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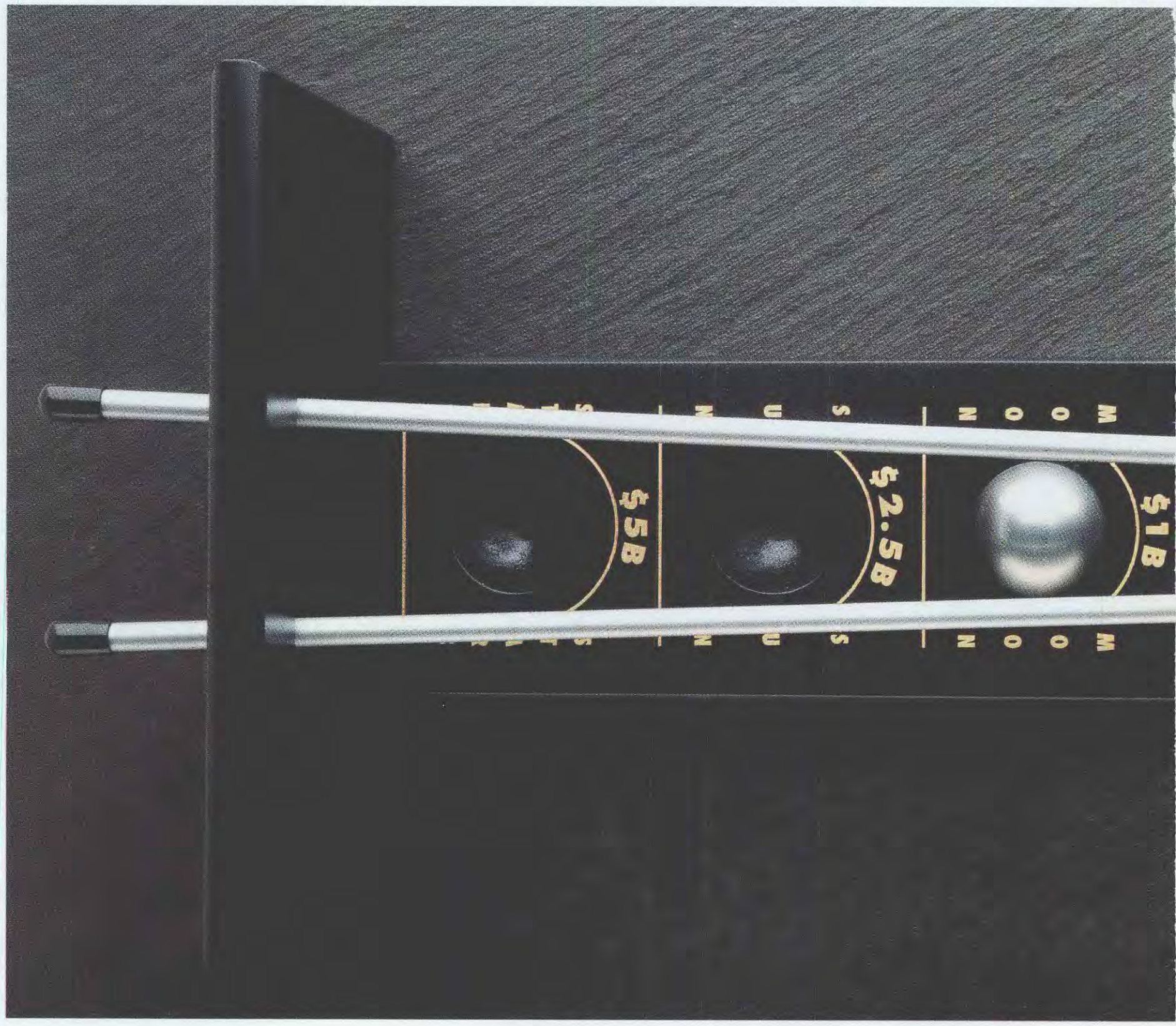

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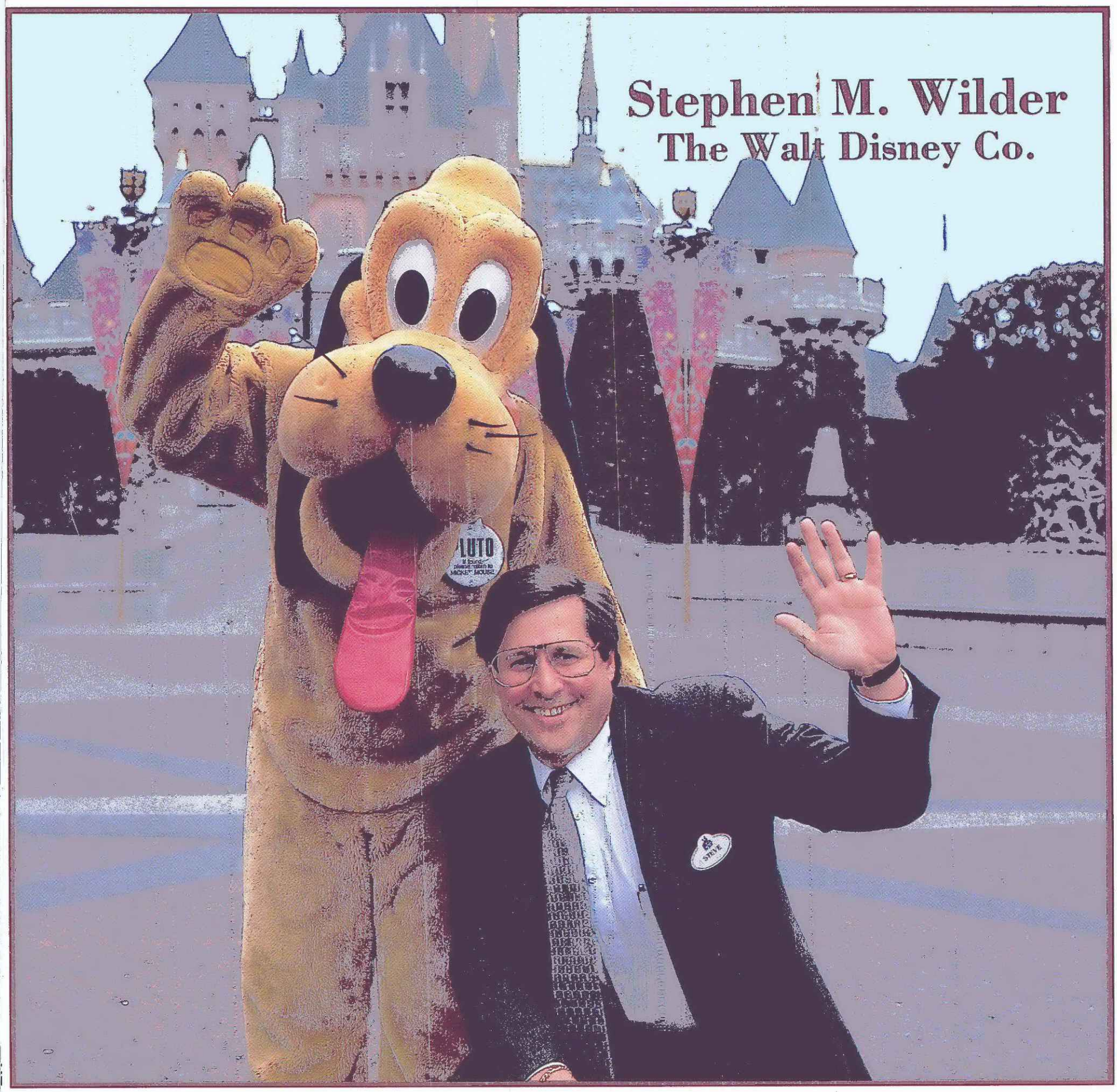
Risk Management Honor Roll

Josephine Goode Johnson
University of Maryland
Medical Service System

Roger D. Oaks
Tennessee Farmers Cooperative

M. Michael Zuckerman
Thomas Jefferson University



Risk Manager of the Year

APRIL 30, 1990

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Update

Grand jury in California indicts attorneys for insurance fraud

SAN DIEGO—A federal grand jury last week indicted 14 California attorneys and four others on charges of defrauding insurers of up to $50 million through racketeering activity and mail fraud.

The suspects—part of a network known as the "Alliance"—are charged in the 37-count indictment with conspiring to inflate legal bills by manipulating and prolonging litigation. Among other things, the Alliance allegedly represented both sides in a lawsuit.

Continued on next page

Bonuses boost risk managers' pay

Gains in 1989 outpace 1988

By JOANNE WOJCIK

Risk managers' average compensation surged last year, helping to offset more modest gains during 1988, a new survey shows.

Helping to boost risk managers' total pay in 1989 were bonuses that averaged as much as 10.9% more than 1988 bonuses, according to the survey.

Risk managers' total compensation —including salary and bonus—rose an average of between 2.8% and 11.7% last year, depending on the size of their employer, according to the survey by Logic Associates Inc.

In 1988, risk managers' total compensation increased an average of only 3% to 6%, depending on the size of the company.

However, compensation increases in 1989 lagged behind 1988 raises at the nation's smallest employers—those with annual sales of less than $200 million. Compensation for risk managers at these companies climbed just 2.8% last year, compared with an 11.7% surge for risk managers at companies with $1 billion to $2 billion in annual sales.

And, in a surprising development, risk managers at companies with annual sales of $1 billion to $2 billion earned more on average in 1989 than their counterparts at companies with sales of between $2 billion and $4 billion.

Risk managers at the nation's largest corporations continue to receive the largest compensation packages, according to the survey.

For example, the $104,005 in average compensation earned by risk managers at companies with more than $7 billion in annual sales dwarfed by 68% the $61,856 in average compensation earned by risk managers at companies with less than $200 million in annual sales.

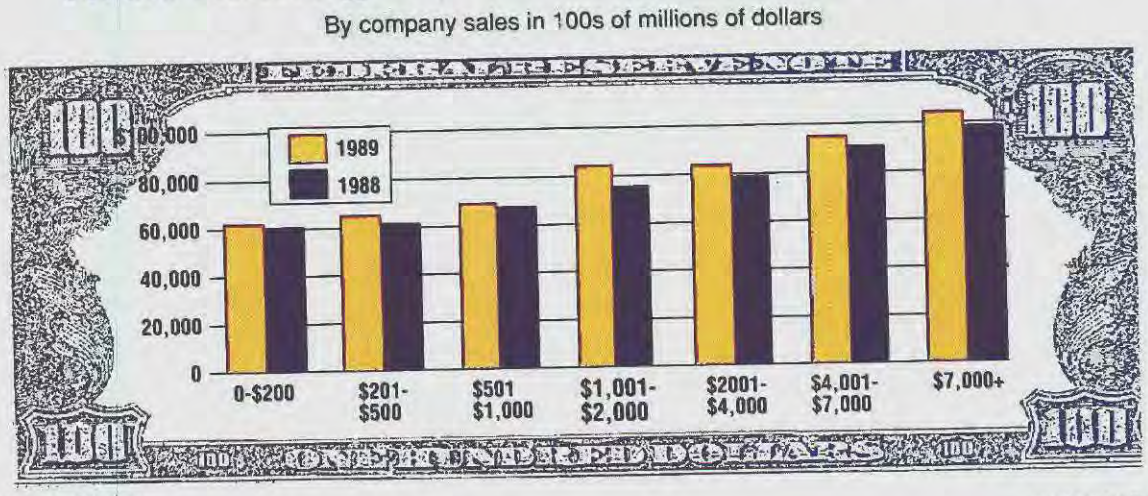
The results of Logic Associates' annual survey are eagerly awaited by risk managers who use the detailed information to compare their compensation with that of their colleagues in similarly sized companies and industries.

In addition, the statistics provide an important guide to employers

Continued on page 177

Risk managers' average compensation

By company sales in 100s of millions of dollars



Source: *BI* Survey

BI/JOHN SMITHER

Risk managers seek predictable rates, laws

By STACY ADLER

WASHINGTON—Risk managers are increasingly concerned about the prospect of swift and volatile changes in the property/casualty insurance market after three years of declining prices, according to a survey to be released today.

And, for the third consecutive year, tort reform is the most important issue facing corporate risk managers, according to a nationwide poll by Alexander & Alexander Services Inc.

But, the survey reveals that risk managers' concern about state referenda mandating rollbacks in insurance prices is declining.

And of minimal concern to risk managers is the Insurance Services Office Inc.'s decision to stop providing fully developed advisory rates to property/casualty insurers.

The "National Risk Management Survey," conducted by A&A between Feb. 16 and March 16, asked 1,875 risk managers to rank the importance to their companies of 68 legislative and regulatory issues. About 17%, or 321, of the risk managers responded to the third annual poll (*BI*, April 10, 1989; April 18, 1988).

Risk managers were asked this year to rank 18 emerging issues that were not included in the 1989 survey.

In addition, A&A eliminated eight questions, making exact comparisons between the two surveys difficult.

A report on the 1990 A&A survey will be officially released today in Boston where the 28th annual conference sponsored by the Risk & Insurance Management Society Inc. is under way.

A&A compiled the mailing lists for the survey from the *Business Insurance* Directory of Corporate Buyers of Insurance, Benefit Plans and Risk Management Services, selecting only those individuals specifically designated as having a risk management function.

Most respondents were risk managers at companies with annual sales of at least $250 million in the manufacturing, chemical production, utilities, services, construction, and oil, gas and natural resources industries.

Overall, the survey found an overwhelming desire for predictability, with risk managers expressing strong concerns about tort reform and the prospect of wild fluctuations in the property/casualty insurance market after three years of declining insurance prices, observed Robert H. Moore, senior vp of A&A Services Inc. in

Continued on page 180

Legislation could close 'window' plans

By JERRY GEISEL

WASHINGTON—Legislation now on a fast track in Congress could jeopardize or even kill some early retirement incentive programs, benefit experts say.

Ambiguous provisions in bills cleared by the Senate Labor and Human Resources Committee and the House Education and Labor Committee appear to take the window out of window plans.

And the legislation could lead to a tidal wave of litigation over what constitutes a bona fide window plan, consultants say.

With the threat of litigation, experts fear employers would be reluctant to offer such plans, which are enriched benefit packages companies offer for a fixed period of time to encourage older workers to retire, thereby avoiding large-scale layoffs.

And the legislation, described by some experts as a misguided congressional reaction to a 1989 Supreme Court decision, doesn't just threaten new window plans. The new rules would retroactively apply to any legal action involving such plans offered to non-union employees filed after June 23, 1989, as well as any litigation pending as of that date.

"The legislation puts a cloud over early retirement programs," warns Frederick Rumack, director of tax and legal services at Buck Consultants Inc. in New York.

The legislation "will open up every early retirement incentive plan to litigation," warns John Woyke, a principal with TPF&C, the benefits consulting division of Towers, Perrin, Forster & Crosby Inc. in Valhalla, N.Y.

Many companies incorrectly believe that the legislation simply would overturn a June 23, 1989, Supreme Court decision and reinstate well-accepted and followed rules that existed before the decision.

In that decision, known as the Betts case, the Supreme Court ruled that the Age Discrimination in Employment Act of 1967 only applied to hiring and firing practices and not to employee benefit programs, such as life insurance and disability benefits (*BI*, July 10, 1989).

That decision effectively overturned ADEA regulations published by the Labor Department and the Equal Employment Opportunity Commission. Those rules said companies could provide lesser welfare-type benefits to older workers than younger employees without violating ADEA, as long as the cost of the benefits was equal.

For example, a company could provide reduced life insurance benefits to older workers if it could prove that its cost of providing the reduced benefit was equal to the cost of larger benefits provided to younger workers.

The 1989 Supreme Court ruling, though, said an employer need not demonstrate a legitimate cost justification in order to reduce or deny employee benefits based on age. The justices said that when Congress originally passed ADEA,

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NEWSPAPER

Update

18 charged in 'Alliance' fraud

Continued from previous page

Many of those indicted also are named in a massive fraud suit in which Fireman's Fund Insurance Co. and Allstate Insurance Co. allege they were bilked out of more than $200 million (*BI*, April 2).

The new indictments will not affect that suit, said Jim Schratz, assistant vp of litigation for Fireman's Fund.

"We are pleased the government is taking such an aggressive position concerning insurance fraud," Mr. Schratz said. "However, both Fireman's Fund and Allstate initiated our suit before the indictments, and we plan on aggressively pursuing our lawsuit."

Hall posts first-quarter profit

NEW YORK—Frank B. Hall & Co. Inc. is in the black for the first time in almost two years.

Hall last week reported a $3 million profit for the first quarter, snapping a string of seven consecutive quarters of net losses.

Hall's gross revenues rose 11.6% to $111.9 million in the first quarter from $100.2 million in first-quarter 1989.

The last time Hall, the sixth-largest U.S. broker, had reported a profit was for the first quarter of 1988, then $5.7 million.

"I am delighted with the fact that our efforts and investments have started to show results on our bottom line," said Donald R. Bell, chairman and chief executive of New York-based Hall.

"I fully expect that we will continue to show a favorable quarter-to-quarter comparison with 1989 throughout" the year, he said.

Hall reported a $3.1 million loss in the first quarter of 1989.

Mr. Bell said he is particularly pleased with Hall's first-quarter results in light of continuing rate competition in the commercial property/casualty insurance market.

Hall also remains interested in acquiring other companies and is still "bringing in new talent," Mr. Bell said.

Mistrial in nursing home case

HOUSTON—State District Court Judge Scott A. Brister last week set aside $40.6 million in damages—which included $35 million in punitive damages—against the Seven Acres Jewish Geriatric Center Inc., saying plaintiffs' attorneys ignored his instructions about introducing impermissible information.

Judge Brister declared a mistrial and ordered a new trial, concluding that irrelevant and prejudicial information introduced by plaintiffs' attorneys prevented the defendant from getting a fair trial.

A jury on March 22 awarded the damages—which also included $4.4 million in actual damages—to the family of Jennie Zetterbaum, who was found strangled in her restraints in 1984. The restraints had been used without the consent of her physician or family (*BI*, April 9).

The family also was awarded $1.2 million in prejudgment interest.

"When the case is retried and the plaintiffs' lawyers behave themselves and follow the rules of the court, justice will be served," said defense co-counsel Mark Wham of Kain & Reedy in Houston.

Plaintiffs' attorneys Anthony Montgomery and Tom Hornbuckle in Houston were unavailable for comment.

Contract award charges denied

NEW YORK—A New York State Insurance Department official denies allegations made last week in a local newspaper that the department's Liquidation Bureau improperly awarded $18 million in contracts to at least 33 law firms with political connections.

Newsday's allegation that the bureau intentionally awarded contracts to politically connected law firms from 1983 to September 1989 is unfounded, said Kevin Foley, deputy superintendent of the department, who oversees the bureau.

While the article reported that $18 million in contracts was awarded to politically connected law firms, it reported details on contracts totaling only $1.5 million, Mr. Foley noted. "The accusation of $18 million isn't covered in the article. What criteria do they have for this allegation?" he said.

However, he acknowledged: "People involved in politics have received work from us. But let's face it, if you were to eliminate all the law firms with someone involved in politics, you'd have to go to another state for legal counsel."

In its April 23 story, Newsday reported that the bureau, which is currently responsible for running off the business of 59 insolvent insurance companies, had awarded contracts to firms whose principals include many current and former state legislators and former Insurance Department executives

Gathers family sues university

LOS ANGELES—Survivors of Loyola Marymount University basketball star Hank Gathers, who suffered a fatal heart attack during a March 4 game, are suing the university, basketball coach Paul Westhead and numerous doctors for $32.5 million in compensatory and punitive damages.

Continued on page 184

Errors and omissions

• Claims Administration & Plan Supervisors Corp., the Austin, Texas-based third-party administrator identified in an April 23 article as CAPSCO, is not affiliated with any of the SwissRe Services Inc. companies using the CAPSCO name. The SwissRe Services companies include: CAPSCO Pallm Systems Inc. of Indianapolis; CAPSCO Administrative Services of Blue Springs, Mo.; and CAPSCO Software Canada Ltd. CAPSCO is a registered trademark of SwissRe Services, a unit of the Swiss Re Group.

• The Risk & Insurance Management Society Inc. supports the Borman's Inc. decision in which a Michigan court held as unconstitutional an attempt by the state to deny guaranty fund payments to policyholders with substantial net worths. RIMS' position was misstated in the April 23 issue.

Self-insurers use data to control health costs

By CHRISTINE WOOLSEY

Employers can use data—from claims files and providers—to help ground their soaring health care costs.

By analyzing claims data, employers can determine which benefits employees are overutilizing and reduce group plan coverage for those benefits.

For example, Ryder System Inc. reduced its per-employee health care costs 1.2% in 1988, in part by reducing coverage for overutilized benefits identified through analysis of claims data, said Joseph Charles, group director of government and industry relations.

In addition, Pittsburgh-based Aluminum Co. of America is using data gathered by a local coalition of businesses and hospitals on cost-effective health care providers to select a preferred provider network of doctors and hospitals to treat its employees.

"It always makes sense to have as much information about your plan as possible," said William J. Danish, a principal at Fort Lee, N.J.-based benefit consultant Kwasha Lipton.

"Benefit managers are really managing big-ticket items for their companies, and they have a direct impact on profit and loss," he said.

"Data—and the information that comes from it—is the most important thing" in the health care cost equation, said Greg Riedi, senior vp at Berwyn, Pa.-based Intracorp, the health care cost control unit of CIGNA Corp.

"Intelligent extrapolation and interpretation of the information that data portray will be key," he said.

"Employers are spending a great deal of money on health care and they want to know where the money is going," said Cynthia K. Hosay, senior vp and director of health services at Martin E. Segal & Co. in New York.

"They want the most detailed answer they can get to find out if there is any area they can cut back reasonably and realistically," she said.

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Brokers pursue market rescue of LUI insurers

By CAROLYN ALDRED

LONDON—Insurance brokers are pursuing a market rescue of up to six insurers owned by London United Investments P.L.C. to ensure an orderly runoff of insurance written by H.S. Weavers (Underwriting) Agencies Ltd.

If a solution to the threatened insolvency of the six LUI companies is not reached, the companies may be forced by regulators into liquidation.

The six insurers, now running off their business, at one time either participated as insurers on the line slip underwritten by Weavers or reinsured Walbrook Insurance Co. Ltd., another LUI unit and the leading insurer on the line slip.

Walbrook stopped underwriting in March pending an actuarial report into the solvency of all LUI insurers. The report has not yet been published (*BI*, April 2).

Weavers in recent years has been the largest underwriter in the London market of U.S. liability insurance, underwriting gross premiums of about $700 million in 1988.

Sedgwick Group P.L.C. and Marsh & McLennan Cos. Inc. are leading discussions to try "to improve the present situation," confirmed Sedgwick Chairman David Rowland (*BI*, April 23).

Brokers want to try to avoid compulsory

Continued on page 182

Runoff dispute goes to trial for first time

By STACY SHAPIRO

LONDON—Two of Lloyd's of London's largest syndicates and a major Lloyd's reinsurance brokerage expect to battle for the next five weeks in the first runoff reinsurance policy dispute to be heard publicly in Britain's High Court.

Derek Charles Dolling-Baker, former underwriter for syndicate 544, managed by A.J. Archer Holdings P.L.C., is suing Stephen R. Merrett, underwriter for syndicates 417/421, managed by Merrett Underwriting Agency Management Ltd., for failing to recognize an unlimited runoff reinsurance policy placed in May 1982.

Mr. Dolling-Baker also is suing Lloyd's brokerage Winchester Bowring Ltd., a subsidiary of C.T. Bowring & Co. Ltd., which placed the coverage. Bowring is a unit of Marsh & McLennan Cos. Inc.

Mr. Dolling-Baker—now deputy underwriter of the syndicate, having retired as underwriter because of bad health—was in court during the opening of the trial last week at which his lawyer laid out the basics of his case.

The opening statement detailed the negotiations involved in placing one of the many unlimited runoff reinsurance policies that have been in dispute at Lloyd's, including the broker's role in placing the coverage.

The arguments between the two parties are typical of

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Inside

✓ ON THE COVER: Stephen M. Wilder, director of corporate risk management at The Walt Disney Co. in Burbank, Calif., is the 1990 *Business Insurance* Risk Manager of the Year. **PAGE 138**

✓ Josephine Goode Johnson, executive director of the University of Maryland Medical Service System Self-Insurance Trust in Baltimore, is named to the 1989 Risk Management Honor Roll, representing self-insured funds and pools. **PAGE 155**

✓ Roger D. Oaks, director of risk management for the Tennessee Farmers Cooperative in LaVergne, Tenn., is a member of the 1990 Risk Management Honor Roll, representing businesses with annual sales of less than $300 million. **PAGE 159**

✓ M. Michael Zuckerman, director of risk management and insurance at Thomas Jefferson University in Philadelphia, won a spot on the 1990 Risk Management Honor Roll, representing not-for-profit institutions. **PAGE 163**

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Spotlight report

Bermuda: Still the leader

Competition takes wind out of managers' sails

By MICHAEL BRADFORD

HAMILTON, Bermuda—Captive insurance company business in the world's largest captive domicile is as flat as Bermuda's Hamilton Harbor on a still morning.

The 10 largest captive managers in Bermuda, which manage about two-thirds of the international insurers based on the island, report almost no growth in the number of captives under their management and only a slight increase in the number of premiums underwritten.

Competition from commercial property/casualty insurers and from other captive domiciles is the reason for the current doldrums, they say.

At year-end 1989, the 10 largest managers in Bermuda reported 801 captives under management, an increase of just one from 800 at year-end 1988.

Overall, Bermuda lost more international insurers than it gained last year. Forty-five new insurers incorporated in Bermuda last year, while 68 were struck from the register, resulting in a net decline of 23. Companies were removed from the register due to mergers and completed liquidations.

New insurer formations in Bermuda have been steadily declining since 1986, the end of the liability insurance crunch, when 125 new companies were registered. In 1987, 82 new companies were formed, while 58 were registered in 1988.

Still, with 1,314 international insurers registered at year-end, Bermuda is the largest captive domicile in the world—3½ times larger than its closest competitor, the Cayman Islands, which had 357 captives registered at year-end 1989 (see map).

Bermuda-based insurers wrote gross premiums of $11.1 billion in 1988, an 8% increase from $10.3 billion in 1987, according to the most current available data. Net premium volume increased 5% to $8.4 billion from $8 billion.

The 10 largest Bermuda captive managers report that $3.62 billion of those premiums—or about 35%—was under their management in 1988.

In 1989, their premiums managed by the 10 largest Bermuda captive managers grew only to $3.7 billion.

Premiums written by self-managed Bermuda-based insurers, including large policyholder-owned companies like ACE Ltd. and Oil Insurance Ltd.—and commercial reinsurance underwriting in Bermuda account for about $2 billion of the balance of the domicile's premium volume (see related story).

Other, smaller captive managers and self-managed insurers in Bermuda manage the rest of the premiums.

Bermuda captive managers are looking for the commercial insurance market to tighten up in anticipation of the new captive business that such a swing usually creates.

"As long as you can buy insurance for less than your losses, there's not going to be a lot of captives formed," says Robert C. Whiting, managing director of Pinehurst Management Ltd.

But there are questions about how harsh and lengthy the next hard market will be, managers say.

"That's the $64,000 question," says Geoffrey Hunt, managing director of Alexander Insurance Managers Ltd.

"Are we going to go back to '85 and '86 when there was this huge change-around when there appears to be all this capacity in the market out there right now?" he asked.

The answer may depend on whether con-

Continued on next page

Island's underwriters offer special solutions

By CAROLYN ALDRED

HAMILTON, Bermuda—On this tiny island amid the huge Atlantic Ocean, insurance and reinsurance underwriters offer solutions to policyholders' problems unavailable in the conventional market.

Bermuda—long recognized as the world's foremost captive insurance domicile—provides extensive insurance limits and some reinsurance for many major corporations.

Hundreds of millions of dollars in premiums turned away by the traditional insurance market six years ago are returning to Bermuda each year, putting the island on a par with New York and London as an excess liability insurance center for major corporate risk managers.

ACE Ltd. and X.L. Insurance Co. Ltd.—now both based in Bermuda—wrote gross premiums totaling $536.2 million in 1989.

The two insurers—formed by corporate policyholders that were left high and dry by the conventional insurance market in 1985 and 1986—had combined policyholder surplus at their year-ends of nearly $2 billion.

Between them, X.L. and ACE offer excess liability limits of up to $300 million—topping anything coverage-hungry corporations can find from only two insurers elsewhere.

And, when Walbrook Insurance Co. Ltd. in London—the lead underwriter on the U.S. liability line slip managed by H.S. Weavers (Underwriting) Agencies Ltd.—stopped underwriting last month, X.L. announced within days that it would drop its attachment point to $15 million from $25 million to help existing policyholders with underlying Weavers' policies (see story, page 38).

Meanwhile, Lloyd's of London underwriters now are offering $100 million of liability coverage on ACE's policy form. The move is an important sign that traditional underwriters now recognize Bermuda's answer to policyholders' problems in the mid-'80s capacity crunch is not a flash in the pan.

Dozens of other policyholder-initiated insurance facilities call Bermuda home, offering capacity and rate stability not available in the commercial insurance market (see chart, pages 107-111). Among them is Corporate Officers & Directors Assurance Holding Ltd., which has grown dramatically in the last year (see story, page 42).

Bermuda also is leading the field in another innovative sector of the insurance and reinsurance scene—financial reinsurance.

Already Bermuda is home to seven companies that promote themselves worldwide as specialty financial reinsurance underwriters, and the number is expected to grow in the increasingly accepted—and competitive—sector of the industry (see story, page 44).

The seven leading financial reinsurers on the island had year-end 1989 combined policyholder surplus of $502.3 million and closed deals in 1989 totaling $761 million. The six that report income reported profits of $58 million and together the seven had assets totaling $2.3 billion.

More than half of the total financial reinsurance written in Bermuda last year was underwritten by the island's largest financial reinsurer, Centre Reinsurance Holdings Ltd., which describes itself as a finite risk reinsurer (see story, page 51). Centre Re has passed $1 billion in assets after just two years in business.

In addition, countless other insurers and reinsurers in Bermuda underwrite financial reinsurance products, on a selective basis or to a selective market, without openly mar-

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Bermuda captives

Continued from previous page
ventional insurers' losses continue to mount, said Mr. Hunt. Big catastrophe losses last year were swallowed by insurers and reinsurers, he pointed out, but if heavy hits continue in 1990, "it's got to make a dent" in capacity, he says.

When the market will shift and to what extent "is a real difficult one to predict," Mr. Hunt remarked. "A year ago, people were saying 1990," he noted, but "there hasn't been anything significant to speak of."

Stuart Grayston, president and chief executive officer of Frank B. Hall & Co. Inc.'s Alternative Market Division, said he expects the commercial insurance market to turn late this year or early in 1991.

But when the shift comes, it will be "short and quick," he said, creating "the usual blip of increased captive activity."

Andrew D. Carr, president of Marsh & McLennan (Bermuda) Ltd., however, suggests that the current uncertainty over commercial insurance market conditions can lead to the formation of captives by companies that want more stable insurance programs.

And a few captive managers report business is picking up so far in 1990.

David Ezekiel, president of International Advisory Services Ltd., says more companies want to form captives now.

"At one time there was a lot of uncertainty as to whether people should go offshore or onshore" to form captives or whether they should form risk retention groups, he noted. "And as a result, I think people just didn't do anything.

"Now, people know exactly what they are looking at. They're not all necessarily choosing Bermuda, but they're all choosing something," Mr. Ezekiel said.

One line of commercial insurance where rates keep going up—workers compensation—is fueling captive insurance company formation.

For example, captive management company Amberco Management Co. Ltd. formed a group captive in Bermuda to write workers compensation insurance for companies in Texas that spend more than $200,000 annually on work comp coverage.

Texas Compensation Co. Ltd. is targeted at oil and gas companies, and Amberco plans to set up additional captives serving different industry groups, said President Julian Griffiths.

The insurance is written though Petrosurance Casualty Co. Inc., an affiliate of Amberco which is a licensed insurer in Texas, and reinsured with the captive.

Texas Compensation so far has 13 shareholders/policyholders paying premiums of just less than $7 million, 25% of which is reserve premium, said Mr. Griffiths.

As Bermuda's managers consider how to run a profitable operation during the competitive cycle in the conventional market, they must also ponder the increasing competition from other captive domiciles.

Twenty-five years ago 'this was the only place you could put a captive insurance company,' says Warren D. Sproule, president of Sedgwick James (Bermuda) Ltd. But today, he points out, 'we've got a lot of competition out there.'

Other, newer captive domiciles are going after business that historically would have landed in Bermuda.

Twenty-five years ago "this was the only place you could put a captive insurance company," says Warren D. Sproule, president of Sedgwick James (Bermuda) Ltd.

But today, he points out, "we've got a lot of competition out there. We've got the domestic domiciles and obviously the other offshore domiciles on this side of the Atlantic."

Mr. Grayston points to Barbados as an aggressive offshore competitor and to Vermont as Bermuda's primary onshore competition.

Barbados is "working very hard to get the business," he said, noting that both Bermuda and Barbados lost tax treaty provisions exempting premiums paid to captives in those countries from U.S. excise tax.

While the Barbados government continues to seek treaties with other countries that could give it an edge as a captive domicile, Bermuda has not shown such aggressiveness, Mr. Grayston pointed out.

Bermuda "reacted" to get its federal excise tax treaty with the United States after Barbados had secured that advantage, he said.

Onshore, Vermont is the toughest competition for Bermuda, said Mr. Grayston. But in some cases, existing Bermuda captives are used to reinsure business written by a Vermont captive, he noted.

Mr. Hunt contends that Bermuda has an edge over Vermont because the island's captive regulation is more flexible.

A serious concern for Sedgwick James (Bermuda) is whether European companies will consider Bermuda as a domicile in the future, said Mr. Sproule.

"The European domiciles offer a lot in terms of proximity, cost, convenience and communications. Certainly they are going to be very serious competition for us in the future," he said.

However, Bermuda is still more convenient for European-owned captives that write coverage for U.S. subsidiaries, he said. "Plus, we have a significant amount of experience in dealing with North American risks and North American fronted programs which our competitors on the other side of the Atlantic do not have."

Most captive managers in Bermuda agree with Mr. Grayston's assessment that Bermuda, because of its experience as a captive domicile, "is going to get a reasonably good share of the business as long as it doesn't do anything silly."

While so far no other domicile is landing more new captives than Bermuda, the self-governing British colony could hurt itself, observers agree, by continuing to drive up the cost of doing business on the island.

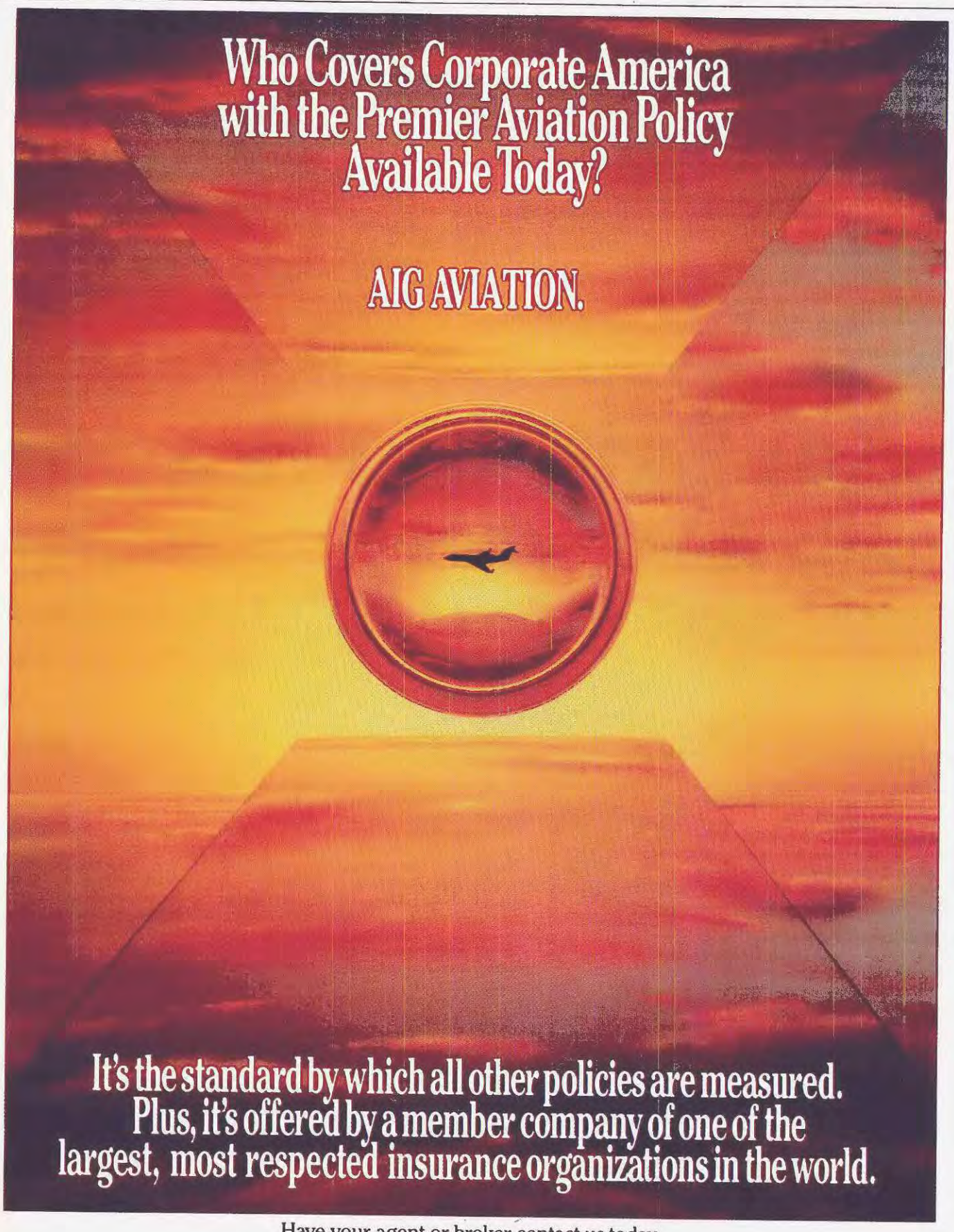
The latest boost to costs is coming from higher government taxes, including imposing for the first time a 5% payroll tax on international companies with employees in Bermuda (see story, page 55).

Raising management fees to cover the increased costs is not likely, at least right away, captive managers agree.

"In most cases, we won't be able to increase fees to the degree that costs increase," Mr. Grayston said. Such a move would make Bermuda a less desirable location than domiciles with lower fees, he explained.

Mr. Sproule agreed, saying the tax increases are "a source of serious concern because it is going

Continued on page 6



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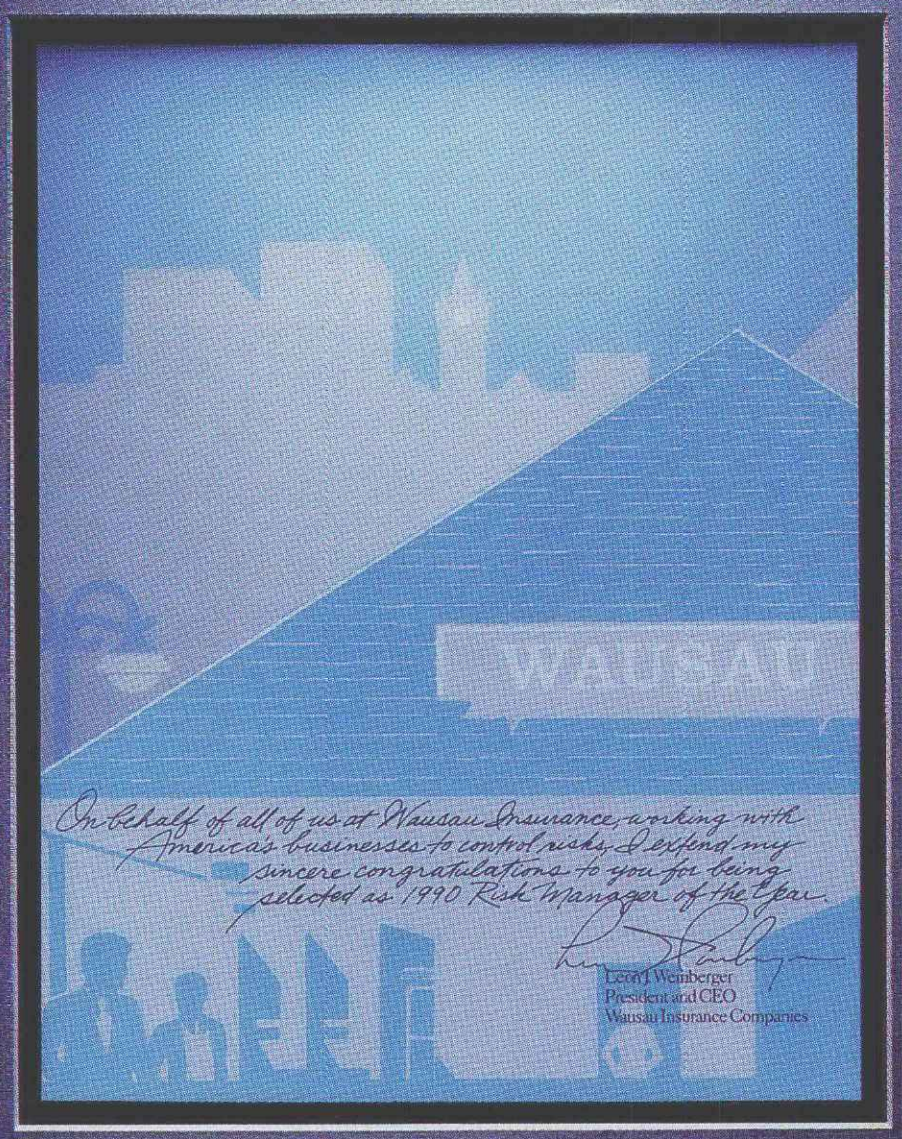

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Bermuda captives

Continued from page 4
to put additional pressure on the overall cost of doing business in Bermuda. We're not just talking about the management companies, we're talking about all international companies."

The increased cost, he said, comes at a time when Bermuda "can least afford to be put in a less competitive position. It wasn't good news."

Increasing management fees would be "very difficult for us," said Mr. Sproule, "given the type of competition we're looking at right now. We're already not as competitive as we'd like to be" with other domiciles.

Increased costs will mean "everybody will look carefully at costs and expenses," said Mr. Grayston. "I think the management community will do a little belt-tightening."

The loss of the federal excise tax exemption for premiums paid to Bermuda companies has not caused a lot of concern in the domicile. But there are worries that the United States might increase to 4% the current 1% excise tax on reinsurance premiums paid to offshore insurers. The tax on direct premiums if already 4%.

The FET "has never been considered to be a significant element of the cost of doing business," said Mr. Sproule. However, "there's always continuing concern that" the tax on reinsurance premiums "could become 4%, which would make it a more significant element of the overall cost of operation."

The Bush administration does not support such an increase in the FET (*BI*, March 12).

Mr. Ezekiel of International Advisory Services points out that the revised treaty between Bermuda and the United States actually makes Bermuda "the domicile to come to."

A "permanent establishment rule" added to the Bermuda tax treaty in 1988 allows Bermuda-based companies to engage in more activity in the United States than previously without being considered liable for U.S. income and branch taxes, he explains.

Previously, it was unclear when a Bermuda company would be considered to be engaged in U.S. trade or business.

The provision is a "significant factor for Bermuda over some other offshore domicile," said Mr. Ezekiel.

Arthur H. Deters, president and chief executive officer of International Risk Management (Bermuda) Ltd., said the permanent establishment rule is "taking on a higher profile now. In fact, we've got two client captives in Cayman that are investigating moving to Bermuda" because of the provision, he said.

"That might be next year's story," Mr. Deters said.

Captive managers also point to a victory in court for captive insurers in general: last year's ruling by the 6th U.S. Circuit Court of Appeals that sets the stage for corporations to deduct some premiums paid to wholly owned captive insurance companies.

In a case involving hospital chain Humana Inc., the court ruled last summer that a captive parent's subsidiaries can deduct the premiums they pay to affiliated insurers. Although the ruling applies only to businesses in states within the 6th Circuit, corporations outside that circuit are able to use the decision in disputes with the Internal Revenue Service (*BI*, Nov. 6, 1989; Aug. 28, 1989; Aug. 7, 1989).

Parents of captives and potential captive owners are studying the decision and its implications, but few have yet tried to capitalize on it, captive managers say.

"People obviously are asking questions about it," Mr. Hunt of AIM said of the Humana decision and its potential impact on captive formations. "But from my perspective, I've not seen a great rushing around."

None of the captive programs managed by Sedgwick James (Bermuda) has restructured yet to take advantage of the Humana ruling, says Mr. Sproule. But, he has seen interest from U.K. companies with operations in the United States that are interested in structuring the premiums payments by their U.S. companies properly to make the best of the ruling.

Other developments on the captive insurance scene in Bermuda during the last year include:

- A second year of losses for Hopewell International Insurance Co., the giant captive reinsurance pool managed by International Risk Management, and Oil Insurance Ltd., the self-managed oil industry captive.

Hopewell posted a $538,000 net operating loss in 1989, a substantially smaller deficit than the $4.4 million loss it rang up the previous year (see story, page 20).

OIL posted an underwriting loss of $235.5 million last year, also smaller than its 1988 loss of $512 million (see story, page 21).

- Mixed results for rent-a-captive operations.

The Insurance Profit Center saw gross premiums rise 90% in 1989 to $122 million, up from $63.4 million in 1988. An increase in workers compensation business helped boost the writings.

Universal Re-Insurance Co. Ltd., a privately held rent-a-captive, nearly doubled its premium writings from $5.3 million in 1988 to $10 million last year.

Other rent-a-captives reported flat results for 1989 (see story, page 21).

- A resurgence in premiums underwritten by The Risk Exchange Assn., a captive reinsurance pool, though its membership is at an all-time low (see story, page 24).

Following are profiles of the 10 largest captive managers in Bermuda:

Johnson & Higgins (Bermuda) Ltd.

Premiums under management by J&H (Bermuda), the largest captive manager on the island, are approaching $1 billion.

Last year, 176 captives managed by J&H (Bermuda) wrote $972 million in premiums, up 13.3% from $858 million in premiums written by 172 companies in 1988.

J&H (Bermuda) landed 11 new clients last year, six of which were newly formed captives: three to write foreign property insurance, one writing medical malpractice insurance, one writing product liability insurance and one writing multiple lines of coverage.

The other five new clients were captives underwriting property/casualty insurance that had left other managers.

"Some of the business we took on had significant premium volume," said President Brian Hall, "and some of the existing business continues to grow."

Seven captives left J&H (Bermuda) in 1989, but not all were completely lost. Two moved to J&H management offices in other domiciles.

Of the 176 companies under J&H (Bermuda)'s management, 161 are single-parent captives and 15 are group-owned. Ownership is largely U.S.-based, with 152 of the captives owned by Americans.

Mr. Hall is "very bullish" on prospects for 1990, noting that "the first quarter has been very encouraging. We're seeing a lot of new business."

Four additional captives signed on with J&H (Bermuda) during the

Continued on page 12

Why are CEOs afraid to bite?

Although managed health care offers real potential to slow dangerously ballooning costs, the very idea is enough to make even the boldest CEO a little uneasy. And for good reason.

Change, especially one of this magnitude, can be unsettling. Imagine, if you will, asking employees to switch to a new doctor. (Imagine asking your family.)

Setting up a managed care system, however, can be less traumatic than you may think.

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Opinions

Mavericks turned exemplars

THE OVERWHELMING SUCCESS of ACE Ltd. and X.L. Insurance Co. Ltd. deserves more recognition than it generally receives.

These two excess liability insurance companies, capitalized in the mid-1980s by U.S. corporations left stranded without adequate liability insurance by commercial insurers, boast a renewal rate among excess liability insurance policyholders that exceeds 97%.

That phenomenal statistic is all the more impressive considering that ACE and X.L. have not cut their rates to retain business and the majority of policyholders are not original or current shareholders in the companies.

ACE's rating formula is the same for its excess liability limits—now $200 million excess of $100 million—as it was when ACE started. X.L., which now provides $100 million excess of at least $15 million, has modified its policyholders' premiums somewhat based on revised underwriting assumptions, but not greatly.

As a result of this customer loyalty and consistent pricing, each insurer has amassed about $1 billion in policyholder surplus in fewer than five years in business.

This was supposed to be insurance that just could not be successfully underwritten, according to commercial insurers that pulled their capacity from the marketplace in the mid-1980s.

But, with the help of creative and talented experts, corporate insurance buyers agreed to new liability insurance policy language to provide broad coverage while protecting the financial integrity of the insurance companies they were financing.

The ACE form has proven so successful that underwriters at Lloyd's of London are now offering limits of $100 million excess of $200 million using the ACE policy language.

The suggestion that underwriters at 300-year-old Lloyd's could learn something from a bunch of

Americans that formed an insurance company underwriting in Bermuda would have evoked hysterical laughter from the Lime Street underwriting room not too long ago.

The success of ACE and X.L. also proves another point: Corporate insurance buyers are serious when they say they want long-term relationships—and consistent prices—from their insurers.

Commercial insurance underwriters should take seriously the results of a new survey of risk managers by Alexander & Alexander Services Inc. that found risk managers are increasingly concerned about swift and volatile changes in the property/casualty insurance market (see story, page 1).

A special chart in this week's issue lists 51 policyholder-owned insurance facilities, including ACE and X.L., that are available to respond to insurance buyers' needs if commercial insurance underwriters do not (see pages 107-111).

Letters

If health care is a 'right,' socialism is needed

To the editor: A letter in your April 2 issue raised questions about the "shining example" of Allied-Signal Inc.'s managed care plan underwritten by CIGNA Corp.

Coincidentally, a letter from an Allied employee who clearly is not thrilled with the plan appeared in the April 4 edition of the Morris County, N.J., Daily Record. The writer complained that the care available through the plan was substandard, doctors' office hours were inconvenient and that doctors often performed duplicate, wasteful procedures.

I have no ax to grind one way or the other about Allied's plan. I do not sell health insurance. However, I do buy health insurance, the cost of which has gone out of sight.

It occurs to me that the big companies in this country started something they cannot finish. Either in an effort to get good employees or as a result of union or competitive pressures, they gave away the store with highly generous benefit plans.

This has been the case for so long now that most employees consider free medical care of the highest (and most expensive) quality as a "right."

The medical establishment, which no longer had to worry about being paid by the individual, went hog wild and still is going strong. Any effort to bring the individual back into the payment loop, or to rein in the providers, raises howls of indignation.

The employees want cradle-to-grave care (socialism), while the providers want unfettered capitalism. In the meantime, the smaller companies and the self-employed are in a real bind because they cannot afford broad insurance coverage, nor can they pay the providers' escalating fees.

The medical providers and the liberal Congress promote universal health insurance. The doctors want it so they can be sure of being paid, and the politicians want it so they can win votes.

My point is that if by popular demand we are to have socialized medical care in this country, which I think we should have, then the providers must also be socialized, with the doctors or the government payroll and the hospitals under government ownership. Then, the whole system will be dependent on the tax structure.

If health care is considered a right by society, it would seem to be the only reasonable way to handle it.

Edward F. Martz Jr.
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Madison, N.J.

Business Insurance welcomes letters from its readers. Please keep your comments as brief as possible. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters. Send your comments to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill., 60611.

Benefit rollback laws applauded

To the editor: The Illinois State Chamber of Commerce echoes your applause to legislators in Virginia and Washington for legislation to roll back mandated benefits.

It is our hope that the legislators in Illinois will share the spotlight with these states.

Chamber-initiated legislation (H.B. 3307 and S.B. 1752) that will make available economic, no-frills coverage for employers with 25 or fewer employees is now being considered in Springfield (*BI*, April 16).

The Illinois Chamber also has drafted legislation to provide self-employed firms a 100% health insurance state tax deduction (H.B. 3491 and S.B. 1658), as well as bills that would require a cost/benefit impact analysis of all mandated benefit proposals (H.B. 3304 and S.B. 1626).

We urge you and your readers to let Illinois legislators know that the economical health insurance proposals offered by the Illinois State Chamber of Commerce are a necessary step for employers in Illinois.

Pamela D. Mitroff
Director-Health Policy
Illinois State Chamber of Commerce
Chicago

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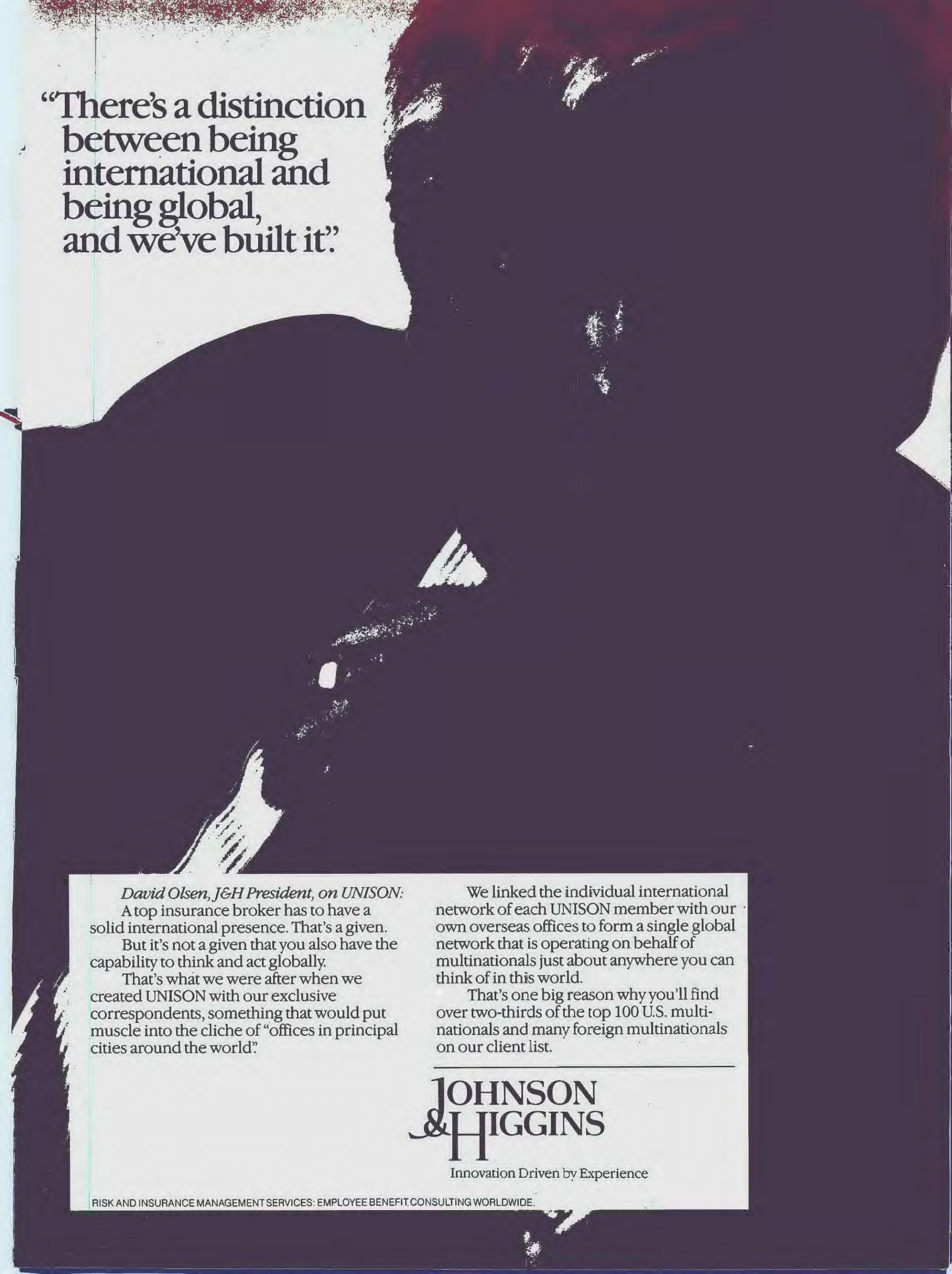

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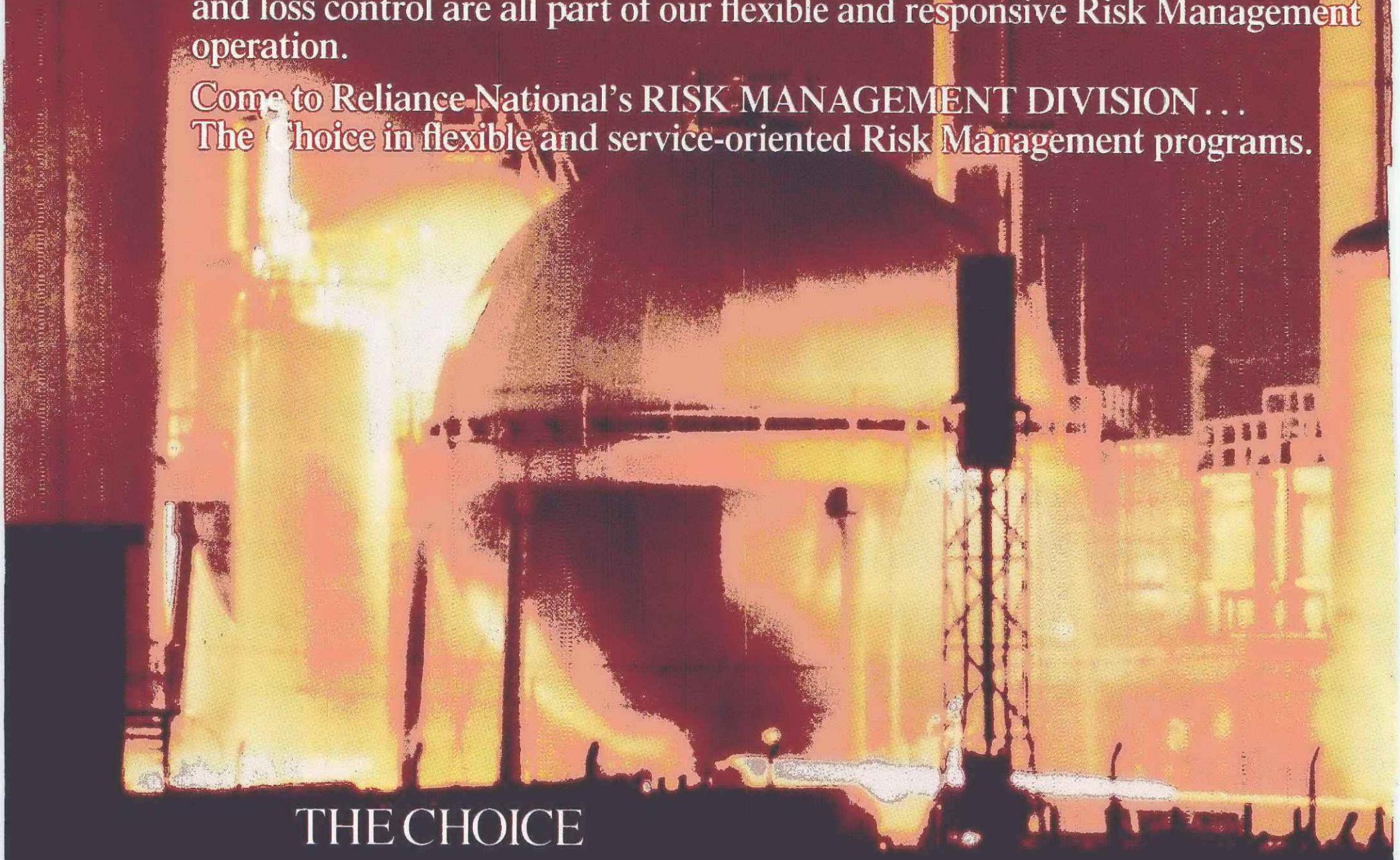

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Bermuda captives

Continued from page 6
first quarter, transferring from other management companies.

J&H (Bermuda) is the nerve center of a captive management organization that handles around 300 companies generating $7 billion in premiums each year.

"Bermuda is the resource of the rest of the network," Mr. Hall explained. "We have 150 people here, of which 126 are responsible for the hands-on management of captives."

J&H over the past two years developed "this complimentary network so there is no competition between our various domiciles," said Mr. Hall.

"You need to compete against the other management suppliers rather than against your other branches," he said.

An integrated computer network allows offices to communicate with each other and permits J&H to aggregate data.

International Risk Management (Bermuda) Ltd.

Captives under the management of International Risk Management (Bermuda) are tapping a new financial reinsurance company formed to serve them.

Englewood Reinsurance Co. Ltd., formed to underwrite financial reinsurance products for captives managed by IRM, wrote "three very nice programs last summer, reports Mr. Deters.

Swiss Reinsurance Co., the majority shareholder of IRM Group, contributed $15 million in initial capital to Englewood.

Two of the new programs were written for "extremely large manufacturing companies" in the United States and generate premiums of $12 million to $20 million per year.

The third program is smaller, generating premiums of around $3 million annually.

Englewood has done quite well, considering that "competition is back for whatever reason in the U.S. liability business," Mr. Deters remarked.

Four more programs "are on the front burner," Mr. Deters said, putting "Englewood's growth a bit ahead of the plan."

"I'm personally more optimistic about it this year than I was last year. I would have thought that the competitive market would have deterred its growth,," Mr. Deters said.

Competition in the conventional insurance market has stalled the growth of Property Insurance Facility Ltd., formed last year with $2 million from Swiss Re.

The facility was designed to write property insurance for clients paying annual premiums of $250,000 to $1 million, which is too little to justify forming a captive.

Reinsurance for the facility is provided by Hopewell International Insurance Ltd., the property reinsurance pool managed by IRM (Bermuda).

"The facility is there, but it's not going to do much business until the turnaround in the market," Mr. Deters said.

"The company is operational and we have talked to about five prospective clients. But in each case, the conventional market saw fit to reduce rates so that it made no sense for them or for us" to write the business, Mr. Deters remarked.

IRM (Bermuda) ended 1989 with 92 captives under management, down one from the 93 at year-end 1988. Premium volume climbed 8.3% to $650 million in 1989 from $600 million in 1988.

Two captives managed by IRM (Bermuda) moved to the IRM office in Vermont, while another casualty captive stopped writing because its parent began buying coverage in the conventional market. And another captive left for a different management company.

"We just about broke even," said Mr. Deters. IRM picked up a couple of companies from other managers and reported one new formation in 1989.

A new captive formed in this year's first quarter will write a "mixed bag" of coverages, including a lot of property insurance at the beginning of the year and more casualty coverage by the end of 1990, Mr. Deters noted.

This year is expected to shape up a lot like last year for IRM (Bermuda), Mr. Deters predicts, saying he expects "a bit of a break-even situation."

Parker Risk Management (Bermuda) Ltd.

Parker Risk Management (Bermuda) Ltd. saw premiums under management creep past the $400 million mark in 1989.

Frank B. Hall's Bermuda management company, known last year as Parker & Co. Interocean Ltd., ended the year with 49 captives under management generating $401 million in premiums, up from $389 million written by 48 insurers in 1988.

"We didn't do too badly," said Mr. Grayston. "We put on a half-dozen in Bermuda."

Parker Risk Management lost nearly an equal number of companies in 1989, but all of them pro-

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Bermuda captive managers

Premium volume in millions of dollars

Manager / Parent	Premium volume 1989	Premium volume 1988	Captives 1989	Captives 1988	Staff 1989	Staff 1988
Johnson & Higgins (Bermuda) Ltd. Johnson & Higgins	$972	$858	176	172	148	141
International Risk Management (Bermuda) Ltd. IRM Group	650	600	92	93	68	68
Parker Risk Management (Bermuda) Ltd. Frank B. Hall & Co. Inc.	401	389	49	48	19	21
Marsh & McLennan (Bermuda) Ltd. Marsh & McLennan Cos. Inc.	340*	340*	85*	85*	49*	52
International Advisory Services Ltd. Independent	310	245	55	52	23	20
Sedgwick James (Bermuda) Ltd. Sedgwick Group P.L.C.	250	325	74	80	36	41
Skandia International Risk Management Ltd. Skandia America Group	210*	225	93	90	48	47
Rollins Burdick Hunter (Bermuda) Ltd. Aon Corp.	200	200	34	31	14	15
Alexander Insurance Managers Ltd. Alexander & Alexander Services Inc.	197	236	93	93	65	70
Pinehurst Management Co. Ltd. Jardine Matheson Holdings Inc.	175	200	50	56	18	19

* BI estimate

Source: BI Survey

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Spotlight report

Bermuda captives

Continued from page 12

duced small amounts of premium volume, according to Mr. Grayston.

Existing captives had "reasonably good growth, but that can go up or down depending on the market cycle," Mr. Grayston noted.

Last year's growth was a rebound from 1988, when Parker saw premium volume under management fall to $389 million from $450 million in 1987.

A management shakeup in 1988 included the resignation of Robin Spencer-Arscott as president of Hall (Bermuda) to become president and chief executive officer of Rollins Burdick Hunter (Bermuda) Ltd.

Mr. Grayston left Skandia International Risk Management Ltd. to take the job at Hall (Bermuda).

Several clients, including Paumanock Insurance Co. Ltd., a reinsurance unit of Grumman Corp., followed Mr. Spencer-Arscott to RBH, contributing to the 14% drop in premium volume under Parker's management in 1988.

"We've got a fairly significant number of new things in the pipeline," said Mr. Grayston, referring to future captive formations. Nearly all the captives forming are owned by U.S. concerns, he added.

Marsh & McLennan (Bermuda) Ltd.

"Marsh & McLennan's captive management unit had what I describe as an average year," said Mr. Carr.

"We formed a few new companies," he noted, but "we had more success in having companies already in existence transferred to our office."

M&M added around six new clients to its management roll last year while losing an equal number.

"We assumed the management of two very major clients from another manager. That doesn't really happen often," said Mr. Carr.

Business Insurance estimates that M&M manages 85 captives in Bermuda, underwriting about $340 million—the same as in 1988. M&M declined to provide specific details of its individual captive management operations.

Interest in new captive formations is unpredictable but encouraging, according to Mr. Carr.

On one day in mid-March, for example, the office was visited by two prospective clients in the morning and in the afternoon a meeting was scheduled with "a client who has awarded us the business of the management of his new captive."

The two prospective clients were on the island because of business with ACE Ltd. and X.L. Insurance Co. Ltd. and visited M&M "to learn a little more about a captive for themselves," Mr. Carr said.

International Advisory Services Ltd.

Bermuda's largest independent captive manager continues to move up in the ranks of captive management companies.

After climbing two notches to the sixth spot last year, International Advisory Services Ltd. became the fifth-largest captive manager in Bermuda based on reported premiums written by captives it managed in 1989.

In reporting $310 million in premiums under management last year, up 27% from $245 million in 1988, IAS moved ahead of Sedgwick James (Bermuda).

IAS's growth came primarily from increases in existing business, according to Mr. Ezekiel.

But IAS could have moved up even higher in the rankings—to No. 3—if it had included the $140 million in premiums written by Accord Re Ltd., a financial reinsurer for which it provides backup management services.

IAS counted only $50 million of Accord Re's $170 million in premiums because Mr. Ezekiel thought that including the full premium volume would unfairly move IAS up based on *BI*'s practice of ranking managers by premium volume.

Apart from Accord Re, the 55 captives under IAS's management wrote $65 million more in premiums in 1989.

IAS in 1989 added six new clients which wrote about $7 million in premiums. Four of the companies were new incorporations and two transferred from other managers.

Two small IAS-managed captives were liquidated last year and two others merged their operations.

IAS is seeing a lot of activity in 1990, Mr. Ezekiel reports. "We're seeing as much activity in the last six months as we've seen in a long, long time."

The management company had formed two new captives by the end of March.

One of the start-ups is a single-parent property/casualty underwriter and the other was formed by the Washington-based American Assn. of Homes for the Aging to write liability coverage.

Sedgwick James (Bermuda) Ltd.

Five captives under common ownership left Sedgwick James (Bermuda) last year to form their own management company, while another client substantially reduced its business.

Three other captives also left the management company in 1989.

As a result, premiums under management by Sedgwick James (Bermuda) fell to $250 million in 1989, a 23% decrease from $325 million in 1988.

'We've got a fairly significant number of new things in the pipeline,' says Parker's Mr. Grayston, referring to future captive insurance company formations. Nearly all the captives forming are owned by U.S. concerns, he notes.

The drop slipped the management company into the No. 6 ranking of Bermuda's largest captive managers, down from fifth place in last year's listing.

Sedgwick James (Bermuda) ended 1989 with 74 captives under management, compared with 80 at year-end 1988. Most of its captives —66—are owned by single entities, while eight are association captives.

The management company picked up one new client that transferred from another manager and completed one new incorporation in 1989. The newly registered company writes workers compensation and general liability coverage for its owner.

The five captives under common ownership that left Sedgwick James (Bermuda) to form their own management company wanted to centralize control over their insurance facilities on a global basis. In addition, "when you're in a management situation with five substantial companies, you're looking at a management fee bill at quite a high level," Mr. Sproule pointed out.

The new management company is not a competitor, he emphasized, and does not manage any other companies.

The captive that significantly reduced its business moved a large portion of its workers compensation business to an insured program, said Mr. Sproule.

Interest in new captive formations this year has been encouraging, Mr. Sproule remarked. "We're looking at some new opportunities. There is continuing substantial interest in captives from the U.S. side specifically."

Sedgwick James (Bermuda) is ending its first year of the combined operations of James (Bermuda) and Sedgwick Group Overseas Management Services Ltd.

The two operations found a common home last November in Cumberland House, a new building in Hamilton.

Still to come is a merger of the two data processing systems that were used by the separate management companies.

Skandia International Risk Management Ltd.

While premiums under management continued to slide last year, Skandia International Risk management Ltd. ended 1989 with an increase in clients and one spot

Continued on page 18

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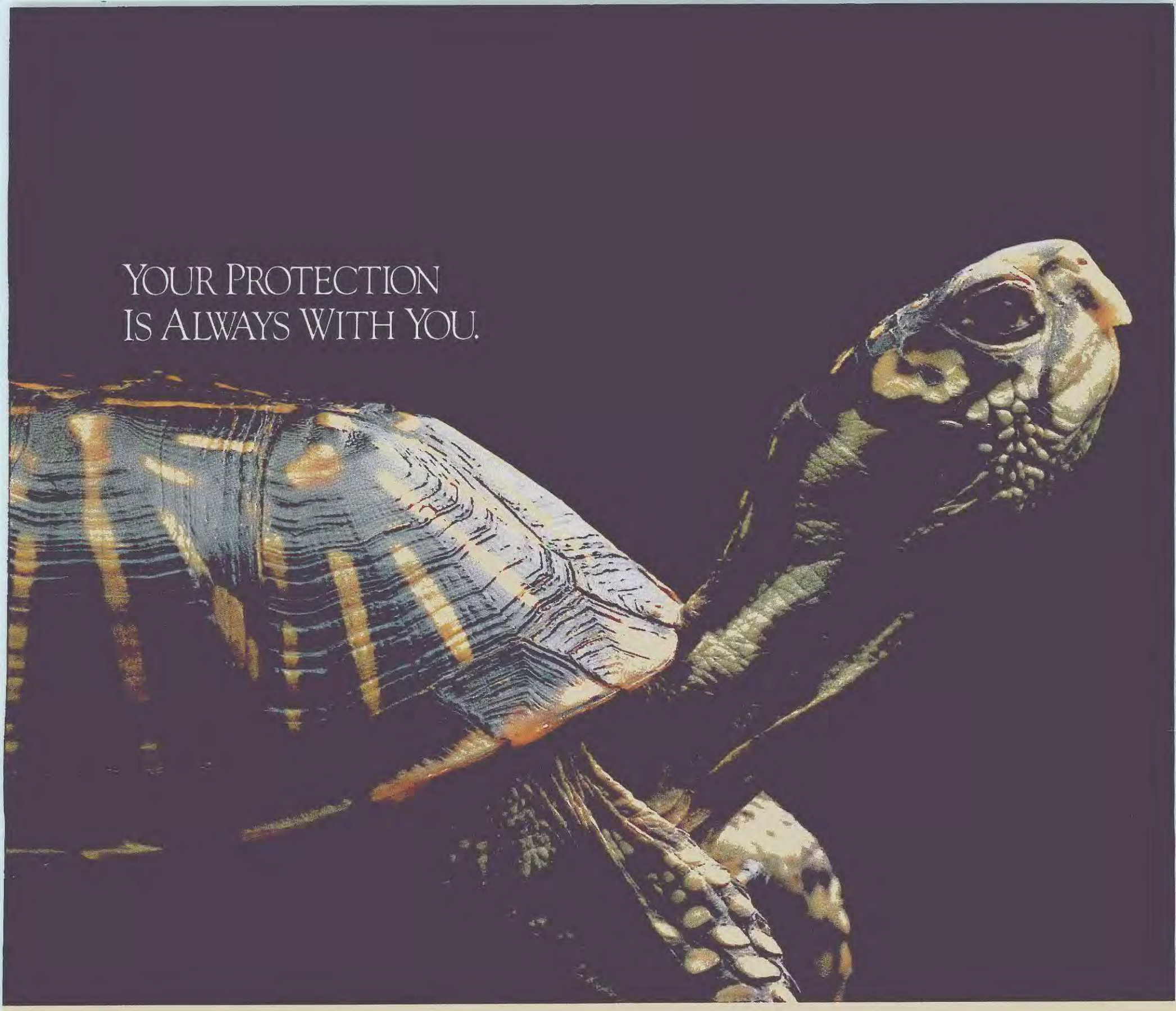

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Bermuda captives

Continued from page 14
higher in the ranking of the largest Bermuda managers.

Premiums written by Bermuda captives managed by Skandia fell to $210 million from $225 million in 1988, but Skandia moved up to the No. 7 spot among Bermuda captive managers because of the decline in premiums written by captives managed by Alexander Insurance Managers.

Skandia ended the year with 93 captive clients, up from 90 at year-end 1988.

Skandia President Nicholas S. Dove pointed out that Skandia continues to form new captives and take over the management of existing captives from other managers.

Skandia has noticed increasing interest from captive owners that are looking for management by someone other than broker-owned managers, according to Mr. Dove.

Mr. Dove said Skandia is more optimistic than a year ago when he felt the soft commercial insurance market would curtail more captive formations.

And, there is more interest in single-parent captive formations than Mr. Dove said he expected.

"What we thought we would see would be continuing group formations. We expected groups to outweigh the single-parent captives," he said.

Captives are being formed by a "gamut" of companies, "from emerging companies to well-established corporations," Mr. Dove noted.

Rollins Burdick Hunter (Bermuda) Ltd.

A decline in premiums managed by two Bermuda-based captive managers boosted Rollins Burdick Hunter (Bermuda) Ltd. to the No. 8 spot among managers even though RBH reported little growth in 1989.

RBH ended the year with 34 captives, up from 31 in 1988, while premiums written by captives under its management was unchanged at $200 million.

Decreases in premiums written by clients of Alexander Insurance Managers and Pinehurst Management Ltd. were responsible for RBH's ascent from the No. 10 spot in 1988.

All of the captives managed by RBH's Bermuda office are owned by U.S. concerns, said Vp Tracey E. Keill.

A recent marketing effort in the United States is expected to result in new formations, Ms. Keill said.

"We're looking to see quite a few in place" by the end of this year, she reported, citing formation of a large association captive considering Bermuda as a home and a single-owner company now domiciled in the Cayman Islands that is transferring its management to RBH (Bermuda).

RBH (Bermuda) specializes in association captives formed by automobile dealerships. Although it lost one of those captives that moved onshore and another that liquidated, several continue to operate.

Last July, RBH (Bermuda) completed its move into larger offices in the same newly constructed building as Rollins Burdick Hunter Co.'s other Bermuda operations.

Alexander Insurance Managers Ltd.

While the number of captives managed by Alexander Insurance Managers held steady last year at 93, premiums written by AIM-managed captives dived 17%.

'It's a struggle. We're fighting just like everybody else' for business, says Mr. Whiting of Pinehurst.

The 93 captives wrote $197 million in premiums at year-end 1989, a fall from $236 million in premiums written by captives under management in 1988.

The decline dropped AIM to the ninth spot among Bermuda's captive managers, down from No. 7 a year ago.

"Some moved and we gained some," Mr. Hunt said of the clients managed by AIM, the captive management subsidiary of Alexander & Alexander Services Inc. "The net effect was flat."

Two clients that came into the AIM fold are group captives writing professional liability coverages for Canadians. "I don't think they are going to be huge," said Mr. Hunt.

However, Mr. Hunt said marketing opportunities appear to be favorable for attracting medium-sized captives.

"As a group, we're interested in the Fortune 500, but I think it's fair to say that most of those have either got captives or looked at them and rejected them," he pointed out.

Soft market conditions also have slowed development of AIM Reinsurance Facility, which offers captives property reinsurance limits of up to $100 million.

The facility retains $25 million of the $100 million in limits, ceding the rest to other reinsurance companies.

AIM Reinsurance Facility added one new participant last year but finished 1989 with 18 participants, two fewer than at the end of 1988.

Pinehurst Management Co. Ltd.

Pinehurst Management also took a tumble in the rankings of the top captive insurance company managers, falling to No. 10 from ninth spot in 1988 as premiums under management fell 13% to $175 million in 1989 from $200 million the previous year.

The number of captives under Pinehurst's management stood at 50 at the end of last year, down from 56 in 1988.

"It's a struggle. We're fighting just like everybody else," said Mr. Whiting.

There was plenty of activity last year, he added, but a lot of it was just "looking, and none of it came."

Pinehurst, owned by Jardine Matheson Holdings Inc., has held discussions with potential captive parents in Hong Kong, the Middle East and Australia.

But, for various reasons, the discussions did not lead to captive formations.

There's still plenty of interest in captives, Mr. Whiting says.

"We've always got 10 of them out there," he said of potential captive formations. "We're doing one this week for a Connecticut insurance company that wants to get rid of a portfolio of business it acquired in an acquisition."

Pinehurst also picked up one notable client—a captive owned by McDonald's Corp. and formerly managed by Marsh & McLennan (Bermuda).

The McDonald's captive underwrites insurance related to products distributed in McDonald's promotional programs (*BI*, April 10, 1989).

Pinehurst also places clients' insurance with ACE Ltd. and X.L. Insurance Co. Ltd., generating about 30% of Pinehurst's revenues, according to Mr. Whiting. ■

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2 rent-a-captives report premium growth

By MICHAEL BRADFORD

HAMILTON, Bermuda—Rent-a-captives in Bermuda are reporting mixed results, with two facilities surging despite the continuing soft commercial insurance market and others reporting little growth.

For the three affiliates that make up the Insurance Profit Center—Mutual Indemnity Ltd., Mutual Indemnity (Barbados) Ltd. and Mutual Indemnity (U.S.) Ltd.—gross written premiums soared 90% in 1989 to $122 million from $63.4 million in 1988.

In addition, Universal Re-Insurance Co. Ltd., a privately held rent-a-captive managed by Atlantic Security Ltd., nearly doubled its premium volume last year to $10 million from $5.3 million in 1988.

Through rent-a-captives, a company or policyholder group can finance risks with an established insurer outside the traditional market without setting up a new captive.

A fully funded rent-a-captive program operates without reinsurance and requires policyholders to fund their aggregate limits with cash and letters of credit.

A so-called traditional rent-a-captive program is written through a fronting company or directly by the rent-a-captive, depending on the type of coverage. Unlike fully funded programs, a premium is calculated for the risk and reinsurance purchased to protect the program against catastrophic losses.

Robert A. Mulderig, Mutual Indemnity's president, said the increase in premium volume comes from "a strong showing in our conventional, traditional IPC business, especially the workers comp area."

While the market for most lines of insurance is soft, employers in some states cannot find affordable workers compensation coverage from commercial insurers, giving IPC the opportunity to capture that business, he said.

"I'm not sure workers comp fits into the normal cycle," he said. "There are states that have some tremendous problems on the workers comp side of things. We're trying to concentrate on finding opportunities in those problems."

Mr. Mulderig said the number of participants in IPC rose to 190 last year from 170 at the end of 1988. IPC wrote 35 new programs in 1989 and canceled 15.

Performance was helped by IPC's newest affiliate, Mutual Indemnity U.S. That affiliate, although incorporated last year in Bermuda, has elected to be taxed as a U.S. corporation. As a result, participants do not owe federal excise taxes on premiums paid to the company, which have been reinstated on Bermuda-based companies following expiration of a U.S. tax treaty provision.

Mutual Indemnity U.S. "has caught on very well," Mr. Mulderig remarked. "In fact, it wrote more premium volume than either of the other two companies" last year, with more than $50 million in volume.

The newest affiliate is expected to continue to grow as an option for U.S. corporations, Mr. Mulderig noted.

While IPC continued to see growth in fully funded programs, a greater number of traditional programs were started in 1989.

Of the 35 new accounts written in 1989, 11 were fully funded and 24 were traditional programs. Of the 15 programs canceled last year, 10 were fully funded. Altogether, 129 of the IPC accounts are traditional programs and 61 are fully funded.

The trend toward traditional programs should continue "unless and until we see another really hard market," Mr. Mulderig predicts. But, he added, "we continue to be surprised by the persistence of the fully funded programs we have. Frankly, we thought that in a market as soft as this one we would have lost ground on fully funded programs, but we seem to be holding our own.

"We hope the answer is that once the client's put a program together and begins funding. . .that it's harder to lure him back to the normal, cyclical market that is promising low prices."

As IPC has swung back toward an increase in traditional programs, its combined ratio also has crept upward: to 107.9% at year-end 1989, up from 105.6% a year earlier.

IPC's loss ratio declined to 77.7% from 83.3%, but the expense ratio rose to 30.2% from 22.3%.

"There simply are more costs involved in putting together a traditional work comp program, for example, than there are in putting together a fully funded program," Mr. Mulderig said in explaining the jump in the expense ratio.

The higher combined ratio resulted in a 14% dip in net income to $7.4 million last year from $8.6 million in 1988.

IPC's net premiums grew 5% to $56.4 million in 1989, from $53.6 million in 1988.

One of IPC's most valuable resources is Mutual Group's ownership of Legion Insurance Co., a Pittsburgh-based insurer that provides fronting services to IPC clients.

"Legion continues to be a very valuable tool for us," said Mr. Mulderig. "It gives us the ability to compete, especially on a time basis. We've written a number of accounts where time, for one reason or another, has become a factor."

IPC also continues to use a number of other fronting companies.

"We're excited about 1990," Mr. Mulderig said. "We see continued good growth in premium volume, although we don't expect nearly the growth that we saw in '89. It's hard to repeat a 90% growth rate. That included a couple of large programs that we wouldn't necessarily expect to find again."

Meanwhile, Universal Re reported growth last year. "Considering the market, we did very well. 1989 was a good year," said Colin C. James, vp of Atlantic Security Ltd., which manages Universal Re.

Universal Re added three new accounts last year and didn't lose any, bringing the number of accounts to 33. Nearly all are fully funded programs. One is a large medical malpractice program and the other two are product liability accounts.

The company "peaked in premium volume in 1986," said Mr. James. "We wrote about $20 million. But those were the days when we had these big association captive deals. The trend these days is single-parent."

Atlantic Security also sold 60% of a formerly inactive brokerage subsidiary, Risk Treatment Services, and renamed it Park International Ltd. (see story, page 32).

Continued on next page

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Rent-a-captives

Continued from previous page

But, Atlantic Security also continues to broker accounts to ACE Ltd. and X.L. Insurance Co. Ltd.

"We've got four applications for X.L. and hopefully we'll be getting more," he said.

Atlantic Security also manages 28 captives that generated $150 million in premiums in 1989.

Other rent-a-captive facilities reported flat results for 1989.

Hurst Holme Insurance Co. Ltd., managed by International Advisory Services Ltd., reported 1989 premium volume of $6.5 million from 16 clients, unchanged from 1988. Last year's flat growth follows an increase in 1988 from 1987 premium volume of $4.5 million from 11 clients.

The rent-a-captive is "something we don't market totally," explained David Pickering, vp at IAS. "It's basically a facility that's there for our clients if they want to use it."

The facility also accommodates sizable risks that "feel they are much better than the commercial market gives them credit for but are not large enough to form a single-parent captive," explained David Ezekiel, president and managing director of IAS.

The biggest account in Hurst Holme is a property program, but most of its clients use Hurst Holme to insure liability risks, according to Mr. Pickering.

Hemisphere Marine & General Assurance (Bermuda) Ltd., a rent-a-captive managed by Alexander Insurance Managers Ltd., reported little new activity in 1989 as did Vista Life Insurance Co. Ltd., a rent-a-captive managed by Johnson & Higgins (Bermuda) Ltd.

Johnson & Higgins also manages Uniservice Insurance Co. Ltd., a property facility.

Hudson Reinsurance Co. Ltd., a Skandia America Group affiliate, also offers a rent-a-captive program serving a half-dozen clients. ■

Hopewell's 1989 loss only a fraction of '88's

By MICHAEL BRADFORD

HAMILTON, Bermuda—For the second straight year, operating losses plagued Hopewell International Insurance Ltd.

At $538,000 for the year ended June 30, 1989, the loss was only a fraction of Hopewell's $4.4 million deficit—its first ever—for fiscal 1988.

But after adjusting its property underwriting, including raising some rates up to 25%, the captive reinsurance pooling giant had hoped to post a profit in fiscal 1989 (*BI*, April 10, 1989).

Losses were cut nearly a third—to $141.9 million in 1989 from $386.9 million a year earlier—but still kept the facility from posting a net gain.

Four sizable claims accounted for most of Hopewell's 1989 losses: two arson losses caused by animal rights activists at European department stores; a fire at a plywood manufacturing facility in Washington; and another fire at a chemical facility last June in Morris, Ill.

Hopewell, which is managed by International Risk Management (Bermuda) Ltd., provides IRM-managed captives with property reinsurance through a complex system of reinsurance treaties and facultative placements.

Hopewell was hit in 1987 by one of the largest onshore property losses ever recorded.

That year, a vapor cloud explosion at a Hoechst Celanese Corp. chemical plant in Pampa, Texas, produced a loss for which Hopewell has reserved $355 million (*BI*, April 18, 1988). About $280 million of that was paid earlier this year.

That loss produced changes at Hopewell in 1988. Ceding commissions payable to the pool's captives were cut and rates charged by captives to parent companies with adverse loss experience were increased, as were reinsurance rates on business ceded to Hopewell.

Another change effectively capped the total insured value of any one location covered through Hopewell at $1 billion. In addition, Hopewell introduced a minimum self-insured retention of $250,000 for participating captives.

Rate hikes continued last year, according to Arthur H. Deters, president and chief executive officer of International Risk Management Group, the parent of IRM (Bermuda).

"We've had selective rate increases on accounts that have produced losses or changed their underwriting profiles due to acquisitions," he said. "But the amount of rate increase in the past year wasn't as great as in the earlier year. The earlier year was exaggerated due to Pampa."

But higher rates and other changes were not enough to offset last year's losses, Mr. Deters pointed out.

Hopewell's earned premium rose 5.5% to $135.2 million in 1989, up from $128.2 million in 1988.

After ceding $131.4 million in premiums to hundreds of reinsurance companies and collecting commissions and other income, Hopewell recorded 1989 underwriting income of $28.1 million, down slightly from $28.9 million in 1988.

Reinsurance recoverables for the pool's approximately $141.9 million in losses totaled about $135.9 million during the last fiscal year, leaving Hopewell with net incurred losses of $5.9 million.

After paying commissions of $24.4 million and other expenses, Hopewell finished 1989 with underwriting expenses of $30.4 million, down 13% from $35.1 million in 1988.

Its 1989 net underwriting loss—$2.3 million—was 63% lower than the $6.2 million in 1988.

After investment income, Hopewell's net loss was $537,834.

Mr. Deters said after 1988's disastrous showing, he entered reinsurance renewals with some anxiety.

But last year's renewals went "surprisingly well," he said. "The reinsurance market was relatively soft and our reinsurers who have been with us so many years elected to stay with us despite the fact that our results weren't very satisfactory."

Upcoming renewals should provide an equal amount of anxiety, Mr. Deters remarked.

"We've got our usual renewal on July 1 of this year," said Mr. Deters. "It should be an interesting renewal because Hopewell results during the past year have not been very good."

This year's renewal, Mr. Deters noted, brings "a lot of concern. There are signs that certain parts of the reinsurance market this year are tighter than last year, particularly in the catastrophe area," he explained, because of losses paid on natural disasters and accidents like the blast at the Phillips Petroleum Co. plant in Pasadena, Texas (*BI*, Oct. 30, 1989).

Still, Mr. Deters pointed out, overall "it's not a tight reinsurance market now." ■

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OIL raises rates, seeks new business

By MICHAEL BRADFORD

HAMILTON, Bermuda—Oil Insurance Ltd. is raising rates and offering new business incentives to brokers in its battle to emerge from a two-year slump caused by heavy losses.

For the second consecutive year, the Bermuda-based oil and gas industry mutual insurer suffered heavy losses, leading to a year-end 1989 underwriting loss of $235.5 million. However, that figure is improved from OIL's record $512 million underwriting loss in 1988 (*BI*, May 29, 1989).

"The year we had, while a bit better than the previous year, was still a pretty heavy loss year. What we thought was perhaps a one-year downturn in terms of losses has turned into a two-year situation," said OIL President K. Doyle Stephens.

"We still believe that that's going to turn around. History tells us that it will. But the question is whether it's turning around or we still have some losses yet to see," he added.

OIL writes all-risk property insurance, well-control insurance and third-party pollution liability insurance for its 49 shareholder companies. Primary limits of up to $150 million per occurrence are available, depending on the assets of the company. An additional $150 million in excess limits also is available covering the same risks, with reinsurance purchased by OIL.

OIL's 1989 losses included the explosion of a Phillips Petroleum Co. plant in Pasadena, Texas, last fall (*BI*, Oct. 30, 1989). OIL wrote actual cash value insurance for the facility to $300 million, in two $150 million layers. The coverage was subject to a $10 million self-insured retention by Phillips.

On the $150 million excess layer, OIL retained $50 million and reinsured the remainder.

Ronald Massey, senior vp of OIL, said "the Phillips petroleum explosion. . .is still being adjusted, but it is likely to be in excess of $1 billion including business interruption and it is our first-ever full limits loss of $300 million, of which we recover $100 million."

Last year's loss experience followed record losses for OIL in 1988, which included Ashland Oil Inc.'s fuel spill in the Monongahela River near Pittsburgh and the explosion of the Piper Alpha oil rig in the North Sea (*BI*, July 11, 1988; Jan. 11, 1988).

To help offset the impact of these losses, OIL has raised 1990 rates. "Our rates did increase for the 1990 policy year," said Mr. Stephens. "Basic rates increased about 16% and the rates for the excess coverage increased by 20%."

OIL's members pay rates according to two formulas, Mr. Stephens explained.

"The individual shareholder's premium is a function of its individual experience over five years, factored against the standard rate," he said. The standard rate is based on the experience of the entire group of OIL members over the five-year period.

Meanwhile, to attract new business, OIL shareholders decided in March for the first time to begin paying brokerage commissions on new business. The commissions range up to 10% of the premium.

Only non-U.S. brokers that are not affiliated with the policyholder are eligible for the commission.

OIL's gross written premiums in 1989 jumped 86.8% to $177.2 million from $94.8 million the year before. Net premiums written and earned last year rose 124.7% to $145.6 million from $64.8 million in 1988. (All policies are written on a calendar year basis.)

Mr. Stephens said the big jump in net premiums written and earned is partly a reflection of 1988's substantial losses.

"It relates to the retrospective nature of the OIL rate environment," he said, referring to the policy of requiring shareholders to pay more premiums after heavy loss years. Losses and loss expenses incurred in 1989 totaled $381.1 million, down 33.9% from $576.9 million recorded in 1988.

OIL reported an investment expense of $20.1 million that relates primarily to "loans at banks, which are fairly substantial amounts," Mr. Stephens said.

Through a consortium of banks, OIL last year put together a $500 million credit facility that will ensure it has the ability to pay losses.

OIL's net operating loss for the year was $237.8 million after a $514.3 million loss in 1988, while its net loss totaled $258 million in 1989, following a $454.5 million deficit in 1988.

OIL's policyholder surplus totaled $405.9 million at year-end.

OIL's affiliate, Oil Casualty Insurance Ltd., saw underwriting income continue to slide during the continuing soft commercial insurance market last year.

Mr. Massey said the soft market is the "driving force" behind shrinking premiums at OCIL, which writes excess general liability insurance and directors and officers liability coverage for its shareholders and other named insureds.

OCIL, like OIL, is now offering to pay brokerage commissions to attract new business.

OCIL offers excess liability limits of $100 million per occurrence with a $100 million annual aggregate above at least a $20 million per occurrence retention. D&O coverage is limited to $50 million per occurrence with a $50 million annual aggregate above a per occurrence retention of at least $20 million.

OCIL's underwriting income dipped 23.2% to $8.6 million last year after the insurer posted $11.2 million the year before. Gross premiums earned fell 24.2% to $15 million from $19.8 million in 1988. Net premiums earned amounted to $10.9 million last year, a 29.2% decrease from $15.4 million in 1988. Losses and loss expenses totaled $2.2 million. After net investment expenses of $3.9 million and operating expenses of $1 million, OCIL recorded $3.7 million in net income, a 9.8% fall from the $4.1 million net income figure for 1988.

OCIL's investment expense of $3.9 million, Mr. Stephens explained, relates "to a combination of both a note under which $20 million is owed to OIL and the balance on a bank loan of $5 million."

•

Correspondent Roger Scotton in Bermuda contributed to this report.

RIMS 1990

RIMS PREVIEW
APRIL 23 ISSUE

The perfect kick-off for this year's Risk & Insurance Management Society Conference in Boston is BI's 'Take-Out' section.

BI readers will find last minute details and updated program and speaker changes at RIMS '90; a floor plan and list of exhibitors; a map of Conference hotels; and transportation info; a Boston entertainment and restaurant guide, and weather watch from BI editors; and updates on conference and other hospitality functions.

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Spotlight report

Stalled captive pool awaits market turn

By MICHAEL BRADFORD

HAMILTON, Bermuda—The Risk Exchange Assn. is ready and waiting for the commercial insurance market to harden.

That's when it expects risk managers to begin taking greater advantage of the captive reinsurance pool.

A soft commercial market has dampened activity at the Risk Exchange, with members returning to that market instead of sharing risks among themselves.

Premium written at the exchange did jump 120.3% in 1989 to $1.9 million, but remained well short of the $3 million in 1986 and 1987.

Robert J. Rosser, vp of marketing at Skandia International Risk Management Ltd., which manages the Risk Exchange, described the pool as "optimally a hard market vehicle. When capacity is scarce, that's when the Risk Exchange is most useful to risk managers."

Soft market conditions were responsible for the demise of another Skandia-managed reinsurance pool, Corporate Insurance & Reinsurance Co. Ltd. (*BI*, April 10, 1989). That facility, formed in 1977 to provide casualty reinsurance, never attracted the membership needed to build the capacity originally sought.

Mr. Rosser calls remaining members a "good solid core group," but membership declined to 16 last year—the lowest in the exchange's six-year history—from a high of 29 in 1987 and early 1988.

Mergers and acquisitions among members have trimmed the count by three, Mr. Rosser said.

Withdrawing members must give 12 months' notice and may either run-off business written or commute contracts at 125% of case reserves and incurred-but-not-reported loss reserves.

One or two prospects are "looking very strongly" at the exchange, said Mr. Rosser. He recommends considering facilities like the exchange now, when "you have the luxury of putting the groundwork in place before the market turns."

Risk managers using the exchange call it an ideal way to fill buffer layers of casualty coverage.

Timothy Hoffman, president of the insurance service division at M.A. Hanna Co. in Cleveland and immediate past chairman of the exchange, said his captive is retaining a comfortable amount of its casualty risk and reinsuring the next layer into the exchange.

That allows the captive to avoid high-priced facultative placements, Mr. Hoffman explained.

"We look at the Risk Exchange as being a market that will be price-competitive at all times during both the hard market and the soft market and will give us a way of long-term risk financing through that system."

In turn, Mr. Hoffman said, "we are prepared to be the reinsurer of some of our associates."

Arnold C. Weigel, risk manager at Dow Corning Corp. in Midland, Mich., said the exchange provides his company with a $2 million casualty layer excess of $3 million at a reasonable rate.

"We're trying to control our own destiny," said Mr. Weigel, because of pricing extremes in the conventional marketplace. "And the Risk Exchange has allowed us to do that. We have accepted the primary and laid the buffer layer off to the Risk Exchange."

The facility is a valuable source for first-layer excess coverage, which can be difficult to obtain, said Thomas A. Duffield, chairman of the Risk Exchange.

"Class underwriting" can go on in the traditional market, he said. When insurers decide they don't like a class of risk, "you're simply dispensed with out of hand."

The Risk Exchange can provide a "part of a layer of excess coverage" not available in the open market, said Mr. Duffield.

Increased gross premiums last year were welcome after 1988's performance.

Its 1989 premiums included $1.5 million in casualty writings, compared with about $290,000 a year earlier.

Property premiums were down nearly 16% last year to $356,000 from $424,000 in 1988.

The Risk Exchange wrote no marine business in 1989 after recording about $149,000 in marine premiums in 1988.

"The commercial market was extremely accommodating" for marine risks last year, Mr. Rosser said. "Our members were getting offers they couldn't refuse."

Casualty business, he noted, "has always formed the majority of our business. . .because that's where our members have had problems."

The increase in premium writings is a reflection of "members taking the time and effort to really look at where the Risk Exchange can help them," said Mr. Rosser.

Hudson Reinsurance Co. Ltd., a Skandia America affiliate in Bermuda, has increased its participation from a minimum of 10% of the pool's risks to 25%. The commitment ensures Skandia has "a vested interest in the profitability" of the exchange, said Mr. Rosser.

Increasing Hudson Re's participation also allowed Skandia to "make sure the exchange could provide its members with significant risk-bearing capacity," Mr. Rosser explained.

Even with Hudson Re's participation, capacity for casualty risks has dipped to $1.85 million from $2.02 million in 1989 and property capacity has fallen to $2.75 million from $3.1 million. However, Hudson Re on a case-by-case basis can increase its participation to increase the exchange's capacity.

On the marine side, the exchange offers capacity of $2.6 million, down from $2.8 million last year.

The facility's loss ratio zoomed to 88.3% last year from 48.7% in 1988, primarily because of losses on its property business.

The expense ratio for 1989 dipped to 28% from 46.3% in 1988.

Since its inception in 1984, the exchange has rung up a 116% combined ratio. But "a large and complex property claim"—relating to a $150 million European property loss in 1987—"artificially inflates" the figure, said Mr. Rosser.

All the reinsurers on the risk—including the Risk Exchange—have denied liability for the claim but the exchange members have "reserved in full" for any potential payout, Mr. Rosser explained.

"If it wasn't for that one claim, the results would be very much better," he remarked. ■

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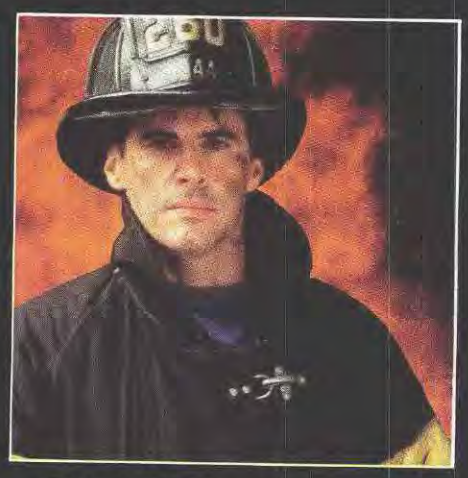

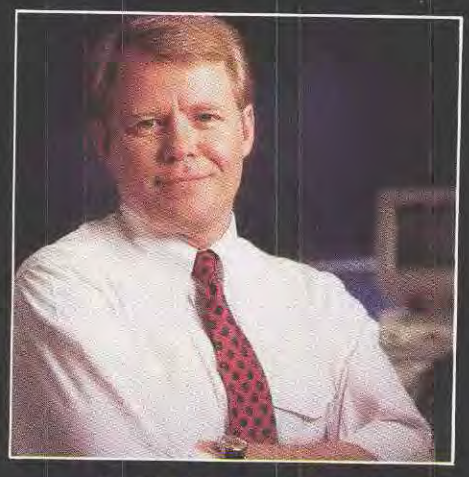

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Bermuda reinsurers

Continued from page 3
keting their availability.

Meanwhile, the Bermuda market also includes several other reinsurance companies writing a selection of commercial treaty, London market excess-of-loss reinsurance and captive reinsurance.

Fifteen members of the Bermuda Independent Underwriters Assn. classified as reinsurers wrote $781 million in gross premiums in 1989, according to the association. This includes reinsurance of affiliated companies as well as non-related business.

In all, the 26 BIUA members wrote $1.9 billion in gross premiums in 1989—which significantly does not include the $268 million in financial reinsurance underwritten by non-member Centre Re.

Treaty broker Intere (Bermuda) Ltd., which places participations on about 200 treaties in Bermuda, can place up to $5 million in limits in Bermuda for an excess-of-loss property catastrophe treaty, using conventional treaty underwriters and some captives insurers that sometimes write third-party business, said Senior Vp Robert J. Hedges.

While there is still no market in Bermuda for casualty treaty reinsurance, some of the island's underwriters occasionally will write specialist casualty business, he added.

"Bermuda is not a market of homogenous companies. Each company has decided what it wants to do and does it as best it can. It is not like London where you can go to more than one company" to place a risk, said William A. Brokers Ltd.

'Each company has decided what it wants to do and does it as best it can,' says Mr. Wanklyn.

"Bermuda is a market for a large spread of different things, including financial reinsurance, captive reinsurance and large excess casualty insurance through ACE, X.L. and CODA," noted Mr. Wanklyn.

The name of Bermuda still conjures up images of a sleepy, tropical isle to many people outside the industry, but reality is worlds apart.

New and expensive office buildings line the streets in Bermuda's capital city of Hamilton, many of them occupied by the island's newest insurers, including X.L. and Centre Re, and soon ACE, when its building is completed.

The island, a self-governing British colony, also has maintained its colonial charm outside of Hamilton.

Bermudians pride themselves as having one of the oldest, and most stable, parliamentary democracies in the world and a society where there is almost no poverty, no unemployment and an extremely high standard of living.

As one American tourist expressed it: "Bermuda has the best of both worlds—British culture and history and American money."

International business contributes a third to Bermuda's export economy: $304 million annually.

In comparison, tourism provides $434 million, according to the latest available statistics relating to the fiscal year ending March 31, 1989.

However, for an island that imports virtually all its consumer goods and luxury items and which collects no income tax from its residents, the government must tread a narrow path in balancing its exports with imports.

When Bermuda Finance Minister David Saul revealed large tax increases in his annual budget in March, fears resurfaced, particularly among the financial industry, that Bermuda may price itself out of the market (see story, page 54).

However, many in Bermuda's insurance industry believe that Bermuda has already secured its position as an important—if somewhat unconventional—insurance and reinsurance center.

Bermuda is strategically placed between the world's most dynamic insurance centers: 775 miles from New York and 3,445 miles from London.

While that's many miles from London, fax machines and good telephone—as well as good airline—makes London feel a lot closer.

The people who work in Bermuda's insurance industry are a mix of Americans, British, Canadians and Bermudians.

This harmonious racial mix is immediately evident in the voices and accents that echo in office corridor: Scottish; Midwestern; New York; Welsh; Irish; Bermudian; and sometimes a peculiar mixture of several thrive together on this tiny isle.

While the island's early ambitions to become the world's third giant reinsurance market is universally conceded to have been ill-conceived, most agree Bermuda has found its role as the world's foremost alternative insurance and reinsurance market.

"The idea that the third great insurance market is here (in Bermuda) has died. What we're transferring to is a niche market," says Nicholas Dove, president of Hudson Reinsurance Co. Ltd.

Nine reinsurers based in Bermuda are open-market reinsurers, each with its own niche. Together, the nine reinsurers wrote $305.6 million in gross premiums last year, less than their combined policyholder surplus of $401.2 million. And they produced $87.6 million in profits (see chart, page 28).

Several of the smaller reinsurance companies are changing their portfolio of business to write the type of business Bermuda knows best: captive reinsurance and other specialist niches.

Hudson Re, a subsidiary of Skandia International Insurance Co. Ltd., is stepping out of general commercial treaty reinsurance to concentrate on captive reinsurance, explained Mr. Dove.

"Last year we were renewing (general) business, but we were not actively looking for new business," said Mr. Dove.

And, general reinsurance business renewed last January will not be renewed next January, he said.

Instead, Hudson Re will write reinsurance for captives and other alternative market facilities like self-insurance programs, pooling arrangements and risk retention groups, in conjunction with affiliate Skandia America Reinsurance Corp. (see story, page 36).

In 1989 Hudson wrote $5.5 million gross premiums, down from $12.6 million in 1988. However, using U.S. generally accepted accounting principles, after reductions made for prior year adjustments gross premiums totaled $580,000.

One company that has long specialized in captive reinsurance in Bermuda is Aneco Underwriting Ltd.

Aneco last year wrote about $20 million in gross premiums, up from $14 million in 1988, said President Jonathan J. Crawley, noting that while the company's financials have been approved by the board they have not yet been approved by auditors.

Gross premiums from captive re-

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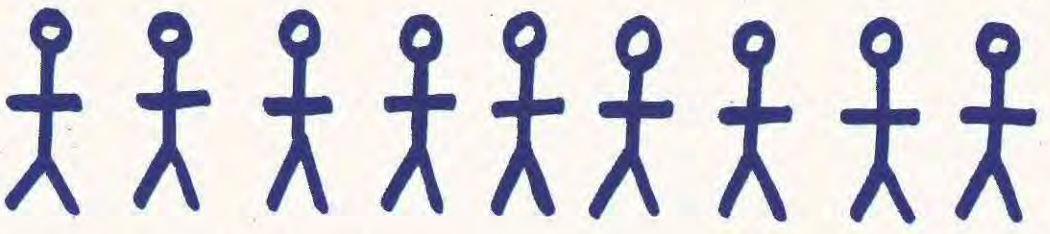

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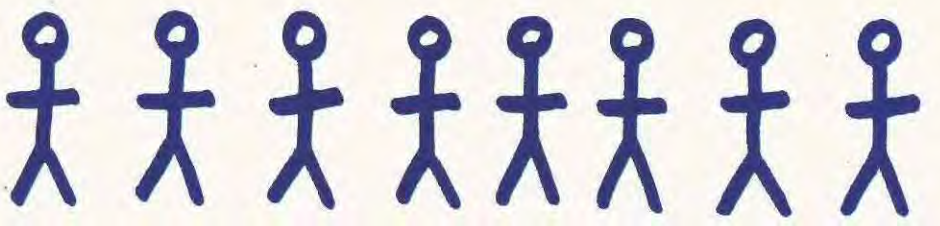

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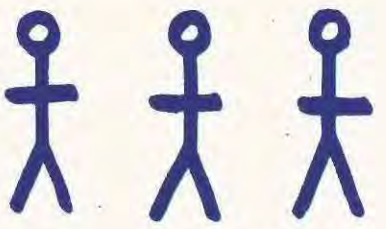

Three out of four people found our submission response time to be either good or excellent...

Continued from previous page
insurance totaled $11 million, compared with $10.5 million in 1988.

Mr. Crawley has long maintained that Bermuda's strength and focus should be its position as the world's foremost captive domicile and, therefore, its reinsurance industry should concentrate on supporting that base.

Aneco also underwrites property catastrophe reinsurance on a proportional basis for selected excess-of-loss underwriters at Lloyd's of London and London companies.

In 1989, Aneco wrote gross premiums of $6.3 million from property reinsurance, up from $4.6 million in 1988.

"We made an underwriting loss on property for 1989 as a result of Hurricane Hugo," said Mr. Crawley.

"Our Hugo loss—like other LMX and U.S. catastrophe carriers—is comparatively larger for our net account than any prior catastrophe because of the imposition of co-reinsurance during 1988 and 1989," he noted.

Meanwhile, for 1990 Aneco expanded its property catastrophe book with some new participations in business underwritten in London "by well-known and tried underwriters," said Mr. Crawley.

And, despite the series of windstorms that devastated Europe during the early months of this year, "I believe 1990 could yet be a very profitable property catastrophe year" because of the huge rates some reinsurers are able now to charge for back-up reinsurance cover, he said.

However, it largely depends on how many separate losses in Europe are classified and the size of them, "which nobody has much of a handle on yet," said Mr. Crawley during an interview in March.

Meanwhile, after the Piper Alpha North Sea oil platform loss in 1988, Aneco began underwriting two proportional treaties for marine excess-of-loss business in London and this year has taken "a couple more positions," he said.

In addition, "we have further diversified our book in London by taking proportional positions in a few niche areas behind Lloyd's syndicates who specialize in very niche markets," said Mr. Crawley, who would not identify the niche areas pointing out that it would clearly identify the syndicates.

'The composition of our book of business has changed considerably over the last five years and may well look very different a few years from now,' says Belvedere Insurance Co. Ltd.'s Chief Executive Officer Colin D. O'Connor.

Aneco's operating income for 1989 fell to $1.5 million from $2.1 million because "we decided to boost reserves for discontinued lines—over and above the level recommended to us by Tillinghast," said Mr. Crawley, referring to the Tillinghast division of Towers, Perrin, Forster & Crosby Inc.

"During 1987 and 1988 we were topping up our old year reserves by a combination of stop-loss protections. However, at this year-end, because we have had another good year, we decided to take the hit," he said.

As a result, the company boosted reserves by almost $2 million, Mr. Crawley noted.

"I don't want to have any more surprises in the future on discontinued lines. I want to go into 1990 without any surprises and this gives us a cushion," he noted.

Absent the voluntary addition to reserves, Aneco's combined ratio for 1989 would have been 81.25%, consistent with prior years of 82.4% in 1988, and 82% in 1987. After the addition to reserves, Aneco's combined ratio for 1989 was 97.3%.

Belvedere Insurance Co. Ltd. refocused its business to specialized underwriting in 1985, says Chief Executive Officer Colin D. O'Connor.

"The composition of our book of business has changed considerably over the last five years and may well look very different a few years from now," Mr. O'Connor writes in the company's annual report.

"We have developed the discipline to move away from business classes which become too crowded by capacity, where rates and conditions are clearly deteriorating to too great an extent."

Recently, for example, Belvedere stopped writing most financial reinsurance because the market has become so competitive.

Belvedere's underwriting strategy changed in 1985 from "an unfocused general reinsurance assumed portfolio" to one based on "a recognition that a sensibly capitalized Bermuda reinsurer could not compete with larger, licensed reinsurers for standard property and casualty in stable or soft market conditions," according to the annual report.

As a result, "our underwriting strategy proceeds from the simple truth that we will find wider acceptance and greater profits in classes where capacity is scarce or where growth is steady," the report explains.

For example, in the last three to four years Belvedere has tripled its premium revenues from accident and health business, concentrating on self-funded group health programs, said Mr. O'Connor.

Accident and health business has been consistently profitable for Belvedere. It is a growth area that has not become too competitive and where the tail is short, he said.

Meanwhile, Belvedere is cutting its property business "quite considerably," Mr. O'Connor noted.

"During 1990, Belvedere will evaluate its property reinsurance commitments and will reduce its volume of catastrophe business," the 1989 report says.

Belvedere profits fell in 1989, partly because of a net $1 million loss on property catastrophe business, including Hurricane Hugo.

In 1989 Belvedere wrote gross premiums of $27.6 million and net premiums of $25.2 million, compared with gross premiums of $26.7 million and net premiums of $25.4 million in 1988.

Net income fell to $2.283 million for 1989, from $3.37 million in 1988.

"This figure represents a drop of $1.1 million from 1988 net income and a modest return on equity of 10.6%, a result which we would not normally find satisfactory. 1989 will not, however, be remembered as a good year for insurers and reinsurers, particularly those exposed to U.S. risks, and we must be philosophical about the outcome," Mr. O'Connor wrote in the annual report.

Belvedere is looking ahead to the 1990s with optimism following a successful management buyout in December (*BI*, Dec. 4, 1989).

"In December 1989, after a lengthy and sometimes difficult process, (New York-based Belvedere) Corporation sold the Belvedere Bermuda companies to Cali-

Continued on next page

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Bermuda reinsurers

Continued from previous page
ban Holdings Ltd., a company formed by Belvedere Bermuda's management and a subsidiary of Citicorp," Mr. O'Connor notes in the company's annual report.

"We haven't done much different since the change in ownership. Because we have a different ownership, it doesn't mean that we see the market any differently," he said.

In an interesting 10-year analysis in its annual report, Belvedere outlines results for several main classes.

The results show some of the devastating effects of the soft market in the early 1980s.

For example, on casualty business for the 10 years ending Dec. 31, 1989, Belvedere estimates its net loss to be about $13.5 million on net earned premiums of $75.9 million. For the five years ending Dec. 31, 1984, the net loss was $20.7 million on $26.5 million of net earned premiums, compared with estimated net profit of $7.2 million on $49.4 million of net earned premium for the five years since.

For property business for the 10 years ending Dec. 31, 1989, Belvedere's estimated net profit is $300,000 on net earned premiums of $8.4 million, with profits of $1.9 million and net premiums of $5.3 million during the last five years.

Marine results have "proven to be consistently disappointing," the report notes, with an estimated net loss of $1.4 million on net earned premiums of $5.4 million for the last 10 years.

However, accident and health business has been "consistently profitable," with estimated net profits of $1.3 million on net earned premiums of $8.3 million for the last 10 years.

Paumanock Insurance Co. Ltd., owned by Bethpage, N.Y.-based Grumman Corp., underwrites primarily property and marine proportional and excess-of-loss reinsurance, including London market excess-of-loss (LMX) business, generating about $36.8 million in premiums last year.

It also underwrites risks of its owner, generating about $10.4 million in premiums.

Paumanock's 1989 profits also fell from 1988, partly as a result of a commutation of a major U.S. treaty and partly due to 1989's catastrophic property losses.

The commutation involved a treaty with First State Insurance Co., *Business Insurance* learned.

Paumanock's net income for 1989 fell 34.3% to $5.2 million, from 1988's record level of $7.9 million.

Gross premiums also fell to $47.2 million in 1989 compared with $55.4 million in 1988 and net premiums fell to $26.2 million from $34.8 million pounds.

Paumanock is managed by Anchor Underwriting Managers Ltd., which was formed in 1988 by Virginia Surety Co. Inc., a Chicago-based subsidiary of Aon Corp.

Paumanock bought additional reinsurance reinstatements last year following Hurricane Hugo and a string of catastrophic losses, which included the Phillips Petroleum plant explosion and the California earthquake.

"The full effect of 1989's catastrophic losses, amounts of recoveries and reinstatement premiums have yet to be evaluated; however, the underwriting year itself will surely be a dismal one when finally closed out," Paumanock states in its 1989 annual report.

However, as a result of those losses and the European windstorm losses earlier this year, LMX "rates are going to skyrocket again," said Robin Spencer-Arscott, senior vp of Paumanock and chairman and chief executive of Anchor.

In the meantime, the losses and the massive rate hikes are going to "sort the men out from the boys. A lot of people are going to go out of business," he predicts.

He is not, however, worried that Paumanock's losses will exceed its reinsurance cover.

"We always have been very conservative. We monitor our aggregations and accumulations very carefully and we are not going to write in excess of what we think is safe," he said.

As many reinsurance underwriters throughout the world, he says, "The weather conditions are very worrying.

"How can underwriters afford to continue insuring natural catastrophes when the primary rates are so inadequate?" he asks.

In many ways the whole insurance market was praying for a loss to tighten rates, he noted. However, "we must have been praying too hard," he quipped.

Anchor, which has 20 underwriting staff—including 15 Bermudians—also began underwriting in July a property account for Aon's Virginia Surety unit.

Nigel P. Clark, who last September joined Anchor from London-based River Thames Insurance Co. Ltd. to help underwrite the account, expects to write about $5 million in gross premiums and $3.75 million in net premiums in the first year.

Mr. Clark expects to make "a lot of production trips to the U.S. in the first couple of years" to build up the business.

"It's a great thing that a U.S. based, A-rated insurer is choosing to underwrite from Bermuda," noted Mr. Spencer-Arscott.

Another Bermuda-based reinsurer with long-standing ties to London's excess-of-loss reinsurance market is National Underwriters (Reinsurance) Ltd., whose account is underwritten through National Underwriters Agency Ltd.

National Underwriters, which uses the Lloyd's of London three-year accounting method, estimates profits of $2.3 million for 1987, down from 1986's record profit of $5.6 million.

National Underwriters is owned by three insurers: National Employers' Mutual General Insurance Assn. Ltd., 55%; Lansforsakringsbolagens A.B., 39.12%; and Colonial Insurance Co. Ltd., 5.88%.

National Underwriters increased its capital in December by $10 million. Capital and surplus now stands at $26.3 million.

The reinsurer writes about equal amounts of property and marine reinsurance, said President James G. Parkinson.

The property business is split between proportional reinsurance and excess-of-loss reinsurance, of which half is LMX business, said Mr. Parkinson.

Similarly, about half of the marine business is proportional and half is excess-of-loss. About half the marine XL business is LMX business, said Mr. Parkinson.

With a spate of catastrophic losses, retrocessional rates have increased "considerably" this year, he said.

"It's our belief that the retrocessional rates have now reached a point where it must have some affect on reinsurance and direct accounts," said Mr. Parkinson, pointing out that underwriters are having to pay much higher amounts for their own protection or will have to write more business net.

As a result, "people are going to have to start putting the rates up at the bottom end," he predicted.

National Underwriters "had its protections in place before the January (European) windstorms hit and we had purchased additional back up covers," Mr. Parkinson said.

As a result, "we had enough cover to renew our book but we have been unable to offer additional capacity," he said.

Mr. Parkinson, too, is concerned about "the very strange weather patterns" of recent years.

Partly because of the increasing frequency and size of such catastrophes, National Underwriters is "reducing its LMX book where possible, even though rates are going up," he said.

Meanwhile, Mr. Parkinson plans to continue to expand the amount of captive reinsurance written by National Underwriters.

National Underwriters Agency also underwrites a similar account for Bristol Reinsurance Ltd., which was set up by the Niarchos Group on Jan. 1, 1989.

Bristol last year wrote gross premiums of $6.4 million but is not reporting any results because it also uses a three-year accounting system.

Meanwhile, the agency no longer writes a parallel marine account for Lansforsakringsbolagens A.B. and National Employers Mutual, as Lansforsakringsbolagens this year formed Stockholm Reinsurance Co. Ltd. in London to write marine reinsurance, said Mr. Parkinson.

Also underwriting mid- to high-layer property catastrophe covers is Tate & Lyle Reinsurance Ltd., a captive reinsurer of Tate & Lyle P.L.C.

Underwriting an increasing amount of parent-related business, Tate & Lyle Re's percentage of unrelated risks is decreasing, says Vp James A. Kemp.

For the year ending Sept. 30, 1989, Tate & Lyle Re's gross premiums totaled $12 million, up slightly from $11.7 million for Sept. 30, 1988. However, gross premiums for unrelated risks fell to 46% of the total, down from 56% the previous year.

