, claims coordinator; Mr. Green; Carol Lewis, secretary; and Robert Greenlee, risk management engineer.

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RISK MANAGEMENT HONOR ROLL

A dose of preventive medicine for hospital risks

By RODD ZOLKOS

Mark L. Hubbard's risk management success is proof that forming the right relationships can go a long way to solving even the trickiest risk management problems.

Just trying to figure out the organizational chart of the Loma Linda University Adventist Health Sciences Center Inc. can be confusing enough. Imagine, then, trying to craft an integrated risk management program for its various entities.

Factor in that the Loma Linda, Calif.-based institution's core business is a teaching medical center known for pushing the boundaries of medicine in such areas as infant-to-infant heart transplantation and radiation therapy for cancer patients.

And add the fact that the risk management program has to cover 30 corporations associated with the LLUAHSC, their more than 10,000 employees and 3,000 students.

A tough job indeed, but Mr. Hubbard, vp for risk management and human resource management at Loma Linda, has gotten the job done and successfully assembled an integrated risk management program.

It's a state-of-the-art program in keeping with an institution involved in state-of-the-art medicine, be it the 1984 transplant of a baboon heart into a dying infant known as Baby Fae or the opening in 1990 of the world's first proton treatment center, a facility allowing more precise application of radiation therapy than with conventional radiation and without the debilitating side effects.

The medical center is just one of the entities under the Loma Linda University Adventist Health Sciences Center banner, along with the university, the medical school and the faculty practice. The institution has annual revenues in excess of $593 million.

"Loma Linda is a group of very different organizations," said Dr. J. David Moorhead, president and chief executive officer of Loma Linda University Medical Center. "And one of the big challenges for a university medical center is risk management."

"What Mark has done is put together a program that allows us to insure and defend as one entity all those individual entities," he said. "That's one of Mark's greatest contributions—he's organized this so that the institution deals with its risk management issues as one, and they're not fragmented into various factions."

"In today's market, it's absolutely imperative that you have some consistency and face the market in a consistent way," Dr. Moorhead said.

Loma Linda University Adventist Health Sciences Center President Dr. B. Lyn Behrens said, "We're just thrilled by what has been accomplished by having our own risk management program here, and Mark's leadership has been outstanding."

The quality of that program has lured from other organizations some staff members eager to be part of the risk management success of Mr. Hubbard and his department.

"I've known Mark since probably 1982 or so. We used to work at another organization," said Henry D. James, assistant vp for risk management at LLUAHSC. "We've kept in contact over the years, and when I had a chance to join the staff at Loma Linda and had a chance to review some of the things that he's done with the program here, you quickly come to the conclusion it was state of the art."

Mr. James joined Mr. Hubbard's team at Loma Linda at the start of 1996. "I came here from being risk manager at Southern Methodist University, and to be lured here from that position speaks highly of the program here," he said.

That program has earned Mr. Hubbard a spot on the 1998 *Business Insurance* Risk Management Honor Roll, representing not-for-profit entities.

In a medical institution setting, at the top of risk management concerns is professional liability, both in terms of covering and controlling exposures.

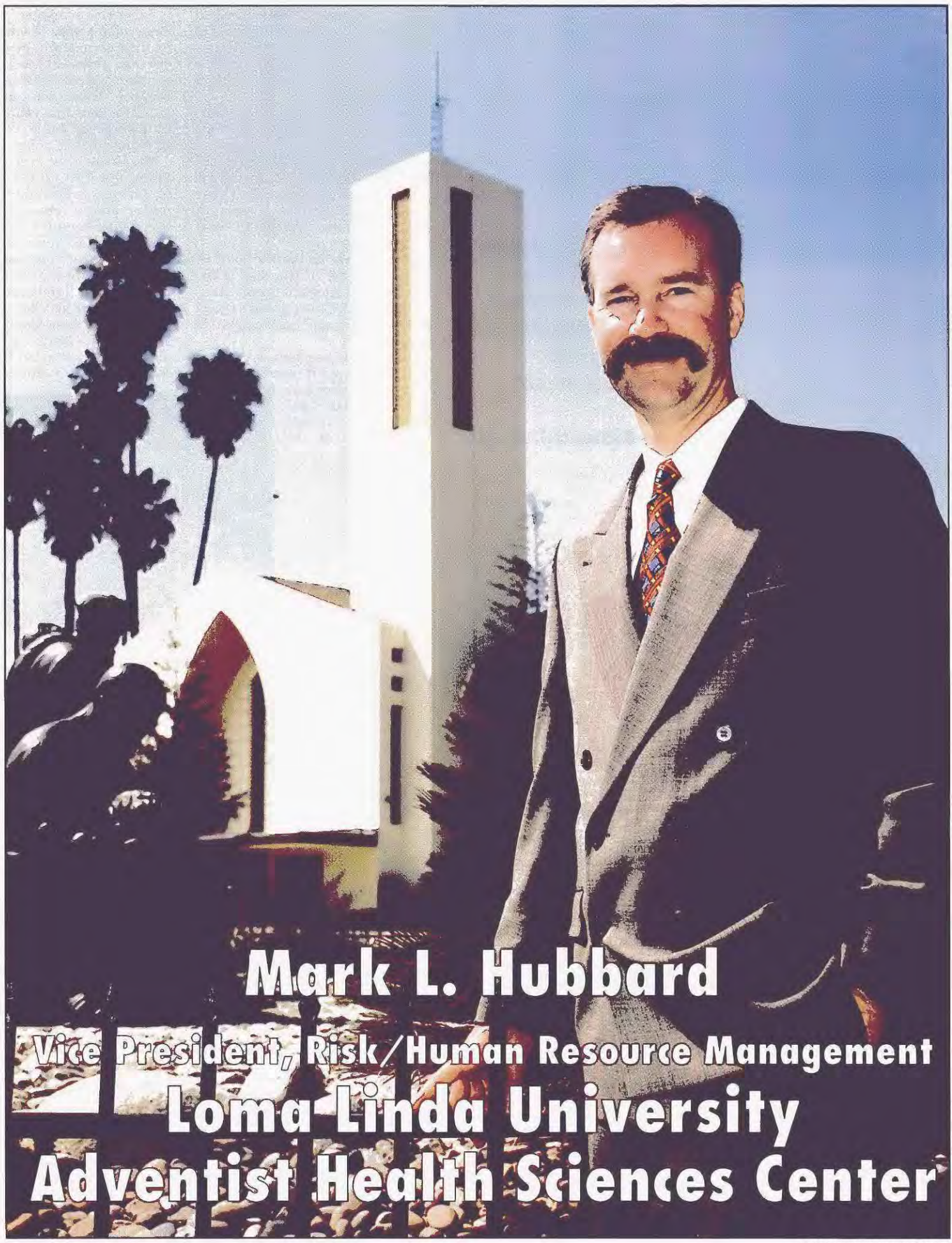


PHOTO: MICHAEL MARCOTTE

Both aspects can be tricky. For one, it can be difficult winning clinical staff over to the risk management program. Physicians can sometimes bristle at the information-sharing a risk management program demands and the policies it requires that staff follow.

But, said Dr. Moorhead, "I think, overall, Mark has been extraordinarily successful at making the case that everybody wins by having a well-organized institutional plan."

"Mark is a very professional person," said Dr. Thomas Zirkle, senior vp at the medical center. "When he came to the job, he was already very qualified. All through his tenure here he has presented a very professional approach to this thing, and I think that's something the physicians have noticed."

As with other aspects of his risk management program, Mr. Hubbard would suggest that much of the success in dealing with professional liability risks stems from forming relationships with those the program affects, something Dr. Zirkle affirms.

"He included the physicians," he said. "Mark has done his level best to keep the docs informed as he's gone through the various processes associated with risk management."

Mr. Hubbard believes taking a coordinated approach to loss control is essential to the success of the Loma Linda program.

"I think in a lot of organizations, there's kind of a broad-brush, scatter-shot approach to loss control," he said. "Loma Linda tries to apply a more formal approach."

Among other things, shortly after arriving at Loma Linda in 1985, Mr. Hubbard emphasized the need to bring two additional areas under his department's risk control responsibility: patient relations and clinical risk management.

Patient relations was added to risk management in 1988. Under the current system, patient relations staff, now part of the risk management department, meet with patients or patients' families who have complaints that aren't satisfied by staff in the patients' hospital units.

After review, any medical malpractice complaints are referred to the risk manage-

Continued on next page

Continued from previous page
ment department's professional liability claims staff for resolution.

In 1989, Mr. Hubbard's department added the clinical risk manager position to identify clinical risk management issues and consult on those issues with patient care staff.

"What hits the physicians the closest is the litigation environment," said Deanna Walters, the clinical risk manager. "Risk management to them essentially means paying money for their insurance and then dealing with all the litigation stuff."

By having Mr. Hubbard work on the insurance part of clinical risk management and Ms. Walters work on loss-prevention in the clinical setting, the structures, systems and monitoring procedures have been put in place to avoid and reduce litigation.

When Loma Linda physicians do face litigation, "we're there to support them all the way through, from the commencement of the claim to the very final disposition of the claim," Ms. Walters said. "We're in it with them, and they know that we're there and they have our undivided support. So they know that we take this business very seriously and we're very fair in how we handle our program."

"We're very, very diligent in doing our discovery, just like the plaintiffs' community," she said. "We work up our cases and we look for all the elements, we look for all the details, we do all the fact-finding, we look up all the records."

"And depending upon how we line up there, if it's a defensible case, they know that we're going to be right there with them until the end," Ms. Walters said. On the other hand, she said, "if we owe it, we pay it. We're not going through the agony and the misery and the inefficiency of going through the legal system if we owe it."

"We're very committed to fairness, but we don't buckle to blackmail," Mr. Hubbard said. Loma Linda used to litigate few claims, but today "we're on trial a lot."

"One of the results is that the physicians see us as their ally in trial," he said. "The physicians, I think, in particular have appreciated that they're not standing in the courtroom on their own."

And while Loma Linda might go to trial more often these days, the result is that the number of groundless cases has dropped.

"Being able to appropriately and aggressively handle our claims, the frivolous suits have diminished considerably," Dr. Behrens said.

When there is a need to take responsibility, Loma Linda will do so, she said. "I've watched Mark remind us, 'If this is not defensible, we need to acknowledge that and do what's appropriate.' "

But, she said, "when it is clearly defensible, Mark and his team have been outstanding at handling that."

The clinical staff clearly recognizes the significance of the risk management department's contribution. While Dr. Zirkle jokes that physicians "will call him 'the bad guy,' in quotes," he's quick to note they realize the risk manager is working in their best interests.

"In some environments (the risk manager) is really the enemy," Mr. Hubbard said.

> ***'We don't go into any insurance relationship with the expectation that we're going to be able to pay a little bit of premium and collect a lot of losses or burn the market.'***
>
> **— Mark L. Hubbard**

"Here, it's just the opposite. They don't even want to tie their shoes without asking us."

The other key element of Mr. Hubbard's work dealing with Loma Linda's professional liability issues is the self-insurance program he's engineered.

Before he came aboard in 1985, Loma Linda purchased professional and general liability insurance from conventional markets. But today it self-insures those exposures through a not-for-profit trust and a Vermont captive (see related story).

By all indications, the move has generated millions in savings while giving the organization greater control over its program.

In putting together the trust and, later, the captive, Mr. Hubbard suggests that one of his best moves toward guaranteeing their success was including key Loma Linda administrators and others most affected by the insurance program on the entities' boards.

Mr. Hubbard jokes that one drawback is that today he can't bluff those administrators on insurance matters; they can readily evaluate the implications of claims-made vs. occurrence-based coverage, for example.

"We sort of take it for granted because it's the way we do business, but I really think in the typical organization the senior management is not as knowledgeable of these various areas and there isn't that commitment of the senior management," Mr. Hubbard observed.

"He probably gives us more credit than we deserve, because as clinicians and people who, hopefully, have some expertise in health care, we are in no way risk management experts," Dr. Moorhead said. "But I think that's another thing Mark brings to the table—he's able to communicate things in such a way that those who are not risk management experts can understand it."

"The learning curve was very steep for all of us to begin with," Dr. Behrens said. "And we were blessed by having someone like Mark here to work with."

She has served on the trust board for 11 years and puts the experience in an appropriately academic context. "Learning as we go," she said, "it's sort of like a practicum."

According to Raul E. Castillo, manager of insurance in the risk management department, the importance of Mr. Hubbard's efforts to win those key players' support for the self-insurance program becomes clear at board meetings.

"I've seen it now sitting in on some of those board meetings where a certain individual might be a lot worse off because of a certain decision the board made, but he understands overall the concept that we're trying to accomplish," Mr. Castillo said. "I think it really takes a team approach to realize that maybe I'll have to suffer a little bit this year, but overall, I'll be better off for it."

Relationships also have been essential in Mr. Hubbard's approach to the coverages he does place in the commercial market.

That's reflected in the 10-year relationship the organization has had with its broker, Marsh & McLennan Inc., now J&H Marsh & McLennan Inc.

"In developing those long-term relationships, of course they become very knowledgeable about our organization and what we're doing. That means, presumably, they can do a better job of representing our interests in the insurance markets," Mr. Hubbard said.

"Loma Linda is what I would describe as a conservative organization in terms of our corporate culture and management style," the risk manager said. "We value long-term business relationships, and, for the same reasons I outlined with Marsh, when we get into a relationship with an insurance company, we very much view it as a partnership."

"We recognize that over the long run, insurance in many lines of business just becomes sort of a banking transaction. That insurance company, hopefully, is going to level off some peaks and valleys in your loss experience," Mr. Hubbard said.

And, he said, Loma Linda recognizes that over the long term, most insurers hope to make some sort of profit.

"We don't go into any insurance relationship with the expectation that we're going to be able to pay a little bit of premium and collect a lot of losses or burn the market," he said. "We know that, long term, that just doesn't work."

The payoff, Mr. Hubbard says, is that "when you have a 10-year relationship with an underwriter and the market starts to firm up, I really believe most underwriters relate to you differently. You're not the first client to be canceled or receive a premium increase."

Those relationships, such as a 13-year association with Employers Reinsurance Corp. and a 10-year-plus association with Allendale Insurance Co., also have resulted in Loma Linda getting the benefit of the doubt in some claim situations as well as superior service and a willingness by the insurers to invest their own resources in loss control efforts at Loma Linda, the risk manager contends.

"We don't take those relationships lightly. We certainly want and expect that those partners that we have as underwriters are competitive, just as we expect to be competitive in the services that we sell," Mr. Hubbard said. "But we don't necessarily expect that they will have the lowest price in the market every single year, and we don't take our activity out to bid every year," he said. "We don't think that makes sense. Because there is really more to the insurance market than just price."

There's one other relationship Mr. Hubbard cites as helping him achieve his risk management goals, whether it's pricing insurance or helping defend malpractice claims—his relationship with the Loma Linda organization.

"It certainly is nice to be risk manager for an organization like Loma Linda, because we enjoy such a great reputation that it makes it easier to negotiate terms in the market," he said. "We get a lot of good press, which is very nice for a risk manager." BI

Self-insuring gives center savings, control

By RODD ZOLKOS

At the heart of the risk financing program for the Loma Linda University Adventist Health Sciences Center is the mechanism Mark L. Hubbard engineered to self-insure liability exposures.

Before 1985, Loma Linda purchased its primary layers of general and professional liability coverage in the commercial market. But Mr. Hubbard, vp for risk management and human resource management for the Loma Linda institutions, recognized the potential for long-term savings if the institution could self-insure those exposures.

The approach he crafted involved the creation of a not-for-profit trust as the funding vehicle for the primary layer liability coverage and a Vermont-domiciled captive to take on the first excess layer.

"The big issue for us, of course, being a health care provider, is the general and professional liability," Mr. Hubbard said. "We are self-insured up to the first $3 million per occurrence."

That self-insured layer is funded through Loma Linda's Professional Liability and General Liability Trust, with the next $22 million per occurrence, $44 million aggregate, covered through the Vermont captive, University Insurance Co. of Vermont, which in turn reinsures the entire amount to Employers Reinsurance Corp.

The second excess layer of general and professional liability coverage, $25 million excess of $25 million per occurrence, is provided by Zurich American Insurance Group, with the third layer, $50 million excess of $50 million, written by X.L. Insurance Co.

While the self-insured liability claims were initially handled by a third-party administrator, in 1988 Loma Linda hired additional claims staff and brought the claims handling into the risk management department.

The self-insurance program and the risk-control programs that accompanied it have met their goals of reducing Loma Linda's costs.

From 1991 through 1994, the PL Trust waived premium payments from Loma Linda units because of the funding that had been accumulated with improved loss performance.

What's more, the direct access to the reinsurance market the captive provides has generated additional savings, estimated at $5.5 million in the 10-year period since its formation in October 1987.

The overall result, according to Henry D. James, Mr. Hubbard's assistant vp for risk management, "brings out the point that you can sort of control your destiny by getting more involved in the risk financing side of it."

The Loma Linda institutions also self-insure their workers compensation exposures, having done so since 1975, and since 1976 they have self-administered workers comp claims as well. Excess workers comp coverage to statutory limits above a $300,000 deductible is placed with Employers Re.

Two programs Mr. Hubbard recommended that ultimately were adopted—an abilities accommodation program and a temporary work assignment program—have helped reduce Loma Linda's workers comp costs by allowing injured workers to be placed on either a temporary or longer-term basis in jobs consistent with the limitations their disabilities impose.

"We put virtually everybody back to work," said Elizabeth Schnarr, manager of workers compensation in Mr. Hubbard's risk management department.

A study by Ms. Schnarr of disability claims from 1991 to the present showed the programs have reduced temporary disability costs by nearly 60%. "That's pretty significant because of the hidden costs that are reduced, too," she said.

"I was really pleased to see this year that of the 950-odd claims we have, we only had about 140 that were associated with any days off," Ms. Schnarr said. "That's pretty astounding, and obviously reflects the temporary work assignment program."

Getting injured workers back into the workplace quickly keeps them in the working mind-set, Ms. Schnarr suggested.

"It keeps people from being deconditioned, it takes their mind off litigation, it lets them know that their employer really cares for them and, actually, I think it cuts the length of the medical care, also," Ms. Schnarr said. "When somebody's sitting around feeling sorry for themselves, they start fabricating things."

Other coverages in Loma Linda's program include $5 million per occurrence, $10 million aggregate trustees errors and omissions coverage with Executive Risk Indemnity Inc. with a $50,000 deductible; and professional liability coverage for other miscellaneous professionals with Reliance Insurance Co. of Illinois with $1 million per occurrence/aggregate limits and a $25,000 deductible.

Directors, officers and trustees liability coverage is placed with Executive Risk Indemnity, with limits of $25 million per occurrence/aggregate and a $200,000 deductible.

Property coverage on $1.2 billion in real and personal property is placed directly with Allendale Insurance Co., with limits and deductibles varying on a schedule of the various Loma Linda properties.

Earthquake coverage of $10 million excess of a $25 million deductible is with Allendale, while a $40 million excess layer is placed with various carriers.

Commercial crime coverage with Travelers Property/Casualty Corp. carries $5 million per occurrence/aggregate limits and a $100,000 deductible.

Automobile liability coverage placed with Zurich-American Insurance Group has $1 million per occurrence limits and $500 collision and $250 comprehensive deductibles. Excess auto liability also is placed with Zurich American with $24 million in limits.

See **Self-insure** *on next page*

Self-insure

Continued from previous page

The Loma Linda institutions own no aircraft but carry aircraft liability coverage for losses in connection with the hospital's helipad.

Primary non-owned aircraft liability is with U.S. Aircraft Insurance Group, with $5 million per occurrence limits. A $15 million excess layer is with Lloyd's of London underwriters and insurance companies worldwide, as is a $20 million layer above that. A final $50 million excess layer is with Lloyd's underwriters. MEDMARC Casualty Insurance Co. provides products liability insurance for the Loma Linda University Medical Center's proton beam therapy system. Limits are $3 million per occurrence/aggregate with a $100,000 deductible.

The Health Sciences Center's Vermont captive is managed by SB&T Captive Management Co. in Burlington, Vt.

J&H Marsh & McLennan Inc. is the broker for most of the Loma Linda institutions' coverages, except the property coverage, placed directly with Allendale, and primary aircraft and certain miscellaneous professional liability coverages that are covered through the worldwide master policy of the General Conference of Seventh-day Adventists.

Loma Linda uses the broker's services "appropriately," Mr. Hubbard said, noting that the expertise to be found on the risk management department's large staff makes it possible to do many things in-house.

"A lot of the routine things we don't go to them with because we do have insurance professionals that work here that are quite capable of reading an insurance policy and making an accurate determination of whether insurance coverage would apply," the risk manager said.

> ***Sometimes when technical issues arise, the broker has 'far more depth than we do. Then we do call upon their expertise.'***
>
> **—Mark L. Hubbard**

"But there are times when there are technical issues that develop, for example, that they have far more depth in than we do. Then we do call upon their expertise, and they're a good fit for us, because, obviously, being the world's largest insurance broker, they have the ability to bring in expertise from any number of locations."

One good recent example is with the proton beam therapy system, he said.

"There was a question whether coverage would apply under the standard CGL form, and Marsh ended up referring the matter to one of their technical experts in Chicago who did a lot of work on nuclear power generators," Mr. Hubbard recalled.

Ultimately the broker determined that the facility's CGL coverage would apply. But, Mr. Hubbard noted, "We ended up, because of the unique nature of that particular product and because we have licensing rights to some of that technology, purchasing product liability coverage for the system in the market."

Probably the greatest sort of value-added benefit the Loma Linda facilities get from their broker is "market intelligence," Mr. Hubbard said.

"We're not in the business of marketing insurance here. They know obviously which markets to approach, and they know what the pricing and other terms and conditions are in the marketplace and how our terms and pricing compare with other clients," he said. "That is expertise that we don't have in-house, because that's not what we do. So that's the area where we really get value added from that relationship."

Staff appreciates Hubbard's management style

Other managers praise his accessibility, trust

By RODD ZOLKOS

Loma Linda University Adventist Health Sciences Center Inc. comprises complex, far-flung operations.

It probably follows, then, that the organization's risk management and human resources management department should itself be a large and wide-ranging operation.

As vp for risk management and human resource management at LLUAHSC, Mark L. Hubbard is charged with heading an operation that includes the traditional risk management, insurance administration and claims handling for self-insured programs.

In addition, he oversees the Loma Linda institutions' employee benefits functions and human resources, as well as other functions related to risk management and human resources.

Mr. Hubbard has ultimate responsibility for a 52-person risk management department, and he has administrative responsibility for the human resource management department, the education and training department, the department of hazardous materials safety, and LLUAHSC's employee assistance program.

