

APRIL 30, 2001

Risk Management Honor Roll:

Gary Baxter
Weyerhaeuser Co.

Peggy Nakamura
Adventist Health
System/West

Business Insurance

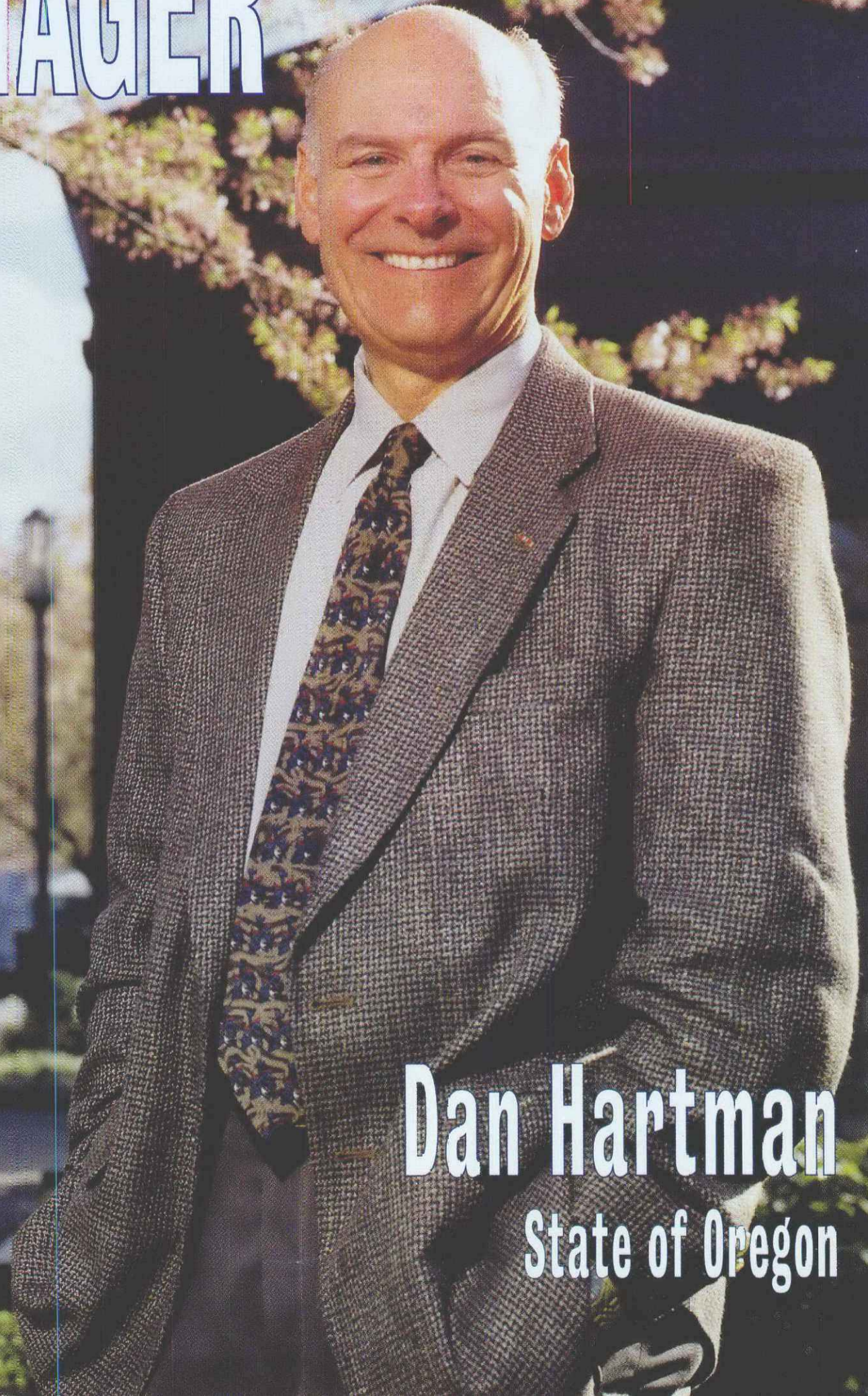
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RISK MANAGER

OF THE

YEAR



Dan Hartman
State of Oregon

**HE HAS A LOVING WIFE, THREE
GREAT KIDS AND NO LOGICAL EXPLANATION
FOR WHAT HE'S ABOUT TO DO.**



A sobering fact about sexual harassment claims: sixty percent of them are won by the employee. Annual cost: billions. Fortunately, it's an epidemic with a cure: our EPL Select™ line of coverages and services. Highly flexible, they can be customized to any industry's needs. And they're part of an integrated risk management package that helps

minimize risk with employment practices audits, toll-free employee and management hot lines and epselect.com, our web-enabled EPL risk management training and resource site. Start protecting your business with the company S&P rates AAA and A.M. Best Company rates A++ (Superior). Test-drive epselect.com. Call 617-772-4586.

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Chase settles lawsuit over failed offshore insurer

DALLAS—Chase Bank of Texas N.A. has agreed to pay \$3 million to settle charges that it failed to warn regulators about a worthless policyholder trust account it set up for an allegedly fraudulent offshore insurer that collapsed in the 1990s.

The joint liquidator of Alpine Insurance Co. Ltd., formerly of the Turks & Caicos Is-

See Updates on next page

Risk managers' pay

Total 2000 compensation by sales volume level



Source: Logic Associates

GRAPHIC BY LANCE PRATHER

Biggest companies pay best

Compensation gains 'normal'

By ROBERTO CENICEROS

Risk managers in the upper echelons of their profession saw average compensation gains of 10% to 12% in the past two years, as more companies look for team leaders who can address risks across a wider spectrum of corporate operations.

But of 1,432 risk managers nationwide who responded to a recent survey about 1999 and 2000 compensation trends, those in smaller companies said their salaries were, on average, about 6% more than the average salary reported in a similar survey released two years ago.

The latest survey showed compensation increases were mostly "normal," said Bill Perry, president of Logic Associates Inc. The New York-based recruiting firm commissions the compensation survey every two years. It asks risk managers to respond to questions about their salaries, bonuses and responsibilities. It also breaks down survey answers according to the states and industries in which the re-

spondents work.

This most-recent survey is the 17th that Logic has commissioned.

As in the past, the latest survey found that those working for the largest companies received the greatest compensation. The survey shows that:

- At companies with annual sales of \$200 million or less, the average salary was \$75,504, with an average bonus of \$2,509. These risk managers were the lowest paid, and they saw an average salary increase of 6.2% from two years earlier.

- At companies with sales volumes that ranged from \$201 million through \$500 million, the average salary was \$88,507, with an average bonus of \$3,608. The salaries of these risk managers grew the least, increasing, on average, just 3.2% over the prior two years.

- At companies with sales volumes that ranged from \$501 million through \$1 billion, the average salary was \$99,402, and the average bonus was \$5,081. That's a

See Salary on page 106

Efforts to improve quality renewed

By MICHAEL BRADFORD

The quest to improve the quality of insurance products and services is gaining momentum.

Efforts by the Risk & Insurance Management Society Inc. and other groups are bringing insurance buyers, underwriters, brokers and others together to work on the complex and sometimes touchy issue of quality. RIMS will announce its Quality Improvement Process at the society's annual conference in Atlanta this week.

And work by other groups to eliminate some of the problems that have plagued the insurance and risk management community is continuing.

One project in the very early stages is an automated clearinghouse that would tie policyholders, insurers and brokers together and provide a standardized way to make and reconcile premium and claims payments. Proposed by Marsh Inc., the clearinghouse would eliminate much of the redundancy and inefficiency in current systems.

The quality movement is "enormously interesting to RIMS," said John J. Hampton, the New York-based society's executive director. "There's



'Quality means everybody does what they're supposed to do.'

— John J. Hampton
RIMS executive director

a changing direction."

No longer is the idea of quality simply to evaluate business partners, Mr. Hampton said, but to bring all the parties in the process together to develop their roles in quality improvement.

"Quality means everybody does what they're supposed to do, the way they are supposed to do it," he said.

The RIMS initiative picks up where efforts by

See Quality on page 108

Retiree age bias ruled

Medicare HMO found to be a 'lesser' benefit

By JERRY GEISEL

PITTSBURGH—An employer that provides a Medicare health maintenance organization to older retirees and a point-of-service plan to younger retired workers is violating federal age discrimination law, a U.S. district court has ruled.

Erie County, Pa.'s post-employment health care program discriminated against older retirees because they received "lesser" benefits than pre-Medicare-eligible retirees, Judge Sean McLaughlin ruled. In his ruling, Judge McLaughlin said the health care programs that Erie County offered to the two groups of retirees are not equal and thus are discriminatory for three reasons:

- The POS plan is "objectively superior" to the Medicare HMO because partici-

pants can decide on a service-by-service basis to use network providers with low cost sharing or to go outside the network—albeit with higher cost sharing—to receive traditional indemnity coverage.

"The objective advantage of a dual program is that the insured's preference for either mechanism may consistently be accommodated," the judge



wrote.

- Pre-Medicare eligible retirees do not pay any premiums for coverage in the POS plan, while older retirees have to pay Medicare Part B premiums—currently \$50 a month—to receive coverage through the Medicare HMO.

- Retirees in the Medicare HMO are bound by a prescription drug formulary and are subject to higher copayments for prescription drugs than are retirees in the POS plan.

"The unrestricted choice of prescription drugs at a lower cost" provided by the POS plan is "objectively a greater benefit than the restricted choice at a higher cost" provided by the Medicare HMO, Judge McLaughlin wrote.

His ruling is the first since an appellate court remanded the case to the district court in

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with Dow

draws scrutiny page 3

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• A single sexually suggestive remark does not give rise to actionable sexual harassment under Title VII of the Civil Rights Act of 1964, the Supreme Court ruled. PAGE 4



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• BT P.L.C., the British telecommunications giant, is closing its defined benefit pension plan and offering a defined contribution plan. PAGE 99

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Cover photo by
Michael Marcotte

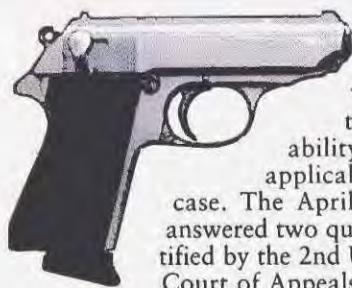
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UPDATES

Continued from previous page
lands, sued Chase in Dallas federal court last year, charging that the bank damaged Alpine policyholders by allowing the insurer to fund its trust account with valueless stock and a worthless letter of credit from a purported offshore bank. Alpine's assets did not meet the requirements of the National Assn. of Insurance Commissioners standard trust agreement that Chase signed with Alpine, according to the suit filed by Robert Craig, joint liquidator of Alpine and a partner with Lamson, Dugan & Murray in Omaha, Neb. Chase also improperly deleted a trust provision requiring it to certify the value of the assets to the NAIC, the suit alleged. Alpine wrote more than \$14 million in premiums between 1993 and 1995, about \$6 million of which was transferred to offshore accounts, Mr. Craig said. The insurer left more than \$10 million in unpaid claims. The Chase settlement is contingent on the certification of the joint liquidator's lawsuit as a class action on behalf of Alpine policyholders. Meanwhile, Mr. Craig is pursuing separate claims against PaineWebber Inc., which acted as custodian for some of the Alpine assets, and Bank of New York, which acted as trustee for Alpine before the Chase agreement was executed.

▶ **ADA SUIT** The Equal Employment Opportunity Commission has sued Northwest Airlines Inc., alleging the airline violated the Americans with Disabilities Act by discriminating against people who suffer from seizure disorders or other disabilities that may cause them to lose consciousness. The suit, filed in federal district court last week in Minneapolis, alleges that a company-wide policy at Eagan, Minn.-based Northwest prohibits hiring people with insulin-dependent diabetes or epilepsy requiring antiseizure medication for positions where heavy equipment, fuel trucks and other hazardous and noisy equipment is operated near commercial aircraft. The suit also alleges the airline failed to individually assess applicants' ability to perform essential job functions and whether the applicants posed a direct threat that could be reduced with reasonable accommodations. The EEOC, which brought the suit on behalf of an unspecified class, is seeking compensatory and punitive damages of up to \$300,000 per claimant. Northwest disputes the claims.

▶ **GUNMAKERS WIN APPEAL** The New York Court of Appeals ruled in favor of gunmakers in two unanimous decisions issued at the request of a federal appeals court. New York's highest court rejected plaintiffs' argument that gunmakers owed a duty of care to people harmed by their products—which plaintiffs contend could have prevented deaths from shootings—



and also held that a market-share theory of liability was not applicable in the case. The April 26 ruling answered two questions certified by the 2nd U.S. Circuit Court of Appeals in *Hamilton vs. Beretta U.S.A. Corp.* The suit originally was filed in 1995 by relatives of people killed by handguns and led to a \$522,000 award against three gun manufacturers based on market share. The New York court ruled 7-0 that a duty of care was not proved to be an obligation and that "broad liability, potentially encompassing all gunshot crime

victims, should not be imposed without a more tangible showing that the defendants were a direct link in the causal chain that resulted in the plaintiffs' injuries, and that the defendants were in a position to prevent the wrongs." The state high court ruled also that plaintiffs' market share theory was faulty, partly because "it is often possible to identify the caliber and manufacturer of the handgun that caused injury to a particular plaintiff. Even more importantly—given the negligent-marketing theory on which plaintiffs tried this case—plaintiffs have never asserted that the manufacturers' marketing techniques were uniform."

▶ **AON INJUNCTION BLOCKED** A Texas judge recently denied Aon Corp.'s attempt to obtain a permanent injunction barring a team of former Aon employees that joined Lockton Cos. Inc. from soliciting Aon accounts. Tim Kelly, former head of Aon's non-energy and marine office in Houston



and the new president of Lockton's Houston office, left Aon in early March. About 20 other Aon employees in Houston and Dallas also joined Lockton's offices in those cities (*BI*, March 12). Aon immediately obtained a temporary restraining order restricting the former Aon employees from soliciting business from Aon clients. The order was modified and made less restrictive a few days later, and a judge for the County District Court in Dallas denied the permanent injunction April 19. At issue are non-competition agreements, which eight of the ex-Aon employees had in place. Aon is still seeking damages from Lockton for the defections in a lawsuit, and Lockton said it intends to assert a number of counterclaims against Aon.

▶ **D.C.'s FIRST CAPTIVE** The District of Columbia has licensed its first captive insurer, a medical professional liability insurer set up by a health care financial services company. Washington-based NCRIC Group Inc., which provides medical malpractice and general liability insurance as well as health care practice management services, last week announced that its subsidiary, American Captive Corp., became the first captive licensed in the District of Columbia under the Captive Insurance Act of 2000. Initially, ACC will write medical billing errors and omissions liability coverage for physicians, nurses and other health care professionals. An NCRIC spokesman said the captive currently has no policyholders, but its parent services about 2,500 physician clients. Although he declined to disclose the captive's capitalization or financial expectations for its first year, NCRIC reported total revenues of \$26.8 million for 2000 and \$22.7 million in gross premiums written. NCRIC chose the District of Columbia as a domicile in part because the company has been based there for 20 years, he said.

▶ **COSTLIEST COMPONENT** Medical coverage is the costliest single component of employer-provided benefits, according to the U.S. Chamber of Commerce. A Chamber survey found that employers spent an average of \$14,060—including federal payroll taxes—per worker for benefits other than wages or salary in 1999, the latest year for which data is available. The average cost of medical coverage was \$2,777 per employee, or 19.76% of the total average benefit package. The second-largest cost was payroll taxes, at \$2,666 per employee. The Chamber found that 97% of the re-



spondents offered some sort of health coverage. Preferred provider organizations were the most popular, with 59% of the respondents offering PPO coverage. Health maintenance organizations came in second, as the choice of 49% of the employers, while 21% offered point-of-service plans and 15% offered traditional indemnity plans. A choice of more than one plan was offered by 39% of the respondents. The survey, undertaken by the U.S. Chamber Statistics & Research Center, was based on the responses of 532 employers of all sizes, with those employing 100 to 499 workers accounting for 57.3% of the total.

▶ **DIFFERENCE OF OPINIONS** There is a sizable gap between employers' expectations of health plans and those of employees, a recent survey indicates. While almost two out of three employees of large employers—those with more than 5,000 employees—said the quality of doctors in a health plan was "extremely important" to them, only 36% of large employers agreed, ranking physician quality last among 10 health-plan quality factors examined, according to a survey by Columbia, Md.-based Consortium Health Plans Inc. The survey analyzed the responses of 120 large employers and 246 employees from large companies. Among the employers, accurate claims processing was the factor most commonly noted as extremely important, cited by 66%. Sixty-four percent of employees said that factor was extremely important. Among employees, the No. 1 factor was a lack of restricted access to providers, cited by 73%. Only 49% of employers, however, cited this factor as extremely important. The survey also showed that employers regard health insurance as the most important benefit in attracting and retaining employees. A retirement plan ranked second in importance in attracting new hires. For retaining employees, on-the-job training came in second.

▶ **BRIEFLY NOTED** Dan Eudy has been named president of Industrial Risk Insurers, a Hartford, Conn.-based unit of Employers Reinsurance Corp. Mr. Eudy joined the highly protected risk insurer in 1996 and was named chief operating officer in 2000. He succeeds Gail Norstrom, who is retiring....The Senate voted 99-0 last week to approve a so-called "brownfields" bill that would encourage the redevelopment of old industrial sites through federal funds and some relief from cleanup liability for people who buy the polluted properties in hope of returning them to productivity. The measure stopped short of fundamental reform of Superfund's controversial system of retroactive liability. No companion legislation has been introduced in the House. **BI**

▶ To get breaking news as it occurs, visit Business Insurance's free online Updates at www.businessinsurance.com. All of the material in the Updates column, as well as other content in this week's issue, is generated from daily news postings that appeared on the Web site in the previous week.

Senators blast Chao on ergonomics stance

By MARK A. HOFMANN

WASHINGTON—Don't expect a new federal ergonomics proposal to be issued any time soon.

In fact, Labor Secretary Elaine Chao refused to say whether she will promulgate an ergonomics standard as she fielded questions during a news conference that followed a short but stormy appearance before a Senate panel of two last week.

Ms. Chao repeatedly said that she intends to forge a consensus about how best to approach ergonomics concerns in the workplace before moving ahead with any potential rules.

That did not sit well with either Sen.

Arlen Specter, R-Pa., or Sen. Tom Harkin, D-Iowa, the chairman and ranking Democrat, respectively, of the Senate Appropriations Committee's Subcommittee on Labor, Health and Human Services and Education. Both lawmakers tried to get Ms. Chao to commit to a timeline or a deadline for settling the ergonomics conflict, commitments that she steadfastly refused to make.

As a result, Sen. Specter cut her testimony short and summoned the first of several other expert panels called by the subcommittee to discuss ergonomics.

The Clinton administration issued a federal ergonomics rule in mid-November. The circumstances sur-

rounding the promulgation of the rule, which was opposed by most employers and insurers but backed by organized labor, led Congress last month to invoke the 1996 Congressional Review Act for the first time, to rescind the standard (*BI*, March 12). The move prohibits the Labor Department's Occupational Safety and Health Administration from issuing any substantially similar rule in the future.

Sen. Specter recently co-sponsored a bill that would require the Labor Department to issue a new ergonomics standard within two years of its enactment (*BI*, April 2). The bill would forbid OSHA from including See *Ergonomic* on page 105



PHOTO: NEWSMAKERS
On Capitol Hill last week, Sen. Tom Harkin, D-Iowa, ranking Democrat of the Senate Subcommittee on Labor, Health and Human Services and Education criticized the Labor Department for refusing to commit to a timetable for rolling out a new ergonomics standard.

Dow challenges procurement tax

Texas battle puts tax in national light

By MEG FLETCHER

AUSTIN—Savvy buyers are closely watching a case before the Texas Supreme Court in hopes that a favorable ruling would invalidate that state's direct procurement taxes and make them eligible for a refund of the estimated \$7 million that the state collects annually in such taxes.

The case—in which Dow Chemical Co. is seeking a \$427,149 refund of the tax and penalties it paid in Texas—has national implications, too, because Dow's arguments rely on a 1962 U.S. Supreme Court de-

cision that rejected independent procurement taxes in an earlier Texas case, according to court papers filed with the 3rd District Court of Appeals in Austin, Texas.

The Texas appeals court's January decision to accept the U.S. Supreme Court's ruling in support of Dow's claim could breathe new life into the almost 40-year-old decision and may even spark legal challenges in other states.

Over the years, 35 states essentially ignored that ruling and adopted taxes on independent procurement, in some cases assuming that subsequent rulings essentially had overturned the high court's decision. That left only 16 jurisdictions essentially without such a tax (see chart).

States levy independent, or direct, procurement taxes on insurance buyers that obtain coverage outside a state's usual admitted or surplus lines market for insurance.

Given how widespread the independent procurement taxes are nationwide, the Dow litigation itself may have to be resolved by the U.S. Supreme Court, many sources say.

The Dow case is important because "it casts uncertainty as to whether states' independent procurement taxes are valid, both in Texas and nationally," said Richard M. Bouhan, an attorney who is executive director of the National Assn. of Professional Surplus Lines Offices Ltd. in Kansas City, Mo.

The Risk & Insurance Management Society Inc. considers independent procurement taxes "a hot topic," said Billie Fae Fuschi, chair of New York-based RIMS' External Affairs Committee. She also is director of workers compensation for Methodist Healthcare in Memphis, Tenn. "We will be looking at what states are doing nationally as well as reviewing the Texas litigation" during RIMS' annual confer-

See *Taxes* on page 105

Losses spur lawsuits

Plan losses blamed on trustees' ties to investment firm

By JOANNE WOJCIK

PORTLAND, Ore.—Fidelity bonds and fiduciary liability insurance will respond to most of the losses sustained by numerous union pension plans related to their involvement with investment adviser Capital Consultants L.L.C.

Such coverage will also pay to defend the trustees being sued by plan members for allegedly violating their fiduciary duty in selecting Portland, Ore.-based Capital Consultants to oversee the union pension funds' investments.

The U.S. Department of Labor last fall froze the assets of Capital Consultants after finding that its employee benefit plan clients had collectively lost more than \$160 million. A receiver has been appointed, and the firm, which had provided investment services to more than 60 collectively bargained Taft-Hartley plans, has been barred from doing business with any plan governed by the Employee Retirement Income Security Act of 1974.

Since then, at least six lawsuits have been

filed in Oregon and Colorado by union members, alleging that the trustees of their various pension, profit-sharing, health and welfare and vacation funds accepted gifts and trips from Capital Consultants in exchange for their plans' business.

The latest suit was filed earlier this month in U.S. District Court in Denver by members of the Sheet Metal Workers Local No. 9 Pension Trust, which lost more than \$20 million, or nearly one-fourth of its total assets, between 1994 and 1998.

The losses have put the pension fund in jeopardy and may require reducing monthly retirement benefits to current retirees, according to Dan Feinberg, a partner with Sigman, Lewis & Feinberg in Oakland, Calif., who filed the suit on behalf of the Denver sheet metal union's 1,600 members.

"We believe they've lost a quarter of their plan's assets, and that has the potential to endanger people's benefits," he said.

In addition to union members' suits against trustees, the Labor Department and the Securities and Exchange Commission, as

See *Fiduciary* on page 107

Avoiding tax bite

Only 16 jurisdictions in the United States do not tax policyholders on the independent procurement of insurance coverage; all others impose some tax.

No procurement tax:

Delaware
District of Columbia
Illinois
Indiana
Kansas
Massachusetts
Nebraska
North Dakota
Oregon
Rhode Island
South Carolina
Tennessee
Virginia
Washington
West Virginia
Wyoming

Note: Arizona imposes a tax only on industrial insurance procurement.
Source: National Assn. of Independent Insurers

Pension bill advances

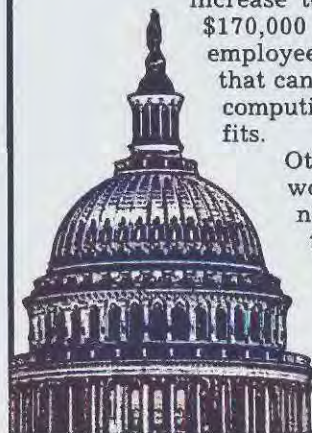
Full House vote on measure expected this week

WASHINGTON—Pension reform legislation is on its way to a vote by the House of Representatives.

Two House panels, the Ways and Means and the Education and Workforce committees, last week approved the measure, H.R. 10, which would cut red tape and boost benefits that can be funded through plans.

Among other things, the bill gradually would raise to \$15,000 from \$10,500 annual salary deferrals employees can make to 401(k) plans and increase to \$200,000 from \$170,000 the amount of employee compensation that can be considered in computing pension benefits.

Other changes would ease certain non-discrimination testing procedures and speed up vesting schedules for employer matching



contributions to 401(k) plans.

Before passing the measure, the Ways and Means Committee defeated one amendment that would have given limited tax credits to lower-income employees contributing to pension plans, as well as an amendment that would have given tax credits to small employers to partially offset the cost of setting up new pension plans.

The Education and Workforce committee rejected an amendment that would have required employers converting traditional defined benefit plans to cash balance or other pension hybrids to give vested employees a choice of remaining in the old plan or moving to the new pension program.

The full House is expected to act on the measure this week.

No action has taken place yet on a similar bill introduced in the Senate. But benefit lobbyists say they will try to have the Senate bill attached to a broader tax-cut bill that legislators could consider in the next month or so.

— By Jerry Geisel

Single suggestive remark not actionable: Court

By MARK A. HOFMANN

WASHINGTON—A single sexually suggestive remark does not give rise to actionable sexual harassment under Title VII of the Civil Rights Act of 1964, the Supreme Court held on Monday.

The court's unanimous—and unsigned—ruling in *Clark County School District vs. Shirley A. Breeden* was unusual in that the justices ruled without hearing any oral arguments in the case.

The case began Oct. 21, 1994, when Ms. Breeden, a Nevada school district employee, was reviewing psychological reports accompanying job applications

with her male supervisor and another male employee. According to the high court, the supervisor read a sexually explicit comment from one of the reports that said the job applicant had once made the remark to a fellow worker. The supervisor then looked at Ms. Breeden and said, "I don't know what that means," to which the other male employee replied, "Well, I'll tell you later," and both men chuckled. Ms. Breeden later complained to several managers that the remark had offended her.



She claimed that the school district retaliated against her by moving her to a less desirable job.

She claimed that she was further punished for having filed a complaint with the Nevada Equal Employment Opportunity Commission on April 1, 1997.

A U.S. District Court granted summary judgment for the school district in 1999, but a divided three-judge panel of the 9th U.S. Circuit Court of Appeals reversed that decision in 2000. The appeals panel held that Ms. Breeden had the right not only to op-

pose practices that are illegal under Title VII—which forbids actions taken on the basis of sex that "discriminate against any individual with respect to his compensation, terms, conditions or privileges of employment"—but also "if she had a reasonable, good-faith belief that the incident involving the sexually explicit remark constituted unlawful sexual harassment."

In its decision overturning the appeals court, the Supreme Court wrote that it wouldn't deal with the "propriety of this interpretation, because, even assuming it is correct, no one could reasonably believe that the incident recount-

ed above violated Title VII."

The justices pointed out that Ms. Breeden's job required her to read that sexually explicit statement in the "normal course of reviewing job applicants" and that she had, in fact, "conceded that it did not bother or upset her" to do so when her case was before the district court. Further, the supervisor's comment, her co-worker's response and the chuckling "are, at worst" an isolated incident "that cannot be considered 'extremely serious,' as our cases require," according to the April 23 opinion.

The high court then reversed the appeals court judgment. **EJ**

Kloman promotes broad view of risk

PHILADELPHIA—Risk managers should take a broad view of risk and, at the same time, define their jobs more simply to help them focus on their role within their organizations, said H. Felix Kloman, a retired risk management consultant and publisher of Risk Management Reports.

Mr. Kloman spoke at the 13th annual Awards for Excellence Luncheon at Temple University in Philadelphia last week, held to honor the memory of H. Wayne Snider, a former professor of risk management at Temple who died in 1999.

Risks are still treated separately rather than taken as a whole, Mr. Kloman said. He advocated looking at risks in a broader perspective in order to deal with them effectively.

For example, increased security measures taken to reduce theft by employees may increase the risk of injury to employees in the event of an evacuation. Such considerations, Mr. Kloman said, should be taken into account when implementing risk management programs.

Furthermore, managers in an organization need to work together to deal with its diverse risks, Mr. Kloman said. "Integrated risk management is the only efficient way to go," he said.

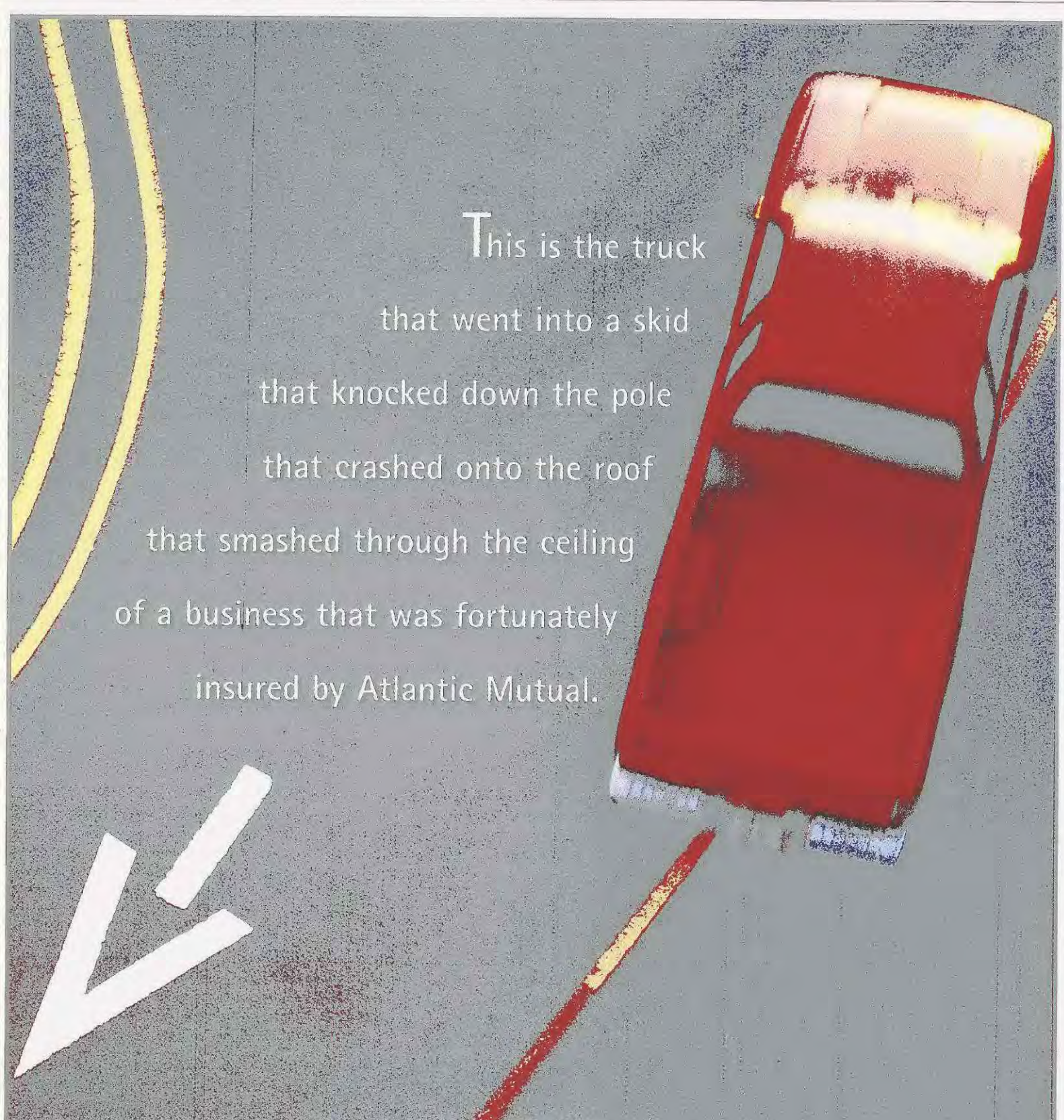
Risk managers should simplify their definition of "risk" in order to understand it better, he said. A simple definition that Mr. Kloman offered is "a measure of the probability of deviation from the expected."

When risk is defined simply, it is easier to manage, he said.

Mr. Kloman said that the risk management process itself can be simplified into two steps—risk analysis and risk response. Within risk analysis is risk identification, measurement and assessment, he said, and within risk response is risk control, sharing and communication.

At the luncheon, several awards were presented to students at the Fox School of Business and Management's Department of Risk, Insurance and Healthcare Management of Temple University. Christopher L. Armstrong received the H. Wayne Snider Award in Risk Management.

—By Gavin Souter



This is the truck
that went into a skid
that knocked down the pole
that crashed onto the roof
that smashed through the ceiling
of a business that was fortunately
insured by Atlantic Mutual.

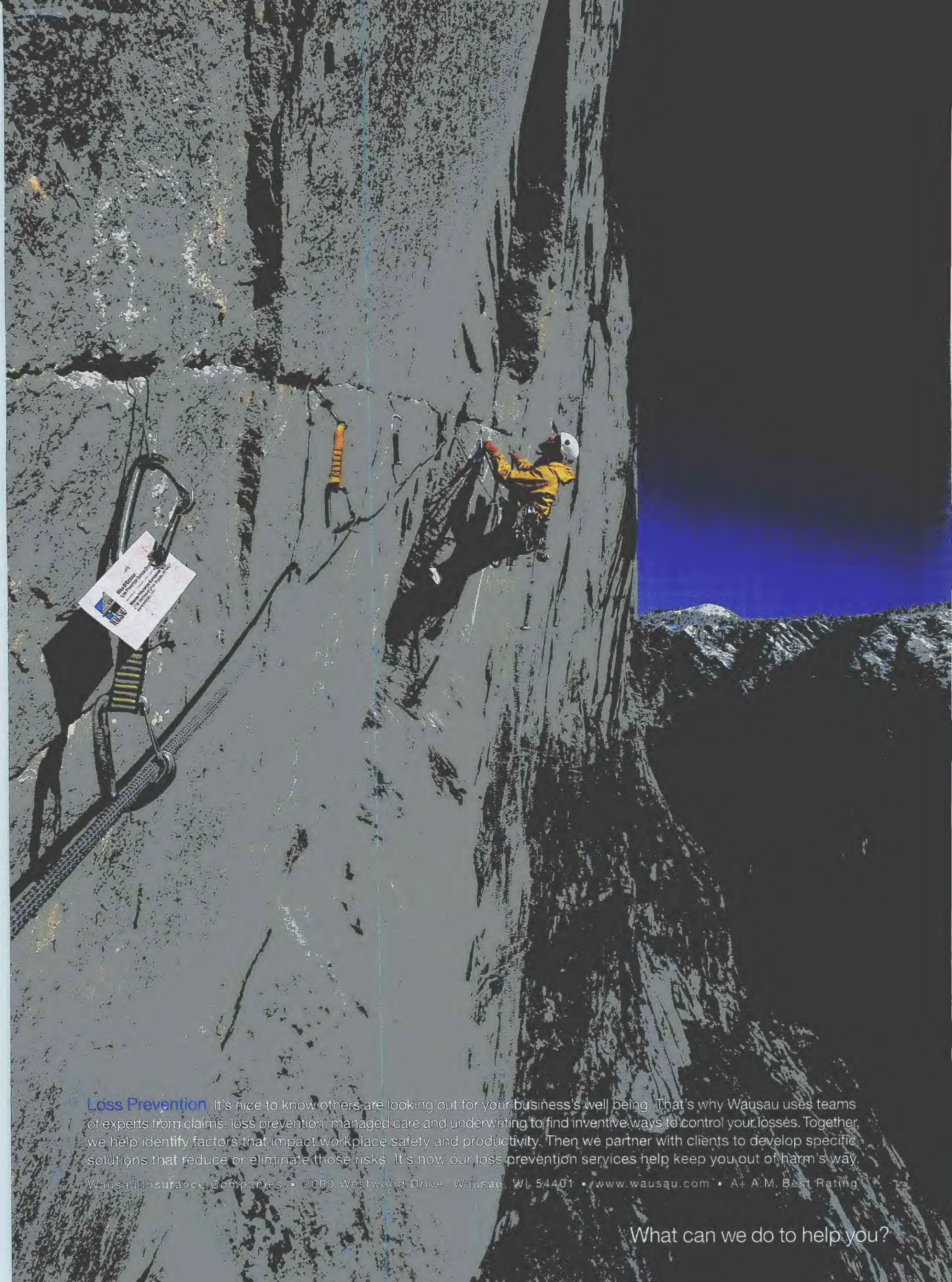
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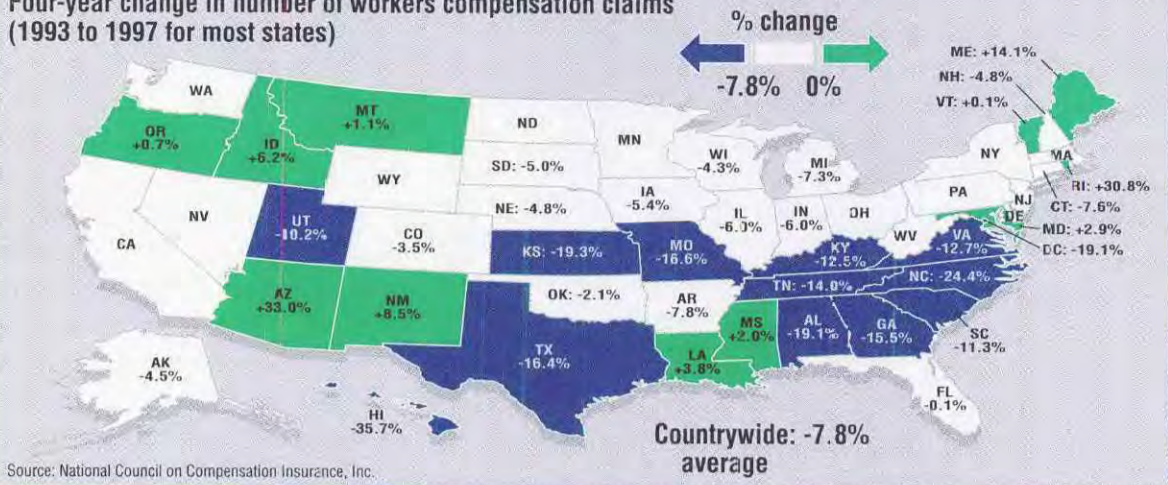
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What can we do to help you?

Comp claims frequency in decline

Four-year change in number of workers compensation claims (1993 to 1997 for most states)



Source: National Council on Compensation Insurance, Inc.

GRAPHIC BY JOHN HALL

Safety awareness cutting comp claims

By MEG FLETCHER

ORLANDO, Fla.—While workers compensation premiums and claims costs are expected to rise in 2001, the overall frequency of claims continues to decline.

This trend, which has been developing in the United States for at least five years, appears to be primarily the result of increased safety awareness, according to an ongoing study by the National Council on Compensation Insurance Inc., based in Boca Raton, Fla.

"It's a dramatic story and a great story for American workers and employers," said actuary Robert G. Blanco. Mr. Blanco, who heads the actuarial and economic services division of NCCI Holdings Inc., made his comments during the organization's annual issues conference, held April 17-19 in Orlando, Fla.

According to the NCCI's study, "safety awareness seems to be the primary driver," rather than under-reporting of claims or the ongoing shift in the workforce's "occupational mix," such as the drop in the number of manufacturing workers.

According to a related article in the NCCI's spring 2001 issues report, the industries that contributed most to the decline in the frequency of workers comp claims, in order of degree, were restaurants, clothing manufacturers, grocery stores, hotels, owner-controlled building operations and department stores.

NCCI More conference coverage on page 103

The conclusion that safety awareness was key in the decline is supported by the fact that even employers without large-deductible policies also experienced a drop in claim frequency, as did employers with high modification factors, according to the NCCI study. Modification factors are loss-based calculations that indicate the riskiness of an employer's business.

Furthermore, Mr. Blanco said, "policies with low experience mods and large-deductible policies have seen more-modest improvement." That's probably because such companies already had many loss-control programs in place, he said.

The NCCI's study reported other findings. For example, the study says, there exist some regional differences in the decline of claims, with a greater relative decrease in the Southeast than in the Northeast.

In addition, "sharper declines have been observed in more-serious categories of injuries," Mr. Blanco said. For example, according to the article, there was a bigger decline in the frequency of nonfatal serious injuries, such as permanent total and permanent partial disabilities, than there was in less-serious injuries, such as temporary total and medical-only claims.

But a separate study found that claims involving modified-duty work "rose dramatically." According to work done by John Ruser of the U.S. Bureau of Labor Statistics, the incidence rate of accidents involving modified work duty only—those with no loss-time claims—increased by 50% from 1992 to 1997.

But the NCCI article notes that modified duty can effectively encourage a return to work within the waiting period before a worker becomes eligible for wage-loss benefits.

The study discussed in the NCCI article focused on workers comp policies that expired between 1993 and 1997 in 36 states and the District of Columbia.

The article notes that the study's findings are consistent with several other recent studies published by the U.S. Department of Labor. **BI**

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OPINIONS

Risk managers who raise the bar

HELPING MANAGEMENT see the full potential of risk management requires a special kind of risk manager.

That risk manager not only must meet the usual expectations for protecting an organization from harm but also must offer solutions to help it respond to other challenges, achieve its goals and grow in new ways. This requires a broad understanding of an organization's diverse operations and its people, the ability to gather and share information at many levels, and the creativity to offer new approaches to overcoming obstacles to success. It also requires an ability to provide leadership and encouragement to a staff, so that they can carry out the directives and goals of the top risk manager.

Those special qualities clearly can be found in this year's winners of the Risk Manager of the Year award and Risk Management Honor Roll—people who have proved within their organizations that risk management can do much more than just respond to problems. In doing so, these individuals have helped shape the culture of their organizations and have become an integral part of decision-making on a variety of matters outside the normal boundaries of risk management.

Risk Manager of the Year Dan Hartman showed government agencies in the state of Oregon that embracing risk management not only could help them protect their operations and resources as well as any private organization does, but it also could aid them in meeting their public service goals. In a budget-sensitive culture, the chief risk officer and his team showed the various branches of government how reducing losses could increase the resources they had on hand to provide other services.

This was especially true in the area of workers compensation losses and costs. Mr. Hartman promoted a new approach to safety and loss control that has yielded enormous savings for the agencies and, ultimately, the state. That approach, which is continually nurtured and refined, continues to pay huge dividends and win the praise of top govern-

ment officials.

Also, by encouraging state agencies to pay more attention to managing their own risks, Mr. Hartman and his staff were freed up to lend their expertise where needed with special projects. This included coordinating the statewide approach to managing the risks of losses and liabilities arising from the so-called Y2K bug, assisting with an overhaul of the state's employee benefit programs as well as guiding a process for handling compensation disputes with state workers, among other projects.

Mr. Hartman's achievements are all the more notable because he stepped into the job with some big shoes to fill. Both of his predecessors as the state's top risk manager—C. David White and Gene Snyder—were honored during their own tenures by winning spots on the Risk Management Honor Roll. Many risk managers would be content simply to keep those award-winning programs on a steady course, but Mr. Hartman built upon their successes while putting his own stamp on Oregon risk management.

The members of this year's Risk Management Honor Roll also have made risk management into a discipline that is crucial to the success of their organizations:

- Gary Baxter, assistant treasurer and director of insurance for Weyerhaeuser Co., has earned the trust and gratitude of senior executives. He has done so with his constant vigilance on loss control matters, which allows the Fortune 500 company to be much more self-reliant when it comes to financing its risks.

Mr. Baxter's management of a variety of self-insurance mechanisms includes providing coverage for customers' cargo risks, which not only yields an underwriting profit for Weyerhaeuser's captive but also gives the company a competitive edge in its market.

- Peggy Nakamura, executive director of risk management and associate counsel of Adventist Health System/West, is a key resource throughout her health care organization. It's easy to see why:



With extensive training in medical, legal and business disciplines, she is able to bring a wide range of skills and experience to managing Adventist Health's risks. Ms. Nakamura has greatly raised the profile of risk management within the organization, and her advice and insight are sought by individuals throughout the company.

These risk managers embody the criteria for excellence that lead to the Risk Manager of the Year and Risk Management Honor Roll awards. Following their example, others can achieve similar success and recognition in their organizations.

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Insurance rates, innovation spur growth in captive industry

The number of captives—and captive domiciles—worldwide is rising, fueled in part by a hardening in the traditional insurance market last year, as well as an ongoing expansion of how captives are used.

Captive managers in several domiciles report that firmer pricing is driving renewed interest in captives, as well as prompting some companies to return to facilities that were largely dormant during the years of soft pricing from the commercial insurance market. Growing interest in protected cell facilities—a form of rent-a-captive—was reported in all domiciles that offer such programs.

At the end of 2000, the 39 domiciles that *Business Insurance* tracks recorded an estimated 3,812 captives, up more than 3% from their 1999 totals.

Largest captive managers

Ranked by captives managed worldwide in 2000

Manager	Captives
Marsh & McLennan Cos. Inc.	854
Aon Corp.*	719
Mutual Risk Management Ltd.	255
SINSER Holding A.B.	211
Willis Group Holdings Ltd.	192

* Pro forma to reflect the merger of Aon Insurance Managers and International Risk Management Group Ltd.
Source: BI survey

A year ago, 35 domiciles reported 6% growth in the number of captives from 1998-1999, on the heels of a 4% increase in the number of captives from 1997-1998. *Business Insurance* counts as domiciles only those jurisdictions that have laws specifically enabling captive insurance formations, as opposed to locations that permit captives to be formed under existing laws governing insurers and reinsurers.

Of the 39 domiciles that *BI* monitors, 18 recorded increases in the number of captives, while 13 remained unchanged, and eight showed modest decreases.

In 2000, four new domiciles were added to *BI*'s list: the District of Columbia, which last week licensed its first captive; Mauritius, which has 11 captives and was overlooked until now but has allowed captives since 1992; Nevada, which already has two captives; and South Carolina, which earlier this year added its third captive, a risk retention group that relocated from Hawaii.

Bermuda remained the largest captive domicile in the world, despite experiencing only slight growth. *BI* estimates that Bermuda had 1,078 captives at year-end 1999, up from an estimated 1,075 the year before.

The second-largest domicile, the Cayman Islands, had 515 captives at year end, an increase of 20 over 1999. Guernsey remained the third-largest domicile, with 375 captives, up by 11.

Vermont continues to be the largest U.S. domicile, with 361 captives at year end, a gain of four over 1999 totals. The next-largest U.S. domicile, Hawaii, reported record growth in the number of new captives, increasing by 15 to 74 captives at the end of 2000.

For a review of the largest captive domiciles, refer to the in-depth reports that follow. A directory of all the captive domiciles tracked by *Business Insurance*, including information on their taxes, laws and regulators, begins on page 58. **BI**

COUNTING CAPTIVES

Domicile	2000	1999
Bermuda	1,078*	1,075*†
Cayman Islands	515	495
Guernsey	375	364
Vermont	361	357
British Virgin Islands	236	191†
Luxembourg	231	222
Barbados	228*	220*
Dublin	183	166
Isle of Man	162	169
Turks & Caicos Islands	120**	129**
Hawaii	74	59
Singapore	51	52
Bahamas	31	30
Switzerland	22	19†
Jersey	18	17
Netherlands Antilles	18	18
British Columbia	15	16
Georgia	14	15
Colorado	11	12
Mauritius	11	8
Gibraltar	10	8
Labuan	9	7
U.S. Virgin Islands	9	9
Tennessee	6	9
Illinois	5	5
Delaware	3	3
Hong Kong	2	1
Nevada	2	0
New York	2	2
Panama	2	2
Rhode Island	2	2
South Carolina	2	0
Guam	1	1
Lloyd's of London	1	1
Maine	1	1
Malta	1	3
District of Columbia	0	0
South Dakota	0	0
Virginia	0	0

* BI estimate † Restated ** Excludes credit life insurers

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No stampede to fund benefits in captives

By JERRY GEISEL

While federal regulators have given employers another way to fund employee benefit risks through their domestic captives, employers aren't yet taking advantage of this new flexibility.

Last year, the Labor Department gave Columbia Energy Group the green light to use the Vermont branch of its Bermuda-domiciled insurance subsidiary, Columbia Insurance Corp. Ltd., to reinsure long-

term disability insurance benefits.

That much-awaited ruling gave employers a road map to win departmental approval for funding benefits through their captive programs.

Until the Columbia Energy ruling, the Labor Department's key requirement for company's wishing to fund benefits through a domestic captive was that at least 50% of a captive's business had to consist of third-party risks.

That condition, set in a 1979 rule, was established by federal regulators who maintained that taking on

a significant amount of third-party business would enhance the financial soundness of a captive and safeguard an employee benefit plan from actions that would be beneficial to the captive at the expense of employees.

While it has not abandoned the 50% test, the Labor Department, through its approval of Columbia Energy's application, offered employers an alternative way to win approval for placing employee benefit business in their captives.

In the case of Columbia Energy, the Herndon, Va.-based natural gas

company agreed to use an independent fiduciary annually to ensure that several conditions of its application will be met.

Those conditions include making sure that the long-term disability plan purchases coverage from top-rated insurance companies, that the premiums the insurers charge are comparable to those charged by these insurers and their competitors for the same coverage under similar employer programs, and that participants' benefits in the first year of the LTD contract are enhanced.

To date, however, not one employ-

er has followed Columbia Energy in taking advantage of the Labor Department's new flexibility. A few employers, though—including The Dow Chemical Co.—have sought permission to fund benefits through insurance subsidiaries under the old 50% test.

Some captive experts say that, in hindsight, it was unrealistic to expect employers to flood the Labor Department with applications to fund benefit programs through their captives.

That is because funding benefits through a captive is a complex undertaking. Typically, it calls for the involvement of corporate executives from several departments, including risk management, finance and human resources.

"People can get very territorial. Sometimes, when risk managers try to promote this, they run up against a brick wall with the human resources people," said J. Brady Young, president of Strategic Risk Solutions in Waltham, Mass.

"When so many people are involved, it takes time to develop a filing," said John Woyke, a consultant with Towers Perrin in Valhalla, N.Y.

Others note that an employer needs time—more than just a few months—to conduct a cost-benefit analysis of the funding of benefits through a captive.

"What are the costs? What are the benefits? These are issues that take time to analyze," said Henry Saveth, an attorney with William M. Mercer Inc. in New York.

One factor an employer must determine is the extent to which it must improve its benefit plan to win Labor Department approval of a captive funding benefit plan arrangement.

"A benefit improvement seems to be required. The question is, how much? If you were planning to raise benefits anyway, that may not be much of an issue. But in the current economic environment, how many employers are considering boosting benefits?" Mr. Saveth asked.

Columbia Energy, in anticipation of the Labor Department ruling, sweetened LTD benefits so that a disabled employee would receive 60% of his or her salary. Previously, the plan offered an LTD benefit of 30% of salary up to the Social Security wage base and 60% of salary over the wage base. Other changes included a more liberal definition of "disability."

While there has been no rush by other employers to emulate Columbia Energy, captive experts say it is only a matter of time before other employers file applications.

"I have spoken to a number of companies, and several are looking at this," said Ted Scallet, a principal with the Groom Law Group in Washington.

"There is interest, and we are gathering data to see if the numbers work," said Mr. Young of Strategic Risk Solutions.

Indeed, Mr. Young said, there are significant economic benefits to funding benefits in a captive program. And for that reason, he said, more employers are likely to do it.

For example, funding benefit risks through a captive allows the employer's insurance subsidiary—rather than a commercial insurer—to earn investment income on reserves, noted Dave Wolfe, a partner with Gardner, Carton & Douglas, a Chicago-based law firm. **EI**



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Brave new world for captive communication

By MICHAEL BRADFORD

Captive management, like nearly all business operations, is becoming more efficient as the pace of technology continues to accelerate.

E-mail alone has removed a lot of the expense and effort that it takes to run a captive. Faster computers, sophisticated spreadsheet programs and constantly upgraded software all have contributed to more streamlined operations.

Even so, sources agree, this is not

a business that will ever become paperless. And it is not one in which computers can replace regular face-to-face contact.

"It's still a long way from paperless," said Colin James, president of Atlantic Security Ltd. in Bermuda. "That would be a tough thing to get out of."

Mr. James emphasized that captive management remains a "people business." Atlantic Security meets with its clients "as regularly as before," he pointed out meaning that as technology has improved the ease of communication, it hasn't re-

placed the need to sit down and have an old-fashioned meeting.

"Underwriters, clients and the boards of captives still like to meet and talk over issues," Mr. James noted. "I don't think that will ever change."

"Technology does not replace the need for people to interact," agreed Chris Lajtha, corporate risk manager with Schlumberger Ltd. in Paris. "A certain amount of human contact and team interaction is essential. Well-designed information technology helps to raise the quality and significance of subject matter

discussed at face-to-face meetings by removing the tedious and repetitive issues."

Shulamith Klein, senior director for the office of risk and insurance services at Emory University in Atlanta, said she has seen "quite a change" in the role technology has played in captive management since she worked on her first captive program in 1981.

To rely exclusively on electronic communications when managing a captive would be a mistake, she suggested. "As with all things that are done electronically, you need to

find a balance. If you do it all by electronics, you lose something in the personal connection," she said.

Ms. Klein and others involved in looking after captives' affairs do acknowledge that technology has made their jobs much easier.

"Years ago," she recalled, "captive managers would send quarterly or monthly reports that were stacks of paper." Today, that information can easily be transmitted and read online.

Mr. James said he remembers the era of massive mailings. "In the old days, you had a secretary standing over a photocopier for a day." Electronic transmission, he pointed out, "obviously speeds it up quite a lot."

Peter MacKay, chairman and chief executive officer of Mutual Risk Management (Cayman) Ltd., pointed out that "compared to five years ago, obviously e-mail has made a tremendous difference."

His company has come to rely on it for communicating and transferring files, Mr. MacKay noted. "We try and do as much in e-mail as we can," as opposed to sending documents through regular mail, he said.

With the increased amounts of data and the number of forms that have made fast communications more important, technology vendors have responded with "faster and faster computers," Mr. MacKay said.

Efficiency as well as speed is a byproduct of improved technology, Ms. Klein noted. Electronic transmission of loss-runs to a captive manager means there is less chance of transcription errors, she said.

And, "more people can read it in a shorter period of time" because they can get the loss runs at the same time, Ms. Klein said.

Technology has allowed insurance buyers to access a wealth of financial information on insurers and other financial services companies that could become business partners. That information used to be compiled primarily by the risk manager's broker, Ms. Klein pointed out.

"The Internet has helped a lot with researching insurance companies—and with researching insureds, too," Mr. James said.

Financial documents such as 10K and 10Q reports are available to download from many companies' Web sites, for example. That makes the information easily available to an insurer that is researching the risk of writing a company's directors and officers liability coverage, Mr. James explained.

Mr. Lajtha said he has watched technology evolve from e-mail with attachments to spreadsheets, then on to databases and finally, databases that can be searched with Web browsers.

Schlumberger is an aggressive user of technology. Its risk management department contracted a sister business segment—Schlumberger Network Solutions—to design, build and maintain an extranet system that allows the exchange of risk management information with service providers that include captive managers. The extranet, which is an intranet that can be accessed remotely via the Internet, is built on a Windows NT server and houses a variety of application software programs.

"Each service provider can use a dedicated segment of the extranet,"

See **Technology** on page 16

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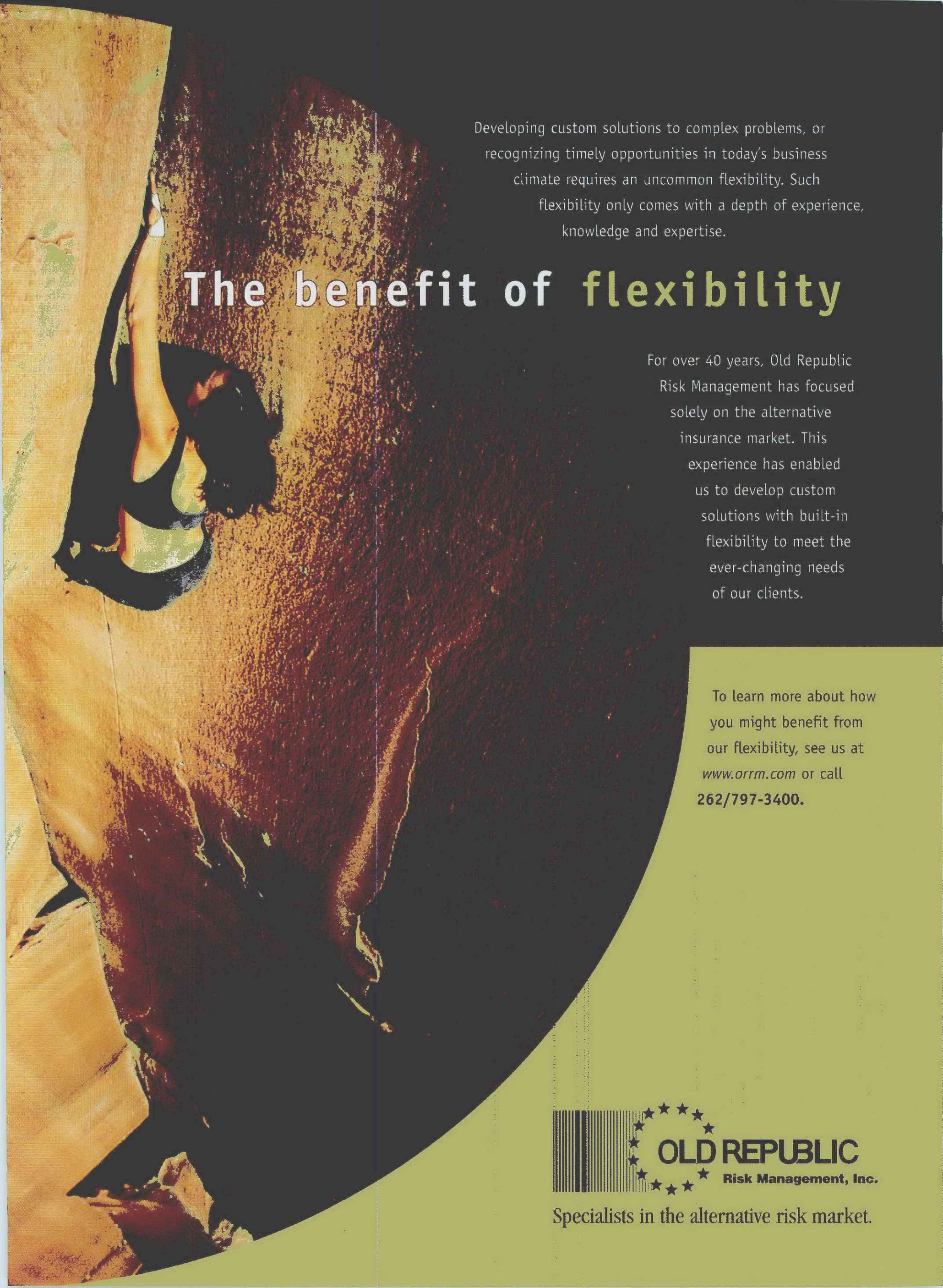
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Domiciles expect to avoid OECD final list

By EDWIN UNSWORTH

The majority of the 10 captive domiciles included on the Organization for Economic Cooperation and Development's preliminary list of tax havens say the list has not harmed their image with captive owners.

Last June, the Paris-based OECD compiled a list of 35 international jurisdictions with tax practices deemed harmful to fair trade. The OECD, a group of 30 industrialized countries that seeks to develop and improve international economic and social policy, will publish a final list of tax havens in June. And many of the captive domiciles on the list that were available to comment are confident that they will not be on the OECD's final list.

The OECD has given territories on its preliminary list until July 31,

2001, to agree to correct infringements of OECD principles before the final list is published. Infringements, which must be phased out in territories by the end of 2005, include having no or only nominal taxes, a lack of effective exchange of information, having a lack of transparency, and attracting business with no substantial activities.

Captive domiciles included on the preliminary list are Barbados, the British Virgin Islands, Gibraltar, Guernsey, the Isle of Man, Jersey, the Netherlands Antilles, Panama, the Turks & Caicos Islands and the U.S. Virgin Islands (*BI*, July 3, 2000).

Six other jurisdictions, including the world's two largest captive domiciles, Bermuda and the Cayman Islands, escaped inclusion by agreeing to eliminate their so-called harmful tax practices by the end of 2005. The Isle of Man and the

Netherlands Antilles have since joined this group.

The main weakness of the OECD's threatened tax havens list is that any potential penalties of being included on the list are not specified. The report accompanying the original list only said that territories regarded as having "harmful" tax practices "could be the subject of a coordinated approach to defensive measures."

Essentially, it will be up to OECD member countries — which include most developed nations — to impose sanctions against noncompliant jurisdictions or the companies with captives domiciled in them.

Guernsey, the largest of the domiciles remaining on the list, with 375 captives at the end of 2000, is confident about being taken off the OECD's tax haven list.

Steve Butterworth, Guernsey's director of insurance, said the island's government is determined to meet the OECD's requirements.

He and Guernsey's captive managers maintain that the threat of being on the OECD's list has not deterred interest in captive formations. Guernsey added 11 captives in 2000.

"I don't think it has had any effect on inquiries, because we ask" prospective captive owners that question, he said.

Malcolm Cutts-Watson, managing director of Willis Management (Guernsey) Ltd. said, "It really doesn't seem to be on a lot of our clients' radar screens. They're obviously aware of Guernsey being a well-regulated domicile."

Commenting similarly on clients' responses, Callum Beaton, managing director of SINSER (Guernsey) Ltd., maintains, "One or two have inquired, but they are not worried." He added, "I have every confidence Guernsey will be off that list in the

future. The integrity it has to offer is there for all to see."

Nigel Woodroffe, director of insurance for Jersey, the other Channel Island on the OECD list, said there has been no fallout from that domicile's inclusion on the list.

"On all the other lists we're considered to be one of the best-regulated domiciles in the world," he said. He was referring to inquiries by the Financial Stability Forum of the International Monetary Fund and the Group of Seven leading industrial nations; the review of the Financial Action Task Force evaluation where Jersey was evaluated by three other independent jurisdictions and the United Kingdom's Edwards Review of Financial Regulation in the Crown Dependencies. All of these concluded that Jersey was a well-regulated domicile.

In Barbados, the second-largest captive domicile on the list, with an estimated 228 captives, the mood is also upbeat, though Barbados still views the OECD's initiative as "misguided," said Ben Arrindell, a partner in the Barbados branch of Ernst & Young L.L.P. who is participating on Barbados' negotiating team.

Mr. Arrindell expressed confidence that an agreement can be reached with the OECD before the July deadline.

"We've come quite a long way in terms of meeting their demands," he said, citing discussions by a working group of non-OECD members on the principles of transparency, non-discrimination and effective exchange of information.

Unresolved issues remain, though, including a demand by non-OECD members for a "level playing field" in which they can participate equally with OECD members in managing efforts to combat harmful tax practices, Mr. Arrindell said.

The OECD initiative's impact on

Barbados' insurance sector will depend on various factors, Mr. Arrindell said.

Even if the domicile is ultimately listed as a tax haven, each OECD member will decide whether to impose sanctions. The impact will thus depend partly on the willingness of the United States and Canada, Barbados' main sources of captive business, to apply sanctions.

Inclusion of the Netherlands Antilles in the OECD's list has not affected captive formations there, said Nataly Davelaar, superintendent of insurance. She added that the domicile has no plans to change its captive legislation, while noting that she could not speak for anything other than captive laws.

The Isle of Man takes its inclusion on the OECD's list "very seriously," said Assistant Insurance Supervisor Glyn Gilbert. As a result, the Manx Treasury proposed the repeal of its 1981 Tax Exemplary Insurance Companies Act and has been removed from the list.

Graham King, director of Marsh Management Services (Isle of Man) Ltd. said, "The Isle of Man is adapting its tax structure to make things more transparent."

Gibraltar also expects to be excluded from the final list.

Other domiciles on the list were could not be reached or were unable to discuss efforts to avoid the final list.

Wean Williams-Farrell, banks and insurance examiner for the U.S. Virgin Islands, said questions on the OECD list would have to be referred to the domicile's legal counsel. Lawyers for the USVI did not return calls.

Panama is the only other captive domicile whose position is unclear. It was invited to a January meeting of non-OECD members but did not attend.

Carolyn Aldred, Douglas McLeod and Gavin Souter contributed to this report.

Technology

Continued from page 14

Mr. Lajtha explained.

Mr. Lajtha said the company's captive managers have made "significant efforts to support and use their extranet segments."

He pointed out that improved interfaces between the captive managers' back-office information systems and the extranet databases are being developed. "The idea is to reduce any form of manual base data reentry" as information moves among users, Mr. Lajtha said.

Videoconferencing is one technology that has not caught on among captive owners and managers.

"The extranet and e-mail works well for a risk management team that is not very often together in the same place," Mr. Lajtha said.