"We are taking larger exposures

Continued on page 30

Bermuda-based commercial treaty/captive reinsurance underwriters

Insurer (Parent)	Gross premiums written	Unrelated-risk gross premiums written	Net income	Capital and surplus	1990 capacity	
	(In millions of dollars, 1989)				Maximum treaty line	Average treaty line
Brittany Insurance Co. Ltd. (Petrofina S.A.)	$153.0	$102.0	$72.2	$222.6	$500,000 property catastrophe; $200,000 casualty	$350,000 property catastrophe $100,000-$150,000 casualty
Paumanock Insurance Co. Ltd. (Grumman Corp.)	47.2	36.8	5.2	57.8	$500,000	$250,000
National Underwriters (Reinsurance) Ltd. (Three insurers)	30.7[1]	30.7[1]	2.3[1]	26.3[1]	$250,000	$75,000-$100,000
Belvedere Insurance Co. Ltd. (Belvedere Management and Citicorp)	27.6	27.6	2.3	21.9	$500,000 $375,000 captive	$200,000 $250,000 captive
Aneco Reinsurance Underwriting Ltd. (Forum Re Group [Bermuda] Ltd.)	20.0	20.0	1.5	16.2	$1,500,000 captive[2]	$350,000 captive[2]
Tate & Lyle Reinsurance Ltd. (Tate & Lyle P.L.C.)	12.0[3]	5.5[3]	4.7[3]	33.9[3]	$250,000	$100,000-$150,000 property catastrophe
Bristol Reinsurance Ltd. (Niarchos Group)	6.0	6.0	N/A	20	$250,000	$75,000-$100,000
Hudson Reinsurance Co. Ltd. (Skandia International Insurance Co.)	5.5	5.5	-0.3	17.5	$375,000 captive	$150,000-$200,000 captive
Victory Reinsurance International Ltd. (Victory Group)	3.6	3.6	0.9	5.0	$200,000	$100,000
Totals	$305.6	$237.7	87.6	401.2		

[1]Estimated year-end 1987 [2]Two-thirds of line written by Aneco; one-third by Forum [3]Ending Oct. 31, 1989 N/A = Not available

Source: *BI* survey

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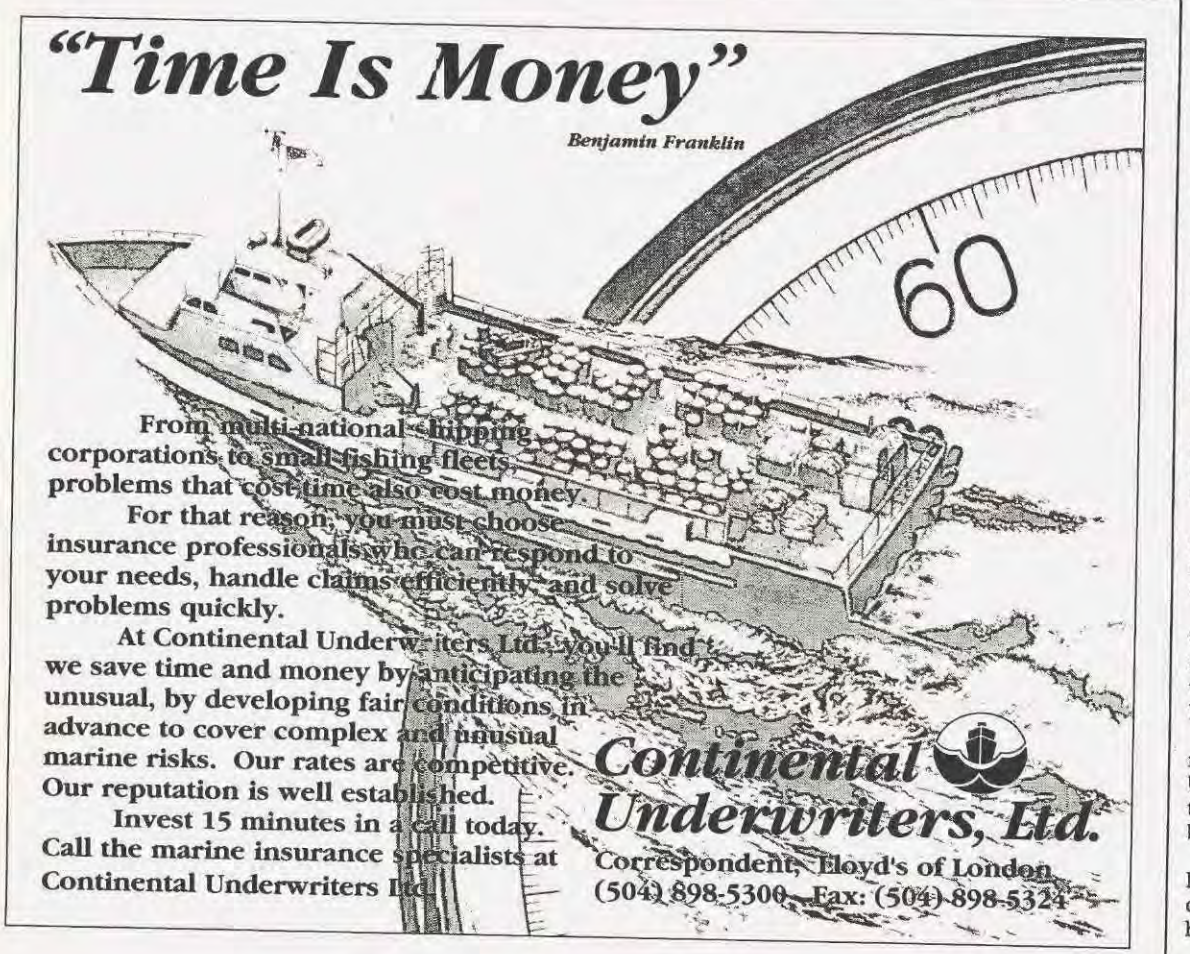
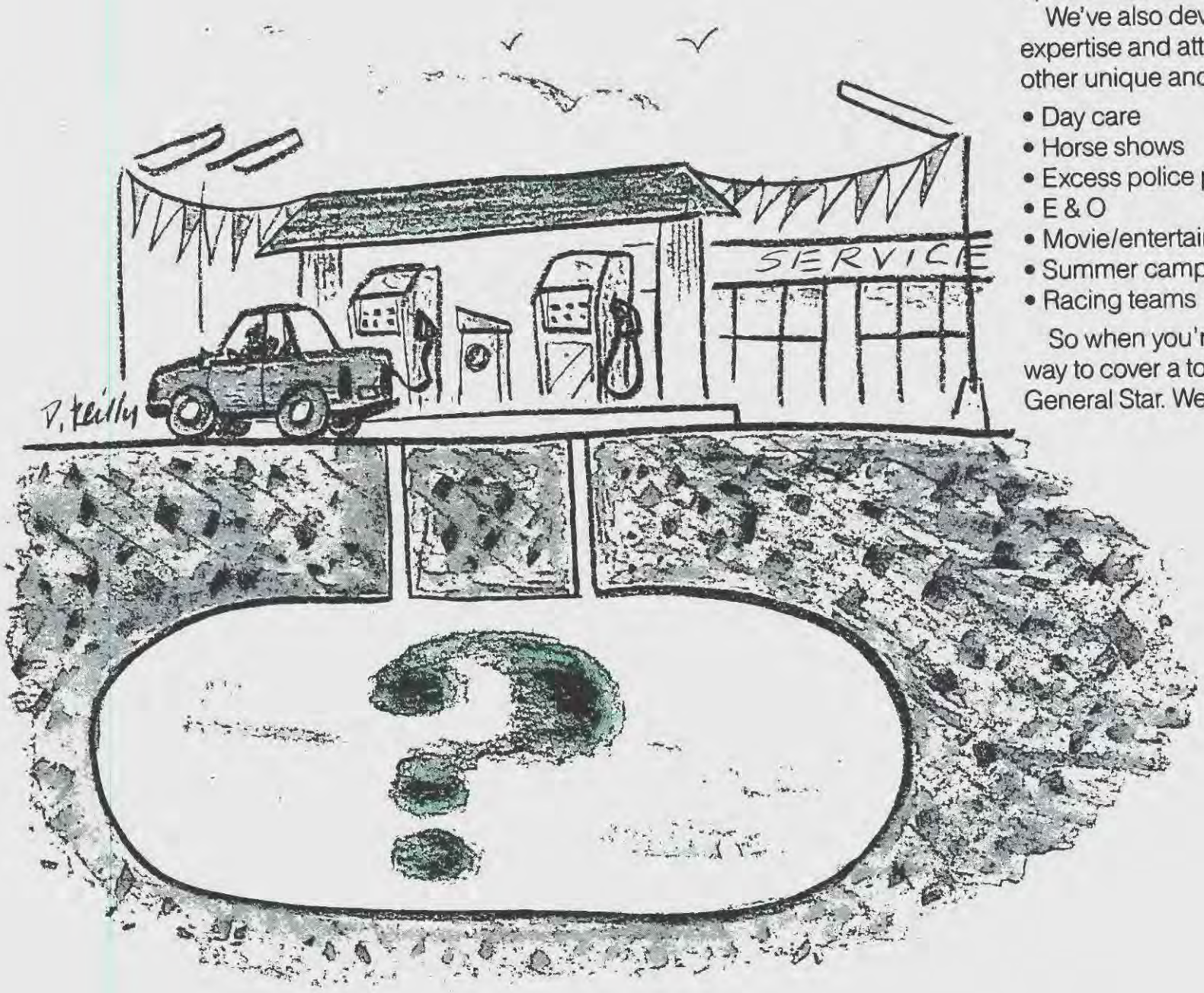


Underground Liability Is Out Of Sight!



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Bermuda reinsurers

Continued from page 28
on a group basis and we have revised our guidelines as far as self-insurance is concerned," said Mr. Kemp.

Tate & Lyle now self-insures the first $5 million of each and every risk for property, marine and liability business, he said.

For the Oct. 1, 1989, renewals, Tate & Lyle Re put together a master property program for all Tate & Lyle's North American operations and is considering expanding the master property program to cover all worldwide risks, said Mr. Kemp.

The reinsurer also is "in the midst of putting together a combined general liability program for Tate & Lyle's North American operations," said Mr. Kemp.

This would be the first time that Tate & Lyle Re has reinsured U.S. casualty risks, he pointed out.

In the last 18 months, Tate & Lyle acquired "two large companies in the U.S., both of which have favorable loss histories," Mr. Kemp noted.

The two acquisitions were A.E. Staley Manufacturing Inc., a Decatur, Ill.-based company that is the world's second largest producer of starches and sweeteners; and Amstar Sugar, which is one of the leading U.S.-based cane sugar refiners with refineries in Brooklyn, N.Y.; Baltimore; and Chalmette, La.

Tate & Lyle Re is 'in the midst of putting together a combined general liability program for Tate & Lyle's North American operations,' says Mr. Kemp. This would be the first time that Tate & Lyle Re has reinsured U.S. casualty risks, he notes.

Although Tate & Lyle Re successfully renewed its retrocessional cover in January, the next round of renewals could be more difficult because of a severe contraction among London underwriters willing to write retrocessional cover, said Mr. Kemp.

Also, back-up retrocessional protection, following the string of windstorms that battered Europe earlier this year, is now almost unobtainable or very expensive, he noted.

One of the largest reinsurers in Bermuda remains Brittany Insurance Co. Ltd., owned by Belgium-based Petrofina S.A.

Brittany reinsures other commercial insurers owned by Petrofina as well as Petrofina risks.

Although Brittany's gross premiums fell during 1989 to $153 million from $166 million in 1988, net income increased to $72.2 million last year from $68.8 million in 1988.

Net premiums fell to $121 million last year from $136.8 million in 1988.

About one-third of Brittany's business relates to Petrofina risks, according to Director Paul D. Gregory.

Brittany retains about $10 million of each Petrofina property loss with an aggregate retention of $30 million. The insurer keeps $1 million of each Petrofina casualty loss.

During 1989, Petrofina pooled all the catastrophe risks of its Brussels- and London-based insurance operations with Brittany. "Brittany then bought its own catastrophe cover for the operations on a retrocessional basis," said Mr. Gregory.

The idea of pooling the risks from three different locations was to produce a "more attractive package and to reduce costs," he said.

However, in hindsight, 1989 proved to be "an unfortunate year to do it. Hurricane Hugo impacted on all three companies," said Mr. Gregory.

He added, however, that Petrofina plans to continue the catastrophe pooling arrangement.

The group's overall net loss from Hurricane Hugo totaled $7 million. So far, the group has advised a gross loss to retrocessionaires of $14 million, he added.

Meanwhile, "the general reinsurance markets still are pretty awful, with most premiums retained in larger domestic markets during the 1990 renewal season," Mr. Gregory said.

Brittany "saw very little new business and we were signed down or taken off existing risks," he said.

However, the reduction of general reinsurance business "doesn't hurt us that much. We operate a relatively small office with low overheads and we write less when the business is inadequately priced. When the market turns we will write more," Mr. Gregory added.

He predicts the recent spate of catastrophes, particularly the European windstorms that struck earlier this year, will bring about changes in the European reinsurance market.

"The LMX market will shrink because so people have lost so much money" and this will impact the rest of the market, Mr. Gregory said.

Brittany last year increased its share capital to $150 million from $50 million the previous year by capitalizing $100 million of retained earnings.

Capital and surplus of Brittany at year-end 1989 stood at $222.6 million compared with $295.9 million at year-end 1988.

Brittany paid a $145.6 million divided to parent company Petrofina at year-end.

Brittany increased its capital because "we wanted to demonstrate that we are here for the long term and we wanted to put up capital equal to the amount of premiums we are writing," said Mr. Gregory.

Petrofina also is increasing the capital of the other insurance companies it owns in London, New York, Singapore and Belgium, he noted.

One of Bermuda's smaller reinsurers is Victory Reinsurance International Ltd., a subsidiary of Victory Insurance Holdings Ltd. in London.

Victory International, with capital and surplus of $5 million, wrote gross premiums of $3.6 million in 1989.

Life reinsurance represents 60% to 70% of Victory's business, said Vp Nick Wheeler.

Victory also writes some traditional property and casualty reinsurance.

In the current soft market, Victory International has not expanded its business.

However, Victory International will "look to expand when the market hardens and capacity shrinks," Mr. Wheeler said. ■

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Bermuda cannot be ignored: Brokers

Policyholder-owned facility generate bulk of firms' business

By CAROLYN ALDRED

HAMILTON, Bermuda—U.S. and European brokers no longer can afford to ignore the giant capacity offered by Bermuda-based insurers, Bermuda's brokers contend.

Three major policyholder-owned facilities—ACE Ltd., X.L. Insurance Co. Ltd. and Corporate Officers & Directors Assurance Ltd.—provide the mainstay of Bermuda-based brokers' business.

Bermuda-based brokers also place some captive reinsurance, commercial treaty reinsurance and financial reinsurance with the island's reinsurers.

But, the three insurers, which do business only with non-U.S. brokers to protect their regulatory and tax status as offshore companies—have been a boon to Bermuda-based brokers' business.

ACE offers liability limits of up to $200 million excess of $100 million while X.L. offers $100 million in limits excess of at least $25 million—and, in some cases, $15 million.

And the brokers are looking for more business, from both the United States and Europe, especially since both ACE and X.L. have dropped their premium reserve requirements and both will underwrite directors and officers liability insurance for the first time without requiring that the applicant also buy excess liability insurance from the companies.

"These were big impediments," says James P. Bonica, managing director of Bowring (Bermuda) Ltd., a Marsh & McLennan Cos. Inc. subsidiary that is the biggest producer of business to two companies.

Bowring probably has a 50% share of ACE and X.L. and a 25% share of CODA in terms of premium volume. By number of policies, Mr. Bonica estimates Bowring places 40%—or more than 400—of ACE's and X.L.'s policies.

ACE had 368 excess liability and 179 D&O liability insurance policyholders at its fiscal year-end; X.L. had more than 450 umbrella liability and more than 100 D&O policyholders.

"The reserve premium was an impediment to some of the smaller accounts and its abolition will create more opportunities," agreed Norman C. Amondsen, a managing director of Triangle Brokers Ltd., an independent three-person Bermuda-based brokerage with 25 clients that have about 50 contracts with ACE, X.L. and CODA.

While Bermuda brokers concede that a continuing soft market in D&O insurance is preventing much new D&O business from heading toward Bermuda, they foresee Bermuda's role in underwriting D&O insurance as becoming more vital.

With ACE, X.L. and CODA, policyholders can buy up to $100 million in D&O insurance limits. ACE offers $50 million excess of $50 million while X.L. offers $25 mil-

Continued on next page

GTE RE focusing on parent

HAMILTON, Bermuda—GTE REinsurance Co. Ltd., once one of the largest underwriters of conventional reinsurance in Bermuda, stopped underwriting third-party reinsurance in April 1989 to focus entirely on the risks of its parent company, GTE Corp.

As a result, GTE RE's gross premiums fell to about $103.7 million for 1989 compared with $125 million in 1988, according to GTE RE's annual report. At the same time, GTE RE reported a loss of $13 million for 1989, compared with a $12.4 million profit in 1988.

The loss arose partly because of a significant strengthening of reserves; however, GTE RE expects to return to profitability in 1990, said Managing Director Fred J. Finley.

"The fact that we stopped writing (third-party) business has been a boon. It has given us time to do GTE's business well," he said.

By writing reinsurance only for GTE-related risks "we don't have that marketing effort to make. Marketing from Bermuda is time-consuming," he said.

Third-party reinsurance "was a business that GTE should never have been in. GTE is a manufacturing company, not a service business; the philosophy is not the same," Mr. Finley added.

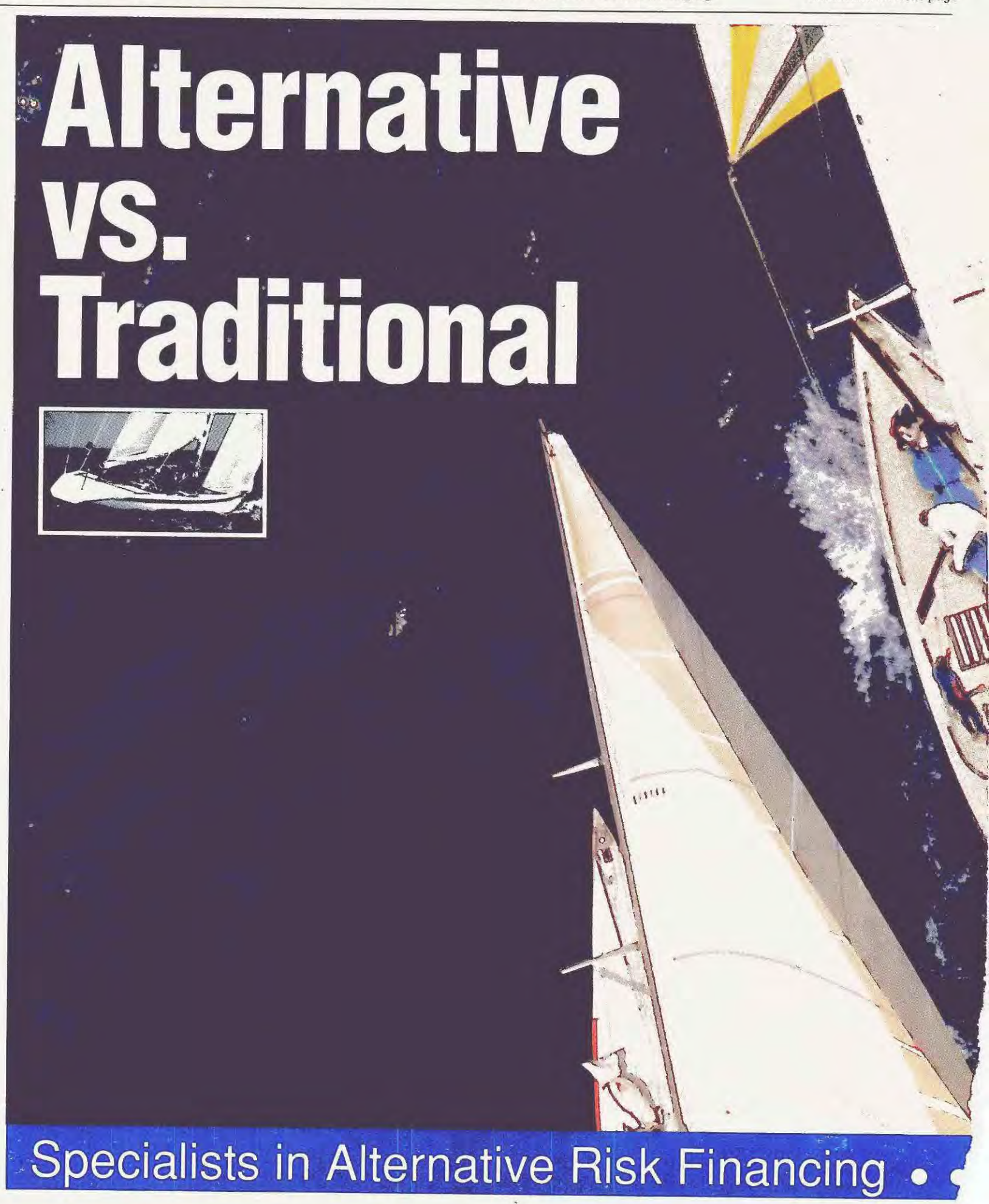
"Manufacturing light bulbs is not the same as assessing IBNRs or working with intermediaries," he quipped, referring to incurred-but-not-reported loss reserves and reinsurance brokers.

Mr. Finley does not anticipate a difficult time in running off GTE RE's third-party business. "We don't have that many contracts (to run off). We probably only wrote about 600 contracts historically which should be manageable" to run off, he noted.

Also, GTE RE still is running off about 20 loss portfolio transfers it wrote in the early 1980s. Those runoffs likely will continue for 10 to 20 years, he said. However, the rapid deterioration of losses stemming from the contracts now has eased and contracts have "pretty much stabilized now," he noted.

Mr. Finley is closely watching the progress of Lloyd's of London underwriter Richard Outhwaite in commuting, arbitrating and litigating with cedants over runoff contracts Mr. Outhwaite wrote at about the same time. However, unlike Mr. Outhwaite's contracts, GTE RE's runoff contracts all capped their ultimate liability and only about six have substantial asbestos exposures, Mr. Finley said.

—By Carolyn Aldred



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lion excess of at least $25 million and CODA offers $25 million in limits on a primary, excess or excess and difference-in-conditions basis.

CODA offers a "superb product and everybody should have at least $5 million of CODA's D&O cover," says Madeline F. Joell, vp of RBH (Intermediaries) Ltd., the Bermuda-based subsidiary of Chicago broker Rollins Burdick Hunter Co. RBH places about 100 contracts with ACE, X.L. and CODA for some 40 policyholders, she said.

She is planning to recruit a broker to specialize in placing D&O business in the Bermuda market, which will bring the total brokering staff at RBH up to five.

ACE, X.L. and CODA have built up strong policyholder surpluses and "provide a very secure market. They offer considerable stability, continuity and innovation," said Warren D. Sproule, president of Sedgwick James (Bermuda) Ltd., which has about 45 ACE/X.L. clients with about 60 separate policies placed with the policyholder-owned facilities.

Bermuda "is an enormous market. A lot of people do not realize it. We are talking billions of dollars—it's got to be one of the major markets in the world," said John S. Pritchard, vp of J&H Intermediaries Ltd., a Bermuda-based subsidiary of Johnson & Higgins.

Mr. Pritchard, who joined the Bermuda office from Mexico earlier this year, estimates that J&H currently has 150 clients with policies in ACE, X.L. or CODA. J&H Intermediaries, which employs 20 people, including five brokers, is the leading broker of coverage to CODA, which it helped form.

Moreover, "it's not a market that swings" in pricing, said Mr. Pritchard, noting that clients increasingly are looking for more than just price.

Their "balance sheet and clientele are pretty impressive. If you look at the policyholders of ACE and X.L., you will find some of the biggest and best corporations in the world," said Mr. Pritchard.

ACE, with policyholder surplus of $1.1 billion at fiscal year-end Sept. 30, 1989, claims among its policyholders 18 of the largest U.S. chemical companies, 12 of the largest electronics companies, 12 of the largest food companies, seven of the largest automakers, nine of the largest petroleum companies and 14 of the largest pharmaceutical firms.

X.L., many of whose policyholders are also ACE policyholders, had policyholder surplus of $923 million at fiscal year-end Nov. 30, 1989.

And CODA, half of whose 53 shareholders are ACE shareholders, had policyholder surplus of $311 million at fiscal year-end Oct. 31, 1989.

Bermuda-based brokers also point out that ACE and X.L. provide policyholders with "essentially the same cover in a block of $300 million, which has got to be a good selling point and has never existed before," said Mr. Amondsen.

There are "far less differences in conditions in policies by using ACE and X.L. than using a host of underwriters on different layers," he pointed out.

However, ACE has not agreed to follow X.L. and extend its pollution reporting period to 40 days from 20 days.

"It would be a very good thing for ACE to extend it pollution reporting period," said Triangle's Mr. Amondsen.

When ACE and X.L. started underwriting—almost five and four years ago, respectively—many brokers and conventional insurers looked at them askance, dismissing, ridiculing or just ignoring them.

Now, if U.S. or European brokers fail to offer ACE and X.L. as options to their clients, another broker will, Bermuda brokers warn.

"It has been a natural tendency for brokers to always use the domestic market. It's easier for them and they don't have to split commissions," said Paul Scope, president of recently formed Park International Ltd.

Mr. Scope, who previously worked for Gibbs, Harnett & Richardson International Ltd., in July acquired 60% of the licensed brokering and captive management operation of Atlantic Security Ltd. to form Park International.

Currently, Park has about seven clients insured by ACE and X.L., through some 18 separate policies. It offers Bermuda brokering facilities mainly to independent U.S. brokers without Bermuda operations.

In addition, Mr. Scope recently helped broker Republic Hogg Robinson Inc. form a Bermuda operation: Republic Hogg Robinson of Bermuda Ltd.

The new brokerage was formed "to help provide our clients with access to the Bermuda market for themselves or for their captives," said Renwick Severance, vp-special services of RHR in Boston and president of the new Bermuda company. Mr. Scope is a vp of the RHR's Bermuda company.

Atlantic Security also has nine clients buying about 14 policies from ACE, X.L. and CODA, said Atlantic President Hal Forkush.

In addition to preferring to use their domestic markets to Bermuda-based insurers, U.S. brokers do not relish the idea of splitting insurers' commission with other brokers, Bermuda brokers agree.

"They are often leery (to split commission), but if they don't, they know others will," said Peter F. Dunne, managing director of Triangle Brokerage.

ACE and X.L. both offer 12% brokerage commission, and local independent brokers usually are paid about 25% to 50% of the total commission.

However, several local Bermuda brokers offer their services for a fee, rather than commission.

"We get paid on a fee basis, which varies according to the extent of work involved," said Mr. Dunne.

Sedgwick James (Bermuda) still operates most accounts on a 12% commission basis, but one of Sedgwick's global strategies "is to establish a fee-for-service rather than commission"-based revenue structure, said Vp A. Trevor Metcalf.

Bermuda-based subsidiaries of large U.S. brokers also are encouraging their U.S. affiliates to spread the word about Bermuda.

"We tell (our U.S. colleagues) that if they won't tell the client about ACE and X.L., some other broker will and we could lose the account completely," said RBH's Ms. Joell.

The European market, however, is harder for the brokers to sell in than the United States.

"There currently is more interest in X.L. from the United States," agreed Michael G. Foulger, a director of independent broker HJF International Ltd., which places 20 accounts with ACE and X.L.

Other Bermuda brokers point out that Europe still is a tough market to access partly because European clients are used to dealing with insurers with longer track records —in some cases, hundreds of years old.

"The concept of maturity is still the major stumbling block for the market (in Bermuda)," said Triangle's Mr. Dunne.

Although ACE has been under-

Continued on next page

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Bermuda brokers

Continued from previous page
writing for more than four years. European policyholders still have the option of using, for example, Munich Reinsurance Co. with all its stability and history, he said, noting that of Triangle's 25 clients only two are European.

However, ACE and X.L., which already have made several marketing tours of Europe, are planning to repeat the exercise this year, said Mr. Bonica of Bowring.

"There are many clients in Europe that we think should at least be exposed to the products" offered by ACE and X.L., said Mr. Bonica.

He admits "there are many philosophical issues to overcome" in selling ACE and X.L. to European corporations.

These include:

- The aversion many Europeans have to dealing with "alien" insurers.
- The low limits of insurance many European companies need, or think they need.
- The very low deductibles Europeans are accustomed to, based on plentiful capacity and cheap prices.

The $100 million line slip using the ACE form organized recently at Lloyd's of London by Bowring in London can be used not only by ACE policyholders but also Europeans who prefer doing business with an older market, notes Mr. Bonica.

The so-called Bowring Excess line slip is open to all agents and brokers, offering a 20% brokerage commission.

The facility is designed to provide $100 million excess of $200 million for U.S. clients, with perhaps a lower attachment point for some European corporations, said Mr. Bonica.

While such limits could put the line slip in competition with ACE, the intention is for corporations to sandwich the line slip between ACE limits.

ACE and X.L. "will get more and more business from Europe. But it will take a lot of energy to get it," said Mr. Scope from Park.

Not only are "Europeans very conservative and like to deal with companies that have been around for centuries," he said, but also "when the European market opens up in 1992, there will be a lot of companies fighting for business (in Europe) so it will be a long time before corporations need to come to Bermuda.

Sedgwick James (Bermuda), whose parent Sedgwick Group P.L.C. is the largest European broker, estimates that about 10% of its brokering business is from non-U.S. clients.

"We are getting some business from Europe," said Mr. Metcalf.

However, "the growth area is still from the U.S.," he added.

To support its large market share of business with the Bermuda-based insurers, Bowring is expanding what is already the largest brokerage staff in Bermuda at 31 people, including brokers and support staff.

"We realized we had to make a real commitment two years ago as ACE and X.L. are here to stay," he said.

Bowring has trained Bermudian staff to provide much of its local ACE/X.L. expertise, said Mr. Bonica.

Two years ago, the Bowring Bermuda office employed 11 expatriate staff and three Bermuda brokers.

Today the office has nine expatriates and eight Bermudians who are brokers, according to Mr. Bonica.Bowring sends its Bermudian brokers to the United States and London to work in other M&M and Bowring offices.

"They would get a very myopic view of the world if they only worked with ACE/XL and CODA. They have to understand the whole game plan," said Mr. Bonica.

Bowring now plans this year to bring its accounting work, currently handled in New York, to the island.

"Our clients have really made a long-term commitment to these facilities (ACE/XL and CODA). If the market and our clients are going to be here in the long term, they need the middlemen (the brokers) to make that commitment, too," he noted.

While subsidiaries of major international brokers place the lion's share of business with the excess insurers in Bermuda, independent Bermuda brokers will always be an important producing source for ACE, X.L. and CODA because there are "still a lot of independent brokers in the U.S. and around the world that are a little afraid of doing business with a subsidiary of a competitor," noted Triangle's Mr. Dunne.

Policyholders using independent brokers also can rest assured that they have at least some errors and omissions insurance.

X.L. recently notified all brokers that they must have at least $5 million of errors and omissions insurance.

Most brokers on the island probably had at least that level of cover anyhow, but "it's a responsible attitude that shows credibility with the clients," said Mr. Dunne.

Aside from the huge policyholder-owned facilities, Bermuda-based brokers also place commercial treaty, captive and financial reinsurance with underwriters on the island.

Bermuda's specialist treaty reinsurance broker is Intere (Bermuda), part of Minet Holdings P.L.C.

Intere places about 200 treaties mainly with about eight reinsurers on the island as well as captive insurers that write some third-party business, estimated Vp Robert J. Hedges.

The broker also places reinsurance for several captives and arranges some financial reinsurance, he said.

Although the treaty reinsurance market in Bermuda is smaller than in the past, some good players have entered or expanded business in recent years, said Mr. Hedges.

For example, Chicago-based Virginia Surety Co. Inc. is now writing property reinsurance from Bermuda; marine and property reinsurer Bristol Reinsurance Ltd. started underwriting last year through National Underwriters Agency Ltd.; and Belvedere Insurance Co. Ltd. was acquired by its management recently, Mr. Hedges noted.

Bermuda is a market providing "niche speciality products. That's what we see as our core business," said Mr. Hedges.

Bermuda provides a "good market for captive reinsurance. It's an area they've concentrated on and they do well," agreed Mr. Amondsen of Triangle.

However, some brokers believe many of Bermuda's captives have outgrown the amount of reinsurance capacity the island's reinsurers can provide (see story, page 36).

Many larger captives "can get some capacity but not half as much as they need," noted Stuart Grayston, president of Frank B. Hall (Bermuda) Ltd.

However, "in my opinion Bermuda will never be set up to man that capacity. It's a niche market which helps build business," said Mr. Grayston.

Hall, which brokers some captive reinsurance, also places 45 to 50 contracts with ACE, X.L. and CODA through Hall broker Andrew Moulder. ■

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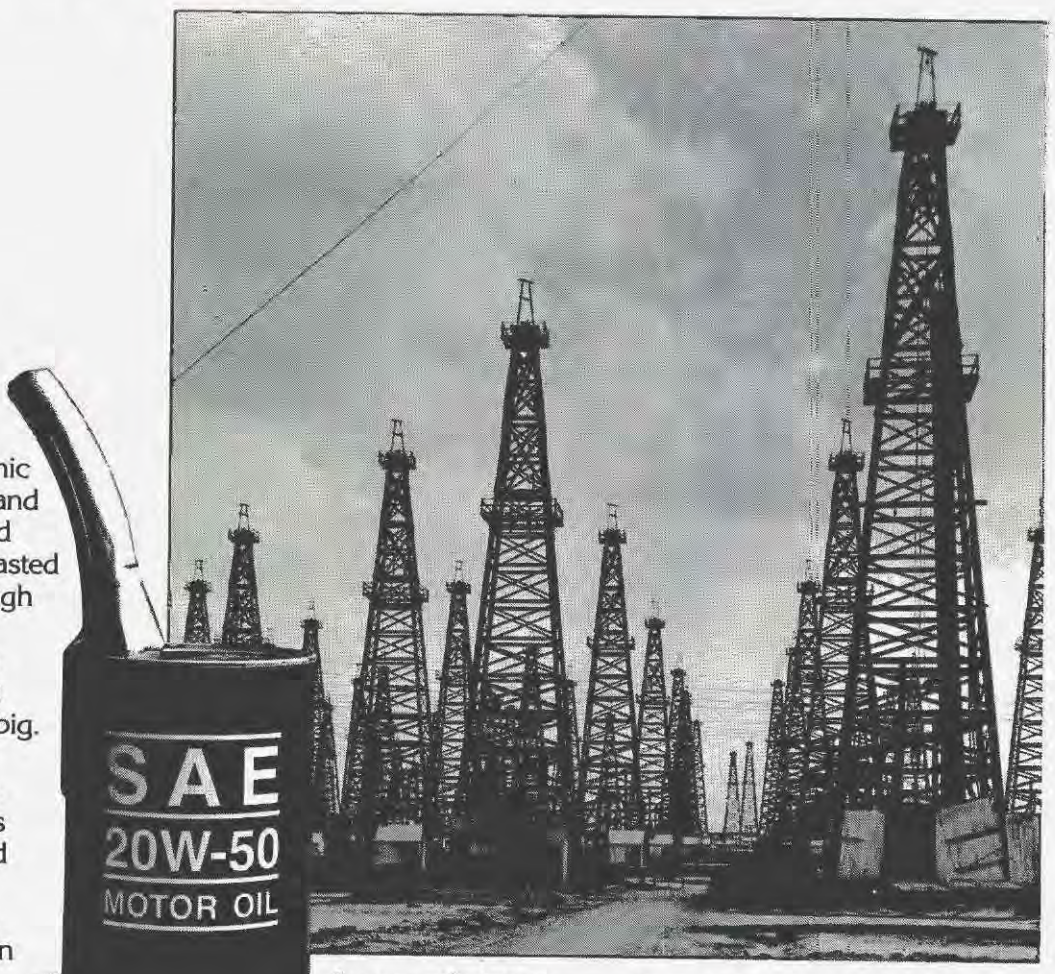

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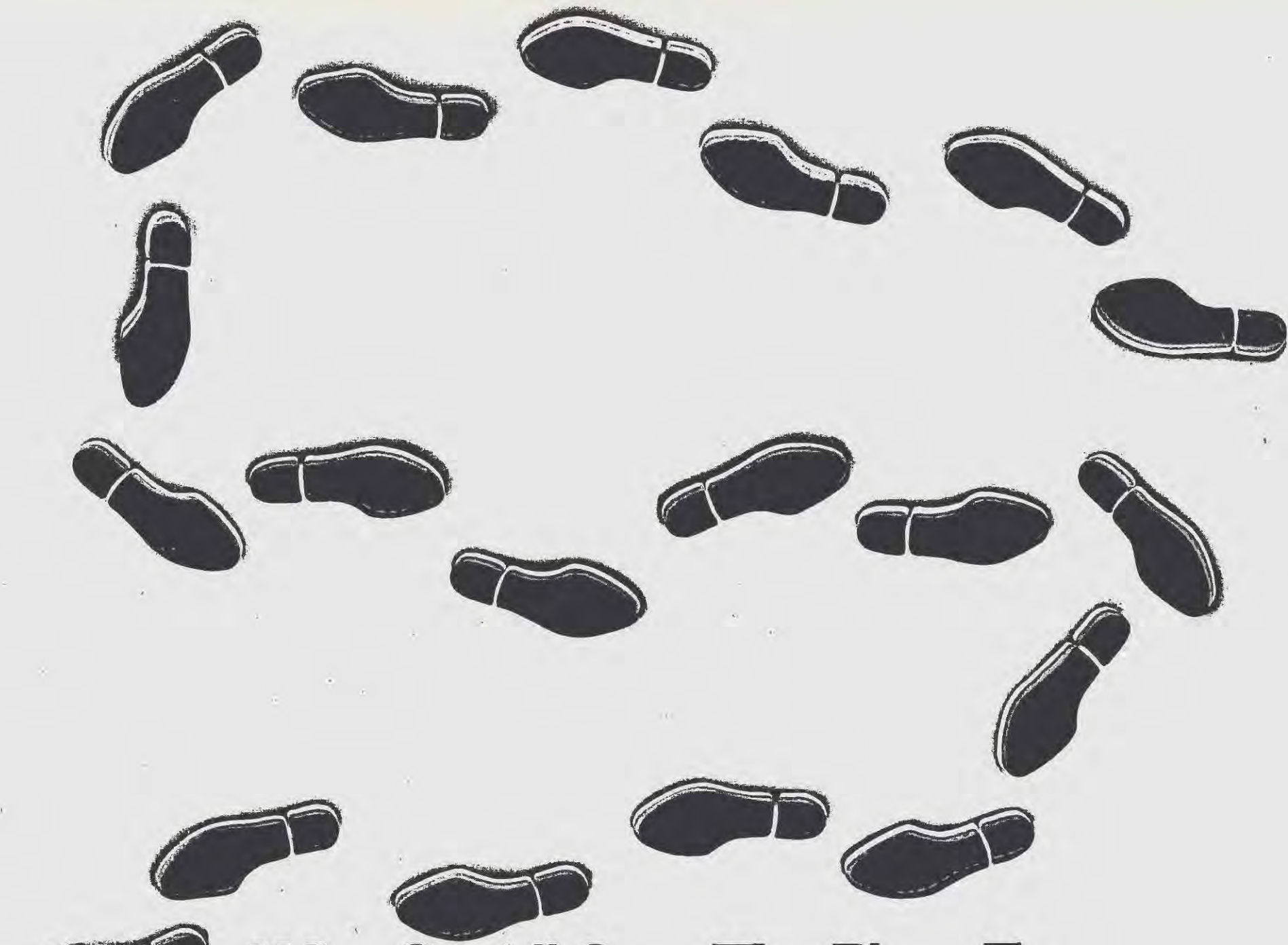

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Spotlight report

Bermuda reinsurers nurse small captives

By CAROLYN ALDRED

HAMILTON, Bermuda—Reinsurers in Bermuda writing captive reinsurance provide an ideal nursery environment for captives to grow on the island, brokers say.

However, as captives mature they increasingly buy reinsurance from U.S. and London underwriters, brokers and underwriters agree.

"As accounts grow to a more significant size, the conventional reinsurers get a little more interested in them," said Jonathan J. Crawley, president of Aneco Reinsurance Underwriting Ltd., which specializes in reinsuring captives.

"In addition, many of the mature captives on the island are getting a little large for us in terms of limits," he added.

"There's capacity (in Bermuda) to write the first $1 million or even $2 million" of reinsurance for a captive, said William A. Wanklyn, president of Amberco Brokers Ltd. However, above that Amberco has to place the business in the U.S. and London markets, he said.

And "because our clientele is maturing, a declining proportion of (captive) business is placed in Bermuda," said Julian M. Griffiths, of Amberco Management Ltd., a captive management company.

"You can get some captive reinsurance capacity in Bermuda, but not half as much as you need, particularly in" medical malpractice and professional liability, said Stuart Grayston, president of Frank B. Hall (Bermuda) Ltd.

However, the Bermuda reinsurance market "is very important for captive start-ups when captives do not need much capacity and the premium volumes are small," noted Mr. Griffiths.

Often large U.S. or London reinsurers are not willing to reinsure captives for low limits and at low premium volumes, brokers point out.

One Bermuda reinsurer that has concentrated on captive reinsurance is Hudson Reinsurance Co. Ltd., a Skandia America Group unit.

Hudson stopped writing new commercial treaty reinsurance as of Jan. 1, and will write no more commercial treaty reinsurance after this year, said President Nicholas S. Dove.

Instead, it will write reinsurance for captives and other alternative market facilities such as self-insurance programs, pooling arrangements and risk retention groups, in conjunction with Skandia America Reinsurance Corp.

Skandia America last year formed an alternative risk transfer department to specialize in providing services and reinsurance to captives and other alternative risk financing vehicles.

Two other U.S. reinsurers with departments dedicated to underwriting reinsurance for alternative risk financing vehicles are General Re Corp. and American Re-Insurance Co.

Hudson Re and Skandia in New York wrote about $4 million in gross premiums for captive reinsurance in 1989, written 25% by Hudson and 75% by Skandia, said Mr. Dove.

In 1990, "we are looking to quadruple that figure," he said, adding that Hudson Re will continue to write 25% of the total.

Skandia and Hudson Re offer the alternative market up to $5 million in property and casualty reinsurance capacity.

However, "we are trying to carve a niche in the first $1 million to $2 million layer, focusing particularly on workers compensation, general liability and auto liability business," Mr. Dove noted.

Meanwhile, Hudson Re continues to reinsure the Bermuda Risk Exchange Assn. (see story, page 24).

The scope for captive reinsurance is great because "Bermuda's own backyard is a fertile field of captive insurers," said Robert Rosser, vp-marketing for Hudson Re and Skandia International Risk Management Ltd.

Aneco is the largest underwriter of captive reinsurance in Bermuda. During 1989, Aneco reinsured 77 captives, down slightly from 81 the previous year.

But Aneco's 68.5% renewal rate is "good, bearing in mind the market softened further during 1989," pointed out Mr. Crawley.

Aneco's gross premiums from captive reinsurance stayed relatively stable in 1989 at $10.5 million, down from $11 million in 1988, despite the reduction in contracts. This partly was due to increased limits being written.

Writing a parallel line with affiliate Forum Reinsurance Co. Ltd., Aneco last year increased its captive reinsurance limit to $1 million, from $750,000.

This year the limit has been increased to $1.5 million—two-thirds reinsured by Aneco and one-third reinsured by Forum.

Aneco also writes for another affiliate, Oil & Gas Insurance Co. Ltd., when the ceding company prefers a U.S. licensed reinsurer.

Last year, 10 captive accounts were written by OCIGO, which reinsured 80% of this business: 40% to Aneco and 40% to Forum Re.

Aneco's book of reinsurance business reflects what limits smaller captives are buying and on what basis.

Of the 72 specific excess-of-loss contracts Aneco wrote in 1989, 20 attached between $100,000 and $250,000; 23 attach at $250,000 to $500,000; 18 attach at $500,000 to $1 million; nine attach at $1 million to $3 million; and two attach excess of $3 million.

Aneco also underwrote five excess aggregate reinsurance contracts.

Of the 77 captive reinsurance contracts, 35 covered professional liability risks; 35 general liability and auto liability; three were multiperil; two covered group health risks; one covered workers compensation and one covered surety risks.

Fifty-five of the contracts were written on a claims-made basis and 22 on an occurrence form.

Aneco insures 39 association captive; six pure captives; five agency captives; 14 charitable trusts; 12 risk retention groups; and one purchasing group. Most—44—of Aneco's captive clients are located in the United States, followed by 21 in Bermuda; four in the Cayman Islands; three in Barbados; two in the United Kingdom and three in the Bahamas.

About 15 brokers produce Aneco's captive reinsurance book, with affiliate Amberco Brokers placing 37% of the business.

Other reinsurers on the island also write captive reinsurance.

For example, Belvedere Insurance Co. Ltd. reinsures about 15 captives, which represents about 10% of the company's gross premiums of about $27 million, said Chairman Colin D. O'Connor.

An alliance of four insurers coordinated by Belvedere to write up to $1.5 million in liability reinsurance for captives never got off the ground.

The alliance was formed last year by Belvedere, Brittany Insurance Co. Ltd., Hudson Re and Hannover Reinsurance Co. of Hannover, West Germany (*BI*, April 10, 1989).

In general, a captive looking for traditional reinsurance, particularly for its property risks, could attract interest from almost all the commercial treaty underwriters in Bermuda (see story, page 3). ■

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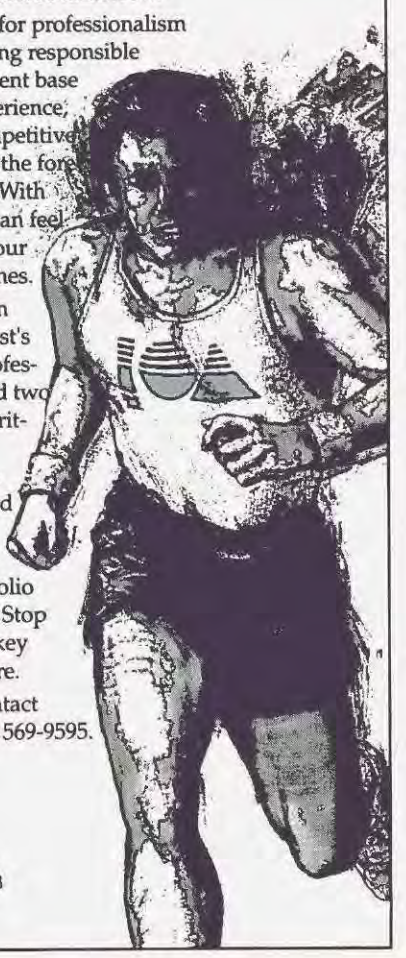

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Spotlight report

X.L. ready to help policyholders in crisis

By CAROLYN ALDRED

HAMILTON, Bermuda—True to its founding principles, X.L. Insurance Co. Ltd. responds in times of crisis.

The Bermuda-based excess liability insurer last month offered to drop its attachment point to $15 million from $25 million for policyholders that faced coverage gaps after Walbrook Insurance Co. Ltd. suspended underwriting in late March.

And, earlier this year, X.L. paid its first claims since it began underwriting in May 1986.

Walbrook was the lead insurer of the H.S. Weavers (Underwriting) Agencies Ltd. liability line slip, the largest London-based market for U.S. casualty insurance (*BI,* April 23; April 9).

X.L.—which is owned by 106 corporate shareholders and insures more than 500 companies—announced its decision the week after Walbrook suspended underwriting.

"The Walbrook situation developed just before our annual general meeting, so shareholders were able to agree to a drop in our attachment point almost immediately," said X.L. Chairman and Chief Executive Officer Michael J. Kevany.

The lower attachment point will be available to all X.L. policyholders that purchased coverage above the original attachment point of $25 million as well as new policyholders —subject to underwriting considerations.

X.L. spends "a lot of time investigating what is happening to (exposures) below $25 million and probably would have dropped down to $15 million in a year or so," said Mr. Kevany. The lower attachment point is particularly attractive to European companies, he noted.

By mid-April, X.L. had received about 30 to 40 inquiries for quotations on the new $15 million to $25 million layer, Mr. Kevany said.

Dropping the attachment point to $15 million was made easier by the decision in December to increase available umbrella liability insurance limits to $100 million from $75 million. As a result, a policyholder could buy another $10 million in limits from $15 million to $25 million without leaving a gap in coverage between X.L. and A.C.E. Insurance Co. Ltd., which attaches excess of $100 million.

While X.L. will now attach as low as $15 million, its maximum limit remains $100 million.

Going into its fifth year of business, X.L. paid its first claims earlier this year.

X.L. paid an undisclosed amount in January to Consolidated Edison Co. to cover liability claims stemming from an underground steam pipe explosion last August in New York City that killed three people (*BI,* Aug. 28, 1989).

X.L. also is paying claims stemming from a product liability batch loss, which *Business Insurance* learned involved an agricultural product.

X.L would not confirm or comment on the policyholders involved.

"We have been very lucky," said Brian O'Hara, X.L.'s president and chief operating officer.

"Three full years of freedom (without paying any claim) is more than most companies get," agreed Mr. Kevany.

The number of claims reported increased during 1989 for all lines written by X.L.: excess liability, directors and officers liability, and errors and omissions insurance.

"At the same time, there was a noticeable increase in the potential severity of many of the incidents reported," X.L.'s annual report states.

However, "this is to be expected, recognizing the nature of our business, which dictates that severity and catastrophe are the order of the day," the report adds.

Last year, X.L. changed its method of tracking claim notices to only count claim notices that are likely to penetrate X.L.'s limits.

Currently, X.L. has "about 180 open cases that have the potential to get into our layer," said Mr. Kevany.

X.L. increased its provisions for loss reserves and expenses by $236 million to $616.6 million at fiscal year-end 1989. The $616.6 million includes $100 million in loss reserves, $515.8 million in reserves for incurred-but-not-reported loss reserves and $782,000 in loss expense reserves.

X.L. was organized in 1986 at the height of the liability insurance crisis by 68 sponsor companies that contributed $410 million in surplus to obtain the coverage they needed and to create a stable liability insurance market for the future.

X.L. stopped selling shares in October 1986 and instead required new policyholders to pay a reserve premium of 100%. In April 1987, the reserve premium was reduced to 25% and was dropped altogether last December because policyholder surplus had grown so much.

At fiscal year-end Nov. 30, 1989, X.L. had capital and surplus of $923.2 million, up 22% from $757.4 million at year-end 1988.

Gross written premiums grew 6.6% to $338.1 million in 1989 from $317.3 million in 1987, and net premiums grew equally to $333.5 million from $313 million.

X.L. buys catastrophe clash excess-of-loss reinsurance to cover a net loss to X.L. exceeding $150 million from one occurrence.

The policy limits are $100 million, 90% of which has been placed. X.L. retains 10%.

X.L.'s net income grew 26.9% to $175.9 million in 1989 from $138.6 million.

X.L. expects growth in the future to be fueled by its decision to drop its deposit premium and its an-

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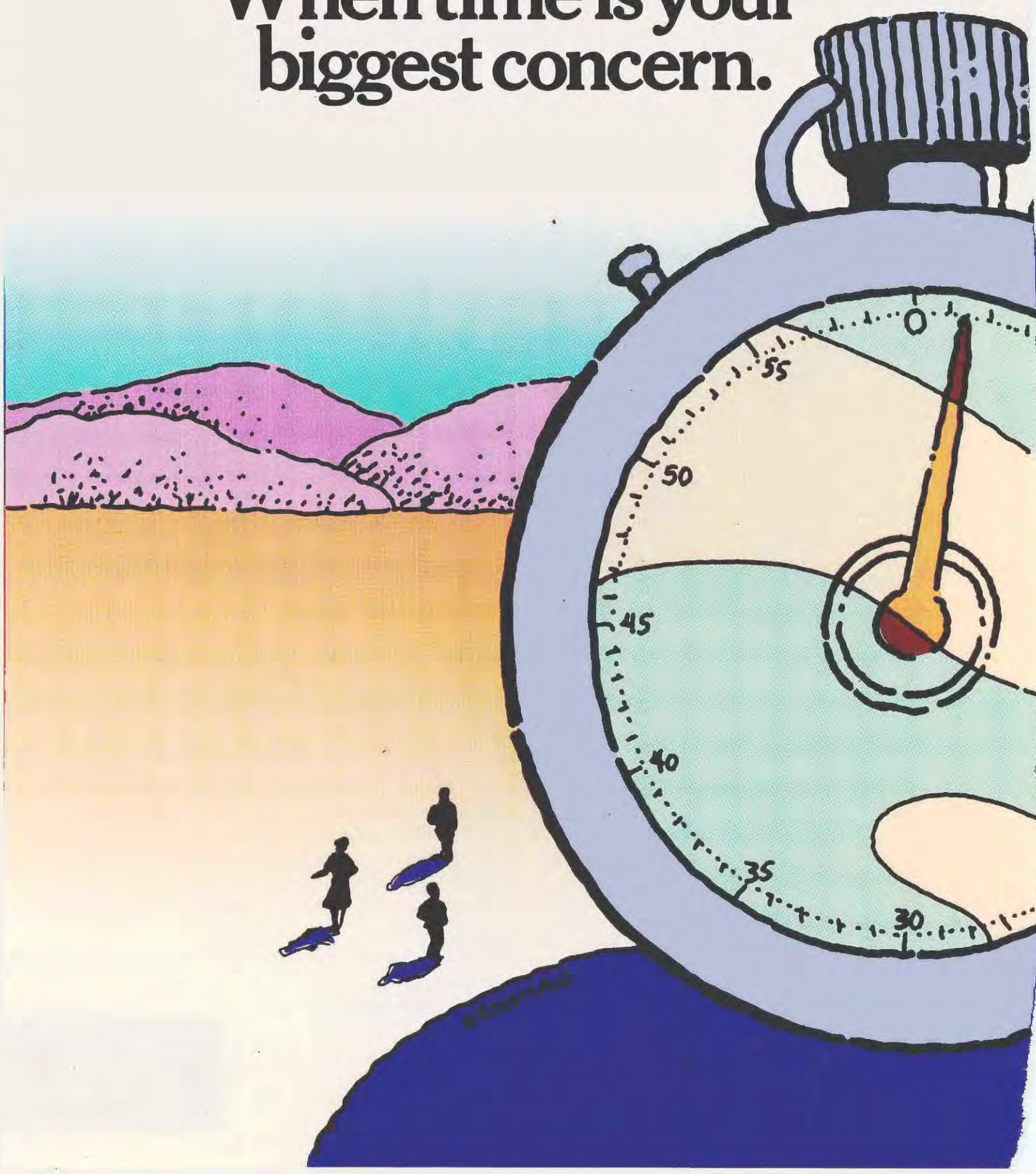

X.L. Chairman and Chief Executive Officer Michael J. Kevany, left, and President and Chief Operating Officer Brian O'Hara.

Continued from previous page
nouncement in February that it will sell D&O insurance without requiring that the applicant also purchase umbrella liability insurance from X.L. (*BI*, Feb. 12).

X.L. offers up to $25 million in D&O coverage limits available in increments of $5 million excess of a minimum attachment point of $25 million, or a maximum of $20 million excess of $20 million.

X.L. originally was based in Barbados with additional underwriting and administrative operations in Bermuda. However, earlier this year the company merged its operations into one operation based in Bermuda.

Migrating X.L. from Barbados to Bermuda allows the insurer "to consolidate the underwriting, claims, financial and administrative operations in one location and will have many benefits in terms of costs, communications and easy access," Mr. Kevany explained in X.L.'s 1989 annual report.

Meanwhile, X.L. and Marsh & McLennan Inc. agreed to an early termination of an agreement under which X.L. was to pay M&M 1.5% of all gross written premiums for five years starting May 1, 1986, for the broker's help in forming X.L.

The agreement was terminated on Nov. 30, 1989, with X.L. paying M&M $13.4 million, based on estimated future premiums. Ending the agreement early ensures that X.L. is regarded as an independent company, said Mr. O'Hara.

In a more recent development at X.L.'s annual general meeting at the end of March, X.L.'s 68 founding sponsors agreed to reduce the size of X.L.'s board to 16 from 68. "There was always a feeling on the board that a group of 68 is much too big to run a company," said Mr. Kevany.

X.L.'s umbrella liability policies are written on an occurrence-reported form that covers occurrences reported during the policy period.

Last year, X.L. formed a Policy Review Committee with its producing brokers. "This committee has been working on our umbrella policy with a view to recommending policy language changes which clarify and enhance coverage," according to the annual report. For example, among recent changes in the policy wording is an extension in the sudden and accidental pollution reporting period to 40 days from 20 days, said Mr. O'Hara.

X.L.'s umbrella liability premiums increased 6.5% to $286 million in 1989. "Umbrella underwriting exceeded premium volume projections despite continued competitive pressure from the commercial excess liability market and certain policyholder-owned underwriting facilities," X.L. states in its annual report.

During 1989, X.L. continued to expand the industry base of its policyholders so that "no one industry group represents more than 18% of limits in force," the report says.

Chemical companies generate the largest percentage of umbrella premium at 18%, followed by pharmaceutical companies with 13%; utilities with 10%; automotive manufacturers and related companies with 9%; office and hotel groups with 8%; consumer industries with 7%; and oil companies, retail companies and construction companies each with 3%.

A staggering 98% of umbrella liability insurance policyholders renewed their coverage in 1989, with only eight policyholders not renewing. And, among them, several were lost to mergers or acquisitions.

"This policyholder loyalty has been one of the key factors in building X.L.'s financial strength," the company's annual report boasts.

X.L.'s gross premiums written for D&O coverage fell during 1989 by 8.6% to $30.6 million.

"During 1989, we experienced many changes in the underlying markets brought on by a glut in capacity and strong competition," according to X.L's annual report. However, gross premiums for professional liability grew 41.1% to $21.5 million.

X.L. offers errors and omissions insurance to attorneys, insurance brokers and insurance companies, with a minimum limit of $25 million excess of $25 million to a maximum of $50 million excess of $50 million. D&O and E&O policies are written on claims-made forms.

Meanwhile, X.L. is continuing its marketing efforts to attract more business from outside North America, particularly from Europe, said Mr. O'Hara.

"It is slow going in Europe," he admits, with X.L. insuring 33 non-U.S. policyholders.

X.L. managers and underwriters have made several marketing trips to Europe and offers to issue its policies in British pounds, West German deutsche marks and Swiss francs as well as U.S., Canadian and Australian dollars.

Meanwhile, "continuation of marketing efforts there includes plans for a significant presence within the European Community in keeping with the emergence of the unified (European) market in 1992," X.L. states in its 1989 report.

X.L. plans to establish a separately capitalized insurer in Ireland, the up-and-coming captive insurance and reinsurance domicile, by the end of the year, said Mr. Kevany.

X.L. chose Dublin because "we felt Dublin has many of the same advantages Bermuda has—easy to start up an operation in, a good tax environment and a well-educated local workforce," Mr. Kevany said. ■

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ACE to continue on successful path

By KATHRYN J. McINTYRE

HAMILTON, Bermuda—Don't look for "any radical changes" at ACE Ltd., says its new president and chief executive officer, Walter A. Scott.

"I believe if it's not broken, don't fix it," he quips.

ACE, a Bermuda-based high excess liability insurance company, certainly is not broken, considering:

- A renewal rate exceeding 97% among 368 excess liability insurance policyholders at fiscal year-end Sept. 30, 1989.
- $1.1 billion in capital and surplus.
- It has yet to pay a claim, resulting in net income of $222 million while net premiums written totaled only $141 million.

Mr. Scott, the former executive vp of Primerica Corp. who succeeded John Cox as chief executive officer of ACE last September, chuckles that with that track record, "the only way to go is down."

Mr. Cox, currently ACE chairman, is spending four days a month with ACE and intends to step down this year.

Turning serious, Mr. Scott says, "My most important task is to help determine where ACE goes on its next leg of growth. It's had spectacular success, but what's ACE going to be when it grows up?" is the issue, he explains.

ACE, formed in 1985 by 36 original sponsors that could not otherwise find high limits of liability insurance, now offers $200 million in liability insurance limits excess of $100 million to investors and non-investors, with a $50 million increase in limits announced in February.

In the last year, ACE also dropped its reserve premium requirement for non-investors.

With no further increase in limits contemplated for several years, open questions at ACE include: How much capital is needed to support its existing business; how to provide liquidity for shareholders, including whether the company should go public; and whether ACE should underwrite any new products.

In May, ACE directors are to see the results of a study on the capital needed to support current business.

Shareholders can already recover their initial investment in ACE through callable preferred shares, which will be called on a periodic basis. Twenty-five percent were called in January.

However, "some companies bought shares because it was the only way to get insurance," and now may want to recover gains as well as their original investment, Mr. Scott says.

Looking to future growth, ACE has written less of its potential market than Mr. Scott originally thought. "We figure we currently sell to roughly 50% of the potential market" worldwide, he says.

ACE insures manufacturers, chemical and pharmaceutical companies, public utilities, transportation and other concerns.

Among those not buying insurance from ACE, "a little less than one-half mainly are not buying the limits now," Mr. Scott says.

While ACE has marketed itself in Europe, acceptance has been slower than in the United States—where it doesn't market to protect its offshore status.

Executive Vp William J. Loschert attributes the slower acceptance in Europe to ACE's youth and a tradition of doing business with decades-old insurers.

Nonetheless, ACE had 37 non-U.S. policyholders at fiscal year-end 1989.

"Maggie is the best booster of ACE," said Mr. Scott, referring to British Prime Minister Margaret Thatcher and her program to privatize government-owned companies, which then need liability insurance.

ACE also is exploring additional products it could underwrite.

New products would have to meet several conditions, Mr. Scott says, including: serving the needs of at least a subset of ACE's current policyholders; be excess/catastrophic in nature; not be labor-intensive to underwrite; involve a market that is underserved or very cyclical in price and availability; generate enough premiums that ACE could obtain a good spread of risk; and be unrelated to excess directors and officers liability and excess liability insurance so that the same capital base could be used to underwrite the product.

ACE also would write any new product on a net basis and not be reliant on reinsurers, Mr. Scott says.

It wants to keep business net because "the executive committee is very sensitive to the fact they want to be certain that ACE's commitment is stable," Mr. Scott explains.

ACE buys clash reinsurance of $150 million excess of $200 million to protect against a single loss involving two or more policyholders.

The coverage, which was unavailable to ACE when it started in 1985, was oversubscribed on Jan. 1, 1990.

"It's taken awhile for the London and European market to understand ACE and that it is successful," says Mr. Scott. "We've developed real credibility on the underwriting side."

For the first time, the company is writing reinsurance, supporting 10% of a new $100 million line slip in the London market using the ACE form.

"A number of ACE's insureds have less excess limits than they did in 1984 and they want additional limits," Mr. Scott says. "ACE wants to help the London slip. . .we think it is beneficial for insureds to have $300 million available under the same form."

Underwriters in London accepted the ACE form, Mr. Scott says, "because they recognized that our form eliminates a lot of the problems that existed in writing U.S. excess liability insurance—there is no pyramiding of limits, legal expenses are included within limits, pollution coverage is defined and arbitration of coverage disputes is required."

Continued on next page

Kathryn McIntyre

ACE President Walter A. Scott doesn't expect 'radical changes.'

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ACE

Continued from previous page

Interest is running higher in ACE's additional $50 million in limits, announced in late February, than was expected, Mr. Scott says.

As of mid-April, ACE had issued 140 quotes and had bound 25 policies providing the additional limits. The additional $50 million in limits must be purchased in one layer as a total limit and must be either the top layer or part of the top layer of an excess program.

Otherwise, ACE issues excess liability limits in increments as small as $10 million at a minimum premium of $40,000, always with a portion of ACE coverage in the top layer.

Overall, less than half of the current 380 excess liability policyholders purchase at least $150 million in limits. The average ACE excess liability insurance policyholder buys $112.8 million in limits at an attachment point of $152 million for an average premium of $397,000.

While the average limits purchased have remained constant from 1986 through 1989, the attachment point has moved up steadily, decreasing the average premium—a reflection of the availability of additional excess limits from other insurers.

ACE, meanwhile, has not changed its rating structure since it opened its doors. Based on standard industrial codes, specific lines of business and revenues, rates are non-negotiable.

Despite that, ACE loses few accounts—11 in 1989—and those it does lose generally are due to mergers or acquisitions. At the same time, ACE continues to attract new clients, especially since dropping its reserve premium requirement.

ACE wrote 31 new excess liability accounts in fiscal 1989. Growth continued in the first quarter of fiscal 1990, with ACE writing 12 new excess liability accounts, while losing three or four to mergers.

ACE policyholders paid $141 million for excess liability insurance in fiscal 1989 and $67.7 million for D&O insurance—after deductions for reinsurance.

ACE's book of directors and officers liability insurance has grown more on a percentage basis than the excess liability book.

At the end of the first quarter of fiscal 1990, ACE wrote coverage for its 200th D&O policyholder. In 1989, ACE issued 179 D&O polices.

The growth in D&O premium, however, has come primarily from existing accounts buying additional limits, Mr. Loschert said.

New D&O policyholders could be attracted this year since ACE recently dropped its requirement that D&O insurance was available only to ACE excess insurance policyholders. ACE offers $50 million in D&O limits excess of $25 million.

While ACE has yet to pay a claim, it increased its loss and loss expense reserves by $46.5 million in fiscal 1989 to $51 million. Mr. Scott predicts ACE will pay a claim in 1990.

The only ACE policyholder with a loss known to probably tap ACE's limits is Occidental Petroleum Corp., which was the major shareholder and operator of the Piper Alpha oil platform that exploded in July 1988, killing 167 with 62 surviving (*BI*, July 11, 1988; Sept. 11, 1989).

ACE has received 430 notices of events that could lead to an excess liability claim and 315 that could lead to a D&O claim.

ACE underwrites through two insurance subsidiaries: A.C.E. Insurance Co. Ltd., incorporated in the Cayman Islands, and A.C.E. Insurance Co. (Bermuda) Ltd. Most ACE shareholders are insured by the Bermuda company, while others are insured by the Cayman company—a restructuring last year that has reduced shareholders' U.S. taxable income by about $40 million.

ACE, says Mr. Scott, "is a unique company: It has a dominant position in the marketplace; tremendous amount of assets; and is extremely well-respected."

ACE and X.L. Insurance Co. Ltd., the Bermuda-based insurer writing limits of $100 million excess of $25 million, continue to try to maintain similar policy wordings, but ACE is breaking ranks with X.L. over the time allotted to report a pollution loss and obtain coverage.

ACE will not extend to 40 days from 20 days the period allowed to report pollution losses as X.L. has done because "the 20 day-period was negotiated between insureds that needed this coverage and those that wouldn't have offered the coverage," explained Mr. Scott.

Many issues about its future are on the table, but the domicile is not. ACE—which will move into its own building later this year—is committed to Bermuda.

Moving onshore would require doubling ACE's staff "and it would all be lawyers" to handle insurance regulation, Mr. Scott says. ■

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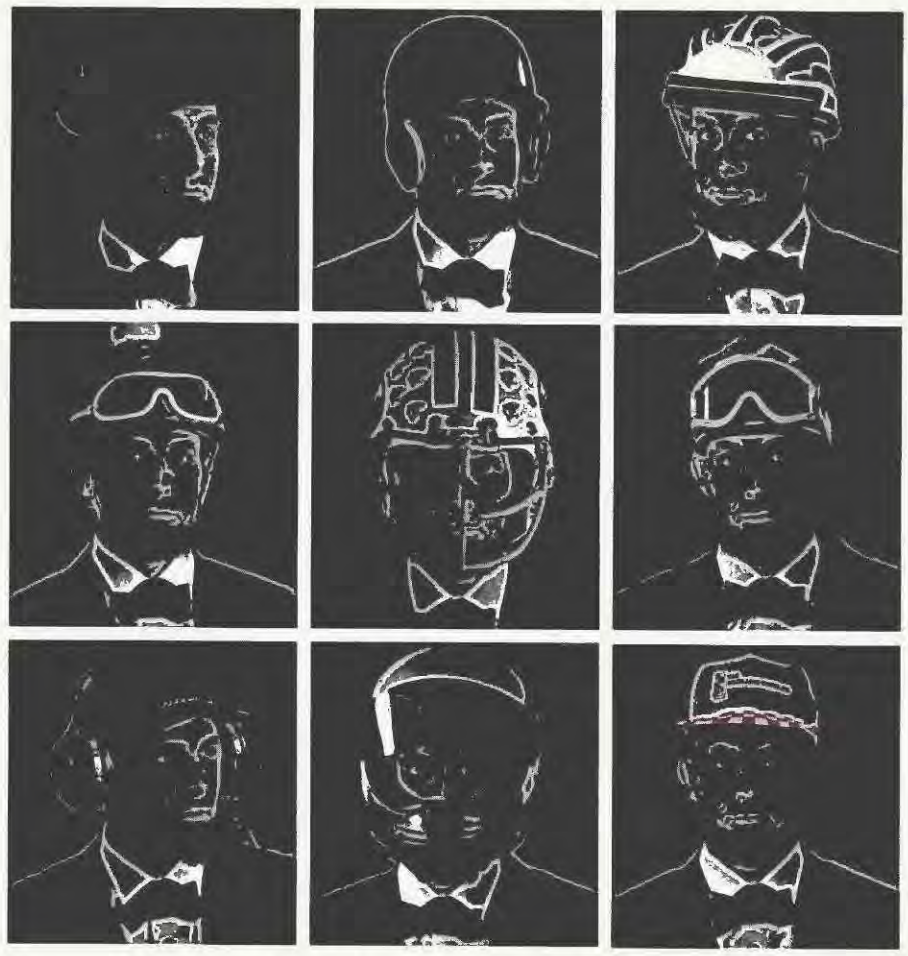

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CODA's business expands

HAMILTON, Bermuda—The broad directors and officers liability insurance coverage provided by Corporate Officers & Directors Assurance Ltd. is finally catching on with risk managers.

In the last year, the D&O insurance company's policyholders have grown 27% to 148 as of mid-April from 115 a year earlier.

CODA writes D&O insurance strictly for directors and officers—with no corporate reimbursement—on a primary, excess or excess and difference-in-conditions basis.

Its growth is due to its "broad form," says Walter A. Scott, president of ACE Ltd., which manages CODA.

CODA offers three-year, noncancelable policies and, when purchased on a DIC basis, the insurer drops down to pay claims refused by underlying insurers and not reimbursed by the corporation.

And, CODA will advance defense costs if the primary D&O insurer refuses to do so, notes ACE Executive Vp William J. Loschert.

Any buyer of an excess CODA policy can at any time convert it to a primary or excess and DIC policy and buy the maximum limits of $25 million.

That would be a big advantage compared with approaching CODA for the first time for coverage in a D&O market crunch.

Growth has come mostly from companies adding CODA's excess and DIC coverage to their large D&O insurance programs.

By doing so, "a risk manager is never going to have to look at the board and tell them they don't have coverage," Mr. Scott says.

CODA offers its limits in $5 million increments. Policyholders can buy a one-year policy and must pay a premium reserve equal to the first year's premium, which is repaid over four years. Or, a policyholder can pay a three-year premium at the inception of a three-year policy and owe no premium reserve.

As of fiscal year-end Oct. 31, 1989, CODA had written $36.8 million in premiums, up from $34 million in 1988. Reduced costs for losses and loss expenses as well as higher investment income increased net income to $36.8 million from $23.2 million. Capital and surplus at fiscal year-end 1989 totaled $219.2 million.

CODA has received 150 notices of events likely to lead to a claim.

—By Kathryn J. McIntyre

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Financial reinsurance capacity grows

2 new firms in Bermuda are planned

By KATHRYN J. McINTYRE

HAMILTON, Bermuda—Two new reinsurers are expected to set up business in the already crowded, competitive financial reinsurance market in Bermuda.

A unit of Skandia Insurance Co. of Stockholm, Sweden, and Citicorp of New York are teaming up to capitalize a new company—with other investors—to underwrite capped liability reinsurance policies. The company is expected to be capitalized in excess of $100 million and to be called "Gemini."

In addition, American Re-Insurance Co. of New York and foreign insurance company investors are forming Inter-Ocean Holdings Ltd. with $25 million in capital to underwrite similar business.

Financial reinsurance, loosely defined, is reinsurance for which anticipated investment income is an acknowledged component of underwriting and there is a cap on the reinsurer's ultimate liability for losses.

Financial reinsurance products range from contracts that strictly limit payouts to specified amounts at specified times (called time-and-distance polices) to contracts that involve significant insurance risk for the reinsurer (often called finite risk reinsurance) (see related story).

Bermuda is an attractive domicile for financial reinsurers because insurers can discount their loss reserves for regulatory purposes (see story, page 55).

And, except for U.S.-controlled corporations, business is conducted tax-free.

Already seven Bermuda-based companies with $502.3 million in capital and surplus specialize in financial reinsurance (see chart), including Centre Reinsurance Holdings Ltd., which defines its product as finite risk reinsurance because it assumes substantial insurance risk (see story, page 51).

Gemini and Inter-Ocean both are expected to include some degree of insurance risk in their financial reinsurance contracts.

"We will write covers to protect income statements and balance sheets, with aggregate limits, but it will be real risk transfer," says Paul Inderbitzin, executive vp of America Re, referring to Inter-Ocean.

Inter-Ocean's first incorporation meeting is scheduled for June, with about 11 international investors.

Underwriting is scheduled to begin in July, with American Re subsidiary Becher & Carlson Management Ltd. in Bermuda available to manage the company.

Although starting with $25 million in capital and surplus, Inter-Ocean's investors could commit $100 million, Mr. Inderbitzin said.

Skandia and Citicorp would not discuss their plans.

"I find it intriguing that we continue to have an accumulation of equity in these facilities," says Warren D. Sproule, president of Sedgwick James (Bermuda) Ltd., which has brokered financial reinsurance contracts.

"Where is the business coming from?" he asks.

Clearly, capacity in recent years has grown more quickly than demand for financial reinsurance products because profit margins are being squeezed.

Brittany Insurance Co. Ltd. Director Paul D. Gregory estimates that five years ago an underwriter of a financial reinsurance product could expect to make a 5% to 6% return on the premium accepted while today "you're very lucky to make 1%."

Brittany wrote only two financial reinsurance transactions last year for about $20 million, compared with $30 million in 1988.

The two 1989 transactions provided surplus relief to cedants, with Brittany accepting unearned premium reserves.

Most financial reinsurance companies generally want to earn 2% of the cost of investments on a time-and-distance policy while a

Continued on page 46

Leading Bermuda-based financial reinsurers

1989 business in millions of dollars

Name Parent	Capital & surplus	Assets	Reinsurance volume	Number of transactions	Net income
Centre Reinsurance Holdings Ltd. Institutional investors	$264.6	$874.3	$268	22	$33.1
Scandinavian Reinsurance Co. Ltd.[1] Sirius Insurance Group/Sweden	54.7	77.8	35	10	4.5
Pinnacle Reinsurance Co. Ltd. C.E. Heath P.L.C./London	54.3	630.0	140	30	12.0
Independence Insurance Co. Ltd. TBS Group/London	53.0	180.0	60	20	1.5[E]
Forum Reinsurance Co. Ltd.[E] Mark Hardy/family trusts	40.8	160.0	35[2]	40	3.8
Accord Re Ltd. 49% Continental Corp.	20.0	177.0	170	15	NA
Cologne Reinsurance Co. (Bermuda) Ltd. Cologne Reinsurance Co./Cologne, W. Germany	14.9	170.5	53[3]	20	3.1
Totals	$502.3	$2,270.0	$761	157	$58.0

1 For the period Sept. 8, 1988 to Dec. 31, 1989
2 Rounded; about $10 million in captive reinsurance
3 Rounded; $5.6 million in conventional reinsurance
E=estimate
Source: *BI* Survey

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Financial reinsurance defined

By KATHRYN J. McINTYRE

HAMILTON, Bermuda—Almost any reinsurance transaction in which anticipated investment income is an acknowledged component of underwriting and in which the reinsurer's ultimate liability is capped is coming to be known as financial reinsurance.

That definition covers a broad range of reinsurance products, from contracts that involve a single premium payment based on the net present value of known losses that a company will pay in the future, to contracts that entail a good deal of underwriting risk for the reinsurer. And, every financial reinsurance contract is a little different, responding to the unique needs of the ceding company, whose problems can include deteriorating loss development on old policies, withdrawing from a line of business and unavailability of conventional reinsurance at affordable prices.

All financial reinsurance products allow a ceding company to reinsure liabilities for less than the amount of liabilities transferred, relying on the time value of money —the expected investment income over the life of the reinsurance contract—to make up the difference.

For example, under a loss portfolio transfer to a Bermuda-based financial reinsurer, the reinsurer agrees to assume $20 million of U.S. medical malpractice liability loss reserves. The reinsurer caps its liability at $20 million, but charges the ceding company a premium of only $16 million (including federal excise tax of 1%, letter of credit costs and some brokerage commission), with the reinsurer expecting the difference plus its profit margin to be made up by carefully investing the premium.

The ceding company benefits from the transaction by effectively transferring $20 million in liabilities for $16 million, leaving it with $4 million that it can use to strengthen loss reserves, increase earnings or reduce operating losses or purchase substantial reinsurance coverage at no cost to current income.

Financial reinsurance products are particularly attractive to ceding companies involved in mergers or acquisitions. A financial reinsurance product can reduce contingent liabilities, helping to fix the price for a merger or an acquisition. A financial reinsurance product also can help a ceding company smooth its earnings over a period of years.

Financial reinsurance, however, generally does not offer benefits of conventional reinsurance like substantial risk capacity to insure large per-occurrence limits or assistance with claims handling and underwriting.

The size of financial reinsurance contracts varies greatly. The premiums ceded can range from $1 million to more than $100 million. Generally, the financial reinsurer assumes the so-called "timing risk" that claims will be paid more quickly than projected, which could prematurely deplete the funds available to earn interest on a contract. This timing risk is the minimum risk transfer most experts say is needed to qualify financial reinsurance as "real reinsurance" for regulatory purposes.

Some reinsurers also will push their cap on liability higher than the expected losses and investment income to be earned, creating more risk transfer in the transaction.

The larger the gap between the limit provided by the reinsurer and the amount of expected losses plus anticipated investment income, the closer the product comes to what Centre Reinsurance Holdings Ltd. claims as its specialty: finite risk reinsurance (see story, page 51).

Investment strategy is integral to financial reinsurance. Generally, financial reinsurers estimate when claims will be paid under a contract and invest the premium in financial instruments that will mature as claims come due.

While there is little agreement, even among underwriters of financial reinsurance products, over definitions, the common types of financial reinsurance transactions written include:

- Time-and-distance policies, which guarantee ceding companies specific payments at specific times in the future based on the initial premium paid and investment returns expected by the reinsurer.

This product is particularly popular at Lloyd's of London, where it is accepted by auditors. However, regulators in the United States do not consider time-and-distance policies to be reinsurance because the reinsurer is not obligated to pay claims any more quickly than provided for under the contract, regardless of the ceding company's underlying loss development.

- Loss portfolio transfers, under which an insurer cedes loss reserves for known losses on a discounted basis to a reinsurer.
- Retrospective aggregates, under which an insurer cedes reserves for known and incurred-but-not-reported losses.
- Prospective aggregate covers, under which a ceding company pays a premium and is guaranteed certain future payments to fund future losses. If the losses are less than expected, a profit commission is guaranteed. This type of contract is also referred to by some underwriters as "funding deals." Other underwriters, though, limit the description of funding deals to contracts with no timing or underwriting risk, under which the cedant in effect "banks" premium each year with a financial reinsurer to recover as needed to pay losses up to the amount of premium paid plus investment income.
- Financing quota-share contracts, or surplus relief, under which the reinsurer assumes a fixed percentage of an entire book of business, but again caps its aggregate loss under the contract. ■

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Financial reinsurers

Continued from page 44
ballpark starting point for pricing a finite risk contract is 5% of the cost of investments.

The cost, of course, varies with the specifics of the contract. It increases with the length of the contract, due to the increased credit risk; with the size of the contract, due to the utilization of capital; and with the amount of timing and/or insurance risk assumed by the reinsurer.

"Quite a lot of capital has been thrown at the market," observed Stephen K. Lawrence, a senior vp and director of Pinnacle Reinsurance Co. Ltd., a pioneer in financial reinsurance in Bermuda.

Increased capacity "has tended to drive down the profits on straightforward transactions," he says, referring, for example, to time-and-distance policies, which involve little transfer of risk.

"I've seen some really cheap (time-and-distance) deals that won't last because there won't be the return on equity to keep the company going," he says.

And, Mr. Lawrence observes, "there is not enough good business" involving the timing risk being offered to the market "so someone is going to be badly burnt" underwriting financial reinsurance including a timing risk.

"It's inevitable in a competitive situation," adds T. John Marett, senior vp and director of Pinnacle. "Rates get eroded and people take on bigger and bigger risks."

"Next year—1991—will be a telling time" for financial reinsurers," predicts Roger J.B. Beach, president of Accord Re Ltd., the newest financial reinsurance market in Bermuda.

"There is still a lot of innocent capacity writing financial reinsurance. They either don't perhaps understand what they are writing or how much capital they are committing," says Mr. Beach, who first became involved with financial reinsurance in 1972.

As a result, Mr. Beach says he expects to see a shakeout in Bermuda's financial reinsurance marketplace.

John B. Houldsworth, vp of Cologne Reinsurance Co. (Bermuda) Ltd., noting the current level of competition, said that "nearly all deals are quoted on by three or four different markets."

Generally, reinsurance brokers from London and the United States offer the business to Bermuda's financial reinsurers, with only a few financial reinsurance programs ever brokered by Bermuda-based brokers.

Adding to the competition are some U.S. reinsurers (*BI*, Nov. 6, 1989).

Although subject to state loss reserving requirements and U.S. taxes, U.S. reinsurers with excess capital to commit can compete with Bermuda's financial reinsurers because, as admitted reinsurers, they owe no federal excise taxes and need not pay for letters of credit—expenses that Bermuda-based reinsurers have.

U.S.-based reinsurers also may have more credibility with some ceding companies. But since Bermuda-based companies secure their contracts with letters of credit or trust accounts, the security of a contract is seldom an issue.

The competition to write all forms of financial reinsurance is so intense that at least two reinsurers

Continued on next page

Financial reinsurers feel heat

HAMILTON, Bermuda—Competition to underwrite financial reinsurance in Bermuda is so hot that two former markets for the product did not underwrite any financial reinsurance last year.

The Argus Group of Companies, a domestic Bermuda insurer that has underwritten time-and-distance insurance policies, did not write any in 1989, always finding itself "an honorable No. 2" in pricing, said E. John Sainsbury, managing director. "If we had met the competition, we would have had to do it for nothing."

The market has become "so poor in the last year to 18 months that we've stepped away" from financial reinsurance products, says Colin D. O'Connor, chairman and chief executive of Belvedere Insurance Co. Ltd., which until recently underwrote financial reinsurance products in addition to conventional reinsurance.

"Funded contracts are often written for transparently thin fees," he says, referring to contracts with no timing or underwriting risk.

Noting that so-called prospective "finite risk" reinsurance involves capping liabilities at a multiple of ceded premium, or requiring the cedant to repay losses sustained early in the contract while providing the cedant with a generous profit allowance, Mr. O'Connor says that "much of it looks like ordinary reinsurance."

Mr. O'Connor compares the current underwriting of financial reinsurance products that include underwriting risk to the "cash-flow underwriting" of the early 1980s, when underwriters assumed they would compensate for underwriting losses with investment income.

"Recent arrivals on the financial reinsurance scene have devoted themselves to 'informed' cash-flow underwriting, chiefly through the imposition of aggregate indemnity limitations or loss ratio caps," Mr. O'Connor wrote in Belvedere's annual report this year.

"We have noticed with apprehension the new faith in the redeeming properties of loss ratio caps, and our attempts to distinguish this vogue doctrine from that of the late apostles of cash flow have failed, right down to their marketing emphasis on premium volume and asset growth.

"We believe that the risks inherent in the financial reinsurance sector are underappreciated," he added.

Belvedere, Mr. O'Connor says, hopes to be back in the financial reinsurance business "when old lessons have been relearned."

—By Kathryn J. McIntyre

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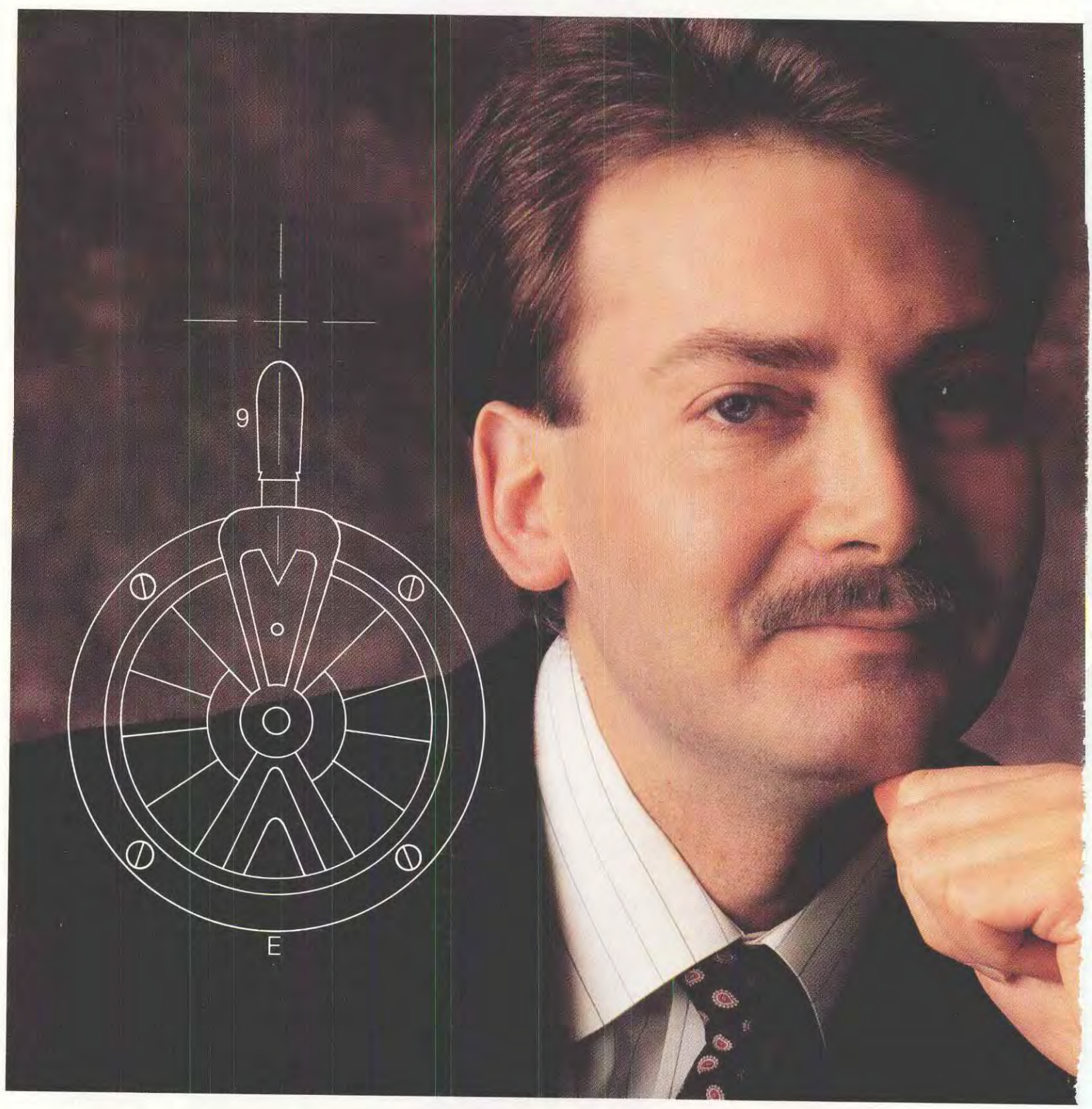

OLD PROS ON

Continued from previous page
in Bermuda have pulled back because they consider the margins too thin (see story, page 46).

Potentially creating even more pressure on profit margins for time-and-distance policies is the apparent desire of Lloyd's of London syndicates to hold cash this year instead of purchasing these policies. The syndicates are not sure how much cash they need on hand to pay claims from the catastrophic storms that hit Europe early this year.

"Expectations are low for 1990—a lot lower than 1989," says Mr. Houldsworth.

Most financial reinsurance written now involves retrospective programs.

"Retrospective products are in demand," says Graham C. Pewter, managing director of LCF Edmond de Rothschild Insurance Services Ltd., a Bermuda-based financial reinsurance adviser.

"In the United States, there is a lot of effort to market prospective products, but there are not many done," he says.

"Outside the United States, almost all deals are retrospective—to manage adverse loss development," Mr. Pewter says.

Overall, the seven leading financial reinsurers in Bermuda wrote only about 157 contracts in 1989, generating $761 million in reinsurance volume.

(Financial reinsurers speak of volume rather than premium because U.S. generally accepted accounting principles, which several financial reinsurers follow, require recording as premium only prospective contracts that cover current or future risks, while retrospective contracts covering prior underwriting years are recorded on the balance sheet.)

The largest underwriter of time-and-distance policies in Bermuda is Pinnacle, with 70% of its business now generated by these contracts.

Indeed, on a cumulative basis, Pinnacle is the largest time-and-distance reinsurer of Lloyd's syndicates, Mr. Lawrence said.

However, Pinnacle "also has tremendous capacity in taking the timing risk," Mr. Lawrence points out. And, all reinsurance of U.S. entities involves Pinnacle taking the timing risk, he notes, to satisfy regulatory and tax authorities.

About 10% to 15% of Pinnacle's $140 million in business in 1989 is from U.S. companies. Continental European companies generated another 10%.

Pinnacle's 10-person staff includes two actuaries to price transactions, not only those that assume timing risk but also to deliver what Mr. Lawrence calls "a more responsive T&D."

Mr. Lawrence calls it "one of life's ironies" that Pinnacle is willing to assume the timing risk but now finds demand mostly for time-and-distance policies.

With interest rates falling last year, time-and-distance policies were written for shorter durations than in the past, Mr. Lawrence notes. Time-and-distance polices recently have been written for fewer than 10 years compared with the 20-year periods selected when interest rates were higher.

The timing-risk transactions Pinnacle underwrites include loss portfolio transfers, prospective aggregate reinsurance of either the single premium or multiyear type and some quota-share contracts.

With about 75% of its business coming from the London market, Pinnacle last October opened a two-person London contact office "to be close to our clients," Mr. Lawrence says. W. Allen Taft is managing director and Andrew Goodier is a director.

About half of Pinnacle's business is generated by its owner, C.E. Heath P.L.C., a reversal from five years ago when Pinnacle wrote virtually no business for Heath.

That change occurred when Heath bought Fielding Insurance Holdings Ltd., with its expertise in financial reinsurance.

However, Pinnacle has to compete with other markets to obtain business from Heath, Mr. Marett says.

Pinnacle's business increased about 8% last year to about $140 million from $130 million in 1988.

After paying a $10 million dividend out of $12 million in profits, Pinnacle had $54.3 million in capital and surplus at year-end 1989.

The Bermuda staff managing Pinnacle also manages Prospect Insurance Co. Ltd., a joint venture between Heath and London-based Midland Bank P.L.C.

Prospect, which is used by Midland bank clients, "can wrap up banking products in insurance policies as well as fund self-insured exposures," Mr. Lawrence noted.

Also celebrating 10 years in Bermuda is Cologne Re (Bermuda), whose financial reinsurance business in 1989 about tripled to $52.6 million.

"We wrote slightly more deals and they were bigger," explains Mr. Houldsworth, whose company has been writing financial reinsurance for seven years.

Cologne Re last year wrote 10 time-and-distance policies—its historic specialty—for syndicates at Lloyd's and two European reinsurers.

And, for the first time, Cologne Re (Bermuda) last year also underwrote prospective aggregate covers. Its $10 million in such covers had loss caps ranging from 120% to 180%.

These prospective aggregate policies were written for "an assortment of smallish companies, mainly commercial insurers in the United States," said Mr. Houldsworth, in charge of the two-person office.

One involved a U.S.-owned captive insurance company that didn't want to pay the high price for conventional reinsurance.

The company's competitive edge is its ownership by the oldest reinsurance company in the world: Cologne Reinsurance Co. of Cologne, West Germany, says Mr. Houldsworth.

Cologne Re (Bermuda) still is not interested in underwriting loss portfolio transfers because the ceding company "knows more about those losses than we do," Mr. Houldsworth says.

Cologne Re (Bermuda) also underwrites conventional reinsurance in Bermuda strictly related to large captive facilities and spe-

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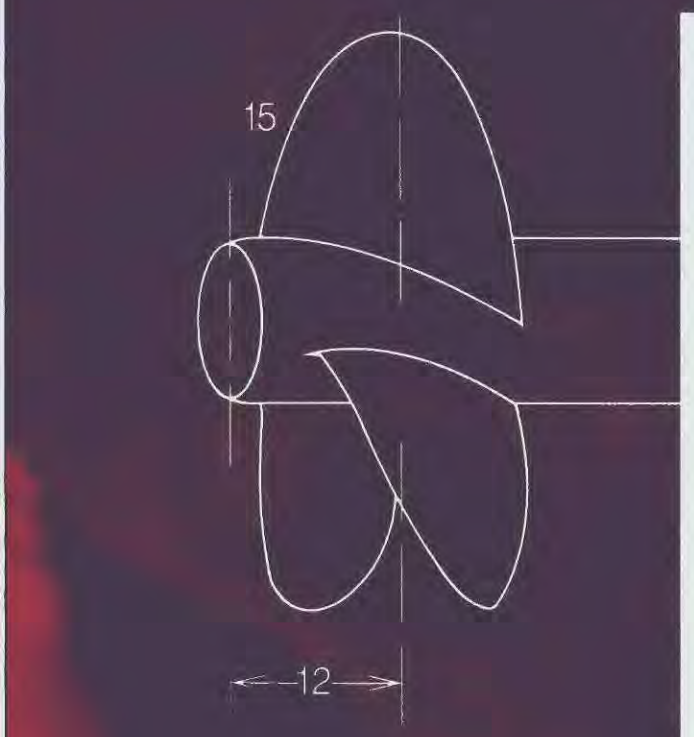

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Financial reinsurers

Continued from page 47

cialty insurers, like ACE Ltd.

Other financial reinsurance underwriters in Bermuda are newer to the market.

Forum Reinsurance Co. Ltd., which incorporated in Bermuda in July 1985, wrote about $34.6 million in financial reinsurance business in 1989, down from about $50 million in 1988.

"The competition is fierce," says Michael Welch, senior vp of Forum Re. "It's so fierce that we're no longer seeing some business and some business we see we are not interested in."

Forum Re's access to financial reinsurance business has been reduced by the increasing number of financial reinsurers, says David A. Thirkill, president.

While Forum Re had been offered—and wrote—$5 million to $10 million programs several years ago, transactions today average $1 million to $5 million.

Mr. Thirkill disputes suggestions that Forum Re is losing business due to former controversy over its source of capital or negative publicity over the runoff of Focus Insurance Co. Ltd. (see story, page 50).

Forum Re is privately held with the majority of stock now owned directly or indirectly by Mark Hardy, based in Concord, Mass.

The previous source of Forum Re's capital—European family trusts that did not want their identities disclosed—had created some mistrust.

Mr. Thirkill admits that "Forum has had more than its fair share of mystery and unfair publicity and gossip." However, he stresses, "You never hear that a client of Forum has suffered."

Forum Re, with a staff of eight, specializes in prospective aggregates, usually written on a proportional basis in the primary layer, generating high premiums and high loss activity, says Mr. Welch. Most contracts are for one year.

Its clients are generally U.S.-based small to medium-sized insurers with $50 million or less in capital and surplus.

Forum Re recently underwrote quota-share reinsurance for a reinsurer with an accident and health account. The combined ratio cap is very low—115%—instead of up to 175% that some property/casualty financial reinsurance transactions might have.

No one, however, has yet pursued Forum Re's offer to underwrite a product to fund for uncollectible reinsurance. "They haven't focused on the problem," Mr. Thirkill contends.

Forum Re, meanwhile, is negotiating to acquire several captives to run off their unrelated business for them, he says.

Generally, Forum Re would be interested in such transactions if the captive has in excess of $5 million in current reserves for unrelated business, ceased underwriting unrelated business in the mid-1980s, has an up-to-date actuarial report and meets the government's minimum solvency standards.

Stressing that Forum Re is in the "risk business," Mr. Thirkill said it "is not particularly interested in underwriting time-and-distance policies."

Independence Insurance Co. Ltd., which has been underwriting financial reinsurance in Bermuda since 1987, is said to offer the lowest-cost time-and-distance policies in Bermuda.

"We cut our margins as fine as anyone and we have good relationships with the banks we use," says James D. Thomas, chief financial officer.

Independence is a member of London-based TSB Group, which includes Hill Samuel Bank P.L.C. Independence, however, invests through a variety of banks.

Although 40% to 50% of Independence's business is time-and-distance policies, "time and distance policies are not what you build a company on. It's a very fickle market," Mr. Thomas says.

Instead, Independence is focusing its attention on "new products that we can develop and repeat for long-lasting relationships with cedants."

These include surplus relief and prospective aggregates for both working layers and high excess layers, with Independence willing to assume the timing risk.

Independence also is working with risk managers on alternatives to conventional insurance and management of self-insured retentions, says Ian J. Hawker, chief executive officer of Independence for almost a year.

Competition in the commercial insurance marketplace makes these programs difficult to sell.

Independence wrote $60 million in business in 1989 involving about 20 transactions, with its share capital increased to $50 million from $20 million at the end of October.

The increased capital gives the company "a foundation to grow significantly in the next few years," Mr. Thomas says.

Its staff of six also will grow to eight to 10 this year, he added. The most recent addition is Caroline Parsons, formerly a manager with Ernst & Young in Bermuda, who joined Independence as assistant vp-underwriting.

Scandinavian Re, a unit of Sirius Insurance Co. Ltd. of Stockholm, Sweden, is underwriting time-and-distance policies, surplus relief transactions and prospective and retrospective aggregate covers.

While assuming the timing risk, "we try to minimize the insurance

Continued on next page

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Financial reinsurers

Continued from previous page
risk involved," said Jens Juul, president and chief executive officer.

Clients range from small, ailing companies to large companies that have ceased writing a line of business or want to do "some forward planning," Mr. Juul says.

But, he notes, "we're not particularly interested in saving an otherwise unhealthy company."

Time-and-distance clients include Lloyd's syndicates and some insurers outside the U.K. market. Overall, half of Scandinavian Re's clients are from the United States and half from Europe.

In business since October 1988, Scandinavian Re operates with a staff of four, including Chief Financial Officer W. Dave Brining and Assistant Vp David J. Furtado.

Accord Re, which started business in mid-1989, wrote $170 million in business in its first six months involving 15 transactions.

Accord Re underwrites primarily North American casualty business for large ceding companies on a prospective aggregate basis, accepting the timing risk.

"We place ourselves in the business of time-driven risks, which includes excess-of-loss prospective business," says Mr. Beach.

Although it will issue time-and-distance policies, it has not written any.

Underwriting for Accord Re, which is owned 49% by Continental Corp. and 51% by Mr. Beach and Stephen Edwards, is conducted by Accord Underwriting Agency Ltd., with the same owners.

The agency also has access to Continental Reinsurance Corp. International Ltd. in Bermuda, which has $80 million in policyholder surplus, according to Mr. Beach.

Accord Re operates with just two people in Bermuda, with International Advisory Services Ltd. providing management backup. "Our investment team is elsewhere," Mr. Beach says, and retrocessionaires provide actuarial services.

"We rely heavily on major reinsurers to assume the timing risk," Mr. Beach explains.

While concerned about the current competition, financial reinsurance experts in Bermuda are bullish about their future.

Mr. Juul of Scandinavian Re predicts: "Financial reinsurance will grow tremendously. It's a natural evolution of the reinsurance business. The old quota-share product is only applicable for new companies that need the backing of large reinsurers. A mature company needs catastrophe cover and financial reinsurance."

"There's no doubt that financial reinsurance is fashionable," says Mr. Pewter of Rothschild Insurance Services.

"It's less controversial and a more legitimate part of a ceding company's armor," says Mr. Pewter, who formerly underwrote financial reinsurance products for Cologne Re (Bermuda).

Rothschild Insurance Services is opening a representative office in London May 15 to be staffed by a vp of marketing who will focus on advising insurers in western and northern Europe while Mr. Pewter will concentrate on the United States.

Mr. Houldsworth at Cologne Re (Bermuda) expects demand for financial reinsurance to come from the United States, as well as from smaller insurers in Europe hit by the recent storm losses and looking for a time-and-distance product to help improve 1990 results.

In addition, he expects to see more insurers seek to fund catastrophe losses with financial reinsurance products.

Like their colleagues in the conventional reinsurance market, financial reinsurance underwriters are waiting for a market tightening.

As the price of conventional reinsurance increases, conventional reinsurers will be less inclined to write financial reinsurance, they explain. As a result, financial reinsurance products' prices will appear more attractive than conventional reinsurance, according to underwriters.

"U.S. companies have the time and capacity to do loss portfolio transfers now, but times will change," predicts Mr. Marett of Pinnacle.

"As the market hardens, demand for financial reinsurance will grow," says Mr. Thomas at Independence. ■

Focus commutations continue

HAMILTON, Bermuda—Many cedants of the former Trenwick Reinsurance Co. Ltd. are quite willing to commute their contracts, according the reinsurer's new parent company.

Forum Reinsurance Co. Ltd. bought Trenwick Re in 1987 and renamed it Focus Insurance Co., intending to run off its business through commutations.

Forum Re has said it would like to make similar acquisitions of captive insurance companies' unrelated books of business (see story, page 44).

The management of Focus is under subcontract to Monument Square Associates Inc. in Concord, Mass., which was formed in March 1989 to specialize in commutations and runoff of insurance companies.

Monument Square Associates is affiliated with Forum Re through common ownership by Mark Hardy.

Focus first commuted with Trenwick Re's retrocessionaires, which was completed by mid-1989. Since then, Focus has been commuting with cedants.

Focus is offering to commute treaties for the full amount of case reserves and 60% of incurred-but-not-reported losses. Ceding companies representing about 40% of Focus' loss reserves and 25% of its cedants have or are about to commute, says David A. Thirkill, president of Forum Re.

"Focus is offering significant dollars," Mr. Thirkill said. "A significant number of cedants are happy to arrive at deals. Inevitably, there will be some that don't like the offer."

Among those opposed to the commutation offered is Associated Electric & Gas Insurance Services Ltd., which has sued Focus in the Supreme Court of Bermuda for $1.4 million (*BI*, April 2).

"AEGIS' suit is a straightforward dispute over late reporting of claims," says Mr. Thirkill.

Focus has paid $800,000 of the claim that was not in dispute, Mr. Thirkill said. The balance of the amount claimed by AEGIS, Focus contends, should have been reported sooner.

Meanwhile, Trenwick Group Inc., which sold Trenwick Re to Forum Re, is not liable for claims against Focus under the terms of the sale, said Mr. Thirkill.

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Centre Re blazes trail in finite risk market

By KATHRYN J. McINTYRE

HAMILTON, Bermuda—Although just two years old, Centre Reinsurance Holdings Ltd. has a competitive jump on any new entrants to the finite risk reinsurance business, its executives say.

With 44 transactions completed since it began underwriting business in January 1988, Centre Re has learned a lot about in-depth quantitative analysis, loss reserving and the legal and regulatory aspects of underwriting finite risk reinsurance, says Steven M. Gluckstern, president and chief executive officer.

Its two years of experience—considering 700 transactions and quoting on about 80—have helped it become an "efficient provider" of the product, Mr. Gluckstern says.

"That's why we're not fearful of new competition," he says, referring to reports that new financial reinsurance underwriters are preparing to set up shop in Bermuda to imitate Centre Re (see story, page 53).

Centre Re differentiates itself from other financial reinsurance underwriters already in business in Bermuda because it structures its programs to include substantial underwriting risk.

Centre Re coined the term "finite risk reinsurance" for its products, under which Centre Re's ultimate risk and ultimate profit are still capped.

Centre Re reinsurance policies not only cover the risk that losses will develop more quickly than anticipated but also that losses will exceed the premium charged plus anticipated investment income.

Other financial reinsurance underwriters in Bermuda generally are much more comfortable assuming timing risks than insurance risks (see story, page 44).

Generally, Centre Re charges a premium of at least 50% of the limits issued and offers ceding companies the possibility of sharing in the profits through, for example, a partial return of premium or an increase in the liability limits on a given contract.

"It's not so easy to be in the finite risk business," Mr. Gluckstern says. "It looks easier than it is."

Underwriting a financial reinsurance contract, for example, can take three weeks to six months.

Centre Re also is differentiated from other Bermuda-based financial reinsurers by its size: Its $265 million in capital and surplus at year-end 1989 is five times that of any other financial reinsurer in Bermuda (see chart, page 44).

Size is important to ceding companies when writing premium checks that average $15 million to $20 million. "A client has to trust you enough to write that size check," says Mr. Gluckstern.

Because of its size, Centre Re's competitors generally are large, U.S.-based property/casualty insurers that write financial reinsurance contracts, including F&G Re on behalf of its parent, USF&G Corp.; Berkshire Hathaway Inc.; and CNA Financial Corp.

While known as a large-transaction market able to underwrite a single contract generating business in excess of $100 million, Centre Re has written contracts generating as little as $1 million.

"We want a diverse source of business," Mr. Gluckstern says.

Business written by Centre Re in 1989 was "relatively similar in number and size" to 1988, he says.

About 22 contracts were written last year generating $268 million in business, compared with 15 contracts in 1988 generating $313 million.

With business written to date this year, Centre Re has passed $1 billion in assets, Mr. Gluckstern reports.

Centre Re's business is a combination of contracts that transfer a ceding company's liability for past underwriting—referred to as retrospective reinsurance—and those that involve current and future underwriting—called prospective reinsurance.

An "ever-increasing portion" of Centre Re's business involves "prospective, multiyear, forward-looking contracts," says Mr. Gluckstern.

"Most of our marketing efforts are in that area," he says, noting that Centre Re wants a balance between retrospective and prospective contracts.

The multiyear contracts are noncancelable by Centre Re, although the cedant can commute the contract after its term.

Due to generally accepted accounting principles, which permit recording as premium only funds that are received in the current year related to prospective contracts, Centre Re's financial statements show only $41.4 million, or 15.4% of $268 million in business transacted, as premiums.

However, Centre Re last year wrote several major contracts that will run for five to 10 years, Mr. Gluckstern said.

In 1988, 60%—or $186.4 million of $313 million in business—involved prospective reinsurance.

The underlying business involves long-tail lines of insurance: excess casualty, directors and officers liability, workers compensation, and personal stop-loss and estate protection products for members of Lloyd's of London.

Clients—who are represented by reinsurance intermediaries—range from regional automobile insurance companies to major personal and commercial lines insurers throughout the United States and abroad.

Centre Re recently completed its first contract with a continental European company, Mr. Gluckstern notes.

Contrary to some speculation, Guy Carpenter & Co. Inc., the Marsh & McLennan Cos. Inc. unit that was instrumental in the formation of Centre Re, brokers less than 10% of Centre Re's business, Mr. Gluckstern said.

Guy Carpenter does receive a fee of less than 1% of gross premiums written during Centre Re's first five years of operation and has a 10-year option to purchase 4.9% of Centre Re's common shares.

Centre Re also will soon open a London marketing office to be staffed by three or four people under the direction of Marilyn Fichte.

"There is a lot of opportunity at Lloyd's," says Mr. Gluckstern. "Financial reinsurance products can help close those open years," for

Continued on next page

He helped capture and convict 70 car thieves and save over 200 cars from "chop shops." It was one of many sting actions Continental has co-sponsored to fight a crime that costs consumers and insurers billions of dollars a year.

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Centre Re

Continued from previous page
syndicates at Lloyd's of London, he says.

Lloyd's syndicates traditionally close their accounts after three years, but recent uncertainty over ultimate liabilities has forced an increasing number of syndicates to keep accounting years open for more than three years.

"Financial reinsurances clearly are the mechanisms to deal with the problems," says Mr. Gluckstern.

But "the regulatory environment and rules of Lloyd's make it difficult to see to the bottom of this," he adds.

With Centre Re's new office in London studying the problem, Mr. Gluckstern says he's convinced an appropriate financial reinsurance solution to the problem of open accounting years at Lloyd's syndicates will be found.

Centre Re, however, does not write time-and-distance policies—a popular financial reinsurance product at Lloyd's—because "you can't make any money," Mr. Gluckstern says.

"We are risk takers," he adds.

As a finite risk reinsurance underwriter, Centre Re also has a "relationship," with Zurich International Ltd. in Bermuda to share in underwriting financial insurance products for corporate buyers of insurance (see related story).

"That's an important, growing market," Mr. Gluckstern points out.

While risk takers, Centre Re is finding its "loss activity has been in the expected range and less in the aggregate than expected," according to Michael D. Palm, executive vp.

The only ceding companies to hit the loss ratio cap imposed by Centre Re are ones in which the program was designed to do so, says Mr. Palm.

"That doesn't mean Centre Re is getting a windfall," stresses Mr. Gluckstern. "The ceding companies are benefiting in profit commissions or commutations," he says.

While risk takers, Centre Re is finding 'loss activity. . .in the expected range,' says Mr. Palm.

Furthermore, it's too soon to judge the development of the business, Mr. Gluckstern says, suggesting it will take seven to eight years more to do that.

Centre Re's 24-person staff is based in new offices in Bermuda's recently opened Cumberland House.

Management of Centre Reinsurance (Barbados) Ltd. continues in Barbados under a management contract with staff that formerly was employed by Centre Re.

The Barbados company is used to underwrite U.S.-source business, while Centre Reinsurance (Bermuda) underwrites business emanating from elsewhere in the world.

The division of business is for internal management reasons related to investment strategies, says Mr. Palm.

The license of New York-based Centre Reinsurance Co. is for sale, since Centre Re found its cedants did not request policies from a licensed domestic company.

The offshore companies can charge a lower premium than a domestic company because they can discount their loss reserves for regulatory purposes and they are not subject to U.S. income tax.

Centre Re Holdings is owned by several institutional investors, including Zurich Insurance Co. in Zurich, Switzerland, J.P. Morgan & Co., based in New York, and Kemper Group units in Long Grove, Ill.

Centre Re paid a dividend of $13 million in 1989 out of net income of $33 million.

Mr. Gluckstern predicts that Centre Re will consistently write about $300 million annually in reinsurance volume, reflecting the 20 to 30 transactions that can be "prudently underwritten" in a year's time.

"There are only so many hours in a day," says Mr. Gluckstern. "Unless the average size starts going up, there is a natural ceiling."

Overall, Mr. Gluckstern says there is "a lot of opportunity for growth" in the finite risk reinsurance market—another reason he is not concerned about the emergence of new "responsible" competition.

Mr. Palm notes: "We are starting to see insurers anticipate a hardening reinsurance market in the early '90s and they are starting to devote attention to what their traditional reinsurance costs will be. Therefore, they are beginning to be more attentive to our message. A major benefit of our product can be stable reinsurance costs over a hard and soft cycle."

Mr. Palm also sees "a large opportunity to assist in consolidation and recapitalization in the 1990s" of the insurance industry.

Mr. Gluckstern agrees that "consolidation in the '90s will create tremendous opportunities in moving blocks of business."

Furthermore, while concentrating on property/casualty business now, Centre Re "in time will look at the life side of the business," Mr. Gluckstern said. ■

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Zurich offers 'financial insurance'

HAMILTON, Bermuda—Zurich International Ltd. is offering risk managers and captive insurers the benefits of financial reinsurance underwriting.

Zurich International, though, calls it financial *insurance*.

While generally willing to discuss programs with risk managers, the financial reinsurance underwriters in Bermuda find they deal mostly with insurance companies.

Zurich International, which works with retail brokers, can structure programs in conjunction with other Zurich Insurance Co. subsidiaries, including those in the United States and London, says President Laurence Cheng.

"We tend to take a little more risk" in underwriting, he says, but all the policies cap Zurich International's ultimate liability—a feature of all financial reinsurance.

Zurich International also can reinsure its books of business with Centre Reinsurance Holdings Ltd., a Bermuda-based financial reinsurer in which Zurich Insurance is a major investor.

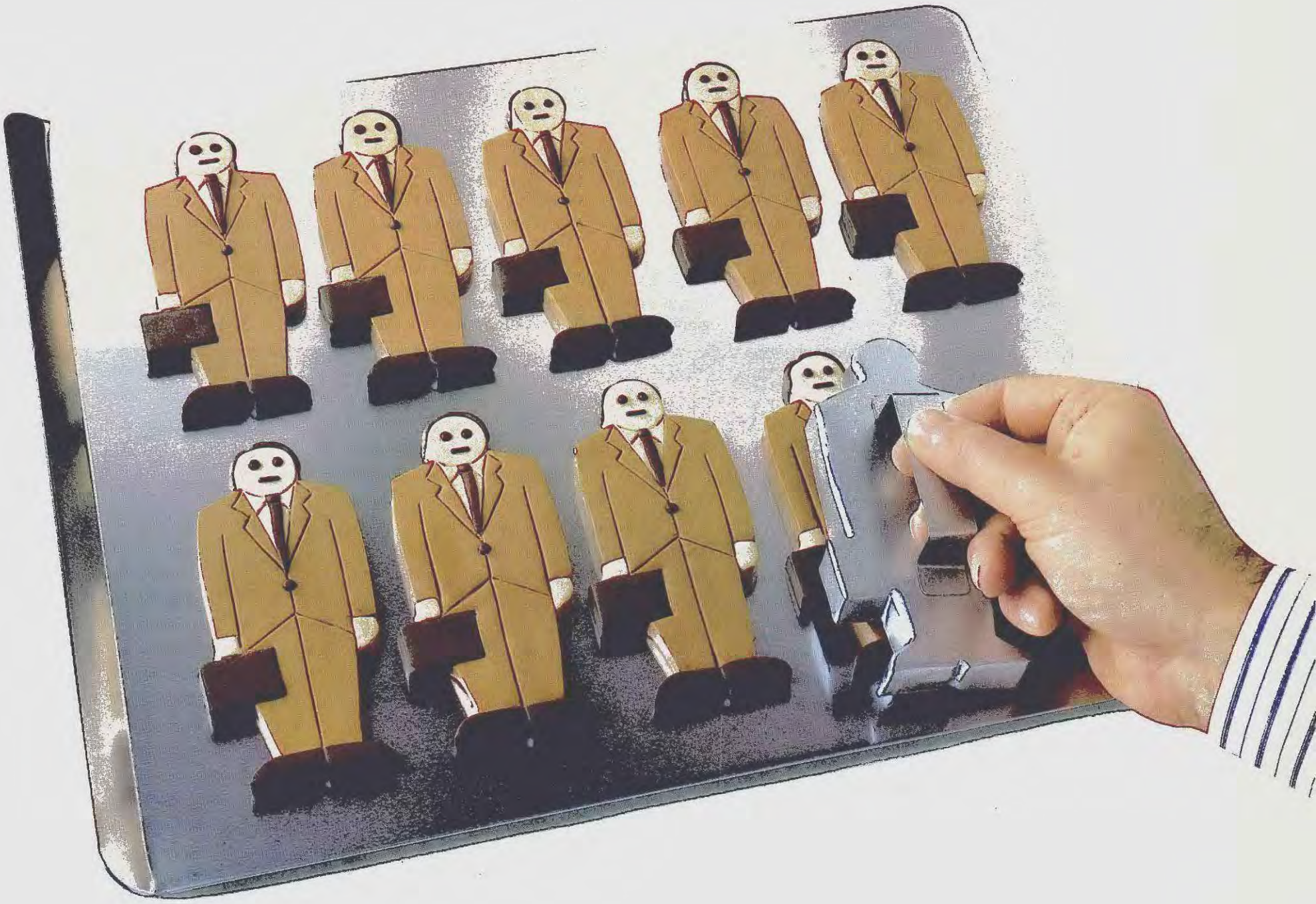
Zurich International wrote about $109 million in business in its first fiscal year of underwriting financial insurance, ending June 30, 1989.

Clients include five captives, Mr. Cheng noted.

So far this fiscal year, business totals $85 million.

At fiscal year-end 1989, Zurich International had capital and surplus of $51.5 million, assets of $225 million and net income of $4.3 million. ■

Why Some Reinsurers Still Don't Cut It.



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Bermuda hikes cost of doing business

HAMILTON, Bermuda—International businesses are going to pay more to do business in Bermuda in the coming years—and they don't like it.

To maintain a balanced operating budget and limit borrowing for capital expenditures in the face of reduced tourism spending, the Bermuda government this year increased consumption taxes, introduced a new payroll tax on international businesses and increased fees charged to international businesses.

The higher consumption taxes—from increased duties on gasoline and fuel oils to liquor, cigarettes and automobiles, and a 50% increase in the airport departure tax to $15—will make it more expensive to live in Bermuda, as well as to visit the island.

And, to the extent employees have to pay more to live in Bermuda, they will be looking for bigger raises, executives say.

Meanwhile, the 5% payroll tax—to be phased in at 1% a year for five years—is also going to increase costs for international companies with employees in Bermuda. The government projects the new tax will yield $850,000 in revenues in its first year.

The payroll tax—which has been paid by local companies but not the 250 international firms with employees on the island—was needed, in part, to offset the cost of eliminating the stamp duty on the capitalization of new companies in Bermuda, a move the government said was needed to attract highly capitalized international companies to Bermuda.

Through the higher fees (see story, page 55), the government expects to raise an additional $2.4 million in fiscal 1990/1991.

While international business representatives unsuccessfully lobbied government officials privately for lower tax increases, the public took to the streets to protest the most controversial budget since the advent of party politics in Bermuda in the 1960s.

As a result, Finance Minister David Saul and the United Bermuda Party backed down, reducing some of the proposed tax hikes hitting individuals.

For example, the proposed budget had put an annual $250-per-person ceiling on duty-free allowances for goods purchased during trips abroad. The limit had been $250 every 31 days.

Mr. Saul had trodden on hallowed ground. Bermudians live on an island of less than 21 square miles and if there's one thing they like to do more than anything else, it's travel—and shop.

At the same time, the minister had proposed doubling the $10-a-head airport departure tax and raised the import duty on cars from 55% to 75%.

Conceding that the steps were stringent and tough, the minister pointed out that they were also aimed at generating a much-needed $42 million. The public sector already is committed to borrowing at least $150 million over the next five years to pay for planned capital projects—a new prison, a garbage incinerator plant and a national sports stadium.

Two weeks later, thousands of demonstrators took to the streets to protest the 1990 budget and the powerful Bermuda Industrial Union called its 6,000 members out on a one-day strike.

On March 14, Mr. Saul bowed to mounting pressure. Emerging from a series of meetings with his advisers, he unveiled a key package of budget amendments—reducing his revenue proposals by $6.1 million. The departure tax was set at $15 and the unpopular annual $250 personal duty-free allowance was doubled.

The 75% import duty on cars, however, was retained.

"The reductions in taxes are substantial and I hope they will be seen as clear evidence of the government's response to the concerns expressed by the public," declared the finance minister.

But, Mr. Saul reiterated that he will not allow the island to slide into the debt trap that has engulfed other countries in the region.

The Bermuda government will "never" borrow to finance current spending, he said.

Many executives of foreign-owned companies say privately that they hope that the full 5% payroll tax will not be implemented and express concern that Bermuda could become too expensive as a captive domicile.

As expatriates who do not want to jeopardize their work permits, they decline to be quoted on their concerns.

However, Bermudians who run international companies are much more outspoken.

"I am concerned" about the increasing cost of doing business in Bermuda, said Stuart Grayston, a Bermudian and president of Frank B. Hall (Bermuda) Ltd.

The abolition of the stamp duty in favor of increased employee costs "will encourage the nameplate company to enter Bermuda," said Mr. Grayston.

"A lot of people are upset that having paid to join the club (by paying stamp duty), they now are having to pay to stay in the club," he said.

Captive management companies, which tend to have the largest staffs, will be hit hardest, Mr. Grayston predicted.

Johnson & Higgins (Bermuda) Ltd., with 150 employees on the island, expects its costs to increase $107,000 in the coming year. Committed to not passing the increased costs on to clients, the company has announced a six-month delay in wage increases for its top managers and has not ruled out layoffs, says President Brian Hall, also a Bermudian.

Office rents, too, are increasing, but they still are far below the rents charged in New York, London or other financial centers, executives say.

As the cost of goods increase in Bermuda, captive managers and brokers also increasingly hear complaints from risk managers about the cost of visiting Bermuda.

For example, a cab—with tip—from the airport to a hotel in Hamilton has increased to about $20 from $15 four years ago.

With virtually all foodstuffs imported to the island, dinner in a nice Bermuda restaurant is often more expensive than in fancier restaurants in New York or London. ■

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Bermuda fees likely to increase again

By KATHRYN J. McINTYRE

HAMILTON, Bermuda—Government fees for forming and operating an insurance company in Bermuda will be "moderately increased every few years," Bermuda's financial secretary says.

Before this year's controversial budget, insurer fees had not been increased since 1982 (see story, page 54).

"That's not realistic," says Financial Secretary Idwal Wyn Hughes.

Insurers now are charged a $2,000 business fee under Bermuda's insurance act and a $2,250 fee under the companies act. Until recently, the government also assessed a stamp duty of 0.25% of capital when the company was formed or its capital increased, capped at $25,000 for insurers.

Beginning July 1, insurers will pay a $1,000 fee under the 1978 Insurance Act and at least a $3,200 fee under the companies act. Fees under the companies act will rise with capital to a maximum of $8,000 for companies with $12 million or more in capital.

As of April 1, the stamp duty was eliminated because it was considered a disincentive for large, well-capitalized holding and investment companies to incorporate.

"That's obviously painful for those already here that paid the stamp duty," Mr. Hughes admits.

But he maintains that "it's easier than ever to form a captive in Bermuda." The fee structure is more consistent and will not make the nation less competitive with other domiciles, he adds.

Overall, Bermuda has the "critical mass" to continue as the largest captive insurance domicile, Mr. Hughes says.

'We are considering requiring' companies to maintain 'premium registers, claims files, records of loss history, reinsurance policies and probably general ledgers,' says Bermuda Registrar of Companies Verbena Daniels.

He cites the concentration of captive insurance company expertise in Bermuda, economic and political stability, its strategic location, "realistic supervision," and legal, banking and communications services.

He is not concerned, he says, that in 1989 the number of captives registered in Bermuda fell for the first time since the mid-1970s.

Only 45 new insurers were registered during 1989 while 68 were removed from the register, leaving 1,314 foreign-owned insurance companies registered.

Formation was curbed by competition from other domiciles and continuing rate competition among commercial insurers, according to Verbena Daniels, Bermuda's registrar of companies.

Among the 45 new insurers, 34 were formed by U.S. companies and four were formed by European companies.

Nineteen were formed with less than $1 million in capital, while 21 were formed with $1 million to $9.9 million in capital and five were formed with more than $10 million in capital.

Twenty of the new insurers underwrite property insurance; 11 underwrite casualty; eight underwrite professional liability insurance and/or marine or aviation insurance; and others write one or more other lines.

Ten of the 68 companies removed from the registry were merged into other companies.

Of the 1,314 foreign-owned insurers registered in Bermuda at year-end 1989, 57 were in liquidation, 17 of which entered liquidation last year. Of the 57, 14 are under court supervision and 12 are under creditors' supervision. The remainder are being liquidated by the owners, including Ancon Insurance Co. Ltd., an Exxon Corp. captive.

The largest liquidation involves Mentor Insurance Ltd., a subsidiary of Ocean Drilling & Exploration Co., which underwrote unrelated insurance and reinsurance in the late 1970s and early 1980s.

Mentor is estimated to be insolvent by at least $400 million, which liquidators are trying to recover from ODECO and others (*BI*, Dec. 18, 1989).

Last year, Bermuda not only relaxed its ownership requirements for medical malpractice captives but also strengthened some regulations effective July 7, 1989:

- A new solvency margin test requires insurers to maintain surplus of at least 10% of undiscounted loss reserves.

Discounting of loss reserves is now permitted for solvency testing purposes only "where both the amount of the losses and the payment dates are fixed or reasonably ascertainable by the company's approved auditor" or if the company had been discounting on or before Dec. 31, 1988.

If an insurer does not meet Bermuda's solvency margin of surplus of at least 10% of undiscounted loss reserves, a certificate of reserve adequacy will be required from a loss reserve specialist.

- Insurers must report gross premiums by class of business written and how much was generated by underwriting related risks.
- Insurers must report whether they purchase annual aggregate stop-loss insurance.
- Upon failing a solvency test, an insurer must submit a statement of corrective action.

The insurance act will be amended this year to empower the registrar of companies to monitor companies that have submitted a corrective action plan but are not in liquidation.

The government also will soon specify the minimum records that the principal representative of an insurer must maintain in Bermuda under the insurance act.

The law currently requires companies to maintain financial statements, but it does not specify which statements.

"We are considering requiring premium registers, claims files, records of loss history, reinsurance policies and probably general ledgers," said Ms. Daniels. ■

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Daniels to retire after 26 years in office

By KATHRYN J. McINTYRE

HAMILTON, Bermuda—Registrar of Companies Verbena Daniels intends to retire Dec. 14 after 26 years of government service.

Also, a 20-year veteran of captive management in Bermuda is retiring May 31: David Vaughan, currently president of Continental Risk Services Ltd., a captive management subsidiary of Continental Corp.

Ms. Daniels became an assistant registrar in 1971, when the registrar's office was just 1 year old. Ten years later she was named registrar.

She has overseen a growing international business community and helped implement the Insurance Act of 1978, the nation's first insurance law.

Today, 6,500 international companies are registered in Bermuda, triple the 2,054 registered in 1971. The registrar's staff of three in 1971 has grown to 15 to handle the increased activity created by new companies and implementation of the insurance act.

"It's been a wonderful experience," Ms. Daniels says. "It's been great because I grew up with the industry."

At year-end 1989, 1,314 international insurers were registered in Bermuda compared with 829 in 1980, the first year registration as an insurer was required.

Assets of these companies grew to $38.7 billion at year-end 1988, the most recent statistics available, from $13.6 billion in 1982, the first year Bermuda released aggregate statistics.

"We will badly miss this lady," says Bermuda Financial Secretary Idwal Wyn Hughes, adding he has not given up trying to convince her to continue as registrar.

Kathryn McIntyre

Registrar of Companies Verbena Daniels will retire later this year.

But Ms. Daniels says upon turning 55 she plans to retire and relax for three months before looking for "something less strenuous."

A successor has not yet been identified. "The post will be advertised," Mr. Hughes said.

"She'll be hard to replace," pointed out E. John Sainsbury, managing director of The Argus Group of Companies, a domestic insurer that also manages international companies.

Meanwhile, in the private sector, Mr. Vaughan, 62, is retiring after 37 years in insurance and captive management in Bermuda.

Mr. Vaughan started his career in Bermuda with American International Group Inc. in 1953. In 1960, he joined Niagara Insurance (Bermuda) Ltd., a unit of Continental, where he remained until joining Marsh & McLennan Management Ltd. as president of the captive management firm in 1970.

Mr. Vaughan was president of the Bermuda subsidiary of Marsh & McLennan Cos. Inc. until 1981, when he rejoined Continental as president of Continental Risk Services.