With such extensive responsibility, he knows he has to rely on his managers and their staffs.

He cites two significant factors for his program's success. One is the support of senior management. The other, an offshoot of the first, is the ability to recruit quality staff.

"I've long ago figured out that the way to be successful is to surround yourself with good people," Mr. Hubbard said. "I've been very, very fortunate. There are a lot of very good people that have been here for a long time, and they're very much professionals. It makes my life easier."

"He's put together a crew that frankly doesn't require much management," said Dr. Thomas Zirkle, senior vp at the Loma Linda University Medical Center. "He has set out the program and the policies, and his staff knows what to do. He's also very accessible to them at all times."

"One of the greatest challenges is to surround yourself with team players that are going to bring the greatest strength to your operation," said Deanna Walters, manager-clinical risk in the risk management department. "I think that's one of Mark's great talents. He's got a tremendous gift of being able to do that."

Mr. Hubbard also has a keen eye for knowing just what sorts of strengths different positions require, Ms. Walters suggested.

Her own situation is an example.

"A big part of my role is to be actively involved with the physicians, nursing, all the clinical staff, all the ancillary and support staff on the campus," she noted.

Connections with clinical staff can be particularly tricky for a risk management department in a health care institution, but Ms. Walters came to the risk management department with relationships she already had established as manager of the medical center's quality assurance program.

When creating a full-time clinical risk manager position in his department in 1989, Mr. Hubbard recognized the value of the relationships Ms. Walters could bring.

> ***'I feel very comfortable and free to be innovative and creative bringing new things to Mark, who always has a very, very receptive ear.'***
>
> **—Dick Garner**

"The other thing that's neat about him in that respect is that he is extremely generous in giving the credit to his managers, complimenting and giving the praise to his managers for the contributions that they make to the whole operation, the whole program," Ms. Walters said.

In addition to Ms. Walters, other managers and key people in Mr. Hubbard's department include: Henry D. James, assistant vp for risk management; Raul E. Castillo, manager of insurance; Elizabeth Schnarr, manager of workers compensation; Jean Fankhanel, coordinator of patient relations; Sharon Blinci, manager of employee benefits; William Russell, manager of property and casualty claims; Jerry Johnson, manager of accounting; and Donald Bender, manager of loss control/safety.

Dick Garner is administrative director of human resource management; William Pote is director of education and training; George E. Johnston is executive director of environmental health and safety; Donna Gurule is director of hazardous material safety; and Katherine Thompson-Moore is interim director of the employee assistance program. Claudia Miller is administrative assistant in the department.

In discussing Mr. Hubbard's management style with those who report to him, two consistent themes are his accessibility and the wide latitude he provides staff members to do their jobs without interference. With some staffers having spent two and even three decades working for Loma Linda, both aspects of his style are much appreciated.

"He gives us guidance," said Ms. Schnarr, a 20-year veteran of the risk management department. "But with some of us who've been here so long if we have a problem, we go to Mark if we think it will affect some other area. But otherwise he pretty much leaves us to run our own departments."

"Mark is a very participative leader/manager. I feel very comfortable and free to be innovative and creative bringing new things to Mark, who always has a very, very receptive ear," said Mr. Garner.

"I wouldn't say it takes a lot to gain his confidence. You have to gain his confidence, but once you do gain his confidence ... he trusts your judgment. We certainly appreciate that," said Ms. Blinci, who credits her experience with Mr. Hubbard with helping her grow as a manager.

"For me he has been a very good mentor," she said. "I've learned a lot from him and his expertise. Just sitting back and watching his way of doing things has been good for me."

"As far as his leadership, he's got an open-door policy," Ms. Blinci said. "He might be busy with a lot of meetings, but if you catch him, he'll never not take the time to deal with you."

Even before he began reporting to Mr. Hubbard about four years ago, Mr. Johnston, the executive director of environmental health and safety, says he recognized the risk manager as an excellent administrator.

"Since I've been reporting to him, I've appreciated the fact that he's open to me, and at the same time he conveys to me the impression that he's comfortable in allowing me a lot of latitude," Mr. Johnston said. "I've never felt constrained at all; I've always felt supported. I've never felt there was anything that's come up that I couldn't go straight in and talk to him about."

Mr. Hubbard's status as an officer of the institution also is a benefit to those reporting to him, staff members say.

"He has a lot of responsibility now as vice president of the medical center," observed Ms. Schnarr. "In a lot of ways that's really beneficial to us, too, in that I think sometimes we're more aware of what's going on."

At the same time, Mr. Hubbard's approach to his various administrative functions around the Loma Linda campus benefits his staff and department in other ways, some suggest.

"He kind of stays out of some of the day-by-day administrative pushing and shoving that goes on and keeps the department just separate from that," Dr. Zirkle said. "It gives (the department) more stature, I think." BI



PHOTO: MICHAEL MARCOTTE

Members of the risk management and human resource management departments at Loma Linda University Adventist Health Sciences Center Inc. include, front row, left to right: Donna Gurule, director-hazardous material safety; Deanna Walters, manager-clinical risk; Katherine Thompson-Moore, interim director-Loma Linda employee assistance program; Elizabeth Schnarr, manager-workers compensation; Sharon Blinci, manager-employee benefits; and Raul E. Castillo, manager-insurance. In the back row, left to right, are Mark L. Hubbard, vp-risk management and human resource management; Donald Bender, manager-loss control/safety; George E. Johnston, executive director-environmental health and safety; Claudia Miller, administrative assistant; William Russell, manager-property and casualty claims; Henry D. James, assistant vp-risk management; and Jerry Johnson, manager of accounting.

Risk management exposure leads to career

By RODD ZOLKOS

An interesting learning opportunity turned Mark L. Hubbard's career path toward risk management and led him to the helm of a state-of-the-art risk management program at a world-renowned medical center and teaching facility.

While working on his bachelor of science in business administration at Pacific Union College in Angwin, Calif., in 1980, Mr. Hubbard considered several business-oriented jobs before being drawn to Gencon Risk Management Service in Riverside, Calif. Gencon was the risk management operation for the world headquarters of the Seventh-day Adventist Church.

"I actually had interviewed with a whole number of companies, banks and a number of companies that came to the college to interview students," the 40-year-old Mr. Hubbard recalled.

"The reason I ended up with Gencon was that they had a very formal internship program that I felt really offered a very wonderful learning and educational opportunity," he said. "I spent a year in that internship program basically just getting the benefit during most of that time."

Moving from department to department within the operation, Mr. Hubbard gained experience with Gencon's captive operation, self-insured program administration, claims handling, field services, computer operations and various other aspects of the property/casualty insurance business.

Mr. Hubbard was with Gencon—now known as Adventist Risk Management—until 1984.

As a risk manager at Gencon from 1980 until 1983, he worked as an account executive and risk management consultant for private schools and hospitals across the country, identifying exposures and providing recommendations for handling the risks.

He also evaluated insurance coverage, reviewed contracts, assessed self-insurance feasibility, and conducted loss control surveys and recommended ways to reduce exposures.

In 1983, Mr. Hubbard became manager of Gencon's Insurance Services Division, managing the property/casualty underwriting program for its captive, directing the marketing of coverage placed with other insurers, supervising the marketing and underwriting staff, administering self-insurance programs and helping develop new products.

Along the way, he would become acquainted with a top executive at another Adventist facility, this one on the health side, Adventist Health System/West in Glendale, Calif.

> ***'I felt that my real strength was in risk management, and I wanted to take advantage of what I had learned in the insurance business.'***
>
> **—Mark L. Hubbard**

"He came to talk to me and said, 'Hey, would you be interested in coming to work for us?' " Mr. Hubbard said. "I did, and it was a good experience."

As a senior marketing representative at Adventist West in 1984 and 1985, Mr. Hubbard got a taste of the health care business.

"I was involved actually in the development of managed care programs there, HMO and PPO contracting, that sort of thing," he said.

"That corporation at the time was trying to set up an HMO, and they were involved in helping hospitals contracting with payers," Mr. Hubbard recalled. "That was in the early '80s, when all that stuff was really new and everybody was trying to figure out the alphabet soup of HMOs, PPOs, all that sort of thing."

In addition to negotiating third-party payer contracts, assisting in the development of a statewide preferred provider organization and directing hospital and physician recruitment, Mr. Hubbard also conducted managed care educational presentations for employers, hospital administrators and physicians.

All wound up being useful experiences for his next position.

"When I came to Loma Linda, it turned out that background proved to be quite helpful, because when I got here the risk management department had some benefit responsibility," Mr. Hubbard said. "So that was a good fit with my experiences at Adventist Health System/West. And not long after I got here, for example, we set up a PPO to cover the employee population."

It was the year after joining Adventist West, in 1985, that the Loma Linda position beckoned and Mr. Hubbard realized where he wanted to go with his career.

"It was truly risk management," Mr. Hubbard remembers. "So I made the move away from West, because by that point I felt that my real strength was in risk management, and I wanted to take advantage of what I had learned in the insurance business."

Loma Linda University Adventist Health Sciences Center already had an established risk management program when Mr. Hubbard came aboard in 1985 as director of risk management. In 1990 he was named a vp for risk management, and about four years ago his title was broadened to vp for risk management and human resource management.

"So I came into a department that already had a well-established foundation," he said.

Longtime Loma Linda Risk Manager Stanton Parker, now retired, created the department and ran it for 10 years, a tenure Mr. Hubbard has now exceeded. "It's kind of hard to imagine that I've been here longer than he was," Mr. Hubbard said.

With Loma Linda, he said: "I started out initially with pretty much the property and casualty piece and some benefits administration. Then with the development of the self-insured programs and some other activities, it evolved into a more comprehensive risk management program."

Mr. Hubbard is a native Californian, though he's originally from the northern portion of the state, born in San Pablo and growing up in Vallejo.

He and his wife, Linda, and their 13-year-old son and two daughters, ages 9 and 7, live in Redlands. In true California style, they are great fans of just about anything outdoors.

"We have a lot of outdoor interests," said Mr. Hubbard, who also is a golfer. "We go camping every year, we go fishing every year. We like to get outdoors."

"We've got a boat, we get out on that as well, water skiing. One of the luxuries of living in California is those outdoor activities." BI

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Hubbard's success brings expanded duties

Human resources now under his direction

By RODD ZOLKOS

Since joining the Loma Linda University Adventist Health Sciences Center Inc. in 1985, Mark L. Hubbard's responsibilities have consistently broadened.

"When Mark was first here, he didn't have all the patient relations, and human resources, safety, the employee assistance program," said Henry D. James, assistant vp for risk management at LLUAHSC. "There's an old adage that the more successful you are, the more that gets piled on your plate—and that happened."

One of the responsibilities added to Mr. Hubbard's plate about four years ago was human resource management, and his previous title of vp-risk management was changed to vp for risk management and human resource management.

Administrative responsibility for Loma Linda's Human Resource Management Department dovetails nicely with his risk management responsibilities, Mr. Hubbard said. It's a move consistent with calls in some risk management quarters for greater integration of the two functions.

For example, there are common issues and a need for coordination in areas such as workers compensation claims management, Mr. Hubbard said.

"It's very important there be a good working relationship and communication between the workers comp claims staff and human resources and employment," he said.

It's also important that the functions coordinate well when employment practices or directors and officers liability claims arise from employment situations, the risk manager said.

"These are all multifaceted issues that touch on all these individual areas," he said. "For those reasons, it seemed increasingly logical to senior administration to put these two pieces together."

Mr. Hubbard said he thinks it's easier to develop the good working relationship necessary to deal with those situations when all the managers have the same reporting relationship.

> ***'There's an old adage that the more successful you are, the more that gets piled on your plate—and that happened.'***
>
> **—Henry D. James**

Dick Garner, administrative director of human resource management at Loma Linda, said that through his dealings with Mr. Hubbard he has learned a tremendous amount about workers compensation and other aspects of the risk management process that relate to human resources.

"I think Mark is extremely innovative himself in the area of health plan administration and all of the risk elements that go along with it," Mr. Garner said. "His direction is well-received; he is respected for what he does—not only with risk management but across the campus as he supports the human resource function."

As do other employers, Loma Linda faces potential exposures under the Americans with Disabilities Act, employment practices, wrongful termination or civil rights claims, and "having the risk manager overseeing the human resources area is a huge advantage," Mr. James said.

"He is at the forefront of not only administering programs to manage these risks, he's also in a position to receive information firsthand about any problems and control any problems," the assistant vp said. BI



PHOTO: MICHAEL MARCOTTE

Mark L. Hubbard, center, reports directly to B. Lyn Behrens, left, president of Loma Linda University and of Loma Linda University Adventist Health Sciences Center Inc. Also pictured is J. David Moorhead, president and chief executive officer of Loma Linda University Medical Center.

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RISK MANAGEMENT HONOR ROLL

Molloy aims to manage risk by the numbers

By MARK A. HOFMANN

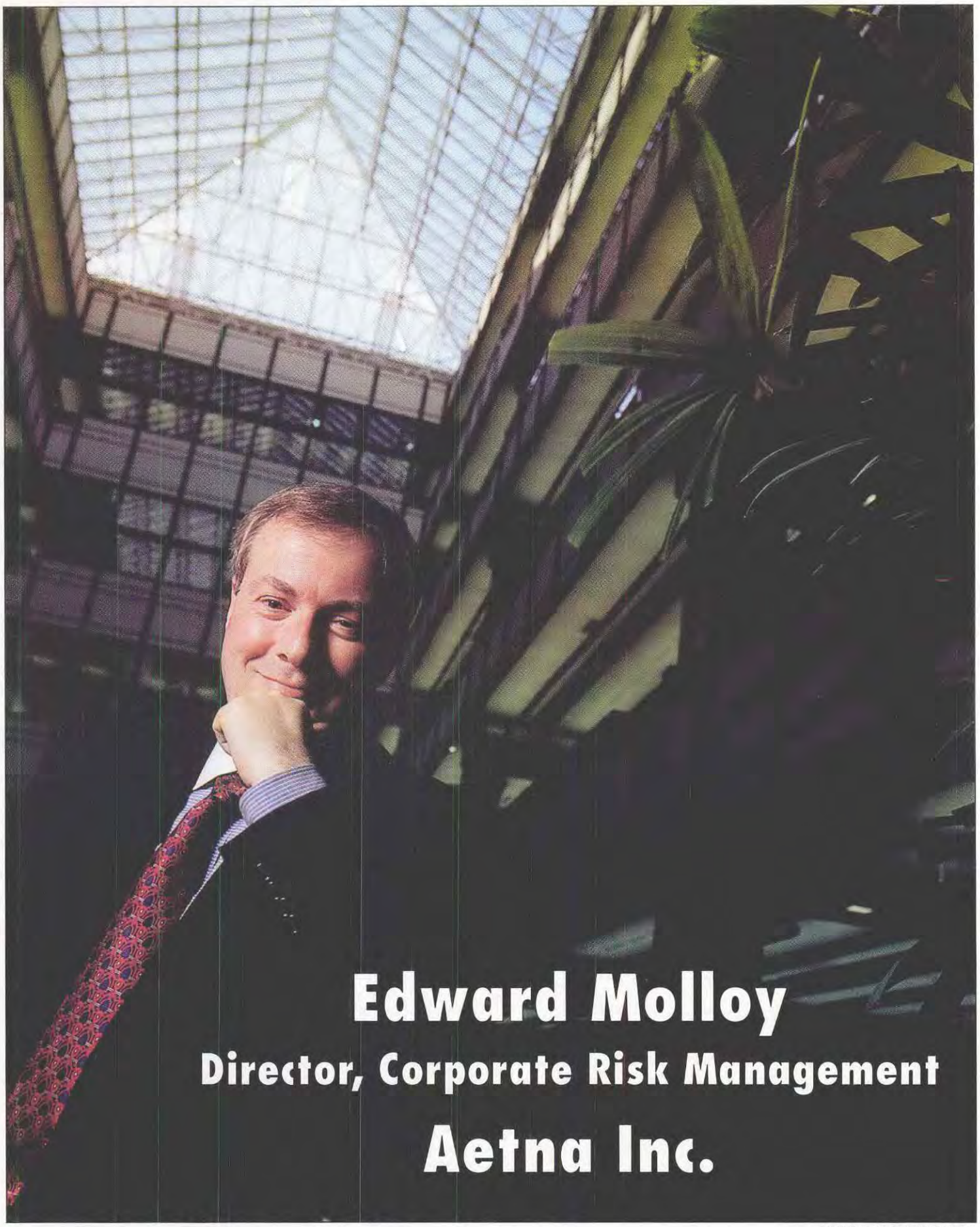


PHOTO: MICHAEL MARCOTTE

Edward J. Molloy says that being a lifelong Boston Red Sox fan has definitely influenced his approach to risk management.

"I believe that being relentless can mean a win for the home team. I think that's what a lot of risk management's about—consistency, constancy, constant striving and relentlessness in pursuit of a goal," said Mr. Molloy, who has been director of corporate risk management for Hartford, Conn.-based Aetna Inc. since 1993.

That approach has paid off for Mr. Molloy and his employer, for during his tenure as Aetna's risk manager, Mr. Molloy, among other things, has:

- Created a Bermuda-based captive insurance company to reinsure liability risks associated with Aetna's managed care operations (see story, page 123).
- Executed a portfolio transfer of corporate risks associated with the sale of Aetna Casualty & Surety Co. to Travelers Corp. (see story, page 124).
- Stressed quantitative analysis in his approach to risk management.
- Promoted a collegial approach to risk management, including the creation of an internal risk management committee with representatives from several other departments.

Mr. Molloy's achievements earned him a place on *Business Insurance*'s Risk Management Honor Roll, representing financial institutions.

And Mr. Molloy is a relative newcomer to risk management. For two decades, he held various positions in the nuclear energy industry, including a stint with the United Nations agency that investigated Chernobyl in 1986, as part of the International Atomic Energy Agency.

Those experiences have enhanced Mr. Molloy's effectiveness in his present job, pointed out one of his two principal brokers.

"The fact that he does not come from the insurance industry is a positive, because he brings a fresh look to problems," said Lee A. Paige, senior vp with J&H Marsh & McLennan Inc. in Boston.

Because of Mr. Molloy's engineering background, he is "driving for a quantitative basis for decision-making," added Mr. Paige.

Mr. Molloy said promoting a quantitative rather than intuitive approach to risk management forms one of his biggest challenges.

"I'm continuing along the process of making this department a much more quantitative department. I want us to move this department into a position where it's helping our businesses with reinsurance more. I'd like to see the department become—as part of the finance department—more involved with balance sheet risk analysis; whether it's insurance or other vehicles, capital market vehicles, I'd like to see us more involved, and I think it will happen."

Alfred J. Quirk, Aetna's vp-corporate finance, said Mr. Molloy has already created "more synergies with other areas of finance."

"I feel that risk management has been a very intuitive process. I've seen a lot of risk managers buying insurance based on their intuition. I've tried to move it into a quantitative analysis," Mr. Molloy said.

For example, one of the members of the risk management staff recently published a paper on Monte Carlo simulations, said Mr. Molloy.

"A Monte Carlo simulation is based on probability. If you know your losses and you've got a loss history, what by chance could be the worst-case and the best-case scenario for a loss picture. Let's just say that your loss last year was $100,000 on that property. But you have 50 other properties, and they have losses ranging from maybe $2,000 to $20,000. If you have the statistics, and you have the capability of doing the analysis in-house, you can basically accurately predict, within 95%, what the future losses are, based upon that whole portfolio of properties," he explained.

Mr. Molloy said that such quantitative analysis has allowed Aetna "to predict what the best deductible would be. The results have been stunning. Just as you would expect, we've been able to pinpoint the best deductible, where the premium credits for buying insurance are such where it makes sense for us to do it."

Aggregation of risks is also a key tenet of Mr. Molloy's risk management philosophy that meshes well with the emphasis on quantitative analysis.

"As we aggregated policies, we quantitatively assessed at what level we should be buying insurance. I think in this company the bottom of the whole thing is: Are we getting the best deal? The efficiency of the program means that we're not trading dollars with an insurance company; we're really protecting the catastrophic risks to the company."

An emphasis on cooperation inside and outside the risk management department is a third tenet of Mr. Molloy's approach to risk management.

'I think basically the biggest achievement since I became risk manager in 1993 is that I—as well as the management whom I'm working with—really wanted to bring together the people in the company who were doing risk management, whether they worked on the businesses or whether they worked in corporate or wherever they worked. We had separate risk management programs; it was just necessary to have someone who was pulling together the fractionated operations," said Mr. Molloy.

Mr. Quirk, who is the risk manager's immediate supervisor, agreed.

"We have a centralized risk management program. What Eddie has brought to the table is building relationships with the three major businesses: health care, retirement and international," he said.

"Within each one of our businesses under our financial operations today, we have people who are very heavily involved in the business risk analysis. My job is to really work well with them, particularly the chief financial officers of our businesses," said Mr. Molloy.

"So that's been one of the big achievements is to set up a project management focus, a teamwork with them, that we don't do things precipitously, that we work and make a decision. It might take us a longer period of time, but it's well thought-out," he said.

Mr. Molloy's emphasis on working out problems in a collegial manner is perhaps nowhere more evident than in his role in

Continued on next page

Continued from previous page
creating a formal Risk Committee in 1996, after the risk management department was moved into the finance department.

The committee, chaired by Aetna's chief actuary—Alastair Longley-Cook—consists of representatives from the finance, actuarial, legal, tax, corporate services and business units. The committee met monthly, until recently, to discuss strategic risk issues, said Mr. Molloy.

As a result of the committee's meetings, the company determined, for example, what the maximum retention could be. Business units also were able to determine what their individual business risks would be, he said.

"We had a real picture of what the business risks were, as well as the potential casualty risks."

Although the committee hasn't met recently because of some management changes, its existence helped raise the corporate risk management operation's profile within Aetna and enhanced its involvement with Aetna's overall business strategies.

Even without the formal framework of a monthly committee meeting, Mr. Molloy's efforts to promote a group approach in dealing with risk management issues continue.

"I talk daily with our financial officers in the various businesses. They're handling the business risks and, in some cases, they might need to reach out to have somebody to be able to implement the program for them.

"When you're a corporate operation, there's always going to be this barrier when you're working with the businesses. One thing I'm trying to do and to really put a lot of personal effort into is to build a strong relationship with our businesses, so they feel we are part of them and they feel they are part of us. I think that's working very well.

"My proviso to all of my people is when a business operation calls up, we go there" to assist with loss control or other needs, he said.

"That's not a hands-off thing," he said.

"All of the folks that have been on the program are very much team players, and we have very consultative relationships with our businesses. We work with the businesses, we work side by side with the people that are in the businesses; it's not a corporate dictum-type operation. We don't do anything unless we work with our business operation. As a result of that, over the last few years, the call increases that have been coming into the department have been rocketing up exponentially. It's been a very collegial operation."