There also are legalities with regard to videoconferences that must be considered by U.S. companies that own offshore captives.

"An alien insurer must not be seen as doing business in the U.S.," Mr. James pointed out. The lines could become blurred if managers and captives were consistently holding videoconferences. Atlantic Security doesn't use the technology, he said. "There are not any benefits of seeing as opposed to listening on the phone."

Computers and videoconferences aside, there is another technology that captive managers would like to see, according to Mr. MacKay. But it's not one he's going to get anytime soon.

When asked what else he could use, Mr. MacKay replied, "I wish I could clone some of my staff members." **BI**

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BOOTH NUMBER 1949

New single-parent captives fueling Bermuda gains

By GAVIN SOUTER

HAMILTON, Bermuda—Captive managers in Bermuda enjoyed a solid 2000 and have great expectations for 2001.

A steady stream of captive formations flowed into the island last year, and several captive managers are reporting a flood of formations and prospective formations in 2001.

The hardening commercial market or, in some cases, the expectation of a hardening market, is leading to a renewed interest in captives at the world's largest captive domicile.

In addition to new formations, several captives already in Bermuda changed managers, some of which lost and gained senior management teams through acquisitions and new initiatives.

The possibility of covering employee benefits through captives is also generating interest among captive owners, captive managers say.

While no additional captive owners so far have taken advantage of a recent favorable ruling on funding employee benefits through captives, it is an attractive option that many corporations will likely explore over the next several years, they say.

And new legislation making it easier to set up segregated cell companies in Bermuda should further stimulate the thriving rent-a-captive market on the island, captive managers say (see page 22).

Concerns over other legislative issues in Bermuda have faded over the past year. But several captive managers say they are wary of increases in employment taxes that have increased costs. And although the government has proved to be business-friendly, the impact of new work-permit rules remains unclear.

The number of captives formed in Bermuda increased to 50 in 2000, compared with 43 formations in 1999. But nearly as many captives were removed from the Bermuda register, according to *Business Insurance* estimates. That resulted in a total of 1,078, a net increase of just three captives.

Overall in 2000, Bermuda added 94 new international companies, including captives, commercial insurers and reinsurers, an increase from the 84 companies added in 1999. But removals also increased, with 68 in 2000, compared with 39 in 1999. That left a total of 1,564 international companies on the Bermuda register.

A mature captive market such as Bermuda's sees a reasonable number of removals each year, said Jeremy E. Cox, registrar of companies for Bermuda. Mr. Cox said that the figures are not worrying; few of the removals are due to captives changing domiciles and the rate of new formations continues to be brisk, he said.

"We had a great year overall, particularly if you focus on Class 1 and Class 2 captives," Mr. Cox said. Bermuda has four classes of international companies, with most captives falling into the Class 1 and 2 categories. Class 1 captives are usually single-parent organizations, while Class 2 captives typically have multiple owners.

In 2000, Bermuda added 16 Class 1 companies, up from six in 1999, and 19 Class 2 companies, up from 16 in 1999.

The pace of international company formations overall has picked up speed in 2001, with 19 formations completed through the end of March, Mr. Cox said.

In some cases, corporations are seeing their insurance costs rise in the hardening commercial insurance market, and they seek to reduce costs through captive formation, he said. In other cases, Mr. Cox said, corporations are expecting increases in their insurance costs to rise and are forming captives to preclude the anticipated rate hikes.

Marsh Management Services (Bermuda) Ltd. started or completed 24 new captives in the first quarter of 2001, compared with 26 new formations for the whole of 2000, said Rory Gorman, managing director.

"We've had an incredible start to the new

year," Mr. Gorman said.

The hardening commercial insurance market is the main driver for the increase in captive formations, said Jill Husbands, senior vp at Marsh.

"Clearly, we are seeing a turn in the market, and we are incorporating as fast as is humanly possible," Ms. Husbands said.

Policyholders expect commercial insurers to demand significantly higher rates in the future; some policyholders, such as construction, transportation and real estate companies, have already seen large increases, she said.

"This is especially true in the middle market," Ms. Husbands said.

One major new account that Marsh won this year is Texaco Inc.'s huge captive, Heddington Insurance Ltd. The captive had been self-managed for more than 20 years. According to A.M. Best Co., the captive had \$485.5 million in capital and surplus at year-end 1999. It reported gross premiums of \$53.7 million, and it ceded \$26 million in reinsurance premiums.

Marsh will take between five and eight members of Heddington's staff when it assumes the management of Heddington on May 1, Mr. Gorman said.

Membership in Green Island, a reinsurance pool set up in 1997 for captives, held steady at 19 in 2000, said Ms. Husbands of Marsh, which manages the facility. But premium volume at the facility increased 30%, to \$325 million.

The pool reinsures the primary liability risks of each member up to \$100,000. And Marsh plans to launch a similar pool for smaller policyholders this summer, Ms. Husbands said.

"There are companies below the threshold that are interested in Green Island, so we already have members for the new pool lined up," she said.

Earlier this year, Aon Insurance Managers (Bermuda) Ltd. saw a significant increase in the number of captives under its management, due to its purchase of the captive management business of International Risk Management Group Ltd. That deal was completed on Jan. 8, 2001.

Yet the 250 captives that the new entity now manages is 16 fewer than the combined companies would have had based on last year's figures.

Aon lost 12 captives and IRMG lost 11, including four that went to newly established manager JLT Risk Solutions Management (Bermuda) Ltd. That new manager is headed by former IRMG staff.

Most IRMG clients have expressed no dissatisfaction that the formerly independent manager is now owned by a major brokerage, said Brian Durrant, who headed IRMG's Bermuda captive operations and is now an executive vp at Aon.

"A lot of those clients have been with IRMG for 25 years, and I think most of them are very comfortable with the situation because they are dealing with the same individuals," Mr. Durrant said.

All the 27 current IRMG employees in Bermuda will be joining Aon. But the combined managers also added several new accounts and took over several others from other managers, said Alan Cossar, executive director of Aon.

The parents of all four new captives at Aon are in the United States; two of the captives cover punitive damages in addition to other liability coverages, Mr. Cossar said. Another of the new formations covers employee personal lines, such as additional life coverage, accidental death and dismemberment coverage, homeowners and auto coverage, he said.

"That's an area where we are seeing more interest, with corporations offering a variety of personal lines through payroll deductions," Mr. Cossar said.

Captives set up last year by IRMG include

one made in the mirror image of another when the parent company split in two and each of the new entities opted to continue using a captive, Mr. Durrant said.

In 2001, more companies are expressing interest in establishing captives and more existing captive owners are making greater use of the vehicles as commercial insurance rates harden, Mr. Cossar said.

In some cases, commercial insurers are insisting that policyholders increase their retentions, and the policyholders are using their captives to cover the increase, he said.

Aon had incorporated three new captives by mid-March, Mr. Cossar said.

When JLT decided to step up its captive efforts last year, it recruited several senior managers from IRMG, including Paul Bailie, who heads its Bermuda unit. The Bermuda operation took over the management of

Triangle Insurance Management Ltd., which had previously been owned by JLT.

In addition to the existing captives at Triangle and the four captives lured from IRMG, JLT added several other captives for which its brokerage parent handles the commercial placements, said Steve Arrowsmith, an associate at JLT.

But JLT also lost about 10 captives to rival manager Atlantic Security Ltd., which recruited former Triangle Director Bruce Fenton.

All the client moves were completed by the end of last summer, "and we've been actively putting on new business since then," Mr. Arrowsmith said. "We've established, or are in the process of establishing, four new captives."

JLT now manages 25 captives. Few JLT policyholders have established captives in response to the hardening market thus far, Mr. Arrowsmith said. "But the hard market takes a bit of time to kick in, so there's a delay between the hard market arriving and setting up captives," he said.

Atlantic Security had an excellent year in 2000, said Colin C. James, Atlantic's president and chief executive officer. The captive manager increased the number of captives under its management to 50 from 44, and it increased its premium volume to \$250 million from \$155 million.

Atlantic's rent-a-captives saw "tremendous" growth, Mr. James said.

Many existing captive owners are making increased use of their captives to fund higher retentions in the face of increasing rates, particularly for workers comp and auto liability risks, he said.

BIC Corp. used its Bermuda-based captive throughout the soft market and will continue to explore how it can increase the use of the captive, said F. Jeffrey Bruneau, risk manager at the Milford, Conn.-based manufacturer.

"The market always moves in cycles, so we are always looking at ways to use the captive regardless of the market," Mr. Bruneau said.

BIC formed the captive, Xenia Insurance Co. Ltd., in 1990, Mr. Bruneau said. BIC chose to locate Xenia in Bermuda because the domicile provided easy access and had an attractive regulatory environment, he said.

While BIC continues to consider other domiciles, it has not found any obvious advantages in moving from Bermuda, Mr. Bruneau said.

As the hard market continues to take hold, more captive formations should follow, said Elizabeth A.C. Durrant, vp at BF&M Management Ltd.

BF&M is in the process of establishing a workers comp captive for a client and has several other projects in the pipeline that will likely develop into captive formations, she said.

"It's a long process, so you can never be sure, but 2001 seems to be shaping up nicely," Ms. Durrant said.

Mutual Risk Captive Group Ltd. had a net loss of two captives in 2000. While the captive manager added four new captives to its roster, it also saw several liquidations, said David Ezekiel, chairman and CEO of MRM Global Captive Group.

"So, we had a bit of a standstill year," Mr. Ezekiel said. Thus far in 2001, though, MRM has added two captives and has several others in the process of forming, he said.

"In terms of new prospects, the first quarter has been as busy as we've ever seen it," Mr. Ezekiel said.

While the hard market is still to be seen in some areas, risk managers seem confident that it will arrive and are preparing for it, he said.

For example, one group captive that MRM manages covers professional indemnity risks. For the past three years, the owners have opted to buy commercial coverage rather than to use the captive, Mr. Ezekiel said. The coverage renews on June 1, and, for the first time in three years, the captive will requote against the commercial market, he said.

"And we are seeing the same mindset in all of our group captives," Mr. Ezekiel said.

One of the new captives in 2001 is for a large Internet-based company that covers its traditional liability and Internet liability risks, he said.

MRM also added captives for several property-related groups, including one that provides liability coverage for its tenants as well as its own risks, Mr. Ezekiel said.

Willis Management (Bermuda) Ltd. added four new captives in 2000 and lost one, said J. Oliver Heyliger, the organization's managing director.

One of its new formations was Boston Re, which is owned by Credit Suisse First Boston. The captive covers parts of the bank's business risks and serves as a vehicle to cover deals in which CSFB is an investor.

See *Bermuda* on page 20



Largest managers of Bermuda captives

Ranked by gross premium volume in millions of dollars

Manager	Premium volume		Captives	
	2000	1999	2000	1999
Marsh Management Services (Bermuda) Ltd.	\$3,007.5	\$2,141.0	297	303
Aon Insurance Managers (Bermuda) Ltd. ¹	2,263.0	1,810.0	250	195
Mutual Risk Captive Group Ltd. ²	1,736.0	1,480.0	157	159
BF&M Management Ltd.	437.0	408.5	28	27
SINSER Management Services (Bermuda) Ltd. ³	400.0	475.0	80	82
JLT Risk Solutions Management (Bermuda) Ltd.	370.0	NA	25	NA
Atlantic Security Ltd.	250.0	155.0	50	44
Becher + Carlson Management Ltd.	210.0	147.5	21	17
Willis Management (Bermuda) Ltd.	156.0	125.0	30	27
Arthur J. Gallagher Management (Bermuda) Ltd.	153.0	80.0	16	18

¹ Pro forma numbers for 2000 to reflect the merger of Aon Insurance Managers (Bermuda) Ltd. and International Risk Management (Bermuda) Ltd.
² Includes International Advisory Services Ltd. ³ Formerly Skandia International Risk Management Ltd.
 Source: BI survey

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CAPTIVE REPORT

Bermuda

Continued from page 18

The formation adds to Willis' growing number of banking and financial captive owners. The largest sector among Willis' clients, financial services companies represent 27% of its captive owners, Mr. Heyliger said.

Growth at Willis in 2000 was not related to the hardening insurance market, Mr. Heyliger said. In 2001, though, "I've had half a dozen inquiries as a result of the hard market, and I'd expect 50% of those to develop," he said.

SINSER Management Services (Bermuda) Ltd., which was formerly

called Skandia International Risk Management Ltd., added six captives in 2000. But SINSER lost eight captives last year, leaving it with 80 captives under management. Of the eight lost, six were liquidated, one redomiciled to Vermont and one transferred to another manager, said Nicholas S. Dove, president of SINSER.

The six new incorporations include one with a Swiss parent, while the remainder have U.S.-based parents. Two of the new captives are providing extended-warranty coverage for products sold by their parents, he said.

But several captive managers point out that it is not just market concerns that have increased inter-

est in the use of captives.

In August 2000, the U.S. Labor Department permitted Columbia Energy Group to use the Vermont branch of its Bermuda captive to reinsure long-term disability benefits. While other captives have been used to fund employee benefits, the Columbia ruling was seen as an easing of the formerly stringent requirements for captive coverage of employee benefits and as a road map for use by other captive owners.

While many captive owners are intrigued by the prospect of using their captives to cover benefits, they are waiting for the Labor Department to approve a second program before they go ahead with their plans, said Marsh's Mr. Gorman.

When a second approval is granted, "it will become more of a rubber-stamp process," he said.

Several Marsh captive owners have indicated that they will use their captives to cover benefits once a second approval is granted, Mr. Gorman said. Most of the interested owners are non-U.S. companies that already use their captives for non-U.S. employee benefits.

But using captives to cover benefits will be attractive only to companies that seek to improve their benefits, because that was one criterion used to grant approval in the Columbia case, Mr. Gorman noted.

"The cost benefit will not be enough," he said.

After a second company is ap-

proved to fund employee benefits through its captive, "there will be much more of a fast-track approach," said Aon's Mr. Durrant.

"A number of clients have said that they don't necessarily want to be No. 2, but they want to be ready," he said.

SINSER has had Benefits Insurance Co. Ltd., a rent-a-captive aimed at employee benefits, for several years, but the entity still has only one member.

The decision-making process in moving benefits from one insurer to another is usually much longer than it is for property/casualty risks, because the dollar amounts involved are typically much higher, Mr. Dove said.

"I think it will develop, but it will take 12 months before we see a regular flow, because it is a complicated process," said Willis' Mr. Heyliger. He noted that Bermuda-based captives will still need to set up onshore branches to take advantage of the ruling.

In addition to business considerations, Bermuda captive managers and captive owners continue to face political concerns, as the government of Premier Jennifer Smith brings changes to the island.

During the past year, the Bermuda government implemented its controversial Commission for Unity and Racial Equality rules on race reporting in the workplace. The CURE rules require a company to provide an annual breakdown on the race, employment level and pay of all its employees.

When the rules were announced in 2000, several captive managers and other international business executives were concerned that compliance would be a costly administrative burden. They were also concerned about what employment-related actions the government might take once it had collected the data.

So far, though, it seems that the CURE legislation has not severely affected captive managers, said Marsh's Mr. Gorman.

"There's a great sense that the government is doing the best it can to manage the diverse demands of the local population and the business groups," he said.

According to MRM's Mr. Ezekiel, the CURE reporting concept is "excellent and the reporting process is not onerous." But, he said, there is still a question about how the government will use the information that it has gathered. Mr. Ezekiel serves as chairman of the international companies division of the Bermuda Chamber of Commerce.

"We are really one year to 18 months away from really seeing where that one goes," he said.

The government also effectively increased the 12.75% payroll tax in 2000 by imposing it on the actual pay of employees, up to a cap of \$250,000; previously, a "notional" pay figure of \$73,200 could be used. The cap was then reduced to \$225,000 this year.

The increase in payroll tax raises costs for businesses in Bermuda, said Mr. Gorman. "But, as far as captive owners are concerned, it's had less impact, or even marginal impact, compared to other companies where the cap comes into play more frequently," he said.

There is no direct correlation between the increase in the employment tax and the fees charged by

See **Bermuda** on page 22



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CAPTIVE REPORT

Bermuda

Continued from page 20

captive managers, said Aon's Mr. Cossar.

"But, clearly, anything that increases our costs does cause us to examine fee levels. However, it would depend on the circumstances of the individual company," he said.

Because the cap increases costs, international companies are discussing with the government the possibility of rolling it back further, Mr. Ezekiel said.

"There are increased costs for captive managers, and, at some stage, they could be passed on. But, so far, most companies have done a pretty

good job of retaining their costs," he said.

In another employment-related move, the island government has proposed putting a six-year limit on work permits for expatriate employees, with some exceptions, including allowing extensions for key personnel.

The captive management sector and the insurance market in general in Bermuda are heavily dependent on expatriate employees from Britain and North America.

But the limit on work permits should not cause problems for captive managers, because it is clear that there are not enough qualified Bermudians available to manage the large number of captives in Bermu-

da, Mr. Heyliger said. Consequently he said, captive managers will likely be allowed to continue to recruit from overseas.

International companies won't know whether they'll be allowed to extend the work permits for all their expatriate captive management personnel for another six years, Mr. Heyliger said. That is when the most recently issued permits are considered for renewal, he said.

"But both political parties are pro-business," Mr. Heyliger said.

The government has also stated that exemptions to the six-year rule will be made for "good corporate citizens." While it is not clear precisely what is meant by the term, captive managers in Bermuda say

that, as long as they are seen to make significant efforts to employ Bermudians wherever possible, they likely will be viewed favorably by the immigration authorities. Most captive managers are already keen to employ as many qualified Bermudians as possible to avoid the costs of bringing in employees from overseas, they say.

"They seem to be saying, 'As long as you are a good corporate citizen, we can talk,'" said Philip Barnes, managing director at Aon.

And because there is a worldwide shortage of qualified accountants, Mr. Barnes said, the immigration authorities will likely be sympathetic to captive managers' expatriate employment needs. **BI**

Bermuda rental market growing

By GAVIN SOUTER

HAMILTON, Bermuda—Rent-a-captives in Bermuda largely enjoyed another prosperous year in 2000.

While some of the long-established facilities had a challenging time last year, several others saw substantial increases in both members and premiums.

That growth is continuing in 2001 as commercial insurance rates increase and more corporations seek coverage in the alternative market.

And the growth in agency programs should also continue as insurance agents seek to benefit from the underwriting experience on their profitable books of business, rent-a-captive managers say.

New rent-a-captive regulations easing the formation of segregated-account rent-a-captives in Bermuda should add another dimension to the prospering market in the domicile, according to rent-a-captive managers.

Bermuda's largest rent-a-captive, the Insurance Profit Center, added 43 new accounts in 2000—including 16 in the last quarter—according to David Alexander, president of Mutual Indemnity (Bermuda) Ltd., which owns IPC.

But IPC, which is ultimately owned by Mutual Risk Management Group Ltd., also did not renew 52 accounts and closed nine. That left IPC with a total of 537 accounts, compared with 503 in 1999, but only 147 active accounts, compared with 156 the year before.

Gross premiums for IPC's participants rose to \$181 million from \$147 million.

Of the new accounts, 27 were corporate accounts and 16 were program accounts, which is a reversal of the trend over the past several years, in which IPC has taken on more program business. "That is consistent with our intention to write fewer small programs," said Mr. Alexander.

The increase in corporate account business has largely been derived from California workers compensation business, where rates are increasing and several financially troubled insurers have withdrawn from the market, Mr. Alexander said. "And as soon as rates start to go up, it makes sense for people to look at the alternative market," he said.

Submissions to IPC were strong in January and February, while interest waned in March due to the financial uncertainty surrounding MRM (BI, April

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CAPTIVE REPORT

Rent

Continued from page 22

23). Prospects for the rest of the year, however, look promising now that MRM has secured a capital injection, Mr. Alexander said.

Hurst Holme Insurance Co., a rent-a-captive managed by International Advisory Services, another unit of MRM, saw membership fall in 2000.

The number of active programs as of Dec. 31, 2000, fell to 16 from 21, and premiums written during the year also fell, to \$14.3 million from \$15.5 million. Since the end of last year, Hurst Holme has added another three programs, said the rent-a-captive's president, David Pickering.

"The hardening of the fronting and reinsurance markets for agency programs forced a number of our clients to review their ability to fund their exposures. While those that were able to continue will undoubtedly see increased returns from the hardening marketplace, a number of clients were unable to replace their pro-

a-captive, they are less likely to move the programs to other insurers, he explained.

Additionally, Artex is seeking to create programs for "distressed classes of business," Mr. McManus said, referring to accounts that have generally suffered losses and are now experiencing large rate increases.

Gallagher loss control specialists will audit potential programs, and those that pass will be allowed to join a cell of Artex specifically created for a certain class of business, he said.

So far, Artex has created a cell for workers comp programs for temporary services agencies, and it is seeking to target other

distressed lines, Mr. McManus said.

"The clients will be taking on some risk, but they will know that good loss control measures are in place," he said.

Policyholders continue to show a strong interest in rent-a-captives in 2000, said Steve Arrowsmith, an associate at JLT Risk Solutions Management (Bermuda) Ltd.

"This time last year, for many companies, it was not worthwhile setting up their own insurance subsidiary, but a rent-a-captive facility was a good alternative," he said.

Now, even though the hardening market is increasing interest

in single-parent captives, rent-a-captives continue to thrive, Mr. Arrowsmith said.

Most of Atlantic Securities' rent-a-captives had a strong 2000, said Mr. James, the president and CEO.

"Rent-a-captives continue to show substantial strength in program business, which has been growing exponentially for the past three years and will probably continue to," he said.

The hard market and the increasing use of rent-a-captives to provide coverage for punitive damages—coverage many U.S. states prohibit—should fuel that growth, he said.

Claims paid to U.S. companies

that buy punitive damages wrap-around coverage are typically paid to the companies' non-U.S. units.

In 2000, one of Atlantic's facilities, Magna Carta Insurance Co., increased its premium volume to \$12 million from \$10 million, and its membership increased to 140 from 100, Mr. James said. The rent-a-captive specializes in agency programs and punitive damages wrap-around coverage.

Another facility, Universal International Reinsurance Co. Ltd., increased its premium volume to \$18 million from \$17.5 million in 1999, and its member-

Continued on next page

'This time last year, for many companies...a rent-a-captive facility was a good alternative.'

— Steve Arrowsmith

JLT Risk Solutions

grams prior to the year end," he said.

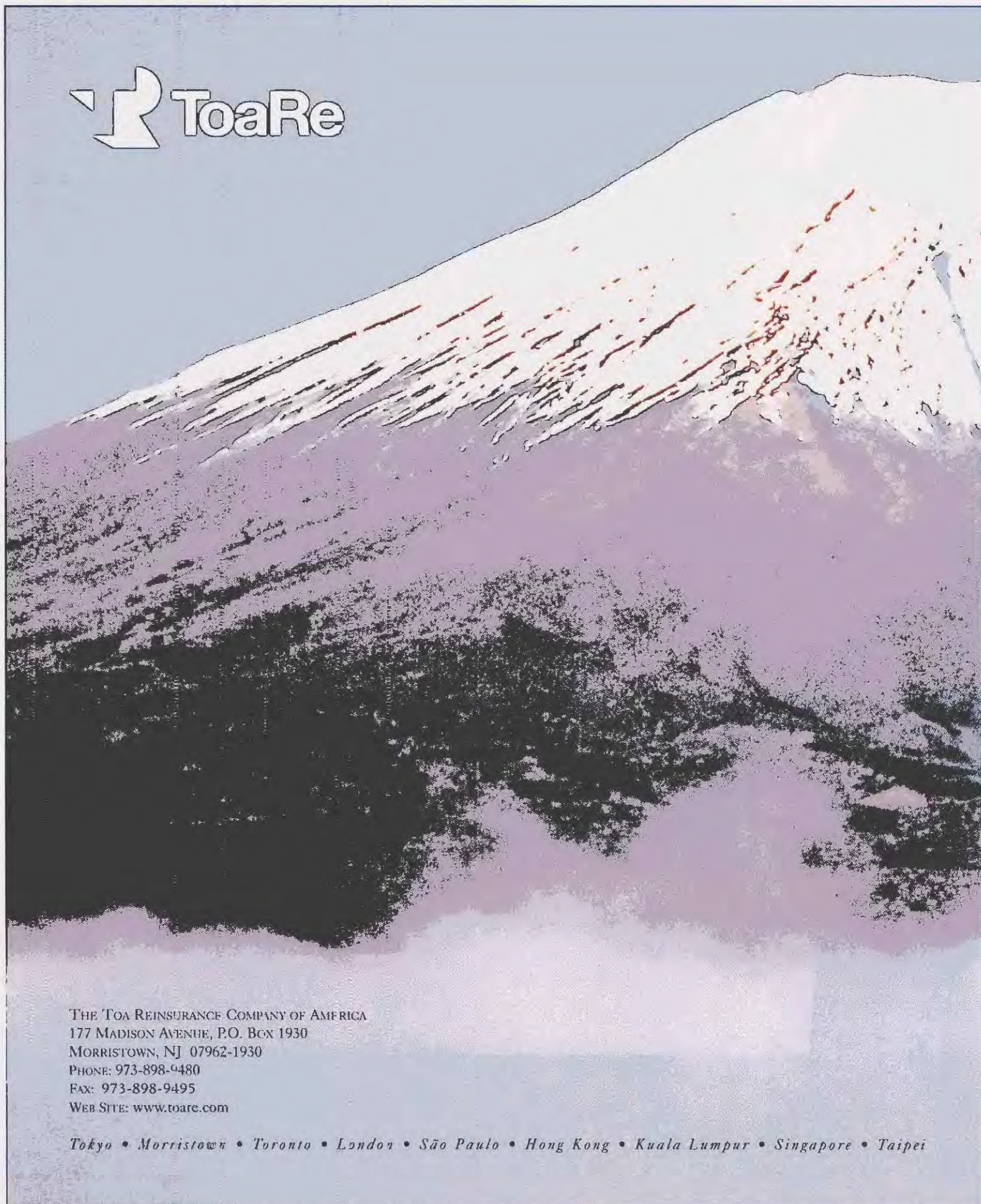
Other managers saw stronger growth in 2000.

Artex Insurance Co. Ltd. added seven new programs in 2000, taking its total to 20, said David J. McManus, president of Arthur J. Gallagher Management (Bermuda) Ltd., which manages the rent-a-captive. Gross premiums grew to \$57 million from \$27 million.

Agency program business accounted for most of the growth, Mr. McManus said. And the agency business will likely continue to grow in 2001 as commercial insurance rates increase, he said.

In a hardening market, insurers often try to pare back the commissions they pay agents as premiums increase, and agents with profitable books of business will likely try to increase their profits by placing that business in a rent-a-captive, Mr. McManus said. "Agents will be looking to control their revenues," he said.

Encouraging insurance agencies to join a rent-a-captive program to share in the profits of good business is "a great defensive mechanism for insurers that want to participate in the business," said Colin C. James, president and chief executive officer of Atlantic Securities Ltd. If agents reap some of the underwriting profits through a rent-



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Continued from previous page
 ship increased to 25 from 22. The rent-a-captive is an offshore facility for U.S. entities seeking to minimize federal excise taxes on direct placement, Mr. James said.

Universal Re-Insurance Co. Ltd. saw its premium volume increase to \$63 million in 2000 from \$40 million in 1999, while its membership grew to 45 from 41, said Hal Forkush, president of the rent-a-captive.

Universal Re, which writes mainly program business, has benefited from the increasing rates in the commercial market, he said. "And the rent-a-captive concept has become so popular

these days, with so many agents and MGAs looking for ways to increase their revenues," Mr. Forkush said. Existing accounts in Universal Re are also growing, he said.

Becher + Carlson Management Ltd. has seen much more growth in rent-a-captive business than in single-parent captive business over the past several years, said Tony Bibbings, senior vp.

"Over the past three years, we've probably added three accounts on the captives side, but on the rent-a-captive side, we've gone from zero to 50 in five years," he said.

Some risk managers prefer to join rent-a-captives rather than

set up single-parent captives to avoid lengthy decision-making processes, Mr. Bibbings said.

"If you are a risk manager and you want a captive, you have to set up a subsidiary, and that's a board decision. With a rent-a-captive, you have many of the advantages of a captive, but you can do it yourself," he said.

Becher + Carlson owns two rent-a-captives, Princeton Eagle Insurance Co. Ltd. and Princeton Eagle West Insurance Co. Ltd. Each captive has 10 programs.

In 2000, Becher + Carlson added two captives, both of which were Japanese rent-a-captives for agency programs,

Mr. Bibbings said. Japanese agency business is exceptionally profitable business, with most of the programs recording combined ratios of less than 100%, he said.

One of the main attractions of rent-a-captives over single-parent captives is that they are much cheaper to set up, said Elizabeth A.C. Durrant, vp at BF&M Management Ltd. "You don't have the capital outlay and you don't have all the administrative expenses of running it," she said.

BF&M's rent-a-captive, Fortress Insurance Co. Ltd., which has six members, had a stagnant year in 2000.

SINSER Insurance Ltd. had its best year ever in 2000, as its membership increased to 48 from 40, said Nicholas S. Dove, president of SINSER Management Services (Bermuda) Ltd., which owns the facility.

Most of the new members are insurance agencies, he said. "A lot of agents have terrific programs, and they see the opportunity to participate in the risk," Mr. Dove said.

With the looming hard market in many lines of coverage, the agency programs are set to become even more profitable, which has encouraged more agents to join rent-a-captives, he said.

SINSER is one of the few managers in Bermuda to have so far taken advantage of the new segregated-account legislation that is intended to make it easier and quicker for segregated cell rent-a-captives to be established in Bermuda.

Under the legislation passed last fall, the Segregated Accounts Companies Act 2000, rent-a-captives that legally separate the accounts of individual members so that they do not suffer from each other's losses, can be quickly and cheaply established.

While segregated-account facilities could previously be established in Bermuda, each one required a private Act of Parliament, which could take up to 10 weeks and cost \$30,000 in legal and other fees.

Under the new law, which is similar to laws in other domiciles, segregated-account rent-a-captives can be established in less than two weeks and at a substantially lower cost.

SINSER is in the process of forming one of the first segregated-account rent-a-captives under the new law, Mr. Dove said. The rent-a-captive—to be called SINSER SAC Ltd.—already has several members lined up.

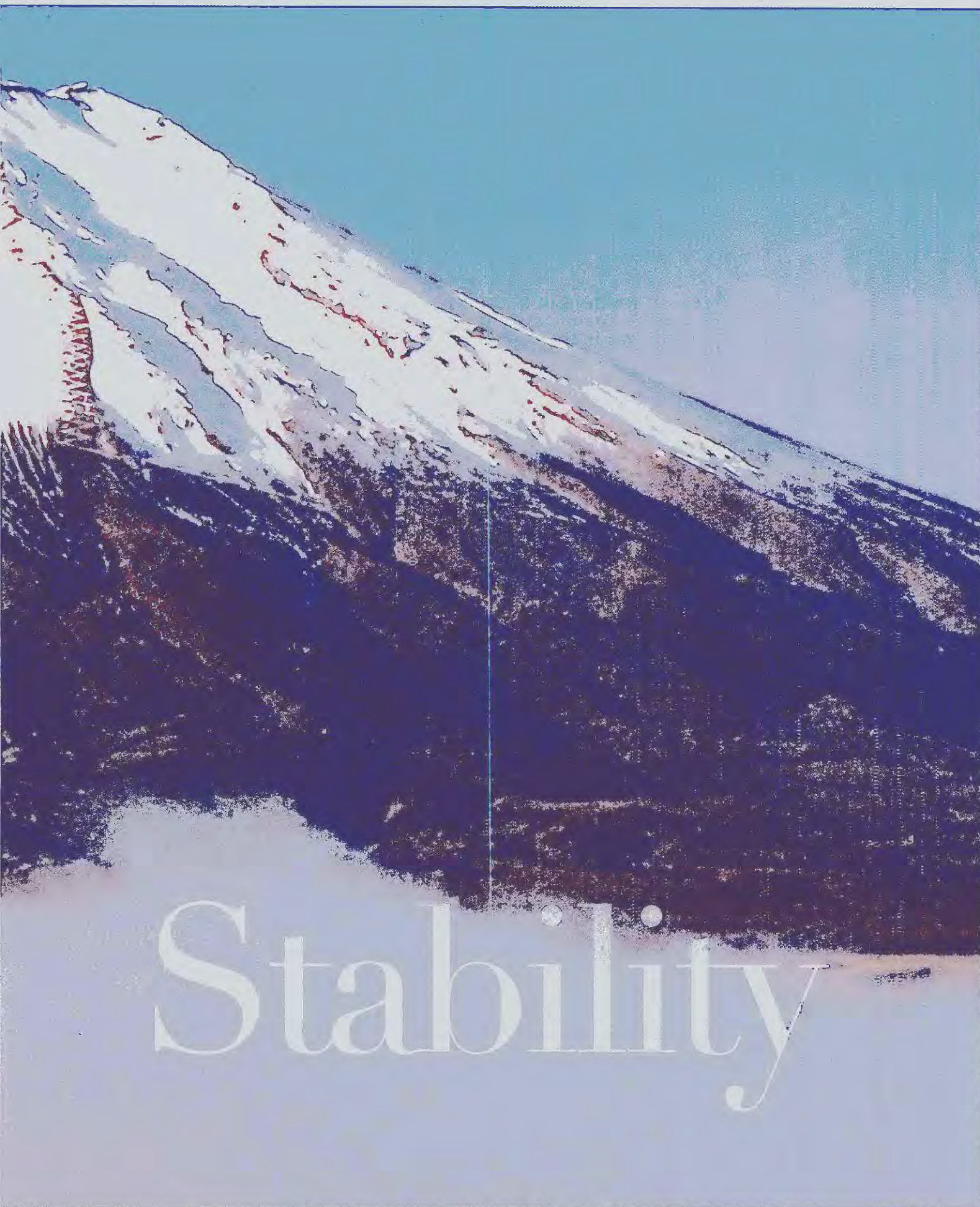
While some rent-a-captive members prefer to join facilities without segregated cells for U.S. tax-deductibility reasons, others prefer the segregated set-up as it ensures that they will not suffer losses from other members' risks, Mr. Dove said.

Some rent-a-captive members are interested in the segregated-account option, but others are leery, said David Ezekiel, chairman and chief executive officer of MRM Global Captive Group.

To deduct captive premiums, U.S. authorities require risk transfer, and with the segregated cell rent-a-captives, "you have to be ultra careful when you are doing it for the first time" to make sure that risks are being shared and truly transferred, he said.

Bermuda's new segregated-account legislation has fueled interest in rent-a-captives, he said. "There are still a lot of companies that don't have the critical mass needed to form a single-parent" captive, said Mr. Arrow-smith of JLT.

And rent-a-captives are now being used to house specialized financial vehicles, he said. For example, they can be used to securitize credit risk through derivatives, he said.



Stability

Hardening market helps Cayman continue growth

By SALLY ROBERTS

GRAND CAYMAN, B.W.I.—The firming of property/casualty insurance rates is creating more activity and growth in the Cayman Islands captive market, not only in new formations but also in the expansion of existing captive programs.

Although the world's second largest captive domicile has grown throughout the soft pricing in the insurance market—it added more than 180 captives since 1997—captive managers and regulators say growth now is occurring as a direct

result of the firming market. This is especially evident in the health care industry, Cayman's bread and butter line of business, they say.

In addition to new formations, captive managers say they also are seeing growth from new lines of business being added to existing captives; inactive captives being activated again; new shareholders being added to group captives; and new cells being added to segregated portfolio companies, which are Cayman's 3-year-old, more secure form of a rent-a-captive. Although this activity is not reflected in the domi-

cile's total captive count, it is represented in increased premium volume on the island.



Indeed, the more than 20 licensed captive insurance managers in Cayman managed \$3.27 billion in total

premiums in 2000, a 31.4% increase from 1999.

All this has leading captive managers on the island optimistic that 2001 may be another year of record growth similar to 1998 when Cayman put 52 new captives on the books.

In 2000, Cayman added 46 new captives. Taking into account the 26 captives that surrendered their licenses, Cayman was home to 515 companies, most of which are single parent, association and group captives. For the first three months of 2001, Cayman added 10 new cap-

tives and surrendered six licenses.

The hardening market is "putting Cayman back up on the radar screens," said Seamus Tivnan, senior vp and branch manager for Marsh Management Services (Cayman) Ltd. "We're very, very busy at the moment in terms of captives," he said.

Mr. Tivnan returned to Cayman last November after heading up Marsh's Hawaii captive operation for nearly a year. He replaced Wayne Cowan, who left Marsh to direct JLT Risk Solutions (Cayman) Ltd., Cayman's newest captive manager.

Marsh added 13 captives in 2000, bringing its total count under management to 134. Premium volume rose 21.4% to \$700 million, making it the second largest manager on the island.

"The Cayman captive scene is very buoyant," agreed JLT's Mr. Cowan. "Even though we have been in existence since January and have not really publicized our new venture, we have had many inquiries from new business prospects." JLT currently has three captives under management and four employees.

"We're seeing captives being revived," agreed Stephen Gray, vp of Willis Management (Cayman) Ltd. "Two years ago, a lot of companies were presented with attractive guaranteed-cost options. Those seem to have dried up," he said.

Willis added three new captives in 2000, but it wound up or liquidated six others it managed at the end of 1999 and in 2000, bringing its total under management to 30. Premium volume increased 5.7% to \$989 million based on a restated 1999 premium volume figure of \$936 million, making Willis the largest captive manager in Cayman. Nearly \$775 million of Willis' 2000 premium volume comes from one automobile extended-service and warranty captive set up by a subsidiary of a large U.S.-based motor company, Mr. Gray said. While the captive has been active since 1995, premiums in the past were reported on an earned premium basis instead of a gross premium basis.

Captive managers and regulators point out that the number of new captives forming in Cayman is not the whole growth picture on the island. They also are seeing existing captive programs expanding.

"With the tightening reinsurance market, existing captives in run off are now activating again, and programs that were not in runoff are expanding their coverages—that's not just taking on increased retentions and higher excess levels, but adding on new lines of business as well," said Gordon Rowell, head of insurance supervision in Cayman.

Michael W.B. Gibbs, for example, said that much of the growth at Kensington Management Group Ltd., for which he serves as president, has come from existing group programs.

"Those not taking advantage due to the soft market...are coming back big time," he said. "We've seen 50% increases in some group programs. That's why our premium volume has gone up so much," he said.

Kensington's premium volume increased 37.7% to \$275 million in

See **Cayman** on page 28

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Cayman

Continued from page 26

2000. It added three new captives to its roster, bringing its total captive count under management to 24. Kensington is owned by Mutual Risk Management and combines its figures with Mutual Risk Management (Cayman) Ltd. Combined, Mutual Risk Management managed 82 captives with \$430.5 million in premium volume in 2000,

making it the fourth largest manager on the island.

"The number of captives does not tell the whole story," said John M. Pitcairn, president and chief operating officer of MRM (Cayman). He said that MRM, for instance, added three new SPCs last year and each SPC continues to add additional cells, which helped pave the way for a 69% increase in premium volume to \$155.5 million.

Although captive formations in Cayman over the last several years have been more of

a mixture of workers compensation, general liability, property, deferred variable annuities and others, Cayman continues to be the domicile of choice for the health care industry. More than 30% of the island's captives—171—fund health care-related risks. And despite already having a dominant market share in that industry, Cayman managers say they are receiving more inquiries and establishing more health care related captives as medical malpractice and professional liability coverage continues to tighten in the standard market.

"The health care results last year in the commercial market were abysmal," Mr. Rowell said. As such "a lot of companies have been approaching us with greater interest in forming captives," he said, noting that employers in the long-term health care business, like nursing homes operators, have been particularly interested in forming captives.

"The inquiries we've had this year are a result of the hardening market in areas such as nursing homes and home care," said Steven R. Butler, financial director of Chandler Insurance Management Ltd.

"The popular old solid lines never seem to go away," Mr. Butler said, referring to health care risks as well as workers compensation risks. In 2000, Chandler added two new captives, bringing its total under management to 12. Premium volume increased 57.6% to \$57.8 million.

"It's very busy for us," said Peter MacKay, chairman and chief executive officer of MRM. Not only did the manager put on 12 new captives in 2000, it's already put on another four in 2001 and has six waiting in the wings.

"Three of the captives this year are hard market driven," Mr. MacKay said. "Medical malpractice rates particularly have gone up dramatically," he said.

The hardening market is generating a lot of interest from nursing homes and the health care business in general, agreed Peter K. Jones, managing director of Aon Insurance Managers (Cayman) Ltd. All areas seem to be hardening, even the property market, which will bring even more interest in captive formation to Cayman, he predicts.

"Overall, I think it will be a very, very good year for us. In fact, the next couple of years will be very good," he said.

Aon added nine new captives in 2000, while premium volume grew 41.4% to \$280 million. Aon, which ranked as the sixth largest captive manager based on 1999 premium volume, becomes the island's third largest manager as a result of parent company Aon Corp.'s December acquisition of the captive management and risk finance consulting operations of International Risk Management Group Inc. IRM (Cayman) was the fifth largest captive manager on the island last year. Combined, Aon now has 66 captives under management and \$658.8 million in premium volume.

Aon will move into IRMG's existing office space in June, noted Mr. Jones, who is the managing director of the combined entity Anthony Stelling, IRMG's president, now has regional responsibility for Marsh's captive operations in the Caribbean.

Much of the growth in Cayman is in SPCs, captive managers and regulators say.

In 1998, Cayman introduced the SPC, which is a corporate structure that allows

See **Cayman** on page 32

Largest managers of Cayman captives

Ranked by gross premium volume in millions of dollars

Manager	Premium volume		Captives	
	2000	1999	2000	1999
Willis Management (Cayman) Ltd.	\$989.0	\$936.0 ¹	30	33
Marsh Management Services (Cayman) Ltd.	700.0	576.5	134	130
Aon Insurance Managers (Cayman) Ltd. ²	658.8	198.0	66	28
Mutual Risk Management (Cayman) Ltd. ³	430.0	291.7	82	71
HSBC Financial Services (Cayman) Ltd. dba HSBC Insurance Management	240.0	225.0	81	87
Caledonian Bank & Trust Ltd.	66.6 ⁴	50.0 ⁵	18	17
Chandler Insurance Management Ltd.	57.8	36.7	12	10
Crusader International Management (Cayman) Ltd.	33.0	21.0	6	7
Britannia Insurance Management (Cayman) Ltd.	31.0	31.0	3	3
Monkton Insurance Services Ltd.	17.8	11.5	6	4

¹ Restated ² Pro forma numbers for 2000 to reflect the merger of Aon Insurance Managers (Cayman) Ltd. and International Risk Management (Cayman) Ltd. ³ Includes Mutual Risk Management (Cayman) Ltd. and Kensington Management Group Ltd. ⁴ Does not include \$134,000 in premiums from a loss portfolio novation. ⁵ Estimate
Source: BI survey

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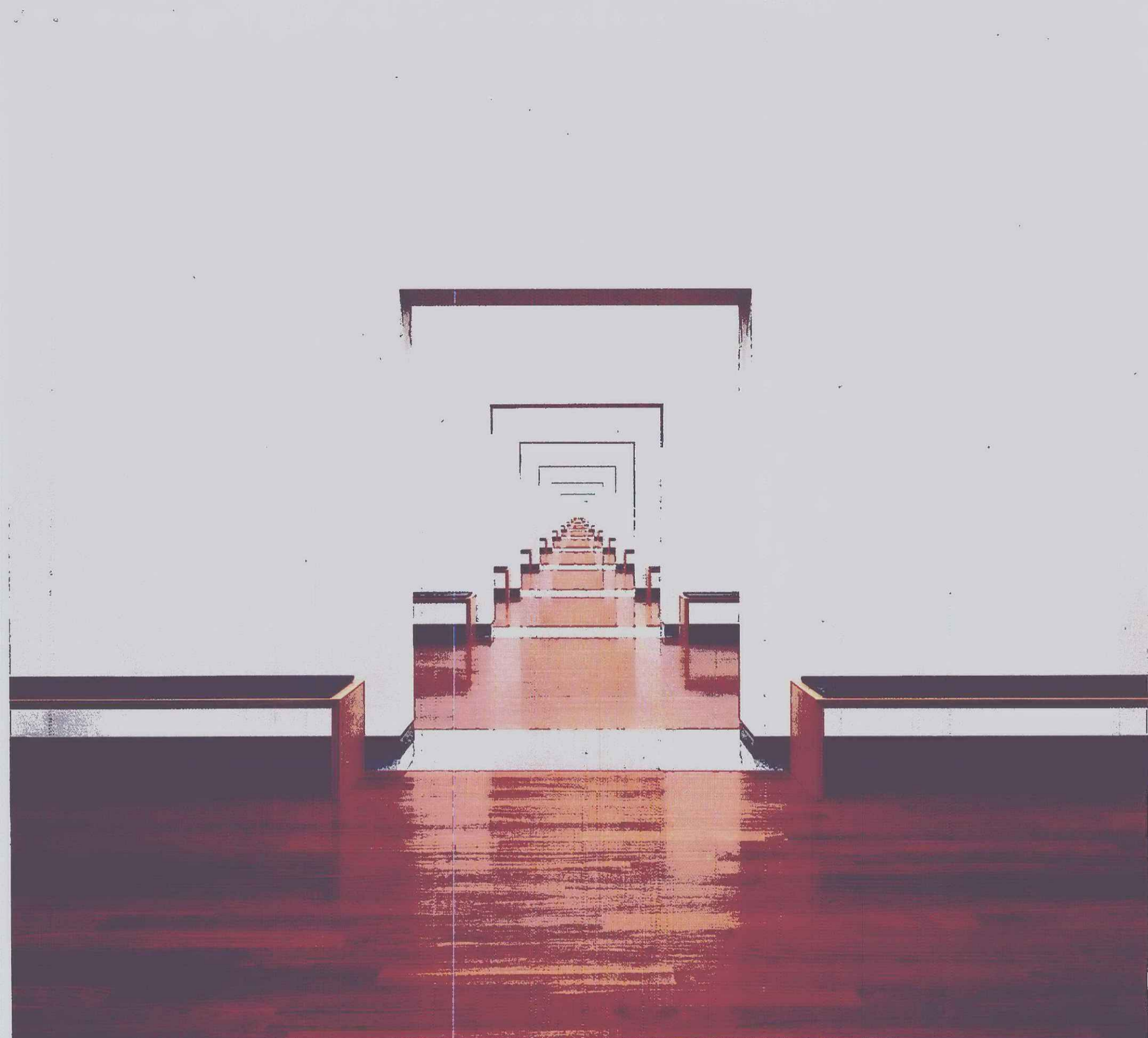
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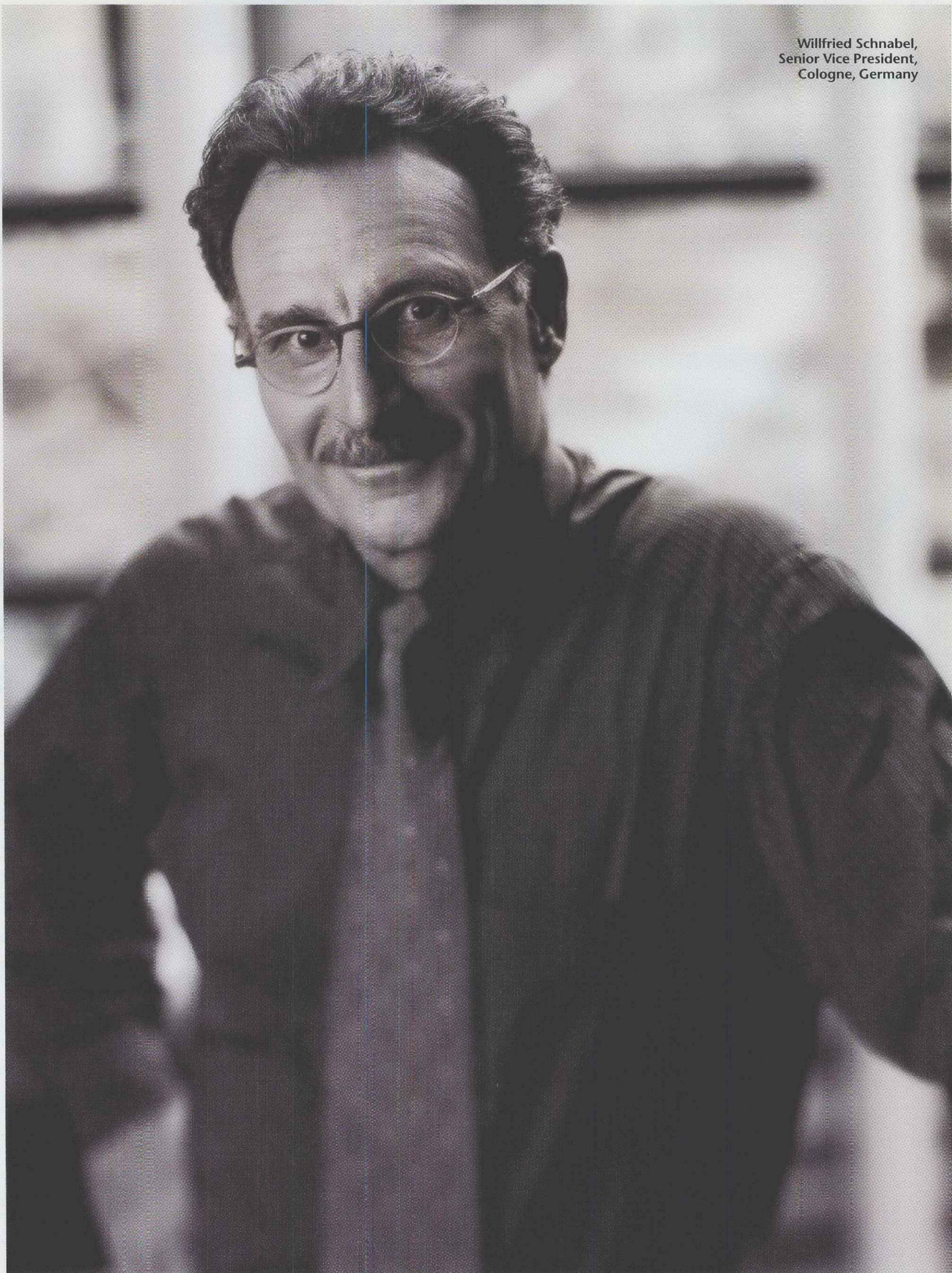


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Cayman

Continued from page 28

for the legal separation of the assets and liabilities of individual cells. At the end of 2000, Cayman was home to 27 SPCs with a combined 76 cells, compared with 15 SPCs with 42 cells among them at the end of 1999. At the end of March, Cayman was home to 30 SPC and 136 cells, Mr. Rowell said.

"There's a lot of activity in SPCs," said Mr. Tivnan. Marsh, for example, added three new SPCs in 2000, converted its own rent-a-captive into an SPC and has added two new SPCs so far in 2001.

In addition to SPCs, Cayman also has made a name for itself with its special-purpose vehicles, or SPVs.

Most of the SPVs—independent reinsurance companies set up by insurers as formal issuers of catastrophe bonds and providers of reinsurance contracts—that were formed worldwide in the last few years are located in Cayman.

Although the SPV market in Cayman grew to 22 at the end of 1999, activity has since waned. There were just 21 SPVs at the end of 2000.

Mr. Rowell blames the stagnant SPV market on the property pricing environment in the United States, which he said is currently

not conducive to their formation. The SPVs set up in Cayman proved that they can work, but "the market is too soft to warrant this kind of access at the moment," Mr. Rowell said. It will be another year or two, as the property market continues to harden, before SPVs are more widely used, he predicted.

"One thing about Cayman which puts us ahead of every other jurisdiction is that the innovation here is incredible," he said, referring to the creation of SPVs and SPCs.

In addition to its innovation, Cayman has gained a reputation over the years for its flexible regulation, easy access to regulators

and its well-developed financial infrastructure. In addition to more than 500 captive insurance companies, Cayman also is home to a vast array of other financial firms, including approximately 500 banks, all the major accounting firms and many law firms.

While Cayman's financial regulation and business practices have been described as being of the highest quality, they came under scrutiny from various overseas organizations in 2000. Cayman avoided being included in the Organization for Economic Cooperation and Development list of tax havens, but it was included in the Financial Action Task Force list of jurisdictions deemed to be "non-

cooperative" in the task force's fight to combat money laundering. In addition, the British government set out last year to review its overseas territories' regulatory practices, including the Cayman Islands (see related story).

The Cayman Islands Monetary Authority, which oversees insurers and banks, has a new head of insurance once again. Mr. Rowell became head of insurance after Clive Thursby, a former consultant for Tillinghast-Towers Perrin, left the office in January. Previously, Mr. Rowell was deputy head of insurance.

Despite the frequent turnover in that position—Mr. Thursby stayed just one year as head of insurance supervision—Mr. Rowell said that little disruption has occurred.

"The most important thing about regulation is not the head of insurance; it's the people that form this department," he said. "We've had very little change within the department over the last seven to eight years." Mr. Rowell has been with the department for more than four years.

"The head of insurance does make the final decisions, but the decision is based on the work of the people of the department," he said. **BI**

Scrutiny produces response

By SALLY ROBERTS

GRAND CAYMAN, B.W.I.—Regulation and general business practices in the Cayman Islands passed scrutiny from various overseas organizations in 2000.

Last June, the world's second-largest captive domicile avoided inclusion on the Organization for Economic Cooperation and Development's list of jurisdictions deemed to have "harmful" tax practices, by agreeing to take any necessary measures outlined by the Paris-based OECD. Specifically, the Cayman government outlined a three- to five-year time frame for the exchange of information regarding criminal, civil and administrative tax matters (*BI*, June 26, 2000).

Although Cayman did not appear on the OECD tax haven list, it did appear on a list of jurisdictions that the Financial Action Task Force deemed "non-cooperative" in its global efforts to combat money laundering.

The FATF, a Paris-based policy-making body created in 1989 by the G-7 Summit, set out 25 criteria last February to identify detrimental rules and practices that it says impede international cooperation in the fight against money laundering. Fifteen jurisdictions, including the Cayman Islands, were identified as noncooperative by the FATF in June.

The FATF noted that although the domicile had criminalized money laundering and encouraged reporting of suspicious transactions, Cayman lacked le-

See **Scrutiny** on page 34



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Scrutiny

Continued from page 32
 gal requirements both for the reporting of such transactions and for customer identification and record keeping.

The Cayman Island government quickly reacted by passing legislation last year.

Among the new requirements, the government revised its Proceeds of Criminal Conduct Law by establishing a new criminal offense of failure to report the knowledge of or suspicion of money laundering. It also issued new money laundering regulations that require those engaged

in "relevant financial business," including captive managers, to implement and maintain systems and training procedures designed to prevent money laundering. Those measures include identification procedures, record keeping procedures, internal reporting procedures and employee training. Cayman will soon pass further guidelines that will outline the specific steps toward implementing those practices. It expects to be removed from the FATF list once it has implemented all the necessary reforms.

Leading captive managers and regulators on the island say that the money-laundering reforms introduced by the Cayman gov-

ernment put into law practices that were already established through industry codes of conduct.

"The insurance business here in Cayman is of the highest standard and of the highest quality," said Gordon Rowell, Cayman's head of insurance supervision. "I would like to think that everyone who does business here would want to ensure that they are doing business in a place that is highly regulated and that we know exactly who is doing business here, and we do. We've put in place procedures that will put people's minds at ease," he said.

John M. Pitcairn, president and chief operating officer of

Mutual Risk Management (Cayman) Ltd., agreed. "It is always the intention of the Cayman Islands to maintain the highest standard of professionalism in the industry." Mr. Pitcairn noted that "Cayman is the leading offshore center in enacting legislation to combat money laundering and other financial crimes. The recently passed legislation should enable the Cayman Islands to keep its place in the forefront of offshore financial centers."

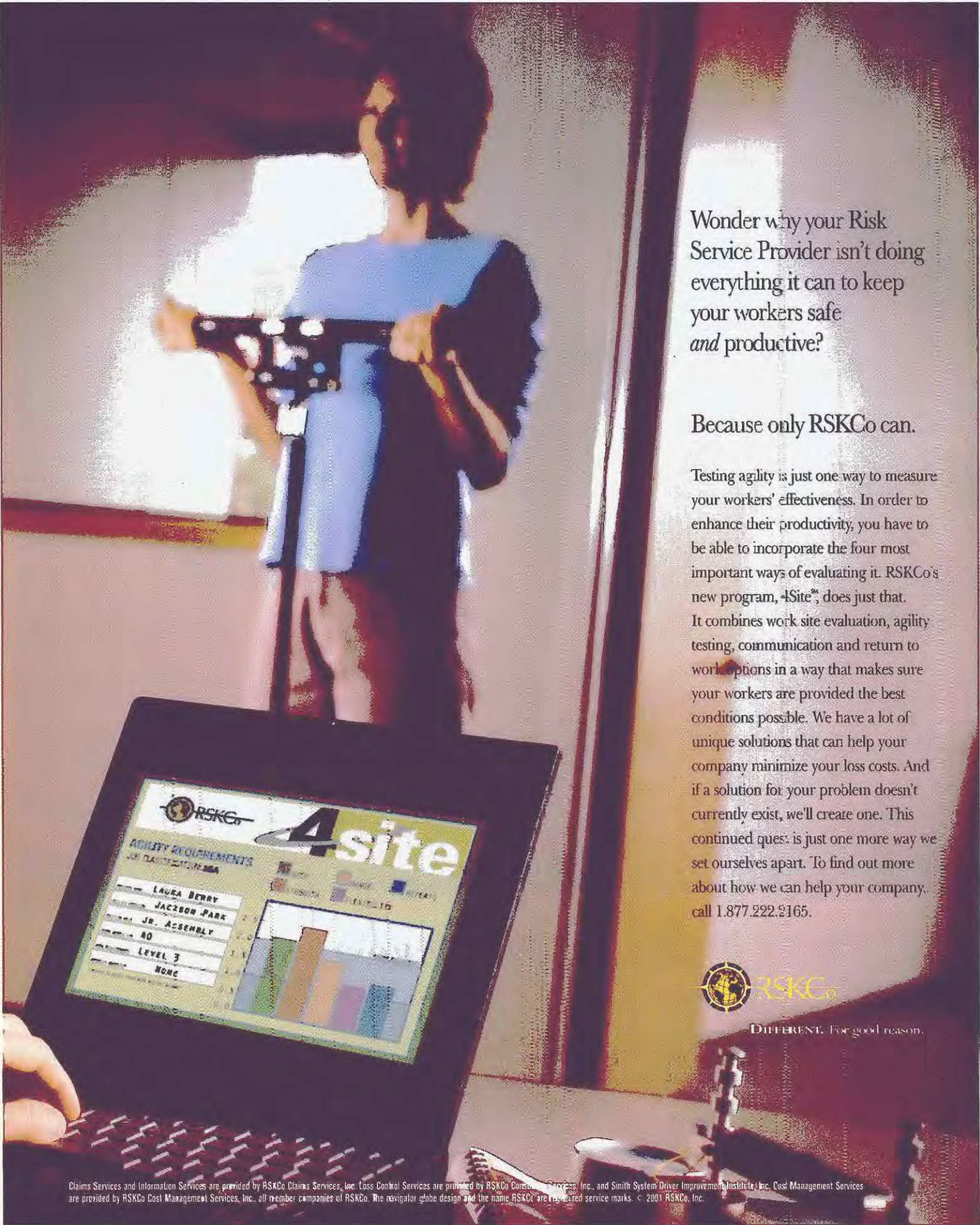
Steven R. Butler, financial director of Chandler Insurance Management Ltd., noted that, of all financial industries, "the insurance industry is the least af-

ected" by the new legislation, because it already is well regulated and the managers know who their clients are. "It's just never been written into statute before," Mr. Butler said.

Other captive managers point out that the increased scrutiny of Cayman's regulation last year could have a positive result.

"It shouldn't change very much how we do business day to day in Cayman, but, hopefully, it will strengthen the world's view of Cayman as an offshore insurance center," said Peter K. Jones, managing director of Aon International Risk Management (Cayman) Ltd. "This could lead to increased opportunities for us."

Seamus Tivnan, senior vp and branch manager of Marsh Management Services Cayman Ltd., said that the increased scrutiny has "given us a chance to show off our professional standards and business practices." As a result, he said, "more large Fortune 500 companies may come to Cayman and use Cayman for the financial services it provides."



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'The insurance business here in cayman is of the highest standard and of the highest quality.'

— Gordon Rowell

Cayman Monetary Authority

The quality and effectiveness of regulation in Cayman were deemed "generally in line with international standards," by accounting giant KPMG, which was commissioned at the beginning of 2000 by the British government to conduct an independent review of the regulatory and practice environments of its Caribbean overseas territories. KPMG found that Cayman's regulation of insurance had the highest rating, Mr. Rowell noted.

KPMG noted, though, that the Cayman Islands Monetary Authority—the quasi-governmental body that oversees insurance and banking services on the island—must expand its enforcement powers over holders of insurance licenses. It also pointed out that the CIMA should have full operational independence from the Cayman Islands government.

Mr. Rowell said that he intends to "tidy up the insurance law" this year by seeking amendments that would grant more enforcement power to the CIMA. He expects the CIMA will be a fully independent entity by early 2002.

Mr. Rowell noted that the only change CIMA's independence will have on insurance regulation on the island will be to speed up the captive licensing process. Currently, the ratification of captive licenses must be "rubber stamped" by the government and can take about four to six weeks. The change would, in most cases, reduce that processing period to about five business days, Mr. Rowell said. **BI**



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BRING IT ON.



PCCs remain key part of Guernsey growth

By EDWIN UNSWORTH

ST. PETER PORT, Guernsey—Europe's largest captive domicile grew again in 2000, but for once, Guernsey's perpetually optimistic captive regulator is not as confident as its captive managers that growth will be maintained this year.

At the end of 2000, Guernsey had 375 captives, up 11 from 364 in 1999.

The Financial Services Commission estimates total premium volume of these captives was around £2.03 billion (\$3.03 billion) at the end of 2000, compared with £1.85

billion (\$2.98 billion) in 1999. Premiums in 1999 were less than had been estimated last year.

Assets of these captives at the end of 2000 increased to £9.63 billion (\$14.37 billion) from £8.75 billion (\$14.13 billion).

Despite Guernsey's steady growth throughout competitive conditions in the insurance market, at the end of March the domicile had a net loss of five captives, with three gains and eight losses.

Steve Butterworth, Guernsey's director of insurance, frankly admits that after such an uncharacteristi-

cally poor start he has "no idea where we'll be at year end."

The decrease in captives so far in



2001, Mr. Butterworth says, reflects the "phenomenal" level of mergers and acquisitions of captive owners. Among the eight captives removed from Guernsey in 2001, three went because of mergers or acquisitions, one migrated to the Cayman Islands because of its owner's restructuring, and another with a Japanese parent was shut down because of the adverse economic conditions in Japan.

Despite the figures, interest in forming a Guernsey captive is not on the wane, Mr. Butterworth said.

"We have a lot of interest in captives... We've got about 17 applications that we're actually dealing with at the moment, mostly (traditional) captives but some PCCs," he said, referring to protected cell companies.

"Also, we're handling about 10 proposals that people are coming in

to talk about—probably about 50% of which will come through."

PCCs, an innovation launched by Guernsey in 1997, and since adopted by other domiciles, have been a successful avenue of captive growth in Guernsey, which Mr. Butterworth expects to continue.

A PCC is similar in principle to a rent-a-captive. It allows the creation of an umbrella company, or core cell, around which a number of subsidiary cells operate. Members of a PCC contribute to the capital of the core cell, but the subsidiary cells operate independently of one another and their assets are protected from any debts incurred by any other cell.

Eight new PCCs formed last year, which took the total number of cells to 136, compared to 96 cells in the 20 PCCs at the end of 1999.

"We're seeing PCCs being used for life companies and separate cells being used for separate high net worth individuals," said Mr. Butterworth.

Legislation was passed this year to allow PCCs to be used more widely, particularly for securitization deals.

Mr. Butterworth said Guernsey is doing a few risk securitization deals and expects they will be a source of steady new captive business.

Guernsey's captive managers are

optimistic about prospects for growth because of their confidence in PCC growth.

Counting the 39 captives Aon (Guernsey) gained last year with Aon's acquisition of International Risk Management Group, Aon (Guernsey) finished last year with 127 captives under management. Aon by far manages the largest number of Guernsey captives.

Clive James, managing director of Aon (Guernsey), said, however, that discounting the gain of IRMG captives, the big growth for Aon was in the number of PCC cells—up by about 20 to 70.

Clients now are using PCCs not just for traditional captive business, but for "a whole variety of reasons," including one-off transactions, customer insurance programs, financial structures and securitizations, said Mr. James. "I think PCCs are the flavor of the month and that's where we're concentrating our energies."