Reviewing the development of Bermuda as a captive insurance center, Mr. Vaughan says: "Bermuda still has more to offer than any other domicile—provided they don't become complacent as they have had a tendency to do over the last few years.

"You can't be complacent and not think other domiciles aren't going to catch up."

Mr. Vaughan and his wife are retiring to Ontario. ■

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Bank offers scholarship for $10,000

HAMILTON, Bermuda—The Bank of Bermuda is funding a new $10,000 annual scholarship for a Bermudian student to study at The College of Insurance in New York.

The scholarship—in honor of the late tax attorney Sidney R. Pine—will support a Bermudian student participating in a four-year work/study program.

Upon completion, the student will have a bachelor of arts degree and the equivalent of 1½ years of experience in an insurance company in Bermuda.

"Our bank recognizes the late Mr. Pine as one of the chief architects responsible for Bermuda's highly successful insurance industry and the bank wanted to help ensure the continuation of the high standard of the insurance industry, which is a major employer of young Bermudians," said William D. Thompson, executive vp-international of the Bank of Bermuda.

Mr. Pine was instrumental in developing the concepts of single-parent and group captive insurance companies as early as the 1960s. He represented captive insurers, their owners and their management companies for more than 25 years.

The Bermuda Insurance Institute, which helped develop the work/study arrangement with The College of Insurance, will administer the scholarship program.

"Several companies already have indicated their interest in hiring the student during the work segment of the program," Mr. Thompson said.

To be eligible for the scholarship, the candidate must be a Bermudian seeking a career in the insurance industry who is prepared to work in Bermuda during and after completion of studies.

Mr. Thompson and executive committee members from The Bermuda Insurance Institute will choose the winner based on merit. The first scholarship will be awarded for studies beginning in September.

Scholarship applications are available from The Bermuda Insurance Institute, Ground Floor, Clarendon House, Church Street, Hamilton HM FX, Bermuda.

—By Kathryn J. McIntyre

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Spotlight report

Cayman loses captives amid competition

By JUDY GREENWALD

GRAND CAYMAN, B.W.I.—The Cayman Islands captive insurance community is battling both a softened property/casualty insurance market and increasing competition from other domiciles.

The Caribbean domicile suffered a net loss of five captives in 1989, dropping its total to 357 from 362 in 1988.

And, the number of new captive licenses continued to decline. Twenty-five captives were licensed in 1989, compared with 29 in 1988, 56 in 1987 and 63 in 1986.

Despite this trend, Cayman Insurance Superintendent Gilbert Connolly and captive managers base their predictions of slow, steady growth on the domicile's many attractions.

These attractions, they say, include flexible regulations, a stable political environment, a strong financial infrastructure—including the accountants and other professionals needed to run the captives—and many international banks.

They also say the expiration of U.S. tax treaties Barbados and Bermuda has created a more "level" playing field.

And, they believe Bermuda's move to attract more medical malpractice captives is unlikely to detract from Cayman's recognized expertise in this area.

In fact, some captive managers say they have already seen increased interest in recent weeks in the Cayman Islands, which they note is known for handling the business of smaller associations and companies in addition to medical malpractice risks.

So far this year, the domicile has granted 10 new licenses, while six captives have surrendered their licenses, bringing the total captive count to 361, Mr. Connolly said.

The captives that left did so for a variety of reasons, he says.

"A number of them have gone back to the commercial market because of the low rates, and some of them had been running off business, which they have now completed," he explained.

"I think essentially that we have found that we're not doing as much business as we would like to be doing" because of the soft market, said Wayne Cowan, vp and branch manager at Johnson & Higgins (Cayman Islands) Ltd.

"It's created a slowdown, I think, in captive growth," he said. With a harder market, "we'd be seeing a few more captives coming down here."

"I think it reduced the number of inquiries and obviously reduced the number of captives that have been set up generally," said John Smith, managing director of Cayside Insurance Management Ltd.

"It's probably caused it to slow somewhat, as far as formation of new ones go," agreed Ross Blumentritt, director of Aberdeen Insurance Managers.

However, Roger Corbin, president of Absit Insurance Management Ltd., disagreed with the other captive managers who attributed the lack of growth in the domicile last year to the soft market.

"I don't think the soft market has affected the growth of captives here," he asserted. "I think the buyer is sufficiently sophisticated and aware now to understand the vagaries of the traditional insurance marketplace, and they're going to form a captive whether the market is hard or soft."

Mr. Corbin attributes the "very marked slowdown" in the Cayman captive market to a smaller pool of potential new captives.

There are just 500 Fortune 500 companies, Mr. Corbin observed. "Where else are you going to go? Everyone that wants a captive has one."

However, "I'm not sure I agree with that," said Anthony Travers, an attorney with Maples & Calder on Grand Cayman.

"I think there's huge potential on the self-insurance side," he said, pointing to malpractice risks for associations in particular.

Mr. Travers believes the soft market is the key to the slower growth. "I think it's contributed to the softening in the establishment of new captives, no question," he said.

Many other observers also are optimistic about the chances of captive growth in the domicile.

Mr. Connolly said he is not fazed by the decline in total number of captives in the domicile last year, noting the domicile has been through such a cycle before.

"I think now the fact that we have sort of stabilized at the demand of 20-plus new captives a year for the past two years indicates that demand will be consistent and there will be no further decline in the demand," he said.

However, "certainly, we keep hoping for the market to harden," Mr. Connolly admitted.

"It seems to me that no one really has it right as to when it will happen," he observed, noting predictions of a hardened market following Hurricane Hugo and the San Francisco Bay area earthquake last year, which caused billions of dollars of insured losses (*BI*, Oct. 30, 1989; Oct. 23, 1989; Oct. 2, 1989).

But, "so far, there's no real evidence that has happened," he said.

As a result, "I'm just waiting. I'm no longer making any predictions," Mr. Connolly said.

"While today is soft, tomorrow may not be," pointed out David M.L. Roberts, managing director at International Underwriting Managers (Cayman) Ltd.

But, he added: "We see a continuing need and purpose for captive insurance companies, and it's a matter now of working more closely with the marketplace to determine what the need is and how Cayman will cover that need."

And, many captives are gearing up for the harder market, "so we're seeing some good, good quality captives down here," said Mr. Cowan of J&H.

"I think people are very interested in the captive idea," said Desmond Campbell, Aberdeen's resident manager. But many of these plans do not come to fruition until the market hardens, he said. Then these people will "start dusting off their old feasibility studies."

But, he added: "You want someone in for the long haul" who will be there in 10 to 15 years.

Peter MacKay, director and gen-

Continued on page 60

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Cayman

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eral manager of Mutual Risk Management (Cayman) Ltd., said he believes the situation already has started to improve.

Because insurance buyers believe the market has bottomed out, "we're certainly seeing a lot more interest in captives now," he said. "We're certainly getting a lot more inquiries again."

"I think there'll be an increase (in new captive formations) as in the last hard market" if the market does firm, Mr. MacKay predicts.

And, he said, even if the market does not harden, "I think we'll still have new captives coming in, but at a slower rate."

"It seems there has been a flurry of interest" recently, agreed Anthony B. Stelling, director of the Midland Bank Trust Corp. (Cayman) Ltd.

"It's just one of those things," said Mr. Stelling, who says he does not believe the sudden upsurge in interest is attributable to any single factor.

"Even though there's a soft market, there are still opportunities for organizations to form captives" because of their efficiency, said Mr. Travers of Maples & Calder, who predicts slow, steady captive growth in Cayman.

Alan M. Brooks, a partner with accounting firm KPMG Peat Marwick, said he also has received several recent inquiries about captive formations.

"It looks to me as though the market is going to pick up," he said, predicting slow, steady captive growth in Cayman.

He attributed the increased interest to a forthcoming hard market and "people's sophistication and knowledge of what a captive insurance company can do for their organization."

The additional inquiries also may be related to the expiration of the Bermuda and Barbados tax treaties with the United States, Mr. Brooks said.

However, Cayman faces continuing and in some cases growing competition from other domiciles, captive managers say.

Some regard Vermont as a particularly strong competitor.

"I think a lot of captives went to Vermont that could have gone offshore, and we would have gained our share of those," said Mutual Risk Management's Mr. MacKay.

"We have seen a very, very rapid growth in our Vermont operation," said Bryan D. Murphy, president of International Risk Management (Cayman) Ltd., whose parent, Swiss Reinsurance Co., has a Vermont captive management operation, American Risk Management Corp. ARMC, which managed 22 captives in 1989, was the second-largest captive manager in Vermont based on managed premium volume of $97.7 million.

"Vermont, as far as we're concerned, has emerged very much as the leading onshore captive domicile, and we have to say that the regulators and the legislators in Vermont have done an outstanding job. And, they have promoted Vermont to a very, very high level, very professional level," Mr. Murphy said.

But, Midland's Mr. Stelling said it is difficult to judge the impact of Vermont as a competitor.

"I'm certainly not aware of any business that might have gone to us that has gone to Vermont over the past 12 months," he said.

Mr. Cowan drew a distinction between existing captives and new captives.

Some new captives are electing to form in the United States and not offshore "maybe because they feel more comfortable with U.S. regulations," he said.

"But, the costs, the regulation, I think, are deterring a terrific amount of captives from going onshore," Mr. Cowan said.

"I don't feel the onshore domiciles are tremendous competition for the captives we have at the moment."

J&H, he noted, has lost only one Cayman captive to Vermont: a captive that wrote professional liability coverage for 10 attorneys moved in 1988.

Mr. Travers said he believes that "the Risk Retention Act and the allure of domestic incorporation is not proving to be quite as attractive as first thought."

And, companies considering forming captives are "still concerned about the regulatory environment in the states irrespective of what assurances they get from the state captive domiciles," said Mr. Brooks of KPMG Peat Marwick. "I've seen very little business that has either gone from here to Vermont or was a potential for Cayman and is domiciled in Vermont."

And, while Bermuda and Barbados remain strong competitors, Cayman captive managers believe those domiciles have lost their edge against Cayman with the expiration of their U.S. tax treaties.

The treaties waived a 4% U.S. excise tax on direct insurance premiums and a 1% tax reinsurance premiums paid to captive insurers in Bermuda and all insurers in Barbados.

"A number of clients have indicated that without the tax treaty advantage, Cayman is definitely a better choice," said Mr. Connolly, the Cayman Islands insurance superintendent.

"As much as anything, the equalization of taxes will put us in a more equal position," agreed Mr. Roberts of International Underwriting Managers.

"It takes away a selling point" from both Bermuda and Barbados, he said.

"The edge that Bermuda and Barbados had is now gone," Mr. Travers said flatly.

Now, considering its attractions, "Cayman has the edge," with one possible exception, he asserted: Bermuda has a better developed reinsurance market.

On the prospects of Cayman developing its reinsurance market, Mr. Travers said: "Hopefully, that will come in time."

Captive managers also say they are not concerned that Bermuda will succeed in its recent effort to draw away from them significant medical malpractice captive business, which is one of Cayman's specialties.

Bermuda, in a relaxation of its regulation of captives writing medical malpractice insurance, now permits captives of hospitals and medical facilities to provide coverage for doctors' practices outside of the hospitals' facilities.

In addition, Bermuda is now accepting doctor-owned medical malpractice captives.

But IRM's Mr. Murphy commented that when a captive domicile has an established reputation as an expert in a certain area, it continues to attract more business of that type. That has been and will continue to be the case with medical malpractice risks in Cayman, he believes.

Others agree.

"I think there's a bit of fear that Bermuda will now take a lot of that business away from the Cayman Islands," said J&H's Mr. Cowan.

But, with the Cayman's infrastructure and its ability to manage medical malpractice programs, Mr. Cowan does not see Bermuda's effort as a major threat to the Cayman captive industry.

Bermuda's effort is "too little, too late," he said. "I still think we're the recognized domicile."

Continued on next page

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Continued from previous page

"I think the Cayman Islands has the expertise in dealing with that type of operation, which it's built up over a number of years," said Cayside's Mr. Smith. As a result, "you would expect Cayman would get first consideration."

When a domicile has a reputation as an expert in a particular area, "it makes it more difficult for a different domicile to enter that area," agreed Mr. Brooks of KPMG Peat Marwick.

"Bermuda has always gotten bigger companies, and we tend to get the smaller ones, and I think that's how it will split," said Mr. MacKay of Mutual Risk Management. He noted that Bermuda tends to get business from bigger firms because of its reinsurance facilities.

Cayman captive managers disagree over whether European companies represent a realistic potential market for them and therefore disagree over whether European captive domiciles, such as Ireland and Luxembourg, are a competitive threat.

Some Cayman captive managers doubt the willingness of European chief executives to set up captives in the Cayman Islands when the Channel Islands and other captive domiciles are nearby.

European companies are more likely to go to Jersey and Guernsey than to the Caribbean, said J&H's Mr. Cowan.

North American companies likely will continue to fuel Cayman captive growth, he said.

And, IRM's Mr. Murphy said the competition from Europe domiciles is now much more fierce, because in addition to domiciles like Guernsey, Isle of Man, and Luxembourg, Ireland has emerged as a "very, very powerful new force." IRM has just opened its own office in Dublin, he noted.

In the short-term, European captives generally are going to stay within Europe, with about 80% going to Europe and the remaining 20% divided between Bermuda and the Caymans, he predicted.

"It's the old story," he said. If you are a European executive, you would be reluctant to take three days four times a year to attend captive board meetings when you can go to Dublin "and be back in your office that afternoon. And, that's a major, major issue."

However, Mr. Travers countered that "it's not essential board meetings be held in Cayman." He believes Cayman will become increasingly attractive to European captives.

And Midland's Mr. Stelling said it is not difficult to combine a trip to the United States—which executives of multinational companies make anyway—with a trip to the Cayman Islands.

"We have to educate people, if you like, that we are not on the moon," he said.

"We must extend our sights a little bit further than the U.S. to Europe and other parts of the world," Mr. Stelling said.

European companies are beginning to realize captive are "not just gimmicks" and that properly constructed captives can play a critical part in an organization's risk management focus, can operate as profit centers and can eventually give firms a competitive advantage over others in their field, he said.

Nevertheless, Mr. Stelling acknowledged that an "education process" about captives among European companies will have to occur before the Cayman Islands sees a flood of business from Europe.

Aberdeen's Mr. Blumentritt says he expects his firm to get get more business from Europe.

"It's a time of great fomentation," he said. "There's going to be all these mergers of all these companies. A newly merged company is going to be looking for ways to save some money. People are going to be looking at things from a new pair of glasses."

Mr. Connolly noted that "a large number" of South American and European companies formed captives in the Cayman Islands in 1988. "However, last year, the majority again are American-owned," Mr. Connolly said.

And, the Cayman Islands will continue to hold a strong appeal to U.S. companies, according to Mr. Roberts of International Underwriting Managers.

"There will still be a growing need for business to maintain a credible operation whilst not leaving their back yard," he said.

In addition, Cayman has other important advantages that will enable it to ward off competition from other domiciles, said captive managers and Mr. Connolly.

Among these is its regulatory structure.

Mr. Connolly points with pride to a Coopers & Lybrand survey released in January on offshore finance sectors in the Caribbean that found Cayman laws on insurance, banking and company management "represent 'model' legislation which many other offshore locations for financial services have indeed followed."

Many people incorrectly think Cayman's captive legislation, which was approved in 1979, is lax, Mr. Connolly said.

"I think that is totally unfounded, because I think we've had 10 years in which we have proven that our system does work.

"I think I will acknowledge that we certainly have a different philosophy effected in our laws, and we have a different approach. However, that does not translate into having lax regulations.

"We take the reputation of the country very seriously. In addition, we realize that it is necessary to have the highest standard possible within our framework," Mr. Connolly said.

He also said that the Cayman Insurance Department works closely with the Naticnal Assn. of Insurance Commissioners in the United States.

Captive managers agree Cayman's regulatory structure is a major attraction for the domicile.

"I think the major advantage is speed of formation," said Mr. MacKay of Mutual Risk Management.

"We have a superintendent here that is very accessible and can give a reply fairly quickly and work with us to help in the formation of the companies."

"The legislation is effective but not onerous," said Cayside's Mr. Smith. "You're not required to fill out 95-page documents."

"It's got a very, very sensible regulatory environment" that is of particular interest to certain types of insurers, especially for casualty or financial reinsurance, said IRM's Mr. Murphy.

Another advantage is the Cayman Islands' strong financial infrastructure, according to Mr. Connolly and captive managers.

Mr. Murphy said the domicile is a major international banking center that could be the world's fourth- or fifth-largest.

Observers note there is about one bank for every 500 residents in Cayman.

"Our overall infrastructure is second to none," asserted Mr. Connolly, referring to the professional services necessary in a captive domicile.

The Cayman Islands also has the insurance expertise necessary to run the captives, observers said.

Another more recently acquired advantage is the introduction of direct flights between New York and the islands by Cayman Airways, the national airline, captive

Continued on next page

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Cayman

Continued from previous page

managers say.

Having its own airline is a "major plus" for the domicile, and its link to New York will open up the East Coast as a potential business source "much more efficiently than was the case before," Mr. Murphy said.

And, the domicile has a stable political environment, which is important to investors, Mr. Connolly said.

The Cayman Islands is not at the same political stage as Bermuda, where independence from Britain is an issue, Mr. Travers said.

But Mr. Murphy believes that the Cayman Islands still faces a challenge in promoting itself as a captive insurance domicile.

"Perception is very important," he said. "One of the perceptions companies have is the island is much more interested in banking-type operations, whereas other domiciles, such as Bermuda, seem to be more dominant in the insurance area."

However, "this should not be perceived as a failure on the insurance side," Mr. Murphy said.

Rather, it is an indication of the "tremendous success" of the domicile's banking business.

The Cayman Islands must relay to the business world its interest in the captive insurance concept, Mr. Murphy said.

However, "I think there is much greater awareness in Cayman now that they must promote Cayman more effectively," he said.

Mr. Connolly said he is actively working to promote the Cayman Islands as a captive domicile.

Planned activities include his presence, along with a cadre of captive managers, at the Risk & Insurance Management Society conference in Boston this week.

In addition to staffing a booth in the Exhibit Hall, the domicile will host an invitation-only Caribbean Night cocktail party.

Mr. Connolly added that he and captive managers will continue to speak at various other conferences.

"I think my ongoing challenge is to continue to promote the Cayman Islands in order to attract new captives," he said. ■

FACT:

1989 FINANCIAL HIGHLIGHTS

Admitted Assets	$482,269,738
Policyholders' Surplus	111,786,062
Gross Written Premium	204,777,463
NWP/PHS	1.43
GWP/PHS	1.83
Combined Ratio	99.82

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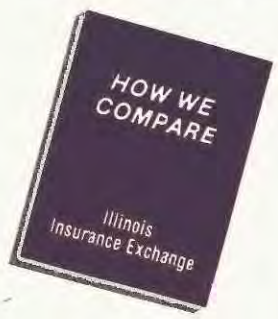

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'79 regulations guide captives in Caymans

GRAND CAYMAN, B.W.I.— There has been no change in capitalization requirements and license fees for captives formed in the Cayman Islands.

Cayman captives holding a Class B license and writing general property/casualty insurance business must capitalize at a minimum of $120,000 under the Insurance Law of 1979. A Class B license is the type generally issued to captives in the domicile.

Captives that write long-term business, such as life insurance, must be capitalized with at least $240,000, while captives that write both types of business must be capitalized with at least $360,000.

Captives also pay a $5,487 annual fee.

There are no restrictions on how a captive can invest its capital, but the island's Insurance Department does monitor investments and will register complaints with the captive if investments appear unsound.

The general policy of the Cayman Insurance Department is for captives to maintain a net premium-to-surplus ratio of 5-to-1.

But Insurance Superintendent Gilbert Connolly stressed that this is only a "general rule of thumb" and that the capital requirements may differ depending on, among other factors, the type of risk insured and policy limits.

An audited financial statement must be submitted six months after the close of the insurer's fiscal year. The captive manager or an auditor must provide a certificate of compliance that indicates the insurer has adhered to its business plan.

Cayman law requires each captive to have a manager on the island. Captive managers must pay an annual licensing fee of $9,146.34.

Cayman captives pay no local taxes.

For additional information, contact Insurance Superintendent Gilbert Connolly, Department of Finance and Development, Administration Building, Grand Cayman, British West Indies; 809-949-7900. ■

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Cayman managers are optimistic

By JUDY GREENWALD

GRAND CAYMAN, B.W.I.—Captive managers in the Cayman Islands are treading water.

While facing a soft market and increased competition from other domiciles, the island's captive managers in 1989 racked up comparable premium volume and managed about the same number of captives as they did in 1988.

But, some observers believe business already is beginning to look up this year (see related story).

The Cayman Islands had a net loss of five captives in 1989, reducing the total number of captives in the domicile to 357 from 362 in 1988.

And the number of new captive licenses declined to 25 in 1989 from 29 in 1988, 56 in 1987 and 63 in 1986.

Superintendent of Insurance Gilbert Connolly noted that while "the majority of new captives continues to be medical malpractice," there is "an increasing number of captives that are writing professional liability, casualty and property."

Most captives are single-parent and association captives writing strictly related business, with relatively little interest in writing third-party business.

There were 30 captive licenses surrendered in 1989. Mr. Connolly also suspended one captive's license.

"The company had failed to provide us with the statutory returns and the principals had not communicated with the local managers on the island, and I decided to suspend the license," Mr. Connolly explained, refusing to identify the captive or its manager.

The domicile considers the license active until its business is completely run off.

Mr. Connolly in March also suspended the license of one of the domicile's major captive managers, Insurance Management Services Ltd., citing "financial irregularities" (see story, page 66). An investigation is expected to be concluded in several weeks.

Insurance Management ranks as the fourth-largest captive manager in the domicile, based on a *BI* estimate of $71 million in premium volume under management last year.

Johnson & Higgins (Cayman) Ltd. remained the largest management firm, based on $266 million of premium volume, up 6.4% from $250 million in 1988. The firm had 60 captives under management, a net gain of one from 1988.

Wayne A.M. Cowan, vp and branch manager, noted that because of the soft market, J&H has added only 10 new captives over the past two years.

Of the five captives formed in 1989, three write medical malpractice coverage. Another was formed by a credit guarantee operation in Italy, and the fifth insures errors and omissions risks for a financial institution in South America.

While minimum capitalization for a captive in the Cayman Islands is $120,000, J&H captives tend to be capitalized within the $300,000 to $500,000 range, Mr. Cowan said.

But, J&H last year ran off the business of four captives. The captives wrote a variety of coverages, said Mr. Cowan, noting that they were formed during the last hard market.

About 45% of J&H's captives insure medical malpractice risks and others write, among other things, directors and officers liability, errors and omissions liability, credit life, hull and marine coverages.

J&H has set a goal of managing six new captives in 1990. It already has established two new captives this year, and another two are expected to be licensed by June 30.

"We're well on our way to achieving that goal," Mr. Cowan said. "I'm fairly bullish now that between now and the end of this year we'll achieve that goal."

Meanwhile, J&H has increased the number of its professional staff to seven from five, though its total staff remained even at 21. "We are constantly increasing our professional staff to keep pace with the new accounts being licensed by us," Mr. Cowan said.

International Risk Management (Cayman) Ltd., the second-largest captive manager in the Cayman Islands, generated $230 million in premium volume in 1989, the same as in 1988.

IRM, which is 70% owned by Swiss Reinsurance Co., managed 32 captives last year, the same as in 1988. However, it formed two new captives and lost two others.

"It was a very, very flat year," summed up Bryan D. Murphy, president.

One of the new captives, which is capitalized at $3 million, was organized by a British conglomerate to insure casualty risks of a U.S. subsidiary, according to Peter A. Joy, senior vp and director.

The other new single-parent captive, which was capitalized at $1.2 million, writes bankers blanket bonds, Mr. Joy said.

One of the two captives IRM lost last year moved to the Isle of Man and is now managed by an IRM affiliate office, Mr. Murphy said.

The other captive never wrote much business, he said.

IRM's largest captives include group captive United Insurance Co., which generated $99 million in premiums in 1989, down 10% from $110 million in 1988. The captive is owned by 22 companies, including IRM.

IRM also manages Tortuga Casualty Co., a policyholder-owned excess liability insurance facility, which underwrote $11 million in premiums in 1988.

Tortuga offers its 23 participants two separate programs, Mr. Murphy noted. One covers $25 million excess of a minimum of $30 million to $35 million, and the second provides $25 million in coverage excess of about $60 million.

Midland Bank & Trust Corp. (Cayman) Ltd. is the domicile's third-largest captive manager, based on an estimated $155 million in premium volume in 1989. Midland's premium volume was nearly unchanged from 1988's, although it had a net loss of three captives, according to Anthony B. Stelling, director.

Midland managed 64 captives last year, compared with 67 in 1988. The capitalization levels of the captives vary widely, Mr. Stelling said.

About a half-dozen captives alone generated about 60% to 70% of Midland's premium volume, Mr. Stelling noted.

Echoing other captive managers' assessment of business last year, Mr. Stelling said that "1989 was not a great year for putting on new business."

However, Midland took on five additional captives in 1989. Two of them are new captives, and three transferred their business from other management firms in Cayman.

Midland so far has gained two captives this year: one new captive and one that has switched management companies, Mr. Stelling noted

One of the new additions is the reinsurance company of a commercial insurer and so is "not a strict captive," Mr. Stelling said. The insurer wanted to take on more risk but to do so in the United States would have required more capital than is required by the Cayman Islands.

The insurer is able to maintain a smaller capital base and still remain within state premium-to-surplus guidelines by reinsuring part of its business with its Cayman Islands captive. It is an "extremely profitable" line of business and the additional capital support is not really needed, Mr. Stelling said.

Of the other two captives set up in 1989, one writes medical malpractice coverage and the other insures a wide range of risks on behalf of its parent and affiliated companies, Mr. Stelling said.

Besides its own captives, Midland manages business on behalf of Alexander Insurance Managers (Cayman) Ltd., which generated about $5 million in premiums in 1989.

Meanwhile, several captives formed in the early 1980s completed running off their business and went into liquidation, he noted.

And, in a couple of cases, captive's parents were acquired and the new owners either moved the captives' business into their own captives or decided there was no need for a captive.

Midland plans to put more effort into attracting new business this year, Mr. Stelling noted. "We'll be out and about beating the bushes," he said.

Mutual Risk Management (Cayman) Ltd., which is owned by Mutual Risk Management Ltd. in Bermuda, ranks as the domicile's fifth-largest captive manager, based on $60 million in premiums under management in 1989, up 5.3% from $57 million the year before. It finished the year with a total of 24 captives under management, a net loss of one captive from 1988 based on two new captives and three captives that shut down.

Both new captives write medical malpractice coverage, according to Peter MacKay, director and general manager.

Since January, Mutual Risk Management has taken on one new captive, which writes performance bonds for its parent, Mr. MacKay said.

Marsh & McLennan (Cayman Islands) Ltd., ranks as the sixth-largest Cayman captive manager, based on a *BI* estimate of $40 million of premium volume, unchanged from last year.

M&M continued to manage the same 30 captives, according to Chris Jackson, who heads the M&M office in Cayman.

"Basically, in 1989, we stayed exactly as we were," he said.

So far in 1990, M&M has added one new captive, a U.S.-owned facility that writes casualty business, he said.

Mr. Jackson, predicting "slow, steady growth" in 1990, said M&M may add a few more captives. But, "I don't think there'll be a spectacular number."

Cayside Insurance Management Ltd. ranks as the seventh-largest captive manager in the Cayman Islands, based on about $27.4 million of premium volume in 1989, about a

Continued on page 66

Largest Cayman captive managers

Premium volume in millions of dollars

Manager Parent	Premium volume 1989	Premium volume 1988	Captives 1989	Captives 1988	Staff 1989	Staff 1988
Johnson & Higgins (Cayman) Ltd. Johnson & Higgins	$266.0	$250.0	60	59	21	21
International Risk Management (Cayman) Ltd. Swiss Reinsurance Co.	230.0	230.0	32	32	27	27
Midland Bank & Trust Co. (Cayman) Ltd. Midland Bank of London	155.0[1]	155.0[1]	64	67	34	31
Insurance Management Services Ltd.[1]	71.0	71.0	15	15	6	6
Mutual Risk Management (Cayman) Ltd. Mutual Risk Management Ltd.	60.0	57.0	24	25	3	3
Marsh & McLennan (Cayman) Ltd.[1] Marsh & McLennan Inc.	40.0	40.0	30	30	5	5
Cayside Insurance Management Ltd.	27.4	26.6	15	16	4	3
British-American Management (Cayman) Ltd. British-American Insurance Co. Ltd.	24.9	26.3	1	1	7	7
Aberdeen Insurance Managers	21.0	26.0	12	12	6	6
Insurance Services International Ltd.[1] INTEX Management Co. Ltd.	20.0	20.0	7	7	3	3

[1] *BI* estimate

Source: *BI* Survey

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Barbados

Continued from previous page

The tax treaty provision probably would not have been allowed to expire if Bermuda had not lobbied so extensively in Washington for equal treatment, Mr. Perham said, suggesting that Bermuda overreacted to the competitive threat.

"We were not seeing hundreds and hundreds of companies form here because of the treaty. We were not seeing big Bermuda companies closing up shop and moving here," Mr. Perham observed, while adding it was understandable for Bermuda to want to protect its market.

"Bermuda stamped its feet and we lost out. And yet, I don't think we were jeopardizing Bermuda's future," said William Tomlin, managing director of International Insurance Management Ltd.

Many in Barbados felt they had a "moral right" to the FET exemption, which Barbados negotiated fairly as part of its tax treaty and which the U.S. withdrew unilaterally, Mr. Tomlin explained.

He noted, though, that Bermuda has "significantly more lobbying power" than Barbados and that in the end Barbados could not match Bermuda's clout in Washington.

"They had every right to lobby against (Barbados' tax advantage) as we had to lobby for it," observed Ronald W. Jones, vp and managing director of Alexander Insurance Managers (Barbados) Ltd.

He noted that the U.S. decision to grant a retroactive FET exemption to Bermuda and to allow both exemptions to expire produced a relatively small gain for Bermuda and—by implication—a relatively large loss for Barbados.

"At the end of the day, it didn't affect Bermuda at all," Mr. Jones said of Bermuda's FET exemption. "Giving the FET back to Bermuda didn't change things there in any way."

"I think Bermuda panicked," said Vinston E. Hampden, accounts executive for Alexander Insurance Managers.

The Barbados government is still discussing restoration of the FET exemption and other possible U.S. concessions to Barbados insurers, according to Yolande Bannister, legal counsel to the Central Bank of Barbados.

However, it's widely agreed in Barbados that the tax treaty is now a dead issue.

"Obviously, it's something that we regret very much," said Peter Boos, managing partner with Ernst & Young. "Frankly, I never believed the treaty would stay in force forever."

Barbados managers generally credit the FET exemption with giving the island a "jump start" as a captive domicile, noting that the bulk of the island's exempt insurers were formed after the tax treaty provision became effective.

"It really put Barbados on the map. It really got things started," Mr. Jones said.

"Now we have gotten started and have a basis for going forward," Mr. Boos added.

Although the FET withdrawal may have played a role in X.L.'s decision to move to Bermuda, Barbados has managed to hold on to most of its existing captive business and must now look to other sources of new business, managers say.

'Bermuda stamped its feet and we lost out. And yet, I don't think we were jeopardizing Bermuda's future,' says Mr. Tomlin of International Insurance Management Ltd. Many in Barbados felt they had a 'moral right' to the FET exemption, he says.

"There is no mass exodus from Barbados. Barbados has retained the large proportion of captives that it has and the growth rate is still very much in a positive vein," said Martin R. Hole, president of MIMS International (Barbados) Ltd. "It's not as fast as it was, but then I don't think any territory has remained the same."

Most managers say they will still form new captives for U.S. parents despite the loss of the tax advantage.

"There is some U.S. business still coming to Barbados. It's not as if they are all going to Bermuda or Cayman," Mr. Perham noted.

But several managers said they see Canada as the likeliest source of future growth, largely because of a tax treaty between the two countries that has no expiration date.

Under the terms of the treaty, income earned by a Canadian-owned Barbados-domiciled captive can be repatriated to the parent company tax-free if the captive covers only third-party Canadian risks not related to the parent or risks of the Canadian parent's foreign subsidiaries, including U.S. operations.

In addition, Canadian companies are allowed tax deductions for premiums paid to their captives.

"Canada is a marketplace that Barbados has to explore," Mr. Jones said.

The captive movement has been slower to develop in Canada than in the United States, and some large Canadian companies still do not have captives, according to Mr. Jones, who said he knew of a recent presentation to a Canadian company with $2 billion in annual revenues that is without a captive.

Canadian companies "are waking up to the fact that (captives are) available to them" and are developing an interest in captives that brings them "more in line with their American counterparts," observed Peter A. Walford, chief executive officer of Sedgwick Group Management Services (Barbados) Ltd.

Ninety-five percent of Sedgwick's inquiries are now from Canadian companies, Mr. Walford reported.

The Barbados government last September organized a tour of several large Canadian cities to promote the island as a captive domicile, Mr. Greaves noted.

While Mr. Greaves said the tour went well, one captive manager reported that people "were not overly enthused at the outcome," describing a tepid response from the Canadian companies in attendance.

Some Barbados managers, meanwhile, cite the size of the Canadian market as a built-in limitation on growth.

"The Canadian market is a heck of a lot smaller than the U.S. market. There are not that many people in Canada interested in forming a captive," Mr. Tomlin said.

"Canada is a very small market compared with the U.S.," agreed Marilyn P. Brown, assistant vp with Continental Risk Services (Barbados) Ltd.

In addition to targeting Canada as a source of new business, the Barbados government is also hoping to attract captives interested in "migrating" from other domiciles.

This effort again is focused on Canadian-owned captives now domiciled elsewhere, Mr. Greaves said, adding that he has recently had inquiries from three captives about moving to Barbados.

However, Canadian companies thinking of relocating their captives to Barbados face one danger, Mr. Jones warned: Canadian "general anti-avoidance regulations," adopted in 1989 and intended to prevent companies from shifting domiciles solely for tax reasons.

"That does make it very difficult for a company to pick up and change domiciles just to take advantage of the tax treaty," Mr. Jones said.

New captive business may also flow from double-taxation treaties now in place or being negotiated between Barbados and several other countries, some managers say.

In addition to Canada, Barbados already has treaties with Denmark, Finland, Switzerland and the United Kingdom, and has recently signed new treaties with Sweden and Norway, according to the Central Bank's Ms. Bannister.

In addition, the Barbados government is in treaty negotiations with West Germany and has made initial approaches to Brazil, Japan and Uruguay, Ms. Bannister said.

Mr. Greaves conceded that a major hurdle in attracting European business will be competition

Continued on page 71

Largest Barbados captive managers

Ranked by premium volume in millions of dollars

Manager Parent	Premium volume 1989	Premium volume 1988	Captives 1989	Captives 1988	Staff 1989	Staff 1988
International Insurance Management Ltd. Independent	$450[1]	NA	12	12	4	4
Johnson & Higgins (Barbados) Ltd. Johnson & Higgins	$190[1]	$307[1]	16	16	9[2]	7[2]
Alexander Insurance Managers (Barbados) Ltd. Alexander & Alexander	$107	$70	17	15	7	5
Sedgwick Group Management Services (Barbados) Ltd. Sedgwick James Ltd. and others	$93	$51	13	10	5	6
Continental Risk Services (Barbados) Ltd. Continental Corp.	$70[1]	$36[1]	8	7	3	3

[1] Includes significant volume of financial reinsurance.
[2] Includes two employees assigned from J&H (Bermuda) in 1989 and one in 1988

Source: *BI* Survey

BI/CYNTHIA WATSON

Barbados

Continued from page 68

from more convenient European captive domiciles like Luxembourg and Isle of Man.

"Having those domiciles in Europe puts Barbados slightly out of their range," he said.

However, some managers say they may attract business from companies interested in setting up captives in both a European domicile and Barbados.

"The existence of those double-taxation treaties will make things that much easier," said Mr. Hole of MIMS.

Despite the impact of the soft market and the loss of the U.S. tax treaty's FET provision, officials of most of the largest Barbados captive management companies report steady growth:

• International Insurance Management maintained a roster of 12 clients last year, gaining two captives with U.S. parents but losing two small companies that stopped underwriting, according to Mr. Tomlin.

Roughly $350 million of the firm's $450 million in 1989 premium volume was generated by financial reinsurance transactions, Mr. Tomlin said. Financial reinsurance also generated massive premiums in 1988, though Mr. Tomlin declined to provide the 1988 figure.

Three of International Insurance Management's clients are subsidiaries of Fort Wayne, Ind.-based Lincoln National Group that write financial reinsurance for other Lincoln National units.

Other clients include a captive set up by Blue Cross/Blue Shield of Washington, D.C.

International Insurance Management also provides services to seven insurers managed by IAS (Barbados) Ltd., a unit of Bermuda-based International Advisory Services Ltd.

• J&H "will see quite significant growth this year," Mr. Perham said, predicting five or six new accounts based on the number of inquiries and feasibility studies under way.

"We have had more inquiries in the first two months of this year than we had the whole of last year," he said, adding that most of these inquiries are from Canadian companies interested in insuring their U.S. operations.

J&H now manages 17 Barbados captives, having added one captive with a Canadian parent since the beginning of the year. The firm picked up one company with a U.S. parent during 1989, but also lost one client early in the year to remain at 16 at year-end.

Premium volume of J&H's captives tumbled to $190 million last year from $307 million in 1988, largely because the 1988 figure included volume from two financial reinsurance deals written by one reinsurance client, Mr. Perham said.

About $97 million of last year's premium volume came from financial reinsurance, compared with $150 million of the 1988 volume of $307 million.

J&H manages a number of hospital and medical malpractice group captives, and is also the manager of PRIMEX Ltd., an excess liability facility for U.S. chemical manufacturers.

About half of the firm's clients are group captives and half are single-parent, Mr. Perham said.

• Alexander Insurance Managers added three new captives last year, two with Canadian parents and one with a U.S. parent, according to Mr. Jones.

The firm also lost one client, a professional reinsurer that moved onshore, he said, adding that loss of the FET exemption had nothing to do with the move.

"We have not lost any clients because of FET, and we have three clients that are affected by it," Mr. Jones said, describing the three as companies with large premium volumes that could afford to move if they wanted to.

"The bottom line is they are happy with the service they are getting in Barbados," he said.

The firm manages 17 captives, up from 15 in 1988, including several insurance agency and professional liability captives.

Alexander Insurance Managers has two "semi-association" captives, in which a parent holds one class of shares and unrelated policyholders hold a second class of shares, Mr. Jones said.

One of these is Motors Mechanical Reinsurance Co. Ltd., set up by General Motors Corp. to write auto warranty coverages. The insurer has 117 dealer participants and generates $10 million in annual premiums.

The firm's other clients are single-parent captives, Mr. Jones said.

'We have had more inquiries in the first two months of this year than we had the whole of last year,' J&H's Mr. Perham says. Most of these inquiries are from Canadian companies interested in insuring their U.S. operations.

• Sedgwick formed five new captives last year but lost one to self-management and one to liquidation following its parent's takeover by another company, according to Mr. Walford.

Three of Sedgwick's clients have Canadian parents, two have Australian parents and the rest have U.S. parents, he said. Most of the firm's captives are single-parent entities.

Sedgwick James Ltd. owns one-third of Sedgwick (Barbados). The management company's other shareholders are Insurance Corp. of Barbados, a government-controlled insurer; and Lynch Insurance Brokers Ltd., a local brokerage.

• Continental Risk Services added two clients last year and will probably add another two this year, according to Ms. Brown. Continental Risk Services now manages eight companies, not including two of the insurers' holding companies.

About $50 million of the $70 million in 1989 gross premiums written by Continental clients related to financial reinsurance, compared with about half of the $36 million in 1988 premium volume, Ms. Brown said.

The firm's first client was a Continental subsidiary, East River Insurance Co. Ltd., which generates about $10 million in annual premiums, she said.

All of Continental's clients have U.S. parents and none is a true captive, since all write only third-party liability business, she said. All are reinsurers except one company, which writes less than $5 million in direct premiums annually. ■

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Spotlight report

Few insurers expected to follow X.L. move

BRIDGETOWN, Barbados—X.L. Insurance Co.'s decision to move its Barbados operations to Bermuda is a blow to the island but not one that will cause other insurers to follow suit, captive managers say.

X.L., the giant excess liability insurer with $317 million in 1989 gross premiums, followed through in January with previously announced plans to close its Barbados office, which had handled claims, administration and policy issuance.

These operations were consolidated in the Bermuda office, which had previously housed underwriting and support staff and served as the brokers' contact office.

X.L., formed in 1986, had initially been domiciled in Barbados to take advantage of a tax treaty provision exempting Barbados insurers from the 4% excise tax on direct premiums paid to offshore insurers.

However, Barbados lost this advantage in 1988 when the U.S. Senate retroactively granted a similar excise tax exemption to Bermuda. The exemptions for both islands expired at the end of last year.

While not tying the move specifically to the loss of the tax treaty advantage, X.L. officials conceded in announcing the move last May that the Bermuda treaty made their decision easier (*BI*, May 15, 1989).

Other reasons cited for the consolidation were greater operating efficiency and proximity to the United States.

The loss has been a blow to both the status and economy of Barbados, some captive managers concede.

"I think the impact was major," said William Tomlin, managing director of International Insurance Management Ltd. But, "no one has admitted it yet."

X.L. was a large, high-profile insurer that not only attracted attention to the domicile but also generated hundreds of thousands of dollars in revenues for other Barbados companies providing goods and services to X.L., he said.

"Psychologically, it was a bad thing for X.L. to move," agreed Ronald W. Jones, managing director and vp with Alexander Insurance Managers (Barbados) Ltd.

"But X.L. always wanted to be in Bermuda," he added, noting other Barbados captives want to be in Barbados and are not considering moving.

"I don't think X.L.'s move in any way will lead to other companies moving," said John Perham, vp and office manager of Johnson & Higgins (Barbados) Ltd.

X.L.'s move resulted mainly from the greater efficiency of consolidation in Bermuda, where it is more accessible to its scores of corporate policyholders, Mr. Perham said.

While X.L. may have incorporated in Barbados for tax reasons, it did not leave because the tax advantage evaporated, he added. The insurer also did not move because Bermuda's support services—including legal, accounting and actuarial services—are superior, he said, noting that Barbados provides equally good services.

"I have not heard of any person who has withdrawn or who has become concerned because of (X.L.'s) withdrawal," said Calvin Springer, deputy governor of the Central Bank of Barbados.

While conceding that X.L. was a flagship company for Barbados, Insurance Superintendent Wismar Greaves said that its departure has not had much impact and that interest in Barbados as a domicile remains high.

Meanwhile, Mr. Jones even noted a disadvantage to X.L.'s presence in Barbados: He said the insurer inflated the island's labor market by paying higher salaries and offering more perquisites to employees than other Barbados employers generally offered.

Former X.L. employees have been looking for salaries that are "out of synch" with the norm at other companies, Mr. Jones said.

—By Douglas McLeod

Regulator stressing compliance

BRIDGETOWN, Barbados—Barbados Insurance Supervisor Wismar Greaves says he is placing a high priority on enforcing compliance with the island's exempt insurance company regulations.

Barbados exempt insurers must maintain minimum capital and comply with other requirements or face being struck from the register of companies, Mr. Greaves pointed out.

The insurance supervisor's office last month struck two insurers from the register of companies after they failed to meet minimum capital requirements, according to Mr. Greaves, who would not name the companies.

"At the end of the day, for a domicile to have a good reputation, the supervision must be excellent, and we are aiming at excellent supervision," he said.

Mr. Greaves compared the removal of unfit companies from the register to pruning a tree: "If you allow the dry limbs to stay on, you will kill the tree."

Incorporation requirements for captives formed under Barbados' Exempt Insurance Act of 1983 include the following:

- One director must be a resident citizen of Barbados and must file with the registrar of companies a written consent form to act on behalf of the captive. Shareholders may not be residents of Barbados or any other Caribbean country.
- A one-time registration fee of $250 and annual license fee of $2,500.
- Minimum capital of $125,000 in cash. A letter of credit drawn on a bank licensed in Barbados may by used for additional capitalization.
- Annual audited financial statements filed with the supervisor of insurance, which are not available to the public.
- A register of policies, claims books and financial records that must be maintained in Barbados.

The Barbados act also allows companies that are licensed to become operational at any time, facilitating formation of shelf companies designed for contingency planning.

The act provides for no taxes on corporate and/or investment profits or gains on any transfer of securities to non-residents.

For more information, contact: Wismar Greaves, Supervisor of Insurance, Ministry of Finance and Planning, Bridgetown, Barbados; 809-426-3815. ■

With 'ground level,' Bahamas sees growth

By MICHAEL SCHACHNER

NASSAU, Bahamas—Captive insurance industry experts in the Bahamas expect rejuvenated interest in the domicile this year.

The expiration of favorable U.S. tax treaties with two competing offshore domiciles and the government's commitment to promoting the island nation as a domicile will spur captive growth, they say.

The Bahamas attracted four new captives in 1989 but finished the year with 35 active captives, the same as in 1988, because four others began running off their business, said Richard Clayson, the Bahamian government's insurance adviser.

However, in 1988, the last year for which figures are available, the domicile's captive insurers underwrote $174.5 million in gross premiums, down 32.4% from the $258 million 30 captives underwrote in 1987.

Mr. Clayson attributes the drop in gross premiums to two major captives that shut down and began running off business.

The number of captive managers in the Bahamas remained at six. But, of those, one has been inactive since last summer, and another has been running off captive business for several years, Mr. Clayson said.

Experts attribute slow growth in the Bahamas in part to an overall slowing in captive formation.

But they are encouraged that the captive industry is poised for sustained growth beginning this year.

The Dec. 31, 1989, expiration of U.S. tax treaties with both Bermuda and Barbados has eliminated their tax advantages as domiciles.

Under the expired treaties, U.S. excise taxes on both direct and reinsurance premiums paid to captive insurers based in Bermuda or Barbados had been waived for a short period of time.

"We are pleased to be on an even level with other domiciles," said Octavia Johnson, insurance registrar for the Bahamas.

"The elimination of the excise tax waivers will bring all domiciles to a level ground," said Walter Duer, an insurance liaison partner with KPMG Peat Marwick in Houston.

Judy A. Higgs, president and chief executive officer of captive manager British-American Management Co. Ltd., which manages 11 captives in the domicile, is optimistic that the Bahamas will experience some growth this year, primarily from the formation of new captives.

"The tax waiver just finished at year-end. I know there hasn't been an exodus of captives running into the Bahamas, but we're only through the first quarter," she said.

No captive has moved this year to the Bahamas from Barbados or Bermuda.

Clifford Johnson, a partner with Coopers & Lybrand in Nassau, said: "It will take time for the tax law changes to impact the Bahamas. Any growth this year will come in the second half of the year."

In addition, Prime Minister Lynden Pindling recently said work would begin on a banking and financial sector development board which is to promote doing business in the Bahamas.

The bipartisan unit also will be charged with ensuring foreign business interests' smooth entry into the Bahamas, Mr. Clayson said.

Sir Lynden hopes that the unit will succeed in functioning as an active promotional board to encourage international business prospects to come to the Bahamas, he added.

In the past, "insurance and banking did their own thing," Mr. Clayson explained. "This is a concerted effort to get all agencies together. I sincerely hope that it will work in bringing business to the Bahamas."

There is a good chance that "the government and private unit's promotion of the Bahamas could lead to growth," said Coopers & Lybrand's Mr. Johnson.

And, inquiries into the Bahamian captive market are coming in steadily, though less frequently than captive managers would like, said Ms. Johnson, the insurance registrar.

"The atmosphere here for new captives is very good," British-American's Ms. Higgs agreed.

"We are trying to re-establish ourselves as a captive market. We want to give the best service to big or small captives," Ms. Higgs said.

With about 200 captive insurance companies, the Bahamas was the pre-eminent domicile for offshore insurers until the late 1960s.

But, captives abandoned the Bahamas for Bermuda in the 1970s after the Bahamas passed legislation in 1969 that regulated domestic insurers but failed to exempt captives writing only foreign risks.

Captive insurance company owners misunderstood portions of the Insurance Act of 1969 and feared that the law would eliminate confidentiality rules in the old Bahamas laws.

Continued on next page

Captive laws won't be joined in '90: Official

NASSAU, Bahamas—There is now little discussion of combining the two laws governing captive formation in the Bahamas, according to Octavia Johnson, registrar of insurance.

"There's been no talk of it this year. I'm sure it will not happen this year," she said.

Captives incorporating in the Bahamas are subject to either the Insurance Act of 1969 or the External Insurance Act of 1983. The 1969 law applies to both captives and local insurance companies, while the 1983 law applies only to captives and captive managers.

Under the 1969 law, applicants pay a $1,000 original registration fee and a $100 annual business license fee.

The 1983 act, however, requires an annual fee of $2,500 for insurers and a $650 annual fee for underwriting managers. Insurers are also required to pay the annual $100 business license fee.

Minimum capitalization requirements under the 1969 law are $140,000 for non-life companies and $300,000 for life companies.

Minimum capitalization requirements under the 1983 law are $100,000 for non-life companies and $200,000 for life companies.

Bahamian captives pay no premium taxes. They are required to submit financial reports annually to the government's insurance registrar.

For more information, contact Richard Clayson, the insurance adviser, or Ms. Johnson at the Insurance Department, Ministry of Finance, Rawson Square, Nassau, N.P., Bahamas; 809-328-1068. ■

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Bahamas

Continued from previous page

The 1969 law mandated that certain financial statements be published, but the act at first did not specify that captives were exempt from the disclosure laws, which were intended only to apply to local insurers.

In addition, the law also required local insurers to pay premium taxes. However, many captives thought the requirement applied to them, even though taxes were never collected.

Most captives had left the Bahamas for other offshore domiciles by the time the legislation was clarified.

Today, captives can be established in the Bahamas under one of two laws: the Insurance Act of 1969, under which 25 captives are currently registered, or the External Insurance Act of 1983, under which the remaining 10 are registered (see story, page 73).

Now, the Bahamas is stressing fair regulation as an attraction.

"Over the past three years, the Bahamian government has made a push to assure that the captive environment is one free of fraud," Ms. Higgs said.

"The regulatory atmosphere here is one of no nonsense and stringent due diligence," said H. Wayne Hayes, chairman of First Managers Ltd., which manages two captives.

The Bahamas is looking for only well-capitalized captives, he said.

"We certainly aren't blocking the creation of captives, but let it be known that the Bahamas is serious about its captive environment. Integrity is more important than volume," Mr. Hayes said.

But, "formation of a captive is simplistic," if the captive is qualified, he said.

"We have one of the most relaxed regulatory environments anywhere with easy access to regulators and all the modern facilities. Our registration costs are competitive," said Ms. Johnson. "We have had our normal set of inquiries. We have been advertising, and our managers are soliciting business. I can't say why captives choose to go other places."

"The Bahamas is attractive for establishing a captive," said Mr. Duer of KPMG Peat Marwick, pointing to its financial infrastructure.

Four active captive managers in the Bahamas did business for all of 1989.

British-American gained two new captives last year but lost two captives from 1988, leaving the number of total captives it managed unchanged at 11, Ms. Higgs said.

Nine U.S.-owned captives and two European-owned captives wrote $17 million in gross premiums in 1989, down 37% from the $27 million British-American managed captives wrote in 1988.

Ms. Higgs said the reduction in premiums reflected the liquidation of one of its captives under management that had written about $10 million in annual premiums.

Captives managed by British-American insure various risks, including hull, machinery, life and health, surety and professional liability, Ms. Higgs said.

First Managers manages two insurance companies, which wrote $16.6 million in premiums last year, according to Mr. Hayes, who is also the owner and chairman of the two captive insurers.

Mr. Hayes said First Reinsurance Ltd. wrote $15 million in premiums.

The other captive, First Indemnity Ltd., wrote about $1.6 million in premiums, he said.

Mr. Hayes would not disclose what kind of business the captives write.

One captive manager—Embassy Insurance Management—ceased activity last July, said Mr. Clayson.

And, a local insurance brokerage—J.S. Johnson & Co. Ltd.—which is registered as a captive manager, remained inactive in 1989 and continues to run off its captive clients. ■

U.S.V.I. considers new law

By MICHAEL BRADFORD

ST. THOMAS, U.S. Virgin Islands —Amendments to clarify the law that allows captive formation in the U.S. Virgin Islands will be considered soon by the territory's Legislature.

"Within the next month or two, the final document will be submitted to the Legislature," said Deverita Sturdivant, director of the Department of Banking and Insurance.

"What it really does," Ms. Sturdivant said of the legislation, "is makes the law we have a lot less cumbersome."

The amendments, which were drafted by John Sarchio of the New York law firm Chadbourne & Parke, are aimed at clearing up muddled language in the Virgin Islands Exempt Insurance Act passed in 1984.

Confusion over that act has been blamed for stalling captive development in the Caribbean territory.

Only six captives currently are domiciled in the Virgin Islands, down from eight in 1989.

"We've taken out a lot of the rubbish," Mr. Sarchio said of the revisions. The amendments "totally overhaul" the original legislation, he said.

Requirements that captives buy two types of licenses are to be eliminated. The advantages of Class A and Class B licenses were unclear under the 1984 law, though the Class B license was more expensive.

Capitalization requirements will remain the same.

Captives writing general business like property/casualty coverages are required to maintain at least $120,000 in capital. Those writing long-term business—like life, accident and health insurance—must maintain $200,000 in capital. Minimum capital for insurers writing both types of coverages is $320,000.

Another amendment is a confidentiality clause that would restrict public access to captive information that is filed with the government, said Mr. Sarchio.

The U.S. Virgin Islands enjoy a unique status under a 1983 U.S. Labor Department ruling that defines the territory as a "state" under the Employee Income Retirement Security Act. Because ERISA does not allow employee benefits for U.S. workers to be funded through captives in non-U.S. domiciles, the ruling set the stage for U.S. employers to form insurers in the Virgin Islands to write group health insurance.

However, confusing insurance legislation has kept captives away.

Mr. Sarchio said that may change if the Legislature approves the amendments.

Since the Virgin Islands will still be considered a state under ERISA, the domicile "will continue to be attractive to U.S. investors interested in funding benefits."

In addition, the Virgin Islands may attract European companies interested in establishing captives, said Mr. Sarchio.

Unchanged under the new legislation are requirements subjecting exempt insurers to a 2% tax on gross premiums written on direct U.S. risks and 0.25% on reinsurance of U.S. risks not subject to federal excise tax. If a federal excise tax applies, there are no local premium taxes on direct or reinsurance business.

For more information, contact Ms. Sturdivant at the Department of Banking & Insurance, P.O. Box 450, St. Thomas, U.S. Virgin Islands, 00801; 809-774-2991. ■

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Turks & Caicos to enforce captive law

New rules could drive away some insurers

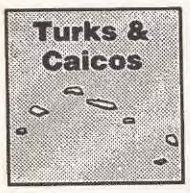
By DOUGLAS McLEOD

TURKS & CAICOS, B.W.I.—The Turks & Caicos Islands are expected to lose a large number of insurers over the next year as the government begins enforcing a new insurance law.

The Turks & Caicos Insurance Ordinance of 1989 went into effect Dec. 31, filling a regulatory void left after the 1984 expiration of a previous ordinance governing the formation of offshore companies.

In January, the British government also appointed Derek R. Sambrook as superintendent of banking and insurance, heading the domicile's new regulatory agency, the Offshore Finance Centre Unit.

The Turks & Caicos, a British possession, had been without an insurance regulator since Chief Minister Norman Saunders was indicted on drug trafficking charges in 1985 (*BI,* April 15, 1985).



The first order of business in enforcing the new law, Mr. Sambrook says, is identifying the insurers now operating in the Turks & Caicos and notifying them that they must obtain licenses.

A lack of regulatory oversight has left the government with relatively little information, he said. Authorities are not even sure how many insurers are doing business in the domicile.

Mr. Sambrook estimated, however, that roughly 30 captive insurers have been formed in the Turks & Caicos.

The islands also are home to a vastly larger number of credit life reinsurance companies, many of which have been set up by insurance agents in the United States, according to Mr. Sambrook. There may be as many as 750 of these reinsurers in the Turks & Caicos, he said.

In addition to the captives and credit life companies, another 300 or so insurance companies may be incorporated in the Turks & Caicos, he added.

Insurers will be required to file applications within a defined period after receiving notice from the Offshore Finance Centre Unit, though the length of the period hasn't been decided yet, he explained.

The government hopes to have applications from all known insurers by June, according to Mr. Sambrook, who said he is not sure how long it will then take the government to process the applications.

Some insurers have already filed applications on their own without any notice from the government, he added.

Mr. Sambrook will review the applications and make recommendations to the Turks & Caicos financial secretary, who has the final word on licensing decisions.

As part of the licensing review, the government will use information provided by the National Assn. of Insurance Commissioners on the insurers themselves and on the individuals proposed to run the companies, Mr. Sambrook said.

The NAIC is also notifying the Offshore Finance Centre Unit about Turks & Caicos companies that are the subject of investigations or other regulatory scrutiny in the United States, he added.

The likely result: a dramatic reduction of the number of insurers operating in the Turks & Caicos, according to Mr. Sambrook.

"We do expect to lose quite a large number of companies" that fail to meet more stringent licensing requirements, Mr. Sambrook observed. "I think we can say without a doubt that it will result in a loss. We do not expect to have the same number of companies this time next year."

This is not something that would necessarily disappoint the government, however.

"I know it's a cliche, but we want to go for quality instead of quantity," Mr. Sambrook said. "I'd be a lot happier with a slimmer but more proper insurance base here."

To be licensed under the Insurance Ordinance of 1989, insurers must submit to the Offshore Finance Centre Unit a business plan that includes:

- A five-year projection of the company's risk exposure and asset base.
- A description of the types and sources of insurance business to be written.
- Expected yearly premium volume.
- A description of the company's retentions and details of proposed reinsurance contracts.
- An assessment of the anticipated loss ratio for each category of business written and an explanation of how the ratio was developed.

Minimum capital and solvency requirements are not specified in the law. The insurance supervisor is empowered to set minimum requirements for each company based on a review of its business plan, Mr. Sambrook explained.

However, the Offshore Finance Centre Unit has developed general guidelines to serve as effective minimum requirements, he added.

Companies writing property/casualty insurance, life insurance or reinsurance should have a minimum of $100,000 in paid-up capital. Additional capital may be required based on the insurer's size, the types of business it writes, its retentions and anticipated premium growth and loss development trends.

Property/casualty insurers writing annual net premiums of up to $5 million must maintain a minimum net worth equal to 20% of premiums. Those writing more than $5 million yearly should have a net worth equal to 10% of premiums plus $100,000, according to the guidelines.

Insurers writing "long-term" business such as life insurance should have a minimum net worth of $180,000, the guidelines say.

Companies insuring both property/casualty and life risks and writing up to $5 million in net pre-

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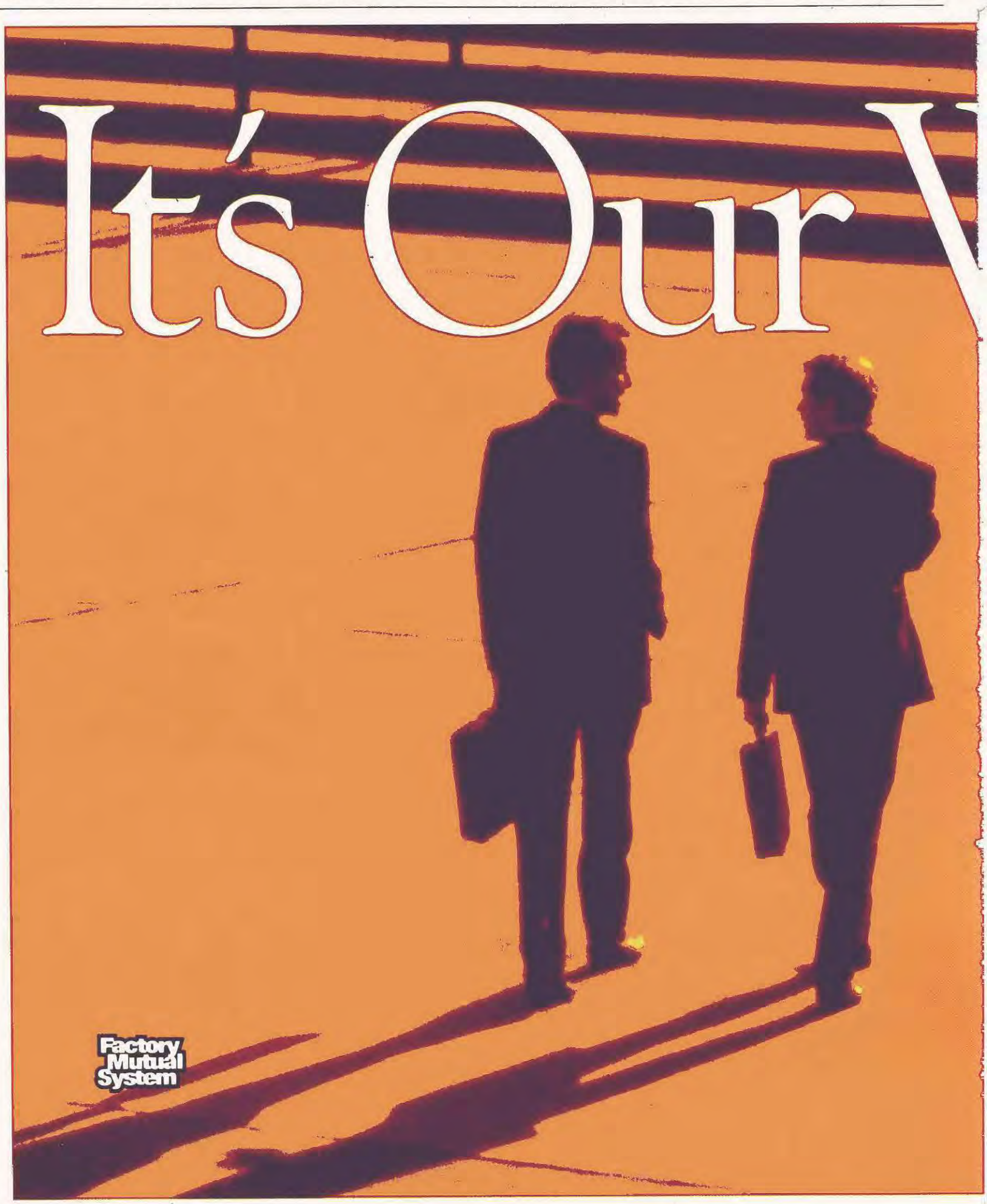

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miums should have a net worth equal to 20% of premium volume.

Insurers that write net premiums of more than $5 million must maintain a net worth equal to 10% of premiums, plus $180,000, according to the guidelines.

Assets the government considers acceptable for insurers include:

- Cash and time deposits with "acceptable financial institutions," which Mr. Sambrook defined as well-known national or international institutions rather than local banks.
- Fixed-interest securities and blue-chip stocks traded on recognized exchanges.
- Eurobonds that are rated BBB or better by Standard & Poor's.
- Premiums receivable.
- Irrevocable letters of credit from acceptable financial institutions.

The government will not accept yachts, airplanes or livestock; loans to related companies or individuals; or investments in options, futures or forward contracts.

All insurers—with the possible exception of credit life reinsurers —must file annual audited financial statements, Mr. Sambrook said.

Insurance companies also must have a local representative and must maintain records locally, he said.

The Turks & Caicos government is encouraging the licensing of insurance management companies, and insurers applying for licenses that do not appoint a professional manager will have to demonstrate they have the expertise to operate the company.

Mr. Sambrook noted that he has received three applications for insurance managers' licenses so far.

Insurers seeking licenses pay a $500 application fee, half of which is refunded if the license is denied. If approved, property/casualty insurers must also pay a $2,500 annual fee.

The new insurance law is intended to be flexible enough to attract legitimate insurers while providing the tools to root out fraudulent companies that have gravitated to the Turks & Caicos in recent years, Mr. Sambrook suggested.

"We are trying to attract insurance business, but we hope we are going to weed out any potential problems," he said.

Heightened regulation in the Turks & Caicos is also part of a general British government drive to cope with money laundering, banking and insurance scandals that have plagued several British possessions, including Montserrat, he added.

"The British government obviously has a strong feeling of responsibility for the dependencies in the Caribbean," Mr. Sambrook said. ■

Europe's oldest captive domicile gets good marks from managers

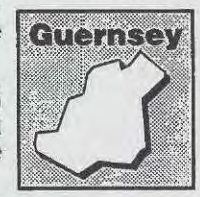
By STACY SHAPIRO

ST. PETER PORT, Guernsey—Europe's oldest captive domicile is still the best for simple, single-parent captives despite the island's labor shortage, Guernsey captive managers say.

However, its tightened immigration controls mean that the island likely will not attract large and labor intensive policyholder-owned insurance companies.

Managers point out that Guernsey has a sophisticated infrastructure, which includes about 20 captive managers, 54 banks with a total of 10 billion pounds ($16.4 billion) in deposits, more than seven internationally known accounting firms and nine law firms whose lawyers, known locally as "advocates," must understand both French and English law.

Last year, 20 new captives were formed in Guernsey, while only two were closed, bringing the total number of captives at the end of last year to 174, from 156 at year-end 1988, says Steve Butterworth, superintendent of insurance business.



Currently, there are 179 captives licensed in Guernsey, he said.

Mr. Butterworth anticipates that Guernsey will continue to add an average of 18 captives per year.

Last year, Guernsey captives wrote gross premiums totaling 818 million pounds ($1.34 billion), up significantly from 450 million pounds ($738 million) in 1988, he said, with each captive writing an average of 4.7 million pounds ($7.7 million) in gross premiums.

About 134 of the captives on the island last year only wrote the business of their parent companies, according to Mr. Butterworth. Thirty-five captives also w8rote third-party business.

The parents of Guernsey captives are based all over the world, including Australia and Japan, though the main growth is still from U.K. corporations.

"Guernsey offers what it has always offered: quiet sophistication," said Ian Daish, chief executive of Transglobe Underwriting Management (Guernsey) Ltd.

"I'm personally bullish about Guernsey's development as a captive center," said John Parkinson, managing director of International Risk Management (Guernsey) Ltd. "It is now and will remain the leading European captive domicile. I don't see that changing. Those that come here stay. People like the environment here. And the government supports the captive industry."

"It's a damned nice place to live," said Roger Taylor, who once worked in Bermuda and late last year left Prescot Management Ltd., a Guernsey subsidiary of London broker Minet Holdings P.L.C., to set up his own captive manager, Sartor Resources Ltd. Mr. Taylor says he could have gone to any domicile to set up his firm, but he chose to stay in Guernsey.

"Steve Butterworth is a tremendous asset. Insurance legislation gives the island stability. Banking and accounting are second to none, including Bermuda. And timewise, Guernsey is more conveniently placed than Bermuda or Singapore," said Mr. Taylor. "Guernsey has its act together. It has a good regulatory body, a good team of people, and it's well-ordered."

"Guernsey is the oldest offshore captive domicile in Europe," added Jean-Francois Gelot, who with his

Continued on next page

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Guernsey

Continued from previous page
wife Francoise Gelot operates risk management consultant Optimum Risk Research (International) Ltd. The Gelots moved to Guernsey last year from Bermuda to set up a subsidiary of their successful Bermuda operations.

French-born Mr. Gelot, who specializes in captive consulting, and Belgian-born Mrs. Gelot, who specializes in runoff management consulting, both see a great future in Guernsey.

"It has a good infrastructure, the capacity to handle business and qualified people who are first-class," said Mr. Gelot. "It is very similar to Bermuda, which I don't think we are finding in other domiciles."

"We are going to make (this) Channel Island known to people," he said. "We had to explain to people once where Bermuda was, too."

Meanwhile, tax changes that took effect last year but were retroactive to January 1988 have also helped Guernsey maintain consistent captive growth, managers add (*BI*, April 10, 1989).

The tax law introduced a sliding tax scale whereby insurers continue to be taxed at the island's corporate rate of 20% on their first 250,000 pounds ($410,000) of investment income. The rate drops to 1% on the next 250,000 pounds of investment income; 0.5% on the next 500,000 pounds ($820,000); 0.3% on the next 2 million pounds ($3.3 million); and 0.1% on all subsequent investment income.

Single-parent captives' underwriting profits are exempt from tax. And all insurance companies in Guernsey have been able to defer their tax liabilities stemming from a single policy until all claims related to that business have been settled or the risk has effectively expired.

"There has been no flood of business" to Guernsey because of the tax changes, noted Mr. Daish of Transglobe. "But it's made those who are here less inclined to go elsewhere."

"The drift (of captives from Guernsey) to the Isle of Man has been partially arrested," added Roger Hall, managing director of HRGM Insurance Management (Guernsey) Ltd. "And companies who wouldn't look at Guernsey previously are now willing to do so."

"I had a couple of people getting fidgety and were considering moving out" of Guernsey before the new tax law, added Mr. Parkinson of IRM. But "now they are content" to stay on Guernsey, he said.

Managers are also proud that their captives have weathered the January and February windstorms in Europe, which could cost insurers worldwide $8 billion. Although some of the captives were hit with storm losses, they were all properly reinsured, their managers say.

Peter Walpole, managing director of Insurance Corp. of the Channel Islands, said he was "surprised" at the low number of storm losses that pierced the captives' retentions. ICCI is a subsidiary of the Royal Insurance Group, which reinsures primarily property risks for about 30 captives on the island. Royal also opened up its own captive management company last year, Royal Insurance Service Co. (Guernsey) Ltd., to offer captive management services, though it does not yet have any clients.

While Guernsey is an ideal domicile for non-labor-intensive pure captives, it may be difficult for new labor-intensive policyholder-owned insurance companies to become established in Guernsey, managers agree.

For example, X.L. Insurance Co. Ltd. made inquiries about setting up in Guernsey, but recently chose to open an office in Dublin instead (see story, page 38).

The difficulties for such companies arise mainly from immigration controls that the government has either used over the years or is considering.

At the moment, the government controls the number of people that can move to the island by limiting the number of housing licenses it will grant.

These licenses allow people to buy homes on the licensed market for far less money than for homes on the open market.

However, over the years Guernsey's booming banks have bought homes on the open market for their migrating employees, thereby increasing the island's population regardless of the housing licence controls.

New controls on incoming employees are now being considered. One proposal, to begin using work permits as well as housing licenses, may be introduced sometime this year, captive managers say.

The alternative is a "control of undertakings" law, which would restrict the numbers and types of businesses formed on the island. Discussions about such a proposal have been under way for the last six months and documents regarding the proposal have been distributed to businesses on the island.

Both Mr. Butterworth and captive managers agree the proposal would hurt the island's insurance industry.

Meanwhile, with very little unemployment on the island, captive managers must either hire people who are just leaving school in Guernsey or people from other financial sectors of the island to handle more business.

The situation does not affect non-labor intensive captives, but does inhibit labor-intensive underwriting from taking place, captive managers say.

"If it's a big commercial captive with 20 staff members, we can't do that here," said Mr. Butterworth. "But the normal captive is smaller and is a growth industry."

"I doubt that the government will allow new (labor-intensive) captives," said Mr. Hall of HRGM. "There is perceived to be a wish to control the growth of the population to preserve the quality of life. Therefore, I see a steady growth of single captives. (And) there will always be a need for single captives. . . .Guernsey will develop in terms of quality rather than quantity and remain in true captive business rather than in high (premium) volume business."

HRGM, which just moved to new offices, manages 15 captives—up from 11 last year—and is now in the process of putting another one together. The captives combined write about 20 million pounds ($32.8 million) of premiums, said Mr. Hall.

One of the captives is owned by a group of private Japanese companies and writes political risk reinsurance and extended warranties, he said.

Another captive manager, Transglobe, has moved 20 administrative staff members off the island to the mainland because of "the pressure on people and space in Guernsey," admitted Mr. Daish.

But Transglobe still employs 60 people on the island, 53 of whom are local, which makes Transglobe the largest captive manager in terms of number of employees.

"We manage captives here. And underwriting and accounting are done here. But premiums and claims processing are handled off the island," said Mr. Daish. "There's still growth (in Guernsey), but it's being controlled more."

Transglobe manages 12 pure captives, which write an average of 2.5 million pounds ($4.1 million) in premiums annually, said David Johnson, general manager of Transglobe.

However, one captive managed by Transglobe for British hotelier Trusthouse Forte P.L.C. moved onshore earlier this year to Nottingham, England, because "the (personal) disadvantages of being offshore outweighed the advantages of being onshore," he said.

Transglobe also manages one of

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Guernsey

Continued from page 78
the major aviation underwriting facilities in the world.

The aviation facility began 15 years ago when three European airlines set up a captive, Polygon Insurance Co. Ltd., with 500,000 pounds of capital. As of year-end 1989, Polygon, which writes $27 million in gross premiums, had capital and surplus of 23 million pounds ($37.7 million).

Transglobe also is managing a new aviation insurance syndicate that is aiming to write $25 million of aviation premiums this year.

Nippon Fire & Marine Insurance Co. Ltd. of Tokyo will write 40% of the syndicate's business, as will Fuji International Insurance Co. Ltd., a subsidiary of Fuji Fire & Marine Insurance Co. Ltd. of Osaka, Japan. Dowa Insurance Co. (U.K.) Ltd., a subsidiary of Dowa Fire & Marine Insurance Co. Ltd. of Tokyo, will underwrite 10% of the syndicate's business, while East West Insurance Co. Ltd., a unit of Kuala Lumpur, Malaysia-based East West Insurance Bhd, also will underwrite 10% (*BI*, March 26).

Reinsurers for the syndicate will include Polygon, which is now owned by a consortium of eight airlines led by KLM Royal Dutch Airlines, Scandinavian Airline System and Swiss Air Transport Co. Ltd.; Sabre Insurance Co. Ltd., a Guernsey captive owned by a variety of private investors; and Meadows Indemnity Co. Ltd., a Guernsey captive owned by Gould Inc. of Rolling Meadows, Ill. Gould was acquired last year by Nippon Steel Corp., which is affiliated with Nippon Fire & Marine.

Captive managers say they are optimistic about the future of the domicile, despite the immigration controls.

"If you walk through the High Street, you will trip over children. . . (a sign of) a continuing growing labor pool," said Mr. Johnson of Transglobe.

"It is possible for Guernsey to continue to grow in insurance (although) it is necessary for some skills to be imported. (Besides) just over 1% of the population here works in insurance. It must be possible to increase that to 2%," he said.

"Guernsey is succeeding by becoming more efficient, and insurance is being actively sought by Guernsey because it can be easily mechanized," said Michael Savage, managing director of captive manager Channel Islands Insurance Consultants Ltd. "We have 22 clients with a small staff and could bring that up to 30 and add one or two more staff."

"I realized years ago that we would have problems with staffing and housing, so we invested in computer systems and have had four (changes in systems) in nine years to keep the staff down," said Eric Ball, managing director of Willis Wrightson (Guernsey) Ltd.

As a result, Willis Wrightson can manage 21 captives—including five new captives within the last 14 months—with an eight-person staff, Mr. Ball said. The captives write total premiums of 40 million to 50 million pounds ($65.6 million to $82 million), he said.

Willis Wrightson's new clients include ECC Insurance Ltd., owned by English China Clays P.L.C.; and a new insurer, Holdright Insurance Ltd., that is owned by members of Lloyd's of London and writes

Continued on next page

Guernsey to change captive law

ST. PETER PORT, Guernsey—Guernsey's superintendent of insurance is fine-tuning the island's Insurance Business Law of 1986.

Among the changes, which will be submitted to the States of Guernsey government for approval, are:

- New registration requirements for brokers, which currently are not regulated.

Brokers will have to show that they are fit and proper persons and have expertise in placing both local and offshore business.

Superintendent Steve Butterworth says he has no idea how many brokers are on the island at the moment because they are not regulated.

- The addition of another class of insurance business—credit life, accident and health—that can be underwritten on the island.

Insurers on Guernsey currently are licensed to write long-term business, referring to life insurance, and general business, which refers to non-life insurance.

- New regulations governing investments that insurers, including captives, can make.

However, many requirements will remain unchanged, including general requirements for companies not registered with British or other European Community authorities, but applying to become Guernsey-domiciled captives or insurers under the 1986 law.

These companies must:

- Submit to the island's Financial Services Commission a business plan; information about owners and directors; classes of business; expected premium volume; primary insurers; reinsurance arrangements; and brokers involved.

However, the parent company's identity will not be released unless the parent specifically agrees to it.

- Prove that the company's manager is locally based and suitably experienced.
- Satisfy a solvency margin of 18% of the first 5 million pounds ($8.2 million) of net written premium and 16% of net written premium exceeding 5 million pounds.
- Have a minimum paid-up capital of 100,000 pounds ($164,000).
- File annual financial statements with the government.

Meanwhile, The Guernsey Financial Services Commission, the island's regulatory body, and the Guernsey Insurance & Captive Managers Assn. will host their second annual captive forum June 13-15. The forum drew 350 people last year.

For more information about the forum and Guernsey's regulations, contact: Steve W. Butterworth, Superintendent of Insurance Business, Financial Services Commission, Insurance Division, Valley House, Hirzel Street, St. Peter Port, Guernsey; telephone: 0481-712801. ■

Continued from previous page
stop-loss insurance for the members.

The Lloyd's stop-loss mutual is believed to be the first mutual of its kind owned by Lloyd's members, said Mr. Ball.

"We are going to get more business, as is the island, and we will need more people," Mr. Ball said. "But we will also improve our systems and employ highly qualified staff."

Mr. Parkinson of IRM also believes that the population restrictions will not be a problem for his company or for the growth of Guernsey.

IRM has bought a huge new office space in what looks like an old home to house its 11 employees. But the office can house 26 employees.

While IRM now manages 20 captives with a total of 50 million pounds to 60 million pounds ($82 million to $98.4 million) in premium volume, the manager hopes someday to manage up to 50 captives, he said.

"If you do a good job like we do, they flock to you," he said. "Here we have a pool of trained, sophisticated, financially minded people. We can train school-leavers. And of all my 11 staff, not one has come from another captive manager on the island. Only one is from the insurance industry here and two are (housing) license holders. My aim is to develop the business with resident people."

Meanwhile, Alexander Insurance Managers (Guernsey) Ltd. also continues to grow despite immigration controls. Alexander now manages 22 captives with total premium volume of 65 million to 75 million pounds ($105 million to $123 million), said Clive James, associate director of AIM, a subsidiary of Alexander & Alexander Services Inc.

However, the company only employs 11 people because it continues to upgrade its computer system.

"We want to take on a lot more business with fewer staff, which is what everyone in Guernsey wants to do," said Mr. James. "There are two ways you can do it—by computer and through training—so you don't need to hire many more people." ■

Isle of Man sees growth despite Irish challenge

By CAROLYN ALDRED

DOUGLAS, Isle of Man—The government of the Isle of Man is gearing up to serve more captives, despite a new and noisy competitor across the water.

Or. their way to investigate Ireland—the newest European domicile—risk managers may fly directly over this 227-square-mile island in the Irish Sea, but some risk managers will continue to stop off at the Isle of Man.

Even with the barrage of publicity from Ireland, registered captives on the Isle of Man have swelled to 83 from 63 a year ago and 73 at year-end 1989.

Total captive premium volume is now 550 million pounds ($902 million) to 600 million pounds ($984 million), up from about 400 million pounds ($656 million) in April 1989, says Manx Insurance Supervisor Bill Hastings.

To cope with sustained captive growth, the Manx Government Insurance Authority has increased its staff, he noted.

"The island has had considerable growth and we are expecting that growth to continue," Mr. Hastings explained.

Meanwhile, the island's infrastructure has coped with the growth, said Mr. Hastings.

The Isle of Man now has 58 accounting firms, 53 banks and 15 law firms, according to the economic adviser to the Manx Treasury.

Financial services accounted for about one-quarter of the island's total income for 1987-88, the latest figures available, according to the economic adviser.

Expansion of the Insurance Authority will allow Mr. Hastings to spend more time promoting and marketing the island, something that captive managers favor.

"It is a good thing that the government is seen to be promoting the island. I can promote my own company, but I cannot sell the island. The government can reach a wider audience than any captive manager," said Larry Sherin, manager of International Risk Management (Isle of Man) Ltd.

Mr. Hastings confirmed that it is "likely that the Isle of Man Government Insurance Authority will have its role extended to include a marketing function."

"The Isle of Man is a business. If any business is complacent about competition, it risks seeing sales decline," said Mr. Hastings, referring to Ireland's campaign to attract captives. "We're out to satisfy clients' needs, so we have to find out what clients' needs are.

"I see marketing as a joint role" between the government and the captive insurance managers and "the government bodies have a role to play in marketing Isle of Man P.L.C.," he said.

The Isle of Man and Guernsey still are the favorite captive domiciles for British companies, captive managers agree. But they say Ireland may become an increasingly successful competitor for captives with continental European parents.

"Dublin will pick up most of the captives with European Community-based parents, I'm sure of that," pointed out David Campbell, manager of Willis Wrightson (Isle of Man) Ltd.

"Dublin has a lot of unique advantages and will play a key role in European captive insurance growth," agreed Philip Stamp, managing director of Alexander Insurance Managers Ltd.

Continued on next page

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Isle of Man

Continued from previous page

Ireland has favorable double-taxation treaties with many European countries, including West Germany and Sweden, while the Irish government has received permission from the European Community to assess only a 10% tax on financial services businesses, including captives, that are based in a Dublin financial district (see story, page 86).

Despite those advantages, Mr. Hastings says the Isle of Man can compete with Ireland and plans to research how the island can attract more captives from continental Europe.

Meanwhile, growth potential for captives owned by British companies remains strong, said Mr. Campbell. "There are a lot of British companies that have not gone the captive route, so the U.K. still will be a major source of business."

Willis Wrightson now manages 16 captives in the Isle of Man, with two more expected to be registered in July, Mr. Campbell said.

Annual premiums are an estimated 90 million pounds ($147.6 million), he said.

Among the captives formed in the Isle of Man last year and managed by Willis Wrightson were two captives owned by two regional British electricity distribution companies.

The insurers were established to prepare for the British government's privatization of the state-run electricity supply and distribution network.

Another captive, formed last April, is owned by Wembley P.L.C., the owner and operator of London's Wembley Stadium, the United Kingdom's largest sports stadium. The Wembley captive writes liability and property insurance.

While most of Willis Wrightson's captives in the Isle of Man have British parents, four of IRM's six Isle of Man captives have parents based in Continental Europe. Two have Finnish parents and the other two are owned by a Greek and a French company. A U.S. company and a British firm own the remaining two.

'The United Kingdom still will be a major source of business' for the Isle of Man, says David Campbell.

Captives managed by IRM, a subsidiary of Bermuda-based International Risk Management Group, write estimated annual premiums of $60 million, said Mr. Sherin.

Alexander & Alexander Services Inc. recently established the base for its European and Asian captive management operations in the Isle of Man.

Philip Stamp, previously manager of Alexander Insurance Management in Bermuda, became regional director in the Isle of Man for A&A's captive management operations in the Isle of Man, Guernsey, Ireland, Luxembourg and Singapore.

"We anticipate a substantial growth in (the captive movement in) Europe and so we decided to create a separate unit for Europe and Asia," he said.

He is based in the Isle of Man because "it is easier to settle in the Isle of Man than Guernsey."

Each of the European domiciles —Guernsey, the Isle of Man, Ireland and Luxembourg—has an individual role to play in risk financing, said Mr. Stamp.

"Alexander Insurance Managers in Bermuda has about 90 to 100 captives. I'd like us to reach that sort of level in Europe within five years," he said.

"If you look at the number of captives owned by British companies and translate that to continental Europe—where captives haven't really been developed yet —all the signs point to growth," he said.

Mr. Stamp predicts that another potential growth area is multinational companies, which are increasingly establishing several regional captives rather than just one.

Estimated premium volume for the nine captives managed by the Alexander Insurance Managers office in the Isle of Man is $80 million, Mr. Stamp said.

Among its newest is an association captive formed by members of the European nuclear industry, he confirmed. ■

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1986 law regulates captives

DOUGLAS, Isle of Man—Requirements for incorporating a captive insurance company under the Isle of Man Insurance Act of 1986 include:

- Minimum paid-up capital of 50,000 pounds ($82,000) for pure captives and up to 500,000 pounds ($820,000) for certain classes of business.

The amount of capital depends on the business the captive writes and the solvency margin it must meet.

The minimum capital requirement plus 10% of any amount above 50,000 pounds must be paid in cash and deposited in an Isle of Man bank.

- Pure captives must maintain a solvency margin equal to the minimum capital requirement plus an amount equal to 10% of the net written premiums up to 2 million pounds ($3.3 million) and 5% of net written premiums exceeding 2 million pounds.

Captives writing third-party business must maintain a solvency margin equal to 15% of net premiums written, but not less than 15,000 pounds ($24,600).

- Captives must present to the insurance supervisor a three-year business plan including: the maximum net retention per risk or occurrence and the aggregate retention after all reinsurance is ceded; policy limits; details of the reinsurance program, with types of reinsurance and names of reinsurers; projected claims, gross and net of reinsurance; projected cash flow; and projected profit and loss.
- Suitable management on the island must manage the captive.

A 1,000 pound ($1,640) registration fee is required of all captives. In addition, there is an annual business fee of 500 pounds ($820), which in the first year is charged pro rata from the date of authorization to the following April 5, for captives that pay income tax instead of seeking an exemption.

For captives with tax-exempt status, the annual fee is 2,000 pounds ($3,280), which is also prorated in captives' first year of operation.

For more information, contact Bill Hastings, Insurance Supervisor, S&F House, 12/14 Ridgeway St., Douglas, Isle of Man; telephone: 44-062-426262. ■

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Spotlight report

Luxembourg captive growth continues

By STACY SHAPIRO

LUXEMBOURG—The grand duchy of Luxembourg is holding its own as Europe's second largest captive domicile, despite a competitive threat from Dublin, Ireland.

The small European Community nation now has 113 captives, up from 93 last year, and 100 at year-end 1989, said Insurance Commissioner Victor Rod. By comparison, Europe's largest captive domicile —Guernsey—now has 174 captives (see story, page 77).

And Mr. Rod said he expects that by July, the country will have 120 captives.

The captives, which legally must be established as reinsurance companies, wrote approximately 70 billion Luxembourg francs ($2 billion) in gross premiums as of this month, up 133% from 30 billion Luxembourg francs ($894 million at appropriate exchange rates) at this time last year, said Mr. Rod.

Only 14 of Luxembourg's captives are owned by insurance or reinsurance companies; the rest are owned by commercial corporations, which primarily are from Scandinavian countries, France, Belgium and Spain.

In addition, Luxembourg now has 18 captive managers, up from 14 captive managers a year ago, said Mr. Rod. This compares with nine in 1988 and four in 1987.

Despite this steady growth, some observers say the duchy is facing strong competition as a captive domicile from Dublin.

Like Luxembourg, Ireland is a member of the EC and enjoys double taxation treaties with dozens of countries.

However, an advantage the Irish capital has over Luxembourg is approval from the European Commission to charge a 10% corporate tax rate for certain international financial services, including insurance, until the year 2000 (see story, page 86). In addition, Ireland is looking to extend the 10% rate until 2020.

By contrast, Luxembourg's tax structure allows captives to defer taxes on their loss reserves.

To attract more captives to the country, the government amended its tax law in 1985 to allow each captive to set up a tax-free catastrophe reserve known as "la provision pour la fluctuation de la sinistralite." The catastrophe reserve can total up to 12.5 to 20 times the captive's average net premium volume over the last five years.

The effect of this provision is to reduce the captive's current taxable income to zero, offering a long-term deferral on funds placed in the reserve.

Dividends paid to a parent company are fully taxed in Luxembourg, which imposes a 36% corporate income tax rate as well as a 10% municipal tax on profits.

However, Luxembourg has double taxation treaties with many countries, under which the applicable tax rate would be the lower of either Luxembourg or the home country.

Critics of Luxembourg in other offshore domiciles say some of the captives have reached their reserve limits and must start paying taxes, which Mr. Rod says isn't true.

"Not a single one" has reached its limit, the commissioner said. "The first one would probably reach that level not before 1995."

Critics also point out that Luxembourg is just deferring tax, while other domiciles like Dublin offer a lower tax rate. But Mr. Rod notes that Dublin's low tax rate "is limited in time," whereas Luxembourg's tax deferral "has no time limit."

Luxembourg captive managers also say that the country's tax system for captives may be reviewed in 1991 or 1992 to make it more favorable.

Nevertheless, some captives are setting up captives in Dublin rather than the grand duchy.

For example, some clients of captive manager Sinser S.A.R.L.—Luxembourg's oldest captive manager—are setting up captives in Dublin, confirmed Managing Director Thomas Malmholt.

"Some of our clients are moving to Dublin or they will move" in the future, he said. Four or five clients have already set up captives in Dublin, although only one has also shut down its captive in Luxembourg. The rest have maintained their reinsurance captives in Luxembourg.

"Some of them have said that they will have two captives in the group to take advantage of both Luxembourg and Dublin," Mr. Malmholt said, explaining that "they will have an insurance captive in Dublin and a reinsurance captive here."

Continued on next page

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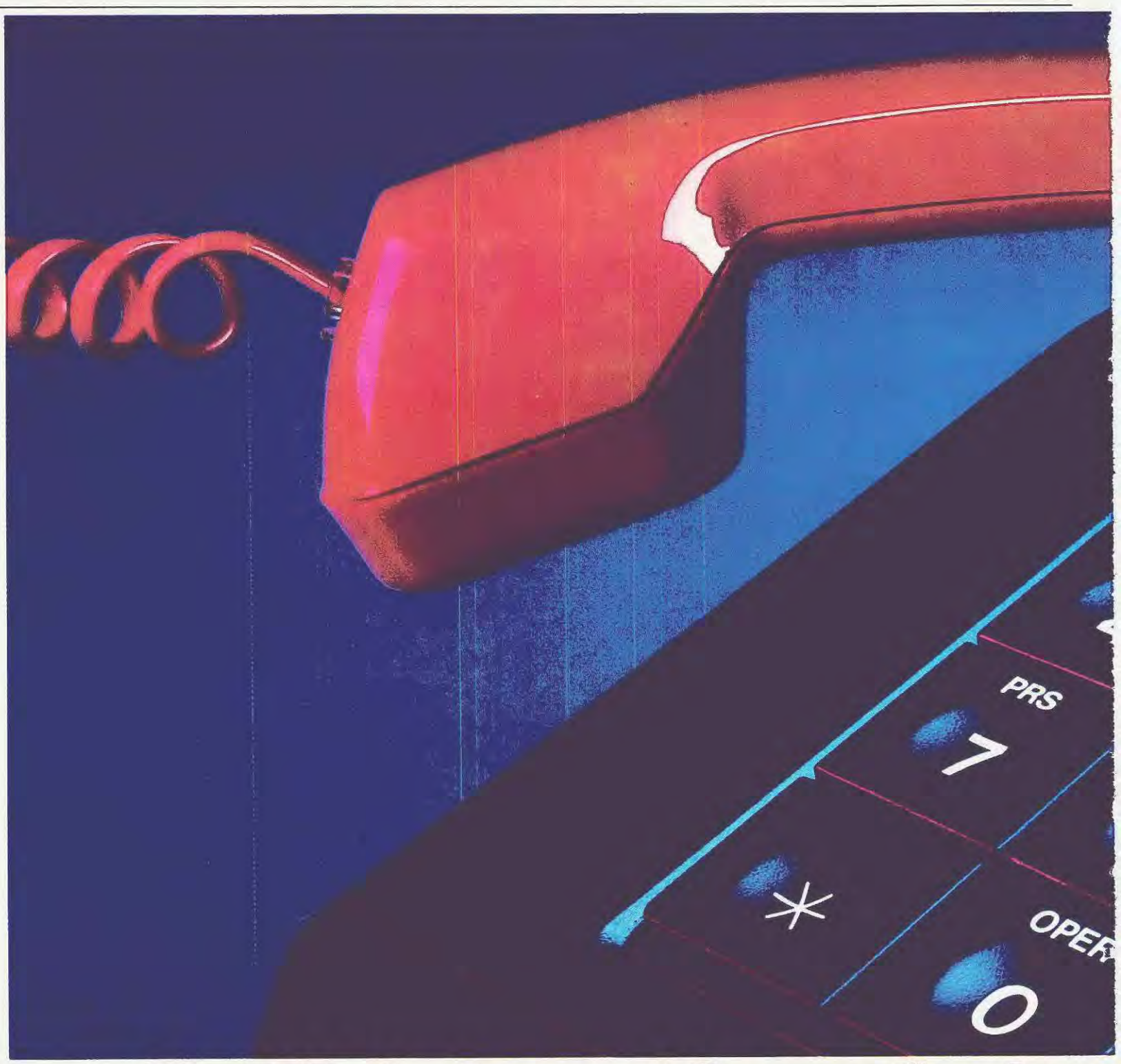

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Continued from previous page

This way, the client can write "Euroinsurance policies" in Dublin that will be recognized throughout the EC, and benefit from generous funding through a reinsurance captive in Luxembourg, he said.

Clients could also write reinsurance in Dublin, Mr. Malmholt acknowledged, "but it is not easy to move and shut down a captive in Luxembourg because you have to pay full tax on the reserves" when the captive is shut down.

"It's too early to say more about the future development" of both domiciles, he added. "Clients are now exploring all alternatives."

Mr. Rod admits that Luxembourg may have some competition from Dublin. But he points out that so far Dublin has not launched many captives.

Besides, Mr. Rod said, "the attraction to Luxembourg is that it is a French-speaking country with French-based laws."

This is an advantage for many companies in South America and Europe, he said.

Despite competition from Dublin, Luxembourg has no plans to allow insurance to be written by captives in order to broaden the domicile's appeal, according to Mr. Rod.

"We are not wishing to go into direct (insurance) underwriting. If that's what (captives) want, they are better off in Dublin. Underwriting (insurance) should be left to the professionals so premiums are correctly calculated," he said.

Companies could also write reinsurance in Dublin, Mr. Malmholt acknowledges, 'but it is not easy to move and shut down a captive in Luxembourg because you have to pay full tax on the reserves' when the captive is shut down.

A list prepared April 10 by Luxembourg's Commissariat aux Assurances says the companies managing the largest number of captives are:

- Sinser, which manages 36 captives, up from 33 last year.

Mr. Malmholt says the captives —whose parent companies include Swedish automaker Volvo and Luxembourgian electronics manufacturer Electrolux—have a total premium volume of about 1.2 billion Swedish krona ($196.8 million).

- Gecalux S.A., the country's second-oldest manager, which manages 23 captives, unchanged from last year.

A Gecalux spokesman, however, says it manages 35 captives with combined premium volume of more than $500 million.

- Uniservice Management S.A.—a joint venture of Johnson & Higgins, French broker Gras Savoye, A.B. Max Matthiessen in Sweden and Boels & Begault in Belgium—which manages nine captives, up from seven last year.
- Marsh & McLennan Insurance Management S.A., which manages six captives, unchanged from 1989.
- Johnson & Higgins (Luxembourg) S.A., which manages one captive set up late last year called Fortress Re S.A. ■

Oversight of captive managers to change

LUXEMBOURG—Legislation that would change the regulation of Luxembourg captive managers is pending in the grand duchy.

However, the legislation, which may be passed by October, would only slightly change existing rules, said Insurance Commissioner Victor Rod.

Under the new legislation, management companies will have to be registered by the insurance commissioner, he said. To become registered, the captive manager will have to prove that it is well-organized and has the professional know-how to manage captives. However, there will be no new financial requirements, said Mr. Rod.

Captive managers applaud the formal registration. "It is a sound development and we welcome it," said Thomas Malmholt, managing director of Luxembourg's oldest captive manager, Sinser S.A.R.L.

The rules for setting up a captive reinsurer are expected to remain the same, said Mr. Rod. Under a law passed in February 1984, licensed captive reinsurers in Luxembourg can write any class of business, including unrelated risks, although the majority of the captives have been set up to reinsure property and business interruption risks for their parent companies.

Some captives, however, now also reinsure marine cargo, liability, fidelity, credit and life risks, too, said Sinser's Mr. Malmholt.

Each Luxembourg captive must:

- Have a minimum paid-up capital of 6 million Luxembourg francs ($174,000 at current exchange rates) if it reinsures only its parent's risks and does not want to take advantage of the special tax treatment on reserves.

Most captives, however, have a minimum paid-up capital of 50 million Luxembourg francs ($1.5 million) which allows them to reinsure third-party risks and enjoy special tax treatment.

- Be managed by a resident manager who fulfills three conditions: that he or she be a Luxembourg resident, have "good morality" and be a professional reinsurance underwriter.
- Invest its capital in Luxembourg.
- Submit an annual audit by an auditor approved by the Commissariat aux Assurances. Captives do not have to submit their results until 18 months after being incorporated. Reinsurance companies that write non-life business must maintain a minimum solvency margin of 10% of premium, which is reduced to 7% if they don't write general liability business, and to 5% if they write no third-party business or general liability business.

Reinsurance companies writing life insurance must maintain a minimum solvency margin of 2% of their reserves.

For additional information on Luxembourg captives, contact Insurance Commissioner Victor Rod, Commissariat aux Assurances, Ministere des Finances, 3 Rue de la Congregatione, Luxembourg; phone: 352-478285; fax: 352-475241. ■

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Spotlight report

Ireland attracts 15 captives in first year

By STACY SHAPIRO

DUBLIN, Ireland—Europe's newest captive domicile is off to a fast start.

Since the first Irish captive was set up in January 1989 by automaker Bavarian Motor Works A.G. of Munich, West Germany, Ireland has attracted 15 captives from West Germany, Sweden, the United States, the United Kingdom and, most recently, Japan, said Patrick J. Tolan, manager of financial services program for the Industrial Development Authority of Ireland.

Ten captives were approved last year and another five have been formed in 1990, Mr. Tolan said.

And "we are handling two to three applications per month," he said. "So, by the end of this year we expect to have 30 to 40 captives approved.

"We expect to see a rush of activity at the end of the year" to take advantage of the single market for nor.-life insurance in the European community, which becomes reality in July, he said.

Dublin is now home to 12 captive managers, each of which must promise to form 15 captives in five years in return for government approval as a manager, according to Mr. Tolan.

If all of the mangers meet the goal, Dublin would be the home of 180 captives by 1995.

And if all goes well, "I believe the potential for Dublin is somewhere around 500 captives," Mr. Tolan added. "But, at the moment, we are at the embryonic stage."

The captives that have been formed so far include some of the biggest names in European industry: BMW, chemical manufacturer H.P. Chemie Pelzer A.G. and computer company Nixdorf Computer A.G., all of West Germany; and Swedish communications and electronics company Ericsson Telefon AB LM.

Captive growth is just a part of an overall program to boost the Irish economy by establishing a strong insurance and reinsurance market, Mr. Tolan contends. By building up the captive industry, he hopes, Dublin will eventually become a major insurance market for the rest of the European Community.

"We expect that as Dublin's importance as a captive insurance center grows, more and more purchasers of insurance will be located here," he said. "It will make sense for the primary insurance companies to locate their European insurance functions in Dublin to supply these purchasers."

X.L. Insurance Co. Ltd., a Bermuda-based excess liability insurer, plans to open an office in Dublin by the end of the year to write insurance throughout Europe (see XL story).

In hopes of boosting its reinsurance industry, Ireland also is urging financial reinsurance companies to move to Dublin.

"Dublin is emerging as a center for financial reinsurance," Mr. Tolan said.

Among the several reinsurance captives in Dublin are: Richmond Insurance Co. Ltd., which is 40% owned by Munich Reinsurance Co. and 20% owned by American International Group Inc., with the remainder owned by other insurers; and Cosmos Re Ltd., owned by Aachener und Munchener Beteiligungs A.G.

In addition, Irish reinsurance brokerage Coyle Hamilton Ltd. places international reinsurance programs for ceding companies located outside Ireland, Mr. Tolan said.

"It may be, at some future stage, that the volume of reinsurance being transacted in Dublin will support the establishment of a reinsurance exchange here," he added.

The development of a captive, insurance and reinsurance center in Dublin is the latest project of the IDA, a government department set up 25 years ago to stimulate the Irish economy.

"The IDA's prime purpose is to operate for the Ministry of Industry to promote new industries to Ireland," said Barry O'Connell, manager of the overseas marketing division of the IDA.

Ireland, with a population of 3.5 million, "is genuinely the youngest country in Europe," Mr. O'Connell noted. "Nearly half the population is under the age of 28, and while the populations of the other European countries are declining, ours is rising a half a percent per year. It's a major asset and a major problem. The IDA was set up to create jobs for these people."

New industries can take advantage of the young, growing population because Irish youth are literate in new technologies, yet they command lower salaries, Mr. O'Connell said. "Wages are not rising rapidly—only 4% last year," compared with 8% in the United Kingdom, he said. And since inflation historically is low in Ireland, wages are not likely to rise more than 3.5% in 1991 and 1992, he said.

The IDA's primary responsibility in the past 25 years has been to develop the industrial manufacturing sector, Mr. Tolan said. So far, more than 950 companies have been set up under this program, with about 50% formed by U.S. parents, he said.

But, since 1981, the IDA has been trying to lure international industrial services, like film animation and data processing, to Ireland, Mr. Tolan said.

Under this program, several U.S. insurers set up claims administration operations in Dublin or Shannon, he said. The insurers, which include CIGNA Corp., fly claims records from Kennedy International Airport in New York to Ireland. The claims are processed in 24 hours, and the information is returned to the United States via satellite, he said.

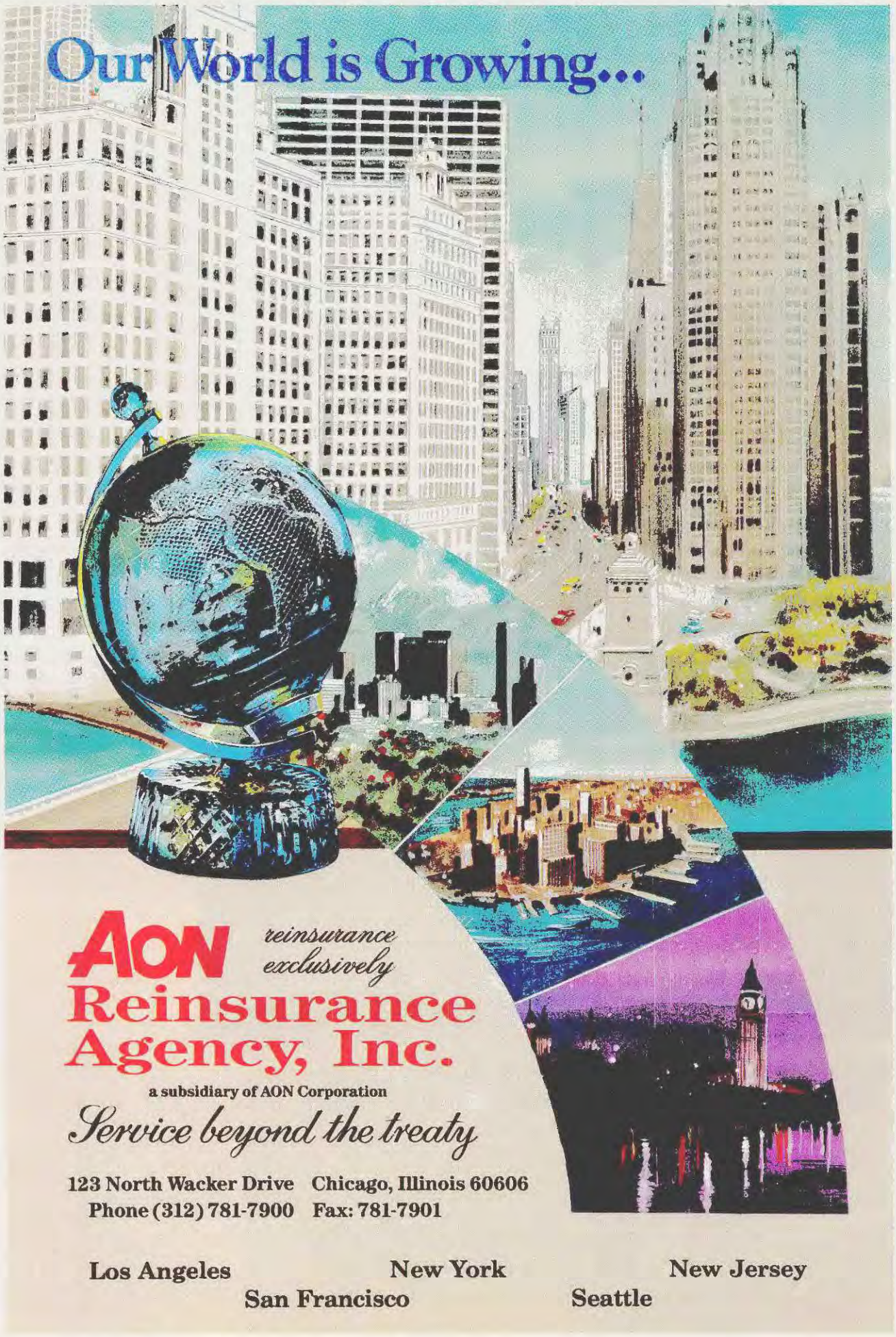
But under this IDA program, only backroom administration could be handled in Dublin, not underwriting, Mr. Tolan said.

In 1986, the Irish government decided that the 27-acre Custom House Docks Area in Dublin would be ideal for an International Financial Services Center. The plan is the "pet project" of Prime Minister Charles Haughey, who is serving as president of the European Community until the end of July, Mr. Tolan said.

In July 1987, the Irish government obtained the necessary European Community approval to charge only a 10% corporate tax rate until the year 2000 to certain financial services business, Mr. Tolan said. In addition, this agreement currently is being reviewed in hopes that a preferential tax rate can be extended at least until 2020, he said.

The low tax rate applies only to financial services firms that move into the International Financial Services Center. But since the site is currently under construction, captives can be eligible for the special tax rate now

Continued on page 89



Ireland

Continued from page 86
if they are based in another area of Dublin but intend to move into the center.

"Dublin is not a tax haven," Mr. Tolan pointed out. "It is a legitimately low tax area within the European Community."

Companies eligible for the 10% tax rate have access to Ireland's double taxation agreements with 21 nations, which vary from country to country.

Under "full-sparing" treaties, which Ireland has with several countries, including West Germany, the 10% Irish tax rate takes precedent over higher tax rates charged by the country of the captive's owner.

However, under the "offset" treaties Ireland has with other nations, like the United Kingdom, taxes paid under the 10% Irish tax rate are subtracted from the tax liability for the captive's income in the country of its owner.

Other aspects of Dublin's favorable tax regime include:

- No withholding taxes on dividends or interest paid.
- No premium taxes on international insurance business, though premium taxes may be required in the country where the risk originates.
- A stamp duty of only one Irish punt ($1.60) per non-life insurance policy issued.
- A duty of 1% of issued share capital.
- Other tax incentives offered to companies located in the Financial Services Center, including double deductions of rent payments.

However, even though the Irish government secured the advantageous tax treatment in 1987, it was "slow to get response from the insurance sector," Mr. Tolan said.

As a result, the IDA in 1988 met with representatives of the insurance industry in Dublin, including Hugh Governey, managing director of Coyle Hamilton Ltd., Ireland's largest brokerage, and chairman of the Insurance Institute of Dublin.

Mr. Tolan said that from that "brainstorming" emerged a strategy to target four areas: captive insurance; reinsurance; non-life insurance; and life insurance.

"Now we are working on these chronologically," Mr. Tolan said. "We are working on captives first because they are the most mobile, will have advantage of the tax rate and will have an entry into the European Community."

Mr. Tolan has since been marketing Dublin as the most advantageous captive domicile in Europe. His first success was luring the BMW captive, managed by Sedgwick Dineen International Ltd., a Sedgwick Group P.L.C. unit. It was a major coup for Ireland, because no German company until that time had established a captive in Europe.

"BMW has helped us a lot," Mr. Tolan said. "And BMW's risk manager has helped us a lot."

"BMW came to our London office having learned of Dublin as a financial center," said Garrett Cullen, director of Sedgwick Dineen in Dublin, which has been a brokerage in Ireland since about 1912.

"A feasibility study was commissioned with the help of the IDA which said that a captive would qualify for the 10% tax rate," he said.

BMW originally set up the captive as a reinsurance captive because reinsurers are not regu-

Continued on next page

The International Financial Services Center, now under construction in the Custom House Docks area of Dublin, will be the home of the Irish captive community.

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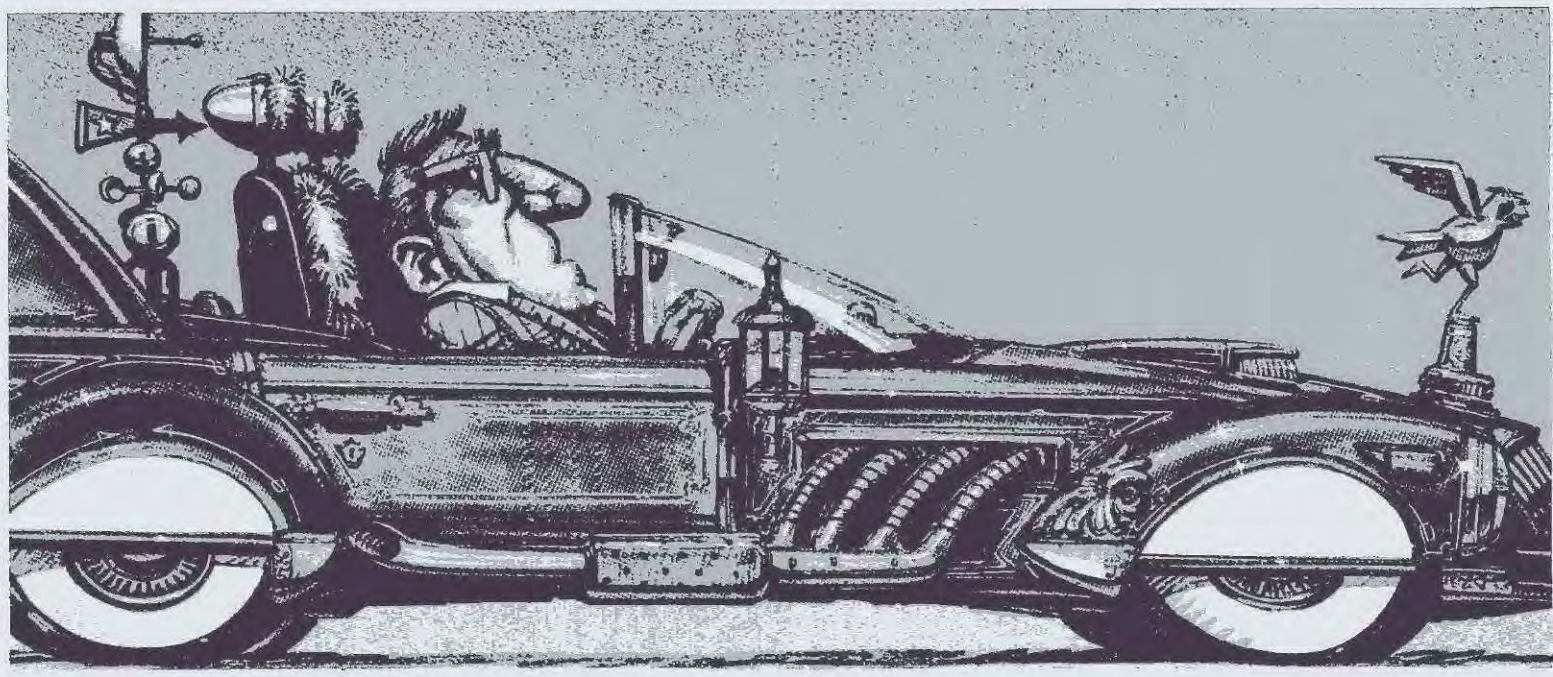

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Ireland

Continued from previous page
lated by Irish or EC law. However, the captive quickly applied with the Irish Department of Industry and Commerce to become a fully licensed insurer, which is required of all captives writing direct insurance business.

The license was granted in November 1989, and the captive commenced underwriting as an insurer in January, Mr. Cullen said.

Sedgwick Dineen is now working on 10 other projects and hopes to incorporate five of them this year, he said.

Other captive managers that have set up offices in Dublin in the last two years include:

- Willis Wrightson Management (Dublin) Ltd., a subsidiary of Willis Faber P.L.C.

Irish-born Des McCarthy, who has been working in Guernsey for Peat Marwick McLintock Ltd., returned to Ireland March 1 to open the new captive management company at Willis's Irish brokerage, Lloyd Armstrong & Ramsey. The manager will provide captive management services for all brokerage members of the UNISON network, he said.

- Coyle Hamilton International Ltd., a subsidiary of Irish broker Coyle Hamilton Ltd.
- Marsh & McLennan Cos. Inc. through its Irish subsidiary, Mathews, Mulcahy & Sutherland Ltd.
- Alexander Insurance Managers (Dublin) Ltd., a subsidiary of Alexander & Alexander Services Inc.
- American International Managers, an AIG subsidiary.
- Swedish captive manager SINSER Scandinavian Insurance Services Ltd.
- International Risk Management (Dublin) Ltd., a unit of Bermuda-based International Risk Management Group.
- West German insurer Colonia Versicherung A.G. ■

General rules apply in Ireland

DUBLIN, Ireland—Ireland has no specific regulations pertaining to captives, says Patrick Kelly, an insurance regulator at the Irish Department of Industry and Commerce.

However, all captives must abide by the country's insurance regulations, which follow the European Community's directives for both insurance and reinsurance, he said.

"A captive insurance company writing direct insurance must be authorized in the same way as a non-captive insurance company," explained Patrick J. Tolan, manager of the financial services program at the Industrial Development Authority of Ireland.

However, "reinsurance companies (including reinsurance captives) are not subject to regulatory control, other than the requirement to notify the Department of Industry and Commerce that reinsurance activity is being carried on," said Mr. Tolan. Reinsurers also must file annual audited results with the nation's Registrar of Companies.

Most of the Irish captives are set up as reinsurance captives, though the department recently authorized two reinsurance captives to become licensed captive insurers, Mr. Kelly said.

However, proposed EC rules, which would apply to Ireland, would regulate both insurance and reinsurance company accounting, Mr. Kelly noted.

For a captive that plans to write insurance for either its parent or unrelated parties to become a licensed insurer, it must:

- Be incorporated and resident in Ireland.
- Employ qualified staff with the power to issue coverage.
- Have a minimum paid-up capital of 500,000 punts ($800,000).
- Maintain a solvency margin in line with the European Community's (Non-Life Insurance) Regulations of 1976.

For more information, contact the IDA, Wilton Park House, Wilton Place, Dublin 2, Ireland; 01-686633.

Singapore has many Australian captives

SINGAPORE—Singapore remains the leading domicile for Australian captives, despite Australian efforts to keep captive insurers at home.

Singapore now has 42 licensed captives, 34 of which are owned by Australian companies, according to the Insurance Commissioner's Department.

Singapore had about 39 captives at year-end, estimated Alphonsus De Rosa, head of the development division of the Insurance Commissioner's Department.

That number is up from 34 captives at year-end 1988, when 32 of the captives had Australian parents.

Most of the non-Australian captives are owned by Japanese companies, he said.

Gross premiums written by the captives in 1989 are not yet available from the Insurance Commissioner's Department. In 1988, the captives wrote $174 million Singapore ($89.3 million at year-end 1988 exchange rate), according to the department.

Singapore's tax structure makes it particularly attractive to captive insurers.

There is a 10% tax rate on insurance and reinsurance profits from non-Singapore business, while all other income is taxed at 31%.

Insurance activity in the island nation is governed by the Insurance Act of 1967, as amended in 1973.

The Insurance Commissioner's Office of the Monetary Authority of Singapore licenses insurers on an annual basis, charging a $5,000 Singapore ($2,666.50 at current exchange rate) annual fee.

Insurers are required to be capitalized at $1 million Singapore ($533,300).

The island nation has a total of 17 captive managers, up from 16 in 1988. The largest captive manager in Singapore is Sedgwick James Management Services Pte. Ltd., which manages about half of Singapore's 42 captives.

For more information, contact the Insurance Commissioner's Department, Monetary Authority of Singapore, 10 Shenton Way, Singapore 0207; 225-5577.

—By Kate McIlwaine

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Australia hopes to lure captives onshore

By KATE McILWAINE

CANBERRA, Australia—The Australian government is changing tax and reinsurance regulations in an effort to entice Australian captives to move onshore, but brokers and risk managers say they expect few captives to do so in the near future.

New laws, scheduled to take effect July 1, would tax wholly owned offshore companies—including captive insurers—at the same rate as companies set up in Australia.

As a result, Australian companies with captives in Singapore, currently the captive domicile of choice for Australian companies (see story, page 90), would see their tax liabilities increase.

Meanwhile, new guidelines from the Insurance and Superannuation Commission—the federal regulatory body—allow captives to cede up to 90% of their gross premiums to reinsurers. Those reinsurers need not be domestic companies or authorized to operate in Australia.

"This is a significant relaxation of the guideline for commercial insurers, which allows a maximum cession of only 60% of gross premium income, with no more than 50% being ceded to offshore reinsurers," said ISC Commissioner Richard Beetham in a statement. "The requirement for 10% of gross premium income to be retained by a captive is viewed as a reasonable involvement in the business underwritten."

However, the ISC added that contracts placed with reinsurers not authorized in Australia would be assessed individually.

"It is unlikely that shares in excess of 20%" with a single, unauthorized reinsurer "will be accepted," Mr. Beetham said.

Australian companies historically have shied away from establishing domestic captives, viewing federal insurance rules as very stringent.

In fact, most captives have been subject to the same regulations as commercial insurance companies.

The minimum paid-up capital requirement for insurers currently is $500,000 Australian ($383,000). In addition, an insurer's margin of solvency must be $1 million Australian ($766,000) or 20% of premium income, whichever is greater. And, quarterly financial returns must be submitted to the ISC.

However, in the case of captive insurers, differing capital requirements will apply, depending on the type of risk retained by the captive and the deductible applied, Mr. Beetham said. A captive will generally be required to maintain a ratio of retained risk to net tangible assets of no greater than 10% for a single-loss retention with no deductible, he said.

To insure a multiple loss from one event, a captive will be required to maintain net tangible assets equivalent to the net retention in addition to the solvency margin, he added.

The only exemptions from the ISC's regulations for insurers have been for captives that write only property insurance and receive no more than $500,000 Australia in annual direct premiums.

Currently there are only two captives licensed in Australia:

- Boral Insurance & Fund Management Ltd., a Sydney-based captive of the Boral Group, chemical manufacturing and gas production company.
- North Broken Hill Peko Ltd., a Sydney-based captive of mining and and steel company Broken Hill Proprietary Co. Ltd.

Representatives of the Assn. of Risk & Insurance Managers of Australia last year discussed relaxation of captive regulations with the ISC.

Brendan M. Ryan, immediate past president of ARIMA and assistant risk manager of Melbourne-based ALCOA Australia Ltd., said the ISC was "sympathetic," but making the rules attractive enough to lure offshore captives into the country would require changing the Insurance Act of 1973, which governs insurance regulation.

ALCOA currently has a Cayman Islands-based captive, Coala Insurance Ltd., and is considering setting up a second captive in Singapore, Mr. Ryan said.

"We would love to have a captive in Australia. It would make things easy from an administrative point of view, but the guidelines should not be as stringent as they are for general insurers when we are only writing our own business," he said.

Keith Wehl, executive director-insurance and risk management, for Melbourne-based Elders-IXL Ltd., said his company would be "delighted to set up a captive in Australia if the requirements were less onerous." Elders-IXL is a major Australian company with diversified brewing and agribusiness interests.

Mr. Wehl said time, currency and ease of administration were some advantages an Australian-based captive would have over other domiciles.

Kenneth Irvine, secretary of Melbourne-based retailer Coles Myer Ltd., said his company would assess any changes to Australia's rules for captives. Coles Myer currently has a Singapore-based captive insurer.

Brokers welcome the ISC proposals, but many agree that making it feasible for Australian companies to set up domestic captives will require significant changes in the insurance act.

Steve Nevett, director of Sedgwick James' industry division in Melbourne, said he welcomed the easing of capitalization requirements.

Colin Wright, a broker in Sedgwick James' risk financing division in Sydney, said he was pleased to see the ISC making changes, but administration procedures are still "fairly burdensome."

Mr. Wright said he expected there could be further changes when the ISC had more Australian captives "on the books" and is able to assess their operations more closely.

"A captive is a different animal to a general insurer," he said.

Denys Moore, manager of the New South Wales branch of Willis Faber Johnson & Higgins Ltd., said Australia is following the United States' lead in making captive formation easier. And federal—rather than state-by-state—regulation gives Australia an advantage over the United States, he said.

Mr. Moore said he expects many companies to look more seriously at onshore captives in light of the tax changes in July.

But, he said, it could take several years to iron out regulatory kinks, noting that "it took them five or six years to get the legislation right in Singapore."

Inquiries about captives have been coming in at a rate of about one a month for a year, said an ISC spokesman.

The ISC has discussed captive formation with "a number of major" interested parties, said Richard Smith, the deputy commissioner-general insurance. ■

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Vermont sees new captive surge

'Industry starting to boom' in largest U.S. domicile

By JERRY GEISEL

MONTPELIER, Vt.—After recording its slowest growth in four years, captive formation in Vermont is headed for an upturn, state officials and captive managers predict.

Vermont observers, who attribute the 1989 slump solely to the soft commercial property/casualty insurance market, say there are signs the slowdown in captive formation is ending.

"The captive industry is starting to boom again," said Edward Meehan, Vermont's deputy insurance commissioner. "Based on the way things are going, we could license between 30 and 35 captives this year."

Captive formation in 1989 was off more than a third from 1988 and nearly 60% from 1987, the domicile's biggest growth year. The 21 captives licensed in 1989—down from 33 in 1988 and 50 in 1987—brought the state's total to 151 captives at year-end 1989.

But already, it appears, captive formation is on the rise.

Inquiries from businesses and trade associations about forming captives have risen sharply since this year, say officials at the Vermont Department of Banking and Insurance.

And, 10 captives were licensed in the first three months of 1990, compared with just three in last year's first quarter.

American Risk Management Corp., the state's second-largest manager, added four captives in this year's first quarter, compared with only one in that period last year.

Johnson & Higgins Services Inc. —Vermont's largest manager in 1989 with 34 captives—became the manager for three new captives in this year's first quarter, compared with just one in the first three months of 1989.

Fears of an impending hard market have triggered the renewed interest in captives, Vermont managers agree.

"Employers want to be prepared," said Malcolm Cutts-Watson, vp and branch manager for J&H in Burlington.

"Employers are forming captives now to avoid scrambling during a hard market," added John Middleton, president of Northern States Management Inc. in Waterbury.

Managers cite one other factor for the renewed interest: the expiration of separate U.S. tax treaties with Bermuda and Barbados that waived the 4% federal excise tax on direct premiums and the 1% excise tax on reinsurance premiums paid by U.S. companies to foreign underwriters.

Even as captive formation declined in 1988 and 1989, Vermont remained the undisputed domestic domicile leader. Its 151 captives are about five times as many as in Colorado, the next largest U.S. domicile.

Vermont's 21 new captives in 1989—the lowest total since 10 were licensed in 1985—exceeds the eight captives licensed last year in all other major U.S. domiciles combined.