The collegial approach extends to Aetna's dealings with its brokers and underwriters, he said.

"At this point, our brokers are basically charging us on a consultative fee structure. Where they're allowed to, we literally set up a fee structure on an hourly basis."

Looking ahead, Mr. Molloy sees a greater emphasis on capital markets as a mechanism for risk transfer, as transactions and the changing nature of risks outstrip the ability of the traditional insurance market to respond.

"I think we've been pretty innovative. I truly believe that the capital markets are going to be the place for risk transference. We are actively involved in looking at that.

"The insurance market sort of reminds me that every action has an equal and opposite reaction. The problem with the insurance market is that every action has its equal and opposite reaction, but the insurance industry takes a year," he said.

"I think the capital markets are fast. We are a global company; we are a fast-paced company. To handle this, we need to do it and do it fast. We can't wait for renewals anymore. Because of that, I think that our innovative solutions, creativity and what we learn and apply now will truly pay off in big dividends in a few years." BI



PHOTO: MICHAEL MARCOTTE

Alfred J. Quirk, left, vp-corporate finance at Aetna Inc., with Edward J. Molloy, director of corporate risk management at Aetna.

Aetna aims to retain more of its own risks

By MARK A. HOFMANN

A decidedly capitalistic twist on Karl Marx characterizes Edward J. Molloy's approach to risk transfer.

"Buying insurance sometimes has ended up as the opiate of the risk manager," he said.

"There's no free lunch; insurance is basically an economic vehicle to take the swings out of potential loss costs," he said.

As a result of this philosophy, Mr. Molloy has moved Aetna Inc. from "trading dollars" with underwriters to retaining as much risk as is financially sensible. In doing so, he has not only increased retentions but also put together a captive insurance company and a self-funded, self-administered workers compensation program as well.

In addition, Mr. Molloy has consolidated the insurance policies Aetna purchases.

The captive was formed for "the financial benefit and flexibility. We wanted to assure that we could aggregate some of our risks through single policies," Mr. Molloy said. The captive made it easier to do so.

The captive also allows Aetna to have a "place to reserve for our losses, a central point rather than a pay-as-you-go philosophy," he said.

Since 1994, Aetna has experienced a 5% annual reduction, not inflation-adjusted, in self-insured and insured costs after accounting for the changing risk exposures on some programs. Half the reduction is due to soft insurance market conditions; the other half is due to reworking of the program, including aggregating risks, increasing retentions and loss control efforts.

Aetna regards information such as policy limits and total annual insurance costs as proprietary.

The captive was formed in 1996 as Aetna engaged in a series of big-dollar, fast-moving transactions. First it sold its property/casualty operations to Travelers Corp. for about $4 billion, and then it bought U.S. Healthcare for $8.9 billion in a matter of months. The company's risk profile was changing rapidly, and Mr. Molloy wanted to make sure Aetna was prepared for that change.

"At the same time that we were selling the property/casualty operations and buying a health care operation, we were talking with our colleagues down in Aetna Health Plans and the financial, actuarial and legal areas of the company as to what to do with the emerging risk in the area of managed care," said Mr. Molloy.

Aetna's managed care liability risk was growing, with an increase in membership in Aetna's existing HMOs, PPOs and point-of-service plans as well as the addition of U.S. Healthcare.

A study of Aetna's managed care liability risk was conducted jointly by broker Johnson & Higgins, risk management consultant Tillinghast, the risk management department and financial staff from Aetna Health Plans as well as the legal staff, said Mr. Molloy. He described the report as being "very heavily actuarial-influenced."

"What was interesting about the whole thing was we felt that our performance was going to be better" than the overall managed care marketplace, Mr. Molloy said. In addition, Aetna could "stand a larger risk," and it had the legal and risk management staff" to consider creating a captive.

All this was happening as Aetna was incorporating U.S. Healthcare, which did not have a captive, into its operations, Mr. Molloy pointed out. After meeting with U.S. Healthcare representatives, Mr. Molloy and his colleagues decided that "rather than put this thing on hold, which you would think would happen when everything was in a flurry, we all met and we kind of just all hit it off. In this case, it came together very quickly."

The Bermuda-based captive, Aetna Risk Indemnity Co., was formed in October 1996, capping a very eventful year for the Aetna risk manager. "Travelers in April, U.S. Healthcare in July, and then our new captive in October," said Mr. Molloy.

The captive's basic line of business is reinsuring Aetna's "vicarious professional liability exposure to the health plans, covering risks related to utilization review, the credentialing of providers and the like," said Mr. Molloy. Aetna no longer owns any physician practices.

"Aetna is basically acting as a financial intermediary; we don't provide medical services," he said.

"We used to carry separate professional liability policies for separate HMOs for our health plans. With the captive, it merged into one policy," he said.

The captive functions as "a reinsurer to our first layer of insurance," he said.

CNA Insurance Cos. underwrites Aetna's first layer of managed care liability, with Aetna's captive reinsuring CNA. Other layers are underwritten by Fireman's Fund Insurance Co., syndicates at Lloyd's of London and TIG Insurance Co., among others. J&H Marsh & McLennan Inc. serves as broker for the program, which renews Jan. 1.

Aetna decided to use the captive for other risks, too, including reinsuring workers compensation, life insurance agents errors and omissions liability and financial planners liability. The captive does not provide stop-loss insurance.

The captive wrote some medical malpractice liability in 1996 and 1997 for about 250 doctors, but that exposure ended when Aetna sold the subsidiary that employed the physicians, he said.

Aetna takes an active role in the management of the captive. "We go to Bermuda. We're hands-on. We're managing it down there. It takes a little bit of effort," said Mr. Molloy.

Mr. Molloy serves as president of the captive, which has a board of six Aetna senior executives and two Bermudians. KPMG Peat Marwick L.L.P. is the auditor, J&H Marsh & McLennan is the broker/manager, and Tillinghast is the actuary.

The captive's current capitalization is less than $5 million, said Mr. Molloy. The management follows a "very conservative stance as far as underwriting. The premium-to-surplus ratio is less than two-to-one," he said.

He predicted the captive will double its revenues in 1998.

"The captive has also helped us be more aggressive in loss control," he said.

Philosophically, the captive promotes one of Mr. Molloy's central tenets of risk management: approaching risk from a quantitative basis.

"We're also finding out that the captive puts a lot of pressure on us because we're running a business through our Bermuda operation, and it forces us to be much more quantitative in the risk analysis. It forces us to pull away from being just an intuitive operation about what risk is and more pushing us into a formalistic sense of how to evaluate the risk."

The emphasis on quantitative analysis of the risks facing Aetna has led to an increased appetite for retention within the company's traditional insurance program as well, pointed out Mr. Molloy.

"Our basic program structure is we retain an awful lot of risk internally. Typically, our policies are kicking in over $5 million," he said. "Most of our work and effort is figuring out where our catastrophic exposure would be. So, you can imagine, we're dealing with basic exposure limits in the hundreds of millions of liability."

When Mr. Molloy joined Aetna's risk management department in 1993, the company had many risk management programs.

"We had a real estate risk manager, we had a health care risk manager, we had a corporate risk manager—in one central area," he said.

He saw an opportunity to pull things together.

"We started aggregating our policies. The number of policies we had greatly decreased," he said. Prior to aggregation, Aetna had purchased, in some cases, $10,000-deductible policies on $20 million buildings.

"Basically, somebody who's handling a major asset doesn't want to have large ups and downs, because they're responsible for reporting back a profit to the company. The company's appetite for risk is a lot higher," he noted.

As a result, Aetna quantitatively analyzed what its retention should be both for property and liability exposures. "The result was, we made a major stride and saved a lot of money," said Mr. Molloy.

Aetna also has purchased a combined lines insurance program for corporate directors and officers liability insurance and investment advisory errors and omissions liability coverage.

The program, brokered by J&H Marsh & McLennan, is underwritten by Lloyd's with excess layers written by, among others, National Union Fire Insurance Co. of Pittsburgh, Pa., ACE Ltd., CNA, and Great American Insurance Co. The program renews Oct. 1.

In addition, in 1995, Aetna decided to self-insure and self-administer the bulk of its workers compensation program.

"That meant we had to reconfigure our entire way of doing business. It meant that rather than just giving the work to somebody else, we in essence were handling all of those claims. So we set up a program

See **Retain** *on next page*

Retain

Continued from previous page
with the disability operation in the company and set up a joint project. We set up a common intake system for both disabilities and workers comp. It didn't end up to be truly a 24-hour program, but I thought we made a major breakthrough."

The self-insured, self-administered program covers about 70% of Aetna's approximately 40,000 employees. It covers those in Connecticut, Nevada, Ohio and Washington.

"The reason we don't self-insure in other states is that the employee head count is not there to make it viable for us to self-insure. However, in those states where we're not self-insured, we do carry such a large deductible that it is in a sense almost a self-insured program," he said.

Mr. Molloy said no one person in his 12-person department spends all his or her time handling the self-insured workers comp program.

"Nobody in the department is dedicated to any one area. For economies of scale, what we've done is try to get people to overlap in different areas," he said. "If you added up all the people I had, probably about 1½ person-years" are dedicated to the workers comp program, he said.

Of course, Aetna continues to tap the traditional insurance market despite its increased appetite for risk.

Aetna's major property insurer is Protection Mutual Insurance Co., said Mr. Molloy.

"We have under title to Aetna more than $4.2 billion in property. This includes office buildings, garden apartments, even a hotel in Bermuda. The company's basic long-term desire is to lessen real estate holdings," he said.

The property program, for which J&H Marsh & McLennan acts as a consultant and serves as a broker for placing higher layers, renewed April 1.

As of this year, Aetna is participating in a three-year property program, a multiyear commitment Aetna had previously shunned for any of its coverages.

"We had shied away from multiyear programs because the risk characterization of the company has changed from year to year. And, fundamentally, we don't have a sense that the pricing benefit is there."

Current market conditions led Mr. Molloy to change his mind, at least for the time being. "I feel right now that the property program that we're running has been optimized as far as our loss ratios with the insurance company and the deductibles, and the overall cost of the program. However, even though we've gone to a multiyear program, through a contractual relationship, both parties have a way to get out," said Mr. Molloy.

> ***'This company has a sense, obviously from its years of being an insurance company, of what's fair, what's right.'***
>
> **—Edward J. Molloy**

He added, though, that he has no plans to use multiyear policies in other areas because the nature of Aetna's liability exposures changes so rapidly.

Mr. Molloy noted that Aetna also faces a very large information technology exposure, which requires two kinds of policy coverages: extra expense and electronic data processing coverage. "That is one of the areas over the next few months that we're going to be analyzing what that potential interruption is," he said.

"It's easy to speculate. Just say, 'It can happen; we should have the coverage.' But what limit do you pose to that? Is it $10 million? Is it $20 million? Is it $50 million, or is it $100 million? So, rather than speculating that, we've decided to catalog what that exposure disruption could mean to EDP equipment. And we do have a policy in place with Protection Mutual," he said.

Aetna's real estate liability program is underwritten by CIGNA s Insurance Co. of North America and brokered by Sedgwick Inc., and it also renewed April 1. The program covers such risks as "trips, slips and falls" as well as more serious injuries and crime. Aetna receives about 450 real estate liability claims per year.

"We're carrying some very, very high limits on that," in the hundreds of millions of dollars, for domestic and multinational exposures, said Mr. Molloy.

General liability, commercial automobile and workers comp risks that Aetna does not self-insure are handled by Hartford Casualty Insurance Co. and brokered by Sedgwick James. Those programs renewed April 1.

Aetna also maintains an aviation fleet of three helicopters and two small jets. U.S. Aviation Insurance Group writes the coverage for the fleet. J&H Marsh & McLennan is the broker for the program, which renewed April 1.

Aetna's boiler and machinery coverage, underwritten by Hartford Steam Boiler Inspection & Insurance Co., is handled by the Knox Agency, a local Hartford operation, and renewed April 1.

Mr. Molloy said the collegial relationship he promotes among the business units of Aetna has been extended to his dealings with insurers as well.

"We've gotten into a consultative relationship with our underwriters. This company has a sense, obviously from its years of being an insurance company, of what's fair, what's right. We don't look at insurance as a magic bullet," he said.

"I feel sometimes there are things we can do internally to make our risks better. For example, on property exposures, we have an awful lot of loss control that goes into our real estate program," he said. Aetna engineers work with Protection Mutual and CIGNA engineers to inspect properties and make recommendations to property managers, he said.

Mr. Molloy also seeks a consultant relationship with brokers, albeit fewer brokers than when Aetna's program was fragmented.

Such a fragmented program meant Aetna used a "large number of brokers," said Mr. Molloy. "We also set into place a philosophy of trying to get out of using a broker as a broker and trying to build with that broker a consultative relationship," he said.

As a result, Aetna pared its brokerage ranks to two major partners—J&H Marsh & McLennan and Sedgwick—while occasionally using other domestic and international brokers to handle specific tasks.

"I kid the people in the department that I haven't met a broker yet, because I think of a broker as somebody transacting business. One of the things that we've really tried to do in the program is get away from a transactional orientation with our brokers, really to allow them to help us assess our risk and to make consultative advice even if it doesn't mean the placement of a policy," he said.

Mr. Molloy notes that flexibility is of the essence for Aetna. While most of its traditional policies renew April 1 and Oct. 1, "there hasn't been one policy, with perhaps the exception of our bonds, that has not changed between renewals," he said.

The company is constantly adding and selling off assets. Businesses are added and deleted. Aetna's exposure picture changes constantly, he said.

"All of those things mean we make midcourse corrections. It's at such a flurry at this point. A lot of times we're literally on the phone to our brokers and underwriters on joint phone calls to make a move and make it quick. It's a very fast-paced operation," he said. BI

Financial, human factors weighed in sale

By MARK A. HOFMANN

It was a task of considerable complexity—transfer the corporate risks of a venerable property/casualty company to a new owner with the least amount of financial disruption.

But more was at stake than money, for Aetna Inc.'s property/casualty operations constituted an institution in themselves, one that provided jobs for generations of citizens of the Hartford, Conn., area. Selling those operations to a traditional competitor—crosstown rival Travelers Corp.—meant the human element had to be managed very carefully as well.

In short, the risk management aspects of the transfer of Aetna Casualty & Surety Co. to Travelers in 1996 had to go off without a hitch from both the financial and human angles.

That Edward J. Molloy was able to help make that happen is one of the achievements that won him a place on this year's *Business Insurance* Risk Management Honor Roll.



PHOTO: MICHAEL MARCOTTE

The staff of Edward J. Molloy, director-corporate risk management for Aetna Inc., is made up of, seated, left to right, Louise King, administrator; Mike Kane, consultant; and Carla Harris, administrator. In the second row, left to right, are: Sherry Albee, consultant; Lori McDougal, administrator; Len Revoir, consultant; Charlie Watras, administrator; Mr. Molloy; Mark Stanley, consultant; Alicia Sweetman, administrative assistant; Susan Nicholas, administrator; and Diane Bascom, manager.

Mr. Molloy, Aetna Inc.'s director-corporate risk management, had had some experience with mergers and acquisitions during his career in the nuclear industry, but the Aetna/Travelers deal was his first involving a financial company. He had no illusions about the difficulty of the task before him.

"In essence, what happened was that a decision was made to sell the property/casualty company to a company that had one time been a competitor," he said.

"In doing a deal, there's a lot of unwinding in a basic, human relations point of view. A lot of employees were in the company. We managed the workers comp program department here and—at that point—we had 11,000 people who were literally moving out of these buildings in Hartford and in other cities and other locations in which the property/casualty operations were working.

"We had to, from a human relations point of view, make sure as we unwound all those people out of our program, make sure they were very carefully put into the Travelers programs, so there were no issues.

"There was a large corporate staff. The operation was very entwined within Aetna. A lot of the people who work here have friends, family, relatives, grandparents who have worked for the property/casualty company, as it was a very old company," Mr. Molloy said.

The identification with Aetna lingered after the deal was consummated, too. "We had people a few months after the deal was done that still weren't sure where they should report their workers comp claims," he said.

Further complicating the $4 billion deal was a real estate portfolio, he said. "There was almost $700 million in real estate that went along with this deal, including a number of buildings and operations that were in our real estate insurance program. So we really had to make sure that all of these details, these thousands of details that are in anybody's insurance program, were wrapped into the new Travelers' program, that we had walls and protections for E&O exposure, for insurance company E&O exposure. Aetna/Travelers was interested in protecting itself, but also Aetna was interested in walling off its potential future exposure," he said.

"We developed a lot of details. Some of these merger/acquisition activities sometimes don't go well, and people end up at each other's throats, because we're dealing with a short time frame of transaction, and we're also dealing with the stress of basically losing control of your program—maybe downsizing, maybe losing people," he said. "But in this deal, we had an excellent working relationship with Travelers. I think from day one, when we first started this, we were literally meeting on a

See **Travelers** *on next page*

Travelers

Continued from previous page

daily basis, in April, May and June 1996, to make sure it was a flawless transaction," he said.

Mr. Molloy pointed out that Travelers was picking up new exposures and wanted to "make sure they understood what those exposures were very quickly. It was a flurry of activity. All of the people in our workers compensation we were unwinding, 56 properties, tail liability, 150 policies and bonds, complicated by policies expiring during the period," he said.

> ***'We are still in an extremely good, tight working relationship with the Travelers people.'***
> **—Edward J. Molloy**

Mr. Molloy said he had to notify all of Aetna's insurers—including those underwriting policies that didn't expire during the transition—to make sure they were aware of developments and of risks that would be involved in upcoming renewals.

The sale of the property/casualty operations changed the exposure dramatically and eliminated the need for some corporate insurance, said Mr. Molloy. "It wasn't just a sense of changing our program because of Travelers/Aetna but also, internally, we had to reassess all of our risks. We had to let a lot of people who were involved in our program as underwriters know what was going on in our program. We had to reconfigure a lot of our basic policies and procedures," he said.

And he had to do so very quickly.

"We had two or three months to do all of the details. But the transactions were basically completed in six weeks," he said. That translated into "a lot of hours, a lot of time" working with counterparts at Travelers.

"Frankly, as a result of that, I became very good friends with the Travelers risk manager. Our department became so friendly with them, we became personally friendly," Mr. Molloy said. "We began looking at new things we could do with our program."

The result was a portfolio transfer with the new Travelers. "Travelers would issue a policy taking over those liabilities, and we would pay them for it," he said. "It was a very large, costly transaction that helped the balance sheet of Aetna."

"Frankly, during that period of time, there was a lot of work on defining what extended reporting would mean on our existing policies within Aetna and determining reportability under occurrence-based policies that we had purchased at one time. We wanted to make sure that they really understood what it meant and how reporting would work.

"We also wanted to make sure that they had all the facts of what had happened in claims, older claims, so that if they had to retrieve information on potential and pending claims, they could have it," he said.

Despite the complexity of the transaction and the speed with which it had to be implemented, the transfer went smoothly from a risk management standpoint, said Mr. Molloy.

"There were a lot of details to this thing, but as far as glitches, I think that in essence, to this day, we have not had any complaints. We are still in an extremely good, tight working relationship with the Travelers people, and I think it just speaks to the fact that it worked very well," he said.

No sooner had the Travelers deal been consummated than Aetna began its acquisition of Blue Bell, Pa.-based U.S. Healthcare. The risk management department had to realign itself to do due diligence regarding the new acquisition, he said.

The result of the U.S. Healthcare acquisition, which cost Aetna some $8.9 billion, meant "basically, refocusing our company on health care," said Mr. Molloy.

"We also had new employees coming in, almost 4,000, not in Connecticut but all over the country. We had to make sure it was a flawless transaction," he said.

The U.S. Healthcare acquisition also went off without serious glitches. Now, the risk management department is preparing once again to deal with the liability implications of an acquisition. Aetna announced last month that it intends to buy NYLCare Health Plans Inc., the health care unit of New York Life Insurance Co., for $1.05 billion (*BI*, March 23).

Aetna hopes to close the deal in the third quarter.

"As in the U.S. Healthcare deal, we didn't have a lot of time to react," said Mr. Molloy. "It's a very hurried life." BI

Health care, retirement Aetna's key businesses

For nearly 150 years, Aetna Inc. has been part of the nation's insurance landscape in one form or another.

The Hartford, Conn.-based company, which began in 1853 as a life insurer, has been involved in virtually every aspect of insurance at some point throughout its history. It also became one of the country's largest property/casualty insurers in the 20th Century, offering products running the gamut from ocean marine to corporate directors and officers liability insurance by the 1980s.

But with the sale of its property/casualty operations to Travelers Corp. and the acquisition of U.S. Healthcare in 1996, Aetna concentrated its efforts on three main businesses.

The largest, Aetna U.S. Healthcare, came into being in 1996 when Aetna acquired U.S. Healthcare. Aetna U.S. Healthcare now accounts for about 70% of Aetna's revenues, which reached $18.5 billion in 1997. The managed care unit covers about 14 million members, has a network of more than 330,000 providers and offers products including HMOs, PPOs, point-of-service and indemnity programs. The unit's group insurance and other health business includes group life and disability insurance and long-term care insurance, among others.

Aetna Retirement Services generates about 21% of the company's revenues through the sale of financial services and individual life insurance products. The financial services products include fixed and variable annuity contracts, investment advisory services and pension plan administration services. The individual life insurance products range from traditional whole life policies and term insurance to universal and variable universal life products.

The third major business, Aetna International, accounts for most of the remainder of Aetna's revenues. The international unit works through subsidiaries and joint venture operations to sell a variety of products to about 13 million customers in 14 countries. The products include a limited offering of property/casualty policies, as well as life and health products and pension management services. The unit has operations in, among other countries, Brazil, Canada, China, Mexico and Taiwan.

—By Mark A. Hofmann

Continuing education is a multiyear policy for Aetna's Molloy

By MARK A. HOFMANN

For Edward J. Molloy, education is not a means to an end but rather an end in itself.

"It's sort of a way of life with me. To me, it's more of a lifestyle thing than it is a hobby," said Mr. Molloy, Aetna Inc.'s director of corporate risk management. "I find it just makes me more creative and open to new ideas."

When he earned his Certified Financial Planner designation in 1996, "I learned an awful lot about the capital markets and how they function." It was knowledge he was able to transfer to his risk management job.

That Mr. Molloy is a risk manager at all underscores the power of education and the ability to transfer knowledge from one field to another. The 48-year-old Boston native's background is in radiation physics, the study of the effects of radiation on people and materials. He holds a bachelor's degree in chemistry from Stonehill College in North Easton, Mass., and a master's in engineering from the University of Massachusetts. He also graduated from the nuclear training program at Oak Ridge Associated University in Oak Ridge, Tenn.