His expectations are particularly strong for the continued growth of Aon's own PCC, WhiteRock Insurance Co. PCC Ltd. WhiteRock underwrites risks such as extended warranty, product defect and contamination, financial reinsurance, natural hazards and professional liability. With 33 cells, it is the largest PCC in the world, according to Mr. James. And, he expects another 10 cells could be added this year, mainly because of business being gener-

See **Guernsey** on page 38

Largest managers of Guernsey captives

Ranked by gross premium volume in millions of dollars

Manager	Premium volume		Captives	
	2000	1999	2000	1999
Aon Insurance Managers (Guernsey) Ltd. ¹	\$1,059.5	\$504.0	127	88
Willis Management (Guernsey) Ltd.	500.0	500.0	45	40
Heath Lambert Insurance Management (Guernsey) Ltd. ²	350.0	275.0	21	17
Marsh Management Services Guernsey Ltd.	271.0	381.0	63	61

¹ Pro forma numbers for 2000 to reflect the merger of Aon Insurance Manager (Guernsey) Ltd. and International Risk Management (Guernsey) Ltd. ² Formerly Lambert Fenchurch Insurance Management (Guernsey) Ltd.
Source: BI survey

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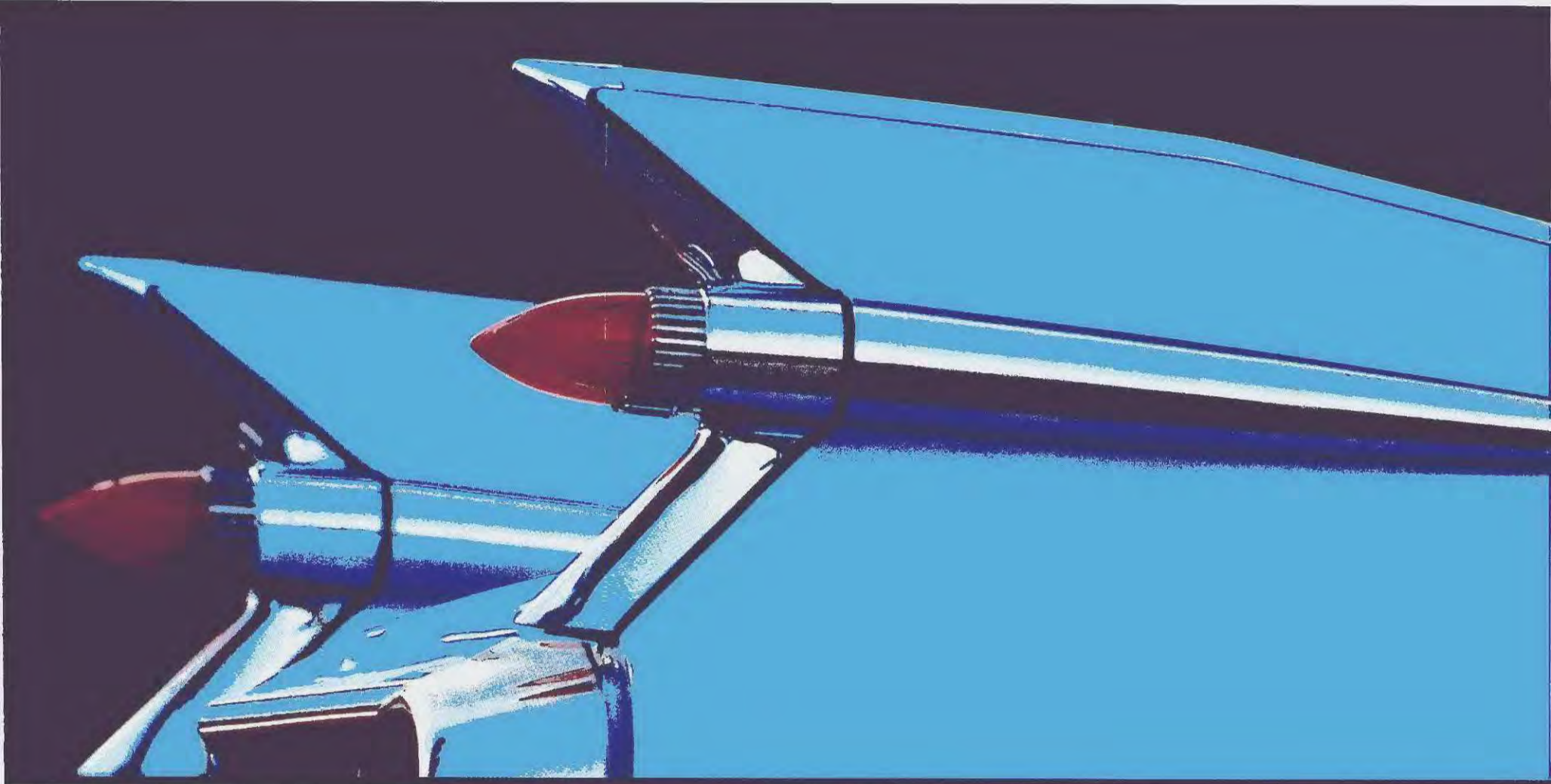
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CAPTIVE REPORT

Guernsey

Continued from page 36
ated by "increased awareness" of the potential of PCCs.

Two of the five captives gained in 2000 by Willis Management (Guernsey) Ltd. were PCCs. The company now has 45 captives under management.

Nisshin Fire & Marine Insurance Co. of Japan opened a PCC because it expects the liberalization of the Japanese insurance market to improve the attractiveness of offering captives to clients, said Malcolm Cutts-Watson, managing director of Willis (Guernsey).

The other new PCC at Willis, ACE PCC Insurance Ltd., is unique in that it was set up with "substantial" capital from its owner, ACE Bermuda Insurance Ltd., said Mr. Cutts-Watson. ACE PCC users are not required to put in capital, which makes ACE PCC a "fundamental new product," according to Mr. Cutts-Watson. ACE PCC is "moving on to the next generation of PCCs, which are much more flexible and varied in use," he said.

The ACE PCC underwrites a wide range of alternative risk finance products, and Willis will provide management and marketing input.

Marsh Management Services Guernsey gained two captives last year to take its year-end total to 63, the second highest among the island's captive managers.

"Bare numbers probably tell less than the full picture because we actually had a very successful year, with revenues growing by over 10%," said John Copeland, general manager of Marsh (Guernsey).

While Guernsey is seeing a decline in the number of smaller captives—a belated response to Britain's introduction of insurance premium tax and stricter rules on controlled foreign corporations—other captives "are being used more extensively," Mr. Copeland said.

"The general trend is for fewer and bigger captives," he explained.

SINSER (Guernsey) Ltd. held its captive number unchanged at 20 last year, which Managing Director Callum Beaton attributes to a reorganization within SINSER that distracted him from his marketing role in Guernsey.

He maintains, though, that this year is going "brilliantly, so far... (with interest) as good as it's ever been, if not better."

SINSER is "very close" to signing two new captives and has "a number" of potential start-ups in the wings. "By year end, if everything comes home to roost, there is going to be a substantial uplift in fee income," he said.

While almost two-thirds of the captives in Guernsey—a self-governing crown dependency of the United Kingdom—are owned by U.K. concerns, interest is increasing from other parts of the world, managers say.

Although four inquiries now being handled at SINSER are from the United Kingdom, three are from Europe, a number are from South Africa and one is Australasian.

Mr. Cutts-Watson at Willis also notes a wider geographic spread of business.

The combination of the hardening global market increasing company interest in retaining more risk, greater concern about corporate

governance issues, better education of risk managers on how captives can provide solutions and the increasing sophistication of insurance buyers is generating "inquiries from places like Taiwan and from parts of Europe that previously wouldn't have considered captives," he said.

Aon's Mr. James also anticipates more captive interest from continental Europe, partly due to French tax authorities easing their "anti-captive" views and taking a more flexible approach to captive use.

In contrast to Mr. Butterworth's lack of optimism about growth prospects, captive managers express unreserved confidence.

Mr. James said Aon has gained two captives so far in 2001, and in

terms of PCC cells, "we'll be looking to do a record number this year."

Willis is expecting to do a couple of "significant" PCC deals very soon, and the outlook overall for adding business in 2001 "is looking very good indeed," according to Mr. Cutts-Watson.

The group representing Guernsey's captive managers in 1999 opened the association's membership to include captive owners, and other organizations and individuals who deal with captives, including non-executive directors, accountants, lawyers, bankers and investment managers. In conjunction, the group renamed itself the Guernsey Insurance Captive Management Assn., substituting the word "man-

agement" for what was previously "managers."

The membership is now more than 100, said Mr. Cutts-Watson, C-ICMA chairman, adding that the organization will be more aggressive. Rather than mainly disseminating information, as it did previously, it intends to take positions on issues and lobby authorities on members' behalf.

GICMA is acting now more as a true trade organization, with a number of subcommittees: one dealing with technical monitoring, accounting and tax issues; another dealing with legislative issues. The latter will be looking at new insurance legislation that will result from a review of the insurance law in

Guernsey, the draft wording of which is expected later this year.

Mr. Butterworth said the goal of the review is to align Guernsey's law with the core principles of the International Assn. of Insurance Supervisors, of which he is chairman. Changes made in Guernsey "will include anything in the IAIS core principles that should be in our law," he said. This probably will require adding items on corporate governance and internal control, he explained. It might also include adopting by law a risk-based approach to supervision. Currently this is not in law but is at Mr. Butterworth's discretion.

Revisions to the insurance law are expected to take effect in 2002. **BI**

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Vermont stays strong, looks ahead to 500th license

By **RODD ZOLKOS**

MONTPELIER, Vt.—Even in a year in which Vermont posted a net gain of only four captives, the gross premiums written by Vermont-domiciled captives increased 8.5% in 2000 to more than \$4.60 billion.

And that meager net gain in the captive count, which saw Vermont's total number of captives grow to 361 last year from 357 in 1999, belies the fact that Vermont licensed 29 new captives last year, down slightly from 35 new licenses a year earlier.

"Netwise, it was kind of surpris-

ing when all was said and done and we looked at our net figures," said Leonard D. Crouse, Vermont's director of captive insurance.

This year, with a hardening traditional market spurring increased interest in captives, the chances look good for Vermont to experience another strong year. What's more, as the state celebrates its 20th anniversary as a captive domicile and barring a dramatic departure from form, Vermont will issue its 500th captive license during 2001.

"We had a slow start last year, but it sure picked up the last quarter"

said Mr. Crouse, noting that the state licensed nine captives in December. "So even though we're off



to a slow start again this year, what we hear from the management companies is there's a lot out there."

Last year's new licenses included captive formations by such major corporate names as Microsoft Corp., Lucent Technologies Inc., Delta Air Lines Inc., John Hancock Financial Services Inc., American Standard Cos. Inc., International Paper Co. and the Servicemaster Co. "We had some good, large captives," Mr. Crouse said.

Of the 25 Vermont captives that were dissolved in 2000, many involved parent-company mergers.

"Nine of our captives merged. Eight of those merged into other Vermont captives," said Peter Ray-

mond, chief examiner in the captive division of the Vermont Department of Banking, Insurance, Securities and Health Care Administration in Montpelier.

Another merger of significance in Vermont and in the captive industry in general is that between the captive management operations of Aon Corp. and International Risk Management Group.

In Vermont, the resulting Burlington-based Aon Insurance Managers (USA) Inc. operation boasted 100 Vermont captives under management, with nearly \$1.38 billion in gross premium volume at the end of 2000. Those figures ranked second only to Marsh Management Services Inc.'s 2000 totals of 126 captives and \$1.56 billion in gross premium among the largest managers of Vermont captives.

The merger is "going well," said W. Scott Frazier, executive director of Aon Insurance Managers (USA) in Burlington. "It's not something that we've done on a whim. We found there's a lot of synergies between the two groups. Now, it's a matter of taking advantage of those synergies."

The former IRMG and Aon staffs remain in their old Burlington offices for the time being, with plans calling for the two to be combined in new quarters later this year.

"It's an exciting year for us," Mr. Frazier said. "We think we've both developed very good practices here in Vermont, and we're looking forward to bringing them together."

Mr. Frazier emphasized that when he speaks of the opportunities to benefit from synergies in the combined operations, he's not talking about reducing staff. "There's no redundant staff here," he said. "In fact, we just added two employees."

"We've found IRMG and Aon both good management companies. Much like the Marsh/J&H merger," Mr. Crouse said. "It will work fine. They have good staffs, good people."

The Aon office isn't alone in adding staff this year. Many of the Vermont captive management operations reported they have added or are planning to add staff to keep up with the growing pace of captive business. And the captive division plans to add two new examiners to its 14-person staff on July 1.

"The strength of our staff here is still one of our biggest assets," Mr. Crouse said.

And, noted Derick A. White, Vermont's assistant director of captive insurance, "All of our staff that's been here at least two years has at least one (professional) designation."

By all indications, that staff will face a busy year this year, as parent companies or potential parents faced with higher prices and reduced capacity in the traditional market look to alternatives.

"I get the sense inquiries, tire kickers, are up," said George A. Chaffee, president of SINSER Management Services (Vermont) Inc. in Burlington.

"I was talking to a manager today who mentioned four projects he's working on right now, two of which are very large—one a pure and one a sponsored captive," said Lisa Ventris, president of the Burlington-

See **Vermont** on next page

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CAPTIVE REPORT

Vermont

Continued from previous page
based Vermont Captive Insurance Assn. "Things are healthy and well, and we're keeping our fingers crossed for lots more new formations."

"Like Len and the other managers are saying, the turning of the market, we're starting to see the effects of that," said Andrew Sargeant, president of Vermont Insurance Management Inc./USA Risk Group in Montpelier.

"The activity seems to be excellent," Mr. Sargeant said. "I see nothing, really, but positive things going on."

"I think (Vermont) will again do a good 25 or 30 captives" this year, he continued. "And I'd expect to see the premium writings on the existing captives increase as well."

Guy F. Fagosta, managing director of Willis Management (Vermont) Ltd. in Burlington, said he's been in captive management for almost nine years. "And this is by far the busiest I've ever been."

"And I anticipate we'll form more captives this year than we have in the past eight," he said.

"It's picking up," said Ann W. Wick, regional director at AIG Insurance Management Services Inc. in Burlington. "Not that it's ever been slow, but now a lot of the typical property/casualty" market is

firming up.

Ms. Wick said she did three marketing trips during the first three months of the year and has been seeing two or three proposals a week.

"I think as the market gets harder, there's going to be a lot of opportunities for captives to do what they do best," said Ann C. DesLauriers, general manager of Becher+Carlson Cos. in Burlington. "And that's to be a versatile tool for risk management."

"The hard market is kind of changing our client focus a little now. A lot of clients who weren't using their captives have re-energized them," said Jim Murray, deputy managing director at Aon Insurance Managers in Burlington.

"We had some captives that weren't writing anything that now are starting to write business," added Nancy Gray, also a deputy managing director at Aon.

"I guess the hard market's finally affecting our business," Mr. Raymond said. "We should see a lot of captives putting stuff back in that they'd taken out."

What's happening is one of the textbook cases for forming a captive, according to Vermont Insurance Management's Mr. Sargeant. "It's the old accordion thing," he said. "When you need it, you increase the captive's use. If coverage becomes so cheap in the commercial market, you're a fool not to buy it."

According to Peter A. Joy, managing director of Aon Insurance Managers, the situation points to one of the strengths of Vermont as a domicile: the regulators' recognition of captives' role in addressing those cy-

cles. Though the state regularly does "housecleaning" of dormant captives on its rolls, it's willing to show flexibility in working with the captives' parents.

"We think Len's attitude to what might be called 'runoff' or 'dormant' captives is a good one, because he'll give you several years," Mr. Joy said. "He's aware that there is a cycle."

"If the client wanted to shut it down, he would do it," he said. "Instead, he wants to keep it as a risk management tool."

The increased captive use and new formations currently seen in Vermont are manifesting themselves most often in traditional property/casualty-type captive programs, a trend that began last year.

"A lot more meat and potatoes," Mr. Murray said. "We've been used to a lot of formations coming from mortgage insurers, but I think of all

Continued on next page

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Vermont's largest group captives

Ranked by 2000 premium volume

Group captive Parent (Manager)	Gross written premiums	Net premiums	Net income
MCIC Vermont Inc., A Risk Retention Group Academic medical centers (Aon Insurance Managers (USA) Inc.)	\$58,267,073	\$18,543,389	\$1,748
United Educators Insurance Risk Retention Group Inc. Educational institutions (Aon Insurance Managers (USA) Inc.)	43,243,673	4,745,690	50,728
Controlled Risk Insurance Co. of Vermont Inc. (A Risk Retention Group) Harvard-affiliated medical institutions (Marsh Management Services Inc.)	39,122,649	8,665,294	649,227
ICI Mutual Insurance Co. Members of Investment Company Institute (SB&T Captive Management Co.)	35,353,952	14,984,513	298,638
NLC Mutual Insurance Co. Public entities (Yankee Captive Management Inc.)	25,039,089	10,803,369	2,171,681
American Safety Risk Retention Group Inc. Asbestos abatement contractors (SB&T Captive Management Co.)	24,024,127	7,545,775	(1,146,035)
American Excess Insurance Exchange, Risk Retention Group Non-profit U.S. health care facilities (Marsh Management Services Inc.)	22,744,500	21,508,250	(11,326,616)
Housing Authority Risk Retention Group Housing authorities (Yankee Captive Management Inc.)	20,764,351	14,814,343	2,628,062
Housing Authority Property Insurance Inc. Public housing authorities (Yankee Captive Management Inc.)	20,025,508	16,467,219	859,939
VHA Risk Retention Group Voluntary Hospitals of America members (Marsh Management Services Inc.)	17,280,904	103,500	134,739
Ophthalmic Mutual Insurance Co. (A Risk Retention Group) American Academy of Ophthalmology (Marsh Management Services Inc.)	15,871,236	12,822,937	998,316
The Ordinary Mutual, A Risk Retention Group Corp. Catholic dioceses (Aon Insurance Managers (USA) Inc.)	9,609,600	8,519,600	1,502,449
Virginia Health Systems Alliance Interinsurance Exchange Risk Retention Group Inova Health System Foundation of Virginia (SINSER Management Services (Vermont) Inc.)	8,605,805	6,901,305	601,980
CPA Mutual Insurance Co. of America Risk Retention Group Accounting firms (Aon Insurance Managers (USA) Inc.)	8,137,879	3,789,832	99,756
ICIM Reinsurance Co. ICI Mutual Insurance Co. (SB&T Captive Management Co.)	7,353,544	283,655	1,642,174
The National Catholic Risk Retention Group Inc. Catholic dioceses (SB&T Captive Management Co.)	6,936,480	4,193,034	6,921,463
Bar Vermont Risk Retention Group Inc. New York City law firms (Aon Insurance Managers (USA) Inc.)	6,905,559	708,580	(280,992)
OOIDA Risk Retention Group Owner-Operator Independent Drivers Assn. (Vermont Insurance Management Inc.)	6,475,227	1,626,798	259,091
Terra Insurance Co. (A Risk Retention Group) Geoscience engineers (Vermont Insurance Management Inc.)	5,869,212	5,349,092	1,716,863
Eastern Dentists Insurance Co. (A Dental Society Risk Retention Group) Massachusetts Dental Society (Willis Management (Vermont) Ltd.)	5,227,597	4,768,696	77,985

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

Continued from previous page
the formations we did in 2000, they all tended to be traditional" programs.

And, he noted, "I think we've done a lot more brainstorming sessions this year than we have in the past," looking with the parent company at changing the captive's role in anticipation of higher prices at renewal.

"The companies we were licensing last year were getting back to the traditional comp, liability," said Mr. Crouse.

"Out of the 29 captives we licensed last year, a lot of them had the old, traditional lines of insurance," Mr. Raymond added. "But there were still some captives that were formed for mortgage insurance; we had a warranty captive. One was even formed for what was called 'e-business liability.'"

"There is just an incredible amount of interest in captives," said Julie Boucher, senior vp at Marsh Management Services in Burlington. "I'm sure a small part of it is related to the change in the overall market, but a lot of it is related to people finding ways to bring new revenue into their organizations."

Much of what she's seeing involves companies finding ways to do third-party business through their captives, Ms. Boucher said. "When you look at the prospects and what brought them to this point, a lot of it is not related to change in the traditional market."

"More people are talking about putting warranty business into their captives to get some third-party risk," noted Mr. White, the assistant director.

It may be a surprise to many, but Vermont actually has 14 captives approved to do warranty business. "A lot of people don't know that," Mr. Raymond said. "People ask why we don't do that kind of business. It's already here."

Vermont captive parents are finding numerous ways to use the risk financing vehicles. Of Vermont's 361 captive companies, 230 are approved for more than one line.

"We have some captives that are writing 10 lines of business," Mr. Raymond said. "Very few of our older companies are writing (only) one line of business. They've grown over time."

Removing the state's 44 monoline mortgage guarantee captives from the calculation, almost 75% of Vermont's captives are writing multiple lines of business.

Now, the prospect of placing employee benefits in captives is drawing considerable attention, though progress in that area remains slow.

Last August, the U.S. Department of Labor approved Columbia Energy Group's plan to use a Vermont branch of a Bermuda-domiciled captive to reinsure long-term disability benefits, providing a road map for others hoping to follow suit (see story, page 12). Thus far, though, the Columbia Energy captive remains the only one that has taken that step.

"My understanding is there might be one or two down there at the Department of Labor working with their people," Mr. Crouse said. "I think it will happen, but it's going slowly."

"It's still one deal at a time," said James R. Girardin, a vp at Willis Management in Burlington.

"There's a lot of interest in employee benefits. That's a big part of

our discussion with clients," Marsh's Ms. Boucher said. "But it's a big hurdle."

She noted, however, "There's a lot of benefits that don't fall under ERISA. And a lot of times a captive that wants to do employee benefits will start with those."

Roger D. Teese, president and chief executive officer of SB&T Captive Management Co. in Burlington, said he thinks employee benefits is "the new business opportunity for captives."

"We think that benefits are where the property/casualty business was 20 years ago," he said.

"One thing we are doing is putting a sponsored captive facility together, primarily to do benefits in captives," Mr. Teese said. "We're going to focus on the nonprofits," which, unlike private employers, do not face federal regulatory restrictions on funding benefits through captives.

SB&T plans to market the employee benefit sponsored captive facility to brokers around the country

with which SB&T does business.

"If we have a facility that is easy to work with and access, and these companies don't have to do it on their own, we hope these companies can get in there," Mr. Teese said.

While things are moving slowly in the benefits area, Mr. White noted that captive parents are clearly thinking along those lines. "We had some applications come in last year and one this year that said, 'We're going to be writing employee benefits in a couple of years,'" he said.

As it has throughout its two decades, Vermont continues to see new challengers emerge from other states vying for a piece of its domestic captive domicile success. Most recently, it's been South Carolina, drawing attention with its fast entry into the captive field.

"I think the latest thing of any note is just the emergence of a new domicile that's kicking butt," said SINSER's Mr. Chaffee. "I've never seen a domicile put on the show that

See **Vermont** on next page

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Tax questions restrain Barbados captive growth

By DOUGLAS McLEOD

BRIDGETOWN, Barbados—Tax and regulatory uncertainties hovering over Barbados combined to make 2000 another relatively slow year for the island's captive insurance industry.

Barbados added 14 new exempt insurers last year, compared with five the year before, according to Insurance Supervisor Carlos Belgrave.

But not all exempt insurers are captives. While the domicile saw the total number of exempt insurers climb to 381, only 199 of these were actively underwriting, compared with 191 active insurers at the end of 1999, said Mr. Belgrave.

In addition, not all of the exempt insurers are captives formed principally to write parent company risks: *Business Insurance* estimates that roughly 40% of the total number of exempt companies are commercial insurers or reinsurers set up mainly to write third-party business. This would leave an estimated 228 captive insurers at year end, up from 220 at the end of 1999 and 218 at the end of 1998.

That is a far cry from the 20 or more captives the domicile incorporated annually in previous years.

"It was a very, very slow year," observed Nicholas Crichlow, vp of Marsh Management Services (Barbados) Ltd.

"That's not surprising, I suppose, given what's going on in the international arena," added Ben Arrindell, a partner with

the Bridgetown office of accounting firm Ernst & Young L.L.P.

International issues hampering captive growth have included ongoing uncertainty over tax treatment of Canadian-owned insurers under the Canada-Barbados tax treaty, which is still in negotiations, Barbados captive experts say.

In addition, the island, like other Caribbean jurisdictions, is in discussions with the Organization for Economic Cooperation and Development to avoid being tagged by the OECD as an "uncooperative" tax haven. The OECD has set July 31 as a deadline for several nations to address what it calls harmful tax practices and other regulatory issues or face sanctions from OECD member countries.

Uncertainty over both the Canada tax treaty and the outcome of the OECD discussions has held back new investment in captives, Barbados observers say.

"Those two issues have certainly hampered our efforts to grow the domicile in 2000," Mr. Crichlow said, adding that they will likely continue to slow investment until they are resolved.

Several observers, though, say that tax treaty negotiations are nearly complete, and some express optimism that an agreement will also be reached with the OECD. This, combined with the hardening mar-

ket for commercial insurance, should increase the pace of captive growth in Barbados, some say.

"I'm quite confident that the next 12 to 18 months will see more growth here," said Christopher Towner, president of Towner Risk Management Ltd.

"We are hoping that the hard market that is obviously affecting everyone will lead to an increase in new formations," Mr. Crichlow added.

New formations were scarce during 2000, continuing a trend of the previous year.

As in recent years, managers cite ongoing questions about the tax status of Canadian captives as one reason for

the slowdown.

Canada, which accounts for about one-third of Barbados captive population, amended its tax code in 1994 to curtail benefits for certain Canadian-owned captives. The reforms eliminated tax breaks on captive earnings from writing third-party Canadian business, a blow to credit life and warranty insurers. They preserved a break, though, for earnings derived from writing related non-Canadian risks, such as risks of a parent's non-Canadian subsidiaries.

To qualify for the benefit, though, a captive has to be considered a Barbados "resident" under the Canada-Barbados tax

treaty, meaning, among other things, that it must be subject to taxation in Barbados.

The Barbados government responded by imposing a 0% tax on exempt insurers and agreeing to offset a later increase in the tax rate by waiving an equal amount of annual government fees. Canadian tax authorities were not pleased with the move, though, and Barbados amended its insurance law in 1998 to offer another option.

Under this option, Canadian captives may forgo licensing under the Exempt Insurance Act, which exempts international insurers from local taxation, and become licensed instead under the Insurance Act, which governs local Barbados insurers.

Although Barbados domestic insurers are subject to a 40% corporate income tax, captives writing international business would qualify for foreign-currency tax credits that could reduce their tax bill to as little as 2.8%. Life insurers subject to a 5% tax on gross investment income would likewise see the rate cut to as little as 0.35%.

To obtain these benefits, so-called "qualifying insurance companies" would have to derive at least 90% of their premiums from outside the Caribbean Community and Common Market's member nations, and 90% of their risks would have to be located outside the region.

The Canadian government has not said whether the "qualifying insurance compa-

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Budgeteta

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ny" option—and particularly its heavy use of foreign currency tax credits—will be acceptable under the terms of its tax treaty, Barbados captive experts say.

And while some Canadian captives have already elected to become licensed under the Insurance Act, many others are sitting on the sidelines, waiting for tax treaty negotiations to end, managers say.

In fact, the two countries are close to finishing their talks, and the treaty should be ratified before the end of this year, Barbados observers say. At that point, numerous Canadian-owned captives will likely shift their licenses to become Insurance Act companies, managers predict.

The other cloud shadowing Barbados' captive industry is the OECD push to curb

what it calls harmful tax practices in a number of offshore jurisdictions. Among the OECD's concerns were low or non-existent tax rates that represent preferential treatment for certain types of businesses; ensuring effective exchanges of information; and ensuring transparency in financial regulation.

The OECD included Barbados on a list of tax havens it produced last year, and has given the named countries until July 31 to commit to regulatory changes sought by the OECD.

The Barbados government initially balked at what it saw as the unilateral nature of the OECD initiative, and declined to sign an "advance commitment" to meet the OECD demands for regulatory reform. Since then, though, Barbados has become

a leader in a multinational effort to negotiate with the OECD, and helped to form a joint working group that includes Commonwealth, Caribbean and Pacific Island nations and OECD members.

The working group—co-chaired by Barbados and OECD member Australia—met in London in January and in Tokyo the following month. The group's goal is to create a "mutually acceptable political process" by which participating countries can address the OECD's concerns. The group has gained "wide consent" to the OECD principles of non-discrimination in taxation, effective information exchange and transparency, according to the OECD and other participants.

Whether the talks produce an agreement that keeps Barbados off the planned OECD tax haven blacklist, though, remains to be seen.

"We have come quite a long way in terms of meeting their demands," Ernst & Young's Mr. Arrindell said. "We are not that far away."

Marsh's Mr. Crichlow expressed his belief that some form of agreement will be in place by July 31: "I do not believe the government will allow the country to lose its reputation by having sanctions placed on it," he said.

If no deal is reached and the deadline stands, though, the label of "uncooperative tax haven" will have an impact on Barbados' international business overall and may also affect the captive insurance sector, Barbados observers agree.

"The greater uncertainty that would be caused by Barbados being listed would have an impact" overall, Mr. Arrindell

noted.

Still, because virtually all of the island's captive insurance business comes from the United States and Canada—both OECD members—the practical impact on the Barbados captive sector would depend on the willingness of those countries to impose sanctions in the wake of a blacklisting, he added.

If the United States and Canada opt not to impose sanctions, the captive sector may be little affected, he suggested.

"It is difficult to say what the reaction will be if we are blacklisted," said Winston Hampden, managing director of Aon Insurance Managers (Barbados) Ltd. "First, we need to have a better understanding of what the blacklisting really means. What sanctions will be imposed and by whom?"

As it deals with the OECD challenge, the Barbados government is also continuing to work on legislation that would allow for the formation of protected cell companies, entities that were pioneered in Guernsey and the Cayman Islands and have been useful in risk securitization deals.

Barbados managers had expected the legislation to be in place last year, and now hope the Barbados Parliament will enact a final version of the bill by the end of 2001.

Meanwhile, management company consolidation has quickened in recent years, with broker mergers continuing last year with the December acquisition of International Risk Management Group Ltd. by Aon Corp. The merger of IRMG's Barbados unit into Aon's office there has gone smoothly, according to Mr. Hampden. **BI**

Largest managers of Barbados captives

Ranked by gross premium volume in millions of dollars

Managers	Premium Volume		Captives	
	2000	1999	2000	1999
MIMS International (Barbados) Ltd.	\$559.0	\$469.0	21	20
Marsh Management Services (Barbados) Ltd.	271.4	80.0	27	29
Towner Risk Management Ltd.	256.0	198.0	18	13
Mutual Risk Management (Barbados) Ltd. ¹	207.3	214.0	13	13
Aon Insurance Managers (Barbados) Ltd. ²	160.2	138.0	33	25
AIG Insurance Management Services (Barbados) Ltd.	120.0	70.0	4	4

¹ Includes Mutual Risk Management Ltd. And IAS (Barbados) Ltd.

² Pro forma numbers for 2000 to reflect the merger of Aon Insurance Managers (Barbados) Ltd. and IRMG Barbados.

Source: BI survey

NEXT >



Hardening, review of PCC ban may stem market malaise

By CAROLYN ALDRED

DOUGLAS, Isle of Man—After a year in which total captives on the island fell to 162 from 169, captive managers on the Isle of Man are looking forward to more formations and premium growth as the insurance market continues to harden.

They also hope that the review of protected cell companies by the domicile's regulators will lead to a rule change enabling them to give clients and potential clients greater choice. Several managers on the island believe that they have lost potential business to Guernsey during the past few years as a result of the Manx authority's refusal to allow PCCs.

The PCC structure permits the creation of an umbrella company, or core cell, around which any number of independent subsidiary cells operate. Guernsey, which in 1997 became the first captive domicile to permit PCCs, has seen considerable growth in captives. Other domiciles, notably Bermuda, Cayman and Vermont, now also permit PCCs.

Until now, the Isle of Man's Insurance and Pensions Author-

ity has refused to introduce legislation to allow PCCs because the structures have not been tested in court. But the authority, pressured by island captive

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managers who believe they have lost new business to rival Guernsey, is reviewing its position. Both Guernsey and the Isle of Man are self-governing crown dependencies of the United Kingdom.

"We are actively reviewing the situation. After two years, we believe it is the right time to review it," said Glyn Gilbert, assistant supervisor of the IPA.

Captive managers welcome the review.

"We have to be realistic, and it appears that PCCs are (on the captive scene) to stay. Whether or not the business that has gone to Guernsey would have come here, we don't know. But if we don't have all the full range of

products, we might be excluded early on in the tender process, whether or not the client opts for a PCC or some other mechanism," said Richard Drinkwater, director of Castletown Insurance Services, an independent company that manages 13 captives in the Isle of Man.

"We know that the IPA recognizes our concerns and the managers are currently in discussions with them, which is helpful, although nothing is certain at this stage," Mr. Drinkwater said.

"The world has moved on"

since Guernsey first introduced PCC legislation, said Jim Boyd, chairman of The Manx Insurance Managers Assn. Mr. Boyd noted that several other leading captive domiciles now offer PCCs.

Mr. Boyd is chairman of Aon Insurance Managers (Isle of Man) Ltd., which manages 34 captives on the island.

"If the Isle of Man is put at a disadvantage by not having PCC legislation, I am in favor of us having it," said Graham King, director of Marsh Management Services (Isle of Man) Ltd.

"There is no certainty that PCCs will stand up in court, but Guernsey feels its legislation is robust enough and other jurisdictions now are bringing in similar legislation," Mr. King said.

"It's a big issue now. If we were able to offer PCCs, it would make us more attractive and we would have more chance of attracting business," he said.

PCCs are very popular at the moment, and "personally, I think we have to be able to offer" the facility, said Angus

Continued on next page

Largest managers of Isle of Man captives

Ranked by gross premium volume in millions of dollars

Manager	Premium volume		Captives	
	2000	1999	2000	1999
Aon Insurance Managers (Isle of Man) Ltd.	\$263.0	\$176.0	34	21
Willis Management (Isle of Man) Ltd.	203.0	162.0	40	42
Marsh Management Services (Isle of Man) Ltd.	175.0	430.2	38	41
SINSER (Isle of Man) Ltd.	13.0	NA	5	2

1 Prc forma numbers for 2000 reflect the merger of Aon Insurance Managers (Isle of Man) Ltd. and International Risk Management (Isle of Man) Ltd.
Source: BI survey



Vision

Continued from previous page
Alexander, managing director of Willis Management (Isle of Man) Ltd.

"Although they are not suitable for every client—and we would have to warn clients that they are not tested—there is competitive pressure" for the Isle of Man to adopt PCC legislation, Mr. Alexander noted.

While captive managers believe that their inability to offer PCCs has caused business to go elsewhere, particularly to Guernsey, the soft market of recent years also has contributed to stagnant captive growth, Mr. Gilbert said.

Last year, 12 captives on the island closed, while five new ones were formed. Of the new captives, four have United Kingdom-based parents and the parent company of the fifth is based in the Far East, Mr. Gilbert said. Figures for premium volume will not be available until July, but Mr. Gilbert said he expects the total to fall slightly from last year.

Now that the market is hardening, though, Mr. Gilbert predicted premium volume to start picking up.

Captive managers already are seeing more interest.

As the market hardens, "clients are looking for different alternatives," said Aon's Mr.

Boyd.

"Interest in captives has been resurrected. Existing captives are being dusted down and prepared for greater use, and there's more interest now in the alternative risk area," said Marsh's Mr. King.

'Existing captives are putting additional lines of business into their captives.'

— Angus Alexander

Willis Management
(Isle of Man) Ltd.

"Existing captives are putting additional lines of business into their captives, which are now coming into their own in a hardening market. Meanwhile, the viability of new captives is increasing," said Mr. Alexander of Willis.

One of the new options U.K. risk managers are studying is using captives to write employee benefit business, several managers pointed out.

At the same time, increases in

recent years in the United Kingdom's insurance premium tax have led to a sharp decline in extended-warranty insurance being written by Isle of Man-based captives. Indeed, several captives specializing in extended-warranty business have closed, and managers expect more to follow.

Several large electrical products and appliance retailers now are offering service contracts for their products rather than extended-warranty insurance, because the increased premium tax has made the warranty coverage less profitable. Although some offer the service contracts from the Isle of Man, the market is limited and most likely will be processed on the U.K. mainland, Mr. King said.

Some extended-warranty captives are closing, while others are considering writing other types of business, Mr. Alexander said.

Tax concerns continue to play a part in the island's growth. The community collectively sighed with relief at the removal of its name from the Paris-based Organization for Economic Cooperation and Development's list of tax havens (see story, page 16). The Paris-based OECD removed the Isle of Man from the list after the IPA promised to make changes in the tax

structure that would make things more transparent.

"Inclusion on the OECD list was not helpful, but now that we are off it, it has enforced our financial strength and credibility," Mr. Alexander said.

Meanwhile, tax changes in South Africa for offshore-based companies could have an adverse effect on the Isle of Man, which in recent years has been a favorite captive domicile for South African parent companies.

Although South Africa's tightening of tax rules for the transfer of money from overseas companies has not resulted in any of the island's 17 South African parents removing their captives, "it remains to be seen whether it will slow down the formation of new captives by South African companies," said the IPA's Mr.

Gilbert.

"South African companies are looking more carefully at captive formation, as the tax advantages are less obvious," said Mr. King. He noted that one potential client has just formed a captive onshore with a subsidiary in Switzerland because this turned out to be a more-efficient option.

Most managers point out that the U.K. government's 1995 introduction of a corporate tax on controlled foreign companies owned by U.K. parents has not led to the widespread closure of U.K.-owned captives.

"Such taxes make the initial decision (to set up a captive) less obvious. It just means there has to be a good insurance case to start a captive," Mr. King said. He added that a hardening market will strengthen that case. **BI**

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Dublin pleased at growth, diversity of business

By SARAH VEYSEY

DUBLIN, Ireland—Dublin enjoyed another year of growth in 2000, and captive managers report heightened interest so far this year as rate increases in the traditional insurance market begin to bite.

In addition to growth in captives due to firmer property/casualty insurance pricing, Dublin managers also report interest in using captives as part of risk securitization programs as well as for employee benefit risks.

Managers in the domicile continue to push regulators for the ability to offer protected cell companies, which are available in several other captive domiciles, but no regulatory change on that issue currently is in the works.

"There was significant growth in the number of captives setting up here in 2000. At the end of 1999 there were 166 captives compared with 183 at the end of 2000," said Catherine Graham, International Insurance Representative at the International Development Agency of Ireland. "So far in 2001, we have now 185 captives. Usually there is a rush at the end of the year for captive applications wishing to start trading at the beginning of the new year—so the two new captive applications we have had so far this year would be the norm," she added.

The hardening market is the main driver of new interest from prospective captive parents, captive managers report.

"There are lots of hot prospects, from North America but also from Europe," said Alain Dufraisse, director of client services at Aon Insurance Managers (Dublin) Ltd. "For many of them, the fact that the (insurance) rates are hardening is really a major issue. They really want to stabilize their level of premium and to avoid any dramatic increase," he said.

Mr. Dufraisse noted that the number of captives under management by Aon in Dublin swelled by 15 to 39 at year end, thanks in large part to Aon's December acquisition of International Risk Management Group Ltd., as well as organic growth.

"Since the commencement of

the fourth quarter last year, we have added eight new captives. We are also seeing a lot more queries," said Ian Clancy, branch manager of Marsh Management Services (Dublin) Ltd. Marsh had 51 captives at the end of 2000. "The hardening market is getting people to focus again on captives, and we are seeing a lot more interest in Dublin. The hardening market is beginning to become a driver" for growth.

As the market hardens, managers are observing a shift in how companies are using their captives.

"Because of the rate increases, I think captives again are more used for really traditional covers, such as property, liability," Mr. Clancy said. During the soft market, in contrast, captive parents used their facilities as part of more non-traditional risk financing programs, including risk securitization, he said.

"Indeed, now the hardening market is beginning to click in, and there is a greater appetite for captives or more efficient utilization of existing captives," he said.

Mr. Dufraisse agreed. "We are acting as an incubator for mainly Bermudian companies, and those companies tend to write ART programs as opposed to traditional programs," he noted.

The past year has seen Marsh's clients move into some new areas, said Mr. Clancy.

"During 2000, we put on our first two insurance risk securitization vehicles. We have also seen a special-purpose vehicle be put in place to be used for acquisitions. We have seen some more finite transactions going through, multiyear, multiline," he said. "We are working on some life projects at present, which is for our office here a diversification of what we do. We have seen some mortgage-indemnity guarantee—MIG—business," Mr. Clancy said.

Several captive parents have begun to look at using their Dublin-based captives to write employee benefit programs.

Pittsburgh-based food giant H.J. Heinz Co. has begun to write employee benefit business via its Dublin-based captive, Noble Insurance Co. Ltd.

"We have been introducing

employee benefits as one of the key components of the captive," said Gary Matson, director of European Corporate Affairs at Heinz Europe in London.

Mr. Matson, whose back-



ground is in human resources, said that funding employee benefit packages with a captive has simplified administration and enabled the group's employee benefits program to become more uniform throughout the world.

Using the captive also provides Heinz with a "central repository of employee benefits cost information" said Mr. Matson. He added that within a company such as Heinz, which has operations around the globe and within which employees frequently relocate overseas, the ability to write global employee benefit programs from one place was a great advantage. He added that pooling its worldwide employee benefit risks has reduced Heinz's exposure by spreading the risk.

Within the captive, Heinz also funds benefits under its global pension plan. This allows employees to move around internationally but continue to centrally accumulate money for their retirement pension, Mr. Matson explained. Other employee benefit business written from the captive includes a global stock purchase plan, an expatriate medical plan, a travel assistance program and executive deferred compensation plans. The ability to write expatriate long-term disability plans through the captive will be added shortly, Mr. Matson said.

Dublin regulators require that direct life insurance business and direct property/casualty insurance not be written within the same captive, so Heinz has two captives in Dublin: Noble Insurance and Noble Reinsurance Ltd. The captives are managed by AIG Insurance Management (Ireland) Ltd. Captive managers

agree that client interest in using captives for employee benefits is growing, despite the potential hurdle of complying with differing national labor laws that still prevail throughout Europe.

"We have a prospect who is very much interested in using a captive for that purpose (employee benefits). It is a U.S. prospect, but they have got operations worldwide. They are very much interested," said Mr. Dufraisse. "But it is a bit complex because the cover would depend upon the national legislation, and even within the E.U. you have big differences."

"We have been working on (using captives for employee benefits) for quite a while," said Marsh's Mr. Clancy. "Some clients write employee benefits business through their existing captives. But I would say probably not to a great extent at this point in time, and that is probably down to the fact that the harmonization of labor laws in Europe is still an area that work needs to be done on. We see it coming down the line, but it's not widespread at this point in time."

There were no changes to the regulation of insurance companies in Dublin in 2000, which includes captive insurers, but there were changes in the law governing reinsurance companies, said Billy Hawkes, head of insurance, finance supervision in Ireland's Department of Enterprise, Trade and Employment.

"Specifically, such companies now have to submit detailed information to the supervisor and the supervisor has the power to order reinsurance companies to cease business," which it didn't have before, he said. The changes were introduced in the Insurance Act 2000, which became law on Jan. 1, 2001. "The objective behind the new regulations is to ensure that only reinsurance operations of substance which have reputable shareholders, fit and proper directors and management, adequate capitalization, and a credible reinsurance policy will be allowed to establish in or carry out business in Ireland," he explained.

The changes were made due to the growing number of reinsurers relocating to Dublin in anticipation of a 12.5% corporate tax rate to take effect in Ireland in 2003 (BI, May 1, 2000).

There are no major regulatory changes in the pipeline for 2001, according to Mr. Hawkes. "The major change in the coming year is at the structural level," he said, referring to the creation of a new regulatory body for financial services. "All financial services are to be supervised by the Irish Financial Services Regulatory Authority. This will be established shortly on a non-statutory basis, and a CEO will shortly be appointed and then we will be on target on a statutory level for the IFSRA to start at the beginning of next year," he said.

One of the hottest debates in Dublin centers on the captive insurance industry's desire to see

protected cell legislation introduced and the regulators' reluctance to do so.

Insurance industry representatives last year submitted a paper to the regulator arguing the case for PCCs. Ireland's existing financial regulator, the Department of Enterprise, Trade and Employment, remains resistant to these calls.

"There are no plans to introduce protected cell legislation. The issue has been raised by the industry but we are not keen as regulators on the concept," said Mr. Hawkes of the DETE. "But we have indicated (to the industry) that there may be an alternative. The PCC concept a la Guernsey is not on the horizon. It has been raised by the industry, but we have indicated that we don't like it."

While unable to disclose details of the regulator's suggested alternatives to the PCC concept, Mr. Hawkes said captive managers could work within the existing legislative framework to provide similar benefits to those offered by the PCC structure.

"We have put to the industry that the existing legislation (covering insurance companies) does provide opportunities for captive managers to offer similar benefits to people wanting to set up cells within a protected cell captive. We are willing to work within the existing legal framework," he said. "We are happy to work with the industry on an alternative; it's back to the industry at the moment," Mr. Hawkes said.

"It is a very sensitive issue," one captive manager said of the PCC debate. "It could be an area of growth for Dublin. When you see Guernsey, they have been very successful, so why not us?"

"We as a company would like to be able to offer PCCs," said Mr. Clancy. "There are some regulatory changes going on in Dublin at the moment," he said, pointing to new higher capitalization requirements for reinsurers—including captive reinsurers—of 500,000 Irish punts (\$570,249).

"Clearly that has an impact in terms of the size of companies that can set up captives in Dublin, so in that context we would like to see something being done on rent-a-captive or PCCs structures," he said. "To ensure that there is a risk management tool available for smaller entities, we would like to see a liberalization of the regulations in Dublin in that regard."

Some argue that PCC legislation would enhance Dublin's attractiveness to companies outside Europe.

"It (PCC) is an essential additional product for us to introduce and offer here," said P.J. Henahan, an international insurance tax partner at Ernst & Young L.L.P. in Dublin. "It would attract significant interest from the U.S. and Japan," he predicted. Protected cell legislation also would allow Dublin to maintain its "market advantage and reputation as cutting edge." BI

Largest managers of Dublin captives

Ranked by gross premium volume in millions of dollars

Manager	Premium volume		Captives	
	2000	1999	2000	1999
Aon Insurance Managers (Dublin) Ltd. ¹	\$618.0	\$787.0	39	22
Marsh Management Services (Dublin) Ltd.	308.1	308.1	51	53
FBD International Captive Management Ltd.	254.0	253.4	4	5
Eurco Ltd.	226.9	174.4 ²	6	2
SINSER (Ireland) Ltd.	50.0	NA	16	16

¹ Pro forma numbers for 2000 to reflect the merger of Aon Insurance Managers (Dublin) Ltd. and International Risk Management (Dublin) Ltd.

² Restated

Source: BI survey

Small U.S. businesses fuel rapid growth in B.V.I.

By DOUGLAS McLEOD

TORTOLA, British Virgin Islands—The British Virgin Islands has seen tremendous growth in captive insurance company formations in the last two years, most notably by owners of small U.S. businesses, according to William McCullough, the domicile's insurance supervisor.

Last year, the British Virgin Islands added 53 new captives to its company register while canceling eight licenses, bringing the total number of captive insurers to 236 at year end, he reported. The previous year, the islands had added 51 new captives, meaning that the B.V.I. captive population has nearly doubled since 1999. Totals in both years include 60 credit life insurers, Mr. McCullough said. Those companies were not counted by *Business Insurance* in last year's totals.

Much of the growth has come from captive insurers formed under section 501(c)(15) of the U.S. Internal Revenue Code; a provision that grants tax exemptions to small privately owned insurers.

Under the section—which deals with a variety of tax-exempt entities and was broadened in 1986 tax reform legislation—qualifying insurers are exempted from U.S. tax on premium income and passive investment income on reserves and surplus, including short-term and long-term capital gains. The U.S. imposes tax either at ordinary income tax rates if the captive distributes funds to its owner or at long-term capital gains rates if the captive is shut down or sold.

To qualify, insurers must earn less than \$350,000 in annual premiums; must be formed primarily for insurance—rather than investment—purposes; and must be capitalized and maintain reserves at actuarially reasonable levels.

Some B.V.I. captives, meanwhile, have relied on another Internal Revenue Code provision, Section 831, which grants insurers earning up to \$1.2 million in annual premiums a tax exemption on premium income but not on investment gains.

Mr. McCullough estimated that roughly a third of B.V.I.'s captives are 501(c)(15) companies.

Of seven new captive insurers incorporated so far this year, two are 501(c)(15) entities, while four are single-parent property/casualty insurers or reinsurers and one is an association captive, he said.

B.V.I. has an advantage over larger domiciles in attracting this business because of the relatively low cost of operating a captive there, a particular concern for the small-business owners setting up 501(c)(15) insurers, Mr. McCullough added.

Looking ahead, the British Virgin Islands government plans to introduce legislation this year that would allow the formation of protected cell insurers, which can segregate capital for individual policyholders and keep liabilities separate from other cells.

"I'm asked almost weekly whether we have (protected cell company) legislation (or) will we have it by the end of the year," Mr.

McCullough said. "It's still very much a growth area....From an image point of view, we have to be seen as responding to market trends."

The government has also strengthened various regulations in the past year, giving the insurance supervisor broader investigative and enforcement powers. For example, Mr. McCullough noted, the supervisor can now conduct onsite inspections of insurers and impose sanctions for violations of regulations. New regulations also call for the supervisor to provide

guidance notes for the completion of statutory returns, spelling out—for example—proper calculation of

BRITISH VIRGIN ISLANDS

allowable assets for meeting solvency requirements, he said.

Many of these changes, Mr. Mc-

Cullough said, were things he had done earlier as insurance superintendent for the Cayman Islands: He served as the Caymans' chief regulator from 1996 to 1999 and joined the B.V.I. government last year after a stint as a project consultant to the World Bank. Mr. McCullough succeeded Peter Bates, who retired.

The regulatory changes, though, are also in line with recommendations made by accountant KPMG in a review of financial services regulation in the B.V.I. and other Caribbean domiciles. The review

was commissioned by the Caribbean jurisdictions' governments and by the United Kingdom.

The B.V.I. government expects that regulatory improvements it makes in response to the KPMG report will also bolster its case against being listed as an uncooperative tax haven by the Organization for Economic Cooperation and Development. The OECD has set July 31 as a deadline for countries it identified as tax havens—including B.V.I.—to commit to addressing OECD criticisms or face possible sanctions (see story, page 16). **BI**

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CAPTIVE REPORT

Domicile loses nine captives

Turks & Caicos also works to avoid OECD label of tax haven

By DOUGLAS McLEOD

PROVIDENCIALES, Turks & Caicos Islands—Captive insurance development stagnated in the Turks & Caicos Islands last year, in large part because of the effects of soft commercial insurance pricing, according to Harold Wong, the domicile's superintendent of insurance.

The islands finished last year with 120 captives, down from 129 at the end of 1999. While 10 new captives were licensed in Turks & Caicos last year, the gain was more than offset by insurers that closed their doors or were struck from the register of companies, Mr. Wong said.

The totals do not include more than 2,000 credit life insurers that have been formed in the domicile.

"What is noticeable is that, over the years, the (number of) pure captives has dwindled," a result of the fiercely competitive commercial market that has undercut the need for captives, he said.



That may change with the market, though. "With rates on the increase...the attitude of potential captive (owners) will change, and we will have more coming on stream," he said.

Mr. Wong said it is still too early to judge the impact on the domicile's insurance sector of the Organization for Economic Cooperation and Development's crackdown on tax havens (see story, page 16). The Turks & Caicos was among the Caribbean domiciles identified by OECD last year as tax havens, and the islands' government—along with those of other Caribbean nations—is in discussions with the OECD to try to avoid being branded as "uncooperative" in an updated OECD list to be released later this year. Inclusion on the second list could lead to sanctions by OECD member countries.

The OECD has outlined three areas of concern, Mr. Wong noted: harmful tax practices, effective exchange of information and transparency. Some agreement will likely be worked out on the second and third elements, but reaching a deal on "harmonizing" the tax regimes of Turks & Caicos and other jurisdictions is less likely, he predicted.

"It's going to be very difficult to get agreement on that," Mr. Wong said. "There is going to be some sort of agreement in some areas

but not all areas."

Meanwhile, the government is in the process of updating its financial services regulations, with some changes following recommendations of auditor KPMG L.L.P., which last year conducted a review of the regulatory regimes of Turks & Caicos and several other Caribbean jurisdictions.

"To the extent we regard the recommendations as practical and worthy of legislation, then we will take them into account," Mr. Wong said.

'It is in the interest of all the jurisdictions to make sure there is cooperation at all levels.'

— Harold Wong
Turks & Caicos

"It is in the interest of all the jurisdictions to make sure there is cooperation at all levels," he observed. "One wants to know that when one comes into a jurisdiction that it is a clean jurisdiction."

Minimum financial requirements and fees for captive incorporation have not changed.

The domicile is not currently considering any legislation that would permit the formation of segregated-account or protected-cell companies, and Mr. Wong said he does not know of any proposals for such legislation. **BI**

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Hawaii has record captive gains, sees interest grow

By ROBERTO CENICEROS

HONOLULU—Hawaii is coming off its best year ever, and state legislators are taking steps to ensure even more captive growth.

Last year, 15 captives were licensed in Hawaii, bringing its captive roster up to 74.

Those 15 formations, which included captives launched by Nike Inc., Washington Mutual Bank and Stanford University, surpassed the previous record, set in 1999, when 11 captives were licensed.

"It was just an amazing year," observed Fay Okamoto, vp for Marsh Management Services Inc. in Honolulu. Marsh, the state's largest captive manager, with 35 captives, added nine captive clients last year.

To make the domicile even more attractive to captives, Hawaii's captive industry and the state's regulators this year are supporting legislation to allow the formation of protected cell facilities. These are similar to rent-a-captives, but the cells operate independently of one another and their assets are protected from the debts incurred by any other cell.

The enabling legislation, H.B. 1243, was introduced by Rep. Ken Hiraki, chairman of the House Committee on Consumer Protection and Commerce. Having passed the House in March, it is now pending in the Senate.

Captive managers in Hawaii credit the captive growth in 2000 to rising rates in the traditional insurance market, which is pushing more employers to consider alternatives, and to the first full year of operation for the Captive Insurance Branch of the Hawaii Insurance Division.

The owners of many of the new captives had begun in previous years "taking baby steps with a long term view that the market would not stay soft forever," Ms. Okamoto said. In 2000, they decided it was time to launch the captives.

The 74 captives operating in 2000 generated \$242.2 million in premiums, up 2% compared to the \$237.5 million produced a year earlier. Some managers reported lower premiums in 2000 because some captive policyholders had canceled policies while some of the new captives formed only late in 2000.

Although Hawaii's captive industry continues to grow overall, the relatively small domicile still offers easy access to regulators, risk managers say.

That ease of accessibility, along with regulators' speed and flexibility in considering business strategies, attracts new captives, said Soraya Wright, corporate risk manager for The Clorox Co. in Oakland, Calif. Ms. Wright is also a board member of the Hawaii Captive Insurance Council, a trade organization.

Clorox established its Hawaii captive, in 1997 to insure casualty risks.

"Because it is still a fairly new domicile, they seem to be business-friendly and open to broad ideas and non-traditional ideas," she said. "Today everything is fast-paced and businesses are busy working on their business issues. So

when we need support and help in other areas, it is nice to be able to access the decision-makers and the people who can help us achieve our goals."

Hawaii became a captive domicile in 1986, drawing captive sponsors throughout the nation with a special draw for West Coast risk managers.

"We found access to Hawaii from where we are in San Francisco was a real big factor," said Jeffrey Seilbach, director of risk management for Stanford University and several of its independent hospital units.

Stanford in 1997 formed a Hawaii captive for medical mal-



practice and general liability coverage for a joint venture between health care facilities operated by the University of California at San

Francisco and Stanford Health Services. But the joint venture ended, so that captive was dissolved. Last year, Stanford formed its own facility, Stanford Hospital & Clinics Professional Insurance Co. Inc.

Reasonable premium taxes, along with an understanding of health care by regulators, captive managers and other service providers were big draws for forming the new captive in Hawaii, Mr. Seilbach said.

Hawaii premium taxes are 1% for multiple-owner captives and 0.25% for single-owner facilities.

Half of the premium tax goes toward funding Captive Insurance Branch operations. The remainder goes to the state's general fund, which does not fund the Captive Insurance Branch.

"With the growth in the last two years, there will be a need for more examinations in the future," said Craig Watanabe, captive insurance administrator for the state's Captive Insurance Branch.

The branch currently employs one full-time examiner and can draw on examiners from the

See **Hawaii** on next page



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CAPTIVE REPORT

Hawaii

Continued from previous page
Hawaii Insurance Division. But in
order to maintain prudent over-
sight, Mr. Watanabe said he hopes
to soon hire two more full-time ex-
aminers.

Rather than raise premium taxes
to fund the expansion of regulatory
oversight, however, Hawaii on
March 12 implemented new ad-
ministration rules.

The new rules allow regulators to
collect fees according to the services
and examination time they provide
each facility. The system is more
equitable than raising premium
taxes for all facilities because under
the new system, captives requiring
greater oversight will pay more fees
than those that require less work.

Premium taxes are not an indica-
tor of work required by regulators,
but the new charges are, Mr.
Watanabe added.

Examiners will charge between
\$100 to \$175 per half day of exam
time. Photocopy fees also will be
charged as well as fees for issuing
documents and certificates of com-
pliance. Owners of some captives,
such as risk retention groups, need
the certificates sent to 50 states.
Pure captives often do not require
that service.

"If it costs us more to provide
that service, why should some of
the pure captives that don't need
this pay more premium tax?" Mr.
Watanabe asked.

The rule assures risk retention
groups will pay their fair share of
regulation costs because they often
do not pay any premium tax in
Hawaii, Mr. Watanabe said. Hawaii
does not collect the assess-
ments from captive owners that
pay premium taxes in other states.
Risk retention groups typically pay
taxes where they issue insurance
policies.

Under the new fee assessment
measures, some captives will pay
lower examination fees than they
now pay, explained Alison Mort-

lock, branch manager in Honolulu
for Marsh Management Services.
Under the old mechanism, captives
paid \$550 annually for examina-
tions. But for captives needing less
oversight, examinations may occur
only every three years.

"It's really done to be more equi-
table, so ones that don't need as
much work don't subsidize others,"
said Ms. Mortlock, who in March
became Marsh's Honolulu branch
manager. She previously worked in
Bermuda as a business develop-
ment consultant for all Marsh of-
fices. In that position, she noticed
respect for Hawaii growing among
the worldwide captive industry.

"They are beginning to under-
stand that Hawaii is a business cen-
ter," she said. "It is not just a great
place to go on vacation. With the
number of captives being formed
here, it's quite a substantial figure
now. That gives people a lot more
confidence to suggest Hawaii as a
domicile."

Hawaii's efforts in recent years to
boost its standing as a respectable
domicile are paying off, several
captive managers added. Mr.
Watanabe, a former captive man-
ager, was hired in 1999. Previously,
the regulation of captives was a
part-time function for the Insur-
ance Division. Now, with a full-
time Captive Insurance Branch,
regulatory approvals are faster and
the state is contributing more to in-
crease the domicile's visibility, cap-
tive managers said.

"There is a new sense of commit-
ment in terms of marketing and ex-
posing the strengths of programs in
Hawaii," said Sherman S. Hee,
president of Hawaii Captive Insur-
ance Management Inc. in Honolulu.

For example, 2000 was the sec-
ond consecutive year that represen-
tatives for the state and the HCIC
traveled to Japan. They conducted
seminars in Japan in November for
potential captive owners.

The face-to-face contact with
Japanese business people should
help bring more captives to the

Continued on next page

Largest Hawaii-based captives

Ranked by 2000 gross premium volume

Captive
Parent

- 1 Nissan Motor Insurance Corp.**
Nissan North America Inc.
- 2 F.L. Insurance Corp.**
Marriott International Inc.
- 3 Entertainment Risk Management Insurance Co. Inc.**
Draney Information Service Corp.
- 4 Sutter Insurance Services Corp.**
Sutter Health
- 5 Stanford Hospital and Clinics Professional Insurance Co. Inc.**
Stanford Hospital and Clinics
- 6 Pacific Beacon Life Reassurance Inc.**
CSAA Life & Financial Services Inc.
- 7 Oahu Transit Services Insurance Group**
Oahu Transit Services
- 8 Attorneys Insurance Mutual Risk Retention Group**
California law firms
- 9 California Healthcare Insurance Co. A Risk Retention Group**
California acute care hospitals
- 10 Transamerica Pacific Insurance Co. Ltd.**
Transamerica Corp.

Source: Hawaii Insurance Division, premiums not released

Continued from previous page domicile, said Wanda Jong, vp and manager for Becher + Carlson Risk Management Inc. in Hawaii.

"We think that that Japanese captives will be an opening market for Hawaii, because Japanese are familiar with Hawaii and they are familiar with doing business here," Ms. Jong said.

On April 19, the Hawaii Captive Insurance Council announced that Tokyo-based Heiwa Corp. had formed a Hawaii captive unit to insure the property and liability risks for its Japanese operations. The company is Japan's largest manufacturer of pachinko machines, which are electronic amusement games widely popular in Japan. Heiwa Insurance Inc. is managed by Becher + Carlson and was formed in Hawaii for several reasons, including ease of access to Hawaii and related business interests already in Hawaii.

The demise nationwide of guaranteed-cost programs available from standard insurers, rising prices for coverage, and having a full-time, competent regulator in

cause Vermont requires that managers maintain a resident office. But GPW told Hawaii regulators that it would open a Hawaii office once it acquires more captives to manage. He is currently working on another Hawaii formation, Mr. Gordon said.

Many of the captives added to Hawaii's count in 2000 received licenses early in the year. By the end of March 2000, the domicile had added seven new formations. But by the same period in 2001, none had been added.

That, however, does not mean the domicile's growth has slowed, Mr. Watanabe said. As of early April, he had six applications nearing approval, he said. **BI**

Largest managers of Hawaii captives

Ranked by gross premium volume in millions of dollars

Manager	Premium volume		Captives	
	2000	1999	2000	1999
Marsh Management Services Inc.	\$130.0	\$98.6	35	26
Becher + Carlson Risk Management Inc.	48.8	74.4	11	7
Aon Insurance Managers (USA) Inc.	38.6	32.0	8	6
Risk Services (Hawaii) Ltd.	10.9 ¹	1.9	2	1
50th State Risk Management Services Inc.	6.1 ¹	5.0	7	6
Willis Management Ltd.	4.5 ¹	4.5	2	3
Hawaii Captive Insurance Management Inc.	2.3	16.8	6	8
Triesco Insurance Services Inc.	1.0	4.3	1	2

¹ Premium volume provided by Hawaii Insurance Division's Captive Insurance Branch
Source: BI survey

'When we look at domestic locations, we look at Vermont or Hawaii. They are the ones we recommend.'

— Guy F. Ragosta
Willis Management Ltd.

Hawaii are all factors contributing to the domicile's growth, agreed Guy F. Ragosta, managing director for Willis Management Ltd. in Burlington, Vt., which manages two Hawaii captives.

Hawaii is one of the nation's most respected domestic domiciles, he added.

"When we look at domestic locations, we look at Vermont or Hawaii," Mr. Ragosta said. "They are the ones that have the developed infrastructure and the ones we recommend to people. Over the long term, they have demonstrated stability and they have people committed. You have professionals in place."

Along with adding new captives, Hawaii in 2000 approved one new captive manager, GPW & Associates, to oversee a new facility. GPW is a Phoenix-based actuarial service and manager of Arizona-based insurance facilities. In Hawaii, it now manages FirstMerit Mortgage Reinsurance Co. Inc., which received its license in November and reinsures private mortgage insurance. It is owned by Akron, Ohio-based FirstMerit Bank.

The Captive Insurance Branch approved an out-of-state manager because its first captive only reinsures coverage, Mr. Watanabe said. That practice requires less complicated management services than does operating a primary insurer, Mr. Watanabe said. Once GPW's business practices become better known to Hawaiian regulators, it may be allowed to manage other captives in the domicile.

James Gordon, president of GPW, said he favored Hawaii be-

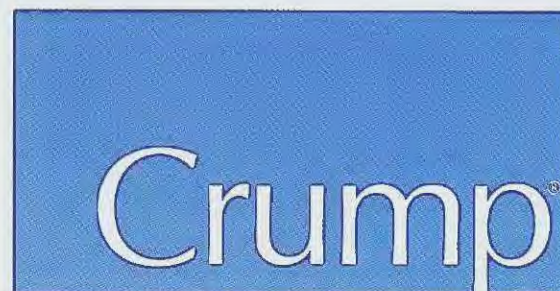
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CAPTIVE REPORT

Singapore captives hope for Asian growth

By KATE TILLEY

SINGAPORE—Although the number of Singapore captives has remained flat in recent years, regulators and managers say the domicile is capable of significant new growth.

They are hopeful that firming insurance prices, as well as proposed regulatory and tax changes could help drive new interest in the domicile.

Singapore has the capacity to "easily" double the number of captive insurers currently operating

there, says Vic Pannuzzo, general manager of Marsh Management Services Pte. Ltd. in Singapore.