"Domestically, Vermont continues to pick up the lion's share of new captives," said Michael Rogers, chief operating officer of Vermont Insurance Management Inc. in Montpelier.

"To get 21 new captives in a soft market says a lot about the attractiveness of Vermont as a domicile," said Scott Frazier, a vp with Alexander Insurance Managers in Burlington.

"Notwithstanding the soft market, Vermont grew and it grew strongly," said Kathryn Westover, vp of captive management operations with American Risk Management in Burlington.

Increased underwriting activity by some large captives, along with the formation of new captives, led to another jump in gross captive premium volume last year.

According to preliminary Department of Banking and Insurance estimates, Vermont captives generated $806.9 million in gross premiums in 1989, up 24% from $651.4 million in 1988.

Some big corporate names joined the list of Vermont captive sponsors last year.

AT&T Credit Corp., a Morristown, N.J., unit of American Telephone & Telegraph Co., established a captive, as did Exxon Insurance Holdings Inc., an affiliate of petroleum giant Exxon Corp., and Waste Management Inc. of Oak Brook, Ill., the nation's largest waste disposal firm.

"We knew that Vermont had a good reputation" and a recent reduction in the captive premium tax made Vermont even more attractive, said Bill Jueds, president of Exxon Insurance Services Co. in Florham Park, N.J.

Exxon's captive, Ancon Insurance Co. Inc., is replacing a Bermuda captive and writes a range of non-U.S. liability risks (*BI*, Feb. 19).

"We wanted a domestic domicile and Vermont has very experienced regulators with a strong infrastructure of service providers," said Leo Winstead, Waste Management's director of risk management services.

National Guaranty Insurance Co., Waste Management's Vermont captive, writes pollution legal liability and surety bond coverages.

Captive growth in Vermont is also being fueled by new risk retention groups.

For example, members of the McLean, Va.-based National Machine Tool Builders Assn. set up a risk retention group in 1989 to provide primary comprehensive general liability insurance, including product liability and completed operations coverage.

"Vermont showed that it was an established domicile for risk retention groups. The regulators understand the importance of the subject in which they are dealing and they aggressively regulate," said Richard C. Newman, executive vp of Sedgwick James of Connecticut Inc. in Hartford, which helped the trade group set up Technologies Assurance Risk Retention Group Assn. Inc.

That program now offers policies with limits of $1 million per occurrence/$2 million aggregate. Organizers say premium volume could hit $2.5 million by the end of the group's first year.

Meanwhile, some South Florida Hospital Assn. members established a risk retention group on the first day of 1990.

"Vermont has a track record. The

Continued on next page

20 leading Vermont-based captives

Ranked by 1989 gross premiums

Captive Parent (Manager)	Gross written premiums	Net premiums	Net income
Toyota Motor Insurance Corp. Toyota Motor Credit Corp. (Becher & Carlson)	$35,638,554	$27,114,203	$2,164,369
MEDMARC Insurance Co. Risk Retention Group Inc. Owned by individual policyholders (M&M Insurance Management Services Inc.)	30,756,013	30,756,013	4,939,473
Minnetonka Insurance Co. Cargill Inc. (American Risk Management Corp.)	28,101,638	20,671,800	2,655,673
ICI Mutual Insurance Co. Members of Investment Co. Institute (Hanna Insurance Vermont Ltd.)	24,626,442	17,270,685	6,389,531
Agrinational Insurance Co. Archer-Daniels-Midland Co. (American Risk Management Corp.)	19,781,460	12,094,518	1,990,742
Citicorp Insurance USA Inc. Citicorp (Johnson & Higgins Services Inc.)	18,894,146	18,460,120	12,662,019
United Educators Insurance Risk Retention Group Inc. Owned by individual policyholders (M&M Insurance Management Services Inc.)	12,790,911	2,262,787	18,209
Housing Authority Risk Retention Group Owned by individual policyholders (Yankee Captive Management Inc.)	11,673,770	9,919,951	1,992,554
Vermont Insurance Maritime Indemnity & Suretyship Co. New York Shipping Assn. et. al. (Johnson & Higgins Services Inc.)	10,320,078	2,580,019	144,,666
MPC Insurance Ltd. Various California law firms (Johnson & Higgins Services Inc.)	9,370,947	9,370,947	1,880,092
Elm Insurance Co. Electric Insurance Co. (Vermont Insurance Management Inc.)	8,871,881	4,546,681	2,879,696
The Ordinary Mutual, A Risk Retention Group Corp. Owned by individual policyholders (American Risk Management Corp.)	8,530,576	6,831,576	-1,150,827
CPA Mutual Insurance Co. of America Risk Retention Group Inc. Owned by individual policyholders (American Risk Management Corp.)	8,224,790	4,065,058	608,272
Three Rivers Insurance Co. Aluminum Co. of America (American Risk Management Corp.)	8,071,087	3,993,127	-897,290
Terra Insurance Co., A Risk Retention Group Owned by individual policyholders (Vermont Insurance Management Inc.)	7,985,746	4,267,315	240,547
Property & Casualty Insurance Ltd. - U.S. Dresser Industries Inc. (Alexander Insurance Managers)	6,125,000	6,125,000	1,175,220
Consolidated Catholic Casualty Risk Retention Group Inc. Owned by individual policyholders (Johnson & Higgins Services Inc.)	5,972,810	3,940,580	1,511,405
Financial Institutions Reserve Risk Retention Group Inc. Owned by individual policyholders (Alexander Insurance Managers)	5,901,000	4,902,250	4,893,735
Green River Insurance Co. Kawasaki Motors Corp. (Alexander Insurance Managers)	5,000,000	5,000,000	1,042,914
Verlan Ltd. (Vermont) Owned by individual policyholders (Green Mountain Captive Management Co.)	4,911,969	132,630	68,518

Source: Vermont Department of Banking and Insurance

BI/CYNTHIA WATSON

Vermont captive managers

Premium volume in millions of dollars

Manager Parent	Premium volume 1989	Premium volume 1988	Captives 1989	Captives 1988	Staff 1989	Staff 1988
M&M Insurance Management Services Inc. Marsh & McLennan Inc.	$354.4	$260.3	22	21	13*	11*
American Risk Management Corp. Swiss Reinsurance Co.	97.7	89.2	22	18	11	9
Johnson & Higgins Services Inc. Johnson & Higgins	91.5	88.9	34	30	16	11
Hanna Insurance Vermont Ltd. M.A. Hanna Co. and Smith, Bell & Thompson Inc.	70.0	59.1	14	14	7	7
Alexander Insurance Managers Alexander & Alexander Services Inc.	68.4	26.5	21	18	8	6
Becher & Carlson Management (Vermont) American Re-Insurance Co.	44.7	34.8	3	3	2	2
Vermont Insurance Management Inc.	39.4	63.0	14	19	9	8
Yankee Captive Management Inc.	12.9	11.6	2	3	3	3
Skandia International Risk Management (Vermont) Inc. Skandia America Corp.	12.7	5.3	9	2	4	3
Green Mountain Captive Management Co.	4.9	8.5	2	2	5	5

* *BI* estimate

Source: BI Survey

BI/CYNTHIA WATSON

Continued from previous page
support services are all here and well-established," said Chandler Bailey, a vp with the hospital association in Miami.

Hospital Liability Risk Retention Group Inc., which now has 10 policyholder/owners, writes professional liability coverage with limits of $2 million per claim and $4 million aggregate.

Hospital Liability's first-year premiums could total $7.5 million to $8 million, Mr. Bailey said.

Some existing Vermont risk retention groups also posted strong premium growth despite last year's soft market.

Gross premiums increased about 50%—to $12.8 million in 1989 from $8.6 million in 1988—for United Educators Insurance Risk Retention Group Inc.

"We've become the insurer of choice for major private universities," said Arthur Broadhurst, a United Educators' vp in Washington, D.C.

Among the better-known of its 459 policyholders—up from 319 at the end of 1988—are Duke University, the University of Southern California and the University of Chicago.

Mr. Broadhurst says United Educators has thrived because educational institutions value consistent insurance prices.

The insurer offers limits of $25 million for excess liability coverage and $5 million for educators' legal liability coverage. And, the $5 million limit is scheduled to be raised to $10 million on July 1.

Mr. Broadhurst describes Vermont as the "best possible environment for us. The regulators are tough, but fair and knowledgeable."

And, he says, United Educators would not have grown as quickly had it been licensed in an offshore domicile because state regulations restrict non-U.S. insurers' marketing activities.

While the Department of Banking and Insurance has not made special efforts to attract risk retention groups—in fact many potential groups never get past preliminary discussions with Deputy Commissioner Meehan—Vermont remains the domicile of choice for risk retention groups.

About a third of the 70 or so risk retention groups in the United States are based in Vermont. Four of the state's 26 risk retention groups were licensed in 1989, and two more were licensed so far this year.

Last year, Vermont's 21 active risk retention groups wrote gross premiums of $112.5 million, compared with $81.6 million written by 18 active risk retention groups in 1988.

The state will continue to attract new risk retention groups, some experts say.

"Vermont will pick up a good number of risk retention groups because the infrastructure is in place," said Douglas Dolan, senior vp with Victor O. Schinnerer & Co. Inc. in Chevy Chase, Md., underwriting manager for several Vermont risk retention groups.

For the first time in several years, the Vermont Legislature in its session earlier this year did not alter the Special Insurer Act, Vermont's 1981 captive law.

"There was a general consensus that we ought to take a year off and let things sit," said Mr. Frazier of Alexander Insurance Managers.

But the amendments to Vermont's captive statute enacted in 1989—and effective this year—have enhanced the state's appeal as a domicile, especially for large captives, observers say.

The first $20 million of direct premiums are now taxed at 0.7%; direct premiums from $20 million to $40 million at 0.5%; and direct premiums from $40 million to $60 million at 0.3%. Above $60 million the rate is 0.1%.

Before 1990, the first $15 million of a captive's direct premium volume was taxed at 0.8%. The old rate for direct premiums exceeding $15 million was 0.6%.

The 1989 amendments also reduced taxes on reinsurance written by Vermont captives.

Lower premium taxes definitely increased the appeal of establishing a captive in Vermont, said Mr. Jueds of Exxon, the sponsor of a captive that could produce $100 million in premiums this year.

While legislators did not modify the state captive act this year, some say the creation of a new position at the Department of Banking and Insurance could enhance captive regulation.

Deputy Insurance Commissioner Jeffrey Johnson recently succeeded veteran Commissioner Gretchen Babcock, who resigned to take a job with the Federal Reserve Board in Washington, D.C.

Mr. Meehan, the department's long-time director of financial examinations and top captive regulator, was promoted to deputy commissioner.

While director of financial examinations, Mr. Meehan was responsible for regulating both captives and commercial insurers. But a new regulator, who has not been named, will be responsible for only captives and will report to Mr. Meehan.

This will give captives "an even more distinct identity in Vermont" and at the department, pointed out Roger Teese, president of Hanna Insurance (Vermont) Ltd. in Burlington.

Upcoming changes at the gubernatorial level should result in continued strong high-level support for the Vermont captive industry, some say.

Continued on page 96

State officials limit access to captive data

MONTPELIER, Vt.—The Department of Banking and Insurance is further restricting the public availability of financial information for some single-parent captives domiciled in Vermont.

Requests for confidentiality by single-parent captives writing only related business automatically will be approved, the department says.

"We felt it was in the best interest to keep everything confidential," said Deputy Insurance Commissioner Edward Meehan. "The financial results of single-parent captives only doing related business are not a concern for the public."

Previously, financial information on Vermont captives had been generally available, but last year the department said it would consider requests from single-parent captives that most information in their 1988 annual reports be kept confidential.

After sponsors complained that disclosing net income and reinsurance arrangements and other information could give competitors an unfair advantage, regulators agreed to release only gross premium information for all single-parent captives that write related business.

The new restrictions will leave 1989 financial information for 44 single-parent captives that have requested confidentiality unavailable to the public. These companies produced premium volume of $412.7 million, just over half of the $806.9 million generated by all Vermont captives.

Regulators say information will remain available on gross written premiums, net written premiums and profits or losses for all other captives—single-parent captives with unrelated business, association captives and risk retention groups. ■

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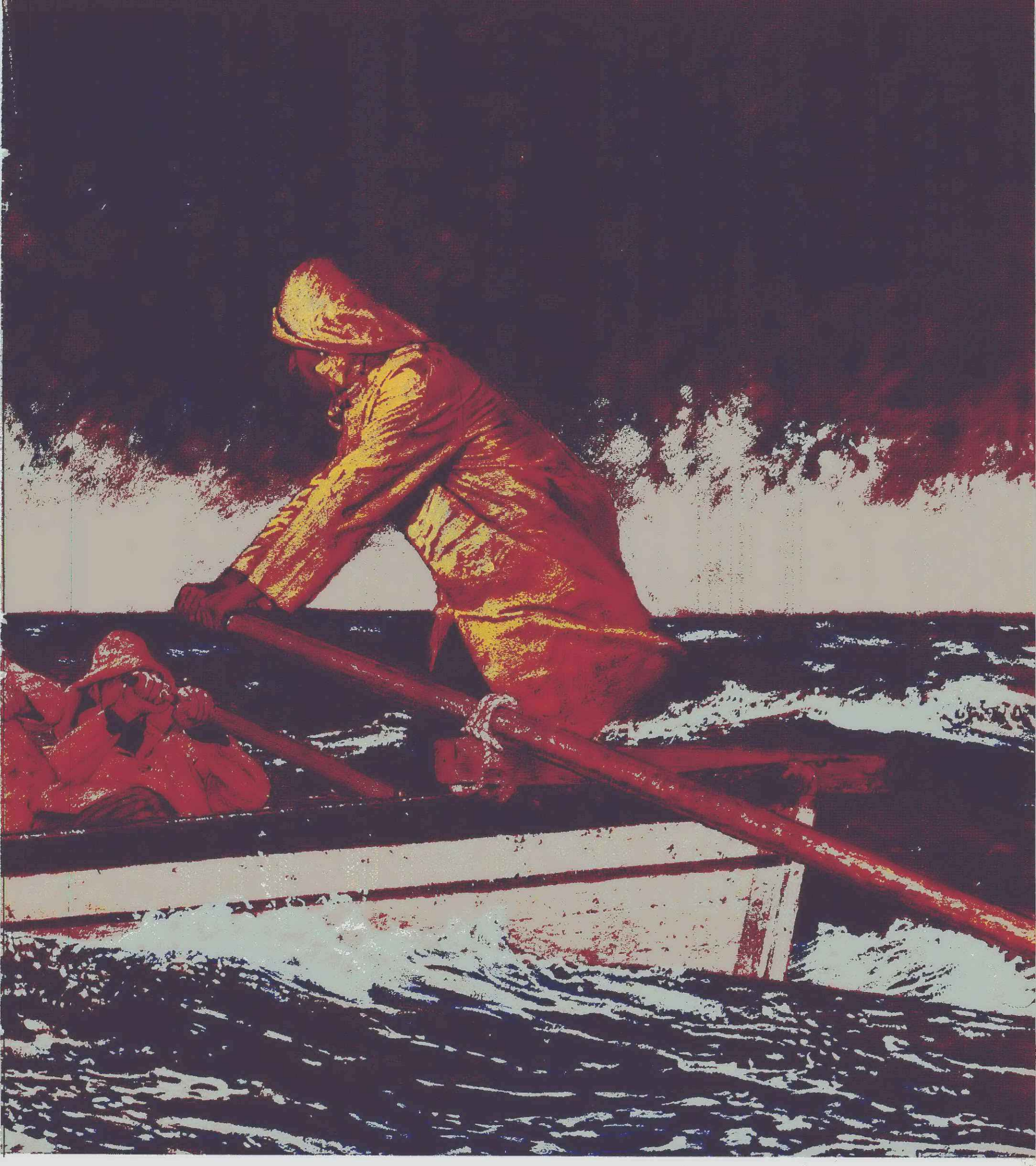

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Vermont captives

Continued from page 93

Democratic Gov. Madeleine Kunin announced this month that she will not seek a fourth term in November. The widely acknowledged front-runner to succeed her is Richard Snelling, a Republican, who was governor when Vermont passed its captive statute.

"He was a strong supporter of the captive movement when he was governor and that support certainly would continue if he was elected," said Hanna's Mr. Teese.

Observers note, however, that what makes Vermont different from other domestic domiciles is that support for captives never has wavered regardless of who was in the governor's or insurance commissioner's office.

"Our short history indicates that the Vermont captive industry has received unilateral support regardless of the political leanings of the administration," said Ray Oberg, a vp with M&M Insurance Management Services Inc. in Burlington.

"The captive legislation was proposed and passed under a Republican governor. It was enhanced under a Democratic governor. And the various legislatures have carried out the necessary changes," Mr. Oberg added.

Observers also say the current commissioner—Mr. Johnson—fully supports the growth of the Vermont captive industry as have his four immediate predecessors since the law was passed in 1981.

"Vermont recognizes that captives, as a financial services industry, are very important to the state. We never will be complacent. We always will be receptive and energetic," Mr. Johnson said.

By contrast, support for captives in Colorado has run hot and cold ever since the retirement of Richard Barnes as commissioner in the early 1980s.

And no other state devotes the resources to regulating and promoting captives that Vermont does, state observers say.

Indeed, the Department of Banking and Insurance uses 8% of the premium taxes paid by captives for captive-related purposes. The department also can transfer an additional amount—up to 2% of premium taxes—to a state agency solely for captive promotion.

Premium taxes also enable the department to support a seven-person staff—the largest of its kind in any state—exclusively involved in captive regulation.

The Department of Banking and Insurance has completely computerized its captive division. And, later this year, the division's personal computers will be linked as part of a local area network. This enhancement will assure that all staffers in the captive division will have the same access to the most-up-to-date information and can provide better service to captives and managers, said Peter L. Raymond, assistant chief insurance examiner-captives at the Department of Banking and Insurance.

On the eve of the 10th anniversary of the captive law, Vermont's future as a domicile has never been brighter, say managers.

"I see Vermont as Bermuda was a number of years ago. The potential here is enormous," said J&H's Mr. Cutts-Watson.

"There has been real solid captive growth here. It is possible, based on the way things are going, that some years down the road, we could rival Bermuda," said ARM's Ms. Westover.

That remains to be seen, but few would argue that Vermont is the leading U.S. captive domicile and a world-class domicile.

It is "the premier domestic domicile of choice for corporate America," said John P. Giesen Jr., president of AIG Captive Management Co. Inc. in South Burlington. ■

1981 law regulates captives

Requirements for captive insurance companies licensed under Vermont's Special Insurer Act of 1981 include:

- Minimum capitalization of $250,000 for single-parent captive insurers, $500,000 for industrial insureds and $750,000 for association captive insurers.

Approved letters of credit can be used.

- A multi-tier tax structure for direct and reinsurance premiums.

The first $20 million of direct written premiums are taxed at 0.7%. That rate falls to 0.5% for premiums from $20 million to $40 million; 0.3% for premiums from $40 million to $60 million; and 0.1% for higher amounts.

- Reinsurers are taxed at 0.25% on the first $20 million of reinsurance premiums assumed; 0.2% on reinsurance premiums assumed from $20 million to $40 million; 0.15% on reinsurance premiums assumed from $40 million to $60 million; and 0.1% for reinsurance premiums exceeding $60 million.

Very small captive insurance companies may pay a minimum annual premium tax on all captives of $5,000.

- Single-parent and industrial insured captive insurers file simplified annual financial reports; trade association captives use the National Assn. of Insurance Com-

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missioners' convention blank.

Financial reports are due Feb. 28.

• Captives can directly write all types of property/casualty insurance, except primary workers compensation coverage.

However, primary workers compensation coverages can be reinsured by a captive insurance company, while excess workers compensation coverage can be written directly or reinsured.

• A captive's financial records must be kept in the state and its directors must meet annually in Vermont.

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

In addition, a prospective captive must have its actuarial assumptions reviewed by one of five actuarial/risk management consulting firms selected by the department. The fee for this review is $1,200.

Vermont does not impose any minimum premium volume requirements or a specific premium-to-surplus ratio.

Rate and policy form approval is not required, and captive sponsors do not have to prove that insurance is unavailable or unaffordable.

For more information about Vermont captives, contact Edward Meehan, Deputy Insurance Commissioner, Vermont Department of Banking and Insurance, 120 State St., Montpelier, Vt. 05602; 802-828-3301. ■

Vermont managers see more growth ahead for domicile

By JERRY GEISEL

MONTPELIER, Vt.—Dominance of Vermont's captive industry by the largest managers continued unabated in 1989.

Premium volume increased 30.2%, to $682 million from $524 million in 1988 for the five largest firms—M&M Insurance Management Services Inc., American Risk Management Corp., Johnson & Higgins Services Inc., Hanna Insurance (Vermont) Ltd. and Alexander Insurance Managers.

Each of those five posted premium volume increases, with M&M and Alexander Insurance Managers combined accounting for 86% of the total increase.

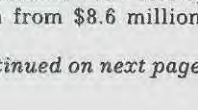
Of the next five largest captive managers, only one firm posted a premium volume increase of more than 30% and two saw premiums fall by more than a third.

And four of top five captive managers increased the number of captives they managed in 1989, while one's roster was unchanged.

Of next five, only Skandia International Risk Management (Vermont) Inc. added captives. The others either lost clients or their captive rosters held steady.

The top five command the lion's share of Vermont's captive management industry, as follows:

• Total managed premiums for the top five—$682 million—comprised a whopping 84.5% of the $806.9 million written by all Vermont captives.



• Among the five largest managers, the lowest managed premium volume was $68.4 million, while one company—M&M—was over the $300 million mark and two others—ARM and J&H—approached $100 million.

None of the remaining top 10 had $50 million in managed premium volume.

• The five largest managers also continue to dominate in the number of captives. Of the 151 licensed Vermont captives in 1989, the five companies managed 74.8%, up slightly from the 1988 figure.

Accounting for more than 40% of the state's captive premium volume, M&M Insurance Management Services Inc. of Burlington continues to tower over others.

Its managed premium volume was $354.4 million in 1989—up 36.2% from $260.3 million in 1988—making M&M close to four times larger than its closest competitor.

Since most of the 22 captives managed by M&M asked the Department of Banking and Insurance to keep their financial records confidential, pinpointing the size of the captives is difficult. However, it is widely acknowledged that those captives—including the insurance subsidiaries of Mobil Corp. and Phillips Petroleum Co.—are among Vermont's largest.

Late last year, M&M added another "mega-captive": Ancon Insurance Co. Inc., a unit of petroleum giant Exxon Corp. Its projected premiums of at least $100 million in 1990 could make it the state's largest captive.

In addition, M&M manages Vermont's two largest risk retention groups: MEDMARC Insurance Co. Risk Retention Group Inc. and United Educators Insurance Risk Retention Group Inc. MEDMARC's gross 1989 premiums were $30.7 million, up 20.4% from $25.5 million in 1988, while United Educators' premium volume rose 48.8% to $12.8 million from $8.6 million in 1988.

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Vermont managers

Continued from previous page

"We feel we had a very successful year in providing the highest quality services to our clients," said Ray Oberg, an M&M vp in Burlington.

American Risk Management Corp. remained Vermont's second-largest captive manager with managed premium volume of $97.7 million last year, up 9.5% from $89.2 million in 1988.

By adding four captives in 1989, ARM brought its total to 22, tying with M&M as the second-largest manager based on number of managed captives.

"It was a very good year and 1990 already is shaping up to be an even better year," said Kathryn Westover, ARM's vp of captive management operations in Burlington.

In first-quarter 1990, ARM added four captives.

"With an increase of four captives during the first quarter, a total of eight new captives by the end of the year is not an unrealistic target," she said.

Among those four was CPA Mutual Insurance Co. of America Risk Retention Group Inc., which previously was managed by Vermont Insurance Management Inc. It is one of the larger Vermont-based risk retention groups with 1989 gross premiums of $8.2 million.

ARM also manages subsidiaries of Cargill Inc. of Minneapolis and Archer-Daniels-Midland Co. of Decatur, Ill. With 1989 gross premiums of $28.1 million and $19.8 million, respectively, they were the second- and third-largest single-parent captives among those with public financial records.

Johnson & Higgins Services Inc. in Burlington is Vermont's third-largest manager—as measured by premium volume—but managed more captives than any other Vermont company.

Its premium volume increase—2.6% to $91.5 million from $88.9 million in 1988—was the smallest among the five largest companies. But its captive roster rose to 34 from 30, still Vermont's largest.

In fact, J&H won more new captive accounts—five—than any other manager. It also won one captive account from another manager, while two of its captives ceased operations last year, accounting for J&H's net gain of four captives.

"It was a very good year. We exceeded our budgeted numbers," said Malcolm Cutts-Watson, a J&H vp and branch manager.

He says 1990 already is shaping up to be potentially better than 1989.

'It was a very good year and 1990. . .is shaping up to be an even better year,' says ARM's Ms. Westover.

J&H added three captives in the first quarter of 1990 and Mr. Cutts-Watson believes his roster could swell by at least 10 this year.

"We are budgeting for 10 more captives and we are well on target to hit that number," he said.

With premium volume up 18.4%—to $70 million last year from $59.1 million in 1988—Hanna Insurance (Vermont) Ltd. was Vermont's fourth-largest manager.

However, the number of captives managed by Hanna—a joint venture between Smith, Bell & Thompson Inc., a Burlington-based insurance broker, and Cleveland-based M.A. Hanna Co.—held even at 14 as Hanna picked up one new captive and another withdrew.

"I think we will do better in 1990. We should get two and possibly four more captives," said President Roger Teese.

Owners of Hanna-managed captives include the University of Michigan, the General Conference of Seventh-day Adventists of Silver Spring, Md., and White Consolidated Industries Inc., an appliance manufacturer in Cleveland.

Alexander Insurance Managers had by far the largest premium volume increase—158.1%—among the largest captive managers. That increase helped propel the company up two positions to fifth in 1989.

Alexander Insurance Managers' managed premium volume leaped to $68.4 million last year, up from $26.5 million in 1988.

It was a "banner year," said Scott Frazier, an Alexander Insurance Managers vp in Burlington. "We had some pretty good numbers."

Continued on next page

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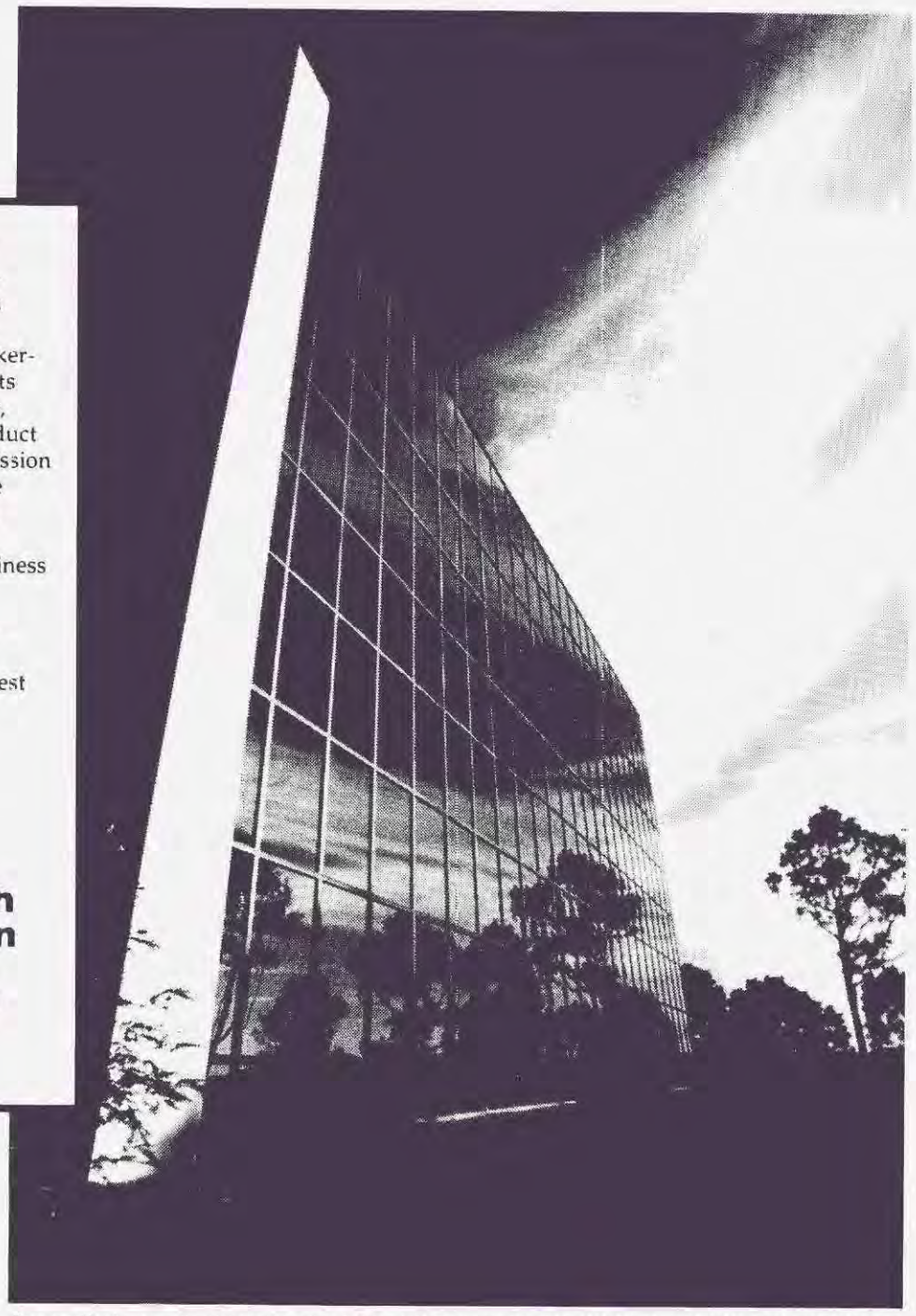

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Continued from previous page

He attributes the higher premium volume to winning new captive accounts—its captive roster increased to 21 in 1989 from 18 in 1988—as well as first-time underwriting by captives licensed late in 1988, but not writing business until last year.

Mr. Frazier said Alexander Insurance Managers, a unit of New York-based Alexander & Alexander Services Inc., could gain more captive accounts this year.

"Employers are getting very interested in captives because they believe that a hard market is coming," he said.

A 28.4% premium volume increase—to $44.7 million from $34.8 million in 1988—was not enough to keep Becher & Carlson Management (Vermont) from slipping one position to sixth among Vermont captive managers.

Almost 80% of the premiums managed last year by Becher & Carlson, a unit of American Re-Insurance Co., related to one of its three captives. Toyota Motor Insurance Corp. wrote $35.6 million in gross premiums last year—the largest amount among Vermont captives for which financial records are publicly available.

Becher & Carlson also manages captives of Hilton Hotels Corp. of Beverly Hills, Calif., and of Elixir Industries of Gardena, Calif. The number of captives it manages remains unchanged from 1988.

A sharp 37.4% decline in premium volume pushed Vermont Insurance Management Inc. down three notches to seventh among Vermont captive managers.

Its captive roster fell from 19 to 14, as it lost six accounts to competitors—five to Skandia and one to ARM—and added one newly established captive.

Vermont Insurance Management Vp and General Counsel Jon Harkavy attributes the loss of the captives to a difference in management and regulatory philosophy.

Vermont Insurance Management executives say they expect to recoup those roster losses.

"We expect to have five or six captives licensed during 1990," said President H. Lincoln Miller.

In the first quarter, the company added two new captives, including Plastics Industry Risk Retention Group Inc., which Mr. Miller says eventually could produce $10 million in annual premiums.

Vermont Insurance Management says it plans to seek trade association captive business by opening an affiliated office in the Washington, D.C., area.

That market "has barely been tapped," said Mr. Harkavy, a former director of governmental affairs with the Risk & Insurance Management Society Inc. in New York.

Despite having one of its three captives withdraw, eighth-ranked Yankee Captive Management Inc. in South Burlington saw managed premium volume rise 11.2% in 1989—to $12.9 million from $11.6 million in 1988.

That growth is the result of increased underwriting last year by a Yankee-managed risk retention group that provides coverage to housing authorities.

At ninth-ranked Skandia International Risk Management (Vermont) Inc., a Skandia America Group unit in Burlington, premium volume and the number of managed captives skyrocketed in 1989.

Premium volume rose 139.6%—to $12.7 million from $5.3 million in 1988—while its captive roster swelled to nine from two.

Much of that growth came from winning five captives from Vermont Insurance Management. Skandia also picked up two newly established captives.

"The captives wanted the resources and services that Skandia could offer," said George Chaffee, president of Skandia International Risk Management.

"It was a very gratifying year. We had some very good numbers," Mr. Chaffee said.

With premium volume off 42.4%—to $4.9 million in 1989 from $8.5 million a year earlier—Green Mountain Captive Management Co. in Barre, Vt., fell from number nine to 10 among Vermont managers.

Only one of the two captives Green Mountain manages wrote business last year. Green Mountain also managed two captives in 1988.

Other companies managing Vermont captives that wrote business last year include AIG Captive Management Co. Inc.; Arthur J. Gallagher & Co.; Parker Risk Management (Vermont) Inc., a unit of Frank B. Hall & Co. Inc.; and Sedgwick James Management Co. Inc., a unit of Sedgwick James Ltd.

Interest in captives is growing because it's feared 'a hard market is coming,' said Mr. Frazier.

AIG Captive Management—which opened a South Burlington office last year—currently manages only a captive sponsored by AT&T Credit Corp. of Morristown, N.J. John P. Giesen Jr. is president of the management firm.

Parker Risk Management and Sedgwick James Management recently opened Vermont offices.

"We know Vermont is a strong domicile and we want to be here to better meet client needs," said Ann Wick, a Parker assistant vp in Burlington.

Sedgwick James said its office in Waterbury, Vt., is a reflection of the firm's interest in providing services to companies that want to establish Vermont captives. Richard E. Schoneman is president of Sedgwick James Management Co. Inc.

Parker Risk Management now manages two Vermont captives, including a newly established risk retention group for South Florida hospitals, while Sedgwick James Management manages three Vermont captives, including a risk retention group providing coverage to machine tool builders.

In addition, Northern States Management Inc. in Waterbury Center manages one captive. That captive, which was licensed in late 1989, provides coverage to nursing homes and could develop an annual premium of several million dollars, said John Middleton, president of Northern States. ■

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New captives anticipated in Colorado

New law expected to fuel growth

By JOANNE WOJCIK

DENVER—Colorado's stagnant captive insurance industry is showing signs of new life in 1990 after spreading the word about the state's new, more liberal captive statute.

As many as 10 new captives could be formed in Colorado this year in response to amendments to the state's insurance law that, among other things, make it easier for offshore insurers to come ashore to this Rocky Mountain state (see story, page 101).

This compares with only two new formations in both 1989 and 1988. Currently, 24 licensed captives are operating in Colorado—unchanged from year-end 1989 but up from 23 at the end of 1988, according to the state's Division of Insurance.

While this year's expected formations are most likely to be single-parent insurers, at least one risk retention group is in the works.

This recent surge in activity also has been evident in captive support services in the domicile, with one new captive manager being formed in 1989 and at least two others beefing up their professional staff.

But even though many Colorado captive managers are hoping for new captive formations this year, others are less optimistic, saying that many parent companies still are hesitant to form captives in the domicile.

"We've made a lot of changes to make it easier to form captives in Colorado," said Richard Johnson, president and chief executive officer of Alternative Insurance Management Services Inc. in Englewood, Colo., the state's newest manager.

Mr. Johnson was a member of the Advisory Committee on Insurance and Economic Development appointed by Gov. Roy Romer in June 1988 to explore methods by which the state could attract and retain insurance business, including captive insurance companies.

AIMS manages two Colorado captives: MSJ Insurance Co., which had been managed by Mr. Johnson's former employer, M&M Insurance Management Services Inc.; and Neumann Insurance Co., which had been managed by Johnson & Higgins of Colorado Inc.

In addition, AIMS is courting three prospective clients, one of which is an existing captive considering relocating to Colorado, Mr. Johnson said.

AIMS is co-owned by Mr. Johnson and the owners of the two captives it now manages, which "thought it was a good time to establish a captive manager," he explained.

MSJ is owned by Sisters of Charity Healthcare Systems Inc. of Cincinnati, and Neumann is owned by the Franciscan Health Systems of Philadelphia.

While both of the captives underwrite professional and general liability coverages for hospitals and nursing homes, AIMS will not cater strictly to those types of risks, according to Mr. Johnson.

Gwyn Shuel, vp and chief operating officer of Parker Risk Management (Colorado) Inc., agrees with Mr. Johnson's assessment of business conditions.

"The changes in the statutes have provided a little more friendly climate," she said. "It's going to put Colorado in a more competitive state with other U.S. domiciles."

Parker, an Englewood, Colo.-based captive management subsidiary of New York broker Frank B. Hall & Co. Inc., organized a new facility in 1989, bringing Parker's roster to 10.

Parker's new captive, The University of Colorado Insurance Co., was formed by the university's board of regents in July 1989 with $1.5 million in initial capitalization.

The insurer underwrites workers compensation, auto liability, general liability and property coverages for all university facilities.

Parker also is working on the formation of a captive that would underwrite workers compensation coverage for another Colorado-based employer, which is forming the captive in response to an anticipated surge in Colorado work comp rates.

Ms. Shuel predicts that more single-parent workers comp captives will be formed in Colorado as well as in other U.S. domiciles since the Risk Retention Act of 1986 does not permit risk retention groups to underwrite workers compensation insurance, which has become one of employers' most expensive types of coverage.

To increase its capabilities at the accounting level, Parker last year added a certified public accountant to its staff, Ms. Shuel said.

In 1989, Parker managed captives with a total of $14.6 million in written premiums, according to the Insurance Department.

Risk Consultants Inc. also beefed up its staff last year in anticipation of a captive boom, according to Principal Consultant Michael Murphy.

The Denver-based captive manager and risk management consulting firm added an auditor with a strong statutory accounting background in response to changes in the Colorado captive law dealing with captive's annual reports.

Although Risk Consultants managed only one Colorado captive in 1989—Constance Insurance Co.—the company is helping move a Bermuda-based captive, formerly known as PHM Indemnity (Bermuda) Ltd., onshore this year. The captive will be incorporated as North American Builders Indemnity Co. in Colorado.

The captive, which is owned by Bloomfield Hills, Mich.-based Pulte Homes Corp., has been approved by the state and is only awaiting an organizational examination before becoming licensed, Mr. Murphy said.

North American Builders Indemnity, which will be capitalized with $2 million, will write real estate errors and omissions coverage for Pulte on a claims-made basis with primary limits of $5 million, and general liability on an occurrence basis with a $2 million combined single limit.

Risk Consultants also is working with a risk retention group that filed an application with the Insurance Department March 1 and is "perhaps four weeks away from licensure," Mr. Murphy said.

In addition to these two facilities, "we've got three or four other projects that are on the drawing board," he commented.

"In the soft cycle, I didn't expect this kind of activity," he said.

Mr. Murphy sees two other events as contributing to Colorado captive growth besides the amendments to the state's insurance law:

- The Tax Reform Act of 1986, which eliminated many of tax advantages of offshore captives.
- An increased willingness by reinsurers to underwrite coverage for well-capitalized U.S.-based captives.

"Colorado is really in the catbird seat right now," Mr. Murphy said.

Colorado also is better positioned geographically than other U.S. captive domiciles, he said. "It's probably the only state between California and Illinois that can support these activities. We've got a good infrastructure here to service captives."

And plans to build a second airport in the Denver area also should enhance Colorado's attractiveness as a captive domicile, AIMS' Mr. Johnson pointed out.

However, some captive managers are less optimistic about Colorado's future as a captive haven.

While "the tax act of '86 obviously removed any advantages of a U.S. company having a captive offshore, we don't expect a large exodus," said Ray Oberg, vp in charge of domestic captive operations at M&M Insurance Management Services Inc. in Burlington, Vt., a unit of broker Marsh & McLennan Inc.

M&M managed seven Colorado captives in 1989, which is two fewer than the previous year, Insurance Department records show.

However, the manager did organize one new captive: Southern Surety Inc., owned by Allwaste Inc., a Houston-based environmental services company.

The captive was initially capitalized at $2 million and will under-

Continued on next page

Colorado-based captives

Management Captive/Parent	Gross written premiums	Net income	Management fee
Parker Risk Management (Colorado) Inc.			
Arroyo Insurance Co. Lear Siegler Inc.; Livingston, N.J.	$0	$44,100	$34,500
Chesapeake Casualty Insurance Co. Chesapeake Physicians P.A.; Baltimore	334,908	-378,750	31,500
Clifton Casualty Insurance Co. Emory University; Atlanta	2,132,250	-746,903	99,996
Greenway Insurance Co. American Medical International Inc.; Costa Mesa, Calif.	0	763,049	24,000
Havican Insurance Co. Holy Cross Shared Services Inc.; Notre Dame, Ind.	11,243,383	8,111,563	68,813
Interstate Indemnity Co. CLC of America Inc.; Houston	899,616	325,359	35,000
Lombardy Insurance Co. Clougherty Packing Co.; Los Angeles	0	655,012	60,000
United Insurance Co. Empire Gas Corp.; Lebanon, Mo.	0	32,367	18,000
University of Colorado Insurance Corp. University of Colorado Board of Regents	Did not file report with state		
Wescap Insurance Co. National Welding Supply Assn.; Philadelphia	Did not file report with state		
M&M Insurance Management Services Inc.			
Aurora Indemnity Insurance Co. Bay Alarm Co.; San Francisco	Did not file report with state		
Colbourne Insurance Co. Coastal Corp.; Houston	214,026	230,775	12,966
Insurance Co. of Colorado Inc. Darling-Delaware Co. Inc.; Chicago	Did not file report with state		
Manufacturers Indemnity & Insurance Co. of America Inc. R.D. Werner Co. Inc.; Greenville, Pa.	Did not file report with state		
Mountain View Insurance Co. W.R. Grace & Co./Hanna Mining Co.; Greenville, Pa.	665,288	625,947	28,019
Panol Insurance Co. U.S. Pan American & Olympic Committee; Denver	Did not file report with state		
Southern Surety Inc. Alwaste Inc.; Wilmington, Del.	1,795	11,528	28,894
Alexander Insurance Managers Inc.			
Coachman Insurance Co. IU International Corp.; Philadelphia	33,000	280,509	31,082
Sunset Insurance Co. Santa Fe Pacific Corp.; Chicago	0	1,403,567	22,632
Alternative Insurance Management Services Inc.			
MSJ Insurance Co. Sisters of Charity Healthcare Systems Inc.; Cincinati	11,724,980	3,158,720	732,976
Neumann Insurance Co. Franciscan Health Systems; Philadelphia	Did not file report with state		
Lockton Risk Services of Colorado			
Midwestern Liability Insurance Risk Retention Group Inc. Deffenbaugh Industries, Industrial Service Corp. and Mid-Continent Fuel Co. Inc.; Kansas City, Mo.	Did not file report with state		
Risk Consultants Inc.			
Constance Insurance Co. Crawford Fitting Co.; Cleveland	Did not file report with state		
Managed by parent			
Weld Insurance Co. Inc. Monfort of Colorado Inc.; Denver	Did not file report with state		

BI/CYNTHIA WATSON

Colorado captive managers

Manager Parent	Premium volume 1989	Premium volume 1988	Captives 1989	Captives 1988	Staff 1989	Staff 1988
Alternative Insurance Management Services Inc.	$21,400,000	0	2	0	7	0
Parker Risk Management (Colorado) Inc. Frank B. Hall & Co. Inc.	14,600,000	$16,900,000	10	11	11	9
Alexander Insurance Managers Alexander & Alexander Services Inc.	33,000	951,113	2	2	1	1
M&M Insurance Management Services Inc. Marsh & McLennan Inc.	N/A	45,100,000	7	9	7[1]	7[1]
Risk Consultants Inc.	N/A	993,297	1	1	11	8
Lockton Risk Services of Colorado	N/A	250,000	1	1	25	9

1 *BI* estimate N/A Not available

Source: Company reports

BI/JOHN HALL

Continued from previous page
write surety coverage for its parent company.

The two captives M&M lost are Columbine Casualty Co., which was dissolved in July 1988, and MSJ Insurance Co., which is now managed by AIMS.

Captives are "looking for a stable regulatory environment, which Colorado hasn't shown in the past," observed W. Scott Frazier, regional director of U.S. operations at Alexander Insurance Managers, a Burlington, Vt., captive management subsidiary of broker Alexander & Alexander Services Inc.

"Eventually Colorado may get back in the game," but today, "clients see Vermont as more attractive," he added.

Alexander Insurance Managers currently manages two Colorado captives: Coachman Insurance Co. and Sunset Insurance Co. However, Coachman stopped writing new business as of May 1, 1989, and Sunset's parent, Santa Fe Southern Pacific Corp., plans to merge Sunset with a Vermont captive that was formed earlier this year by Alexander Insurance Managers.

Another captive manager that is a subsidiary of a large broker, Johnson & Higgins of Colorado Inc., is not actively soliciting business in Colorado, according to Robert W. Stevenson, vp in J&H's Denver office.

J&H had managed Neumann Insurance Co. last year, but lost that account to AIMS.

However, both Mr. Stevenson and Arthur Korazinski, manager of J&H's Burlington, Vt., captive management office, say that changes in Colorado's captive statute could eventually spur some additional activity in the domicile.

The changes "are causing some people to take a second look," said Mr. Korazinski. "If you combine the changes with a hard market, you could see some activity."

What could prohibit growth in Colorado, Messrs. Stevenson and Korazinski say, is the state's 1% premium tax, which is substantially higher than premium taxes in other U.S. captive domiciles. For instance, the tax in Vermont ranges from 0.7% on the first $20 million of premiums to 0.1% for premiums greater than $60 million.

But Risk Consultants' Mr. Murphy says Colorado is serious about fostering captive growth, having thoroughly researched its insurance law and that of its competing domiciles before making any changes.

"It was the most intelligent way this was ever done," he said.

The governor assembled representatives from all facets of the industry to participate in rewriting the state's insurance law, Mr. Murphy said, referring to the Advisory Committee on Insurance and Economic Development.

The committee, which was chaired by former Insurance Commissioner John Kezer, initially didn't focus on captives, but rather on the insurance industry as a whole since Gov. Romer had promoted Colorado as an international insurance center during his gubernatorial campaign.

Because of the committee's broad scope, the Colorado statute was amended not to compete with other U.S. captive domiciles, but rather to take on Bermuda, the largest offshore captive market.

"Colorado's not copying Vermont," the largest domestic captive domicile with 151 captives, insisted ARMS' Mr. Johnson. Colorado "was the first state to pass a captive law," and therefore is a leader, not a follower, he said.

"The reason we changed the law in 1989 was to be more like Bermuda," agreed Samuel Fisher, insurance manager at Denver-based Hamilton Oil Co., who helped draft the new captive statute.

"We wanted to make a favorable regulatory and legislative environment for captives," explained Colorado Insurance Commissioner Joanne Hill. "Economic development is high on the governor's list and on our own list."

As part of this effort, the state will be touting its changes at this week's Risk & Insurance Management Society conference in Boston.

While admitting that Colorado took its time in amending its captive statute, Mr. Fisher said it wanted to be careful.

In fact, the committee fine-tuned some of the changes it initially proposed after the Colorado attorney general read it and gave it a narrow interpretation.

"It was still a learning process because even though Colorado had the first captive law, it never really marketed itself," Mr. Fisher said.

But today, "more and more people are considering Colorado," he said.

In fact, Mr. Fisher said that Hamilton Oil, which has a Bermuda captive called HB Insurance Co., "would now consider Colorado as a domicile." ■

Colorado alters 1972 law

DENVER—With the Captive Insurance Company Act of 1972, Colorado became the first state to authorize the formation of domestic captives.

Since then, the General Assembly has amended the law twice.

In 1987, H.B. 1232 authorized the formation of risk retention groups in response to the passage of the Federal Liability Risk Retention Act of 1986.

And in 1989, S.B. 107 clarified technical points and added new provisions.

Under the most recent amendments:

- Single-parent captives may make loans to their parent companies. Captives may make the loans from their funds in excess of the state's minimum requirements of $300,000 in capital and $200,000 in surplus.

However, parent companies must hold a Standard & Poor's debt rating of "AA," a Moody's long-term debt rating of "AA" or other equivalent ratings.

The total amount of all loans to the parent must not exceed 10% of the parent's total assets. Also, the parent or its subsidiaries must provide a clean and irrevocable letter of credit equal to the amount of the loan.

- Single-parent captives are exempt from filing policy forms and rates with the Division of Insurance. However, association captives still must file forms and rates with the department.
- Unrestricted investments may be made by either single-parent captives or industrial insured captives. Industrial insured captives are defined as a collection of entities in which each member has a full-time risk manager, has a minimum of 25 full-time employees and has a minimum aggregate annual insurance premium for all risks of $25,000.
- Captives may be formed by entities other than stock corporations. This provision mainly clarifies that the captive law permits formation of captives by associations of individual professional practitioners or groups of corporations or partnerships.
- Captives may request and the commissioner can approve an extension on the required filing date for annual reports. Captives must file an annual report with the Division of Insurance by March 1, but they now can receive an extension up to July 1.
- The commissioner may request that a captive retain independent

Continued on next page

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Spotlight report

Colorado law

Continued from previous page

outside insurance examiners to supplement the Insurance Division evaluations 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.

- The financial report for pure and industrial insured captives can be in the form of either the National Assn. of Insurance Commissioners' convention blank or of an audited certified public accountant financial statement prepared in accordance with the principles of statutory accounting practices.

Colorado's 1972 law includes these requirements for incorporating a captive:

- Home offices must be in Colorado, and all books, records and claims handling documents must be maintained in the state.
- Captives must pay an initial application fee of $200 and an annual $300 fee.
- Captives may only insure the risks of their parents or affiliates.
- Single-parent captives must have a minimum capital of $300,000 and minimum surplus of $200,000. Association captives must have minimum capital of $400,000 and minimum surplus of $350,000.
- Captives must pay a 1% annual premium tax to the Division of Insurance.
- Captives may be formed as risk retention groups only if they meet the definition of an industrial insured group.

For more information, contact Joanne Hill, Commissioner of Insurance, Division of Insurance, 303 W. Colfax Ave., Suite 500, Denver, Colo. 80204; 303-620-4300.

—By Joanne Wojcik

Despite new law, Tennessee is quiet

By STACY ADLER

NASHVILLE, Tenn.—A new state law allowing large, unaffiliated companies in different industries to form group captives so far is not stimulating growth in this sleepy domicile.

However, with the new law less than a year old, it may be too soon to judge its effect, said Dick Duvall, executive vp-risk management services with captive manager Sedgwick James Inc. in Nashville.

"It takes time for people to do feasibility studies and make the decision to form a captive," he said.

Tennessee is home to 14 captives, compared with 13 in April 1989. One of the 14 is inactive and another is running off its business.

The new captive, a risk retention group formed in September 1989, writes medical malpractice insurance.

Corroon & Black Corp. manages four captives through its National Accounts Services Division and Sedgwick James manages three.

State regulators say the current growth pace is fine with them.

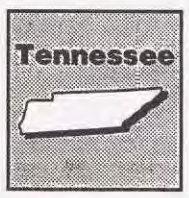
Tennessee has not and will not actively market itself as a captive domicile, said Bill Hosea, director of financial affairs for the Department of Commerce and Insurance.

"We will be concentrating more on monitoring the captives we have," he said.

Captive managers had predicted that allowing the formation of "industrial insured" captives would spur growth in Tennessee.

Under that law, groups of companies that meet certain requirements can form a captive even if they are not related by association or industry. A member of an industrial insured captive must pay at least $25,000 in insurance premiums annually, have at least 25 full-time employees and have a full-time risk manager on staff.

The law requires industrial insured captives to maintain $1 million in capital and surplus, the same as group captives in the state. Single-parent captives must have $750,000 in capital and surplus.



"The industrial insured category will be used at some point," predicted Sedgwick James' Mr. Duvall. And "if Tennessee wants to become a more successful domicile, it is going to have to promote itself as a captive domicile," he added. "That is the major challenge."

United Physicians Insurance Risk Retention Group is the only captive formed in Tennessee last year. It is managed by Liability Insurance Operations Network in Memphis.

It writes professional liability coverage on a claims-made basis for physicians and dentists in the nonprofit United Physicians Assn.

United Physicians, which was capitalized at $2 million, offers policy limits of $1 million per claim, with a $3 million aggregate. There is no deductible.

The risk retention group is reinsured by Anglo American Insurance Co. Ltd. The captive retains $250,000 of each risk and reinsures $750,000.

Anglo American wrote 45% of the troubled H.S. Weavers (Underwriting) Agencies Ltd. line slip until two weeks ago, when it parted with Weavers (*BI*, April 23).

Louis Coppage, national coordinator of United Physicians, said: "We are unaffected by the Weavers' slip."

United Physicians writes coverage for 500 members in the District of Columbia and nine states.

"By the end of 1990, we will be writing in 27 states," Mr. Coppage predicted. The captive hopes to be writing coverage in all 50 states by the end of 1991, he said.

Mr. Coppage noted that all members are required to take continuing education classes in risk management.

"We hope this will reduce the number of claims," he said.

One Tennessee captive—UHC Risk Retention Group Mutual Insurance Co., owned by a group of university hospitals—is inactive.

Another—Pinkerton's Insurance Co. Inc.—is running off its book of business. Pinkerton's wrote workers compensation and general liability insurance with limits of between $250,000 and $500,000 for New York-based security and investigative services firm Pinkerton's Inc.

Tennessee's other captives are:

- American Psychiatric Assn. Risk Retention Group, owned by the American Psychiatric Assn.
- Anesthesiologists Professional Assurance Co., owned by a group of anesthesiologists.
- Century American Insurance Co., owned by Coastal Group Inc. of Durham, N.C.
- Clinic Mutual Insurance Co., owned by community clinics in California.
- Distributors Insurance Co., owned by members of the Tennessee Valley Public Power Assn. of Chattanooga, Tenn.
- Financial Services Insurance Co. of Tennessee, owned by Deutz-Allis Corp. of Milwaukee.
- Hospital Underwriting Group Inc., owned by a group of hospitals.
- NLC Mutual Insurance Co., owned by public entities.
- National Guardian Risk Retention Group Inc., owned by emergency room physicians.
- North American Indemnity Co., owned by C.W. Matthews Co. Inc., a Marietta, Ga.-based highway contractor.
- Parthenon Insurance Co., owned by Nashville-based Hospital Corp. of America.

State law sets minimum gross premium volume for single-parent captives $500,000. For group captives, the minimum is $1 million in gross premiums each year.

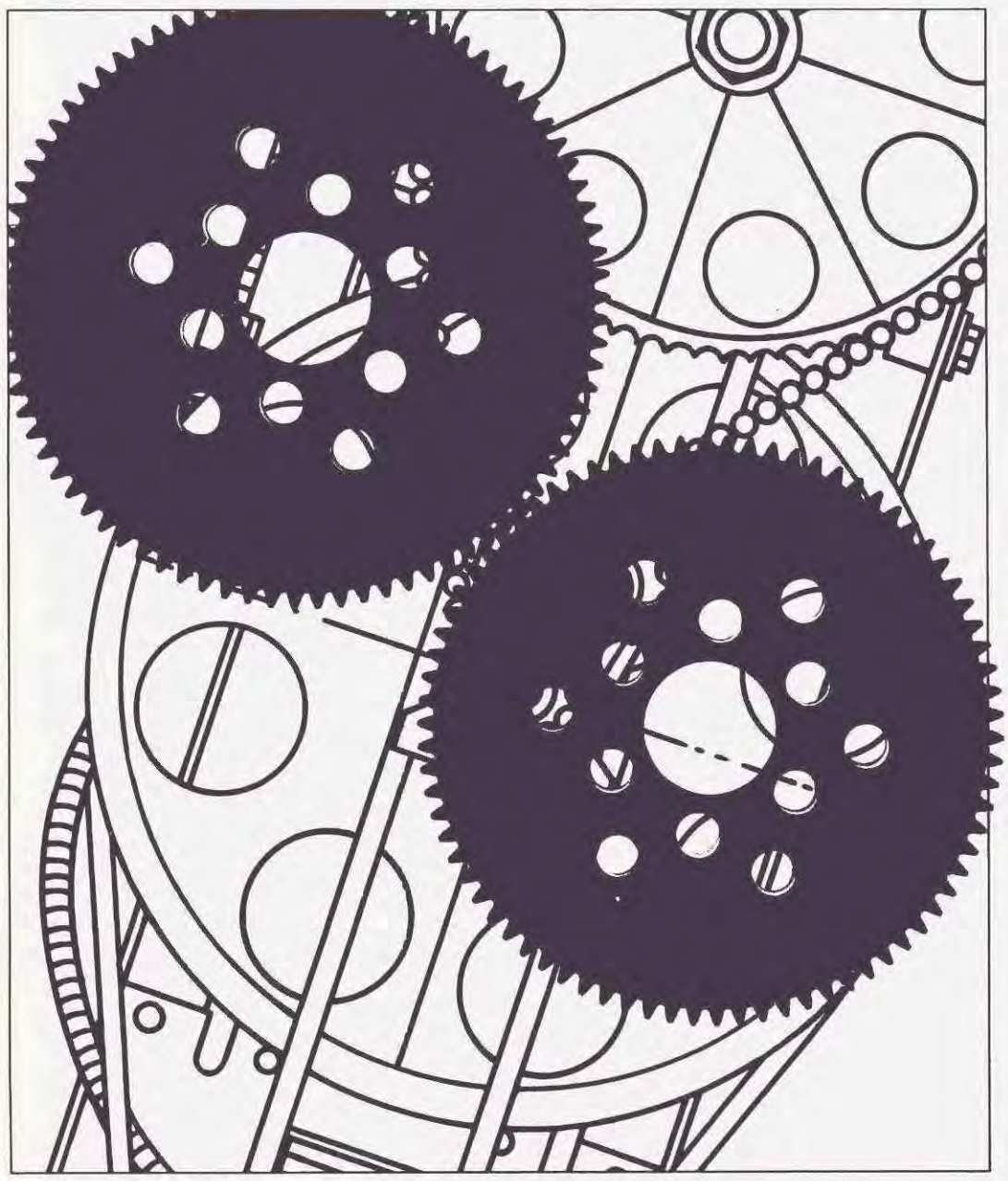
Regulatory fees are $5,000 for single-parent captives and $10,000 for group captives.

In addition, Tennessee-domiciled risk retention groups with out-of-state members must pay a $10,000 regulatory fee, under a 1987 Tennessee law.

Before the 1987 law, Tennessee would not license risk retention groups that wrote coverage for members outside the state, because Tennessee's captive law did not provide a mechanism for taxing captive policyholder's premiums that were also subject to taxation in another state.

Captives can offset the fee by the amount of premium tax paid to the state.

For more information, contact: Bill Hosea, Director of Financial Affairs, Tennessee Department of Commerce and Insurance, 500 James Robertson Parkway, Nashville, Tenn. 37219; 615-741-1692. ■



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Because Details Count

Hawaii begins to meet expectations

By LOUISE KERTESZ

HONOLULU—Hawaii, which experts a few years ago predicted would become a booming captive domicile, is slowly beginning to live up to its expectations.

The state was home to 10 captives at the end of last year, up from five in 1988. Another was licensed early this year and one more is expected to be licensed on May 1.

Hawaii also has gained two captive managers in the past year.

With the influx of "reputable players" and a "most appropriate array of laws, restrictions and infrastructure, I think any company west of the Rockies has to look to Hawaii" as a domicile, said Insurance Commissioner Robin Campaniano.

Several more captives are in the formative stages, including two that are being formed by the island's newest captive manager, Marsh & McLennan Inc., said Rocco Sansone, an M&M vp in Honolulu.

Despite this activity, "the soft market has not led to the projected increases that we or other domiciles anticipated," Mr. Campaniano noted.

One casualty of the soft market was Western Auto Dealers Insurance Co., an association captive that is no longer writing business, said Jerome Aperton, senior vp at Sedgwick James Inc. in San Francisco, the captive's manager.

"There's too much competition" from commercial insurers, he said.

In March 1989, Western began to write claims-made general liability insurance for member dealers of the San Francisco-based Western Auto Dealers Assn. (*BI*, April 10, 1989).

The captive will be ready to write business again when the market turns, said Mr. Aperton.

Despite the soft market, captive activity is brisk in Hawaii because "many companies forming captives are insuring difficult lines where the market never got soft," pointed out Arthur Koritzinski, vp at Johnson & Higgins Services Inc. in New York.

"Workers comp is not affected by the hard market or the soft market," said Alan Troop, president of Jardine Risk Management Inc., which manages a Hawaiian captive formed last year to write workers comp insurance for its parent.

Risk managers considering captive formation are "very interested in controlling their costs, in loss control and claims payment. They want consistency and stability over the long-term," said Bruce Bachle, president and chief executive officer of Rollins Burdick Hunter of Hawaii Inc. RBH of Hawaii began managing its first captive in February.

According to the Hawaii Insurance Division, the four captives formed since April 1989 are:

- Bancorp Hawaii Insurance Services Ltd. Its parent—Bancorp Hawaii Inc.—is a holding company for Bank of Hawaii, the state's largest bank.

Managed by J&H Services Inc., Bancorp was capitalized "at one of the higher levels," said Lindley Chang, assistant vp and risk manager at Bank of Hawaii and vp-manager of the captive.

Bancorp currently writes bankers professional liability coverage for its parent. "We sought to insure what we were not able to secure in the commercial market," Ms. Chang said. "We anticipate adding other coverages. We're looking (to the captive) for other property and casualty exposures," she added.

- Entertainment Risk Management Insurance Co., whose parent is DISC, headquartered in Burbank, Calif., which supplies temporary production personnel and accounting services for the entertainment industry.

Entertainment Risk Management has written more than $10 million in workers compensation premiums since it was established in April 1989, said Mr. Troop of Jardine, which manages the captive.

Entertainment Risk Management is Jardine's first Hawaiian captive under management. It hopes to have "about three more" licensed this year, Mr. Troop said.

- CAP Insurance Co. Inc., owned by Pacific Marine & Supply Co. Ltd., a marine repair and asbestos abatement firm in Honolulu. Sedgwick James of Hawaii Inc. is its manager.
- Mid-Pacific Insurance Co. Inc., whose parent is Robert's Hawaii, Inc., a Honolulu-based firm which operates a fleet of vehicles for the handicapped.

It is Rollins Burdick Hunter's first Hawaiian captive.

Formed Feb. 2, Mid-Pacific writes general liability, garage liability, auto liability and surety coverage.

Another captive, Casualty Insurance Hawaii Ltd., is expected to be licensed May 1, the Insurance Division said. The captive, which will be self-managed, is being formed by Wimberly Allison Tong & Goo of Honolulu, an architectural firm.

Casualty Insurance Hawaii will write errors and omissions coverage.

Sedgwick James is the largest captive manager in the state, with six captives under management, not including one company that has never been activated, Mr. Aperton said.

Besides CAP and Western Auto Dealers, Sedgwick James also manages: K-M Insurance Co. Inc., whose parent is Kelly Moore Paint Co. of San Francisco; College Liability Insurance Co., an association captive formed by seven colleges; and California Hospital Insurance Co. Inc., a risk retention group writing medical malpractice insurance for California Hospital Assn. members.

Another captive, Royal Hawaiian Insurance Co., which is owned by

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Hawaii

Continued from previous page
Duty Free Shoppers Limited Partnership of Honolulu and San Francisco, is jointly managed by Sedgwick James and Hawaiian Captive Insurance Management Co. Inc. of Honolulu, Mr. Aperton said. Royal Hawaiian wrote $1.5 million in direct premium in 1989, according to the Division of Insurance.

Captives managed by Sedgwick James wrote gross premiums in 1989 exceeding $10 million, Mr. Aperton said.

Sedgwick James is currently helping to form another captive, Shamrock Insurance Co., whose parent is ARB Co. of Bakersfield, Calif., a pipeline company, Mr. Aperton said.

J&H Services manages two other captives besides Bancorp Hawaii. It manages PacTel Reinsurance Co., which is owned by Pacific Telesis Group of San Francisco. In addition, J&H Services also picked up Surety Pacific Insurance Co., the first captive formed in Hawaii, from Sedgwick James when Surety's parent—San Francisco-based paint manufacturer O'Brien Corp.—switched brokers to Johnson & Higgins last year, said Graeme Harper, vp at J&H Services.

J&H-managed captives wrote a total of $10 million in premium last year.

"We anticipate adding at least three (Hawaiian captives) this year," said Mr. Koritzinski. "We plan to focus our marketing efforts in cities on the West Coast," he said.

Mr. Koritzinski said J&H made a significant commitment to its Hawaiian captive management operation by hiring the island's first on-site captive manager, Craig Watanabe, a certified public accountant who started work April 17. All basic services for J&H-managed captives are now provided on the island.

RBH has "at least two" other captives in the works—both with Hawaii-based parents—and is working with RBH affiliates to attract mainland-based companies, said Mr. Bachle.

While Hawaii's captive law was heavily amended in 1988, a change in the law approved last year requires the insurance commissioner to keep confidential "all non-public financial information of a captive" or its parent, unless the captive gives prior written consent. However, the commissioner may make the information public after giving the captive three days' notice if he deems it in the interest of policyholders, shareholders or the public.

And while Hawaii continues to allow the insurance commissioner to determine how much capital a captive must have before writing policies, guidelines will be established in recognition that "there are managers out there that want targets" for minimum capitalization, Mr. Campaniano said.

Minimum capitalization will be $250,000 for single-parent captives and $750,000 for association captives, he said.

Captive managers praise the accommodating regulatory environment in Hawaii.

J&H's Mr. Koritzinski says the "Hawaiian legislation is very broad-based," with many points "left to the discretion of the department."

Once all a captive's paperwork is submitted, it takes 60 to 90 days for the department to approve the application, "as opposed to up to six months in some of the other domiciles," RBH's Mr. Bachle said. ■

Hawaiian law gets 'cleanup'

HONOLULU—Single-parent and association captives are permitted under Hawaii's captive law, which became effective in July 1987.

Major amendments were passed the following year (*BI*, July 25, 1988) and the law also received a minor "cleanup" last year to make it "more user-friendly," said one captive manager. For example, a confidentiality clause was added (see related story).

Hawaiian captives can write property/casualty insurance for their parents only, including marine and transportation insurance, surety and title insurance, workers compensation coverage, and credit life and credit disability insurance relating to transactions between parents and affiliates and their directors, officers and employees.

Other requirements for Hawaiian captives include:

- A minimum of one board of directors meeting held in Hawaii annually.
- Maintaining the captive's principal place of business in the state.
- Appointment of a resident agent to represent the captive locally.
- A non-refundable fee of $1,000 for the captive license application and an annual registration fee of $300.

Capital requirements are determined by the State Insurance Division on an individual basis, but formal guidelines that will establish minimum capitalization targets are being drawn up.

Premium tax rates are 0.25% for single-parent captives and 1% for association captives and risk retention groups.

Captives must file financial statements that conform to generally accepted accounting principles. Association captives and risk retention groups must also submit annual statements in accordance with statutory accounting practices.

Actuarial opinions by loss reserve specialists must accompany the statements.

For more information, contact Robin Campaniano, Insurance Commissioner, Division of Insurance, 1010 Richards St., P.O. Box 3614, Honolulu, Hawaii 96811; 808-548-5450. ■

Illinois regulator is encouraging captive formation

SPRINGFIELD, Ill.—Illinois Insurance Director Zack Stamp wants to make it clear where his state stands on the formation of captive insurance companies.

"We want to encourage them. We want to assure them they will be regulated fairly," said Mr. Stamp.

Promoters of Illinois as a domicile point to 1989 changes in the captive statute as signs of the state government's commitment to becoming a premier domicile.

The changes, which took effect Sept. 1, allow captives to reinsure workers compensation insurance written by fronting insurers; allow owners to post required capital and surplus through subordinated debt; and liberalize the use of letters of credit to meet capital and surplus requirements (*BI*, Oct. 2, 1989).

"The 1989 amendments were agreed to by the Insurance Department, which is an indication of the flexibility of the department," said Tomas M. Russell, a partner with the Chicago law firm Hopkins & Sutter and chief architect of the

Continued on next page

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Continued from previous page
state's 1987 captive law.

The captive statute requires initial capitalization of $2 million and a $3,500 application fee. Under the law, captives are exempt from premium taxes, but net income derived from insuring Illinois risks is taxed at a rate of 7.3%, which is scheduled to drop to 6.5% on July 1, 1991.

Despite regulators' pro-captive stance, only eight have domiciled in Illinois since the captive statute took effect in 1987.

There currently are four association captives, three industrial insureds and one pure captive. Association captives are formed by trade or business associations, while industrial insureds are formed by companies in the same industry but not bound by a formal group.

Only two of the eight were formed in 1989: Rubicon Insurance Co., formed by Northwestern University in Evanston, Ill., to write medical malpractice insurance for the university's hospitals, and Premier Excess Insurance Co., which writes medical malpractice insurance for a group of seven hospitals.

And one captive, Environmental Protection Insurance Co. Risk Retention Group, stopped underwriting in December, though it will continue to honor policies in force (*BI*, Jan. 15).

Mr. Russell said that because EPIC's decision to stop writing new business stemmed from market, rather than regulatory, conditions, its withdrawal should have no impact on Illinois' desirability as a domicile.

One major reason for the state's failure to catch on as a domicile is its undue reputation for "tough and inflexible" regulation, said Mr. Stamp.

Illinois regulators will not do "crazy things" to spur captive formation, but "we're willing to work with" with groups and companies that want to form captives, he said.

"Let us show you what we can and will do," said Mr. Stamp.

Mr. Stamp's efforts are being bolstered by the Chicago-based Illinois Captive Insurance Assn. The group will sponsor a booth at this week's Risk & Insurance Management Society conference in Boston, noted Robert E. Stalker, the group's president and vp of Crum & Forster Managers Corp. in Chicago.

Mr. Stalker added that the group hopes to launch an advertising campaign and hold a seminar for risk managers on establishing a captive in Illinois later this year.

For information on forming a captive in Illinois, contact Arnie Dutcher, Deputy Director, or Etta Mae Credi, Assistant Deputy Director, Illinois Insurance Department, 320 W. Washington, Springfield, Ill. 62767; 217-782-4515.

—By Mark A. Hofmann

Georgia

ATLANTA—Nearly a year and a half after Georgia's captive law took effect, the state has but one captive.

Fuqua Risk Retention Group Captive Insurance Co. of Georgia Inc., a self-managed captive that went into operation July 1, 1989, writes both property and casualty coverages for Fuqua Industries Inc. and its operating subsidiaries, said William Dodge, vp-insurance for the conglomerate.

Mr. Dodge added that the captive writes workers compensation insurance as well, but only for Fuqua's Georgia operations.

Georgia was chosen as a domicile because Fuqua is based in Atlanta and Georgia's law was the "most advantageous" in the nation for captive formation, Mr. Dodge said.

Martin M. Wilson, Georgia's deputy commissioner of insurance, said that despite its slow start as a domicile, Georgia is "not going to try to attract business," even though he noted that the current soft property/casualty insurance market "is really the best time to form a captive."

Georgia's captive statute, which became law in 1988, has not been amended in the past year, he said (*BI*, April 10, 1989; April 18, 1988).

The captive statute, an amendment to Chapter 40 of Georgia's Insurance Code, allows the formation of single-parent and group captives. It allows regulators to set standards—such as minimum premium-to-surplus ratios, investment restrictions and capitalization requirements—on a case-by-case basis depending on the type of captive.

The law requires:

- A minimum capitalization of $500,000, with regulators reserving the right to require additional capital.
- A captive to maintain its principal business office in Georgia.
- Captives to pay premium taxes at rates identical to those levied against conventional insurers, which can range up to 5%.
- Maintenance of loss reserves adequate to pay all reported and incurred-but-not-reported losses and claims adjustment and settlement expenses. The commissioner reserves the right to require a captive to increase its reserves if the regulator considers them inadequate.
- A detailed business plan along with an application.
- Each policy form to carry a notice telling policyholders that the captive is not subject to all of the state's insurance regulations.

Although captives are allowed to write all commercial property/casualty, marine, transportation and surety risks as defined in the state insurance code, captives that write workers compensation or commercial automobile insurance must provide the minimum limits required by state law. In addition, captives cannot write personal lines, life, health or accident insurance.

For more information, write the Georgia Insurance Department, 704 West Tower No. 2, Martin Luther King Jr. Drive, Atlanta, Ga. 30334.

—By Mark A. Hofmann

Delaware

DOVER, Del.—Delaware's two huge nuclear industry captives enjoyed a "very successful" first year in the state, says the president of the two insurers.

Part of that success is attributable to lowered premium tax rates, said Quentin Jackson, president of Nuclear Mutual Ltd. and Nuclear Electric Insurance Ltd.

The two Bermuda-based companies, which write property insurance for nuclear utilities, were licensed in Delaware in 1988 after the tax advantages of operating offshore were eliminated, said Mr. Jackson. The two insurers wrote combined premiums of $257.3 million in 1989.

A Delaware law passed in June 1989 that was effective for the 1989 tax year created four premium tax brackets for captives. A captive's first $20 million in direct written premiums is taxed at 0.7%, while the rate drops to 0.5% for premiums between $20 million and $40 million; 0.3% for $40 million to $60 million in premiums; and 0.1% on all premiums exceeding $60 million. Previously, all direct premiums written by captives were taxed at a 1% rate.

Reinsurance premiums, which

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U.S. domiciles

Continued from previous page
were not taxed in the past, remain tax-free.

That new premium tax structure "creates a very positive, even more favorable atmosphere for captives in Delaware," Mr. Jackson said. "Delaware is a good state for business."

The premium tax laws were changed to help the state attract captives, said Daniel Koch, economic development officer at the State Insurance Department in Dover.

However, no new captives have been licensed in Delaware since NML and NEIL were licensed in 1988. Only four captives are now domiciled in the state.

Delaware officials are interested in attracting captives as much for the jobs they create as for the tax revenue they produce, Mr. Koch said.

Larger captives, which require more employees, are more attractive to state officials, he said. "We give serious consideration to all applications, but we do actively pursue" larger captives.

Delaware's other two captives are: Harbour Insurance Inc., the insurance subsidiary of Prison Health Services Inc. of Wilmington, Del.; and Architects & Engineers Insurance Co., a risk retention group that is owned by 31 shareholders.

Harbour, licensed in 1988, writes medical malpractice insurance with a $1 million limit. AEIC, also licensed in 1988, insures professional liability risks for architects and engineers and wrote premiums of $4.7 million last year, said C. Roy Vince, a vp with AEIC.

Requirements to form a Delaware captive include:

- Minimum capitalization of $250,000 for single-parent, $500,000 for industrial insureds or risk retention groups and $750,000 for association captives.
- A $200 initial application fee and a $300 annual license fee.
- The bulk of the captive's administration and management staff must be based in Delaware.

For more information, contact Roger Neadum, Company Admissions Officer, Delaware State Insurance Department, 841 Silver Lake Blvd., Dover, Del. 19901; 302-736-4251.

—By Adrienne C. Locke

Virginia

RICHMOND, Va.—Ten years after its captive statute was passed, Virginia has no captives licensed—and never has.

The licensing requirements for a captive in Virginia are almost identical to those for commercial insurers.

However, a captive in Virginia can use letters of credit—rather than cash—to satisfy capital and surplus requirements.

The minimum capitalization and surplus required for both single-parent and association captives is $2 million. However, captives organized as mutual insurers are required to have only $800,000 in policyholder surplus.

A 1987 law that took effect in January 1989 reduced the tax rate on premiums paid to Virginia captives to 2.25% from 2.75%.

Captives must pay an application fee of $500; there is no license fee.

Captives are required to file the National Assn. of Insurance Commissioners information blank.

For more information, contact Andy Delbridge, Supervisor of Company Licenses, or Ed Buyalos, Supervisor of Company Audits, State Corporation Commission, Bureau of Insurance, Box 1157, Richmond, Va. 23209; 804-786-3741.

—By Adrienne C. Locke

Tax hurts British Columbia

By JOANNE WOJCIK

VANCOUVER, B.C.—Despite the lack of relief from Canadian corporate taxes and low acceptance by the nation's nine other provinces, the captive market in British Columbia is growing, albeit slowly.

Three new captives were formed in the domicile during 1989, bringing the total number of licensed facilities to 12, according to the Office of the Superintendent of Financial Institutions.

The new formations include two single-parent entities and one group captive.

In addition, "we are aware of at least one other that is imminent," said Robert Ensor, vp in the Toronto office of broker Johnson & Higgins Willis Faber Ltd.

J&H Willis Faber is managing one captive in British Columbia and is working on another that is "right on the brink of being incorporated."

New formation in Canada's only captive domicile last year lagged far behind earlier predictions. While some attribute the lackluster performance to the soft property/casualty market, others blame Canada's stringent income and premium taxes.

"There are no special tax incentives like offshore domiciles offer," said Mr. Ensor. "They're taxed as normal insurers."

Net income of captives in British Columbia is subject to a 23% provincial income tax and an additional 23% federal income tax.

In addition, captives are subject to fronting insurer fees or premium taxes from other provinces, which range from 3% to 12%.

However, unlike U.S. tax law, Canadian tax law permits federal tax deductions for premiums paid to captive insurers, according to a 1986 court decision (*BI*, Feb. 9, 1987).

Captives formed in 1989 are:

- BCT Risk Management Corp., a self-managed, single-parent captive formed by the Vancouver-based British Columbia Telephone Co.
- Pengins International Corp., a single-parent captive formed by the engineering company of the same name. It is managed by Alexander Insurance Managers Canada Ltd. in Vancouver.
- LSBC Captive Insurance Co. Ltd., a group captive formed by the Law Society of British Columbia. It is managed by insurance broker Leslie Wright & Rolfe Ltd. in Vancouver.

Three types of captives can write property and liability coverage under the British Columbia Insurance (Captive Company) Act of 1987.

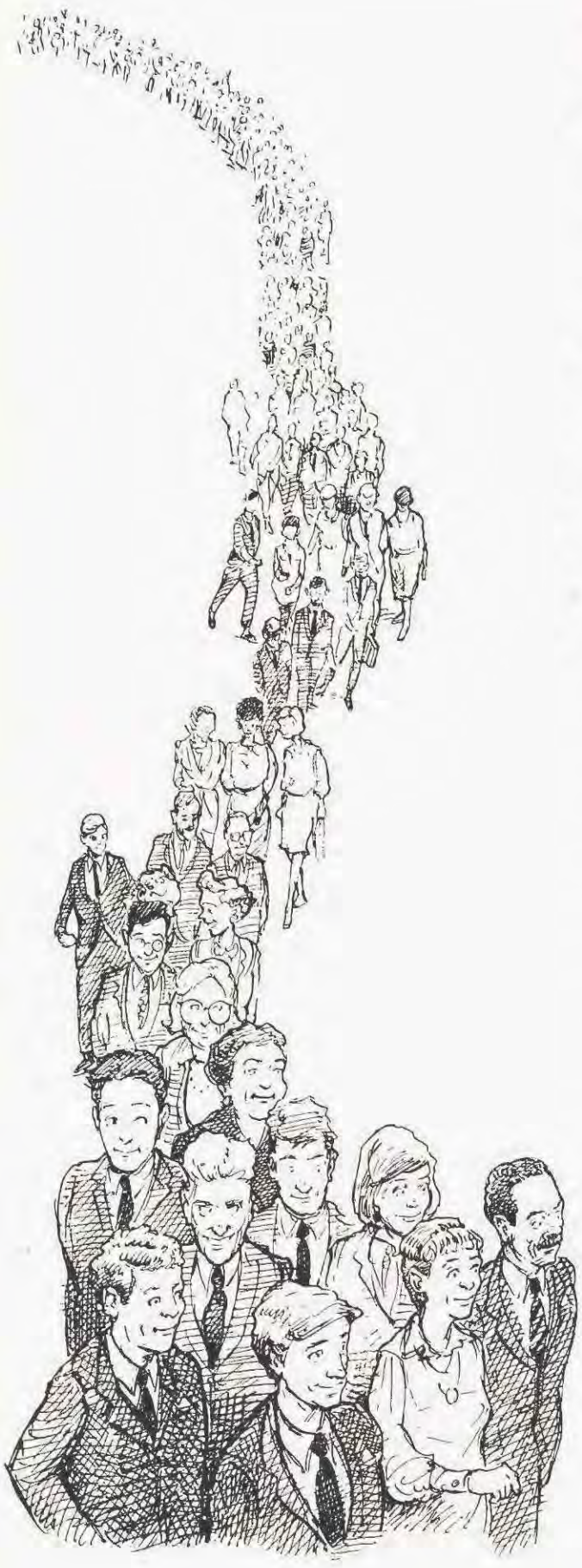
Besides single-parent and association captives, the law allows "sophisticated insureds," which are captives owned by an unrelated group of companies with insurance expertise and a sufficient joint premium base.

Recent amendments to the 1987 law allow captives to reinsure surety insurance from a fronting company.

Minimum capitalization requirements for British Columbia captives is $200,000 Canadian ($172,000 at current exchange rate). In addition, captives are charged a non-refundable application fee of $500 Canadian ($430) and an annual registration fee of $2,500 Canadian ($2,150).

The superintendent of financial institutions can require a captive to contribute additional capital.

For more information, contact Sherallyn Miller, Manager of Insurance, Office of the Superintendent of Financial Institutions, Suite 1000, 865 Hornby St., Vancouver, B.C. V6Z 2H4; 604-660-2947. ■



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Guide to policyholder-owned facilities

Risk managers concerned that the conventional property/casualty insurance market could quickly tighten may find greater price stability and increased capacity for their risks among policyholder-owned risk financing facilities.

The fourth annual *Business Insurance* survey of these facilities available to a broad range of commercial insurance buyers covers 51 alternative markets, which include facilities domiciled in the states of Illinois, Texas, Vermont, Arizona, Florida, Delaware, Colorado and Georgia.

The listings also include facilities domiciled in Barbados, Bermuda and the Cayman Islands.

These policyholder-owned facilities boast that they provide more comprehensive coverage at more stable rates than the commercial insurance market.

Only one of the facilities listed in last year's chart (*BI*, April 10, 1989) has discontinued writing new business: Environmental Protection Insurance Co. Risk Retention Group (EPIC), which wrote environmental impairment liability insurance (*BI*, Jan. 15). EPIC stopped underwriting on Dec. 15, 1989, primarily because of a lack of interest from buyers, its president said.

Eleven of the facilities are new to this year's listing. These facilities write coverage for commercial banks; construction contractors; casting manufacturers; privately owned campgrounds and parks; private, not-for-profit and government hospitals in Florida; public housing authorities; community mental health centers and counseling facilities; carnivals, amusement parks and circuses; solid waste managers; and city and county governments.

Reflecting their continuing popularity, 33 of the facilities anticipate they will serve more policyholders in 1990. Only one expects membership to decline. Similarly, 37 of the facilities anticipate premium volume to increase this year.

Each facility's listing provides information on: the risks it underwrites; the limits it provides; the type of policy form it uses; how those interested in the facility may gain access to it; premium volume in 1989 and estimated premium volume for 1990; assets and policyholder surplus at year-end 1989; number of participants in 1989 and an estimate for 1990; a description of the facility's membership; and the date the facility wrote its first policy.

The listings also include the name of the facility's manager and the name, address and telephone number of the person to contact for further information about the facility.

The information on each policyholder-owned facility was provided by the individual facility in response to a *Business Insurance* survey.

Although *Business Insurance* makes every effort to report complete and accurate information, *BI* is unable to verify information provided by facilities.

Readers should contact the person listed for other details about coverage written by the facility.

Officers or managers of policyholder-owned risk financing facilities who wish to be included in next year's listing should send their requests to Marilou Jones, Directory Editor, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611-2590; or call 312-649-5279.

Facility	Risks	Limits	Policy form	Access	Premium volume	1989 assets/ surplus	Number of participants	Membership	First policy	Manager	Contact
AAOMS Mutual Insurance Co., Risk Retention Group	Professional liability	$150,000/ $450,000	Claims-made	Specific brokers	1989: $10.3 million; 1990: $14.2 million	$17.3 million/ $4.3 million	1989: 1,450; 1990: 2,000	Oral and maxillofacial surgeons	June 1988	Victor O. Schinnerer & Co. Inc.	James F. Willging, 2 Wisconsin Circle, Chevy Chase, Md. 20815-7003; 301-961-9863
A.C.E. Insurance Management Ltd.	Excess liability, directors & officers liability	Liability: $200 million excess of $100 million; directors and officers: $50 million excess of $25million	Claims-made	Non-U.S. brokers	1989: $208.6 million; 1990: $215 million	$1.4 billion/ $1.1 billion	1989: 370; 1990: 400	Diverse	November 1985	Self-managed	William J. Loschert, P.O. Box HM 1015, Hamilton, Bermuda; 809-295-5200
Alexander Insurance Managers Ltd. Captive Reinsurance Facility	Property all risk	$100 million excess of each captive retention	Property all risk	Through captives managed by Alexander Insurance Managers Ltd.	1989: $30 million; 1990: $28 million	Member captives	1989: 17; 1990: 19	Industrial companies	June 1973	Alexander Insurance Managers Ltd.	Don Wiseman, Dorchester House, Church St., P.O. Box HM 2020, Hamilton HM HX, Bermuda; 809-295-0265
American Bankers Professional & Fidelity Insurance Co. Ltd.	Financial institution bond, directors and officers liability officers: $2 million	Bond: $3 million primary or excess of $3 million; directors and	Claims-made	Direct	1989: $25.2 million; 1990: $26.3 million	Assets: $25 million	1989: 1,000	Commercial banks	February 1987	Pinehurst Management Co. Ltd.	Timothy B. Carr, Penthouse Masters Bldg., Reid St., P.O. Box HM GX; Bermuda; 800-274-5222
American Contractors Insurance Co. Risk Retention Group	General liability, auto liability	$250,000	Occurrence	All brokers or direct	1989: $10.9 million; 1990: $12.5 million	$13.4 million/ $3.4 million	1989: 24; 1990: 24	Construction contractors	December 1986	ARTEX General Agency	William S. McIntyre IV, 12222 Merit Drive, Suite 1600, Dallas, Texas 75251; 214-702-9004
American Safety Risk Retention Group Inc.	General liability, asbestos abatement liability	$5 million	Claims-made and occurrence	All brokers	1989: $3.4 million; 1990: $4.3 million	$2.1 million/ $1 million	1989: 19; 1990: 22	Asbestos abatement industry	April 1988	Environmental Management Insurance Services	Lloyd Fox, 350 Franklin Road, Suite 300, Marietta, Ga. 30067; 404-428-3700
Associated Electric & Gas Insurance Services Ltd.	Excess liability and workers compensation; directors and officers liability	EL & WC: $35 million primary; directors and officers: $35 million primary or excess	Claims-made; occurrence for workers compensation	All brokers or direct	1989: $298.7 million; 1990: $270 million	$1.4 billion/ $325.7 million	1989: 304; 1990: 315	Electric and gas utilities, telephone companies, gas and oil pipelines	1975	AEGIS Insurance Services Inc.	Edward R. Inderbitzin, Harborside Financial Center, 700 Plaza Two, Jersey City, N.J. 07311-3994; 201-915-7207

Source: *BI* survey

Facility	Risks	Limits	Policy form	Access	Premium volume	1989 assets/ surplus	Number of participants	Membership	First policy	Manager	Contact
Bankers Insurance Co. Ltd. (BICL)	Directors and officers liability, financial institution bonds	$10 million primary or excess	Claims-made	Bermuda brokers or direct	1989: $16.6 million; 1990: $7 million	$74.8 million/ $30 million	1989: 25; 1990: 27	Commercial banks	May 1986	International Risk Management (Bermuda) Ltd.	Tony Coley Belvedere Building, P.O. Box 660 Hamilton HM CX, Bermuda; 809-295-0713
Beverage Retailers Insurance Co. Risk Retention Group	Liquor liability	$1 million	Claims-made and occurrence	All brokers	1989: $2.4 million; 1990: $5.5 million	$8.9 million/ $6.4 million	1989: 500; 1990: 1,000	Retailers of alcoholic beverages	August 1988	Victor O. Schinnerer & Co. Inc.	Richard J. Walk, 2 Wisconsin Circle, Chevy Chase, Md. 20815-7003; 301-961-9800
C.P.S. Insurance Co. Ltd.	Workers compensation, auto & general liability	$1 million-$3 million	Occurrence	Through Dallas office of Sedgwick James Inc.	1989: $9 million; 1990: $9.5 million	$15 million/ $2.8 million	1989: 46; 1990: 42	Pest control and sanitation consulting firms	July 1980	International Advisory Services Ltd.	David Ezekiel, P.O. Box HM 1760, Hamilton HM HX, Bermuda; 809-295-3688
Casting Manufacturers Insurance Ltd.	General liability	$1 million primary or excess of $1 million	Claims-made	Direct	1989: $1.3 million; 1990: $1.5 million	Assets: $4.8 million	1989: 42; 1990: 45	Casting manufacturers	1982	Johnson & Higgins (Bermuda) Ltd.	Paul Bailie, P.O. Box HM 1826, Hamilton HM HX, Bermuda; 800-631-1124
Consolidated Catholic Casualty Risk Retention Group Inc.	Excess medical professional, general liability	$10 million excess	Claims-made and occurrence	Direct	1989: $5.9 million; 1990: $5.7 million	$25.5 million/ $12.3 million	1989: 11; 1990: 11	Catholic health care systems	July 1987	Johnson & Higgins Services Inc. (Vermont)	Robert L. Sinclair, 2014 Broadway, Suite 360, Nashville, Tenn. 37203; 615-327-2274
Corporate Officers & Directors Assurance Ltd. (CODA)	Directors and officers liability; fiduciary liability	$25 million primary or excess or excess and difference-in-conditions	Claims-made	Non-U.S. brokers	1989: $36.8 million; 1990: $39 million	$311 million/ $219 million	1989: 147; 1990: 175	Diverse	October 1986	A.C.E. Insurance Management Ltd.	Charles D. Smith, P.O. Box HM 1015, Hamilton HM DX, Bermuda; 809-295-5200
Drayton Insurance Risk Retention Group Inc.	Directors, trustees and officers professional liability	$5 million primary or excess	Claims-made	All brokers	1989: $2.6 million; 1990: $2.9 million	$3.1 million/ $2.5 million	1989: 33; 1990: 33	Savings banks, savings and loans, other financial institutions	April 1989	Johnson & Higgins Services Inc.	Lawrence Cook, 70 Blanchard Road, Burlington, Mass. 01803; 800-462-8788
Energy Insurance Mutual Ltd.	Excess general liability, excess directors & officers liability	$75 million excess of $25 million	Claims-made	All brokers or direct	1989: $37 million; 1990: $34 million	$198.5 million/ $127 million	1989: 67; 1990: 90	Electric and gas utilities	July 1986	Self-managed	Gene L. Weaver, Suite 270, 6200 Courtney Campbell Causeway, Tampa, Fla. 33607; 813-287-2117
Engineers Liability Insurance Co. Ltd. (ELIC)	Professional liability	$100,000, $250,000, $500,000 or $1 million	Claims-made	Offshore brokers or direct	1989: $345,000; 1990: $500,000	$788,000/ $542,000	1989: 19; 1990: 30	Engineers and architects	December 1987	IAS (Barbados) Ltd.	William Tomlin, CGM Building, Collymore Rock, Barbados; 809-436-8296
Evergreen Indemnity Ltd.	General liability, property, inland marine, auto liability and physical damage, garage liability and physical damage	$1 million primary or excess of $1 million	Occurrence	Direct	1989: $3.5 million; 1990: $4.2 million	$7 million/ $2.1 million	1989: 630; 1990: 700	Privately owned campgrounds and parks	June 1986	International Insurance Services Inc.	Richard A. Hartford or Claire Mareoux, P.O. 61, Lewiston, Maine 04240; 800-343-7900
Evergreen U.S.A. Risk Retention Group Inc.	General liability and auto liability	$1 million	Occurrence	Direct	1990: $800,000	Assets: $1.2 million	1990: 200;	Privately owned campgrounds and parks	December 1989	International Insurance Services Inc.	Ed Reynolds or Claire Mareoux, P.O. 61, Lewiston, Maine 04240; 800-343-7900

Facility	Risks	Limits	Policy form	Access	Premium volume	1989 assets/ surplus	Number of participants	Membership	First policy	Manager	Contact
Financial Institutions Risk Retention Group Inc.	Directors & officers liability	$20 million	Claims-made	Through Johnson & Higgins	1989: $5.9 million; 1990: $6.8 million	$62.7 million/ $56.5 million	1989: 17; 1990: 17	U.S. banks	May 1988	Johnson & Higgins Services Inc.	Martin Scherzer, 125 Broad St., New York, N.Y. 10004; 212-574-8935
Financial Planners Professional Liability Mutual Insurance Co. Risk Retention Group	Professional liability	$250,000/ $500,000	Claims-made	Direct	1989: $1.1 million; 1990: $2 million	$1.4 million/ $892,500	1989: 500; 1990: 950	Financial planning professionals	May 1988	Insurance Equities Corp.	John V. Wagner, 535 Middlefield Road, Suite 120, Menlo Park, Calif. 94025; 415-324-8880
Florida Hospital Excess Trust Fund	Excess hospital professional liability	$10 million primary or excess of $250,000 or $1 million	Claims-made	Direct	1989: $12.5 million; 1990: $11 million	$55 million/ $40 million	1989: 36; 1990: 40	Private, not-for-profit and government hospitals in Florida	April 1985	Sedgwick James of Florida Inc.	Peter J. Brennan, P.O. Box 945155, Maitland, Fla. 32794; 407-875-5900
Florida Hospital Trust Fund	Hospital professional liability	$250,000 or $1 million	Claims-made	Direct	1989: $8.5 million; 1990: $7.9 million	$30 million/ $15 million	1989: 26; 1990: 26	Private, not-for-profit and government hospitals in Florida	April 1975	Sedgwick James of Florida Inc.	Peter J. Brennan, P.O. Box 945155, Maitland, Fla. 32794; 407-875-5900
Food Processors Risk Retention Group	Product liability and commercial general liability	$10 million	Occurrence	All brokers	1989: $1.3 million; 1990: $1.7 million	$1 million/ $570,000	1989: 150; 1990: 150	Food processors	April 1988	Johnson & Higgins Services Inc. (Vermont)	Paul Nelson, Suite 400, 1401 New York Ave. N.W., Washington, D.C. 20005; 202-628-4435
Forest Insurance Ltd.	Excess liability	$10 million excess of primary ($1 million minimum)	Claims-made and occurrence	Direct	1989: $6 million; 1990: $6.5 million	$6 million/ $4.2 million	1989: 16; 1990: 18	Forest products, pulp and paper industries	1980	International Risk Management (Bermuda) Ltd.	Anna W. Summers or Margaret Turner, Belvedere Building, P.O. Box 660, Hamilton 5, Bermuda; 809-295-0713
Hopewell International Insurance Ltd.	Property and marine	Unlimited excess of captive retention	Property	Direct	Years ending June 30: 1989: $135 million; 1990: $135 million;	$32 million/ $13 million	1989: 60; 1990: 65	Diverse	1972	International Risk Management (Bermuda) Ltd.	Anna W. Summers or Peter V. LeResche, Belvedere Building, P.O. Box 660, Hamilton 5, Bermuda; 809-295-0713
Housing Authority Property Insurance Inc. (HAPII)	Property and boiler machinery	Limits vary	Property	Through American Risk Management	1989: $3.8 million; 1990: $4 million	$4.1 million/ $1.8 million	1989: 40; 1990: 50	Public housing authorities	August 1988	American Risk Management	John Salisbury, P.O. Box 186, Cheshire, Conn. 06410; 800-873-0242
Housing Authority Risk Retention Group (HARRG)	Commercial liability	$5 million	Claims-made and occurrence	Direct	1989: $11.7 million; 1990: $12 million	$29 million/ $9.5 million	1989: 98; 1990: 110	Public housing authorities	June 1987	Yankee Captive Management Co.	John Salisbury, P.O. Box 189, Cheshire, Conn. 06410; 800-873-0242
Independent Laboratories Assurance Co. Ltd. (ILAC)	Professional liability	$1 million	Claims-made	Direct	1989: $600,000; 1990: $600,000	$2 million/ $1.5 million	1989: 20; 1990: 25	Independent testing laboratories	1976	International Advisory Services Ltd.	David Pickering, P.O. Box HM 2274, Hamilton HM JX Bermuda; 809-295-3688
MPC Insurance Ltd.	Lawyers errors & omissions	$5 million or 5% of $5 million excess of $10 million	Claims-made	Through Johnson & Higgins	1989: $9.4 million; 1990: $9.4 million	$34.5 million/ $14.4 million	1989: 14; 1990: 14	Large California law firms	October 1987	Johnson & Higgins Services Inc. (Vermont)	Robert Hamilton, 345 California St., San Francisco, Calif. 94104; 415-981-6700

Facility	Risks	Limits	Policy form	Access	Premium volume	1989 assets/ surplus	Number of participants	Membership	First policy	Manager	Contact
MEDMARC Insurance Co. Risk Retention Group Inc.	Product liability, commercial general liability	$5 million	Claims-made	All brokers	1989: $38.8 million; 1990: $39 million	$78.2 million/ $24.8 million	1989: 454; 1990: 460	Medical device and diagnostic products industries	January 1979	M&M Insurance Management Services Inc.	Thomas Konopka, 3975 University Drive, Suite 410, Fairfax, Va. 22030; 703-273-1995
Mental Health Risk Retention Group Inc.	Professional liability, general liability, directors and officers liability	$1 million	Claims-made	All brokers or direct	1989: $2.7 million; 1990: $3.2 million	$2.7 million/ $70,804	1989: 76; 1990: 126	Community mental health centers, related counseling facilities	January 1988	Champlain Risk Services Inc.	George Chaffee, 346 Shelburne Road, Burlington, Vt. 05402-0729; 802-658-3500
Nuclear Electric Insurance Ltd.	All risk property for nuclear power stations	$364 million extra expense, $975 million excess of $500 million	Claims-made and occurrence	Direct	1989: $172 million; 1990: $180 million	$1.37 billion/ $1.2 billion	1989: 71; 1990: 71	Electric utilities	September 1980	Self-managed	Quentin Jackson, 1201 Market St., Suite 1200, Wilmington, Del. 19801; 302-888-3000
Nuclear Mutual Ltd.	All-risk property for nuclear power stations	$500 million	Claims-made and occurrence	Direct	1989: $85.3 million; 1990: $85 million	$696 million/ $576 million	1989: 25; 1990: 25	Electric utilities	January 1973	Self-managed	Quentin Jackson, 1201 Market St., Suite 1200, Wilmington, Del. 19801; 302-888-3000
Oil Casualty Insurance Ltd.	Excess general liability; excess directors and officers liability	Excess general liability: $50 million excess of $20 million; excess D&O: $100 million excess of $20 million	Claims-made	Bermuda brokers or direct	1989: $13.9 million; 1990: $15 million	$202.6 million/ $159.6 million	1989: 32; 1990: 32	Petroleum companies	June 1986	Oil Management Services Ltd.	K. Doyle Stephens, P.O. Box HM 1751, Hamilton HM GX, Bermuda; 809-295-0905
Oil Insurance Ltd.	Excess property, control of well and pollution liability	$300 million excess of $5 million minimum	Occurrence	Bermuda brokers or direct	1989: $177.2 million; 1990: $225 million	$1.27 billion/ $405.9 million	1989: 49; 1990: 49	Petroleum companies	January 1972	Oil Management Services Ltd.	K. Doyle Stephens, P.O. Box HM 1751, Hamilton HM GX, Bermuda; 809-295-0905
Ophthalmic Mutual Insurance Co. Risk Retention Group	Ophthamologists' professional liability	$2 million/ $4 million	Claims-made	Direct	1989: $8.7 million; 1990: $9.7 million	$15.3 million/ $4.2 million	1989: 1,040; 1990: 1,150	Members of American Academy of Ophthalmology	September 1987	Potomac Insurance Managers	James F. Wilging, 2 Wisconsin Circle, Chevy Chase, Md. 20815-7003; 301-961-9863
Preferred Amusement Risk Ltd.	General liability, auto liability	$250,000	Occurrence	All brokers	1989: $4 million	Assets: $7.4 million	1989: 31	Carnivals, amusement parks and circuses	May 1986	Johnson & Higgins (Barbados) Ltd.	Chris Evans, Alleyne House, White Park Road, Bridgetown, Barbados; 809-436-9929
Primex Ltd.	Auto liability, general liability	Auto: $5 million excess of $2 million; general liability: $5 million excess of $1 million	Claims-made	Offshore brokers	1989: $4.5 million	Assets: $41.5 million	1989: 21	Chemical companies	July 1986	Johnson & Higgins (Barbados) Ltd.	John Perham, Alleyne House, White Park Road, Bridgetown, Barbados; 809-436-9929
Quail Street Casualty Ltd.	Workers compensation, harvest time strike	Primary limits vary	Claims-made and occurrence	Direct or parent-owned brokerage company	1989: $3.6 million; 1990: $3.8 million	$18.7 million/ $6.2 million	1989: 200; 1990: 200	Members of Western Growers Assn.	1979	Quail Street Management Ltd.	Deborah L. Burville, P.O. Box HM 1154, Hamilton HM EX, Bermuda; 809-292-2582
Railroad Assn. Insurance Ltd. (RAIL)	Excess liability	$50 million excess of $50 million	Occurrence	Direct	1988: $16 million*; 1989: $16 million*	Assets: 1989: $75 million*; 1990: $85 million*	1989: 16*; 1990: 16*	Railroads	May 1986	International Risk Management (Bermuda) Ltd.	Margaret Turner, P.O. Box HM 660, Hamilton HM CX, Bermuda; 809-295-0713

***BI estimate**

Facility	Risks	Limits	Policy form	Access	Premium volume	1989 assets/ surplus	Number of participants	Membership	First policy	Manager	Contact
Refuse Insurance Liability Ltd.	Auto liability, auto physical damage, general liability, workers compensation	Auto liability: $1 million; auto physical damage: actual cash value less deductible; general liability: $1 million combined single limit or aggregate	Occurrence	All brokers or direct	1989: $10 million; 1990: $12 million	$12.7 million/ $4 million	1989: 130; 1990: 150	Solid waste managers	February 1987	Sedgwick James Bermuda Ltd.	Phillip Cracknell, Level 6, Cumberland House, Victoria St., Hamilton, Bermuda; 809-292-6667
Risk Exchange Assn.	Property, casualty, marine	Property: $2.75 million; casualty: $2 million access of $250,000 minimum; marine: $2.6 million primary or excess	Claims-made and occurrence	All brokers or direct	1989: $1.9 million; 1990: $2 million	Capital and surplus of member captives: $207 million	1989: 16; 1990: 20	Diverse	February 1984	Skandia International Risk Management Ltd.	Robert Rosser or Richard Johnson, P.O. Box HM 2062, Hamilton HM HX, Bermuda, 809-295-2185; 803-785-4377
Sargasso Mutual Insurance Co. Ltd.	Directors & officers liability	$15 million primary or excess up to $25 million	Claims-made	Direct	1989: $803,828; 1990: $825,000	Assets: $19.1 million	1989: 16; 1990: 16	Mutual life insurance companies	June 1986	Johnson & Higgins (Bermuda) Ltd.	Elaine Stansfield, P.O. Box HM 1826, Hamilton HM HX, Bermuda; 809-297-9763
Sporting Arms Insurance Ltd. (SAIL)	Product liability	$1 million	Claims-made	Direct	1989: $3 million; 1990: $3.5 million	$5 million/ $3 million	1989: 40; 1990: 45	Manufacturers and importers of firearms	June 1986	International Advisory Services Ltd.	David Pickering, P.O. Box HM 2274, Hamilton HM JX, Bermuda; 809-295-3688
States Self-Insurers Risk Retention Group Inc.	General liability, auto liability, public officials' liability, police professional liability	Up to $10 million excess of $250,000 minimum self-insured	Claims-made	All brokers or direct	1989: $1.6 million; 1990: $3.9 million	$11.5 million/ $10.3 million	1989: 17; 1990: 35	City and county governments	July 1988	States Insurance Group	Tim Habeck, 5555 Triangle Parkway, Norcross, Ga. 30092; 404-368-8848
Structural Engineers Insurance Ltd. (SEIL)	Professional liability	$1 million primary; $2 million excess of $1 million	Claims-made	Direct	1989: $2.6 million; 1990: $2.8 million	$6.4 million/ $2.9 million	1989: 16; 1990: 17	Structural engineers	June 1986	International Advisory Services Ltd.	David Ezekiel, P.O. Box HM 1760, Hamilton HM HX, Bermuda; 809-295-3688
Title Industry Assurance Co., A Risk Retention Group	Errors & omissions	$1 million/ $2 million	Claims-made	Direct	1989: $700,000; 1990: $1.2 million	$939,900/ $673,243	1989: 200; 1990: 300	Title agents and abstractors	June 1988	Potomac Insurance Managers Inc.	Richard Curd, 2 Wisconsin Circle, Chevy Chase, Md. 20815-7003; 301-961-9800
Tortuga Casualty Co.	Excess liability	$50 million excess of $25 million minimum	Claims-made	Direct	1989: $11 million; 1990: $12 million	$35 million/ $7 million	1989: 25; 1990: 30	Diverse	1986	International Risk Management (Cayman) Ltd.	Brian Murphy, British American Tower, P.O. Box 69, Grand Cayman, Cayman Islands, B.W.I.; 809-949-0155
United Educators Insurance Risk Retention Group Inc.	Educators legal liability, excess liability	$10 million primary; $25 million excess of $1 million	Educators legal: claims-made; excess liability: occurrence	All brokers	1989: $12.8 million; 1990: $15 million	$8.4 million/ $3.3 million	1989: 500; 1990: 600	Educational institutions and associations	May 1987	Victor O. Schinnerer & Co. Inc.	Richard J. Walk, 2 Wisconsin Circle, Chevy Chase, Md. 20815-7003; 301-961-9800
United Insurance Co.	Liability	$1 million primary; $5 million excess of $1 million	Claims-made and occurrence	Direct	1989: $98 million; 1990: $110 million	$105 million/ $11 million	1989: 55	Diverse	1976	International Risk Management (Cayman) Ltd.	Brian D. Murphy, British American Tower, P.O. Box Box 69, Grand Cayman, Cayman Islands, B.W.I.; 809-949-0155
X.L. Insurance Co. Ltd.	Excess liability, construction wrap up, directors and officers liability, errors and omissions, pension trust liability	Up to $100 million excess of $25 million	Occurrence reported	Non-U.S. brokers	1989: $338 million; 1990: $360 million	$1.9 billion/ $923 million	1989: 602; 1990: 690	Diverse	July 1986	Self-managed	R.J. Cooney or J. Ansaldi, Cumberland House, 1 Victoria St., Hamilton HM II, Bermuda; 809-292-8515

Directory of captive managers

A

AIG Captive Management Co. Inc.

1233 Shelburne Road, South Burlington, Vt. 05403; 802-658-9405

Year founded: 1988.
Parent company: AIG Risk Management Inc.
Services provided: Frequent accounting, computerized accounting; occasional captive feasibility studies, captive formation, government reporting, claims reserves analysis, actuarial studies, loss forecasting, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives (The Water, Wastewater & Process Equipment Manufacturers Insurance Co., 15 participants, $1.5 million premium volume), investment management, loss control services (New York), specialized accounting services for associations, onshore services for associations.
Staff: Three total, two professionals.
Clients: One active captive managed with total premium volume of $3.3 million. Minimum size client, $1 million premium volume.
Current business: One active captive.
Compensation: Annual fee, $15,000 minimum; time and expense: professional, $75-$150; clerical, $35-$60.
1989 gross revenues: 100% from fees charged for captive management.
Principal officers: Joseph C. Smetana, chairman; John P. Giesen Jr., president; Michael Curio and Frank Neuhauser Jr., senior vps; Martin H. Banker, senior vp/general counsel.

Aberdeen Insurance Managers

Suite 227D, Elizabethan Square, P.O. Box 1571, George Town, Grand Cayman, B.W.I.; 809-949-8820

Year founded: 1979.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, specialized accounting services for associations; occasional manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, investment management, onshore services for associations.
Staff: Six total, three professionals. Professional designations held by staff include one CPCU, one ARM, one attorney, one CA, one CLU, one AIM.
Clients: 11 active captives managed; 82% with less than $1 million in premiums, 18% with $3 million-$10 million. One inactive captive managed. Total premium volume of captives managed, $21 million. Minimum size client, $500,000 premium volume.
Current business: 11 active captives, one inactive captive.
Affiliate: Aberdeen Insurance Managers (Turks & Caicos) Ltd.
Compensation: Annual fee, $12,000 minimum; commissions for reinsurance brokered; time and expense: professional, $100-$150; clerical, $25-$40.
1989 gross revenues: 90% from fees charged for captive management, 2% from commissions charged for brokering insurance and/or reinsurance, 8% from other services.
Principal officers: Ross Blumentritt, director/secretary; Lyne B. Humphries, director/general counsel; Hans Frederick and Christopher Blumentritt, directors; Brian Wight, assistant secretary; Desmond Campbell, resident manager.

Aberdeen Insurance Managers (Turks & Caicos) Ltd.

Private Mail Bag 14, Close Haul Road, Grand Turk, Turks & Caicos, B.W.I.; 809-946-2670

Year founded: 1989.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, specialized accounting services for associations; occasional manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, investment management, onshore services for associations.
Staff: Two total, one professional. Professional designations held by staff include one CPCU, one ARM, one CLU, one AIM.
Clients: Five active captives managed; 80% with less than $1 million in premiums, 20% with $1 million-$3 million. Total premium volume of captives managed, $1.6 million. Minimum size client, $250,000 premium volume.
Current business: Five active captives.
Affiliate: Aberdeen Insurance Managers.
Compensation: Annual fee, $6,000 minimum; commissions for reinsurance brokered; time and expense: professional, $100-$150; clerical, $25-$40.
1989 gross revenues: 100% from fees charged for captive management.
Principal officers: Ross Blumentritt, resident managing director/secretary; Hans Frederick and Christopher Blumentritt, directors.

Alexander Insurance Managers Ltd.

Dorchester House, Church Street, P.O. Box 2020, Hamilton, Bermuda; 809-295-0265

Year founded: 1969.
Parent company: Alexander & Alexander Services Inc.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives (AIM Captive Reinsurance Facility, 10 association captives), investment management, specialized accounting services for associations.
Staff: 65 total, 22 professionals. Professional designations held by staff include 15 CPAs, two MBAs, two ACIIs, two IBACs, one AIB.
Clients: 93 captives managed; 66% with less than $1 million in premiums, 16% with $1 million-$3 million, 12% with $3 million-$10 million, 5% with $10 million-$20 million, 1% with more than $20 million. Total premium volume of captives managed, $197 million. No minimum size client.
Current business: 93 active captives.
Compensation: Annual fee, time and expense.
1989 gross revenues: 100% from fees charged for captive management.
Principal officers: Alan C. Cossar, regional director; Geoffrey Hunt, managing director; Donald C. Wiseman and Robert E. Barclay, senior vps; Edward E. Correia and Gail Fox, vps.

Continued on next page

Captive and Risk Retention Group Services

Fifty years of underwriting experience is what we offer.

Victor O. Schinnerer & Company, Inc., has been in the insurance business for half a century. But we're not an insurance company. We're not brokers or agents either. Schinnerer is what's known in the insurance industry as an Underwriting Manager.

Our area of expertise is managing and underwriting insurance programs for maximum stability and benefit to both the carrier and its insureds. It's a very complex business. But one in which Schinnerer has become an industry leader.

We've been providing these services to major national and international insurance companies for years. And now, with the passage of the 1986 Risk Retention Act, what we've been doing for them we can do for you. Whether your organization is already operating a captive or risk retention group or just considering one, give us a call.

Let us show you how 50 years of insurance underwriting and program management experience can help take the risk out of risk retention.

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How to use directory

The annual *Business Insurance* directory of captive managers lists companies that provide management and other services to captive insurance companies.

The directory is published as an editorial service and there is no charge to be listed; however, companies must complete a questionnaire provided by *Business Insurance* in order to be included in the directory.

Listings begin with the company name, address and telephone number, followed by **year founded** and **parent company** (if any). Next, **services provided** by the company are detailed. Information on **staff** and **clients** at year-end 1989 is included. The number of captives managed when the company submitted its questionnaire is given under the **current business** heading.

Subsidiaries and **affiliates** include those involved in captive management in a different domicile, for which a separate listing is usually given. If there are no separate listings, information on staff, clients and revenues have been combined for all offices.

The **compensation** heading details how the company bills for its services, and **1989 gross revenues** are included when reported by the company. Companies were also asked to identify the percentage of their 1989 gross revenues generated from fees charged for captive management, commissions charged for insurance and/or reinsurance brokered and other services the company may provide.

Names and titles of the company's **principal officers** complete the listings.

Although *Business Insurance* makes every effort to report complete and accurate information, no public documents are available to allow verification of information provided by the companies.

Following are the full professional designations for those abbreviated under the staff heading:

AAI is Accredited Adviser in Insurance; **ACA** is Associate, Institute of Chartered Accountants; **ACAS** is Associate, Casualty Actuarial Society; **ACCA** is Chartered Associate of Certified Accountants; **ACIArb** is Associate, Chartered Institute of Arbitrators; **ACII** is Associate, Chartered Insurance Institute; **ACIS** is Associate, Institute of Chartered Secretaries; **ACMA** is Associate, Cost & Management; **AIB** is Associate, Institute of Bankers; **AIM** is Associate in Management; **ALCM** is Associate in Loss Control Management; **ARM** is Associate in Risk Management; **CA** is Chartered Accountant; **CFE** is Certified Financial Examiner; **CGA** is Certified General Accountant; **CIC** is Certified Insurance Consultant; **CIP** is Chartered Insurance Practitioner; **CLU** is Chartered Life Underwriter; **CMA** is Certified Management Accountant; **CPA** is Certified Public Accountant; **CPCU** is Chartered Property/Casualty Underwriter; **CRM** is Canadian Risk Management; **CS** is Chartered Secretary; **FCA** is Fellow, Institute of Chartered Accountants; **FCAS** is Fellow, Casualty Actuarial Society; **FCII** is Fellow, Chartered Insurance Institute; **FID** is Fellow, Institute of Directors; **FIRM** is Fellow, Institute of Risk Management; **GIC** is General Insurance Certificate; **HND** is Higher National Diploma; **IBAC** is member, Insurance Brokers Assn. (Canada); **ICAEW** is member, Institute of Chartered Accountants of England & Wales; **MAAA** is member, American Academy of Actuaries; **MBA** is Master of Business Administration; **MBIM** is member, British Institute of Management; **PhD** is Doctor of Philosophy.

Continued from previous page

Alexander Insurance Managers

84 Pine St., 600 Financial Plaza, P.O. Box 5010, Burlington, Vt. 05402; 802-860-0444

Parent company: Alexander & Alexander Services Inc.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, underwriting and ratemaking for captives; occasional investment management, loss control services.
Staff: Eight total, four professionals. Professional designations held by staff include four CPAs, one ARM, three MBAs.
Clients: 24 active captives managed; 37% with less than $1 million in premiums, 25% with $1 million-$3 million, 38% with $3 million-$10 million. Two inactive captives managed. Total premium volume of captives managed, $73 million. No minimum size client.
Current business: 25 active captives, two inactive captives.
Subsidiaries: Denver, Chicago.
Compensation: Annual fee, $20,000 minimum; time and expense: professional, $150; clerical, $35.
1989 gross revenues: 100% from fees charged for captive management.
Principal officers: Luther T. Griffith, chairman/president; W. Scott Frazier, vp.

Alexander Insurance Managers (Barbados) Ltd.

P.O. Box 1304, Collymore Rock, St. Michael, Barbados; 809-436-4895

Year founded: 1984.
Parent company: Alexander & Alexander Services Inc.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, computerized claims processing; occasional captive feasibility studies, manual claims processing, claims reserves analysis, loss forecasting, managing underwriting pools/facilities/association captives (Motoro Mechanical Reinsurance Co. Ltd., 117 participants, $10 million premium volume, participants are franchised dealers of General Motors Corp. products), investment management, association captive management services.
Staff: Seven total, two professionals. Professional designations held by staff include one CPA.
Clients: 16 active captives managed; 50% with less than $1 million in premiums, 6% with $1 million-$3 million, 44% with $3 million-$10 million. One inactive captive managed. Total premium volume of captives managed, $107 million. Minimum size client, $500,000 premium volume.
Current business: 17 active captives, one inactive captive.
Compensation: Time and expense: professional, $85-$135; clerical, $35.
1989 gross revenues: 100% from fees charged for captive management.
Principal officers: Ronald W. Jones, managing director/vp.

Alexander Insurance Managers (Canada) Ltd.

900 Howe St., Box 3228, Vancouver, British Columbia V6B 3X8; 604-688-4442

Year founded: 1988.
Parent company: Alexander & Alexander Services Inc.
Staff: One staff member who is a professional and holds CA and CRM designations.
Clients: Four captives managed; 25% with less than $1 million in premiums, 75% with $1 million-$3 million.
Current business: Four active captives.
Compensation: Time and expense: professional, $100-$150; clerical services included.
Principal officers: William J. Morgan, vp.

Continued on next page

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Alexander Insurance Managers (Cayman) Ltd.

Anderson Square, Shedden Road, P.O. Box 1970, George Town, Grand Cayman, B.W.I.; 809-436-4895

Parent company: Alexander & Alexander Services Inc.
Services provided: Subcontracts for captive management services with Midland Bank Trust Corp. (Cayman) Ltd.
Clients: Two active captives managed, both with less than $1 million in premiums. One inactive captive managed. Total premium volume of captives managed, $5 million.
Current business: Two active captives, one inactive captive.
Compensation: Time and expense: professional, $75-$160.
1989 gross revenues: 100% from fees charged for captive management.
Principal officers: Ronald W. Jones, director.

Alexander Insurance Managers (Dublin) Ltd.

Haddington Court, Haddington Road, Dublin 4, Republic of Ireland; 353-1-605888

Year founded: 1989.
Parent company: Alexander & Alexander Services Inc.

Alexander Insurance Managers (Guernsey) Ltd.

Suite 1, 13/15 Victoria Road, St. Peter Port, Guernsey; 0481-728180

Year founded: 1977.
Parent company: Alexander & Alexander Services Inc.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives; occasional captive feasibility studies.
Staff: 12 total, two professionals. Professional designations held by staff include one ACII, one AIB.
Clients: 20 active captives managed; 20% with less than $1 million in premiums, 60% with $1 million-$3 million, 10% with $3 million-$10 million, 5% with $10 million-$20 million, 5% with more than $20 million. Two inactive captives managed. Total premium volume of captives managed, $75 million.
Current business: 20 active captives, two inactive captives.
Compensation: Annual fee, $50,000 minimum; time and expense: profesional $125-$170; clerical, $40-$85.
Principal officers: Barry John Seymour, managing director; Clive R. James, assistant director-operations; Richard J. Gale, assistant director-underwriting; Ellie LePage, senior accounting supervisor.

Alexander Insurance Managers (Isle of Man) Ltd.

Post Office Chambers, Regent Street, Douglas, Isle of Man; 0624-73833

Year founded: 1985.
Parent company: Alexander & Alexander Services Inc.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, underwriting and ratemaking for captives; occasional claims reserves analysis, managing underwriting pools/facilities/association captives, investment management, association captive management services.
Staff: Nine total, seven professionals. Professional designations held by staff include two CPAs.
Clients: Eight active captives managed; 25% with less than $1 million in premiums, 25% with $1 million-$3 million, 38% with $3 million-$10 million, 12% with more than $20 million. Total premium volume of captives managed, $80 million. No minimum size client.
Current business: Eight active captives.
1989 gross revenues: 100% from fees charged for captive management.
Principal officers: Philip Stamp, managing director.

Alexander Insurance Managers (Luxembourg) S.A.R.L.

B.P. 2243, L-1022 Luxembourg; 35-2-490073

Year founded: 1987.
Parent company: Alexander & Alexander Services Inc.
Clients: Two captives managed; 50% with less than $1 million in premiums, 50% with $1 million-$3 million. Total premium volume of captives managed, $2 million. No minimum size client.
Current business: Two active captives.
Compensation: Annual fee.
Principal officers: Mats Lindkvist, Ralph Tellov and Charles M. Patrick Jr.

Alexander Insurance Managers (Singapore) Pte. Ltd.

250 N. Bridge Road, Suite 28-01, Raffles City Tower, Singapore 0617; 339-9233

Year founded: 1987.
Parent company: Alexander & Alexander Services Inc.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, underwriting and ratemaking for captives; occasional captive feasibility studies, manual claims processing, loss forecasting.
Staff: Four total, one professionals. Professional designations held by staff include one CPA.
Clients: Three active captives managed; 33% with less than $1 million in premiums, 67% with $1 million-$3 million. Total premium volume of captives managed, $4 million. Minimum size client, $500,000 premium volume.
Current business: Three active captives.
Compensation: Annual fee.
Principal officers: Alan C. Cossar, chairman; William C. Thomas, managing director; Andrew McComb, general manager/director; Richard Chua, assistant general manager/director.

Alternative Insurance Management Services Inc.

6021 S. Syracuse Way, Suite 205, Englewood, Colo. 80111; 303-694-9360

Year founded: 1989.
Parent company: Franciscan Services Inc. and Novare Services Inc.
Services provided: Frequent captive formation, computerized accounting, computerized claims processing; occasional government reporting, accounting, manual claims processing, claims reserves analysis, underwriting and ratemaking for captives, tax advice, legal advice.
Staff: Seven total, five professionals. Professional designations held by staff include two CPAs, one CPCU, one MBA, two attorneys.
Clients: Two active captives managed; 50% with $3 million-$10 million in premiums, 50% with $10 million-$20 million. Total premium volume of captives managed, $21 million. No minimum size client.
Current business: Two active captives.
Compensation: Annual fee; time and expense: professional, $90-$120; clerical, $30-$40.
1989 gross revenues: $102,000; 98% from fees charged for captive management, 2% from other services.
Principal officers: Richard A. Johnson, president; Stanley T. Urban, secretary; Robert J. Halonen, treasurer; Ellen L. Barton, chairman; Steven L. Salman, vice chairman.