Mr. Molloy's first career began in 1976 with Stone & Webster Engineering Corp., a Boston-based engineering and consulting business. During his three years there, Mr. Molloy was responsible for the design and construction of nuclear power plants and for accident analysis. He also worked with "fault-tree" analysis, a method of investigating the impact of equipment failure. Mr. Molloy said the concept also can be used in financial analysis.

He developed a business in the probabilistic risk assessment of nuclear plants, and in 1979 he joined one of Stone & Webster's clients, North East Utilities of Hartford, Conn. Mr. Molloy was put in charge of retrofitting nuclear plants in Connecticut just as one of the Three Mile Island reactors near Harrisburg, Pa., malfunctioned and caused public opinion to become increasingly skeptical about the safety of nuclear power.

"Three Mile Island was a very defining point for us," he said. "I learned not to be arrogant."

While with North East Utilities, Mr. Molloy worked on radiation physics and looked at the quantitative effects of accidents. His work on creating systems that could respond to accident situations "paid off bigtime" by helping operations work more safely. He also worked with probability theory and earned a master's degree in business administration from the University of Hartford.

During the mid-1980s, Mr. Molloy worked with the International Atomic Energy Agency in Vienna, Austria. Although he did not personally visit the Chernobyl reactor in Ukraine, he did visit other Soviet Bloc nuclear facilities on inspections that in some cases resulted in shutdowns, he said.

"That experience led me to a pretty good understanding of the operational application of probability, looking at what could happen," Mr. Molloy said.

His time with the IAEA also gave him "the opportunity to try to translate these esoteric scientific facts to people who had to make decisions within the United Nations as to whether they sanctioned the continued operation of these facilities," he said.

He also came into contact with business and government figures. "It was a real eye-opener," he said.

But what was happening with the nuclear industry also was opening Mr. Molloy's eyes to the possibility of looking for a new field of endeavor.

"I had spent 20 years—15 years of which were in management—in the nuclear business, and after 20 years of working in the nuclear business, I felt it was one of the most overregulated businesses that I could possibly work in. There was not a lot of public support."

Risk management looked like it might be the new field he sought.

"When I worked in the utility business, part of my responsibility was accident probability and consequences, which means I needed to quantify and control those risks for the plant," he said. "I thought they would be very transferable skills. In that business, loss control is everything."

> ***'This job, in a lot of respects, requires translating a lot of esoteric things to people that run the business operations, to make it readily understandable.'***
> **—Edward J. Molloy**

"When I walked into Aetna, I felt that what I could bring to the table was a sense of quantitatively analyzing risk and the financial background to understand what the company was about."

He was hired as a project consultant in early 1993 and named corporate risk manager before the end of the year. He found that his skills were, indeed, applicable to risk management.

"This job, in a lot of respects, requires translating a lot of esoteric things to people that run the business operations, to make it readily understandable," he said.

As director of risk management, Mr. Molloy continued his education by earning the Certified Financial Planner designation. He is now pursuing the Chartered Life Underwriter designation. That enthusiasm for learning extends into his 12-person risk management department.

"We have really pushed education in the department," Mr. Molloy said, noting an emphasis on attending industrywide meetings and working on professional designations.

Four members of the department have earned the Associate in Risk Management designation. The department also includes one Chartered Property & Casualty Underwriter, five MBAs and a CFP.

Of course, not all Mr. Molloy's energies are concentrated on work. As befits a native Bostonian, he's an avid Red Sox fan. "I have been known to leave from here, drive to Boston and be home that same night."

He also skis and has taken up golf since he entered the insurance world.

An ardent reader, Mr. Molloy's tastes in literature range from the works of Stephen King to those of F. Scott Fitzgerald, John LeCarre and Frank McCourt. He's also currently getting more interested in investment analysis—"bringing my scientific bent into the capital markets"—and broadening his study of art history.

"I believe education is the pursuit of a lifetime. I tell my wife, (I'll be) 85 years old, and I'll still be going to school," he said.

Mr. Molloy lives with his wife, Lisa Ann, and their children, Eric, age 18, and Christa, 14, in Glastonbury, Conn. BI

Twelve judges select top manager, honor roll

Representatives of all insurance and risk management sectors recognize achievement

Twelve independent judges from all sectors of the risk management profession and the insurance industry selected the 1998 *Business Insurance* Risk Manager of the Year and the Risk Management Honor Roll.

Recipients of the awards, which *Business Insurance* presents annually to recognize excellence in risk management, are chosen based on the judges' assessments of information provided in detailed nominations.

"The judges for these awards devote many hours to assessing the candidates' nominations," said Kathryn J. McIntyre, publisher and editorial director of *Business Insurance*.

"We very much appreciate and value the time and expertise they bring to these awards, ensuring that the nominees are judged objectively and with the highest regard for excellence in risk management," she said.

The 12 judges for the 1998 awards were:

- John J. Carney, vp-risk management for National Freight Industries Inc. of Vineland, N.J., and a member of the 1997 Risk Management Honor Roll, representing companies with sales under $300 million.
- Richard Corbett, professor in the Department of Risk Management and Insurance at Florida State University in Tallahassee. He served on the panel for a second year, representing insurance educators.
- Dwight E. Davis, president and chief operating officer of Wausau Insurance Cos. of Wausau, Wis. He served on the panel for a second year, representing mutual insurers.
- Brian Duperreault, chairman, president and chief executive officer of Hamilton, Bermuda-based ACE Ltd. He served on the panel for the first time, representing stock insurance companies.
- Michael M. Kaddatz, a principal of ARM Tech in Lake Forest, Calif. He served on the panel for a second year, representing risk management consultants
- Betsy Kutska, executive director of the Park District Risk Management Agency in Wheaton, Ill., and a member of the 1997 Risk Management Honor Roll, representing self-insurance pools.
- Judy Lindenmayer, vp-Fidelity insurance and risk management for FMR Corp. in Boston and the 1997 Risk Manager of the Year (*BI*, April 14, 1997).
- John T. Lockton III, chairman and CEO of Lockton Cos. in Prairie Village, Kan. He served on the panel for a second year, representing insurance brokers.
- Russell Opferkuch, vp of corporate risk and insurance for Bankers Trust Co. in New York and a member of the 1997 Risk Management Honor Roll, representing financial institutions.
- William R. Powell, manager of the risk management department for the Salt River Project in Phoenix and a member of the 1997 Risk Management Honor Roll, representing government entities.
- Jeannie Sedwick, managing director property/casualty at AHA-Insurance Resource Inc., a Chicago-based subsidiary of the American Hospital Assn. that provides financial and insurance products to the health care market. Ms. Sedwick was a member of the 1997 Risk Management Honor Roll, representing non-profit institutions for her work as director of risk management at Wake Medical Center in Raleigh, N.C.
- Frank C. Witthun, president and chief executive officer of Acordia Inc. in Indianapolis. He served on the panel for the first time, representing insurance brokers.

> ***'The expertise the judges bring to the awards ensures that the nominees are judged with the highest regard for excellence in risk management.'***
> **—Kathryn J. McIntyre**

The judges score each of the candidates on 10 criteria (see story, next page). The candidate with the highest score after the judging is completed is named Risk Manager of the Year. Then the remaining nominees are separated by employment category:

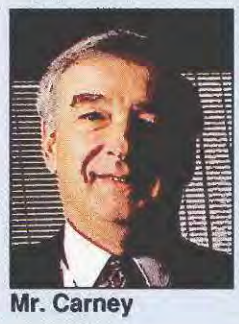
- Corporations with sales exceeding $300 million.
- Corporations with sales of less than $300 million.
- Government entities.
- Tax-exempt or non-profit institutions.
- Financial institutions.
- Self-insurance funds and pools.

Subject to the judges' discretion, the highest-scoring candidate in each of the categories not represented by the Risk Manager of the Year is named to the Risk Management Honor Roll. A maximum of five nominees may be named to the honor roll.

Business Insurance created the Risk Manager of the Year competition in 1977, on its 10th anniversary of publication, to recognize outstanding risk management practices. The first award was presented in 1978. The Risk Management Honor Roll was created in 1981 to recognize outstanding achievements in risk management in different types of employment categories.

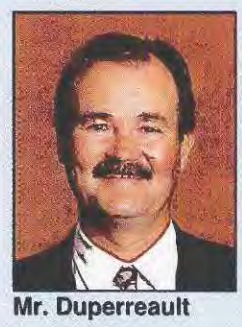
To be nominated, a candidate need not handle risk management

Continued on next page


Mr. Carney


Mr. Corbett


Mr. Davis

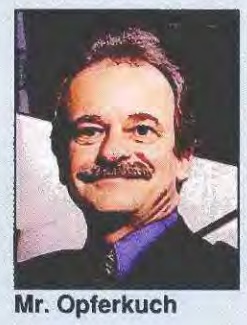

Mr. Duperreault


Mr. Kaddatz


Ms. Kutska


Ms. Lindenmayer


Mr. Lockton


Mr. Opferkuch


Mr. Powell


Ms. Sedwick


Mr. Witthun

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RISK MANAGEMENT HONOR ROLL

Continued from previous page

functions full time, but he or she must be a full-time employee of the organization for which he or she directs the risk management program.

A candidate can be nominated by anyone familiar with the candidate's work. For example, any employee or group of employees may nominate the organization's risk manager. A broker, insurer, consultant or other service supplier can nominate a client. And a risk manager can nominate a colleague.

In addition to the completed nominating forms outlining the candidate's accomplishments, each nomination must include a letter from the sponsor nominating the candidate and a letter of endorsement by an executive of the candidate's organization who is the candidate's superior or any higher officer. The letter must certify the accuracy of the information submitted in the nomination.

Nomination forms for the 1999 award are available from *BI*'s Chicago office. All nominations must be submitted by Nov. 19.

All nominations will be kept in the strictest confidence, with only the honored candidates' names announced.

To request a nomination form, contact Karen Tucker, assistant to the publisher, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611-2590; 312-649-5319. BI

10 criteria for risk manager recognition

Ten criteria are used to score the nominations submitted for the *Business Insurance* Risk Manager of the Year Award and Risk Management Honor Roll.

The awards are intended to recognize outstanding risk management and outstanding risk managers.

The panel of 10 independent judges scores each nominated candidate on a scale of one to 10, according to how well he or she:

- Established and implemented an effective risk management program within the organization.
- Tackled and solved one or more major problems for his or her organization.
- Innovatively applies the diverse tools of risk management and insurance.
- Creatively and effectively uses the insurance markets to structure an insurance program that serves the needs of the organization (specifically addressing the types of policies purchased and manuscripted policies, if any).
- Established a workable intelligence system inside and outside the organization, culminating in a flow of information about events and activities that affect the organization's risk management and insurance (how the risk manager secures information from other departments and the use of risk management information systems are addressed in this criterion).
- Skillfully performs the functions of management in the overall organization and within the risk management/insurance department.

The functions include planning, organizing, directing and controlling.

- Achieves the most effective program at the optimum cost over the long term.
- Developed technical expertise in any or all of the broad categories included within risk management, leading to a better managerial grasp of the operational aspects of the job.
- Exhibits an attitude and performs activities fostering the advancement of the risk management profession (such as professional activities, speaking engagements, teaching and related activities).
- Develops in his or her career (as exhibited by job history, including current job description, education, honors and memberships).

Risk Management Honor Rolls

John J. Carney
National Freight Industries Inc.
Small corporation — 99

Betsy Kutska
Park District Risk Management Agency
Self-insurance pool — 99

Russell Opferkuch
Bankers Trust Co.
Financial institution

William R. Powell
Salt River Project
Government entity

Jeannie Sedwick
AHA-Insurance Resource Inc.
Non-profit institution

Craig S. Macdonald
Bi-State Development Agency
Government entity — 99

Michael Tawney
Loomis Armored Inc.
Small corporation

Lee D. Holland
Tennessee Municipal League Risk Management Pool
Self-insurance pool — 99

Judith Payne
South Dakota
Government entity

K.C. Kidder
Norwest Corp.
Financial institution

Bruce Zaccanti
Jupiter Mechanical Industries Inc.
Small corporation

Sal M. Bianchi
Intergovernmental Risk Management Agency
Self-insurance pool — 99

Ronald J. Guilfoile
City of St. Paul, Minn.
Government entity

Judith Moses McDonald
Comerica Inc.
Financial institution

Thomas J. Hickey
Malcolm Pirnie Inc.
Small corporation

David G. Adler
The Portman Cos.
Small corporation — 99

June Dickinson
SunTrust Banks Inc.
Financial institution

Thomas E. Bell Sr.
Middle Cities Risk Management Trust
Self-insurance pool

C. David White
State of Oregon
Government entity

Marc Darby
Bombardier Inc.
Large corporation — 99

Jerry Newsom
State of Georgia
Government entity — 1

Judith Tornese
Transamerica Corp.
Financial institution — 2

Donald D. Batchelor
Union Planters Corp.
Financial institution — 99

Mary L. DeCampli-Stewart
Metropolitan Washington Airports Authority
Government entity — 1

Rod Umscheid
University of California
Non-profit institution — 1

Josephine Goode Johnson
University of Maryland Medical Service System
Self-insured fund — 99

Roger D. Oaks
Tennessee Farmers Cooperative
Small corporation

M. Michael Zuckerman
Thomas Jefferson University
Non-profit institution

John A. Lindquist
Browning-Ferris Industries Inc.
Large corporation — 98

J. Douglas Higley
State of Louisiana
Government entity

Gregory L. Daniels
American National Red Cross
Non-profit institution — 98

Stephen A. Finley
City of Lakewood, Colo.
Government entity

Timothy G. Galarnyk
Lunda Construction Co./Phoenix Steel Inc.
Small corporation

Edward G. Weiss
First of America Bank Corp.
Financial institution

Susan M. Werner
Hardee's Food Systems Inc.
Large corporation — 98

Mark F. Wilson
First Mississippi Corp.
Small corporation

Delmer Ison
Washington Metropolitan Area Transit Authority
Government entity — 98

William E. Rogers
Conemaugh Valley Memorial Hospital
Non-profit institution

Susan N. Weiner
Dade County Public Schools
Government entity — 98

Eva F. Goodrich
Cincinnati Electronics Corp.
Small corporation

Sidney D. Blatt
Holloway Cos.
Small corporation — 98

Gene Snyder
State of Oregon
Government entity

Jerri Nelson MacMillian
Aetna Life & Casualty Cos.'
Real Estate Investment Department
Large corporation — 98

Robert Sinclair
Metropolitan Government of Nashville and Davidson County
Government entity

Spencer J. Traver
BF Goodrich Co.
Runner-up — 98

Gene M. Marsh
General Conference of Seventh-Day Adventists
Non-profit institution

Paul B. Harvey
Ponderosa Homes
Small corporation

George N. Pierce
Orange County, Fla.
Government entity

Robert Bieber
Westchester County, N.Y.
Government entity — 98

William Ryan
University of Michigan
Non-profit institution

Risk Managers of the Year

Judy Lindenmayer
Vp of Fidelity Insurance and Risk Management
FMR Corp. — 10

Brian D. Casey
Director of Risk Management and Loss Prevention
Corning Inc. — 10

Scott K. Lange
Director of Risk Management
Microsoft Corp. — 13

Lucille A. Gallagher
Vp of Risk Management
ConAgra Red Meat Cos.
Monfort Inc. — 14

Richard C. Heydinger
Director of Risk Management
Hallmark Cards Inc. — 13

Millicent W. Workman
Director of Corporate Risk Management
Belz Enterprises — 12

Arnold L. Davenport
Vp-Risk Management
Marriott Corp. — 11

Stephen M. Wilder
Director of Corporate Risk Management
The Walt Disney Co. — 09

Jeffrey W. Pettegrew
Risk Manager and Chief Administrative Officer
Contra Costa County Municipal Risk Management Insurance Authority

William L. Mather
Administrator of Risk Management
The Gillette Co. — 08

Edith F. Lichota
Senior Vp
Irving Trust Co. — 17

Donald Nelson
Director of Risk Management
ARA Services Inc. — 13

Harold C. Lang
Director of Insurance and Risk Management
Leaseway Transportation Corp. — 13

Richard M. Inserra
Director of Insurance and Risk Management
American Can Co. — 14

John A. O'Connell
Executive Director and Risk Manager
Holy Cross Shared Services Inc. — 03

Eckart Russell
Risk and Insurance Manager
Alcan Aluminium Ltd. — 12

Duane E. Allen
Assistant Treasurer
Hanna Mining Co. — 11

Thomas V. Hallett
Risk Manager
General Motors Corp. — 10

Edward L. Erickson
Director of Insurance
American Broadcasting Cos. Inc. — 09

Howard T. Weber
Director of Insurance
Minnesota Mining & Manufacturing Co. — 08

Pension

Continued from page 2

attached as a rider to the budget bill.

The lawsuit challenging the ban was filed in January by the Washington-based RIIA and a group of Texas firefighters, teachers and law enforcement officers.

Pension fund beneficiaries and the RIAA attacked the restriction as a violation of free speech and an unnecessary shackle that would limit the funds' earnings.

A spokesman for Texas Attorney General Dan Morales, one of the defendants, said the decision likely will be appealed. He would not comment further on Judge McCown's ruling.

The suit also named among defendants The Teacher Retirement System of Texas, a $72 billion pension fund that has 853,000 members, including 158,000 retirees, and the Employees Retirement System, a $15 billion fund with 180,000 members, including 38,000 retirees.

Spokespersons for those funds also refused comment on the decision.

The restriction would have hurt fund beneficiaries because it would have eliminated a very profitable chunk of the funds' portfolios, said R. James George Jr., a plaintiffs attorney with George, Donaldson & Ford in Austin, Texas.

The pension funds have made a lot of money from investments in companies that could have fallen under the ban, including Time-Warner Inc., The Walt Disney Co., Sony Corp. and other media giants, Mr. George pointed out.

"Trustees of the funds believed, and it has been demonstrated, that these are among the best investments that could have been made over the last few years," he added.

Pension funds do not want to 'forgo a whole section of the world economy' when making investments, according to plaintiffs attorney R. James George Jr.

The funds do not want to "forgo a whole section of the world economy" when making investments, Mr. George said.

Paul R. Brown, a plaintiff in the suit who is a member of a firefighters' retirement fund in Big Spring, Texas, and chairman of the fund's board of trustees, testified before the House Pensions and Investments Subcommittee on Social Investing in Washington earlier this year. The veteran firefighter said, "If every legislator is successful in enacting a law based on his or her own moral issues, then the investment opportunities for Texas' public employee pensions will be severely limited."

Mr. Brown asked, "Objectionable lyrics may be a hot topic today, but what will the issue be tomorrow?"

Those involved in the litigation said it was unclear how objectionable lyrics would be defined and who would make the determination that they were inappropriate.

Mr. George contended that all major recording labels feature some songs that could be interpreted by some people as objectionable. "Most country and western falls into that category," he said.

"Someone could make the argument that the 'Battle Hymn of the Republic' glorifies violence," Mr. George added.

In a statement released following the decision, RIAA President and Chief Executive Officer Hilary Rosen said the group is "pleased that pension fund managers are now free to focus exclusively on what investments will earn the greatest return, instead of conforming their investment decisions to social objectives found in politically expedient laws."

Ms. Rosen also said the ruling is "a tremendous victory against back-door legislative attempts to silence freedom of expression and sends a clear message that government does not have a role in legislating speech."

•

Paul R. Brown et al. vs. The Hon. Dan Morales et al., District Court of Travis County, Texas, 353rd Judicial District; No. 98-00-745.

Harass

Continued from page 1

Burlington appealed the appellate decision to the Supreme Court.

The case, which was heard by the justices last week, is the third major sexual harassment case to come before the high court in its current term. In the first case—*Joseph Oncale vs. Sundowner Offshore Services Inc. et al.*—the court ruled unanimously that Title VII applies to same-sex sexual harassment (*BI*, March 9).

The second case—*Beth Ann Faragher vs. the City of Boca Raton, Fla.*—seeks to clarify whether employers can be held liable under Title VII for creating a "hostile" work environment even if they are not notified of the harassment by the alleged victim (*BI*, March 30). A decision in *Faragher* is expected before the court's current session ends early this summer.

Burlington Industries is "the third sexual harassment case that directly impacts upon employers and their obligations to their workforce," said Gerald Maatman, an employment law specialist and partner with Baker & McKenzie in Chicago. "The case will have some added emphasis because it involves the issue at the heart of *Paula Jones vs. Bill Clinton*, which is whether or not there's a cause of action for quid pro quo sexual harassment in the absence of job detriment or threats by a supervisor," Mr. Maatman said.

"I think when you couple the expected holding of *Faragher* with *Ellerth*, employers can expect to have the best road map to date from the Supreme Court in the field of sexual harassment law," he added.

The stakes for employers in this latest case are high, particularly if the justices hold for Ms. Ellerth, said Ms. Mahallati of the Chamber Litigation Center.

"If Burlington loses, I think there will be a lot more suits brought against employers alleging quid pro quo claims, and employers will be held liable more often," she said.

"If you're going to have a lawsuit where someone alleges quid pro quo where there's an unimplemented threat, where there's no adverse job consequences and where the employer has implemented a sexual harassment policy and complaint procedures, there really ought to be some sort of burden put on the employee to come forward and complain, to use the system. Otherwise employers can't fix the problem," Ms. Mahallati added.

During oral arguments before the court last week, Justice Anthony Kennedy raised a similar point as he questioned U.S. Deputy Solicitor General Barbara D. Underwood. Ms. Underwood joined Ms. Ellerth's lawyer in arguing that employers should be liable for the sort of harassment Ms. Ellerth allegedly suffered, even if the employer had a written policy against such conduct.

If Burlington loses, employers will face 'a lot more suits' alleging quid pro quo claims, says Sussan Mahallati.

Justice Kennedy remarked that holding companies strictly liable under such circumstances would discourage the use of grievance systems and instead encourage litigation.

The Equal Employment Opportunity Commission has taken the position that if a male supervisor says that an employee must provide sexual favors to keep her job, he is "imposing a condition upon her employment in violation of Title VII," regardless of how the employee responds, said Ms. Underwood.

That violation exists regardless of whether the supervisor's conduct specifically violates a company policy, she said.

Some of the justices sounded weary of being asked yet again to deal with the complexities of interpreting Title VII.

"How did this come up?" asked Justice Ruth Bader Ginsburg, noting that Title VII mentions neither "hostile environment" nor "quid pro quo" sexual harassment in its text.

Justice Sandra Day O'Connor questioned the lawyers how an unfulfilled threat under a quid pro quo case differed significantly from the creation of a hostile environment.

When one of the lawyers arguing before the court cited previous high court decisions, Justice Antonin Scalia shot back, "Don't put it on us."