Although 2000 was a "relatively stagnant year" for the growth of captives in Singapore, Mr. Pannuzzo said it "continues to be an inviting place to do business, as the system is very modern, and easy to adapt to for Australian companies."

Singapore's absence of reinsurance restrictions and low capitalization requirements are factors that are attracting new captives to the domicile, he said.

"The Monetary Authority of Sin-

gapore is active in promoting Singapore as a captive domicile as part of the government's plan to develop



Singapore into a world financial center," Mr. Pannuzzo said.

The MAS also is considering leg-

islation that would allow the formation of rent-a-captives and protected cell captives in the domicile, which would promote further growth, he said. In addition, Singapore's corporate tax rate has been cut to 24.5% from 25.5%, effective Jan. 1, 2002.

Ong-Woo Peck Wan, manager of reinsurers and captives for the Insurance Department, Financial Supervision Group within the MAS, agreed that growth in captive insurers slowed in 2000.

As of Dec. 31, 2000, there were 51 captives, a net decline of one com-

pared with a year earlier and the same level as at year-end 1999. Two new captives were registered during 2000, but three others were deregistered. No new captives have registered so far in 2001.

Total premiums written by Singapore captives grew 18% to \$241 million Singapore (\$133.5 million) in 2000, according to the MAS.

Ms. Ong-Woo said the slowdown in Singapore captive formations was "understandable given the efforts by the Australian government to attract onshore captives. Also, the deregulation of the Japanese insurance industry since 1998 has driven premium rates down significantly, effectively disincentivizing the need for captive formation. These two developments affected the development of captive insurance in Singapore, as Australian and Japanese corporations are our main sources of captive formation."

Australia has proposed relaxing its regulatory requirements for captives—which currently must be formed under insurer statutes—that don't write third-party business (*BI*, June 5, 2000).

"We are still optimistic and see opportunities for growth in Asia. We intend to organize promotional trips to new markets, such as Korea and Taiwan, to promote Singapore as a preferred captive domicile," she said.

Mr. Pannuzzo said Marsh, which is Singapore's largest captive manager, now has 29 captives under management in Singapore and is working on securing more.

As the commercial property/casualty market hardens, large corporations are increasing their risk retention in captives, and this trend is likely to continue, he said.

"Even though the soft market will return, it won't necessarily mean captives will reduce their retentions," Mr. Pannuzzo said. "Companies will always assess the benefits of retaining or transferring risk, irrespective of market conditions."

That sentiment is borne out by an Australian company with a Singapore captive.

Mike Kelly, assistant group insurance and risk manager of Melbourne, Victoria-based Amcor Ltd., said the maker of packaging products has increased the amount of product and public liability risks it retains in its Singapore captive, Amcor Insurances Pte. Ltd.

Mr. Kelly said the decision to increase risks placed in the captive was made due to general pricing pressures in the hardening Australian market.

"It is good business sense, too. If there are no claims, then that is a direct saving for the company. ...If there is a claim, we have more control over the whole process," he said.

Nick Solley, group insurance manager of Sydney-based mining company MIM Ltd., said MIM also "significantly" increased its risk retention in its captive, MIMsure Insurance Pte. Ltd., in 2000.

The decision to increase retention was "due to a combination of loss history on specific classes, and a prediction of further hardening in the market."

He said captive insurance is "a good option," not only due to business advantages, but also because it gives management "a feel for the insurance industry." **BI**

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Directory of world captive domiciles

The charts that follow were developed by *Business Insurance* to help risk managers track developments and regulatory requirements in captive insurance domiciles worldwide.

The information is provided only for domiciles with specific legislation or regulations pertaining to captives; domiciles that merely allow the formation of captives under

existing insurance legislation are not included.

The charts provide information on captive domiciles—listed in alphabetical order—beginning with the number of licensed captives at year-end 2000 and 1999. Those figures include the number of inactive captives registered in the domicile.

Listed next are the minimum capital and surplus for captives and premium-to-surplus

requirements, followed by application fees and annual license fees pertaining to captive insurers. Also listed are the applicable local taxes as well as the name of the law that governs captives and the year it was passed.

Each listing concludes with information on the domicile's regulator, including contact information for those seeking additional information. **EI**

DOMICILE	CAPTIVES 2000	CAPTIVES 1999	CAPITAL & SURPLUS	PREMIUM TO SURPLUS	FEES	TAXES	LAWS	REGULATOR
Bahamas	31	30	\$200,000 capital or at discretion of regulator	5-to-1	\$25 application fee; \$2,500 annual registration fee; \$1,000 license registration fee	None	The External Insurance Act, 1983. Chapter 318 as amended Dec. 24, 1996. The Subsidiary Legislation/Chapter 318 External Insurance, 1987	Roger G. Brown, Registrar of Insurance Companies/Insurance Section, Ministry of Economic Development, P.O. Box N-4849, Nassau N.P., Bahamas; 242-328-1068; fax: 242-328-1070
Barbados	228 (BI est.)	220 (BI est.)	\$125,000 cash	5-to-1 net premium to surplus. Less than \$5 million in premiums: net assets of \$125,000 or 20% of premiums written. More than \$5 million: net assets of \$1 million plus 10% of premiums written	\$250 application fee; \$2,500 annual license	None	Exempt Insurance Act of 1983	Carlos Belgrave, Supervisor of Insurance, Ministry of Finance and Economic Affairs, Bridgetown, Barbados; 246-426-3815; fax: 246-436-2699; sofi@caribsurf.com
Bermuda	1,078 (BI est.)	1,075* (BI est.)	\$120,000 for Class 1 (single-parent insuring only risks of parent and affiliates); \$250,000 for Class 2 (group/association deriving no more than 20% of net premiums from unrelated companies); \$1 million for Class 3 (more than 20% from unrelated companies)	20% below \$6 million and 10% above for Class 1 and 2; 15% for Class 3	Registration fees: Class 1 and 2, \$1,575; Class 3, \$2,625. Annual fee: Class 1 and 2, \$840; Class 3, \$2,625	Company tax: minimum for Class 1 is \$3,633; minimum for Classes 2 and 3 is \$5,607	Amendments to Insurance Act 1978	Jeremy E. Cox, Registrar of Companies, Government Administration Building, 30 Parliament St., Hamilton HM 12, Bermuda; 441-297-7578; fax: 441-292-6640
British Columbia	15	16	\$200,000 Canadian (\$129,491)	None	\$500 Canadian (\$324) application fee; \$2,500 Canadian (\$1,619) registration fee; \$2,500 Canadian annual renewal fee	30% federal income tax; 16% provincial income tax	The British Columbia Insurance (Captive Company) Act of 1987	Doug McLean, Manager of Insurance, Financial Institutions Commission, 1050 W. Pender St., Suite 1000, Vancouver, B.C. V6E 3S7, Canada; 604-660-2947
British Virgin Islands	236	191*	\$200,000 for P/C captives writing up to \$1 million in net premiums; \$250,000 for life/health captives	5-to-1 for P/C insurers writing up to \$5 million in net premiums	\$500 application fee; \$2,000 annual renewal fee	None	The Insurance Act, 1994. Insurance regulations, 1995	William McCullough, Supervisor of Insurance, Financial Services Department, The Haycroft Building, Pasa Estate, Road Town, Tortola, British Virgin Islands; 284-494-4190; finsvs@caribsurf.com
Cayman Islands	515	495	\$120,000 for Class B license (most single-parent, property/casualty captives); \$240,000 if writing long-term coverages; \$360,000 if writing both long-term and general business	At discretion of regulator	\$6,098 annual licensing fee	None	The Insurance Law (1999 revision)	Gordon Rowell, Monetary Authority, Elizabethan Square, George Town, Grand Cayman, B.W.I.; 345-949-7089; fax: 345-949-2532; insurance@cmoney.com.ky
Colorado	11	12	\$300,000 capital/\$200,000 surplus for single-parent and group captives	Pure captives: none; group captives: 3-to-1	\$500 application fee; \$500 annual fee	Direct: greater of \$5,000 or 0.5% of first \$25 million of direct premiums written, 0.25% of next \$50 million and 0.1% thereafter. Reinsurance: 0.25% of first \$20 million in premiums and 0.1% thereafter	The Colorado Captive Insurance Act of 1972	William J. Kirven, Insurance Commissioner, Colorado Division of Insurance, 1560 Broadway, Suite 850, Denver, Colo. 80202; 303-894-7499, ext. 7480
Delaware	3	3	Single-parent: \$250,000; industrial insured: \$500,000; association: \$750,000	None	\$100 annual statement fee; \$50 for continuation of certificate	Premium tax: 0.7% for first \$20 million, 0.5% for next \$20 million, 0.3% for next \$20 million and 0.1% thereafter	Chapter 69 (Captive Insurance Companies) of the Insurance Code, 1984	Darryl Reese, Director-Bureau of Company Examination, Rehabilitation and Guaranty Division, 841 Silver Lake Blvd., Dover, Del. 19904; 302-739-5774; fax: 302-739-2709; dreese@deins.state.de.us

* Restated

CAPTIVE REPORT

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DOMICILE	CAPTIVES 2000	CAPTIVES 1999	CAPITAL & SURPLUS	PREMIUM TO SURPLUS	FEES	TAXES	LAWS	REGULATOR
District of Columbia	0	0	\$100,000 for pure captive; \$200,000 for association captive (stock); \$300,000 for agency, rental or sponsored captive	Surplus: \$150,000 for pure captive; \$300,000 for association (stock), agency, rental or sponsored captive; \$500,000 for mutual or reciprocal insurer association captive	\$500 application fee; \$300 certification fee; \$300 annual renewal fee	Direct: 0.4% on first \$20 million of net premiums, 0.2% on the next \$20 million of premiums and 0.075% thereafter. Reinsurance: 0.225% on the first \$20 million of premiums, 0.15% on the next \$20 million and 0.025% thereafter	The Captive Insurance Company Act of 2000	Margaret Schruender, Director of Insurance, Department of Insurance and Securities Regulation, 810 First St. N.E., Suite 701, Washington, D.C. 20002; 202-442-7766; fax: 202-535-1196; margaret.schruender@dc.gov
Dublin	183	166	Reinsurance: subject to review of business plan; direct: minimum share capital of 500,000 Irish punts (\$569,750)	None, other than approval of business plan	Reinsurance: none. Direct: 4,000 Irish punts (\$4,558) application fee; supervision fee between 500 and 25,000 Irish punts (\$570 and \$28,488), depending on premium volume	None on premiums; corporate tax at 10% until Dec. 31, 2002, 12.5% after	Insurance Act 2000	Emily Sheerin, Non-Life Insurance Supervisor; or Eamon Henry, Life Insurance Supervisor; Department of Enterprise, Trade and Employment, Frederick Building, Setanta Centre, S. Frederick St., Dublin 2, Ireland; 353-1-661-4444
Georgia	14	15	\$500,000	3-to-1	\$600 application fee; \$700 annual fee	Gross premiums written in Georgia: 2.25% state tax, 2.5% county and municipal tax. Workers comp captives must contribute to Subsequent Injury Trust Fund	O.C.G.A. Title 33, Chapter 41, 1989	Christopher Taylor, Property and Casualty Supervisor; 2 Martin Luther King Jr. Drive, Suite 604, West Tower, Atlanta, Ga. 30334; 404-657-7273; fax: 404-657-7743; chris.taylor@mail.oci.ga.us
Gibraltar	10	8	P/C: 200,000 to 400,000 euros (\$179,820 to \$359,640); 800,000 euros (\$719,280) for life companies	18% of annual premiums or 26% of average claims over prior three years	£500 (\$720) application fee; £2,000 (\$2,881) annual license fee	Tax exempt by paying £225 (\$324) per year for 25 years; qualifying companies are taxed at up to 35%	Insurance Companies Ordinance of 1987 and associated regulations	Commissioner of Insurance Financial Services Commission, P.O. Box 940, Suite 943, Europort, Gibraltar; 350-40-283; fax: 350-40-282; isc@gibnet.gi
Guam	1	1	Capital: \$50,000 for pure captive; \$100,000 for group captive; \$150,000 for industrial insured captive (stock). Surplus: \$100,000 for pure captive; \$150,000 group captive (stock); \$200,000 for industrial insured or group captive (mutual)	No more than five times paid-in capital/surplus	\$2,500 application fee; \$2,500 annual license fee; \$200 incorporation fee; \$750 fee for qualifying certificate; \$1,000 annual surveillance fee	Rebate of all income tax on underwriting income and on dividends to shareholders. No gross receipts or premium tax	Public Law 23-109, 1997-1998 amendments to Public Law 24-266 allowing rebate of income tax on dividends	Joseph T. Duenas, Director, Department of Revenue and Taxation, 13-1 Mariner Drive, P.O. Box 23607 GMF, Barrigada, Guam 96921; 671-475-1817; fax: 671-472-2643; revtax@ns.gov.gu
Guernsey	375	364	£100,000 (\$144,030)	18% of net premiums for first £5 million (\$7.2 million); 16% thereafter	£2,200 (\$3,169) application and annual renewal fee. Protected cell companies: £2,800 (\$4,033) application fee and £2,200 annual fee plus 0.25% of gross premiums	Four options: no tax but annual fee of £600 (\$864); sliding-scale tax on investment income of shareholders' funds; 20% of net profits; fixed rate of up to 30% for five years	Insurance Business (Guernsey) Law, 1986	Steve Butterworth, Director of Insurance, Guernsey Financial Services Commission, La Plaiderie Chambers, La Plaiderie, St. Peter Port GY1 1WG, Guernsey; 44-148-171-2706; fax: 44-148-171-2010; info@guernseyci.com
Hawaii	74	59	Minimum requirements vary by type of captive; additional requirements determined on a case-by-case basis	Varies by case	Application review fees vary between \$300 and \$1,000, depending on facility type	Premiums taxed at 0.25% for single-parent and 1% for association captives/RRGs	1986 changes to Hawaii insurance law in Chapter 431, Article 19 of Hawaii's Revised Statutes	Wayne Metcalf, Insurance Commissioner, 250 S. King St., P.O. Box 3614, Honolulu, Hawaii 96811-3614; 808-586-2799; captiveins@dcca.state.hi.us
Hong Kong	2	1	\$2 million Hong Kong (\$256,414)	5% of net premiums written or net claims outstanding, or \$2 million Hong Kong	\$22,600 Hong Kong (\$2,898) authorization fee	None	The Insurance Companies (Amendment) Ordinance 1997	Commissioner of Insurance, 21st Floor, Queensway Government Offices, 66 Queensway, Hong Kong; 852-2867-2554; fax: 852-2869-0252; iainmail@oci.gov.hk
Illinois	5	5	\$2 million	None	\$3,500 application fee	Subject to same taxes as domestic insurers	Article VIIC of the State Insurance Code, 1987	Etta Mae Credi, Assistant Deputy Director, Illinois Insurance Department, 320 W. Washington, Springfield, Ill. 62767; 217-782-4515; fax: 217-782-5020; etta_mae_credi@ins.state.il.us



CAPTIVE REPORT

DOMICILE	CAPTIVES 2000	CAPTIVES 1999	CAPITAL & SURPLUS	PREMIUM TO SURPLUS	FEES	TAXES	LAWS	REGULATOR
Isle of Man	162	169	£500,000 (\$720,150) for long-term; £150,000 (\$216,045) for general; £100,000 (\$144,030) for reinsurance; £50,000 (\$72,015) for restricted	None	£1,500 (\$2,161) application fee; £3,000 (\$4,321) annual license renewal fee	Standard tax is 15%. Isle of Man companies operating internationally may elect 1% to 35% taxation under International Business Act. Captives operating under a 1981 act enjoy partial or full exemptions if business is not transacted with Isle of Man residents	Insurance Act 1986; Insurance (Amendment) Acts 1993 and 1995	W.J. Hastings, Chief Executive/Insurance Supervisor, Isle of Man Government Insurance and Pensions Authority, HSBC House, Ridgeway St., Douglas, Isle of Man IM1 1ER; 44-162-464-6000; fax: 44-162-464-6001; ipa@gov.im
Jersey	18	17	£100,000 (\$144,030) or at regulator's discretion	17.5% of net premiums	£1,750 (\$2,521) property/casualty; £3,500 (\$5,041) life	Maximum stamp duty is £2,500 (\$3,601). 20% standard rate; exempt captives pay £600 (\$864) per year	Insurance Business (Jersey) Law, 1996; General Provisions and Solvency Margin Orders, 1996	Nigel Woodroffe, Director of Insurance, Jersey Financial Services Commission, P.O. Box 267, Nelson House, David Place, St. Helier, Jersey JE4 8TP; 44-1534-822-000; fax: 44-1534-822-001; info@jerseyfsc.org
Labuan	9	7	300,000 ringgit (\$78,937)	300,000 ringgit	6,000 ringgit (\$1,579) for incorporation; 10,000 ringgit (\$2,631) annual license fee	3% of net income or 20,000 ringgit (\$5,262)	The Offshore Insurance Act 1990 (amended in 1997)	Danial Mah Abdullah, Director-Operations Department, Labuan Offshore Financial Services Authority, Level 17, Main Office Tower, Financial Park, Jalan Merdeka, 87000 WP Labuan; 60-87-408-188; fax: 60-87-413-328; lfsa@gov.my
Lloyd's of London	1	1	£500,000 (\$720,150); £1.5 million (\$2.2 million) if captive parent is U.S.-based	Surplus must equal greater of 16% of annual premium volume or 23% of average claims incurred over a three-year period	£20,000 (\$28,806) for new captive syndicate; £25,000 (\$36,008) + 6.1% VAT for captive corporate member. Annual fees of about 2.1% of captive's overall premium limit for 2001	U.K. corporate tax rates (up to 30%) on underwriting business	Captive Corporate Members Bylaw (No. 19 of 1998)	The Council of Lloyd's, Lloyd's of London, 1 Lime St., London EC3M 7HA; 44-207-327-1000; fax: 44-207-626-2389. Contact: Simon Johnson, 44-207-327-5908; fax: 44-207-327-5599; simon.johnson@lloyds.com
Luxembourg	231	222	50 million Luxembourg francs (\$1.1 million)	None	50,000 Luxembourg francs (\$1,115) for incorporation plus 1% tax on capital. Annual license fee of 100,000 Luxembourg francs (\$2,230)	Varies. Basic rates: 37.7% corporate tax; 4% premium tax on direct insurance; no premium tax on reinsurance	1991 Insurance Law and Grand Ducal Regulations, amended 1994	Victor Rod, Insurance Commissioner, Commissariat aux Assurances, 7 Blvd. Royal, B.P. 669, Luxembourg L-2449; 352-226-911; fax: 352-226-910; commassu@caa.etat.lu
Maine	1	1	Pure: \$100,000 in capital, \$150,000 in surplus; industrial insured (stock): \$200,000 in capital, \$300,000 in surplus; industrial insured (mutual): \$500,000 in surplus; association stock: \$400,000 in capital, \$350,000 in surplus; association mutual: \$750,000 in surplus	None	\$1,000 initial fee; \$100 for license; \$100 for financial statement; \$500 fee for captives that redomesticate to Maine	0.375% of first \$20 million in direct gross premiums, 0.275% of next \$20 million and 0.175% of next \$20 million and 0.075% thereafter; slightly less for captive reinsurers. Minimum tax is \$4,000 per year; 2% of gross direct premiums if parent is a Maine corporation	Title 24-A, Chapter 83, Sections 6701-6720, 1997	Enya Carter, Director of Financial Analysts, Maine Bureau of Insurance, 34 State House Station, Augusta, Maine 04333-0034; 207-624-8496; fax: 207-624-8599; enya.h.carter@state.me.us
Malta	1	3	100,000 lira (\$222,220)	Solvency margin set in accordance with European Union directives	500 lira (\$1,111) application fee; 500 lira acceptance fee; 1,000 lira (\$2,222) annual renewal fee	Corporate tax is 35%. Companies may operate foreign income accounts and get a tax refund on distributions to non-resident shareholders	Insurance Business Act, 1998	Director of Insurance, Malta Financial Services Centre, (Insurance Unit), Attard, Malta; 356-441-155; fax: 356-441-189; communications@mtsc.com.mt
Mauritius	11	8	Minimum: \$100,000 for captives writing general business; \$250,000 for long-term business; \$350,000 for general and long-term business. Regulator may require additional capital	Solvency margin is 15% or \$100,000	\$500 application fee; \$1,500 annual fee	15% corporate income tax; 90% foreign tax credit available	Mauritius Offshore Business Activities Authority Act, 1992. PCC Act and guidelines to regulation of captive insurance business in Mauritius	Mauritius Offshore Business Activities Authority, Fifth Floor, Barkly Wharf, Caudan Waterfront, Port Louis, Mauritius; 230-210-7000; fax: 230-212-9459; mobaa@intnet.mu
Netherlands Antilles	18	18	Determined by review of business plan	Solvency margin: the higher of 15% of net premiums or 300,000 guilders (\$168,539) for non-life; the higher of 4% of net technical reserves or 400,000 guilders (\$224,719) for life	6,000 guilders (\$3,371) application fee; 3,000 guilders (\$1,685) annual license fee	2,500 guilders (\$1,405) fixed	Special Insurance License Decree, 1992	Nataly Davelaar, Superintendent of Insurance, Bank van de Nederlanden Antilles (Central Bank), Breedestraat 1 (P), Curacao, Netherlands Antilles; 599-9-434-5500; fax: 599-9-461-5004

CAPTIVE REPORT

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DOMICILE	CAPTIVES 2000	CAPTIVES 1999	CAPITAL & SURPLUS	PREMIUM TO SURPLUS	FEES	TAXES	LAWS	REGULATOR
Nevada	2	0	\$250,000 for pure captive; up to \$750,000 for a rent-a-captive	3-to-1 to 5-to-1	\$500 application fee; \$300 annual renewal fee; application review fee of up to \$3,000	0.4% on first \$20 million of net direct premiums, 0.2% on next \$20 million and 0.075% thereafter	Chapter 694C of Nevada Revised Statutes and Nevada Administrative Code	Alice Molasky-Arman, Commissioner of Insurance, Division of Insurance, State of Nevada, 788 Fairview Drive, Suite 300, Carson City, Nev. 89701-5453; 775-687-4270, ext. 277; fax: 775-687-3934; lcmmish@doi.state.nv.us
New York	2	2	\$250,000 for single parent captives; \$500,000 for group captives. Parent or group must have total net worth of at least \$100 million	None	None	Premiums related to N.Y. risks: 0.4% to 0.075% (direct) and 0.225% to 0.025% (reinsurance). Captives also pay Insurance Department assessments of 0.02% or 0.03% of N.Y. direct written premiums	Article 70 of the New York Insurance Law	Mike Moriarty, Supervising Examiner, New York Insurance Department, 25 Beaver St., New York, N.Y. 10004; 212-480-5127; nycaptives@ins.state.ny.us
Panama	2	2	\$150,000 for non-life; \$250,000 for life	5-to-1	\$1,000 application fee; \$2,000 annual license fee	None	Law 60, 1996	Ana Lorena Broce, Superintendent of Insurance and Reinsurance, Ave. Ricardo Arias y Calle 51, P.O. Box 832/1683, World Trade Center, Panama City, Republic of Panama; 507-214-7484; fax: 507-214-7482
Rhode Island	2	2	Minimum capital: single-parent, \$100,000; industrial insured, \$200,000; association, \$400,000. Minimum surplus: single-parent, \$150,000; industrial insured, \$300,000 (stock) or \$500,000 (mutual); association, \$750,000	At discretion of regulator	\$1,000 application fee; \$500 annual license fee	\$2,500 minimum tax. Direct premiums: 0.2% on first \$20 million, 0.15% on next \$20 million and 0.0375% thereafter. Reinsurance premiums: 1.25% on first \$20 million, 0.075% on next \$20 million, 0.025% on next \$20 million and 0.0125% thereafter	Rhode Island Statutes: Title 27 Insurance; Chapter 43, Captive Insurance Companies	Joseph Torti, Chief Examiner, Department of Business Regulation-Insurance Division, 233 Richmond St., Suite 233, Providence, R.I. 02903; 401-222-5446; fax: 401-222-5475; jtorti@doa.state.ri.us
Singapore	51	52	\$400,000 Singapore (\$220,264) capital	\$400,000 Singapore surplus of assets over liabilities	\$5,000 Singapore (\$2,753) annual fee	Corporate tax is 25.5%. Captives may apply for a 10% concessionary tax rate on their offshore business	Insurance Act (Chapter 142)	Hauw Soo Hoon, Executive Director, Financial Supervision Group, Monetary Authority of Singapore, 10 Shenton Way, MAS Building, Singapore 079117; 65-229-9440; fax: 65-229-9694
South Dakota	0	0	\$100,000 capital/\$100,000 surplus	None	\$500 for certificate of authority	0.25% of premiums; minimum tax is \$5,000	Chapter 58-46, 1996	Wendell Malsam, Chief Examiner, South Dakota Division of Insurance, 118 W. Capitol Ave., First Floor, Pierre, S.D. 57501-2000; 605-773-4359; fax: 605-773-5369; wendellm@crpr1.state.sd.us
South Carolina	2	0	Pure captive: \$100,000 capital/\$150,000 surplus. Industrial insured: \$200,000 capital/\$300,000 (stock), \$500,000 (mutual) in surplus. Association: \$400,000 capital/\$350,000 (stock), \$750,000 (mutual) in surplus. Sponsored: \$500,000 capital/\$500,000 surplus	Varies by company	\$200 application fee; \$300 licensing fee; \$300 annual renewal fee.	Direct: 0.4% on first \$20 million of premiums, 0.3% on the next \$20 million, 0.2% on the next \$20 million and 0.075% thereafter. Reinsurance: 0.225% on first \$20 million of premiums, 0.15% on next \$20 million, 0.05% on next \$20 million and 0.025% thereafter	Acts 238 and 331, SC Code 38-90-140, 2000	Ernst Csiszar, Director-South Carolina Department of Insurance, P.O. Box 100105, Columbia, S.C. 29202; 803-737-6229; ecsiszar@doi.state.sc.us
Switzerland	22	19*	Direct captives or those writing third-party business: 10 million Swiss francs (\$5.9 million); group captives: 1 million Swiss francs capital/surplus of 20% of premium for each shareholder; captive reinsurers: 1 million Swiss francs (\$588,097) and 20% of premium	Same as capital and surplus	Varies annually by market share; minimum of 2,000 Swiss francs (\$1,176)	8.5% federal tax on profit; additional tax rates vary by district. Stamp duty is 1%	1978 Insurance Supervisory Law; captive exemptions introduced in early 1990s	Peter Pfund, Swiss Insurance Commissioner, BVP, Friedheimweg 14, CH 3003, Bern, Switzerland; 41-31-322-7906; fax: 41-31-323-7156
Turks & Caicos Islands	120**	129**	\$100,000 for general insurers; \$180,000 for life insurers. Subject to review of business plan	5-to-1 for captives writing up to \$5 million in net premiums	\$500 license application fee; \$2,000 annual renewal fee	None	Turks & Caicos Insurance Ordinance of 1989 and accompanying 1990 regulations	Harold Wong, Superintendent of Insurance, P.O. Building, Front St., Grand Turk, Turks & Caicos Islands; 649-946-2791; fax: 649-946-2821; isc@tcicway.tc

*Restated **Excludes credit life insurers




CAPTIVE REPORT

DOMICILE	CAPTIVES 2000	CAPTIVES 1999	CAPITAL & SURPLUS	PREMIUM TO SURPLUS	FEES	TAXES	LAWS	REGULATOR
Tennessee	6	9	\$750,000 for single-parent, non-profit, municipality and utility district captives; \$1 million for group captives	None. Minimum premiums: \$500,000 for single-parent; \$1 million for group captives	\$500 application fee. Annual minimum fee: \$5,000 for single-parent; \$10,000 for group captives. Any premium tax paid is counted against minimum	1% of gross direct written premiums (includes out-of-state premiums if not taxed by another state)	The Tennessee Captive Insurance Company Act, Chapter 13, Title 56, 1978	Bill Hosea, Director of Financial Affairs, Department of Commerce and Insurance, 500 James Robertson Parkway, Nashville, Tenn. 37243-1135; 615-741-1692; fax: 615-532-2788; bhosea@state.tn.us
U.S. Virgin Islands	9	9	Single-parent: \$50,000 capital, \$70,000 surplus; industrial insured: \$75,000 capital, \$125,000 surplus; association captives: \$100,000 capital, \$220,000 surplus	NA	\$1,000 application fee; \$6,000 annual licensing fee	Annual franchise tax of \$1,000	Title 22, Virgin Islands Code, Chapter 55, Sections 1400-1421	Office of the Lieutenant Governor, Division of Banking and Insurance, 18 Kongens Gade, St. Thomas, U.S.V.I. 00802; 340-774-7166; fax: 340-774-9458; vidoi001@aol.com
Virginia	0	0	Stock captives: \$1 million capital stock; \$3 million surplus; non-stock: \$4 million surplus	None. Minimum gross written premiums: \$500,000 for single-parent, \$1 million for association captives	\$500 non-refundable application fee	Premium tax of 2.25% for business written in Virginia and out-of-state business not taxed by another state	Chapter 11, Title 38.2, 1980	Jim Ware, State Corporation Commission, Bureau of Insurance, Company Licensing and Regulatory Compliance, Commonwealth of Virginia, P.O. Box 1157, Richmond, Va. 23218; 804-371-9801; fax: 804-371-9511; jware@scc.state.va.us
Vermont	361	357	\$250,000 for single-parent; \$500,000 for industrial insured; \$750,000 for association captives. Approved letters of credit can be used to meet capitalization requirements. Captives organized as reciprocal insurers must maintain a minimum free surplus of \$1 million	None	\$200 initial application fee; \$300 annual license fee	\$5,000 minimum annual premium tax. Direct written premiums: 0.4% on first \$20 million, 0.3% on next \$20 million, 0.2% on next \$20 million and 0.075% thereafter. Reinsurance premiums: 0.225% on the first \$20 million, 0.15% on next \$20 million, 0.05% on next \$20 million and 0.025% thereafter	Special Insurer Act of 1981	Leonard D. Crouse, Director of Captive Insurance, Vermont Department of Banking, Insurance, Securities and Health Care Administration, 89 Main St., Drawer 20, Montpelier, Vt. 05620-3101; 802-828-3304; fax 802-828-3460; captiveinfo@hishka.state.vt.us

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World Captive Forum

November 12 to 14, 2001

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PRELIMINARY SCHEDULE SUMMARY

Monday, November 12
 Golf Tournament and Golfer's Luncheon
 Conference Registration
 The Benchmark Course/Captive Developments
 & New Ideas Roundtable
 Welcome Reception with Exhibitors

Tuesday, November 13
 Continental Breakfast
 Keynote Address
 Employee Benefits & Investments
 Buffet Luncheon
 Healthcare & E-Commerce
 Rent-a-Captives & Capital (In)Adequacy
 Dinner and Entertainment

Wednesday, November 14

Continental Breakfast
 Captive Case Studies
 Reinsurance & Financing Business Risks
 Buffet Luncheon
 International Tax Developments
 Conference Roundup

2001 WORLD CAPTIVE FORUM FEES

\$2,750.00	Exhibit Booth (Includes Booth Space and 1st Exhibitor Registration)
\$750.00	2nd and 3rd Exhibitor Registration
\$975.00	Risk Manager Registration
\$1,250.00	Non-Risk Manager Registration
\$150.00	Spouse/Guest Registration
\$200.00	Golf Tournament Fee

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Founded: 1989.
Parent: American International Group Inc.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, online access to claims data, claims reserves analysis, managing underwriting facilities, actuarial studies, loss forecasting, association captive management, rent-a-captive management.

Subcontracted services: captive feasibility studies, claims processing, claims reserves analysis, loss control services, actuarial studies, loss forecasting, reinsurance brokered for captives, investment management.

Staff: 10 total, 3 professionals.
Clients: 27 total captives: 25 active captives, 2 inactive captives, 27 directly managed. Captive premium volume, \$739,528,918. Capital and surplus managed, \$315,044,265. No minimum size client.

Compensation: annual fee, \$15,000 minimum; hourly: professional, \$160; clerical, \$50.

2000 gross revenue: 100% from fees charged for captive management.

Officers: Paul Obolensky, president; Ann W. Wick, general manager.

Contact: Ann W. Wick; awick@aimsvt.com.
Manages one captive in Bermuda, two captives in Hawaii and 24 captives in Vermont.

AIG Insurance Management Services (Barbados) Ltd.

Allico Building, Cheapside,
Bridgetown, Barbados;
246-436-4771; fax: 246-427-5809

Founded: 1985.
Parent: American International Group Inc.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, online access to claims data, claims reserves analysis, loss control services, investment management, association captive management, rent-a-captive management.

Staff: 3 total, 2 professionals.
Clients: 4 total captives: 4 active captives, 4 directly managed. Captive premium volume, \$120,000,000. Capital and surplus managed, \$83,000,000. No minimum size client.

Compensation: annual fee.
2000 gross revenue: 100% from fees charged for captive management.

Officers: James Bohan, president; Angela Jones, vp; Mike Murphy, director; Paul Obolensky, president-AIG Insurance Management Services Worldwide.

Contact: James Bohan, jbohamco@cariaccess.com; Angela Jones, ajaimco@cariaccess.com.

AIG Insurance Management Services (Bermuda) Ltd.

American International Building, 29
Richmond Road,
Pembroke HM 08, Bermuda;
441-298-5304; fax: 441-292-7969

Founded: 1947.
Parent: American International Group Inc.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, online access to claims data, claims reserves analysis, loss control services, actuarial studies, loss forecasting, investment management, association captive management, rent-a-captive management.

Subcontracted services: actuarial studies.
Staff: 7 total, 3 professionals.
Clients: 19 total captives: 16 active captives, 3 inactive captives, 19 directly managed. Captive premium volume, \$144,000,000. Capital and surplus managed, \$164,000,000. No minimum size client.

Compensation: annual fee, \$25,000 minimum.
Officers: J.C.H. Johnson, president/CEO-American International Co. Ltd.; Paul Obolensky, president-AIG Insurance Management Services Worldwide; L.M. Murphy, senior vp/secretary-American International Co. Ltd.

Contact: Jeremy Parwani, vp; jeremy.parwani@aig.com.

AIG Insurance Management Services (Guernsey) Ltd.

Helvetia Court, Les Echelons,
P.O. Box 225,
St. Peter Port, Guernsey GY1 4HV,
Channel Islands;
44-1481-716-000; fax: 44-1481-716-565

Founded: 1994.
Parent: American International Group Inc.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, managing underwriting facilities, reinsurance brokered for captives, reinsurance brokered to captives, investment management, tax advice, computerized accounting, claims processing.

Subcontracted services: captive formation, government reporting, computerized accounting, claims processing.
Officers: Michael J. Matthews, managing director; David Stafford, financial controller; Charles Allen, director.

Contact: Michael J. Matthews, 353-1-802-8921; Paul Obolensky, 212-770-5728.
Subcontracts for some captive management services with Prism Insurance Management.

AIG Insurance Management Services (Ireland) Ltd.

AIG Centre, N. Wall Quay,
Dublin 1, Ireland;
353 1 672-0202; fax: 353 1 672-0288
www.aig.com

Founded: 1989.
Parent: American International Group Inc.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, claims reserves analysis, managing underwriting facilities, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, investment management, association captive management.

agement, rent-a-captive management, underwriting and ratemaking for captives.

Subcontracted services: online access to claims data.

Staff: 10 total, 9 professionals.
Clients: 21 total captives.
Compensation: annual fee, hourly.
Officers: Michael J. Matthews, managing director; David Stafford, finance director.
Contact: Michael J. Matthews 353-1-802-8921; Paul Obolensky, 212-770-5728.

AIG Insurance Management Services (Isle of Man) Ltd.

Isle of Man House, Prospect Hill,
Douglas, Isle of Man;
44-162-468-1230; fax: 44-162-468-1399
www.aig.com

Founded: 1994.
Parent: American International Group Inc.

Direct services: captive feasibility studies, captive formation, government reporting, computerized accounting, claims processing, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, investment management.

Subcontracted services: captive formation, government reporting, computerized accounting, claims processing.

Clients: 1 total captive: 1 active captive.
Officers: Colin Bowen, Michael J. Matthews, directors; David Stafford, financial controller.
Contact: Michael J. Matthews, 353-1-802-8921; Paul Obolensky, 212-770-5728.

Subcontracts for some captive management services with Isle of Man Insurance Management Ltd.

An explanation of the terms used in this directory appears on page 64.

AIG Insurance Management Services (Luxembourg) S.A.

11 Ave. Guillaume, P.O. Box 615,
L-2016, Luxembourg;
352 44-3032; fax: 352 44-3107

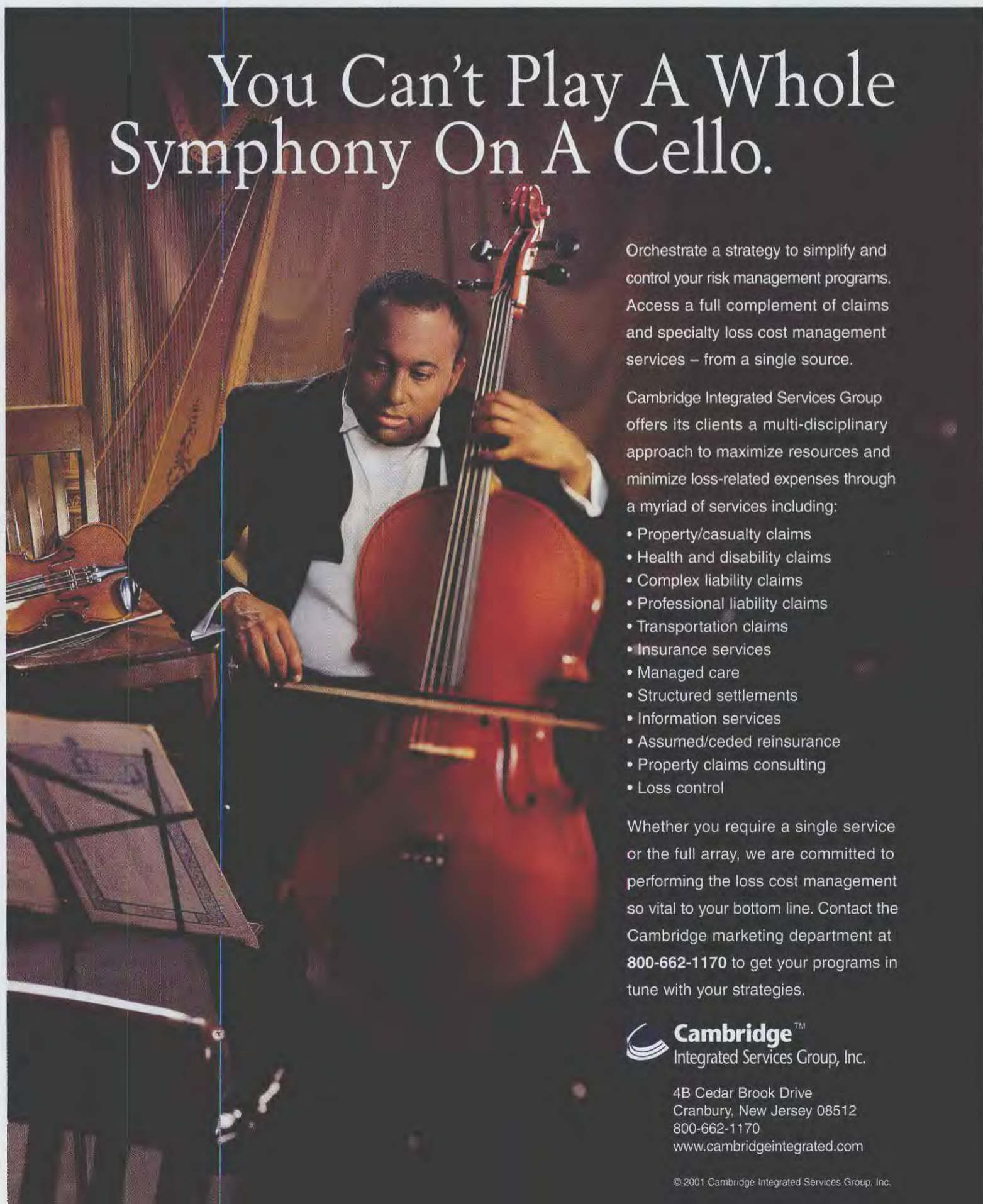
Founded: 1994.
Parent: American International Group Inc.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, reinsurance brokered for captives, reinsurance brokered to captives, investment management.

Staff: 2 total.
Clients: 2 total captives: 1 active captive, 1 inactive captive.

Compensation: annual fee, hourly.
Officers: Michael J. Matthews, director; Jacques Emsis, general manager/director.

Contact: Michael J. Matthews, 353-1-802-8921;

Continued on next page



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Cranbury, New Jersey 08512
800-662-1170
www.cambridgeintegrated.com

CAPTIVE REPORT

Continued from previous page

Paul Obolensky, 212-770-5728.

AIM Associated Insurance Management (Ireland) Ltd.

International House, 3 Harbourmaster Place, IFSC, Dublin 1, Ireland; 353-1-670-0677; fax: 353-1-670-0688

Founded: 1989.

Parent: AXA Colonia Versicherung A.G.

Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, online access to claims data, claims reserves analysis, loss control services, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, tax advice, legal advice.

Staff: 1 total, 1 professional.

Clients: 1 total captive; 1 active captive, 1 directly managed. Captive premium volume, \$200,000. Capital and surplus managed, \$3,700,000. No minimum size client.

Compensation: annual fee.

2000 gross revenue: 100% from fees charged for

captive management.

Officers: Paul Moraghar, managing director; Richard Kelly, finance director.

Aberdeen Insurance Managers (Turks & Caicos) Ltd.

Barracks Hill, Palm Grove Drive, P.O. Box 169, Grand Turk, Turks & Caicos Islands; 649-946-2670; fax: 649-946-2856

Founded: 1989.

Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management.

Staff: 4 total, 2 professionals.

Clients: 8 total captives; 7 active captives, 1 inactive captive, 8 directly managed, 1 currently in formation. No minimum size client.

Compensation: annual fee, \$10,000 minimum;

hourly; professional, \$100; clerical, \$25.

2000 gross revenue: 90% from fees charged for captive management, 10% from other services.

Officers: Ross Blumentritt, resident managing director; Hans Frederick Christoph Blumentritt, director; Tricia Smith Bermudez, assistant secretary-claims.

Contact: Ross Blumentritt.

Alternative Insurance Management Services Inc.

6021 S. Syracuse Way, Suite 205, Greenwood Village, Colo. 80111; 720-256-8218; fax: 303-694-9363

Founded: 1989.

Parent: Catholic Health Initiatives.

Direct services: captive formation, government reporting, accounting, computerized accounting, claims processing, online access to claims data, claims reserves analysis, loss control services, reinsurance management, association captive management.

Staff: 9 total, 5 professionals.

Clients: 2 total captives; 2 active captives, 2 directly managed, 1 currently in formation. Captives

premium volume, \$3,000,000. Capital and surplus managed, \$18,000,000. No minimum size client.

Compensation: annual fee, \$10,000 minimum; hourly; professional, \$200; clerical, \$75.

2000 gross revenue: \$900,000. 30% from fees charged for captive management, 70% from other services.

Officers: Richard A. Johnson, president/CEO; Geraldine Hoyler, treasurer; John Dicola, secretary.

Contact: Richard A. Johnson; dickjohnson@chic-national.org.

Aon Insurance Managers (Antilles) N.V.

Samson Building, Prof Kerkampweg M-37CC, Curaçao, Netherlands Antilles; 599-9-736-9294; fax: 599-9-736-9350
www.aonirmg.com, www.aon.com

Founded: 1995.

Parent: Aon Corp.

Direct services: captive formation, government reporting, accounting, computerized accounting, claims processing, claims reserves analysis, loss control services, managing underwriting facilities,

tax advice, rent-a-captive management.

Staff: 2 total, 1 professional.

Clients: 7 total captives; 4 active captives, 3 inactive captives, 7 directly managed. Captive premium volume, \$5,883,701. Capital and surplus managed, \$11,179,616. No minimum size client.

Compensation: annual fee, hourly.

Contact: Rudy Maasdammé, managing director.

Aon Insurance Managers (Australia)

Aon Tower, 201 Kent St., Level 29, Sydney, New South Wales 2000, Australia; 61-2-925-37600; fax: 61-2-925-37627
www.aonirmg.com, www.aon.com

Parent: Aon Corp.

Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, actuarial studies, loss forecasting, investment management, tax advice.

Staff: 7 total, 5 professionals.

Clients: 8 total captives; 8 active captives, 8 di-

Continued on next page

Directory terms explained

The annual *Business Insurance* directory of captive managers lists companies that manage captive insurance companies, either directly or through subcontracts.

The directory is published as an editorial service, and there is no charge to be included. To be listed, though, each company must complete a *BI* questionnaire.

To locate organizations that manage captives in particular domiciles, an index will be available on the Web by Friday, May 4, at www.businessinsurance.com, under "Directories." The index will list the companies that provide captive management services, either directly or through subcontracts, in each domicile.

Each listing begins with the company's name, address, telephone and fax number. In addition, the year **founded** and **parent** company are listed.

Listed next are the **direct** and **subcontracted** captive management services the company provides. **Staff** information is reported on a full-time equivalent basis for year-end 2000; it includes both the total number of staff members and the number of professional staff members involved in captive management services.

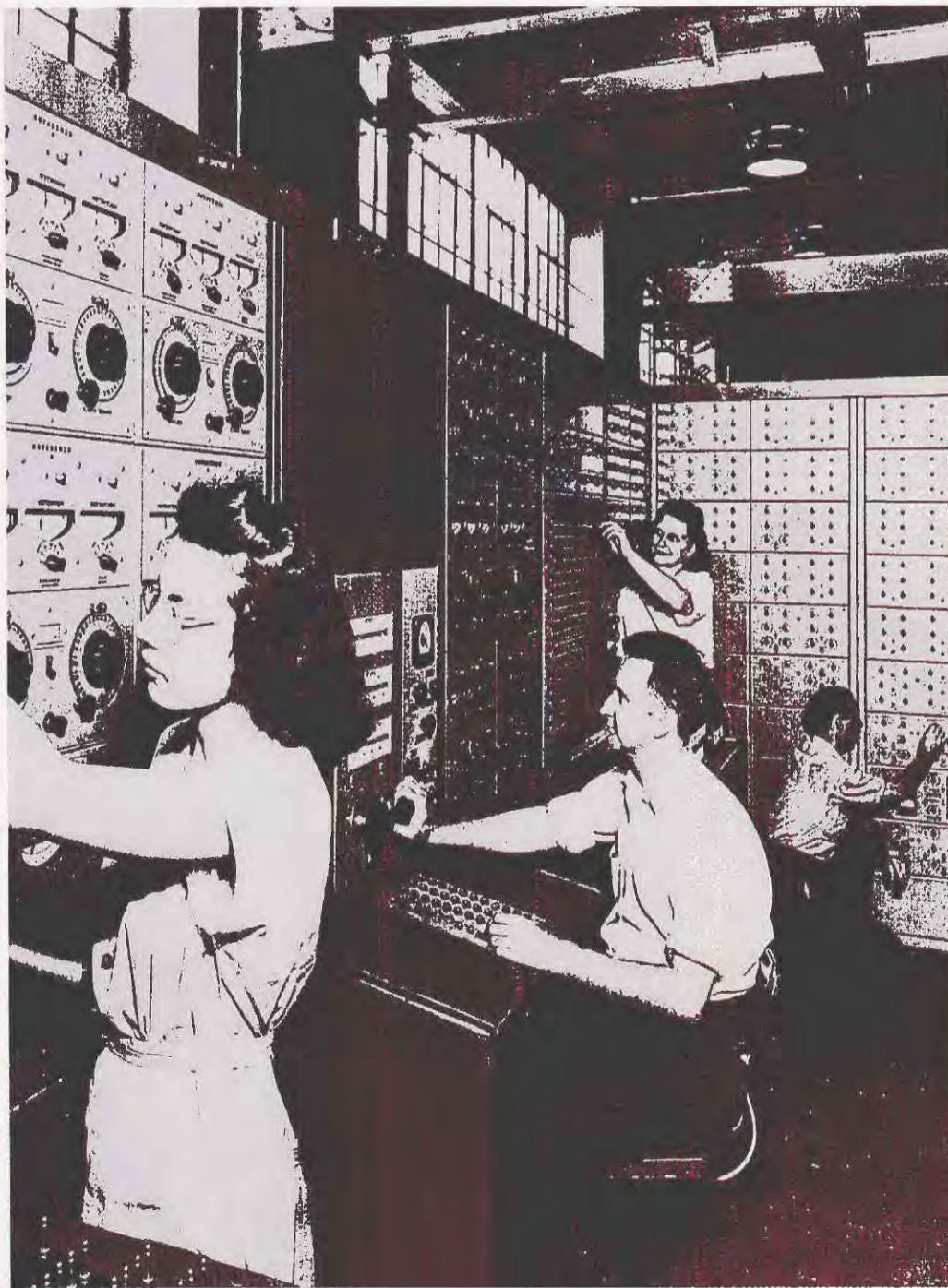
The **clients** section provides the number of active and inactive captives managed at year-end 2000; the number of captives that are directly managed vs. those subcontracted and the number of captives that are currently in formation is also indicated. The total gross premium volume and the capital and surplus of captives managed in 2000 are provided. The minimum premium volume requirement for a client is included as well.

The section on **compensation** details how the company bills for its services. The term "commissions" refers to commissions generated through reinsurance brokerage. Information about **2000 gross revenue** is included if the company reported such information; a breakout of 2000 gross revenue indicates the total percentage of revenue generated from fees charged for captive management, commissions charged for insurance and/or reinsurance brokered and other services the company provides.

The names and titles of the company's principal **officers** and that of a **contact** for readers seeking additional information complete each listing.

Although every effort is made to publish complete and accurate information, *BI* is unable to verify all information received.

If you would like to include your company in next year's directory of captive managers, please contact the *Business Insurance* Directory Department, at 312-649-5313.



Continued from previous page.

rectly managed, 2 currently in formation. Captive premium volume, \$35,461,710. Capital and surplus managed, \$28,774,118. No minimum size client.
Compensation: annual fee, hourly; professional, \$75 to \$150; clerical, \$50 to \$60.
Officers: Tony Cope, executive director; Tony Grainger, head-captive management.
Contact: Tony Grainger.

Aon Insurance Managers (Barbados) Ltd.

1 Financial Place, Collymore Rock, St. Michael, Barbados;
 246-436-4895; fax: 246-436-9016
 www.aonirmg.com, www.aon.com

Founded: 1984.
Parent: Aon Corp.
Direct services: captive formation, government reporting, accounting, computerized accounting, claims processing, investment management, association captive management.
Staff: 15 total, 7 professionals.
Clients: 33 total captives; 27 active captives, 6 in-

active captives, 33 directly managed, 1 currently in formation. Captive premium volume, \$160,166,831. Capital and surplus managed, \$324,094,016. No minimum size client.

Compensation: annual fee, hourly.
Officers: Winston Hampden, managing director; Richard Ince, senior vp; Gregory Smith, vp.
Contact: Winston Hampden; vin-hampden@agl.aon.com.

Pro forma numbers for captive premium volume and captives to reflect the merger of Aon Insurance Managers (Barbados) Ltd. and IRMG Barbados.

Aon Insurance Managers (Bermuda) Ltd.

Craig Appin House, 8 Wesley St., Hamilton HM HX, Bermuda;
 441-295-2220; fax: 441-292-0217
 www.aonirmg.com, www.aon.com

Founded: 1963.
Parent: Aon Corp.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, online access to claims data, claims reserves analysis, loss

control services, managing underwriting facilities, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, investment management, underwriting and ratemaking for captives, association captive management, rent-a-captive management.

Staff: 109 total, 54 professionals.
Clients: 250 total captives; 228 active captives, 22 inactive captives, 250 directly managed, 7 currently in formation. Captive premium volume, \$2,262,969,147. Capital and surplus managed, \$3,001,990,898. No minimum size client.

Compensation: annual fee, hourly.
Officers: Philip Barnes, managing director; Carl Daly, Brian Durrant, executive vps.
Contact: Philip Barnes.

Pro forma numbers for captive premium volume and captives to reflect the merger of Aon Insurance Managers (Bermuda) Ltd. and International Risk Management (Bermuda) Ltd.

Aon Insurance Managers (Cayman) Ltd.

Buckingham Square, Second Floor, P.O. Box 1125 GT,

George Town, Grand Cayman, Cayman Islands, B.W.I.;
 345-945-2888; fax: 345-945-2889
 www.aonirmg.com, www.aon.com

Founded: 1986.
Parent: Aon Corp.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, association captive management, rent-a-captive management.

Subcontracted services: claims processing.
Staff: 31 total, 13 professionals.
Clients: 66 total captives; 55 active captives, 11 inactive captives, 66 directly managed, 5 currently in formation. Captive premium volume, \$658,808,384. Capital and surplus managed, \$586,774,904. No minimum size client.

Compensation: annual fee, hourly.
Officers: Peter K. Jones, managing director; Anthony B. Stelling, regional director-Caribbean.
Contact: Peter K. Jones; peter_k_jones@agl.aon.com.

Pro forma numbers for captive premium volume and captives to reflect the merger of Aon Insurance Managers (Cayman) Ltd. and International Risk Management (Cay-

man) Ltd.

Aon Insurance Managers (Dublin) Ltd.

22 Upper Fitzwilliam St., Dublin 2, Ireland;
 353-1-676-2911; fax: 353-1-676-2744
 www.aonirmg.com, www.aon.com

Founded: 1990.
Parent: Aon Corp.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, online access to claims data, claims reserves analysis, loss forecasting, investment management, association captive management, underwriting and ratemaking for captives.

Subcontracted services: claims processing, claims reserves analysis, loss control services, actuarial studies, loss forecasting, reinsurance brokered to captives, investment management, tax advice, legal advice, underwriting and ratemaking for captives, reinsurance brokered for captives.

Staff: 29 total, 15 professionals.
Clients: 39 total captives; 36 active captives, 3 inactive captives, 39 directly managed, 3 currently in formation. Captive premium volume, \$617,962,133. Capital and surplus managed, \$325,578,907. No minimum size client.

Officers: Eamon O'Brien, managing director; Garry Cullen, deputy chairman.
Contact: Eamon O'Brien, eamon_obrien@aon.com; Garry Cullen, garry.cullen@irmg.com; Alain Dufraisne, director-client services, alain_dufraisne@aon.com.

Pro forma numbers for captive premium volume and captives to reflect the merger of Aon Insurance Managers (Dublin) Ltd. and International Risk Management (Dublin) Ltd.

Aon Insurance Managers (Guernsey) Ltd.

Maison Trinity, Trinity Square, St. Peter Port, Guernsey GY1 4AT, Channel Islands;
 44-1481-707-909; fax: 44-1481-720-235
 www.aonirmg.com, www.aon.com

Founded: 1977.
Parent: Aon Corp.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, online access to claims data, claims reserves analysis, managing underwriting facilities, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, association captive management, rent-a-captive management.

Subcontracted services: loss control services, actuarial studies, reinsurance brokered to captives, investment management, tax advice, legal advice.

Staff: 65 total, 14 professionals.
Clients: 127 total captives; 116 active captives, 11 inactive captives, 127 directly managed, 6 currently in formation. Captive premium volume, \$1,059,502,639. Capital and surplus managed, \$1,360,030,183. No minimum size client.

Compensation: annual fee, hourly.
Officers: Clive James, managing director; Chris LeConte, Rick Gale, John W. Stuart, executive directors.
Contact: Clive James.

Pro forma numbers for captive premium volume and captives to reflect the merger of Aon Insurance Managers (Guernsey) Ltd. and International Risk Management (Guernsey) Ltd.

Aon Insurance Managers (Isle of Man) Ltd.

Jubilee Buildings, Victoria St., Third Floor, Douglas, IM1 2LR, Isle of Man;
 44-162-468-9400; fax: 44-162-467-3242
 www.aonirmg.com, www.aon.com

Founded: 1985.
Parent: Aon Corp.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, online access to claims data, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, investment management, association captive management, underwriting and ratemaking for captives.

Subcontracted services: loss control services, actuarial studies, loss forecasting, investment management, tax advice, legal advice.

Staff: 30 total, 14 professionals.
Clients: 34 total captives; 30 active captives, 4 inactive captives, 34 directly managed, 2 currently in formation. Captive premium volume, \$262,990,803. Capital and surplus managed, \$568,361,985. No minimum size client.

Compensation: annual fee, hourly.
Officers: Jim Boyd, executive chairman; Duncan Donald, David Newman, executive directors.
Contact: David Newman.

Pro forma numbers for captive premium volume and captives to reflect the merger of Aon Insurance Managers (Isle of Man) Ltd. and International Risk Management (Isle of Man) Ltd.

Aon Insurance Managers (Jersey) Ltd.

Le Gallais Chambers, 54 Bath St., St Helier, Jersey, Channel Islands;
 44-1481-707-909; fax: 44-148-172-0235
 www.aonirmg.com, www.aon.com

Founded: 1994.
Parent: Aon Corp.
Direct services: captive feasibility studies, captive formation, accounting, computerized accounting, claims processing, online access to claims data, claims reserves analysis, loss forecasting.

Continued on next page

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CAPTIVE REPORT

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Compensation: annual fee, hourly.
Officers: Clive James, managing director-Aon Insurance Managers (Guernsey) Ltd.; John W. Stuart, executive director-Aon Insurance Managers (Guernsey) Ltd.
Contact: Clive James.

Aon Insurance Managers (Luxembourg) S.A.

283 Route D'Arlon,
Strassen, 8011, Luxembourg;
352-31-7171; fax: 352-31-7174
www.aonirmg.com, www.aon.com

Founded: 1994.
Parent: Aon Corp.
Direct services: captive feasibility studies, captive formation, accounting, computerized accounting, claims processing, claims reserves analysis, managing underwriting facilities, reinsurance brokered for captives, underwriting and ratemaking for captives.
Staff: 4 total, 3 professionals.
Clients: 15 total captives: 15 active captives, 15 directly managed, 4 currently in formation. Captive premium volume, \$53,728,270. Capital and surplus

managed, \$120,577,659. No minimum size client.
Compensation: annual fee, hourly.
Contact: Lambert Schroeder, managing director.

Aon Insurance Managers (Nederland)

16 Marconistraat,
Rotterdam, 3029 AK, Netherlands;
31-10-448-8830; fax: 31-10-477-7059
www.aonirmg.com, www.aon.com

Founded: 1995.
Parent: Aon Corp.
Direct services: captive formation, government reporting, accounting, computerized accounting, claims processing, claims reserves analysis, loss forecasting.
Staff: 5 total, 4 professionals.
Clients: 2 total captives: 2 active captives, 2 directly managed. Captive premium volume, \$2,077,201. Capital and surplus managed, \$12,829,919. No minimum size client.
Compensation: annual fee, hourly.
Officers: Paul Kabel, Adri van Veluw, managing directors.
Contact: Paul Kabel.

Aon Insurance Managers (Panama) S.A.

Third Ave., 77th St., P.O. Box 87-1950,
San Francisco, Zone 7, Panama;
507-270-3425; fax: 507-270-3434
www.aonirmg.com, www.aon.com

Founded: 1996.
Parent: Aon Corp.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, claims processing, reinsurance brokered for captives, investment management, tax advice, legal advice, rent-a-captive management.
Subcontracted services: captive feasibility studies, investment management, tax advice, legal advice.
Compensation: annual fee, hourly.
Contact: Tito Ducruet, president.

Aon Insurance Managers (Singapore) Pte. Ltd.

50 Raffles Place, Suite 3200,
048623 Singapore;
65-221-8222; fax: 65-338-9880
www.aonirmg.com, www.aon.com

Founded: 1987.
Parent: Aon Corp.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, investment management.

Staff: 3 total, 3 professionals.
Clients: 7 total captives: 7 active captives, 7 directly managed, 5 currently in formation. Captive premium volume, \$5,883,639. Capital and surplus managed, \$16,239,061. No minimum size client.
Compensation: annual fee, hourly.
Contact: Mike Parrish, director.

Aon Insurance Managers (USA) Inc.

201 Merchant St.,
Honolulu, Hawaii 96813;
808-540-4315; fax: 808-540-4301
www.aonirmg.com, www.aon.com

Founded: 1994.
Parent: Aon Corp.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, association captive management, rent-a-captive management.
Staff: 1 total, 1 professional.
Clients: 7 total captives: 6 active captives, 1 inactive captive, 7 directly managed, 3 currently in formation. Captive premium volume, \$38,637,000. Capital and surplus managed, \$24,813,000. No minimum size client.
Compensation: annual fee, hourly.
Contact: Jill Miura, assistant managing director.

Aon Insurance Managers (USA) Inc.

346 Shelburne Road,
Burlington, Vt. 05401;
802 860 0444; fax: 802 860 0440
www.aonirmg.com, www.aon.com

Founded: 1965.
Parent: Aon Corp.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, online access to claims data, managing underwriting facilities, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, association captive management, rent-a-captive management.
Subcontracted services: claims reserves analysis, loss control services, actuarial studies, loss forecasting, investment management, tax advice, legal advice.
Staff: 33 total, 16 professionals.
Clients: 111 total captives*: 109 active captives, 2 inactive captives, 111 directly managed, 3 currently in formation. Captive premium volume, \$1,495,027,267. Capital and surplus managed, \$15,303,213,961. No minimum size client.
Compensation: annual fee, hourly.
Officers: Peter Joy, managing director; Jim Murray, Nancy Gray, deputy managing directors.
Contact: Peter Joy, 802-462-4400.

*Pro forma numbers for captive premium volume and captives to reflect the merger of Aon Insurance Managers (USA) Inc. and IRMG/American Risk Management Corp. * Manages captives in Colorado, Delaware, Kentucky, Maine, Rhode Island and Vermont.*

Aon Insurance Managers (Vancouver)

900 Howe St., Box 3228,
Vancouver, British Columbia V6B 3X8;
604-683-2561; fax: 604-643-5235
www.aonirmg.com, www.aon.com

Founded: 1988.
Parent: Aon Corp.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, claims reserves analysis.
Subcontracted services: loss control services, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives.
Staff: 3 total, 2 professionals.
Clients: 11 total captives: 10 active captives, 1 inactive captive, 11 directly managed. Captive premium volume, \$28,308,770. Capital and surplus managed, \$22,486,955. No minimum size client.
Compensation: annual fee, hourly.
Contact: Bill Morgan, managing director.

APManagement Ltd.*

Windsor Place, 18 Queen St., Third Floor, P.O. Box HM 2267,
Hamilton HM JX, Bermuda;
441-295-6642; fax: 441-292-1196

Founded: 1999.
Parent: American Physicians Capital.
Subcontracted services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, rent-a-captive management.
Clients: 1 total captive: 1 active captive, 1 subcontracted. No minimum size client.
Compensation: annual fee, hourly.
2000 gross revenue: 100% from fees charged for captive management.
Officers: Monte Jahnke, president; Andrew McComb, vp.
Contact: Doug Fullerton; doug@powerscourt.bm.
*Subcontracts for some captive management services with Powerscourt Management Ltd.
Formerly MICOA Management Ltd.

Atlantic Security Ltd.

Windsor Place, 18 Queen St.,
Hamilton, Bermuda;
441-295-5425; fax: 441-295-5444
www.asl.bm

Founded: 1974.
Parent: ASL Holdings Ltd.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, claims reserves analysis, rent-a-captive management, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, association captive management.
Staff: 14 total, 7 professionals.

Clients: 50 total captives: 50 active captives, 50 directly managed, 1 currently in formation. Captive premium volume, \$250,000,000. Capital and surplus managed, \$173,000,000. No minimum size client.
Compensation: annual fee, \$15,000 minimum; commissions: hourly; professional, \$150 to \$300; clerical, \$75 to \$150.
Officers: Colin James, president; Richard Witkowski, senior vp; Dwayne Dill, vp.
Contact: Colin James.

BF&M Management Ltd.

P.O. Box HM 1007,
Hamilton HM DX, Bermuda;
441-292-6396; fax: 441-292-8296

www.bfm.bm
Founded: 1969.
Parent: BF&M Ltd.
Direct services: captive formation, government reporting, accounting, computerized accounting, claims processing, claims reserves analysis, managing underwriting facilities, reinsurance brokered for captives, reinsurance brokered to captives, investment management, association captive management, rent-a-captive management.
Subcontracted services: captive feasibility studies, online access to claims data, loss control services, actuarial studies, loss forecasting, tax advice, legal advice, underwriting and ratemaking for captives.
Staff: 8 total, 4 professionals.
Clients: 28 total captives: 27 active captives, 1 inactive captive, 28 directly managed, 1 currently in formation. Captive premium volume, \$437,015,261. Capital and surplus managed, \$263,943,119. No minimum size client.
Compensation: annual fee, \$20,000 minimum; commissions: hourly.
2000 gross revenue: 90% from fees charged for captive management, 7% from commissions charged for brokering insurance and/or reinsurance, 3% from other services.
Contact: Elizabeth A. C. Durrant, vp; ldurrant@bfm.bm.

Becher + Carlson Cos.