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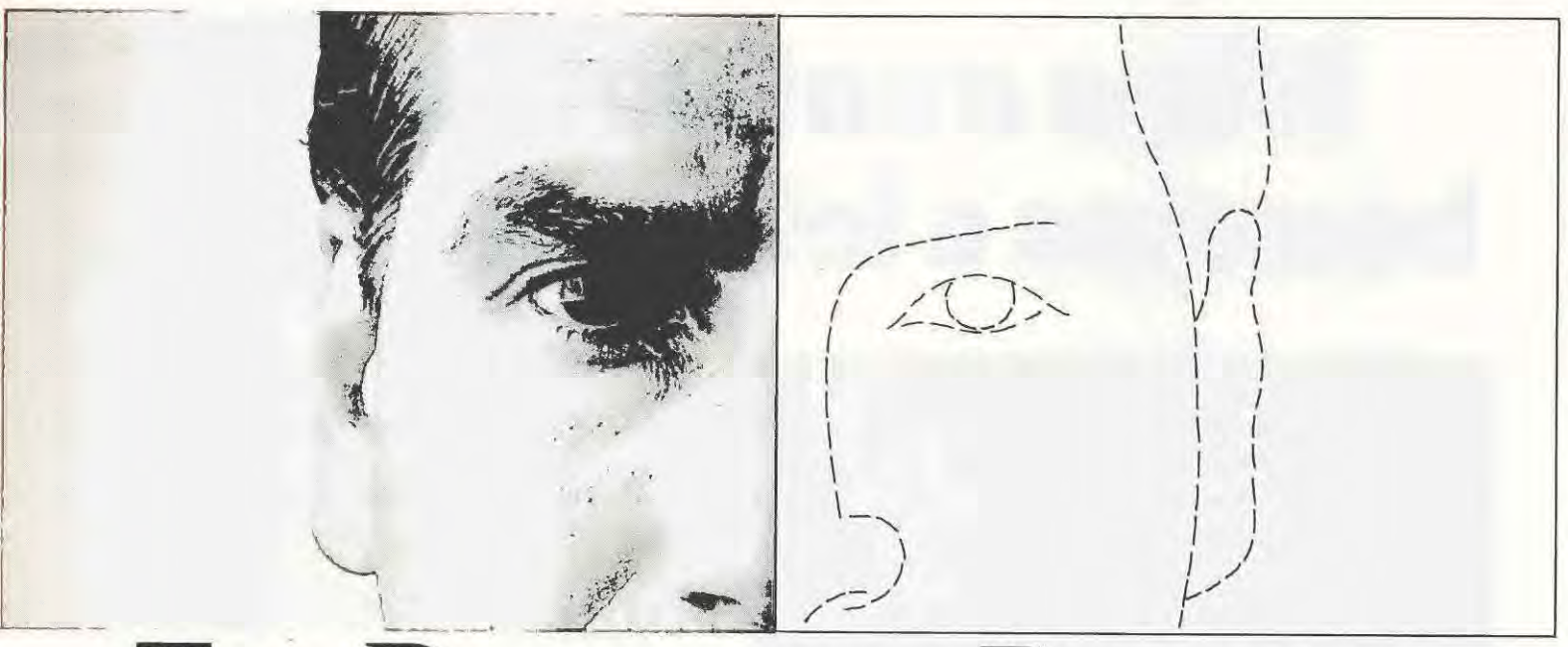

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Amberco Management Ltd.

Continental Building, Church Street, Hamilton HM FX, Bermuda; 809-295-9191

Parent company: Amberco Holdings Inc.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, reinsurance brokered for captives, managing underwriting pools/facilities/association captives, association captive management services, arranging fronting programs; occasional computerized accounting, manual claims processing, computerized claims processing, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, loss control services (Columbus, Ohio).

Clients: Four active captives managed; 50% with less than $1 million in premiums, 50% with $1 million-$3 million. No minimum size client.

Current business: Four active captives, one inactive captive.

Subsidiaries: Amberco Management (Barbados) Ltd.

Compensation: Annual fee, $10,000 minimum; commissions for reinsurance brokered.

Principal officers: Julian Griffiths, chairman; William Wanklyn, president; Anne McSherry and Martin Jackson, vps; Ginette Woolridge, chief financial officer.

American International Co. Ltd.

American International Building, 29 Richmond Road, Pembroke, Bermuda HM 08; 809-295-2121

Year founded: 1947.

Parent company: American International Group Inc.

Services provided: Frequent government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, investment management, specialized accounting services for associations, onshore services for associations, funding, fronting, risk management programs, guaranteed cash flow programs; occasional captive feasibility studies, captive formation, manual claims processing, loss forecasting, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, tax advice, legal advice, loss control services (New York and Brussels, Belgium), association captive management services.

Staff: 15 total, eight professionals. Professional designations held by staff include one ACMA, one ACCA, one CGA, one CMA, one FCII, three ACIIs.

Clients: 22 active captives managed; 36% with less than $1 million in premiums, 32% with $1 million-$3 million, 13% with $3 million-$10 million, 14% with $10 million-$20 million, 5% with more than $20 million. Total premium volume of captives managed, $95 million. No minimum size client.

Current business: 22 active captives.

Compensation: Annual fee, $25,000 minimum; time and expense: professional, $90; clerical, $40.

1989 gross revenues: $11.2 million; 25% from fees charged for captive management, 75% from other services.

Principal officers: J.C.H. Johnson, president/chief executive officer; D.J. Higginbottom, vp/director-captive operations; J.R. Weale, assistant vp-captive management services; M.J. Whitwell, assistant vp-insurance services; K. Bond, assistant vp-financial services.

American International Management Co. (Barbados) Ltd.

ALICO Building, Cheapside, Bridgetown, Barbados; 809-436-7102

Year founded: 1985.

Parent company: American International Group Inc.

Services provided: Frequent government reporting, accounting, computerized accounting, investment management, funding, risk management programs; occasional captive feasibility studies, captive formation, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, underwriting and ratemaking for captives, tax advice, legal advice, loss control services (New York and Brussels, Belgium).

Staff: Three total, one professional. Professional designations held by staff include one ACCA.

Clients: Two captives managed; both with more than $20 million in premium volume. No minimum size client.

Current business: Two active captives.

Compensation: Annual fee, $25,000 minimum; time and expense: professional, $90; clerical, $45.

1989 gross revenues: 100% from fees charged for captive management.

Principal officers: Helen Roper, president/general manager; John R. Weale, vp; Richard Whitfield, assistant vp.

American Risk Management Corp.

1 Executive Drive, P.O. Box 1383, Fort Lee, N.J. 07024; 201-592-7100

See International Risk Management Group.

Argus International Management Ltd.

P.O. Box HM 1064, 12 Wesley St., Hamilton HM EX, Bermuda; 809-295-2021

Year founded: 1971.

Parent company: Argus Insurance Co. Ltd.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, managing underwriting pools/facilities/association captives, investment management, specialized accounting services for associations; occasional reinsurance brokered for captives, tax advice.

Staff: 10 total, five professionals. Professional designations held by staff include five CPAs.

Clients: 27 active captives managed, four inactive captives managed.

Current business: 32 active captives, four inactive captives.

Continued on next page

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Continued from previous page

Compensation: Annual fee; time and expense.

Principal officers: E. John Sainsbury, managing director; Michael Hardy, manager.

Atlantic Security Ltd.

Windsor Place, 18 Queen St., Hamilton HM 12, Bermuda; 809-295-5425

Year founded: 1974.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, reinsurance brokered for captives; occasional loss forecasting, reinsurance brokered to captives, investment management, specialized accounting services for associations.

Staff: 10 total, six professionals. Professional designations held by staff include two CPAs.

Clients: 26 active captives managed; 40% with less than $1 million in premiums, 35% with $1 million-$3 million, 20% with $3 million-$10 million, 5% with $10 million-$20 million. Three inactive captives managed. Total premium volume of captives managed, $82 million. No minimum size client.

Compensation: Annual fee, $20,000 minimum; time and expense: professional, $80-$120; clerical, $40.

1989 gross revenues: $1.5 million; 35% from fees charged for captive management, 35% from commissions charged for brokering insurance and/or reinsurance, 30% from other services.

Principal officers: Hal Forkush, president; Colin C. James, senior vp; Richard J. Witkowski, vp.

B

B.F.& M. Management Ltd.

Outerbridge Building, P.O. Box HM 1007, Hamilton HM DX, Bermuda; 809-292-6396

Year founded: 1969.

Parent company: The Bermuda Fire & Marine Insurance Co. Ltd.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, managing underwriting pools/facilities/association captives, investment management, association captive management services, captive rental facilities; occasional reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives.

Staff: Eight total, six professionals. Professional designations held by staff include one FCAS.

Clients: 37 active captives managed; 77.5% with less than $1 million in premiums, 15% with $1 million-$3 million, 5% with $3 million-$10 million, 2.5% with more than $20 million. Three inactive captives managed. Total premium volume of captives managed, $67 million.

Current business: 38 active captives, two inactive captives.

Compensation: Annual fee, $11,000 minimum; commissions for reinsurance brokered; time and expense, professional: $85-$140; clerical, $50-$65.

1989 gross revenues: 90.24% from fees charged for captive management, 5.14% from commissions charged for brokering insurance and/or reinsurance, 4.62% from other services.

Principal officers: Cyril Rance, managing director; Elizabeth A.C. Durrant, manager; John A. Wilkins, treasurer.

BRI International Agency Inc.

156 William St., New York, N.Y. 10038; 212-233-7171

Year founded: 1981.

Parent company: BRI Holding Corp.

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

Staff: Eight total, three professionals. Professional designations held by staff include one CPA, two CPCUs, one ARM, two MBAs.

Clients: Five total captives managed.

Subsidiaries: BRI Management Services (Cayman) Ltd.

Compensation: Commissions for reinsurance brokered, time and expense.

1989 gross revenues: 95% from fees charged for captive management, 5% from commissions charged for brokering insurance and/or reinsurance.

Principal officers: Bruno Rumignani, president; Fred Ghawi, Howard Miller and Joseph Zweig, vps; Burton Matfus; secretary/treasurer.

Becher & Carlson Management Ltd.

Williams House, Reid Street, P.O. Box HM 2461, Hamilton HM JX, Bermuda; 809-295-0519

Year founded: 1981.

Parent company: American Re-Insurance Co.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, investment management; occasional reinsurance brokered to captives, specialized accounting services, onshore services for associations.

Staff: Five total, two professionals. Professional designations held by staff include two CAs.

Clients: 11 active captives managed; 25% with less than $1 million in premiums, 8% with $1 million-$3 million, 42% with $3 million-$10 million, 8% with $10 million-$20 million, 17% with more than $20 million. One inactive captive managed. Total premium volume of captives managed, $80 million. No minimum size client.

Current business: 11 active captives, one inactive captive.

Subsidiaries: Becher & Carlson Brokerage Ltd., Bermuda.

Affiliates: Becher & Carlson Risk Management Inc. and Becher & Carlson Insurance Services Inc., Los Angeles; Becher & Carlson Management (Vermont) Inc., Burlington, Vt.; Becher & Carlson Risk Management (Atlanta), Atlanta.

Compensation: Annual fee, commissions for reinsurance brokered.

Principal officers: William E. Becher Jr., president; David L. Carlson, chairman; Robin Mehta, senior vp/general manager; J.P. Stuart Whitfield, treasurer; Des Nash, vp.

Becher & Carlson Management (Vermont)

7 Burlington Square, Suite 600, Burlington, Vt. 05401; 802-658-7831

Year founded: 1982.

Parent company: American Re-Insurance Co.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, actuarial studies, loss forecasting, investment management.

Staff: Two total, both professionals. Professional designations held by staff include one CPA.

Clients: Three active captives managed; 67% with $3 million-$10 million in premiums, 33% with more than $20 million. Total premium volume of captives managed, $44.7 million.

Current business: Three active captives.

Compensation: Annual fee.

Principal officers: William E. Becher Jr., chairman; David L. Carlson, president; Robert L. Glicksteen, chief financial officer; J.P. Stuart Whitfield, treasurer/corporate secretary; Ann C. DesLauriers, resident manager.

Bermuda Connexion

Box 1721, International Centre, Hamilton 5, Bermuda; 313-683-0380

Year founded: 1976.

Parent company: Risk Research Institute Inc.

Services provided: Frequent claims reserves analysis, loss forecasting, tax advice, loss control services (Fraser, Mich.; Stuart and West Palm Beach, Fla.), seminars and educational conferences; occasional captive feasibility studies, captive formation, manual claims processing, computerized claims processing, actuarial studies, underwriting and ratemaking for captives.

Staff: Three total, all professionals. Professional designations held by staff include one CPCU, two ARMs.

Compensation: Time and expense: professional, $125-$175; clerical services included.

1989 gross revenues: 100% from other services.

Principal officers: Haig G. Neville, president; Juanita W. Neville, vp-finance; Denis Shelley, vp-legal; Brian Francis, vp-claims/loss control; Vernon Francis, vp-claims.

Bott & Associates Ltd.

Sterling House, Wesley Street, P.O. Box HM 1087, Hamilton HM EX, Bermuda; 809-292-6564; 809-295-4083

Year founded: 1979.

Services provided: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, association captive management services.

Staff: 10 total, five professionals. Professional designations held by staff include two CAs, one ACIS.

Clients: 28 active captives managed. No inactive captives managed. Minimum size client, $500,000 premium volume.

Current business: 28 active captives, no inactive captives.

Subsidiaries: Bott & Associates (Turks & Caicos) Ltd.; Bott & Associates (Barbados) Ltd.

Compensation: Annual fee, $15,000 minimum; commissions for reinsurance brokered; time and expense, professional: $85-$215; clerical: $25 and up.

1989 gross revenues: 45% from fees charged for captive management, 20% from commissions charged for brokering insurance and/or reinsurance, 35% from other services.

Principal officers: Michael F. Bott, president; Lawrence Dixon, executive vp; Edmund O'Brien, vp-finance; Nan Pollock Griffiths, vp.

Continued on next page

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Martin Boyer Co. Inc.

230 W. Monroe St., Chicago, Ill. 60606; 312-782-4101

Parent company: Aon Corp.
Services provided: Frequent government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, managing underwriting pools/facilities/association captives, loss control services, association captive management services, specialized accounting services, onshore services for associations; occasional captive formation, underwriting and ratemaking for captives, investment management.
Staff: Six total. Professional designations held by staff include two CPAs, three CPCUs, two MBAs.
Clients: Nine captives managed; 33% with $1 million-$3 million in premiums, 45% with $3 million-$10 million, 22% with $10 million-$20 million. Total premium volume of captives managed, $80 million. Minimum size client, $1 million premium volume.
Current business: Nine active captives.
Compensation: Annual fee.
1989 gross revenues: $3 million; 95% from fees charged for captive management, 5% from commissions charged for brokering insurance and/or reinsurance.
Principal officers: Martin Boyer, chairman; Dick Borchardt, president; John Rittenhouse, executive vp.

British-American Management (Bermuda) Ltd.

c/o British-American Management Ltd., P.O. Box N-3005; Nassau, Bahamas; 809-322-2694; 809-322-2697

Year founded: 1984.
Parent company: British-American Insurance Co. Ltd.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, investment management, association captive management services; occasional claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives.
Staff: Five total, one professional. Professional designations held by staff include one GIC.
Clients: One active captive managed with less than $1 million in premiums. One inactive captive managed. Total premium volume of captives managed, $50,000. Minimum size client, $500,000 premium volume.
Current business: One active captive, one inactive captive.
Affiliates: British-American Management Ltd., Bahamas; British-American Management (Cayman) Ltd.
Compensation: Annual fee, $15,000 minimum; commissions for reinsurance brokered.
1989 gross revenues: 100% from fees charged for captive management.
Principal officers: William B. Allen, chairman; Judy A. Higgs, president/chief executive officer.

British-American Management (Cayman) Ltd.

P.O. Box 2186, British-American Center, George Town, Grand Cayman, B.W.I.; 809-949-5627

Year founded: 1982.
Parent company: British-American Insurance Co. Ltd.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, investment management; occasional claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, association captive management services.
Staff: Seven total, two professionals. Professional designations held by staff include one CPA, one CA.
Clients: One active captive managed with more than $20 million in premiums. Minimum size client, $500,000 premium volume.
Current business: One active captive.
Subsidiaries: British-American Management Ltd., Bahamas; British-American Management (Bermuda) Ltd.
Compensation: Annual fee, $20,000 minimum; commissions for reinsurance brokered.
1989 gross revenues: $295,000; 30% from fees charged for captive management, 70% from other services.
Principal officers: Michael Anderson, vp.

British-American Management Ltd.

51 Frederick St., First Home Building, P.O. Box N-3005, Nassau, Bahamas; 809-322-2694; 809-322-2697

Year founded: 1979.
Parent company: British-American Insurance Co. Ltd.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, investment management, association captive management services; occasional claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives.
Staff: Five total. Professional designations held by staff include one GIC.
Clients: Nine active captives managed; 55% with less than $1 million in premiums, 34% with $1 million-$3 million, 11% with $10 million-$20 million. Two inactive captives managed. Total premium volume of captives managed, $17 million. Minimum size client, $500,000 premium volume.
Current business: Nine active captives, two inactive captives.
Affiliates: British-American Management (Cayman) Ltd., British-American Management (Bermuda) Ltd.
Compensation: Annual fee, $15,000 minimum; commissions for reinsurance brokered.
1989 gross revenues: $360,000; 74% from fees charged for captive management, 4% from commissions charged for brokering insurance and/or reinsurance, 22% from other services.
Principal officers: William B. Allen, chairman; Judy A. Higgs, president/chief executive officer.

C

CSI International Underwriting (Cayman) Ltd.

P.O. Box 1392, Cayman International Trust Building, Grand Cayman, B.W.I.; 809-949-7322

Year founded: 1982.
Parent company: Pacific Compensation Capital Corp.
Services provided: Subcontracts for captive management services with International Underwriting Managers (Cayman) Ltd.
Clients: Three active captives managed; one with less than $1 million in premiums, two with $1 million-$3 million. Nine inactive captives managed.
Current business: Three active captives, six inactive captives.
Compensation: Time and expense: professional, $100-$150; clerical, $40-$80.
Principal officers: James Little, Ronald S. Groden, directors.

Caledonian Management Ltd.

73 Front St., P.O. Box HM 2455, Hamilton HM JX, Bermuda; 809-295-1683

Year founded: 1988.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, reinsurance brokered for captives, in-

Continued on next page

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Continued from previous page

vestment management; occasional claims reserves analysis, loss forecasting, underwriting and ratemaking for captives, specialized accounting services for associations.

Staff: Three total, two professionals. Professional designations held by staff include one ARM, two CAs.

Clients: Four active captives managed; 25% with less than $1 million in premiums, 25% with $1 million-$3 million, 25% with $3 million-$10 million, 25% with $10 million-$20 million. Total premium volume of captives managed, $15 million. No minimum size client.

Current business: Four active captives.

Affiliate: Caledonian Management Ltd., Isle of Man.

Compensation: Annual fee.

1989 gross revenues: 90% from fees charged for captive management, 10% from other services.

Principal officers: David A. Brown, president; Rhonda M. Caza, vp.

Caledonian Management Ltd. (Isle of Man)

Saint James' Chambers, Athol St., P.O. Box 174, Douglas, Isle of Man; 0624-661020

Year founded: 1988.

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

Staff: One total staff member who is a professional and holds a CA designation.

Current business: No captives currently managed.

Affiliate: Caledonian Management Ltd., Bermuda.

Compensation: Annual fee.

Principal officers: David A. Brown, managing director.

Caperton Special Risks

1810 Water Place, Suite 290, Atlanta, Ga. 30339; 404-956-0125

Year founded: 1985.

Parent company: McDonough Caperton Insurance Group.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives; occasional accounting, managing underwriting pools/facilities/association captives, loss control services (Atlanta), specialized accounting services for associations, onshore services for associations.

Staff: Six total, four professionals. Professional designations held by staff include one CPCU.

Clients: Six active captives managed; 80% with $1 million-$3 million in premiums, 20% with $10 million-$20 million.

Current business: Six active captives.

Subsidiaries: McDonough Caperton International Ltd., Bermuda.

Principal officers: Marston Becker, president; Phyllis T. Lindsey, vp; William H. Highum and David W. Suba, assistant vps; Paul E. McCarthy, managing partner.

Captive Syndicate Management Ltd.

26 Broadway, Suite 400, New York, N.Y. 10004; 212-837-7743

Year founded: 1988.

Parent company: London Holdings (Cayman) Ltd.

Services provided: Frequent computerized accounting, computerized claims processing, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives (The Captive Syndicate, four participants, $10 million premium volume).

Staff: Three total, all professionals.

Clients: Five active captives managed; 60% with less than $1 million in premiums, 40% with $1 million-$3 million. Minimum size client, $500,000 premium volume.

Current business: Five active captives.

Compensation: Annual fee, $10,000 minimum.

1989 gross revenues: 100% from fees charged for captive management.

Principal officers: Ronald H. Samuels, chairman; Leonard R. Smith, vp; Elaine M.R. Osborne, secretary.

Caribbean Captive Insurance Managers Inc.

35 Roebuck St., Bridgetown, Barbados; 809-436-8826

Year founded: 1984.

Parent company: Intel Corp.

Services provided: Captive formation, government reporting, accounting, computerized accounting, manual claims processing, investment management, financial services.

Staff: Two total, one professional.

Clients: Eight active captives

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managed; 37.5% with less than $1 million in premiums, 62.5% with $1 million-$3 million. Total premium volume of captives managed, $7 million. Minimum size client, $100,000 premium volume.

Current business: Eight active captives.

Compensation: Annual fee; commissions for reinsurance brokered; time and expense: professional, $150; clerical, $50.

1989 gross revenues: $70,000; 100% from fees charged for captive management.

Principal officers: Arvind Sodhani, president; Mark St. John and Robert Perlman, vps; Gary Toms, director; Luther Jones, finance manager.

Cayside Insurance Management Ltd.

P.O. Box 878, West Wind Building, Grand Cayman, B.W.I.; 809-949-8184

Year founded: 1984.

Services provided: Frequent government reporting, accounting, computerized accounting, investment management; occasional captive feasibility studies, captive formation, claims reserves analysis, loss forecasting, underwriting and ratemaking for captives, specialized accounting services for captives.

Staff: Four total, three professionals. Professional designations held by staff include one FCA, one CA.

Clients: 14 active captives managed; 36% with less than $1 million in premiums, 50% with $1 million-$3 million, 14% with $3 million-$10 million. One inactive captive managed. Total premium volume of captives managed, $2.4 million. No minimum size client.

Current business: 12 active captives, three inactive.

Compensation: Annual fee, time and expense.

1989 gross revenues: 100% from fees charged for captive management.

Principal officers: John E. Smith, managing director; J. William Rewalt, chairman.

Channel Islands Insurance Consultants Ltd.

26 Cornet St., Saint Peter Port, Guernsey, Channel Islands; 44-481-710336

Year founded: 1982.

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

Staff: Eight total, three professionals. Professional designations held by staff include two FCAs, one MBA, one ACIArb.

Clients: 19 active captives managed; 21% with less than $1 million in premiums, 47% with $1 million-$3 million, 26% with $3 million-$10 million, 6% with $10 million-$20 million. No minimum size client.

Current business: 19 active captives, three inactive captives.

Subsidiaries: Guernsey Insurance Management Services Ltd., Guernsey.

Compensation: Annual fee, time and expense.

1989 gross revenues: 100% from fees charged for captive management.

Principal officers: Michael John Savage, managing director; Wendy J. Goodson, director/company secretary; Mike Bubb, director/chief accountant.

CitySide Associates Inc.

180 S. Gannon Ave., Staten Island, N.Y. 10314; 718-494-5786

Year founded: 1981.

Services provided: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, loss control services (northeastern United States), onshore services for associations, claims audits.

Staff: Six total, three professionals. Professional designations held by staff include one MBA, two FCASs.

Clients: Two captives managed; one with $1 million-$3 million in premiums, one with $3 million-$10 million. Total premium volume of captives managed, $8 million. Minimum size client, $1 million premium volume.

Current business: Two active captives.

Compensation: Time and expense: professional, $80-$125; clerical, $50.

1989 gross revenues: 15% from fees charged for captive management, 85% from other services.

Principal officers: Ralph Carnesecchi, president; Kenneth Richman, vp.

Coastal Brokerage & Management Corp. Ltd.

P.O. Box 64, Providenciales, Turks & Caicos, B.W.I.; 809-946-4109

Year founded: 1988.

Continued on next page

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

Staff: Two professionals.

Clients: Five active captives managed; 68% with less than $1 million in premiums, 16% with $3 million-$10 million, 16% with $10 million-$20 million. One inactive captive managed. Minimum size client, $100,000 premium volume.

Current business: Six active captives, one inactive captive.

Compensation: Annual fee, commissions for reinsurance brokered.

Principal officers: C.E. Gresham III and J.A. Phillips.

Commodity & Financial Management Ltd.

19 Parliament St., Hamilton, Bermuda; 809-292-6424

Year founded: 1985.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, investment management; occasional captive feasibility studies, claims reserves analysis, reinsurance brokered for captives, tax advice.

Staff: Eight total, four professionals. Professional designations held by staff include four CPAs.

Clients: Five active captives managed. No minimum size client.

Current business: Five active captives.

Compensation: Annual fee, $5,000 minimum; time and expense: professional, $100; clerical, $50.

1989 gross revenues: $750,000; 10% from fees charged for captive management, 90% from other services

Principal officers: Peter Leighton, president; Amal Perera, vp.

Continental Risk Services (Barbados) Ltd.

ICB Building, Upper Roebuck Street, Bridgetown, Barbados 809-427-3362

Year founded: 1989.

Parent company: Continental Risk Services Ltd. (Bermuda).

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting; occasional captive feasibility studies, manual claims processing, claims reserves analysis, loss forecasting.

Staff: Three total, one professional. Professional designations held by staff include one CA.

Clients: Seven active captives managed; 28% with less than $1 million in premiums, 43% with $1 million-$3 million, 14% with $10 million-$20 million, 14% with more than $20 million. One inactive captive managed. Total premium volume of captives managed, $69.7 million. No minimum size client.

Current business: Seven active captives, one inactive captive.

Compensation: Time and expense.

Principal officers: Raymond E. Gil, chairman; David B. Vaughan, president; Bruce A. Fenton, vp; Trevor Carmichael, secretary; Marilyn Brown, assistant vp.

Continental Risk Services Ltd.

Continental Building, Church Street, P.O. Box HM 824, Hamilton, Bermuda; 809-295-6015

Year founded: 1981.

Parent company: Continental Corp.

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

Staff: Seven total, three professionals. Professional designations held by staff include one CPA, two CAs.

Clients: 20 active captives managed; 40% with less than $1 million in premiums, 13% with $1 million-$3 million, 20% with $3 million-$10 million, 14% with $10 million-$20 million, 13% with more than $20 million. Total premium volume of captives managed, $379 million.

Current business: 20 active captives.

Subsidiaries: Continental Risk Services (Barbados) Ltd.

Compensation: Time and expense.

Principal officers: Raymond E. Gil, chairman; David B. Vaughan, president; Richard D. Spurling, secretary; Bruce A. Fenton, assistant vp.

Corporate Risk Consultants

24370 Northwestern Highway, Southfield, Mich. 48075; 313-358-1100

Year founded: 1976.

Parent company: Meadowbrook Insurance Group.

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

Staff: 127 total, 13 professionals. Professional designations held by staff include two CPAs, five CPCUs, two ARMs, one MBA, one attorney, one CA, one CLU.

Clients: 32 captives managed.

Current business: 32 active captives.

Subsidiaries: Corporate Risk Consultants, Boca Raton, Fla.; Meadowbrook Risk Management Ltd., Hamilton, Bermuda.

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

1989 gross revenues: 50% from fees charged for captive management, 50% from other services.

Principal officers: Merton J. Segal, president; Robert A. Engle and Lawrence B. Kraus, vps; Lee F. Kelly, vp/treasurer.

Corroon & Black Advanced Risk Management Services

1 Commerce Place, Suite 1500, Nashville, Tenn. 37239; 615-271-1600

Parent company: Corroon & Black Corp.

Services provided: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, loss control services, specialized accounting services for associations.

Staff: 20 total. Professional designations held by staff include two CPAs, three CPCUs, six MBAs, one FCAS, one attorney, one Ph.D.

Clients: Four active captives managed; 50% with $1 million-$3 million in premiums, 50% with $10 million-$20 million. Total premium volume of captives managed, $40 million.

Current business: Four active captives.

Compensation: Time and expense.

Principal officers: Donald Heim, chief executive officer; Corbette Doyle, president/chief executive officer-national accounts services division; Luke Laborde, president/chief executive officer-research/development; Ron O'Nan and Greg Alff, senior vps.

D

Delta Management Ltd.

P.O. Box 1436, George Town, Grand Cayman, B.W.I.; 809-949-8228

Year founded: 1985.

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

Staff: Two total, one professional. Professional designations held by staff include one CPA.

Clients: Four active captives managed; 75% with less than $1 million in premiums, 25% with $1 million-$3 million. One inactive captive managed. Total premium volume of captives managed, $2.5 million. No minimum size client.

Current business: Four active captives, one inactive captive.

Compensation: Annual fee, $15,000 minimum; time and expense: professional, $150; clerical, $50.

1989 gross revenues: $150,000; 100% from fees charged for captive management.

Principal officers: Costas Takkas, managing director; Anthony Damoulis, director.

Dreward Management Ltd.

P.O. Box HM 1125, Hamilton HM EX, Bermuda; 809-295-7578

Year founded: 1980.

Parent company: AANA Holding Co. Inc.

Services provided: Frequent captive feasibility studies, captive formation, accounting, computerized accounting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, captive fronting; occasional government reporting, manual claims processing, computerized claims processing. claims reserves analysis, actuarial studies, loss forecasting, loss control services, specialized accounting services for associations, onshore services for associations.

Staff: Three total, two professionals. Professional designations held by staff include one CPCU, one MBA.

Clients: 10 active captives managed. Two inactive captives managed.

Current business: 10 active captives, two inactive captives.

Subsidiaries: Ambel Consultation Services Inc., Andrew Edwards & Co. Inc., Insurance Agency Programs Inc.

Compensation: Annual fee, $7,500 minimum; commissions for reinsurance brokered; time and expense.

Principal officers: Andrew Barile, Edward Mallozzi and Sandy Barclay.

E

Eaglehurst Insurance Management Ltd.

Eaglehurst Business Centre, Belmont Hill, Douglas, Isle of Man; 0624-28800

Year founded: 1986.

Parent company: The West Corp.

Services provided: Frequent government reporting, accounting, manual claims processing, tax advice; occasional captive formation, computerized accounting, computerized claims processing, claims reserves analysis, underwriting and ratemaking for captives, investment management.

Staff: Three total, all professionals. Professional designations held by staff include two CPAs.

Clients: Two active captives managed; one with less than $1 million in premiums, one with $1 million-$3 million. One inactive captive managed. Total premium volume of captives managed, $1.5 million. Minimum size client, $400,000 premium volume.

Current business: Two active captives, one inactive captive.

Compensation: Time and expense: professional, $80-$176; clerical, $40-$64.

1989 gross revenues: $96,400, 100% from fees charged for captive management.

Principal officers: Roger Capron Rawcliffe.

European Risk Management Ltd.

31/33 Monument Hill, Weybridge, Surrey KT13 8RS, England; 011-44-9-3285-4711

See International Risk Management Group.

F

Financial Technology Consultants Inc.

5455 Wilshire Blvd., Suite 1610, Los Angeles, Calif. 90036; 213-937-3091

Year founded: 1976.

Services provided: Frequent captive feasibility studies, captive formation, computerized accounting, computerized claims processing, underwriting and ratemaking for captives; occasional claims reserves analysis, loss forecasting.

Staff: Five total, two professionals. Professional designations held by staff include one MBA.

Clients: 10 active captives managed; 20% with less than $1 million in premiums, 70% with $1 million-$3 million, 10% with $3 million-$10 million. Minimum size client, $750,000 premium volume.

Current business: 10 active captives.

Compensation: Annual fee, $12,500 minimum; time and expense: professional, $200; clerical, $45.

1989 gross revenues: 100% from fees charged for captive management.

Principal officers: Warwick Feldman, president.

Finsbury Management Services Ltd.

3 Library Ramp, Gibraltar; 350-73437

Year founded: 1983.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting,

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R M

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manual claims processing, claims reserves analysis, managing underwriting pools/facilities/association captives; occasional actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, tax advice.

Staff: 38 total. Professional designations held by staff include two CPAs, one MBA, two MBIMs.

Clients: Five active captives managed; 60% with less than $1 million in premiums, 20% with $1 million-$3 million, 20% with $10 million-$20 million. One inactive captive managed. Total premium volume of captives managed, $20 million. Minimum size client, $175,000 premium volume.

Current business: Five active captives, one inactive captive.

Compensation: Time and expense: professional, $115 per hour; clerical, $58 per hour.

Principal officers: Kevin Brown, managing director; James David Hassan and Desmond Roger Reoch, directors.

G

Arthur J. Gallagher Management (Bermuda) Ltd.

P.O. Box HM 2000, Hamilton HM HX, Bermuda; 809-292-4654

Year founded: 1972.

Parent company: Arthur J. Gallagher & Co.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, reinsurance brokered for captives, investment management, loss control services (Rolling Meadows, Ill.), specialized accounting services for associations, onshore services for associations, alternative risk financing programs, captive rental facilities; occasional captive feasibility studies, claims reserves analysis, reinsurance brokered to captives, underwriting and ratemaking for captives.

Staff: Five total, two professionals. Professional designations held by staff include two ACIIs, one FCA.

Clients: Four active captives managed; all with less than $1 million in premiums. One inactive captive managed.

Current business: Four active captives, one inactive captive.

Subsidiaries: Arthur J. Gallagher & Co. (Cayman) Ltd.

Compensation: Annual fee, $10,000 minimum; commissions for reinsurance brokered.

1989 gross revenues: $1.5 million; 45% from fees charged for captive management, 55% from commissions charged for brokering insurance and/or reinsurance.

Principal officers: John P. Gallagher, president; Robert E. Gallagher, vp; J. DeChristofaro, vp/director; David J. McManus, managing director; Ronald L. Hubbard, finance director.

Gecalux S.A.

10, Rue de la Greve, L-1643, Luxembourg; 352-40-21-90

Year founded: 1984.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, tax advice, legal advice; occasional manual claims processing, managing underwriting pools/facilities/association captives (Co Ge Re, four participants), investment management advice (through affiliated company Risk Management Services Europe S.A.), loss control services.

Staff: 25 total, seven professionals. Professional designations held by staff include one ACII, one CE, one attorney.

Clients: 32 active captives managed.

Current business: 36 active captives.

Subsidiaries: Gecalux France S.A.

Compensation: Annual fee.

Principal officers: Roland Frere, managing director; Frederick Gabriel, manager; Thierry Dron, manager-reinsurance.

Green Mountain Captive Management Co.

P.O. Box 628, Barre, Vt. 05641; 802-479-1046

Year founded: 1981.

Staff: Five total, four professionals. Professional designations held by staff include one CPCU, two attorneys.

Clients: Two captives managed. Total premium volume of captives managed, $4.9 million.

Current business: Two active captives.

Compensation: Annual fee.

1989 gross revenues: 100% from fees charged for captive management.

Principal officers: Thomas Salmon, James Mulligan, George Nostrand and Richard W. Huskes Jr.

Guernsey Insurance Management Services Ltd.

20 Cornet St., St. Peter Port, Guernsey, Channel Islands

Year founded: 1982.

Parent company: Channel Islands Insurance Consultants Ltd.

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

Staff: Eight total, three professionals. Professional designations held by staff include two FCAs, one MBA, one ACIArb.

Clients: Two active captives managed; 50% with $1 million-$3 million in premiums, 50% with $10 million-$20 million.

Current business: Two active captives.

Compensation: Annual fee, time and expense.

Principal officers: Michael J. Savage, president; Wendy J. Goodman, vp-administration.

H

HJF Management Ltd.

P.O. Box HM 1616, Hamilton HM GX, Bermuda; 809-292-8411

Year founded: 1987.

Parent company: Blackwall Green Ltd.

Services provided: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, managing association captives, investment management, specialized accounting services for associations.

Staff: Three total, two professionals.

Clients: One active captive managed, with $1 million-$3 million in premiums. Total premium volume of captives managed, $2.5 million. Minimum size client, $1 million premium volume.

Current business: One active captive.

Affiliate: HJF International Ltd., Bermuda.

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

1989 gross revenues: 100% from fees charged for captive management.

Principal officers: John R.D. Green, chairman/president; Michael T.W. Jenkins and Michael G. Foulger, executive vps/directors; J.W.L. Adams, director.

HRGM Insurance Management Ltd.

Suite 5, Town Mills, Rue Du Pre, St. Peter Port, Guernsey, Channel Islands; 481-726049

Year founded: 1978.

Parent company: Hogg Robinson & Gardner Mountain P.L.C.

Services provided: Frequent government reporting, accounting, manual claims processing, claims reserves analysis, investment management; occasional captive feasibility studies, captive formation, computerized claims processing, loss forecasting, underwriting and ratemaking for captives, tax advice, association captive management services.

Staff: Six total, two professionals.

Clients: 13 active captives managed; 54% with less than $1 million in premiums, 31% with $1 million-$3 million, 15% with $3 million-$10 million. One inactive captive managed. Minimum size client, $500,000 premium volume.

Current business: 13 active captives, one inactive captive.

Compensation: Annual fee; time and expense: professional, $100-180; clerical, $50-$75.

Principal officers: Roger A. Hall, managing director; Graham M. Powell, director.

Hanna Insurance (Vermont) Ltd.

102 S. Winooski Ave., P.O. Box 730, Burlington, Vt. 05402-0730; 802-863-5774

Year founded: 1982.

Parent company: Smith, Bell &

Continued on next page

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415/734-9400 • Fax 415/734-8631

Continued from previous page
Thompson Inc. and M.A. Hanna Co.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, managing underwriting pools/facilities/association captives, specialized accounting services for associations, onshore services for associations; occasional captive feasibility studies, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, tax advice, legal advice.

Staff: Seven total, two professionals.

Clients: 13 active captives managed; 23% with less than $1 million in premiums, 31% with $1 million-$3 million, 38% with $3 million-$10 million, 8% with $10 million-$20 million. Total premium volume of captives managed, $70 million. Two inactive captives managed.

Current business: 16 active captives.

Compensation: Annual fee, $15,000 minimum; time and expense.

Principal officers: Roger D. Teese, president; Warren L. Thompson, chairman; Bradley D. Matulonis, treasurer; Timothy H. Hoffman, vp.

Hawaii Captive Insurance Management Co. Inc.

567 S. King St., Honolulu, Hawaii 96813; 808-523-6161

Year founded: 1988.

Services provided: Government reporting, legal advice.

Staff: Three total, one professional. Professional designations held by staff include one attorney.

Clients: One active captive managed with $1 million-$3 million in premiums. Minimum size client, $50,000 premium volume.

Current business: One active captive.

Compensation: Annual fee, $12,000 minimum.

1989 gross revenues: 100% from fees charged for captive management.

Hewitt, Coleman & Associates Inc.

P.O. Box 3665, Greenville, S.C. 29608; 803-240-5800

Year founded: 1923.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, loss control services (Greenville, S.C.), specialized accounting services for associations, onshore services for associations; occasional manual claims processing.

Staff: 95 total, 20 professionals. Professional designations held by staff include one CPA, one ARM, two MBAs.

Clients: Seven captives managed; 33% with less than $1 million in premiums, 17% with $1 million-$3 million, 50% with $3 million-$10 million. Total premium volume of captives managed, $35 million. Minimum size client, $2 million premium volume.

Current business: Six active captives, one inactive captives.

Subsidiaries: Hewitt, Coleman Risk Management Inc., Greenville, S.C.

Compensation: Annual fee; commissions for reinsurance brokered; time and expense: professional, $65-$150; clerical, $25-$50.

1989 gross revenues: $5 million; 50% from fees charged for captive management, 12% from commissions charged for brokering insurance and/or reinsurance, 38% from other services.

Principal officers: Charles R. Warne, president; Willard L. Quinn Jr., senior vp; Bennie H. Attaway, vp-administration.

Independent Management Group Ltd.

Third Floor, Williams House, 20 Reid St., Hamilton HM 11, Bermuda; P.O. Box HM 2070, Hamilton HM HX, Bermuda; 809-295-1646

Year founded: 1984.

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

Staff: Nine total, one professional. Professional designations held by staff include one CPA, one FCAS.

Clients: 25 active captives managed; 10% with less than $1 million in premiums, 50% with $1 million-$3 million, 27% with $3 million-$10 million, 13% with $10 million-$20 million. One inactive captive managed. Total premium volume of captives managed, $105 million. No minimum size client.

Current business: 25 active cap-

Continued on next page

IAS (Barbados) Ltd.

CGM Building, Collymore Rock, Bridgetown, Barbados; 809-436-8296

Year founded: 1987.

Parent company: International Advisory Services Ltd.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting,

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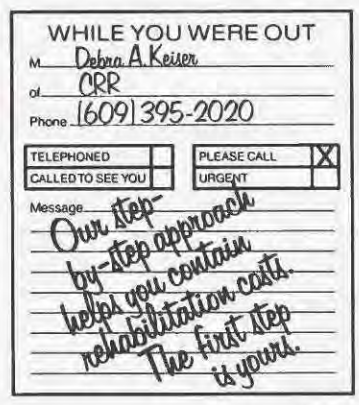

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Continued from previous page
tives, one inactive captive.

Subsidiaries: Independent Brokers Ltd.

Compensation: Annual fee, $15,000 minimum; commissions for reinsurance brokered; time and expense; professional, $115; clerical, $60.

Principal officers: Peter J.N. Strong, president; John G. Neal, vp.

Insurance Brokerage & Management Co. Ltd.

P.O. Box HM 604, Hamilton HM CX, Bermuda; American International Building, 29 Richmond Road, Pembroke, Bermuda; 809-295-2470

Year founded: 1974.

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

Staff: Four total, one professional. Professional designations held by staff include one CIP, one FID, one ACIArb.

Clients: Seven active captives managed; 89% with less than $1 million in premiums, 11% with $3 million-$10 million. Two inactive captives managed. Total premium volume of captives managed, $10 million. Minimum size client, $500,000 premium volume.

Current business: Seven active captives, two inactive captives.

Compensation: Annual fee, $15,000 minimum; commissions for reinsurance brokered.

1989 gross revenues: 60% from fees charged for captive management, 40% from commissions charged for brokering insurance and/or reinsurance.

Principal officers: Eric J.M. Arcay, managing director; John E. Thorne, controller.

Insurance Equities Corp.

535 Middlefield Road, Suite 120, Menlo Park, Calif. 94025; 415-324-8880

Year founded: 1986.

Services provided: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, reinsurance brokered for captives, underwriting and ratemaking for captives, loss control services, specialized accounting services for associations, market insurance coverage, underwriting.

Staff: 12 total, six professionals. Professional designations held by staff include one CPCU, one MBA, one attorney, one PhD.

Principal officers: Steven Blumenkranz, president/chief executive officer; John V. Wagner, executive vp/chief operating officer; Donald Satterlee, senior vp/general counsel.

International Advisory Services Ltd.

P.O. Box HM 1760, Hamilton HM HX, Bermuda; 809-295-3688

Year founded: 1981.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, managing underwriting pools/facilities/association captives (C.P.S. Insurance Co., Independent Laboratories Assurance Co. Ltd., Sporting Arms Insurance Ltd., Structural Engineers Insurance Ltd.), investment management, specialized accounting services for associations; occasional reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, tax advice, loss control services, onshore services for associations.

Staff: 23 total, 11 professionals. Professional designations held by staff include one CPCU, nine CAs, one CS.

Clients: 55 captives managed; 49% with less than $1 million in premiums, 20% with $1 million-$3 million, 14% with $3 million-$10 million, 8% with $10 million-$20 million, 9% with more than $20 million. Total premium volume of captives managed, $310 million. No minimum size client.

Current business: 57 active captives.

Subsidiaries: H&H Management Services Ltd., Bermuda; IAS (Barbados) Ltd., Barbados; IAS Insurance Management Inc., Anaheim, Calif.; International Advisory Services Inc., Montpelier, Vt.

Compensation: Annual fee, $12,000 minimum; commissions for reinsurance brokered; time and expense.

1989 gross revenues: 95% from fees charged for captive management, 5% from other services.

Principal officers: David Ezekiel, president/managing director; Terence Power, David Pickering, Simon Everett and David Lampit, officers.

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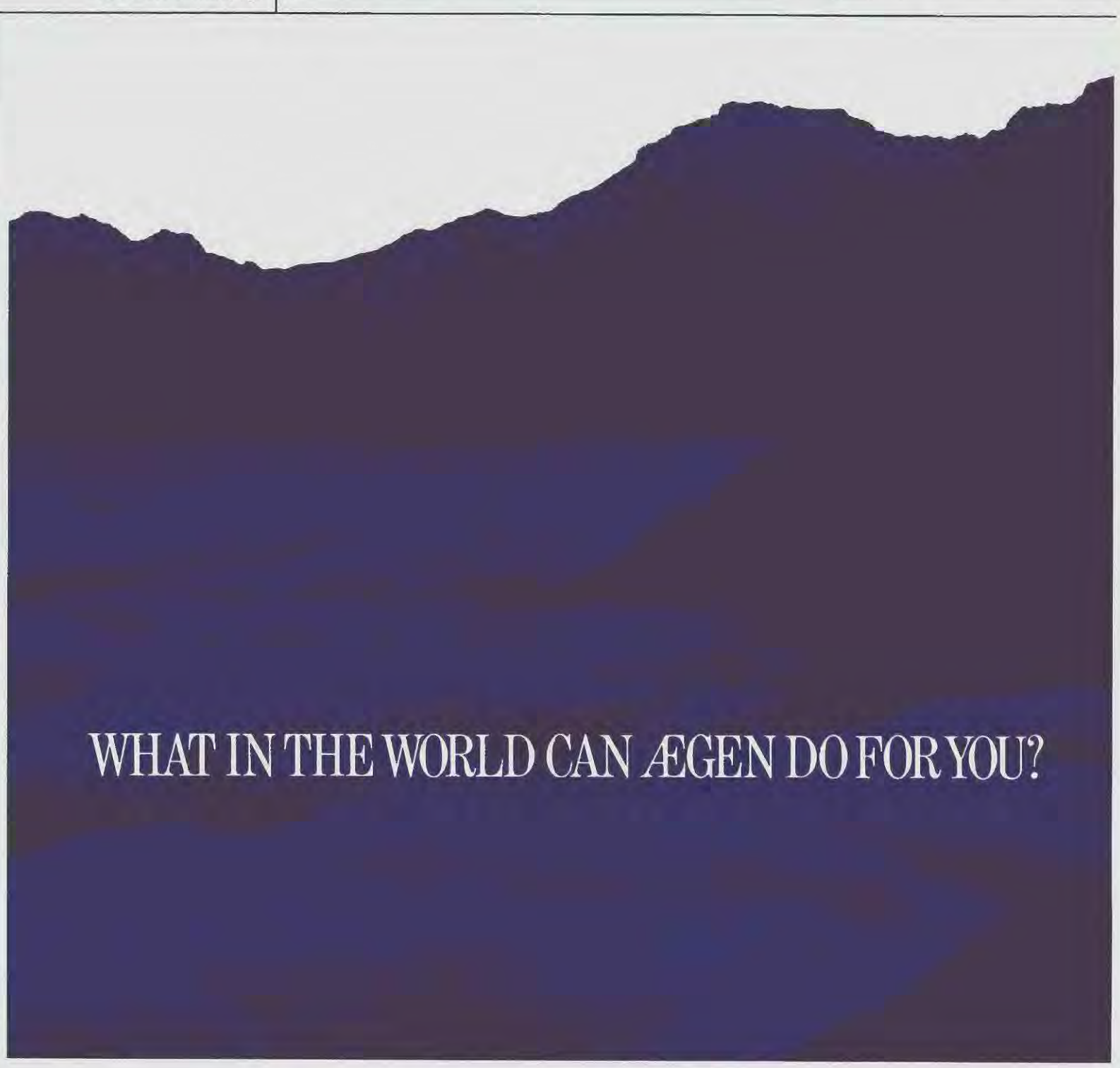

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International Insurance Management Ltd.

CGM Building, Collymore Rock, Bridgetown, Barbados; 809-436-8296

Year founded: 1987.
Services provided: Frequent government reporting, accounting, computerized accounting; occasional manual claims processing, computerized claims processing, underwriting and ratemaking for captives.
Staff: Four total, one professional. Professional designations held by staff include one MBA.
Clients: 12 active captives managed; 8% with less than $1 million in premiums, 42% with $1 million-$3 million, 8% with $3 million-$10 million, 25% with $10 million-$20 million, 17% with more than $20 million. Total premium volume of captives managed, $450 million. No minimum size client.
Current business: 12 active captives.
Compensation: Annual fee, $5,000 minimum; time and expense: professional, $60; administrative, $30; clerical, $15.
1989 gross revenues: 100% from fees charged for captive management.
Principal officers: William M. Tomlin, director; Anscele Payne, manager.

International Risk Management (Australia) Pty. Ltd.

c/o Deloitte Haskins & Sells, 12th Floor, 255 George St., Sydney, New South Wales 2000, Australia; 011-61-250-0500

See International Risk Management Group.

International Risk Management (Barbados) Ltd.

Box 1264, Saint George Street, Bridgetown, Barbados; 809-436-7541

See International Risk Management Group.

International Risk Management (Bermuda) Ltd.

P.O. Box 660, Belvedere Building, Hamilton 5, Bermuda; 809-295-0713

See International Risk Management Group.

International Risk Management (Canada) Ltd.

Corporation Square, Suite 1004, 30 Kuke St. W., Kitchener, Ontario N2H 3W5; 519-742-2390

See International Risk Management Group.

International Risk Management (Cayman) Ltd.

British American Tower, P.O. Box 69, George Town, Grand Cayman, B.W.I.; 809-949-0155

Year founded: 1988.
Parent company: Swiss Reinsurance Co.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives (United Insurance Co., Tortuga Casualty Co.), loss control services (Cleveland), specialized accounting services for associations, onshore services for associations.
Staff: 27 total, 10 professionals. Professional designations held by staff include four FCIIs, two FCAs, three ACAs, one HND.
Clients: 30 active captives managed; 37% with less than $1 million in premiums, 26% with $1 million-$3 million, 19% with $3 million-$10 million, 11% with $10 million-$20 million, 7% with more than $20 million. Two inactive captives managed. Total premium volume of captives managed, $230 million. Minimum size client, $250,000 premium volume.
Current business: 31 active captives, two inactive captives.
Compensation: Annual fee, $20,000 minimum; by the hour, $125; time and expense.
1989 gross revenues: 91% from fees charged for captive management, 5% from commissions charged for brokering insurance and/or reinsurance, 4% from other services.
Principal officers: Bryan D. Murphy, president; Peter A. Joy and Frank How, senior vps/directors; Graham R. King and Roger Phelps, vps/directors.

International Risk Management (Dublin) Ltd.

Block 3, Harcourt Center, Dublin 2, Ireland; 353-178-1788

See International Risk Management Group.

International Risk Management Group

P.O. Box 660, Belvedere Building, Hamilton 5, Bermuda; 809-295-0713

Year founded: 1988.
Parent company: Swiss Reinsurance Co.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives (Tortuga Casualty Co., Hopewell International Insurance Ltd., United Insurance Co.; Forest Insurance Ltd.), loss control services, specialized accounting services for associations, onshore services for associations; occasional manual claims processing.
Staff: 350 total, 280 professionals. Professional designations held by staff include 35 CPAs, 30 CPCUs, 30 ARMs, 10 MBAs, five attorneys.
Clients: 194 active captives managed; 35% with $1 million-$3 million in premiums, 55% with $3 million-$10 million, 10% with $10 million-$20 million. Six inactive captives managed.
Current business: Approximately 200 captives.
Member companies: American Risk Management Corp., Fort Lee, N.J.; International Risk Management (Bermuda) Ltd., Hamilton, Bermuda; European Risk Management Ltd., Weybridge, England; International Risk Management (Cayman) Ltd., George Town, Grand Cayman; International Risk Management (Guernsey) Ltd., St. Peter Port, Guernsey, Channel Islands; International Risk Management (Isle of Man) Ltd., Douglas, Isle of Man; International Risk Management (Barbados) Ltd., Bridgetown, Barbados; International Risk Management (Canada) Ltd., Kitchener, Ontario; International Risk Management (Singapore) Pte. Ltd., Singapore; International Risk Management (Australia) Pty. Ltd., Sydney, Australia; International Risk Management (Dublin) Ltd., Dublin, Ireland.
Compensation: Annual fee; time and expense: principal, $125-$250; clerical services included.
Principal officers: Arthur H. Deters, president/chief executive officer; Brian D. Murphy, executive vp; Thomas G. Grilli, executive vp/chief financial officer; John J. Ryan, president-American Risk Management Corp.; William F. Nehls, executive vp-American Risk Management Corp.; William T. Harris, Donald W. Mosier and William T. Torpey, vps-American Risk Management Corp.; William F. Sennett, managing director-European Risk Management Ltd.; Donald J. Westmoreland, president-International Risk Management (Bermuda) Ltd.; John R. Parkinson, managing director-International Risk Management (Guernsey) Ltd.; Peter Joy, vp-International Risk Management (Cayman) Ltd.

International Risk Management (Guernsey) Ltd.

2 Grange Place, St. Peter Port, Guernsey; 0481-727220

Year founded: 1976.
Parent company: International Risk Management Group Ltd./Swiss Reinsurance Co.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, underwriting and ratemaking for captives; occasional reinsurance brokered for captives, specialized accounting services for associations, onshore services for associations.
Staff: 11 total, four professionals. Professional designations held by staff include one ACII, one FCII, one FIRM, two FCCAs.
Clients: 15 active captives managed; 7% with less than $1 million in premiums, 60% with $1 million-$3 million, 13% with $3 million-$10 million, 13% with $10 million-$20 million, 7% with more than $20 million. One inactive captive managed. Total premium volume of captives managed, $70 million.
Current business: 18 active captives, one inactive captive.
Compensation: Annual fee, time and expense.
1989 gross revenues: 95% from fees charged for captive management, 5% from other services.
Principal officers: B.D. Murphy, chairman; J.R. Parkinson, managing director; J. Stuart, financial director; D.J. Westmoreland, director.

International Risk Management (Isle of Man) Ltd.

Well Road House, Market Street, Douglas, Isle of Man; 0624-29198

Year founded: 1983.
Parent company: International Risk Management Group/Swiss Reinsurance Co.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis; occasional actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives.
Staff: Three total, two professionals. Professional designations held by staff include one ACII, one FCCA.
Clients: Six active captives managed; 60% with less than $1 million in premiums, 15% with $3 million-$10 million, 15% with more than $20 million. Total premium volume of captives managed, $35 million.
Current business: Six active captives.
Compensation: Annual fee, time and expense.
1989 gross revenues: 100% from fees charged for captive management.
Principal officers: B.D. Murphy, chairman; J.R. Parkinson, managing director; J. Stuart, financial director; L. Sherin, director.

International Risk Management (Singapore) Pte. Ltd.

4 Robinson Road, 10-01 Commercial Union Building, Singapore 0104; 65-222-3582; 65-222-3583

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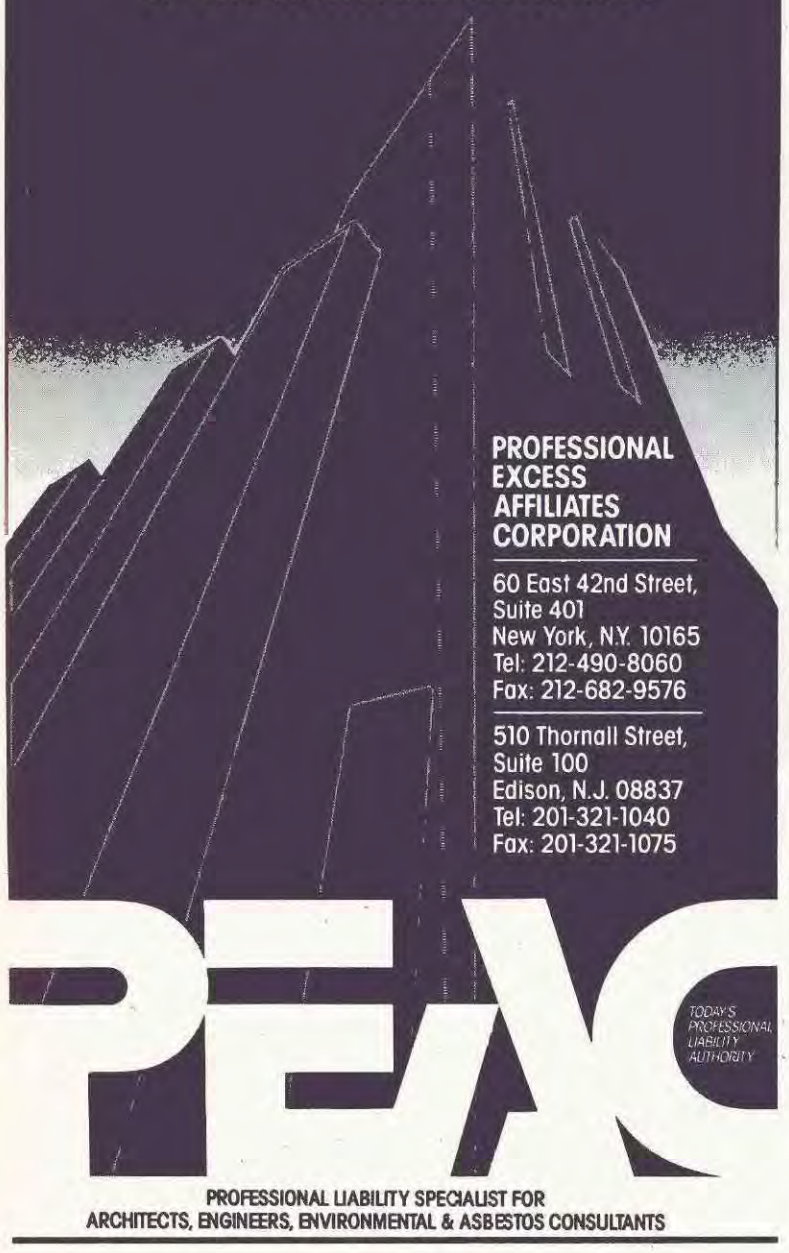

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International Underwriting Managers (Cayman) Ltd.

P.O. Box 1569, Cayman
International Trust Building,
Cayman Islands, B.W.I.;
809-949-7906

Year founded: 1987.
Parent company: International Management Group Ltd.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, actuarial studies, loss forecasting, investment management, tax advice, legal advice; occasional manual claims processing, computerized claims processing, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking for captives, loss control services, specialized accounting services for associations, onshore services for associations.
Staff: Seven total, two professionals. Professional designations held by staff include one CA, one FCIS.
Clients: Four active captives managed; 75% with less than $1 million in premiums, 25% with $1 million-$3 million. One inactive captive managed.
Current business: Four active captives, one inactive captive.
Compensation: Time and expense: professional, $100-$150; clerical, $40-$85.
Principal officers: David M.L. Roberts, Athel C.E. Long, John M. Golds and J. Nairn Marshall.

J

Johnson & Higgins (Barbados) Ltd.

Alleyne House, White Park Road,
Bridgetown, Barbados;
809-436-9929

Year founded: 1986.
Parent company: Johnson & Higgins.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, managing underwriting pools/facilities/association captives (Primex Ltd., Preferred Amusement Risk Ltd.), association captive management services; occasional captive feasibility studies, manual claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, tax and legal advice as it pertains to Barbados, specialized accounting services for associations.
Staff: Eight total, four professionals. Professional designations held by staff include four CPAs.
Clients: 14 active captives managed; 14% with less than $1 million in premiums, 7% with $1 million-$3 million, 43% with $3 million-$10 million, 14% with $10 million-$20 million, 22% with more than $20 million. Two inactive captives managed. Total premium volume of captives managed, $155 million. No minimum size client.
Current business: 15 active captives, two inactive captives.
Subsidiaries: J&H Intermediaries (Barbados) Ltd.
Compensation: Annual fee, commissions for reinsurance brokered, time and expense.
Principal officers: Brian Hall, president; John Perham, vp/office manager; Chris Evans, assistant vp.

Johnson & Higgins (Bermuda) Ltd.

Victoria Hall, Victoria Street,
Hamilton, Bermuda; 809-292-4402

Year founded: 1969.
Parent company: Johnson & Higgins.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives (Casting Manufacturers Insurance Ltd., Michigan Assurance Ltd., Sargasso Mutual Insurance Co. Ltd.), investment management, loss control services (through offices of parent company), specialized accounting services; occasional manual claims processing, tax advice, legal advice.

Staff: 148 total. Professional designations held by staff include 16 CPAs, three ARMs, nine ACIIs, one FCII.
Clients: 161 active captives managed; 30% with less than $1 million in premiums, 34% with $1 million-$3 million, 19% with $3 million-$10 million, 6% with $10 million-$20 million, 11% with more than $20 million. 12 inactive captives managed. Total premium volume of captives managed, $971.6 million. No minimum size client.
Current business: 164 active captives, 12 inactive captives.
Subsidiaries: J&H Intermediaries Ltd., Johnson & Higgins (Barbados) Ltd., Johnson & Higgins (Cayman Island) Ltd., Johnson & Higgins (U.S.-

Continued on next page

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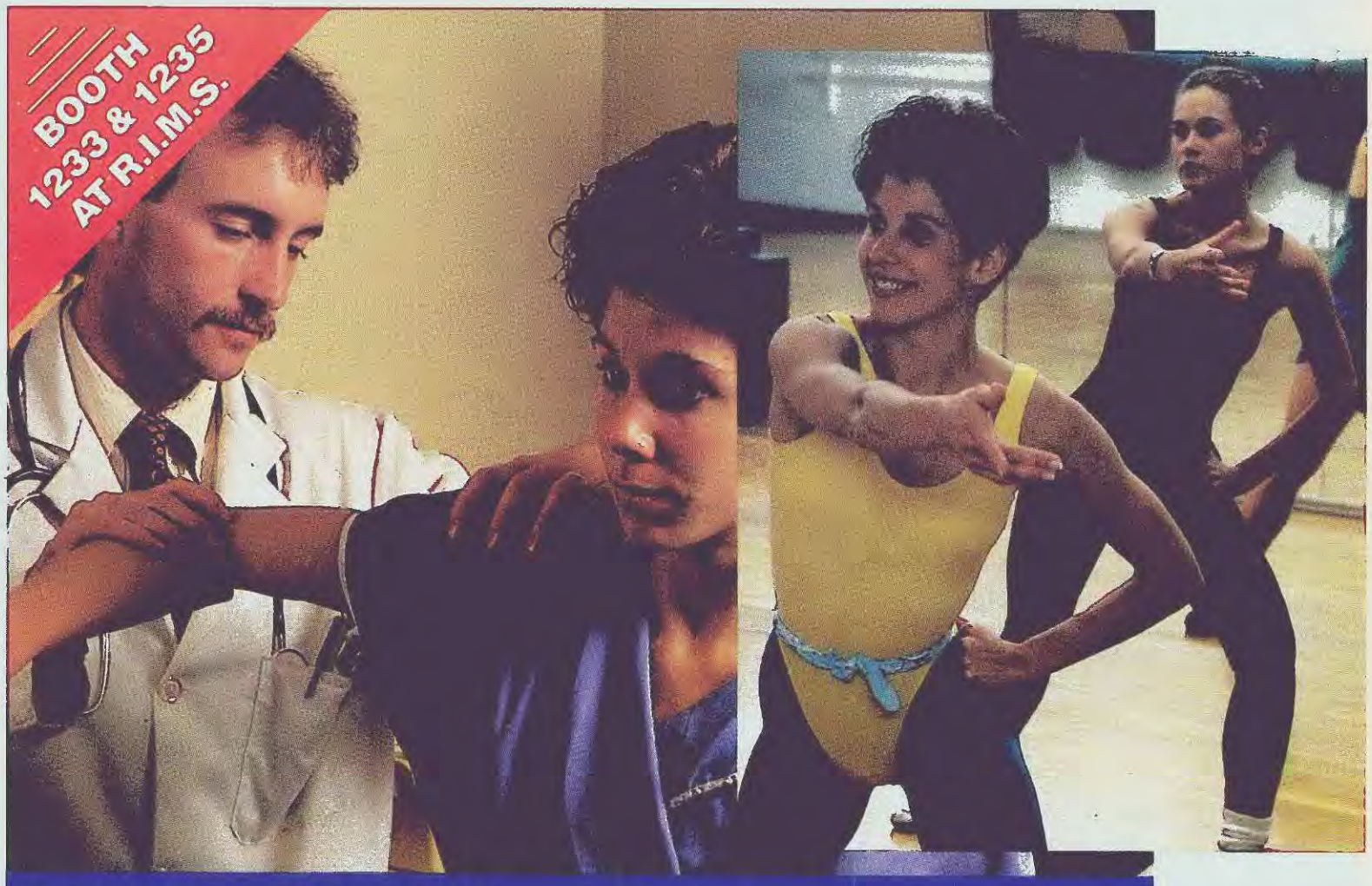

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Continued from previous page
Virgin Islands) Ltd., Johnson & Higgins (Luxembourg) S.A.

Compensation: Annual fee, commissions for reinsurance brokered.

Principal officers: Brian R. Hall, president; Wayne Morgan, senior vp; Roger C. Gillett, Paul Rowlerson and Philip N. Simpson, vps.

Johnson & Higgins (Cayman Islands) Ltd.

P.O. Box 1051, Grand Cayman, Cayman Islands, B.W.I.; 809-949-7988

Year founded: 1979.

Parent company: Johnson & Higgins.

Services provided: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, specialized accounting services for associations, onshore services for associations.

Staff: 21 total, seven professionals. Professional designations held by staff include seven CAs, one ATII, one CFA.

Clients: 54 active captives managed; 10% with less than $1 million in premiums, 48% with $1 million-$3 million, 30% with $3 million-$10 million, 8% with $10 million-$20 million, 4% with more than $20 million. Six inactive captives managed. Total premium volume of captives managed, $266 million. Minimum size client, $750,000 premium volume.

Current business: 55 active captives, six inactive captives.

Compensation: Annual fee, $24,000 minimum; commissions for reinsurance brokered.

Principal officers: Wayne A.M. Cowan, vp/branch manager; Merise D. Wheatley, senior account manager; Graham J. Manchester, Michael C. Brady and Peter D. O'Leary, account managers.

Johnson & Higgins Services Inc.-Delaware

Manufacturers Hanover Plaza, 1201 Market St., Suite 1000, Wilmington, Del. 19801; 302-888-4300

Year founded: 1987.

Parent company: Johnson & Higgins.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives; occasional captive feasibility studies, computerized claims processing, specialized accounting services for associations, onshore services for associations.

Staff: Two total, one professional.

Clients: One active captive managed with $750,000 in premiums. No minimum size client.

Current business: One active captive.

Compensation: Annual fee.

1989 gross revenues: 100% from fees charged for captive management.

Principal officers: Richard J. Rice, president; Alan G. Page and Arthur G. Koritzinsky, vps; Scott Konrad, sales manager.

Johnson & Higgins Services Inc.-Georgia

1700 Trust Co. Tower, 25 Park Place N.W., Atlanta, Ga. 30303; 404-586-8389

Year founded: 1988.

Parent company: Johnson & Higgins.

Services provided: Frequent captive formation, government reporting, accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives; occasional captive feasibility studies, computerized claims processing, specialized accounting services for associations, onshore services for associations.

Staff: Two total, both professionals.

Clients: No minimum size client.

Current business: No captives managed.

Compensation: Annual fee.

1989 gross revenues: 100% from fees charged for captive management.

Principal officers: Richard J. Rice, president; Alan G. Page, Arthur G. Koritzinsky and Graeme Harper, vps.

Johnson & Higgins Services Inc.-Hawaii

P.O. Box 4238, Honolulu, Hawaii 96812-4238; 808-538-1115

Year founded: 1987.

Parent company: Johnson & Higgins.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, investment management; occasional captive feasibility studies, computerized claims processing, specialized accounting services for associations, onshore services for associations.

Staff: Two total, one professional.

Clients: Three active captives managed; 100% with $3 million-$10 million in premiums. Total premium volume of captives managed, $10 million. No minimum size client.

Current business: Three active captives.

Compensation: Annual fee.

1989 gross revenues: 100% from fees charged for captive management.

Principal officers: Richard J. Rice, president; Alan G. Page and Arthur G. Koritzinsky, vps; William Prenger, resident manager.

Johnson & Higgins Services Inc.-Vermont

199 Main St., Fifth Floor, Burlington, Vt. 05401; 802-864-5599

Year founded: 1983.

Parent company: Johnson & Higgins.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives (see chart, page 107); occasional captive feasibility studies, computerized claims processing, claims reserves analysis, specialized accounting services for associations, onshore services for associations.

Staff: 16 total, 14 professionals. Professional designations held by staff include two CPAs, one MBA, three CAs.

Clients: 35 active captives managed; 43% with less than $1 million in premiums, 26% with $1 million-$3 million, 26% with $3 million-$10 million, 5% with $10 million-$20 million. One inactive captive managed. Total premium volume of captives managed, $100 million. No minimum size client.

Current business: 35 active captives, one inactive captive.

Compensation: Annual fee.

1989 gross revenues: 100% from fees charged for captive management.

Principal officers: Richard J. Rice, president; Alan G. Page and Arthur G. Koritzinsky, vps; Malcolm Cutts-Watson, vp/branch manager.

Johnson, Kendall & Johnson Inc.-Division of The Johnson Cos.

Route 413 & Double Woods Road, Langhorne, Pa. 19047; 215-968-4741

Year founded: 1951; captive management division founded in 1988.

Services provided: Frequent manual claims processing, underwriting and ratemaking for captives, specialized accounting services for associations, onshore services for associations; occasional captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, managing underwriting pools/facilities/association captives, loss control services.

Staff: 385 total. Professional designations held by staff include four CPAs, four CPCUs, one ARM, four MBAs, five attorneys.

Compensation: Annual fee.

Principal officers: Edwin T. Johnson, Douglas P. Peterson, Richard B. Willis, John A. Wright and Mary J. Rounsavill.

K

Kemper Management Co. Ltd.

P.O. Box HM 1234, Hamilton HM FX, Bermuda; 809-292-5105

Year founded: 1978.

Parent company: Kemper International Corp.

Services provided: Frequent accounting, computerized accounting; occasional captive feasibility studies, captive formation, government reporting, manual claims processing, computerized claims processing, claims reserves analysis, under-

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writing and ratemaking for captives, managing underwriting pools/facilities/association captives, investment management, association captive management services.

Staff: Nine total, three professionals. Professional designations held by staff include one CPCU, one ARM, two CAs.

Clients: Five active captives managed; 20% with $1 million-$3 million in premiums, 60% with $3 million-$10 million, 20% with more than $20 million. Total premium volume of captives managed, $52 million. Minimum size client, $500,000 premium volume.

Current business: Five active captives.

Compensation: Time and expense.

Principal officers: James S. Kemper III, chairman/president/chief executive officer; Theodore J. Hoeh, executive vp/general manager; Walter L. White, vp; John W. Burns, treasurer; P. Frank McManamon, assistant treasurer.

L

LWR Risk Management Services Inc.

Box 11102, Royal Centre, 1055 W. Georgia St., Vancouver, British Columbia V6E 4G2; 604-682-9528

Year founded: 1987.

Parent company: Jardine Rolfe Ltd.

Services provided: Occasional captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, reinsurance brokered for captives, underwriting and ratemaking for captives, specialized accounting services for associations, onshore services for associations, litigation management.

Staff: Four total, three professionals. Professional designations held by staff include one attorney, one ACII, one CIB.

Clients: Three active captives managed; 33% with less than $1 million in premiums, 33% with $1 million-$3 million, 34% with $3 million-$10 million. Total premium volume of captives managed, $10 million. No minimum size client.

Current business: Three active captives.

Compensation: Annual fee; time and expense: professional, $120-$140; clerical, $30.

Principal officers: Horace W.R. Harrison, president; B. John L. Rolfe, chairman; Peter T. Kelly, general manager; Lawrence J. McDonald, secretary.

Lockton Risk Services Inc.

7400 State Line Road, Prairie Village, Kan. 66208; 913-676-9000

Year founded: 1987.

Parent company: The Lockton Cos. Inc.

Services provided: Captive feasibility studies, captive formation, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, loss control services, association captive management services, specialized accounting services for associations, policy issuance.

Staff: 25 total, 15 professionals. Professional designations held by staff include one CPA, two CPCUs, one ARM.

Clients: Four active captives managed; 100% with $1 million-$3 million in premiums. Total premium volume of captives managed, $6 million. Minimum size client, $1 million premium volume.

Current business: Two active captives.

Subsidiaries: Lockton Risk Services of Colorado Inc., Denver.

Compensation: Annual fee, $50,000 minimum; commissions for reinsurance brokered; time and expense: professional, $125; clerical, $50.

1989 gross revenues: $1.5 million; 45% from fees charged for captive management, 50% from commissions or reinsurance, 5% from other services.

Principal officers: John T. Lockton III, president; Steven L. Eginoire, executive vp; Robert D. Byler and Mark P. Angers, vps; Michael C. Frost, secretary.

M

MLM Management Services

3850 Norwest Center, Minneapolis, Minn. 55402; 612-341-4530

Year founded: 1982.

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

Staff: 16 total, 12 professionals. Professional designations held by staff include two CPCUs, one ARM, one attorney.

Clients: One active captive managed with premium volume of $8 million. No minimum size client.

Current business: One active captive.

Compensation: Annual fee.

Principal officers: Joseph H. Bixler, president; Barbara S. Miller, controller.

M&M Insurance Management Services Inc.

1700 Lincoln St., Suite 4900, Denver, Colo. 80203; 303-837-8410

Year founded: 1976.

Parent company: Marsh & McLennan Inc.

Principal officers: Lorraine Kehm, assistant vp.

M&M Insurance Management Services Inc.

P.O. Box 5129, 7 Burlington Square, Fifth Floor, Burlington, Vt. 05402; 802-658-0776

Year founded: 1980.

Parent company: Marsh & McLennan Inc.

Staff: 13 total*.

Clients: 22* captives managed. Total premium volume of captives managed, $354.4 million.

Principal officers: Raymond C. Oberg, vp.

* *BI* estimate.

Maduro & Curiel's Insurance Services N.V.

Schottegatweg Oost 130, Curacao, Netherlands Antilles; 599-9-615024

Year founded: 1979.

Parent company: Maduro & Curiel's Bank N.V.

Services provided: Frequent gov-

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ernment reporting, accounting, computerized accounting, manual claims processing; occasional captive formation, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, tax advice, legal advice; supply experienced insurance managers.

Staff: Four total, three professionals. Professional designations held by staff include one MBA.

Clients: Four active captives managed; 35% with less than $1 million in premiums, 65% with $1 million-$3 million. Total premium volume of captives managed, $4.3 million. Minimum size client, $500,000.

Current business: Four active captives.

Compensation: Annual fee, $15,000 minimum.

1989 gross revenues: $54.9 million; 88% from fees charged for captive management, 12% from other services.

Principal officers: Ron Gomes Casseres, Theodorus Koetsier, Eelke F. Stins.

Marsh & McLennan (Bermuda) Ltd.

Second Floor, Craig Appin House, Wesley Street, Hamilton HM FX, Bermuda; 809-295-3278

Year founded: 1968.

Parent company: Marsh & McLennan Inc.

Staff: 49* total.

Clients: 85* captives managed. Total premium volume of captives managed, $340 million*.

Principal officers: Andrew D. Carr, president.

* *BI* estimate.

Marsh & McLennan (Cayman Islands) Ltd.

P.O. Box 2196, George Town, Grand Cayman, B.W.I.; 809-949-7466

Year founded: 1978.

Parent company: Marsh & McLennan (Bermuda) Ltd.

Staff: Five* total.

Clients: 30* captives managed. Total premium volume of captives managed, $40 million*.

Principal officers: C.N. Jackson, office head.

* *BI* estimate.

Meadowbrook Risk Management Ltd.

P.O. Box 2340, Hamilton HM JX, Bermuda; 809-292-7569

Year founded: 1979.

Parent company: Meadowbrook Inc.

Services provided: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, actuarial studies, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, legal advice, loss control services (Southfield, Mich.), specialized accounting services for associations, onshore services for associations.

Staff: Six total, three professionals. Professional designations held by staff include one MBA, two ACIIs, one FCA.

Clients: 16 active captives managed; 40% with $1 million-$3 million in premiums, 60% with $3 million-$10 million. Total premium volume of captives managed, $50 million. Minimum size client, $1 million premium volume.

Current business: 16 active captives.

Compensation: Annual fee, $18,000 minimum; time and expense: professional, $185; clerical, $45.

1989 gross revenues: $632,000; 100% from fees charged for captive management.

Principal officers: Merton J. Segal, president; Graham D. Brice, vp/managing director; Brian Stepherson, vp.

Midland Bank Trust Corp. (Cayman) Ltd.

P.O. Box 1109, Grand Cayman, Cayman Islands, B.W.I.; 809-949-7755

Year founded: 1984.

Parent company: Midland Bank P.L.C.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, investment management, banking; occasional manual claims processing, computerized claims processing, managing underwriting pools/facilities/association captives, specialized accounting services for associations.

Staff: 34 total, 10 professionals. Professional designations held by staff include four CPAs, three ACIIs, three AIBs, one ACIS.

Clients: 54 active captives managed, 10 inactive captives managed.

Current business: 64 active captives.

Compensation: Annual fee; time and expense: professional, $105-$160; clerical, $75.

Principal officers: David A. Whitefield, managing director; Anthony B. Stelling, director; Thomas Clark, assistant director/manager-client services; Linda Haddleton, assistant manager-client services.

Mutual Risk Management (Barbados) Ltd.

First Floor, Beckwith Mall, Lower Broad Street, Bridgetown, Barbados; 809-436-5887

Year founded: 1986.

Parent company: Mutual Risk Management Ltd.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, investment management, specialized accounting services for associations; occasional captive feasibility studies, manual claims processing, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, managing underwriting pools/facilities/association captives, tax advice, loss control services, onshore services for associations.

Staff: Three total, two professionals. Professional designations held by staff include two CPAs.

Clients: Three active captives managed; 67% with less than $1 million in premiums, 33% with more than $20 million. Total premium volume of captives managed, $24 million. No minimum size client.

Current business: Three active captives.

Affiliate: Mutual Risk Management (Cayman) Ltd.

Compensation: Annual fee, $5,000 minimum; time and expense: professional, $125; clerical, $30.

1989 gross revenues: $159,000 total, 100% from fees charged for captive management.

Principal officers: Robert A. Mulderig, president; John Kessock Jr. and Peter Mackay, vps.

Mutual Risk Management (Cayman) Ltd.

Genesis Building, Second Floor, P.O. Box 1363, Grand Cayman, B.W.I.; 809-949-7966

Year founded: 1982.

Parent company: Mutual Risk Management Ltd.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, investment management, specialized accounting services for associations; occasional captive feasibility studies, manual claims processing, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, managing underwriting pools/facilities/association captives, tax advice, loss control services, onshore services for associations.

Staff: Three total, two professionals. Professional designations held by staff include two CPAs.

Clients: 19 active captives managed; 43% with less than $1 million in premiums, 26% with $1 million-$3 million, 26% with $3 million-$10 million, 5% with $10 million-$20 million. Five inactive captives managed. Total premium volume of captives managed, $50 million. No minimum size client.

Current business: 25 active captives, five inactive captives.

Affiliate: Mutual Risk Management (Barbados) Ltd.

Compensation: Annual fee, $5,000 minimum; time and expense: professional, $125; clerical, $30.

1989 gross revenues: 100% from fees charged for captive management.

Principal officers: Peter Mackay, Robert A. Mulderig, John Kessock Jr. and Spottswood P. Dudley, directors; John Pitcairn, vp.

Mutual Risk Management Ltd.

P.O. Box HM 2064, The Emporium Building, 69 Front St., Hamilton HM HX, Bermuda; 809-295-5688

Year founded: 1977.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, managing underwriting pools/facilities/association captives (Mutual Indemnity Ltd., Mutual Indemnity (Barbados) Ltd., Mutual Indemnity (U.S.) Ltd.), investment management, specialized accounting services for associations; occasional manual claims processing, loss forecasting, underwriting and ratemaking for captives.

Staff: 20 total, 12 professionals. Professional designations held by staff include nine CPAs, one attorney.

Clients: 207 active captives managed; 84% with less than $1 million in premiums, 10% with $1 million-$3 million, 5% with $3 million-$10 million, 1% with more than $20 million. One inactive captive managed. Total premium volume of captives managed, $144 million.

Continued on next page

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Continued from previous page

Current business: 207 active captives, one active captive.

Subsidiaries: Mutual Indemnity Ltd. and Mutual Indemnity (U.S.) Ltd., Hamilton, Bermuda; Mutual Indemnity (Barbados) Ltd., Barbados; IPC Group of America Ltd. and Legion Insurance Co., Philadelphia; Hamilton Management Ltd., Milwaukee; Mutual Risk Management (Cayman) Ltd., Grand Cayman; Mutual Risk Management (Barbados) Ltd., Barbados.

Compensation: Annual fee.

1989 gross revenues: $5.9 million; 7% from fees charged for captive management, 93% from other services.

Principal officers: Robert A. Mulderig, president; James C. Kelly, vp/controller; Paul Watson, senior account executive.

N

Northern States Management Inc.

P.O. Box 160, Waterbury Center, Vt. 05677; 802-244-8607

Year founded: 1988.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, reinsurance brokered for captives, reinsurance brokered to captives, specialized accounting services for associations, fronting company searches; occasional actuarial studies, loss forecasting, underwriting and ratemaking for captives, investment management, tax advice, onshore services for associations.

Staff: Three total, one professional. Professional designations held by staff include one CPA, one FCA.

Clients: One active captive managed with $3 million-$10 million in premiums. One inactive captive managed. Minimum size client, $750,000 premium volume.

Current business: One active captive, one inactive captive.

Subsidiaries: Northern States Intermediaries, Northern States Consulting.

Compensation: Annual fee; commissions for reinsurance brokered; time and expense: professional, $125; clerical, $35.

Principal officers: John J. Middleton, president.

NorthStar Risk Services Inc.

1401 W. 76th St., Minneapolis, Minn. 55423; 612-861-8600

Year founded: 1984.

Parent company: W.R. Berkley Corp.

Services provided: Frequent managing underwriting pools/facilities/association captives, loss control services, specialized accounting services for associations, onshore services for associations, claims administration; occasional captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives.

Staff: 85 total, 33 professionals. Professional designations held by staff include one CPA, three CPCUs, one ARM, one attorney, two AAIs, one CIC.

Subsidiaries: Southwest Risk Services, Phoenix, Ariz.; Public Risk Managers, Nashville, Tenn.; States Insurance Group, Atlanta; D.I.S., Denver; Corporate Resources Insurance Agency, Minneapolis.

Compensation: Annual fee, $25,000 minimum; time and expense: professional, $75-$165; clerical, $25.

Principal officers: Lou Golinvaux, chief executive officer; Mark Tansey, president; Lee Johnson, Kent Rebeck and Ken Hopkins, senior vps.

O

Richard Oliver Risk Managers Pte. Ltd.

4 Robinson Road, 10-02 Commercial Union Building, Singapore 0104; 221-8561; 221-8563

Year founded: 1989.

Parent company: Richard Oliver Risk Managers Pty. Ltd.

Services provided: Frequent government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, loss control services (Melbourne, Australia); occasional captive feasibility studies, captive formation, computerized claims processing, actuarial studies, reinsurance brokered for captives, underwriting and ratemaking for captives.

Staff: Three total, two professionals. Professional designations held by staff include one FIRM, one CE.

Clients: Four active captives managed; 25% with $1 million-$3 million in premiums, 75% with $3 million-$10 million. Minimum size client, $1 million in premiums.

Current business: Four active captives.

Compensation: Annual fee, $25,000 minimum.

Principal officers: Christopher James Temple, general manager.

P

Parker Risk Management (Barbados) Ltd.

15 Roebuck St., Bridgetown, Barbados; 809-426-6467

Year founded: 1986.

Parent company: Frank B. Hall (Bermuda) Ltd.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing association captives, loss control services, specialized accounting services for associations, onshore services for associations; occasional reinsurance brokered to captives.

Staff: 19 total, five professionals. Professional designations held by staff include five CPAs.

Clients: Two active captives managed; 50% with $1 million-$3 million in premiums, 50% with more than $20 million. Two inactive captives managed. Total premium volume of captives managed, $34 million. No minimum size client.

Current business: Two active captives, two inactive captives.

Compensation: Annual fee, $25,000 minimum; commissions for reinsurance brokered.

Principal officers: Stuart H. Grayston, president/chief executive officer; Martin Hole, vp/general manager; Brian S. Webb, vp.

Parker Risk Management (Bermuda) Ltd.

P.O. Box HM 1581, Hamilton HM GX, Bermuda; 809-295-5454

Year founded: 1967.

Parent company: Frank B. Hall & Co. Inc.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing association captives, loss control services, specialized accounting services for associations, onshore services for associations; occasional reinsurance brokered to captives.

Staff: 19 total, five professionals. Professional designations held by staff include five CPAs.

Clients: 37 active captives managed; 33% with less than $1 million in premiums, 27% with $1 million-$3 million, 27% with $3 million-$10 million, 5% with $10 million-$20 million, 8% with more than $20 million. 12 inactive captives managed. Total premium volume of captives managed, $401 million. No minimum size client.

Current business: 37 active captives, 11 inactive captives.

Subsidiaries: Parker Risk Management (Barbados) Ltd.; Frank B.

Continued on next page

Which trumpet player would you hire?

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Continued from previous page
Hall (Cayman) Ltd.; Frank B. Hall (Intermediaries) Ltd.

Compensation: Annual fee, $25,000 minimum; commissions for reinsurance brokered.

Principal officers: Stuart H. Grayston, president/chief executive officer; Brian S. Webb, senior vp.

Parker Risk Management (Colorado) Inc.

7409 S. Alton Court, Suite 103, Englewood, Colo. 80112; 303-773-3433

Year founded: 1972.

Parent company: Frank B. Hall & Co. Inc.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing pools for government agencies and associations, loss control services, specialized accounting services for associations, onshore services for associations; occasional reinsurance brokered to captives.

Staff: 11 total, three professionals. Professional designations held by staff include two CPAs, one attorney.

Clients: Nine active captives managed; 11% with less than $1 million in premiums, 44% with $1 million-$3 million, 44% with $3 million-$10 million. Six inactive captives managed. Total premium volume of captives managed, $35 million. No minimum size client.

Current business: Nine active captives, six inactive captives.

Subsidiaries: Parker Risk Management (Vermont) Inc.

Compensation: Annual fee, $25,000 minimum; time and expense: professional, $80; clerical, $30.

Principal officers: Stuart H. Grayston, president/chief executive officer; Gwyn R. Shuel, vp/chief operating officer.

Parker Risk Management (Vermont) Inc.

102 S. Winooski Ave., P.O. Box 5696, Burlington, Vt. 05402; 802-658-1168

Year founded: 1985.

Parent company: Frank B. Hall & Co. Inc.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, loss control services, specialized accounting services for associations, onshore services for associations; occasional reinsurance brokered to captives.

Staff: 11 total, three professionals. Professional designations held by staff include two CPAs, one attorney.

Clients: One active captive managed with $1 million-$3 million in premiums. Total premium volume of captives managed, more than $1 million.

Current business: Two active captives.

Compensation: Annual fee, $25,000 minimum; time and expense: professional, $80; clerical, $30.

Principal officers: Stuart H. Grayston, president/chief executive officer; Gwyn R. Shuel, vp/chief operating officer; Ann W. Wick, assistant vp/resident manager.

Pinehurst Management Co. Ltd.

Jardine House, 33-35 Reid St., Hamilton HM GX, Bermuda; 809-295-4864

Year founded: 1967.

Parent company: Jardine Matheson Holdings Ltd.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, tax advice, loss control services (through Jardine Emett & Chandler Self-Insurance Services), specialized accounting services for associations, onshore services for associations, captive rental facilities.

Staff: 18 total, six professionals. Professional designations held by staff include one CPA, two CAs, one CGA, one FIIC.

Clients: 44 active captives managed; 5% with less than $1 million in premiums, 50% with $1 million-$3 million, 40% with $3 million-$10 million, 5% with $10 million-$20 million. Six inactive captives managed. Total premium volume of captives managed, $175 million. Minimum size client, $50,000 premium volume.

Subsidiaries: Pinehurst Management Co. (Barbados) Ltd., Pinehurst Management Co. (Cayman) Ltd.

Compensation: Annual fee; time and expense: professional, $65-$250; clerical, $35-$80.

Principal officers: Robert C. Whiting, managing director; Timothy B. Carr, senior vp; Reid Kempe, Cyril H. Whitter Jr., Debbie J. Whiting and Don Baker, vps.

The Powerscourt Group Ltd.

P.O. Box 2267, Fourth Floor, Sofia House, 48 Church St., Hamilton HM JX, Bermuda; 809-295-8495

Year founded: 1984.

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

Staff: Four total, one professional. Professional designations held by staff include one CPA.

Clients: 14 captives managed; 75% with $1 million-$3 million in premiums, 25% with $3 million-$10 million. Total premium volume of captives managed, $25 million. Minimum size client, $2 million premium volume.

Current business: 13 active captives.

Compensation: Annual fee, $15,000 minimum.

Principal officers: John R. Kone, president; Laura Schoenlein, vp.

Prescot Management Ltd.

Cumberland House, 1 Victoria St., Hamilton, Bermuda; 809-295-0073

Year founded: 1983.

Parent company: Minet Holdings P.L.C.

Services provided: Frequent government reporting, accounting, computerized accounting, manual claims processing, specialized accounting services for associations; occasional captive feasibility studies, captive formation, investment management.

Staff: 18 total, eight professionals. Professional designations held by staff include one CPA, two FCII, one ARM, two CAs, one CMA, one attorney.

Clients: 18 active captives managed; 28% with less than $1 million in premiums, 17% with $1 million-$3 million, 28% with $3 million-$10 million, 17% with $10 million-$20 million, 10% with more than $20 million. Three inactive captives. Total premium volume of captives managed, $119 million. No minimum size client.

Current business: 20 active captives, two inactive captives.

Affiliates: Located in Barbados, Guernsey, Singapore, Isle of Man, Luxembourg.

Compensation: Annual fee, $25,000 minimum.

1989 gross revenues: $1.3 million; 100% from fees charged for captive management.

Principal officers: Kenneth L. Hammond, chief executive officer; Colin R. Newell, managing director-Bermuda; John H. Sewell, managing director-Risk Management; Ian McCathie, managing director-Guernsey; Chris Towner, managing director-Barbados; Ted Dziurman, managing director-Singapore.

Princeton Risk Management (Barbados) Ltd.

P.O. Box 1337, Bridgetown, Barbados; 809-436-8985

Year founded: 1988.

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

Staff: Two total, one professional.

Clients: Two active captives managed; 50% with less than $1 million in premiums, 50% with $10 million-$20 million. No minimum size client.

Current business: Three active captives.

Compensation: Annual fee, time and expense.

1989 gross revenues: 100% from fees charged for captive management.

Principal officers: David O. Wright, managing director.

Q

Quail Street Management Ltd.

Harold Hayes Frith Building, P.O. Box HM 1154, Hamilton HM EX, Bermuda; 809-292-2582

Year founded: 1988.

Parent company: Western Growers Assn.

Services provided: Frequent government reporting, accounting, computerized accounting, managing underwriting pools/facilities/association captives (Quail Street Casualty Ltd.), investment management, loss control services (California and Arizona), specialized accounting services for associations, onshore services for associations; occasional captive feasibility studies, captive formation, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, legal advice.

Staff: Six total, five professionals. Professional designations held by staff include one CPA, one CPCU, one ARM, one MBA, one attorney.

Clients: Two active captives managed; 50% with less than $1 million in premiums, 50% with $3 million-$10 million. Total premium volume of captives managed, $3.6 million. No minimum size client.

Current business: Two active captives.

Subsidiaries: Western Growers Insurance Co., Irvine, Calif.

Compensation: Annual fee, $7,500 minimum.

Principal officers: Deborah L. Burville, president; Donald Dressler, vp; Stephen D. Crosbie, corporate secretary; Richard Pearman, director.

Continued on next page

Dartnell's AIDS film wins business 'OSCAR!"

one of our own

Selected 'Best of Show' out of 1,200 entries

"One of Our Own," a 30-minute film/video docu-drama about AIDS in the workplace, has been named the best information/business film in the 1988 CINDY Competition sponsored by the Asscciation of Visual Communicators.

The film won the highly prestigious "Best of Show" CINDY Award over 1,200 other audiovisual productions in 47 categories! More than 450 leading industrial audiovisual producers throughout the U.S. selected **"One of Our Own,"** as Best of Show. The film also received First Place, a Gold CINDY Plaque, in its category of Business/Industry/Government productions, Employee Motivation and Relations.

"One of Our Own," is a powerfully human story that communicates vital information about AIDS in the workplace and shows how a company responds to one of the most tragic business issues of our age. It's designed to help protect you, your company and all its employees against the enormous legal, social and business repercussions of this dread disease.

The preview **"One of Our Own,"** and its accompanying educational materials, just call us at the toll free number below.

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Total Capital and Surplus in excess of US$50 million

Continued from previous page

R

Regatta Management (Bermuda) Ltd.

Windsor Place, 18 Queen St., P.O. Box HM 2092, Hamilton HM HX, Bermuda; 809-295-0459

Year founded: 1987.
Parent company: National Underwriters (Reinsurance) Ltd.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, association captive management services; occasional underwriting and ratemaking for captives.
Staff: 43 total (including support staff from parent company), nine professionals.
Clients: Two active captives managed; 50% with less than $1 million in premiums, 50% with $10 million-$20 million. Two inactive captives managed. Total premium volume of captives managed, $20 million.
Current business: Two active captives, two inactive captives.
Subsidiaries: Viking Management Ltd., Guernsey, Channel Islands.
Compensation: Annual fee, commissions for reinsurance brokered, flat fee.
Principal officers: S.E Hallowell, chairman; Alain F.A. Wattiez, president; Beryl Pearson, vp; James G. Parkinson and B. Gustafsson, deputy chairmen.

Reinsurance Management Corp. of Asia Pte. Ltd.

137 Cecil St., 11-00 ICS Building, Singapore 0106; 2210022

Year founded: 1976.
Parent company: Insurance Corp. of Singapore Ltd. and Simo Shield Holdings.
Services provided: Frequent government reporting, accounting, computerized accounting, computerized claims processing, investment management; occasional captive formation, claims reserves analysis, actuarial studies, reinsurance brokered for captives, tax advice.
Staff: 10 total, seven professionals. Professional designations held by staff include one ACII.
Clients: One active captive managed with $3 million-$10 million in premiums. One inactive captive managed. Total premium volume of captives managed, $5 million. Minimum size client, $500,000 premium volume.
Current business: One active captive, one inactive captive.
Compensation: Annual fee, $25,000 minimum.
1989 gross revenues: $2 million; 2% from fees charged for captive management, 98% from other services.
Principal officers: Lock Sai Hung, chairman; Chia Buk Chua, general manager; Chiam Heng Lock and Amy Lim, underwriting manager.

Risk Consultants Inc.

1571 Race St., Denver, Colo. 80206; 303-388-5688

Year founded: 1976.
Services provided: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives (Western Pacific Mutual Insurance Co., A Risk Retention Group; North American Builders & Indemnity Co.; Joint School Districts Workers Compensation Pool, five participants, $3.5 million premium volume; Constance Insurance Co.), loss control services, specialized accounting services for associations, onshore services for associations, risk management consulting.
Staff: 11 total, seven professionals. Professional designations held by staff include one CPA, one CPCU, two ARMs, two CICs.
Clients: Four active captives managed; 50% with $1 million-$3 million in premiums, 50% with $3 million-$10 million. No minimum size client.
Current business: Four active captives.
Subsidiaries: RISKCAP Inc.
Compensation: Annual fee, $10,000 minimum; time and expense: professional, $100-$150; clerical, $35.
1989 gross revenues: 100% from fees charged for captive management.
Principal officers: Michael Murphy, principal consultant; James M. Graham, senior consultant; Dale Gray, Brian Briese and Sherrie Farrell, consultants; Nancy McAninch and Richard Wells, risk analysts.

Risk Management Ltd.

Invicta House, Candie Road, St. Peter Port, Guernsey, Channel Islands; 0481-710731

Year founded: 1978.
Parent company: National Farmers Union Mutual Insurance Society Ltd.
Services provided: Frequent government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, tax advice; occasional captive feasibility studies, captive formation, claims reserves analysis, actuarial studies, loss forecasting.
Staff: 20 total, four professionals. Professional designations held by staff include four FCIIs, one ACII, two FIRMs, one FCA, one FCIS, one AIL, one C.ENG.
Compensation: Time and expense.
Principal officers: Michael A. Ward, managing director; Derek Douglas and Diane J. Ward, directors; M. John Palin, company secretary; Rosemary I. Tomes Fell, technical manager.

Risk Research & Captive Services A/S

Holmens Kanal 22, P.O. Box 22, DK-1097, Copenhagen K, Denmark; 45-33-13-14-15

Year founded: 1976.
Parent company: Hafnia Holding A/S.
Services provided: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, actuarial studies, loss forecasting, underwriting and ratemaking for captives, investment management, tax advice, legal advice, loss control services (Copenhagen).
Staff: Four total. Professional designations held by staff include one CPA, one FCAS.
Clients: One active captive managed with $1 million-$3 million.
Compensation: Time and expense: professional, $150; clerical, $75.
Principal officers: Jens Erik Ladelund, K. Nikolai Boysen.

Risk Retention Groups Management Co.

P.O. Box 528, Burlington, Vt. 05402-0528; 8 Keari Lane, S. Burlington, Vt. 05403; 802-865-2200

Year founded: 1987.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, investment management, association captive management services, specialized accounting services for associations, government compliance, licensing for risk retention groups.
Staff: Two professionals. Professional designations held by staff include one CFE.
Clients: One inactive captive managed. Minimum size client, $1 million in premiums.
Current business: One inactive captive.
Compensation: Annual fee; time and expense: professional, $100; clerical, $50.
1989 gross revenues: 50% from fees charged for captive management, 50% from other services.
Principal officers: Vincent J. Bell, president; Dick Clarke, senior vp.

Rollins Burdick Hunter (Bermuda) Ltd.

Cumberland House, 1 Victoria St., P.O. Box HM 2450; Hamilton HM JX, Bermuda; 809-295-2220

Year founded: 1970.
Parent company: Aon Corp.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, managing association captives (Lariat Insurance Co., 53 participants, $5.2 million premium volume; Glendale Insurance Co. Ltd., 47 participants, $4.1 million premium volume; Kenwood Insurance Co. Ltd., 42 participants, $9.1 million premium volume; Lake States Insurance Co. Ltd., 28 participants, $1.6 million premium volume; Metro Property & Casualty Insurance Co. Ltd., 17 participants, $1.5 million premium volume; Dealers National Insurance Co. Ltd., 52 participants, $6.1 million premium volume; Concord National Insurance Co. Ltd., 20 participants; Chicago Standard Insurance, 14 participants, $1.9 million premium volume), investment management, association captive management services, specialized accounting services for associations, onshore services for associations through affiliated companies; occasional computerized claims processing, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, tax advice, loss control services through affiliated companies.
Staff: 14 total, 10 professionals. Professional designations held by staff include five CPAs, one CPCU.
Clients: 31 active captives managed; 31% with less than $1 million in premiums, 29% with $1 million-$3 million, 20% with $3 million-$10 million, 10% with $10 million-$20 million, 10% with more than $20 million. Three inactive captives managed. Total premium volume of captives managed, $200 million. No minimum size client.
Current business: 35 active captives, two inactive captives.
Subsidiaries: RBH (Intermediaries) Ltd., Hamilton, Bermuda.
Compensation: Annual fee, $25,000 minimum.
1989 gross revenues: $2.1 million; 65% from fees charged for captive management, 35% from commissions charged for brokering insurance and/or reinsurance.
Principal officers: Robin Spencer-Arscott, chairman/chief executive officer; Tracy E. Keill, vp; Pauline Richards, group financial controller; Carol Eastham and Gina Belboda, assistant vps.

Rollins Burdick Hunter Management Inc.

123 N. Wacker Drive, Chicago, Ill. 60606; 312-701-4065

Parent company: Aon Corp.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, specialized accounting services for associations, onshore services for associations; occasional investment management, tax advice, loss control services.
Staff: 11 total. Professional designations held by staff include three CPAs, one CPCU, three MBAs, one attorney.
Clients: Four captives managed; 50% with $1 million-$3 million in premiums, 50% with $3 million-$10 million. Total premium volume of captives managed, $29 million. Minimum size client, $1 million premium volume.
Current business: Six active captives.
Compensation: Annual fee, $50,000 minimum; commissions for brokering insurance and/or reinsurance; time and expense.
1989 gross revenues: $400,000, 100% from fees charged for captive management.
Principal officers: Charles Small and John Toi, senior vps.

Ryan Insurance Group Inc.

123 N. Wacker Drive, Chicago, Ill. 60606; 312-701-3414

Parent company: Aon Corp.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, reinsurance brokered for captives, investment management; occasional loss forecasting, underwriting and ratemaking for captives, tax advice, loss control services.
Staff: 45 total. Professional designations held by staff include 10 CPAs, two MBAs.
Clients: 80 captives managed; 68% with less than $1 million in premiums, 19% with $1 million-$3 million, 11% with $3 million-$10 million, 2% with $10 million-$20 million. 10 inactive captives managed. Total premium volume of captives managed, $200 million. Minimum size client, $200,000 premium volume.
Current business: 80 active captives, 10 inactive captives.
Compensation: Minimum fee, $3,000.
1989 gross revenues: $300,000, 100% from fees charged for captive management.
Principal officers: Stephen W. Barrett, vp.

S

Victor O. Schinnerer & Co. Inc.

Two Wisconsin Circle, Chevy Chase, Md. 20815-7003; 301-961-9800

Year founded: 1938.
Parent company: Marsh & McLennan Cos. Inc.

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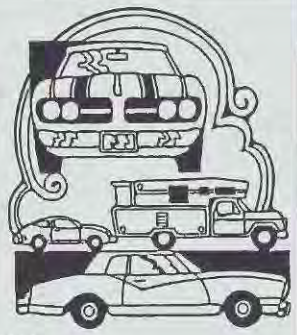
INSURANCE FOR BANK AUTOMOBILE LEASING



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Continental Loss Adjusting SM

Continued from previous page

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives (United Educators Insurance Risk Retention Group Inc., Title Assurance Co., Opthalmic Mutual Insurance Co. Risk Retention Group, Beverage Retailers Insurance Co. Risk Retention Groups, AAOMS Mutual Insurance Co. Risk Retention Group), loss control services (Chevy Chase, Md.; Chicago), specialized accounting services for associations, onshore services for associations, underwriting management for national association programs.

Staff: 379 total, 233 professionals. Professional designations held by staff include four CPAs, 13 CPCUs, six ARMs, four MBAs, 16 attorneys, three MAAAs, three ACASs.

Clients: Five active captives managed; 20% with less than $1 million in premiums, 20% with $1 million-$3 million, 40% with $3 million-$10 million, 20% with $10 million-$20 million. One inactive captive managed. Total premium volume of captives managed, $38 million. No minimum size client.

Current business: Five active captives, one inactive captive.

Subsidiaries: The ENCON Group, Ottawa and Toronto, Ontario; Dallas; Victor O. Schinnerer & Co. (Bermuda) Ltd., Hamilton, Bermuda; Schinnerer & Co. Ltd., London; Potomac Insurance Managers Inc., Chevy Chase, Md.

Compensation: Percent of gross premiums for underwriting management; feasibility and actuarial work done on a fee basis.

Principal officers: J. Sprigg Duvall, chairman; James R. Stevens, president; Merrill B. Walker, Thomas F. Tucker and Paul L. Genecki, senior vps.

Sedgwick Group Management Services (Guernsey) Ltd.

P.O. Box 309, 7 Berthelot St., St. Peter Port, Guernsey, Channel Islands; 481-710555

Year founded: 1978.
Parent company: Sedgwick Group P.L.C.
Services provided: Frequent government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, reinsurance brokered for captives, underwriting and ratemaking for captives, loss control services (through Sedgwick Risk Control Services Ltd., London); occasional captive feasibility studies, captive formation, claims reserves analysis, loss forecasting, investment management.
Staff: Four total, two professionals.
Clients: 13 captives managed.
Current business: 13 active captives.
Compensation: Annual fee, time and expense.
Principal officers: G.M. DeCruz, manager.

Sedgwick Group Management Services (Isle of Man) Ltd.

12-14 Ridgeway St., Douglas, Isle of Man; 0624-25313

Year founded: 1982.
Parent company: Sedgwick Group P.L.C.
Services provided: Captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting.
Staff: Six total, three professionals. Professional designations held by staff include one FCMA, one CA, one ACIS.
Clients: 14 active captives managed; 40% with $1 million-$3 million in premiums, 40% with $3 million-$10 million, 20% with $10 million-$20 million.
Current business: 17 active captives.
Compensation: Annual fee, approximately $28,175 minimum.
1989 gross revenues: $370,000, 100% from fees charged for captive management.
Principal officers: B.H. Cooper, chief executive officer; G. Crease, underwriting manager; A. Campbell, financial controller.

Sedgwick James (Bermuda) Ltd.

Cumberland House, Level 6, 1 Victoria St., P.O. Box HM 2280, Hamilton, Bermuda HM JX; 809-292-6667

Year founded: 1973.
Parent company: Sedgwick Group P.L.C.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, loss control services, specialized accounting services for associations; occasional reinsurance brokered for captives. Frequent captive feasibility studies, claims reserves analysis, actuarial studies, loss forecasting and onshore services for associations provided by other divisions of parent company.

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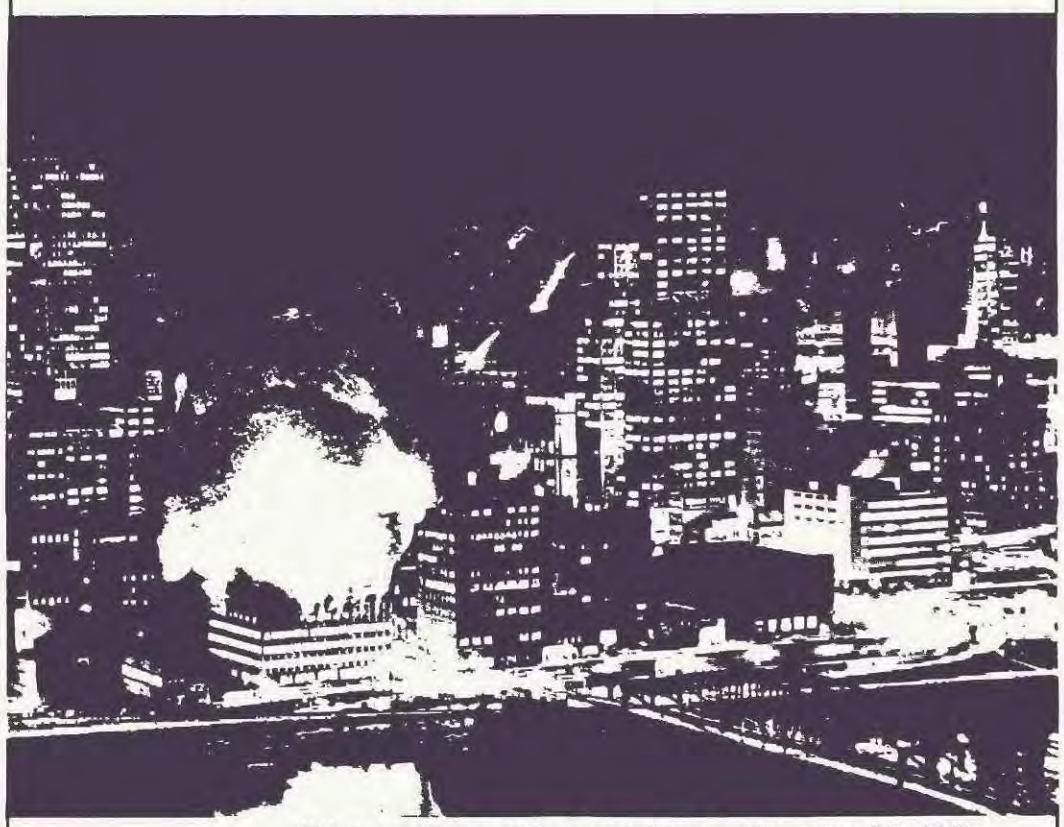

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at
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160 STATE STREET
BOSTON, MASSACHUSETTS

NO HOST

Continued from previous page

Staff: 36 total, 14 professionals. Professional designations held by staff include seven CPAs, two CPCUs, one MBA.

Clients: 58 active captives managed. 16 inactive captives managed. Total premium volume of captives managed, $250 million. No minimum size client.

Current business: 58 active captives, 16 inactive captives.

Compensation: Annual fee; commissions for reinsurance brokered; time and expense: professional, $100-$175; clerical, $50-$90.

Principal officers: Warren D. Sproule, president; Pamela Lambarth, senior vp; A. Trevor Metcalf, Simon J. Moore and Andrew Sargeant, vps.

Sedgwick James of Florida Inc.

555 Winderley Place, Suite 400, P.O. Box 945155, Maitland, Fla. 32794; 407-875-5900

Year founded: 1922.

Parent company: Sedgwick Group P.L.C.

Services provided: Frequent government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives (Florida Hospital Excess Trust Fund, Florida Hospital Trust Fund, Florida Hospital Workers Compensation Self Insured Fund), loss control services, specialized accounting services for associations, onshore services for associations; occasional captive feasibility studies, claims reserves analysis, loss forecasting.

Staff: 62 total, 15 professionals. Professional designations held by staff include three CPCUs, three ARMs, one attorney, one ALCM.

Clients: Four active captives managed; 25% with $1 million-$3 million in premiums, 50% with $3 million-$10 million, 25% with $10 million-$20 million. Total premium volume of captives managed, $31 million. No minimum size client.

Current business: Three active captives, one inactive captive.

Compensation: Annual fee.

1989 gross revenues: 40% from fees charged for captive management, 50% from commissions charged for brokering insurance and/or reinsurance, 10% from other services.

Principal officers: John W. Lahey, executive vp; Peter J. Brennan and Evelyn L. Thompson, senior vps; Paul A. Pacey and Richard Y. Fong, vps.

Sedgwick James of Hawaii Inc.

841 Bishop St., Suite 2125, Honolulu, Hawaii 96813; 808-545-2420

Year founded: 1988 (captive management services).

Parent company: Sedgwick Group P.L.C.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, reinsurance brokered for captives; occasional loss forecasting, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, loss control services, specialized accounting services for associations, onshore services for associations.

Staff: Four total, three professionals. Professional designations held by staff include three CPCUs, two ARMs.

Clients: Three active captives managed. Two inactive captives managed. No minimum size client.

Current business: Four active captives, two inactive captives.

Compensation: Annual fee, $25,000 minimum; commissions for reinsurance brokered.

Principal officers: Earl N. Hisatomi, vp/manager; Jerome Aparton, senior vp-Sedgwick James-San Francisco; Louis Seebold, assistant vp-Sedgwick James-San Francisco.

Sedgwick James Management Co. Inc.

1521 Route 100 at Colbyville Road, P.O. Box 480 Waterbury, Vt. 05676-0480; 802-244-5852

Year founded: 1982.

Parent company: Sedgwick James P.L.C.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, specialized accounting services for associations, onshore services for associations; occasional reinsurance brokered for captives.

Staff: Three total, two professionals. Professional designations held by staff include one CPCU, one ARM, one MBA.

Clients: Three active captives managed.

Current business: Three active captives.

Compensation: Annual fee; commissions for reinsurance brokered; time and expense: professional, $95-$200; clerical, $50-$75.

Principal officers: Richard E. Schoneman, president/manager; Mary K. Moulton, assistant vp/assistant manager.

Sedgwick James Management Services Pte. Ltd.

51 Bras Basah Road, Suite 08-03, Plaza By the Park, Singapore 0718; 65-336-8383

Year founded: 1984.

Parent company: Sedgwick Group P.L.C.

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

Staff: 11 total, six professionals. Professional designations held by staff include one CPA, one attorney, two ACIIs.

Clients: 15 active captives managed; 33% with less than $1 million in premiums, 27% with $1 million-$3 million, 40% with $3 million-$10 million. One inactive captive managed. Total premium volume of captives managed, $42 million. No minimum size client.

Current business: 16 active captives, one inactive captive.

Compensation: Annual fee, $10,000 minimum.

1989 gross revenues: $1.4 million; 95% from fees charged for captive management, 5% from other services.

Principal officers: Ross Bovill, managing director; Edmund Choo and Amy Choy, directors; John Dalgleish, manager; Lucy Chan, account manager.

Sedgwick James of Tennessee Inc.

3401 West End Ave., Suite 600, Nashville, Tenn. 37203; 615-385-2860

Year founded: 1985.

Parent company: Sedgwick Group P.L.C.

Services provided: Frequent government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, reinsurance brokered for captives, managing underwriting pools/facilities/association captives, loss control services, specialized accounting services for associations, onshore services for associations; occasional captive feasibility studies, captive formation, loss forecasting, underwriting and ratemaking for captives.

Staff: Four total, three professionals. Professional designations held by staff include one CPA, two MBAs, one attorney.

Clients: Three active captives managed; 33% with $1 million-$3 million in premiums, 67% with $3 million-$10 million. Total premium volume of captives managed, $12 million.

Current business: Three active captives.

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

Principal officers: Robert C. Hug, president-Risk Management Services; Dan Hite, assistant vp.

SINSER

P.O. Box 3103, S-10362, Stockholm, Sweden; 46-8-7883221

Year founded: 1983.

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

Staff: 34 total, 25 professionals. Professional designations held by staff include 10 MBAs, one attorney.

Clients: 64 active captives managed; 3% with less than $1 million in premiums, 16% with $1 million-$3 million, 47% with $3 million-$10 million, 31% with $10 million-$20 million, 3% with more than $20 million. Two inactive captives managed. Total premium volume of captives managed, $300 million. No minimum size client.

Current business: 64 active captives, two inactive captives.

Subsidiaries: SINSER (Luxembourg) S.A.R.L., SINSER (Bermuda) Ltd., SINSER (Ireland) Ltd., SINSER (Europe) S.A.R.L., SINSER (Asia) Pte. Ltd.

Compensation: Annual fee, time and expense.

Principal officers: Mats Lindkvist, managing director-SINSER Group, Thomas Molmhoff, managing director-SINSER (Luxembourg); Gerard Megret, managing director-SINSER (Europe); Krister Wanblad, managing director-SINSER (Asia); Irene Ryan, managing director-SINSER (Ireland).

Skandia International Risk Management Ltd.

P.O. Box HM 2062, Hamilton HM HX, Bermuda; 809-295-2185

Year founded: 1979.

Parent company: Skandia America Group.

Services provided: Captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives (The Risk Exchange Assn.), investment management, specialized accounting services for associations, onshore services for associations, captive rental facilities.

Staff: 48 total, 11 professionals. Professional designations held by staff include nine CPAs, two CPCUs, two MBAs.

Clients: 92 active captives managed. One inactive captive. Minimum size client, $1 million.

Affiliates: Skandia International Risk Management (Vermont) Inc.; SINSER, Luxembourg, Sweden, France, Ireland and Singapore.

Compensation: Annual fee, $15,000 minimum; time and expense.

Principal officers: Nicholas S. Dove, president; Robert J. Rosser, Adrian Lee-Emery, John F. Coppinger and Robert W. Eastham, vps.

Skandia International Risk Management (Vermont) Inc.

346 Shelburne Road, P.O. Box 64649, Burlington, Vt. 05406-4649; 802-658-1474

Year founded: 1989.

Parent company: Skandia America Corp.

Services provided: Captive formation, government reporting, accounting, computerized accounting, underwriting and ratemaking for captives, association captive management services, specialized accounting services, onshore services for associations.

Staff: Four total, two professionals. Professional designations held by staff include one CPCU.

Clients: Eight active captives managed; 75% with $1 million-$3 million in premiums, 25% with $3 million-$10 million. One inactive captive managed. Total premium volume of captives managed, $12.7 million. No minimum size client.

Current business: Eight active captives, one inactive captive.

Compensation: Annual fee.

1989 gross revenues: 100% from fees charged for captive management.

Principal officers: George A. Chaffee, president; Steven Bensinger, senior vp/treasurer; Robert E. Boardman, vp; Thomas Tobin, secretary.

Stone & Webster Management Services Ltd.

Airlie House, 33 Church St., Box HM 1617, Hamilton HM 6X, Bermuda; 809-292-0124

Year founded: 1970.

Parent company: Stone & Webster Management Consultants Inc.

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

Staff: Four total, all professionals. Professional designations held by staff include one CPCU, one FCAS, one ATAB.

Clients: Three active captives managed; 33% with less than $1 million in premiums, 67% with $1 million-$3 million. Total premium volume of captives managed, $15 million. Minimum size client, $1 million premium volume.

Current business: Three active captives.

Compensation: Annaul fee, time and expense.

1989 gross revenues: 100% from fees charged for captive management.

Principal officers: Bruce H. Suter, president; Paul M. Pereech, vp; Norris Dowling, senior accountant.

T

Tate & Lyle Management & Finance Ltd.

129 Front St., P.O. Box HM 337, Hamilton 5, Bermuda; 809-295-9911

Year founded: 1976.

Parent company: Tate & Lyle P.L.C.

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

Staff: Five total. Professional designations held by staff include one FCII, one CA.

Clients: Three captives managed; 33% with less than $1 million in premiums, 33% with $1 million-$3 million, 34% with $3 million-$10 million. Total premium volume of captives managed, $6 million. Minimum size client, $500,000 premium volume.

Current business: Five captives.

Compensation: Annual fee, $20,000 minimum.

Principal officers: James A. Kemp, vp; Vivian Tierney, treasurer.

Transatlantic Management Co. Ltd.

P.O. Box HM 2088, Hamilton HM HX, Bermuda; 809-295-9319

Year founded: 1982.

Parent company: First Security Financial Ltd.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, association captive management services, specia-

Continued on next page

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Continued from previous page

lized accounting services for associations; occasional captive feasibility studies, legal advice, association captive management services, onshore services for associations.

Staff: Four total, one professional. Professional designations held by staff include one CA.

Clients: 12 active captives managed; 69% with less than $1 million in premiums, 18% with $3 million-$10 million, 13% with $10 million-$20 million. One inactive captive managed. Total premium volume of captives managed, $55 million. Minimum size client, $500,000.

Compensation: Annual fee, minimum, $25,000.

1989 gross revenues: 100% from fees charged for captive management.

Principal officers: Frank A. Bento, president.

Twenty-First Century Management Co. Ltd.

P.O. Box 724, ICB Building, Roebuck St., Bridgetown, Barbados; 809-426-4684

Year founded: 1986.

Parent company: Twenty-First Century Holding Ltd.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, specialized accounting services for associations, onshore services for associations; occasional manual claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives.

Staff: Four total, two professionals. Professional designations held by staff include one CPA, one CPCU.

Clients: 16 active captives managed; 10% with less than $1 million in premiums, 80% with $1 million-$3 million, 10% with $3 million-$10 million. One inactive captive managed.

Current business: 16 active captives, one inactive captive.

Affiliate: Twenty-First Century Management Co. Inc., Miami.

Compensation: Annual fee.

1989 gross revenues: 100% from fees charged for captive management.

Principal officers: Omar R. Cordial, president; Diana K. Gooding, secretary/treasurer.

V

Vermont Insurance Management Inc.

P.O. Box 306, Montpelier, Vt. 05601; 800-872-7475

Year founded: 1981.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, investment management, legal advice, association captive management services, specialized accounting services for associations, risk retention group management; occasional claims reserves analysis, loss forecasting, reinsurance brokered to captives, tax advice.

Staff: Nine total, seven professionals. Professional designations held by staff include two CPAs, one MBA, one attorney.

Clients: 18 active captives managed; 33% with less than $1 million in premiums, 45% with $1 million-$3 million, 22% with $3 million-$10 million. One inactive captive managed. Total premium volume of captives managed, approximately $39.4 million. No minimum size client.

Current business: 18 active captives, one inactive captive.

Subsidiaries: Risk Retention Management Inc., Virginia Beach, Va.; Miller, Stewart, Harkavay & Associates, Wilmington, Del.

Compensation: Annual fee, no minimum; commissions for reinsurance brokered.

Principal officers: H. Lincoln Miller, president; Michael T. Rogers, chief operating officer; Jon Harkavay, vp-general counsel.

Vista Insurance Services Inc.

500 Bloomfield Ave., Verona, N.J. 07044; 201-239-7500

Year founded: 1985.

Services provided: Frequent accounting, computerized accounting, computerized claims processing, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking for captives, specialized accounting services for associations, onshore services for associations; occasional captive feasibility studies, captive formation, loss forecasting, loss control services.

Staff: Four total, one professional.

Clients: Five active captives managed; 20% with less than $1 million in premiums, 50% with $1 million-$3 million, 30% with $3 million-$10 million. Total premium volume of captives managed, $10 million.

Current business: Five active captives.

Compensation: Annual fee, $25,000 minimum; commissions for reinsurance brokered.

1989 gross revenues: $400,000; 50% from fees charged for captive management, 50% from commissions charged for brokering insurance and/or reinsurance.

Principal officers: C. Arnold Powell, president/chief executive officer.

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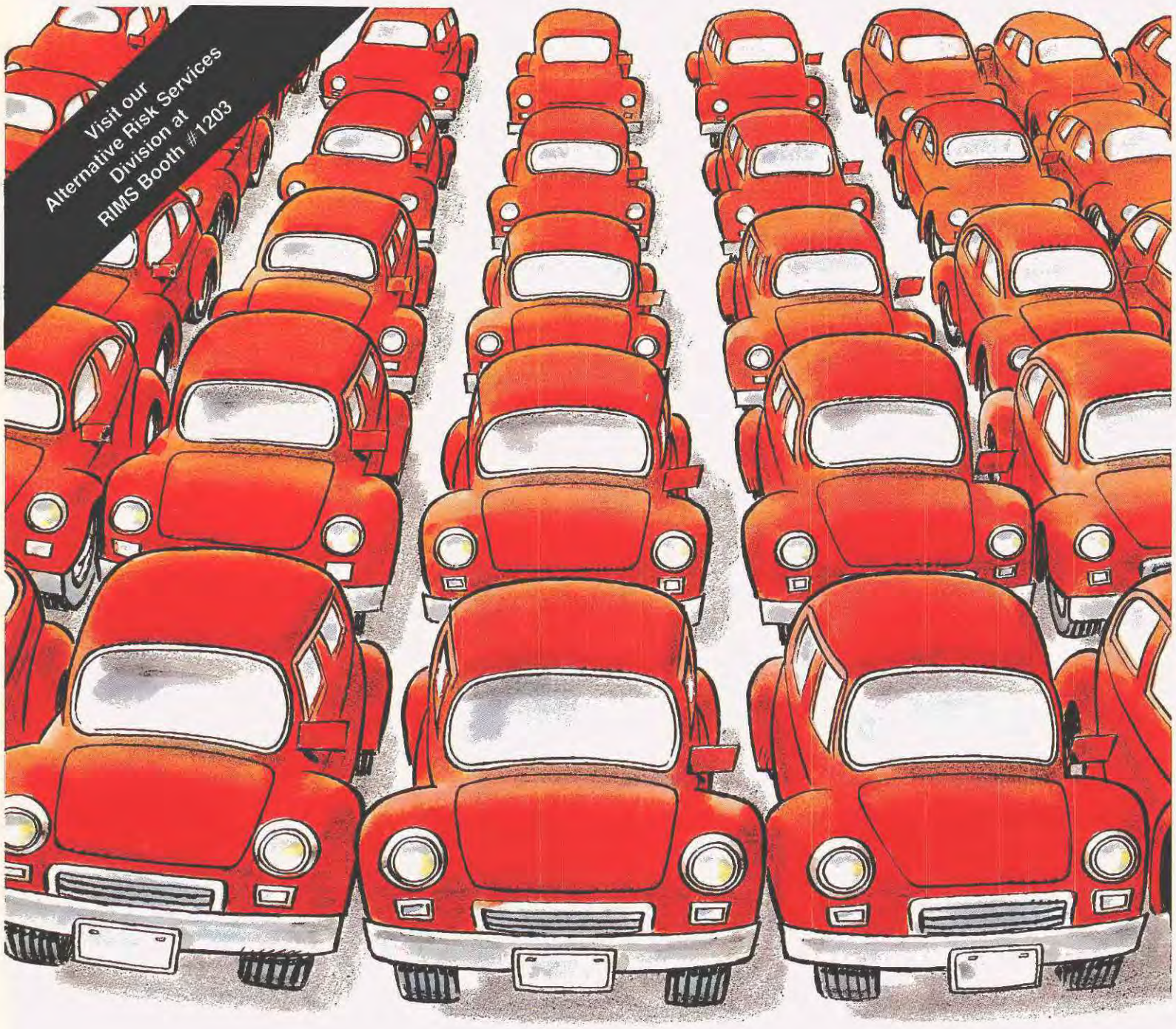

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Buyers cautioned on insurer solvency

By LOUISE KERTESZ

PALM DESERT, Calif.—Insurance buyers can use several methods to measure insurers' and reinsurers' financial stability to avoid purchasing coverage from companies that may not be around when claims are filed, says an insurance rating company executive.