A decision in the *Burlington* case could be handed down before the court recesses in July. BI

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INTERNATIONAL

Global Briefs

One in seven European and U.S. companies will miss the deadline for converting their computer systems to be **Year 2000-compliant**, according to London-based software consulting company Cap Gemini U.K. P.L.C. Cap Gemini's latest Millennium Index shows Y2K problems are most severe in Germany, Finland, the Netherlands and Belgium, due to late starts in addressing the problem. Y2K appears less severe in France, Spain and Denmark, but Cap Gemini warns these countries risk underestimating the size and cost of the problem. Cap Gemini estimates the total cost of addressing Y2K in Europe and the United States at $717 billion. It says that to date only $199 billion has been spent on the problem. Cap Gemini says the United States leads the field in addressing Y2K, having already spent 30.9% of what Cap Gemini estimates it will spend. The United Kingdom is rated second, having spent 26.3%. . . .Italian legislators are expected to approve a measure that would permit Trieste, Italy, to establish an **international financial services and insurance center.** The proposed center would have a lower tax rate than the rest of Italy and aims to attract the insurance operations of Eastern European companies. . . .**HIH Winterthur Insurance Ltd.**, the Sydney, Australia-based international insurance group, has announced an agreement in principle to acquire for an undisclosed amount the entire shareholding in Lloyd's of London managing agent Cotesworth Group Ltd. Cotesworth manages four Lloyd's syndicates with combined 1998 underwriting capacity of £140 million ($234.5 million). The transaction is expected to be completed by June. . . .London-based insurance consulting company Eastgate Group has launched a new company to **provide support services** to London market brokers. The new wholly owned subsidiary, Eastgate Broker Services of London, offers technical and computer systems support plus accounting, reinsurance wordings and claims processing services. EBS' first customer is London-based, Lloyd's-registered broker Alwen Hough Johnson Ltd., for which it will provide full technical support for non-current business. . . .**Tina Rhodes** has been appointed to the reinsurance and insurance group of London-based attorneys Paisner & Co. Ms. Rhodes, previously with New York-based LeBoeuf, Lamb, Greene & MacRae, has wide experience in reinsurance and professional indemnity litigation and arbitration. . . .**London Insurance Market Investment Trust** has announced plans to purchase the remaining 35% shareholding in Bankside Insurance Holdings Ltd. of London for £41.1 million ($68.8 million). LIMIT, a London Stock Exchange-listed investment company, already holds 65% of BIH, which owns Lloyd's managing agencies Bankside Syndicates Ltd. and Janson Green Ltd. plus London-based loss adjusting firm Garwyn Ltd. . . .**Flooding in northern Argentina** has killed 11 people, forced the evacuation of 65,000 and caused an estimated $2.5 billion of damage. Losses are expected to rise as the rain in southern Brazil that flooded Argentina's northern rivers is predicted to continue for weeks or months. The estimated $2.5 billion in damage includes agricultural losses—such as damage to cotton, soybeans, rice, cattle and sheep production—of $1.5 billion. . . .The European Commission on Friday approved Trieste, Italy-based Assicurazioni Generali S.p.A's acquisition of **two units of Assurances Generales de France**. Generali late last year agreed to buy the French-based insurance subsidiaries GPA and Proxima in a deal valued at 15 billion French francs ($2.5 billion). The commission also approved Generali's offer to buy German insurer Aachener & Munchener Beteiligungs A.G. (BI, Jan. 5).

Airline grounds risk function

By CAROLYN ALDRED

ZURICH, Switzerland—Swiss airline SAirGroup is outsourcing all risk management functions to its London broker and assigning responsibility for risk management decisions to its corporate treasury department.

SAirGroup Corporate Insurances, a SAirGroup department once as large as seven people, was disbanded last month. It employed four people at the end, and only the director of corporate insurance, Paul Luternauer, remains an employee of SAirGroup. He retires next month.

All risk management functions, including the purchase of conventional insurance and the management of alternative risk financing programs, have been taken over by SAirLink, a newly formed unit of J&H Marsh & McLennan in London. It is managed by J&H Marsh & McLennan Aviation under Director Elizabeth Holton.

Decisions "on all important aspects of risk management" will be made by Corporate Treasurer Sten Daugaard, whose new title will be corporate treasurer and chief risk officer, said Mr. Luternauer. Mr. Daugaard also will take Mr. Luternauer's place within the group's safety and security organization.

It is less expensive to employ people in London than it is in Switzerland, explained Mr. Luternauer. In addition, assigning risk management decisions to the treasurer makes sense as business risk and alternative risk transfer programs continue to take a higher profile, he said.

Although SAirGroup is one of the first Swiss companies and one of the first airlines to abandon its in-house insurance and risk management department, Mr. Luternauer believes other companies will follow suit.

The real risks that companies face increasingly are business risks, which traditionally have been handled by the treasury

See **SAir** *on page 131*

Growing Irish market no longer green

By SARAH GODDARD

DUBLIN, Ireland—Dublin is emerging as an important international market as more insurers and reinsurers set up operations in the city.

Many have taken advantage of being able to write business across Europe under the Third Life and Non-Life Insurance Directives and set up shop as International Financial Services Centre companies—with the additional bonus of a 10% corporate tax environment until 2005.

Among the new entrants to the Dublin market last year was Liberty International Underwriters, a subsidiary of Boston-based Liberty Mutual Insurance Co.

Licensed since November, Liberty operates as an underwriting agent for its parent company and subsidiaries, writing "specialty casualty" coverages.

These coverages include product lines such as directors and officers liability, professional liability and kidnap and ransom insurance, with a capacity of $25 million for each line.

Liberty has set up in Dublin because "on direct insurance it is an expanding market," explained Sean Rocks, managing director for Liberty International. The insurer is concentrating on a limited number of product lines, so it is not overlapping with other operations, such as the business written by Liberty-managed syndicates at Lloyd's of London, he said.

Dublin represents "the best of both worlds, with both the U.K. and continental Europe" as target markets, said Mr. Rocks. Continental Europeans seem happier to deal with Dublin than London, he contends.

By the middle of last month, Liberty had written about 15 insurance contracts. "We're fairly happy with the ways things are going so far," said Mr. Rocks.

More recently, ACE Insurance Co. Europe Ltd. received a

See **Ireland** *on page 131*

Germany expanding product recall cover

By DON LEWIS KIRK

German insurers are introducing a new policy form expanding coverage for product recall expenses in response to a safety law that has increased governmental authority to order recalls.

The German Insurance Assn., or GDV, plans to issue by July a standard policy to cover corporate risk arising from the law.

Under the Product Safety Law passed in August 1997, German state and local authorities now may force manufacturers to recall or destroy products deemed unsafe. Until last year, Germany had no federal law governing recall, though some states previously invested themselves with recall powers. Germany changed its product safety law to comply with European Union guidelines. The product safety law requires state governments to set up a new authority to oversee product safety.

Although coverage previously was available for recalling automobiles, German insurers now are offering recall coverage for all types of products.

The new model policy is designed to cover the costs of laboratory analyses of damaged goods, warning consumers and

See **Recall** *on page 132*

Argentina opening doors to insurers

By MARIA KIELMAS

BUENOS AIRES, Argentina—Foreign insurers will have an easier time entering the Argentine market later this year as Argentina's government completes the final stage of its insurance market deregulation.

Beginning Oct. 1, foreign property/casualty insurers may create new companies in the Argentine market. Previously, the rule was that any property/casualty insurance companies wishing to enter the Argentine market had to buy into existing firms. New investors in the life, pensions and workers compensation sectors have been able to create new companies since 1991, when the government began easing some market restrictions.

The government also will raise minimum capital requirements for property/casualty companies, said Daniel Di Nucci, director of the insurance regulatory authority, Superintendencia de Seguros de la Nacion.

Insurers believe that the effects of the changes on the market will be gradual.

"We don't expect an avalanche of new operators," said Norberto Panateli, executive director of the Argentine

See **Argentina** *on page 132*



PHOTO: AFP

Colombian plane crash insured

The crash of an Air France Boeing 727-200 in Bogota, Colombia, last week could cost insurers almost $10 million.

The total liability reserve for the crash, which killed 53 people, will range from $5.4 million to $6.5 million, according to one aviation insurance expert in the United States.

The hull, which has been declared a total hull loss, was insured for $3 million.

Aviation underwriters on the risk include The Westminster Aviation Group and underwriters in London and France. The coverage was placed by J&H Marsh & McLennan Inc. and C.E. Heath P.L.C.

All 43 passengers and all 10 crew members were killed when the plane slammed into a mountain after takeoff from El Dorado National Airport as it was heading to Quito, Ecuador. Most of the passengers were European.

The plane was on lease from Ecuadorian airline TAME.

Air France is a signatory to the International Air Transport Assn.'s Intercarrier Agreement, and has a total of $1.5 billion of liability insurance.

No liability reserve has been established yet, said a spokesman for London-based aviation adjuster Airclaims Ltd.

—By Sarah Goddard and Dave Lenckus

The Professional Marketplace

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Business Insurance

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On the 10 March 1998 the Scheme of Arrangement became effective and Philip John Singer and Christopher John Hughes of Coopers & Lybrand were formally appointed Joint Scheme Administrators of the above company.

Notice is hereby given that on the 14 April 1998 Provision of Information forms "PIFs" were sent to all known Scheme Creditors. Scheme Creditors are hereby advised that the PIFs must be returned to the Joint Scheme Administrators at the address below to be received by no later than 14 July 1998. Cedents who do not return their PIFs by this date will be deemed to have agreed the information in their PIFs.

All correspondence concerning PIFs should be addressed to the following offices where further PIFs may also be obtained if necessary:

Fremont Insurance Company (UK) Limited
c/o Coopers & Lybrand insurance services
Coopers & Lybrand House
3 St. Philips Central
BRISTOL BS2 OXJ
United Kingdom
Telephone no. +44 (0) 117 972 4553
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Administrative:
CEO's, Presidents, and Owners, ... 2,710
Vice Presidents, General Managers and Other Administrative Personnel 5,122

Financial:
Chief Financial Officers and Vice Presidents of Finance 5,429
Secretaries, Treasurers, controllers and other Financial Personnel 4,145

Risk/Employee Benefits:
Vice Presidents, Directors, Managers, and other related department personnel of: insurance, risk, employee benefits, personnel, compensation, pension, safety, security, industrial relations, human resources and employee/labor relations 14,748

Sub-total 32,154
Associations 286
Government, Unions and Educational Institutions 1,019

Commercial Consumers Sub-total 33,459
Insurance Agents and Brokers 8,083
Insurance Companies 6,933
Accountants, Actuaries, Attorneys & Consultants 2,705
Adjusters, Appraisers, TPA's, Captive Managers & Health Care Providers 1,578
Others Allied to the Field 757

Total Qualified 53,525
Non-qualified/Paid Subscriptions 14
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TOTAL CIRCULATION 53,556

★ *Source Business/Occupational breakdown of qualified circulation, November 24, 1997 Issue, as submitted to BPA for December 1997 BPA Publisher's Statement*

The Professional Marketplace

HELP WANTED

WORKERS' COMPENSATION COORDINATOR

American General Life and Accident Insurance Company, located in Nashville, Tennessee, has an opportunity for an experienced Workers' Compensation Coordinator. This position in the Risk Management department reports to the Risk Manager and coordinates Workers' Compensation claims with insurance carriers and claims administrators.

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Please use the reference EJBUSINS for all resumes. E-mail: extmedia@uswest.com (use ASCII text format, no file attachment) or FAX: 1-888-707-3806 or mail: U S West, Inc., P.O. Box 3529, Englewood, CO 80155.

All resumes are electronically scanned, processed and distributed. A letter quality resume with standard typeface is required (no underlines or bold please). U S West is an equal opportunity/affirmative action employer. Any offer of employment is conditional upon satisfactory completion of pre-employment background verification and drug testing.

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DIRECTOR OF SAFETY AND LOSS CONTROL

A statewide Georgia organization providing safety and loss control services to four non-profit, group self insurance pools is seeking a Director of Safety and Loss Control. The organization operates exclusively in Georgia and provides services to over 600 city and county governments. Director supervises the education and training manager, three full-time field representatives and support staff. In addition to safety and loss control experience the candidate should have strong management skills and leadership ability. Required to assess the effectiveness, planning and delivery of the current loss-prevention program, implement future programs, prepare budgets, maintain detailed records and provide management reports. Requires Bachelor's degree with 8-10 years of progressively responsible experience in safety and loss prevention. Excellent communication, training, writing, computer skills preferred. Knowledge of municipal and county government a plus. CSP or similar designation desirable. In-state travel required. Send two copies of resume, cover letter and salary history to Search Committee, GMA, 201 Pryor Street, SW, Atlanta, GA 30303.

HELP WANTED

DIRECTOR OF CLAIMS ADMINISTRATION

Established Illinois-domiciled specialty medical malpractice insurance company is seeking an experienced insurance professional to serve as Director of Claims Administration. The successful candidate will have responsibility for all claims administration activities. Duties include interaction with defense counsel, medical experts and the Board of Directors. Position reports directly to the President.

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Our client offers a state-of-the-art compensation package capable of attracting superior talent. If you possess an entrepreneurial flair, believe in ownership and seek to be a business influencer, your confidential inquiries are encouraged. Forward/fax resume to Jerry Weiss, Nuessle, Kurdziel & Weiss, Inc., Executive Search, 1601 Market Street, Philadelphia, PA 19103, Tel: (215) 561 - 3700, Fax: (215) 561 - 3745.

www.businessinsurance.com

SAir

Continued from page 129

or finance division with little coordination with the risk management and insurance departments, according to Mr. Luternauer. But if alternative risk transfer programs grow, there will be a greater need for liaison between corporate departments, he said.

SAirGroup is a participant in the aviation group captive Polygon Insurance Co. Ltd., domiciled in Guernsey.

Outsourcing its insurance and risk management functions to a company located in England, a lower-cost country that also has considerable aviation insurance expertise, also makes economic sense, said Mr. Luternauer.

'No outsource provider or consultant can really have the same feel for a business as an employee,' says Ina Barker of AIRMIC.

Mr. Luternauer, who as president of the Swiss Assn. of Insurance & Risk Managers has been promoting the use of outsourcing, pointed out that SAirGroup is fortunate to have had a broker that it has worked very closely with for more than 20 years able to assume this responsibility.

This disbanding of a corporate risk management department reopens the debate over outsourcing at a time when some of the larger brokers and consulting firms are expanding their risk management outsourcing services.

Ina Barker, executive director of the Assn. of Insurance & Risk Managers in London, says there is a growing international trend among brokers and consultants to promote outsourcing with financial directors.

While it may be cost-effective and efficient to outsource certain risk management functions such as automobile claims or specialist areas such as environmental risks, it would be "unwise for a company to totally outsource its risk management operations," she advised.

A professional, qualified risk manager is an "important asset to a company," said Ms. Barker, pointing out that "no outsource provider or consultant can really have the same feel for a business as an employee." A risk manager knows the strategy and culture of a company and has a vital role in coordinating, motivating and educating the entire group, she said.

One U.K.-based risk manager whose company also is looking at outsourcing its entire risk management operations agreed that while there could be short-term financial gains from outsourcing risk management functions, particularly in a soft insurance market, the long-term value of an in-house risk management department should not be overlooked.

"A risk manager is a facilitator who coordinates a risk management policy throughout a group. This is much easier to do by someone inside than by an outsider," said the U.K. risk manager, who did not wish to be named.

The soft market has provided large international brokers with an opportunity to go to companies and point out the financial benefits of outsourcing certain risk management services and maybe even abandoning captive insurers, though companies should keep a long-term outlook, the risk manager warned.

"The captive is an integral part of risk management. There is nothing like having a company involved in its own risk," he pointed out.

Chris Holden, assistant group insurance manager with the London-based chemical group Courtaulds P.L.C., agreed that while certain functions could be effectively outsourced, "a large organization needs someone in a central position to provide a risk management overview."

"People within a company will talk to a fellow employee far better than an outsider," said Mr. Holden, who also is director of professional standards for AIRMIC.

Mike Brooks, a director of Aon Risk Control Consultants in Leeds, England, said he does not doubt the efficacy of a good risk manager.

Although Mr. Brooks argues that the expertise available from brokers and risk management consultants makes outsourcing an increasingly attractive option for companies, he also points out that the risk manager is an extremely cost-effective employee of a large group.

It is always easier to implement risk management policies throughout a large, multinational group if there is a risk manager, said Mr. Brooks.

But, increasingly, clients are approaching outside sources to handle certain risk management functions, he noted.

"Many clients are looking to downsize their internal risk management operations," Mr. Brooks said. BI

Ireland

Continued from page 129

license to start writing business in Dublin within the IFSC jurisdiction. Unlike Liberty, ACE Europe is aiming its products at the captive market as well as large multinational clients. "Captives are one of the areas we are interested in doing some business," said Mark Keely, general manager for ACE Europe. The insurer is offering ACE's full product range, and Mr. Keely noted particular interest in financial lines.

Already, about 15% of ACE business comes from Europe. "We've got to be closer to that market to do business in it," said Mr. Keely. By being located in Dublin, ACE Europe benefits from "low frictional costs," and though Mr. Keely said the low tax environment wasn't a reason for setting up operations in the city, "it is there."

From the clients' perspective, "Dublin is a fairly solid place with serious players," said ACE Europe underwriting manager Adam Mullan, and is no more difficult to access from continental Europe than London. In addition, "Dublin has a more accessible regulatory regime," he said, and "it is hitting levels now where Dublin is gaining critical mass" to become a serious alternative as an insurance market.

Although the figures are yet to be fully compiled, Eamon O'Brien, chairman of the Dublin International Insurance & Management Assn., predicts that more than £3 billion ($5.02 billion) in gross written premiums flowed through the city in 1997.

One of the first major players to set up operations in Dublin was Bermuda-based insurer EXEL Ltd. X.L. Europe Insurance has been operating in Dublin since 1991, when it was set up to write excess business across the European Union. Growth in the first few years of operations was impressive, though it has slowed recently. In 1997, X.L. Europe wrote $55 million in gross premiums compared with $92 million the previous year.

'We haven't paid any major losses in seven years of operating,' says Pat Tolan of X.L. Europe.

"In Dublin we are experiencing softer rates and higher competition," explained Pat Tolan, managing director of X.L. Europe. In response, X.L. Europe has been competing to retain its existing business, offering additional limits and coverages where the business warrants it.

"We are good at retaining business and have been winning a fair share of new business," said Mr. Tolan, but the way rates have dropped has meant the overall effect is lower premium income. At the same time, losses are not coming through, he added. "We haven't paid any major losses in seven years of operating," said Mr. Tolan.

In an effort to extend its client base, X.L. Europe has started offering additional products, such as multiline/multiyear deals, and "there are a few things under way for substantial premium growth."

At the beginning of last year, X.L. Europe changed its structure, moving away from the traditional form of being organized along product lines. Now, it is set up as customer business units, divided along territorial lines in the Dublin operation. "We are hoping that the business units will identify opportunities and bring a more holistic view" of clients' risks, said Mr. Tolan.

The new insurers setting up in Dublin are putting the city on the map, "and in the course of the next two or three years we will see a market emerging," predicted Mr. Tolan.

Already there are signs that an alternative risk transfer market is emerging alongside the excess market: Zurich Capital Markets has set up in Dublin to interact with Centre Solutions of Bermuda, and the IFSC has been an attractive location for a range of Treasury operations.

But more traditional forms of risk capacity are still finding their way to Dublin. Most recently, Starr Excess Ltd. received a license and is hoping to start writing new business in Dublin by the end of June, said Managing Director Graham Nankivell. Mr. Nankivell shares the opinion of many of the new entrants to Dublin: That it is well on the way to becoming the European version of Bermuda, providing European clients with the same products but greater ease of access. BI

Recall

Continued from page 129
distributors about product flaws and repair or replacement of individual parts.

A major product recall can cost many millions of dollars, as Wolfsburg-based Volkswagen A.G. found last year. The automaker recalled cars worldwide for heating system defects.

A spokesman for car club Automobil Club Deutschland said German automakers have two or three recall cases every month, compared with two or three per year five years ago. The reason is a greater sensitivity to potential dangers to consumers, he said.

"Legal changes are fueling manufacturer and distributor fears of costly recall actions," said Michael Krause, a member of the group of leading German liability insurers developing the product. "Insurers are responding."

GDV model policies, which are developed by committees of insurers, tend to become standards for the industry once they are approved by German industrial antitrust authorities. Policy conditions and wording in the models often serve as guidelines for insuring large industrial risks.

Germany's product safety law has led to a bevy of new insurance products. Several insurers, including Munich-based Allianz Versicherungs A.G., Cologne-based Gerling Group and Hannover-based Haftpflichtverband der Deutschen Industrie V.V.a.G. have offered limited coverage for product recall up to now but are issuing recommendations to the GDV for the model policy.

"The risk of recall action isn't covered by other company liability policies," said Mr. Krause. "Insurers like Allianz offer basic coverage with additional cover available on demand."

Allianz, for example, has expanded its recall coverage to include costs related to withdrawing products in cases of product tampering and extortion.

The legislative changes apply to most German companies, including manufacturers of consumer products, said Klaus-Wolfgang Schulze-Weslarn, risk manager and head of insurance at consumer goods manufacturer Henkel KGaA.

"From a risk manager standpoint, the best (insurance) product puts a company right back where it was before the recall was made," said Mr. Schulze-Weslarn. "That means more than just covering losses to third parties. It's a true innovation (in Germany), when recall policies cover the financial losses in connection with recalled and unsold products."

Mr. Schulze-Weslarn said those policies are available. However, risk managers must shop around. "Some insurers want to limit damages to personal injury, but that is not enough. Companies must recoup all losses."

Henkel produces 11,000 consumer products, making the risk of recall a substantial financial risk for the company, said Mr. Schulze-Weslarn. "The right policy should and will cover a drop in turnover and profits or running costs—even in cases of extortion."

In Germany, there are more than 200 cases of attempted extortion against companies each year. An increase in extortion attempts has resulted in a growing demand for new solutions, said Mr. Krause.

While the GDV model excludes voluntary recalls, insurers do offer coverage for such situations in some cases.

"Depending on the circumstances of the specific case, recall insurance covers costs incurred for publicizing recalls in the media, for transport and intermediate storage, for checking and sorting operations, for replacement or other financially justified measures," explained Rainer Hagemann, chairman of the board of management of Allianz Versicherungs A.G.

'From a risk manager standpoint, the best (insurance) product puts a company right back where it was before the recall was made,' says Klaus-Wolfgang Schulze-Weslarn.