84 Pine St., 600 Financial Plaza, P.O. Box 5599,
Burlington, Vt. 05401;
802-658-7831; fax: 802-658-7843

www.amre.com
Founded: 1982.
Parent: American Re-Insurance Co.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, loss control services, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management.
Staff: 3 total, 2 professionals.
Clients: 7 total captives: 7 active captives, 7 directly managed. Captive premium volume, \$8,955,962. Capital and surplus managed, \$148,614,845. No minimum size client.
Compensation: annual fee.
Officers: Gregory K. Myers, president/CEO; Robert L. Glickstein, senior vp/CFO; Robert W. Hessel, senior vp.

Becher + Carlson Management Ltd.

Continental Building, 25 Church St., P.O. Box HM 2461,
Hamilton HM JX, Bermuda;
441-295-0519; fax: 441-295-0933

www.amre.com
Founded: 1981.
Parent: American Re-Insurance Co.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, online access to claims data, claims reserves analysis, rent-a-captive management, actuarial studies, reinsurance brokered for captives, reinsurance brokered to captives, association captive management, loss forecasting.
Staff: 9 total.
Clients: 21 total captives: 15 active captives, 6 inactive captives, 21 directly managed, 1 currently in formation. Captive premium volume, \$210,000,000. Capital and surplus managed, \$413,000,000. No minimum size client.
Compensation: annual fee, hourly.
Officers: Tony Bibbings, senior vp; Frances Bingham, Krystalle Tobin, vps.
Contact: Pam Brooskin; 21700 Oxnard St., Suite 1800, Woodland Hills, Calif. 91367; 818-598-4250.

Becher + Carlson Risk Management Inc.

Pacific Tower, 1001 Bishop St., Suite 2788,
Honolulu, Hawaii 96813-3403;
808-521-1121; fax: 808-521-1288

www.amre.com
Founded: 1991.
Parent: American Re-Insurance Co.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, rent-a-captive management, actuarial studies, loss forecasting.

Continued on next page

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HIGH PERFORMANCE AT VERY COMPETITIVE RATES

Continued from previous page

casting, reinsurance brokered for captives, underwriting and ratemaking for captives, association captive management.

Staff: 2 total, 1 professional.
Clients: 11 total captives: 8 active captives, 3 inactive captives, 11 directly managed, 2 currently in formation. Captive premium volume, \$48,800,000. Capital and surplus managed, \$88,700,000. No minimum size client.

Compensation: annual fee.
2000 gross revenue: 100% from fees charged for captive management.

Officers: Gregory K. Myers, president/CEO; Robert Glickstein, senior vp; Wanda Jong, vp/manager.

Contact: Pam Brooskin; 21700 Oxnard St., Suite 1800, Woodland Hills, Calif. 91367; 818-598-4250.

Bott & Associates Ltd.

The Armoury Building, 37 Reid St., P.O. Box HM 1087, Hamilton HM EX, Bermuda; 441-292-6564; fax: 441-292-5796

Founded: 1979.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, rent-a-captive management, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, association captive management, managing underwriting facilities, claims reserves analysis.

Staff: 6 total, 3 professionals.
Clients: 10 total captives: 8 active captives, 2 inactive captives, 10 directly managed, 2 currently in formation. No minimum size client.

Compensation: annual fee, \$12,000 minimum; commissions.

2000 gross revenue: 50% from fees charged for captive management, 40% from commissions charged for brokering insurance and/or reinsurance, 10% from other services.

Officers: Michael F. Bott, president; Roy V. Bray, executive vp.

Contact: Roy V. Bray.

Britannia Insurance Management (Cayman) Ltd.

Piccadilly Centre, Elgin Ave., P.O. Box 10139 APO, George Town, Grand Cayman, Cayman Islands, B.W.I.; 345-945-7700; fax: 345-945-7701
www.britannia.com.ky

Founded: 1997.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, rent-a-captive management, actuarial studies, association captive management, managing underwriting facilities.

Subcontracted services: claims processing, claims reserves analysis, loss control services, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, tax advice, legal advice.

Staff: 2 total, 1 professional.
Clients: 3 total captives: 3 active captives, 2 currently in formation. Captive premium volume, \$31,000,000. Capital and surplus managed, \$94,000,000. No minimum size client.

Compensation: annual fee, \$20,000 minimum; hourly: professional, \$200; clerical, \$92.

Officers: Albert Jacob, chairman; J. Terry Burke, managing director.

Contact: J. Terry Burke.

CNA Risk Services Ltd.

Continental Building, 25 Church St., P.O. Box HM 824, Hamilton HM CX, Bermuda; 441-295-6015; fax: 441-295-1702
www.cnabermuda.com

Founded: 1980.
Parent: CNA Financial Corp.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, rent-a-captive management, actuarial studies, loss forecasting, association captive management, computerized accounting, managing underwriting facilities.

Staff: 6 total, 4 professionals.
Clients: 12 total captives: 11 active captives, 1 inactive captive, 12 directly managed. No minimum size client.

Compensation: annual fee, commissions.
Officers: Doug May, chairman; Leslie Boughner, CEO; Thomas McMahon, COO.

Contact: Thomas McMahon, thomas.mcmahon@cna.bm; Michael Larkin, michael.larkin@cna.bm.

CPA Mutual Management Inc.

11801 Research Drive, Alachua, Fla. 32615; 800-543-3029; fax: 386-418-4004

Founded: 1987.
Direct services: captive feasibility studies, captive formation, computerized accounting, claims processing, online access to claims data, claims reserves analysis, loss control services, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, tax advice, association captive management, managing underwriting facilities.

Subcontracted services: government reporting, accounting, actuarial studies, loss forecasting, legal advice.

Staff: 6 total, 6 professionals.

Clients: 1 total captive: 1 active captive, 1 directly managed. Captive premium volume, \$8,150,000. Capital and surplus managed, \$12,500,000. No minimum size client.

2000 gross revenue: \$8,100,000.
Officers: Douglas H. Thompson Jr.; Ben Silberstein; William W. Thompson.

Subcontracts for some captive management services with Aon Insurance Managers.

Caledonian Bank & Trust Ltd.

Caledonian House, P.O. Box 1043, George Town, Grand Cayman, Cayman Islands, B.W.I.; 345-949-0050; fax: 345-949-8062
www.caledonian.com

Founded: 1970.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, claims reserves analysis, rent-a-captive management, loss forecasting, investment management, association captive management.

Subcontracted services: loss control services, actuarial studies, reinsurance brokered for captives,

reinsurance brokered to captives, underwriting and ratemaking for captives, tax advice, legal advice, managing underwriting facilities.

Staff: 6 total, 4 professionals.
Clients: 18 total captives: 15 active captives, 3 inactive captives, 15 directly managed, 3 subcontracted. Captive premium volume, \$66,639,000. Capital and surplus managed, \$291,746,000. No minimum size client.

Compensation: annual fee, \$5,000 minimum; hourly: professional, \$180; clerical, \$80.

2000 gross revenue: \$240,000. 100% from fees charged for captive management.

Officers: David Sargison, managing director; David Walther, assistant managing director; Nicholas Leighton, director-insurance services.

*Captive premium volume does not include \$134,000,000 in premiums from a loss portfolio novation.

Captive Resources Inc.

201 E. Commerce Drive, Schaumburg, Ill. 60173-5338; 847-781-1400; fax: 847-781-1455
www.captiveresources.com

Founded: 1981.
Parent: Mutual Risk Management Ltd.
Direct services: underwriting and ratemaking for captives, investment management, association captive management, managing underwriting facilities, captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, rent-a-captive management, reinsurance brokered for captives.

Subcontracted services: tax advice, legal advice, claims processing, online access to claims data, loss control services, actuarial studies, loss forecasting.

Staff: 62 total, 48 professionals.
Clients: 23 total captives: 23 active captives, 22 directly managed, 1 subcontracted, 4 currently in formation. Captive premium volume, \$280,000,000. No minimum size client.

Compensation: annual fee.
2000 gross revenue: 95% from fees charged for captive management, 5% from other services.

Officers: George V. Rusu, president; Michael J. Kilbane, executive vp/CFO; Jennifer Beard, executive vp-operations.

Contact: George V. Rusu.

Subcontracts for some captive management services with Kensington Management Group Ltd.

Castlewood Risk Management Ltd.

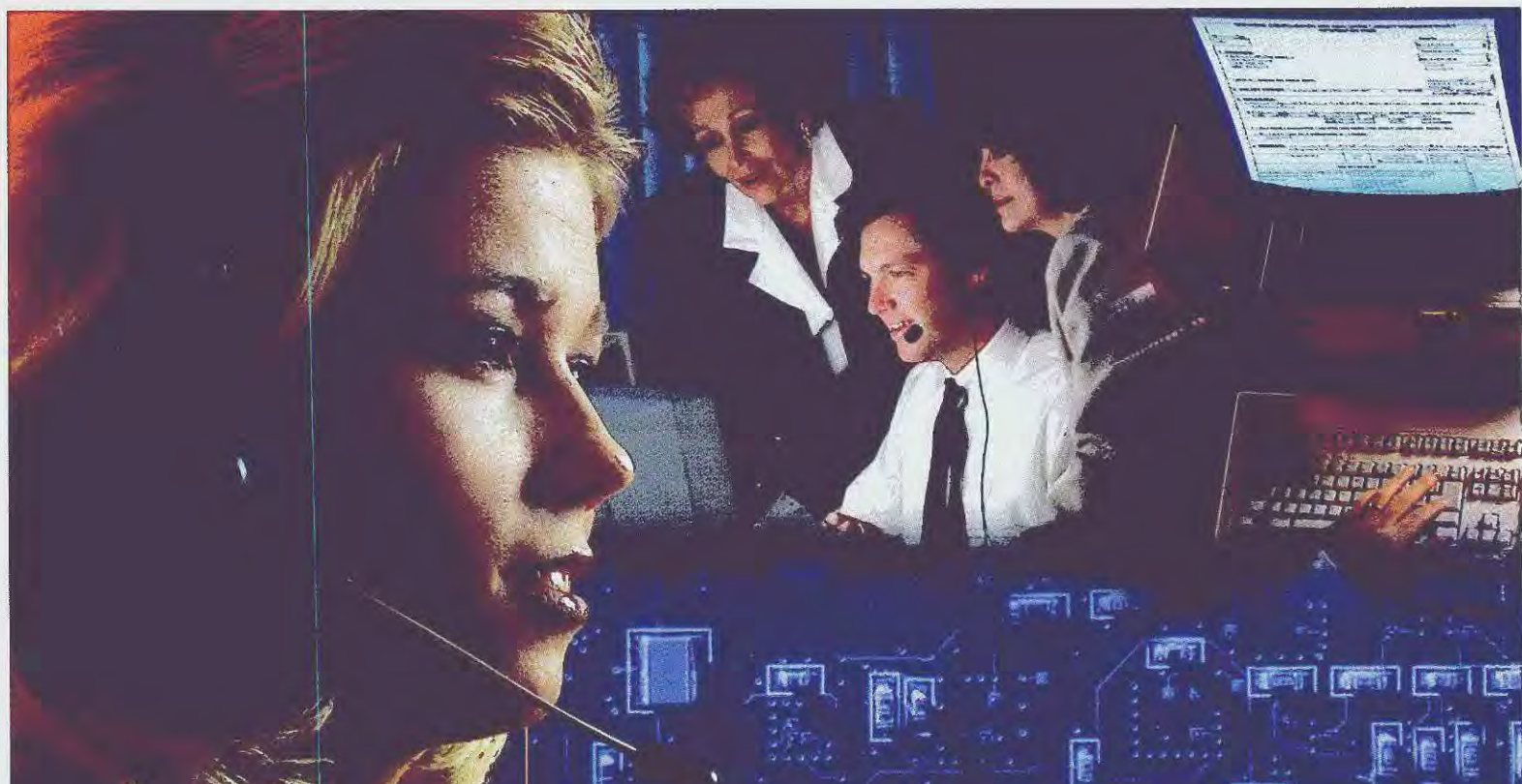
Windsor Place, 18 Queen St., Hamilton HM 11, Bermuda; 441-295-8495; fax: 441-292-1196

Founded: 2000.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, association captive management, rent-a-captive management.

Staff: 3 total, 3 professionals.
Clients: 3 total captives: 2 active captives, 1 inactive captive, 3 directly managed, 1 currently in formation. No minimum size client.

Continued on next page

A chart providing a synopsis of developments and regulations in captive domiciles worldwide appears on pages 58-62.



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CAPTIVE REPORT

Continued from previous page

Compensation: annual fee, commissions, hourly.
2000 gross revenue: 90% from fees charged for captive management, 10% from other services.

Officers: Andrew McComb, president/CEO; Steven R. Western, senior vp/COO; Margaret Turner, vp-insurance services.

Contact: Andrew McComb, 441-295-2749, andym@powerscourt.bm; Steven R. Western, 441-292-1486, steve@powerscourt.bm.

Chandler Insurance Management Ltd.

Anderson Square, Fifth Floor, P.O. Box 1854, Grand Cayman, Cayman Islands, B.W.I.; 345-949-8177; fax: 345-949-8376
www.chandlerinsurance.com

Founded: 1990.
Parent: Chandler Insurance Co. Ltd.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, reinsurance brokered for captives, reinsurance brokered for captives, association captive management.

Staff: 4 total, 2 professionals.
Clients: 12 total captives: 10 active captives, 2 inactive captives, 12 directly managed. Captive premium volume, \$57,841,000. Capital and surplus managed, \$131,399,000. Minimum size client, \$500,000.
Officers: W. Brent Lagere, chairman/director; Steven R. Butler, director.

Channel Islands Insurance Consultants Ltd.

26 Cornet St., St. Peter Port, Guernsey GY1 1LF, Channel Islands; 44-1481-710-336; fax: 44-1481-710-696

Founded: 1982.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, online access to claims data, claims reserves analysis, loss control services, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, tax advice, rent-a-captive management.

Staff: 8 total, 4 professionals.
Clients: 12 total captives: 12 active captives, 12 directly managed, 1 currently in formation.
Compensation: annual fee, hourly.
Officers: Timothy A. Spafford, managing director; Tracey N. Turberville; Michael J. Savage.
Contact: Timothy A. Spafford; tspafford@ciic.guernsey.net.

Coleman Williams Risk Management Ltd.

ICB Building, Roebuck St., Bridgetown, Barbados; 246-427-3362; fax: 246-426-0426

Founded: 1999.
Direct services: captive formation, government reporting, accounting, computerized accounting.

Staff: 1 total, 1 professional.
Clients: 5 total captives: 2 active captives, 3 inactive captives, 5 directly managed. No minimum size client.
Compensation: annual fee, hourly.
2000 gross revenue: 100% from fees charged for captive management.
Contact: Fiona A. Williams, general manager.

Commonwealth Risk Management Inc.

P.O. Box 834, Montpelier, Vt. 05601-0834; 802-229-5000; fax: 610-430-2014

Founded: 1987.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, tax advice, legal advice, association captive management, managing underwriting facilities.

Subcontracted services: claims processing, online access to claims data, loss control services, rent-a-captive management, claims reserves analysis.

Staff: 5 total, 2 professionals.
Compensation: annual fee, \$25,000 minimum; commissions; hourly: professional, \$135; clerical, \$35.
Officers: Peter D. Sanger, president/treasurer; Judith A. Sanger, vp/secretary.
Contact: Peter D. Sanger; 610-805-6143.

Crusader International Management (Cayman) Ltd.

Crusader House, 102 Mary St., P.O. Box 2185 GT, Grand Cayman, Cayman Islands, B.W.I.; 345-949-1599; fax: 345-949-0520

Founded: 1993.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, rent-a-captive management, association captive management.

Subcontracted services: actuarial studies, tax advice, legal advice.

Staff: 11 total, 3 professionals.
Clients: 6 total captives: 6 active captives, 6 directly managed, 3 currently in formation. Captive premium volume, \$33,000,000. Capital and surplus managed, \$46,000,000. No minimum size client.
Compensation: annual fee, \$20,000 minimum.
2000 gross revenue: \$2,000,000. 6% from fees charged for captive management, 94% from other services.

Officers: Ian Kilpatrick, president; Gavin Foggon, financial controller; Fiona Moseley, senior account administrator.

Contact: Ian Kilpatrick.

Eaglehurst Insurance Management Ltd.

Analyst House, 20-26 Peel Road, P.O. Box 16, Douglas, IM991AP, Isle of Man; 44-162-467-3811; fax: 44-162-462-9983

Founded: 1986.
Parent: Pannell Kerr Forster.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, claims reserves analysis, rent-a-captive management, investment management, tax advice, legal advice, association captive management.

Staff: 3 total, 3 professionals.
Clients: 2 total captives: 2 active captives, 2 directly managed. Captive premium volume, \$700,000.
Capital and surplus managed, \$4,500,000. No minimum size client.

Compensation: hourly: professional, \$125 to \$380; clerical, \$60.
2000 gross revenue: \$60,000. 100% from fees charged for captive management.
Officers: Isobel Foster, John Scott, John H. Nugent, directors.
Contact: Isobel Foster.

Euro Ltd.

International House, 3 Harbourmaster Place, Dublin 1, Ireland; 353-1-829-0444; fax: 353-1-829-0433

Founded: 1993.
Parent: DVV verzekeringen N.V.
Direct services: captive feasibility studies, captive formation, accounting, computerized accounting, claims processing, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered for captives, investment management, tax advice, legal advice, managing underwriting facilities, government reporting.

Staff: 9 total, 9 professionals.
Clients: 6 total captives: 6 active captives, 6 directly managed. Captive premium volume, \$226,890,794.

Capital and surplus managed, \$121,561,532.
Compensation: annual fee, commissions, hourly.
2000 gross revenue: 79% from fees charged for captive management, 21% from other services.
Officers: Hugo Azijn, managing director; Carmel O'Brien, financial controller; David Claes, reinsurance manager.

European Insurance Management Services Ltd.

Regal House, P.O. Box 416, Gibraltar; 350-48-352; fax: 350-75-655

Founded: 1999.
Direct services: captive feasibility studies, captive formation, claims processing, reinsurance brokered for captives, underwriting and ratemaking for captives.

Staff: 1 total, 1 professional.
Clients: 4 total captives: 4 active captives, 4 directly managed, 8 currently in formation.
Compensation: annual fee, \$50,000 minimum; hourly: professional, \$160.
Officers: Reginald J. Wallace, chairman; Paul L. Savignon, CEO/director; Chris W. Johnson, general manager/director.
Contact: Chris W. Johnson; 350-48-324; chris.johnson@eims.gi.

Subcontracts for some captive management services with Aon Insurance Managers and HSBC Holdings P.L.C.

FBD International Captive Management Ltd.

Guild House, Guild St., IFSC, Dublin 1, Ireland; 353-1-670-1340; fax: 353-1-670-1342

Founded: 1990.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, loss control services, tax advice.

Subcontracted services: claims processing, actuarial studies, reinsurance brokered for captives, reinsurance brokered for captives, investment management, legal advice.

Staff: 4 total, 4 professionals.
Clients: 4 total captives: 3 active captives, 1 inactive captive. Captive premium volume, \$254,000,000. Capital and surplus managed, \$46,000,000. Minimum size client, \$1,160,000.
Compensation: annual fee, \$35,000 minimum.
2000 gross revenue: \$200,000. 100% from fees charged for captive management.
Officers: John H. Prosser, general manager; Catherine Kenny, manager-client services.

50th State Risk Management Services Inc.

6 Waterfront Plaza, 500 Ala Moana Blvd., Honolulu, Hawaii 96813; 808-543-0439; fax: 808-523-9027

Founded: 1982.

Parent: American International Group Inc.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, online access to claims data, claims reserves analysis, managing underwriting facilities, actuarial studies, loss forecasting, reinsurance brokered for captives, association captive management, rent-a-captive management.

Subcontracted services: captive feasibility studies, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives.

Staff: 5 total, 4 professionals.
Clients: 7 total captives: 7 active captives, 7 directly managed. Captive premium volume, \$6,100,000*. No minimum size client.

Compensation: annual fee; hourly: professional, \$150; clerical, \$65.
2000 gross revenue: 100% from fees charged for captive management.

Officers: Paul Obolensky, president-AIG Insurance Management Services Worldwide.
Contact: Earl N. Hisatomi.

*Captive premium volume provided by Hawaii Insurance Division's Captive Insurance Branch.

FINNCAP-Oy Finnish Captive & Risk Services Ltd.

Vattuniemenkuja 8A, Helsinki, Fin-00035, Finland; 358-10-514-5315; fax: 358-10-514-5193

Parent: Aon Corp., Sampo Industrial Insurance N.V.

Direct services: captive feasibility studies, captive formation, government reporting, online access to claims data, claims reserves analysis, loss control services, underwriting and ratemaking for captives.

Staff: 2 total, 1 professional.
Clients: 4 total captives: 3 active captives, 1 inactive captive. No minimum size client.

Compensation: annual fee, hourly.
Officers: Anders Nordman, chairman; Juha Eittala, deputy chairman; Lars Von Herten, managing director.

Contact: Lars Von Herten; lars.herten@sampo.com.

Arthur J. Gallagher Management (Bermuda) Ltd.

Sofia House, 48 Church St., Hamilton HM 11, Bermuda; 441-292-4654; fax: 441-292-8231

Founded: 1972.
Parent: Arthur J. Gallagher & Co.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, rent-a-captive management, loss forecasting, reinsurance brokered for captives, reinsurance brokered for captives, underwriting and ratemaking for captives, association captive management, managing underwriting facilities.

Subcontracted services: claims processing, online access to claims data, claims reserves analysis, loss control services, actuarial studies, tax advice, legal advice, investment management.

Staff: 9 total, 6 professionals.
Clients: 16 total captives: 15 active captives, 1 inactive captive, 15 directly managed, 1 subcontracted, 2 currently in formation. Captive premium volume, \$153,000,000. No minimum size client.

Compensation: annual fee, \$25,000 minimum.
Officers: David J. McManus, president; Peter J. Mullen, executive vp; Alan McKean, vp.
Subcontracts for some captive management services with Mutual Risk Management (Cayman) Ltd.

Green Mountain Captive Management Co.

83 Washington St., P.O. Box 628, Barre, Vt. 05641; 802-479-1046; fax: 802-479-2761

Direct services: government reporting, accounting, claims processing.

Subcontracted services: captive feasibility studies, captive formation, computerized accounting, online access to claims data, claims reserves analysis, loss control services, managing underwriting facilities, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, tax advice, legal advice.

Staff: 3 total, 2 professionals.
Officers: Richard W. Huskes Jr.; James C. Milligan.
Contact: Richard W. Huskes Jr.

Guardrisk Insurance Co. Ltd.

P.O. Box 62018, Marshalltown, Johannesburg, 2107, South Africa; 27-11-645-2000; fax: 27-11-645-2477
www.guardrisk.com

Founded: 1992.
Parent: Alexander Forbes Ltd.
Direct services: government reporting, accounting, computerized accounting, claims reserves analysis, rent-a-captive management, actuarial studies, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, tax advice, legal advice, managing underwriting facilities.

Subcontracted services: claims processing, actuarial studies, legal advice.

Staff: 63 total, 20 professionals.
Clients: 65 total captives: 60 active captives, 5 inactive captives, 65 directly managed. Captive premium volume, \$182,800,000. Capital and surplus managed, \$122,200,000. No minimum size client.
Officers: R.W. Voysey, chairman; V.E. Von Widdern, managing director; S.M. Schoeman, director-

business development.

HSBC Insurance Services (Bermuda) Ltd.

75 Front St., P.O. Box HM 836, Hamilton HM CX, Bermuda; 441-292-7575; fax: 441-292-1243
www.insurancebrokers.hsbc.co.uk

Founded: 1987.
Parent: HSBC Holdings P.L.C.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, reinsurance brokered for captives, reinsurance brokered for captives, association captive management, rent-a-captive management.

Staff: 6 total, 3 professionals.
Clients: 10 total captives: 8 active captives, 2 inactive captives, 10 directly managed, 4 currently in formation. Captive premium volume, \$10,000,000. Capital and surplus managed, \$10,000,000. No minimum size client.

Compensation: annual fee, commissions, hourly.
2000 gross revenue: 30% from fees charged for captive management, 70% from commissions charged for brokering insurance and/or reinsurance.
Officers: Roy Fellows; rfellows@hsbcgroup.com.

HSBC Financial Services (Cayman) Ltd. dba HSBC Insurance Management

P.O. Box 1109 G.T., Grand Cayman, Cayman Islands, B.W.I.; 345-949-7755; fax: 345-949-6021
www.hsbc.ky

Founded: 1984.
Parent: HSBC Holdings P.L.C.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, claims reserves analysis, association captive management, rent-a-captive management.

Staff: 18 total, 14 professionals.
Clients: 81 total captives: 77 active captives, 4 inactive captives, 81 directly managed, 1 currently in formation. Captive premium volume, \$240,000,000. Capital and surplus managed, \$340,000,000.

Compensation: annual fee, \$10,000 minimum; hourly: professional, \$90 to \$265.
Officers: David A. Whitefield, director/chief executive; Tom Clark, director; Linda Haddleton, assistant director.

Contact: Linda Haddleton; 345-914-7500; lghaddleton@ky.hsbc.com.

HSBC Insurance Management (Guernsey) Ltd.

HSBC House, Lefebvre St., P.O. Box 156, St. Peter Port, Guernsey GY1 4EU, Channel Islands; 44-1481-717-878; fax: 44-1481-717-941
www.insurancebrokers.hsbc.co.uk

Founded: 1996.
Parent: HSBC Holdings P.L.C.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, claims reserves analysis, managing underwriting facilities, loss forecasting, reinsurance brokered for captives, reinsurance brokered for captives, rent-a-captive management, underwriting and ratemaking for captives.

Subcontracted services: actuarial studies, investment management, tax advice, legal advice, association captive management.

Staff: 5 total, 4 professionals.
Clients: 7 total captives: 5 active captives, 2 inactive captives, 7 directly managed, 1 currently in formation.
Compensation: annual fee, \$45,000 minimum; hourly.
Contact: Gabrielle Allen, managing director.

Hartford Management Ltd.

Crawford House, 50 Cedar Ave., Hamilton, Bermuda; 441-295-5243; fax: 441-295-4460
www.hartford.bm

Founded: 1975.
Parent: The Hartford Financial Services Group.
Direct services: captive formation, government reporting, accounting, computerized accounting, claims processing, claims reserves analysis, rent-a-captive management, underwriting and ratemaking for captives, investment management, association captive management.

Subcontracted services: loss control services, actuarial studies, loss forecasting, tax advice, legal advice.

Staff: 9 total, 5 professionals.
Clients: 5 total captives: 2 active captives, 3 inactive captives, 5 directly managed. No minimum size client.
Compensation: annual fee, \$30,000 minimum.
Officers: C. Robert Burns Jr., president; Thomas S. Johnston, vp; Kathleen Barker, controller.
Contact: Loretta D. Weir.

Hawaii Captive Insurance Management Inc.

1164 Bishop St., Suite 1411, Honolulu, Hawaii 96813; 808-538-7766; fax: 808-538-7780

Founded: 1988.
Parent: USA Risk Group.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, com-

puterized accounting, loss control services, legal advice.

Staff: 2 total, 2 professionals.
Clients: 6 total captives: 5 active captives, 1 inactive captive, 6 directly managed. Captive premium volume, \$2,320,357. Capital and surplus managed, \$6,375,424. No minimum size client.

Compensation: annual fee, \$20,000 minimum;
2000 gross revenue: \$214,625. 100% from fees charged for captive management.

Officers: Sherman S. Hee, president; Judy R.D. Nako, CFO/treasurer.
Contact: Sherman S. Hee, Judy R.D. Nako.

Heath Lambert Insurance Management (Guernsey) Ltd.*

11 Westerbrook Centre, South Side, P.O. Box 308, St. Sampson's, Guernsey GY11QJ, Channel Islands; 44-1481-249-984; fax: 44-1481-248-304

Founded: 1979.
Parent: HLF Insurance Holdings Ltd.

Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, online access to claims data, claims reserves analysis, rent-a-captive management, loss forecasting, reinsurance brokered for captives, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting facilities.

Subcontracted services: loss control services, actuarial studies, investment management, tax advice, legal advice.

Staff: 12 total, 8 professionals.
Clients: 21 total captives: 19 active captives, 2 inactive captives, 21 directly managed. Captive premium volume, \$350,000,000. Capital and surplus managed, \$195,000,000. No minimum size client.

Compensation: annual fee.
2000 gross revenue: 100% from fees charged for captive management.
Officers: Brian R.S. Soutar, managing director; Leonard J. Banks, chairman; Alexander Lindsay, director.

*Formerly Lambert Fenchurch Insurance Management (Guernsey) Ltd.

IAS (Barbados) Ltd.

Mars House, 13 Pine Road, Belleville, St. Michael, Barbados; 246-436-8296; fax: 246-426-0433

Founded: 1987.
Parent: Mutual Risk Management Ltd.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, claims reserves analysis, managing underwriting facilities, loss forecasting, reinsurance brokered for captives, reinsurance brokered for captives, investment management, tax advice, association captive management, rent-a-captive management, underwriting and ratemaking for captives.

Staff: 3 total, 1 professional.
Clients: 7 total captives: 4 active captives, 3 inactive captives, 7 subcontracted. Captive premium volume, \$160,000,000. No minimum size client.

Compensation: annual fee, \$10,000 minimum; commissions; hourly.

2000 gross revenue: 100% from fees charged for captive management.
Officers: David Ezekiel, president/managing director; William Tomlin, Terence Power, vps.
Contact: David Ezekiel; dez@ias.bm.
Subcontracts for some captive management services with International Insurance Management (Barbados) Ltd.

ING Risk Management (Bermuda) Ltd.

Continental Building, 25 Church St., P.O. Box HM 1978, Hamilton HM HX, Bermuda; 441-295-8270; fax: 441-292-8611
www.ing-re.com

Founded: 1981.
Parent: International Nederlanden Group.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, underwriting and ratemaking for captives.

Subcontracted services: actuarial studies, investment management, legal advice.

Staff: 4 total, 3 professionals.
Clients: 11 total captives: 10 active captives, 1 inactive captive, 11 directly managed. No minimum size client.

Compensation: annual fee.
Officers: Nicholas E.J. Wheeler, president, Angus G. Hyslop, vp/controller; Ronika Khana, account executive.

Independent Management Group Ltd.

Williams House, 20 Reid St., P.O. Box HM 2070, Hamilton HM HX, Bermuda; 441-295-1646; fax: 441-292-8062

Founded: 1983.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, online access to claims data, reinsurance brokered for captives, reinsurance brokered for captives, underwriting and ratemaking for captives, association captive management, rent-a-captive management.

Subcontracted services: claims reserves analysis, loss control services, actuarial studies, loss forecasting, investment management, tax advice, legal advice.

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Staff: 5 total, 4 professionals.
Clients: 24 total captives: 19 active captives, 5 inactive captives, 24 directly managed, 1 currently in formation. Captive premium volume, \$45,000,000. Capital and surplus managed, \$265,000,000. No minimum size client.
Compensation: annual fee, commissions; hourly; professional, \$175.
Officers: Peter J. N. Strong, president; Cyril H. Whitter, executive vp.
Contact: Peter J. N. Strong.

International Advisory Services Ltd.

Chevron House, 11 Church St.,
 P. O. Box 1760,
 Hamilton HM HX, Bermuda;
 441-295-3688; fax: 441-295-2584

Founded: 1981.
Parent: Mutual Risk Management Ltd.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, loss control services, managing underwriting facilities, reinsurance brokered for captives, reinsurance brokered to captives, association captive management, rent-a-captive management, underwriting and ratemaking for captives, online access to claims data, claims processing.

Subcontracted services: actuarial studies, loss forecasting, investment management, tax advice, legal advice.

Staff: 57 total, 25 professionals.
Clients: 110 total captives: 104 active captives, 6 inactive captives, 110 directly managed, 3 currently in formation. Captive premium volume, \$1,510,000,000. Capital and surplus managed, \$1,450,000,000. No minimum size client.

Compensation: annual fee, \$15,000 minimum; commissions; hourly.

2000 gross revenue: 98% from fees charged for captive management, 2% from other services.

Officers: David Ezekiel, president/managing director; Terence Power, David Pickering, executive officers.

J

JLT Risk Solutions Management (Bermuda) Ltd.

P.O. Box HM 1838,
 Hamilton HM HX, Bermuda;
 441-292-4364; fax: 441-295-3982
 www.jltgroup.com

Founded: 2000.
Parent: Jardine Lloyd Thompson Group P.L.C.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, online access to claims data, claims reserves analysis, reinsurance brokered for captives, association captive management, rent-a-captive management.

Staff: 11 total, 8 professionals.

Clients: 25 total captives: 22 active captives, 3 inactive captives, 25 directly managed, 4 currently in formation. Captive premium volume, \$370,000,000. Capital and surplus managed, \$544,000,000. No minimum size client.

Compensation: annual fee, commissions; hourly; professional, \$170*; clerical, \$85*.

Officers: Paul Bailie, president; Kilian Whelan, Leslie Robinson, vps.

*Estimated

K

Kemper Management Co. Ltd.

7 Victoria St., P.O. Box HM 1234,
 Hamilton HM HX, Bermuda;
 441-292-5105; fax: 441-292-5302

Founded: 1978.
Parent: Kemper Insurance Cos.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, actuarial studies, reinsurance brokered for captives, reinsurance brokered to captives, association captive management, managing underwriting facilities.

Subcontracted services: claims reserves analysis, loss control services, loss forecasting, underwriting and ratemaking for captives, investment management, tax advice, legal advice.

Staff: 4 total, 1 professional.

Clients: 3 total captives: 3 active captives, 3 directly managed. Capital and surplus managed, \$96,112,000. No minimum size client.

Compensation: annual fee, hourly; professional, \$125 to \$175; clerical, \$80.

2000 gross revenue: 100% from fees charged for captive management.

Officers: Donald W. Mosier, president; Roy S. Lumley, vp; Michael A. Finelli Jr., treasurer.

Contact: Roy S. Lumley; rlumley@kemperinsurance.com.

Kensington Management Group Ltd.

Genesis Building, Second Floor,
 P.O. Box 10027APO,
 George Town, Grand Cayman,
 Cayman Islands, B.W.I.;
 345-946-2100; fax: 345-946-2110

Founded: 1999.
Parent: Mutual Risk Management Ltd.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, association captive management, rent-a-captive management.

Staff: 10 total, 5 professionals.
Clients: 24 total captives: 22 active captives, 2 inactive captives, 24 directly managed, 1 currently in formation. Captive premium volume, \$275,000,000. Capital and surplus managed, \$291,000,000. No minimum size client.
Compensation: annual fee, \$30,000 minimum; 2000 gross revenue: 100% from fees charged for captive management.
Officers: Mike Gibbs, president; Ian Lomas, Phil Roche, vps.
Contact: Mike Gibbs; 345-946-2100, ext. 300; mgibbs@kensington.ky.

M

Marsh Canada Ltd.

161 Bay St., Suite 1400,
 Toronto, Ontario M5J 2S4;
 416-868-2615; fax: 416-868-2526
 www.marsh.com

Parent: Marsh & McLennan Cos. Inc.
Direct services: captive feasibility studies, captive

formation, government reporting, accounting, computerized accounting, claims processing, online access to claims data, claims reserves analysis, loss control services, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, association captive management, rent-a-captive management.

Staff: 1 total, 1 professional.
Clients: 4 total captives: 3 active captives, 1 inactive captive, 4 directly managed. No minimum size client.

Compensation: annual fee, commissions, hourly.
Contact: Les Rowley, vp; les.g.rowley@marsh.com.

Marsh Management Services Inc.

Amfac Building, Hawaii Tower,
 745 Fort St., Suite 800,
 Honolulu, Hawaii 96813-3800;
 808-585-3532; fax: 808-585-3513
 www.marsh.com

Parent: Marsh & McLennan Cos. Inc.
Direct services: captive feasibility studies, captive

formation, government reporting, accounting, computerized accounting, claims processing, online access to claims data, claims reserves analysis, loss control services, managing underwriting facilities, loss forecasting, association captive management, rent-a-captive management, underwriting and ratemaking for captives.

Subcontracted services: loss control services, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, investment management, tax advice, legal advice.

Staff: 9 total, 9 professionals.

Clients: 35 total captives: 29 active captives, 6 inactive captives, 35 directly managed, 1 currently in formation. Captive premium volume, \$130,000,000. Capital and surplus managed, \$291,000,000. No minimum size client.

Compensation: annual fee, hourly.

Officers: Andrew D. Carr, managing director; Allison Mortlock, vp/branch manager; Fay Okamoto, vp/head accountant.

Contact: Allison Mortlock; alison.mortlock@marsh.com.

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Marsh Management Services Inc.

P. O. Box 530,
 Burlington, Vt. 05402-0530;
 802-864-5599; fax: 802-864-5764
 www.marsh.com

Founded: 1983.

Parent: Marsh & McLennan Cos. Inc.

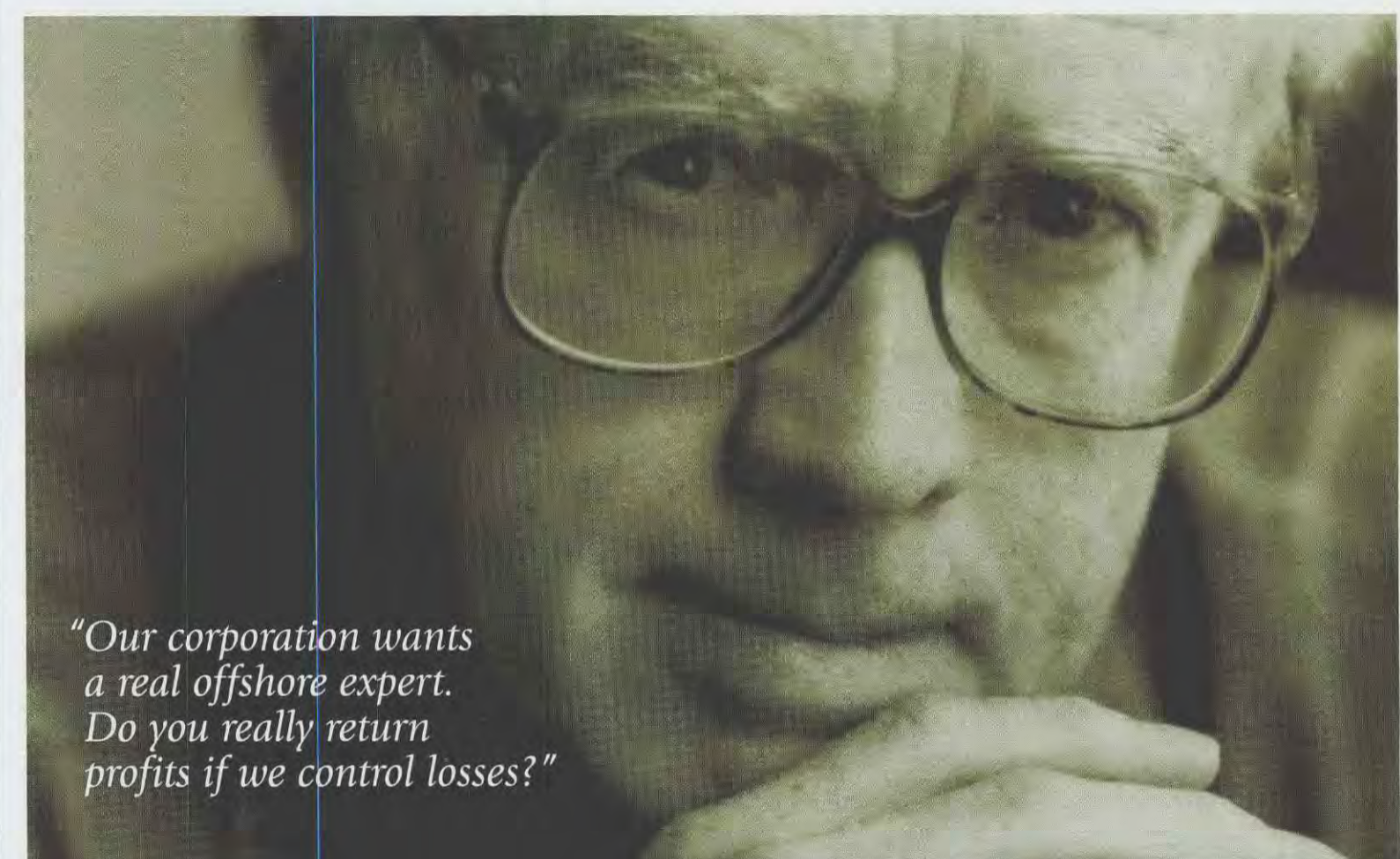
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, online access to claims data, claims reserves analysis, loss control services, managing underwriting facilities, actuarial studies, underwriting and ratemaking for captives, association captive management, rent-a-captive management, loss forecasting.

Subcontracted services: claims processing, reinsurance brokered for captives, reinsurance brokered to captives, investment management, tax advice, legal advice, loss forecasting.

Staff: 44 total, 39 professionals.

Clients: 130 total captives: 130 active captives, 130 directly managed. Captive premium volume, \$1,400,000,000. Capital and surplus managed,

Continued on next page



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\$13,500,000.00. No minimum size client.

Compensation: annual fee, hourly.**Officers:** Andrew D. Carr, managing director; Julie Boucher, senior vp.*Manages two captives in Illinois, one captive in Oklahoma, one captive in South Carolina and 126 captives in Vermont*

Marsh Management Services (Barbados) Ltd.

White Park House, White Park Road, Bridgetown, Barbados; 246-436-9929; fax: 246-436-9932
www.marsh.com**Founded:** 1986.**Parent:** Marsh & McLennan Cos. Inc.**Direct services:** captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, online access to claims data, claims reserves analysis, loss control services, managing underwriting facilities, association captive management, rent-a-captive management, underwriting and ratemaking for captives.**Subcontracted services:** claims processing, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance processing, investment management, tax advice, legal advice.**Staff:** 10 total, 3 professionals.**Clients:** 27 total captives; 21 active captives, 6 inactive captives, 27 directly managed. Captive premium volume, \$271,406,227. Capital and surplus managed, \$88,142,275. No minimum size client.**Compensation:** annual fee, hourly; professional, \$175; clerical, \$85.**Officers:** Andrew D. Carr, managing director; Nicholas Crichlow, vp.

Marsh Management Services (Bermuda) Ltd.

Victoria Hall, 11 Victoria St., Hamilton HM 11, Bermuda; 441-292-4402; fax: 441-297-9780

Founded: 1968.**Parent:** Marsh & McLennan Cos. Inc.**Direct services:** captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, online access to claims data, claims reserves analysis, loss control services, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, association captive management, rent-a-captive management.**Staff:** 147 total.**Clients:** 297 total captives; 2 currently in formation. Captive premium volume, \$3,007,500,000. Capital and surplus managed, \$5,539,800,000. No minimum size client.**Compensation:** annual fee, commissions, hourly.**Officers:** Andrew D. Carr, president; Rory Gorman, managing director; Jill Husbands, senior vp.**Contact:** Andrew D. Carr; 441-299-8803; andrew.d.carr@marsh.com.

Marsh Management Services (Cayman) Ltd.

Barklays House, Shedden Road, Third Floor, P.O. Box 1051GT, Grand Cayman, Cayman Islands, B.W.I.; 345-949-7988; fax: 345-949-7849
www.mmc.com**Founded:** 1978.**Parent:** Marsh & McLennan Cos. Inc.**Direct services:** captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, actuarial studies, reinsurance brokered for captives, reinsurance brokered to captives, association captive management, rent-a-captive management.**Staff:** 34 total, 15 professionals.**Clients:** 134 total captives; 126 active captives, 8 inactive captives, 134 directly managed, 3 currently in formation. Captive premium volume, \$700,000,000. Capital and surplus managed, \$500,000,000. No minimum size client.**Compensation:** annual fee, commissions, hourly.**Officers:** Seamus Tivnan, branch manager.

Marsh Management Services (Colorado) Inc.

1225 17th St., Suite 2100, Denver, Colo. 80202; 303-308-4624; fax: 303-308-4900
www.marsh.com**Founded:** 1991.**Parent:** Marsh & McLennan Cos. Inc.**Direct services:** captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, claims reserves analysis, loss control services, actuarial studies, loss forecasting.**Staff:** 1 total, 1 professional.**Clients:** 3 total captives; 1 active captive, 2 inactive captives, 3 directly managed. Capital and surplus managed, \$12,100,000. No minimum size client.**Compensation:** annual fee, hourly.**2000 gross revenue:** 100% from fees charged for captive management.**Officers:** Andrew D. Carr, managing director; Paul A. Froment, vp.**Contact:** Paul A. Froment; 404-995-2946.

Marsh Management Services (Dublin) Ltd.

25/28 Adelaide Road, Fifth Floor, Dublin 2, Ireland; 353-1-605-3000; fax: 353-1-605-3010
www.marsh.com**Founded:** 1989.**Parent:** Marsh & McLennan Cos. Inc.**Direct services:** captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, online access to claims data, claims reserves analysis, loss control services, managing underwriting facilities, actuarial studies, loss forecasting, underwriting and ratemaking for captives, association captive management, rent-a-captive management.**Subcontracted services:** claims processing, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, investment management, tax advice, legal advice.**Staff:** 32 total, 20 professionals.**Clients:** 51 total captives; 51 active captives, 51 directly managed, 3 currently in formation. Captive premium volume, \$308,130,000. No minimum size client.**Compensation:** annual fee, hourly.**Officers:** Ian Clancy, senior vp/branch manager; Tim Hennessy, senior vp/deputy branch manager; John Magee, vp/insurance and business development manager.

Marsh Management Services (Guernsey) Ltd.

Albert House, South Esplanade, P.O. Box 34, St. Peter Port, Guernsey GY1 4AU, Channel Islands; 44-1481-715-300; fax: 44-1481-713-617
www.marsh.com**Founded:** 1972.**Parent:** Marsh & McLennan Cos. Inc.**Direct services:** captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, association captive management, rent-a-captive management, loss forecasting.**Subcontracted services:** actuarial studies, reinsurance brokered for captives, loss forecasting.**Staff:** 29 total, 9 professionals.**Clients:** 63 total captives; 59 active captives, 4 inactive captives, 63 directly managed. Captive premium volume, \$271,000,000. Capital and surplus managed, \$2,661,000,000. No minimum size client.**Compensation:** annual fee, hourly.**2000 gross revenue:** 100% from fees charged for captive management.**Officers:** John Copeland, general manager; Granville De Cruz, Merise Wheatley, directors.**Contact:** John Copeland; john.copeland@marsh.com.

Marsh Management Services (Isle of Man) Ltd.

Atlantic House, 4-8 Circular Road, P.O. Box 305, Douglas, IM99 2BB, Isle of Man; 44-162-466-1063; fax: 44-162-467-6447

Founded: 1982.**Parent:** Marsh & McLennan Cos. Inc.**Direct services:** captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, online access to claims data, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives.**Subcontracted services:** actuarial studies.**Staff:** 20 total, 6 professionals.**Clients:** 38 total captives; 38 active captives. Captive premium volume, \$175,000,000. Capital and surplus managed, \$520,000,000. No minimum size client.**Compensation:** annual fee, hourly.**Officers:** Graham King, senior vp/branch manager; Steve Winrow, senior vp; Philip McDonald, assistant vp.

Marsh Management Services (Luxembourg) S.A.

65 Ave. de la Gare, L-1611, Luxembourg; 352-49-6951; fax: 352-49-6936

Founded: 1987.**Parent:** Marsh & McLennan Cos. Inc.**Direct services:** captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives.**Subcontracted services:** online access to claims data, loss control services, managing underwriting facilities, actuarial studies, loss forecasting, investment management, tax advice, legal advice, association captive management, rent-a-captive management, underwriting and ratemaking for captives.**Staff:** 20 total, 18 professionals.**Clients:** 45 total captives; 43 active captives, 2 inactive captives. Captive premium volume, \$271,899,555. Capital and surplus managed, \$154,540,931. No minimum size client.**Compensation:** annual fee.**2000 gross revenue:** 97.2% from fees charged for captive management, 2.8% from other services.**Officers:** Claude Weber, senior vp; Stephane Menant, Danilo Giuliani, vps.

Marsh Management Services (Singapore) Pte. Ltd.

51 Bras Basah Road, 08-03 Plaza By The Park, 189554, Singapore; 65-336-8383; fax: 65-336-2409
www.mmc.com**Founded:** 1984.**Parent:** Marsh & McLennan Cos. Inc.**Direct services:** captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, claims reserves analysis, managing underwriting facilities, investment management, association captive management, underwriting and ratemaking for captives.**Subcontracted services:** online access to claims data, loss control services, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, tax advice, legal advice, rent-a-captive management.**Staff:** 20 total, 11 professionals.**Clients:** 27 total captives; 23 active captives, 4 inactive captives, 27 directly managed. Captive premium volume, \$65,890,466. Capital and surplus managed, \$162,089,245. No minimum size client.**Compensation:** annual fee, \$30,000 minimum; hourly: professional, \$120 to \$150; clerical, \$60 to \$80.**2000 gross revenue:** \$1,950,000. 65% from fees charged for captive management, 35% from other services.**Officers:** Vic Pannuzzo, office head; Stuart Herbert, head-accounting; Ethel Hay, head-insurance.**Contact:** Vic Pannuzzo, vic.pannuzzo@marsh.com.

Meadowbrook Risk Management Ltd.

I.C.B. Building, Roebuck St., P.O. Box 724, Bridgetown, Barbados; 246-426-4684; fax: 246-426-4878
www.meadowbrook.com**Founded:** 1992.**Parent:** Meadowbrook Insurance Group Inc.**Direct services:** captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, claims reserves analysis, loss control services, rent-a-captive management, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, association captive management, managing underwriting facilities.**Staff:** 3 total, 2 professionals.**Clients:** 8 total captives; 6 active captives, 2 inactive captives, 8 directly managed. Captive premium volume, \$17,000,000. Capital and surplus managed, \$5,400,000. No minimum size client.**Compensation:** annual fee, \$15,000 minimum.**2000 gross revenue:** \$165,000. 100% from fees charged for captive management.**Officers:** Merton J. Segal, president; Robert S. Cubbin, Cheryl Reno, vps.

Meadowbrook Risk Management Ltd.

P.O. Box HM 2340, Hamilton HM JX, Bermuda; 441-292-7569; fax: 441-292-3259
www.meadowbrook.com**Founded:** 1979.**Parent:** Meadowbrook Insurance Group Inc.**Direct services:** captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, claims reserves analysis, loss control services, rent-a-captive management, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, association captive management.**Staff:** 4 total, 2 professionals.**Clients:** 14 total captives; 10 active captives, 4 inactive captives, 14 directly managed. Captive premium volume, \$39,000,000. No minimum size client.**Compensation:** annual fee, \$15,000 minimum; hourly.**2000 gross revenue:** 100% from fees charged for captive management.**Officers:** Merton J. Segal, president; Brian Stephenson, managing director/vp; Jim Keily, vp.

MIMS International (Barbados) Ltd.

Chelston Park, Building 2, Collymore Rock, St. Michael, Barbados; 246-426-6467; fax: 246-429-8517
www.mimsbarbados.com**Founded:** 1986.**Direct services:** captive formation, government reporting, accounting, computerized accounting, claims processing, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking for captives.**Staff:** 5 total, 3 professionals.**Clients:** 21 total captives; 21 active captives, 21 directly managed, 1 currently in formation. Captive premium volume, \$559,000,000. Capital and surplus managed, \$387,000,000. No minimum size client.**Contact:** Martin R. Hole, president.

Monkton Insurance Services Ltd.

Grand Pavilion Commercial Centre, P.O. Box 11393 APO, Grand Cayman, Cayman Islands, B.W.I.; 345-945-9181; fax: 345-945-6985
www.monkton.com**Founded:** 1997.**Direct services:** captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, rent-a-captive management, loss forecasting, reinsurance brokered for captives, association captive management.**Staff:** 2 total, 1 professional.**Clients:** 6 total captives; 6 active captives, 6 directly managed, 2 currently in formation. Captive premium volume, \$1,800,000. Capital and surplus managed, \$7,300,000. No minimum size client.**Compensation:** annual fee.**Contact:** David Self, president; monkton@can-dw.ky.

Mutual Risk Captive Group Ltd.

44 Church St., P.O. Box HM 2064, Hamilton HM HX, Bermuda; 441-295-5688; fax: 441-295-3038
www.mrmr.com**Founded:** 1977.**Parent:** Mutual Risk Management Ltd.**Direct services:** captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, rent-a-captive management, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, association captive management, managing underwriting facilities.**Staff:** 17 total, 10 professionals.**Clients:** 47 total captives; 36 active captives, 11 inactive captives, 47 directly managed, 1 currently in formation. Captive premium volume, \$226,000,000. Capital and surplus managed, \$359,000,300. No minimum size client.**Compensation:** annual fee; hourly: professional, \$140 to \$255; clerical, \$75 to \$100.**2000 gross revenue:** \$4,200,000. 100% from fees charged for captive management.**Officers:** Robert A. Mulderig, president; Colin M. Alexander, senior vp; P. Christopher Regan, vp.

Mutual Risk Management (Barbados) Ltd.

The Business Centre, Upton Road, St. Michael, Barbados; 246-436-5887; fax: 246-427-5328
www.accessmrm.com**Founded:** 1986.**Parent:** Mutual Risk Management Ltd.**Direct services:** captive formation, government reporting, accounting; computerized accounting, rent-a-captive management.**Staff:** 1 total, 1 professional.**Clients:** 6 total captives; 6 active captives, 6 directly managed. Captive premium volume, \$47,296,000.

Capital and surplus managed, \$98,599,000. No minimum size client.

Compensation: annual fee.**2000 gross revenue:** 100% from fees charged for captive management.**Officers:** Robert Mulderig, president; Peter Mackay, director; Caroline Curtis, vp.**Contact:** Caroline Curtis; ccourtis@sun beach.net.

Mutual Risk Management (Cayman) Ltd.

Genesis Building, Second Floor, P.O. Box 1363 GT, Grand Cayman, Cayman Islands, B.W.I.; 345-949-7966; fax: 345-949-8068
www.accessmrm.com**Founded:** 1982.**Parent:** Mutual Risk Management Ltd.**Direct services:** captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, loss control services, reinsurance brokered for captives, underwriting and ratemaking for captives, association captive management, rent-a-captive management.**Subcontracted services:** claims processing, actuarial studies, investment management, tax advice, legal advice.**Staff:** 10 total, 6 professionals.**Clients:** 58 total captives; 45 active captives, 13 inactive captives, 58 directly managed, 6 currently in formation. Captive premium volume, \$155,500,000.**Compensation:** annual fee.**Officers:** Peter MacKay, chairman/CEO; John Pitcairn, president/COO; Robert Mulderig, director.**Contact:** Peter MacKay, pmackay@mrm.ky; John Pitcairn, jpitcairn@mrm.ky.

Mutual Risk Management (Vermont) Ltd.

Gateway Square, 40 Main St., Fifth Floor, Suite 500, Burlington, Vt. 05401; 802-860-1717; fax: 802-864-2533
www.accessmrm.com**Founded:** 1994.**Parent:** Mutual Risk Management Ltd.**Direct services:** captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, loss control services, reinsurance brokered for captives, underwriting and ratemaking for captives, rent-a-captive management, association captive management.**Subcontracted services:** claims processing, actuarial studies, investment management, tax advice, legal advice.**Clients:** 3 total captives; 3 active captives, 3 subcontracted. Captive premium volume, \$24,000,000.**Compensation:** annual fee.**Officers:** Peter MacKay, vp; Robert Mulderig, director.**Contact:** Peter MacKay; pmackay@mrm.ky.*Subcontracts for some captive management services with SB&T Captive Management Co.*

Richard Oliver International Pte. Ltd.

78 Shenton Way, Suite 23-01, 079120, Singapore; 65-221-8561; fax: 65-221-8569
www.richardoliver.com**Founded:** 1989.**Parent:** Willis Group Holdings Ltd.**Direct services:** captive feasibility studies, captive formation, government reporting, accounting, com-**puterized accounting, claims processing, online access to claims data, claims reserves analysis, loss control services, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management.****Subcontracted services:** government reporting, accounting, claims processing.**Staff:** 6 total, 4 professionals.**Clients:** 3 total captives; 2 active captives, 1 inactive captive, 2 directly managed, 1 subcontracted. Captive premium volume, \$4,000,000. Capital and surplus managed, \$22,000,000. Minimum size client, \$1,000,000.**Compensation:** annual fee, \$25,000 minimum; hourly.**2000 gross revenue:** 42% from fees charged for captive management, 58% from other services.**Officers:** A. Pellen, CEO; G. Edwards, director-risk transfer; Ng Hwee Hong, divisional director-risk management services.*Subcontracts for some captive management services with Willis Management (Guernsey) Ltd.*

Optimum Risk Research (Channel Islands) Ltd.

Continental House, 28 Cornet St., P.O. Box 627, St. Peter Port, Guernsey GY1 4PP, Channel Islands; 44-1481-724-212; fax: 44-1481-720-400
www.optimumriskresearch.com**Founded:** 1989.**Direct services:** captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, online access to claims data, claims reserves analysis, loss control services, loss forecasting, reinsurance brokered for captives.**Subcontracted services:** actuarial studies, legal advice.**Staff:** 4 total, 4 professionals.**Clients:** 1 total captive; 1 active captive, 1 directly managed.**Compensation:** annual fee, commissions, hourly.**Officers:** Jean Francois Gelot, Françoise Gelot, managing directors; Rosemary Le Messurier, manager.**Contact:** optimumgsy@aol.com.

Powerscourt Management Ltd.

Windsor Place, 18 Queen St., Hamilton HM 11, Bermuda; 441-295-8495; fax: 441-292-1196

Founded: 1983.**Direct services:** captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, reinsurance brokered for captives, reinsurance brokered to captives,

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Compensation: annual fee, \$7,500 minimum; commissions.
2000 gross revenue: 35% from fees charged for captive management, 12% from commissions charged for brokering insurance and/or reinsurance, 53% from other services.
Officers: Mark G. Moffat, president; Don Dressler, vp; Michael Ashford, secretary.

Risk Services (Bermuda) Ltd.

Armoury Building, 37 Reid St., Second Floor, Hamilton HM BX, Bermuda; 441-295-8441; fax: 441-292-1210

Founded: 1997.
Direct services: captive formation, government reporting, accounting, computerized accounting, reinsurance brokered for captives, legal advice, association captive management, managing underwriting facilities.
Subcontracted services: captive feasibility studies, actuarial studies, investment management, tax advice.

Staff: 3 total, 2 professionals.
Clients: 7 total captives: 7 active captives, 7 directly managed, 3 currently in formation. No minimum size client.

Compensation: annual fee, commissions.
2000 gross revenue: 90% from fees charged for captive management, 10% from commissions charged for brokering insurance and/or reinsurance.

Officers: G. Wayne Harris, chairman; Michael T. Rogers, president; Steven W. Pearce, executive vp.
Contact: Michael T. Rogers, 941-955-0793, ext. 153; Steven W. Pearce.

Risk Services (Hawaii) Ltd.
 900 Fort Street Mall, Suite 500, Honolulu, Hawaii 96813; 808-540-3314; fax: 808-540-3334
Founded: 1998.
Direct services: captive formation, government reporting, accounting, computerized accounting, reinsurance brokered for captives, legal advice, association captive management.
Subcontracted services: captive feasibility studies, actuarial studies, investment management, tax advice.
Staff: 3 total, 2 professionals.
Clients: 2 total captives: 2 active captives, 2 directly managed. Captive premium volume, \$10,900,000*. No minimum size client.
Compensation: annual fee, commissions.
2000 gross revenue: 90% from fees charged for captive management, 10% from commissions charged for brokering insurance and/or reinsurance.
Officers: G. Wayne Harris, chairman; Michael T. Rogers, president; Jon Harkavy, vp.
Contact: Michael T. Rogers, 941-955-0793, ext. 153; Joseph Hu, 808-540-3314.
 *Captive premium volume provided by Hawaii Insurance Division's Captive Insurance Branch

Risk Services-Nevada Inc.
 1210 S. Valley View Blvd., Suite 114, Las Vegas, Nev. 89102; 702-678-6868; fax: 702-678-6677
Founded: 1998.
Direct services: captive formation; government reporting, accounting, computerized accounting, reinsurance brokered for captives, reinsurance brokered to captives, legal advice.
Subcontracted services: captive feasibility studies, actuarial studies, investment management, tax advice.
Staff: 15 total, 6 professionals.
Clients: 1 total captive: 1 active captive 1 directly managed.
Compensation: annual fee, commissions.
2000 gross revenue: 90% from fees charged for captive management, 10% from commissions charged for brokering insurance and/or reinsurance.
Officers: G. Wayne Harris, chairman; Michael T. Rogers, president; Jon Harkavy, vp/secretary.
Contact: G. Wayne Harris; 941-955-0793, ext. 303.

RiskCap Inc.
 1655 Lafayette St., Suite 200, Denver, Colo. 80218; 303-388-5688; fax: 303-388-5585
 www.riskcap.com
Founded: 1976.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, online access to claims data, claims reserves analysis, rent-a-captive management, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, association captive management, managing underwriting facilities.
Staff: 30 total.
Clients: 8 total captives: 8 active captives, 3 currently in formation.
Compensation: annual fee; hourly: professional, \$180; clerical, \$40.
2000 gross revenue: 60% from fees charged for captive management, 40% from other services.
Officers: Michael Murphy, president/senior consultant; Richard Poling, senior vp/senior consultant; Bill Rush, vp/consultant.
Contact: Michael Murphy.

Officers: Roger D. Teese, president/CEO; Bradley D. Matulonis, vp/CFO.

SB&T Captive Management Co.

40 Main St., Suite 500, P.O. Box 730, Burlington, Vt. 05402-0730; 802-863-5774; fax: 802-658-6191
 www.sbtinsurance.com
Founded: 1982.
Parent: Smith, Bell & Thompson Inc.
Direct services: captive formation, government reporting, accounting, computerized accounting, claims processing, claims reserves analysis, loss control services, reinsurance brokered for captives, underwriting and ratemaking for captives, tax advice, association captive management.
Staff: 8 total, 7 professionals.
Clients: 13 total captives: 13 active captives, 13 directly managed. Captive premium volume, \$148,500,000. Capital and surplus managed, \$259,824,000. No minimum size client.
Compensation: annual fee, \$15,000 minimum; hourly: professional, \$115 to \$150; clerical, \$40 to \$65.

Officers: Roger Taylor; George Freeman.

SINSER A.B.

Sveavagen 66, Stockholm, 103 50, Sweden; 46-8-614-17-00; fax: 46-8-678-18-00
 www.sinser.com
Founded: 1983.
Parent: SINSER Holding A.B.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, claims reserves analysis, actuarial studies, loss forecasting, association captive management, underwriting and ratemaking for captives.
Subcontracted services: online access to claims data, loss control services, managing underwriting facilities, reinsurance brokered for captives, reinsurance brokered to captives, investment management, tax advice, legal advice, rent-a-captive management.
Staff: 17 total, 14 professionals.
Clients: 18 total captives: 18 active captives, 18 directly managed, 3 currently in formation. Captive premium volume, \$150,000,000. Capital and surplus managed, \$300,000,000. No minimum size client.
Compensation: annual fee, professional, \$160 to \$200; clerical, \$100.
2000 gross revenue: \$1,300,000. 85% from fees

Sartor Resources Ltd.

St. Georges House, St. Georges Place, St. Peter Port, Guernsey GY1 1RS, Channel Islands; 44-1481-714-792; fax: 44-1481-715-071
 www.sartor-guernsey.com
Founded: 1990.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, claims reserves analysis, managing underwriting facilities, loss forecasting, reinsurance brokered for captives, association captive management, rent-a-captive management, underwriting and ratemaking for captives.
Staff: 5 total, 3 professionals.
Clients: 4 total captives: 3 active captives, 1 inactive captive. No minimum size client.
Compensation: annual fee, \$15,000 minimum; commissions; hourly: professional, \$200; clerical, \$100.
Officers: Roger Taylor; George Freeman.

SINSER (Asia) Pte. Ltd.

Suntec City Tower, Vesta Forsikring A/S, 8 Temasek Blvd., 038988, Singapore; 65-333-8511; fax: 65-333-8711
 www.sinser.com
Founded: 1989.
Parent: SINSER Holding A.B.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, online access to claims data, loss forecasting, underwriting and ratemaking for captives, investment management.
Clients: 1 total captive: 1 active captive, 1 directly

charged for captive management, 15% from other services.
Officers: Hans B. Flodman, managing director; Thomas Malmholt, marketing manager.
Contact: Hans B. Flodman; 46-8-614-17-14; sweden@sinser.com.
 Includes SINSER (Denmark) and SINSER (Norway)

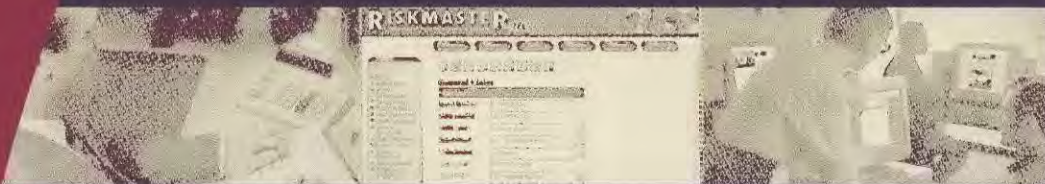
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Continued from previous page

managed. No minimum size client.