"Insurance companies fail and will continue to do so, but nobody need buy bad insurance," said John Gardner, managing director of London-based insurer rating agency Insurance Solvency International Ltd.

CICA

There are "too many good insurers" and means to identify those companies, Mr. Gardner said last month at the 17th annual Captive Insurance Companies Assn. Inc. conference in Palm Desert, Calif.

Mr. Gardner's presentation had a somber timeliness: It came one day after conference members learned that Walbrook Insurance Co. Ltd. —which wrote 55% of the H.S. Weavers (Underwriting) Agencies Ltd. line slip—suspended underwriting after a preliminary actuarial report showed Walbrook might have to increase reserves to pay for unrecoverable reinsurance (*BI*, April 23; April 9; April 2).

Mr. Gardner also pointed out that more than 40 insurers withdrew from the U.S. property/casualty market involuntarily and that more than 50 withdrew altogether in 1989.

And, from 1981—when ISI began keeping such statistics—to 1989, about 100 insurers have withdrawn from the international insurance market either voluntarily or involuntarily, Mr. Gardner said.

"But had I started in 1976-77, the number would be far greater."

Mr. Gardner asked: "Why do people buy bad insurance?"

Among the reasons are "greed" or pressure "to buy as cheap as possible," he said.

Another reason is brokers' "negligence" and "carelessness," he asserted, citing examples of brokers in the late 1970s and early 1980s that "didn't bother to find out" basic information about insurers.

Another reason buyers deal with financially shaky insurers is "pure ignorance" of the market.

But, some insurance buyers have "no alternative." For those buyers, doing business with a risky insurer is better than having no insurance at all, he observed.

Mr. Gardner said that while the purpose of ISI and other rating companies "is to try to reduce the ignorance" about insurers' financial wherewithal, he urged buyers to not rely on rating companies but to use them "as a means to an end —to form your judgment."

ISI, which is being acquired by Standard & Poor's Corp. (*BI*, March 12), has been issuing ratings since 1983. About 75% of the companies rated receive an A+ or an A rating.

ISI's B rating means the company has problems or areas that need investigation; a C rating means "do not use;" and a U rating means the company is unrated because it is "undergoing substantial change."

Mr. Gardner noted insurer insolvency can be caused by many factors, such as increasing premium volume too quickly, underreserving, having bad reinsurance and having management and ownership that is unwilling to put up more capital when the company is in trouble.

But, Mr. Gardner said that buyers can avoid purchasing coverage from troubled insurers if they judge potential insurers by a set of standards he outlined.

Buyers first should determine what size insurer they want to do business with and measure potential insurers using "quantitative and qualitative" standards.

Buyers should analyze insurers' financials, based on standard published accounts. ISI and other services do a lot of the work of analyzing complex international accounting procedures for clients, Mr. Gardner said.

Mr. Gardner suggested that insurance buyers first look at an insurer's premiums-to-surplus ratio. "This is always the first test we do," he said.

But, by itself, "I don't think (the ratio) is very valuable because each company has a different mix of business. So you've got to look at what sort of business this company is writing."

'Why do people buy bad insurance?' asks John Gardner of Insurer Solvency International. Among the reasons he cites: greed; pressure to buy cheap; negligent or careless brokers; and 'pure ignorance' of the market.

Other factors also must be considered, such as how fast its premium volume has grown.

ISI has set a standard that a company whose premium volume "increases by more than 30% in a year or decreases by more than 10% in a year has to be looked at," Mr. Gardner said.

However, he pointed out that there may be good reasons for such increases or decreases. For example, the company may be new or there may have been foreign currency fluctuations.

Adequacy of reserves is another factor "we look at every which way we can," he said, noting that some countries offer insurers tax incentives to build up loss reserves.

"The one thing above all that we find brings companies down in the long run is if they are underreserved" he said.

One standard for measuring the adequacy of loss reserves—which is appropriate only with some insurers—is 100% of premium volume, according to Mr. Garnder.

However, if an insurer's total reserves are not 150%, "we start asking questions," he said.

And, "companies with long-tail books" need loss reserves of up to 350% of premium volume, he said.

The adequacy of reserves also can be measured against policyholder surplus, he said. Reserves normally should not exceed 350% of surplus, he said.

Buyers also should attempt to judge the true value of net assets—that assets are not overvalued or liabilities understated.

For example, a buyer must consider the quality and liquidity of the insurer's investment portfolio.

"The ability to raise money in the event of catastrophe we look at very closely," Mr. Gardner said.

Mr. Gardner also noted that ISI looks at an insurer's underwriting losses and expenses in comparison to its investment income. ISI's standard is that "over two years, a company must not eat into its investment earnings by more than 25%," he said.

But, Mr. Gardner noted that this test is far more stringent than the performance of the London market, which has used from 58% to 73% of investment earnings over the last 10 years.

And, ISI's reinsurance test is that "if a company reinsures more than 50%, we should look at it and find out why."

Insurance buyers also should develop a "corporate profile" of a potential insurer, which is "one of the ultimate tests." What is the company's ability and willingness to pay? Will it bail out a subsidiary in trouble?

ISI also looks at how well management has achieved its objectives and "the relationship between ownership and board."

And, ISI considers whether shareholders are asking too much of a company. For example, one small company paid a dividend in its first year, and that company is no longer writing business. "It's gone. It didn't realize how difficult this business is," Mr. Gardner said.

Size also must be considered, "since it is more likely that small companies are more exposed to failure of some parts of management or underwriting," he said.

In addition, if a potential insurer is domiciled in another country, buyers should be certain of the stability of that country's government and currency and whether insurance regulation there is conducted responsibly, Mr. Gardner said.

Buyers also must keep abreast of general market news about insurers.

But, "market rumor" and news "hot off the press" about a potentially financially troubled insurer should not greatly affect purchasing decisions if a buyer has done his or her homework, Mr. Gardner said. "An insurance company that is going down has been going to go down for some time." ■

Captive directory

Continued from previous page

W

Willis Wrightson (Bermuda) Ltd.
P.O. Box HM 1826, Hamilton, Bermuda; 809-297-9772

Year founded: 1981.
Parent company: Capacity Resources (Holdings) Ltd.
Services provided: Contracts for captive management services with Johnson & Higgins (Bermuda) Ltd.
Clients: Two active captives managed.
Current business: Two active captives.
Principal officers: Beatrice White, president; Frank Mutch, vp; Christine Douse and Peter Willits, directors; Ian Morrison, secretary.

Willis Wrightson (Guernsey) Ltd.
P.O. Box 384, Fourth Floor, The Albany, S. Esplanade, Saint Peter Port, Guernsey; 0481-720049

Year founded: 1980.
Parent company: Willis Faber P.L.C.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, loss forecasting, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives (CCA Mutual Insurance Ltd., Holdright Insurance Co. Ltd., International Movers Mutual Insurance Co. Ltd., NAWK & WSA Mutual Insurance Co. Ltd., The Institute of Freight Forwarders Mutual Insurance Co Ltd.), specialized accounting services for associations, onshore services for associations; occasional captive feasibility studies, actuarial studies, reinsurance brokered for captives, reinsurance brokered to captives, tax advice, loss control services.
Staff: 10 total.

Y

Yankee Captive Management Co.
P.O. Box 2127, 140 Kennedy Drive, South Burlington, Vt. 05403; 802-658-1100

Year founded: 1983.
Parent company: Yankee Insurance Corp.
Services provided: Captive formation, government reporting, accounting, manual claims processing, claims reserves analysis, investment management.
Staff: Three total, two professionals.
Clients: Two active captives managed; 50% with $1 million-$3 million in premiums, 50% with $3 million-$10 million.
Current business: Two active captives.
Compensation: Annual fee, $5,000 minimum.
Principal officers: L.F. Hackett, president; J.F. McNally, vp. ■

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OIL sets example for other captives

CICA meeting attracts 231

PALM DESERT, Calif.—The 17th annual Captive Insurance Companies Assn. Inc. conference drew 231 CICA members, brokers and insurers, the highest attendance in five years.

Last year's conference drew 193 people.

Speakers at the conference, held March 25-28 in Palm Desert, Calif., discussed the insurance, economic and investment outlook for 1990 and presented updates on captive formation, the legal environment, managing catastrophic risk and the elimination of trade barriers within the European Community.

Other sessions focused on how to gauge the financial health of insurers and the growth of captives in the Cayman Islands.

Attending the conference was Grant Whitney, retired risk manager of R.M. Belk Stores in Charlotte, N.C., and past president of both CICA and the Risk & Insurance Management Society. CICA was founded 17 years ago in Mr. Whitney's kitchen.

Next year's CICA conference will be held March 24-28 in Scottsdale, Ariz.

For more information on CICA, call 212-687-4501.

By LOUISE KERTESZ

PALM DESERT, Calif.—The 18-year track record of Oil Insurance Ltd. reflects the importance of policyholder-owned group captives for financing catastrophic exposures, according to an OIL executive.

Bermuda-based OIL, which writes $150 million in property and occurrence-based pollution liability coverage excess of a minimum of $5 million, has paid $2.1 billion in losses while generating $1.7 billion in premiums since writing its first policy in 1972, reports K. Doyle Stephens, president and chief executive officer.

CICA

OIL's 1989 losses net of reinsurance amounted to $377 million (see story, page 21).

"The fact that we have paid losses greater than the amount of premium collected is the strongest evidence that these types of facilities—whatever you call them—are probably the best thing that has happened to the insurance business," Mr. Stephens asserted at the 17th annual Captive Insurance Companies Assn. Inc. conference in Palm Desert, Calif., March 25-28.

In the past 10 years, OIL has paid $1.8 billion in losses, with the largest portion of losses from refineries, $510 million, and platforms, $446 million.

But paid pollution claims were only about $79 million during the same period, Mr. Stephens said, adding that OIL was created when commercial insurers "walked away from the petroleum industry primarily because of pollution risks."

The facility has evolved, Mr. Stephens observed.

"The function of the company was to pay losses, and we believe we've done that," he said.

The group captive, which originally had 16 policyholder/owners, now has 49 members, which include the world's largest oil companies.

"Fortunately," Exxon Corp. was not among OIL's policyholders last year, Mr. Stephens quipped, referring to the Exxon Valdez oil spill.

Companies participate in OIL for several reasons, he said:

- "It provides continuity, capacity, efficiency, and the broadest coverage available in the marketplace for our type of risk," he said.

"We provide a very strong hedge against the vagaries of the commercial market," he added.

- Policyholders have "strong input" in OIL governance.
- "We believe for every dollar of premium we collect, we can pay at least 95 cents of losses," Mr. Stephens said.

By contrast, by the time a commercial insurer takes 25 cents from every dollar of premium for expenses and something for shareholders, "maybe there will be 65 cents left" from every premium dollar to pay claims, he said.

To qualify as an OIL policyholder, a company must be involved in at least one of several petroleum industry businesses, such as exploration, production, refining or storage.

Policyholder/owners must purchase a $10,000 shareholder certificate, but no other capital contribution is required.

OIL also requires a five-year commitment from policyholder/owners.

Mr. Stephens called OIL's rating system "the key to the success of the company and probably the most creative way to operate such a plan."

The facility operates on the principle of crediting companies with good experience and penalizing those that have had losses, he explained.

"The standard rate is derived from the loss experience of the total group. We then use debit and credit modifiers, which give credits for good experience and debits for bad experiences," he explained.

The rating system is formula-based because of the industry's common exposures, and there is "no individual underwriting of individual companies," said Mr. Stephens.

As a result, OIL's rating system provides a policyholder/owner "tremendous recuperating power after a major loss year."

OIL insures such risks as excess property, well control and broad form pollution liability insurance and hulls on an optional basis.

Among the risks excluded are losses due to war, business interruption, loss of hole or redrilling and product liability.

Deductibles range from $5 million to $100 million, but the most common deductible is $10 million, Mr. Stephens said.

OIL's definition of occurrence—"which is fundamental to the success of the company"—is that the event that causes a loss must occur during the policy term, he said.

In addition, "companion company" Oil Casualty Insurance Ltd. writes claims-made umbrella liability insurance and excess directors and officers liability and product liability coverage. OCIL writes $50 million of limits with a $100 million aggregate excess of $20 million. ■

'Transformation' of captives foreseen

By LOUISE KERTESZ

PALM DESERT, Calif.—The "transformation" of "mature captive insurance companies" will have a significant effect on the commercial insurance market, a risk management consultant predicts.

As captives develop to provide more services to their parents, "commercial insurers will have to find other ways to work with buyers," said D. Hugh Rosenbaum, a principal with the Tillinghast division of Towers Perrin Forster & Crosby Inc. in Stamford, Conn.

Mr. Rosenbaum, who is editor of Tillinghast's Captive Insurance Company Reports, spoke at the Captive Insurance Companies Assn. conference last month in Palm Desert, Calif.

Among the most important "transformations," owners will move their captives onshore and either "buy a licensed company or become licensed" to provide direct underwriting services and claims handling services, Mr. Rosenbaum said. He noted that many captives now pay fronting insurers to perform these functions, with their captives reinsuring the fronting company.

"It has now become apparent to captives who have gotten to the point where they have their own staff. . .their own systems. . .and considerable expertise that they should be applying it to the primary insurance business," Mr. Rosenbaum said.

"At this stage, we're talking about captives providing those services (solely) for their parents. But watch this space three years from now."

Several Tillinghast clients with captives are now attempting to buy licensed insurers onshore, said Mr. Rosenbaum. As proof that captives can develop a high degree of expertise, Mr. Rosenbaum noted that a Danish captive—Forenede Assurandorer—"began thinking of acquiring another insurance company." But its parent, F.L. Smidth & Co. A/S, eventually sold the captive to a commercial insurer, he said.

Another major transformation for captives involves insuring more than the first—or predictable—layer of risk, Mr. Rosenbaum said.

"In spite of the soft insurance market, we are seeing a lot of approaches being made (by captives) to the three-tier risk financing programs dominated by the (commercial) insurance companies," he said.

"There has been a constant debate" over whether captives should stick to insuring the predictable lower levels or whether they should move up into the higher levels, Mr. Rosenbaum said.

Several Tillinghast clients have decided their captives should insure the layer "below the true catastrophic"—from $5 million to $25 million per occurrence—and have done so, said Mr. Rosenbaum. "It's a very radical idea," he said.

Some companies also will begin providing personal lines coverages for their employees through their captives, he said.

"Big insurers seem to be getting out of personal lines," Mr. Rosenbaum said. And Canadian companies, like Northern Telecom Ltd., are providing personal lines coverage to employees and "reinsuring with their own captives," he said.

In other captive activities, "rent-a-captive is a booming business. . .an important niche" for companies too small to own their own captives. Bermuda companies that provide rent-a-captive services "have been adding accounts," Mr. Rosenbaum said (see story, page 19).

Captive insurance companies' influence "has never been greater than we are now observing in 1989-90," Mr. Rosenbaum said.

He predicts that premium volume written by captives—which rose to $9.5 billion in 1989 from $9 billion in 1988, according to Tillinghast—will reach $18 billion in 10 years.

And, while the formation of new captives has slowed and the total number may fluctuate, the total number of captives licensed in the five major domiciles—Bermuda, Cayman, Guernsey, Barbados and Vermont—is still growing, Mr. Rosenbaum said. ■

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Datebook

MAY

MAY 6-9. Eighth Annual National Institute of Pension Administrators conference in Monterey, Calif., sponsored by NIPA; $450 for NIPA members; $570 for non-members. Davisson Assn. Management & Public Relations, 145 W. First St., Suite A, Tustin, Calif. 92680-3209; 714-731-3524.

MAY 7-9. International Conference on Operations of United States-Canada Insurers in Arlington, Va., sponsored by the National Center for Tax Education and Research; $895. Bernard B. Goodman, Executive Director, NCTER, 8 Vista Drive, P.O. Box 414, Old Lyme, Conn. 06371; 203-434-3044.

MAY 7-9. Fundamentals of Insurance course in Orlando, Fla., sponsored by the Risk & Insurance Management Society Inc.; $495 for RIMS members; $595 for non-members. **Also June 4-6** in San Diego; **Sept. 10-12** in Chicago; and **Dec. 3-5** in New York City. RIMS, Education Dept., 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

MAY 8. Strategic Benefit Planning for the 1990s seminar in Milwaukee, sponsored by GENESYS Software Systems Inc.; no charge. **Also May 9** in Denver. GENESYS Software Systems Inc., 5 Branch St., Methuen, Mass. 01844; 508-685-5400.

MAY 8. Directors' and Officers' Liability Insurance seminar in New York City, sponsored by the Practising Law Institute; $350. **Also June 26** in San Francisco. PLI, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

MAY 8-10. Environmental Regulation Course in Salt Lake City, sponsored by Executive Enterprises Inc.; $990. **Also May 14-16** in Hartford, **May 15-17** in San Diego, **May 21-23** in New Orleans. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

MAY 8-10. Southeastern Safety and Health Conference and Exhibition in Atlanta, sponsored by the Environmental Sciences and Technology Division, Georgia Tech Research Institute, Georgia Institute of Technology; $150. Education Extension-R, Georgia Institute of Technology, Atlanta, Ga. 30332-0385; 404-894-2400 or 800-325-5007.

MAY 9. Insurance Tax Update: 1990 in Dallas, sponsored by KPMG Peat Marwick; no charge. **Also May 15** in Atlanta and **May 17** in Los Angeles. KPMG Peat Marwick, Executive Education, 3 Chestnut Ridge Road, Montvale, N.J. 07645; 800-762-3932.

MAY 9. Umbrella/Excess Coverage workshop in White Plains, N.Y., sponsored by The Society of Chartered Property & Casualty Underwriters; $70 for Society of CPCU members; $80 for non-members. Bonnie Kinsley, Continuing Education Coordinator, The Society of CPCU, 720 Providence Road, CB No. 9, Malvern, Pa. 19355-0709; 215-251-2735.

MAY 9. Environmental and Toxic Tort Claims: Insurance Coverage in 1990 and Beyond seminar in New York City, sponsored by the Practising Law Institute; $350. **Also June 27** in San Francisco. PLI, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

MAY 9. Workers' Compensation-Issues Into the '90s seminar in Indianapolis, sponsored by The Society of Chartered Property & Casualty Underwriters; $140 for Society of CPCU members; $180 for non-members. Mari Jennings, Continuing Education Coordinator, The Society of CPCU, 720 Providence Road, CB No. 9, Malvern, Pa. 19355-0709, 215-251-2741.

MAY 9-11. CAOHC Approved Training Course in Occupational Hearing Conservation in Milwaukee, sponsored by Impact Hearing Conservation Inc.; $325 for certification; $150 for recertification. **Also June 6-8** in Kansas City, Mo. Impact Hearing Conservation Inc., 406 W. 34th St., Suite 400, Kansas City, Mo. 64111; 816-531-4848.

MAY 10. The Employers' Perspective on Unemployment Insurance workshop in Rosemont, Ill., sponsored by The Illinois State Chamber of Commerce; $120 for ISCC members; $180 for non-members. ISCC, 20 N. Wacker Drive, Chicago, Ill. 60606; 800-621-4220.

MAY 10-11. Advanced Safety Management seminar in Anaheim, Calif., sponsored by Organizational Safety Services Inc.; $285. OSS, 11831 Rothbury Dr., Richmond, Va. 23236; 804-794-0691.

MAY 10. Insurers Vs. Insurer Disputes seminar in New York City, sponsored by the Practising Law Institute; $350. **Also June 28** in San Francisco. PLI, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

MAY 10. Property & Casualty Market Conduct Seminar in New York City, sponsored by the law firm of Bower & Gardner; $250. B&G, 110 E. 59th St., New York, N.Y. 10022; 212-751-2900.

MAY 10-11. IAHMO Annual Spring Symposium: Managed Care in the Non-Acute Setting in Chicago, sponsored by the Illinois Assn. of Health Maintenance Organizations; $75 for IAHMO members; $90 for non-members. IAHMO, 321 N. Clark, Suite 3400, Chicago, Ill. 60610; 312-245-8780.

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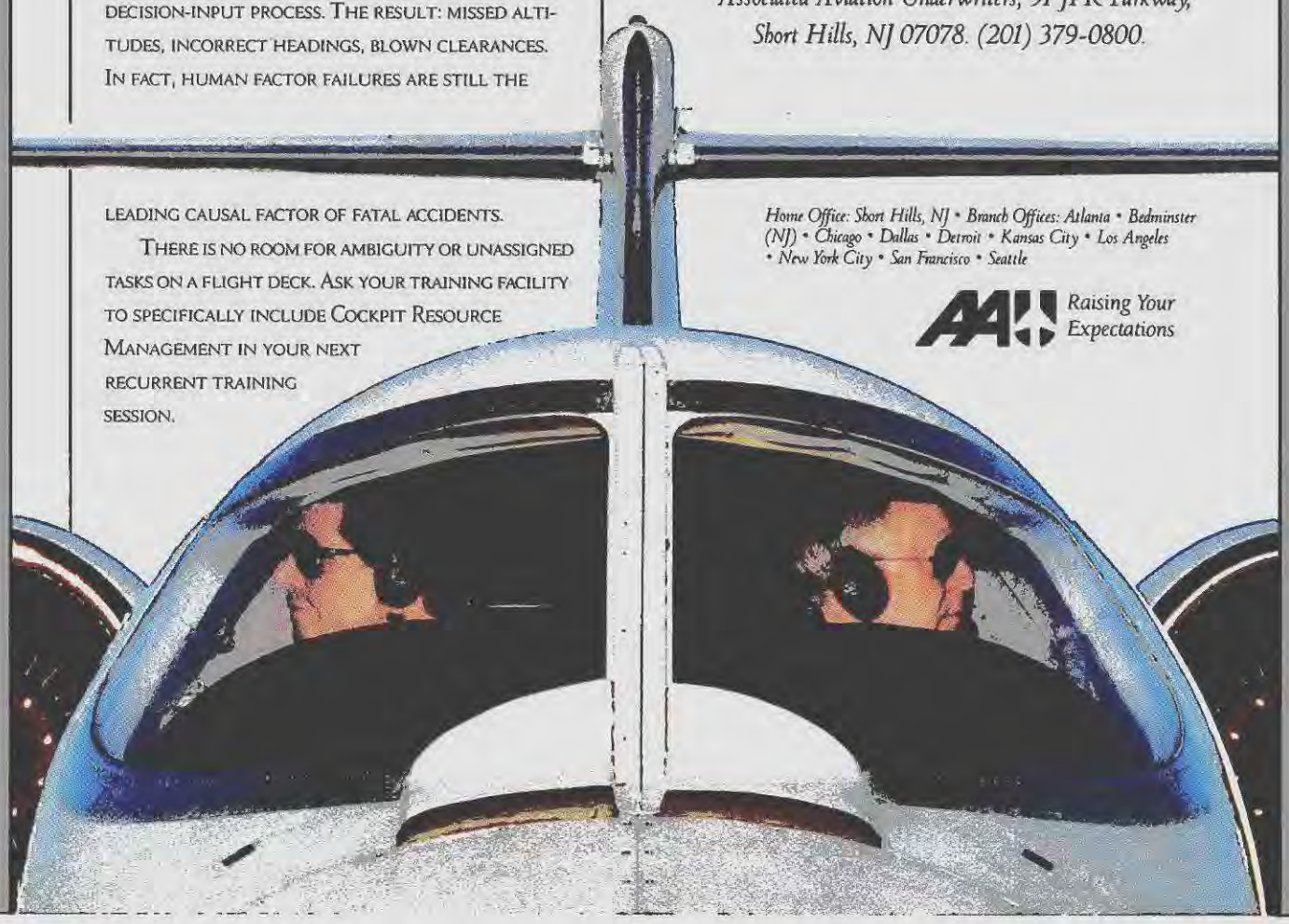

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AAU *Raising Your Expectations*

Risk Manager of the Year

Disney exec stands guard over 'Magic Kingdom's' expansion

By KATHRYN J. McINTYRE

BURBANK, Calif.—In three years, Stephen M. Wilder has learned a lot about construction and entertainment, plus picked up a bit of French, as director of corporate risk management at The Walt Disney Co.

His first assignments upon joining Disney in May 1987, shortly after turning 32: investigate a wrap-up insurance program for a $1 billion construction project to expand Walt Disney World in Florida; and buy a decennial liability insurance policy for the first $2.6 billion phase of Euro Disneyland near Paris.

"I'd never heard of decennial liability and I couldn't profess to know much about wrap-ups," recalls Mr. Wilder, whose interviews with Disney during the preceding six months had centered mostly on the entertainment side of the business.

So he relied on a lesson from his first boss when Mr. Wilder was a risk manager at Whittaker Corp. seven years earlier: Surround yourself with good people and you'll do well.

Asking all the questions he could imagine of the best and the brightest in wrap-up insurance programs, Mr. Wilder learned how to deal with the French insurance market, including the peculiar decennial liability insurance, which covers damage to a building from construction defects for 10 years (see story, page 141).

In his first 15 months at Disney, Mr. Wilder orchestrated two wrap-up insurance programs: one for the construction already in progress at Walt Disney World and another for Euro Disneyland, where work began 20 miles east of Paris in August 1988.

Mr. Wilder extensively interviewed more than a half-dozen major insurance brokers for each project. And, he played an integral part in developing the insurance and risk management programs for each project.

"I'll probably never have that much to do in my life again," Mr. Wilder sighs with both relief and pride.

At the same time, Mr. Wilder immersed himself in a risk management program covering the operations of Disney's other growing family entertainment enterprises: from the theme parks of Disneyland in Anaheim, Calif., to Walt Disney World in Lake Buena Vista, Fla.; and from motion picture and television production to the licensing of Disney characters on other companies' products around the world.

Acquisitions and new ventures multiplied the businesses to be monitored. Since Mr. Wilder joined the company, Disney bought The Disneyland Hotel in Anaheim, Calif., The Queen Mary and Spruce Goose in Long Beach, Calif., a television station in Hollywood and a children's furniture manufacturing and mail-order distribution company.

In those three years Disney built a still-growing chain of 50 Disney stores, started a movie production company and a record company, and just last month opened its first fast-food restaurant—Mickey's Kitchen—outside its theme parks.

Disney's operations are now so diverse that Mr. Wilder has an interest in 13 of the industry sessions at this week's Risk & Insurance Management Society Inc. conference in Boston.

If risk management responsibilities can be measured in a company's revenues, Mr. Wilder's have grown by more than half again in three years: Disney's 1989 revenues of $4.6 billion are 60% greater than when Mr. Wilder joined in 1987. Disney is the 182nd-largest U.S. company based on revenues, but ranks 53rd based on profits, according to Business Week.

On top of juggling wrap-up insurance programs in two hemispheres, learning entertainment insurance and keeping a risk management program one step ahead of Disney's expanding business, Mr. Wilder also built a corporate risk management department. Only one of his nine-person staff was at Disney before Mr. Wilder.

In addition, he introduced risk management information systems to Disney.

Perhaps most importantly, Mr. Wilder has earned the confidence and cooperation of Disney's senior management, operating divisions, and loss control and claims personnel—the majority of whom do not report to the corporate risk management department but are essential to its success.

These accomplishments in just three years at Disney earned Mr. Wilder the 1990 *Business Insurance* Risk Manager of the Year Award.

He was selected from a field of candidates by 10 independent judges (see story, page 171).

At 34, Mr. Wilder is the youngest winner in the 13 years the award has been presented. He'll be 35 this Saturday—the same age as Disneyland, the first of Disney's theme parks.

Business Insurance created the Risk Manager of the Year in 1977 on its 10th anniversary to recognize outstanding contributions to risk management.

As director of corporate risk management for Disney, Mr. Wilder's mission is to protect Disney's 40 million annual guests, nearly 50,000 employees and the Disney name—the "finest in family entertainment in the world."

"Everything we do is geared toward that," Mr. Wilder says with obvious dedication to contributing to "the Disney magic."

But Mr. Wilder and his relatively small department do not do it alone. They cooperate with more than 180 Disney loss control and claims personnel who report to operating management at Disney attractions, rather than to the risk management department.

And, the risk management department works with a myriad of other Disney departments, from contracts to legal.

"It's a real team approach," Mr. Wilder says, noting that the structure is unusual.

While the public at large knows Disney through movies like "Who Framed Roger Rabbit?" and "The Little Mermaid" and the world's largest inland water park—Typhoon Lagoon at Walt Disney World—about half of Mr. Wilder's typical 55-hour work week is devoted to the wrap-up insurance programs on the two construction projects that will produce the Disney magic of the future.

Those programs for Euro Disneyland and the expansion of Walt Disney World give risk management officials the control needed to protect the Disney name and contribute to effective, safe construction projects at the lowest possible long-term cost, Mr. Wilder says (see stories, pages 141-146).

Mr. Wilder spends about 30% of his time on the Florida wrap-up, which currently covers 15 new projects at Walt Disney World, including expansion of the popular MGM-Disney Studios Theme Park, construction of new hotels that are winning critical acclaim among architects, rehabilitation of existing properties and construction of an office building.

Mr. Wilder—who is hard-driving but generally soft-spoken, inquisitive and quick-to-laugh—maintains

Continued on next page

Stephen M. Wilder

Born: Manhattan.
Age: 34.
Education: Bachelor of Arts in Economics, University of Pennsylvania Wharton School of Finance and Commerce; Executive Management Program, University of California at Los Angeles; Associate in Risk Management.
Current position: Director of corporate risk management for The Walt Disney Co. in Burbank, Calif. Appointed May 1987.
Previous experience: Risk manager of Whittaker Corp. in Los Angeles, November 1980 to May 1987; assistant risk manager at Whittaker, May 1979 to November 1980; account executive with Broox Randall Insurance in Hollywood, Calif., May 1979 to April 1980; unit manager trainee and then unit manager with Marsh & McLennan Inc. in Los Angeles, September 1977 to May 1979.
Professional memberships: Risk & Insurance Management Society Inc., Los Angeles Chapter: member of the board of directors (1987-present), secretary (1990), program co-chairman (1989) and membership chairman (1988).
Teaching activities: Frequent lecturer on risk management issues at conferences sponsored by the Risk & Insurance Management Society Inc.; also has addressed AEAI/RIMS 1989 Risk Management Forum, The American Society of Safety Engineers and American Management Assn. seminars.
Family: Married to Olivia, a treasury analyst for Northrop Corp., two years.
Hobbies: Gardening, tennis, reading, movies.

The Walt Disney Co.

Founded: 1933 by Walt Disney, a young film animator and creator of cartoon character Mickey Mouse.
1989 revenues: $4.6 billion.
Business: Family entertainment, including theme parks, hotels, movies, television programs, a television station, a cable network, home videos and consumer products—from computer games to records to children's furniture to the licensing of Disney characters on thousands of products.

Theme parks are Disneyland in Anaheim, Calif.; Epcot Center, The Magic Kingdom, The MGM-Disney Studios Tour and Typhoon Lagoon at Walt Disney World in Lake Buena Vista, Fla.; and Euro Disneyland under construction in France.

Hotels include the Queen Mary in Long Beach, Calif., the 2,200-room Disneyland Hotel in Anaheim and several hotels with a total of more than 6,000 rooms at Walt Disney World.

Theme parks and resorts generated $2.6 billion of Disney's 1989 revenues, while film entertainment generated $1.6 million and consumer products generated $411 million.

Milestones: In 1937, Disney releases the first full-length, animated feature, "Snow White and the Seven Dwarfs." With re-release, it has been seen by more people than any other film.

In 1955, Disney opens Disneyland in Anaheim, Calif., with 21 attractions in five theme lands. Today, Disneyland contains more than 50 attractions.

Walt Disney World, near Orlando, Fla., opens in 1971 with The Magic Kingdom.

In 1982, Disney opens EPCOT Center at Walt Disney World, a showplace for new ideas, technologies and other cultures.

Tokyo Disneyland opens in Japan in 1983, owned and operated by Oriental Land Co. under license from Disney.

In 1984, a new management takes over the Disney organization, led by Michael D. Eisner, chairman of the board and chief executive officer, and Frank G. Wells, president and chief operating officer. Under their leadership, Disney's revenues more than double over the next five years from $1.7 billion in 1984.

In 1987, Disney opens the first Disney Store. In less than two years, there are 50.

Also in 1987, Disney signs an agreement with the French government, paving the way for development of Euro Disneyland to open in 1992.

In 1988, Mickey Mouse celebrates his 60th birthday.

Also in 1988, Disney releases "Who Framed Roger Rabbit" to critical acclaim for its mixing of cartoon characters and live actors. The motion picture produces domestic receipts of nearly $150 million.

In 1988, Disney also purchases Wrather Corp., including the Disneyland Hotel in Anaheim as well as Long Beach, Calif., tourist attractions the former luxury liner Queen Mary hotel and the Spruce Goose airplane.

In 1989, Disney opens The MGM-Disney Studios Tour Theme Park at Walt Disney World, which takes visitors behind the scenes in film making. Based on its overwhelming popularity in its first several months, Disney announces it will double the park in size.

Also in 1989, Disney floats Euro Disneyland stock, which will partially finance the first phase of construction.

Also during 1989, the 300 millionth guest enters both Disneyland and Walt Disney World.

Early in 1990, Disney opens the first "Mickey's Kitchen" restaurant in Mount Clair, Calif., the first Disney restaurant outside its parks.

Mary Herlehy

Stephen M. Wilder

Continued from previous page

"hands-on" management of the Florida wrap-up.

"Everything that happens, I'm involved in," Mr. Wilder says, because administrative problems had plagued the program in its first year.

He works especially hard at seeking input from everyone involved in the program and keeping them informed of developments. It is "time consuming because there are so many people involved on a day-to-day basis whose input is so important and who have to have the same information base," he explains.

These include the local account executives of the program's broker, Sedgwick James Ltd.; the broker's national wrap-up team; the eight-person on-site administrative staff; contacts at Aetna Casualty & Surety Co., which underwrites the workers compensation and liability insurance; contacts at Allendale Mutual Insurance Co., the property insurer; and scores of people within Disney.

Disney staff involved in the wrap-up include: W. Robert Faust, the Walt Disney World loss control manager; Linda Smith, corporate insurance manager for Walt Disney World; and others in claims, contract administration, the legal department, project management, personnel and finance.

"That's a whole bunch of people to try to coordinate," Mr. Wilder says.

He also has management responsibility with James for the eight-person wrap-up staff at the site. "Nobody thinks about what it takes to run an office but there is a James office on Disney property that James and I run, from hiring people to buying supplies to setting up a filing system to programming the computer to performance reviews," he says.

Recently, Mr. Wilder and Mr. Faust had to find a new home for the on-site administrative staff's trailer because it was on an expansion site.

Mr. Wilder also gets deeply involved in individual projects connected with the wrap-up, including most recently Aetna's audit of contractors' payroll for workers compensation premium adjustments. He helped establish how audits of 645 covered contractors should be checked, who should check them and how the results would be handled with Aetna.

Mr. Wilder also monitors the handling of claims and the safety program, and he answers coverage questions that constantly arise—internally and from contractors.

In addition, accounting issues crop up, both with Aetna and internally at Disney. Costs have to be properly allocated to the construction projects, Mr. Wilder explains.

Budgeting also demands Mr. Wilder's attention, as do the reams of reports covering claims and insurance credits.

And Disney's own construction company, Buena Vista Construction Co., is covered by the wrap-up. As BVCC's risk manager, Mr. Wilder has to be sure that BVCC is properly covered by the wrap-up and that its safety programs are up to snuff.

Telephone calls at least every other day with Richard Livermore, manager of construction insurance administration at Sedgwick James of Florida Inc., keep him in touch with the program.

Mr. Wilder also receives a seven-page monthly report from Sedgwick James covering issues like projects completed and still under way by Sedgwick James at the site, ongoing projects by the national wrap-up team, information requested by Disney, policy status, loss control summaries and claims statistics.

He also attends three-day quarterly meetings in Florida with representatives of the broker and insurers of the wrap-up.

And, Mr. Wilder depends on Mr. Faust, with whom he speaks daily, to provide on-site management of personnel and to serve as the liaison between James and Disney. Mr. Faust is Disney's senior representative at the biweekly staff meetings of the wrap-up program staff.

Meanwhile, Mr. Wilder also is involved in the wrap-up program for construction at Euro Disneyland, which is scheduled to open in 1992 with a Magic Kingdom theme park, a 500-room Magic Kingdom Hotel, a 595-site campground, and other resort hotels and recreational facilities.

Mr. Wilder spends about 20% of his time managing the risk management program for Euro Disneyland from his office 5,700 miles and nine time zones away. He is assisted by Michel Banaszak, who was hired in mid-1989 as on-site insurance coordinator for Euro Disneyland. Mr. Banaszak, a Frenchman who speaks English, also has an assistant.

"The most important thing in this whole project is the fax machine," says Mr. Wilder, who gets into the office by 7:15 a.m. to communicate with France.

Mr. Banaszak's responsibilities include keeping track of who is on the job site, that they've filled out the proper forms, that Euro Disneyland is providing the insurance that it should and that the contractors are buying the insurance they must.

"With hundreds of contractors over thousands of acres, it's a big job," Mr. Wilder says.

Mr. Wilder also stays in close touch with Euro Disneyland's broker—Societe Generale de Courtage d'Assurances S.A., which is owned 49% by Alexander & Alexander Services Inc.

A&A offices involved in the program include Dallas; Orange County and Los Angeles in California; New York; and London.

Mr. Wilder receives monthly written reports from SGCA reviewing in detail what has occurred in the last month and what will happen in the next month.

He increased the reporting to monthly from quarterly "because there is so much information and so much going on."

And every six months SGCA provides a report tracking the developments of the last six months.

Another effective management tool is the compilation of a working list of all outstanding tasks, which is circulated to Mr. Wilder, Mr. Banaszak, SGCA, A&A and Euro Disneyland's general counsel. Each item is numbered and includes a description of what has to be done, who requested it, the action to be taken, who has to do it, the deadline and additional comments.

When a task is completed, it moves to the completed list.

"When we get depressed because there is too much left to do, we look at the completed list and see what we've gotten done," Mr. Wilder says.

Mr. Wilder also attends quarterly meetings on the Euro Disneyland wrap-up, most of which are now held in Paris.

The time needed to manage the wrap-up programs leaves Mr. Wilder with half his normal week—or about 27½ hours—to review Disney contracts, get together with brokers and insurers, meet with Disney management, coordinate with operating personnel, meet with Disney's legal department as well as claims and loss control people, and to oversee his own department.

"I spend a ton of time on contract review," Mr. Wilder says, referring to purchasing, construction, ar-

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Wilder

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chitectural and designer contracts. "We have certain indemnity and certain insurance requirements. Anytime there is a variance, we get involved to decide if it's a risk the company wants to take.

"I spend a lot of time trying to shift risk contractually," he adds.

Meanwhile, Mr. Wilder works to maintain communication with loss control and claims administration staffs in Florida and California—involving a dozen different managers.

Walt Disney World, Disneyland, The Queen Mary and Walt Disney Imagineering—the creative force behind Disney attractions—all employ their own safety departments that report to their operating management (see story, page 149).

In addition, claims departments on each coast handle claims for these operations.

The risk management department is available to help them coordinate loss control and claims handling efforts. And Mr. Wilder and Mr. Faust of Walt Disney World stay in close contact, speaking by telephone almost every day.

"I keep him posted on all areas of risk management and loss control, whether he is involved directly or not," Mr. Faust says.

In claims handling, "we rely on the legal department for guidance and expertise," Mr. Wilder says.

Mr. Wilder's department is responsible for the safety programs at all other Disney operations, including its motion picture and television studios.

When Aetna Casualty & Surety handles workers compensation and liability claims—as it does outside California and Florida—the risk management department is responsible for the coordination.

Mr. Wilder's staff includes an entertainment insurance risk manager who spends 90% of her time on film production risk management, and an assistant risk manager who devotes most of her time to the insurance program covering ongoing Disney operations.

A safety manager, who is responsible for much of Disney's safety efforts and is available to coordinate the efforts of safety managers with specific assignments at Disney attractions, is being hired (see story, page 149).

To protect's Disney's $6.7 billion in assets as of year-end 1989, Mr. Wilder's department manages an annual insurance and self-insurance budget of less than three-quarters of 1% of assets—or less than $50 million—not including internal claims and loss control administration costs and the cost of the wrap-up insurance program for Euro Disneyland.

Excluding the cost of insurance for the wrap-up insurance program for Walt Disney World, Disney's operational insurance costs have remained relatively stable while revenues have grown dramatically.

Disney self-funds predictable losses and buys catastrophic insurance coverages (see story, page 150).

When buying insurance, Disney and Mr. Wilder believe in long-term relationships with brokers and insurers to obtain stability, he says.

Allendale Mutual Insurance Co., for example, has insured Disney property for 42 years.

And, Garfield McConico, now vp of Rollins Burdick Hunter of Southern California Inc. and working on Disney's account, was Mr. Wilder's account executive at Whittaker when Mr. McConico worked for Bayly, Martin & Fay International Inc.

But while committed to long-term relationships, Mr. Wilder is determined to ensure that Disney's programs remain competitive. "There's a real fine line in doing that," Mr. Wilder says.

He credits Disney's success in maintaining competitive programs to finding "the best and the brightest people on the outside that we can. We are very good at finding the best people in the organizations that we deal with and getting the best out of large companies."

The Disney name helps "tons" in this regard, Mr. Wilder concedes.

"Everyone wants to do business with Disney," he says, not for the money but for the visibility and image of being associated with Disney.

"This allows us to get the best and brightest in companies and access to the people at the top of these companies," he adds.

Brokers praise Mr. Wilder for treating them fairly, both when selecting a broker for a project and while working with them.

He tells brokers why they've won or lost an account and, once on the account, brokers say they are treated as part of a team. He doesn't try to "grind work out of us," according to one broker.

"It's really important to me to work with people I like and people I trust," says Mr. Wilder.

"A lot of people buy insurance based on price with disregard for the product and people," he said. "In the short term, they may get more than I get, but if I have a loss or a problem, I like to know the person I'm dealing with."

As risk manager for Disney, Mr. Wilder asks a lot of questions and obtains second and third opinions from brokers, insurers and other risk managers before making decisions.

"I've been told I ask a lot of questions," he says. "I want to learn as much as I can and to try to understand the answers as fully as I can."

Mr. Wilder asks a lot of questions because "one answer leads to three questions, which lead to nine questions and by the time you've gotten to the next level—which is 81 questions—you begin to understand the complexity of the original question.

"Risk management is very complicated," he says. "I get really offended when people tell me risk management is easy."

Indeed, risk management is "far too complicated," Mr. Wilder says, "because the definition is so broad that it takes so many resources to perform the function adequately, let alone well: insurance, risk financing, safety, ergonomics, food sanitation, industrial hygiene and claims. You just can't be an expert in all those areas, which is why the team approach works very well at Disney."

Brokers working with Mr. Wilder appreciate his inquisitive nature. One jokingly calls him a "sponge."

Looking back, Mr. Wilder says the Florida and French wrap-up insurance programs were equally exciting and challenging, but for different reasons.

"In France, it will be the only time in my life I'll be able to work on something from an idea to when the first guest goes into the park."

In Florida, Mr. Wilder and his team overcame enormous problems in implementing a wrap-up insurance program for such a large project where construction had already begun.

And, he says, "I feel good about the entertainment program. That is a really specialized area I knew nothing about and now I feel comfortable working on claims and getting productions insured."

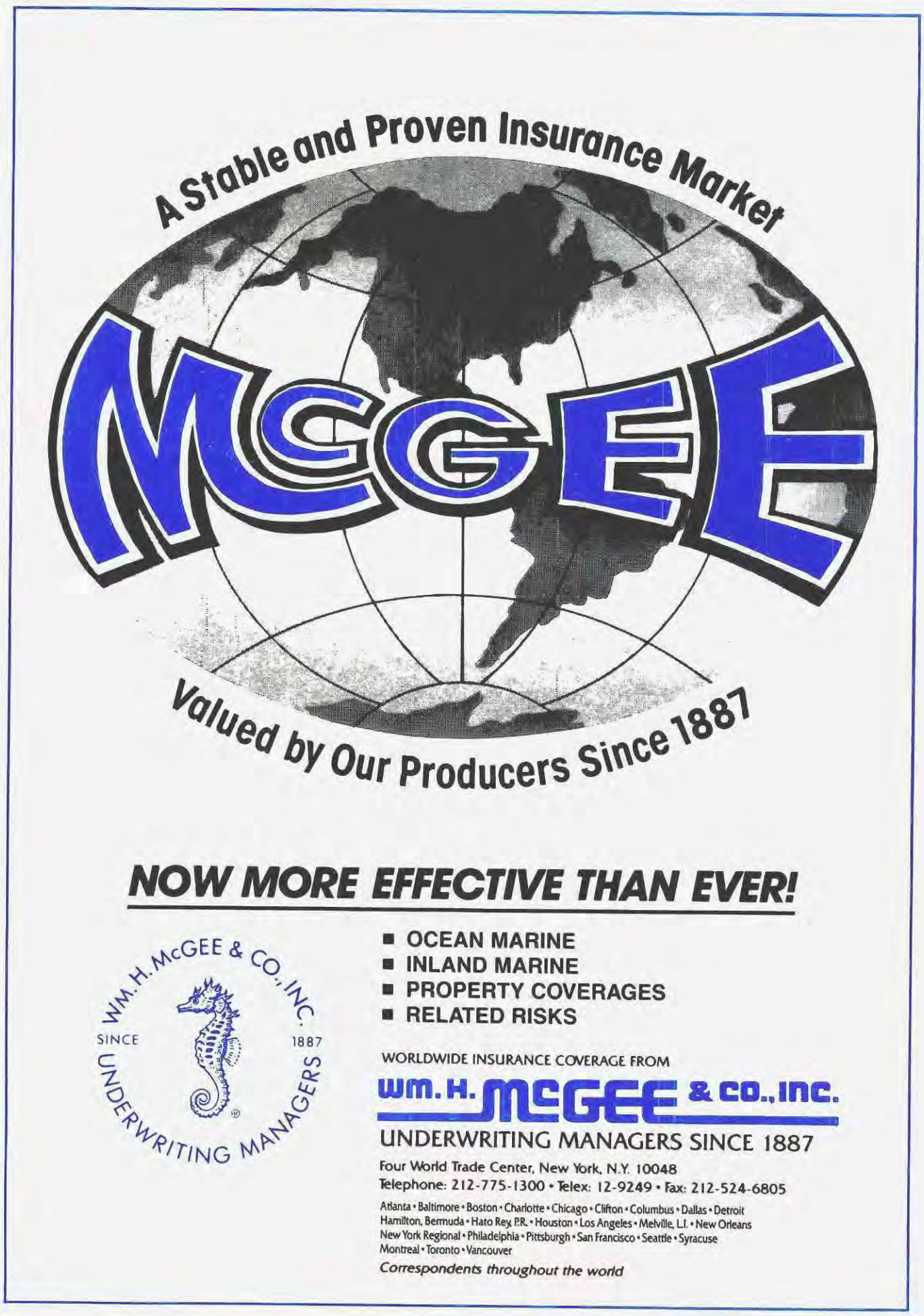
But, "the No. 1 accomplishment," he says, "was gaining the respect of others at Disney. You can't do your job without that, and our structure makes that all the more important."

At least one accomplishment has eluded Mr. Wilder.

Extensive demands on his time have kept him from starting conversational French classes. As a result, his French is limited to what he has picked up in 10 trips to France in the last three years.

"I can probably get something for dinner," he allows.

"I have Berlitz tapes in my car, but you have to read the book at the same time and that was difficult—even in L.A. traffic." ■



Disney's 'An American far from Paris'

Project monitored by fax and phone

By KATHRYN J. McINTYRE

BURBANK, Calif.—How does a U.S. risk manager develop an effective risk management program for a multibillion-dollar construction project 5,700 miles away from corporate headquarters in a nation with vastly different insurance laws and practices?

Stephen M. Wilder, director of corporate risk management at The Walt Disney Co., very carefully—but quickly—organized an owner-controlled insurance program for the huge Euro Disneyland project soon after he joined Disney in May 1987.

It took a lot of effort to meld U.S. and French approaches to make the program work—from debating the need for different coverages to negotiating the policies.

Now, Mr. Wilder looks at the wrap-up program covering the construction that began Aug. 1, 1988, and says: "The result of compromise and learning is a program that is far superior to what an American company or a French company would have done in isolation."

Mr. Wilder gives a lot of credit for the successful program to the brokers involved in the early stages and to technology —namely fax machines and telephones.

And although the administration of the wrap-up for Euro Disneyland requires about 20% of Mr. Wilder's time, he says that "it's fascinating to watch and participate in the building of a park."

Owned 49% by Disney, 50.5% by shareholders outside the United States and 0.5% by investor banks, Euro Disneyland will entail a nearly 30-year construction project about 20 miles east of Paris.

Phase 1A of Euro Disneyland, scheduled to open in 1992, will include a Magic Kingdom theme park with five theme lands like the Disney theme parks in California and Florida, a 500-room four-star Magic Kingdom Hotel and a 595-site campground. Phase 1A is projected to cost 14.9 billion French francs ($2.6 billion).

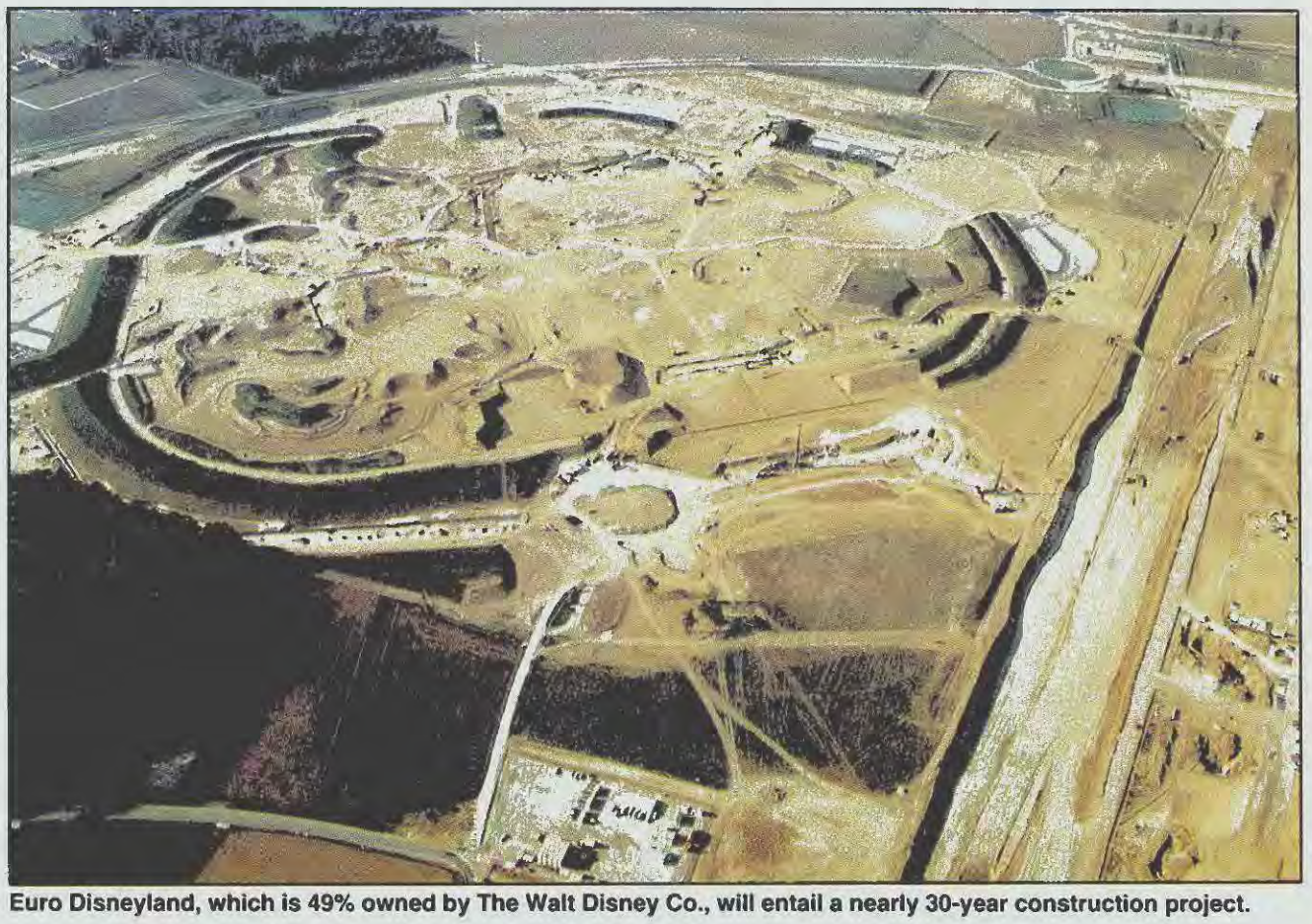
Phase 1B, a substantial portion of which is scheduled to be finished by 1992, will include five hotels with a total of 4,700 rooms, a retail and entertainment center and an 18-hole golf course, at an estimated cost of 5 billion French francs ($885 million).

As the manager of the construction project, Disney—and Mr. Wilder—became responsible for the insurance issues.

Mr. Wilder had already selected an insurance broker for a wrap-up covering a larger construction project at Walt Disney World in Florida, but the Euro Disneyland construction project presented very different challenges.

"They are completely different," Mr. Wilder says of the two wrap-ups, because the laws in France and the United States are so different.

France requires contractors to purchase decennial liability insurance, which doesn't exist in the United States, while contractors in the United States must buy workers compensation coverage, which doesn't exist in France.



Euro Disneyland, which is 49% owned by The Walt Disney Co., will entail a nearly 30-year construction project.

©Disney

Under mandatory decennial liability insurance, a French contractor must buy insurance to cover defects in its work that result in damage to the building effective for a period of 10 years beginning when the building is handed over to the owner.

In addition, the owner must buy a 10-year policy called a dommage a l'ouvrage to cover its interests in the building. If damage to the building occurs due to building defects, the underwriter of the dommage a l'ouvrage pays the loss and then immediately subrogates against the contractor and its decennial liability insurer.

However, France's social security system compensates all injuries and disabilities, whether work-related or not, eliminating the need for workers compensation insurance.

In a U.S. construction project, about 80% of insurance costs are for workers compensation, Mr. Wilder points out, while any defects in a building are covered either by the owner's property insurance policy or the builder's errors and omissions insurance.

When Mr. Wilder joined Disney in May 1987, design work for Euro Disneyland already was under way.

While Euro Disneyland needed decennial liability insurance before construction could begin, Mr. Wilder knew he wanted to do more than select a broker to buy decennial liability insurance. He wanted a broker that could, if it was appropriate, orchestrate an owner-controlled insurance program.

His method for selecting Euro Disneyland's broker was detailed and methodical (see related story).

Societe Generale de Courtage d'Assurances S.A., which is 49% owned by Alexander & Alexander Services Inc., was selected in August 1987 as the French broker for Euro Disneyland. A&A in the United States assists SGCA and Mr. Wilder.

What followed "was a painful six months" of work to develop the insurance program for Euro Disneyland, Mr. Wilder says. "We had very strong feelings about what we wanted and they had strong feelings about the way things are," he says of SGCA.

Continued on next page

Disney, French brokers play 16 questions

By KATHRYN J. McINTYRE

BURBANK, Calif.—Stephen M. Wilder knew what he wanted in Euro Disneyland's insurance broker.

The tough part was selecting the best broker.

As director of corporate risk management for The Walt Disney Co., Mr. Wilder also is the first risk manager of Euro Disneyland, which is managed and 49% owned by Disney.

To select a French broker for Euro Disneyland, Mr. Wilder sent a list of 16 questions in July 1987 to seven French insurance brokers that had ties with major U.S. brokers.

Although Disney wanted a French broker for the French construction project, Mr. Wilder also wanted a U.S. broker involved "because I'm here," he explains.

The questions for the brokers were developed by Mr. Wilder and the general counsel of Lehrer McGovern Bovis Inc. of New York, the theme park's construction manager.

"He was very familiar with construction risks," Mr. Wilder noted.

The questions covered such topics as:

- The French broker's ownership, experience in placing insurance for engineering and construction risks, and experience representing U.S. companies with projects in France.
- Technical questions about mandatory decennial liability insurance (see related story) including combining the two required policies into one policy known as a Police Unique de Chantier, or PUC for short.
- The volume of business the broker places with various French insurers as well as the broker's access to other world markets.
- Whether a wrap-up insurance program would be available in France and whether it would be more economical than requiring each contractor to provide its own insurance.
- If a wrap-up was not adopted, what coverage would the contractors and vendors be expected to purchase and what coverage would the owners and owners' agents need?

But the most important question asked, according to Mr. Wilder, was: What role would Disney play in the day-to-day administration of the insurance program?

"It was the most difficult for them to answer, because they didn't know Disney," Mr. Wilder comments. But, "we made ourselves available to answer any questions," he adds.

Following review of the written responses to Disney's questions, Disney asked for a two-hour meeting in France with each of the French brokers and their U.S. partners.

While most of the French brokers spoke English and the interviews were conducted in English, Disney hired D. Hugh Rosenbaum, a principal with risk management consultant Tillinghast, who speaks fluent French, to act as a consultant.

Mr. Wilder, Mr. Rosenbaum and the construction manager's general counsel interviewed each of the brokers in the brokers' offices, using a three-page agenda of issues to be covered and to rate the brokers' responses.

The agenda covered four broad issues: overall impressions, relevant experience, service capabilities and basic requirements.

An "understanding of Disney's role" fell under overall impressions, as did the effectiveness of the written and oral presentations, an understanding of Euro Disneyland's exposures and the broker's creativity.

Relevant experience explored included experience with construction insurance, projects the size of Euro Disneyland and non-insurance services needed for the project; knowledge of key French and international insurance markets; and references.

Service capabilities included account handling, engineering and technical expertise, claims management, explanation of French coverages, and involvement of an American correspondent broker.

Among Disney's basic requirements for a broker were a willingness to work on a fee basis and under a broker service agreement that specified tasks and expected results; to introduce Euro Disneyland to underwriters and arrange long-term relationships; to report quarterly; and to negotiate profit-sharing or retrospectively rated insurance programs.

Societe Generale de Courtage d'Assurances S.A., which is 49% owned by New York-based Alexander & Alexander Services Inc., was selected in August 1987 as the French broker for Euro Disneyland.

"I came back with two different recommendations. One was to select SGCA/A&A and the other was that there were three (brokers) that were very close and we might want to look further," Mr. Wilder says.

"After evaluating why SGCA/A&A was superior, we decided further consideration would just drag it out for the same result.

"I don't think SGCA is or was the only broker that could handle our account," says Mr. Wilder. "There are two or three others that would have let Disney have the role that we wanted and would have given the advice we needed. It's a shame we could only appoint one. I thought of splitting it, but we couldn't. It's difficult enough to work with one broker so far away."

The answers from the brokers about Disney's role in the management of the insurance program were "very different" depending on the broker, with SGCA coming up with what Disney wanted to hear "after a lot of research," Mr. Wilder says.

"Disney wanted to hear that we would be an integral part of the whole process: initial market contact, marketing strategy, program design, financing design, engineering, claims handling and actuarial work," Mr. Wilder explains.

"We didn't want someone to tell us to leave it to them and they'd take care of it because the way we do business—the Disney name—is important to us. We felt we were the only ones that could adequately explain that to the insurance market."

And, Mr. Wilder notes, "SGCA was differentiated by A&A's role, which is to help SGCA understand the American perspective and to assist me here in bringing things together."

Euro Disneyland

Continued from previous page

For example, SGCA and Disney could not agree initially on completed operations insurance, which Disney wanted but SGCA was not convinced was appropriate.

SGCA maintained that in France there was no need for completed operations coverage because any liability loss incurred after the park opened would be covered by the general liability policy covering the park's operations.

Mr. Wilder, however, wanted to buy completed operations coverage for Disney as the owner/contractor as part of the wrap-up to keep claims related to construction under the construction insurance program and out of the operations insurance program.

"In my mind, it's cleaner to have construction risks in the construction policy—and to pay the premium in the construction coverage," he explains.

SGCA's approach could have allocated construction liability costs to the operations insurance.

However, Euro Disneyland's liability insurance for operations may have higher deductibles than that for construction activities, Mr. Wilder adds, noting that Euro Disneyland's general liability deductible is very low by American standards.

Predictability of loss experience once the park is operating may make higher retentions more attractive, he explains.

Ultimately, Disney convinced SGCA that completed operations insurance should be purchased.

The definition of coverage needed for the project had begun in September 1987 at meetings in London. By November, the specifications for purchasing a policy combining the decennial liability and the dommage a l'ouvrage—called Police Unique de Chantier, or PUC for short—were finished.

Months of marketing and negotiations then ensued.

Mr. Wilder wanted to be equally fair to French, other European and U.S. insurers in selecting Euro Disneyland's insurers.

Mr. Wilder and representatives of A&A and SGCA met in New York and Los Angeles with U.S. insurers, including CIGNA Corp., American International Group Inc., Continental Corp. and Allendale Mutual Insurance Co.

"We explained decennial liability, the Euro Disneyland project and the capacity needed," Mr. Wilder recalls.

He wasn't at all surprised that "U.S. insurers had a hard time with decennial liability—it doesn't have a limit, it's a 10-year policy that doesn't take effect until the owner accepts the work, which in this case will be 1992, and it covers the replacement cost of all buildings."

In order to write the coverage, underwriters have to consider the values of the buildings and make assumptions about inflation, he points out.

In London, Disney used A&A subsidiary Alexander Howden Group Ltd. to meet with underwriters from Lloyd's of London, Commercial Union Assurance P.L.C. and Royal Insurance P.L.C.

In France, Disney met with underwriters from UAP International, AGF and GAN. "It became evident that the French market was the only place to get an important amount of capacity for the decennial coverage," Mr. Wilder recalls, because the French underwriters were the only ones who had underwritten it.

But while the French underwriters understood decennial liability insurance, "they couldn't envision a theme park," Mr. Wilder says.

When it appeared that UAP would be the lead underwriter of the decennial liability insurance, Disney brought two UAP representatives, two SGCA representatives and an A&A representative to spend three days with Mr. Wilder at Walt Disney World in Florida in Lake Buena Vista, Fla., and two days at Disneyland in Anaheim, Calif.

They met with Walt Disney Imagineering staff—the creative force behind Disney theme parks—for a presentation on Euro Disneyland. They reviewed the construction, building by building, including the type of construction and the expected values.

Since under French law a building is where one person can come in out of the rain, almost all the structures at Euro Disneyland would have to be covered by the PUC.

The group also met with claims and loss control personnel—since UAP was interested in underwriting the liability and construction all-risk insurance—and even took a ride on "Pirates of the Caribbean," a boat tour though a building where a pirate battle is recreated.

Disney's goal was to "impress on them the importance of excellence at Disney," Mr. Wilder says.

UAP representatives "were very interested in safety, our sprinklers and how the exit doorways were visible but didn't distract from the attractions," Mr. Wilder recalls.

"That was an important week," Mr. Wilder says. "We explained our expectations on how much we wanted to pay—which was not very much for the decennial liability—and they explained what the law was.

"Working together, we minimized the premium and maximized the protection," Mr. Wilder says, declining to go into any more details.

"It's a long-term arrangement and the price is supposed to reflect the risk accurately," Mr. Wilder says, adding "I don't think it's cheap. I didn't want to pay anything for it."

While the law "makes a lot of sense for an average construction project and serves very well to protect the owner against faulty construction, for a project the size of Euro Disney I think the insurance should be optional as is all other insurance. The owner—Euro Disney—could always require contractors contractually to provide decennial liability," he says.

Furthermore, the premium tax on the PUC covering buildings is 34.5% of the premium, while the tax on the PUC covering civil works—roads and bridges—is 9%.

But, Mr. Wilder adds, "I feel comfortable with it now that I understand it better."

UAP also writes general liability insurance for Euro Disneyland on a coinsurance basis with others, including Groupe AXA, La Concorde S.A., Royal, GAN and AGF.

Both the PUC—the most expensive part of Euro Disneyland's insurance program—and the general liability coverage became effective July 10, 1988, a date Mr. Wilder knew he would remember because it's also his wedding anniversary.

While UAP also wanted to write construction all-risk insurance for Euro Disneyland, it was not interested in writing advanced profits insurance, which would cover Disney if a loss delayed the opening of Euro Disneyland.

Factory Mutual International, in conjunction with Allendale—a 42-year insurer of Disney property—also was interested in underwriting the construction all-risk coverage along with advanced profits insurance. And Disney wanted the Factory Mutual System involved for its capacity and its engineering services.

FMI, in conjunction with Allendale, was awarded the construction all-risk insurance contract, with UAP writing 20% of only the construction all-risk coverage on a coinsurance basis.

FMI wrote the advanced profits coverage at an acceptable price with adequate capacity as part of the blanket construction all-risk insurance program for Euro Disneyland with no sublimit for advanced profits, Mr. Wilder says.

Advanced profits insurance covers Euro Disneyland's projected profits in the event a loss delays its opening, as well as other costs commonly insured under a business interruption policy, like interest expenses, key employee salaries and advertising and promotion cost.

The Euro Disneyland prospectus projects net profits in 1992 of 204 million French francs ($36.1 million) and in 1993 of 360 million French francs ($63.7 million).

The policy, which is being reinsured with Allendale, is for five years and is non-cancelable except for non-payment of premium.

"That shows long-term relationships really mean something," Mr. Wilder says.

American International Underwriters, an AIG unit, underwrites a foreign workers compensation program to cover U.S. citizens working on the project.

Overall, the cost of the owner-controlled insurance program for Phase 1A of Euro Disneyland is less than half of what experts had predicted with coverage far greater than the experts had expected, Mr. Wilder said. He declined to be more specific "due to the uniqueness of the program."

A wrap-up was the right program for Euro Disneyland for two primary reasons, Mr. Wilder says.

One, French contractors typically buy only 10 million French francs ($1.8 million) of decennial liability insurance and the higher values of buildings at Euro Disneyland would have required the contractors to buy increased limits.

Two, Disney wanted the flexibility to explore hiring contractors from outside France who would not have easy access to the mandated decennial insurance.

The wrap-up "provided for everybody," Mr. Wilder explains.

After 21 months of construction, there's been only one construction claim against the wrap-up: water damage to pipes during a heavy rain in 1989. The loss is smaller than the construction all-risk deductible for the wrap-up, which is 583,000 French francs ($103,191).

The wrap-up provides some aggregate deductible protection for construction all-risk losses "that we hope we never reach," says Mr. Wilder. He is still studying whether to buy an aggregate protection on the liability deductible, which is less than the construction all-risk deductible.

Under the wrap-up, Euro Disneyland also requires each contractor to assume the first 50,000 French francs ($8,850) of any construction all-risk or general liability loss.

"We didn't want to be involved in every nuisance claim," Mr. Wilder explained.

The Euro Disneyland risk management program was audited in March 1989 at the request of banks financing the project.

One of the lead banks hired broker Gras Savoye S.A., whose proposal to handle the program had not been chosen.

"It was a very long process," Mr. Wilder recalls, beginning with three days of discussion on what was going to be audited.

During the audit, which lasted a couple of months, every decision in the design of the program was reviewed.

"It was the first audit like that I'd ever been through," Mr. Wilder said.

While the process was somewhat grueling, "They were very fair, very professional, and they gave some suggestions we incorporated into our program," Mr. Wilder said.

And in the end, Gras Savoye advised the bank that the program was acceptable and adequately protected both Euro Disneyland and the banks financing the project.

The original coverage package was for Phase 1A only, but after negotiations with the insurers, coverage for Phase 1B was finalized in June 1989 with the same insurers.

Mr. Wilder expects that Euro Disneyland will hire its own risk manager in early 1991, who will spend time at Walt Disney World with the claims and safety departments and with Mr. Wilder in Burbank working on insurance renewals. Euro Disneyland's risk manager will report to the treasurer of Euro Disneyland in France —"with a dotted line" to Mr. Wilder.

"Once there is a risk manager there, I will become more of a consultant—a resource. I'll stay involved to a point and assist in major renewals. That person will be a risk management professional who can run the program on his own," Mr. Wilder says.

Currently, Mr. Wilder has a two-person team on-site at Euro Disneyland: Construction Insurance Coordinator Michel Banaszak and his assistant, Sylvie Fervari.

Already, SGCA representatives and Mr. Banaszak have spent a week at Walt Disney World to understand Disney's approach to risk management—including safety and claims adjusting—so they can help set up the claims handling system for Euro Disneyland when it opens.

"They even adjusted some claims that occurred at the French pavilion at EPCOT," Mr. Wilder noted.

There will be some unique challenges in handling claims at Euro Disneyland, Mr. Wilder says, because its guests will be from so many different countries in Europe.

"I don't know what will happen when an Italian citizen gets hurt in France and hires a U.K. lawyer," he says.

Dealing with injured guests speaking different languages also will be a challenge, Mr. Wilder says.

"We're leaning toward hiring an insurer or third-party administrator and training them at Disney World" in handling liability claims, he says. A Euro Disneyland claim coordinator would oversee the claims handling in this case.

There's plenty of work still to do on the Euro Disneyland program.

By September, the coverage needed for operating Euro Disneyland has to be defined. By Oct. 1, the specifications for bidding the liability insurance will be prepared and by May 1991 the property and ancillary coverage will be marketed.

Quotes on the general liability insurance will be due Jan. 31, 1991, and on the property insurance by Sept. 31, 1991. Insurance company selection will be completed for general liability insurance by February 1991 and for property insurance by November 1991.

Additionally, the risk management procedure manual and claims handling procedure manual will be completed by Oct. 31, 1991.

And, plans already have been announced for a second phase of construction at Euro Disneyland to include a Studio Tour Theme Park, similar to the Disney-MGM Studios Theme Park at Walt Disney World in Florida. ■

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At the Euro Disneyland construction site: Euro Disneyland Treasurer Gerard Degonse, left, Construction Insurance Coordinator Michel Banaszak, right, and Sylvie Fervari, Mr. Banaszak's assistant, center.

Disney insists on sprinklers in hotels

PARIS—Euro Disneyland's first six hotels are being equipped with sprinklers as are Disney's hotels in the United States, even though French law does not require sprinklers and loss experience in French hotels has been very good.

"It's prudent to sprinkler hotels to protect guests and employees," contends Stephen M. Wilder, director of corporate risk management at The Walt Disney Co., which is the manager and part owner of Euro Disneyland.

Whether to install sprinklers in the hotels became an issue because the French do not and Euro Disneyland is a French company.

"But we're Disney," Mr. Wilder says—and Disney installs sprinklers in hotels.

"Disney attempts to build to Factory Mutual highly protected risk standards," Mr. Wilder says, "to protect employees, guests and the Disney name.

"We cannot afford to have a loss. If we do, we have to do everything we can to minimize it. Building an HPR facility certainly minimizes the effect of any losses," he says.

In advocating sprinklers for Euro Disneyland hotels, he admits the sprinklers could not be justified economically based on insurance savings. The investment would cost millions of dollars to save about $169,000 a year on insurance premiums—not counting losses within the deductible.

Instead, Mr. Wilder raised the issue of protecting guests, employees and the Disney name.

The French say sprinklers are not necessary because their hotels are built with superior construction, building materials and compartmentalization, and are equipped with smoke alarms that would quickly summon firefighters, Mr. Wilder explains.

However, Mr. Wilder, Factory Mutual System engineers and representatives of Euro Disneyland's brokers presented a persuasive film on fires to Euro Disneyland department heads from real estate, finance, legal and safety and engineering.

The film, produced for another FM policyholder grappling with whether to install sprinklers in offices, depicted how quickly an office with little combustible material can be engulfed in flames.

The group also discussed potential delays in firefighters arriving at a hotel and finding the location of the fire.

Euro Disneyland management was convinced and the sprinklers were approved.

Don Audet, senior regional engineer with Factory Mutual in Orange, Calif., has been heavily involved in Euro Disneyland.

Mr. Audet, who "has worked with Disney for so long he is like an extension of our company," was the fire prevention consultant for all of Walt Disney World, Mr. Wilder points out.

In the United States, "our engineers throughout the company have come to know and trust the Factory Mutual loss control consultants," Mr. Wilder notes. "The Disney Imagineering engineers constantly call Don for advice," Mr. Wilder says, referring to the Disney unit that is the creative force behind its theme parks.

Disney has never had a business interruption loss and its property losses "have been much less due to the fact that they are HPR facilities than they would have been if not," Mr Wilder says.

—By Kathryn J. McIntyre

Wilder travels from bottom to top

Career started in mail room

By KATHRYN J. McINTYRE

BURBANK, Calif.—Stephen M. Wilder's path to risk management began in the mail room of an insurance brokerage 15 years ago.

During the summers of 1975 and 1976, while a student at the University of Pennsylvania, Mr. Wilder worked at Frenkel & Co. in New York, the first summer in the mail room and the second as a clerk.

With only a few specialized courses needed to earn a bachelor's degree in economics from the Wharton School of Finance and Commerce, Mr. Wilder went to Santa Monica for the summer of 1977 to take the classes at the University of California at Los Angeles and the University of Southern California.

"I had all intentions of going back to New York to work for Frenkel," Mr. Wilder recollects.

A Manhattan native, Mr. Wilder liked California and met an executive recruiter who placed him with Marsh & McLennan Inc. in Los Angeles in September 1977 as a unit manager trainee.

"I learned a lot" working for two account executives, Robert Lambertson and Richard Shipman, Mr. Wilder recalls. He worked on programs for several large corporations.

But after almost two years with M&M, Mr. Wilder decided that it looked like a "long, tedious path to get ahead at M&M." In May 1979, he joined a smaller insurance broker, Broox Randall Insurance in Hollywood, handling small commercial lines accounts.

Mr. Lambertson, however, was still looking out for Mr. Wilder and soon told him of an opening for a risk manager at Whittaker Corp. in Los Angeles.

With only 2½ years of experience, "I didn't feel comfortable" applying for the risk manager's job, Mr. Wilder said.

But when Mr. Lambertson shortly called again to say Whittaker now needed an assistant risk manager, Mr. Wilder decided to interview.

Six months after he joined Whittaker in April 1980, the company's risk manager left.

Whittaker's chief financial officer told Mr. Wilder in November 1980 that he would be the new risk manager—even though Mr. Wilder admits he didn't have the experience at that point for the job.

Mr. Wilder remembers: "He said, 'There are a lot of really bright people inside and outside the company' available to help with the risk management program. His advice was, 'learn from them and rely on them and you'll do well.' "

Whittaker at the time was a diversified manufacturer with operations in chemicals, technology, metal, marine and health services.

As risk manager of Whittaker, Mr. Wilder was responsible for its worldwide risk management program, including employee benefits starting in 1986.

He introduced a formal loss forecasting system, implemented a loss-sensitive system to allocate premium charges to more than 50 operating divisions and arranged broader insurance at lower cost—until the liability insurance crisis of 1984.

Also, in 1984, Mr. Wilder completed a nine-month executive management program at UCLA to further his understanding of finance and management and advance the reputation of risk management within the executive ranks. The same year, he earned the Associate in Risk Management designation from the Insurance Institute of America.

After annual revenues peaked at $1.6 billion in 1985, Whittaker began downsizing. "The challenges were decreasing," Mr. Wilder says.

As a result, Mr. Wilder was receptive to a headhunter's telephone call in the fall of 1986.

After a four-hour meeting, the headhunter—from Heidrick & Struggles Inc.—"knew everything about me and I still didn't know which company it was" looking for a risk manager, Mr. Wilder says.

Finally, in late 1986, Mr. Wilder started interviewing for the position of risk manager with executives at The Walt Disney Co. He was interviewed by a half-dozen people over five to six months, including the chief financial officer, the treasurer, two assistant treasurers, the director of accounting and the vp/counsel.

Mr. Wilder was hooked. "Not only was Disney a super company, but the management structure was easy to work with," he says.

Indeed, Mr. Wilder found at Disney that "my boss pretty much let me do what I thought was right. He was an adviser and a supporter."

That relationship was conducted at long distance, since then-Vp and Treasurer John H. Forsgren soon moved to France to manage the financing of Euro Disneyland.

"Steve has shown an excellent ability as an analytical decision-maker and leader while independently operating his department," Mr. Forsgren said in a letter nominating Mr. Wilder for the Risk Manager of the Year Award.

Mr. Wilder now reports to Richard Nanula, who was recently appointed vp and treasurer following Mr. Forsgren's appointment as senior vp and chief financial officer of Euro Disneyland.

Noting that Mr. Wilder is not only "honest, conscientious and very hard working," Mr. Nanula says he has found in Mr. Wilder what he looks for in all people who work for him: "a truth seeker."

"To all problems there are easy solutions and tough solutions and convenient solutions. But the question is really: What is the right answer for the company? That can be tough for us personally," Mr. Nanula says.

"I look for truth seekers and Steve shares that underlying philosophy. He's always willing to learn and looking for another point of view. That's why we get along very well," he says.

Besides his duties at Disney, Mr. Wilder has become an active speaker and participant in Risk & Insurance Management Society Inc. events.

His speaking engagements have included describing the Euro Disneyland owner-controlled insurance program at the AEAI/RIMS 1989 Risk Management Forum in Monte Carlo; co-chairing the entertainment industry session during the 1989 RIMS conference in Atlanta; discussing how loss control fits with risk management as a keynote dinner speaker to the American Society of Safety Engineers in 1989; and how to audit insurance costs and coverages at an American Management Assn. seminar in 1989 and again this year.

Mr. Wilder will moderate a session on "1992 and All That," dealing with changes in the European Community, during this week's RIMS conference in Boston.

Since 1987, Mr. Wilder has served on the board of directors of the RIMS chapter in Los Angeles. He is secretary this year, after serving in 1989 as program co-chairman and in 1988 as membership chairman.

In addition, since 1987, Mr. Wilder has been a member of the Studio Insurance Committee, a group of risk managers from major film production studios that meets quarterly.

Mr. Wilder regularly works almost an 11-hour day, arriving at work by 7:15 a.m. after a 35- to 45-minute drive from West Hills, Calif.

He has to arrive that early to talk to people in France involved with Euro Disneyland, where it is already 4:15 p.m. "I get frustrated when I don't know what a French answering machine is saying," he notes. "But the beep is universal."

The early part of the morning is devoted to Euro Disneyland. Later in the morning, Mr. Wilder is on the phone to Richard Livermore, manager of construction insurance administration with Sedgwick James of Florida Inc. who works full-time on the wrap-up insurance program at Walt Disney World.

The rest of the morning is devoted to dealing with staff and local insurance brokers.

"By 12 p.m., I'm kind of burned out," Mr. Wilder admits. After lunch in a restaurant with friends or sandwiches in the conference room with his staff, he spends the afternoon on paperwork, reading and meetings.

When he leaves the office about 6 p.m., however, it's often to attend a business function, including RIMS activities.

"I really do like to work," Mr. Wilder says with enthusiasm. "I take what I do really seriously and I do it as well as I can."

But he doesn't often take work home on weekends, except to read or make time for a major project.

Rather, he plants flowers with his wife, Olivia, plays tennis, reads Robert Ludlum novels and romps with his dog, a pit bull named Willie.

"I bring him to all our insurance renewals. He's very effective," Mr. Wilder jokes.

Mr. Wilder also is a "big movie fan," catching most of the Disney studio screenings and fitting in another movie about every 10 days.

Mr. Wilder, who turns 35 on Saturday, admits that it is "really tough" to answer the question, "What's next for you in your career?"

"It's the first time in my career I don't know the answer," he says. "I knew at Whittaker I wanted to be risk manager within five years. When I applied at Disney, I said long-term I thought risk management was a growing field and over the next five to 10 years it will become more financial management, so I thought there would be room for growth in the finance area of a company."

Now, he says he still thinks that is true, but adds, "I've got the best risk management job in the world in terms of growth and freedom."

Disney's growth—including expansion in film making, consumer products, restaurants and construction of new theme parks and other recreational facilities—keeps him constantly challenged, Mr. Wilder says.

Taking his cue from the Disney commercials that ask questions like: "Now that you're MVP of the Super Bowl, what are you going to do?," Mr. Wilder says with a chuckle: "I'm going to Disneyland." ■

Mary Herlehy

Mr. Wilder reports to Richard Nanula, Disney's vp and treasurer.

Wilder demands the best from brokers

By KATHRYN J. McINTYRE

BURBANK, Calif.—Stephen M. Wilder uses special techniques to make sure he gets the best insurance brokerage service for The Walt Disney Co.

He requires brokers pitching for Disney's business to move almost as quickly as Roger Rabbit to meet his deadlines. And, he looks for the best brokerage—and the best individual in that brokerage—to handle Disney's account.

"We look at it on an area-by-area basis," Mr. Wilder explains of selecting the broker he considers best for a particular task.

"What makes brokers unique is the individuals at the brokers you work with," Mr. Wilder says. "The four responsible people for Disney are all very different, but each is the best person I could think of to work with on that part of our business."

When looking for a broker for the owner-controlled insurance program at Walt Disney World near Orlando, Fla., Mr. Wilder held brokers to a rigid schedule: They were to reply by June 16, 1987, to a request for a proposal sent out on June 4 and presentations were to be made in Florida June 18.

The schedule for brokers on the Euro Disneyland project was almost as tough: The first letter requesting proposals from French brokers was sent June 25, 1987, requesting detailed written responses prior to meetings in Paris on July 28.

"A couple brokers complained that we asked for too much in too short a period of time," he recalled of the Euro Disneyland broker selection. "Our reaction was we were giving everyone an equal shot and we wanted a broker that would go above and beyond what is normally required. That's one of the reasons we put such a stringent time frame on the process. It was a conscious decision."

In France, "we needed to move quickly, but we could have taken three months" to select the construction broker, he explains.

But in Florida, having decided to adopt an owner-controlled insurance program after construction already had begun forced Disney to move as quickly as possible "because we felt the longer we continued with the contractor-provider program, the longer it would take for the benefits associated with a wrap-up to inure to Disney," he says.

Fred S. James & Co. Inc.—now Sedgwick James Ltd.—was chosen in July 1987 to handle the wrap-up insurance program for the $1 billion construction project at Walt Disney World. In addition to its offices in Florida, Sedgwick James offices in Dallas, Atlanta, Los Angeles, New York and New Jersey have worked on the program, as has Sedgwick James affiliate Price Forbes Ltd. in London.

William F. Fairbanks, vp of Sedgwick James of California Inc., is the account director for the wrap-up. "He's unique for his ability to ask piercing, relevant questions in an extremely complicated project," Mr. Wilder says.

Societe Generale de Courtage d'Assurances S.A. in suburban Paris was chosen in August 1987 to handle the wrap-up insurance program for the first phase of construction at Euro Disneyland, which is being built near Paris for an estimated 20 billion French francs ($3.5 billion). Alexander & Alexander Services Inc., which holds a 49% interest in SGCA, is the liaison broker/consultant on the program.

Olivier Muraire, a director of SGCA, is "obviously very knowledgeable in French insurance but he also has become very knowledgeable in American risk management and has been instrumental in merging the two," Mr. Wilder says.

Ellsworth J. Royer, senior vp of Alexander & Alexander of California, coordinates the efforts of SGCA with A&A and A&A's efforts with Disney on the Euro Disneyland project. "He's had a very difficult role," Mr. Wilder says, noting that Mr. Royer succeeded Doug Fay, who moved to New York in October 1988 to become vp and international regional manager of A&A.

"E.J.'s real expertise is not international, but it is property, which in retrospect is what we needed because Euro Disney is a property--driven risk," Mr. Wilder says. "And it's not placed like an international program—it's a locally placed French program."

When Mr. Wilder arrived at Disney three years ago, Bayly Martin & Fay International Inc. was Disney's major broker. Since acquiring BMF last year, Rollins Burdick Hunter Co., an Aon Corp. subsidiary, took over the business. RBH currently handles Disney's liability, entertainment and executive protection insurance.

Michael B. McAllister, executive vp of Rollins Burdick Hunter of Southern California Inc. and director of RBH's entertainment department, oversees RBH's work for Disney. "He's the best entertainment broker based on knowledge and respect in the marketplace," Mr. Wilder says.

Most recently, RBH has been appointed to handle insurance for Disney's foreign operations, excluding Euro Disneyland, through its correspondents. RBH's Los Angeles office receives support on the Disney account from the Chicago and New York offices.

Disney also uses its captive insurance agency, Vista Insurance Services Inc. of Lake Buena Vista, Fla.

"Vista gives us tremendous flexibility to do things ourselves, like some things that just don't fit in the corporate deductible," Mr. Wilder explains. For example, Vista handles aircraft insurance for Disney-owned aircraft, insurance on a shopping center and coverage for Disney's own telephone company, which is a joint venture with United Telephone Co. of Florida. Vista also issues bonds for Disney, underwritten by Federal Insurance Co., a Chubb Corp. unit.

Other brokers handle other portions of Disney's insurance needs. Atlantic Security Ltd. is Disney's Bermuda-based broker for policies placed with X.L. Insurance Co. Ltd. and A.C.E. Insurance Co. Ltd. in Bermuda.

E.G. Bowman Co. of New York handles Disney's travel accident insurance; U.K./U.S.A. Insurance Services of Rancho Mirage, Calif., places cargo insurance; and Marsh & McLennan Inc. handles executives' personal umbrella insurance.

Not all of Disney's insurance is placed through brokers. For 42 years it has dealt directly with Allendale Mutual Insurance Co., property insurer for Disney's ongoing operations.

Allendale, however, works with Sedgwick James on the Florida construction wrap-up program and with SGCA through Factory Mutual International on the Euro Disneyland wrap-up program. Since FMI reinsures the risk with Allendale, A&A is involved. ■

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Wilder touts construction wrap-ups

Disney prefers to control insurance for its large construction projects

By KATHRYN J. McINTYRE

BURBANK, Calif.—Stephen M. Wilder believes in owner-controlled insurance programs for large construction projects.

The advantages of a so-called wrap-up outweigh the disadvantages, says the director of corporate risk management for The Walt Disney Co.

Under a wrap-up, the owner of a construction project purchases workers compensation, general liability and builders risk insurance on behalf of all contractors. In turn, the contractors deduct the cost of insurance from their bids.

Generally, construction costs, excluding design, should exceed $100 million or the administrative costs of a wrap-up can outweigh the expected benefits.

The advantages of a wrap-up include:

- Buying coverage broader than the individual contractors would buy.
- Protecting the company's operational insurance program, which is subject to deductibles and loss rating, from a construction-related loss that falls outside contractors' coverage.
- Centralized claims handling, giving the owner input into the claim adjustment process.
- Consistent loss control, providing an opportunity to reduce losses.
- Enabling small, speciality contractors to compete on a level field since insurance costs are not included in bids.
- Insurance cost savings and cash-flow benefits.

"Brokerage experts will tell you that insurance under a wrap-up for a construction project will cost 3% to 5% of the construction value and 6% to 10% under a contractor-provided program," Mr. Wilder says.

He admits, however, that there are disadvantages to a wrap-up:

- Because they usually are retrospectively rated, an owner can't close the books on a construction project when it is turned over. Retrospective adjustments continue for years until the insurer and policyholder agree to close out the contract.

"We just got a check last year from EPCOT and that was finished in 1983," Mr. Wilder notes, referring to EPCOT Center at Walt Disney World in Florida.

- The owner of the project never really knows if the contractors are taking the cost of insurance out of their bids as they should.

"I argue that competition should take the price of insurance out of the bid," Mr. Wilder says.

- Because the owner is supplying insurance, a contractor with a poor safety record is treated the same as a contractor with a good safety record.
- Some contractors don't like a wrap-up because it interjects the owner into the contractor's business, including insurance relationships, and creates questions for some contractors about adequacy of coverage.
- A wrap-up is an administrative burden to implement correctly.

Mr. Wilder learned that last disadvantage all too well in 1987 when he implemented a wrap-up for a $1 billion construction project already under way at the 28,000-acre Walt Disney World in Lake Buena Vista, Fla.—a site larger than Manhattan.

At the time, eight of 19 separate projects to be covered under the program were under way, including Typhoon Lagoon, The MGM-Disney Studios Theme Park, Pleasure Island and the Norway pavilion at EPCOT. Hundreds of contractors were already at work.

As one of his first assignments as Disney's new risk manager, Mr. Wilder attended a meeting in Florida in May 1987 to listen to a presentation on a proposed wrap-up.

"Logically, it made complete sense," he said.

And, Disney management told him that wrap-ups on The Magic Kingdom Theme Park and EPCOT—the first attractions at Walt Disney World—had worked well.

The only aspect of the proposed wrap-up that Mr. Wilder did not like was the proposal from the broker that the insurer be paid a fixed percentage of the construction value.

"I didn't know if it was a reasonable percentage, so I said let's talk to five or six other brokers to pick the brains of the brightest people."

Mr. Wilder contacted more than a half-dozen brokers, putting them through a selection process he would use again when choosing a broker for the wrap-up program for the first phase of construction at Euro Disneyland (see story, page 141).

Potential brokers for the Walt Disney World wrap-up were asked to provide detailed answers to 13 questions, which covered wrap-ups, the brokerage's expertise and proposed working relationship with Disney. They also attended meetings with Disney personnel.

Fred S. James & Co. Inc., now Sedgwick James Ltd., was appointed broker in July and a competition among insurers soon was organized.

All interested insurers—about 30—were invited to Walt Disney World for presentations.

Disney devoted an entire morning to explaining what it was building and how, including presentations by Walt Disney Imagineering, the creative force behind the theme parks.

Mr. Wilder and Phil Smith, Walt Disney World's current executive vp of administration, discussed Disney's commitment to safety.

In the afternoon, James handed out underwriting specifications and explained its expertise with wrap-ups.

Finally, the underwriters were taken on an hour-long bus tour of Walt Disney World and the major construction projects.

Disney received numerous quotations, which were narrowed down to four insurers. These were invited back to Walt Disney World to review their more than 20 proposals in detail.

As insurers made their presentations, a James financial analyst performed cash-flow projections on the ultimate cost of the programs.

After separate deliberations, Disney and James agreed that Aetna Casualty & Surety Co. should be chosen to underwrite the wrap-up for workers compensation and general liability.

The workers compensation coverage is written on a paid-loss retrospectively rated basis, while a $500,000 deductible was selected for the $2 million primary liability insurance program that began Nov. 1, 1987.

"We felt they had made a long-term commitment to Disney," Mr. Wilder says of Aetna.

Disney and James considered both domestic and London markets for the excess insurance. London was chosen as the most stable over a long period of time to write $23 million excess of $2 million in liability limits. The program has a five-year rate and form commitment from the underwriters.

Allendale Mutual Insurance Co., Disney's long-time property insurer, was selected to underwrite the property insurance, but only after fair competition with other insurers.

"They were treated like everybody else and not given any favored treatment," Mr. Wilder says.

Construction at Walt Disney World was added as a scheduled location to the all-risk property policy Allendale issues to insure all of Disney's U.S. property.

But not all went as planned. "Admittedly, we didn't expect some of the problems we had," Mr. Wilder says now.

Just telling the contractors and subcontractors about the program was difficult.

Only 20 to 30 of the hundreds of contractors attended a meeting James organized in January 1988.

In addition, the contractors and subcontractors were not promptly returning the insurance charges they had included in their bids, which were now due Aetna.

"They said things like, 'We'll talk when my policy expires' or they wanted to see the insurance policy or said, 'No, I don't like wrap-ups and I didn't bid this job under a wrap-up.' You can't imagine what we heard," Mr. Wilder says.

James and Disney didn't even have all the information needed to administer the program, like each contractor and subcontractor's name, address, experience modification for workers compensation and federal tax identification number.

"We had a real problem," Mr. Wilder admits.

To solve it, "we decided in our naive way we'd tell them in a letter what to do—that they were in the wrap-up and please deduct the amount of insurance in your bid and send it in."

The letter, sent in March 1988, was not any more effective in getting the contractors to act. "No one called," Mr. Wilder said.

In the meantime, Aetna was already paying claims from contractors without knowing whether they were in or out of the program.

James and Disney got tough. Contractors were told that if they didn't voluntarily calculate and pay their credit for insurance now due, Disney would do so based on a stated set of assumptions.

Contractors still ignored them.

Finally, James Vp William Fairbanks and Mr. Wilder spent the better part of two months in the spring of 1988 on site in Florida. And they hired a consultant who had 10 years of experience with 22 wrap-ups as a risk manager: Ed McCormick.

They finally succeeded in solving the administrative problems by:

- Hiring an on-sight administrator in July 1988 who understood wrap-ups: Richard Livermore, former risk manager for Graycor Inc. in Chicago. Mr. Livermore is employed as manager of construction insurance administration by Sedgwick James, working full-time on the Disney wrap-up.
- Developing a sophisticated risk management information system to track contractors and their payrolls.
- Allocating more on-site administration to the program with more people from James and Disney.
- Redrafting Disney's contracts with contractors to strengthen Disney's control of contractor compliance with the wrap-up procedures.

Mr. Livermore "was just what we needed," Mr. Wilder says now. "He was tough and could get what he needed from contractors."

The new RMIS developed for the project by James is "the most sophisticated risk management information system for a construction project that exists," Mr. Wilder says (see story, page 146).

And, James flew people in from around the country to obtain all the information needed on the contractors and subcontractors to input into the RMIS.

Eight people are on the site now to administer the wrap-up, compared with the initial approach of using one person from Disney's captive agency working on a part-time basis with help from Mr. Wilder in Burbank.

"We had thought we could handle the administration," Mr. Wilder recalls incredulously.

Of the three Disney employees working on-site to administer the wrap-up, two are Disney theme park employees on light-duty work due to workers compensation injuries.

Also on-site are Mr. Livermore and three safety people—two from James and one from Disney.

They oversee the Walt Disney Master Construction Safety Program, which was developed by a team including: Mr. Wilder; Bernie Brislenn, senior safety representative at Walt Disney World; W. Robert Faust, loss control manager at Walt Disney World; other Disney safety personnel; James safety experts; James' national wrap-up group; and Mr. Smith.

Mr. Wilder also credits Mr. Smith and Mr. Faust for their "super support" in the implementation of the wrap-up.

Since early 1989, the administration of the wrap-up has been "working great," Mr. Wilder says.

To date, 645 contractors have been involved in 33 major projects. As a result, 2,487 construction insurance forms have been issued and 5,474 monthly payroll reports prepared.

Fifteen projects currently are active.

And, safety programs have been so successful at reducing injury that Disney may close its first-aid trailer station at the construction site. Three other first-aid stations for Walt Disney World visitors still would be available to workers.

Continued on next page

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The on-site administrative staff of the Walt Disney World owner-controlled insurance program, from left to right: Bernie Brislenn, Disney senior safety representative-construction; Chuck Carroll, Sedgwick James Ltd. senior safety representative; Betty Sizemore, Sedgwick James clerical; Sue Anderson, Sedgwick James administrative assistant; Cheryl Powell, Disney clerical; Richard Livermore, Sedgwick James manager of construction insurance administration; Miles Morris, Disney construction insurance safety clerk; Evelyn Adams, Sedgwick James safety representative; and Tina Kelly, Sedgwick James OCIP representative.

Disney wrap-up

Continued from previous page

The problem with implementing the wrap-up in Florida was not only that it was done after construction started but also there were "too many contractors with no one focal point—no one project manager," Mr. Wilder says.

But, he says, "if we had used construction expertise in Disney, a lot of the problems would have been thought about." The risk management department would have anticipated problems in obtaining insurance credits from contractors and the difficulty in locating all the contractors and subcontractors and obtaining the needed information.

Mr. Wilder also believes that he and Mr. Fairbanks "asked lots of questions, many of which no one has asked before," about the wrap-up.

They have spent, for example, considerable time on the definition of a "supplier" for coverage purposes and the definition of "completed operations."

In retrospect, Mr. Wilder says, "I would have done the wrap-up only on new contracts. But that might not have worked because some contractors would be in and some would be out of the program."

The lesson, Mr. Wilder says, is that "you have to incept a wrap-up at the beginning of a project—unless you have a 20-year project. Then you can do it mid-term, if you recognize the problems and long-term it makes sense."

Construction at Walt Disney World is expected to continue for more than 25 years.

While blaming himself, Disney and James for the administrative problems that occurred, Mr. Wilder quickly credits James for "doing a lot for Disney to fix them."

"The work they did was incredible," he says. "They've put their heart into this wrap-up. I don't know why James didn't give up or ask for a lot more money," to handle the project.

Now, the Florida wrap-up is being reviewed "to make sure it makes sense," Mr. Wilder says.

"Over the last year or so a number of new management personnel have been hired who are involved either in construction or finance and, with their assistance and utilizing their years of expertise, we're looking at whether the wrap-up makes sense," he explains.

"This is consistent with any program we have—we even look at Allendale who we've been with for 42 years to make sure we should continue with them."

No matter what happens next, Mr. Wilder maintains that implementing the wrap-up "was best for Disney. For Steve Wilder, my life would have been really less stressful. It was challenging and a real maturing experience," he says.

In defending wrap-ups, Mr. Wilder says: "I don't believe it should be an economic decision. But if it becomes one, favorable economics are very hard to demonstrate."

Mr. Wilder has tried to use an economic model to quantify the savings but has been frustrated "because the economic model has two key elements: losses and the contractor insurance credits.

"The credits are always difficult to quantify and losses are always extremely difficult to project, even using sophisticated actuaries, in a state where work comp losses are increasing quickly.

"You can build the most sophisticated model in the world, but the two key elements are so variable it is hard to pin down the actual savings."

The benefit of a wrap-up in Mr. Wilder's opinion "is not economic. It's to protect the company. So even if it only breaks even, it makes sense." ■

A special Mickey was designed to adorn Disney's owner controlled insurance program literature.

Disney asks to self-insure comp portion of wrap-up

BURBANK, Calif.—The Florida Legislature will be asked this year to approve a bill permitting The Walt Disney Co. to self-insure the workers compensation portion of its wrap-up insurance program at Walt Disney World, near Orlando.

The legislation would be a special exception to the self-insurance statute in Florida that only allows employers to self-insure the workers compensation exposure of their own employees.

Hundreds of contractors are currently covered by the wrap-up insurance program at Walt Disney World.

Self-funding the workers compensation exposure in the wrap-up insurance program would "give Disney control and stability over its own program for the long term," says Stephen M. Wilder, Disney's director of corporate risk management.

Mr. Wilder, others at The Walt Disney Co. and its broker, Sedgwick James Ltd., have drafted a bill, identified lobbyists and developed a strategy for seeking approval of the legislation sometime this year.

Self-insurance will take the fluctuation out of insurance costs, Mr. Wilder says, noting that risk charges even in paid-loss retrospectively rated insurance programs fluctuate with hard and soft markets.

"And when a new tax law is passed affecting insurers, they feel they have to pass that along," Mr. Wilder commented.

Moreover, the Disney organization would like more control over the claims handling, too.

Currently, the Disney staff works closely with the wrap-up workers compensation and general liability insurer, Aetna Casualty & Surety Co.

Aetna permits the Disney organization to audit its claims files, due to the complexity of the wrap-up and Disney's level of sophistication.

But, Mr. Wilder contends, this does not provide the same level of control that Disney would have if it were using its own staff members to handle workers compensation claims.

Disney staff members in Florida and California handle Disney's own workers compensation and general liability claims.

Mr. Wilder noted that he expects a vote to be taken on the bill sometime in July. ■

Keeping track of insurance data

Disney automates systems

By KATHRYN J. McINTYRE

BURBANK, Calif.—When Stephen M. Wilder joined The Walt Disney Co. in May 1987 as director of corporate risk management, the department had one personal computer—sitting idle in a closet.

At Disney's two large self-funded and self-administered claims centers—at Disneyland in California and Walt Disney World in Florida—claims departments operated independently of each other and their computer systems were not compatible.

At Disneyland, workers compensation and general liability claims were being paid using California Interactive Computing Inc. software, while Walt Disney World was using "an in-house system that was really a check processing system as opposed to a claims system," Mr. Wilder recalls.

The risk management department had no on-line access to the claims information for statistical analysis.

Now, three years later, everyone in the 10-person risk management department has his or her own personal computer—and uses it. And, Disney has several risk management information systems.

Members of the corporate risk management staff are all trained in using several software programs for their personal computers, including Symphony, Lotus 1-2-3, Harvard Graphics, and dBase.

For example, Assistant Risk Manager Aileen McCullough handles premium allocations to about 20 operating companies using Symphony. Risk Manager-Entertainment Insurance Tanya Karn is automating cast insurance information using Lotus. And, Risk Analyst Intern Scott George is computerizing Disney's property values using Lotus.

Mr. Wilder notes that while Symphony and Lotus are two different software packages, they are compatible.

Disney also is buying software from Amarillo, Texas-based Corporate Systems to analyze workers compensation and general liability claim frequency and severity, perform financial analysis and forecast losses.

And, two sophisticated risk management information systems help Disney administer two owner-controlled insurance programs for construction at Walt Disney World and Euro Disneyland in France.

Mr. Wilder was instrumental in Disney purchasing a risk management information system to track its workers compensation and general liability claims under its self-insured and self-administered programs in California and Florida.

A team from the risk management, claims, loss control, information systems and finance departments was assembled in early 1988 to design the criteria for a consolidated RMIS and interview vendors.

About a year later, Corporate Systems was selected to provide a system with sophisticated medical cost-containment features, including built-in medical fee schedules for the two states and utilization review features.

However, because the existing California Interactive Computing software for claims administration at Disneyland was efficient for administering claims, it was retained. Now, a monthly tape from the CIC system will be fed to Walt Disney World, which will use software from Corporate Systems on its own mainframe for analysis of self-administered claims.

Analysis of other claims—handled by Aetna Casualty & Surety Co. under the company's permanent insurance program and its wrap-up insurance program for construction at Walt Disney World—is performed under a time-sharing arrangement with Corporate Systems.

The two risk management information systems developed for the two wrap-up insurance programs are very sophisticated and very different, reflecting differences in the wrap-up programs, Mr. Wilder says.

The system developed by Fred S. James & Co.—now Sedgwick James Ltd.—for the wrap-up program at Walt Disney World saved the program, says Mr. Wilder (see story, page 145).

The system tracks all contractors and subcontractors and compiles payroll and loss information. Monthly payroll reports are fed to the system from Disney's contract administration data base.

Keeping track of contractors' payroll is essential in a wrap-up insurance program in the United States, because workers compensation is the largest insurance cost.

The system also captures information provided by contractors on forms the contractors complete, including how much the contractor is deducting from his bid because of the wrap-up.

It prepares reports for Aetna, listing the contractors on the job site.

It can summarize information by contractor and by subcontractors working on different tiers of a project.

The system also allows Disney to compare current insurance credits from contractors with credits received in the past. And, Disney can calculate claims attributable to individual contractors.

"We can use that information to select contractors that are really safe," Mr. Wilder explains.

The premium credits are fed into an economic model that was designed by Sedgwick James with input from Mr. Wilder and the Walt Disney World finance staff to track the economic efficiency of the wrap-up program.

Mr. Wilder obtains ad-hoc reports from the Florida system as needed by having them faxed to him. He also receives quarterly and semi-annual reports, including a report on premiums credited to projects, premiums paid and losses.

Mr. Wilder was involved in the evolution of the system from a Lotus program that was first set up. It was a "painful process," Mr. Wilder says, because the system was developed while it was needed to keep track of hundreds of contractors.

The RMIS for the wrap-up insurance program at Euro Disneyland was developed at a much slower pace.

"We had lead time to figure out what we wanted and write specs and have Anistics work on it," Mr. Wilder said, referring to Anistics Ltd. in London, the Alexander & Alexander Services Inc. unit that developed the system.

The system tracks contractors working on the multitude of buildings and will record when a building is turned over to Euro Disneyland.

Knowing when a building has been turned over to the owner is the most important administrative aspect in the wrap-up insurance program in France, which uniquely involves decennial liability insurance (see story, page 141).

The system sorts administrative data by construction phase, by project within the theme park, by structure within projects, by contract and by contractors.

It also generates reports, like details on contractors; structures; contracts awarded, completed or outstanding and certificates of insurance issued by Euro Disneyland and certificates it receives.

The system also serves as a policy register.

While not interactive with the suburban-Paris-based system, Mr. Wilder does receive updated discs monthly giving him instant access to relatively current information.

Because Euro Disneyland is a French company with U.S.-based Disney owning 49% and serving as its manager, the RMIS for Euro Disneyland prepares reports in both English and French.

Claims incurred at Euro Disneyland will be tracked on Lotus on a personal computer, unless and until a more sophisticated claims tracking system is needed. ■

Wilder faces roadblocks in auto coverage

BURBANK, Calif.—As director of corporate risk management for The Walt Disney Co., Stephen M. Wilder is caught in the controversy over the high cost of personal automobile insurance.

Disney historically has offered employees in Florida and California a payroll deduction program for purchasing homeowners and personal auto insurance.

When Mr. Wilder joined Disney three years ago, the program was underwritten through American International Group Inc.'s Marketing Inc. unit in Wilmington, Del. About a fifth of 20,000 employees in Florida and a fifth of 10,000 California workers took advantage of the program.

But, Mr. Wilder soon began to feel that he was spending more time on problems with the payroll deduction auto insurance program than the development of an owner-controlled insurance program for Euro Disneyland.

"Every time someone had a problem, I would get a phone call," Mr. Wilder recalls.

Employees often complained about payroll deductions, partly because AIG made the deductions only monthly and they were paid weekly. As a result, an employee new to the program could suddenly find a big chunk of money deducted from his or her paycheck.

Employees also complained that deductions did not always match the quote they had been given.

After Mr. Wilder complained, AIG assigned an employee in California to work in Disney's Burbank office and at Disneyland several days a week handling administrative issues from payroll deductions to policy changes.

And, for its part, Disney developed a campaign in Florida to increase participation to improve AIG's underwriting results on the program. Disney's captive insurance agency, Vista Insurance Services Inc. in Lake Buena Vista, Fla., administered the program in Florida.

But in the spring of 1989 AIG said it was cancelling the program because business in Florida was not profitable.

"I was disappointed in AIG. I felt betrayed," Mr. Wilder says. He contends that with improved underwriting AIG could have made a profit in Florida.

The cancellation came at a terrible time—after Proposition 103 had been passed in November 1988 in California, imposing new underwriting and rating restrictions that insurance companies opposed.

Major property/casualty insurance brokers contacted by Mr. Wilder could not locate an insurer interested in underwriting the program in California under the new regulatory restrictions.

Finally, Metropolitan Property & Liability Insurance Co. agreed to write the program in Florida and accept employees already in the program in California.

Metropolitan Life Insurance Co., which owns Metropolitan Property & Liability, is involved in a substantial portion of Disney's employee benefits programs.

Metropolitan Property & Liability began underwriting the Disney payroll deduction homeowners and auto insurance program in July 1989.

"They were so professional and so good," Mr. Wilder says of Metropolitan administration. "They did it right," he added, explaining that payments are deducted from weekly paychecks.

A Metropolitan employee also was in Burbank and at Disneyland a couple of days a week to field questions.

But, at the end of February, Metropolitan told Disney it would surrender its property/casualty insurance license in California because California's regulatory system would force it to underwrite business at a loss.

Currently, only 296 employees in California purchase coverage through the Metropolitan program. Others either remained with AIG on a direct-billing basis or found another insurer.

Now, Metropolitan is trying to find a replacement insurer for its Disney California auto and homeowners policyholders while continuing to underwrite the program in Florida and offering to make it available to Disney employees in other states.

With so few employees in the program, Disney is not sure whether it will continue the program in California even if Metropolitan finds a replacement.

It will depend on what administrative work will be required of Disney by a new insurer, Mr. Wilder said. "We'll evaluate it closely," he said. Most California policies don't expire until Oct. 1, "so we've got some time," he said.

Mr. Wilder has received few complaints from Disney employees in California following the announcement that Metropolitan is leaving the program. "People accept the fact that auto insurance is a problem in California," says Mr. Wilder, who has a company car insured under Disney's auto liability program with Aetna Casualty & Surety Co.

His wife, Olivia Wilder, is insured with 20th Century Insurance Co., a direct writer that is considered one of the most competitive auto insurers in the state insuring only good drivers.

—By Kathryn J. McIntyre

Plans made for quake

BURBANK, Calif.—With its corporate headquarters, production studio and first theme park in Southern California, The Walt Disney Co. is preparing to cope with an earthquake.

Engineering studies leading to reinforcement of buildings and an emergency preparedness group are two Disney defenses against earthquakes.

Insurance is not.

San Francisco-based EQE Engineering is now reviewing the earthquake resistance of the 2,200-room Disneyland Hotel in Anaheim, Calif., which Disney purchased in 1988.

Buildings at Disneyland have already been modified, based on a previous EQE study, to make them more earthquake-proof.

In addition, Disney has assembled an emergency preparedness group called the Emergency Operations Center to provide a central location of authority and information in the event of a major disaster, like an earthquake.

Stephen M. Wilder, Disney's director of corporate risk management, attends meetings of the EOC with other involved personnel.

Disney does not buy earthquake insurance "because the capacity is too little and the price is too high, as well as too volatile," says Mr. Wilder.

—By Kathryn J. McIntyre

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Risk manager of the year

Disney's Wilder challenges his department, but won't meddle

By KATHRYN J. McINTYRE

BURBANK, Calif.—The corporate risk management department at The Walt Disney Co. is Stephen M. Wilder's creation.

Only one member of today's 10-person department was there when he arrived in May 1987 as director of corporate risk management.

Debbie Gonzales, now safety representative, was then secretary to the safety manager.

The first person Mr. Wilder hired was Aileen McCullough, who had worked with him when he was risk manager at Whittaker Corp.

Ms. McCullough was hired in November 1987 as a "casual" employee, which means a long-term temporary, to handle the work of the insurance manager who was on medical leave.

In May 1988, Ms. McCullough became an insurance analyst and in March 1989 was promoted to assistant risk manager.

Now, she handles insurance budgeting, department budgeting, premium allocation and the insurance program for Disney's ongoing operations, except entertainment.

She also handles the short-term insurance policies Disney buys in conjunction with others sponsoring special events on Disney property. For example, Disney and the city of Anaheim bought a liability policy when the Major League Baseball All-Star teams held an elaborate party in the Disneyland parking lot.

"Aileen makes my life easier because I know I can always count on her to do whatever it takes to get the job done," Mr. Wilder says. "She's very helpful not only with a lot of the complex risk management issues we face every day but also with the administrative and management issues one has to deal with in any department.

"I really don't know how I would do my job without her," he adds.

Tanya Karn, risk manager-entertainment insurance, the other senior staff member in the department, was recruited last September by Mr. Wilder after the former entertainment risk manager, Rosemary Currier, left on disability.

"With Rosemary and Mike McAllister, two of the best entertainment insurance people around—I didn't have to get too involved," says Mr. Wilder, referring to Ms. Currier and Michael B. McAllister, executive vp of broker Rollins Burdick Hunter of Southern California Inc.

"Rosemary had been at 20th Century Fox for over 20 years when she came to Disney," Mr. Wilder notes.

He wanted her successor to be "the most competent, experienced risk manager for our production business. We're really fortunate we found that person in Tanya," Mr. Wilder says.

Ms. Karn was risk manager at Columbia Pictures Entertainment Inc. for four years and before that an administrative assistant at Universal MCA Inc.

"She not only is a real expert on technical insurance issues, but is the type of employee that Disney is proud of: hard working, self-motivated and extremely competent, but yet doesn't lose sight of the fact that you have to share of yourself with others."

Ms. Karn intends to teach insurance classes for the department's clerical and secretarial staff "so they really understand why they are doing things," Mr. Wilder said.

Several of these department members are new: Amy Laskavy, semi-senior secretary, hired by Ms. Karn; Vicki Chanez, senior secretary working for Mr. Wilder and hired in December; and Diann Hale, department clerk, hired in March to fill a new position to work primarily with Ms. McCullough.

Also new to the department is Tina Shierts, hired in November in the new position of insurance analyst to work with Ms. McCullough while also assisting Mr. Wilder on the accounting issues involved in the wrap-up insurance program for Euro Disneyland. The previous insurance analyst—Diane Turner—left last year to become an assistant to Mr. McAllister at RBH.

Mr. Wilder recalls that Ms. Turner, who was his secretary when he first joined Disney, "was really vital to me. She showed me how to get around the company."

In trying to fill the analyst's position, Mr. Wilder also came upon an internship program at RBH's parent company, Aon Corp. "I thought it sounded wonderful," Mr. Wilder says, and Disney was assigned Scott George as a risk analyst intern.

Mr. George—on a three-month assignment to Disney—handles specific projects, like analyzing Disney's production and entertainment claims for the last five years.

Now, Mr. Wilder is recruiting a safety manager, who will be in charge of safety at Disney operations that do not have their own safety staffs, which includes Disney's studio and its stores.

As safety representative, Ms. Gonzales is handling the assignment now, with assistance from Mr. Wilder and Chris Rubino, a semi-senior secretary. In addition, Disney is relying on safety experts at Rollins Burdick Hunter of Southern California.

The previous safety manager transferred to Walt Disney Imagineering in January because he was spending 80% of his time on that Disney subsidiary, which is the creative force behind Disney's theme parks.

"I have a wonderful group of people," Mr. Wilder says. "The management people are very experienced and wonderful."

But, he admits, with so many people new to Disney, "it's difficult because there's not a lot of continuity."

On the other hand, new people bring "enthusiasm to their work," he says.

And, Mr. Wilder wants to keep that enthusiasm alive by cross-training people in the department.

"He encourages people in their personal development—by taking insurance classes or taking on new responsibilities," Ms. McCullough says.

Ms. Gonzales points out that she was promoted to safety representative because "he noticed the ability and potential I had and gave me the opportunity to move up. I'm really glad that he gave me the chance to do more."

And, Mr. Wilder challenges people, Ms. McCullough says. "He is always encouraging people to be creative and look for new solutions to problems instead of the traditional solutions. That's challenging. When you have a lot of work, you tend to want to take the easy way out, but he encourages you to look at alternatives."

Mr. Wilder says he also tries to make everybody "feel they are an important part of the department and that they know what is going on."

Mary Herlehy

The Walt Disney Co.'s Risk Management Department: First row, left to right: Vicki Chavez, Chris Rubino, Tina Shierts. Second row: Debbie Gonzales. Third row: Diann Hale, Amy Laskavy, Stephen Wilder, Scott George, Tanya Karn and Aileen McCullough.

To accomplish that, Mr. Wilder keeps in touch with members of the staff daily and holds staff meetings every Monday. Everybody talks about their work and seeks any needed help from the group

"I'm usually the one who has the problems," Mr. Wilder says, chuckling.

The group also shares ideas and reports on progress of projects to others in the department.

"It keeps us as a department communicating and working together and shows that he cares," says Ms. McCullough.

Mr. Wilder shows that he cares about his staff in another way. He is extremely polite, starting requests with "please" and ending them with "thank you."

"He's always polite and has a sense of humor," Ms. McCullough reports. "This field tends to get heavy and burdensome and so serious. But somehow, we can laugh and have fun while we do a high work volume. It makes things flow a lot smoother and makes people work together."

And, as the director of corporate risk management, Mr. Wilder is a resource, not a meddler, in his department's work.

'One of the greatest things about Steve is he lets you do your work," says Ms. Karn. "Steve allows me to manage my part of the department, without interference, and yet he is there if I need help or to bounce something off him. It's a real treasure and really unique to Steve."

Ms. McCullough agrees. "I'm independent. He lets me do my own thing, but he has enough confidence in me that I'll come to him if we have a big problem."

Even a new employee to the department has this impression.

Ms. Hale says: "I love it here. It is not a very stressful atmosphere. No one is a tyrant."

This is the result of a conscious effort by Mr. Wilder.

"I try as hard as I can to foster a feeling of teamwork and equality in the department," he says. "There is no hierarchy. Everyone is bright, works hard, does their jobs."

Mr. Wilder leads by example.

"What I think is real valuable in what I've learned is his fairness in dealing with people and brokers," says Ms. McCullough. "I really admire that because I've seen other people work and it's not that way.

"I admire his honesty, too," she adds. "There have been sticky situations and he's really honest and straightforward and it's taught me that's the way to be—in dealing with carriers and brokers and people within the company."

For her part, Ms. Karn says she doesn't know if she would have left Columbia "if it hadn't been for working somebody like Steve."

In addition to recognizing that Mr. Wilder "lets people do the job they are capable of doing," Ms. Karn says she wanted to work for him because ' he's considerate and he really values people—not just as workers but as people. ' ■

Claims philosophy based on fairness

BURBANK, Calif.—The Walt Disney Co. has a straightforward approach to handling liability claims.

"If we're wrong, we pay. If we're not wrong, we don't," says Stephen M. Wilder, director of corporate risk management.

Disney's approach is to "to be fair in claims adjusting and litigation," Mr. Wilder says. "Fairness is important at Disney."

That approach has earned Disney criticism among plaintiffs' attorneys who complain that Disney is too smooth in its claims handling and impossible to beat in court.

Disney handles its own liability and workers compensation claims in Florida, home of Walt Disney World, and in California, home of Disneyland, Disney's production studio and corporate offices and other attractions.

Disney can handle its own claims in those states because it self-insures its liability and workers compensation exposures up to $2 million in Florida and California. In other states, Disney takes a $2 million deductible, leaving claims handling to primary insurer Aetna Casualty & Surety Co.

Claims filed by visitors range from stubbed toes, damaged cameras and lost luggage to minor injuries and a few bad accidents that Mr. Wilder just won't discuss.

Disney theme park personnel are very carefully trained to deal politely with customer complaints and to obtain all the facts about accidents.

After an accident, Disney decides as quickly as possible if the company was at fault and the extent of the damages.

"Once we've established that, if we don't feel it's our fault, we rarely budge," Mr. Wilder says.

When Disney pays to settle a minor claim, it can be for as little as free tickets for admission to parks in the future, stuffed dolls or T-shirts.

"A lot of times we treat claims as a public relations opportunity. We want the guest to go away happy and come back to Disney," Mr. Wilder says.

But, he says, Disney does not go so far as to offer to settle claims with free air fare or free vacations, as has been reported elsewhere.

Disney steadfastly refuses to divulge how many claims are filed each year by the estimated 40 million annual visitors to Walt Disney World and Disneyland.

The silence on claims should not be interpreted to mean the number is high.

Indeed, if the number of open litigated liability cases against Walt Disney World in Florida is any clue, it's astonishing how few claims visitors file.

At any one time there are only about 50 open personal injury lawsuits involving Walt Disney World, which has attracted more than 300 million visitors since the Magic Kingdom Theme Park there opened in 1971.

And, the number of open litigated cases at Walt Disney World hasn't grown even though annual guests have nearly doubled with the addition of three more separately gated attractions: EPCOT Center, The MGM—Disney Studios Tour Theme Park and Typhoon Lagoon.

"That's a real compliment to our safety and maintenance programs and our claims handling," Mr. Wilder says.

"Maintenance is the first line of safety on an attraction," Mr. Wilder says. Disney has a series of "really impressive" operational and maintenance procedures for each attraction at its theme parks, he points out.

The company maintains its silence on claims mostly because it considers such publicity to reflect poorly on its name.

Though "very successful" defending cases in court, the company has lost cases.

In January Disney lost a $1 million jury verdict—$200,000 in compensatory damages and $800,000 in punitive damages. The jury determined that two Walt Disney World visitors had been roughed up and held illegally in 1986 by theme park security guards following a fight between one of their friends and other park guests.

Disney will appeal the Orange County, Fla., Circuit Court award.

"We feel that what we did was reasonable to protect our property and our guests," Mr. Wilder says.

Disney had a $1 million self-insured per-occurrence retention with Aetna Casualty & Surety Co. at the time of the incident.

—By Kathryn J. McIntyre

Mary Herlehy

Walt Disney Co. handles its workers compensation claims and general liability claims in California with a staff based at Disneyland. With Stephen M. Wilder, the director of corporate risk management, third from left, are, from left to right: Frank Hilberg, manager of safety/health services; John Middagh, manager-workers compensation; Tim East, supervisor-workers compensation; Mark Elliott, safety representative; and Karen DeVasto, workers compensation claims examiner.

Cast of hundreds focuses on safety

By KATHRYN J. McINTYRE

BURBANK, Calif.—More than 180 people at The Walt Disney Co. are involved in loss control and claims handling.

Based at Walt Disney World and Disneyland, they do not report to Disney's corporate risk management department, but to operating managers.

Yet, the managers in charge of claims, safety, workers compensation and other affiliated departments voluntarily work closely with Corporate Director of Risk Management Stephen M. Wilder.

He earned their trust and respect within his first year at Disney.

"He came down here after he was hired and spent a few days and, from the start, we knew he was the kind of guy we would have wanted the company to hire," recalls W. Robert Faust, director of loss control at Walt Disney World, where 150 people work in loss control and claims.

"He had the right blend of working with us without moving in and telling us what we need to do. I don't report to Steve, but we work closely. We take some direction and we provide assistance to him," Mr. Faust explains

Mr. Faust's group handles workers compensation and general liability claims and includes insurance coordinators, first-aid personnel and Disney's captive insurance agency.

Safety and industrial hygiene are part of the environmental affairs group at Walt Disney World. Both loss control and environmental affairs report to the vp of administration for Walt Disney World.

Meanwhile, at Disneyland in California, a workers compensation manager, safety manager and guest claims manager all report to the director of human resources for Disneyland.

In addition, Walt Disney Imagineering—Disney's creative backbone—now has its own safety manager, who had been in the corporate risk management department.

"I was honest," Mr. Wilder said of his approach to working with claims and loss control people. "I kept them informed of decisions we were making that would affect them and I asked them to do the same for me.

"I actively solicited their input in areas not only that would affect them but also where they had expertise. I fostered a trust that I really am here to help them."

Mr. Wilder's tendency to "roll up my sleeves and go to work" has also helped him gain the respect of people he works with, particularly at Walt Disney World in Florida. On 30-some trips to Walt Disney World over the last three years, mostly involving the wrap-up insurance program for continuing construction, he has developed relationships with people.

"I usually try to take enough time to cover other things," Mr. Wilder says of his trips to Florida, ticking off issues involving insurance, self-insurance, contracts, claims and a risk management information system.

Mr. Wilder is in daily telephone contact with Mr. Faust, and regularly attends the monthly West Coast safety meetings.

Working with Disney's claims management teams on each coast, Mr. Wilder views his role as contributing another viewpoint to the process.