"With (Allianz's) product protection insurance. . . .companies (have) effective protection against the financial consequences of hazards that may arise in connection with the production or sale of products," said Mr. Hagemann.

Ernst Henning Heinsius, liability insurance director at Hamburg-based broker Aon Jauch & Huebener in Muhlheim, noted that "From a legal standpoint, companies have always had to remove defective products from the shelves. But now with new authorities looking over their shoulder, the pressure is on to recall sooner and more often. There's less room to maneuver."

But, "authorities will not automatically jump in and order a recall in every case. The consequences are too great," Mr. Heinsius said. For example, the state government of Baden-Wurttemberg had to pay more than 10 million deutsche marks ($5.6 million) after ordering Birkel GmbH of Weinstadt to recall tainted noodles the company had manufactured. The suspected contamination could not be proved, and the government paid the damage claims, he said.

The product safety law, however, has implications for all German products. "We have always had recalls in the car industry and it's been possible to insure that. Now all product manufacturers need to look at their risks the way car manufacturers do," he said.

That perception includes insurance. "Really only three insurers in Germany offer wide-reaching coverage for recall—Allianz, HDI and Gerling. There are differences, and buyers should look closely at their needs. The essential point is business interruption," such as losses that suppliers may suffer during a recall action, said Mr. Heinsius.

Insurers have gone further in addressing recall risk than the law demanded, observed Mr. Heinsius. "There is nothing in the law about extortion. The only reason for a government recall is potential bodily harm. But insurers have taken the law as a reason to extend coverage to meet growing buyer demand."

That demand includes financial losses and business interruption, said Mr. Heinsius. "Optimal insurance covers the threat of business losses from contaminated products," he said. "In addition, insurers now cover costs of eliminating damaged goods or replacing parts. That's new.

"Buyers need to know that their production is not greatly threatened by a recall action. Sometimes a recall action can mean replacing machinery or constructing new manufacturing methods. That's what clients want," said Mr. Heinsius.

The influx of new products is characteristic of Germany's changing insurance environment, said Bruce Trick, an executive at Aon Jauch & Huebener in Muhlheim who handles large industrial clients. "Markets are converging, and we see rent-a-captives, product tampering and recall insurance coming in from other markets."

Legal, social and economic constraints are fueling the trend, said Mr. Trick.

"Advances in product tampering insurance and product recall solutions have created a competitive environment," he said. "It's a good time to be a buyer." BI

Argentina

Continued from page 129
insurance association, called Associacion Argentina de Companias de Seguros. "Those companies that want to get into the market have already bought in," he added.

Alejandro Pineda, general director of Royal & Sun Alliance Argentina S.A., a subsidiary of U.K. company Royal & Sun Alliance Insurance Group P.L.C., agrees. "The 10 large international insurers, such as Allianz, Zurich, CIGNA and AIG, are all here, but there could be some other U.S. players looking at this market."

The Argentine market is very competitive and traditionally has not generated good underwriting results. Rates offered by Argentine insurers likewise are likely to remain relatively low. "The market as a whole will take time to generate good results," Mr. Pineda said.

New players need to have long-term strategies in the market, focusing on Argentina and Brazil, or even the Latin American regional market as a whole, he said.

In addition, several foreign investment funds have become new players in the Argentine market, buying up small to midsize insurers, he said.

Mr. Panateli said he believes that a reduction in the number of Argentine insurance companies will not be so rapid as in previous years. "Between 1989 and 1997, 85 insurance companies went into liquidation," he said.

The new minimum capital requirement for all companies currently operating in the country will be raised to $3 million from the current $550,000. "But there are not many companies that have capital lower than $3 million," Mr. Di Nucci said.

Newly created non-life companies will be subject to a minimum capital requirement of $10 million, while new life companies must hold a minimum of $5 million.

The difference in capital requirement for existing and newly created companies reflects the government's wish to encourage consolidation in the domestic insurance sector.

"One method of improving the solvency of the insurance system is to give those companies currently operating in the country the opportunity to be acquired by foreigners if they cannot resolve their own capital problems," Mr. Di Nucci said.

Existing companies will have two years to fulfill the new requirement, either through selling some or all of their equity to new companies or through mergers.

'The market as a whole will take time to generate good results,' says Alejandro Pineda of Royal & Sun Alliance Argentina.

There are 263 insurance companies operating in the Argentine market, which in 1997 generated gross written premiums of 5.7 billion pesos ($5.7 billion). Of these, 151 are property/casualty insurers.

Hyperinflation of the Argentine economy during the 1980s caused a financial crisis for the market's insurers, Mr. Di Nucci explained.

"Companies were profitable only because of playing the financial markets," he said. Argentina began to get its inflation under control after 1991. "Now we have a market that is completely different," Mr. Di Nucci said.

The existence of a state-owned monopoly reinsurer, Instituto Argentino de Reaseguros, or Inder, further damaged insurers' performance, because companies were able to cede to it almost 100% of their portfolios, irrespective of their quality. The reinsurance market was liberalized in 1992, and Inder was placed in liquidation. Mr. Di Nucci is Inder's official liquidator.

As of this month, Inder has liabilities within the Argentine market of 400 million pesos ($400 million) and approximately a further 500 million pesos ($500 million) of liabilities that are still in dispute, Mr. Di Nucci said. This figure has been calculated by the government's audit office, Sindicatura General de la Nacion. Much of Inder's liabilities stem from poor risks ceded to the reinsurer from the domestic insurers.

The insurance industry has been paying off Inder's liabilities through a special 8.5% tax levied for the purpose, though this tax is now earmarked for general government revenues. Under the market changes, the idea is to reduce this tax annually over four years until it is abolished. The tax reduction will begin July 1, 1999, Mr. Di Nucci said.

An ongoing debate in the Argentine insurance market aimed at clarifying companies' balance sheet assets will have an effect on the solvency of local companies, said Mr. Pineda.

Discussions are under way to define real estate assets on company balance sheets that are perceived as overvalued relative to present market prices, he said. In addition, there are differences between the government and the companies on Inder liabilities. "What the (company) balance sheet reflects in terms of credit, the government does not reflect in terms of debit," Mr. Pineda said.

This asset problem has yet to be addressed in detail and, in total, could involve up to one-quarter of the asset value of the Argentine market. A devaluation of insurers' assets, coupled with low rates in the global soft market, could mean the companies' gross premiums have been insufficient for the risks underwritten.

"The precise figures have not yet been decided, but the significance (of the problem) is important. It's a relatively visible and public discussion," Mr. Pineda said. BI

Datebook

MAY

MAY 4. Environmental Insurance Information Exchange seminar in Phoenix, sponsored by ECS Underwriting; No charge. Also **May 5** in Denver. ECS Underwriting, 520 Eagleview Blvd., P.O. Box 636, Exton, Pa. 19341-0636; 800-ECS-1414.

MAY 4-6. The Washington Legislative Update seminar in Washington, D.C., sponsored by the International Foundation of Employee Benefit Plans; $675 for members, $825 for non-members. Registrations Department, IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6710, ext. 8257.

MAY 4-6. Beyond the Basics of Health Care Cost Management seminar in Los Angeles; $825 for members, $975 for non-members. Registrations Department, IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6710, ext. 8257.

MAY 5-6. Alternative Risk Financing seminar in New York City, sponsored by The College of Insurance; $695. The College of Insurance Center for Professional Education, 101 Murray St., New York, N.Y. 10007; 212-815-9201.

MAY 5-7. The Insurance Summit conference in Las Vegas, sponsored by The Insurance Summit; $345 for attendees of seminars, exhibit hall admittance is free. The Insurance Summit, P.O. Box 290344, Tampa, Fla. 33687; 800-835-6238.

MAY 6. Solving the Additional Insured Issues workshop in Garden City, N.Y., sponsored by the CPCU Society's Long Island chapter; $85 for members and $95 for non-members. Bonnie Kinsley, CPCU, 720 Providence Rd., P.O. Box 3009, Malvern, Pa. 19355-0709; 800-932-2728, ext. 2735.

MAY 6-7. "21st Century Business Technology for the London and International Markets" conference in London, sponsored by IBC UK Conferences Ltd.; £795 ($1,326). The Bookings Department, IBC UK Conferences Ltd., Gilmoora House, 57-61 Mortimer St., London, W1N 8JX, England; 44-171-453-2706.

MAY 6-8. Property/Casualty Financial Analysis seminar in Philadelphia, sponsored by the Fells Road Group/Michael Conn Associates; $1,250. Fells Road Group, Inc., 271 Route 46 West, Building D, Suite 207, Fairfield, N.J. 07004; 973-227-5955.

MAY 6-8. Property & Casualty Product Management Skills and Techniques seminar in Boston, sponsored by Dorman Consulting Associates; $995. Dorman Consulting Associates, 1 Haverhill Court, Beachwood, Ohio, 44122; 216-464-5678.

MAY 7-8. Insurance Claims Supervision seminar in Des Moines, Iowa, sponsored by The Defense Research and Trial Lawyers Assn.; $525 for members, $575 for non-members. Defense Research Institute, 750 N. Lake Shore Drive, Suite 500, Chicago, Ill. 60611; 312-944-0575.

MAY 7-8. Employment Practices Liability seminar in Toronto, sponsored by the Risk & Insurance Management Society; $295 for members and $350 for non-members. Also **June 11-12** in Seattle. RIMS Inc., Professional Development Department, 655 Third Ave., New York, N.Y. 10017-5367; 212-286-9292, ext. 257.

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Commentary

No coverage here for computer losses

I am yearning for the days I hammered out articles and letters on a manual typewriter and kept track of business sources and friends in a slim printed pocket diary.

Why on Earth would I want to return to those days so many people equate with chisel and stone?

Because last week the hard drive on my laptop, which I use in the office and on the road, crashed spectacularly.

And the last time I backed up the information on my hard drive was August 1995.

That's a lot of speeches, letters, e-mails and e-mail addresses ago. And many of the letters and e-mails on my hard drive were never printed in hard copy; I had simply faxed the letters directly from my laptop to the recipient and filed the e-mails to my electronic filing cabinet.

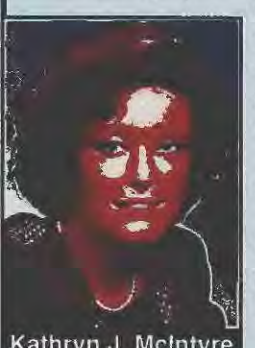
More than one friend has suggested to me that losing the data on a hard drive is the '90s equivalent of losing your wallet.

I wish I had lost my wallet instead.

It would be a heck of a lot easier to replace my credit cards, license, group medical cards and various other IDs than it will be to recreate what I lost on my hard drive.

Indeed, I think losing the data on my hard drive feels more like having my house robbed.

When my apartment was burglarized almost 20 years ago, I rushed around to discover if the thieves took my camera, jewelry, stereo and TV. It was only days and weeks later I began to realize all the little and not so little items that also had disappeared.


Kathryn J. McIntyre

That's how I am feeling going into day five of being without my old hard drive.

I've recreated the PowerPoint presentation I am giving at the annual conference and exhibition of the Risk & Insurance Management Society Inc. That wasn't so difficult, as it was pretty fresh in my mind.

But I just went into my WPDOCS file to look up a business report from two weeks ago, and it's not there. In fact, not much more is in this loaner laptop's WPDOCS than a few files our computer experts did salvage for me.

I also just discovered I'm missing the details of an upcoming business trip, all saved to my hard drive from an e-mail.

It's going to get worse before it gets better, I fear.

The only good news in all of this is that my electronic organizer, filled with 1,177 telephone numbers, 2,968 appointments past and to come and 98 birthdays and anniversaries, is not only still working but also was backed up on disk (in addition to on my hard drive) just a few months ago.

So how is it that someone who is concerned enough to back up her organizer on a half-dozen disks and someone so immersed in risk management could fail to back up her hard drive for more than two years?

My primary excuse is that I had transferred all my files from my old desktop to my new laptop less than a year ago and subsequently gave up my desktop, not thinking I had anything to worry about with the new machine. As of last week, for example, I had used less than half the laptop's hard drive. I honestly didn't think such a disaster could strike my carefully cared for and, until last week, faithfully performing companion.

If only Bill Gates' computer had crashed in public a week sooner, I would have realized it could happen to me, too.

I make this embarrassing public confession of my stupidity and negligence in print so that if any of you reading this column have not backed up your hard drive—or your electronic organizer—in the last month or so, you will do it right now.

As for me, as much as I can wax nostalgic about my manual typewriter and pocket diary, I won't go back to either one. This column would be due earlier if I filed it in hard copy and someone had to input it for me.

And I have to keep my electronic organizer. I don't have a purse big enough to carry the size of diary that would be needed to give me access to all the information in my organizer.

But when I get my laptop back, with its new hard drive, it will be armed with a backup feature, and I will use it as faithfully as I have backed up my organizer.

In the meantime, I'm hoping that the wizards of data retrieval will rescue something from my poor busted hard drive.

And no, I don't know for certain why the hard drive crashed.

I guess that's like not knowing where you lost your wallet.

Publisher and Editorial Director Kathryn J. McIntyre and Editor Paul D. Winston write columns on alternate weeks.

Brokers

Continued from page 1

that broker produces a certain amount of business for the insurer, are a long-standing feature of the insurance market. However, they tend to become more prevalent when rates are cheap and capacity is high—as under the current market conditions.

The issue has gained more attention recently in the United Kingdom, particularly because of comments made by Jardine Lloyd Thompson Group P.L.C. Chief Executive Ken Carter in JLT's recently issued annual report.

Mr. Carter comments, "We are aware of the debate within part of the risk management community regarding incentive commissions paid by some insurers. These incentives in general terms reflect factors such as profitability, premium volume and administrative efficiencies across the entire business portfolio between a broker and an underwriter."

Noting that less than 2% of JLT's 1997 revenue came from these arrangements, Mr. Carter said, "We will operate a policy of transparency with our clients by providing, where requested, appropriate disclosure of incentive commission whilst, at the same time, separately identifying the total remuneration which the group derives from these incentive commissions in future report and accounts."

The JLT statement has prompted other brokers to make similar statements. At the end of last month, Lloyd's of London broker Berry Palmer & Lyle Ltd. issued a letter saying that the broker "does not accept incentive payments from insurers, though we have been offered them on a number of occasions." In addition, "It is our policy to advise our clients of any such remuneration we receive in addition to brokerage or fees, as we are conscious that we are the agent of the insured, even though commission is usually payable by the insurer," BP&L said.

Still, some risk managers in the United Kingdom and in the United States are not convinced that they are being given the whole picture of their brokers' compensation. Buyers question the potential conflicts of interest brokers may face in also receiving payment from insurers.

By law, a broker's principal client is the policyholder. Even so, when the intermediary receives payments for services or business provided to insurers that may jeopardize that relationship with the policyholder, assert some risk managers and insurance executives.

Liz Taylor, a former chairman of AIRMIC, is against a broker receiving any commissions from insurers at all, since it provides little incentive for the broker to act in their client's best interests. She said she is concerned about the lack of transparency these arrangements represent and added she would happily pay a higher fee in return for greater disclo-

See **Brokers** *on next page*

Kawamoto joins Swiss Re America as director of enterprise risk unit

Comings & Goings: Industry

Brian W. Kawamoto, former managing director of Aon Worldwide Resources in San Francisco, recently joined the alternative risk transfer division of Swiss Re America Corp., the U.S. arm of Swiss Reinsurance Co., as director of its enterprise risk unit in New York.

And at Swiss Re Life & Health, a specialty global division of Swiss Re, **Ann Godbehere** was appointed divisional chief financial officer. Ms. Godbehere, formerly with Mercantile & General Reinsurance Co. in Canada, will relocate to London.

In other reinsurance changes:

Mark D. Mosca, president of Risk Capital Holdings Inc. in Greenwich, Ct., named to the additional post of chief executive officer, a position that has remained open since the company was formed in 1995.

New York-based Tokio Re Corp. named **Stanley Cohen** and **David Gustafson** executive vps, **Joanne Moore** senior vp and **Jeffrey Kofman** a vp in the treaty underwriting department.

Daniel Malloy, former chief underwriting officer and senior vp of Zurich Reinsurance (North America) Inc.'s finite reinsurance division, was named president and chief executive officer of Stockton Reinsurance Ltd., a finite risk reinsurer based in Bermuda. He previously worked in the Zurich Re division's New York and Hamilton, Bermuda, offices.

Replacing Mr. Malloy at Zurich Re is **William M. Jewett**, who was named chief underwriting officer of the Centre Reinsurance division of Zurich Re in New York. Also in the Centre Re divisior., **Robert N. Darby Jr.** joined as vp-underwriting in San Francisco. Previously, Mr. Darby was a principal and manager of the Western region risk management consulting practice of Tillinghast-Towers Perrin.

Philip C. Cawley named senior vp in the Atlanta office of U.S. RE Corp, and **Richard Davies** named senior vp in New York.

Thomas V. Lehmkuhl Jr. joined Old Republic Re Inc.'s New York office in the newly created position of vp-director of casualty facultative, with national oversight for that operation.

Jerome Faure named chief underwriting officer at SCOR U.S. Corp. in New York.

Also at SCOR, **Dominique Lavalle** named president and CEO of SCOR Canada, succeeding **Laurent Thabault**, who was named director of group underwriting policy for SCOR S.A. in Paris.

In addition, **Joseph F. Peloso** named senior vp of SCOR Reinsurance Co. in New York.

Insurers

Robert H. Benmosche named chairman, president and CEO of Metropolitan Life Insurance Co. in New York, effective July 1. Mr. Benmosche, currently president and chief operating officer, succeeds **Harry P. Kamen**, who is retiring.

Sally McNeill named vp of Reliance Insurance Co.'s consulting group in Philadelphia with overall responsibility for liability claims. Also at Reliance, **Karen Vander Lee** named vp-product management in Philadelphia.

Bert E. Armellino named president of the energy division of American International Underwriters, a division of American International Group Inc. in New York.

Jeffrey J. Beauman named vp-underwriting staff at Allendale Mutual Insurance Co. in Johnston, R.I., and **Darrell G. Hamer** named a vp of Allendale in Chicago.

Larry C. Glasscock joined Anthem Inc. as senior executive vp and COO in Indianapolis. Previously, Mr. Glasscock was COO of CareFirst, the holding company for the newly affiliated Washington D.C./Maryland Blue Cross & Blue Shield Plans.

José S. Suquet named senior executive vp of the Equitable Life Assurance Society of the United States, the principal life insurance subsidiary of The Equitable Cos. Inc. in New York.

Agents/brokers

Lucien P. "Luke" Laborde Jr. named senior vp-strategic insurer relations and marketing and **Eric Hein** named senior vp-change program director at Willis Corroon Americas in Nashville.

Mark S. Wiemold named controller of the alternative market operation of Aon Group Inc. in Chicago. Also, **G. Michael Cusick** and **Dorsey H. Hensley** named executive vps and **Keith R. Pinkstaff** named senior vp at Aon Risk Services Inc. of Oregon in Portland.

Vincent P. Howley named vp-agency financial operations at Hilb, Rogal & Hamilton Co. in Glen Allen, Va.

Laurence A. Colton named president of San Francisco-based brokerage Richard N. Goldman & Co. Mr. Colton assumes the role of president from **John D. Goldman**, who remains CEO.

Robert Hope named senior vp-operations at Kenneth I. Tobey Inc., a Seattle-based managing general agency.

Other suppliers

Dr. Henry T. Harbin named president and CEO of Magellan Health Services Inc., an Atlanta-based specialty managed care company. Dr. Harbin, former CEO and founder of Green Spring Health Services, in which Magellan purchased a controlling interest in 1995, succeeds **Mac Crawford** who resigned to become CEO of MedPartners Inc.

Brent R. Kush named national practice leader-insurance claims services for business interruption, property damage and fidelity/employee theft claims at Price Waterhouse L.L.P. in San Francisco.

Catherine L. Cather joined the Irvine, Calif., offices of Towers Perrin as a senior consultant in the company's health and welfare practice specializing in total health management. Previously, Ms. Cather was senior vp at Aon Consulting.

Stephen J. Dresnick named president and CEO of FPA Medical Management Inc., the San Diego-based firm that organizes and manages primary care physician networks to contract with various prepaid insurance plans. He succeeds **Dr. Seth Flam**, who resigned to pursue other interests. BI

Brokers

Continued from previous page
sure.

Commented Scott Lange, director of risk management at Microsoft Corp. in Redmond, Wash.: "If a broker has a better override with one market than with another. . .it would be interesting to see which the preferred market (for a piece of business) is."

Stephen M. Wilder, who completes his presidency of the Risk & Insurance Management Society Inc. this week, agrees with the view that volume override commissions may provide incentives to brokers that are at odds with the best interests of the insurance buyer.

Mr. Wilder, vp-risk management at The Walt Disney Co. in Burbank, Calif., said he expects the issue of broker compensation to be raised at the RIMS conference this week during a debate on consolidation.

"If I pay a broker a fee for services they deliver, that ought to be the only compensation they earn based on my book of business," Mr. Wilder said. "If they are doing work for an insurance carrier which is to my benefit, it should be reflected in my fees."

Earlier this month, Lloyd's director of regulation, David Gittings, issued guidelines to Lloyd's brokers on the regulatory requirements for broker remuneration. In these guidelines, Mr. Gittings reinforces that the broker's responsibility is to the policyholder, though the full extent of the broker's fiduciary obligations "depends on the nature of the individual relationship and the circumstances in which the broker is acting."

The guidelines also say that an agent must disclose to the policyholder "all benefits received or receivable when acting in the capacity of an agent on behalf of his principal. Such benefits may only be retained if disclosed to the principal and with the principal's agreement."

If commissions are within what Mr. Gittings describes as "the usual range of the market," then the broker doesn't need to tell the policyholder unless the policyholder specifically asks. But if they are outside that range, the policyholder must be informed. In addition, a policyholder must be informed by a broker if there is any conflict of interest.

In an interview with *Business Insurance*, Mr. Gittings said, "There is nothing illegal in any of this," referring to the fees for services and volume override arrangements. "It is purely a disclosure issue."

However, Lloyd's broker regulators will analyze the different payments made for different activities in the light of proposed changes in the U.K. government's broker regulation. Currently, the treasury is consulting with the insurance industry on broker regulation, intending to repeal the current Insurance Brokers Registration Act and include brokers within the Financial Services Reform Bill. The consultation period runs until the end of next month, with draft legislation expected in the summer and a bill expected to be presented to Parliament in the fall.

"We are not in the banning mode" over these arrangements, said Mr. Gittings. "We are in the understanding and disclosure mode." BI

Privacy

Continued from page 1

"This legislation will establish necessary national standards to protect the confidentiality of each American's medical records," Mr. Jeffords said when he submitted the 74-page bill earlier this month. The so-called "Health Care PIN Act" would pre-empt state laws relating to medical records confidentiality. Its limited exceptions include state laws dealing with law enforcement and public health issues.