Compensation: annual fee.
Contact: Kenichiro Hamada; Shinjuku Nomura Building, Nishi-shinjuku 1-26-2, Level 32, Shinjuku-ku, Tokyo 163-0532, Japan; 81-3-5322-2960; fax: 81-3-5322-2929; k-hamada@est.hi-ho.ne.jp.

SINSER Management Services (Bermuda) Ltd.*

Skandia International House, 16 Church Street, P.O. Box HM 2062, Hamilton HM HX, Bermuda; 441-295-2185; fax: 441-292-1143
 www.sinsер.com

Founded: 1979.
Parent: SINSER Holding A.B.
Direct services: captive formation, government reporting, accounting, computerized accounting, claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, investment management, association captive management, rent-a-captive management.

Subcontracted services: captive feasibility studies.

Staff: 16 total, 9 professionals.
Clients: 80 total captives; 80 active captives, 80 directly managed, 1 currently in formation. Captive premium volume, \$400,000,000. No minimum size client.

Compensation: annual fee, commissions; hourly.
Officers: Nicholas S. Dove, president; Adrian Lee-Emery, senior vp; Larry Turnbull, Nicholas M. Frost, vps.

Contact: Nicholas S. Dove, nicholas.dove@sinsер.com; Larry Turnbull, larry.turnbull@sinsер.com; Nicholas M. Frost, nicolas.frost@sinsер.com.
 *Formerly Skandia International Risk Management Ltd.

SINSER (Guernsey) Ltd.

Dixcart House, Sir William Place, Third Floor, P.O. Box 625, St. Peter Port, Guernsey GY1 4PN, Channel Islands; 44-1481-710-502; fax: 44-1481-710-524
 www.sinsер.com

Founded: 1992.
Parent: SINSER Holding A.B.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, claims reserves analysis, loss forecasting, association captive management, rent-a-captive management, underwriting and ratemaking for captives.

Subcontracted services: loss control services, managing underwriting facilities, actuarial studies, reinsurance brokered for captives, reinsurance brokered to captives, investment management, tax advice, legal advice.

Staff: 7 total, 5 professionals.
Clients: 20 total captives; 18 active captives, 2 inactive captives, 20 directly managed, 1 currently in formation. No minimum size client.

Compensation: annual fee, hourly.
2000 gross revenue: 85% from fees charged for captive management, 15% from other services.

Officers: Callum Beaton, managing director; Steve Denning, Hans Ringsriom, directors.
Contact: Callum Beaton; callum.beaton@sinsersy.com.

SINSER (Ireland) Ltd.

12/13 Exchange Place, Third Floor, IFSC, Dublin 1, Ireland; 353-1-612-6500; fax: 353-1-612-6599
 www.sinsер.com

Founded: 1989.
Parent: SINSER Holding A.B.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, claims reserves analysis, tax advice, legal advice, association captive management.

Staff: 9 total, 9 professionals.
Clients: 16 total captives; 15 active captives, 1 inactive captive, 16 directly managed. Captive premium volume, \$50,000,000. Capital and surplus managed, \$90,000,000. No minimum size client.

Compensation: annual fee.
2000 gross revenue: 100% from fees charged for captive management.

Officers: Michael Walsh, general manager; Aidan Pyke, consultant; Barry White, marketing consultant.
Contact: Michael Walsh; michael.walsh@sinsер.com.

SINSER (Isle of Man) Ltd.

Highbury House, 3 Parliament Square, Castletown, IM9 1LA, Isle of Man; 44-162-482-5399; fax: 44-162-482-5309
Founded: 1995.

Parent: SINSER Holding A.B.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, investment management, underwriting and ratemaking for captives.

Subcontracted services: actuarial studies, reinsurance brokered for captives, reinsurance brokered to captives, investment management.

Staff: 4 total, 2 professionals.
Clients: 5 total captives; 5 active captives, 5 directly managed. Captive premium volume, \$10,000,000. Capital and surplus managed, \$10,000,000. No minimum size client.

Compensation: annual fee; hourly: professional, \$175; clerical, \$75.
2000 gross revenue: 90% from fees charged for captive management, 10% from other services.
Officers: David A. Brown, managing director; Karl G. Grieves, director.
Contact: David A. Brown; Karl G. Grieves.

SINSER Japan Ltd.

Shinjuku Nomura Building, Nishi-shinjuku 1-26-2, Level 32, Shinjuku-ku, Tokyo 163-0532, Japan; 81-3-5322-2960; fax: 81-3-5322-2929

Founded: 2000.
Parent: SINSER Holding A.B.
Direct services: captive feasibility studies, captive formation.
Staff: 6 total, 3 professionals.
Contact: Kenichiro Hamada, president/representative director.

SINSER Luxembourg*

P.O. Box 593, L-2015, Luxembourg; 352-223-4221; fax: 352-470-250
 www.sinsер.com

Founded: 1984.
Parent: SINSER Holding A.B.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, managing underwriting facilities, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, association captive management, rent-a-captive management, underwriting and ratemaking for captives.

Subcontracted services: actuarial studies, investment management, tax advice, legal advice.

Staff: 24 total, 19 professionals.
Clients: 52 total captives; 51 active captives, 1 inactive captive, 52 directly managed. Captive premium volume, \$287,478,000. No minimum size client.

Compensation: annual fee, hourly.
2000 gross revenue: \$2,200,000. 95% from fees charged for captive management, 3% from commissions charged for brokering insurance and/or reinsurance, 2% from other services.

Officers: Charles Besnehard, Tony Nordblad, managing directors; Clare Hargreaves, manager-captive administration.
Contact: Charles Besnehard, charles.besnehard@sinsер.com; Tony Nordblad, tony.nordblad@sinsер.com.
 *Includes both SINSER (Europe) S.A. and SINSER (Luxembourg) S.A.R.L. **Manages captives in France, Liechtenstein, Luxembourg and Switzerland.

SINSER Management Services (Vermont) Inc.*

346 Shelburne Road, P.O. Box 64649, Burlington, Vt. 05406; 802-658-1474; fax: 802-658-0692
 www.sinsер.com

Founded: 1986.
Parent: SINSER Holding A.B.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, rent-a-captive management, association captive management, managing underwriting facilities.

Subcontracted services: online access to claims data, claims reserves analysis, loss control services, actuarial studies, loss forecasting, underwriting and ratemaking for captives, investment management.

Staff: 6 total, 4 professionals.
Clients: 19 total captives; 18 active captives, 1 inactive captive, 19 directly managed. Captive premium volume, \$108,028,150. Capital and surplus managed, \$77,490,442. No minimum size client.

Compensation: annual fee.
2000 gross revenue: 100% from fees charged for captive management.
Officers: George A. Chaffee, president; Patricia L. Henderson, senior vp/secretary/treasurer.
 *Formerly Skandia International Risk Management (Vermont) Inc.

Sogecore

6B Route de Treves, Senningerberg, L-2633, Luxembourg; 352-34-68661; fax: 352-34-6840
 www.sogecore.com

Founded: 1987.
Parent: Sogecore Group.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, association captive management.

Staff: 19 total, 19 professionals.
Clients: 56 total captives; 56 active captives.
Officers: Jean Thilly; Gilles Coremans.

Sogecore A.G.

Genferstrasse 23, Zurich, 8027, Switzerland; 41-1-202-0112; fax: 41-1-202-0112

Founded: 1994.
Parent: Sogecore Group.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, association captive management.

Staff: 1 total, 1 professional.
Clients: 3 total captives; 3 active captives.
Officers: Jean Thilly; Gilles Coremans; Rubo Schilling.

Sogecore France

91 rue du Faudourg St. Honore, Paris, 75008, France; 33-1-43-12-5089; fax: 33-1-44-94-0855

Founded: 1997.
Parent: Sogecore Group.
Direct services: captive feasibility studies, government reporting, accounting, computerized accounting, claims reserves analysis, actuarial studies,

loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, association captive management, captive formation.

Staff: 1 total, 1 professional.
Clients: 1 total captive; 1 active captive.
Officers: Jean Thilly; Gilles Coremans.

Sogecore Ireland Ltd.

Guild House, Guild St. IFSC, Dublin 1, Ireland; 353-1-670-1340; fax: 353-1-670-1342

Founded: 1989.
Parent: Sogecore Group.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, association captive management.

Staff: 1 total, 1 professional.
Clients: 2 total captives; 2 active captives.
Officers: Jean Thilly; Gilles Coremans; John Prosser.

Subcontracts for some captive management services with FBD Holdings P.L.C.

Sogecore Ltd. Bermuda

Craig Appin House, 8 Wesley St., P.O. Box HM 1064, Hamilton HM EX, Bermuda; 44-1-296-2131; fax: 44-1-292-6763

Founded: 1997.
Parent: Sogecore Group.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, association captive management.

Staff: 1 total, 1 professional.
Clients: 1 total captive; 1 active captive.
Officers: Jean Thilly; Gilles Coremans; D.N.T. Forsythe.

Subcontracts for some captive management services with Liberty International Management.

Strategic Risk Solutions*

85 Prim Road, P.O. Box 450, Colchester, Vt. 05446; 802-860-1958; fax: 802-863-2198

Founded: 1995.
Parent: Winterthur Swiss Insurance Co.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, claims reserves analysis, actuarial studies, loss forecasting, underwriting and ratemaking for captives.

Staff: 9 total, 7 professionals.
Clients: 9 total captives; 8 active captives, 1 inactive captive, 9 directly managed, 1 currently in formation. Captive premium volume, \$29,000,000. Capital and surplus managed, \$193,766,990. No minimum size client.

Compensation: annual fee.
2000 gross revenue: 90% from fees charged for captive management, 10% from other services.

Officers: J. Brady Young, president; Brent Clark, vp; Kathryn A. Westover, director.
Contact: Kathryn A. Westover.

*Subcontracts for some captive management services with Towner Risk Management Ltd.
 *Formerly ARS Management **Operates eight captives in Vermont and one captive in Bermuda*

Symphony Management Ltd.

The Pearman Building, 3 Gorham Road, Hamilton HM 08, Bermuda; 441-295-2447; fax: 441-292-0511

Founded: 1991.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, rent-a-captive management, reinsurance brokered for captives, association captive management, managing underwriting facilities.

Staff: 9 total, 7 professionals.
Clients: 24 total captives; 22 active captives, 2 inactive captives, 24 directly managed. Captive premium volume, \$114,000,000. Capital and surplus managed, \$347,000,000. No minimum size client.

Compensation: annual fee; commissions; hourly: professional, \$150 to \$250; clerical, \$80 to \$100.
Contact: John G. Neal, president.

Towner Risk Management Ltd.

St. James House, Second St., St. James, Barbados; 246-432-4000; fax: 246-432-4004
 www.towner.bb

Founded: 1991.
Parent: Towner Management Group Inc.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, association captive management, rent-a-captive management.

Staff: 12 total, 4 professionals.
Clients: 18 total captives; 14 active captives, 4 inactive captives, 18 directly managed. Captive premium volume, \$256,000,000. Capital and surplus managed, \$93,000,000.

Compensation: annual fee; hourly: professional, \$250; clerical, \$80 to \$100.
Officers: Chris Evans, president; Ricardo Knight, Andre Procope, vps.

Contact: mailbox@towner.bb; Christopher Towner, chairman; Chris Evans.

Triesco Insurance Services Inc.

P.O. Box 809, Tustin, Calif. 92781; 714-258-4410; fax: 714-258-4414

Founded: 1993.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, investment management, association captive management, managing underwriting facilities.

Subcontracted services: claims processing, on-line access to claims data, claims reserves analysis, loss control services, rent-a-captive management, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, tax advice, legal advice, reinsurance brokered to captives.

Staff: 2 total, 1 professional.
Clients: 1 total captive; 1 active captive, 1 directly managed. Captive premium volume, \$1,000,000. Capital and surplus managed, \$1,000,000.

Compensation: annual fee.
2000 gross revenue: \$100,000. 50% from fees charged for captive management, 50% from other services.

Officers: Christi Guardiola, president; Rod Millar, CFO.

USA Offshore Management Ltd.

The Vallis Building, 58-Par-la-Ville Road, P.O. Box HM 1838, Hamilton HM HX, Bermuda; 441-292-4364; fax: 441-295-3982

Founded: 1997.
Direct services: captive formation.
Subcontracted services: accounting.

Clients: 4 total captives; 4 active captives, 4 directly managed, 1 currently in formation. Captive premium volume, \$8,820,181. Capital and surplus managed, \$21,193,398. No minimum size client.

Compensation: annual fee.
2000 gross revenue: 100% from fees charged for captive management.

Officers: H. Lincoln Miller Jr., president; Gary Osborne, vp; Andrew Sargeant, treasurer.
Contact: Gary Osborne; 800-872-7475; gosborne@vim.usarisk.com.

Subcontracts for some captive management services with JLT Risk Solutions.

USA Offshore Management (BVI) Inc.

Romasco Place, Whickams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands; 284-494-4850; fax: 284-494-7467
 www.usarisk.com

Founded: 2000.
Direct services: captive formation.
Subcontracted services: accounting.

Clients: 1 total captive; 1 active captive, 1 directly managed, 2 currently in formation. Captive premium volume, \$346,470. Capital and surplus managed, \$195,430. No minimum size client.

Compensation: annual fee.
2000 gross revenue: 100% from fees charged for captive management.

Officers: H. Lincoln Miller Jr., president; Gary Osborne, vp; Andrew Sargeant, treasurer.
Contact: Gary Osborne; 800-872-7475; gosborne@vim.usarisk.com.

Subcontracts for some captive management services with Codan Trust Co. (BVI) Ltd.

Vermont Insurance Management Inc.

P.O. Box 306, Montpelier, Vt. 05601; 800-872-7475; fax: 802-229-6280
 www.usarisk.com

Founded: 1980.
Parent: USA Risk Group.
Direct services: captive formation, accounting, reinsurance brokered for captives, reinsurance brokered to captives, association captive management.

Staff: 13 total, 5 professionals.
Clients: 32 total captives; 28 active captives, 4 inactive captives, 31 directly managed, 1 currently in formation. Captive premium volume, \$317,138,249. Capital and surplus managed, \$187,347,499. No minimum size client.

Compensation: annual fee, commissions.
2000 gross revenue: 95% from fees charged for captive management, 5% from commissions charged for brokering insurance and/or reinsurance.

Officers: H. Lincoln Miller Jr., chairman; Andrew Sargeant, president.

Manages one captive in Tennessee and 31 captives in Vermont.

Vermont Insurance Management Inc. dba USA Risk Group of South Carolina

P.O. Box 1330, Montpelier, Vt. 05601; 800-872-7475; fax: 802-229-6280
 www.usarisk.com

Founded: 2000.
Direct services: captive formation.
Subcontracted services: accounting.

Clients: 1 total captive; 1 active captive, 1 directly managed, 2 currently in formation. Capital and surplus managed, \$250,000. No minimum size client.
Compensation: annual fee.
2000 gross revenue: 100% from fees charged for captive management.
Officers: H. Lincoln Miller Jr., president; Gary Osborne, vp; Andrew Sargeant, treasurer.
Contact: Gary Osborne; gosborne@vim.usarisk.com.

Vermont Risk Services Inc.

P.O. Box 2100, Montpelier, Vt. 05601; 802-223-2200; fax: 802-223-3911
Founded: 1997.

Direct services: captive formation, government reporting, accounting, computerized accounting, reinsurance brokered for captives, reinsurance brokered to captives, legal advice, association captive management.

Subcontracted services: captive feasibility studies, actuarial studies, tax advice, investment management.

Staff: 5 total, 4 professionals.
Compensation: annual fee, commissions.
2000 gross revenue: 90% from fees charged for captive management, 10% from commissions charged for brokering insurance and/or reinsurance.

Officers: Daniel E. George, president/principal; Charles Halstead-Johnson, treasurer/principal; Pamela R. Roy, secretary/principal.

Contact: Daniel E. George; 802-223-2200, ext. 12.

Welbeck Management Ltd.

504 International Centre, Bermudiana Road, P.O. Box HM 2446, Hamilton HM JX, Bermuda; 441-295-2240; fax: 441-295-2269

Founded: 1988.
Direct services: association captive management, captive formation, government reporting, accounting, computerized accounting, claims processing, investment management.

Staff: 1 total, 1 professional.
Clients: 6 total captives; 6 inactive captives, 6 directly managed. Capital and surplus managed, \$59,100,000.

Compensation: annual fee.
2000 gross revenue: \$176,000. 100% from fees charged for captive management.

Contact: Jonathan C. Richmond, president/managing director.

Willis Management (Bermuda) Ltd.

F.B. Perry Building, 40 Church St., P.O. Box HM 1995, Hamilton HM HX, Bermuda; 441-295-1272; fax: 441-295-4143
 www.willis.com

Founded: 1962.
Parent: Willis Group Holdings Ltd.

Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives.

Subcontracted services: actuarial studies.
Staff: 6 total, 4 professionals.

Clients: 30 total captives; 26 active captives, 4 inactive captives, 30 directly managed, 2 currently in formation. Captive premium volume, \$156,000,000. Capital and surplus managed, \$1,145,000,000. No minimum size client.

Compensation: annual fee.
Officers: Guy Ragosta, president; J. Oliver Heylinger, managing director; Paul M. Pereech, controller.

Willis Management (Cayman) Ltd.

The Grand Pavilion Commercial Centre, West Bay Road, P.O. Box 30600 SMB, Grand Cayman, Cayman Islands, B.W.I.; 345-949-6039; fax: 345-949-6621
 www.willis.com

Founded: 1993.
Parent: Willis Group Holdings Ltd.

Direct services: 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, association captive management, rent-a-captive management.

Staff: 4 total, 4 professionals.
Clients: 30 total captives; 30 active captives, 30 directly managed, 4 currently in formation. Captive premium volume, \$989,000,000. Capital and surplus managed, \$310,000,000. No minimum size client.

Compensation: annual fee, \$25,000 minimum.
2000 gross revenue: 100% from fees charged for captive management.

Continued from previous page

Parent: Willis Group Holdings Ltd.
Direct services: captive feasibility studies, government reporting, accounting, computerized accounting, claims processing, claims reserves analysis, loss forecasting.
Subcontracted services: captive formation, loss control services, actuarial studies, reinsurance brokered for captives, reinsurance brokered to captives, investment management, tax advice, legal advice.
Staff: 10 total, 8 professionals.
Clients: 15 total captives; 15 active captives, 3 currently in formation. No minimum size client.
Compensation: annual fee.
Officers: Tim Byrne, managing director; Zita Culliton, director; Martin Scullion, underwriting manager.

Willis Management (Guernsey) Ltd.

The Albany, South Esplanade, P.O. Box 384, St. Peter Port, Guernsey GY1 4NF, Channel Islands; 44-1481-720-049; fax: 44-1481-710-455
www.willis.com

Founded: 1980.
Parent: Willis Group Holdings Ltd.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, online access to claims data, claims reserves analysis, managing underwriting facilities, loss forecasting, underwriting and ratemaking for captives, association captive management, rent-a-captive management.
Subcontracted services: loss control services, actuarial studies.
Staff: 31 total, 24 professionals.
Clients: 45 total captives; 45 active captives, 45 directly managed. Captive premium volume, \$500,000,000. Capital and surplus managed, \$400,000,000. No minimum size client.
Compensation: annual fee, hourly.
2000 gross revenue: 95% from fees charged for captive management, 5% from other services.
Contact: Malcolm Cutts-Watson, managing director; cuttswm@willis.com.

Willis Management (Isle of Man) Ltd.

Tower House, Loch Promenade, Douglas, IM1 2LZ, Isle of Man; 44-162-469-6100; fax: 44-162-466-1586
www.willis.com

Founded: 1982.
Parent: Willis Group Holdings Ltd.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, online access to claims data, claims reserves analysis, loss control services, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, association captive management, rent-a-captive management.
Subcontracted services: actuarial studies, investment management, tax advice, legal advice.
Staff: 27 total, 21 professionals.
Clients: 40 total captives; 36 active captives, 4 inactive captives, 40 directly managed. Captive premium volume, \$203,000,000. Capital and surplus managed, \$400,000,000. No minimum size client.
Compensation: annual fee, hourly.
Officers: Angus Alexander, managing director; Peter Foulger, Paul Kiernan, directors.
Contact: Angus Alexander, alexandera@willis.com; Peter Foulger, foulgerp@willis.com.

Willis Management (Jersey) Ltd.

West Centre, P.O. Box 76, St. Helier, Jersey JE4 8PQ, Channel Islands; 44-1481-720-049; fax: 44-1481-710-455

Founded: 1999.
Parent: Willis Group Holdings Ltd.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, online access to claims data, claims reserves analysis, managing underwriting facilities, loss forecasting, underwriting and ratemaking for captives, association captive management, rent-a-captive management.
Subcontracted services: loss control services, actuarial studies.
Compensation: annual fee, hourly.
Contact: Malcolm Cutts-Watson, managing director; The Albany, South Esplanade, P.O. Box 384, St. Peter Port, Guernsey, Channel Islands; cuttswm@willis.com.

Willis Management (Vermont) Ltd.

112 Lake St., Burlington, Vt. 05401; 802-658-9466; fax: 802-658-5520
www.willis.com

Founded: 1992.
Parent: Willis Group Holdings Ltd.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, loss control services, managing underwriting facilities, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, association captive management, rent-a-captive management.
Subcontracted services: claims processing, online access to claims data, investment management, tax advice, legal advice.
Staff: 8 total, 6 professionals.
Clients: 29 total captives; 28 active captives, 1 inactive captive, 29 directly managed, 3 currently in formation. Captive premium volume, \$381,000,000. No minimum size client.
Compensation: annual fee, hourly.

2000 gross revenue: 100% from fees charged for captive management.
Officers: Guy F. Ragosta, managing director; James R. Girardin, vp.
Contact: Guy F. Ragosta, ragosta_gu@willis.com; James R. Girardin, girardin_jr@willis.com.
**Manages three captives in Hawaii, one captive in Minnesota, one captive in New York, four captives in Tennessee, and 20 captives in Vermont*

Y

Yankee Captive Management Inc.

140 Kennedy Drive, P.O. Box 2127, South Burlington, Vt. 05407-2127; 802-651-3304; fax: 802-658-9419
www.hvrm.com

Founded: 1983.
Parent: Yankee Insurance Group.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, online access to claims data,

loss control services, rent-a-captive management, managing underwriting facilities, reinsurance brokered for captives, underwriting and ratemaking for captives, association captive management.

Subcontracted services: claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered to captives, investment management, tax advice, legal advice.

Staff: 4 total, 4 professionals.
Clients: 10 total captives; 10 active captives, 10 directly managed. Captive premium volume, \$81,100,000.

Officers: Luther F. Hackett, president/CEO; Michael K. Smith, executive vp/COO.

Z

Zurich International (Bermuda) Ltd.

The Zurich Centre, 90 Pitt's Bay Road, P.O. Box HM 2268, Hamilton HM JX, Bermuda; 441-294-2400; fax: 441-294-2401
www.zurichbermuda.com

Founded: 1977.
Parent: Zurich Financial Services Group.
Direct services: captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims processing, online access to claims data, claims reserves analysis, loss control services, rent-a-captive management, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, investment management.
Staff: 21 total, 7 professionals.
Clients: 13 total captives; 13 active captives.
Compensation: annual fee.
2000 gross revenue: \$376,000. 100% from fees charged for captive management.
Officers: Donald Baker, CEO; Michael Deevy, COO; Paul Zisson, director/coordinator-alternative risk transfer.

An index of organizations that manage captives in particular domiciles will be available by May 4 on the Business Insurance Web site, www.businessinsurance.com.

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DAN HARTMAN

CHIEF RISK OFFICER STATE OF OREGON

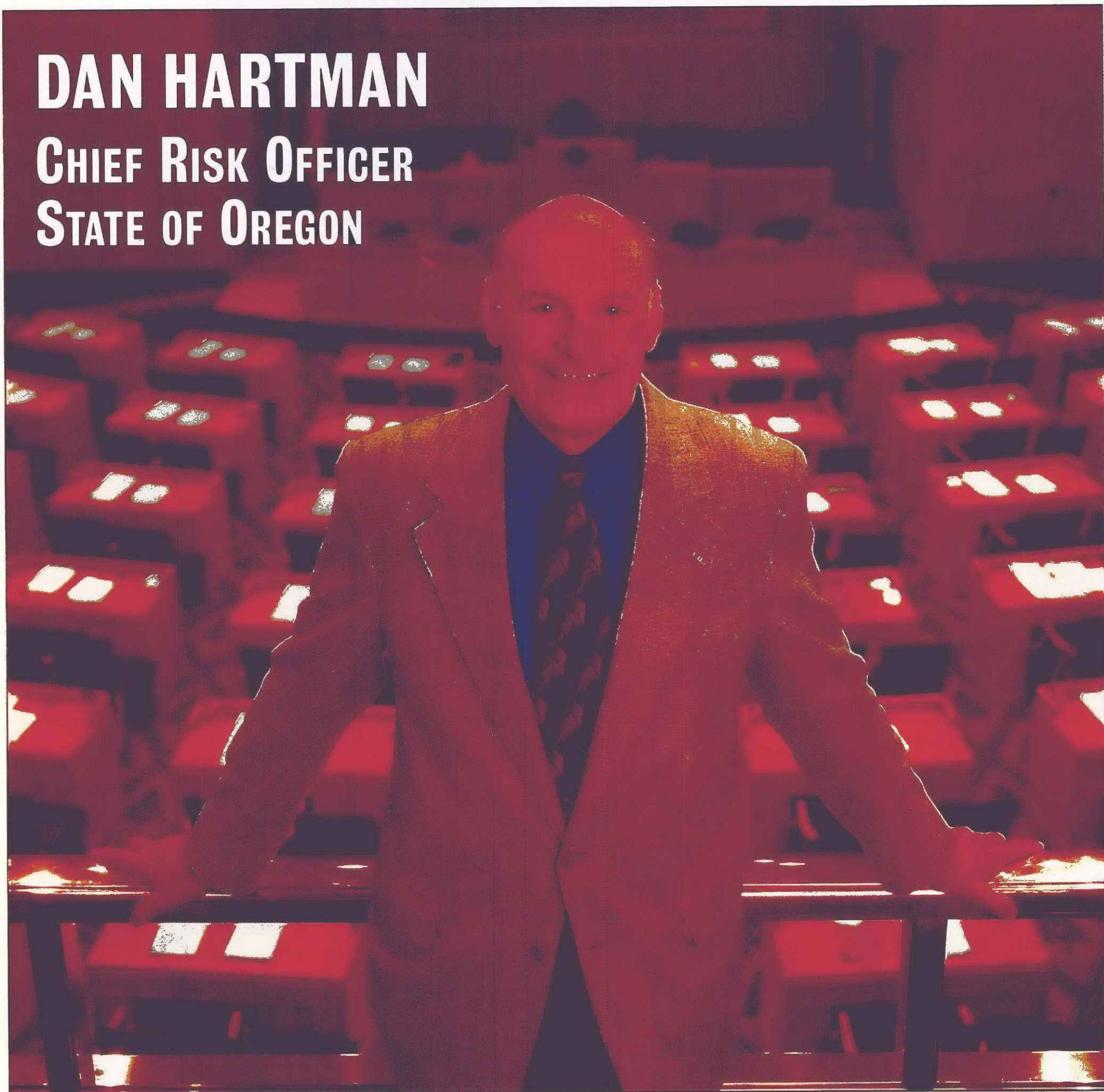


PHOTO: MICHAEL MARCOTTE

Hartman blazes own trail in Oregon risk management

By DAVE LENCKUS

Dan Hartman made his mark on the culture of Oregon's Risk Management Division immediately after he was appointed the state's top risk manager in 1996.

While moving quickly to mold an office to one's own style would seem understandable and even necessary for a new manager, the division and Oregon's risk management program presented an unusual situation for Mr. Hartman.

He was not being asked to build a program from scratch, nor had he been engaged to head a major overhaul.

Indeed, Mr. Hartman, then a 13-year veteran with the division, was asked to build on the award-winning ef-

forts of his two predecessors.

While inheriting that legacy, Mr. Hartman quickly made the changes that he considered necessary to shape the office to his style.

"I wanted more of a collegiate approach. I did not want to be the person who made all of the decisions," Mr. Hartman explained. "I wanted the staff involved more with underwriting, what we insure, and what we pay and don't pay."

He also pushed the state's largest agencies to take more responsibility for their routine risk management duties so his staff could focus on special projects.

Another new direction in which he steered the division took it down the path of handling risk for the state on a holistic basis, which raised the visibility of his position and the Risk Management Division within state

government.

In recognition of Mr. Hartman's brand of stewardship, his title was changed in 1998 to chief risk officer from Risk Management Division administrator.

"We count on him," said Mr. Hartman's supervisor, Mike Greenfield, director of the Department of Administrative Services and a former director of the state's Insurance Division. The Risk Management Division is a unit of Administrative Services.

The value of turning to the division for help in managing any kind of risk was perhaps most dramatically demonstrated during the Year 2000 computer-bug scare. State agency budgets were protected against losses if they complied with a millennium bug loss prevention program and risk management division funds financed

See **HARTMAN** on next page

Hartman

Continued from previous page
the cost of the state's team that crafted Oregon's Y2K bug remediation efforts.

Mr. Hartman also wrote and successfully lobbied for a state law that protected all public entities in Oregon from any potential Y2K-related tort claims, if the entities had taken reasonable measures to prevent millennium bug losses. There were no claims.

His input also is sought on employee benefits. Mr. Hartman is the only individual who sat on the three boards that have been charged with managing as well as overhauling the state's employee benefit program. He currently sits on the remaining single board that oversees the state's employee benefit program.

Mr. Hartman also has saved the state millions of dollars on some large liability claims by successfully negotiating with claimants. And, he skillfully contained the state's exposure to overtime payments to its managers, a liability created by a legislative mistake.

The Risk Management Division, under Mr. Hartman, also has continued to rein in the state's once-runaway workers compensation costs, saving the state millions of dollars more.

Those accomplishments have earned Mr. Hartman not only great recognition throughout Oregon state government but also the 2001 *Business Insurance* Risk Manager of the Year Award.

Mr. Hartman's selection for the 24th

annual award by a panel of 10 independent judges marks only the third time that a risk manager for a government entity has been honored.

It also marks the first time that a risk manager has won the award after a predecessor had been named to the Risk Management Honor Roll, now in its 21st year.

'Dan doesn't have to get permission to say agencies have to do certain things. He can just do it.'

— C. David White
State of Oregon

Indeed, both of Mr. Hartman's predecessors were so honored. Gene Snyder, the state's first risk manager, was named to the honor roll in 1984. His successor, C. David White, was honored in 1993.

The winners of the 1999 and 2000 Risk Manager of the Year Award, who were judges in this year's competition, both said they were impressed with Mr. Hartman's proactive management.

"I was impressed that, with being the state's chief risk officer and facing numerous challenges, Dan managed on a proactive basis," especially in a political environment, said 2000 award winner

Paul F. Buckley, treasury director-risk management for Lucent Technologies Inc. of Murray Hill, N.J.

1999 award winner Merritt W. Fabel, director of corporate risk and insurance for New York-based American International Group Inc., observed: "I was impressed by the candidate's effort to incorporate the value added of the risk management function into numerous operational disciplines within the state organization. He treated these functional areas as clients and sold them on the benefits of his department's involvement and then delivered on his promise."

Mr. White, who still is in state government as administrator of state facilities, said that Mr. Hartman's management style combines the best elements of Mr. Snyder's and his own.

He explained that Mr. Snyder was an insurance professional who started the state's formal risk management program off on the right track. Mr. White said he himself was not an insurance professional but a professional manager who knew "how to use state government tools to achieve what the division wanted to achieve."

"Dan bridges both of those disciplines," Mr. White said. "He understands what it means to manage from a central government office. But he also could be a risk manager anywhere" because of his risk management and insurance aptitude.

Mr. Hartman's approach is exemplified in how he addressed the state's Y2K computer bug risks, according to Mr. White

"When Dan addressed the Y2K mess, he fashioned a scheme to mix insurance and government. It literally became the underpinning of the state's risk control effort in Y2K. I don't think Gene or I would have come to that particular solution."

Mr. White also complimented Mr. Hartman for taking risk management to a new level in the state and for how he has handled that additional power.

Unlike when Mr. White was administrator, "Dan doesn't have to get permission to say agencies have to do certain things. He can just do it," Mr. White noted. Even so, he noted that Mr. Hartman markets his plans to state agencies.

"Dan, I think, overall has been very much a good quarterback for the agency," said Gil Henderson, the state's property/casualty insurance broker since 1987.

"He's a congenial person to be around. He has very good people skills," said Mr. Henderson, managing director in Portland, Ore., for Marsh USA Inc., a subsidiary of Marsh & McLennan Cos. Inc.

Mr. Hartman also is a good communicator who always is well prepared for whatever audience he addresses, Mr. Henderson said.

Colleen Sealock, who, as deputy director of Administrative Services, also supervises Mr. Hartman, paraphrased the advertising slogan of an insurance company during Mr. Hartman's award ceremony to sum up his impact on Oregon state government: "We always feel we're in the safe hands of Dan and risk management." **BI**

Dan Hartman

Title: Chief risk officer for State of Oregon, heading state's Risk Management Division in the Department of Administrative Services in Salem.

Previous experience: Administrator of risk management division, 1996-1998; deputy administrator/loss control and finance of risk management division, 1988-1996; manager/loss control and finance of risk management division, 1983-1988; Seattle branch manager at Gallagher Bassett Services Inc., the risk management services subsidiary of broker Arthur J. Gallagher & Co., 1979-1983; claims and safety representative at Gallagher Bassett in Seattle, 1976-1979; adjuster-in-charge at Portland, Ore., claims office of SAFECO Insurance Co., 1974-1976; field adjuster for SAFECO in Portland, 1972-1974.

Professional affiliations: President of Oregon chapter of Public Risk Management Assn., 1998/1999, and a former treasurer, secretary and director of the chapter; member of national PRIMA.

Honors: National PRIMA Chapter Service Award in 2000; Adjuster of the Year in 1972 for SAFECO's Oregon claims division, then one of the insurer's largest claims divisions; Combat Infantry Badge, Purple Heart and two Bronze Stars during military service as a 1st and 2nd lieutenant in the U.S. Army, 1968-1972.

Education: Chartered Property & Casualty Underwriter designation, 1988; Associate in Risk Management designation, 1979; Bachelor of Science degree in business administration from Oregon State University, 1968.

Family: Wife, Connie; daughters, Angie and Erin, both 30; son, Wade, 27.

Hobbies: Forest and wilderness exploration, big game bow-hunting, reading, and listening to music.

Oregon history tied to natural resources

By DAVE LENCKUS

Oregon—tucked among four states and the Pacific Ocean in the nation's Northwest—was explored by some of the world's most famous adventurers centuries ago.

They found a wide range of terrains and climates, including coastal fog and winds so intense that one explorer did not bother landing and headed back out to sea.

The state may derive its name from the French word *ouragan*—meaning storm or hurricane. It is the nation's 10th largest state in land size with 97,132 square miles. With a current population of more than 3.4 million, Oregon has about 35 people per square mile.

The first humans in the area were Native Americans, who lived east of the state's Cascade Range thousands of years ago.

European explorers first began searching the American West Coast for riches and new trade routes during the 16th Century. Two explorers who may have sailed near the Oregon coast but did not explore it were Bartolome Ferrello of Spain in 1542 and Sir Francis Drake of England in 1579. Sir Francis turned back after encountering "the most vile, thicke and stinking fogges."

Europeans intensified their exploration of the area over the next couple centuries in hopes of finding the Northwest Passage—an inland water route linking the Atlantic and Pacific Oceans.

In 1791, American Capt. Robert Gray made his second voyage to the area. In 1792, he discovered and sailed the Columbia River, which later was named after his ship.

That led English Lt. William R. Broughton to map the river and claim the territory for Britain.

At the direction of U.S. President Thomas Jefferson, the Lewis and Clark Expedition set out in 1804 to explore whether the Missouri and Columbia Rivers formed a continental waterway. The team reached the Columbia River in October 1805 and explored the Willamette River the next spring before returning to St. Louis in the fall of 1806. Despite not finding a continental waterway, the expedition opened the lands west of the Rockies.

Oregon obtained its nickname, the Beaver State, because its streams were an important source of beavers for the fur hats that were fashionable in northeastern cities in the early 19th Century. Mountain men nearly trapped the animals out of existence.

The famed Oregon Trail is the route that the trappers had used while trapping beaver and that the state's early pioneers followed during the 1840s to the fertile farmland of the Willamette Valley.

Oregon became the country's 33rd state on Feb. 14, 1859, 47 years after the United States took possession of the territory under the terms of the treaty that ended the War of 1812 with Britain. Oregonians adopted the state's constitution two years

before they won statehood and have made only a few changes since.

The state features hundreds of miles of Pacific Ocean coastline, three main mountain ranges, farmlands, deserts and forests. Forests cover 43% of the state.

Natural resources, particularly timber and agriculture, have been important factors in the state's economy, but manufacturing and service industries became dominant during the last half of the 20th Century. Now, forestry, farming and fishing account for only 5% of the state's 2 million workers.

The state typically ranks high in literacy and educational achievement, based on national standards.

The state's 10 most populous cities, according to Portland State University's Population Research Center and the U.S. Census Bureau, are: Portland, 513,325; Eugene, 136,800; Salem, 131,385; Gresham, 86,430; Hillsboro, 72,630; Beaverton, 70,230; Medford, 62,030; Bend, 53,040; Corvallis, 52,215; and Albany, 41,000. **BI**



PHOTO: MICHAEL MARCOTTE

Oregon Gov. John A. Kitzhaber congratulates Chief Risk Officer Dan Hartman on winning the 2001 Risk Manager of the Year award.

Reorganizing division to make it more effective

Empowering staff boosts morale, improves results

By DAVE LENCKUS

As a former U.S. military officer, Dan Hartman joined the business world with the idea that he could direct his subordinates similarly to how he commanded Army enlisted men.

While Mr. Hartman, the chief risk officer of the state of Oregon, does not run the state's Risk Management Division like a democracy, he has reorganized the division to empower his staff to take action as needed and to push risk management deeper into state government.

The result, some staff members say, is that the division runs more efficiently and can tackle more special risk management projects.

Mr. Hartman explained that his office reorganization was the next step in an effort that his predecessors also focused on to promote good morale in the division, which is part of the state's Department of Administrative Services.

"When I first got here, morale was bad," Mr. Hartman recalled about the Risk Management Division in 1983, when he was hired as manager/loss control and insurance. "Communication was nil" among staff, Mr. Hartman recalled.

Predecessors Gene Snyder and C. David White, both of whom were named to the *Business Insurance* Risk Management Honor Roll when they headed the division, recognized the problem and responded with measures designed to promote an efficient, upbeat operation, Mr. Hartman said. "Gene took it quite a way, and then Dave did, and then I did."

Claims Manager and Deputy Administrator Michael Baird and Dispute Resolution Coordinator Susan M. Marshall described Mr. Hartman's management style as "consultative" and "collaborative."

"He's empowering," Ms. Marshall said, adding that Mr. Hartman listens and encourages people. "Then he'll come out with an opinion," she said. "I see that his style of management is flat: it's not hierarchical."

Mr. Baird said that Mr. Hartman's management style matches up well with the responsibilities and resources of the division's 22-member staff. "We're a fairly small division compared with the other state agencies, but we have to serve statewide. So, we have to get the most punch for our dollar," which Mr. Hartman gets with his management style of inclusion.

The first section of his office that Mr. Hartman addressed was his claims-handling team.

Mr. Hartman explained that he has observed at some insurance companies that claims handlers were "the people seen as the ones that let money out the door."

That stigma can lead to poor morale on the claims staff, which, if left unchecked, can spread throughout an entire office, he said.

Immediately after he was named administrator of the Risk Management Division, Mr. Hartman upgraded the positions of six senior claims handlers. Four were raised to the same level as the division's safety consultant and two property and liability risk consultants.

The other two senior claims handlers were promoted to even higher levels. One was named chief claims consultant, and the other was appointed employment claims consultant.

To pay for the moves, Mr. Hartman

elects to eliminate a low-level claims handling position rather than approach the Legislature for additional funding. Mr. Hartman reasoned that the claims units would be able to absorb the staff cut fairly easily because of the state's continually improving loss experience.

Mr. Hartman next created his cabinet, which consists of the division's section managers and specialists.

The group, called the Policy and Finance Team, consists of Mr. Hartman, Mr. Baird; Ms. Marshall; Finance Analyst Robert A. Nies; Insurance and Operations Manager Andrea Peters; Safety and Risk Manager Kathleen M. Wood; and Executive Assistant Barbara Hamilton.

In the middle of the division's Y2K computer bug loss-prevention project (see story, page 78), Mr. Hartman added then Statewide Special Projects Risk Manager Judi James to the team. After the project's completion, Ms. James took a position with the Legislature to research and analyze fiscal issues.

The Policy and Finance Team meets weekly to discuss significant risk management issues in an open forum setting. Anyone on staff may attend the meetings and participate as much or as little they choose.

The Policy and Finance Team format "followed my philosophical approach to include more people," Mr. Hartman said.

"I wouldn't say it's a democracy," Mr. Baird said, describing how the team functions. "But everyone has an equal weight as the discussion goes around."

From that discussion, Mr. Hartman "sets clear expectations and let's us know where we're going."

But under some circumstances, such as when the team in recent years pondered whether to boost the state's excess property coverage, Mr. Hartman allows a team vote to decide how a risk management issue will be handled.

Mr. Hartman's reorganization efforts were not limited to his Risk Management Division staff. A fundamental change that Mr. Hartman made in the duties of some key staff during his first year as administrator also has promoted stronger risk management throughout state agencies, which has improved his staff's efficiency and allowed them to focus more on special projects.

The division's two property and liability risk consultants had been the main liaison between numerous state agencies and the Risk Management Division. The consultants—William Vaughn and Loree Fogelman—essentially had been the go-to risk management professionals for the state's approximately 140 agencies. About 30 to 40 agencies, however, demanded most of their attention.

"The so-called 'book of business' approach seemed to be the logical thing to do when we originally set it up" in 1983, especially considering that risk management courses in the 1970s and 1980s suggested that approach, Mr. Hartman explained.

"What ended up happening, though, was that our risk consultants spent half their time on low-level contract analysis," he said. "And when they weren't doing that, they were spending a week going onsite somewhere, doing a risk assessment and preparing a formal report. The problem was that the report usually ended up buried in an agency file, and nothing got accomplished."

Ms. Wood, the safety and risk manager, suggested that risk consultants spend

much more time on special projects that would benefit all state agencies, rather than working with individual agencies on issues, such as the contracting process, that often had no direct bearing on losses. Safety Consultant Donna Andrews-Tuthill's duties already had been structured that way and had improved the safety unit's efficiency.

This year, for example, the risk consultants' projects include identifying agencies with employment liability problems and educating them how to avoid those problems; reducing vehicle incidents leading to worker injury, vehicle damage and third-party liability; addressing the government's online risks; and evaluating the state's information technology exposures and whether the coverage that agencies have under the state's self-insurance program should be broadened.

The reorganization of the risk consultants' responsibilities "frees us up to do more complex risk assessments and take on emergency risks as they come on," Ms. Wood said.

The state's largest agencies, however, were not left short of risk management resources.

While the Risk Management Division repositioned itself away from being the place to turn for questions on the most basic risk management issues, it developed a book of guidelines that agencies could consult for these issues. The guidelines, which have been available on the division's page at the state's Web site, address dozens of issues, including employee use of alcohol, early return-to-work programs for workers injured on the job, employee telecommuting, documenting property to ensure coverage for losses, contracts, and citizen ride-alongs with state police.

The division's safety unit also is conducting a workshop this spring on the basis of "smart contracting."

But that is only a small part of the Risk Management Division's effort to groom state agencies to take more responsibility for risk control.

The Risk Management Division's risk consultants for the past couple of years have been working with management at the agencies to train staff to serve as the agencies' internal risk coordinators. Risk coordinators work directly with agency management to avoid property and liability losses. The risk consultants, however, continue to serve as the risk coordinators for the state's many agencies that are too small to maintain their own internal risk coordinator.

"The amount of risk management that needs to be done (throughout all state agencies) can't be done by two people," said Ms. Wood, referring to the Risk Management Division's risk consultants.

The risk consultants train agency risk coordinators in assessing risk, provide them with loss data and teach them to analyze it, and collaborate with the agency on developing and implementing a loss control plan.

Ms. Wood developed a workshop series on the basics of risk functions for the risk coordinators at the state's 25 largest agencies a few years ago. She plans on conducting the workshop again this fall for the risk coordinators at the other 25 or so agencies that did not attend the last series, as well as for the new risk coordinators at the largest agencies.

In situations where an agency's risk coordinator needs substantial assistance from the Risk Management Division with a project, the division holds the coordinator to the terms of a risk services agreement. Sometimes the agreement is with program manager, like a line operations manager, though the risk coordinator also would be involved.

The agreements, which the Policy and Finance Team approved in 1999, ensure that agencies move ahead with efforts that would help them control loss after the Risk Management Division has committed substantial resources in helping the agencies analyze the problem.

"It's how we move agencies ahead where we can make a difference for agencies," Ms. Wood explained. **BI**



PHOTO: MICHAEL MARCOTTE

The management team joins the policy and finance team. Front row, from left: Robert A. Nies, finance analyst; Barbara E. Hamilton, executive assistant to the chief risk officer; and Kate Wood, safety and risk manager. Second row, from left: Andrea Peters, insurance and operations manager; Michael Baird, claims manager/deputy administrator; and Daniel Hartman, chief risk officer. Not pictured: Susan Marshall, dispute resolution coordinator.

Making public a private-sector approach to risk

By DAVE LENCKUS

Dan Hartman paid his dues over the course of 13 years in Oregon's Risk Management Division, working his way up from manager/loss control and insurance to the top spot of division administrator.

Only two years later, after reorganizing the division and communicating his holistic approach to risk management, the position of chief risk officer was created for the soft-spoken Mr. Hartman.

The new title did not mean a bigger paycheck or a more luxurious office.

It did, however, mark state managers' recognition and support of the private-sector approach that Mr. Hartman has taken in running the Risk Management Division, which is part of the Oregon Department of Administrative Services.

director of Oregon's Department of Administrative Services, on whom the governor relies to manage state government internal affairs. Mr. Hartman meets weekly with the department's executive staff.

"So I'm kind of like an agency head," Mr. Hartman said.

"We thought we were more like what's emerging in the private sector," with the chief risk officer overseeing the risk management responsibilities that have been delegated to an orga-

nization's various units, focusing on special projects and emergencies and reporting to the chief executive officer, he explained.

In 1998, Mr. Hartman shared his views about the direction of risk management in the state, along with news articles about the developing role of chief risk officers in the private sector, with then-Administrative Services Director Jon Yunker.

Mr. Yunker, who was Mr. Hartman's supervisor until

March 2000, agreed with the assessment and appointed Mr. Hartman chief risk officer that same year.

The title change is all about improving the visibility of the Risk Management Division with state agencies and the Legislature, Mr. Hartman said. The more visible he and the division are, the greater the likelihood that agencies and lawmakers will turn to risk management for help with problems before they become unmanageable or

costly to fix, he explained.

Mr. Hartman says the Risk Management Division now has the statewide visibility he had envisioned. "No one in state government can say they don't know me. They may fear us or love us, but they know us."

Agencies' fear of the division is rooted in the accountability that agencies face for their loss experience, but they appreciate the division's help in controlling and financing losses, according to Mr. Hartman. **B**

'My counterparts in cities and counties are the only risk manager. ...Here, we've got a confederation.'

— Dan Hartman

State of Oregon

Mr. Hartman was pushing risk management deeper into state agency management as his own office was taking a more holistic approach to the discipline. When a new risk of any kind developed for the state, Mr. Hartman wanted his risk management team to have the opportunity to evaluate it.

One of Mr. Hartman's first goals after becoming Risk Management Division administrator in 1996 was to improve efficiency by promoting staff, restructuring some staff functions and encouraging a more collaborative atmosphere throughout the office.

By 1998, state agencies were assuming far more responsibility for managing risk, and a handful of the largest agencies even had appointed their own risk managers to better coordinate their loss control efforts with the Risk Management Division (see story, page 76).

But the Risk Management Division alone has the authority to establish risk management policy and to decide whether to and how to finance risk.

"We're not just consulting with risk coordinators" in state agencies, Mr. Hartman explained. "We're training them to solve problems, whereas my counterparts in cities and counties are the only risk manager in the whole organization. Here, we've got a confederation."

In addition, the state's top risk manager works closely with the

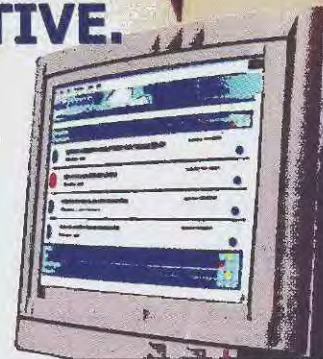
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Benefits

Continued from previous page
tee is responsible for plan design.

While taking on a role in employee benefits was uncomfortable at first and has stretched his schedule thin at times, Mr. Hartman points to several rewards of moving into an area new to him.

"It added variety and spice to the job," he said.

Even more importantly, the new responsibility helped Mr. Hartman and the Risk Management Division in ways he did not expect.

For example, with the benefits programs covering 45,000 state employees and 100,000 lives altogether at an annual cost of \$300 million, the benefits board work provided Mr. Hartman another insight into the cost of running state government.

In addition, the position "gives me more visibility in state government," Mr. Hartman said.

Both of those are important aids to Mr. Hartman as he moves the Risk Management Division in the direction of taking a more holistic approach to dealing with the state's risks.

To that end, Mr. Hartman three

years ago supported PEBB's decision to offer opposite-sex as well as same-sex domestic-partner benefits to state employees.

The state Supreme Court recently had ruled that the state should provide same-sex coverage. But Mr. Hartman, knowing that Gov. John A. Kitzhaber backed a broader coverage expansion, and most other PEBB members pushed for the benefit.

Mr. Hartman said the benefit expansion is still a controversial issue in the state.

He reasons, however, that the matter is a business—not a religious—issue.

Noting that there are "a number of professional people who choose not to be married," he said that offering domestic partner benefits to employees with either same- or opposite-sex life partners makes the benefit package fair for all state employees.

The benefit also is a strong recruitment and retention tool for the state, which typically cannot offer compensation packages that match those available in the private sector, Mr. Hartman said. "If you can't provide medical coverage, they go somewhere else."

Mr. Hartman's work in the ben-

fits area also has had some direct tie-ins to risk management.

For example, PEBB has become embroiled in litigation over the distribution of \$19 million of policyholder surplus that a life insurer returned to the state three years ago when the company demutualized. For decades, state employees have had the option through their benefit plans of paying for life insurance coverage at group rates. Standard Insurance Co. of Portland, Ore., writes the coverage.

A group of employees at Oregon Health Sciences University, a hospital and medical teaching center in Portland, has filed suit, demanding that the funds be distributed to current and former state employees. The university broke away from state government in 1995.

Some other individuals also have sued.

PEBB has asked a court for direction on whether the funds belong to the state, which made the coverage available through benefit plans, or to former and current employees. If the court sides with the employees, the state would have to track down all former employees who paid premiums to the insurer.

The Risk Management Division already has spent \$50,000 in legal



PHOTO: MICHAEL MARCOTTE

Oregon's Insurance and Operations Team and the Safety and Risk Team. Front row, left to right: William S. Vaughn, risk consultant; Kelly Hays, operations assistant; Kate Wood, safety and risk manager; Ronda S. Hollis, risk consultant; Loree D. Fogleman, risk consultant; Dan Hartman, chief risk officer. Second row, left to right: Andrea Peters, insurance and operations manager; Cindy C. Pankey, safety and risk specialist; Jody Haury, receptionist. Not pictured: Donna Andrew-Tuthill, safety management consultant.

expenses in the case, and Mr. Hartman said he expects the case to languish for a long time.

Another potential benefit of Mr. Hartman's involvement in employee benefits may never materialize for the state's chief risk officer. But Mr. Hartman said he feels prepared now if state government ever shifts any employee benefits responsibilities to the Risk Management Division.

But if that responsibility ever shifts to his office, his learning curve has been greatly reduced, he said.

Policy protects against Oregon's budget getting burned

By DAVE LENCKUS

The cost of protecting Oregon's expansive forests from catastrophic fires could burn a hole in the state's budget big enough to force lawmakers to cut spending for other vital programs.

But a unique forest fire extra expense policy guards the state against the possibility that a devastating forest fire season would create such budget woes for Oregon.

State Chief Risk Officer Dan Hartman inherited the program from two award-winning risk management predecessors, but he played an important role in reshaping it.

Indeed, state coffers could have been at risk several times during the past decade if the program had not been overhauled. And this year,

drought conditions that could fuel a troublesome forest fire season likely will develop by autumn, a subcommittee of the Oregon Drought Council has warned. Oregon's forest fire season typically runs from late June until November.

While the coverage is unique to Oregon, lead underwriter Ian Maguire, agricultural underwriter for Wellington Underwriting P.L.C. in London, said Wellington is open to making the coverage available to other states that can meet the firefighting benchmark that Oregon has established. Wellington is the underwriting management agency for Lloyd's of London syndicate 2020.

According to the Oregon Department of Forestry, forest covers about 28 million acres of the state's 62 million-acre land base. The federal government owns about 57%,

private interests own 38%, the state owns 3% and other public entities own the remainder.

The state's Forestry Department is responsible for fighting fire on 15.8 million acres of forest—2.8 million acres of federal land in Western Oregon and the remainder private and state land. The remaining 12.2 million acres are protected by either local fire districts or the U.S. Forest Service.

Firefighting costs can mount quickly during a huge conflagration, noted broker Gil Henderson, whom Mr. Hartman enlisted to line up broader coverage under an already unique program.

For the Forestry Department's military-like firefighting efforts, "it's not unreasonable during a big fire to spend \$1 million a day," said Mr. Henderson, a managing director for Marsh USA Inc. in Portland, Ore. Marsh USA is a unit of Marsh & McLennan Cos. Inc.

The state, however, shifts the responsibility of paying the cost of fighting forest fires primarily to the Emergency Fire Cost Committee, which represents owners of large tracts of land typically used for logging operations or for grazing. The state Board of Forestry appoints four members to the committee to serve four-year terms.

The committee supervises and controls a special fund that covers firefighting costs. The fund is financed with proceeds from special levies on the landowners.

The committee uses the fund to purchase a unique firefighting extra expense insurance policy through the state's Risk Management Division, which is part of the Oregon Department of Administrative Services. The division has lined up a group of U.S. and European underwriters, including several Lloyd's syndicates, to write the coverage.

Messrs. Hartman and Henderson say that no other state has such cov-

erage. Officials from other states occasionally inquire about the coverage, but no other state has arranged it, they said.

Both said the advantages that Oregon has with underwriters, some of whom have participated in the program since its early days, is a long relationship with them, a solid track record of investigating the causes of fires and subrogating against the responsible parties, and detailed Forestry Department records of how the department has fought each blaze it faced.

In the program's early years, the committee purchased \$1 million of coverage above first a \$325,000 self-insured retention and, later, a \$500,000 retention, for a premium that ranged from \$45,000 to nearly \$93,000. The special fund paid the insurance premium and covered the SIR. Each year, the coverage renewed on July 1—the typical starting date of the fire season.

But beginning in 1980, the committee, the state and the underwriters had to begin dealing with the Forestry Department's high and rising costs to battle forest fires. Those costs often had far exceeded the committee's SIR and the policy premium combined, which meant that insurers were underwriting the program at a loss.

Initially, in 1980, the premium more than doubled to approximately \$139,000, and the SIR doubled to \$1 million. Limits continued at \$1 million until the next year, when underwriters doubled them to \$2 million.

Except for 1985, when the onset of the insurance industry's hardest market ever left the state with nowhere to turn for the coverage, the program worked well until 1987. Because losses in several years did not exceed the SIR, underwriters began to see some profit in writing the coverage. And in the couple of years that losses exceeded the

SIR, underwriters made at least some profit, according to Risk Management Division documents.

Beginning in 1987, however, unusually bad forest fire seasons in three consecutive years spiked the Forestry Department's firefighting costs to the point that not only did underwriters shoulder heavy losses but also the state government had to subsidize the depleted firefighting fund.

In 1987, the worst year during that period, the Forestry Department's firefighting costs topped \$19 million, according to Risk Management Division records.

The loss not only exhausted the committee's \$2 million firefighting fund and fully consumed the policy's \$2 million of limits, but it also put state government on the hook for covering a \$15 million unbudgeted expense. The Legislature had to turn to an emergency fund to cover the loss, Mr. Hartman explained.

The governor, concerned that future catastrophic fire seasons might wreak even greater havoc with the state's budget and threaten funding for other vital programs, directed the Administrative Services Department's predecessor to protect the state's budget from such an event.

That responsibility fell to Mr. Hartman, who then was manager of loss control and insurance for the Risk Management Division. He immediately enlisted the aid of Mr. Henderson and Chuck Hersh, a senior vp at Marsh USA. The brokerage at that time was part of Sedgwick Group P.L.C. and just had been awarded the state's account.

Over the next few years, Mr. Hartman and the brokers worked on revamping the program. Messrs. Henderson and Hersh dealt with the insurance markets, and the brokers and Mr. Hartman explained to the Emergency Fire Cost Committee how and why the program had to be

Continued on next page



PHOTO: MICHAEL MARCOTTE

Dan Hartman, center, with representatives of Marsh USA Inc., left to right: Chuck Hersh, senior vp; Debora Leopold, vp; Amy Shafer, client representative; and Gil Henderson, managing director.

Continued from previous page
restructured. Mr. Hartman testified at many of the public hearings on the program that the committee held.

The central concept in reshaping the program was to make it a true catastrophe program, so no loss likely would ever blow through both the program's SIR and excess limits. That would mean that the state would not again face the emergency funding situation it did in 1987, and that the Emergency Fire Cost Committee would not be forced to borrow from the state treasury to cover a shortfall in its fund.

Redesigning the extra expense coverage as a catastrophe program also would mean that the committee would have to assume more risk so that underwriters would not be covering expected firefighting costs.

Mr. Hartman and his broker team laid the foundation of the rebuilt program with a probable maximum loss estimate that the Forestry Department developed after reviewing a string of bad fire seasons during the 1940s, Mr. Hartman explained.

Factored into that figure, however, was the state's network of logging roads, which allows firefighters today to reach blazes much more easily than they could decades ago, he said. In addition, firefighting resources are better deployed throughout the state, equipment and technology have improved and the commander at a blaze has more authority to pull in additional resources quickly to control a fire, according to Mr. Hartman.

To finance that higher retention, the special levy on landowners would have to be increased. In addition, technical changes had to be made in the levy procedure in the event the emergency fund reached its statutory maximum.

Those changes required legislative and Forestry Department approval, which Mr. Hartman worked on securing.

While the program was being restructured, Mr. Hartman and his brokers were able to modify it to better protect the state.

In 1988, the year after the state's forests suffered heavy damage, premiums jumped more than sevenfold to nearly \$1.8 million. But underwriters also nearly quadrupled the policy's limits to \$7.65 million.

Still, because of a second consecutive bad fire season, insurers on the extra expense risk "lost their shirt that year," Mr. Hartman recalled.

In 1989, underwriters doubled the committee's self-insured retention to \$4 million and raised the premium 9.8% to more than \$1.95 million. They did, however, bump up policy limits to \$8 million.

By 1990, the Legislature had approved the revamped extra expense catastrophic coverage, and the underwriters, including many that had withdrawn the coverage for years, were lined up.

The policy limits more than quadrupled to \$35 million over an SIR that nearly doubled to \$7.5 million. Premiums rose nearly 24% to \$2.4 million.

Another important improvement in the program was that underwriters agreed to shift the policy's renewal date to April 1 from July 1. That change ensured that the committee would not be required to meet two SIRs during a single fire season when the first blaze in the

season ignites before July 1, Mr. Hartman explained.

The Risk Management Division and its brokers also negotiated a three-year coverage period. That coverage change was designed to stabilize the coverage and its costs.

Since 1990, the SIR has gradually increased to \$10 million, and policy limits have grown to \$43 million. Referring to the SIR, Mr. Hartman said: "Our burn level keeps going up because the cost of fighting fires is going up."

Meanwhile, premiums have remained relatively stable.

More importantly, the revised program has provided the state the catastrophic coverage necessary to

protect its budget at a stable price.

In addition, underwriters are beginning to see a profit in continuing to write the coverage. Through April 2000, the last policy period for which figures are available from the risk management division, premiums exceeded insurance recoveries by nearly \$1.4 million over the life of the coverage. But all of that difference was accounted for during the 1999/2000 policy year, according to risk management division records.

And while landowners have faced steeper levies, the emergency fund now is fully funded, according to Mr. Hartman. Under state statute, the fund is fully funded at \$10 million—the SIR under the extra ex-

pense coverage

That means landowners this year could face a substantially reduced levy.

"The government came in and provided a good protection plan" for the state's Forestry Department, owners of large land tracks and the Legislature, Mr. Hartman said.

"That really had to be done in order to make it a stable program for them" at a reasonable cost, he said.

Mr. Maguire of Wellington said the unique coverage "has been beneficial to both sides." He said Wellington did not consider abandoning the coverage when Oregon's losses mounted, because Wellington is committed to underwriting agri-

cultural and forestry business, which includes large timber stands owned by pulp and paper producers.

"The lesson we've learned from dealing with Oregon is, here's a product that can work," Mr. Maguire said.

He noted that a few other states in recent years have contacted Wellington about underwriting similar coverage for them. "Certainly, if they can satisfy us, then the product works and there's a commitment then to write that," he said.

Those states, however, would have to meet the benchmark Oregon has set for protecting its forests, he said. **BI**

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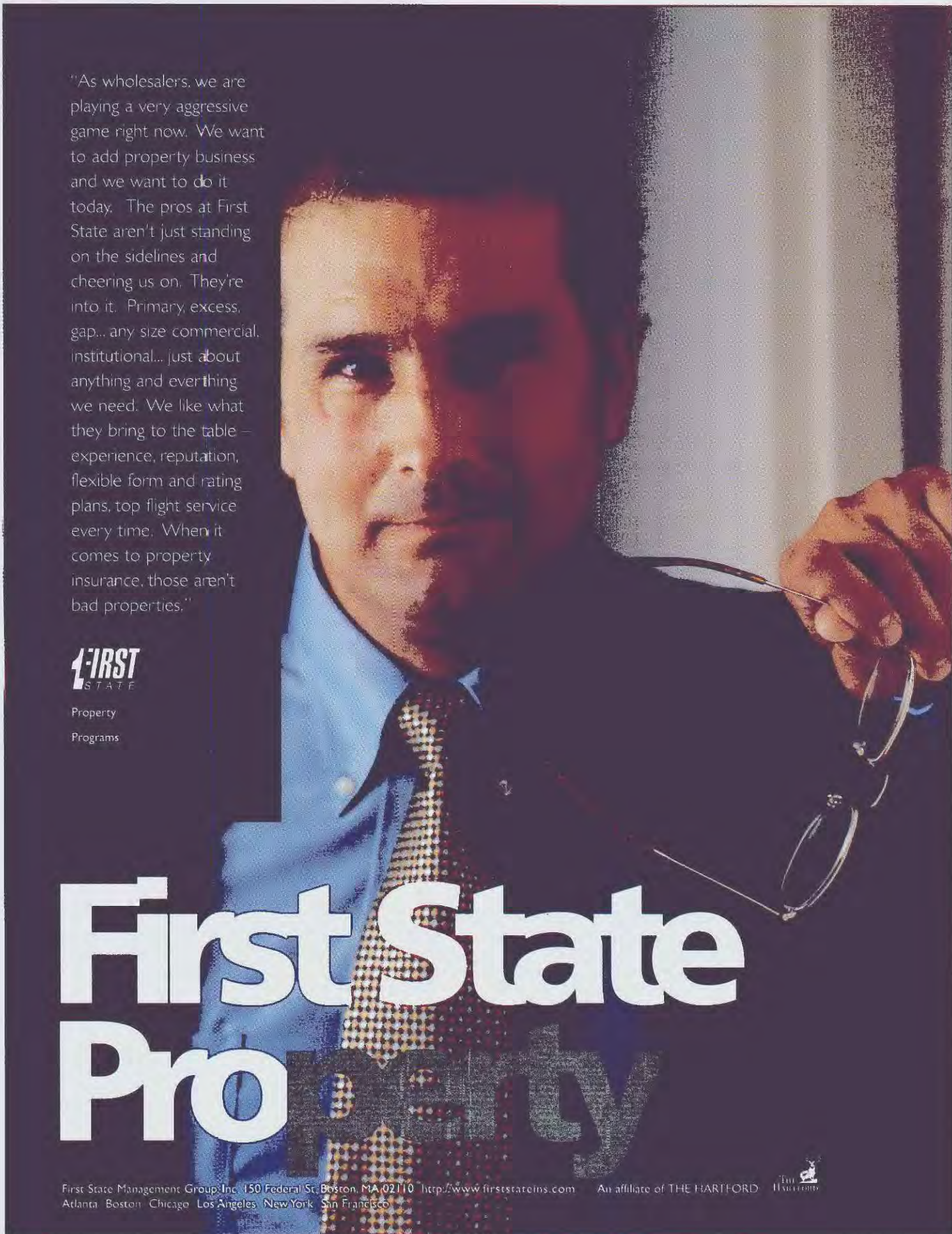


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Oregon makes workers comp savings common behavior

By DAVE LENCKUS

Oregon state agencies, pressed by the Risk Management Division, have done such a good job of reducing time-loss injuries over the past 12 years that keeping up the same pace of improvement is difficult.