"Nobody can handle a claim better from a guest" than Disney's own people he maintains.

Disney handles its own claims in Florida and California while Aetna Casualty & Surety Co. handles other U.S. claims.

That requires a lot of coordination. "What if a performer from New York hurts himself in Florida and goes home and files for New York benefits?" he asks.

Mr. Wilder now is hiring a new safety manager in the corporate risk management department, which is available to coordinate the safety functions among facilities with their own safety personnel.

"The message is that to have an effective risk management department, you don't need direct control over all these areas if you have responsible, competent people running these areas and you work together as a team. Your product—an effective risk management program—can sometimes be superior than if it is all combined," Mr. Wilder says.

The risk management department at Disney is responsible for safety at the Disney studio, employing 2,900 people, and other Disney operations without their own safety departments, including the 50 Disney stores around the country.

"We've adopted a train-the-trainer approach," says Mr. Wilder. Department heads at the studio and managers of Disney stores are trained in safety and are held accountable for the results.

"We can't possibly administer a safety program day-to-day at every store," says Mr. Wilder. "So we design the program, train the store manager and make him responsible and accountable for the result. We do the same thing at the studio with department heads.

"I have faith in the people that are responsible for the safety programs, and I have faith in the programs and the way they are implemented," he says.

Mr. Wilder has never had to sell safety at Disney, he points out.

He stepped into a corporate culture at Disney committed to safety. The importance of loss control to "protect our reputation goes far beyond the financial consequences of loss," he says. ■

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The Walt Disney World loss control and environmental affairs staff, from left to right: Rose Mary FitzGerald, manager, Vista Insurance Agency; Bob Penn, director-environmental affairs; Bill Dammes, manager-guest claims; Jim Willard, manager-safety; Luis Ramos, manager-workers compensation; Bob Sprick, manager-industrial hygiene; Linda Smith, manager-corporate insurance; W. Robert Faust, manager-loss control; Doris Drewes, manager-health services.

Disney program stresses stability

Policies cover gamut of risks

By KATHRYN J. McINTYRE

BURBANK, Calif.—The Walt Disney Co.'s insurance program is well-insulated against a difficult commercial insurance market, says the company's director of corporate risk management.

"The HPR property market is much more stable than others," says Stephen M. Wilder, noting Disney's 42-year relationship with Allendale Mutual Insurance Co. as its highly protected risk property insurer.

In its excess liability insurance program, Disney utilizes A.C.E. Insurance Co. Ltd. and X.L. Insurance Co. Ltd., both known for stability in pricing and limits.

And Disney retains liability losses it can afford—to $2 million.

Excess of its $2 million self-insured retention—or deductible in most states—Disney buys $12 million in liability insurance limits from Aetna Casualty & Surety Co., which has insured Disney since 1985.

"Aetna is one of the more stable insurers in price and capacity in a hard market," Mr. Wilder says.

"The $11 million excess of $14 million is the most volatile part of the program," he admits, because Disney has the shortest relationship with its two underwriters of that layer.

The $11 million limit excess of $14 million is written on a quota-share basis by General Star Insurance Co. and First State Insurance Co., which came on the Disney program only in June 1989.

"It's really a simple insurance program," Mr. Wilder says of the insurance that covers Disney's vast entertainment enterprises: the world's two largest theme parks and their extensive support services, like a cogeneration plant and police and firefighters at Walt Disney World; 10 hotels; a consumer products division; and now restaurants outside its theme parks.

Even television and motion picture production is covered under Disney's excess liability insurance program, with special entertainment production insurance and some underlying coverage with lower deductibles purchased (see story, page 151).

"We consolidate coverage as much as possible," says Mr. Wilder, noting that not all companies do so.

Disney takes $250,000 deductibles on its property and business interruption insurance, which are the most economical deductibles for the company, he says.

"We're paying for catastrophe protection and engineering," Mr. Wilder says of rates charged by Allendale. "The savings is not there to take another $250,000" in the deductibles, he says.

"Allendale gives us a very fair deal," Mr. Wilder adds. "We don't pay a lot of money and yet we've been profitable for them."

Disney, he points out, wants to be profitable for insurers "because it means we are not having losses."

The all-risk property policy with Allendale provides blanket replacement cost coverage in excess of $5 billion, with no sublimit on business interruption coverage.

The policy covers not only the fantastic structures in Disney's theme parks—from Splash Mountain at Disneyland and Walt Disney World to the Wonders of Life pavilion at EPCOT Center—but also: Howard Hughes's famous plane, the Spruce Goose; the Queen Mary Hotel; Disney's huge library of animated films; and even its fleet of watercraft—the fifth largest in the world by count.

Most of the watercraft are valued on an individual basis at less than the deductible, Mr. Wilder notes.

In addition, Disney's fleet of buses and automobiles are insured under the property policy, though Disney self-funds collision damage. The property coverage would be triggered by an insured peril, such as a fire in a bus yard.

The same Allendale property policy covers construction at Walt Disney World as a scheduled location.

Allendale collects the premium for the policy based on property values at April 1 each year, so construction doesn't add to premiums until the following April. "That's what they did to be competitive," Mr. Wilder said.

Disney's third-party liability risks—including its fleet of boats, which are treated as premises liability exposures—are insured beginning with Aetna under a $4 million primary general liability insurance policy for U.S. operations. The policy includes a $2 million self-insured per occurrence retention by Disney in California and Florida, where it handles its own claims, and a $2 million deductible elsewhere. The same limits and SIR or deductible apply to a primary automobile liability insurance policy.

A $10 million Aetna excess policy for worldwide operations, excluding Euro Disneyland, follows.

Disney increased its retention to $2 million in 1988 from $1 million, in keeping with its philosophy to retain losses it can afford and to buy catastrophic insurance. When handling its own claims, Disney's defense costs do not apply toward exhausting its SIR.

Disney also has purchased the maximum limits available from X.L. ($75 million) and A.C.E. ($150 million), but has not decided whether to buy additional limits both recently offered.

Disney is a shareholder in A.C.E. but not in X.L., which were decisions that were made before Mr. Wilder joined the company.

Disney self-insures its workers compensation exposures in Florida and California. Aetna writes Disney's workers comp insurance in other states and for California companies acquired by Disney that are awaiting approval from California regulators to self-insure.

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"DisneyDollars" are among the risks covered by Disney's comprehensive crime insurance policy.

The Florida and California workers comp self-insurance programs are protected with a $10 million excess of $1 million insurance policy underwritten by General Reinsurance Corp., followed by a $14 million layer written by Aetna and then X.L.

Federal Insurance Co., a Chubb Corp. unit, underwrites Disney's self-insurer's bonds in California and Florida. Chubb also writes the remainder of Disney's surety bonds.

While Aetna also underwrites the owner-controlled insurance program covering construction at Walt Disney World in Florida, both Disney and Aetna have agreed that the two insurance programs are independent. That means bad experience on one of the programs would not affect the renewal of the other, Mr. Wilder explains.

National Union Fire Insurance Co. of Pittsburgh, Pa., an American International Group Inc. unit, underwrites Disney's directors and officers liability insurance to undisclosed limits.

National Union last year replaced Chubb Corp., according to market sources (*BI*, July 17, 1989).

National Union also underwrites fiduciary liability insurance and comprehensive crime coverage for Disney.

The latter covers, among other things, Disney's own currency. "DisneyDollars" are sold at a one-for-one exchange rate with U.S. currency at Disneyland, Walt Disney World, Disney Stores and other special Disney locations and can be used for merchandise, food, park admissions and hotel services.

They also are favorite souvenirs

United States Aircraft Insurance Group insures Disney's aviation exposures, which include two corporate planes and a fleet of hot air balloons called EAR Force One—in honor of a balloon in the shape of Mickey Mouse's head.

Overseas, excluding Euro Disneyland, Disney operations have purchased their own insurance—until recently through their own selected brokers—with a master program purchased in the United States.

CIGNA Corp. writes the first $1 million of casualty and workers compensation on an excess/difference-in-conditions basis, followed by $10 million from Aetna, $11 million from First State and another $3 million from CIGNA.

Disney's excess program with X.L. and A.C.E. picks up worldwide.

Aegen International Inc. underwrites Disney's foreign property insurance.

Foreign operations include licensing Disney characters, a studio in France and a publishing operation in Italy.

"We're now looking at consolidating our European program," Mr. Wilder says, noting that would not include Euro Disneyland.

The first step in the process was the appointment last year of Rollins Burdick Hunter Co. correspondent brokers in eight countries as brokers for Disney's foreign operations, except in France where Societe Generale de Courtage d'Assurances S.A.—the broker for Euro Disneyland—was appointed.

"We picked RBH in Europe because we have film activities in Europe, and London RBH has the most expertise in film," Mr. Wilder says.

In addition, Mr. Wilder wanted the same broker for international operations as domestic operations for purposes of continuity.

"Those concerns outweigh any concerns that RBH doesn't own the European brokers," he explains.

Mr. Wilder wanted an RBH-organized network of overseas brokers looking after Disney's foreign operations to better coordinate insurance purchasing to avoid buying too much insurance and, more important, to avoid gaps in coverage. Only about $100,000 in premiums is at issue.

Disney's growth in Europe will make insurance costs more of an issue in the future, said Assistant Risk Manager Aileen McCullough.

Mr. Wilder staggers the renewals of Disney's insurance programs throughout the year. Entertainment insurance renews Jan. 1, U.S. property insurance renews April 1, U.S. liability insurance and Euro Disneyland's property insurance renew June 1, workers compensation renews on July 1, all other Euro Disneyland policies renew July 10 and executive coverage and the Florida wrap-up insurance program renew Oct. 1.

"This allows us to focus our undivided attention on those portions of the program that are being renewed at that time. Life would be kind of overwhelming if we had them all renew the same time," Mr. Wilder says.

Almost as interesting as what insurance the company buys is the insurance it doesn't buy: Disney does not buy errors and omissions insurance to cover Walt Disney Imagineering, the creative force that dreams up and designs the attractions in its theme parks.

Mr. Wilder said the coverage is not a good buy for Disney because the group has excellent quality control and the coverage is not as readily available or inexpensive as the risk warrants. In addition, the general liability insurance program is as broad as possible, he adds.

"If we'd had E&O for the last 35 years, it would not have been worth much to us," he adds.

Disney currently is exploring forming captive companies to fund portions of its liability insurance.

RBH is looking into a Disney captive, while Alexander & Alexander Services Inc. is studying a captive for Euro Disneyland when it opens in 1992. ■

Wilder wraps planned acquisition into Disney insurance program

BURBANK, Calif.—One of the largest acquisitions by The Walt Disney Co. in the last three years involved property the public thought Disney already owned: The Disneyland Hotel.

Disney in 1988 bought Wrather Corp., which owned The Disneyland Hotel in Anaheim, Calif., and the Queen Mary and Spruce Goose in Long Beach, Calif., for approximately $161 million in cash and $89 million in debt.

Wrather used the Disneyland name under a prior licensing agreement.

As Disney's director of corporate risk management, Stephen M. Wilder was called in to assist with the pre-acquisition audit of Wrather in 1987.

He discovered everything was in order, except Wrather was paying far too much money for its excess liability insurance under a multilayered program compared with what it would cost under Disney's program.

Mr. Wilder negotiated with X.L. Insurance Co., which writes Disney's $75 million excess of $25 million liability layer, to insure Wrather under Disney's policy about two months before the acquisition.

"We wanted to help improve their earnings and if they had a loss, it would have been Disney's to handle," he explained.

The savings was about 85% of what Wrather had been paying for excess insurance—for the same limits.

But, to protect Disney's liability insurance limits from being reduced by a loss at Wrather, it was agreed that if Wrather had a loss before the acquisition, Disney's limits could be reinstated with the payment of an additional premium by Wrather.

—By Kathryn J. McIntyre

Disney switches entertainment insurers

By KATHRYN J. McINTYRE

BURBANK, Calif.—The Walt Disney Co. buys its entertainment insurance packages covering television and film productions from Transamerica Corp.

Disney, whose movie and television production is growing rapidly, switched the account Jan. 1 to Transamerica from from Chubb Corp. after seeking competitive bids.

"Transamerica offered the best program for Disney," says Tanya Karn, risk manager-entertainment insurance for Disney.

Disney placed the business with Transamerica, the newest of three established U.S. entertainment insurance markets, through Albert G. Ruben Co. Inc. in Los Angeles.

The other established U.S. entertainment insurance market is Fireman's Fund Insurance Cos. Underwriters at Lloyd's of London also insure movie productions.

In addition, CNA Financial Corp. announced earlier this month that it has signed a letter of intent with American National General Agencies Inc. to establish a special entertainment insurance program.

Disney's recent films include "The Little Mermaid," "Dead Poets Society" and "Honey, I Shrunk the Kids," the last of which involved a difficult-to-adjust claim (see story, page 152).

In buying entertainment insurance, "price is important, as well as coverage and commitment" says Stephen M. Wilder, director of corporate risk management for Disney.

Transamerica offered the best combination of the three, according to Ms. Karn.

Disney's rates for entertainment insurance have been locked in for the first two years under the program, with rates in the third year dependent upon loss experience, she said. And, Transamerica gave a verbal commitment not to cancel the program for three years.

Disney anticipates entertainment insurance premiums this year will total $2.5 million, based on projections of production of 15 television pilots and 10 to 12 feature films.

© Disney

Cast insurance covers actors like Bob Hoskins in "Who Framed Roger Rabbit."

Motion picture insurance costs now are less than 1% of production costs, points out Mr. Wilder, compared with more than 1% within the last few years.

Disney's package also contains a combination of coverages no one else has, Ms. Karn said. The combination is so good, Ms. Karn said, that she was not at liberty to discuss specifics.

Generally, entertainment insurance packages, are written in three parts: cast; negative faulty; and supplemental. Supplemental coverage includes coverage for extra expenses; miscellaneous equipment; props, sets and wardrobe; and third-party property damage.

Many entertainment insurance losses involve cast insurance, which covers the policyholder for extra expenses in the event an insured cast member is unavailable for production due to illness, disability or death.

Transamerica simplified the administration for insuring key cast members under Disney's package. Instead of requiring a medical examination for covered cast members, Transamerica simply requires a medical statement be completed by the artist to activate the cast insurance.

That change also saves $50 for each medical examination that formerly had to be conducted to activate cast insurance.

In addition, Transamerica will insure an unlimited number of cast members for each production. Previously, Disney could insure 10 cast members per production, paying an additional premium to cover additional cast members.

Ms. Karn now is trying to impress on production executives that they don't have to insure everyone in their casts—only those whose absence from the production would cause a loss exceeding Disney's deductible, which ranges from $10,000 to $25,000, depending on the production.

For a company with $6.7 billion in assets, such deductibles are very low. But Disney production executives "like low deductibles and in this market it's not cost-efficient to increase the deductibles," she says.

The involvement of limited partnerships in the funding of productions also necessitates low deductibles, Ms. Karn notes.

However, if the market were to change, Disney could fund lower deductibles in-house, she adds.

"You can't do much" to prevent losing a cast member to forces beyond Disney's control, says Ms. Karn, who cites the medical privacy of actors and actresses in declining to discuss individual cast claims.

Recently, a pretty bizarre cast went loss-free: thousands of spiders for the production of "Along Came a Spider."

The movie depicts the problems a little U.S. town suffers after the introduction of an Amazon spider.

"Huge hairy spiders" were needed for the filming, says Ms. Karn, wincing.

Disney insured the "thousands and thousands of spiders" needed for the film as a cast member, with a 1,000-spider deductible.

The production was insured under a special policy written by Transamerica because it was a joint venture with Amblin Productions.

Ms. Karn, who has been with Disney only since September, now is automating the information on insured cast members on a personal computer. The schedule of artists to be insured and whether they have been covered under the cast policy will be sent weekly to the head of production.

Other portions of the entertainment package are important, too.

Continued on next page

PROPERTY LOSS CONTROL

PUBLISHING: May 28 **AD CLOSING: May 15**

Traditional safety methods coupled with technological innovations are helping risk and loss control managers evaluate and prepare for disasters before they strike.

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DIRECTORY

The Directory of Loss Control Consultants, also contained in this issue, provides the information and the resources needed by risk and loss control managers to do their jobs better.

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Entertainment

Continued from previous page

The negative faulty portion protects against loss of the negative or damage to the negative and against faulty film or faulty processing.

The miscellaneous equipment coverage encompasses cameras and sound equipment, which can be lost, stolen or damaged during filming.

Extra-expense coverage is triggered if, for example, a camera is broken while on location and shooting has to stop while another camera is secured.

Coverage for damage to third-party property is necessary when, for example, filming in someone's home results in damage to the property that is in Disney's care, custody and control.

While protecting against cast-related losses is difficult, there are aspects of film and television production where loss control can make a difference.

Ms. Karn, for example, reviews scripts to look for potential problems.

Having earned the Associate in Loss Control Management designation as well as the Associate in Risk Management designation, Ms. Karn knows what to flag as potential problems.

"I point out things that have to be checked by a safety person," Mr. Karn explains.

The result can be special instructions while filming, like how to behave around helicopters.

While placing its package policies with Transamerica—one for television and for feature films, which are identical except for rating—Disney sometimes needs to use the other entertainment insurance markets.

For example, most package entertainment insurance policies contain a "stop-date" coverage provision under the cast section. That provision requires that an insured artist be available to complete his or her work for at least two weeks after his or her scheduled completion date, in case there are production delays.

Generally, if the artist has previous commitments that prevent him or her from having that two-week cushion to continue with the production should there be delays, there is no coverage for the extra expense that the production would incur due to the loss of that artist to the other commitments.

Some artists' schedules are so tight, however, that they may be available for only a few days past the scheduled completion of their work.

In a recent production, an important cast member was available for less than a week past his scheduled completion. Disney wanted to buy coverage to protect against losing the actor before his work was complete due to production delays that would require him to stay longer than his schedule allowed.

Non-performance insurance—for a specified period of time—was written on the actor by underwriters at Lloyd's of London.

Besides the package entertainment policies, Transamerica also underwrites an errors and omissions policy, which protects against risks like copyright infringement, idea piracy and libel.

Separate primary general liability and auto liability insurance policies with deductibles lower than under the corporate program also are purchased for movie and television productions from Aetna Casualty & Surety Co. The lower-deductible policies are purchased to accommodate the requirements of limited partnerships that finance productions.

And, National Union Insurance Co. of Pittsburgh, Pa., underwrites a non-owned aircraft liability insurance policy for Disney productions. ■

Disney setttles difficult film claim

BURBANK, Calif.—One of the first entertainment claims Stephen M. Wilder had to wrestle with at The Walt Disney Co. turned out to be one of the most difficult claim adjustments in the industry in the last 20 years, says an entertainment insurance expert.

Disney was three weeks from starting principal photography on the film, "Honey, I Shrunk the Kids," when "one of the worst things that can happen in motion picture filming occurred," recalled C. Scott Milne, chairman of Albert G. Ruben & Co. Inc., entertainment insurance underwriters.

"The director, who had worked out all the details of production over the previous 12 months, became ill and unable to perform his directorial duties," Mr. Milne wrote in a letter to the judges for the *Business Insurance* Risk Manager of the Year Award.

Disney found a new director who was willing to accept certain major elements of the picture as developed by the former director. But, "as is customary for a new director," he wanted "necessary changes to fit his conception of the picture," Mr. Milne wrote.

The changes involved key staff, special effects, shooting schedules, casting, and wardrobe and set dressings.

These changes substantially increased the film's budget, leading to an entertainment insurance claim.

The claim adjustment issue was "which additional costs are covered by cast insurance and which costs are, in fact, either an enhancement of the original film and not covered or simply higher costs due to the creative changes that occur during filming of any picture and therefore not solely due to the original director's replacement?" Mr. Milne explained.

The insurer—Fireman's Fund Insurance Co.—and Disney's production people could not initially agree on what costs were covered by insurance, Mr. Wilder recalls. Ruben had underwritten the insurance for the film on behalf of Fireman's Fund.

"This type of claim becomes quite subjective and negotiations require from the risk manager unqualified support and working relationships with management, production staff, the creative people and the insurance representatives, along with actual expertise of motion picture production and the insurance coverages involved," Mr. Milne wrote.

"The adjustment was one of the most difficult to finalize in the industry over the past 20 years," he wrote.

"It was resolved between the insurer and Disney only through the expertise, management skills and philosophy of fair dealing by Mr. Wilder," Mr. Milne concluded.

Mr. Wilder, however, gives Mr. Milne "lots of credit" for help in settling the claim.

"Scott and I got together and Scott took matters into his own hands to find out what the proper amount of the claim should be," Mr. Wilder said.

"He was very fair and obviously very influential in reaching a settlement. He got right into it—all the facts and details.

"It's nice when somewhat at that level of the company gets into all the details." ■

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'The future of risk management'

Wilder lauded by colleagues as a risk manager for the '90s

By KATHRYN J. McINTYRE

BURBANK, Calif.—Stephen M. Wilder, corporate director of risk management at The Walt Disney Co., is praised as a risk manager for the 1990s by his colleagues and business associates.

"His style, savvy and approach exemplifies the future of risk management," wrote Greg B. Kent, risk manager of The Bass Cos., in endorsing Mr. Wilder's nomination as *Business Insurance* 1990 Risk Manager of the Year.

Mr. Wilder is "professional, innovative, determined, creative, proud, ethical, inspiring and, most of all, effective," Mr. Kent added.

"Steve approaches the immense responsibility of his position with the energy of youth, with the maturity and insight that comes from wisdom beyond his years, and with an innovativeness and creativity that is truly refreshing," wrote Michael B. McAllister, executive vp of Rollins Burdick Hunter of Southern California and also director of the brokerage's entertainment department.

"Steve has the ability to present overly technical issues of risk management in a manner that summarizes the key issues in clear financial management terminology," wrote Garrett A. Mathieson, then-senior vp of Jardine Emett & Chandler New York Inc. and now executive vp of Rollins Burdick Hunter of New York Inc.

Mr. Wilder exhibits "dedication of purpose, a flexibility of mind and a spirit of cooperation," wrote V. Wallace Ryland, president of the construction services division of Sedgwick James Inc. in Dallas.

These endorsements—and Mr. Wilder's accomplishments at Disney as outlined in a detailed nominating statement—convinced the 10 independent judges of the *Business Insurance* 1990 Risk Manager of the Year Award competition.

Mr. Wilder is the 13th Risk Manager of the Year named by *Business Insurance,* which created the award on its 10 anniversary in 1977 to recognize outstanding achievement in risk management.

Mr. Wilder was nominated last fall for the award by then-Disney Vp and Treasurer John H. Forsgren and W. Robert Faust, loss control manager for Walt Disney World. Mr. Wilder's nomination was endorsed by eight others.

A group of colleagues, brokers, insurance company executives, friends and family joined Mr. Wilder at a March 29 luncheon in Toluca Lake, Calif., sponsored by *Business Insurance* to present Mr. Wilder with a crystal obelisk signifying the award.

In accepting the award, Mr. Wilder said: "I am really honored by the distinguished judges. But, I'd be foolish to think I've done it by myself.

"Risk management has become more and more complicated. All of you deserve a piece of this award. You are all a very important part of the Disney risk management program," he told guests.

"I'm lucky to have an assistant like Aileen who does everything she can to make me look good," Mr. Wilder added, turning to Aileen McCullough, assistant risk manager at Disney.

And, speaking to the brokers and insurers, he commented: "We've chosen to work with the best and the brightest. We have relied on them, challenged them and they've challenged us. The program we have at Disney is a reflection of that."

Mr. Wilder also noted that "timing is real important in life. I was lucky enough to start working at Disney just as Disney really started booming and started building Euro Disneyland and our construction in Florida took off. So I was exposed to a lot of fascinating programs I may not have been otherwise.

"I am also lucky enough to work for a company whose management is supportive of me in a challenging way and of our program and our department," he said, turning to his superior, Richard Nanula, vp and treasurer of Disney.

"Most important," Mr. Wilder said, turning to his wife, "thank you, Olivia." He noted that when he has announced that he has to leave the next morning for France to work on the risk management program for Euro Disneyland, she has said, "Have fun."

Those attending the luncheon toasted Mr. Wilder.

"He is one of the finest people in our industry, with a great vision of it and an active participant in it," said Thomas A. McCaffrey, senior vp of Rollins Burdick Hunter Co., based in Los Angeles.

Mary Herlehy

***Business Insurance* Risk Manager of the Year Stephen M. Wilder and his wife Olivia**

Mr. Kent—who commented that he was the only person in the room to know Mr. Wilder as a consultant, the risk manager of Disney's major shareholder, a broker and the CEO of a Disney broker when Mr. Kent was chief executive officer of Bayly Martin & Fay International Inc.—offered: "He's good. This is the kind of guy I like to be associated with."

Several of those attending commented on Mr. Wilder's management style.

"He always gets second and third opinions," remarked Craig Clements, vp of Johnson & Higgins of California in Los Angeles, adding he wished more risk managers would do so.

"It takes a special type of person to blend as many different people for first, second and third opinions," said William F. Fairbanks, vp of Sedgwick James of California Inc. in Los Angeles.

"There is a quality of fairness and integrity exuded by Steve. He seeks to do what is right. We have to look very hard to find one who will give us our due and tells us why we have won and why we have lost," Mr. Fairbanks said, speaking from the viewpoint of a broker.

Messrs. Mathieson, McAllister and Ryland also attended the luncheon, as did Janel K. Clausen, director of risk management for Columbia Pictures Entertainment Inc.; Kenneth Devlin, senior vp and regional manager of Allendale Insurance Co.; Tanya Karn, risk manager-entertainment insurance for Disney; Ellen Kittner, account executive at Sedgwick James of California Inc.; Thomas W. Knaup, senior vp of Alexander & Alexander of California Inc.; Garfield (Mac) McConico, vp-entertainment department at Rollins Burdick Hunter of Southern California; C. Scott Milne, chairman of Albert G. Ruben & Co. Inc.; Robert A. Morgenstern, an attorney with Stein, Hanger, Levine & Young; Richard M. Ortiz, account executive at Allendale Mutual Insurance Co.; Ellsworth J. Royer, senior vp of Alexander & Alexander of California Inc.; and Darryl Vroman, executive vp of Sedgwick James of California Inc. ■

Disney demands that it be included in licensees' cover

BURBANK, Calif.—The Walt Disney Co. licenses the use of Disney characters on thousands of products from Mickey Mouse watches to Pluto rocking chairs.

To protect the company from product liability lawsuits, Disney requires manufacturers to name Disney as an additional named insured under their product liability insurance policies.

Disney requires proof of $2 million in product liability insurance —or the financial strength to self-fund that amount.

Disney wasn't always so well-protected.

When Stephen M. Wilder joined Disney as director of corporate risk management in 1987, Disney was asking manufacturers only for a broad-form vendors endorsement, which would protect Disney when it is selling the product.

"That's appropriate sometimes," Mr. Wilder says, noting that Disney sells products in its new chain of stores and at its theme parks.

"But it was inappropriate if Disney was not selling the product," which is the case with most of the products sporting Disney characters.

Assistant Risk Manager Aileen McCullough obtains and checks certificates of insurance from manufacturers showing Disney is an additional named insured under their policies.

The certificates, involving 1,200 licensees, fill 12 large file drawers in the risk management department.

While the risk management department is "very strict" on obtaining insurance certificates from manufacturers, Mr. Wilder was convinced by a Disney contract administration representative to give a pass to one manufacturer that purchased only $500,000 in product liability insurance.

Mr. Wilder opened a package one day to find a note that this company's product liability insurance surely was sufficient because inside was what it made. He looked further to find a street sign: "Dopey Drive."

The street sign now hangs outside his office.

—By Kathryn J. McIntyre

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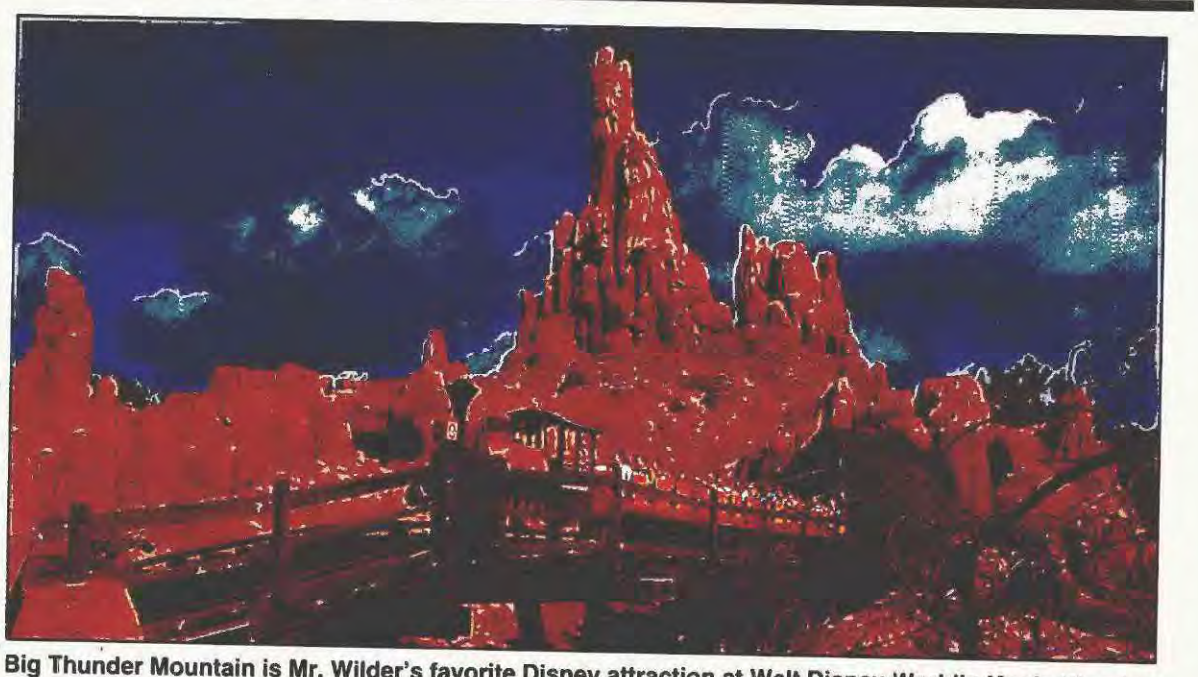

Big Thunder Mountain is Mr. Wilder's favorite Disney attraction at Walt Disney World's Magic Kingdom.

Congratulations
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BURBANK, Calif.—Stephen M. Wilder keeps a wand signifying the "Magic of Disney" on his desk in his Burbank office.

He doesn't rely on its powers to successfully manage The Walt Disney Co.'s corporate risk management program, but he does find himself twirling it in the light while on the telephone, fascinated with the movement of the simulated stardust that flows back and forth inside the transparent wand.

"It relieves tension and stress," he says, noting it's particularly handy when on the phone, which is often.

Nearly everything in Mr. Wilder's office says Disney: an oversized Mickey Mouse watch hangs on one wall, a picture of Mickey adorns another, posters depicting Disney movies hang over the couch, and yes, of course, a set of Mickey ears sit atop a book case next to a Disney construction crew helmet.

'Everyone is a cast member at Disney," Mr. Wilder says. Everyone also is known by his first name. "It generates a camaraderie."

Then there's the fringe benefit of on-site visits to Disneyland in Anaheim, Calif., and Walt Disney World near Orlando, Fla

"In Florida, when I sit in meetings and am getting stressed I later go to the park and see kids smiling and that makes it worth it," he says. "You don't have that in a chemical company," says the former risk manager of Whittaker Corp., whose operations included chemical manufacturing.

Mr. Wilder's favorite Magic Kingdom attraction at Walt Disney World is Big Thunder Mountain, a thrill he was goaded into trying during a tour by representatives of French insurer UAP International, a major underwriter of Euro Disneyland's construction coverage.

"In my life, I had been on one roller coaster—Space Mountain—with my wife. I didn't like it."

When one of the directors of UAP wanted to go on Big Thunder Mountain, Mr. Wilder and Walt Disney World Manager of Loss Control W. Robert Faust both appeared hesitant to join, which led to teasing that something must be amiss if the risk manager and safety manager would not go along.

"We decided we'd better, and I liked it," Mr. Wilder reports of the adventure that simulates a runaway railroad train careening through the mountains.

At Disneyland, Mr. Wilder's favorite attraction is Star Tours, which simulates a tour through space.

—By Kathryn J. McIntyre

Risk manager cures hospital ills

Johnson molds plan for privatized facility

By JERRY GEISEL

BALTIMORE—When Josephine Goode Johnson joined the University of Maryland Medical Service System Self-Insurance Trust in 1986 as its first director of risk management, she was faced with a sweeping mandate: initiate a systemwide risk management program.

The clock already was ticking. In mid-1984, the University of Maryland Hospital in Baltimore and affiliated health care facilities had separated themselves from state ownership and formed a private non-profit corporation known as the University of Maryland Medical System Corp. (see story, page 156).

Going private gave the UMMS, Maryland's second-largest health care institution, more financial and operating freedom. But it also meant the hospital was no longer protected under state sovereign immunity statutes from tort claims.

University of Maryland Hospital officials and physicians took the first steps to protect the hospital from the new exposures it faced when in June 1985 they created the University of Maryland Medical Service System Self-Insurance Trust.

The trust self-insures the primary medical malpractice liability exposures of the hospital and its physicians and purchases excess coverage from commercial insurers.

Physicians working at the institution, who previously were not shielded from liability by the sovereign immunity statute, had been been covered under a program written by commercial insurers. And, the hospital bought commercial insurance during the year between its privatization and the formation of the trust.

However, the formation of the trust to finance the system's risks was not enough. The trust needed to develop a risk management program to serve the institutions and health care professionals covered by the trust.

"They knew what they wanted. They wanted central accountability and responsibility for risk and insurance. There was no clear-cut mechanism in place to detect problems. It was a great challenge," Ms. Johnson recalled.

Ms. Johnson—who had been risk manager at the 400-doctor Chesapeake Physicians Professional Assn., the largest group practice in Maryland at the time—hit the ground running to develop a risk management program.

During her first year with the UMMS, Ms. Johnson:

- Launched a risk management orientation program for physicians and nurses.
- Developed an information network so that all departments within the UMMS would alert the Office of Risk Management of any unexpected events involving patients or visitors.
- Developed a claims management system in which claims were continually monitored and reserves kept current as more information became available.
- Began to build a risk management staff, including a claims manager to assist in the tracking and managing of claims.
- Developed an in-house risk management information system for computer analysis of claims data and trend patterns.

Four years later, the results of Ms. Johnson's work are clearly visible.

The trust has not been a victim of the rate hikes and restricted availability of medical malpractice that have plagued other health care institutions. It has been able to purchase the limits of excess liability coverage it sought at stable prices (see story, page 158).

In fact, during a recent renewal of the trust's excess medical malpractice coverage, Ms. Johnson negotiated a 10% premium reduction while maintaining a very low retention for a health care institution of its size and complexity.

It is easy to understand the confidence of excess insurers in the trust's risk management program: A claim never has exceeded the trust's retention in its five years of operation.

In addition, through close monitoring of claims, initial reserves established by the Office of Risk Management have usually been close to or more than what was paid out.

"Five years down the road, we can graph how close reserves have been to the payment that later was made," said Mary D. Scheeler, vp and senior marketing and servicing manager for Alexander & Alexander Inc. in Baltimore, broker for the trust and the University Maryland Medical System Corp.

Currently, UMMS health care facilities and two groups representing physicians and certain other medical professionals practicing at the UMMS—the University of Maryland Medical Faculty Foundation Inc. and Shock Trauma Associates P.A.—pay about $8.5 million a year into the trust.

Developing and implementing a centralized risk management and loss prevention program for the health care system won Ms. Johnson a spot on the 1990 *Business Insurance* Risk Management Honor Roll representing self-insured funds and pools.

Ms. Johnson credits her success to her bosses and staff.

"The support I have received has been critical. They have provided me with accountability and responsibility. If you can substantiate your point of view, they will back you 100%," she says of her superiors.

Ms. Johnson also credits her staff: Carrie Ensor, Christine Edgin, Trish Redding and Debbie Miller, risk management coordinators; Debra Udey, claims manager; Dr. Karl Weaver, physician liaison; Mary Wright, project manager; and clerical staff members.

"The staff here does an outstanding job of keeping the lines of communication open. They can identify issues quickly. They are outstanding," Ms. Johnson says.

In turn, Ms. Johnson's associates attribute her success to her detailed knowledge of health care issues, combined with finely honed managerial skills.

'She has the ability to put an entire organization together. She has the ability to manage a multitude of issues at one time," said James Linz, executive director of the University of Maryland Medical Faculty Foundation Inc.

"She knows how to get people to work together. She has gotten people to feel that this is their program," said Dr. Michael A. Berman, the trust's chairman and chairman of the pediatrics department at the University of Maryland School of Medicine.

Continued on next page

Mary Herlehy

Josephine Goode Johnson

Johnson

Continued from previous page

Without a risk management program, the physicians and the hospital system would be spending several million dollars more on insurance and claims annually, estimates Thomas R. Mullen, vp-finance at the UMMS and treasurer of the trust.

"Risk management was financially driven. Through this program, we have limited our losses. Financially, the risk management program has been a roaring success," he said.

Others say Ms. Johnson has succeeded because of her ability to get to the heart of a problem and act quickly.

"She has a way of seeing the crux of a problem right away," said Ms. Miller, one of the risk management coordinators in the Office of Risk Management.

These attributes equipped Ms. Johnson for the huge challenge she faced when she became the trust's risk manager in 1986.

Despite its scope and breadth, the UMMS previously did not have a formal risk management program.

While physicians practicing at the UMMS were covered under a commercial malpractice liability insurance policy before the trust was formed, the insurer offered no risk management services, Ms. Johnson said.

"The insurer would say: 'Tell us about any reported claim and we will uphold our policy obligations.' There was no structure built in for risk management," Ms. Johnson said.

"We didn't know what our claims experience was other than through word of mouth. There was no system in place to control risks and reduce losses," Dr. Berman recalled.

Step-by-step, Ms. Johnson implemented a risk management program. Within months she began to put in place the program's core: an incident reporting system.

Under this system, doctors were told that as a condition of receiving coverage they must promptly report any and all adverse occurrences, like unexpected medical complications, to the Office of Risk Management.

If possible, reports are to be made within 24 hours, and never later than 30 days after any event that could result in a claim.

Physicians and other medical personnel were assured that information provided to the Office of Risk Management would be kept confidential and could not be used in a legal proceeding. State law guarantees the confidentiality of medical review committees' reports that are used to improve the quality of care.

Gradually, physician cooperation improved. Today, 80% of first reports of adverse occurrences come from physicians—often within 24 hours—rather than ancillary staffers. That's up from 25% to 30% in the early stages of the incident reporting system, Ms. Johnson said.

"This shows the commitment and involvement of physicians in the risk management program," Ms. Johnson said.

"We told the doctors, 'Don't wait for a claim. Let us try to help you,' " Ms. Johnson said.

In her first months, she also tried to win the support and cooperation of clinical department chairmen. Ms. Johnson made it clear that the Office of Risk Management would be a central source where all personnel could receive fast answers and other help to identify and minimize potential exposures.

For example, the office would try to minimize the risks for a physician who wanted to begin a new surgical procedure.

"The risk management department would ask physicians: 'Do you have enough resources? Do the assistants have enough training? Has all the equipment been tested?' The doctors would see that what we were doing was protecting them," Ms. Johnson said.

Under her direction, the Office of Risk Management also has become a source of practical and important advice, boosting physician cooperation and confidence in the program.

She recalls that one patient at the University of Maryland Hospital was accidentally given another donor's blood rather than blood she herself had donated. After the physician reported the mix-up, Ms. Johnson recommended that doctors consult top medical experts and confer with the patient to help alleviate her concerns.

"The quicker we get information, the quicker we can act to avert a problem," Ms. Johnson.

Her incident reporting system, though, goes far beyond doctors. Indeed, an entire network of departments reports occurrences to the Office of Risk Management. For example, the billing department was trained to be alert to any signs of patient dissatisfaction and report any patient complaints about bills.

"We would tell the billing staff to let us know if a patient had complained and was not going to pay a bill. Patients can feel that they have been neglected," Ms. Johnson said, noting that early intervention often can avert problems down the road.

Hand-in-hand with an information network and an incident reporting system was Ms. Johnson's development of a risk management staff.

Within four months of her arrival, Ms. Johnson hired two risk management coordinators—and later added two more. The coordinators, all of whom are registered nurses, investigate all reported occurrences and any other situations that could trigger a malpractice claim.

"The risk management coordinators have good clinical skills, which makes it easier for them to interact with the physicians. They are on the front lines. In effect, they are mini-risk managers," Ms. Johnson says.

In some cases, the risk management coordinators are important problem solvers.

"Take a case of where a nurse reports that a patient's dentures accidentally were taken away with the meal tray. The risk management coordinator would arrange that the dentures would be quickly replaced," she said.

Also under Ms. Johnson's direction, the Office of Risk Management's incident reporting system was computerized.

Using personal computer-based RISKMASTER software, developed by the Tillinghast division of Towers, Perrin, Foster & Crosby Inc., Ms. Johnson and her staff analyze occurrences to see if there are any adverse trends that need to be corrected.

The risk management information system also is used to analyze and track claims from initial notification to final resolution. Ms. Johnson estimates that in-house claims administration saves the trust more than $100,000 a year compared with the cost of using an outside vendor.

With information generated by the program, Ms. Johnson and her staff prepare reports to department chairmen and various UMMS committees, such as the Quality Improvement Committee and the Peer Review Committee, so they can correct problems.

In addition to these committees, the UMMS has established the Trust Risk Advisory Council, which is composed of several clinical department chairmen from high-risk medical areas, such as obstetrics and anesthesiology; senior members of the trust's participating institutions; and Ms. Johnson. TRAC is designed to ensure that problems that have been referred to medical staff and hospital committees and departments are resolved.

Even with effective risk management, occurrences can develop into claims.

The university medical system faces few claims for an institution of its size—generally 12 to 15 a year, about about half of which are closed without payment. The median payment is about $150,000.

The system's claims experience "has been phenomenal," said Judy Hart, deputy directory A&A's national health care division in St. Louis. She noted that an institution of the UMMS' size could expect as many as 50 claims per year.

Claims are closely tracked from the time of initial notice to litigation—if a suit is filed.

If an occurrence has claims potential, it is referred to Ms. Udey, the claims manager. Ms. Udey will continue the investigation and, if necessary, refer the case to legal staff. In addition, a reserve is established.

Typically, established reserves have been close to or more than the final payment. "Information is rapidly developed. The result has been that reserves have been very close to the ultimate payment," said A&A's Ms. Scheeler.

Ms. Johnson says the trust has a clear philosophy about settling claims: "In cases where we are clearly liable, we will attempt to negotiate a settlement. The longer a claim sits, the more likely it is to develop into a suit."

Ms. Johnson also implemented a litigation management system, which is used to closely monitor attorney performance and costs when claims are litigated.

While continuing to ensure the smooth operation of her risk management program, Ms. Johnson is not standing still.

Currently, the Office of Risk Management is examining the feasibility of establishing a captive insurance company.

A captive, Ms. Johnson said, would offer a broader range of risk financing options and improve access to excess insurers.

"We are continuing to look for new ways to meet the challenges ahead," she said. ■

Mary Herlehy

Josephine Goode Johnson and her supervisors, from left: Dr. Michael A. Berman, chairman of the University of Maryland Medical Service System Self-Insurance Trust; Tom Mullen, the trust's treasurer; James Linz, executive director of the University of Maryland Medical Faculty Foundation; and William R. Anderson III, executive director of Shock Trauma Associates P.A.

Medical center became private entity in '84

BALTIMORE—From its 19th century origins as the Baltimore Infirmary, the University of Maryland Medical System has evolved into a major health care research center.

Until 1984, the centerpiece of the system—the University of Maryland Hospital—was state-owned and financed.

However, during the late 1970s and early 1980s, the hospital racked up operating deficits and lacked access to the capital needed to modernize facilities. Part of these financial problems stemmed from the fact that the hospital had to compete with other state agencies for limited state funds.

"The hospital's overall needs, particularly for capital, were extensive and increasingly burdened the limited state pool of capital funds," according to a report prepared for the UMMS.

In 1984, the Maryland General Assembly enacted legislation that created the University of Maryland Medical System Corp., a private non-profit corporation. As a private entity, the UMMS could now issue bonds for new projects as well as have more flexibility in its operations.

Since then, more than $130 million in capital expenditures have been made to improve and expand UMMS facilities. Capital was raised through bond issues, appropriations from the state and internally generated funds.

Today, there are 747 licensed beds within the three major medical centers that comprise the hospital system: the University of Maryland Hospital, the R Adams Cowley Shock Trauma Center and the University of Maryland Cancer Center. In addition, James Lawrence Kernan Hospital Inc., an orthopedic facility in Baltimore that is a UMMS subsidiary, has 69 licensed beds. And, there are 183 licensed beds at Montebello Rehabilitation Center in Baltimore, a state-owned facility that the UMMS manages.

In fiscal year 1989, some 23,000 patients were admitted to the three major medical centers. In addition, there were 196,000 outpatient visits. The three centers produce about $241 million in annual revenues.

Even before its transition from a public to a private health care center, the thrust of UMMS operations was changing.

While the University of Maryland Hospital once was known as an inner-city facility, the hospital and affiliated centers now are known as centers of complex medical research.

"The UMMS more than ever is at the cutting edge of technology," said Josephine Goode Johnson, executive director of the University of Maryland Medical Service System Self-Insurance Trust and director of its Office of Risk Management.

Among the best known of UMMS' health care operations is the Shock Trauma Center. UMMS officials describe the $44 million trauma facility, opened last year, as the most sophisticated of its type in the world. The facility's patients "are people with injuries to multiple body systems. Fast treatment is a matter of life and death," said William R. Anderson III, executive director of Shock Trauma Associates P.A., whose members deliver medical services at the center.

Dr. Cowley's research found that there was a "golden hour," a critical period of time immediately after an accident in which massively injured patients' survival chances would significantly increase if they received immediate, intensive care.

Despite the severity of patients' injuries—often the result of auto accidents and gunshots—the UMMS Shock Trauma Center boasts a 92% survival rate, Mr. Anderson said.

—By Jerry Geisel

Johnson expanded career from nursing to risk management

By JERRY GEISEL

BALTIMORE—Josephine Goode Johnson's desire to have a larger impact on health care decisions led from an early career in nursing to her present post in risk management.

As a youngster growing up in Baltimore, Ms. Johnson, now executive director of the University of Maryland Medical Service System Self-Insurance Trust and director of its Office of Risk Management, knew she wanted to become involved in health care.

"When I was nine, I decided I was going to be a nurse. There was no doubt what I wanted to do. I wanted to save lives," she recalled.

To carry out her career ambition, Ms. Johnson, 37, studied at Community College of Baltimore, where she earned an associate of arts degree in nursing in 1973 while also working at a nursing home in Baltimore.

After graduating from nursing school, Ms. Johnson worked as a nurse at Sinai and Bon Secours hospitals in Baltimore. She worked in a number of areas, including the emergency room.

However, Ms. Johnson's career interests began to widen.

"While I was getting a great deal of satisfaction from nursing, I wanted to broaden the area in which I could have an impact. Nursing one-on-one meant you could have an impact on only a handful of people," she said.

Ms. Johnson believed that the field of health care administration offered both more potential and increased challenges. Administrators' decisions can affect thousands of people, she explained.

As a result, Ms. Johnson enrolled in Morgan State University in Baltimore and earned a bachelor of science degree in mental health administration in May 1977.

After graduating from Morgan State, she interviewed with James Harvey, a senior administrator at Bon Secours Hospital. Mr.. Harvey explained that the hospital had no administrative openings, but he would keep her in mind if a position turned up.

"I probably was a little naive thinking there would be an administration job waiting for me," Ms. Johnson said.

However, several months later, Mr. Harvey called to tell her of an opening as a risk manager at the Chesapeake Physicians Professional Assn., the largest group practice in Maryland at the time with about 400 physicians.

Ms. Johnson applied for and got the job. Quickly, she realized the challenge ahead of her.

Asked to draw up a risk management program for the group practice, she found few professional articles to use for guidance.

"Risk management was something that was very new in the hospital. . .area," she said.

So, Ms. Johnson blazed her own trail. One of her first accomplishments was to develop an incident reporting system and a new system for categorizing claims and losses. And she wrote a risk management handbook for the Chesapeake physicians.

Over time, she took on new responsibilities, developing a litigation management system as well as supervising Chesapeake's Colorado-based captive insurance company, Chesapeake Casualty Insurance Co.

While at Chesapeake, Ms. Johnson continued her studies, earning a master of public administration degree in May 1982 through an intensive program geared to working professionals offered in the Washington, D.C., area by the University of Southern California.

"It was pretty grueling, but stimulating," Ms. Johnson recalled.

In August 1985, Ms. Johnson was contacted by a special search committee looking to fill the position of director of risk management at

Continued on next page

1989/1990

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Faculty

Richard L. Schmidt—Illinois Tool Works, Chicago, IL
Donald J. Krutek, CPCU—Johnson & Higgins, Chicago, IL
Robert W. Bohanek, ARM—Unidom Corporation, Chicago, IL
Bruce Todd—Alexsis Risk Management, Chicago, IL
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Mary Herlehy

Surrounding Josephine Goode Johnson are her staff, clockwise left to right: Chris Edgin, Debbie Miller, Juillet Rodgers, Dr. Karl Weaver, Debra Udey, Trish Redding, Levette George, Carrie Ensor and Mary Wright.

Johnson's career

Continued from previous page
the newly created University of Maryland Medical Service System Self-Insurance Trust.

"With Josephine, we felt we had found someone who could form and run a risk management department," recalled Dr. Michael A. Berman, a member of the search committee and now chairman of both the trust and the pediatrics department at the University of Maryland School of Medicine in Baltimore.

After about eight years with Chesapeake, Ms. Johnson said she was ready for a change.

"The time was right. I was looking for a greater challenge, more complex challenges," she said.

Certainly, there were plenty awaiting her when she joined the trust as director of risk management.

While both the hospitals and physicians comprising the University of Maryland medical system were strongly committed to a risk management program, there was no program in place (see story, page 155).

"Before Josephine came, there was no risk management here," said Dr. Karl Weaver, physician liaison in the Office of Risk Management.

In a swirl of activity, Ms. Johnson developed a risk management program from the ground up, quickly winning the trust and confidence of physicians and administrators.

Dr. Weaver attributes Ms. Johnson's success to her knowledge of health care issues as well as her managerial and communication skills.

"She is extremely knowledgeable and a superb manager. She has built trust and set a climate for the open exchange of information," Dr. Weaver said.

"She is a very effective and efficient problem solver," adds Debbie Miller, risk management coordinator at the Office of Risk Management.

Perhaps Ms. Johnson's philosophy, which she says was instilled by her parents, best explains why she has succeeded.

"You really can do what you want to do if you put your mind to it," she says.

Despite the demands of her job, Ms. Johnson has taken the time to teach the lessons of risk management she has learned to a broader audience.

She has frequently lectured on risk management techniques at colleges and other organizations throughout the United States and even—in late 1986—in Saudi Arabia.

Ms. Johnson contributed a chapter in a 1989 text, "Essentials of Risk Management," published by Aspen Publishing.

'You really can do what you want to do if you put your mind to it,' Josephine Goode Johnson says.

In that chapter, "Gaining Administrative Support for Program Development and Implementation," Ms. Johnson explains that risk managers at large, diverse health care institutions have to be able to communicate their programs if they are to be successful in reducing losses.

"By actively soliciting and supporting their efforts, risk managers will achieve greater loss control from department managers, encourage a higher priority level and acceptance for risk management functions and significantly reduce the probability of unexpected liability claims," Ms. Johnson wrote.

A second article of Ms. Johnson's, "Guidelines for In-House Claims Management," will be published later this year in a new Aspen text, "Quality in Risk Management in Health Care: An Information Source."

Ms. Johnson has made other professional contributions as well. For example, in 1981 she founded the Maryland Society for Hospital Risk Management and was president until 1984.

And from 1979 to 1982, Ms. Johnson was a member of the board of directors of the Maryland Nurses Assn., of which she is now treasurer.

She was recently named president of the Assn. of Professionals in Risk-Related Disciplines, an organization that promotes the professional growth and career opportunities of minorities in risk management.

This month Ms. Johnson was elected first vp of the Baltimore Chapter of the National Assn. of Health Services Executives, a national advocacy organization interested in improving the quality of health care rendered to the poor.

Ms. Johnson also is the chairwoman of the education committee of the risk managers group of the University Hospital Consortium Inc., a national group composed of risk managers working at university health care systems.

In 1987, the American Society for Hospital Risk Management, an affiliate of the American Hospital Assn., named Ms. Johnson a fellow in recognition of her risk management accomplishments. Ms. Johnson currently serves as a member of ASHRM's public relations and marketing committee.

She and her husband Walter, a systems analyst with United States Fidelity & Guaranty Co., live in Catonsville, Md., with their cat, T.C. Johnson.

Ms. Johnson says her expectations of the challenges that hospital risk management could offer have been more than met.

"Risk management is the most stimulating, dynamic and challenging career that I could imagine. It has allowed me to utilize my clinical and administrative skills and make positive changes that will have an impact on the quality of medical care." ■

Hospital trust increases its retention

By JERRY GEISEL

BALTIMORE—The University of Maryland Medical Service System Self-Insurance Trust is steadily increasing the amount of medical malpractice risk it retains.

"Retentions have increased as we have become more and more confident" in the trust's risk management program, said Josephine Goode Johnson, executive director of the trust and director of its Office of Risk Management.

When the trust began operations in 1985, it retained $1.5 million per claim/$4 million aggregate. Its retention rose in 1987 to $1.75 million per claim/$5 million aggregate and again last year to the current $2 million per claim/$5 million aggregate.

The trust "has a history and a comfort level behind it that allows it to take on more risk," agreed Mary Scheeler, vp and senior marketing and servicing manager in Alexander & Alexander Inc.'s Baltimore office, the broker for the trust and the University of Maryland Medical System.

While the trust's retentions have risen, they still are substantially lower than excess insurers normally require for a health care facility of its size, Ms. Scheeler said.

A medical center the size of the 747-bed UMMS typically retains $3 million per claim and $6 million aggregate, she said.

"The low retentions illustrate the effectiveness of the risk management program. The excess underwriter is convinced that exposures are under control," Ms. Scheeler said.

Above its retention, the trust purchases several layers of umbrella liability coverage, which includes coverage for medical malpractice risks, from U.S. and foreign insurers, Ms. Johnson said.

Ms. Johnson and A&A negotiated broad coverage on the lead $5 million layer of excess liability coverage and the subsequent layers follow that form.

For example, the underwriter of the first layer agreed to provide coverage to rotating medical residents who work at the University of Maryland Medical System, but are not actually employed by the system. This coverage enhances the system's ability to attract talented residents, Ms. Scheeler said.

The trust is a nearly 5-year-old joint venture of three entities: the University of Maryland Medical System Corp., the University of Maryland Medical Faculty Foundation Inc. and Shock Trauma Associates P.A.

The trust also uses contributions from the three participating entities to support a 10-person Office of Risk Management, which is directed by Ms. Johnson and provides an array of risk management-related services. Ms. Johnson is also executive director of the trust.

Annual contributions to the trust by the three entities total about $8.5 million and are apportioned based on what each was paying for medical malpractice insurance in the fiscal year before the trust was established:

- 64% of the contributions comes from the University of Maryland Medical System Corp., or UMMS.

The UMMS, formed on July 1, 1984, includes such major Baltimore health care facilities as the University of Maryland Hospital, the University of Maryland Cancer Center and the R Adams Cowley Shock Trauma Center. Combined, these facilities have 747 licensed beds.

James Lawrence Kernan Hospital Inc., a 69-bed orthopedic center in Baltimore, is a UMMS subsidiary.

In addition, the UMMS manages Montebello Rehabilitation Center, a state-owned 183-bed facility in Baltimore. Legislation expected to be enacted next year would allow the UMMS to take over Montebello.

- 30% of trust contributions are made by the University of Maryland Medical Foundation Inc., a non-profit corporation, composed of physicians and other health care professionals practicing at the UMMS.
- 6% of contributions come from Shock Trauma Associates P.A., a 13-year-old non-profit corporation composed of medical professionals and administrative staff employed at the Shock Trauma Center.

Currently, the trust has assets of $20.9 million with $9.2 million reserved for open and reported claims. Since its inception in 1985, the trust has paid about $3 million in claims.

Aside from her responsibilities as executive director of the trust, Ms. Johnson purchases other types of insurance for the University of Maryland Medical System Corp. separate from the trust:

- Comprehensive general liability insurance underwritten by Planet Insurance Co., a unit of Reliance Group Holdings Inc. of Philadelphia. This first-dollar coverage, written on an occurrence basis, has a combined single limit of $1 million.

This coverage would protect the UMMS, for example, if a visitor to the University of Maryland Hospital slipped and fell.

- Auto liability coverage for the UMMS' fleet of 17 vehicles. This policy, also written by Planet, provides a combined single limit of $1 million. There is no deductible.

The UMMS also purchases from Planet an additional $1 million of CGL and auto liability coverage through a buffer layer policy. Additional liability coverage for the UMMS is provided through the excess umbrella purchased through the trust.

- Liability insurance for the heliport atop the R Cowley Shock Trauma Center in Baltimore.

This policy, written by National Union Fire Insurance Co. of Pittsburgh, Pa., an American International Group Inc. unit, has a $20 million combined single limit. There is no deductible.

- Directors and officers liability insurance with a $10 million limit written by Chubb Corp. subsidiary Federal Insurance Co. of Warren, N.J.

The claims-made policy provides first-dollar coverage for UMMS directors and officers, with a $100,000 deductible for corporate reimbursement.

- Pension fiduciary liability insurance, also written by Federal Insurance Co., with a $4 million policy limit.
- Crime and employee dishonesty liability insurance written by Fidelity & Deposit Insurance Co. of Baltimore with a $3 million per-claim limit. Deductibles vary depending on the type of loss.

For example, the deductible would be $1,000 for a theft of funds by a non-employee, while the deductible would be $25,000 if an employee embezzled funds.

- Property insurance written by Industrial Risk Insurers of Hartford, Conn. Buildings are insured for replacement cost with a total insured limit of about $300 million. Coverage for business interruption and boiler and machinery losses are included in the property policy limits.

The property policy includes a $5,000 deductible for certain named perils, such as fire, and a $10,000 deductible for earthquake and flood losses.

- Auto physical damage insurance, also written by Planet, which provides for the cash replacement value of a vehicle. The deductibles are $250 for collision coverage and $100 for comprehensive coverage.
- Workers compensation coverage written by the Maryland State Accident Fund, the state's competitive workers compensation fund. The fund provides statutory limits for workers compensation risks, while the employers liability policy has a $1 million per-claim limit for bodily injury by accident and a $1 million per-occurrence limit for bodily injury by disease.

The UMMS, though, is considering self-insuring its workers compensation risks. "By self-insuring, we think we can gain greater control that will result in substantial cost savings," Ms. Johnson said.

The Baltimore office of A&A brokers the umbrella insurance purchased by the trust as well as the various property and liability coverages purchased by the UMMS. ■

Risk Management Honor Roll

Oaks nurtures co-op's program

Costs pruned for 77 members

By MARK A. HOFMANN

LaVERGNE, Tenn.—Roger D. Oaks now knows that being a risk manager involves considerably more salesmanship than he imagined when he agreed to create a property/casualty insurance program for the Tennessee Farmers Cooperative in 1980.

In fact, Mr. Oaks was not even sure what a risk manager did when he accepted the offer at age 26 to put together a risk management program for the LaVergne, Tenn.-based TFC.

But over the next decade, the Ethridge, Tenn., native was able to:

- Persuade all of the TFC's 77 member cooperatives to voluntarily participate in a single insurance program combining commercial insurance and a captive insurance company to cover their property/casualty risks for the better part of a decade.

The program led to significant insurance cost reductions for the co-ops.

- Create the captive insurance company.
- Institute several loss control programs, including a back injury program that cut the incidence of back injuries in half in less than one year (see story, page 161).

To accomplish these goals, Mr. Oaks had to rely on his powers of persuasion. He cannot dictate to the member co-ops' boards of directors, which operate independently of the TFC.

"We can't demand that certain things be done. We have to show why things should be done," he said.

"The co-ops are very independent and have every right to be," he said of the members of the 77 local co-ops that own the TFC.

For these achievements, Mr. Oaks was named to the *Business Insurance* 1990 Risk Management Honor Roll, representing businesses with annual sales of less than $300 million.

"Roger has a unique ability of keeping people together. He has really good credibility with the managers of our member co-ops," said Philip R. Walker, TFC's vp and controller and Mr. Oaks' supervisor.

His communications ability has been a "tremendous asset" in building a unified insurance program for the TFC and its member co-ops from the ground up, Mr. Walker said.

Mr. Oaks "really has a deep understanding of the insurance business," an understanding that he has "developed himself" over the past decade, Mr. Walker said.

Dave Undis, a vp with Nashville-based Johnson & Higgins of Tennessee Inc. and the TFC's insurance broker, echoed Mr. Walker's sentiments.

"Roger is a unique individual who grew up on a farm, put himself through law school at night while keeping a full-time job and has a really tremendous grasp of computers and automation," he said.

"What really makes Roger so good is his ability to understand the needs of the farmers," Mr. Undis observed.

Like Mr. Walker, Mr. Undis emphasized that in putting together the TFC's insurance program, Mr. Oaks has demonstrated an unusually complete understanding of a complex subject: the property/casualty insurance industry.

That is a grand accomplishment for a former history major who did not know exactly what risk management was when he became the TFC's insurance manager in 1980.

At the time, Mr. Oaks was pension manager with the Tennessee Farmers Life Insurance Co. in Columbia, Tenn. The life insurer was managing pension funds for about 50 TFC member co-ops.

Mr. Walker then asked Mr. Oaks if he was interested in putting a new property/casualty insurance program together for the TFC and developing into a risk manager.

"I said, 'Well, that's great, sounds like something I'd want to do,' " Mr. Oaks recalled.

Then, he went home and called a friend to ask what a risk manager does.

Mr. Walker pointed out that when Mr. Oaks assumed his position, the TFC property/casualty insurance program was "kind of fragmented," with the organization depending on "outside agents" to put together its program.

And, there were no loss control professionals on the payroll.

Finally, the complexity of insuring the co-ops forced the TFC's directors and officers to conclude that the TFC needed its own risk management department and a unified insurance program covering the TFC and its 77 member co-ops, Mr. Walker said (see story, page 162).

One factor that made the job particularly challenging is the nature of Tennessee's farm cooperative system.

Mr. Oaks describes the TFC as a normal corporation turned upside down, with geographically dispersed member co-ops owning the central organization yet maintaining independent identities.

"Take a normal corporation and turn it upside down and you've got a co-op," explained Mr. Oaks.

The TFC was created shortly after World War II. Tennessee farmers, some of whom already belonged to cooperative associations in 33 counties, formed a committee to look into how cooperatives in other states operated.

The committee, led by University of Tennessee marketing specialist Al Jerdan, recommended that a federated cooperative system be established. The TFC was incorporated on Sept. 27, 1945.

It manufactures, processes and distributes a variety of farm supply products. It operates feed mills and provides fertilizer, tractor tires and other goods.

Member co-ops, in turn, are owned by about 71,000 farmers, each of whom owns one share of voting stock. Farmers elect a board of directors for each local co-op and that board chooses a local manager.

The TFC is governed by a board of directors, consisting of one farmer elected from each of seven districts across the state, and a public director chosen by the board.

"I can't go to the membership and tell them what the programs will be," because as co-ops, they retain their independence and can withdraw from the TFC's insurance program if they choose, Mr. Oaks explained.

"Once the program is put together and I've bound the coverage with the underwriter, I

Continued on next page

Stan Miskiewicz

Roger D. Oaks

Oaks

Continued from previous page
have to go sell the program," he said.

"The program is put together with the help of the broker. We do the premium allocations, and then we contract with each of the corporations. But they still have to be sold on the idea that what we've put together is the best for them," Mr. Oaks said.

"They're very independent and they have every right to be," he said.

The unified insurance program was first offered in 1982 to the member co-ops, which were attracted by the program's cost-effectiveness.

Mr. Oaks demonstrated to the member co-ops that pooling their resources and shopping for insurance was cheaper than each member co-op putting together its own program, which they had done previously.

"We came into this in the middle of the soft market. We took all of the premium dollars and all the exposures and we pooled them together and went to the market. We probably had a 60% premium decrease statewide. It wasn't real hard to sell that part," he said.

Even though costs have increased, the TFC program remains a bargain for co-op members, he said. He cited the example of a small co-op that found it would pay 40% more to obtain for itself the same coverage it has under the TFC program.

However, there was an intangible quality that had to be balanced against the cost savings, he added.

"The hard part was that there were some pretty large cooperatives that had some pretty good deals going. There were some that had some long-term ties with people that really didn't want to move out at that time," Mr. Oaks said.

Mr. Walker credits Mr. Oaks' ability to explain the advantages of a common program and his willingness to listen to local co-op managers for melting away any resistance.

"The savings were so great and the benefits were so much higher that it made sense," Mr. Oaks said.

Seven member co-ops declined to participate originally, but all had joined the program by the end of 1982, he said. No co-op has dropped out of the TFC's insurance program, he pointed out.

Mr. Oaks also created a captive insurance company for the TFC, Agricultural Risk Insurance Co. Ltd., which is based in the Cayman Islands.

Among the coverages the captive writes for the TFC are property and automobile physical damage. But, the major reason for forming the captive, which issued its first policies in 1987, was the lack of pollution liability coverage in the traditional market, Mr. Oaks explained.

Because co-ops sell fuel to their farmer members and deal in agricultural chemicals, like pesticides, they face the possibility of petroleum leaks and the release of chemicals.

"Like everyone else, we have that exposure. If you're doing retail fuel, you've got the exposure. We also have chemical storage with ag chemicals," Mr. Oaks said.

"Then suddenly, there's no pollution market."

The very few insurers that would talk about possibly providing pollution coverage insisted that environmental surveys be undertaken first, which would have been prohibitively expensive, Mr. Oaks said.

"When I've got 130 different locations spread out across the state, I could wind up spending $20 million for the surveys and I don't know whether they're going to write the coverage or not," he said.

"We couldn't find pollution coverage in a method we could afford," Mr. Oaks said.

Mr. Oaks explained that farm co-ops are even less able to cope with violent price swings than are other commercial insurance buyers. "The driving force behind all this was the fact that farm cooperatives operate on very, very tight margins. We cannot afford the kind of price roller coaster that you see in the domestic market," he said.

"If you're working with a 2% or 3% net margin and $1 million or $2 million in sales," a sudden increase in the price of insurance can be disastrous, he said.

The TFC decided to try to determine what it could do on its own, Mr. Oaks said. "We looked at what other co-ops had done and what other businesses had done. We came to the conclusion that a captive insurance program on an association basis owned by TFC and its membership on a true distribution of risk basis and as a true insurance company was the way," he said.

Although the TFC examined how other captives worked, the co-op put its own captive together "pretty much in-house," Mr. Oaks said.

For example, TFC did not use any other farm co-op as a model and did not use an outside consultant. Mr. Oaks primarily set up the captive, and he is the captive's president.

Mr. Oaks said he was impressed with the quality of the regulatory system in the Cayman Islands and soon established "a very good relationship with regulatory authorities there."

Cayman also appeared to be the most economical domicile, he said.

The TFC and its members decided to start out small, Mr. Oaks said. As the captive grew, "we would be able to do things we needed to do," he said.

The insurer was capitalized at $280,000. Capital and surplus is now more than $2 million, Mr. Oaks said.

The captive issued its first policy on March 1, 1987. It initially wrote $250,000 in pollution coverage on a claims-made basis with a $750,000 aggregate.

It now writes $300,000 in claims-made pollution coverage with a $1 million aggregate. There is a $10,000 per claim deductible.

The captive is managed by Johnson & Higgins (Cayman) Ltd.

Mr. Oaks said he hopes to use the captive and Tennessee's state fund for underground storage tanks to meet the Oct. 1 financial responsibility requirements being imposed on owners and operators of underground storage tanks by the U.S. Environmental Protection Agency.

Under the EPA regulations, owners and operators of underground storage tanks must demonstrate that they have environmental impairment liability insurance of at least $1 million per claim by Oct. 1 (*BI*, Nov. 20, 1989; Oct. 31, 1988).

Mr. Oaks said that the TFC is considering offering additional types of coverage, including some forms of animal mortality coverage, through the captive.

The possibility of adding some form of crop insurance is currently "in a holding pattern," until the federal government decides whether to continue the Federal Crop Insurance program, he said.

Mr. Oaks also implemented a risk management information system in 1984. With a basic program —ARIS from Anistics Inc.—the cooperative has individual claims information back to 1982 with all payments.

"We can download those files into Symphony and manipulate them anyway we want to," says Mr. Oaks, referring to an off-the-shelf business software program.

The system tracks loss and exposure data and generates reports to management.

It also maintains material safety data sheets, which TFC's engineering library maintains in hard copy. When a member co-op needs a material safety data sheet, the person with access to the RMIS at that location can download the information through the RMIS' electronic mail system and print the document with the member co-op's own computer.

Mr. Oaks sees several challenges on the horizon for the TFC.

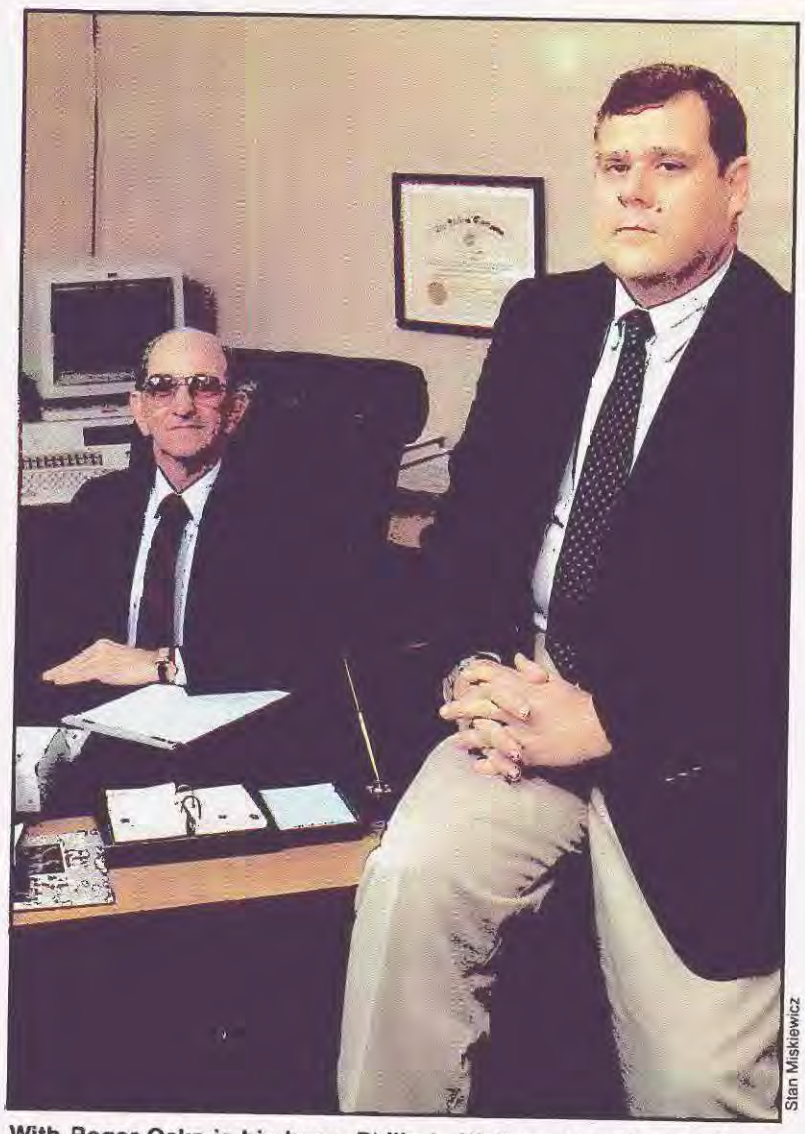
One of the most significant will be crafting a risk management program that will be able to meet the demands of a changing cooperative economy, according to Mr. Oaks.

Anyone can purchase materials from a co-op, though co-op members are the only buyers that receive an annual dividend based on the amount of their purchases, Mr. Oaks pointed out.

He said many people do not realize they can buy the same goods as farmers from the co-ops, but he believes that this is a market that co-ops must reach.

"I think the biggest challenges will be tight times for some member co-ops," he said. As fewer family farmers till the soil, "we've got to expand markets in the state," Mr. Oaks said.

But, "when you do that kind of thing, you change the risk. We have to be alert to what we're doing, and make sure we're conforming in here with what's going on out there. As the company changes, as our markets change, then risk management must respond to that with the coverages we offer and the loss control we need." ■



Stan Miskiewicz

With Roger Oaks is his boss, Philip L. Walker, vp and controller at the Tennessee Farmers Cooperative.

Oaks stays close to home at farm co-op

By MARK A. HOFMANN

LaVERGNE, Tenn.—Roger D. Oaks admits that he is more comfortable dressed in jeans and a denim jacket than in a three-piece pinstriped suit.

The 35-year-old director of risk management for the Tennessee Farmers Cooperative in LaVergne, Tenn., has not strayed far from his roots on a family farm in Middle Tennessee.

It's a background that serves him well in his daily contacts with the approximately 71,000 farmers that own the TFC.

Dave Undis, vp of Johnson & Higgins of Tennessee Inc., the TFC's broker, said the risk manager combines a modest, down-home manner with considerable professional savvy, which allows Mr. Oaks to feel at home discussing crops with farmers or special coverages with London underwriters.

No matter with whom he's dealing, Mr. Oaks is guided by the same philosophy: When he gives his word, he will keep his word.

Mr. Oaks grew up on 20-acre farm adjacent to his grandfather's 50 acres near Ethridge, about 60 miles southwest of Nashville.

When Mr. Oaks was a small boy, his father and grandfather raised strawberries and cotton, before turning to the more lucrative beef and dairy cattle business.

When he left Ethridge for the University of Tennessee at Martin, Mr. Oaks had set his sights on a legal career. In fact, he thought he might enter public service, taking much the same path as former Sen. Howard Baker of Tennessee, whom Mr. Oaks admires.

Mr. Oaks majored in history and minored in political science, earning a bachelor of science degree in liberal arts.

He married while an undergraduate. He and his wife, Debbie, now have three children: Eric, 10; Jenny, 5; and Sarah, 1.

After he finished his undergraduate work in December 1975, Mr. Oaks spent a few months as a legislative intern in the Tennessee House of Representatives. He was assigned to the House Agriculture Committee during the 1976 legislative session.

He entered the University of Tennessee Law School in Knoxville later that year, still considering a public service career.

But after a few months in law school, financial pressures led him to join Tennessee Farmers Life Insurance Co. in Columbia, Tenn., as a pension manager in April 1977.

Three years later, he joined the TFC as insurance manager and was promoted to director of risk management for the co-op in August 1986.

However, law continued to entice Mr. Oaks. While working at the TFC Mr. Oaks attended the YMCA Night Law School in Nashville.

The school is not related to the YMCA, though it held classes in the YMCA building.

The school provided a practical legal education, with classes taught by working lawyers, judges and prosecutors, Mr. Oaks said. He received his law degree in June 1983.

Mr. Oak was admitted to the bar in April 1984, and is a member of the American Bar Assn., but has never practiced law. He said he has turned down several offers to join law firms because he prefers working with the farmers as the TFC's risk manager.

He also is a member of the Cumberland Chapter of the Risk & Insurance Management Society.

Mr. Oaks, who is an avid reader, lists Tom Clancy and Robert Ludlum among his favorite authors. He also admires the work of Colin Forbes, a British espionage writer, whose works include "The Janus Man."

Because of the demands on his time, Mr. Oaks sometimes turns to audiocassette versions of current books, which allows him to catch up on his reading as he drives to and from the TFC's member co-ops.

Mr. Oaks and his family live on a five-acre homestead near Murfreesboro about 30 miles southeast of Nashville.

Mr. Oaks notes that while he is not farming as intensively as his forebears did, he currently is raising three beef cattle as well as planting a vegetable garden.

He is also an adult Sunday School teacher at the Blackman United Methodist Church.

Mr. Oaks believes that his background and continuing strong ties to rural Tennessee have been a big help in carrying out his job.

"I have an idea of what's going on out there," he said.

He also has considerable empathy for the people he serves and enjoys what he's doing.

"It's fun to go out. A lot of co-ops are still the social gathering point for the farmers," he said.

He adds that when he visits a member co-op, he generally dresses in jeans, tennis shoes, denim jacket and a co-op cap. This puts the workers at ease when Mr. Oaks discusses safety and loss-control with them.

Referring to a worker at a co-op member's loading dock or warehouse, Mr. Oaks said: "If I go out dressed more like he is, he'll listen to me." ■

Risk management takes hold at co-op

By MARK A. HOFMANN

LaVERGNE, Tenn.—Roger D. Oaks notes with more than a little pride that the member co-ops of the Tennessee Farmers Cooperative are increasingly aware that risk management means more than insurance.

"The level of conversation we're having today has moved from 'What coverages are in here?' to 'What do we do now to contain costs?' " said Mr. Oaks, the TFC's risk manager.

"It's become a sophisticated operation," he said.

Because of the nature of the TFC, with each co-op maintaining its individual identity while participating in a common insurance program, risk management functions are carried out through a separate corporate body called TFC Risk Management Services Inc.

The department buys insurance for the TFC and its member co-ops and provides loss control, safety and environmental protection services for the members. Mr. Oaks is executive vp of the unit.

The unit has a risk management contract with the TFC and each member co-op and functions as each individual organization's risk management department.

The risk management services unit, set up in 1984, is governed by a board of directors consisting of TFC President W.E. Bailey, TFC Vp and Controller Philip R. Walker and managers of three member co-ops, one each from eastern, central and western Tennessee, Mr. Oaks said.

The department also has two loss-control and safety engineers, David Martin and Norman Seguine; an administrative assistant, Peggy Tucker; a secretary, Mary Ann Romans; and one part-time clerical position, which currently is unfilled, Mr. Oaks said.

He stresses the importance of sound loss control programs in maintaining economical insurance.

For example, the U.S. Environmental Protection Agency's underground storage tank rules, which currently are being phased in, led Mr. Oaks to initiate a statewide program of tank removal and upgrading.

The EPA rules require owners and operators of tanks that do not meet federal standards to remove and dispose of the tanks. And, remaining tanks must be equipped with leak monitoring devices.

Mr. Oaks estimates that the TFC and its members had about 300 underground tanks that will eventually have to be removed. Roughly 10% of those tanks already have been dug up, he said.

Mr. Oaks said the tank removal program is designed to assure that co-ops comply with the law and that the task is done as well as possible.

To set an example for co-op members, Mr. Oaks started at the TFC's headquarters in La Vergne.

Mr. Oaks explained that tanks "are pulled out and cleaned on site." After any remaining sediment inside the tanks has been properly disposed of, the tanks are cut into pieces small enough to be moved by a small crane. The pieces are sold for scrap.

Other loss control programs preceded the tank removal program.

About four years ago, TFC built a 40,000 square-foot chemical storage warehouse near a reservoir in Rockford, Tenn.

The big question facing Mr. Oaks was how to prevent the accidental discharge of chemicals into the neighboring lake if the facility caught fire and the water used to douse the blaze mixed with the chemicals and flowed into the lake.

After spending a day playing "what if" games and devising worst-case scenarios, "we pulled out a plat and decided that it was feasible to build a retaining wall the way the lay of the land was around the structure," Mr. Oaks said.

Under normal circumstances, rainwater could flow around the warehouse, through gates in the retaining wall and into the lake.

But, in case of a fire, a fire alarm triggers electronic gates that seal off the retaining wall. All water and other liquids remain trapped inside a 500,000-gallon moat.

Mr. Oaks said the $70,000 retaining wall is a worthwhile investment. "If they have a loss, it's probably worth 70 times $70,000 to do this," he said.

Mr. Oaks also applied his down-to-earth loss-control philosophy to aerial spraying.

While the TFC does not own any planes, some member co-ops were contracting with local pilots when farmer-members requested spraying.

Realizing the potential liabilities, Mr. Oaks persuaded the co-ops to end this practice.

Instead, the TFC now will ship spray chemicals directly to wherever the farmer desires. The TFC also provides co-ops with a list of crop-dusting pilots they can give to farmers, who now contract with the pilots.

The advantage to the TFC is "to get us out of the equation" and thus out of a potentially disastrous liability situation.

The TFC's commitment to loss control also extends to its human resources.

For example, the TFC four years ago put together a defensive driving program with the aid of a broker and a former insurer after the co-ops suffered a rash of accidents.

The TFC and its members operate about 960 vehicles.

Meetings lasting roughly 5½ hours were held across the state to explain how to reduce accidents.

"We had films, we had tests, we had slides. It was always in-house," he said. "There wasn't any getting out and giving demonstrations."

The high-intensity approach worked well, he said, estimating the number of accidents dropped by about 40% within six months.

But, given normal employee turnover during a four-year period, the TFC and its member co-ops now have drivers on the road who did not attend the presentations, and accident frequency has begun to increase again, Mr. Oaks said.

Accordingly, the TFC is planning to make the presentations again later this year. The new program will be created entirely in-house, he said.

Mr. Oaks used the same approach in dealing with back injuries, a common occurrence in a business dependent on moving materials from one side of a warehouse to the other.

The TFC put together its own program in 1986 using both prepared and in-house materials. Managers were trained to train employees how to avoid back injuries.

As was the case with defensive driving, the home-grown approach worked. Within the first six months of the program, the incidence of back injuries was cut in half, Mr. Oaks said.

A new, modified program will be taken to member co-ops to cut back injuries. Mr. Oaks said he and his staff will hold training sessions for loss-control coordinators at each member co-op. If the need arises, the

Continued on next page

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Co-op

Continued from previous page
TFC staff also will help the member co-ops make the presentation. The centerpiece of the program will be videos produced by the TFC's advertising department, Mr. Oaks said.

Training also extends to co-op managers, Mr. Oaks pointed out.

Last year, the TFC launched an ongoing series of risk management seminars for the managers.

Topics included loss control, accident investigation, premium allocation and other aspects of the discipline, he said.

The program hammered its points home by using examples of losses co-op managers dealt with regularly, Mr. Oaks said.

For example, managers were presented with the case of a tire-shop employee who has an accident and runs up a $100 medical bill.

"We converted that to selling tires. How many tires does that guy have to sell when he gets back to make up for that $100 you just spent?" Mr. Oaks said. The co-op system's tight operating margins means that medical bill translated into quite a few tires.

Mr. Oaks pointed out that co-op managers had an incentive for attending the risk management seminars. Those who participated actively by asking questions and not just showing up received a 10% reduction in their loss rating under the TFC's premium allocation program.

In addition, "we asked for and were given authority to do some things that put some teeth into the program," Mr. Oaks said.

Until recently, local co-op managers could decline to implement some loss control measures with impunity, he said.

But, Mr. Oaks explained the TFC felt the risk management department needed some way to make clear that when a loss control engineer visited a co-op, his recommendations were more than mere suggestions. Those suggestions had to be implemented within a certain time.

Under the new system, established last fall, a co-op manager who delays implementing an improvement gets a second chance. But if a manager resists making a recommended risk management improvement, a panel consisting of three fellow co-op managers acts as an arbitrator between the risk management department and their recalcitrant colleague.

If the arbitrators agree with Mr. Oaks and the manager still refuses to follow the recommendations within an allotted time, the local co-op manager would be assessed a 10% penalty on his loss rating.

But, so far, no one has been slapped with such an assessment, Mr. Oaks said. In fact, there has been no resistance to the plan. Co-op managers like the accountability established under such a timetable, he said.

Peer pressure works miracles, Mr. Oaks observed. If local co-op managers find that one of their colleagues' loss experience is having a negative impact on their rates, they will let him know his actions are unacceptable, Mr. Oaks said. ■

TFC coverage cuts co-ops' costs

By MARK A. HOFMANN

LaVERGNE, Tenn.—Obtaining coverage for a farm-oriented organization is a learning process—for underwriters, says Roger D. Oaks, director of risk management for the Tennessee Farmers Cooperative.

Underwriters do not always understand the nature of a farm co-op's exposures, points out Mr. Oaks, who is also executive vp of the co-op's TFC Risk Management Services unit.

Nevertheless, Mr. Oaks has put together an insurance program for TFC and its 77 member co-ops that has withstood the test of time. Even though the members are free to withdraw from the TFC program, none has done so since Mr. Oaks put the program together in 1982.

The insurance program for the TFC and its members includes pollution liability coverage written by the TFC's captive, Agricultural Risk Insurance Co. Ltd. in the Cayman Islands.

And the coverage is significantly less expensive for member co-ops than comparable coverage they could obtain on their own, he said.

Putting together the commercial insurance program involved giving underwriters a crash course in agricultural exposures.

"Certain key phrases scare underwriters. It's not their fault. They're not used to looking at a book of business that encompasses what we do," he said.

For example, Mr. Oaks noted that underwriters do not necessarily understand that a feed mill is not the same as a grain elevator.

"You say 'feed mills' and most of the time they'll pull down an underwriting book and see, 'Beware of grain elevators because these things tend to explode,' " Mr. Oaks said.

But, he noted, there is a significant difference between a feed mill and a grain elevator. Feed mills operate on a "wet process" that uses steam to manufacture animal feed, whereas grain elevators are storage silos for dry grain.

And, the conveyors in feed mills are open, rather than closed as in grain elevators, Mr. Oaks said.

Feed mills just do not present many opportunities for the type of spontaneous combustion that destroys several grain elevators each year, Mr. Oaks said.

Another exposure that "makes underwriters uneasy" is fertilizer, according to Mr. Oaks.

"They look at fertilizer and they see ammonium nitrate," he said. "Somewhere, they remember that ammonia nitrate is one thing you might use in place of dynamite."

However, the ammonium nitrate used in fertilizer is not in the same form as that used in an explosive, Mr. Oaks said.

For the ammonium nitrate in fertilizer to explode, a huge pile of fertilizer with a fire under it would have to be under tremendous pressure and ignited with a blasting cap, he said. And, that is not how co-ops store fertilizer, he pointed out.

Mr. Oaks said his job is to explain to the underwriters: "We're not what you're thinking right off the bat—don't panic.

"It becomes a challenge to sell the company to the underwriter," he said.

Like other agricultural cooperatives across the country, the TFC manufactures, distributes, processes and procures a variety of products for its members.

Its operations consist of three broad divisions: crops, feed and petroleum/hardware.

The crops division provides such products as fertilizer, seed, agricultural chemicals and material handling.

The feed division provides manufactured feed and animal health products.

The petroleum/hardware division sells fuels, lubricants, tires, batteries, vehicle accessories and hardware, including fencing.

The TFC operates a distribution center in three regions of the state. The LaVergne center serves central Tennessee. A center in Jackson supplies western Tennessee and a similar center in Tenco supplies eastern Tennessee.

These centers operate three fertilizer plants; five feed mills; a metal fabrication plant; a seed testing laboratory; a material handling shop, which, among other things, manufactures fencing and repairs fertilizer spreaders; and a maintenance shop, which services TFC trucks.

In addition, the TFC operates a seed conditioning plant and a vegetable and lawn seed packaging facility in the western Tennessee town of Halls.

The TFC also has a total of 119 outlets, including showrooms and stores, in 86 of Tennessee's 95 counties.

The TFC and its member co-ops have roughly 3,000 employees statewide.

Johnson & Higgins of Tennessee Inc. in Nashville is the TFC's sole broker for its commercial insurance program, which renews March 1.

Mutual Service Casualty Insurance Co. of St. Paul, Minn., writes $1 million in occurrence-based general liability coverage for the TFC.

MSCI also writes $4 million of umbrella coverage on an occurrence basis on top of the $1 million primary layer.

H.S. Weavers (Underwriting) Agencies Ltd. wrote $20 million of coverage excess of $5 million on a claims-made basis, with X.L. Insurance Co. in Bermuda writing $75 million excess of $25 million.

Mr. Oaks said the TFC is not acting precipitously in the wake of Weavers' recent troubles. Walbrook Insurance Co. Ltd., which wrote 55% of the Weavers line slip, suspended underwriting last month, and recent developments suggest an orderly runoff of Weavers business could be in jeopardy (*BI*, April 23; April 9; April 2).

"We're still waiting to see what's going to happen. We're exploring what's available domestically, but our main emphasis is on what can be done to replace it in London, if it comes to that," he said.

Mr. Oaks said last week: "We're trying to see what we can work out."

Co-op members also must be covered for pollution liability risks, because they sell fuel to farmer members and deal in agricultural chemicals, such as pesticides.

The TFC's captive, Agricultural Risk Insurance, writes $300,000 in claims-made pollution coverage with a $1 million aggregate. There is a $10,000 per claim deductible.

The captive does not reinsure this coverage.

The TFC's $1 million in statutory workers compensation coverage is written by Nationwide Mutual Insurance Co. of Columbus, Ohio.

National Union Fire Insurance Co. of Pittsburgh, Pa., writes $15 million in directors and officers liability insurance for the TFC, with a $10 million aggregate sublimit for co-op members. There is a $75,000 deductible, but the TFC's captive will cover $65,000 of that above $10,000.

National Union, an American International Group Inc. unit, also underwrites the TFC's blanket crime insurance coverage, which carries a $2 million limit with a $15,000 deductible.

The TFC captive writes the deductibles down to $5,000 on employee fidelity and $500 on money and securities.

Aetna Casualty & Surety Co. writes $5 million of fiduciary liability insurance for the TFC with a $25,000 deductible.

MSCI also writes $1 million of automobile liability coverage as well as the TFC's garage liability and garage keeper liability coverage.

The TFC has $50 million of property insurance.

Agricultural Risk Insurance writes 40%, or $10 million, of the TFC's $25 million primary layer on a quota-share basis. The captive reinsures 97.5% of its portion of the layer through a pooling arrangement put together by Johnson & Higgins, Mr. Oaks said.

The London market writes 60%, or $15 million, of the $25 million primary layer. Of that, 48% is written by Lloyd's of London syndicates, and the remaining 52% is written by the London company market.

Hartford Fire Insurance Co., a unit of Hartford Group Inc., writes $25 million in property insurance excess of $25 million.

The captive also writes automobile physical damage coverage, on an actual cash value basis, with $250 deductibles for collision and comprehensive coverage for the co-ops members' 1,300 units, including trucks, tractors and autos.

The captive retains this risk.

The TFC has $1 million in boiler and machinery coverage, with a $1,000 deductible, written by American Manufacturers Mutual Insurance Co., one of the national insurance companies of Kemper Group. TFC co-op members are covered for up to $100,000 per loss, with a $250 deductible.

The total annual premium for the entire risk financing program is about $5 million, of which roughly $1 million goes to the captive, Mr. Oaks said.

Premium allocation to co-op members is based on several factors.

For example, premium allocation for property coverage is based on replacement value. General liability and umbrella insurance premium allocation is based on a co-op's sales, while automobile liability is based on fleet size.

Mr. Oaks explained: "I loss-rate based on their weighted average of sales on GL and take a five-year loss ratio. I take 90% of the standard premium developed based on their weighted average of sales. If their sales are heavier in feed or crops, then they pay more for GL than they would" if their business was weighted toward petroleum sales.

The other 10% of the allocation is based on a co-op's losses, he said. "If the loss rating is super good, you pay only pay a little more than 90% of standard premium," he said.

Mr. Oaks said that member co-ops cannot find better, less expensive coverage.

"I had one member co-op with sales of only about $1 million a year that was looking to try to cut costs," he said. The co-op's directors wondered if they could save by setting up their own insurance program.

"By the time it was all said and done, our cost was about 42% less than what they could buy on the outside market, which was nothing compared to what we could provide," he said. ■

Stan Miskiewicz

The risk management staff at the TFC, from left: Peggy Tucker, David L. Martin, Roger Oaks and Mary A. Romans. Norman Seguine is not pictured.

Sleuth system reduces thefts at member co-ops

LaVERGNE, Tenn.—Roger D. Oaks is one fan of Robert Ludlum and Tom Clancy—authors of espionage thrillers—that is running his own intelligence service.

Mr. Oaks' charge as risk manager of the Tennessee Farmers Cooperative is protecting the TFC and its 77 members against theft.

Member co-ops implement security measures the TFC recommends, but sometimes thieves find a way around that protection.

The TFC then issues a bulletin to co-op members via its risk management information system's electronic mail, describing the incident and alerting co-ops to watch for anyone attempting to sell them goods that might be stolen.

Co-op managers also regularly report unusual happenings to the TFC. For example, a co-op manager once found a man wandering around inside a warehouse, even though the co-op has an adjacent customer showroom. The man left abruptly after the manager offered to help him.

The manager reported a description of the man and his car to Mr. Oaks, who alerted other co-ops. Co-op managers in four counties reported encountering the same man in their warehouses within the next few days, but none of those co-ops reported thefts during the next several weeks.

The TFC also occasionally runs into well-organized thefts. For example, a private investigator the TFC hired to investigate a rash of thefts uncovered that out-of-state buyers had contracted for the thefts, usually of agricultural chemicals. There were no arrests, but the thefts stopped. ■

Risk Management Honor Roll

Big (picture) man on medical campus

Zuckerman seeks stability, long-term value for university

By DOUGLAS McLEOD

PHILADELPHIA—From a small corner office on the downtown campus of Thomas Jefferson University, M. Michael Zuckerman keeps his finger on the pulse of a wide array of risk management problems.

The problems are not small.

TJU, a non-profit academic health center, operates the largest private medical school in the United States and the largest hospital in Philadelphia. With nearly 8,400 employees, it is among the largest employers—public or private—in the city.

The university's problems also can be especially knotty: One of Mr. Zuckerman's major tasks is maintaining stable, affordable medical malpractice coverage for the hundreds of hospital residents and other physicians associated with the university.

As the university's director of insurance and risk management, Mr. Zuckerman also must coordinate his activities with those of Thomas Jefferson University Hospital's own risk manager and with the heads of several other university departments.

"It's a strong institution. It's a very diverse institution. There's a lot to get your arms around," Mr. Zuckerman said.

In a job that requires not only risk management expertise but considerable administrative skill, the 34-year-old Mr. Zuckerman—a former underwriter and broker—has shown he is up to the challenge.

Robert A. Peterson, TJU's vp for administration and finance, calls him "one of the finest young risk managers in any company or institution."

"He's too knowledgeable," observed Margaret O'Keefe, vp with Marsh & McLennan Inc., one of TJU's brokers.

"Mike has a lot of credibility internally," she explained, noting that other TJU officials trust the independence of Mr. Zuckerman's opinions and know he will not simply rubber-stamp the advice of a broker or outside consultant.

Mr. Zuckerman's experience as an underwriter at Wausau Insurance Cos. and as a broker with Johnson & Higgins not only gives him an unusually broad understanding of the insurance market but also lends weight to his recommendations within TJU, Ms. O'Keefe said.

"He's a big picture-type person," said Dianne P. Salter, a vp with J&H, the university's other broker. "He doesn't get bogged down in details."

"He's very thorough, but he delegates," Ms. Salter said. "He lets people do their job."

Mr. Zuckerman has had plenty of jobs to handle since he joined TJU in 1987. Over the last three years, he has:

- Overseen the formation of a captive reinsurer to take over a medical malpractice program after TJU lost its long-time London market for the coverage.
- Held together a separate, commercially insured group malpractice program in the face of competition from cheaper—though possibly less secure—markets.
- Restructured the university's umbrella liability program, resulting in increased limits and reduced premiums, and tailoring the coverage to better fit TJU's exposures.

Mr. Zuckerman is currently waiting to see if more changes on the umbrella program will be needed: Insurers managed by H.S. Weavers (Underwriting) Agencies Ltd. are long-time participants on the program. Walbrook Insurance Co. Ltd., which wrote 55% of the Weavers line slip, suspended underwriting last month (*BI*, April 2; April 9).

- Conducted a badly needed overhaul of TJU's self-insured, self-administered workers compensation insurance program (see story, page 165).
- Implemented a dual brokerage arrangement, splitting TJU's brokerage business between J&H and M&M to foster competition and responsiveness.
- Improved communication between the risk management department and several other hospital and university departments.

For these and other accomplishments, Mr. Zuckerman has been named to the 1990 *Business Insurance* Risk Management Honor Roll, representing not-for-profit institutions.

Mr. Zuckerman's responsibilities are as complex as the institution he serves.

TJU, founded in 1824 as Philadelphia's second medical school, now boasts an annual operating budget of $458 million. The academic health center treats more than 24,000 inpatients annually and enrolls nearly 2,400 students in a variety of health care fields.

TJU consists of four major divisions:

- Thomas Jefferson University Hospital, a 727-bed facility with a medical staff of 950. The hospital admitted 24,629 patients during its 1988-89 fiscal year and recorded 213,253 patient days with an 86% occupancy rate.

In addition, more than 38,000 outpatients were treated in the hospital's emergency room.

The university hospital also is affiliated with many other institutions to which Mr. Zuckerman acts as a risk management adviser. These include Jefferson Park Hospital, Children's Rehabilitation Hospital and Methodist Hospital.

- Jefferson Medical College, the largest private medical school in the country, with an enrollment this year of 876 students.
- The College of Graduate Studies, which offers master's and doctoral programs in biomedical sciences and other health care disciplines. The college has a total enrollment of 249 students.
- The College of Allied Health Sciences, which offers bachelor's and master's degrees in nursing and allied health fields. The college's enrollment totals 1,316.

TJU's 13-acre downtown Philadelphia campus has expanded steadily since the late 1960s: The university built a new library in 1970, acquired the building that houses Mr. Zuckerman's department in 1973, built a 687-bed New Hospital in 1978 and a new cancer treatment center in 1986.

This expansion is continuing, with construction now under way on a $74 million Life Sciences Building housing biomedical research facilities and an $11 million Clinical Office Building housing magnetic resonance imaging equipment. An 8,000-square-foot expansion and upgrading of the hospital's emergency department is also scheduled for completion this year.

In all, TJU manages a property portfolio in excess of $500 million, according to Mr. Zuckerman.

Property insurance has not been one of the university's problems, however: TJU has long been insured by Industrial Risk Insurers, a relationship Mr. Zuckerman left intact when he arrived.

"Long-term relationships mean a lot to Jefferson, and that's something I tried to respect when I came in," he said.

Other developments in the hardening casualty market were demanding his attention in any case.

In late 1987, the university began negotiating the July 1, 1988, renewal of a resident professional liability program covering more than 300 licensed university hospital residents.

The program was insured by London markets led by Turegum Insurance Co., a unit of Zurich Insurance Group.

However, by May 1988, it became clear that Turegum would not renew the program. This was not because its experience with TJU was poor; in fact, the university's relationship with Turegum had been a good one, according to Mr. Zuckerman. Instead, the insurer had decided to withdraw from all such programs.

"It was more like a friendly divorce," he said of the split.

The university started looking for alternatives.

Among the options it considered were other commercial insurance proposals, Mr. Zuckerman said. However, these would have been retrospectively rated plans, and insurers were insisting that the program include the hospital, which was successfully self-insured.

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Michael A. Marcotte

M. Michael Zuckerman

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Zuckerman

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The best alternative, the university ultimately decided, was a captive. After negotiating a special three-month extension of the London coverage, Mr. Zuckerman went to work with J&H, and by September 1988 the university had formed Walnut Assurance Co. Ltd. in the Cayman Islands. The captive is managed by Johnson & Higgins (Cayman) Ltd.

"That was a milestone in our insurance program," observed Samuel W. Ballam III, associate vp-finance and treasurer and Mr. Zuckerman's boss, who also noted that the milestone was reached "on somewhat short notice."

Walnut Assurance now acts as the 100% reinsurer of PHICO Insurance Co. of Mechanicsburg, Pa., which provides professional liability limits of $200,000 per loss and $600,000 annual aggregate per resident on a claims-made basis. There is no deductible.

The fact that PHICO is 100% reinsured by Walnut does not affect PHICO's rates, Mr. Zuckerman pointed out.

Limits of $1 million per loss excess of $200,000, with a $3 million aggregate per resident, are written by the Pennsylvania Medical Professional Liability Catastrophe Loss Fund, which covers all licensed physicians and hospitals in the state, Mr. Zuckerman said.

The state catastrophe loss fund receives a premium based on the amount of the underlying primary premium.

Walnut Assurance will write a little more than $1 million in gross premiums for the current policy year, and has more than $500,000 in policyholders surplus, according to Mr. Zuckerman.

TJU is now considering other uses for the captive, including an environmental impairment liability insurance program and a buffer program to fill gaps between layers of the excess general liability program and gaps in excess layers of other programs, he added.

The university's pollution exposures include normal hospital waste and chemicals used in research labs, Mr. Zuckerman said.

He added that the university now has "bits and pieces" of sudden and accidental pollution coverage in its commercially insured general liability program.

However, any expansion of the captive would require additional capital, he noted.

"It's a conservatively run company," Mr. Zuckerman said. "As a risk manager, I have to tell the university what's really prudent."

As the captive entered its first full year of operation, Mr. Zuckerman faced another malpractice insurance problem: the July 1, 1989, renewal of the university's Clinical Practice Plan, a separate group malpractice program started in 1984 that covers about 350 hospital physicians.

Mr. Zuckerman successfully renewed the program with PHICO, which writes claims-made coverage limits identical to those written by the captive-reinsured resident malpractice program: $200,000 per loss with a $600,000 aggregate.

The state medical malpractice catastrophe fund writes $1 million per loss excess of $200,000, with a $3 million aggregate.

While negotiating the renewal, Mr. Zuckerman also worked to explain elements of the program to the doctors participating and to convince them that it was a better alternative than cheaper coverage they had been offered elsewhere.

Mr. Zuckerman met one-on-one with many of the wavering physicians, stressing such "qualitative" elements of the Clinical Practice Program as PHICO's security as a market and the quality of its coverage and claims service. His efforts paid off: Dissension within the group was defused, and the program lost none of its members.

Neither the resident professional liability or Clinical Practice programs includes malpractice coverage for Thomas Jefferson University Hospital itself. The hospital—which has its own risk manager, Deborah Korleski—self-insures its malpractice risks, with excess coverage again provided by the Pennsylvania catastrophe loss fund, Mr. Zuckerman explained.

While Mr. Zuckerman manages risk financing functions for the hospital's self-insurance program, Ms. Korleski handles claims and loss control.

Mr. Zuckerman also has retooled the university's primary general liability program and its umbrella program, which provides excess general liability coverage as well as medical malpractice limits above the state catastrophe fund.

After the university lost Turegum—also its long-time primary general liability insurer—Mr. Zuckerman in 1988 negotiated new primary coverage with Continental Insurance Co., a unit of New York-based Continental Corp., over a self-insured retention.

Mr. Zuckerman declined to reveal the size of the self-insured retention or the limit of the Continental primary policy.

The university kept in place umbrella general liability and malpractice coverage underwritten by insurers on the Weavers line slip, a long-time participant on the TJU program.

However, Mr. Zuckerman moved an umbrella layer excess of Weavers from an insurer he would not identify to X.L. Insurance Co. Ltd. of Bermuda.

Mr. Zuckerman explains that he shifted the layer to X.L. because the facility's policy form provided broader coverage for a variety of TJU campus exposures, while the former insurer's form focused more narrowly on hospital exposures.

TJU is not an X.L. shareholder and does not buy the full limits available from the Bermuda company, he said, explaining that the university is "just a baby player to them."

Because of Mr. Zuckerman's restructuring efforts, the university has seen its umbrella premiums drop 9.5% over the last two years, while limits have jumped 37%.

Like many other risk managers with tough liability exposures, Mr. Zuckerman is cautiously awaiting the fate of Walbrook and the Weavers line slip.

While saying that Weavers has been a good long-term partner and the most cost-efficient market available, he added that TJU had already begun its normal July 1 renewal process—including looking at alternative markets—when the Weavers announcement hit.

TJU is following the lead of its excess liability broker, Marsh & McLennan, in examining alternative markets, he said.

"We are thorough marketers. We always make sure we have the best alternative," he said.

Mr. Zuckerman's marketing abilities have brought other improvements to insurance programs at TJU and its affiliated hospitals in recent years. Among other things, Mr. Zuckerman:

- Remarketed the university's directors and officers liability program in 1989, moving the coverage to Aetna Casualty & Surety Co. from Chubb Custom Insurance Co., a unit of Warren, N.J.-based Chubb Corp.

"They are both very good products," he said of the Aetna and Chubb policies. "But, we felt Aetna was making an effort to broaden their coverage for non-profit entities."

The switch saved TJU between 2% and 5% while increasing its D&O limit 33%, he said.

"It was a softening market anyway, so they were competitive," he added, explaining the premium savings.

- Helped Jefferson Park Hospital renew its property and liability program with PHICO at a $144,000 savings.

This resulted partly from the hospital having fewer beds than at its last renewal and partly from a better identification of exposures and a more thorough renewal application, he explained.

He credited the Jefferson Park staff for the improvement. "If you have a good patient, the doctor is going to look pretty good," he said.

- Redesigned TJU's general and professional liability programs to break out ancillary exposures, separately insuring these exposures to keep the larger programs from becoming "overburdened."

For example, the university maintains a separate malpractice program covering students at the College of Allied Health Sciences, Mr. Zuckerman noted.

TJU also has heliport coverage, including non-owned aircraft protection related to the university hospital's operation of a rooftop helipad.

In addition to his insurance marketing abilities, he has demonstrated considerable administrative and risk management skill.

One major accomplishment has been bringing his seven-person department into the computer age. In addition to implementing a vastly improved computer system for handling workers compensation claims, Mr. Zuckerman has brought computer terminals and memory typewriters into the office to handle everything from monitoring professional liability claims to producing ordinary letters.

"With the computers, I don't have to run back and say, 'I need more people.' These *are* the new people," he said, pointing to his computer terminal.

Continued on next page

Michael A. Marcotte

M. Michael Zuckerman and his staff, from left: Benjamin J. Evans, Yolanda Romero-Moore, Yvonne M. Dickerson, Karen L. Adams and Marilyn McGill. Toni Esposito is not pictured.

Computer controls costs of workers comp claims

By DOUGLAS McLEOD

PHILADELPHIA—The cost of workers compensation claims at Thomas Jefferson University leveled off last September—for the first time ever.

University officials credit M. Michael Zuckerman, director of risk management and insurance.

Mr. Zuckerman credits Yolanda Romero Moore, TJU's workers comp claims coordinator.

And, everyone involved credits the computerization of TJU's self-insured, self-administered workers comp program, which Mr. Zuckerman and Ms. Moore supervised.

The university's workers compensation program, which covers nearly 8,400 full-time and part-time employees, had been through several changes before Mr. Zuckerman arrived in 1987. In 1983, administration of the program had been transferred from the department of insurance and risk management to the university's human resources department.

But, the program later was shifted back to the risk management department, and a university task force was formed in 1986 to examine ways to bring spiralling workers comp costs under control.

One of Mr. Zuckerman's first tasks as risk manager was to implement changes in the system to slow down the cost increases.

He and Ms. Moore—who had already been involved in administering the program for some time—started talking about ways it could be improved, and Ms. Moore suggested a more powerful computerized claims management system, according to Mr. Zuckerman.

The computer system then in place was not designed to produce the data needed by an employer that self-insured its workers comp exposure, he explained. For example, while the system produced loss runs on a fiscal year basis, it could not produce loss runs on an accident-year basis.

Accident-year loss runs are needed to analyze whether accidents are increasing in number and severity. Fiscal-year loss runs only show how much has been paid during the year.

"We both quickly realized we were dealing with a system that was not adequate for our needs going forward," Mr. Zuckerman recalled.

He decided to spend about $24,000 on a customized claims management software system from Insurance Software Packages Inc. of Tampa, Fla.

The system was installed in January 1988, but implementation was delayed while the risk management department got some first-hand experience with a casualty loss: A flood in a medical lab above the department destroyed all of its computer hardware, and a backlog in orders for replacement equipment further delayed the project, Mr. Zuckerman explained.

The system was finally up and running in October 1988.

Three members of Mr. Zuckerman's seven-person risk management staff now manage the workers comp program using the ISP software on two Zenith personal computer terminals.

The workers comp claims management system now produces accident-year loss runs, something risk management department employees had previously done manually.

The system also performs a variety of other functions, including producing the vouchers needed to issue workers comp claim checks; preparing workers comp reports required by the state; and tracking loss reserves for individual claims.

The system handles an average of 90 to 100 open workers comp indemnity claim files per month and an additional 50 medical expense claim files per month, Mr. Zuckerman said.

"We have come a long way," he observed.

The computerized system also has freed Ms. Moore to devote more time to claims management and loss reduction efforts, Mr. Zuckerman said. "She can be out there trying to get people back to work, meeting with managers," he said.

"We aren't just cutting checks here," Ms. Moore said.

Ms. Moore has been training TJU supervisors in the use of a revised employee accident reporting form that requires more extensive information on accidents

Continued on next page

Zuckerman

Continued from previous page

Mr. Zuckerman also accomplished a major reorganization of the insurance department's filing system that included extensive color coding of claim and other files.

"What Mike inherited was a whole array of filing cabinets in somewhat of a disarray," observed Mr. Ballam, Mr. Zuckerman's supervisor.

After unnecessary records were weeded out, the files were arrayed neatly in a room about 10 feet square.

"We look like a dentist's office now," Mr. Zuckerman quipped.

Underlying many of Mr. Zuckerman's successes at TJU is an ability to communicate well with brokers, university officials and co-workers, those who know his work agree.

"He understands how the brokerage system works and he reads into things," said Ms. O'Keefe.

She added that when Mr. Zuckerman believes that he is not getting a straight answer, he is not shy about telling her, "Don't give me any of that brokerese."

"Having been a broker, he is good at knowing how and when and how far he can push a broker," Mr. Ballam agreed. "He is good at instigating work."

He frequently discusses risk management and insurance issues with various groups within the university, including medical students, physicians, department chairmen and administrators.

He also makes periodic presentations and reports to the university president, to the vps of administration and finance, and to other senior officers.

As the university's risk manager, he also delivers an annual presentation to the finance committee of TJU's board of trustees.

One of Mr. Zuckerman's major communication efforts has been explaining the ins and outs of the claims-made policy form, particularly to members of the Clinical Practice Plan, he said.

Mr. Zuckerman describes himself as an "interpreter" of the form, "changing the insurance-ese to English" for others in the university.

Interpreting the form became something of a specialty for Mr. Zuckerman, who went on to write a chapter on "Understanding Claims-Made Coverage" for the text "Essentials of Hospital Risk Management," published by Aspen Press earlier this year.

The university's shift to claims-made coverage in 1986 increased the importance of its event-reporting systems, Mr. Zuckerman noted.

Unlike many risk managers, Mr. Zuckerman has no direct responsibility for loss control. Instead, this function is handled by the university hospital's risk manager and the heads of TJU's environmental health and safety and campus security departments, each of which has its own event-reporting system.

However, Mr. Zuckerman helped explain the importance of event reporting in a claims-made environment to university hospital officials and helped the hospital develop its event-reporting system.

The system records about 40 to 60 events annually and passes the information along to claims consultants and excess liability underwriters. ■

Protecting the priceless

Zuckerman's duties include covering 19th century masterpiece by Eakins

PHILADELPHIA—One of M. Michael Zuckerman's most important risk management jobs is protecting an object his employer considers priceless.

The object is "The Gross Clinic," a masterwork of the 19th century American painter Thomas Eakins and a prized symbol of Thomas Jefferson University.

Dr. Samuel D. Gross, the painting's central figure, was chairman of surgery at Jefferson Medical College until 1882. The college bought the painting for $200 in 1878, three years after it was completed, and now displays it in a campus gallery.

"It's really our pride and joy," Mr. Zuckerman said.

He said the painting is worth "several million dollars," but would not be more precise.

One indication of its value, however, may be the recent $10 million to $15 million appraisal of another Eakins masterwork, "The Swimming Hole," which the Modern Art Museum of Fort Worth, Texas, was considering selling at auction this month.

Unlike many museums and galleries that have gone uninsured rather than buy high-priced art coverage, TJU insures "The Gross Clinic" and several other works, including two other Eakins paintings.

St. Paul Fire & Marine Insurance Co. not only insures the paintings while they are on display at TJU's Eakins Gallery, but has also covered "The Gross Clinic" while it was on loan to other museums, according to Mr. Zuckerman.

At 8 feet by 6½ feet, 'this thing would be very difficult to steal,' says Mr. Zuckerman.

One of the "significant risk management items" on Mr. Zuckerman's agenda last year was arranging coverage while the painting was on loan for an anniversary celebration at The Johns Hopkins University, he noted.

Despite the university's attempts to limit such loans, the painting travels to other museums fairly regularly, Mr. Zuckerman said.

Loans not only require painstaking security and transportation arrangements, but also careful review of a museum's climate control facilities and other details necessary to preserve the work under the best possible conditions.

Damage to "The Gross Clinic" during transport presents a greater risk than the possibility of theft from the Eakins Gallery, Mr. Zuckerman suggested.

At 8 feet by 6½ feet, "this thing would be very difficult to steal," he said.

The painting—considered brutally realistic for its time—depicts Dr. Gross and several other physicians performing surgery on a young man before an amphitheater of medical students.

Eakins completed the painting at age 31 for Philadelphia's Centennial Exhibition of 1876. However, the exhibition's art committee initially rejected it, and the painting did not win an award at exhibition until 1904, 12 years before Eakins' death.

The painting was restored in 1962 and moved to the new Eakins Gallery—a converted university bookstore—in 1982. The gallery also houses Eakins' portraits of two Jefferson Medical College faculty members.

—By Douglas McLeod

Work comp costs

Continued from previous page

than a previous form, including causal factors contributing to the accidents. The form was developed with a consultant before Mr. Zuckerman joined the university.

This information can then be passed on to the university's department of environmental health and safety, which can take steps to prevent similar accidents, Mr. Zuckerman explained.

The TJU workers comp claims management program also has been bolstered by improved communication between the risk management and health and safety departments and wider acceptance at TJU of the health and safety department's role, he said.

The risk management department also has improved communications with the university's workers compensation clinic, which initially examines all injured employees, and the university hospital's department of rehabilitative medicine, which provides rehabilitation services under contract to injured workers.

"There's a lot more communication, a lot more talking going on," Mr. Zuckerman observed.

He also credited Ms. Moore with making TJU's "alternate duty" program a more effective workers comp cost control tool. Under this program, injured workers who are temporarily unable to return to their regular jobs are given lighter duties in the interim.

A companion "back to work" program is designed for injured workers needing the services of the department of rehabilitative medicine, he noted.

TJU also has been challenging more spurious workers comp claims, Mr. Zuckerman noted, adding that most claims are legitimate. The risk management department has stepped up efforts to root out abuses, challenging some claims in court to set an example. "We have to keep the system from becoming contaminated," he explained.

All of these efforts resulted in the unprecedented flattening of TJU's workers comp cost spiral last September, Mr. Zuckerman and Ms. Moore say.

The university's workers comp costs are now rising no faster than the general rate of health care cost inflation, he said.

"The mere fact that we have stopped the escalation and have 'plateaued' it is an accomplishment," agreed Samuel W. Ballam III, associate vp-finance and treasurer and Mr. Zuckerman's supervisor.

The flattening trend has continued since September, and costs so far this year are roughly what they were last year at the same time, Mr. Zuckerman said.

While saying he hopes the trend continues through the end of the university's June 30 fiscal year, he added that settlement of some old claims may cause a jump in costs as the year draws to a close.

But, unlike the pervasive, systemic forces that have pushed up costs in the past, "any jump like that is very explainable," Mr. Zuckerman pointed out. ■

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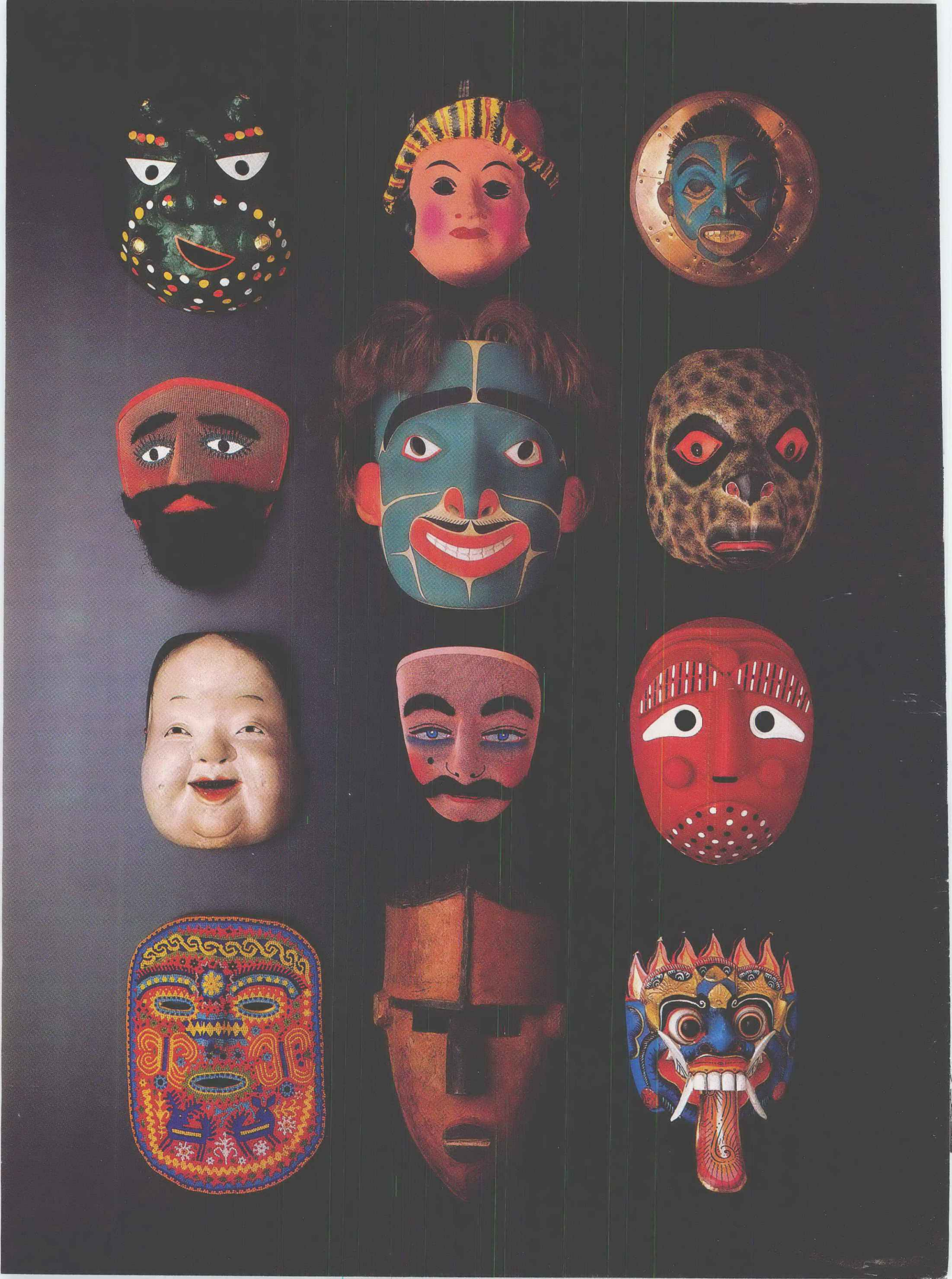

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Zuckerman fulfills dream after long wait

Wanted to be a risk manager

By DOUGLAS McLEOD

PHILADELPHIA—M. Michael Zuckerman considers himself something of a maverick: While working as an underwriter, lawyer and insurance broker, he really always wanted to be a risk manager.

After graduating from Temple University with a bachelor's degree in accounting in 1977, Mr. Zuckerman stayed in Philadelphia and began his career as an underwriter with Wausau Insurance Cos.

Before long he was lured away from underwriting by the study of law and enrolled at John Marshall Law School in Chicago. But he kept his hand in the insurance industry with a summer internship in 1979 at C.T. Bowring & Co. Ltd., which is now the London-based brokerage unit of Marsh & McLennan Cos. Inc.

Mr. Zuckerman ran into 'the worst insurance (job) market in the history of the world.'

Mr. Zuckerman explains that he knew clearly what he wanted to do with his law degree: "I went to law school with the full intention of practicing risk management."

Achieving that goal was not easy.

Upon returning to Philadelphia in 1982 with his law degree, he ran straight into "the worst insurance (job) market in the history of the world," Mr. Zuckerman recalls.

Few companies were willing to take a chance on a risk manager with no experience. In addition, underwriting and brokerage jobs were scarce.

Mr. Zuckerman, who practiced law from 1982 to 1983, decided to return to Temple for a master's degree in business administration, with an emphasis on insurance and risk management.

He found the MBA "really opened the doors" at brokerage firms, even during the depths of the soft property/casualty market. Mr. Zuckerman hired on as an assistant vp at Johnson & Higgins in Philadelphia in 1984, handling a variety of brokerage accounts.

But the desire to be a risk manager did not fade. Upon reading a Philadelphia Inquirer classified ad for a risk manager at Thomas Jefferson University, Mr. Zuckerman jumped.

Not expecting the school to be too interested in a broker, he says he was "pleasantly surprised": TJU hired Mr. Zuckerman as director of insurance and risk management in 1987.

Now, after spending years learning risk management in school and on the job, Mr. Zuckerman teaches it. Since last year, he has been an adjunct lecturer in Temple's risk management and insurance department.

In addition, since 1987, he has been an adjunct faculty member of LaSalle University's department of finance.

"I really like the teaching aspect," Mr. Zuckerman remarked, explaining that teaching often gives him ideas for handling risk management problems at the university.

The day after these ideas strike him in class, Mr. Zuckerman talks them over with his assistant, Insurance Analyst Benjamin Evans. "I have a note on Ben's desk the next day. I think he'd prefer I give the teaching up," Mr. Zuckerman quipped.

Mr. Zuckerman also serves as treasurer of the Delaware Valley Chapter of the Risk & Insurance Management Society and is a member of the board of managers of the Pennsylvania Self-Insurers' Assn.

He also wrote a chapter on "Understanding Claims-Made Coverage: How It Differs From Occurrence Coverage," contained in "Essentials of Hospital Risk Management," a textbook published by Aspen Press.

Mr. Zuckerman lives in Philadelphia with his wife and daughter. ■

Michael A. Marcotte

Michael Zuckerman reports to Samuel W. Ballam III, TJU's associate vp-finance and treasurer.

Zuckerman experiments with dual broker concept

By DOUGLAS McLEOD

PHILADELPHIA—Thomas Jefferson University Risk Manager M. Michael Zuckerman sees advantages to using two brokers, even if the brokers are less than thrilled with the arrangement.

TJU last year decided to experiment with dual brokerages, appointing Johnson & Higgins to handle the university's property and primary casualty insurance placements and Marsh & McLennan Inc. to handle excess casualty coverages.

Before this division of brokerage responsibilities, the two firms had alternated as sole broker on the university's account: M&M was exclusive broker until losing pieces of the business last year to J&H. Several years before that, J&H had lost the account to M&M.

Mr. Zuckerman and his brokers agree that J&H got its foot in the door by winning a 1988 competition to set up and manage the university's Cayman Islands captive, Walnut Assurance Co. Ltd., which writes medical malpractice coverage for residents of Thomas Jefferson University Hospital.

'It's a guarded truce. I'm not saying it's a happy triumvirate,' says Ms. O'Keefe of Marsh & McLennan.