The act requires that individually identifiable health care information not be released without patient consent.

With very few exceptions, such information can be disclosed for health purposes only, which includes the provision of and payment for care and plan operations, Mr. Jeffords said.

To help ensure accountability, the legislation imposes "stiff penalties" for unauthorized disclosure, according to co-sponsor Sen. Dodd. Penalties include fines ranging from $50,000 to $500,000 and prison terms of up to 10 years.

Under the bill, many entities that hold personal health information—including doctors, employers, health plans and health insurers—would be required to apply safeguards to protect the confidentiality, security, accuracy and integrity of the information. Details would be spelled out in future federal regulations.

"There is a great deal of confusion about the intent and application of the bill with respect to workers comp, as well as many ambiguities," said Eric J. Oxfeld, president of UWC Inc., a broad-based association focusing on workers comp and unemployment insurance and representing both employers and insurers.

According to his analysis, "employers must use the safeguards and are subject to sanctions, neither of which appear to cover workers compensation insurers. However, employers and comp insurers are both subject to the authorization process, under which doctors can release personal health information to the employer or insurer only upon specific authorization from the subject," Mr. Oxfeld said.

Workers compensation payers can only obtain an injured worker's medical information through the treating doctor who has the patient's authorization to release it.

"This authorization, which can be revoked at any time, pre-empts workers compensation laws in most states, which currently do not require an authorization," he said.

While a non-occupational group health plan can provide treatment, pay medical providers and administer the plan using one authorization signed by the worker at enrollment, workers comp medical care may require separate authorization following an injury.

'There is a great deal of confusion about the intent and application of the bill with respect to workers comp, as well as many ambiguities,' says Eric J. Oxfeld.

"UWC believes privacy protections for workers injured on the job must be balanced against the legitimate need for prompt, accurate and complete medical information," Mr. Oxfeld said. The bill, as introduced, falls "far short" in striking an appropriate balance, he said.

"Collecting multiple authorizations and allowing a claimant to revoke authorization for open claims could delay benefit delivery and drive up claim costs, especially if the employer or insurer cannot receive personal health information showing the claimant can return to work or has a lower degree of disability than claimed," Mr. Oxfeld said.

"Nearly all states allow an employer or its insurer to have access to needed medical information related to a workers compensation injury without authorization (by the employee)," said Gloria Gebhard, chair of the Occupational Health and Disability Management Committee for the International Assn. of Industrial Accident Boards and Commissions.

"This allows for swift payment of both medical and indemnity benefits," said Ms. Gebhard, a medical policy analyst for the Minnesota Department of Labor and Industry.

"We do not want to see that jeopardized by federal or state legislation," she said.

If Congress or states are going to consider such proposals, "we feel that workers comp needs to be at the table with other parties in order to appropriately look at medical records legislation that affects workers comp," she added.

The bill "is on the radar screen of the entire business community," said Ken Schloman, federal affairs counsel for the Alliance of American Insurers in Washington. "There is still an education process that needs to go on" to make federal lawmakers aware of the problems such proposals create for state-based workers comp systems, he said.

Senate committee staffers are aware of some of the issues related to workers comp, although "we haven't been convinced that a blanket exemption is appropriate, and it is probably unlikely," said Joe Karpinski, the senate committee's communications director. However, "we have invited interested parties in the workers comp community to provide legislative language that would address the particular concerns that they have."

The committee's aim is to balance employer and insurer concerns with those of labor. A committee vote on the bill has not been scheduled yet.

James N. Ellenberger, assistant director of the AFL-CIO's Department of Occupational Safety and Health, said medical records privacy restrictions should be strengthened and apply uniformly to all insurers, including those that write workers comp.

"Employers need to know what they are paying for and details about medical restrictions, but I'm not sure they need to know a whole lot more," he said.

The federation wants to protect workers from unauthorized access to workers comp information, which may allow businesses to discriminate against workers because of health conditions and even blacklist them for merely filing a workers comp claim, Mr. Ellenberger said. BI

Updates

Studies of PARCA burden vary

WASHINGTON—How much will the Patient Access to Responsible Care Act increase employers' health care costs?

The answer, it seems, depends on who is doing the analysis. Last week, Coopers & Lybrand L.L.P. released a study finding that PARCA, if enacted, would increase health care premiums by 0.77% An analysis released last year by actuarial consulting firm Milliman & Robertson put the premium range increase at 7% to 39% (*BI*, Nov. 24, 1997).

The two studies, though, are not exactly comparable. For example, Coopers & Lybrand did not put a cost estimate on a vague PARCA provision—subject to varying interpretations—that would bar discrimination against health care providers. M&R said that provision—depending on a variety of factors—could increase premiums anywhere from 1% to about 10%.

Neither study places an estimate on PARCA's most controversial provision: allowing patients to sue employers for malpractice if network providers injured them.

Such a cost estimate is expected to be released today as part of a new analysis prepared for the Health Benefits Coalition, an employer and insurer lobbying coalition opposed to PARCA.

While PARCA, introduced by retired-dentist-turned-congressman Rep. Charles Norwood, R-Ga., has enjoyed broad support in the House of Representatives, its chances of enactment have grown slimmer in recent weeks as no committee votes have been scheduled on the measure.

Spring storm losses high

RAHWAY, N.J.—Losses continue to mount from a unusually violent tornado season across the south-central portion of the country.

The Insurance Services Office Inc.'s Property Claim Services unit in Rahway, N.J., projects that the winds, hail, tornadoes and flooding that ripped across five states April 15 through 17 caused an estimated $200 million in insured property damage.

Tennessee suffered the most damage, with $145 million. That includes damage to downtown Nashville, where tornadoes shattered office windows and showered downtown streets with broken glass. Other states affected by the storm include Arkansas, Illinois, Kentucky and Missouri.

According to an ISO spokesman, roughly $60.2 million of the damage was covered by commercial insurance, $135.7 million by personal lines policies, and the remaining $4.1 million by automobile policies.

The mid-April storms came close on the heels of another system that caused an estimated $150 million in insured property damage to portions of Alabama, Georgia and Mississippi, with the most damage occurring in the northwestern suburbs of Birmingham, Ala. (*BI*, April 20).

In late March, another tornado system that struck portions of Minnesota caused an estimated $175 million in insured damage. The Minnesota losses push the total insured property damage for the first quarter of 1998 above $1 billion (*BI*, April 13).

Hospital payments disputed

OWINGS MILLS, Md.—Two Maryland insurers are disputing charges that they wrongfully denied payments to hospitals for medically necessary care.

The charges came in a letter from Calvin Pierson, president of the Lutherville, Md.-based Maryland Assn. of Hospitals & Health Systems to Maryland Insurance Commissioner Steven Larsen. In a letter mailed last week, Mr. Pierson charges that Owings Mills, Md.-based Blue Cross & Blue Shield of Maryland "has denied payment to hospitals for all or part of the care received by one in every five Blue Cross patients hospitalized in 1997." The situation stems from "strict adherence" to length-of-stay guidelines, he said.

The letter also charges Rockville, Md.-based MidAtlantic Medical Services Inc. with an "ongoing pattern of. . .non-compliance with state law and with non-adherence to its own contracts with hospitals."

Blue Cross responded with a written statement saying, "It should be understood that patients are not being denied care." The Blues' statement also said the insurer was "seeking to improve procedures for more effective utilization review with individual hospitals," noting that "several hospitals have acknowledged that in roughly half the cases in which claims were questioned, the hospital care and services provided were inappropriate."

MAMSI also replied with a statement, which read in part, "First and foremost, we want to assure our members that this is an administrative dispute, which has no impact whatsoever on the quality and reliability of their health care coverage."

Briefly noted

Adrian M. Tocklin has been named the 1998 APIW Insurance Woman of the Year. Ms. Tocklin, who recently retired as president and chief operating officer of diversified operations at CNA Financial Corp., will receive the award at a reception in New York on June 3. . . .Property/casualty insurers will face **additional tax liability** after the Supreme Court last week ruled in favor of the Internal Revenue Service in a complicated tax case. The Internal Revenue Service favored a more restrictive definition of "reserve strengthening" for tax purposes than insurers did. The case, *Atlantic Mutual Insurance Co. vs. Commissioner of Internal Revenue Service*, stemmed from conflicting interpretations of the Tax Reform Act of 1986's impact on the tax treatment of property/ casualty insurers' loss reserve practices. . . .Iowa's attorney general will continue to pursue consumer fraud **charges against the tobacco industry** despite the Iowa Supreme Court's dismissal last week of a key part of its lawsuit. The court ruled Iowa law does not allow the state to collect from the industry amounts it spent treating smoking-related illnesses. . . .Meanwhile, a U.S. District Court judge in Philadelphia last week **dismissed a class action** filed by seven union welfare funds in Pennsylvania seeking to recover costs of treating their members for smoking-related illnesses.

Ergonomics

Continued from page 1

In his role as manager of ergonomics services, Mr. Albin, who has graduate degrees in psychology and engineering, developed an education program to teach computer users how to reduce their exposure to ergonomic injuries on the job.

As part of that effort, he created a site on 3M's company intranet with information that employees could access to evaluate their workstations. He also developed educational videotapes and seminars.

But when it came to recommending suitable devices to complement his education efforts, "the products available didn't have all the features that were needed," Mr. Albin said.

So Mr. Albin and Mr. Denais, simultaneously working on separate missions, decided they could accomplish both of their objectives by joining forces, and the new 3M product line was born.

"It was a perfect fit," Mr. Denais said. "We made a business case to the corporation that we had the knowledge, the technology and the distribution system" necessary to launch such a product line.

In some cases, the ergonomic devices were partially derived from other products that 3M had been manufacturing for years.

For example, "we took the medical gel that was developed for people who were wheelchair-bound or bed-bound and sealed it in a barrier film wrapped in breathable, nonwoven fabric developed for bandages" to create a gel-filled wrist rest for computer users, Mr. Denais explained.

Throughout the product development stage, which began in 1995, Mr. Albin conducted research using subjects recruited from among experienced computer users employed in clerical occupations by 3M.

He presented two of his studies, the "Effect of Wrist Rest Use and Keyboard Tilt on Wrist Angle While Keying" and "A Pilot Study of a Method for Determining Wrist Contact Pressure While Keying" at the 13th Triennial Congress of the International Ergonomics Assn. in Tampere, Finland, in 1997. Those two studies showed the relationship between work station design conditions and injury.

In another study of 1,000 3M employees conducted over a 30-month period, less than 11% still reported discomfort after they had implemented all or part of the recommended ergonomics changes, Mr. Albin found. Those changes centered on education on posture as well as use of the ergonomic devices.

'We made a business case...that we had the knowledge, the technology and the distribution system' to launch such a product line, says Claude Denais.

3M did not study the direct effect on workers compensation experience, Mr. Albin said, because the emphasis of the ergonomics program is on early intervention to prevent a situation from developing into a workers comp claim.

As 3M's efforts continued, word filtered to the American Chiropractic Assn.'s panel on occupational health, which had been conducting its own investigation of ergonomics devices.

While ergonomics may be a new word to most people, "chiropractors have been focusing on ergonomics issues for over 100 years," explained Edward L. Maurer, president of the ACA's Board of Governors and a chiropractor from Kalamazoo, Mich. "Chiropractors treat repetitive stress and musculoskeletal injuries on a daily basis."

When the panel brought the 3M products to the ACA's attention, "we asked, 'Do they meet the requirements of ergonomic validity?' " Mr. Maurer recalled.

To determine the effectiveness of the products, the ACA decided third-party evaluation was necessary and sent them for testing to the Center for Clinical Studies at Northwestern Chiropractic College in Minneapolis.

"The college researched the products over a three-month period," Mr. Maurer explained. "They tested the manufacturer's claims and put them in practical use to see if, indeed, the people using them derived the appropriate benefit."

In the end, the college's researchers found that the products did provide users with relief from some repetitive forces.

"At that point, we put the products through the ACA's usual protocols on product endorsement," he said, and the 3M "professional line" of office ergonomics products—which includes a padded wrist rest, document rest, adjustable keyboard tray, foot rest and computer monitor stand—became the first computer ergonomics devices to receive the ACA's official endorsement.

So far only two other products have the ACA's endorsement: The Springwall mattress, also known as the "chiropractic mattress," received the ACA's endorsement about 10 years ago; and the Obusforme® back support was endorsed by the ACA about three years ago.

Dr. Maurer explained that the ACA is careful about which products it endorses because there are so many "gimmicks" on the market that have no beneficial value.

"We don't want to be giving something to our patients that won't help them," he insisted.

Fortunately, "we found that 3M has really done their homework," Mr. Maurer commented. BI

HEDIS

Continued from page 2

management of patients with severe or moderate depression who are being treated with antidepressant medication.

A new cardiac care measurement will determine whether patients who have heart problems also have their bad cholesterol, or LDL, levels checked and kept under control.

Also, the draft of HEDIS 1999 contains a new consumer survey that will replace the current Member Satisfaction Survey and is designed to measure satisfaction with commercial plans as well as Medicare and Medicaid plans.

"The new consumer surveys help standardize accountability across the industry," NCQA Executive Vp Cary Sennett said in a written statement. "It is now possible to compare commercial plans with Medicare and Medicaid plans on satisfaction and service."

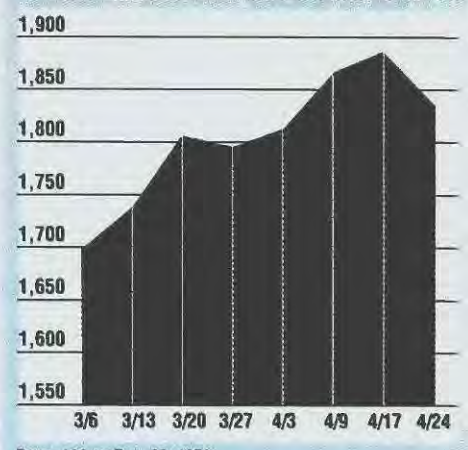
Dropped from the previous HEDIS are six measures, all superseded by new ones. Four of the dropped measures are now covered by the new consumer survey, and two are covered by the new behavioral health care measures.

The NCQA will hold a comment period ending May 29 to allow employers, consumers and health plans to provide feedback on HEDIS 1999.

To facilitate feedback, the NCQA mailed more than 2,500 copies of the updated HEDIS to interested organizations. Comments will be accepted via mail or electronic mail and can be sent to the NCQA, 2000 L St. N.W., Suite 500, Washington, D.C. 20036, or hedisdraft@ncqa.org. HEDIS 1999 also is available at the NCQA World Wide Web site, www.ncqa.org/hedis99.htm.

The final version will be released in August. BI

BI Insurance Index



Base=100 on Dec. 29, 1978
Source: *Nordby International Inc.* (nordby.com) Boulder, Colo.

PCS catastrophe options

As of April 24

Call spread	Price bid/ask	Call spread	Price bid/ask
National Annual 1998		**California Annual 1998**	
40/60	6.5/8.0	40/60	2.1
60/80	4.0/6.5	150C	1.4/2.0
80/100	5.8		
Southeastern September 1998		**Florida September 1998**	
40/60	NA	40/60	1.4/2.4
Northeastern September 1998		**Eastern September 1998**	
100/150	1.1/1.4	20/40	3.5/4.8
		40/60	NA

Total volume: 1,090 Total open interest: 19,899

For information on PCS cat options, call the Chicago Board of Trade at 312-435-3674.

Source: Chicago Board of Trade

British Issues

Companies	Price pence	P/E	Div. pence	Yield %	52-week high-low
Comml Union	1070	21.6	32.5	2.9	1300-630
Genl Accident	1387	9.6	37.5	3.3	1626-837
Gdn Royal Exch	414	6.4	11.5	2.8	495-257
Legal & Gen	670	17.4	12.7	2.3	785-395
Royal & Sun	789	18.1	22.8	3.2	825-440
Brokers					
Lmbrt Fenchurch	114	7.7	8.4	9.7	138-101
Lloyd Thmpson	174	11.8	10.0	7.1	196-151
Sedgwick Grp	156	12.1	7.0	4.6	171-115
Willis Corroon	168	13.4	6.6	5.0	174-116

Note: Prices are April 24 closings; other numbers from April 23.

Source: *Nordby International Inc.*(nordby.com) Boulder, Colo.

BI Industry Stock Report APRIL 20, 1998, THROUGH APRIL 24, 1998

BROKERS		Price	Weekly % change	Year to date % change	52-week High	52-week Low	Vol.(000)
Aon Corp.	NYS	65.44	-3.06	11.62	68.19	42.75	1129
E.W. Blanch Holdings Inc.	NYS	35.75	1.96	3.81	38.75	22.00	178
Gallagher Arthur J. & Co.	NYS	45.38	-0.68	31.76	46.56	30.38	133
Hilb, Rogal & Hamilton	NYS	17.94	1.06	-7.12	19.63	13.50	152
Kaye Group Inc.	NDQ	7.25	5.45	9.43	9.00	4.75	0
Marsh & McLennan	NYS	90.13	-2.63	20.87	94.88	57.13	1685
Poe & Brown	NYS	34.31	4.37	15.34	38.50	17.50	181
Sedgwick Group PLC	NYS	13.06	-7.11	6.09	14.44	9.38	38
Willis Corroon Corp.	NYS	14.25	-3.39	15.74	15.19	9.75	515
BROKERS	AVERAGE		-0.12	11.99			
INSURERS/REINSURERS							
ACE Ltd.	NYS	35.69	-5.78	10.95	42.50	19.38	2982
Acceptance Insurance Cos.	NYS	22.81	-0.54	-5.68	28.63	18.00	122
AEGON N.V.	NYS	136.75	-1.00	52.58	141.25	68.06	115
Aetna Life & Casualty	NYS	80.56	-4.38	14.17	118.13	66.31	2406
AFLAC Inc.	NYS	60.56	-3.29	18.46	67.25	40.38	1160
Allied Group Inc.	NYS	31.56	-0.20	10.26	35.75	23.44	170
Allstate Corp.	NYS	97.13	0.13	7.32	100.25	60.50	7874
AMBAC Indemnity Corp.	NYS	56.75	-3.92	23.37	61.00	31.50	914
American Bankers Ins.	NDQ	60.44	0.94	31.56	66.06	25.94	3515
American Financial Group	NYS	43.69	-2.78	8.37	49.25	32.88	418
American General	NYS	67.38	1.99	24.62	68.88	39.63	3522
American Heritage Life Ins.	NYS	22.44	-7.47	24.65	25.00	12.50	66
American Indemnity/Fin'l	NDQ	12.25	-5.77	-11.71	15.50	9.50	16
American International	NYS	131.50	-5.69	20.92	140.31	78.13	5176
Argonaut Group	NDQ	34.50	-0.72	1.85	38.13	26.75	101
AXA-UAP Group	NYS	56.69	-5.82	45.35	61.69	29.25	200
Baldwin & Lyons Inc.	NDQ	22.50	-2.44	-6.74	28.75	17.38	4
Berkley W.R. Corp.	NDQ	47.50	2.70	8.26	49.50	31.88	389
Berkshire Hathaway Inc.	NYS	68100.00	-3.41	48.04	71000.00	30000.00	1
Capital RE Corporation	NYS	69.88	2.19	12.59	70.38	38.75	300
Capitol Transamerica Corp.	NAS	19.50	0.00	-8.50	28.13	19.00	224
Centris Group Inc.	NYS	14.75	4.42	32.21	14.75	8.94	102
Chartwell Re	NYS	29.88	-6.64	-11.48	36.25	24.50	176
Chubb Corp.	NYS	79.75	-2.74	5.45	83.44	54.50	1555
CIGNA Corp.	NYS	205.94	-3.91	19.47	214.88	136.94	661
CNA Financial Corp.	NYS	152.56	-3.29	19.42	159.94	96.38	179
CNA Surety	NYS	16.31	1.95	5.67	16.50	12.88	118
EMC Insurance Group Inc.	NDQ	15.25	4.27	15.09	15.25	10.75	26
ESG Re Limited	NDQ	26.50	-2.75	12.77	28.88	20.88	218
Enhance Financia Services	NYS	72.31	0.26	21.53	75.19	38.00	267
Everest Reinsurance	NYS	42.00	-5.22	1.82	45.25	28.25	1472
Executive Risk Inc.	NYS	65.75	-5.99	-5.82	75.75	43.50	230
EXEL Ltd.	NYS	76.81	-3.00	21.20	81.13	39.00	753
Fremont General Corp.	NYS	55.94	-6.67	2.17	62.13	27.13	295
Frontier Insurance Group	NYS	25.75	-5.50	12.57	39.25	20.00	868
Gainsco Inc.	NYS	8.63	-12.66	1.47	10.19	7.88	1013
General RE Corp.	NYS	222.69	-1.49	5.04	228.88	160.00	811
Gryphon Holdings	NDQ	18.00	0.70	7.46	19.38	13.88	22
Harleysville Group	NDQ	28.22	1.23	17.58	28.50	15.75	192
Hartford Steam Boiler	NYS	65.81	-3.84	19.25	69.88	45.63	273
HCC Insurance Holdings	NYS	21.63	-3.89	1.76	32.69	15.63	721
ING Groep N.V.	NYS	65.06	-3.79	53.77	69.81	38.88	436
IPC Holdings Ltd.	NDQ	32.75	-0.19	1.75	33.00	22.38	60
Hartford Financial Services	NYS	109.88	-2.98	17.43	116.88	68.38	1178
LaSalle Re Holdings Ltd.	NYS	37.44	-4.31	5.83	42.94	27.25	96
Life Re Corp.	NYS	72.63	-0.17	11.41	76.94	37.38	149
Lincoln National	NYS	90.50	-2.95	15.84	93.38	51.13	682
MAIC Holdings Inc.	NYS	28.69	-1.08	7.10	30.38	15.88	56
Markel Corp.	NYS	165.50	-2.72	6.00	177.50	107.00	25
MBIA Insurance Group	NYS	75.94	-3.72	13.66	80.94	46.13	828
Meadowbrook Insur. Group	NYS	33.56	1.51	28.78	35.00	21.50	25
Mid Ocean Ltd.	NYS	77.38	-3.05	42.63	81.63	44.13	379
MMI Cos. Inc.	NYS	24.38	1.30	-2.99	27.88	21.13	104
Mutual Risk Mgmt. Ltd.	NYS	33.19	0.57	10.86	36.75	17.75	401
NAC Re Corp.	NYS	50.63	-3.23	3.71	53.81	38.00	357
Navigators Group	NDQ	18.38	3.52	-2.16	22.50	16.75	45
Nobel Insurance Ltd.	NDQ	13.13	0.00	0.00	15.38	12.13	21
NYMagic Inc.	NYS	30.19	5.23	9.52	30.38	18.38	183
Ohio Casualty Corp.	NDQ	49.50	-1.49	10.92	51.25	35.50	295
Old Republic Int'l	NYS	46.69	-0.53	25.55	48.38	26.88	689
Orion Capital Corp.	NYS	54.38	-4.19	17.09	57.75	31.13	338
Partner Re Ltd.	NYS	49.69	-3.52	7.14	52.50	30.75	152
Penn-America Group Inc.	NDQ	20.50	0.61	0.00	23.00	12.50	117
Pennsylvania Manufacturer's Co	NDQ	18.75	-1.32	11.94	19.38	16.25	20
Philadelphia Cons. Holding	NDQ	21.75	0.58	22.54	23.25	14.00	113
PXRE Corp.	NYS	30.50	2.09	-8.10	35.25	24.75	82
Reliance Group Holdings	NYS	18.06	-3.02	27.88	19.13	10.75	892
Reliastar Financial Corp.	NYS	46.44	-4.74	12.75	49.94	28.75	472
RenaissanceRe Holdings Ltd.	NYS	49.50	-1.12	12.18	50.75	36.38	122
Risk Capital Holdings	NDQ	25.13	3.08	12.92	25.50	17.00	168
RLI Corp.	NYS	55.88	1.59	12.17	56.81	30.50	117
St. Paul Companies	NYS	84.25	-3.30	2.67	94.38	64.63	1592
SCOR	NYS	64.50	0.00	35.08	66.00	38.88	9
SAFECO Corp.	NDQ	51.50	-4.85	5.64	56.00	38.75	2258
SCPIE Holdings Inc.	NYS	33.31	5.54	15.12	33.44	19.13	NA
Seibels Bruce Group	NDQ	8.13	2.36	8.33	8.94	6.25	218
Selective Ins. Group	NDQ	28.25	1.57	4.63	29.25	19.75	213
Terra Nova Insurance Co. Ltd.	NYS	30.25	-7.81	15.24	33.13	18.38	173
TIG Holdings	NYS	25.00	-5.66	-24.67	36.56	24.56	2770
Tokio Marine & Fire	NDQ	54.00	1.41	-6.49	66.00	41.25	164
Torchmark Corp.	NYS	46.75	-6.03	10.81	49.81	28.13	2983
Transatlantic Holdings	NYS	75.44	-2.19	5.51	78.44	54.38	505
Travelers Property Casualty	NYS	42.63	-5.01	-3.13	46.06	31.38	2002
Travelers Corp.	NYS	62.88	-2.90	16.71	73.50	32.38	16447
Trenwick Group Inc.	NDQ	38.00	-7.32	1.00	41.75	31.88	66
Unico American Corp.	NDQ	15.88	-0.78	29.59	18.13	9.75	94
United Fire & Casualty	NDQ	41.81	-2.19	-5.51	47.00	35.00	28
Unitrin	NDQ	68.13	-0.73	5.42	72.00	49.75	287
UNUM Corp.	NYS	52.94	-3.64	-2.64	57.69	35.25	2495
USF&G Corp.	NYS	23.75	-0.78	7.65	25.88	15.63	3044
Vesta Insurance Co.	NYS	56.75	-0.22	-4.42	64.75	35.75	259
Zenith National Ins.	NYS	29.88	0.00	16.02	30.50	24.50	41
INSURERS/REINSURERS	AVERAGE		-1.82	11.66			
HEALTH MAINTENANCE ORGANIZATIONS							
Foundation Health Systems Inc.	NYS	28.63	-1.72	28.65	33.94	22.06	1745
Humana Inc.	NYS	26.19	-3.23	26.20	28.06	18.44	1772
Oxford Health Plans	NDQ	16.44	-5.05	5.62	89.00	13.75	4554
Pacificare Health Sys.	NDQ	70.88	-5.97	41.04	83.00	46.75	95
Safeguard Health Enter.	NDQ	9.19	2.08	-31.94	14.88	7.50	11
Sierra Health Services	NYS	38.38	-6.40	14.13	41.63	24.00	136
United Healthcare Corp.	NYS	66.88	-4.21	34.59	72.50	42.44	3186
Wellpoint Health Networks	NYS	71.44	-0.95	69.08	73.44	38.63	2202
HMOs	AVERAGE		-3.18	23.42			
ALL COMPANIES	AVERAGE		-1.71	15.69			