The dramatic turnaround in the state's workers comp experience is attributable to the division's focus on slashing time-loss, or temporary disability, claims through injured worker management. Reforms to the state's workers compensation system in the early 1990s also have helped, noted Dan Hartman, chief risk officer for Oregon.

The division since 1995 also has been working on pushing aside traditional safety management in favor of a behavior-based approach. Under the behavior-based management model, workplace safety is a key responsibility of both supervisors and employees.

In the late 1980s, the state's workers comp costs were swelling, according to figures from the Risk Management Division, which is a unit of the Oregon Department of Administrative Services. In fiscal 1988, which ended June 30, 1989, workers comp paid losses and claim reserves were nearly \$19 million, which is the highest they would be for the 16-year period from 1985 through 2000. The figures do not include incurred-but-not-reported claims.

By 2000, workers comp payments and reserves had been slashed almost 63% compared with 1998's level, to just under \$7.1 million—the lowest annual total over that same period.

The state also has done a better job of controlling its workers comp costs than the average for employers nationwide, according to comparisons of the state's 1999 actuarial study of workers comp losses with findings from the Risk & Insurance Management Society Inc.'s annual cost-of-risk surveys.

From 1991 through 2000, ultimate expected and undiscounted workers comp costs nationwide on average ranged from \$2.78 to \$6.65 per \$1,000 of organizations' operating budgets, while the state of Oregon's costs ranged from 76 cents to \$2.47 per \$1,000.

From 1996 through 2000, Oregon's costs increased as a percentage of the state's operating budget to 97 cents per \$1,000, though paid claims and reserves fluctuated somewhat up and down during that period and reached a nadir in 2000.

A slightly higher cost of risk in 2000 is not a concern when considering Oregon's overall workers comp picture, Mr. Hartman said.

"In 1996, we hit the bottom" in terms of cutting workers comp costs, Mr. Hartman said. "There's no doubt in our minds that costs will flatten out and maybe rise a little."

The recent cost increases reflect such factors as medical and pharmaceutical cost inflation.

While workplace safety is always a concern, it is well under control and is not leading to higher workers comp costs, he said. Indeed, in 2000, fewer state employees were seriously injured on the job than in any year since 1981, when the state created its Risk Management Division.

Last year, 451 employees suffered serious injuries, a rate of 0.94 per 100 full-time employees. That is less than one-third the rate of 3.15 per 100 full-time employees in 1988, when more than 1,600 employees suffered serious on-the-job injuries and the state recorded its worst year for workers comp losses.

Since then, Oregon's governors have asked each state agency to keep the number of serious injuries at no more than the lowest number of injuries it reported during the previous three years.

But because of the agencies' dramatic success at reducing serious injuries in recent years, that goal has become difficult to attain. As a result, Gov. John A. Kitzhaber modified the goal for 2001, asking agencies to hold down injury rates to no more than their average serious-injury rate over the previous three

years.

Keeping on top of Oregon's workplace safety efforts has been a vital concern for Mr. Hartman since he was appointed to the state's top risk manager post in 1996. With workers comp costs under control, the division can devote much more of its time and resources to other risk management projects, instead of spending most of its time and resources on workers comp, as it once had to do, Mr. Hartman said.

After the division took over responsibility for workers comp in 1987, then-Administrator C. David White, who was named to the *Business Insurance* Risk Management Honor Roll in 1993, and Mr. Hartman, who was manager/loss control and insurance, hired Kathleen M. Wood as safety and risk manager.

Under that leadership, the division zeroed in on time-loss claims. A team of analysts that Mr. Hartman hired in 1987 found that those claims were generating 96% of the state's workers comp costs while accounting for less than 30% of the number of all claims.

The division adopted an injured-worker management approach supported by Dan Petersen, a workers compensation author and a safety consultant.

The division initially focused on the dozen state agencies that accounted for 80% of the state's workers comp costs.

"Early on, we recognized line managers' belief that once an employee filed a workers comp claim, he or she was no longer their responsibility," Ms. Wood said. "We began talking about the employers' obligation to 'manage' their workers, whether injured or not."

The division worked with state agencies to develop what Ms. Wood called "aggressive" early return-to-work and modified-duty programs.

"We gave agencies broad guidelines, but each agency developed its own return-to-work programs," Ms. Wood said. A single program would not work well for all agencies because of the diversity of state jobs, she explained.

Ms. Wood recalled that some managers resisted initially, saying they feared some workers would manipulate the system to land cushy modified jobs.

"We said, 'Just take away the tasks they can't do,'" based on the medical restrictions that their physicians place on them, she said. That often meant temporarily freeing the recovering employee of only some regular duties while he or she healed.

Those temporary assignments are restricted to 90 days. If a worker's injuries are too severe to return to regular duty at that point, the temporary assignment can be extended. But, the worker's manager must plan a modified job or a job reassignment to another agency for the worker during that initial 90-day period.

For those injured workers who are unable to return to state employment, the state makes vocational rehabilitation available.

At the same time, the Risk Management Division developed two measurement reports. One shows each agency how well it is cutting workers comp costs compared to its goals. The other, which puts agency performance under a spotlight for all state management to see, shows how well the 20 worst-performing agencies are controlling their costs. That list consists of any agency that has been on the 12-worst list since 1987.

The division also honors agencies that meet their goals. The division annually presents its "Riskognition Award" to those agencies, often during one of the governor's cabinet meetings.

That kind of recognition and publicity not only fuels continued attention to workers comp costs at the agencies that succeeded but also sparks a desire for improvement among directors at the agencies that have not earned a place in the limelight, Ms. Wood said.

Agencies that did not control their workers comp costs also were stung with an added budget expense: The Risk Management Division based the amount that it charged each agency for workers comp coverage on its paid



PHOTO: MICHAEL MARCOTTE

Dan Hartman and two members of his team stand with SAIF Corp. employees, from left: Brian Sornson, claims supervisor; Tracie Sapp, claims adjuster; Kate Wood, safety and risk manager for Oregon; Jennifer Johnson, claims assistant; Alan Samarin, loss control consultant; Karen Webber, claims adjuster; Carol Bachofner, claims specialist; Theresa Britton, claims assistant; Katherine Keene, president and chief executive officer; Larissa Martin, claims adjuster; Michelle Rodriguez, claims assistant; Donna Andrew-Tuthill, safety management consultant for Oregon; Linda Wineland-Barr, audit specialist; Steve Ringstad, underwriter; Dianne Lanctot, claims adjuster, Elaine Higgins, MMT specialist; Eileen Payne, nurse consultant; Jackie Chester, claims adjuster; Judie Gill, claims adjuster; Shana Miller, claims specialist; Claudia Roberts, vocational coordinator; Suzanne Ryans, claims adjuster; Lori Kampmann, claims assistant; Donna Sawyer, return to work consultant; Jill Bork, claims director; Esther Steele, senior claims adjuster; Susan Stamps, claims adjuster; Steven Snyder, vp of claims operations; Dan Hartman; Roger Zumwalt, administrative services division manager; John Gilke, corporate marketing and agency manager.

claims costs.

The results were immediate.

While state employees missed nearly 128,500 workdays in 1988 due to job-related injuries, employees missed fewer than 72,100 workdays the next year. The state's workers comp claim payments and reserves fell 27% in 1989, to \$13.8 million, and they dropped nearly 39% more the next year, to less than \$8.5 million.

By 2000, the number of lost workdays had been slashed to just more than 14,900—an 88.4% reduction since 1988.

The state's employee count during that period dropped between 3,000 and 5,000 to between 45,000 and 48,000 workers currently.

The Legislature helped the state and other Oregon employers control their workers comp costs in the early 1990s when it passed system reforms. At the time, the state's workers comp system was the sixth most expensive in the nation—a fact that scared away many potential employers, according to Mr. Hartman. The state now ranks 34th, the Oregon Workers Compensation Division says.

In an effort to not only cut workers comp costs but also to nurture a safety-conscious culture in state workplaces, the Risk Management Division's safety unit in 1995 adopted a behavior-based safety management approach endorsed by Mr. Peterson, the consultant.

The model's underlying principle is that employees sometimes perform their work in a way that they do not realize is unsafe, just as some motorists exceed the speed limit, pass on the right, or do not signal prior to changing lanes, Ms. Wood explained.

"It's not the driver's goal to crash, but it's still a set of risky behavior," she said.

Under the traditional safety model, supervisors instruct employees to stop their risky behavior and warn them of the consequences if they persist working unsafely. Under the behavior-based safety management model, coworkers warn each other about risky behavior.

"It sounds corny, but people we didn't think would get into it did," because of the natural camaraderie they had, Ms. Wood said, citing, for example, state highway workers.

But before an organization addresses employees' unsafe behavior, it must educate man-

agement about the model.

It also has to reform management behavior that contributes to safety problems. For example, Ms. Wood said: "Does management say one thing but actually reward another? Does management talk about safety but measure productivity without accounting for accidents or injuries? The main question in behavior-based safety management is, 'Why?' not, 'What?'"

Supervisors also must evaluate their employees' knowledge and training and the availability of resources that allow employees to work safely, she said.

Mr. Hartman noted that because of Oregon's success in cutting its workers comp costs, many states during the mid-1990s began contacting Ms. Wood for ideas on how they could control their costs.

While the Risk Management Division continues working to maintain its cost-control success, it also will be tweaking its efforts, according to Ms. Wood.

For example, the Risk Management Division deviates from Mr. Petersen's model by continuing to measure agencies' past failures—time-loss occurrences—even though the consultant says such failures are not indicative of future performance.

"Soon, we hope, the number of claims will be so low as to be mostly meaningless to the majority of agencies," Ms. Wood said.

The division is working with agencies to implement several alternative methods for measuring safety. Among those are management and labor safety-perception surveys.

Another major challenge the division faces in implementing the model is a pending workers comp reform bill, which would allow more claimants with pre-existing conditions to recover workers comp benefits.

If the bill passes, as expected, the division's single safety consultant would have to focus on injured worker management to keep the state's comp costs in check, Ms. Wood said.

But that will not mean the end of behavior-based safety management. To keep the approach alive, the Risk Management Division plans to promote the success of agencies that use it to raise interest among other agency directors, she said.

Mandate to cut workers comp costs pays dividends

By DAVE LENCKUS

The Oregon Risk Management Division's attack on workers compensation costs has been so effective that state agencies have had a decade-long reprieve from paying anything for workers compensation insurance.

That likely will change, however, for the state's 2003/2005 biennial budget cycle, which begins in July 2003. During that two-year period, the division likely will have to collect between \$20 million and \$25 million from state agencies to cover workers compensation costs, according to Dan Hartman, chief risk officer for the state.

The charges will be needed if the division next year releases up to \$26.5 million of surplus from the state's workers comp fund to the state's general fund, which faces a shortfall of around \$700 million in its 2001/2002 budget if it funds services at their current levels. The division may decide to release only about \$13 million of surplus, which would reduce the new risk charges by one-half.

The state's current workers compensation fund surplus will cover workers comp costs for the next two years even if some of the surplus is released.

Oregon insures its workers comp risk with Salem, Ore.-based SAIF Corp., but the program allows the state to self-fund the risk as much as legally possible.

SAIF is a quasi-governmental entity that had been the state's competitive workers comp fund until the 1970s. An Oregon statute requires the state to insure its workers comp risk with SAIF.

The state buys a 10-year, paid-loss retrospectively rated plan, which the division purchased in 1996. The retro plan is the most cost-efficient option available to the state to cover its workers comp risks, as long as the state controls its workers comp losses, according to Mr. Hartman.

For the 2000/2001 policy year ending June 30, the state paid 6%, or \$646,000, of nearly \$10.8 million in premium that SAIF likely would have charged the state for standard workers compensation coverage.

Under the retro program, the state must reimburse SAIF for all losses up to four times the estimated standard premium, or about \$43 million, before SAIF begins covering losses.

The premium multiplier in previous years was 2.0 or 2.5, but the division negotiated a higher factor this year in exchange for a lower premium, Mr. Hartman explained.

Oregon workers comp losses never have come close to triggering the SAIF coverage. The state's worst year of losses was in 1988, when paid claims and reserves totaled nearly \$19 million, according to Risk Management Division records. Since then, the division's injury management efforts have slashed total workers comp losses by more than 50%.

The state also pays SAIF a claims administration fee based on time and expense.

SAIF, however, pays the state a

yearly dividend. Over the past nine years, SAIF has paid the state more than \$42 million of dividends, including nearly \$4.6 million this policy year. Those dividends represent four times the amount of premiums the state paid SAIF during that period.

Around 1990, as the state's injury management efforts were first beginning to curb the state's workers comp costs, independent actuaries told the Risk Management Division that it needed to collect \$109 million in risk charges from

state agencies to cover and adequately reserve for past losses.

But cost savings attributable to the division's workers comp loss control efforts, workers comp reform in the state and investment income on workers comp risk charges far exceeded the division's expectations. The division found after collecting around \$106 million by 1992 that not only were the state's past losses funded but also that it would not have to charge agencies for workers comp coverage.

In June 1992, the division expected that losses would eat up the \$93 million workers comp fund surplus within three years. But the fund still had a \$68 million surplus in 1995 and a \$61 million surplus in June 1996.

The division's 1992 actuarial projections on the fund staved off a federal government demand at that time for a portion of the surplus. State agencies had used a portion of the federal money they received for various projects to pay their workers comp risk charges.

But the fund's better-than-expected performance over the next few years triggered another demand by the federal government in 1996. The federal government settled for \$12 million, which reduced the surplus then to \$49 million.

Because of that settlement, the fund's current surplus of around \$66 million represents only state money, Mr. Hartman said.

A decision by Oregon state government on whether it will transfer any workers comp fund surplus is expected within a year. **BI**

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Self-funding lets state balance cost with control

By DAVE LENCKUS

The state of Oregon saves \$15 million annually by self-funding a large part of its property/casualty risks, according to the Oregon Risk Management Division.

The division purchases some commercial insurance, though, to protect the state from catastrophic property losses and to cover several specialty liability exposures.

The state began self-funding during the hard insurance market in the mid-1970s, about six years before the state created its Risk Management Division, which now is part of the Oregon Department of Administrative Services.

The state self-funds its general liability and auto liability exposures up to its statutory tort liability cap of \$200,000 per person for bodily injury, \$50,000 for third-party property damage and \$500,000 per incident.

State agencies and employees, however, have unlimited coverage under state law for losses arising from federal civil rights claims, because there is no liability cap for such claims.

A new coverage for state employees, officials and agents that state Chief Risk Officer Dan Hartman has created already has paid dividends. Under the existing state-funded tort protection coverage, the state may reimburse those individuals up to \$25,000 of their legal defense costs in criminal cases if the charges stem from job-related actions.

A defendant cannot recover, however, unless he or she is exonerated in court and passes muster with a special state committee that includes Mr. Hartman, the state's Department of Justice and the head of the agency that employs the defendant. The state committee investigation is necessary to avoid rewarding someone who either avoided conviction because of quirky circumstances, such as the death of a prosecution witness before trial, or was exonerated despite violating

departmental rules.

The coverage, which became available last summer, prevented a work stoppage on certain road projects by state Department of Transportation crews. About a half-dozen workers faced a criminal investigation after an error in a creek-cleaning project along Interstate 84 killed as many as 100 endangered fish. Other crews did not want to face that risk and balked at performing similar work until Mr. Hartman erected that criminal defense cost safety net.

State prosecutors decided not to press any criminal charges against the workers and dropped the criminal investigation altogether earlier this year.

The state also covers some liability risks for two conservation groups that work with state agencies.

For a group of about 40 Soil and Water Conservation Districts, the state provides general liability coverage up to the state's statutory liability cap. But those public entities and their workers, many of whom are volunteers, do not have unlimited coverage for losses stemming from federal civil rights claims.

For purposes of allocating losses and charging for the coverage, the Risk Management Division considers the districts part of the Department of Agriculture. The division, however, will not begin charging that department for the coverage until the districts sustain a loss.

For the Watershed Council, another largely volunteer organization devoted to protecting fish and water, the state provides general and auto liability coverage of \$100,000 for bodily injury per person and \$50,000 for third-party property damage. There is a \$200,000 aggregate limit per incident.

For loss allocation and coverage charge purposes, the division considers the council part of the state's Watershed Enhancement Board.

A quasi-governmental insurer insures Oregon's workers compensation losses under a retrospective plan that essentially allows the state to self-fund those losses (see story, page 83).

Oregon's self-funded property program retains the first \$1.5 million of an agency's loss, except in cases of earthquake and flood. The state retains the first \$4 million of earthquake and flood losses.

The Risk Management Division purchases \$400 million of property insurance above its self-insured retentions for a premium of \$1.3 million.

Hartford Fire Insurance Co. writes the first \$5 million of property limits.

Three insurers participate on a quota-share basis in the \$15 million layer excess of \$5 million: Affiliated FM Insurance Co., Agricultural Insurance Co. and Mount Hawley Insurance Co.

Two insurers participate on the \$80 million layer excess of \$20 million: TIG Insurance Co. and Westchester Fire Insurance Co.

Hartford, Affiliated FM and Royal Indemnity Co. participate on the \$200 million layer excess of \$100 million.

After completing a cost-benefit analysis, the Risk Management Division last fall purchased \$100 million more of excess property coverage, which is written by Affiliated FM.

Overall, the state reports \$5.8 billion of property values. Its largest concentration of buildings, valued at about \$706.2 million, is in the Capitol Mall in Salem.

The Risk Management Division also purchases commercial insurance to cover the state's:

- Excess auto liability risk when state employees drive on state business outside of Oregon. Genesis Insurance Co. writes \$10 million of coverage excess of the state's \$1 million retention.

- Foreign liability risk. State agencies and schools conduct business, agricultural, science, educational and other activities in many foreign countries. The Insurance Co. of the State of Pennsylvania writes \$3 million of per occurrence limits with a \$3 million aggregate. The policy also covers claims arising from errors in administering employee benefits. Those losses are

covered on a claims-made basis, however. Sub-limits include \$100,000 for fire legal liability. There is a \$1,000 deductible for employee benefits-related losses.

- Foreign workers compensation/employer's liability risk. The Insurance Co. of the State of Pennsylvania writes \$3 million of employer's liability limits and covers \$50,000 of repatriation expenses.

- Public employees' dishonesty and outside agents' dishonesty bond.

The state purchases \$20 million of layered protection. A unit of CNA Financial Corp. writes the first \$10 million, and a unit of Travelers Property Casualty Corp. writes \$10 million excess of \$10 million. The state is subject to deductibles of \$250,000 for an employee-related loss and \$5,000 for an outside agent-related loss.

- Aviation liability risk from aircraft operated by the state police and the state's forestry and transportation agencies. Westchester writes \$25 million of limits. The state is subject to a \$50,000 deductible per claim per aircraft.

- Ocean-going vessel liability risk, which largely stems from boats and ships that Oregon State University owns and operates as part of its oceanography program. St. Paul Fire & Marine Insurance Co. writes between \$1 million and \$15 million of coverage, depending on the vessel. The state is subject to a \$10,000 deductible, except for a \$100,000 deductible for losses involving the largest ship covered.

State agencies this current fiscal year will pay \$38.4 million in risk charges for their self-funded and commercial insurance coverage.

About 90% of agencies' risk charges for their liability and workers comp coverages reflect their specific loss experience. Pooling of losses accounts for the remainder of the charges.

The Risk Management Division, however, discounts the rate it charges for the state's smallest agencies, which Mr. Hartman said rarely file any claims. Those agencies pay \$1,000.

In determining risk charges for large agencies—those that own at least one building valued at \$1 million or more—the division pools a portion of the agencies' catastrophic losses to provide them budget relief.

For example, assume an agency suffered a single property loss totaling \$2.5 million during the just-completed four-year base period that the Risk Management Division uses to determine property coverage risk charges for the next biennium. Also assume that the division, after factoring in projected losses for the upcoming biennium and the property fund's current balance, determines it must collect \$7 million in risk charges from all state agencies.

The division would allocate \$300,000 of the property loss to the agency that owned the damaged property. Then, the division would reduce that by the average cost of property losses during each year of the base period. In this example, the average loss was \$12,500 annually, so the division would trim the \$300,000 allocation by \$50,000 to \$250,000.

If the state's total paid losses, net of deductions, during the base period is \$5.7 million, then the agency's proportional share of that would be 4.39%—\$250,000/\$5.7 million.

To determine the loss experience portion of the agency's risk charge, the division would take 70% of the \$7 million total it needs to collect—or \$4.9 million—and multiply by 4.39% to arrive at \$215,000.

Next, the division would consider the amount of property the agency owns. The division would apply one rate to the agency's square footage protected by sprinkler systems and double that rate for the agency's unsprinkled square footage—a tactic designed to encourage agencies to sprinkle their property. The division then would multiply those sums by the remaining 30% of risk charges that the division needs to allocate to all divisions. In this example, the rates lead to \$70,000 of additional risk charges for the agency.

Altogether, the agency would face a \$285,000 risk charge—\$215,000 plus \$70,000. **BI**



PHOTO: MICHAEL MARCOTTE

The Oregon claims team, left to right, front row: Michael Baker, claims management consultant; Rocky Jeffries, claims representative; Carolyn Hancock, claims adjuster; Dan Hartman, chief risk officer; Jim Sorte, claims management consultant; and Brenda Schnee, claims specialist. Second row, left to right: Dwayne Green, claims management consultant; Mel Galvin-Conrad, employment claims consultant; Cort Dokken, supervisor; Dawn Nicholas, claims management consultant; and Michael Baird, claims manager/deputy administrator. Not pictured: Kent Rice, chief claims specialist, and Linda Roberson, claims specialist.

Claims skills applied broadly

By DAVE LENCKUS

Large liability claims often force risk managers to choose between avoiding a runaway jury verdict by taking smaller financial lumps in a settlement or risking a large verdict to thwart future frivolous claims.

Oregon Chief Risk Officer Dan Hartman is sensitive to those issues and knows how to balance them for the good of the state's coffers and public policy, said Timothy Wood, chief trial counsel for the Oregon Department of Justice.

Mr. Hartman may have saved the state tens of millions of dollars with that approach in a lawsuit against the State Office for Services to Children and Families.

Mr. Hartman's Risk Management Division also is responsible for handling more than insurable claims. It

currently is handling claims from a couple of thousand managers in state government who are seeking back pay for overtime work for which they became eligible as a result of a foul-up by the state Legislature.

"Dan is a collaborator and a good listener and understands and respects the various expertise that others bring to the table," Mr. Wood said. That is evident, he said, when the chief risk officer is discussing a significant claim against the state with his claims adjuster, the agency facing the claim and Justice Department attorneys.

"He's able to balance those various interests," Mr. Wood said.

All tort claims against the state go through the Risk Management Division, which resolves up to 95% of them itself. The remaining claims are assigned to a Justice Department attorney, who works with a

risk management adjuster to resolve the dispute.

The Oregon state government heavily promotes resolving claims through alternative dispute resolution measures.

The Legislature enacted a law in 1997 that allows state agencies to use ADR techniques, and Gov. John A. Kitzhaber in July 2000 issued an executive order setting out how agencies should implement ADR in a coordinated manner.

This effort parallels a comparable one that has been under way at the federal level for five years, noted Susan M. Marshall, dispute resolution coordinator for general government agencies in Oregon. Ms. Marshall's office is based out of the Risk Management Division, a unit of the Oregon Department of Administrative Services.

Claims Manager and Deputy Risk
Continued on next page

Continued from previous page
Management Division Administrator Michael Baird said ADR has prevented 80% to 90% of employment liability claims, a high-risk claim for the state, from going to trial. ADR has reduced litigation costs for both sides as well as settlement costs for the state, he said. It also has allowed plaintiffs to both recover their awards more quickly and, because they have not gone through a bitter trial, return to work easily, he said.

It is those high-stakes cases that either are not candidates for ADR or that ADR fails to resolve where Mr. Hartman balances the potential financial hit the state could take against how a settlement would affect public policy, according to Mr. Wood.

For example, the SCF, the state's children services agency, was headed to trial last fall over claims arising from the death of a 23-month-old girl whom the agency had placed in foster care shortly after birth and then returned to her mother the following year. The mother, who is mildly retarded, battered the toddler to death during a psychotic episode.

The attorneys representing both the girl's estate and an older brother who was at the mother's home when the girl was killed sought \$6 million of damages. The attorneys were able to seek an award that would have pierced the state's \$200,000 per person tort liability cap because they alleged that the SCF's handling of the case amounted to "deliberate indifference" of the child's safety. If the jury agreed, that would have violated the children's federal civil rights, which is not subject to any liability caps.

The state's attorneys were confident that the state would prevail at trial, Mr. Baird said.

But, prior to trial last fall, Mr. Hartman paid about \$5,000 to conduct a couple of mock trials on the case and consult with an expert who has worked with the U.S. Department of Health and Human Services.

The result: By going to trial, the state faced a jury award as high as \$70 million, Mr. Hartman said. At that time, the state's self-insured liability fund had less than \$38.9 million of total assets, about \$32.5 million of that in reserves.

A day after the mock juries returned their verdicts, Mr. Hartman pressed the state's attorneys to offer the plaintiffs the \$1 million settlement he was aware they likely would accept. The case settled that day.

The case led to some improvements in how the agency assigns cases, handles paperwork and documents the welfare of children it places, according to Messrs. Hartman and Wood.

There are other cases, however, that Mr. Hartman recognizes transcend "dollars and cents" concerns, Mr. Wood said.

Many claims against the Oregon State Police are primary examples, Mr. Wood said. "It is important for law enforcement officers to know they'll be supported if they comply with (official) procedures."

In a recent case, a state police officer was sued by a suspected drunk driver whom the officer shot in the shoulder after the driver had scuffled with the officer. After the scuffle, the driver went to her vehicle,

where the officer said he thought the woman was reaching for a weapon.

The state, supported by the Risk Management Division, defended the officer in the civil rights case. A federal court jury in February, however, awarded the plaintiff \$8 million—\$4.5 million of which were punitive damages.

"No one could have seen that one coming, not even the plaintiff attorneys," Mr. Wood said, defending the decision to defend the case.

The state already has filed a motion for a new trial. The court ruled that information about the plaintiff's criminal background was too old to be relevant for the case, including that she had been convicted

several years ago of filing false police reports, Mr. Wood said. The court, however, allowed the plaintiff to introduce evidence about the officer's altercation with another suspected female drunk driver nearly 20 years earlier, he said.

Meanwhile, Mr. Hartman is controlling the cost of handling claims that are not covered by the state's self-insurance program.

The Legislature in 1995 mistakenly made salaried state government employees eligible for overtime pay. Lawmakers, who meet biennially, corrected the mistake in 1997. A state judge, however, ruled that the state owed back pay to eligible state workers who worked overtime dur-

ing that two-year period.

Nearly 14,400 current and former state and higher education workers belong to the class of affected workers. Initial claims estimates ranged from \$100 million to \$200 million, and the state already faces a \$660 million budget shortfall for its 2003/2005 biennium.

Several developments, however, have pared that potential loss to around \$5 million. Fewer than 2,000 claims have been filed. In addition, a court has ruled that the state can use a half-time pay rate, instead of time-and-a-half, in calculating the overtime pay it owes. The state also does not owe interest on the overtime pay, the court ruled.

A group of current and former state employees has appealed those rulings.

In 1999, the executive staff for the Department of Administrative Services directed the Risk Management Division to set up a process to manage the claims, even though they would not be covered by the state's self-insurance fund. Each state agency would be responsible for the overtime pay it owed.

Mr. Hartman initially considered hiring an outside claims adjuster but decided that handling claims in-house would be less costly. The division hired eight full-time temporary staff, many of whom are retired claims adjusters. BI



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RISK MANAGER OF THE YEAR

Before working for his state, Hartman served his country

By DAVE LENCKUS

The U.S. Army snared Dan Hartman first and even got him to contemplate a military career, but the insurance and risk management industry lured him next and for good. Indeed, Mr. Hartman's experience as an Army officer was what attracted one insurer during its own recruitment effort in the early 1970s.

Ultimately, though, the buyer's side of the industry captured Mr. Hartman's interest. Mr. Hartman has spent that entire portion of his risk management career with the State of Oregon—beginning as a loss control manager and rising to chief risk officer, a position created specifically to recognize his risk management approach.

This year, a panel of 10 independent judges recognized Mr. Hartman for his work in shaping the state's risk management department by naming him the 2001 Risk Manager of the Year.

Mr. Hartman, the 24th recipient of the annual award, builds on a tradition established by his two predecessors, both of whom were named to the Risk Management Honor Roll during the past 17 years for their risk management accomplishments for the state.

Mr. Hartman, 54, is a transplant from the Midwest. He grew up in the Chicago area, but at age 12, his family began a series of moves over the next six years. His father—a sheet metal and iron worker—moved the family to Florida, back to Chicago and then to southern Wisconsin.

In 1965, Mr. Hartman followed his parents and younger brother one more time in a move precipitated by an earlier camping trip to Oregon. Mr. Hartman, then 18 and a year into his studies at the University of Wisconsin in Madison, followed his family to the Beaver State and has called it home for most of the past four decades.

Mr. Hartman finished his bachelor's degree in business administration, with a minor in math, at Oregon State University in Corvallis in 1968.

His college graduation coincided with the peak of the Vietnam War. He was drafted into the military shortly after graduation.

Mr. Hartman said that while he never supported the role that the United States played in that civil war, he did not see any palatable options that would have allowed him to avoid the draft. He could have continued his studies, but he did not want to become a professional student. He said he did not even consider moving to Canada to avoid military service.

With a college degree in hand, he entered the Army as a 2nd lieutenant. He was assigned to the first battalion in the Army's 7th Cavalry—the unit that Gen. George Armstrong Custer immortalized during the Army's Indian campaign during the late 19th century.

After boot camp but before shipping him to Vietnam, the Army assigned Mr. Hartman to bases in Georgia, Oklahoma and Alaska, where he received officer training and rose in rank to 1st lieutenant. Mr. Hartman entertained thoughts of making a career in the military.

In mid-1971, he was shipped out to Vietnam, and his unit was assigned to a forward position.

The assignment changed the course of his life, and nearly claimed it.

During a battle a couple months into his Vietnam tour, he was directing his men to cover their flanks when a 30-caliber enemy round tore through his stomach just below his sternum.

It was a serious injury that required months of hospitalization in Vietnam and stateside. When he was well enough to travel to a U.S. hospital, the Army moved him to a facility near Fort Lewis. The post, located in the Tacoma, Wash., area, was the base closest to Mr. Hartman's home.

After Mr. Hartman was released from the hospital, the Army assigned him to Fort Lewis to serve out the last couple of months of his four-year hitch.

During that period, Mr. Hartman came to a career crossroads. While recuperating in the hospital, the Army offered him a regular officer's commission. It was the second time the service tried to entice him to choose a military career. The first offer came while he was stationed in Alaska from 1969 to 1971.

The soft-spoken Mr. Hartman says he occasionally thinks about how his life might have been different had he accepted an officer's commission. But he says the one major drawback of Army life that he never would have wanted to accept was putting the service before his family.

During his stint at Fort Lewis, another organization recruited his services. Seattle-based insurer SAFECO Corp., which had a reputation as a training company, was recruiting military officers with college degrees.

Mr. Hartman met with representatives from several SAFECO departments, including claims, underwriting and marketing.

"The guy in charge of claims really impressed me," Mr. Hartman recalled. "And the job—handling claims, meeting people, making decisions—sounded kind of interesting."

Mr. Hartman was with SAFECO from 1972 until 1976, adjusting both residential and commercial property/casualty insurance claims, including some workers compensation claims. He won the Adjuster of the Year Award in the company's Oregon claims division—one of SAFECO's largest claims divisions—his first year with the insurer. By 1976, he had been promoted to adjuster in charge at the company's Portland, Ore., claims office.

On track to become a claims division head, Mr. Hartman had a promising future at SAFECO.

But his professional interests began to shift as he learned more about insurance, risk and risk management.

"I was getting interested in the other side of the business—prevention—not just picking up the pieces" by adjusting claims, he explained.

To explore the loss prevention end of the business, Mr. Hartman in 1976 took a position as a claims and safety representative with the Seattle office of Gallagher Bassett Services Inc., the risk management services subsidiary of broker Arthur J. Gallagher & Co.

Gallagher's clients included chains of big stores, other commercial risks, churches and schools without dedicated risk managers, he recalled. Mr. Hartman was able to immerse himself in his clients' safety, property appraisal and risk financing efforts as well as their claims-handling operations.

About midway through his seven-year tenure with Gallagher, where he was promoted to branch manager in Seattle, Mr. Hartman began entertaining thoughts of switching from the vendor end of the business to risk management. But he delayed making a move because of the number of projects he had underway and the good relationships he had with his clients.

By 1983, though, he was beginning to miss Oregon. He also had turned down several positions with Gallagher that would have taken him farther away from the state he had adopted as home. He said he felt that had jeopardized his potential to advance further with the company.

He had learned of an opening for a loss control and insurance manager in the state of Oregon's Risk Management Division. Mr. Hartman approached the division's administrator, Gene Snyder, about the position.

"He said, 'This is real risk management. You'll really get your hands into it,'" Mr. Hartman recalled.

Mr. Snyder hired Mr. Hartman in 1983. The next year, Mr. Snyder was named to the *Business Insurance* Risk Management Honor Roll.

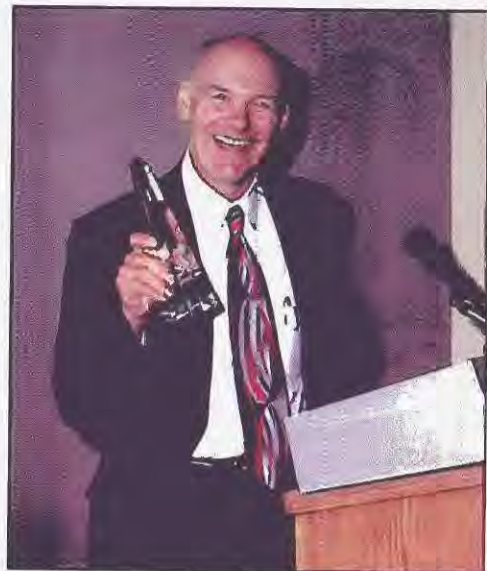


PHOTO: MICHAEL MARCOTTE
Dan Hartman hoists his award at the Risk Manager of the Year luncheon ceremony.

In 1988, Mr. Hartman was promoted to deputy administrator/loss control and finance in the Risk Management Division. The same year, C. David White took over as the Risk Management Division's administrator.

Five years later, Mr. White was named to the Honor Roll. At that time, no other organization had more than one of its risk managers honored by the Risk Manager of the Year competition.

Mr. White, who still works for the state as administrator of the state's Facilities Division, left the Risk Management Division in 1996, and Mr. Hartman was named division administrator.

Within two years, though Mr. Hartman saw his role evolving. He was addressing the state's risk on a more holistic basis while also pushing risk management deeper into agency management. Like some of his peers at global companies in the private sector, Mr. Hartman was more like a chief risk officer. His supervisor agreed, and Mr. Hartman was appointed as the state's first CRO in 1998.

Mr. Hartman and his wife, Connie, have been married for 25 years. He has two children—Angie, 30, and Wade, 27—and a stepdaughter, Erin, 30.

In their leisure time, the Hartmans enjoy camping and backpacking. They also like to travel, mainly in the Northwest.

Mr. Hartman also is a bow hunter. He strictly hunts elk.

The Hartmans live 20 miles south of Salem in Marion County. **BI**

Honoree honors his peers

Hartman recognizes his colleagues for their role in his success

By DAVE LENCKUS

As a raw recruit in a property/casualty insurer's claims adjustment department in 1972, Dan Hartman was struck by the first news article he ever read about risk management.

"What are you talking about? Risk management? That's pretty interesting," Mr. Hartman recalled saying to himself as he began reading the article in *Business Insurance*.

His fascination with the field only intensified over the next several years, especially after he took a position with a risk management services vendor in 1976 and began working with risk managers.

"Maybe someday I could get that job," Mr. Hartman, now the chief

risk officer for the state of Oregon, recalled musing a quarter-century ago.

Holding up the crystal obelisk that signifies his selection as the 2001 *Business Insurance* Risk Manager of the Year and referring to the 23 previous winners of the annual award, Mr. Hartman told a roomful of well-wishers at his award ceremony: "I never thought I would get my name on the same list as those people."

Ten independent judges selected Mr. Hartman for the award, marking only the third time in 24 years that a risk manager for a governmental entity has received the honor. *Business Insurance* Senior Editor Dave Lenckus, Publishing Director Kathryn J. McIntyre and Editor Paul D. Winston presented Mr. Hartman with the award during a

luncheon ceremony in Salem, Ore., on April 5.

After recounting his introduction to risk management, Mr. Hartman quickly stressed that he never would have been considered for the award "if it weren't for everyone in this room."

He recognized:

- His workers compensation team at Salem, Ore.-based SAIF Corp. The quasi-governmental insurer covers the state's workers compensation risks and has worked with the state's Risk Management Division to sharply curb workers comp costs since the late 1980s through injury management efforts.

- The Oregon Chapter of the Public Risk Management Assn. "They are our public partners," he

Continued on next page



PHOTO: MICHAEL MARCOTTE
Dan Hartman, center, with representatives of the Oregon chapter of the Public Risk Management Assn., left to right: Director Deane Bristow, Lincoln County; Secretary Dwayne Kroening, Clackamas County; Director Karen Selander, Corvallis School District; Treasurer Allen Bunch, Chemeketa Community College; Vp David Donaldson, city of Wilsonville; Director Valerie Saiki, City County Insurance Services; President Bob Osip, Washington County; Director Gary Deverell, city of Gresham.

Continued from previous page said, referring to the Risk Management Division's practice of teaming up with other public entities in the state on legislative issues and claims defense work.

• Supervisors Mike Greenfield, director of the Department of Administrative Services, and Colleen Sealock, deputy director of the department. Mr. Hartman runs Oregon's Risk Management Division, which is a unit of Administrative Services.

Mr. Hartman also recognized C. David White, currently the administrator of the state's Facilities Division and formerly the Risk Management Division administrator and Mr. Hartman's boss; and Cameron Birnie, administrator of the Oregon Transportation, Purchasing and Print Services Division.

"These people have been my true inspiration," Mr. Hartman said.

• Oregon Gov. John A. Kitzhaber. "His mission has helped us manage risk," said Mr. Hartman, referring to the governor's directive to state agency managers to keep on top of their workers comp costs, his leadership in the state's Y2K computer bug loss mitigation efforts and his natural resources conservation efforts.

• His brokers at Marsh USA Inc in Portland: Gil Henderson a managing director, and Chuck Hersh, a senior vp. The broker has successfully bid for the state's business since 1987. "They've given us darned good advice for 14 years," Mr. Hartman said.

Mr. Hartman's most glowing praise, however, went to all the current and former staff of his "great Risk Management Division."

"You are our most important asset. Without you, we never would have done this," Mr. Hartman said, referring to the Risk Manager of the Year award. Mr. Hartman cited in particular Kathleen M. Wood, safety and risk manager; Michael Baird, claims manager and deputy administrator of the division; Andrea Peters, insurance and operations manager; and Robert A. Nies, finance analyst.

Mr. Hartman extended his final acknowledgments to his wife of 25 years, Connie, and his parents, Harold and Betty Hartman.

He concluded his acceptance with an aphorism about success that one of his staff recalled earlier that day. Quoting baseball great Yogi Berra, who is nearly as famous for his many creative turns of phrase, Mr. Hartman said: "It ain't bragging if you've done it."

Mr. Nies led off the toasts and roasts that followed Mr. Hartman's award acceptance. "Dan may not have much on top, but he's got a lot inside."

Calling Mr. Hartman "a man of heart and integrity," Mr. Nies noted that he initially thought he would work for the state only two years but that he has stayed for more than 11 years "because of Dan."

Mr. White, who was named to the Risk Management Honor Roll in 1993, congratulated his one-time subordinate and thanked him for his work during the nine years they worked together.

"All the years Dan and I worked together, I appreciated very much," Mr. White said.

Bob Osip, the president of the Oregon chapter of PRIMA, commended Mr. Hartman for the Oregon CRO's "great work" with the chapter and for "promoting statewide intergovernmental cooperation." Mr. Osip also is human resources and risk services manager for Washington County, Ore.

Mr. Greenfield and Ms. Sealock, Mr. Hartman's supervisors, both extended their congratulations.

"We're really glad he has made us look good," said Mr. Greenfield, who also noted the work of Mr. Hartman's staff and the state's defense attorneys.

Mr. Henderson of Marsh and SAIF Senior Vp Brian Steffel also

extended their congratulations.

Ms. Wood wrapped up the event by noting that she, like Mr. Nies, initially had planned to work for the state only two to three years. Ms. Wood said she has remained with the Risk Management Division for 14 years because of Mr. Hartman.

Ms. Wood told Mr. Hartman on behalf of the division's staff: "We're real proud of you, and you're a wonderful person to work for."

She closed by quipping: "You got the award because of our hard work, so we didn't buy you anything. But we got you a real nice card back at the office." **BI**



PHOTO: MICHAEL MARCOTTE

Risk Manager of the Year Dan Hartman, center, with *Business Insurance* staff, left to right: Paul D. Winston, editor; Kathryn J. McIntyre, publishing director; Martin J. Ross III, publisher; and Dave Lenckus, senior editor.

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WEYERHAEUSER CO.

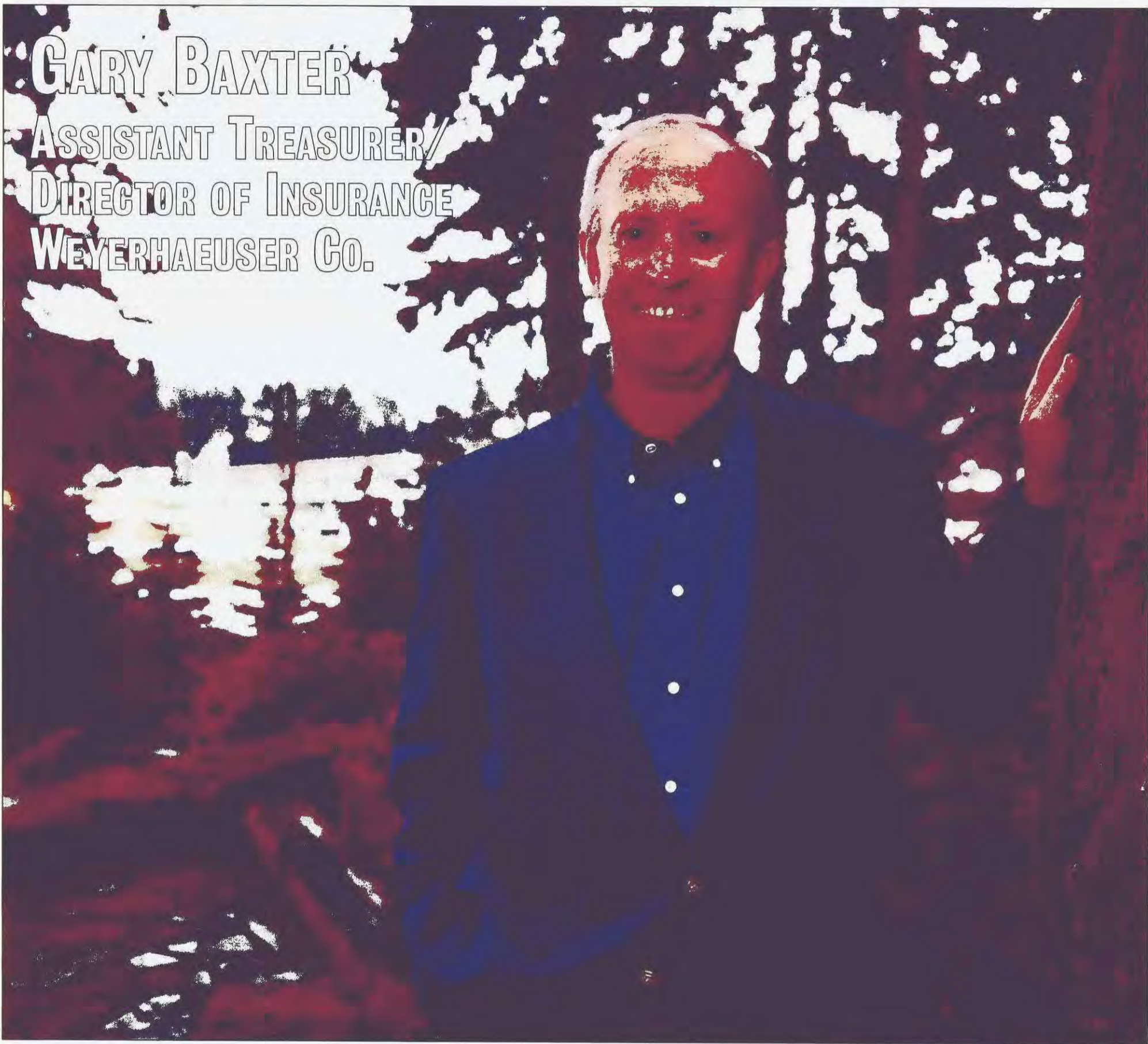


PHOTO: MICHAEL MARCOTTE

Baxter sees the risk management forest for the trees

By **ROBERTO CENICEROS**

A few days after a recent earthquake rattled the Puget Sound area, a waiter offered some friendly advice to Gary A. Baxter.

"Buy insurance," advised the waiter, whose limited English-speaking skills led him to believe that Mr. Baxter is a college chemistry professor.

Mr. Baxter isn't a professor, but he does know a few things about insurance. He is assistant treasurer and director of insurance for a Fortune 500 company, Federal Way, Wash.-based Weyerhaeuser Co. The forest-products company owns properties valued at \$16.4 billion and generates \$15 billion in annual revenue.

Contrary to the confused waiter's advice, Mr. Baxter works at steering clear of insurance purchasing. Under his direction, Weyerhaeuser has a sizable appetite for risk, relying less on insurance than on risk retention, coupled with attentive loss prevention measures.

To make that a successful philosophy, Mr. Baxter's 12-person insurance department includes two fire-protection

engineers. They oversee constant inspections of more than 400 properties, including high-value pulp mills and high-hazard sawmills and wood product plants. His department also oversees marine coverage for Weyerhaeuser's worldwide shipping operations and issues 2,200 surety bonds annually for timber-cutting projects and six nationwide housing construction units.

Property/casualty professionals in his department also act like underwriters, assessing Weyerhaeuser business units "premiums" to finance company self-insured retention funding pools (see story, page 91).

The insurance department also supervises offshore captive facilities that return a profit by insuring products shipped for Weyerhaeuser customers. Insuring third-party business allows Weyerhaeuser to take a tax deduction for premiums paid into its captive, Mr. Baxter said.

In all, the company pays less than \$30 million annually in premiums to third-party insurers, which Mr. Baxter says is a small amount given the company's size.

For successfully managing such a department, Mr. Baxter has been named to *Business Insurance's* 2001 Risk Manage-

ment Honor Roll, representing companies with sales exceeding \$300 million annually.

Weyerhaeuser has long recognized the importance of Mr. Baxter's role. The company's formal management structure calls for him to report to the company treasurer. But the company's executive vp and chief financial officer, William C. Stivers, has ordered that Mr. Baxter be granted significant autonomy in managing the insurance department.

"It's a result of a long track record of effective management of the company's insurance program that allows that to happen," said Richard J. Taggart, Weyerhaeuser vp and treasurer. "There is just a high degree of confidence in Gary and his whole department. He has a very capable staff, and Gary does a good job of bringing out the best in them."

Mr. Baxter's success in managing an insurance program depends in part on avoiding needless complexity.

Concepts such as "integrated risk management" and "holistic risk management," are interesting theories worth pondering, Mr. Baxter said. But they are "totally ridiculous" practices for a large corporation, he added.

Continued on next page

Continued from previous page

He also believes that traditional risk management responsibilities should be kept separate from the management of business, or enterprise, risks. "For me, getting them under the realm of insurance and getting them under risk managers, that is quite a stretch," he said.

Mr. Baxter's oft-repeated motto—"Engineer toward a Chevrolet, not a Cadillac"—guides Weyerhaeuser's constant loss control measures. That means every Weyerhaeuser property receives at least one basic, thorough annual loss prevention inspection, while high-value plants with complex operations receive at least two inspections a year.

Yet inspection recommendations are rejected if they do not add substantially to safety, explained Joel Gaither, Weyerhaeuser property insurance and fire protection manager. The company doesn't pay for extra frills.

Still, Weyerhaeuser pays for more inspections than property insurers typically require, said Mr. Baxter, who was an insurance industry fire protection engineer before he joined Weyerhaeuser 30 years ago.

Insurers pay greater attention to the higher-value facilities they cover, he said. For example, properties valued at \$5 million may get, at most, one insurance company property loss-prevention inspection when coverage is placed, without any follow-up visits. Properties with values up to \$10 million might receive an insurance inspection every three years, Mr. Baxter explained.

But that's not the case for Weyerhaeuser properties. "We have a plant inspected once a year," Mr. Baxter said. "I don't care what size it is, because we have people there and we want them to be safe."

To conduct inspections, Weyerhaeuser contracts with three property loss-prevention vendors, and alternates their visits to each facility, Mr. Gaither said. "We found that by having different eyes go in and see the properties, and alternating inspections, you end up with better quality."

Weyerhaeuser also sets inspection quality parameters the vendors must follow. Weyerhaeuser's fire protection engineers then review the inspection company reports for necessary safety improvements and to judge the quality of the inspections.

Each inspection company receives a yearly grade—from A to F—from Weyerhaeuser, much like a school report card. Two of the inspection companies have failed in the past, but they have since improved their performance to an A-

"They probably think Weyerhaeuser is a gigantic pain in the butt, but we are a big client and we are professional," Mr. Gaither said. "It has really paid off."

The property loss control measures allow Weyerhaeuser to assume greater risk. The company maintains a deductible of \$1 million, \$5 million or \$10 million for each property, depending on the facility's value and operations.

Most business units that experience a loss, however, pay out of their operating funds only a \$1 million deductible. But the insurance department assesses all prop-

erties to accumulate funds for a self-insured retention pool used to pay for losses above \$1 million but below the property deductible.

Above the deductibles, blanket limits are provided for 55% of any loss by Factory Mutual Insurance Co.—which does business as FM Global—Mr. Baxter said. Then, \$250,000 in coverage for the remaining 45% above the SIR is provided by Weyerhaeuser's Vermont-based captive, ver Bes' Insurance Co. Six reinsurers provide blanket limits above the captive's coverage. The captive essentially is used to access the reinsurance market, Mr. Baxter said.

Weyerhaeuser's insurance department also assesses company units to fund a liability pool, though many safety programs—such as fleet safety and workers compensation—are the domain of other Weyerhaeuser departments, Mr. Baxter said.

Weyerhaeuser currently owns four captives, including ver Bes' and a Bermuda-based facility. But the Bermuda captive is currently inactive and the remaining two captives came with two corporate acquisitions. Those two eventually will be run off.

Only property and marine cargo risks are insured through ver Bes'. That practice conforms to a Weyerhaeuser philosophy of keeping captive coverages simple, yet effective.

"There have been a lot of companies that have formed a captive and jammed a lot of stuff in it that frankly did not make very good sense," Mr. Baxter said. "There are a lot of other things we could put in it that other people do. But we don't think it makes good sense."

Between 1976 and 1998, Weyerhaeuser captives earned \$33.8 million in profit from insuring customer cargo risks, Mr. Baxter said. During that time, his department's operating expenses totaled \$17.1 million. That means captive operations have returned a \$16.7 million profit after paying for his department's operation.

By insuring Weyerhaeuser products sold and shipped to customers worldwide, the captive also makes Weyerhaeuser products more competitive. Once company products are loaded onto Weyerhaeuser's five freighters and other ships the company charters, they typically become the customer's property, Mr. Baxter explained.

Through ver Bes' Insurance Co., Weyerhaeuser provides insurance for those products as they are being shipped. But customers typically purchase Weyerhaeuser's coverage for a significantly lower premium compared to the traditional market. That reduces shipping costs and makes Weyerhaeuser more competitive (see story, page 90).

To help managers throughout the company understand the insurance opportunities for their products shipped to more than 75 countries, Weyerhaeuser's insurance department created a 22-page booklet titled "Learning and Applying Principles of Marine Cargo Insurance."

Insuring customer purchases allows Weyerhaeuser to deduct premiums paid into its captive, because the practice conforms with court decisions that have found

captive owners can deduct such premiums only in cases where the captive insures a significant amount of third-party business and retains the risk for doing so. Yet Weyerhaeuser does not place coverage in its captive solely for tax advantages, Mr. Baxter said.

Weyerhaeuser's insurance department directly purchases protection and indemnity coverage from the Norway-based Gard P&I Club for Weyerhaeuser's subsidiary, Westwood Shipping Lines. Brokers are used to access marine insurers in Norway, London and the United States for hull and machinery coverage.

Mr. Baxter said it is unusual for

a risk management department to contain the depth of marine insurance knowledge found within his, because that responsibility is often left to brokers.

Weyerhaeuser's insurance department also generates \$880,000 in annual premiums and realizes commission savings of \$250,000 for administering its own bond program. Weyerhaeuser's bonds are written through SAFECO Corp. and Travelers Insurance Co., and Weyerhaeuser assumes the risk through indemnification agreements with both surety companies. "Normal commission on bonds is 30%, so you can see 30 times that volume. Rather than

pay a broker, let's do it in-house," Mr. Baxter said.

The insurance department issues performance bonds to its six homebuilding units to meet requirements set by local governments nationwide, said Allison Norr, Weyerhaeuser's surety bond administrator. Bonds also are issued to company timber-cutting operations. Those are required in case the lumberjacks accidentally cut trees in forest sections where they are not permitted to do so.

But any losses the lumberjacks experience are charged to the local Weyerhaeuser managers as a prevention incentive, Ms. Norr said. B



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Marine program gives Weyerhaeuser a competitive edge

By ROBERTO CENICEROS

An unusual \$5,000 deductible for marine cargo coverage sold to customers who purchase Weyerhaeuser Co. products reduces losses and administration costs and gives the forest products company a competitive advantage.

The deductible is "absolutely unreal in marine cargo insurance," said Elizabeth Kennedy, Weyerhaeuser's marine insurance manager. "It's always first-dollar coverage. I don't know of any insurer that has a deductible."

The deductible is also unusual because customers of the Federal Way, Wash.-based company never pay it. If they experience a loss, the Weyerhaeuser sales unit that provided the customer with the products actually pays the deductible, even though the customer is the policyholder. In other situations, however, the Weyerhaeuser unit may be the insured if it owns the product being shipped.

Several factors special to Weyerhaeuser make the arrangements possible.

The company owns five massive cargo ships and charters others to haul its products to customers in more than 75 countries. It also has an insurance de-

partment that is savvy about marine coverage and manages a Vermont-based captive that participates in its cargo insurance.

The cost of the insurance is charged to Weyerhaeuser busi-

'By keeping that (cargo coverage) rate low, it gives our people a little edge on the market.'

— Elizabeth Kennedy

Weyerhaeuser Co.

ness units and is included in the amount their customers pay for their products.

Thanks to Weyerhaeuser's loss prevention measures, its cargo coverage is priced below the rate typically charged by most insurers. That gives the sales departments a competitive advantage in reducing their customers' total costs.

"By keeping that rate low, it gives our people a little edge on the market because they can sell their product just a little lower," Ms. Kennedy said.

The cargo insurance is broad because it covers products from warehouse to warehouse, Ms. Kennedy said. That means the

cargo is covered for damage from the time it leaves a Weyerhaeuser mill, travels by truck or train to a dock, is loaded on a vessel and hauled across the seas. Coverage ceases when a customer takes delivery.

Weyerhaeuser's insurance department adopted the \$5,000 deductible in 1999 after observing that most losses fall under that amount and that it costs more than \$5,000 to administer and pay the claims, Ms. Kennedy said.

But Weyerhaeuser customers likely are unaware their coverage actually has a deductible because it is not mentioned on their insurance certificates. If they have a loss of \$5,000 or less, the Weyerhaeuser sales department they purchased from pays the claim.

Several Lloyd's of London syndicates insure losses above the \$5,000 deductible, up to \$20 million.

Lloyd's cedes the first \$1 million to Weyerhaeuser's Vermont captive, ver Bes' Insurance Co. Throughout several decades, Weyerhaeuser has suffered only one loss exceeding \$1 million in the early 1990s, Ms. Kennedy said.

Premiums for the cargo insurance are charged to the sales units, based on the type of property they ship, various insuring conditions and on their loss ra-



PHOTO: MICHAEL MARCOTTE

Gary A. Baxter, center, with his Weyerhaeuser Co. bosses, at left, Richard J. Taggart, vp and treasurer, and William C. Stivers, executive vp and chief financial officer.

tio, Ms. Kennedy said.

"If a premium loss ratio is getting to an unacceptable stage, we are going to bring that to the attention of the business (unit) with a memo or telephone call," Ms. Kennedy said. "We might even sit down with them."

The sales department shipping the product may need to take certain loss prevention actions, such as improving their packaging methods. Most damages occur during handling, she noted.

To stem problems, the insurance department maintains a sophisticated claim-tracking system to analyze factors such as which ports or customers are ex-

periencing the most losses and the cause of those losses. That attention to claims data can eliminate recurring damage.

For example, one investigation of recurring losses found a transportation company in Germany had been putting Weyerhaeuser products aboard a rusty barge with damaged hatch covers. The cargo suffered water damage. The transportation company also had been loading cargo atop gravel, which caused damage.

After Weyerhaeuser's scrutiny, the transportation company acquired better barges, Ms. Kennedy said. E

Baxter won't place all his business in one basket

By ROBERTO CENICEROS

Weyerhaeuser Co.'s Insurance Department maintains long-term relations with insurers, brokers and other industry vendors.

But just how much attention brokers and property inspection consultants give certain responsibilities can vary widely, said Gary A. Baxter, assistant treasurer and director of insurance for the Federal Way, Wash.-based forest products company.

Therefore, Mr. Baxter contracts with several brokers and consultants to tap their various strengths and market focus. Some brokers pay greater attention to risks that generate large premiums while losing their focus on smaller risks, he said. Yet others approach the smaller risks with greater enthusiasm, he added.

Weyerhaeuser contracts with four brokers for coverage in different areas, Mr. Baxter said. While they do not compete in any one area, they are aware they can be replaced if their service fails.

"They all know they only have a piece of the pie, and they all know the other one is out there," Mr. Baxter said. In fact, one broker's service level to Weyerhaeuser and to other risk management accounts fell off while the broker was undergoing a merger, he explained. That bro-

ker lost some Weyerhaeuser business because of its service decline but now it pays greater attention to the remaining Weyerhaeuser account, Mr. Baxter said.

Mr. Baxter relies on Marsh Inc. and Aon Group Inc. to place risks with international exposures because of their access to worldwide markets. Weyerhaeuser's marine risks, for example, are placed with markets in London, Norway and the United States. Marsh and Aon also place other insurance for Weyerhaeuser, such as coverage for the 16 aircraft that Weyerhaeuser owns.

Increasingly, however, Mr. Baxter has found advantages in turning to a smaller broker, Tacoma, Wash.-based Raleigh Schwarz & Powell. The broker places Weyerhaeuser's general liability coverage, which is a worldwide program.

"They are a smaller broker. They work hard. They have the time," Mr. Baxter said. "Unlike a bigger company, they really get in there and dig." Smaller brokers also are favorable, he said, because they have an appetite for smaller risks that large brokers may not give much attention.

To place coverage for its real estate units, though, Weyerhaeuser relies on Acordia Inc. The real estate units need insurance for many small facilities, including office buildings belonging to builders and home-

owner associations.

Most of Weyerhaeuser's contracts with brokers are fee-based rather than commission-based, Mr. Baxter said. The company spends about \$2.5 million annually for the services of brokers, two third-party administrators and two captive managers.

'(The brokers) all know they only have a piece of the pie, and they all know the other one is out there.'

— Gary A. Baxter

Weyerhaeuser Co.

The amount is low because his staff tracks insurance markets and buys direct when possible, Mr. Baxter said. By directly placing 56% of its premiums, Weyerhaeuser saves about \$2 million annually in broker fees and commissions.

"There are a lot of companies that have to call their broker 10 times a day for various reasons," Mr. Baxter said. "We don't."

Insurance that Weyerhaeuser purchases through brokers includes: excess casualty, joint-venture liability, directors and officers liability, wrap-up pro-

gram coverage, aircraft and hull liability, excess crime, builders risk and coverage for hunting clubs that use some of the millions of acres owned by Weyerhaeuser.

Direct purchases include property and business interruption, marine cargo, protection and indemnity, and surety bonds. The company pays less than \$30 million annually to third-party insurers, Mr. Baxter said.

For property loss control services, Weyerhaeuser contracts with FM Global, Marsh Inc. and Iselin, N.J.-based Global Risk Consultants Corp.

Weyerhaeuser has extensive ties with FM Global and purchases property coverage from the insurer. Their business relationship dates back 32 years. Mr. Baxter is a member of FM Global's Risk Management Executive Council, a group of risk managers that provide the insurer with feedback. In addition, Weyerhaeuser's executive vp and chief financial officer, William C. Stivers, is a member of FM Global's board of directors, and two of Mr. Baxter's fire protection engineers are former FM Global employees.

Maintaining long-term business relations with a company such as FM Global depends on not taking advantage when the market is against the insurer, said John Lambdin, Weyerhaeuser insurance manager and manager of office administration.

"We have many long-term relations, so depending on the market, we have an understanding with most of our providers when we have the leverage we don't rake them over the coals," Mr. Lambdin said. "Some people's strategy is, 'Go to the market and get the lowest price regardless.' When a market turns, like it is now, those people have the most trouble and see the biggest increases."

While Mr. Baxter has extensive ties and considerable respect for FM Global and its loss control experts, the insurer's strength is focusing on larger, more sophisticated risks, he said.

"They are one of our absolute largest suppliers and business partners, but as a matter of fact they don't take the smaller risks as seriously as we do," he said. Therefore, Mr. Baxter also uses Marsh Inc. loss control consultants for smaller risk oversight. Weyerhaeuser has a 50-year history of working with Marsh.

Despite how close Mr. Baxter may be with an insurer, he does not like to place all his coverage in one market.

He does not place 100% of Weyerhaeuser's property, surety or marine hull and machinery coverage with only one insurer. Leveraging a major program between two or more insurers improves pricing, terms and service. It also minimizes capacity problems should the market tighten, Mr. Baxter's staff says. E

Business units fund pools to pay liability, property losses

Pools finance Weyerhaeuser's retentions

By ROBERTO CENICEROS

Weyerhaeuser Co.'s insurance department assesses the company's individual business units premiums to pay for liability and property losses that fall within corporate self-insured retentions.

To cover claims within a \$10 million SIR for liability losses, the insurance department assesses each Weyerhaeuser business facility based on its location, automobile fleet, operation type, overall size, and most importantly, its loss history, explained Bill Moore, liability manager for Weyerhaeuser's insurance department.

"It's much like an insurance company would do," he said. Claims that fall within the SIR are then paid from the resulting pool.

Plant managers do not face a deductible for liability claims their units generate, Mr. Moore said. They have first-dollar coverage. But the greater their losses, the greater the premium charged, encouraging individual managers to pay attention to their losses.

"We want each business to be focused on the concept that they are responsible for a claim," Mr. Moore said.

But the blow from a severe loss is softened for individual business managers because the premiums charged is averaged over a facility's seven-year claim history, Mr. Moore said. Additionally, all losses are capped at \$1 million for calculating a business unit's pool assessment, said Gary A. Baxter, Weyerhaeuser's assistant treasurer and director of insurance.

Premiums paid by the business units typically amount to one-

third of what they would pay were they to purchase liability coverage from an insurer, Mr. Moore said. The majority of the assessment funds the pool to pay self-funded losses while a portion pays for excess insurance coverage and administration expenses.

Also, to keep individual managers aware of their liability claims, the insurance department twice a year sends them a loss report. The report details the number and nature of their claims. Most stem from automobile and truck accidents, slip-and-fall injuries and from injuries suffered by contractors working on Weyerhaeuser property. The liability pool was set up 20 years ago, Mr. Baxter said.