A broker review followed, and TJU's broker review committee—including Mr. Zuckerman and several other university, hospital and medical college officials—decided to award J&H the property and primary casualty portions of the account.

Mr. Zuckerman, a former broker himself, sees the dual broker arrangement fostering competition, improving the timeliness of information he receives from both firms and generally making the brokers more responsive to TJU's needs.

Samuel W. Ballam III, associate vp-finance and treasurer and Mr. Zuckerman's supervisor, agrees: The new arrangement has helped "keep (the brokers) honest."

"It puts a little more pressure on us to tell him first" when new information becomes available, concurred M&M Vp Margaret O'Keefe. "You've got to be one up: As soon as you hear something, you've got to make sure he knows about it."

However, the split also has its dangers Mr. Zuckerman pointed out.

"The risk manager has to be more careful because more things can fall through the cracks," he said.

For example with responsibility for primary and excess liability coverage split between two brokerages, Mr. Zuckerman has to make sure policy forms are concurrent and the attachment point between primary and excess is correct.

He also has to make sure the two brokerages are communicating with each other on such matters as claims.

"It's probably harder on Mike than it is on Marsh or ourselves," agreed J&H Vp Dianne P. Salter. "It creates the need for more communication, which is positive anyway."

"The only way they interface smoothly is if Mike handles the relationship well," Mr. Ballam said.

So far, the arrangement is working out, Mr. Zuckerman said.

"I would applaud both firms. They have reacted the way I would want them to react," he said.

Even so this does not mean the situation might not change.

"From our experience, I would say that dual brokerages is the way to go, but I wouldn't go so far as to say we wouldn't use (only) one broker" again, Mr. Zuckerman said.

"Ours is an experiment, and the jury is still out," he observed.

Though TJU has not scheduled another formal broker review, Mr. Zuckerman is charged with reviewing the two brokers' performance on an ongoing basis, and a review could be scheduled at any time, he said.

Meanwhile, J&H and M&M are less than satisfied with only half the TJU account, and both are jockeying to take over the portions of the business they do not already control.

"It's a guarded truce. I'm not saying it's a happy triumvirate," M&M's Ms. O'Keefe conceded.

"We don't like it, obviously," Ms. Salter agreed, laughing.

"They're not wild about it," Mr Zuckerman acknowledged. But "to their credit, they cooperate when they have to," he added.

"They make it clear that they are standing ready to fill in whereve they're needed," he observed with a smile ■

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Independent judges select winner

All aspects of industry represented

Risk Management Honor Rolls

John A. Lindquist
Risk Manager
Browning-Ferris Industries Inc.
Large Corporation

J. Douglas Higley
Director of the Office of Risk Management
State of Louisiana
Government Entity

Gregory L. Daniels
Director - Risk Management Division
American National Red Cross
Not-for-Profit Entity

Stephen A. Finley
Risk Manager
City of Lakewood, Colo.
Government Entity

Timothy G. Galarnyk
Corporate Safety Engineer and Risk Manager
Lunda Construction Co./Phoenix Steel Inc.
Small Corporation

Edward G. Weiss
Director of Risk Management and Security
First of America Bank Corp.
Financial Institution

Susan M. Werner
Director of Risk Management
Hardee's Food Systems Inc.
Large Corporation

Mark F. Wilson
Corporate Risk Manager
First Mississippi Corp.
Small Corporation

Delmer Ison
Director of Risk Management
Washington Metropolitan Area Transit Authority
Government Entity

William E. Rogers
Director of Community Health Services and Risk Management
Conemaugh Valley Memorial Hospitial
Not-fot-Profit

Susan N. Weiner
Executive Director-Division of Risk Management
Dade County Public Schools
Government Entity

Eva F. Goodrich
Manager of Insurance and Risk Management
Cincinnati Electronics Corp.
Small Corporation

Sidney D. Blatt
Risk and Administrative Manager
Holloway Cos.
Small Corporation

Gene Snyder
Administrator - Department of General Services
Risk Management Division
State of Oregon
Government Entity

Jerri Nelson MacMillian
Risk Manager
Aetna Life & Casualty Cos.' Real Estate Investment Department
Large Corporation

Robert L. Sinclair
Risk Manager
Metropolitan Government of Nashville and Davidson County
Government Entity

Spencer J. Traver
Assistant Treasurer
BF Goodrich Co.
Runner-up

Paul B. Harvey
Risk Manager
Ponderosa Homes
Small Corporation

George N. Pierce
Risk Manager
Orange County, Fla.
Government Entity

Gene M. Marsh
Executive Vp - Risk Management
General Conference of Seventh-day Adventists
Not-for-Profit Entity

Robert Bieber
Risk Manager
Westchester County
Government Entity

William Ryan
Insurance and Risk Manager
University of Michigan
Not-for-Profit Entity

Leaders in risk management and commercial property/casualty insurance selected the 1990 *Business Insurance* Risk Manager of the Year.

The 10 independent judges scored nominations describing risk managers' accomplishments on 10 criteria, with the highest-scoring candidate named Risk Manager of the Year. While as many as five other nominees may be named to the Risk Management Honor Roll at the judges' discretion, only three were named this year.

The judges for the 1990 award, the 13th to be awarded by *Business Insurance*, were:

- Ronald E. Compton, president and director of Aetna Life & Casualty Co. in Hartford, Conn. Mr. Compton is serving on the panel for the first time, representing a stock insurance company.
- Gary L. Countryman, president and chief executive officer of Liberty Mutual Insurance Co. in Boston. Mr. Countryman is serving for the second time on the panel, representing the viewpoint of mutual insurance companies.
- John F. Doetzer, president of Consolidated Insurance Center Inc. in Baltimore. This is Mr. Doetzer's first year as a judge, representing a regional broker's viewpoint.
- Stephen A. Finley, risk manager for the city of Lakewood, Colo. Mr. Finley was a member of the 1988 Risk Management Honor Roll, representing government entities, and also served as a judge last year.
- Robert E. Gallagher, president of Arthur J. Gallagher & Co. in Rolling Meadows, Ill. Mr. Gallagher served for a second year on the judges' panel, representing national insurance brokers.
- John A. Lindquist, risk manager for Browning-Ferris Industries Inc. in Houston. Mr. Lindquist was a member of the 1989 Risk Management Honor Roll, representing large corporations. This is Mr. Lindquist's first year as a judge.
- William L. Mather, administrator of risk management for The Gillette Co. in Boston. Mr. Mather was the 1988 *Business Insurance* Risk Manager of the Year and also served as a judge last year.
- William S. Mortimer, president of his own risk management consulting firm in Laguna Beach, Calif. Mr. Mortimer, a past national president of the Risk & Insurance Management Society Inc., is serving a second year on the panel, representing the perspective of risk management consultants.
- Jeffrey W. Pettegrew, risk manager and chief administrative officer for the Contra Costa County Municipal Risk Management Insurance Authority in California. Mr. Pettegrew was the 1989 Risk Manager of the Year. This is his first year as a judge.
- Arthur F. Quern, chairman, president and chief executive officer of Rollins Burdick Hunter Co. of Chicago. Mr. Quern is serving on the panel for the first time, representing national insurance brokers.
- Ellen Thrower, president of The College of Insurance in New York. Ms. Thrower, on the panel for the second year, represents the academic community.

Created by *Business Insurance* in 1977 on the 10th anniversary of its founding, the Risk Manager of the Year award is designed to honor outstanding professionals in the field of risk management.

The Risk Management Honor Roll was created by *Business Insurance* in 1981 to recognize excellence in risk management in different types of organizations.

Detailed nominations are submitted to the judges for scoring, and the highest-scoring candidate is selected by the judges as the Risk Manager of the Year. The remaining candidates are then separated by employment categories: corporations with sales exceeding $300 million; corporations with sales less than $300 million; government entities; tax-exempt or non-profit institutions; financial institutions; and self-insurance funds and pools.

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, subject to the judges' discretion.

A candidate need not spend full time handling risk management functions to be eligible, but he or she must be a full-time employee of the organization for which he or she directs the risk management program.

To nominate a candidate for the 1991 Risk Manager of the Year award, request a nominating form by writing *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611-2590.

A candidate may be nominated by anyone familiar with the candidate's work. For example, any employee or group of employees may nominate the organization's risk manager. A broker, insurer, consultant or other service supplier can nominate a client. And, a risk manager can nominate a colleague.

Nomination statements, which must be endorsed by the candidate's superior, will be kept in strictest confidence. ■

Risk Managers of the Year

Jeffrey W. Pettegrew
Risk Manager and Chief Administrative Officer
Contra Costa County Municipal Risk Management Insurance Authority

William L. Mather
Administrator of Risk Management
The Gillette Co.

Edith F. Lichota
Senior Vp
Irving Trust Co.

Donald Nelson
Director of Risk Management
ARA Services Inc.

Harold C. Lang
Director of Insurance and Risk Management
Leaseway Transportation Corp.

Richard M. Inserra
Director of Insurance and Risk Management
American Can Co.

John A. O'Connell
Executive Director and Risk Manager
Holy Cross Shared Services Inc.

Eckhart Russell
Risk and Insurance Manager
Alcan Aluminium Ltd.

Duane E. Allen
Assistant Treasurer
Hanna Mining Co.

Thomas V. Hallett
Risk Manager
General Motors Corp.

Edward L. Erickson
Director of Insurance
American Broadcasting Cos. Inc.

Howard T. Weber
Director of Insurance
Minnesota Mining & Manufacturing Co.

BY CYNTHIA WATSON

10 Risk Manager of the Year judges

Mr. Compton

Mr. Countryman

Mr. Doetzer

Mr. Finley

Mr. Lindquist

Mr. Mather

Mr. Mortimer

Mr. Pettegrew

Mr. Quern

Ms. Thrower

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10 criteria for judging risk manager honorees

Ten criteria were used to score the nominations submitted for the 1990 *Business Insurance* Risk Manager of the Year Award and Risk Management Honor Roll.

The 10 independent judges of the annual competition scored each 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, developed).
- 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 on risks from other departments and the use of risk management information systems are addressed in this criterion.)
- Skillfully performs the functions of management in the overall organization and within the risk management/insurance department. (The functions include planning, organizing, directing and controlling.)
- Achieves the most effective program at the optimum cost over the long term.
- Developed technical expertise in any or all of the broad categories included within risk management, leading to a better managerial grasp of the operations aspects of the job.
- Exhibits an attitude and performs activities fostering the advancement of the risk management profession (such as professional activities, speaking engagements, teaching and related activities).
- Develops in his or her career (as exhibited by job history, including current job description, education, honors and memberships). ■

8 winners have taken new posts

Some of the previous winners of the *Business Insurance* Risk Manager of the Year Award are no longer in the capacities in which they won their award. They are:

- Edith F. Lichota, 1987 Risk Manager of the Year, now is vp-administration of Bankers Insurance Co. Ltd.
- Donald Nelson, 1986 Risk Manager of the Year, now is a vp with Alexsis Inc. and Alexander & Alexander Inc. in Philadelphia.
- Harold C. Lang, 1985 Risk Manager of the Year, now is director of insurance and risk management with Kohler Co. in Kohler, Wis.
- Richard M. Inserra, 1984 Risk Manager of the Year, now operates his own consulting firm, Insurance Strategies Ltd., in Ridgefield, Conn.
- John A. O'Connell, 1983 Risk Manager of the Year, now is president of Holy Cross Shared Services Inc. in Notre Dame, Ind. He had been executive director when he won the award.
- Eckhart Russell, 1982 Risk Manager of the Year, now is vp of Johnson & Higgins Willis Faber Ltd. in Montreal.
- Duane E. Allen, 1981 Risk Manager of the Year, now has his own consulting practice, Applied Risk Services Inc. in Laguna Hills, Calif.
- Thomas V. Hallett, 1980 Risk Manager of the Year, now is executive vp of Frank B. Hall & Co. Inc in New York.

Howard T. Weber, 1978 Risk Manager of the Year, died in Apr. 1988 (*BI*, July 25, 1988). ■

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INTERNATIONAL

Property/casualty market in Canada softer than U.S.

Glut of foreign capital blamed

By JUDY GREENWALD

OTTAWA—Canada is in the throes of a soft commercial property/casualty insurance market that, as in the United States, is expected to last at least until the end of the year.

But several factors distinguishing the Canadian from the U.S. market may make the Canadian market even softer, observers say.

Foremost is the predominance of foreign ownership among Canadian insurers.

About 70% of Canada's insurance business is foreign-owned, and there are only five domestically owned, publicly traded insurers among the 350 insurers that operate in the country.

"Canada doesn't have an insurance market. What Canada does is use everybody else's," commented Arthur Despard, the Toronto-based coordinator of national marketing for Reed Stenhouse Cos. Ltd., a unit of Alexander & Alexander Services Ltd.

Large amounts of capital from foreign insurers operating in Canada are blamed for feeding the glut of capital that has driven rates down.

Ted Belton, a consultant with the Tillinghast division of Towers, Perrin, Forster & Crosby Inc. in Toronto, said that Canadian property insurance rates dropped 10% in 1989, while liability insurance rates fell 13%. And, he noted that this does not reflect easing of policy terms and conditions.

The state of the Canadian insurance market is reflected in its property/casualty industry's 1989 results.

According to Statistics Canada, a government agency, the Canadian property/casualty insurance industry's:

- Combined ratio rose to 111% in 1989, up from 106.4% in 1988.
- Net premiums written increased just 3.7% to $12.8 billion Canadian ($11 billion U.S.) from $12.3 billion Canadian ($10.6 billion U.S)
- Underwriting losses increased 76.8%, to $1.4 billion Canadian ($1.2 billion) from $774.4 million ($666 million).

Continued on page 176

The Parliament buildings of Canada are the center of Canadian government activities.

Ontario payroll tax may block new benefits

By CHRISTINE WOOLSEY

TORONTO—Many employers in Ontario probably will not improve their employee benefit packages in 1990 because of a new $1.81 billion provincial tax on payroll to help finance the cost of Canada's national health plan.

However, few employers in the province are expected to reduce employee benefits not covered under Canada's national health care system, called Medicare.

In addition to the medical benefits provided by provincial and federal governments, many employers provide supplemental benefits.

For example, employers often provide additional coverage for chiropractic or podiatric services, prescription drugs, vision care, semi-private hospital rooms or emergency medical care outside of Canada.

The new payroll tax, the Employer Health Levy, which took effect Jan. 1, replaces a fixed premium imposed on Ontario residents for health care under the Ontario Health Insurance Plan.

The new tax will cost some employers at least $600 Canadian ($517 U.S.) per employee per year, according to a benefits consultant.

Self-employed individuals are exempt from the new payroll tax.

Health insurance in Canada is funded by the 10 provinces and the federal government. All residents have access to free medical care under the plan.

Under the former health care financing system in Ontario, employers could choose to pay up to 100% of employees' OHIP premium as taxable benefits to employees.

And, according to the provincial government reports, nearly 70% of Ontario employers assumed some portion of the OHIP premium cost, said Don McGrath, a vp in the Toronto office of Towers, Perrin, Forster & Crosby Inc.

OHIP premiums averaged about $360 Canadian ($310 U.S. at current exchange rates) per individual or $720 Canadian ($620 U.S.) per family annually, he said.

"That level of funding produced about 14% of the total cost of the system," Mr. McGrath said. The remaining 84% of the cost of Medicare was paid for by the province and the federal government.

In an effort to increase revenues without incurring the wrath of voters, the Ontario Treasurer and Revenue Ministry eliminated the OHIP premiums, created the payroll tax and prohibited employers from requiring employee contributions toward the cost of their Medicare benefits, Mr. McGrath explained.

"Medicare is damn near broke, but they haven't had the political will to increase the premiums" under the old system, he said.

And, "corporations don't vote, people do," Mr. McGrath said.

However, the Ontario government believes that the premium-based system was inequitable because many working residents whose employers did not pay their OHIP premium could not afford to pay the premium and, thus, did not have health coverage, said Jim Evans director of the Employer Health Tax program, which is administered by the Ontario Ministry of Revenue in Oshawa.

Ontario is the third province in Canada to abolish a premium-based system and implement an employer payroll tax in an effort to increase health care funding, Mr.

Continued on next page

'89 disasters cost $13.8 billion: Study

By STACY SHAPIRO

ZURICH, Switzerland—The string of storms that blasted Europe in the first three months of this year already have cost insurers nearly two-thirds of their record bill for catastrophes in all of 1989, says Swiss Reinsurance Co.

Insured losses from the 1990 storms total $8.8 billion, which is 64% of the record $13.8 billion Swiss Re estimates insurers paid for major catastrophes last year.

And estimates of the size of this year's storms "are still subject to extensive change," Swiss Re warns in an addendum to its survey of 1989 natural catastrophes and major losses, published earlier this year.

Zurich, Switzerland-based Swiss Re has published an annual survey of major disasters since 1970. Although the 1989 report was ready for distribution earlier this year, Swiss Re later added updated catastrophe information for some of the 1989 disasters as well as estimates of the storm damage in the first quarter of 1990

European storm losses in 1990 comprise two-thirds of all '89 insured losses, says Swiss Re.

Swiss Re classifies as a catastrophe those losses that cause 20 or more deaths and/or insured losses of at least 25 million Swiss francs ($16.1 million at year-end 1989 exchange rate). In addition, water-borne traffic losses of at least 10 million Swiss francs ($5.5 million) and aviation losses of at least 20 million in Swiss francs ($12.9 million) are defined as catastrophes.

The addendum reported that Swiss Re's calculation of total 1989 losses increased to nearly $13.8 billion from $13.3 billion in its original report, following new loss statistics on three major losses last year: Hurricane Hugo; the explosion of a Phillips Petroleum Co. plant in Pasadena, Texas; and last December's earthquake in Newcastle, Australia.

The addendum categorized storm losses in the first quarter of 1990, naming some of them hurricanes.

According to the Lloyd's of London Underwriters' Non-Marine Claims Office, the European storms constitute five separate loss

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Health care tax

Continued from previous page

Evans added.

Manitoba has a payroll tax of 2.25% and Quebec levies a 3.36% payroll tax on employers with payrolls of $100,000 Canadian ($86,240) or more.

And, "Newfoundland just announced it will implement a payroll tax by midyear," Mr. Evans pointed out.

The Ontario tax rate ranges from 0.98% to 1.95% per year based on the size of an employer's payroll. For example, employers with payrolls less than $200,000 Canadian ($172,480 U.S.) would be assessed 0.98%, while employers with payrolls totaling $400,000 Canadian ($344,960 U.S.) or more would be taxed the full 1.95%.

Of Ontario's $14 billion Canadian ($12.1 billion U.S.) annual contribution toward the cost of Medicare, OHIP premiums contributed approximately $1.8 billion Canadian ($1.55 billion U.S.) annually.

The province estimates the new payroll tax will generate $2.1 billion Canadian ($1.81 billion U.S.), said Mr. Evans.

The new tax "was quite a shock" for employers that did not pay employees' OHIP premiums, said Dr. Robert MacMillan, executive director of the health insurance division of the Ontario Ministry of Health in Kingston.

But, he said, "for those that did pay, the transition to the health levy is only a slight increase."

However, some consultants and employers disagree.

"The average wage in Ontario is $30,000 Canadian ($25,872 U.S.), so for each employee, employers will now pay at least $600 Canadian ($517 U.S.) a year," if the employer's payroll is $400,000 Canadian or more, said TPF&C's Mr. McGrath. Under the old system, employers could have paid as little as $320 Canadian ($276 U.S.) for a single employee even if the company paid 100% of workers' OHIP premiums, he said.

While the government "claimed it was a straight wash," the new tax will in fact increases costs for most employers, said Frank Livsey, a partner in the Toronto office of Hewitt Associates.

"I've yet to come across an employer that hasn't paid more" as a result of the Employer Health Levy, he said.

For 95% of the employers in Ontario, the new payroll tax "represents increased costs," said Muriel Mitchell, a senior consultant at Toronto-based Alexander & Alexander Consulting Group Inc., a subsidiary of Alexander & Alexander Services Inc. in New York.

Ms. Mitchell explained that even employers that previously paid workers' OHIP premiums will pay more because the new tax is based on full payrolls, including the earnings of part-timers and temporary staff. Employers typically did not pay OHIP premiums for those employees, she noted.

Ms. Mitchell also said that even for employers that paid 100% of employees' OHIP premium, "the tax tends to be higher."

"From an employer's perspective, the government has really gotten a blank check," asserted Vinod Bhalla, senior vp at Reed Stenhouse Cos. Ltd., A&A's Toronto-based brokerage affiliate.

"As wages increase, there is an automatic, built-in increase" in the amount of revenue the tax will generate, he explained.

Mr. Bhalla said Reed Stenhouse, which employs 550 employees in Ontario, had been paying 50% of its workers' OHIP premiums. But the payroll tax will increase the company's expenses by $350,000 Canadian ($301,840 U.S.), he said.

Employers offering flexible benefits may reduce the number of choices they offer employees as a result of the new tax.

"In the future, employers will take the new tax into consideration when deciding whether to increase the level of contributions to these programs," said Robert Braun, senior vp and assistant branch manager at the Alexander Consulting Group Ltd. in Toronto.

"If you have flexible benefits, you set aside the money you want to spend and give employees the choice to pick and choose what benefits they want," Mr. Bhalla of Reed Stenhouse explained. "If health insurance now costs more, employees under a flex plan will lose choices."

Ms. Mitchell of A&A said more employers this year chose not to improve the quality of their benefit packages.

"I don't see employers decreasing salaries. But if a company was thinking of making benefit improvements, they might not go ahead with those now," said Hewitt's Mr. Livsey.

For example, a benefits and compensation manager at a pharmaceutical manufacturer in Toronto with about 500 employees indicated her company will not improve its benefits program. The new payroll tax "will certainly affect any benefit upgrades we'd make," she said.

"Our Ontario health care expenditure increased by 33%," the benefits manager said. "A 2% tax is very significant to us," she said, noting that the average worker at the company earns $40,000 annually and the company has a $22 million payroll.

The company previously paid 100% of workers' OHIP premiums.

However, Reed Stenhouse's Mr. Bhalla pointed out that the labor supply in Ontario is tight and employers often use wages and benefits to attract the most desirable workers.

"No one will change benefits or salaries" as a result of the new tax, he asserted.

"The only way an employer can mitigate" the effect of the tax "is to reduce payroll," Mr. McGrath said. "Most employers won't do that" for a nearly 2% tax.

"My gut feeling is employers are facing the extra cost," agreed Hewitt's Mr. Livsey.

"We won't reduce salaries or benefits," said John Silverthorn, manager of IBM Canada Ltd.'s benefit programs.

Although the company paid 100% of OHIP premiums for its approximately 8,700 employees in Ontario, its health care costs will double as a result of the new tax, he said.

However, some employers say the new payroll tax is not a significant cost to them, and some even see an advantage to the tax.

"We won't see a significant increase" in costs as a result of the new tax, said Ted Molnar, secretary/treasurer at Dover Industries Ltd.

The Burlington, Ontario.-based flour milling and manufacturing company, which employs about 650 people, paid 100% of OHIP premiums for about 500 employees and 80% of the premiums for 150 employees.

"Even though the cost under the new system is 4% to 5% higher, no one is pushing the panic button here," he said.

And, Mr. Molnar pointed out, the new system is much easier to administer.

Under the premium system, employers "had to maintain a role of names and every change had to be noted," such as when an employee got married, he explained.

"Every company was responsible for administering its own OHIP premium and we had to keep up with all the changes and come up with the proper premium."

Occasionally an error was made and an employee did not get enrolled under OHIP. As a result, when the individual went to a doctor, he would find himself with no health insurance coverage.

The new system merely requires employers to apply a fixed tax rate to their payrolls.

Perhaps hardest hit by the new tax will be the Canadian federal government, which employs about 121,000 people in Ontario. The Treasury Board of Canada in Ottawa estimates the new tax will add $90 million Canadian ($77.6 million U.S.) to the amount it spends on employee health care.

"The federal government is just as annoyed as it can be," said Mr. McGrath of TPF&C.

But, he pointed out that the under the Canadian constitution, the federal government can exempt itself from provincial taxes.

Mr. Evans said the federal government plans to pay the tax through 1991 "and then it's up for review."

Another blow to the federal government as a result of the new tax is the fact that it can no longer collect tax revenues on OHIP premiums paid by employers, A&A's Ms. Mitchell said.

While the premiums paid by Ontario employers were considered a tax-deductible business expense for employers and taxable income for employees, the new tax is simply deductible as a business expense for employers. As a result, the federal and provincial governments will lose tax revenues.

Ontario's decision to switch to a payroll tax system is costing the federal treasury $400 million Canadian ($345 million) a year, said a Treasury Board spokesman. ■

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Catastrophes

Continued from page 173

events (*BI*, March 26). However, Swiss Re lists six:

- Hurricane Daria, which hit portions of Great Britain, West Germany, The Netherlands, France, Belgium, Luxembourg and Denmark on Jan. 25-26, causing at least $3.1 billion in insured damages.
- Storms and floods in Great Britain and elsewhere on Jan. 27, producing at least $540 million in insured damage.
- Hurricane Herta, which struck areas of France, West Germany, Great Britain, Belgium and Luxembourg on Feb. 3-4, producing insured losses of $1 billion.
- Storms and floods in Great Britain, West Germany, France, Belgium, Luxembourg, and Switzerland on Feb. 7-15, which will cost insurers at least $730 million.
- Hurricane Viviane, which struck portions of Great Britain, France, West Germany and Denmark Feb. 25-27, causing at least $2 billion in insured damages.
- Hurricane Wibke, which blasted parts of West Germany, the Netherlands, Great Britain, France, Belgium, Luxembourg, Switzerland and Denmark on Feb. 28 through March 1, producing insured losses of at least $1.4 billion.

Swiss Re says that 1989 "will doubtless go down in history as 'the year of the catastrophes.' "

The record $13.8 billion in insured damages last year is more than double a restated $6 billion in 1988 losses (*BI*, May 22, 1989).

Last year's insured loss total "is so far above the trend extrapolation of the previous year that the possibility of a structural break in the long-term development of the insured damage must be seriously examined," warned Swiss Re, which has attempted to estimate catastrophe trends based on the figures it has collected since 1970.

"This development indicates a stabilization of frequency to a level that is clearly higher than that of the '70s and early '80s," said Swiss Re.

Based on trends in the 1970s and 1980s, there should have been 225 natural catastrophes and major losses last year, Swiss Re says.

Worldwide, Swiss Re tallied 292 major catastrophes in 1989, of which 82 were natural and 210 were man-made. That is 10 more major catastrophes than the 282 logged in 1988, and only one fewer than the record number of 293 in 1987.

Catastrophe losses have exceeded its trend lines since 1986, Swiss Re notes.

"Increasing value concentrations, risk accumulations and a higher degree of insurance can be given as reasons here. Climatic changes could also have an unfavorable effect on the catastrophe development," the reinsurer added.

Four 1989 catastrophes in particular "characterize a year in which losses reached an unprecedented level," says the report. They are:

- Hurricane Hugo, which blasted parts of the Caribbean and the Eastern United States between Sept. 15 and Sept. 22, killing 61 people (*BI*, Oct. 2, 1989; Sept. 26, 1989). Although not as powerful as 1988's Hurricane Gilbert, Hugo caused "enormous" losses because of its path, Swiss Re noted.

Swiss Re estimates Hurricane Hugo will cost at least $4.3 billion, up from an earlier estimate of $4.1 billion.

- The explosion last October of a petrochemical plant owned by Phillips Petroleum Co. in Pasadena, Texas (*BI*, Oct. 30, 1989). The explosion killed 23 people and cost insurers $618 million in property losses and $675 million in business interruption losses, Swiss Re says.

The new loss estimate of $1.3 billion is up from the original estimate of $1.1 billion.

- The Oct. 17, 1989, San Francisco Bay area earthquake (*BI*, Oct. 30, 1989; Oct. 23, 1989), which killed at least 63 people and destroyed $7 billion worth of property, of which Swiss Re estimates $1 billion was insured.
- The Exxon Valdez tanker owned by Exxon Corp. which ran onto a reef, spilling more than 10 million gallons of crude on March 23, 1989, in Alaska's Prince William Sound (*BI*, April 3, 1989). The hull loss cost insurers about $25 million and the cleanup at least $425 million. Total insured and uninsured damages will reach at least $2 billion, Swiss Re projects.

These four losses "are representative of the. . .major losses that kept the world in general and the insurance industry in particular holding their breath last year," said Swiss Re.

In addition, Swiss Re has raised its estimate of the losses caused by last December's earthquake in Newcastle, Australia (*BI*, Jan. 2). Losses will cost insurers at least $475 million, up from an estimated $396 million.

Altogether, 15,488 people died last year in natural and man-made catastrophes, down sharply from the 50,398 people who died from disasters in 1988. A significant portion of the 1988 deaths—about 25,000—was caused by the earthquake that hit Soviet Armenia in December 1988.

1989 'will doubtless go down in history as 'the year of the catastrophes,' ' says Swiss Re.

Insured losses from natural catastrophes saw "an explosive increase" to $8.5 billion in 1989, based on the updated figures, from $2 billion in 1988, the reinsurer notes.

Of last year's natural disasters, 63 were windstorms, six were earthquakes and 13 were miscellaneous other catastrophes, such as floods, landslides, cold spells, rainfalls and hailstorms.

The windstorms—described as either hurricanes, tornadoes or cyclones—took 5,800 lives and caused $7 billion in insured damage.

Six earthquakes in 1989—twice as many as in 1988—killed 523 people and caused insured damage of $1.48 billion.

There were 210 man-made disasters last year. Total insured man-made losses last year rose to $5.3 billion, based on the updated figures, from $1.4 billion in 1988.

Man-made losses in 1989 included 61 fires, 35 aviation disasters, 33 "waterborne traffic" losses, 65 road and rail catastrophes and 16 miscellaneous catastrophes.

The 61 fire losses last year is the highest number since Swiss Re began tracking disasters in 1970, and 33% higher than the 46 fires it logged in 1988. Insured losses from fires tripled to $3.6 billion in 1989, from $1.2 billion in 1988.

Among the major fire losses in 1989, five were chemical factory fires and 10 petrochemical plants fires. In addition to the Phillips plant, losses involved:

- An explosion and fire Feb. 14 at a Bayer A.G. factory that produced lead-free paint in Uerdingen, West Germany. The total insured property loss reached $60.1 million and business interruption losses hit $83 million.
- An explosion March 7 in an ethylene oxide production plant owned by BASF A.G. in Antwerp, Belgium, that cost insurers $88 million in property damage and $294 million in business interrup-

Continued on next page

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Kemper National Insurance Companies

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INTERNATIONAL

Catastrophes

Continued from previous page
tion losses (*BI*, April 10, 1989).

• Two explosions and fires in January and May at a synthetic fuel plant owned by Sasol Two (Pty) Ltd. in the Eastern Transvaal, South Africa, which killed a total of 12 people. Insured damage in January cost $51 million, of which $16 million was property damage and $35 million was business interruption. Insured damage in May totaled $102 million, of which $5 million was property and $97 million was business interruption.

Meanwhile, there were 35 major aviation disasters last year, producing total insured damage of $1.054 billion, the highest total airline loss since 1985's $1.3 billion, when Swiss Re tallied 33 aviation disasters.

And 33 major losses occurred in the "waterborne traffic" loss sector last year, up from 25 in 1988. Insured damages in this category—which includes freighters, tankers, passenger ships and drilling platforms—totaled $562 million last year, down sharply from $2.2 billion in 1988. The main reason for the reduction is "the smaller role of disasters in connection with drilling platforms," said Swiss Re.

In 1988, the "greatest individual loss ever caused by man (occurred) —the explosion on the Piper Alpha oil and gas platform," the reinsurer noted.

There were also 65 major road and rail catastrophes in 1989—the highest number recorded since the survey was first published in 1970 —although no major insured values were registered.

There were 16 "other" major man-made catastrophes last year, such as collapses of buildings and bridges, and mine disasters. This includes the tragedy at the Hillsborough soccer stadium in Sheffield, England, in which 95 people were crushed (*BI*, Dec. 4, 1989; Aug. 14, 1989).

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For a copy of the 1989 catastrophe survey, contact Swiss Reinsurance Co., 50/60 Mythenquai, P.O. Box CH-8022, Zurich, Switzerland.

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Canadian market

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• Net income dropped 8.1% to $918.9 million Canadian ($790.3 million) from $1 billion ($860 million).

These results include the troubled automobile insurance business in Ontario, which alone accounts for about one-third of the country's total property/casualty volume, according to the Insurance Bureau of Canada, a trade group.

In contrast, the U.S. property/casualty insurance industry reported a 109.7% combined ratio last year, though U.S. insurers' net income dove 24.8% in 1989 (*BI*, April 2).

The insurance market in Canada, whose population is about 10% of that in the U.S., is roughly the same size of the insurance business in either Florida or Pennsylvania. Like the U.S. market, the Canadian market is highly fragmented, with no one insurer claiming more than a 5% share of the total business.

There is no clear consensus among Canadian insurance officials and brokers about whether commercial property/casualty insurance rates in Canada are now beginning to stabilize or whether they continue to decline. However, it's generally agreed that rates will not rise until either late this year or early next year.

Foreign investors have been attracted to Canada by its stable political and economic climate and by abundant natural resources. "We seem like a good bet for the long haul," said a spokesman for the Royal Insurance Co. of Canada, a unit of Royal Insurance P.L.C. of London.

But foreign insurers' fondness for Canada has contributed to the glut of capital in the insurance market.

Mr. Belton, who publishes a newsletter on the Canadian insurance industry, said Canada's net premium-to-surplus ratio is about 1.34-to-1. U.S. insurers reported a 1.6-to-1 net premium-to-surplus ratio last year, according to A.M. Best Co.

However, foreign companies are reluctant to repatriate capital from their Canadian operations because it would be taxed in their own countries, said Mr. Belton, who is the former president of the Insurers' Advisory Organization, the Canadian equivalent of the Insurance Services Office Inc. in the United States.

Mr. Belton noted also that many of Canada's domestically owned insurers are mutual companies, which "tend to be pretty conservative about retaining earnings." The result, he said, has been the "tremendous buildup of capacity" that has fueled the soft market.

Malcolm Heins, president of Hamilton, Ontario-based Simcoe Erie Investors Ltd., a Canadian-owned publicly traded company, agreed the number of foreign companies in Canada contributes to the soft market.

The surplus of foreign capital means the domestic insurers cannot alone trigger a turn in the market, Mr. Heins explained.

Simcoe Erie wrote $68.1 million Canadian ($58.6 million U.S.) in net premiums in 1989, down 11.7% from $77.2 million Canadian ($66.4 million U.S.) in 1988. Net income fell 47.4% to $2.5 million Canadian ($2.2 million U.S.) from $4.7 million Canadian ($4 million U.S.). Its combined ratio increased to 127% from 114.6%.

Foreign-based insurers' "fairly generous" reinsurance facilities also contribute to the surplus of capacity in the Canadian marketplace, said the Royal spokesman.

He also pointed to the sheer number of insurers in the country as a factor in the soft market. "We're a vastly overpopulated market, which is one of the main reasons a soft market in Canada tends to linger longer than it might otherwise," he said.

Royal wrote $704.1 million Canadian ($605.6 million U.S.) in net premiums in 1989, a 6.6% increase from $660.2 million Canadian ($521.3 million U.S.) in 1988. Net income increased by 1.7%, to $70.2 million Canadian ($60.4 million U.S.) in 1989 from $69 million Canadian ($59.3 million U.S.) in 1988. The insurer posted a 106.8% combined ratio, compared with 104.5% in 1988.

Gary McMillan, regional vp for American International Group Inc.'s operations in Canada, said foreign-owned insurers in the Canadian market are heavily influenced by corporate decisions made elsewhere, and often "do not appear to have total say or control over what should be done in this country."

With the odd exception, Mr. McMillan said citing AIG, there has been no pressure from insurers' foreign owners to curtail rate competition. AIG has pushed hard to hike rates in Canada, but "it remains a struggle," Mr. McMillan said.

He noted that AIG's Canadian gross premiums volume in 1989 was flat at $350 million Canadian ($301 million), though its combined ratio remained under 100%.

Canada "tends to get caught" between trends in the European and the U.S. markets, commented Roy Lever, executive vp and chief operating officer in the Toronto office of Laurentian Casualty Co. Inc. of Canada.

Laurentian General Insurance Co., Laurentian Casualty's Montreal-based parent, wrote $383.6 million Canadian ($329.9 million U.S.) in net premiums in 1989, compared with $383.9 million Canadian ($330.2 million U.S.) in 1988. The company reported net earnings of $12.6 million Canadian ($10.8 million U.S.), up 20.6% from $10.4 million Canadian ($8.9 million U.S.) in 1988. It posted a 109.5% combined ratio vs. 106.6% in 1988.

Other factors contribute to the soft market besides foreign capital.

For instance, Canada was not hit with the catastrophic property losses that battered both the U.S. and the European markets last year and drained at least some excess capital from both markets.

And, because Canada's civil justice system operates differently than the U.S., insurers have not been hit with high liability awards like those in the U.S., eliminating another possible incentive to increase rates.

Auto insurance problems in Ontario, Canada's most populous province, also have driven more insurers to concentrate on underwriting commercial lines insurance.

Auto insurance in the province generated $1.2 billion Canadian ($1 billion U.S.) in losses between 1986 and 1989, including $294 million Canadian ($252.9 million U.S.) last year, said the Insurance Bureau of Canada.

These losses have led a number of insurers to downplay personal auto business and emphasize commercial lines, which has exacerbated the soft market in Canada, said J.K. Cleary, executive vp of the Toronto-based Guardian Insurance Co. of Canada, which wrote $349.9 million Canadian ($300.9 million) in net premiums in 1989 and had a 108.2% combined ratio.

Another factor contributing to the soft market in Canada is less regulation than in the United States, said Perry R. Brazeau, vp and operations manager for central and western Canada with Allendale Mutual Insurance Co. in its Willowdale, Ontario, office. As a result, said Mr. Brazeau, the swings in Canada's cycles tend to be more extreme than in the U.S.

Allendale wrote $30.4 million Canadian ($26.1 million U.S.) in net premiums in 1989, up 8.3% from $28.1 million Canadian ($24.2 million U.S.) in 1988. Net income increased 9.9% to $10 million Canadian ($8.6 million U.S.) from $9.1 million Canadian ($7.8 million U.S.). It posted a 72% combined ratio, up slightly from a 68% combined ratio in 1988.

It's generally agreed that when pricing in the Canadian market does turn, it will be gradual.

"We do expect there'll be some gradual firming up," with no dramatic reversal in the immediate future, said H.J. Saunders, president and chief executive officer of Zurich Canada, a unit of Zurich, Switzerland-based Zurich Insurance Group. Zurich Canada purchased the Travelers Corp.'s Canadian operations in 1988 (*BI*, Sept. 26, 1988).

Zurich Canada, which reported $6 million Canadian ($5.2 million) in net income in 1989, wrote $766.3 million Canadian ($659 million) in direct premiums, up 8% from $709.5 million Canadian ($610.2 million) in 1988.

Speaking of a turn in the market, the Royal spokesman agreed: "I don't think it will be sudden. I think it's much more likely to be gradual."

However, while Guardian's Mr. Cleary said the next market turn "won't be as dramatic as 1985, I think it'll be a little more rapid than a soft landing."

AIG's Mr. McMillan said the severity of the hard market will depend on whether a gradual turn begins this year.

R. Lewis Dunn, president and chief executive officer of the Scarborough, Ontario-based Canadian General Insurance Co., believes the success of a no-fault automobile system to be introduced in June in Ontario will affect when the market turns.

If auto insurance becomes profitable, it could prolong the soft market for as long as a year or two, said Mr. Dunn. On the other hand, if the no-fault does not succeed in cutting insurers' losses, Mr. Dunn believes it will encourage insurers to raise rates for other lines of business to compensate for auto losses.

Canadian General reported $19 million Canadian ($16.3 million) in net income in 1989, down 21.7% from $24.3 million ($20.9 million) in 1988. Gross premiums written increased 42.1% to $216 million Canadian ($185.8 million) from $152 million Canadian ($130.7 million).

The results reflect the $68.8 million acquisition in December of United States Fidelity & Guaranty Co.'s Canadian property/casualty operations by Canadian General's parent, Halifax, Nova Scotia-based Central Capital Corp. of Canada (*BI*, Dec. 11, 1989). ■

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Salary survey

Continued from page 1

when they create risk management positions or want to see how their compensation practices compare with those of their competitors.

The latest survey is based on questionnaires sent earlier this year to 3,959 risk managers. Some 1,452 risk managers returned the questionnaires for a response rate of 37%, up from 36% last year.

Bonuses slumped last year in only one category of risk managers —those whose companies have annual sales of less than $200 million.

While bonuses climbed 6.6% to 10.9% for most risk managers, bonuses for risk managers at the smallest companies surveyed fell 2.8% on average, the survey found.

However, bonuses for risk managers during 1988 had fallen as much as 35% (*BI*, April 10, 1989).

One reason for the higher bonuses is that companies are emphasizing performance and rewarding risk managers accordingly, said Bill Perry, president of Logic Associates, a New York-based recruiting firm specializing in risk management.

"Risk management each and every year is gaining recognition and responsibility within the corporate hierarchy," Mr. Perry said.

Another significant finding of this year's survey was that risk managers at midsized corporations —those with sales of between $1 billion and $2 billion—earned on average more than their counterparts at firms with sales between $2 billion and $4 billion.

Risk managers at firms with $1 billion to $2 billion in sales earned salaries averaging $77,914, while those at companies with $2 billion to $4 billion in sales earned an average of $77,207.

Including bonuses, risk managers at companies with between $1 billion and $2 billion in sales earning an average of $84,072 in total compensation, compared with $83,678 earned by their counterparts at the larger firms.

Explaining the larger salaries, Mr. Perry suggested that perhaps "midsized companies are becoming more and more competitive."

The 11.7% increase in salaries at companies with $1 billion to $2 billion in annual sales was the largest among all the categories surveyed. Average risk managers' salaries, based on company size, include:

- Companies with more than $7 billion in sales, $94,079 in 1989, up 5.9% from $88,796 in 1988.
- Companies with $4 billion to $7 billion in sales, $84,979, up 4.7% from $81,188 in 1988.
- Companies with $2 billion to $4 billion in sales, $77,207, up 6.1% from $72,761 in 1988.
- Companies with $1 billion to $2 billion in sales, $77,914, up 11.7% from $69,742 in 1988.
- Companies with $501 million to $1 billion in sales, $64,253, up 2.1% from $62,916 in 1988.
- Companies with $201 million to $500 million in sales, $61,196, up 6.3% from $57,578 in 1988.
- Companies with less than $200 million in sales, $58,257, up 3.2% from $56,476 in 1988.

Likewise, the 10.9% increase in bonuses among risk managers at companies with between $1 million and $2 million in sales led the pack. Average bonuses, based on company size, include:

- Companies with more than $7 billion in sales, $9,926, up 8.4% from $9,154 in 1988.
- Companies with $4 billion to $7 billion in sales, $9,905, up 7.5% from $9,213 in 1988.
- Companies with $2 billion to $4 billion in sales, $6,471, up 7.4% from $6,025 in 1988.
- Companies with $1 billion to $2 billion in sales, $6,158, up 10.9% from $5,555 in 1988.
- Companies with $501 million to $1 billion in sales, $4,711, up 7.2% from $4,394 in 1988.
- Companies with $201 million to $500 million in sales, $4,156, up 6.6% from $3,897 in 1988.
- Companies with less than $200 million in sales, $3,599, down 2.8% from $3,704 in 1988.

Average risk managers' compensation, including bonus and salary, based on company size, include:

- Companies with more than $7 billion in sales, $104,005, up 6.2% from $97,950 in 1988.
- Companies with $4 billion to $7 billion in sales, $94,884, up 5.0% from $90,401 in 1988.
- Companies with $2 billion to $4 billion in sales, $83,678, up 6.2% from $78,786 in 1988.
- Companies with $1 billion to $2 billion in sales, $84,072, up 11.7% from $75,297 in 1988.
- Companies with $501 million to $1 billion in sales, $68,964, up 2.5% from $67,310 in 1988.
- Companies with $201 million to $500 million in sales, $65,352, up 6.3% from $61,475 in 1988.
- Companies with less than $200 million in sales, $61,856, up 2.8% from $60,180 in 1988.

Logic breaks down risk management compensation by industry, but the survey format makes it difficult to make widespread comparisons between compensation levels among companies in different industries.

However, when examining only those companies with between $1 billion and $2 billion in sales, risk managers in the entertainment industry were the most highly compensated. They averaged $89,736 in total compensation, including an average salary of $87,816 and an average bonus of $1,920.

Risk managers at companies with $1 billion to $2 billion in sales in other industries reported the following compensation:

- Conglomerates: $89,408 total, including $78,996 in salary and $10,412 in bonus.
- Drug/pharmaceutical: $89,180 total, including $84,310 in salary and $4,870 in bonus.
- Construction: $87,447 total, including $83,925 in salary and $3,522 in bonus.
- Cosmetics: $86,107 total, including $82,833 in salary and $3,274 in bonus.
- Paper: $85,192 total, including $75,625 in salary and $9,567 in bonus.
- Natural resources: $84,429 total, including $78,696 in salary and $5,733 in bonus.
- Chemical: $83,667 total, including $78,971 in salary and $4,696 in bonus.
- Consumer products: $81,456 total, including $74,747 in salary and $6,709 in bonus.
- Communications: $80,814 total, including $74,071 in salary and $6,743 in bonus.
- Metals/mining: $80,474 total, including $73,255 in salary and $7,219 in bonus.
- Oil/petrochemical: $79,835 total, including $73,940 in salary and $5,895 in bonus.
- Manufacturing: $79,214 total, including $72,450 in salary and $6,764 in bonus.
- Hotels: $78,491 total, including $72,329 in salary and $6,162 in bonus.
- Retail: $78,114 total, including $70,141 in salary and $7,973 in bonus.
- Services: $77,375 total, including $64,364 in salary and $13,011 in bonus.
- Food: $76,240 total, including $73,099 in salary and $3,141 in bonus.
- Utilities: $73,088 total, including $68,201 in salary and $4,887 in bonus.
- Publishing: $71,528 total, including $68,127 in salary and $3,401 in bonus.

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Copies of the survey are available for $60 each from Logic Associates Inc., 170 Broadway, Suite 1208, New York, N.Y. 10038: 212-227-8000.

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Market stabilized in '89: RIMS survey

By CHRISTINE WOOLSEY

NEW YORK—The commercial property/casualty insurance market stabilized in 1989, with the softening trend evident since 1987 slowing and signs of a hardening market beginning, a new survey shows.

While premiums in 1989 generally were unchanged and most coverages were abundant, "the implication for buyers is that the premium decreases, limit increases and/or coverage condition improvements enjoyed during recent renewals may be difficult to replicate during 1990 renewals," according to the Risk & Insurance Management Society Inc.'s fifth annual insurance availability survey.

The survey was mailed in December to 4,256 RIMS members in the United States and Canada. The results, received by Feb. 16, reflect responses from 1,315 members—31% of those contacted.

Responding companies represent a cross-section of industries and ranged in size from less than $10 million in annual revenues to more than $10 billion.

The survey reviewed market conditions in 10 lines of commercial insurance, including:

- Primary general liability, which 83% of respondents found "easy to purchase." However, only 47% reported premium reductions in 1989, compared with 63% in 1988.
- Product liability, for which 81% of respondents indicated "no change" in coverage conditions, compared with 75% in 1988. Fifteen percent indicated "improved" conditions, vs. 19% in 1988.

However, 24% reported "some" or "much difficulty" in obtaining product liability coverage in 1989.

- Professional liability, the availability of which remained a problem for many respondents. Premiums increased for 31% of participants, compared with only 28% in 1988. And, while fewer respondents indicated coverage was unavailable—3% in 1989 vs. 5% in 1988, 39% still reported difficulty in obtaining coverage last year.
- Umbrella/excess liability, for which premiums decreased for fewer respondents in 1989: 63% compared with 80% in 1988. Premiums increased last year for 18% of respondents, compared with 10% in 1988.

In addition, only 23% reported increasing their excess liability limits last year, compared with 9% in 1988.

- Directors and officers liability, for which 50% of respondents reported premium decreases and 35% indicated "improved" conditions. In 1988, 67% of respondents reported decreases and 44% reported improved conditions.

Twenty-three percent of respondents paid higher D&O premiums last year, compared with 20% in 1988.

- Environmental impairment liability, for which fewer respondents than in 1988 found the coverage "unavailable"—26% in 1989 vs. 43% in 1988. However, another 22% still found EIL coverage conditions "somewhat" or "highly" restricted last year.
- Property damage/business interruption, which 90% of respondents said was easy to purchase in 1989, virtually unchanged from 1988. Premiums decreased for 63% of respondents, compared with 76% in 1988.

Alternative risk financing programs still are attracting some insurance buyers, though growth has slowed, the survey noted.

Only 7% reported joining alternative facilities in 1989, down from 9% last year.

The most popular alternative is self-insurance, RIMS found. Forty percent of respondents said they self-insured workers compensation risks, 30% self-funded general liability risks and 23% self-funded product liability risks.

Workers compensation is drawing the greatest interest from employers looking to set up new self-insurance programs. For instance, 3% of respondents began self-insuring their work comp risks last year, while another 6% are considering self-insuring work comp risks for the first time this year.

Self-insurance is most popular among governmental entities, educational and non-profit institutions, utilities, and health care organizations, the survey noted.

For example, 73% of governmental entities indicated self-insuring general liability risks; 53% of educational and non-profit organizations self-insured workers compensation risks; 56% of utilities indicated self-insuring work comp risks; and 54% of health care organizations self-insured professional liability risks.

Twelve percent of surveyed companies use a single-parent captive to fund primary general liability risks; 11% use a captive to fund product liability and work comp risks; and 10% use a captive to fund property risks.

Finally, 7% of respondents joined a policyholder-owned facility—like ACE Ltd. or X.L. Insurance Co. Ltd.—last year, joining the 21% that already belonged. Only 2% reported leaving such a facility last year.

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Copies of the "1990 Insurance Availability Survey" are available for $35 for RIMS members and $50 for non-members from RIMS Research Department, 205 E. 42nd St., New York, N.Y. 10017.

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Top concerns

Continued from page 1
Washington, D.C.

Risk managers ranked the unpredictability of insurance prices third on their list of concerns, with 81% of respondents saying the issue is of high or above average importance.

The 1989 survey did not query risk managers about the predictability of the insurance market.

"The survey data suggests that risk managers are increasingly concerned about market trends," Mr. Moore said.

"Despite the fact they are the beneficiaries of declining prices, risk managers are shrewd businessmen who know the business is being underpriced, and they are apprehensive about future price adjustments," he explained.

Ronald. W. Stasch, outgoing president of RIMS and manager of risk management services at Federal-Mogul Corp. in Southfield, Mich., predicted that concern about insurance market fluctuations will increase in future surveys.

"Violent price swings are unacceptable," he said.

Topping risk managers' list of concerns were two tort reforms: caps on non-economic and/or punitive damages and elimination of joint and several liability.

The 1990 survey shows that risk managers not only continue to be concerned about these tort reform issues, but also that their level of interest is increasing, according to Mr. Moore.

Eighty-eight percent of risk managers responding to the 1990 survey said these tort reform issues were of above average importance or of high importance, compared with 86% in 1989. Seventy-six percent of the 1988 survey respondents—who were not asked about specific tort reforms—ranked tort reform in general an issue of above average or high importance.

Caps on non-economic and punitive damages are important to risk managers because companies "cannot price their products to incorporate these elements, which involve emotions and intangible injury," said Cheri J. Hawkins, president-elect of RIMS and director of insurance for Tacoma, Wash.-based Weyerhaeuser Co.

Howard Greene, RIMS' director of governmental affairs, said a U.S. Supreme Court ruling that excessive punitive damages do not violate the Eighth Amendment's prohibition against excessive fines "brought renewed attention to this issue" (*BI*, July 3, 1989).

Mr. Stasch suggested that risk managers' concerns about non-economic and punitive damages stems from an increased awareness that these factors put U.S. business at an economic disadvantage with foreign competitors.

Similarly, while modification of joint and several liability was risk manager's second-most important concern both this year and last, 86% of 1990 survey respondents rated the issue as one of high or above average concern, compared with 83% in 1989.

Joint and several liability, like non-economic and punitive damages, affects a corporation's bottom line, Mr. Stasch said.

Under joint and several liability, for example, a company that is 1% at fault for an injury can be held liable for 100% of the damages if the other wrongdoers are unable to pay.

Corporations contend it is "unfair" to hold a company to a degree of financial responsibility that is not in proportion with its degree of fault, Mr. Stasch said.

"It is not fair to always go after the deep pocket," Ms. Hawkins agreed.

"This is a jugular issue for risk managers," Mr. Moore observed.

Several other civil justice reforms also are top concerns for risk managers, including limits on directors and officers liability, product liability reform, abolition of attorney contingency fees and use of alternative dispute resolution mechanisms.

"Tort reform is as pervasive a concern as it has ever been in recent years," Mr. Moore said.

"Six of the top seven concerns of risk managers are tort reform issues," Mr. Greene noted.

"After all of the tort reform laws passed in the mid- and late 1980s, risk managers still see this as a major problem," he said.

"Risk managers are simply not satisfied with the way the system is working," he said.

"Every risk manager has to handle claims that are the result of the failure of tort reform," Ms. Hawkins said. "It is a very visible issue."

Limits on directors and officers liability ranked fourth on risk managers' list of concerns, with 80% of the respondents ranking this issue as one of above average or high importance.

In 1989, 81% of the risk managers expressed concern about limits on directors and officers liability.

"Risk managers are concerned with things that directly affect the corporate elite," Mr. Moore explained.

Limiting directors and officers liability is a "very personal issue" for risk managers, Ms. Hawkins agreed. "If you're a risk manager, protection of your directors and officers is key to your survival."

Because directors and officers place a great deal of importance on this issue, there is a "trickle down" effect on the risk manager, Mr. Greene explained.

And, if the insurance market hardens—as risk managers fear—D&O liability insurance will be one of the first lines affected, Mr. Stasch pointed out.

Risk managers this year also were increasingly concerned about product liability reform, which ranked fifth on their list of concerns.

This year, 72% of the respondents said a federal product liability law was of above average or high importance, compared with 65% in 1989. Forty-one percent said it was of high importance.

Increased congressional activity on product liability reform may have spurred interest in the issue, Mr. Moore said.

However, Mr. Stasch suggested that risk managers' increased interest in federal product liability reform may be generating new support for two bills introduced last year in Congress.

The Senate Consumer Subcommittee held hearings in April and February and has scheduled another for May 10 on a product liability reform bill, S. 1400, introduced by Sen. Robert Kasten, R-Wis. (*BI*, April 16; March 5).

Sen. Kasten introduced his bill last summer shortly after Rep. Tom Luken, D-Ohio, introduced reform legislation in the House (*BI*, July 31, 1989; June 26, 1989).

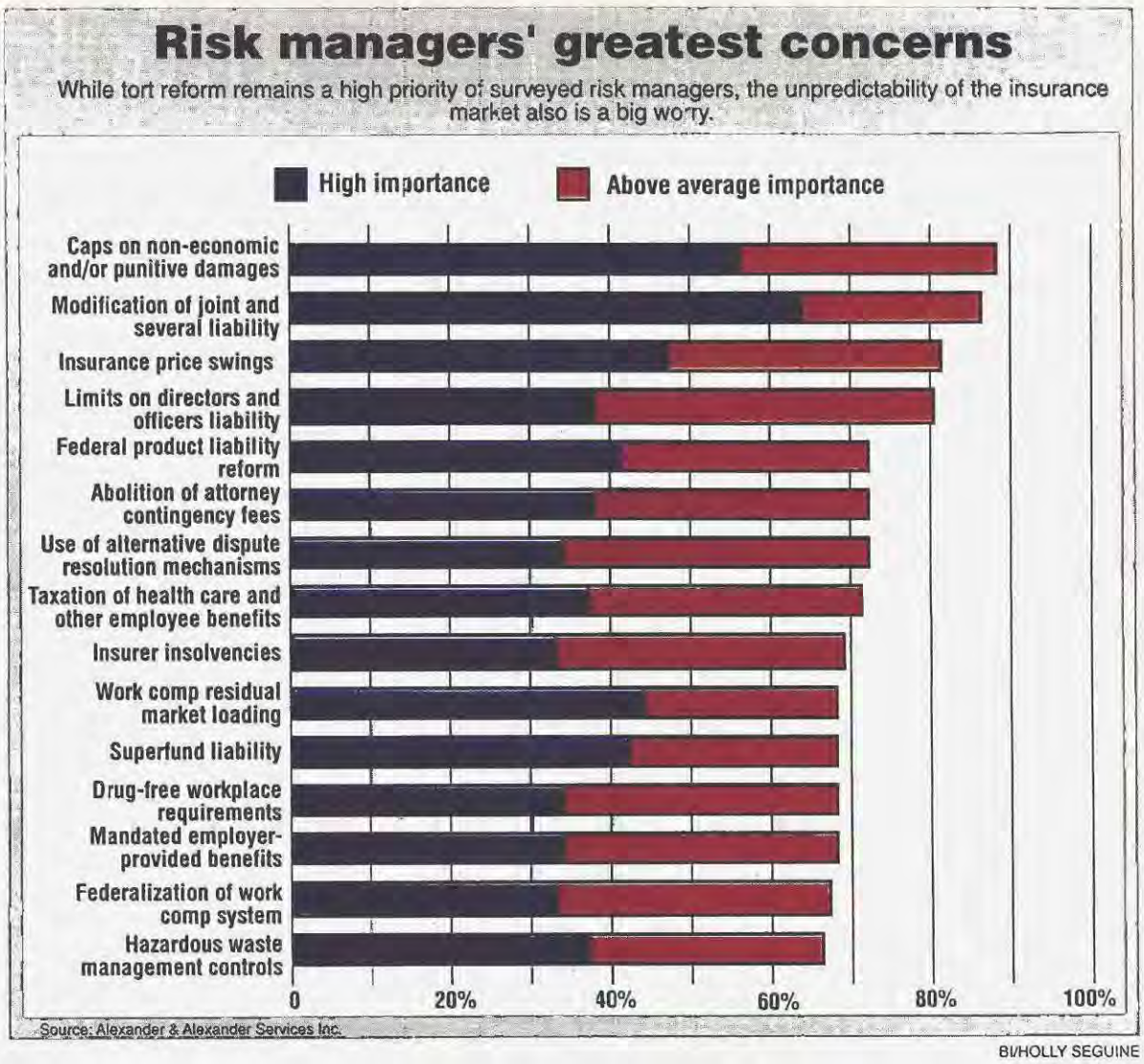
The House Energy and Commerce Committee is considering Rep. Luken's bill.

"There is an increased hopefulness that policymakers will address this issue," Mr. Moore said.

Ms. Hawkins agreed: "All of a sudden, it feels like there may be some sympathy" for companies on this issue in Congress.

However, "risk managers are always interested in product liability reform, regardless of what it happening in Congress," Mr. Greene said.

Another area of civil justice reform in which risk managers expressed significant new interest was the abolition of attorney contingency fees. This issue ranked sixth on risk managers list of concerns, with 72% of the survey respondents saying the issue was of above average or high importance. Thirty-eight percent said it was of high importance.



BI/HOLLY SEGUINE

In 1989, 63% of risk managers the issue was of above average or high importance, and they ranked the issue 15th on their list of concerns.

"This reflects a significant shift in risk managers' concern," Mr. Moore said.

"People are increasingly seeing this as one of the core problems in the civil justice arena," he said.

"Contingency fees are like going to Atlantic City and gambling with nothing to lose and all to gain," Ms. Hawkins agreed.

Eliminating contingency fees would eliminate the "really frivolous" lawsuits, she said.

"Risk managers believe that contingency fees allow attorneys to head hunt," Mr. Greene said. "And, it is the risk managers' heads that are being hunted."

Risk managers' dissatisfaction with the civil justice system also underlies their increased interest in alternative dispute resolution mechanisms, which ranked seventh on their list of concerns.

Seventy-two percent of risk managers this year said this issue was of above average or high importance, with 34% saying it was of high importance.

In 1989, 68% said the issue was of above average or high importance.

Risk managers view alternative dispute resolution as a "cost-cutting measure," Mr. Greene said.

Risk managers recognize that alternative dispute resolution can reduce the cost of litigation by speeding up the process, Ms. Hawkins agreed.

The A&A survey also found that other issues of importance to risk managers are taxation of health care and other employer-provided benefits, ranking eighth with 71%; and the increasing number and severity of insurer insolvencies, ranking ninth with 69%.

Increased workers compensation insurance costs because of residual market loading tied with two other issues for 10th place: drug-free workplace requirements and mandated employer-provided benefits.

"The voluntary workers compensation market is constricting," Mr. Moore said. "This is forcing some risk managers to enter assigned risk pools and face surcharge assessments in the residual market.

"Others that are in the voluntary market are facing higher costs because of pass-through charges for the carriers' residual market assessment. As a result, workers compensation costs are escalating for everyone."

One of the biggest surprises in the 1990 survey was that risk managers ranked ISO's discontinuation of fully developed advisory rates as their singularly least important concern, with only 12% saying it was of above average or high importance.

The 1989 survey did not query risk managers about this issue.

"Risk managers don't view this as their problem," Mr. Greene explained. "It is a problem for carriers—it doesn't affect risk managers that much."

However, when *Business Insurance* surveyed its readers about the most important stories in 1989, the discontinuation of ISO advisory rates ranked among the 10 most important risk management stories (*BI*, Dec. 25, 1989).

"Risk managers have not had time to see an effect from this, or even if there will be an effect," Ms. Hawkins said. "They have a wait-and-see attitude."

Among the new areas of concern for risk managers are video display terminals.

Forty-six percent said possible government standards on the safe use of VDTs and establishing liability for alleged health effects caused by VDTs was of above average or high importance, compared with 36% in 1989.

"People are becoming more aware of the allegations of health problems associated with VDTs," Mr. Moore said.

Mr. Stasch agreed: "More and more articles are revealing conflicting statements as to whether VDTs cause injury or disease. As people learn more about it, there is a rising concern."

In addition, "the use of VDTs has become extremely pervasive," Mr. Greene said.

One area that risk managers displayed less interest in was implementation of legislation similar to Proposition 103 in California.

Forty-eight percent of risk managers in 1990 said this issue was of above average or high importance, compared with 59% in 1989.

"Risk managers just don't see themselves directly affected by this," Mr. Moore said.

In addition, "litigation is making it less clear what the impact of these initiatives will be," he said.

Mr. Greene speculated that perhaps risk managers are bored with this issue.

The survey responses indicate that risk managers in different industries have different priorities.

For example, risk managers of manufacturers were most concerned with joint and several liability and product liability reform.

And, risk managers in the chemical and the oil, gas and natural resources industries were most concerned with their liability under Superfund for cleaning up contaminated hazardous waste sites. In fact, 100% risk managers in these industries said this issue was of above average or high importance, with 90% saying it was of high importance.

Risk managers in the utilities sector ranked limits on directors and officers liability as their chief concern, while service industry risk managers ranked the issue second.

Concerns also varied by region of the country.

In the South, a region with keen natural resource interests, risk managers were most concerned about environmental matters. Specifically, leaking chemical and petroleum storage tank regulations and oil spill liability ranked the highest in this region.

Liability for asbestos contamination ranked the highest in the Northeast.

And risk managers in the West were most concerned about a federal insurance program for earthquake liability.

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Copies of "National Risk Management Survey" can be obtained free of charge by writing Laurie Londoner at Alexander & Alexander Inc., Government & Industry Affairs Office, 555 13th St. N.W. Suite 1180 East, Washington, D.C. 20004-1109; 202-783-2550.

Pomeroy denies charges by ex-pool manager

By MEG FLETCHER

BISMARCK, N.D.—A lawsuit filed by the former administrator of a public entity self-insurance pool charging North Dakota Insurance Commissioner Earl Pomeroy and others with conspiring to oust him from his post is a "flight of fancy," Mr. Pomeroy says.

The suit, which also charges the defendants conspired to damage the former pool administrator's reputation, is designed to cause political embarrassment, Mr. Pomeroy contends.

James R. Holm, who seeks at least $3.5 million in damages, charges that an insurance agency and its parent insurer pressured Mr. Pomeroy into persuading the pool's board in June 1988 to terminate his contract as pool administrator without sufficient cause and in violation of his due process rights.

As a result, Mr. Holm contends in his complaint, he was precluded from earning an "expected and reasonable rate of return for the time, money and efforts that had been invested" in the pool.

Mr. Holm, who organized the pool in 1985 and managed it for less than three years, charges that he lost the contract to administer the pool because he refused to lower a bid for an insurance agency seeking the state's fleet business.

The North Dakota Insurance Reserve Fund is one of several alternative risk financing mechanisms created across the nation in 1985 and 1986 to help states and public entities secure affordable liability insurance (*BI*, Sept. 15, 1986).

The NDIRF began in December 1985 with six participants and total annual contributions of $266,333. By June 1988, the NDIRF had grown to 1,500 participants and annual contributions of more than $5.4 million. The pool's assets in June 1988 totaled more than $9.7 million and its surplus exceeded $3.2 million, said Mr. Holm.

In a March 1989 report to the directors of the NDIRF, Mr. Pomeroy falsely claimed the pool was being mismanaged, Mr. Holm alleges in the suit, which was filed last month in U.S. District Court in Bismarck, N.D.

The 13-count suit seeks damages from Mr. Pomeroy and 20 other defendants: the pool itself, its current chief executive and his former law firm, several NDIRF board members, two municipal associations, another state insurance regulator, a former employee of Mr. Holm's former company, Missouri River Underwriters Inc., and 10 unidentified defendants.

Missouri River Underwriters was Mr. Holm's company that was the administrator and general agent for NDIRF.

A portion of the $3.5 million in damages Mr. Holm seeks includes punitive damages, said Mr. Holm, who would not elaborate.

Besides Mr. Holm, plaintiffs include several companies controlled by Mr. Holm that were involved in the NDIRF work or other ventures mentioned in the suit.

Mr. Pomeroy, who is president of the National Assn. of Insurance Commissioners, defended his actions in an updated written response to the court April 23 and in an interview.

Mr. Pomeroy explained in his written response that he criticized Mr. Holm's Bismarck-based company—then known as Missouri River Underwriters Inc.—because he believed it "was extracting exorbitant profits from NDIRF and was abusing its relationship as administrator and general agent."

For example, Mr. Pomeroy said in his written response that he believed MRU was misusing the "float," which is the participants' contributions from the time they were paid to MRU until they were paid to the pool.

Mr. Pomeroy contends that all of his actions were well within the scope of his duties and were taken for the good of NDIRF members.

But, Mr. Holm's suit charges the commissioner exceeded his authority by "disparaging" the company, "defaming" its owner and interfering in prospective business arrangements.

In a statement last week, Mr. Holm contends his company was "a very efficient and cost-effective administrator."

With MRU as administrator, "participants enjoyed the benefits of the NDIRF for approximately 26 cents out of each premium dollar," he said, referring to the pool's total operating costs.

He added that the national average for such a pool is 25 cents.

"Since we have been 'ousted' the cost has been 42 cents," although costs should be lower in the fourth year than in the first, Mr. Holm said in the statement.

The NDIRF declined to comment.

But, after the pool directors heard Mr. Pomeroy's criticism, the suit alleges, the board eventually terminated the pool's contract with MRU without due process and the pool moved management operations in-house, according to Mr. Holm.

Mr. Pomeroy's actions were the direct result of political pressure from Farmers Union Mutual Insurance Co. and its Farmers Union Service Assn. agency, Mr. Holm alleges.

The pressure was applied after Mr. Holm refused a request from Farmers Union Service to lower NDIRF's quote to insure the state fleet, which would have allowed Farmers Union Services Assn. to undercut another agency bidding for the business, the suit says.

The 63-page complaint does not specify how the agency allegedly pressured Mr. Pomeroy.

Mr. Pomeroy denies that his actions were in any way "affected by political or other pressures."

In addition, Mr. Pomeroy and Chief Examiner James E. Venaas are charged with illegally interfering in Mr. Holm's other business dealings.

For example, by not allowing Mr. Holm to use a letter of credit as an admitted asset, the commissioner prevented him from forming a reinsurance company, Mr. Holm's suit charges.

Mr. Venaas denies any impropriety, said State Solicitor General Laurie Loveland, who is representing Mr. Venaas and Mr. Pomeroy.

Mr. Holm currently is president of MRU's successor—Blackburn, Nickels & Smith Inc. of Minnetonka, Minn.

The suit charges NDIRF chief executive Gregory L. Bickle and his former law firm with legal malpractice. His former law firm—Bickle, Coles & Snyder of Bismarck—concealed information about Mr. Pomeroy's report to the NDIRF board and the board's intention to terminate MRU's contract, the suit says.

The law firm also was counseling some of Mr. Holm's companies and the state pool at the same time, the suit alleges.

"In my opinion, the lawsuit is totally without merit, and I categorically deny all the allegations in the complaint," Mr. Bickle said in an interview.

Also charged with contributing toward the alleged conspiracy to oust Mr. Holm are the North Dakota Assn. of Counties and its executive director, Mark Johnson; and the North Dakota League of Cities and its executive director, Robert E. Johnson.

Mark Johnson would not comment and Robert E. Johnson could not be reached.

Also named as a defendant is Michael Schwindt, state director of the Management Services Division of the North Dakota Department of Human Services, and an NDIRF board member. He could not be reached for comment.

Mr. Pomeroy is the only defendant who has filed a written response to the suit.

But all except the commissioner have asked the federal court to dismiss the suit because the only federal count is against Mr. Pomeroy. Defendants, who say the suit should be heard by a state court, will present oral arguments in federal court May 14.

Nearly identical lawsuits pending in state court have been stayed pending the outcome of the federal case, lawyers say.

Ms. Loveland questions whether the state's two-year statute of limitations may bar some of Mr. Holm's complaints. Ms. Loveland argued in Mr. Pomeroy's written response that some of the claims may have been based on actions taken or statements made more than two years before the lawsuit was filed. ■

Health care data

Continued from page 2

Ryder and ALCOA are among employers nationwide that have been identified by the National Assn. of Manufacturers as making special efforts to control health care costs.

Other employers are fighting rising health care costs by: adopting comprehensive health management programs (*BI*, April 16); working closely with labor unions (*BI*, April 2); and operating in-house medical clinics (*BI*, March 5).

Even small employers have developed special health care cost management strategies (*BI*, March 19).

Ryder has been using data analysis since the mid-1980s to determine how employees are utilizing their benefits.

The transportation company—which self-insures and administers its group health care benefits—began analyzing benefit utilization and claims data to determine how to cut benefit costs as part of a company-wide cost cutting effort.

The alternative was laying off workers, Mr. Charles said.

Ryder offers several health care plans, but most workers are covered under the Ryder Medical Plan. This plan for clerical and management employees covered approximately 28,000 of 38,000 workers in 1989; 19,500 of 31,400 workers in 1988; and 17,800 of 23,900 workers in 1987.

The company's other self-insured health care plans operate separately and provide slightly different benefits. These plans cover Ryder's automotive and bus driver personnel.

Tapping into claims data in its computer system, the benefit department found "that 3.6% of claims accounted for 50% of the money" spent by all of the company's self-insured health care plans, Mr. Charles said. Categorizing the costly claims by broad diagnosis, the benefit department found that psychiatric claims accounted for an unusually large portion of the most expensive claims.

Overall, "psychiatric confinements accounted for 20% of our hospital costs," Mr. Charles said.

But, the data showed that employee use of mental health facilities was not the problem, he said.

"We looked at our utilization data and found that our employees who went in for mental problems usually stayed 15 to 20 days," he explained. Doctors wanted to get the employee back to work as soon as possible and usually would continue follow-up care on an outpatient basis, he said.

However, the data showed that the children of Ryder employees usually stayed in the hospital 45 to 60 days, and that 81% of mental health claims were for children of Ryder employees, Mr. Charles said.

Ryder saw some abuse here.

For example, "if both parents work and need someone to look after an unruly kid," psychiatric facilities can be "a new kind of jail," Mr. Charles said. "We felt there was abuse of this benefit, and good marketing by hospitals, led to prolonged hospitalization of children."

As a result, Ryder limited to 60 the number of inpatient days for mental health care that would be fully covered by the Ryder Medical Plan. Previously, the plan covered all inpatient days for psychiatric or substance abuse at 100%.

Further review of claims data illustrated the need for case management of mental health and substance abuse cases.

"Case management was handled very loosely" in the past, Mr. Charles said.

Often, when a child had been hospitalized for 120 days for mental disorders, the first 60 days were spent in the wrong type of facility, he said.

"In 1990, we want to make sure every mental health or substance abuse case goes through a case manager. We won't pay for confinements that don't go through a case manager."

Analysis of emergency room claims resulted in Ryder limiting coverage for hospital emergency room care under the Ryder Medical Plan.

"We looked at the claims coming in and knew they weren't real emergencies," Mr. Charles said.

Since the plan covered all emergency room costs, Ryder employees were using hospital emergency rooms as they would a doctor's office for routine care, he explained.

Ryder focused on emergency room care because it 'knew it was an abuse area,' Mr. Charles says.

Ryder amended its plan in 1988 to cover only the cost of care that actually requires emergency room attention.

After implementing that change, Ryder noticed a marked reduction in emergency room visits. "As soon as we told employees we wouldn't pay, they stopped doing that," Mr. Charles said.

"In 1983, we recorded 12,000 emergency room cases. In 1988, we had only 8,000," he noted.

And, he pointed out, during those years the number of company employees doubled.

Analysis of doctors' office treatment charges led the Ryder Medical Plan also to reduced coverage for regular doctor's office visits.

Upon examining doctor's office charges, claims processors noticed that typically an employee's first visit to a new doctor cost about $125.

"We didn't think that was excessive because during a first visit they typically take more time to do physicals and collect medical history," Mr. Charles said.

However, occasionally, physicians would charge $125 for the second or third office visit. "That didn't compute," Mr. Charles said.

Ryder examined all its data on Ryder employee doctor visits to determine a normal cost. Now, "after the first visit, we won't honor any bill over $60," Mr. Charles said, noting that cap saved Ryder $244,000 in 1988.

Finally, Ryder examined dental care utilization data.

Ryder found that most of the preventive treatment—covered at 100%—was being performed on children, while adults almost always received more complex care.

"Ryder has a lot of workers who don't go to the dentist as often as they should," Mr. Charles said.

Ryder had been willing to pay 100% for preventive dental care in the hope it would mean less comprehensive dental treatment for an individual later on, Mr. Charles explained.

But, in questioning that philosophy, Mr. Charles asked: "Are those children going to save us major dental costs in the future? No, because they won't be working for us."

So the company in 1988 stopped paying 100% for preventive dental services and instituted a comprehensive dental plan that included a $50 deductible even for preventative care, Mr. Charles said.

"The company saved $400,000 on dental just by making that change," he noted.

"Employees should take care of the little bills, and we'll take care of the big stuff," he said.

In addition to the plan changes based on data analysis, Ryder also controlled health care costs by requiring second surgical opinions for some procedures.

Of 1,186 workers who obtained second opinions in 1988, 54 elected not to have surgery. At a cost of about $100 for each second opinion, and figuring that surgery on average costs $7,500, Ryder believes it saved $286,400.

Without these plan design changes, Ryder estimates that it would have spent an additional $4.3 million on medical benefits under the Ryder Medical Plan.

Ryder also figures that it saved $6.7 million in 1988 by tightening its claims processing controls. About two-thirds of that savings related to coordination of benefits with other insurance covering its employees' spouses and dependents.

As a result of these efforts, the average cost per employee covered by the Ryder Medical Plan actually dropped 1.2% to $126.08 per covered life per month in 1988, from $127.63 in 1987.

But, with growth in the number of employees, the Ryder Medical Plan spent $42.4 million in 1988, a 14% increase from $37.2 million in 1987.

In 1989, however, Ryder's health care costs jumped 30%.

Ryder attributes the big jump in 1989 costs to forces that have driven up costs similarly for group health plans: Increased utilization of benefits, higher claim costs due to inflation and providers billing for their services on an unbundled basis.

This year, Ryder is continuing to scrutinize health claims data to make further plan changes. For example, Ryder this year changed its prescription drug program.

Under the prescription card program introduced in 1984, the employee had to pay the first $5 toward the cost of any prescription.

"That $5 was high based on what industry was doing. And, our vendor told us it was high," said Mr. Charles.

Continued on next page

Health care data

Continued from previous page

In 1984, the monthly cost of the program was $4.82 per employee on average. But, by 1988 the cost of the prescription drug program had almost tripled to $12.33 per employee per month.

And, in 1989, the monthly cost jumped 20% to $14.80 per employee.

"We looked at that trend and decided to increase the employee's copayment to $8," Mr. Charles said.

"We know we process over 250,000 prescriptions a year and by raising employee contributions to $3 per prescription, we can project about a $1 million savings" annually, he said.

Ryder "will implement other plan changes" in an attempt to cut costs, Mr. Charles said.

"We'll explore everything Allied-Signal is doing," he noted.

Allied-Signal Inc. expects that its trailblazing national managed care program will save the company $200 million on health care over a three-year period (*BI*, March 19).

Another large employer, ALCOA, has selected a network of quality providers in Pennsylvania based on data that identifies the most cost efficient providers.

ALCOA, which also self-insures its health care benefits, spent approximately $110 million on medical and dental care in 1989 for nearly 120,000 covered lives, said James Mishaud, manager of group benefits.

The data ALCOA used was collected by Buy Right Council of Pennsylvania, a group of 11 Pennsylvania hospitals and 10 employers, including ALCOA.

All of the hospitals belonging to the Buy Right Council began in 1988 to survey their patients to determine the quality of the care delivered.

The patient satisfaction survey is "very different from typical patient surveys," said Richard Wardrop, ALCOA's recently retired director of compensation and benefits.

For example, rather than asking patients questions concerning the creature comforts during a hospital stay—like the quality of the food or how quiet the hospital was—the survey tried to gauge the quality of patient health as they are leaving the hospital, he explained.

"This 68-question survey asks things like, 'Is your health better, about the same, or worse than before you were hospitalized?' " Mr. Wardrop noted.

In addition, the survey asked patients whether they thought their physician provided high-quality care.

The results of the surveys and other information on the patients' treatment and outcome were amassed in a data base for the Buy Right Council.

ALCOA used the data, which pinpointed the highest-quality hospitals, to establish a preferred provider network for its employees.

ALCOA contacted insurers and managed care organizations and said: "We're the purchaser and we have some specifications and data we want you to use to select the hospitals," Mr. Wardrop said.

ALCOA is the only employer member of the Buy Right Council to establish a preferred provider network based on the council's findings.

Mr. Wardrop said 15 organizations were asked to bid on the job of setting up a provider network for the company, including some group health insurers, health maintenance organizations and Blue Cross & Blue Shield plans.

"We told them, 'Don't send us your rubber chicken,' " Mr. Wardrop said, stressing the importance of picking facilities and physicians that proved to be efficient according to the Buy Right Council's data.

ALCOA eventually selected two vendors to manage networks in separate areas of the state in which ALCOA operates.

Alpha Health Network, an affiliate of Voluntary Hospitals of America Corp. in Nashville, Tenn., serves ALCOA's Pittsburgh office employees.

Pennsylvania Health Choice Plan, which is associated with St. Francis Hospital in Pittsburgh, serves ALCOA's employees in western Pennsylvania near New Kensington.

Now, "we'll get better health care at lower costs," Mr. Wardrop said.

Quality providers "won't do bypasses or tests that don't need to be done," he said.

And, when physicians do perform a procedure, "they'll do it right the first time, get the employee healthy and back to work sooner," he said.

As a result, "improvement in productivity could be as much as 20%," Mr. Wardrop said.

Using data to select providers is "a modest beginning," he said. "We're using data, but it's not perfect."

Indeed, benefits experts point out there is still much to learn in the area of data analysis and that health care costs continue to rise.

Data "is not a solution, it's a new tool toward creating solutions," Segal's Ms. Hosay said. ■

Ruling may hike liability of shippers in oil spills

By JOANNE WOJCIK

ANCHORAGE, Alaska—A federal court ruling could expand the liability of shipowners and operators involved in transporting Alaskan crude oil, attorneys say.

The ruling also could make it easier for oil companies to subrogate against shipowners responsible for Alaskan oil spills, the attorneys add.

However, the decision, the first to interpret whether the Trans-Alaska Pipeline Act of 1973 supersedes an 1853 maritime law limiting shipowners' liability to the cost of a vessel and its cargo, is likely to be appealed, say lawyers involved in the case.

"No longer can the shipping industry hide behind the Vessel Owners Liability Act" of 1853, said plaintiffs' attorney Gerard M. Nolting of Faegre & Benson in Minneapolis. "The shipping industry now has to assume full liability for spills."

"The effect is very sweeping," agreed Graydon Staring, a lawyer specializing in admiralty law with San Francisco-based Lillick & Charles. The judge, in effect, wrote the 1853 law "right off the books," he said.

However, "the decision by itself only affects Alaskan-produced crude," Mr. Staring noted.

"The ruling only relates to oil that's been transported through the Alaskan pipeline," agreed Lawrence A. Waks of Milgram, Thomajan & Lee, the New York law firm representing oil producer Tesoro Alaska Petroleum Corp., one of the defendants in the underlying litigation.

U.S. District Court Judge H. Russel Holland on April 13 dismissed a suit by Trinidad Corp., a St. Louis shipper, that sought to limit its liability for a 1987 Alaskan oil spill to the cap contained in the 1853 law.

Trinidad had hired the S.S. Glacier Bay, a tanker that hit a rock and spilled almost 150,000 gallons of oil into Cook Inlet Bay on Alaska's southwest coast on July 2, 1987.

Plaintiffs' attorney Mr. Nolting sued on behalf of more than 800 fishermen and 10 seafood processors and numerous other related businesses, seeking more than $107 million in damages from Trinidad and Tesoro, which owned the oil on board. Also named as a defendant was West of England Protection & Indemnity Club, which insured Trinidad.

Trinidad has $400 million in liability coverage through the London-based P&I club, according to a company spokesman.

Tesoro has insurance to pay any claims related to the litigation, according to Charles Doerr, vp-risk management at Tesoro Petroleum Corp. in San Antonio, Texas. He would not provide details.

Trinidad had filed a suit with the U.S. District Court in Alaska arguing that the Vessel Owners Liability Act of 1853 limited its liability to $6.55 million—the cost of the S.S. Glacier and its cargo.

The plaintiffs and the oil companies filed a motion to have Trinidad's action dismissed on the grounds that the Trans-Alaska Pipeline Authorization Act of 1973 supersedes the old maritime law.

Under the pipeline act, shipowners are liable for the first $14 million in damages, with the Trans-Alaska Pipeline Liability Fund picking up the next $86 million for a total liability of $100 million. The fund is financed by a 5-cent-per-barrel levy on oil pumped through the pipeline.

If the $100 million doesn't cover all damages, claims are to be reduced proportionately under the act, explained admiralty expert Mr. Staring.

"For example, if there are $200 million in claims, all claimants get 50 cents on the dollar," he said.

And, the Alaskan pipeline act has jurisdiction over oil from the pipeline until "its has been brought ashore at a port in the United States," said Mr. Staring, quoting from the act.

Judge Holland's ruling effectively made the vessel and the vessel's underwriters potentially liable for all losses related to the 1987 spill, Mr. Staring said.

That is because the decision makes it easier for oil producers to recover from shippers responsible for spills involving Alaska crude, according to plaintiffs attorney Mr. Nolting.

Oil producers often refuse to pay or delay payment of oil spill claims because they think they will be unable to later recover from a shipper or other responsible party, he explained.

And, while the Trans-Alaska Pipeline Liability Fund has collected more than $300 million, it has yet to pay a claim, he said.

Judge Holland interpreted the Alaskan pipeline act to provide "that if the (Trans-Alaska Pipeline) Fund brings an action based on the negligence of the (vessel's) owner/operator and the claim is not satisfied, the Fund can recover from any affiliate of the owner/operator."

Now, "the oil industry no longer has any excuse for delaying or avoiding payment because oil companies can subrogate against shippers," Mr. Nolting said.

And, the way the decision is worded, the pipeline law could be held to pertain to any spill involving Alaskan crude, Mr. Staring said. For example, the Feb. 7 spill two miles off Huntington Beach, Calif., could be subject to the law, he said.

In that spill, 300,000 gallons of crude spilled from a three-foot hole in the hull of the tanker American Trader (*BI*, Feb. 12).

So far, at least three suits have been filed against New York-based American Trading Transportation Co., which owned and operated the tanker, according to John J. Nolan, manager of insurance and claims.

The American Trader litigation could be affected by the U.S. District Court's decision, Mr. Nolan said.

Attorneys for the plaintiffs and Tesoro expect Trinidad to appeal the decision.

Trinidad's attorneys did not return phone calls. ■

Window plans

Continued from page 1

it "left the employee benefit battle for another day."

Within weeks of the decision, legislation was introduced to overturn the Betts decision and reinstate the so-called equal benefit/equal cost rule.

But S. 1511—which finally could be voted on by the full Senate in late May—and H.R. 3200 would do much more than that.

For example, the two bills suggest that features common to window plans, like subsidized early retirement benefits, would have to be offered on a permanent basis in order for the window plan to be considered lawful.

Under a window arrangement in which early retirement benefits are subsidized, an employer may waive its normal practice of making an actuarial reduction in its defined benefit pension plan for workers who retire before age 65.

Instead, the younger worker would receive the benefit as if he were 65.

Such sweetened benefits typically are only offered for a temporary window of time—like a two- to three-month period—to encourage older workers younger than age 65 to retire in order to reduce overstaffing.

Companies would be reluctant to offer such window plans if early retirement subsidies had to be offered on a permanent basis, said David Blecher, a consultant with Hewitt Associates in Lincolnshire, Ill.

There are other problems with the legislation.

Under the measures, a retirement incentive window plan only would be considered bona fide if it "furthers the purposes" of ADEA.

However, benefit experts say it is difficult to see how a window plan could comply with this vague standard.

They note that the very nature of window plans—to encourage older workers to retire—is the opposite of a major, clearly defined ADEA purpose: to encourage the employment of older workers.

As a result, there could be a torrent of litigation to determine if an individual employer's window plan really "furthers the purposes" of ADEA and does not discriminate against older workers.

Some benefit experts warn that employers, uncertain of how their window plans would comply with the vague requirement contained in the bills and fearful of possible litigation, simply may decide not to offer early retirement incentive plans.

"No employer could be sure that any early retirement incentive complied with the law and many may decide not to offer the incentive rather than risk litigation," according to a position paper prepared by the Assn. of Private Pension & Welfare Plans, a Washington, D.C.-based employer lobbying group.

'No employer could be sure that any early retirement incentive complied with the law,' says the APPWP.

If that happens, employees will be the losers, benefit consultants say.

When employers have to reduce their workforces, window plans are a far more humane alternative than involuntary layoffs, said Hewitt's Mr. Blecher.

"Employers view the programs as a tool to gracefully downsize. And, employees near retirement are glad to have the option of a window," said Steve Vernon, a consultant in The Wyatt Co.'s Sherman Oaks, Calif., office.

"Companies regard window plans as good ways to encourage employees to retire voluntarily. They are programs that offer dignity to the employee," said Buck's Mr. Rumack.

While the legislation could crimp new window plans, employers that already have established window plans also could be the target of litigation.

The new rules laid down by the legislation would apply to all legal actions and proceedings involving early retirement incentive plans offered to non-union employees that were pending on or after June 23, 1989, which is the date of the Betts decision.

The changes generally would not apply to collectively bargained plans until the termination of a collective bargaining agreement or June 1, 1992, whichever comes first.

"Retroactive application raises substantial constitutional questions," said presidential assistant Roger B. Porter in a letter to Rep. William Goodling, R-Pa.

Indeed, Mr. Porter warns that unless substantial changes are made to the legislation, President Bush's advisers will recommend a presidential veto.

"This bill would add yet another level of complexity to an already very complicated pension and welfare benefit plan system," Mr. Porter said. ■

Weavers

Continued from page 2

liquidations of the LUI insurers by providing additional financing if necessary, Mr. Rowland confirmed.

"There's clearly a risk of disorder in the sense that some of the companies could go into forced insolvency, which would be the most disagreeable prospect for clients. We are looking to see whether there is something better (that can be done) that would be in everybody's interest," Mr. Rowland commented.

"What we have been seeking to do is to find out as much information as possible to put before people who have an interest in the situation," including brokers and insurers, Mr. Rowland said.

Peter Wilson, LUI's chief executive officer, said: "We will be having further meetings with the brokers and their financial advisers on Monday and Tuesday."

Mr. Wilson would not say whether Walbrook will resume underwriting.

"We're concentrating very much on the runoff situation. It is most important to deal with the runoff companies first," he said, referring to the six LUI subsidiaries that ceased underwriting earlier. ■

Alternative markets' boom is traditional market's bane

By MYRON M. PICOULT

Special to Business Insurance

ALTERNATIVE insurance mechanisms are a significant factor in the commercial property/casualty insurance market and we expect this will continue to be the case.

It is estimated that alternative mechanisms accounted for about 29% of the commercial property/casualty market's premium volume in 1989 and that market share growth of about 0.3% per year in the years ahead is attainable. The estimated yearly incremental growth could increase if the commercial property/casualty insurance market were to tighten sharply.

Mr. Picoult

The alternative market's share of the overall risk financing market has been locked into the 28% to 29% range for the past few years. This growth plateau basically is tied to three factors. Price cutting by conventional insurers has stemmed growth, as has an increase in coverage forms and the ready availability of most lines of coverage.

Indeed, in the last hard market, commercial insurance companies taught their clients how to do without the conventional marketplace.

This has left its mark on conventional insurers and is one of the apparent reasons why insurers are so sluggish in raising their prices, notwithstanding their very poor underwriting experience.

The largest component of the alternative market is the self-insurance segment, with about a 21% market share. Basically, companies that self-insure have a large data base with which to estimate future losses and a capital base that is large enough to accept the risk profile.

Captives account for another 6% of volume. The 1986 Tax Reform Act and the Liability Risk Retention Act of 1986 provided the incentive and impetus for captive formations. The desire by buyers for acceptable policy terms and conditions, predictable costs and stability of coverage were further enticements to form captives.

Policyholder-owned facilities such as ACE Ltd. and X.L. Insurance Co. Ltd. did not exist before 1985.

Their formation was spurred by the inability of the insurance market to provide sufficient general liability coverage and other difficult-to-place coverages like directors and officers liability insurance.

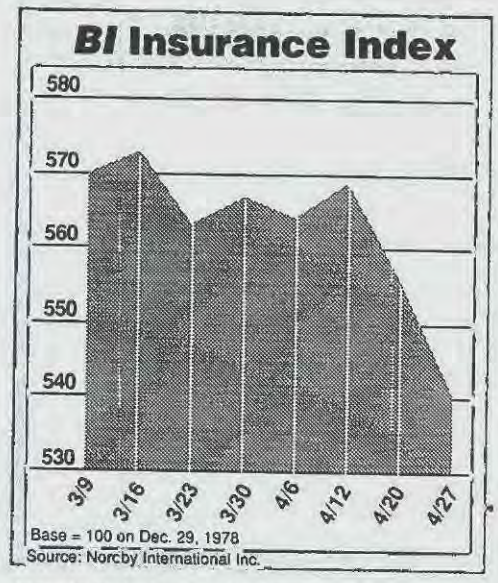
Finally, risk retention groups, which have less than 0.5% of market share, were aided by the passage of the aforementioned Risk Retention Act of 1986, which made it easier for businesses and groups to establish group captives to write most forms of liability insurance.

The size and continuing growth of the alternative market create both havoc and opportunity. We have seen some brokers, reinsurers and insurers develop and expand specific market services for the various segments of the alternative market. These services further underscore the viability of alternatives and strengthen their growth prospects at the expense of the traditional market.

Another wrinkle has now been added to the scenario. Risk managers should be much more sensitive to the festering balance sheet problems of some traditional insurers.

These difficulties run the gamut from traditional reserve deficiencies to problems with reinsurance recoverables and possible problems with the carrying values of some assets such as bonds, mortgages and real estate. It would be fallacious to believe that the regulatory pressures being applied to the banking and savings and loan industries with respect to asset quality will not make their way into the insurance business. If markedly different standards were to be permitted, the term caveat emptor would be most appropriate for the insurance buyer.

The bottom line is that the growth of the alternative market is likely to continue to have a negative impact on the growth prospects for many conventional insurers. ■



Insurance industry stocks tumbled last week, as as the *Business Insurance Index* dropped 15.5 points to 540.4 on April 27, from 556.0 on April 20. Decliners followed Pacificare Health Systems, down 20.3%; Hilb, Rogal & Hamilton Co., down 12.3%; Provident Life Insurance Co., down 11.4%. Advancing issues were led by United Medical Corp., up 16.1%; RLI Corp., up 11.0%; and American General Corp., up 5.7%. The most active issue during the week was Sears, Roebuck & Co. (Allstate), 3 million shares traded. The *BI* Index lost 2.8% for the period; the Dow Jones 30 Industrials fell 1.9%; the New York Stock Exchange Composite lost 1.82%; and the Standard & Poor's 500 was down 1.79%.

British Issues

April 26 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Comml Union	461	21.2	28.7	6.2	451—457	
Genl Accident	1020	15.6	66.7	6.5	1023—1003	
Gdn Royal Exch	226	19.8	15.3	6.8	227—221	
Royal	455	24.5	34.0	7.5	455—447	
Sun Alliance	300	11.0	16.7	5.6	332—298	
Brokers						
Bradstock	239	16.8	10.0	4.2	243—239	
CE Heath	528	14.9	34.5	6.5	530—528	
Hogg Group	160	10.5	9.7	6.0	160—157	
Lloyd Thompson	284	17.7	9.7	3.4	284—284	
PWS Holdings	66	10.3	3.3	5.1	66—66	
Sedgwick Grp	246	18.5	16.0	6.5	250—245	
Steel Brrl Jones	283	17.3	14.7	5.2	285—283	
Willis Faber	275	17.3	16.0	5.8	279—272	

Source: Philip Olsen/Paul Hodges, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

St. Paul cuts malpractice rates in 21 states

ST. PAUL, Minn.—St. Paul Fire & Marine Insurance Co. has filed for rate decreases in 21 of the 42 states in which it sells physicians and surgeons medical liability insurance. It is seeking rate increases in three of those states and no rate changes in the others.

Proposed decreases for individual states range from 6% to 25% and increases range from 7% to about 15%. The result will be a countrywide rate decrease averaging 6%, according to a company spokesman.

The insurer is awaiting regulatory approval of its rate filings before announcing which states will see rate changes and the amount of those changes.

However, Georgia announced that St. Paul will reduce medical malpractice rates there by an average of 6.1% on July 1. St. Paul insures about 50% of Georgia's doctors.

The spokesman attributed the rate reductions to "a continuing decrease in the number of claims," but noted that this decrease is now moderating, while the cost of medical liability claims continues to rise.

"The number of claims filed against St. Paul-insured physicians peaked at 17 claims per 100 doctors in 1985," he said, adding that claims frequency decreased to about 12 claims per 100 insured doctors in 1989.

On the other hand, "the average cost per claim in 1985 was $28,300. In December, 1989, we were looking at claims experience for the first six months of 1989 averaging $36,900," the spokesman said.

He explained that St. Paul capped its claims settlements at $200,000 to arrive at those figures to avoid skewing the averages by including unusually large settlements.

—*By Linda J. Collins*

BI Industry Stock Report

APRIL 23, 1990 THROUGH APRIL 27, 1990

		Price	Weekly % change	Year to Date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt/Bk. value
BROKERS												
Alexander & Alexander	NYS	25.13	-3.37	-20.24	34.00	24.00	174	1.00	3.98	17	9.18	2.74
Corroon & Black	NYS	28.88	-4.15	-24.51	41.00	28.88	211	1.36	4.71	14	12.73	2.27
Gallagher Arthur J. & Co	NYS	21.50	-6.01	-13.13	26.50	19.00	115	0.60	2.79	16	5.33	4.03
Frank B. Hall	NYS	3.88	-3.13	29.17	4.50	2.50	135	0.00	0.00	-2	-2.80	-1.38
Hilb, Rogal & Hamilton	OTC	12.50	-12.28	-32.89	20.63	11.25	93	0.28	2.24	17	4.60	2.72
Marsh & McLennan	NYS	67.75	-3.39	-13.14	89.75	59.25	806	2.48	3.66	16	10.56	6.42
Poe & Associates	OTC	12.00	2.13	-9.43	13.00	8.00	1	0.40	3.33	15	1.93	6.35
BROKERS	AVERAGE		-4.3	-12.0					3.0	13		
CONGLOMERATES & HOLDING COMPANIES												
Berkley W.R. Corp.	OTC	40.50	-0.31	-2.70	46.50	30.13	258	0.44	1.09	9	25.06	1.62
Berkshire Hathaway Inc	NYS	6675.00	-1.91	-22.61	8900.00	5675.00	1	0.00	0.00	17	2869.00	2.33
ITT (Hartford Group)	NYS	52.25	-0.48	-12.73	64.50	51.38	1067	1.60	3.06	7	56.33	0.93
Sears (Allstate)	NYS	35.63	-4.36	-8.06	48.13	34.75	3038	2.00	5.61	9	37.75	0.94
CONGLOMERATES	AVERAGE		-1.8	-11.5					2.4	11		
INSURERS/REINSURERS												
Aetna Life & Casualty	NYS	45.88	-2.13	-20.91	62.50	45.50	668	2.76	6.02	8	58.11	0.79
Ambase Corp.	NYS	6.88	-1.79	-45.54	16.38	5.75	333	0.20	2.91	2	29.08	0.24
American General	NYS	39.38	5.70	20.23	40.25	28.13	1682	1.56	3.96	12	34.68	1.14
American Heritage	NYS	22.50	0.56	-21.05	24.63	19.50	3	0.92	4.09	12	22.60	1.00
American Indemnity/Fin'l	OTC	5.88	2.17	-26.56	13.00	5.63	3	0.56	9.53	-2	17.38	0.34
American International	NYS	89.38	-6.54	-15.28	112.00	78.25	1704	0.48	0.54	11	41.92	2.13
Aon Corp.	NYS	34.38	-1.79	-18.88	43.25	31.00	99	1.52	4.42	10	19.62	1.75
Argonaut Group	OTC	72.38	-0.17	5.08	73.50	53.25	75	1.60	2.21	9	36.83	1.97
AVEMCO Corp.	NYS	24.13	1.05	-1.03	27.50	20.38	6	0.40	1.66	16	9.52	2.53
Baldwin & Lyons Inc.	OTC	20.50	0.00	-4.65	24.00	16.38	92	0.28	1.37	7	20.80	0.99
Belvedere Corp.	ASE	4.13	-2.94	-25.00	5.88	4.13	7	0.04	0.97	-6	8.03	0.51
Chandler Insurance	OTC	8.50	-4.23	-27.66	13.25	8.50	105	0.00	0.00	4	9.53	0.89
Chubb Corp.	NYS	85.63	-4.86	-10.69	102.75	64.00	426	2.64	3.08	9	55.49	1.54
CIGNA Corp.	NYS	46.00	-4.91	-23.65	66.75	45.25	563	3.04	6.61	11	66.64	0.69
CNA Financial Corp.	NYS	68.75	-6.46	-31.25	108.75	64.50	85	0.00	0.00	7	54.87	1.25
Continental Corp.	NYS	28.25	-3.42	-9.96	38.63	25.75	463	2.60	9.20	10	41.36	0.68
Durham Corp.	OTC	30.00	-3.23	-2.44	34.75	29.00	2	0.92	3.07	15	26.32	1.14
Fireman's Fund	NYS	30.25	-5.10	-14.18	40.75	30.00	370	0.68	2.25	44	32.74	0.92
Fremont General Corp.	OTC	16.00	-4.48	-20.50	22.50	14.38	136	0.80	5.00	7	19.09	0.84
Frontier Insurance Group	NYS	19.75	0.64	6.76	21.75	13.50	6	0.00	0.00	8	7.29	2.71
General RE Corp.	NYS	77.13	-7.22	-14.31	96.25	62.25	1233	1.52	1.97	12	29.04	2.66
Hanover Insurance Co.	OTC	27.38	-0.45	-10.25	33.00	25.75	153	0.44	1.61	7	32.03	0.85
Harleysville Group	OTC	21.38	-5.52	-22.27	28.75	19.50	63	0.60	2.81	7	18.94	1.13
Hartford Steam Boiler	OTC	51.50	-8.24	-5.07	60.75	38.50	217	1.60	3.11	14	18.94	2.72
Kansas City Life Ins.	OTC	35.75	0.00	-0.35	36.00	34.50	2	1.12	3.13	10	39.22	0.91
Kemper Corp.	NYS	36.00	0.00	-23.81	51.88	34.00	191	0.92	2.56	8	29.97	1.20
Lawrence Insurance Group	ASE	8.63	1.47	21.05	9.13	6.50	0	0.36	4.17	16	4.40	2.62
Liberty Corp.	NYS	47.38	-1.30	11.47	49.00	32.50	243	0.92	1.94	18	31.82	1.49
Lincoln National	NYS	52.75	0.00	-13.52	62.88	46.75	140	2.60	4.93	9	49.19	1.07
NAC Re Corp.	OTC	32.50	-5.80	-10.34	41.00	23.88	353	0.20	0.62	13	22.81	1.42
Navigators Group	OTC	31.00	-2.36	12.73	31.75	22.25	0	0.00	0.00	11	15.22	2.04
Nobel Insurance LTD.	OTC	3.00	-4.00	50.00	3.38	1.50	45	0.00	0.00	-	7.76	0.39
NWNL Companies	OTC	27.38	-6.01	-30.70	44.13	26.50	275	1.32	4.82	5	37.50	0.73
Ohio Casualty Corp.	OTC	40.25	-4.73	-15.71	52.50	34.75	204	2.32	5.76	9	33.30	1.21
Old Republic Int'l	OTC	23.88	-2.05	-6.83	30.38	22.13	196	0.76	3.18	5	30.70	0.78
Orion Capital Corp.	NYS	19.25	-3.75	-17.20	28.50	18.50	9	0.84	4.36	6	19.72	0.98
Phoenix RE Corp.	OTC	10.25	-2.38	-21.15	15.50	8.75	39	0.20	1.95	79	12.99	0.79
Protective Life Corp.	OTC	13.50	-0.92	-5.26	16.25	10.88	30	0.68	5.04	9	14.54	0.93
Provident Life	OTC	19.50	-11.36	-24.64	30.13	19.25	895	0.80	4.10	6	23.24	0.84
Re Capital Corp.	ASE	14.00	0.00	-3.45	15.25	10.63	58	0.00	0.00	11	12.60	1.11
RLI Insurance Corp.	NYS	11.38	10.98	28.17	11.38	6.88	28	0.40	3.52	8	12.42	0.92
St. Paul Companies	OTC	56.25	-3.02	-6.25	63.50	47.50	458	2.40	4.27	7	43.47	1.29
SAFECO Corp.	OTC	32.88	-0.38	-17.30	42.38	25.63	791	1.20	3.65	8	24.87	1.32
SCOR U.S. Corp.	NYS	10.50	0.00	-26.32	14.50	8.25	12	0.20	1.90	14	10.61	0.99
Seibels Bruce Group	OTC	11.00	0.00	1.15	13.63	8.75	114	0.80	7.27	-2	13.75	0.80
Selective Ins. Group	OTC	16.25	-5.80	-15.03	20.25	15.50	146	0.96	5.91	5	15.72	1.03
Statesman Group inc.	OTC	2.06	0.00	-24.98	3.63	1.88	11	0.16	7.76	4	4.19	0.49
Tokio Marine & Fire	OTC	46.50	-1.06	-38.31	78.13	40.88	14	1.00	2.15	-	70.93	0.66
Torchmark Corp.	NYS	43.38	-5.71	-24.24	58.75	35.50	314	1.40	3.23	11	13.23	3.28
Transamerica	NYS	34.25	-3.86	-23.25	48.00	33.13	378	1.92	5.61	8	34.63	0.99
Travelers Corp.	NYS	29.88	-4.78	-18.98	45.00	29.88	937	2.40	8.03	5	44.85	-
Trenwick Group Inc.	OTC	20.50	-4.65	-15.90	26.88	16.00	27	0.36	1.76	14	16.91	1.21
United Fire & Casualty	OTC	30.75	0.00	-6.82	34.50	29.50	14	1.20	3.90	9	22.56	1.36
USF&G Corp.	NYS	27.75	-1.77	-6.33	34.00	26.88	610	2.92	10.52	35	22.87	1.21
UNUM Corp.	NYS	42.63	-2.29	-10.73	51.38	31.50	244	0.80	1.88	9	31.20	1.37
USLIFE Corp.	NYS	35.25	0.00	-22.10	48.13	34.75	57	1.48	4.20	5	54.34	0.65
Washington National	NYS	21.00	-7.18	-25.66	29.13	21.00	18	1.08	5.14	24	32.90	0.64
USLICO Corp.	NYS	21.00	0.00	-11.58	25.38	21.00	15	1.00	4.76	5	27.73	0.76
Zenith National Ins.	NYS	15.13	0.00	-19.33	21.50	14.00	19	0.84	5.55	-	13.81	1.10
INSURERS/REINSURERS	AVERAGE		-2.4	-12.3					3.8	10.8		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	OTC	15.00	-9.09	-29.41	26.38	11.50	1361	0.00	0.00	4	3.54	4.24
HMO America Inc.	OTC	5.13	-10.87	-33.87	10.63	2.50	164	0.00	0.00	17	1.12	4.58
Pacificare Health Sys.	OTC	15.75	-20.25	-39.42	30.38	12.63	181	0.00	0.00	6	6.35	2.48
Safeguard Health Enter.	OTC	6.75	1.89	-20.59	12.50	5.88	20	0.00	0.00	11	2.99	2.26
Sierra Health Services	ASE	7.38	-6.35	-16.90	9.63	3.75	22	0.00	0.00	18	0.62	11.90
United Healthcare Corp.	OTC	10.00	-1.23	-18.37	12.63	7.63	115	0.00	0.00	14	0.34	29.41
United Medical Corp.	ASE	9.00	16.13	50.00	9.00	5.38	38	0.20	2.22	22	5.70	1.58
U.S. Healthcare	OTC	12.25	3.16	-14.04	15.50	9.63	0	0.28	2.29	-	3.07	3.99
HMOs	AVERAGE		-3.3	-15.3					0.6	12		
ALL COMPANIES	AVERAGE		-2.6	-12.5					3.2	11.0		

System design: Nordby International Inc.

Runoff dispute

Continued from page 2

the disputes over the costly and controversial runoff insurance policies. Until now, though, the disputes have been settled in private arbitrations.

Mr. Dolling-Baker claims that the policy is "valid and binding," his trial lawyer, Timothy Walker, told the court last week.

Mr. Walker also says Mr. Merrett agreed the contract was valid and binding, but reneged on that decision when asbestosis claims started growing in June 1988.

However, Mr. Merrett alleges that information—in particular three documents related to syndicate 544's incurred-but-not-reported loss reserves—was not disclosed to the underwriter for his syndicate, John Emney, who accepted the policy at the time the coverage was placed, according to Mr. Walker.

If, as Mr. Merrett alleges, the information was not disclosed and Mr. Merrett is entitled to repudiate the contract, then Winchester Bowring was "negligent" in not revealing the documents, said Mr. Walker.

In either case, syndicate 544 is entitled to reimbursement for its losses under the runoff contract, Mr. Walker argued.

The amount to be paid under the policy is "likely to be huge," said Mr. Walker, who did not give a specific figure.

Justice Hirst, who will rule on the validity of the runoff policy, noted that claims related to asbestosis can run into "tens of hundreds of millions."

miums had been substantial, Mr. Walker said.

But, Mr. Emney added in the annual report, the losses were unlikely to "come to the fold" for some time.

The report proves that Mr. Emney was aware of the inherent dangers of the policies, said Mr. Walker.

However, by early 1985, the claims started rolling in, particularly for asbestosis losses, said Mr. Walker. Merrett hired lawyers and accountants to investigate the contracts, he alleged.

Also, Mr. Emney was dismissed in early 1985, he added.

In April, 1985, Merrett reported 12 million to 17 million pounds ($15.4 million to $21.8 million) in losses for the 1982 underwriting year and asked members of incidental non-marine syndicate 417 and non-marine syndicate 421 to pay cash calls. Mr. Merrett attributed the losses to runoff reinsurance written by the syndicates for other syndicates (*BI*, April 22, 1985).

Mr. Merrett told the syndicates' members that "in hindsight (the contracts) represented poor underwriting judgment," said Mr. Walker.

"What they should have said was 'our Mr. Emney let us down,' " interjected Justice Hirst.

On March 24, 1987—after correspondence between syndicate 544 and the Merrett syndicates over the runoff policy—Mr. Dolling-Baker met with Mr. Merrett to discuss the runoff contract, said Mr. Walker.

At the meeting, Mr. Dolling-Baker said he showed Mr. Merrett

Mr. Lawrence had warned all underwriters about asbestosis losses becoming 'a major problem' and requested that all underwriters make sure their reserves 'reflect the current and foreseeable liabilities of all syndicates.'

The Merrett syndicates wrote 50% of the aggregate excess-loss reinsurance policy, which was to pay for all of syndicate 544's liability losses exceeding $9.2 million stemming from 1978 and prior years that would be paid on or after Jan. 1, 1982.

Syndicate 417 wrote 40% of the policy and syndicate 421 wrote 10%. It was one of 11 unlimited runoff reinsurance contracts written by Merrett syndicates.

The other 50% of the policy was written by Lloyd's underwriter Richard Outhwaite for syndicate 317/661 managed by R.H.M. Outhwaite (Underwriting Agencies) Ltd.

Mr. Outhwaite is not a party to the litigation and is awaiting the outcome of the trial before paying any claims.

The $9.2 million attachment point was determined, Mr. Walker explained, by adding a $5 million retention by syndicate 544 and $5.05 million in reinsurance excess of $5 million which had been written by New England Reinsurance Corp. for losses from 1978 and prior underwriting years.

The New England Re policy had been written in 1981.

From the $10.05 million was subtracted $911,778 of claims already paid, said Mr. Walker.

Merrett's syndicates were paid half the $975,000 premium syndicate 544 paid for the run-off reinsurance, said Mr. Walker.

The policy was signed by the Merrett and Outhwaite syndicates on May 25, 1982, and the premium was paid one month later.

Two years after the risk was placed "and accepted," Mr. Emney wrote in the syndicates' annual report that the runoff policies that had been written had "inherent dangers," which was why the premiums were getting bigger and Mr. Merrett decided to have another review," he said.

Currently, syndicate 544 has $28 million in known losses net of other reinsurance related to 1978 and earlier years, *Business Insurance* learned.

It wasn't until two days after Mr. Dolling-Baker issued his writ in December 1988 against Mr. Merrett that Merrett's lawyers Davies Arnold & Cooper "put forth the case of non-disclosure," said Mr. Walker.

Mr. Merrett claims, among other things, that three pieces of information were not in the Winchester Bowring placing file at the time Mr. Emney saw the file, although Mr. Dolling-Baker can prove those pieces of information were given to the broker, said Mr. Walker.

Mr. Merrett asserts that the exclusion of these three pieces of information led Merrett's syndicates to believe that known claims and IBNR for 1978 and prior years totaled $1.8 million at year-end 1981, said Mr. Walker.

However, the $1.8 million related only to reported but not paid claims as of March 1982, said Mr. Walker. It did not include IBNR reserves, said Mr. Walker.

Winchester Bowring claims two of the three pieces of information were in the file shown to Mr. Emney, said Michael Collins, trial lawyer for Winchester Bowring.

Two of the documents contained information on syndicate 544's reinsurance to close of 1980 and 1981, which would have included information on IBNR loss reserves.

Another piece of information that Mr. Merrett says was excluded is paragraph four of a four-paragraph memo written in March 1982 by syndicate 544's claims manager, Douglas Clark. That paragraph details how syndicate 544's IBNR was decided.

Mr. Clark's memo was retyped by Winchester Bowring without paragraph four, Mr. Merrett alleges. Winchester Bowring's lawyer Mr. Collins couldn't say last week what had happened to the paragraph.

However, Mr. Emney could have seen that the $1.8 million didn't include IBNR loss reserves from other information in the file that he did see, said Mr. Walker.

Other information in the file showed that Mr. Dolling-Baker had followed instructions given in a March 18, 1982, letter by then-Lloyd's Deputy Chairman Murray Lawrence, now chairman of Lloyd's, to underwriters advising them to increase IBNR loss reserves for asbestosis losses, said Mr. Walker.

Mr. Lawrence had warned all underwriters about asbestosis losses becoming "a major problem" and requested that all underwriters make sure their reserves "reflect the current and foreseeable liabilities of all syndicates."

Mr. Emney could have seen from the information that syndicate 544 actually had reserved about $3 million for known claims and incurred-but-not-reported claims, Mr. Walker said.

If the IBNR information was not given to Mr. Emney, it was not the fault of syndicate 544, added Mr. Walker. The information was given to Winchester Bowring, which should have handed it on to Mr. Emney, he said.

Also, Mr. Walker said, "it would have been common knowledge in the Lloyd's market that syndicate 544 had IBNR reserves," he said.

And, "any reasonably prudent" underwriter should have known that the $1.8 million only pertained to known losses, said Mr. Walker. "If he wanted (information on) IBNR as well, all he had to do was ask for it."

The trial continues this week, with lawyers for Mr. Merrett and Bowring presenting their opening statements. ■

Winchester Bowring's "placing file," which is the file that would have been shown to Mr. Emney when the contract was placed.

"A great deal of the meeting is in dispute," said Mr. Walker. But what isn't in dispute is that at the end of the meeting, Mr. Dolling-Baker agreed to get Winchester Bowring to give a copy of the file to Mr. Merrett, which Winchester Bowring did.

Eleven days later, on April 7, 1987, the two men met again and Mr. Merrett gave Mr. Dolling-Baker an unsigned letter which Mr. Walker calls the "estoppel letter."

The letter, which was read silently by Justice Hirst but not openly in court, enabled Mr. Dolling-Baker to close syndicate 544's 1984 and 1985 underwriting years, said Mr. Walker. "That process is now irreversible," he said.

Mr. Walker implied that Mr. Merrett validated the runoff reinsurance contract in the unsigned letter.

Fourteen months later, however, in June 1988, "Merrett's camp" gave an oral warning and then a written warning to Mr. Dolling-Baker that the placement of the reinsurance policy was being reviewed by accountants Ernst & Whinney, said Mr. Walker. The written warning repudiated the contract, according to Mr. Walker.

"It's not hard to see what prompted this further review," he said.

Earlier that month, Merrett had received figures from syndicate 544 showing that total known claims paid and outstanding from 1978 and prior underwriting years had reached $20 million, he said. That meant that the attachment point of the runoff policy "had been well and truly triggered," said Mr. Walker.

"The point is that the numbers

Update

Gathers family sues university

Continued from page 2

The suit, filed April 16, alleges that Mr. Westhead at least twice asked doctors to change or reduce the dosage of the star player's heart medication to improve his performance. It also alleges that team doctors did not help Mr. Gathers as he suffered a cardiac arrest during the game, though the university kept a heart defibrillator courtside.

School officials would not discuss the suit or their insurance.

Allianz deal blocked

BERLIN—Allianz A.G.'s planned purchase of 49% of Staatliche Versicherungs der DDR, East Germany's state-owned insurer, has been temporarily halted because of an agreement between West Germany and East Germany to block large mergers between the two countries' companies.

"No large merger will be allowed until other competitors can do business" in East Germany, said West German Trade Minister Helmut Haussmann in East Berlin last week.

Although foreign companies can establish offices in East Germany for such purposes as training East German personnel, they cannot conduct business until the nation enacts a law permitting them to do so. East German Trade Minister Gerhard Pohl has said he would like to see such a law enacted by the end of May.

Allianz already has said it would wait until competitors were licensed before it starts business in East Germany (*BI*, April 16; March 19).

Meanwhile, East Germany's cartel office is cooperating with its West German counterpart to prevent large mergers from creating monopolies, said East German Finance Minister Walter Romberg.

TV station to appeal libel award

SAN ANTONIO, Texas—Harte-Hanks Communications Inc. has $30 million of coverage to respond to a $29 million state court jury award to a surgeon who claimed he was libeled by the company's KENS-TV unit in San Antonio, says the surgeon's lawyer.

Plaintiff's attorney James Branton of Branton & Hall in San Antonio, who did not know what insurer wrote the coverage, also expects Harte-Hanks to appeal the award.

Attorneys for Harte-Hanks could not be reached.

Dr. Sudhir Srivastava claimed in his suit against Harte-Hanks that he was libeled in 1985 news reports on physicians who allegedly performed unnecessary surgery on elderly patients.

Two other doctors identified in the reports have not sued.

Excess insurer must drop down

SAN DIEGO—Excess insurer Columbia Casualty Co. is likely to appeal a California trial judge's ruling that it must drop down to cover $850,000 in damages insured by the insolvent Mission Insurance Co., according to attorneys.

Columbia Casualty last month was ordered to drop down to pay a portion of a $2 million personal injury settlement made by Coca-Cola Bottling Co. of San Diego to three women injured in a May 1985 car accident with a Coca-Cola truck.

Los Angeles-based Mission wrote a $5 million primary policy for Coca-Cola in 1985 above a $1 million self-insured retention. Columbia Casualty, a unit of CNA Financial Corp., wrote a $10 million layer excess of the $5 million written by Mission.

Ruling from the bench, Superior Court Judge William C. Pate said: 'It's the public policy of this state that there be insurance provided where an insolvency occurs in an excess or primary policy and there's excess coverage above that."

"The ruling is consistent with the law of California," said Coca-Cola attorney Patrick McCormick in San Diego. The State Supreme Court has twice ordered excess insurers to drop down, he noted.

However, Columbia Casualty attorney Ralph Peters of McInnis, Fitzgerald, Rees, Sharkey & McIntyre in San Diego noted that the ruling conflicts with the majority of decisions nationwide.

"This ruling is an anomaly," agreed Sanford Kingsley of LeBoeuf, Lamb, Lieby & MacRae in San Francisco.

Briefly noted

California Insurance Commissioner Roxani Gillespie will appeal a State Superior Court judge's order that she approve a 112.3% increase on average in **assigned risk automobile insurance plan rates**. The judge also rejected an April 10 proposal by Ms. Gillespie to transform the plan into an auto insurance program for low-income drivers subsidized by other drivers in the state. . . .While it dropped its bid to buy Farmers Group Inc. last week, Paris-based **AXA Midi Assurances S.A.** said it was looking at six other possible U.S. insurance acquisitions. A spokesman would not confirm reports that four property/casualty and two life insurers had approached AXA . . .Suffolk County, N.Y., is appealing a state court ruling that overturns a controversial county law designed to protect workers who use **video display terminals**. The county will file its written arguments in the appeal in May. An appellate court ruling is expected later this year (*BI*, March 5; Aug. 15, 1988). . . .Two catastrophes caused **$55 million in insured property damage** in Texas and Oklahoma during the week of April 15, reports the Property Claim Services division of the American Insurance Services Group Inc. . . .**Joseph W. Duva**, corporate director of employee benefits at Allied-Signal Inc., left the Morristown, N.J.-based company last week to become a partner at Ernst & Young in New York. At Allied-Signal, Mr. Duva helped to develop an innovative managed health care network that is projected to save the company $200 million over three years (*BI*, March 19). . . .Chemical plants may soon be required to institute **comprehensive safety management plans** covering the entire manufacturing process, the Labor Department said. The proposal was contained in a report on the Phillips Petroleum Co. plant explosion, which the Labor Department alleges was caused by violations of federal health and safety standards (*BI*, April 23; Oct. 30, 1989). . . .The Washington, D.C.-based 401(k) Coalition is being organized to lobby Congress to restore the ability of non-profit organizations to establish **401(k) salary reduction plans**.

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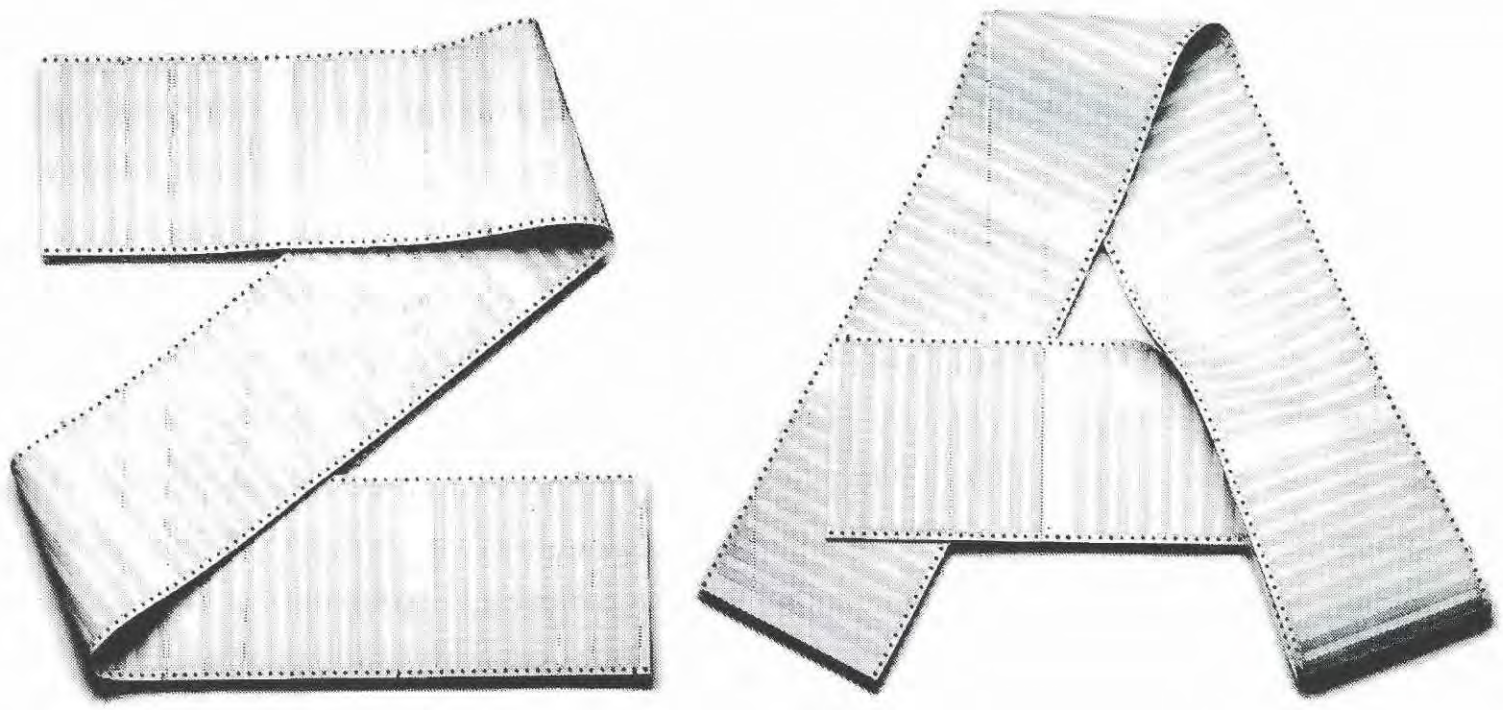
Who Covers Business Insurance From A to Z?



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