Top advancing issues: SCPIE Holdings Inc., Kaye Group Inc., NYMagic Inc. Leading decliners: Gainsco Inc., Terra Nova Insurance Co. Ltd., American Heritage Life Ins. Most active issue: Travelers Corp. The *BI* index fell 2.8%; the Dow Jones 30 Industrials decreased 1.1%; the S&P 500 declined 1.3% and the NYSE Composite fell 1.7%. Average P/E: Brokers, 20.2; Insurers/reinsurers, 19.2; HMOs, 26.3.

Source: *Nordby International Inc.* (nordby.com), Boulder, Colo.

Hutter

Continued from page 2

ratio of not more than 3-to-1, is out of date, she said.

This method was first shown to be erroneous in the 1980s, when there was a sharp increase in rates, which pushed premiums over the top of the traditional safety measurement, Ms. Hutter said. "The premium side went up, but it went up because there were better-priced rates," she said.

And although regulators have introduced risk-based capital requirements that take a more sophisticated approach, the RBC requirements are retroactive and meant to determine whether an insurer should be allowed to operate. They are not geared to help insurers and reinsurers gain the optimum results, Ms. Hutter said. "The regulators' measures have advanced beyond the 3-to-1 ratio, but it's still a regulators' approach and not a management approach," she said.

To assess capital from both security and business viewpoints, insurers and reinsurers should examine risk-adjusted capital, Ms. Hutter said. "It takes into account the underwriting components and other exposures that a company faces—principally, the investment and credit side. It moves away from the idea of how much capital you need to write insurance and moves toward the idea of how much capital is optimal," she said.

Once an insurer has determined its risk-adjusted capital level, it can then use the information to adjust its business strategies, says Heidi Hutter.

When calculating the best risk-adjusted capital level, an insurer needs to look at issues such as its own risk tolerance level; the probability of that tolerance level being exceeded; the geographic spread of its business; the spread by line of business; investment risks and credit risks; and the correlations among them all, Ms. Hutter said.

The correlations are not confined to the underwriting risk. For example, an insurer that has an earthquake exposure would need to consider not only its underwriting exposure but also whether a quake would set off a downturn in the stock market and hit its investment portfolio, she said.

"There is no single right formula, and it requires a lot of management input," Ms. Hutter said.

Management can use other factors to help measure its risk tolerance. For example, management may decide it cannot take on a level of risk that would lead to a rating downgrade, she said.

Once an insurer has determined its risk-adjusted capital level, it can then use the information to adjust its business strategies, Ms. Hutter said.

For example, if the actual capital is less than the risk-adjusted capital, then insurers may opt to decrease their underwriting risk; decrease their investment risk; buy more secure reinsurance; raise new capital; or divest non-core and capital-intensive operations.

If actual capital is greater than the risk-adjusted capital, then insurers may opt to increase their underwriting risk by expanding into new areas or writing riskier business; increase their investment risk; cede less reinsurance; buy another company; or return capital to shareholders.

Swiss Re has used its risk-adjusted capital assessments to help it make significant business decisions, Ms. Hutter said.

For example, when Swiss Re decided to buy Mercantile & General Reinsurance Co., a major life reinsurer, knowledge of Swiss Re's capital assessments enabled the company to expand its existing business, she said.

"When we bought M&G Re, we saw that writing more life business enabled us to write more catastrophe business. . . .It really was a big factor in our decision to make the acquisition," she said.

Risk-adjusted capital also helps put profits in perspective, Ms. Hutter said.

For example, when an insurer with a large amount of catastrophe business enjoys a hurricane-free year, it has to consider how much capital it needed to write the risks in the first place when assessing how successful the business was, she said.

And the risk-adjusted capital assessments can help insurers increase their investment income, Ms. Hutter said.

For example, conventional wisdom would suggest that a reinsurer such as Swiss Re should invest its assets in secure instruments such as bonds to offset the risky nature of its core business, she said.

However, reinsurers often take on risks that have a long period between accepting the premiums and paying any claims. When that is correlated with the superior investment returns of the stock market over the long term, it makes sense for reinsurers to have a substantial investment in stocks. Consequently, 30% of Swiss Re's investment portfolio is in equities, Ms. Hutter said. BI

Integrated

Continued from page 2

they are talking about it and saying that is where they want to go," Mr. O'Connor said. "So we are going to have to develop that."

Sedgwick's survey focused on the degree to which respondent have integrated workers compensation, short-term disability and long-term disability benefits. Respondents rated reducing workers comp costs as the most important potential benefit of integration, the Sedgwick survey found.

Workers comp cost reduction was followed, in order of importance to employers, by: increased employee satisfaction; discovery or elimination of duplicate claims; increased quality of medical care; reduced short-term or long-term disability costs; data consolidation; reduced administration costs; and reduced litigation.

Employers surveyed by Sedgwick rated early clinical intervention as the most important component of an integrated disability management program, followed in order of importance by: clinical expertise within the claims payment organization; physical rehabilitation; online access to claims data; and integrated data for outcomes management.

Respondents rated reducing workers comp costs as the most important potential benefit of integration.

Employer desire to integrate group health with other benefits is the most interesting finding of Sedgwick's survey, said Bill Molmen, general counsel for the Integrated Benefits Institute in San Francisco.

"I was fascinated by that because it matches what we are hearing from some of our member companies, that employers are now looking for a broader package," he said. IBI members include large self-insured employers, insurers and third-party administrators.

Mr. Molmen noted that benefits integration initially started as an attempt to merge only the medical components of workers comp and group health. But then the trend shifted to attempts at merging disability management because it is easier to combine disability products. Now employers are saying they want something that will make it easier to integrate the medical and disability management components on both sides, he said.

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For more information on the survey, contact Jack O'Connor, Director of Integrated Disability Programs, Sedgwick of Arizona Inc., 1600 Broadway, Suite 300, Tempe, Ariz. 85282; 602-446-8734.

RightCHOICE reaches truce with Missouri

ST. LOUIS—Blue Cross & Blue Shield of Missouri and its for-profit subsidiary, RightCHOICE Managed Care Inc., have reached a "conceptual framework for an agreement" with Missouri officials in their dispute over RightCHOICE's creation and operation.

Insurance Commissioner Jay Angoff, the Missouri Department of Insurance and the state attorney general had won a court victory in late 1996, when a state court judge revised an earlier decision and ruled Blue Cross had exceeded its authority in establishing RightCHOICE (*BI*, Jan. 27, 1997). Blue Cross appealed the ruling, and oral arguments were heard in the case on Feb. 24.

The agreement announced last week calls for the creation of a charitable health care foundation, to be managed by an independent, state-approved board of directors and funded through the gradual sale of 15 million shares of RightCHOICE stock.

The arrangement requires judicial, shareholder and Blue Cross & Blue Shield Assn. approval. This recent settlement is separate from another dispute that RightCHOICE has with the Missouri Consolidated Health Care Plan involving a multiyear contract (*BI*, March 23). The consolidated health plan provides coverage to Missouri employees, dependents and retirees.

—By Judy Greenwald

Consultant directory deadline nears

Business Insurance will publish its annual Directory of Environmental Risk Management Consultants in the May 25 issue.

That issue also will feature a Spotlight Report on environmental and professional liability risk management.

The directory is published as an editorial service, and there is no charge to be included. Companies must simply submit a completed questionnaire by the extended deadline of May 1. If your company generates at least $250,000 in revenue from unbundled environmental risk management consulting and has not yet received a questionnaire, please request one by calling Assistant Directory Editor Matt Scroggins at 312-649-5483.

World Bank opts for cash balance pension

By VINEETA ANAND
Crain News Service

WASHINGTON—The World Bank has launched a newfangled kind of cash balance plan to replace its frozen, traditional defined benefit plan.

Under the new plan, participants allocate contributions to passive investment options.

But the money isn't invested in those options. Instead, participants are promised the return of the indexes they choose. World Bank actively manages the underlying assets and pockets any return above that of the index.

"The old pension scheme as we know it is dead and gone," said Sudhir Krishnamurthi, senior manager of pension investments.

Current employees will continue to be covered by the now-frozen $9.7 billion defined benefit plan. They'll also accrue benefits under that plan's existing benefits formula. Employees hired after April 15 will participate in the new plan, which also will cover about 2,000 "non-regular" employees who have worked as consultants for years and whose contracts are routinely renewed. These employees currently are not eligible for pension coverage.

In a year or so, participants in the old plan might be able to move to the new plan. World Bank officials are figuring out how that might work.

"It is a win-win situation for employers and employees," said Marty Collins, principal with the Kwasha Lipton Group of Coopers & Lybrand in Fort Lee, N.J.

Kwasha wasn't involved in the World Bank conversion, but is awaiting approval from the Internal Revenue Service for a similar cash balance plan for a client.

Mr. Collins noted this new variation on cash balance plans gives employees the participant-directed feature of a defined contribution plan, while allowing employers to take advantage of a possible arbitrage through higher returns on investing the underlying assets.

"We have been trying for years to get the same employee appreciation in defined benefit plans as we currently have in defined contribution plans. The plain-vanilla cash balance plans were the first step. Employee-directed cash balance plans are pushing that further," he said.

The World Bank initially will offer a guaranteed fund, which will offer a 3% return net of inflation, and a Standard & Poor's 500 stock index fund. The bank hopes to roll out more passive funds, such as fixed income and international equity, in coming months. Later this year, World Bank officials hope to offer employees up to six or eight investment choices.

The bank also hopes to offer a separate defined contribution plan that will allow employees to pick actively managed mutual funds.

Under the bank's "Pension Reform" program, employees hired after April 15 will receive pensions equal to about 1% of net salary for every year they work, plus any return they earn on the self-directed cash balance plan. Under the current benefits formula, the World Bank offers employees a pension of around 2.2% of gross salary for every year they have worked.

The World Bank also will contribute 10% of after-tax pay to either the cash balance plan or the proposed new defined contribution plan, at the employee's direction. Employees will be asked to chip in 5% of net pay.

Most of the World Bank's employees do not pay U.S. income taxes, and the World Bank reimburses American employees who do pay U.S. taxes. The contribution rate for both U.S. and non-U.S. residents will be based on net salary, as if they had paid U.S. taxes.

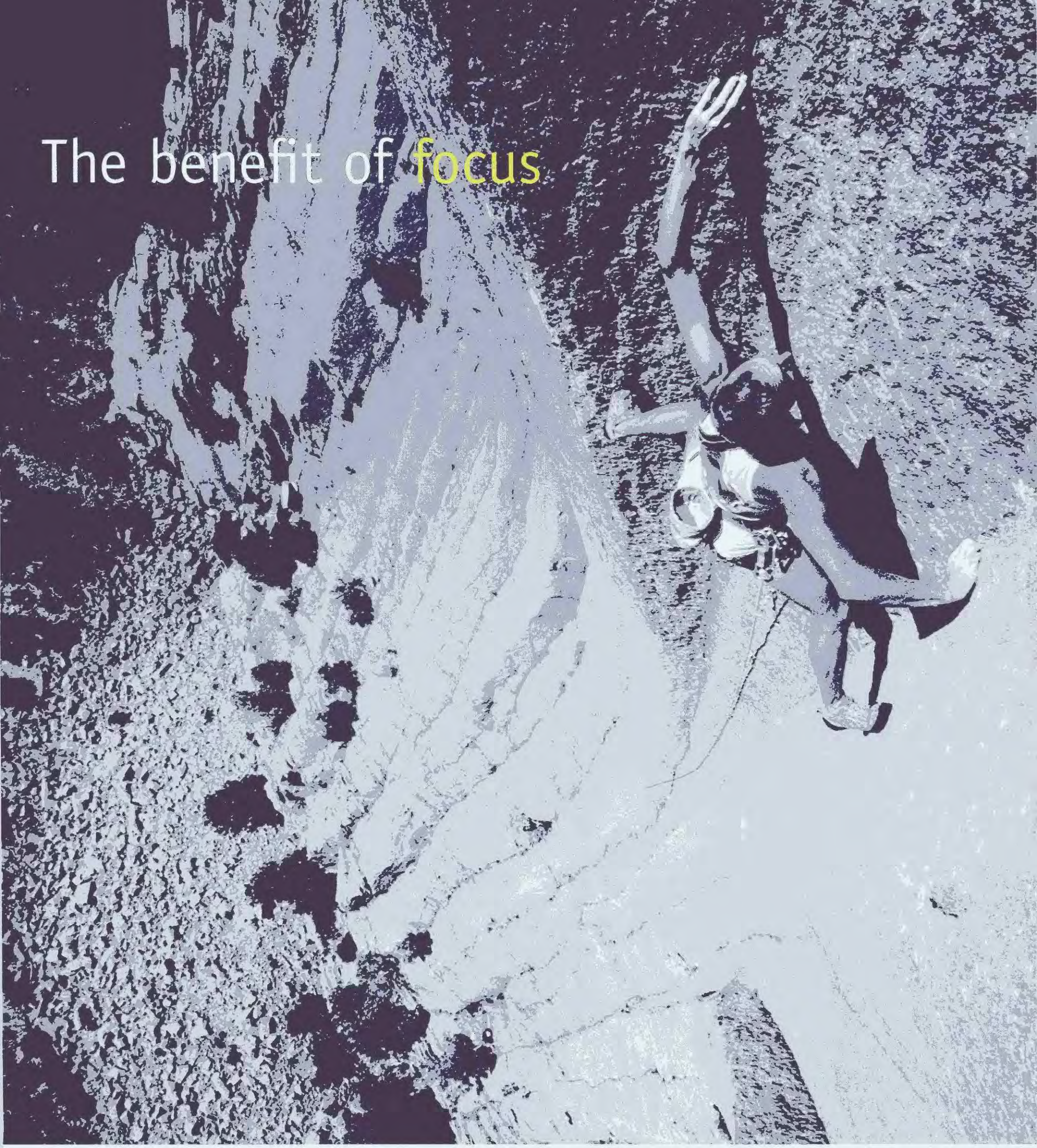
Employees now contribute 7% of pretax pay to the old defined benefit plan.

Based on its accumulated and projected benefit liabilities, the World Bank's defined benefit pension fund has been fully funded for some time. It is not making any contributions in fiscal 1998—which ends June 30—and made none in fiscal 1997, based on advice from its actuary, Buck Consultants in Secaucus, N.J.

Once the actuaries complete the liability study, bank executives will redo the old defined benefit plan. Assets of that plan and the new defined benefit plan will be commingled.

The asset mix is now around 70% in equities, 20% in bonds and 10% in alternative investments, Mr. Krishnamurthi said. About half of the equity and bond exposure is domestic, but its alternative investments—private equity and real estate—are primarily in domestic investments.

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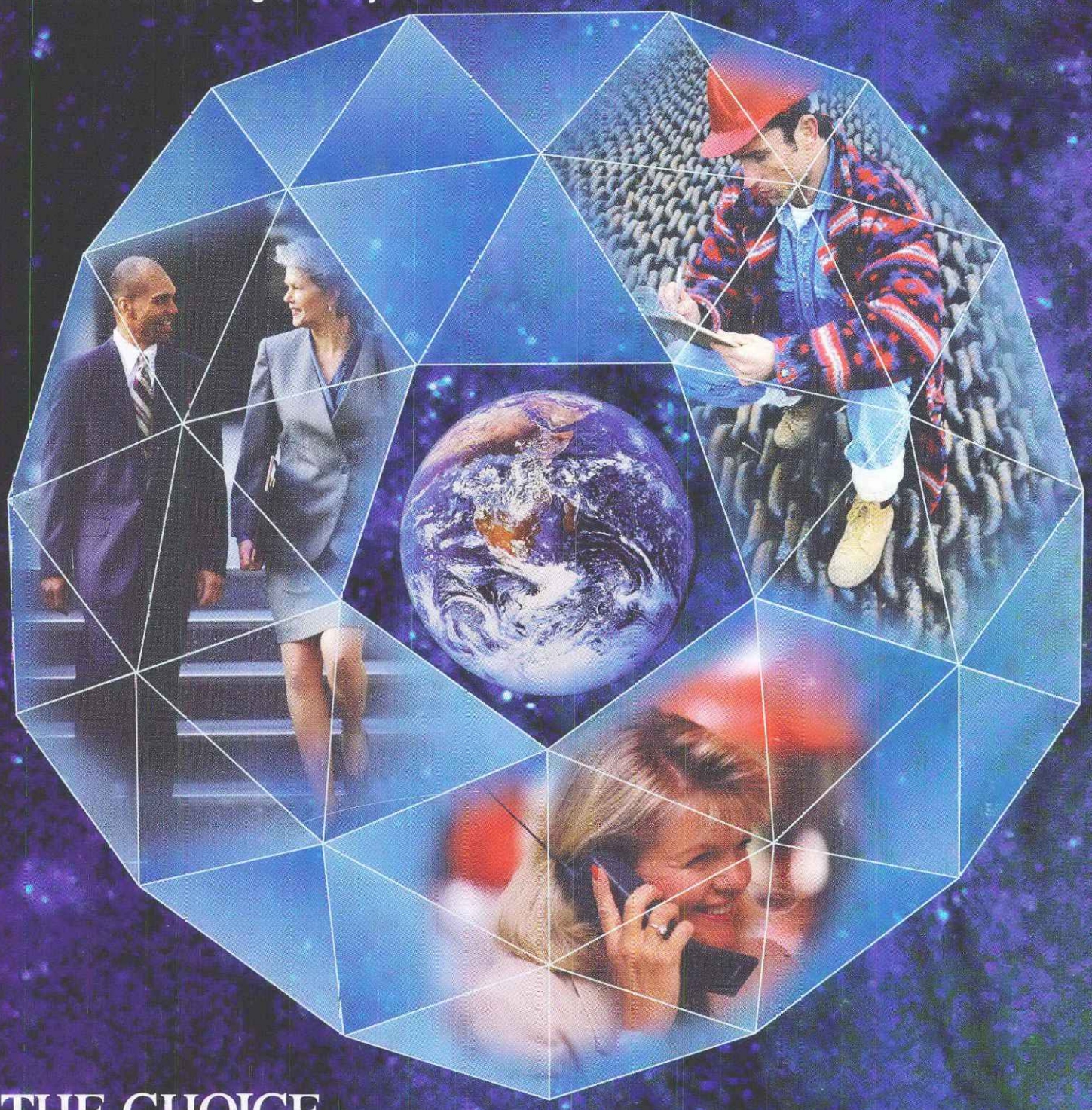
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