Excess of the \$10 million SIR, Weyerhaeuser purchases \$200 million of liability insurance from five companies participating in a layered program. The five companies are Munich Reinsurance Co., American International Group Inc., Chubb Corp., Gerling Group and Starr Excess Liability Insurance Co. Ltd., a unit of AIG, Mr. Baxter said.

Weyerhaeuser takes a different tack to property losses that fall within an SIR, Mr. Baxter said. Plant managers do not have first-dollar coverage for property losses. They face a \$1 million deductible.

Weyerhaeuser purchases coverage with deductibles of \$1 million, \$5 million or \$10 million for each property, depending on the facility's value. Losses between the \$1 million a plant manager is responsible for and the company's SIR are paid out of a property SIR pool, which is funded by an assessment on all company units. Weyerhaeuser instituted the property self-funding pool about seven years ago.

Weyerhaeuser's insurance department calculates the property

pool premium charged to individual company units by obtaining insurance quotes every two or three years for coverage with a \$1 million deductible. The insurance department then assesses the business unit an amount equal to the difference paid for the actual

haeuser insurance manager and office administration manager. The amount of money amassed for the pool for property losses depends on an average amount required to pay two substantial claims, he added.

When losses remain low and the two pools amass more funds than necessary, the department sends Weyerhaeuser business units a refund, much like a dividend some insurers return to customers, Mr. Lambdin said. **BI**

'We want each business to be focused on the concept that they are responsible for a claim.'

— Bill Moore
Weyerhaeuser Co.

deductible the company maintains and what an insurer would charge if Weyerhaeuser purchased coverage with a \$1 million deductible for the individual facility.

The liability and property self-insured funding pools complement each other, Mr. Baxter said. If one year, for example, the property pool suffers large losses, the insurance department can borrow from the liability fund.

The amount of funds Weyerhaeuser maintains in the pool for financing liability claims is based on reserves for known losses and incurred-but-not-reported losses, explained John Lambdin, Weyer-



*"Where will you go?"
"Perhaps to England or to Paris.
Perhaps Charleston - now I
want something different - the calm
dignity life can have when it is lived
by gentle folks, the genial grace of
days that are gone."*

Margaret Mitchell
"Gone with the Wind"

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PHOTO: M CHAEL MARCOTTE

The Weyerhaeuser corporate insurance department, front row, left to right: Allison Norr, surety bond administrator; John Lambdin, insurance manager and office administration manager; and Elizabeth Kennedy, marine insurance manager. Second row, left to right: Cindy Crawford, insurance administrator; Bill Moore, liability manager; Delta Hanson, liability claims manager; and Lori Rose, insurance administrator. Third row, left to right: Joel Gaither, property insurance and fire protection manager; Travis Allen, fire protection engineer; Mark Taylor, insurance finance manager; and Gary Baxter, assistant treasurer and director of insurance.



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Baxter manages a smooth transition during mergers

By ROBERTO CENCEROS

When Weyerhaeuser Co. acquired British Columbia-based MacMillan Bloedel Ltd. in 1999, Gary A. Baxter organized a retreat, complete with a television game-show-style trivia quiz, for his staff and two risk management employees from the acquired entity.

Mr. Baxter took other measures to assure a smooth transition, such as convincing upper management to retain the Canadian company's risk management staff for 10 months. Meanwhile, he dealt squarely with the MacMillan employees by immediately informing them that their positions with Weyerhaeuser were temporary, and by explaining the terms of a severance package, Mr. Baxter said.

The risk management employees were the first two people at MacMillan to learn about their future after the Weyerhaeuser acquisition. Even though they would be laid off, that understanding eased an uncertainty that had hung overhead, Mr. Baxter said.

The strategy paid off, agreed Detta Hanson, liability claims manager for Tacoma, Wash.-based Weyerhaeuser. The rela-

tions established during the retreat eventually helped Weyerhaeuser's insurance staff establish several essential matters, such as which claims they could expect to be covered by the Canadian company's existing insurers.

It also helped eliminate potential complications, such as the possibility that acquired employees might sabotage a smooth transition, including

billions and increased the company's workforce to 50,000 from 36,000.

While the acquisitions came back to back, the ongoing integration of the two acquired units' insurance arrangements varies because of their different core operations and their previous insurance arrangements, Ms. Hanson said. MacMillan, like Weyerhaeuser, is a forest-products producer, so Mr. Bax-

ter track record for handling the claims. So Weyerhaeuser gives TrusJoist autonomy to settle claims up to \$250,000. Yet the firm must still report to Ms. Hanson, and claims are reviewed during quarterly meetings.

But MacMillan's liability claims, on the other hand, receive considerably more scrutiny, Ms. Hanson said. Every liability claim stemming from Macmillan's operations must be reported to Weyerhaeuser by Underwriters Adjustment Bureau Ltd., a Canadian third-party administrator originally hired by MacMillan. They must report every claim, in part because Weyerhaeuser has no history of dealing with the TPA, Ms. Hanson said.

Underwriters Adjustment Bureau does not have the authority to write Weyerhaeuser checks for claims settlement.

In contrast, Weyerhaeuser has contracted with Atlanta-based TPA Crawford & Co. for 32 years and gives it authority to settle claims valued up to \$50,000. Crawford is only required to report to Weyerhaeuser claims in excess of \$25,000 and has the ability to write checks.

But even though Crawford has an established relationship with Weyerhaeuser, twice a year Ms. Hanson still reviews all open

claims handled by Crawford to assure the liabilities are appropriately addressed. "Everybody is human and can handle a claim well one day and not the next," she said.

Weyerhaeuser's lack of an established rapport with MacMillan's TPA increased the need to get quickly acquainted with MacMillan's risk managers and the company's claim practices following the acquisition, Ms. Hanson said. Mr. Baxter's strategy helped with that, she added.

So Mr. Baxter invited the Canadian risk managers to spend two days at Weyerhaeuser getting to know his staff and their needs. One day was spent at a retreat held at a Weyerhaeuser property near the building housing the corporate headquarters.

Mr. Baxter conducted the trivia game complete with teams that each included his staff and a MacMillan employee. The game included serious questions about MacMillan's insurance operations and non-work-related questions, such as one asking how many points are on the maple leaf that adorns the Canadian flag. The outing helped form a bond between the Canadian employees and Weyerhaeuser's staff.

"It was a hoot, and we had a great time, but we also learned a lot," Ms. Hanson said. **BI**

'Everyone is human and can handle a claim well one day and not the next.'

— Detta Hanson
Weyerhaeuser Co.

failing to ship essential insurance-related documents from MacMillan to Weyerhaeuser.

"There was no hiding of documents," Ms. Hanson said. "There was no destruction. Everything that needed to be sent was boxed and sent on time."

Weyerhaeuser's acquisition of MacMillan preceded by a few months its acquisition of Boise, Idaho-based TrusJoist. The two acquisitions quickly increased Weyerhaeuser's annual sales from \$11 billion to about \$14.5

ter's staff had a better understanding of its risks.

TrusJoist, in contrast, manufactures specialty engineered wood products. Therefore, a law firm with a long history of administering TrusJoist's liability claims continues to do so. The firm has a solid understanding of TrusJoist products and their technical peculiarities, which matters when claimants allege those products have failed and caused injury.

The law firm also has a good

Insurance department takes team approach to quality

By ROBERTO CENCEROS

Always satisfying customer needs and getting the job done right the first time are the hallmarks of Weyerhaeuser Co.'s insurance department.

To function so effectively, the department applies so-called "total quality management" principles, including the formation of teams to tackle many missions. Proof that its system works came when Weyerhaeuser recently replaced some departments with outside contract services and or-

dered others to cut their staff size. The 12-member insurance department, however, survived intact.

That department earns the Federal Way, Wash.-based forest-products company a profit by insuring third-party business in its captives, and that role helped the department survive the cuts, said Mark Taylor, Weyerhaeuser insurance finance manager. But, he said, following total quality management principles also plays a part in the department's successes, including those of its captive operations, he said.

The quality management ap-

proach involves creating processes that encourage continual improvement. One way the department does that is by regularly forming into teams based on each member's expertise. The teams evaluate specific department operations and goals, and they then determine the best method for accomplishing related tasks. Evaluating risk management software, improving department record-keeping and setting premiums paid by other departments into self-insurance pools are all tasks that have undergone the team scrutiny and planning approach.

"Overall, everyone in our department gets involved in one team or another, and usually more than one," Mr. Taylor said. Most department members have participated in program training that included weekly classes stretched over a year. After that, members attended team leadership practice sessions, which focused on evaluating existing insurance department projects.

Now, following the quality management principles, brainstorming sessions can include the insurance department's customers, which are other Weyerhaeuser departments with insurance-related needs, said John Lambdin, Weyerhaeuser insurance manager and office administration manager. The sessions can also include the department's service providers, which can encourage vendors to improve their services, he added.

The system ensures that a particular problem is viewed from numerous possible angles at the outset, which aims to prevent the same problem from later arising in a different area. Such an approach also ensures that the in-

'You get the team together, you decide what the problem is and the best way to attack it.'

— John Lambdin
Weyerhaeuser Co.

everyone in the department "was more of an island," Mr. Lambdin said. They evaluated problems individually, then sent everyone else a memo on what they thought needed to be accomplished.

Now, teams form when necessary to solve new problems. Or, they result from a planning process that begins during the fourth quarter of each year. At that time, Gary A. Baxter, Weyerhaeuser's assistant treasurer and director of insurance, reviews the company's objectives for the coming year and directs his staff to develop appropriate department goals.

Even though Weyerhaeuser's captive operations returned a profit before the department implemented total quality management, its principles later were applied to those operations, Mr. Taylor said. That forced the department to put its goals for its captives in a formal written format and ensure that the original reasons for forming captives—now years old—were still valid.

"It really focused what we are trying to get out of our captive," Mr. Taylor said. "It's not tax advantages but access to markets, to know our underwriters and have a greater say over our programs and our loss control. We sat down as a team and went over the real reasons, to see if anything had changed and to assure we were aligned with where the company is today." **BI**



PHOTO: MICHAEL MARCOTTE

Gary A. Baxter, Weyerhaeuser Co.'s assistant treasurer and director of insurance stands in the company's offices in Federal Way, Wash.

Baxter hones negotiating skills with 'fantasy' hobby

By ROBERTO CENICEROS

When Weyerhaeuser Co.'s Assistant Treasurer and Director of Insurance Gary A. Baxter isn't traveling with his wife, former Weyerhaeuser Assistant Treasurer and Director of Insurance Cheri J. Hawkins, he spends his non-working hours golfing, diving or sharpening his insurance negotiation skills by playing fantasy football.

Fantasy football follows the regular National Football League season, with participants meeting at the beginning of the season to select their simulated teams from among the real professional players. The success of the real players on the field throughout the season determines the success of the fantasy teams.

For 20 years, Mr. Baxter has participated in a nine-team fantasy league in the Seattle area. About half the current league participants, of two to three to a fantasy team, are insurance industry friends from

the Puget Sound area, Mr. Baxter says.

One of the key elements of fantasy football is making player trades, and such negotiations can continue for days.

In settling claims disputes, risk managers should know where insurers are firm and where they are 'wishy-washy.' 'Know their nerve and what they want.' Discussions should focus on the gray areas, where coverage is questionable.

— Gary A. Baxter
Weyerhaeuser Co.

"He is a master negotiator," said Travis Allen, Weyerhaeuser fire protection engineer.

Watching Mr. Baxter lead negotiations with insurers at renewal time or during claim settlements is fun, Mr. Allen added.

Mr. Baxter teaches his proteges that good negotiations require preparation and knowing early on the desired

outcome, what negotiating points involve room for compromise and what constitutes a deal-breaker, added John W. Lambdin, Weyerhaeuser insurance manager and office

administration manager.

"Know their nerve and what they want," Mr. Baxter said. Those factors may not be readily apparent, requiring a negotiator to figure them out as talks proceed.

In settling claims disputes, risk managers should know where insurers are firm and where they are "wishy-washy," Mr. Baxter advises. Discussions should focus on

the gray areas, where coverage is questionable, he said, noting that 99% of the time, there are gray areas. An old risk management trick is to know when a visiting claims adjuster's flight home is scheduled and hold a negotiating carrot until the last minute, when the adjuster will be pressed to resolve the issue to make the flight.

Mr. Baxter is also a dedicated worker who knows when a job is done well, and he is very well organized, according to his peers. He attributes many of those traits to a spry, 88-year-old mother, who instilled in him a strong work ethic.

Mr. Baxter has worked for Weyerhaeuser for 30 years, after beginning his career as an insurance industry fire protection engineer at the Factory Mutual system after college. He graduated from Oregon State University with a degree in industrial engineering.

When he's not at work, Mr. Baxter enjoys golfing. He said that the sport, which he took up two years ago, has become his favorite recreation activity, and that he prefers to walk

rather than ride in a cart.

Mr. Baxter is also a scuba diver, having taken up that hobby about five years ago. He has earned an advanced diving certification, but he is strictly a warm-water diver.

"I don't dive out here in the Puget Sound; it is too cold," Mr. Baxter said. He and Ms. Hawkins make regular business and vacation trips to Hawaii, Bermuda and the Cayman Islands, one of the world's top scuba-diving destinations.

Ms. Hawkins retired from Weyerhaeuser in 1996 after serving as the company's assistant treasurer and director of insurance. In 1990, she became the first woman to be named president of the New York-based Risk & Insurance Management Society Inc. Mr. Baxter and Ms. Hawkins worked together at Weyerhaeuser for decades, and they married just months after her retirement.

Mr. Baxter succeeded Ms. Hawkins as Weyerhaeuser's risk manager, but he had to interview for the position along with other candidates.

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PEGGY NAKAMURA

EXECUTIVE DIRECTOR OF RISK MANAGEMENT/ ASSOCIATE COUNSEL



PHOTO: MICHAEL MARCOTTE

Nakamura's training the cure for legal, medical risks

By JOANNE WOJCIK

While much of the health care industry struggles to make ends meet, Adventist Health System/West posted a positive bottom line for 2000.

And while it may not be reflected in last year's annual report, risk management played a role in keeping expenses in check and ensuring that the company remained in the black.

By integrating claims administration with loss control for hospital professional liability, general liability and workers compensation—and by self-insuring much of these expo-

sures—Peggy Nakamura, executive director of risk management and associate counsel, has shaved millions of dollars from Adventist Health System/West's risk management budget over the past nine years.

In addition, Ms. Nakamura's law degree saves the organization even more money, allowing her to provide legal services it might otherwise have had to purchase from outside counsel.

And because she also holds a master's in business administration, Ms. Nakamura knows how to incorporate risk management into the big picture and to communicate its importance throughout the organization.

Roseville, Calif.-based Adventist Health System/West is a

nonprofit health care system with facilities in California, Hawaii, Oregon and Washington. The organization employs more than 16,000 and comprises 85 distinct business units. Its operations include 20 acute care facilities—controlled, managed or leased—with more than 3,000 beds, as well as numerous clinics and outpatient facilities and 18 home health agencies. It is the second-largest of seven regional Adventist Health care systems in the United States, with the Sunbelt region being the largest.

It was her broad application of risk management across the organization that earned Ms. Nakamura a spot on the 2001 *Business Insurance* Risk Man-

agement Honor Roll, representing nonprofit companies.

"The health care industry today is facing very, very difficult times. Most hospitals in the U.S. lost money last year," observed Wayne Taylor, president of Healthcare Excess Liability Management Cooperative Inc. in Sacramento, an insurance pool serving Adventist Health care facilities nationally.

"What we've seen here since Peggy took over is phenomenal. When you have a risk management program that is actually contributing funds, it's almost like it's turned a cost center into a profit center," said Mr. Taylor, who nominated Ms. Nakamura for this year's Risk Manager of the Year competition. "Risk

management is contributing materially to the bottom line."

"The MBA helps her understand the business concerns of the organization," observed Rodney Wehtje, vp and treasurer of Adventist Health System/West.

"She does a very nice job of saying, 'Here are the risk implications of this potential activity,' but, at the same time, 'she does a good job of recognizing that risk management is one of the concerns of a big decision, but it's not the only one,' he said.

Before Ms. Nakamura even considered a career in risk management, she worked as a nurse from 1976 to 1979 and as a nurse

Continued on next page

Continued from previous page
 manager from 1979 to 1987. While employed full-time, she attended graduate school at night, earning an MBA in health services administration from Golden Gate University in Sacramento, Calif., in 1982. Two years later, while serving as an expert witness in medical malpractice litigation, she decided to study law and entered the evening program at the University of the Pacific's McGeorge School of Law in Sacramento.

But before she received her juris doctor degree in 1988, Ms. Nakamura discovered that the hospital system for which she worked—Sacramento-based Sutter Health—was launching a health care risk management department, and she decided to lobby for the position. It seemed the ideal way to combine her clinical skills with her business and legal education, she said.

In 1987, Ms. Nakamura became Sutter's first risk manager, a post she held until 1991, when she decided to try her hand at practicing medical malpractice law. But after only one year of practice, she found she missed working in a health care setting and was soon tapped by Adventist Health to be its corporate director of risk management. She was promoted to executive director of risk management in 1997, and associate counsel was added to her title to reflect the contributions she was making to the organization in the legal area.

When Ms. Nakamura came on board at Adventist Health System/West in 1992, she faced numerous challenges. For one, the organi-

zation was paying more than \$21 million per year for commercial hospital professional liability and general liability coverage, and that sum was growing, she said. Furthermore, workers comp costs also were out of control, and the organization's board had decided the best way to keep its insurance costs in check was to bring claims administration in-house.

"That was one of the reasons we hired her," Mr. Wehtje said. "We had already made the decision to bring (administration) in-house, and we hired her to implement that."

Ms. Nakamura's mission was to curb expenses through a combination of self-insurance and in-house claims administration.

"By bringing HPL/GL in-house, the organization saved between \$200,000 and \$300,000 annually," Mr. Wehtje estimated.

But even more savings have come from Ms. Nakamura's aggressive loss control program, in which she uses the bad experiences of one health care facility to teach the others so they don't make the same mistakes.

"Whether it be (obstetric or emergency room care) or wherever we might have seen a lot of claims activity, either in our hospitals or in the literature, Peggy reviews it and makes sure all the hospitals have the appropriate policies in place," Mr. Wehtje said.

As part of that effort, Ms. Nakamura, drawing upon her legal training, regularly publishes "Risk Management Opinions," in which she outlines potential exposures and

identifies the methods for addressing each.

In addition, the hospitals are eligible to earn rebates of a portion of their HPL/GL premiums if they meet the requirements of "criteria sets," a system of risk management checklists that Ms. Nakamura develops each year based on the prior year's adverse events.

Through this combination of in-house claims administration and loss control, the organization now budgets less than \$15 million per year for both hospital professional liability and general liability exposures, according to Mr. Wehtje, the company's treasurer.

And it has even given its 20 member facilities—including hospitals and medical clinics—several "premium holidays," in which they were not required to make the last few months' contributions to the Adventist Health System/West Hospital Professional Liability/General Liability Trust, he said (see story, page 96).

Building on the success of the HPL/GL program, Ms. Nakamura then set her sights on workers comp. A move to in-house administration for workers comp resulted in immediate cost savings (see story, page 97).

The success of those efforts paved the way for Ms. Nakamura to also bring the self-insured employee benefit program in-house, saving the organization another \$250,000 annually, Mr. Wehtje estimates.

The self-insured health care program, called Claims Central, has grown so large that it had to move to a building across the street from

the risk management department.

Altogether, the risk management department has grown under Ms. Nakamura into the second-largest department in the Adventist Health System/West organization, according to Don Ammon, president and chief executive officer.

Information systems "is king, and risk management is right behind it" in terms of dedicated personnel, Mr. Ammon said. The risk management department has 36 employees, while IS has 57.

The size of the risk management department, coupled with its contribution to the bottom line, has helped to boost its visibility throughout the organization. In fact, in the Adventist Health corporate office survey of facilities, conducted in 1993, the risk management department rated highest of all corporate services. The survey was conducted by Sacramento-based health care research firm Cunningham Associates about a year after Ms. Nakamura joined Adventist Health.

"Risk management has a higher profile today than it had before Peggy came," said Doug Rebok, senior vp of finance. "There's no question that part of the reason for that is Peggy's ability and the job that she's done in that role."

"Peggy's one of those people who's very technically qualified. Plus, she actually has the knowledge that goes with the credentials," he said. "Sometimes you run into people who have the letters after their names—but you wonder. The knowledge isn't there."

And because of her breadth of

knowledge, "people have come to rely on Peggy," Mr. Rebok said.

"She tries to anticipate problems, and she has a real focus on training and documentation. She's developed some excellent manuals focusing on different major topics. She makes herself available to speak to medical staff or nurses or to anyone who needs her," he said.

Because of her combined clinical and legal knowledge, she is often sought out by individuals in all levels of the organization to provide legal counsel.

"Part of what Peggy does is try to educate some of these folks on how our programs work, and I can remember her being in this meeting and one of our CEOs calling and interrupting because they had a legal question for her on a contract," Mr. Wehtje recounted. "To me, that illustrated how she really is sought out."

And when any of the organization's hospitals fill risk management posts, they seek Ms. Nakamura's input, even though recruiting isn't part of her formal job description.

"Hospitals have always seen risk manager selection as something they handle internally and independently," explained Mr. Taylor.

"But she has gotten to the place now where hospitals, when they recruit people for risk management positions, they put Peggy in the middle of that, which is almost unheard of in hospital systems," he said. "It's something that they're doing because they have confidence in her, and it speaks better than they're doing it that way than because they're required to." **BI**

Nakamura reviews mistakes for loss control lessons

By JOANNE WOJCIK

Believing experience to be the best teacher, Peggy Nakamura tries to turn adverse events that occur at Adventist Health System/West's 20 medical facilities into valuable lessons in loss control.

She also taps into her clinical background as a nurse, as well as her legal and business education, to spread the gospel of risk management throughout the Seventh-day Adventist Church-affiliated health care organization.

And to make sure everyone adheres to her empirical lesson plan, she publishes and distributes numerous "Risk Management Opinions" and manuals, and even tests each facility on how well it meets certain risk management "criteria sets" derived from negative episodes.

"There's so much information that comes out of our claims that we can turn back into management improvement, system improvement processes and education if we get it to the right people," said Ms. Nakamura, executive director of risk management and associate counsel at the Roseville, Calif.-based non-profit hospital system.

"So very early on, that was a goal of mine—to make sure that we're really communicating the information from our events," she said. "Why pay for this experience over and over again?"

For example, after discovering that some of the organization's hos-

pitals weren't responding to new clinical management guidelines issued by the American College of Obstetricians and Gynecologists on vaginal births after Cesarean section, Ms. Nakamura last year wrote a Risk Management Opinion that provided background, analysis, recommendations and references on the subject.

Whereas the ACOG previously recommended that a delivering surgeon be "readily available" to perform another C-section, if necessary, the new guidelines said a delivering surgeon should be "immediately available," Ms. Nakamura said. The new guidelines were issued because "they found an alarming incidence of uterine rupture and fetal injury based on delays in performing C-sections," she explained.

Ms. Nakamura numbers and organizes all of her Risk Management Opinions into a three-ring binder that she keeps in her personal reference library, which fills two of her office walls. And when she goes on site visits—she tries to visit all 20 facilities at least once a year—she gives hospital administrators a list of the opinions so they can select the ones they need to review.

Besides the opinions, Ms. Nakamura has written two manuals addressing compliance with the Federal Emergency Medical Treatment and Active Labor Act of 1986; two contract-review manuals; a risk management orientation manual; an annual report manual; a managed care manual; and a chapter on contract review in the "Risk Management Handbook for Health Care

Organizations," published by Health Forum Inc., a division of the American Hospital Assn.

Ms. Nakamura also has developed a risk management program model that divides the responsibilities into three categories—clinical risk; regulatory and accreditation risk; and business risk, including personnel and contracts.

Because few of Adventist Health System/West's hospitals have one individual dedicated solely to risk management, the model allows the hospitals to hand off any one these responsibilities to one or more individuals, she explained. The structure also makes it easier for her to determine to whom she should direct her Risk Management Opinions.

Each year, Ms. Nakamura also develops a new "criteria set" that facilities must complete to receive a rebate on their contributions to the hospital professional liability/general liability self-insurance program. The facilities have six months to respond to these queries, which almost always are based on adverse events that occurred the prior year.

Any time a facility responds that it lacks a particular device or procedure called for in the set, it must complete a risk control response that details what other loss control measures it would apply. And Ms. Nakamura follows up on the facilities' criteria set responses during her annual site visits, making sure they are all doing what they claimed to be doing.

The responses to the criteria set are graded, and the amount of the



PHOTO: MICHAEL MARCOTTE

Adventist Health System/West's risk management staff, from left: Kathleen Wilson, administrator, claims support; Julee Thomas, manager, risk and insurance services; Peggy Nakamura, executive director of risk management/associate counsel; Debra Yokota, claims manager, workers comp/loss control; and Dee Aguilar, manager, claims and loss control.

"premium rebate" is based on how well the facilities score. "If they don't get 100%, they don't get the full rebate," Ms. Nakamura explained. But every facility gets at least a partial rebate unless they fail to complete the criteria set, she added.

Drawing upon her legal background—she received a law degree from the University of the Pacific's McGeorge School of Law in Sacramento, Calif., while working days as a nurse manager at Sutter Health—Ms. Nakamura serves as chairwoman of the Legal and Government Affairs Committee of Adventist Health System/West's Man-

aged Care Advisory Counsel. In that post, she follows legislation in the four states where the health care organization has a presence—California, Hawaii, Oregon and Washington—to make sure all of its managed care contracts meet legal and regulatory requirements.

In her dual capacities as risk manager and associate counsel, Ms. Nakamura also participates in due diligence activities conducted prior to acquisitions, reviews contracts with managed care organizations and researches and writes opinions for medical staff committees.

Because of her broad experience, **See LESSONS on next page**

Lessons

Continued from previous page
Ms. Nakamura's advice is sought by individuals in all levels of the organization.

"I really believe that when I'm in the office, I need to have my door open and be accessible, because I really believe in the visibility of on-the-spot risk management consultations," she said. "So I want to be very available to other corporate directors, or have e-mail access from the field."

Ms. Nakamura said she receives anywhere from 75 to 100 e-mails each day.

But while she generally can respond more quickly to e-mail

queries than to phone calls and in-person appointments, Ms. Nakamura finds that many questions require her to do research, which takes a little more time. And much of the time, she said, she takes work home with her.

"Risk management, especially liability assessment, is changing constantly," she said, which requires her to stay on top of case law or state law and to read professional publications related to health care risk management.

"I find that it's at home where I am able to do my most thoughtful opinion writing. So I take home contracts to review, or I take home an issue or two that I can work on at night."

When one of her law school col-

leagues asks her whether she misses practicing law, she responds: "I'm definitely practicing law here, because I do legal opinions, and I definitely make sure my E&O is up to date and paid."

Her role at the organization definitely draws upon her entire background. "It's a combination of the law part, insurance management, my nursing management experience and (her master's in business administration) that kind of all comes together," she said.

Asked how often she changes hats, Ms. Nakamura replied, "They're so blended, I don't think I can separate them."

In many ways, Ms. Nakamura's application of risk management

follows the adage, "Give a man a fish, and he'll eat for a day; but teach a man to fish, and he'll eat for a lifetime."

She insists that managers throughout Adventist Health System/West understand that they face other risks besides the most obvious one of medical professional liability.

"Part of what I enjoy is when I'm working with somebody and I get them to the spot" where "they see their risks as a clinical manager, for example, are not just the professional liability risks. That's the easy piece to identify. It's your personnel practices and your equipment-management programs and your contracting and your reputation and all those

types of risks that are less obvious and more difficult to quantify."

"It also lends itself to a better concept of enterprise risk management," she continued. "I'm not talking about your financing vehicle; I'm talking about a philosophy that you look at your operation in total."

And "what's particularly fun is when you establish a relationship with people and they call you and say, 'I just want to run this by you,' and you brainstorm a little bit with them, and soon they're incorporating the risk management discipline and don't even realize it," Ms. Nakamura said.

"That's what makes me feel like I'm adding value to our system and I'm making a difference." **BI**

Self-funding boosts risk awareness for health system

By JOANNE WOJCIK

Risk management has a high profile at Adventist Health System/West, because the nonprofit organization self-insures the first \$3 million of any professional or general liability claim through its self-insured trust.

"We know that comes directly out of our pocket," said Doug Rebok, senior vp of finance at the Roseville, Calif.-based hospital system. Therefore, "risk management is a lot higher in our consciousness than it might be if all we did was buy our insurance from an outside entity."

The self-insured trust—Adventist Health System/West Hospital Professional Liability/General Liability Trust—was established in 1974, when Adventist Health still participated in a global insurance program administered by the hospital system nationally.

However, when the hospital system reorganized in 1992, segmenting itself into seven regional operations, the larger operations such as Adventist Health System/West assumed administration of their insurance programs internally. The smaller systems, however, contracted with Healthcare Express Liability Management Cooperative Inc., which provided actuarial services, claims management, auditing and served as a conduit to the Seventh-day Adventist Church's Bermuda-domiciled captive, Adhealth Ltd.

But HELM is being disbanded this year because of the growing sophistication at the regional level, explained Peggy Nakamura, executive director of risk management and associate counsel for Adventist Health System/West.

"All of us are doing our own thing and go direct to whom we want to use, as opposed to going through a pooled program," she said. "There also are some differences in the operational risks," which required that the insurance programs be customized to each organization, she added.

As a result, HELM, which is headed up by President Wayne Taylor, now serves mostly in a consulting capacity to the various Adventist Health hospital systems nationwide, Ms. Nakamura said.

While Adventist Health System/West retains the first \$3 million of each claim, the organization

does, however, purchase excess liability coverage. It has \$47 million in excess hospital professional liability/general liability coverage from Overland Park, Kan.-based Employers Reinsurance Corp., which is fronted by Adhealth Ltd.

While the hospital professional liability coverage totals \$50 million, Adventist Health System/West's general liability limits reach \$125 million, including an additional \$75 million in coverage purchased from XL Insurance Ltd. of Bermuda.

And though Adventist Health System/West's first risk financing priority is self-insurance, it will purchase coverage when it is more advantageous to do so. But when buying coverage, it does not use a broker except in those situations where it cannot purchase coverage directly.

"We try to do things directly as much as possible," said Ms. Nakamura. "We're not paying for that middleman if we don't have to."

But Ms. Nakamura sometimes taps outside expertise when deciding whether to self-insure certain exposures.

"Marsh has been extremely helpful in negotiating appropriate coverage wording for us, and they are wonderful to keep us up to date on trends in the marketplace. And we appreciate their advice," said Julee Thomas, manager-risk and insurance services.

For example, Ms. Nakamura recently consulted with the San Francisco office of Marsh Inc. in deciding whether to put the organization's managed care errors and omissions exposures into the Adventist Health System/West Hospital Professional Liability/General Liability Trust.

"We heard from many people, 'Don't do that. It's too risky,'" Ms. Nakamura recounted. "But we looked at the many products available and what our exposures really appeared to be, operationally, and it seemed it would be very difficult to separate the professional liability and the managed care E&O exposure in our operation."

As a result, she decided to self-insure that exposure.

Adventist Health System/West also self-insures the majority of its workers compensation risks in California, Hawaii and Oregon, but purchases coverage in Washington from the state's monopolistic workers comp fund. The organization also buys workers comp coverage

for some of its smaller hospitals in California from Liberty Mutual Insurance Co. in Boston.

The organization administers its self-insured workers compensation programs in California and Oregon, but uses Crawford & Co. as a third-party administrator in Hawaii because the state requires administration of self-insured workers comp programs to be conducted in the domicile, Ms. Thomas explained.

Excess workers compensation coverage is underwritten by Safety National Casualty Corp. in St. Louis.

Adventist Health System/West taps Gencon Insurance Co. Ltd. of Vermont, a captive owned by the Seventh-day Adventist Church, to provide auto bodily injury and property damage coverage. The policy, which is written on Kemper Insurance Cos. paper through its Lumbermens Mutual Casualty Co. unit, is 100% reinsured by the captive. The policy provides \$1 million in occurrence-based bodily injury and property damage limits and \$5,000 in medical payments coverage for each passenger.

The hospital system self-insures its own auto physical damage exposures up to actual cash value or the cost of repairs, whichever is less.

Helipad liability, non-owned aircraft liability and excess aircraft liability exposures all are covered under a group policy purchased by the Seventh-day Adventist Church from United States Aircraft Insurance Group of New York, with excess coverage provided under a layered program involving Lloyd's of London underwriters and other insurers worldwide.

Helipad liability coverage limits total \$1 million per occurrence/aggregate for bodily injury and property damage arising out of the ownership of the helipad. The policy also provides \$10,000 in medical expense coverage.

Non-owned aircraft liability has \$5 million in combined single limits for bodily injury and property damage. There is another \$5 million per occurrence/aggregate in personal injury coverage, as well as \$5,000 per-person in medical expense coverage and \$100,000 in liability coverage for physical damage to non-owned, leased or chartered aircraft. Adventist Health System/West does not own any aircraft.

Excess aircraft liability coverage



PHOTO: MICHAEL MARCOTTE

Peggy Nakamura with staff from Adventist Health System/West's risk and insurance services, workers comp/loss control, claims/loss control and claims support departments. First row, from left: Joann Hill, department secretary; Nancy Pinder, executive director secretary; Julee Thomas, manager-risk and insurance services; Charlie Bowman, department secretary; Ann-Marie Steward, general secretary; Tami Riley, workers compensation senior claims examiner; Kathleen Wilson, administrator; Dee Aguilar, manager-claims and loss control; Debra Yokota, claims manager; Allison Harvey, PL claims information systems analyst; Carol Pope, workers compensation examiner. Second row, from left: Peggy Nakamura; Karen Mayo, senior clinical claims examiner; Deanna Kindrick, risk management assistant; Myrna Bigelow, risk and insurance specialist.

totals \$45 million for bodily injury and property damage combined, and \$49 million for product liability.

Adventist Health System/West purchases all-risk property insurance from Johnston, R.I.-based Factory Mutual Insurance Co., which does business as FM Global. The policy provides limits totaling \$1.7 billion above a \$10,000 per-claim deductible to cover all of the organization's buildings and business personal property—including data-processing and boiler and machinery equipment—in California, Washington, Oregon and Hawaii. The policy also covers business interruption, accounts receivable, rental income and non-employee theft.

In addition, the two facilities in Hawaii have windstorm coverage with a deductible equal to 2% of insured property value, and the three facilities in the Pacific Northwest have earthquake coverage with a \$50,000 per-occurrence deductible. The organization does not buy earthquake insurance for its 15 facilities in California, because coverage is too expensive, Ms. Thomas said.

Executive Risk Indemnity Inc., a unit of Chubb Corp., provides \$15 million per-loss/aggregate coverage

on a claims-made basis for directors and officers and employment practices liability risks. Each insured entity has a \$100,000 deductible. Executive Risk also is the underwriter of Adventist Health System/West's fiduciary liability coverage, which provides \$10 million in coverage for the administration of its employee benefit plans. The policy has no deductible for defense costs for non-indemnifiable acts, such as illegal activities, but has a \$25,000 deductible for indemnifiable acts, such as negligence.

Fidelity and crime insurance covering employee dishonesty, losses both inside and outside of premises, money orders, counterfeit currency, depositor forgery and computer fraud, is underwritten by FM Global company Affiliated FM Insurance Co. Coverage limits total \$10 million above a \$50,000 per-loss deductible.

Because of its numerous capitulated managed care contracts, Adventist Health System/West purchases provider excess coverage. ReliaStar Managing Underwriters, a unit of ING Re in Minneapolis, provides coverage limits of \$1 million per person, per year, with a \$2 million per-person lifetime maximum. Deductibles vary by entity. **BI**

Planning, rapid response key to keeping the lights on

By JOANNE WOJCIC

California's power crisis is just one of the many operational challenges Peggy Nakamura faces on a daily basis as executive director of risk management and associate counsel for Adventist Health System/West.

In fact, she's taking the rolling blackouts the state's utilities are imposing almost in stride, dusting off the Roseville, Calif.-based hospital system's Year 2000 contingency plan to be used if any of the system's hospitals in the Golden State experience temporary power failure.

While none have been subjected to power interruptions so far, and most of the facilities have backup generators, "we need to treat the rolling blackouts as a real potential this summer," Ms. Nakamura said. "It's common in a disaster or any type of emergency situation for people to look to hospitals as being a source of community support, along with the fire department and the police."

Fortunately, having experienced the Northridge earthquake in 1994 and preparing for possible computer system failure as the date changed to 2000, Adventist Health System/West is prepared for the blackouts, Ms.

Nakamura said.

"It's just pulling out the contingency planning they've already done," she said, though acknowledging the current situation "is a little different."

For example, "What do you do with elective surgeries? What do we do with diversion from the emergency department? What do we do with treatments that are perhaps occurring right at that point in time in our radiology programs?" she asked.

Ms. Nakamura is participating in negotiations between the power companies and health care trade group the California Health Care Assn. to obtain exemptions for health care facilities, and she also is talking directly to local utility companies about patient safety concerns.

But while the blackouts may be the latest concern to appear on Ms. Nakamura's radar screen, other tragic events have mobilized the risk management department throughout her tenure.

For example, when one hospital discovered that a newborn baby had been abducted from its nursery, "they called right away in a panic," recalled Dee Aguilar, manager of claims and loss control for Adventist Health System/West.

Fortunately, the kidnapping was caught on videotape, and the

perpetrator was identified and apprehended, she said. In such situations, Ms. Aguilar employs a "high-risk event checklist." The list is particularly helpful in a crisis, "because when you're in the middle of it, it's very hard to keep your logical thought process," she explained.

"Obviously, in health care, we've had some very tragic, bad events, and the approach is, do the right thing as fast as you can," Ms. Aguilar said.

At Adventist Health System/West, "there's very much a philosophy of being responsible in the health care community," she explained.

Perhaps the most esoteric issue Ms. Nakamura has had to address since joining the organization involves its foray into medical foundation ownership, she said.

"We established our first medical foundation in 1994, and currently have two in California," she said, explaining that the medical foundation model is necessary in California, as state law prohibits the corporate practice of medicine. "Therefore, we cannot employ physicians, and instead set up medical foundations, which, in turn, contract with a medical group to provide professional services. The foundation employs the non-physicians and handles all of the administrative

functions," Ms. Nakamura explained.

By contrast, physicians in Oregon either are hospital employees or belong to a medical group owned and operated by the hospital organization. In Hawaii, Adventist Health System/West participates in a physician-hospital organization, and in its Washington facility, physicians operate as independent contractors.

"There are many types of partnership arrangements between hospitals and physicians, and they vary depending on state law," she explained, which is why the structure is so challenging from both a risk management and a legal perspective.

The federal Health Insurance Portability and Accountability Act of 1996 has had a significant impact on the organization in its roles as a provider and as a health plan sponsor.

"We have a whole health claim program that is one big exposure," observed Kathleen Wilson, administrator of Claims Central, Adventist Health System/West's in-house health care benefits administration operation. "As both a health plan and as a provider, that has a huge impact on the way we do business. So we have to look at both sides of our business."

"The biggest thing (with HIPAA) will be related to wording and the scope of business contracts to make sure they comply," Ms. Nakamura explained.

She also is concerned about how the law will affect the release of patient information in treating patients outside of the hospital. "This becomes particularly challenging when we have remote sites, outpatient settings and home-care operations, where they typically fax information and they need to have parts of the medical record with them as they're traveling to patient homes," she explained.

"I anticipate, for me, in this coming year, HIPAA's going to be very big," she said.

Ms. Nakamura also is dedicating a significant amount of her time to researching the liability implications of facilities' reuse of so-called "disposables," or single-use medical devices, such as catheters.

The Food and Drug Administration has issued regulations on the matter in the past year, she explained. "So the hospital industry is having to address it, and there are risk management issues obviously associated with it."

One question, she said, is, "If you are reprocessing something intended for a single use, what happens to the original product warranty?"

Furthermore, the hospital could be sued by patients who believe they should have been informed about items being reused, or that



PHOTO: MICHAEL MARCOTTE
Peggy Nakamura and her supervisor at Adventist Health System/West, Vp and Treasurer Rodney Wehtje.

they should be charged less for recycled devices, she added.

With all of these items on her agenda, it's a wonder that Ms. Nakamura finds the time to participate in outside professional organizations—much less have time for a personal life—but she does.

Ms. Nakamura was vice chairwoman of the Medicine and Law Committee of the American Bar Assn. from 1998 to 1999, and she currently is a member of the ABA's Tort and Insurance Practice Section. She also serves on the board of the Central California Chapter of Citizens Against Lawsuit Abuse, a grassroots organization dedicated to tort reform.

Ms. Nakamura also was president of the American Society of Hospital Risk Managers in 1997, and now serves on the past presidents' council. In addition, she held an ASHRM board position from 1993 to 1995.

Fortunately, Adventist Health System/West has been supportive of her outside professional endeavors.

"We felt the value of her interaction with others in the industry would be worth more than the lost time," said Vp and Treasurer Rodney Wehtje.

"It does feel like the perfect job for me," Ms. Nakamura said. "Because I do feel so challenged continually, I have no problem with being bored."

So where does she go from here?

"Peggy's Potting Shed," she quipped, but only half-jokingly. Ms. Nakamura said that she loves to garden and would like to earn a Master Gardener designation.

She'd also like to spend more time with her husband, David Nakamura, a senior vp at Morgan Stanley Dean Witter & Co., who "has obviously learned to be supportive, accommodating and self-sufficient," she said.

"I'm at that stage where I'd like to bring some balance into my life with some personal growth. I've spent a lot of time on the professional side. Now, I'd like to nourish the soul." BI

Taking workers comp claims in house pays off for Adventist

By bringing the administration of workers compensation claims in-house, Peggy Nakamura helped Adventist Health System/West not only to save money, but also to improve employee relations.

When Ms. Nakamura came on board at Roseville, Calif.-based Adventist Health in 1992, the nonprofit health care organization was in the midst of a workers compensation crisis, recalled Rodney Wehtje, vp and treasurer.

"Our costs were increasing rapidly. Our hospitals were unhappy with the quality of TPA services. We had already changed TPAs, trying to get better service," but the move was unsuccessful, he said.

Part of the problem was the fact that "the TPA who was handling it had only assigned a few examiners, and each examiner was handling 200 or 300 files," explained Debra Yokota, manager of workers compensation and loss control for Adventist Health System/West. On top of that, "the medical-only files weren't even being handled," she added.

While the industry trend at the time may have been toward outsourcing, Ms. Naka-

mura decided to adopt the philosophy of, 'If you want to do it right, do it yourself,' and she brought workers comp claims administration in-house in May 1993.

The move paid off.

The immediate result was a 19% reduction in total workers comp costs in the first year, followed for the next five years by actuarial projections 10% below prior levels.

Today, the amount the hospital system pays to administer its self-insured workers compensation program is roughly equal to what its TPA bid was in 1994, and its workers comp reserves have been cut in half.

And these cost savings have been achieved in spite of the fact that "We try to give our work comp examiners plenty of time to deal with our employees," Mr. Wehtje said. "Our case-assignments-to-examiners (ratio) is on the low side of industry standards. We can afford to do that, because we don't need to make a profit," unlike commercial insurers and third-party administrators, he said.

Each workers comp claims examiner is assigned 150 claims, according to Ms. Yokota.

This helps makes early in-

tervention possible, which has been found to reduce both the cost and duration of workers comp claims, she noted.

"It's always better to get involved faster," said Ms. Yokota. "It helps from a morale standpoint, too. That was a big problem before we went self-insured, self-administered, because those injured workers would never hear from anybody."

By contrast, "We try to make our phone calls within the first 24 hours of receiving a claim," she said.

Furthermore, Ms. Nakamura developed a program that gives Adventist Health System/West facilities financial incentives to keep workers comp claims costs down.

For example, if the hospitals treat injured workers themselves, they receive 100% of the cost of medical services from the self-insurance program, "whereas if they went through an insured program, they'd have those bills reduced," Ms. Yokota explained.

In addition, the self-insured workers comp fund contributes some funding for ergonomics and modified duty programs for all 20 facilities, she added.

—By Joanne Wojcik

Judges for 2001 Risk Manager of the Year awards

The 2001 Risk Manager of the Year is the 24th individual to receive the honor, an annual tradition that was begun in 1977 to commemorate the 10th anniversary of *Business Insurance*.

The Risk Management Honor Roll, which was added in 1981, recognizes the achievements of risk managers in various segments of the field.

Ten independent professionals judged this year's entries for the Risk Manager of the Year award. Honorees were selected based on the judges' opinions of each nominee's program as it was detailed in the entry. This year's panel comprises the 2000 and 1999 Risk Manager of the Year recipients, two Risk Management Honor Roll members, two insurer executives, two brokerage executives, a risk management consultant and an insurance educator.

Judges for the 2001 awards were:

• Terry Broderick, president and chief executive officer of Royal & SunAlliance USA in Charlotte, N.C. Mr. Broderick represented stock companies on the panel.

• Paul F. Buckley, treasury director-risk management at Lucent Technologies Inc. in Murray Hill, N.J. Mr. Buckley is the 2000 Risk

Manager of the Year.

• Jim Carson, interim director and professor of insurance at the Katie School of Insurance at Illinois State University in Normal, Ill. Mr. Carson represented educators on the panel.

• Merritt W. Fabel, director of corporate risk and insurance for American International Group Inc. in New York. Mr. Fabel, the 1999 *Business Insurance* Risk Manager of the Year recipient, also served on the panel last year.

• Gary R. Griffith, chief executive officer of Summit Global Partners Inc. in Dallas. Mr. Griffith represented regional brokers on the panel.

• Robert Hughes, president, chief executive officer and consultant for Robert Hughes Associates Inc. in Richardson, Texas. Mr. Hughes represented consultants.

• Theodore G. Jeske, risk manager for Historic Tours of America in Key West, Fla. Mr. Jeske is a member of the 2000 Risk Management Honor Roll.

• Sheryl A. Pixler, risk manager for Storage Technology Corp. in Louisville, Colo. Ms. Pixler, a member of the 1999 Risk Management Honor Roll, served on the panel for the 2000 awards.

• John T. Sinnott, president and chief executive officer of Marsh &

McLennan Cos. in New York. Mr. Sinnott also served on the panel last year and represented international brokers.

• William D. Smith, president and COO of Kemper Insurance Cos. in Long Grove, Ill. Mr. Smith represented mutual insurers.

Judges evaluate each entry based on 10 criteria (see related story). The nominee with the high-

est total score is named Risk Manager of the Year; the remaining individuals are placed into one of four categories:

- Corporations with sales exceeding \$300 million.
- Corporations with sales of less than \$300 million.
- Government entities.
- Tax-exempt or non-profit entities.

The highest-scoring individual in each field not represented by the Risk Manager of the Year was considered for the Risk Management Honor Roll.

A nominee need not handle risk management responsibilities full time, but he or she must be a full-time employee of the organization whose program he or she directs. E1

Criteria for selecting 2001 RMOY

Ten criteria are used by judges to score the nominations for the annual Risk Manager of the Year Award and Risk Management Honor Roll.

The panel of 10 independent judges scores each nominated candidate on a scale of one to 10, according to how well he or she:

- Established and implemented an effective risk management program within the organization.
- Tackled and solved one or more major problems for his or her organization.
- Innovatively applied the diverse tools of risk management and insurance.
- Creatively and effectively used the

insurance markets to structure an insurance program that serves the needs of the organization (specifically addressing the types of policies purchased and manuscripts policies, if any).

• Established a workable intelligence system both inside and outside the organization, culminating in a flow of information about events and activities that affect the organization's risk management and insurance.

How the risk manager secures information from other departments and the use of risk management information systems and other information technology tools are addressed in this criterion.

• Skillfully performed the functions of management in the overall organization and within the risk management/insurance department.

The functions include planning, organizing, directing and controlling.

• Achieved the most effective program at the optimum cost over the long term.

• Developed technical expertise in any or all of the broad categories included within risk management, leading to a better managerial grasp of the operational aspects of the job.

• Exhibited an attitude and performed activities fostering the advancement of the risk management profession (such as professional activities, speaking engagements, teaching and related activities).

• Developed in his or her career (as exhibited by job history, including current job description, education, honors and memberships).

Risk Managers of the Year

2000

Paul F. Buckley
Lucent Technologies Inc.

1999

Merritt W. Fabel
American International Group Inc.

1998

Phillip J. Grewar
Government of British Columbia

1997

Judy Lindenmayer
FMR Corp.

1996

Brian D. Casey
Corning Inc.

1995

Scott K. Lange
Microsoft Corp.

1994

Lucille A. Gallagher
Monfort Inc.

1993

Richard C. Heydinger
Hallmark Cards Inc.

1992

Millicent W. Workman
Belz Enterprises

1991

Arnold L. Davenport
Marriott Corp.

1990

Stephen M. Wilder
The Walt Disney Co.

1989

Jeffrey W. Pettegrew
Contra Costa County

Municipal Risk Management
Insurance Authority

1988

William L. Mather
The Gillette Co.

1987

Edith F. Lichota
Irving Trust Co.

1986

Donald Nelson
ARA Services Inc.

1985

Harold C. Lang
Leaseway Transportation Corp.

1984

Richard M. Inserra
American Can Co.

1983

John A. O'Connell
Holy Cross Shared Services Inc.

1982

Eckart Russell
Alcan Aluminium Ltd.

1981

Duane E. Allen
Hanna Mining Co.

1980

Thomas V. Hallett
General Motors Corp.

1979

Edward L. Erickson
American Broadcasting Cos. Inc.

1978

Howard T. Weber
Minnesota Mining &
Manufacturing Co.

2000

Theodore G. Jeske
Historic Tours of America Inc.

1999

David A. Holcombe
International Speedway
Corp. & NASCAR
Lewis Leigh
Washington Cities
Insurance Authority
Sheryl A. Pixler
Storage Technology Corp.

1998

James E. Green
Small corporation
Mark L. Hubbard
Adventist Health
Science Center
Edward Molloy
Large corporation

1997

John J. Carney
National Freight
Industries Inc.
Betsy Kutska
Park District Risk
Management Agency
William R. Powell
Salt River Project
Russell Opferkuch
Bankers Trust Co.
Jeannie Sedwick
AHA-Insurance
Resource Inc.

1996

Craig S. Macdonald
Bi-State
Development Agency
Michael Tawney
Loomis Armored Inc.

1995

Lee D. Holland
Tennessee Municipal
League Risk
Management Pool
K. C. Kidder
Norwest Corp.
Judith Payne
South Dakota
Bruce Zaccanti
Jupiter Mechanical
Industries Inc.

1994

Sal M. Bianchi
Intergovernmental Risk
Management Agency
Judith Moses McDonald
Comerica Inc.
Ronald J. Guilfoile
City of St. Paul, Minn.
Thomas J. Hickey
Malcolm Pirnie Inc.

1993

David G. Adler
The Portman Cos.
Thomas E. Bell Sr.
Middle Cities Risk
Management Trust
June Dickinson
SunTrust Banks Inc.
C. David White
State of Oregon

1992

Marc Darby
Bombardier Inc.
Jerry Newsom
State of Georgia
Judith Tornese
Transamerica Corp.

1991

Donald D. Batchelor
Union Planters Corp.

Mary L. DeCampli-Stewart
Metropolitan Washington
Airports Authority
Rod Umscheid
University of California

1990

Josephine Goode Johnson
University of Maryland
Medical Service System
Roger D. Oaks
Tennessee Farmers
Cooperative
M. Michael Zuckerman
Thomas Jefferson University

1989

John A. Lindquist
Browning-Ferris
Industries Inc.
J. Douglas Higley
State of Louisiana

1988

Gregory L. Daniels
American National
Red Cross
Timothy G. Galarnyk
Lunda Construction Co./
Phoenix Steel Inc.
Stephen A. Finley
City of Lakewood, Colo.
Edward G. Weiss
First of America Bank Corp.

1987

Susan M. Werner
Hardee's Food Systems Inc.
Mark F. Wilson
First Mississippi Corp.

1986

Delmer Ison
Washington Metropolitan
Area Transit Authority

William E. Rogers
Conemaugh Valley
Memorial Hospital

1985

Susan N. Weiner
Dade County Public Schools
Eva F. Goodrich
Cincinnati Electronics Corp.

1984

Sidney D. Blatt
Holloway Cos.
Gene Snyder
State of Oregon

1983

Jerri Nelson MacMillian
Aetna Life & Casualty
Cos.' Real Estate
Investment Department
Robert Sinclair
Metropolitan Government
of Nashville and
Davidson County

1982

Spencer J. Traver
BF Goodrich Co.
Paul B. Harvey
Ponderosa Homes
Gene M. Marsh
General Conference of
Seventh-Day Adventists
George N. Pierce
Orange County, Fla.

1981

Robert Bieber
Westchester County, N.Y.
William Ryan
University of Michigan

GLOBAL BRIEFS

Oldwick, N.J.-based A.M. Best Co. has announced changes to the way it reports on the financial strength of the **Lloyd's of London** insurance market. Currently, Lloyd's is rated A, or "excellent," but Best said certain Lloyd's syndicates were able to offer security above that of the marketwide rating. Best said that while the market rating will remain the "floor of security" for all policies underwritten by Lloyd's syndicates, some syndicates may be assigned a higher rating. . . . Moody's Investors Service has assigned an A2 insurance financial strength rating to Tokyo-based **Gibraltar Life Insurance Co. Ltd.** Gibraltar is the successor company to Kyoei Life Insurance Co. Ltd., which filed a plan of reorganization last October. Under the plan, Kyoei was acquired by a unit of Prudential Insurance Co. of America and renamed. Moody's based its rating in part on the sound capitalization of the restructured company. . . . Michael Bright has resigned as chief executive officer of London-based **Independent Insurance Co. Ltd.**, effective immediately. Mr. Bright will assume the new post of deputy chairman, and Independent's current chairman, Garth Ramsay, will become executive chairman until a new CEO can be found. No reasons were given for the change. . . . U.K. Secretary of State for Health Alan Milburn has confirmed that the U.K. government plans to impose a moratorium on insurers' use of **genetic test results** when calculating premiums. Mr. Milburn said the government would implement legislation to impose a moratorium if recommended to do so by its genetics commission. . . . Lloyd's of London managing agent Atrium Underwriting P.L.C.'s **syndicate 570** has reported its first-ever loss. Atrium's results for the 1998 year of account, announced last week, revealed that the nonmarine syndicate, which specializes in U.S. professional indemnity and property business, registered a loss of 3.2% of capacity—its first loss since it was founded in 1968. The syndicate's 1998 stamp capacity was £50.4 million (\$83.2 million). Atrium said its book was hit by an unusually high number of losses, including hurricanes Mitch and Georges. Atrium's marine syndicate 609 made a profit of 5.6% of capacity for the 1998 year. . . . A credit assessment plan for **African insurers and reinsurers** may begin operations before year end. A delegation from the African Insurance Organisation, which represents 270 insurance and reinsurance companies and regulators from 41 African countries, met last week with Standard & Poor's Corp., which will be technical adviser for the plan. The AIO-run Credit Assessment Committee is backed by the United Nations Conference on Trade and Development. The committee aims to provide policyholders and intermediaries with a transparent view of the financial strength of nonlife insurers and reinsurers. . . . Paul Schappacher has been named director of Asia-Pacific property at the new office of **Zurich Global Energy S.M.** in Melbourne, Australia. Previously, Mr. Schappacher was energy manager of Australia, New Zealand and Papua New Guinea for American International Group Inc. Schaumburg, Ill.-based Zurich Global Energy S.M. opened the Melbourne office in February. . . . London-based consultant **PricewaterhouseCoopers L.L.P.** has appointed Mark Batten head of its insurance restructuring group. Previously, he led PwC's shareholder-value consulting practice. . . . Marc Archambault has been appointed executive vp of **SCOR Vie Canada**. Previously, he was assistant vp-marketing at SCOR Life Re in the United States.

BT dials up new pension plan

By CAROLYN ALDRED

LONDON—One of the United Kingdom's largest employers is closing its defined benefit pension plan and offering a defined contribution plan.

London-based BT P.L.C. announced this month that new employees of the telecommunications giant will no longer be able to join its £29.72 billion (\$42.87 billion) defined benefit plan, regarded as one of the best pension plans in the United Kingdom. Instead, employees joining the company after April 1, 2001, will have the option of participating in a defined contribution plan. The defined benefit plan—known in the United Kingdom as a "final

salary" plan—has 380,755 members, including 120,449 existing employees, who will be entitled to remain with that plan.

The move is the latest—and largest—among many by U.K. employers toward defined contribution pension plans, which are known in Britain as "money purchase" plans.

At the same time, benefit consulting company William M. Mercer Inc., a unit of New York-based Marsh & McLennan Cos. Inc., warns in a review of defined benefit pension plans this month that many employees will be worse off than they realize when they retire, because the level of contributions in many of these plans is inadequate.

BT decided to change its pension plan because it believed that "defined contribution pensions were better suited to our employees," said a BT spokesman. He pointed out that "a shift in working patterns and a more-flexible workforce, with employees now changing jobs more often" make defined contribution pension plans more appropriate.

The move "is something we've been considering implementing for years. It is not a decision that we have taken lightly," the spokesman said, pointing out that the company's trade union had been fully consulted during the process.

Alan Pickering, chairman of the National Assn. of Pension Funds,

agreed that defined contribution plans often are better suited to today's employees because of their greater flexibility.

Mr. Pickering also pointed out that many employers favor defined contribution plans because they reduce the risk to the company's balance sheet presented by defined benefit plans. "There is already a lot of business risk in companies' mainstream activities, and companies increasingly do not want the open-ended liabilities of defined benefit schemes on top of those risks," he said.

In a defined benefit plan, an employer guarantees the employee a certain level of pension, usually a fixed percentage of the em-
See **Pension** on page 103

U.K. expanding parental leave

LONDON—The U.K. government has extended parental leave rights to an additional 2.8 million parents.

Ministers announced last Wednesday that parents with children who were under the age of 5 as of Dec. 15, 1999, as well as those with children born or adopted after that date, will be entitled to 13 weeks' unpaid leave.

Previously, the government had ruled that only the parents of children born after the cutoff date were eligible for the benefit. But the London-based Trades Union Congress, a labor organization, mounted a legal challenge last year to the ruling.

The TUC, represented by Cherie Booth, who is the wife of U.K. Prime Minister Tony Blair, argued that the cutoff point was contrary to European Union law on parental

rights. Prior to last week's change, the United Kingdom was the only E.U. member state that had such a cutoff date.

The case was referred to the European Court in Strasbourg, France, and is due to be heard this week. A TUC spokesman said after the government's announcement last week that, although the case is still scheduled to be heard, he was confident that TUC would be satisfied with the change once it has seen the official government documents on the matter.

Parental leave rights also were extended to allow each parent of a disabled child the right to take a total of 18 weeks' unpaid leave at any point until the child's 18th birthday. Previously, the parent of a disabled child could take a maximum of 13 weeks' leave.

Claiming a right to sue

Jaffray names fight Lloyd's immunity

By SARAH VEYSEY

LONDON—Lloyd's of London was back in court last week as a group of disgruntled names sought to establish that Lloyd's statutory immunity to negligence charges is contrary to the new U.K. Human Rights Act.

The names, who were part of a dismissed fraud suit initially brought against Lloyd's by property developer Sir William Jaffray (*BI*, Nov. 26, 2000), are represented by the London-based United Names Organisation.

The individual investors at Lloyd's claim that Article 14 of the 1982 Lloyd's Act, which stipulates that the Council of Lloyd's cannot be sued for negligence, contravenes the HRA, which was signed into law last October (*BI*, Oct. 9, 2000). The names argued that the HRA provides all citizens with the right to a civil resolution of a

dispute in court, and they sought to amend their charge of fraud—which failed in court—to one of negligence.

"Lloyd's has issued an application to strike out the remaining non-fraud claims in the Jaffray case," Lloyd's said in a written statement. "Lloyd's considers that the names' application to amend their pleadings to proceed with claims of negligence, including their arguments in respect of the Human Rights Act, has no substance and are confident that the court will dismiss it," Lloyd's added.

UNO Chair Catherine MacKenzie Smith said in a statement that if the court refuses to allow the plea amendment, the names would take their case to the Court of Appeal and, if necessary, the European Court of Human Rights.

Last November, the judge in the Jaffray case cleared Lloyd's
See **Names** on next page

Fortis offering crash compensation

BRUSSELS, Belgium—The insurer of the driver whose vehicle slid off a road and caused the Feb. 28 rail crash in Great Heck, England, has invited those injured and the families of those killed to apply for compensation.

Fortis Insurance Ltd., the London subsidiary of the Belgian-Dutch financial services group Fortis, insured the driver whose Land Rover slid off a highway in bad weather and came to rest on a railroad track. The Land Rover, made by a division of Ford Motor Co., was pulling a trailer loaded with another car at the time of the accident. A northbound passenger train struck the Land Rover, derailed, and then collided with an oncoming freight train. The accident left 10 people dead and 70 injured (*BI*, March 12).

Alan Sendall, claim director at Fortis in London, said letters

have been sent to certain parties, inviting them to make claims, even though crash investigations are still ongoing.

"Irrespective of the outcome of these investigations, claims relating to the injured and deceased will be dealt with and paid by Fortis Insurance," Mr. Sendall said in a statement.

Fortis Insurance will pay the first £1 million (\$1.43 million) in claims—which it will seek to recover if the driver is found not liable—with the parent company, Fortis, providing the next £500,000 (\$715,000). Fortis is reinsured for anything above this level, according to the company.

Shortly after the crash, Fortis said in a statement that, because of its reinsurance arrangements, the cost of the expected claims would have a "negligible" impact on its results.

—By Edwin Unsworth



PHOTO: AFP

The insurer of a driver in a mishap that caused a fatal U.K. train crash has offered to compensate victims and their families.

INTERNATIONAL

Names

Continued from previous page of fraud allegations brought by 216 names. The names had charged that they were fraudulently recruited to the Lloyd's market during the 1970s and 1980s to provide capacity to soak up the impending asbestosis-related losses that crippled the market in the early 1990s. The names alleged that 33 senior members of Lloyd's had concealed the true extent of those impending losses and that the market had made misrepresentations in recruiting investors.

The judge, Mr. Justice Cresswell, cleared Lloyd's of making fraudulent misrepresentations to names. But he condemned as "staggering" what he described as a "catalog of failure by underwriters throughout the 1980s." Mr. Justice Cresswell is also presiding over the plea amendment hearing.

Many of the names involved in the Jaffray case accepted a settlement offer (BI, Feb. 5) made by Lloyd's after the verdict, but sev-

eral have refused the offer.

The plea amendment hearing began in the High Court last Wednesday amid some confusion. Mr. Justice Cresswell requested a clarification of the names' position and of the number of names now party to the case. He released the names' attorney—Vincent Nelson of London law firm More Fisher Brown—to reformulate the names' submission. Mr. Nelson's colleague, Gordon Nardell, meanwhile, began the names' arguments. He said that before the HRA was signed into U.K. law last October, it would have been impossible to argue against Section 14 of the Lloyd's Act on human rights grounds, as the courts were bound by U.K. law. But, he continued, the judge must now decide whether objections to Section 14 were arguable under the new law. He pointed out that, under the terms of the HRA, it was unlawful for a public authority—such as a court of law—to act in contravention of the rights protected by the act.

The hearing was expected to last three days. **BI**

Acturis wants to cut policy errors

By EDWIN UNSWORTH

LONDON—European insurance buyers are expected to benefit from a new Internet-based initiative to reduce errors and inefficiency in processing commercial lines policies.

Acturis Ltd., a newly launched London-based company, plans to make an online service available early next year that will give brokers administrative support and other resources to reduce policy errors.

Founded by two former McKinsey & Co. consultants who led the firm's U.K. insurance and e-commerce practices, Acturis is led by Co-Chief Executives Theo Duchon and David McDonald.

A study by Acturis found that European commercial lines insurers and brokers waste up to 34% of premiums, or about £1 billion (\$1.44 billion), annually through inefficient transactions. Acturis' analysis found that in the U.K. commercial lines industry, 50% of documents sent by

an insurer to a broker are incorrect and must be re-sent, 30% of these re-sent documents remain incorrect,

The Acturis solution includes technology, process redesign, and product and service innovation.

— David McDonald

Acturis Ltd.

and more than 35% of documents take well over 100 days to be issued to the policyholder after being received by the broker.

Mr. Duchon said the online service will target U.K. independent regional brokers initially, and Mr. McDonald said the service may be extended

to other European commercial lines brokers in the second half of 2002.

Components of Acturis include electronic exchange of data and structured risk information between brokers and insurers, a management information system to provide all partners with business information; and a task management system to support a variety of brokerage operations.

"Technology alone will only reinforce existing inefficiencies," Mr. McDonald said. "The Acturis solution is made up of approximately one-third technology, one-third process redesign and one-third product and service innovation."

Acturis Chairman Sir Brian Pitman, a former chairman of the bank Lloyds TSB, said that "both brokers and insurers must act quickly to reduce costs and improve service levels and profitability."

He added that "the possible cost savings are becoming too great for customers and shareholders to ignore." **BI**

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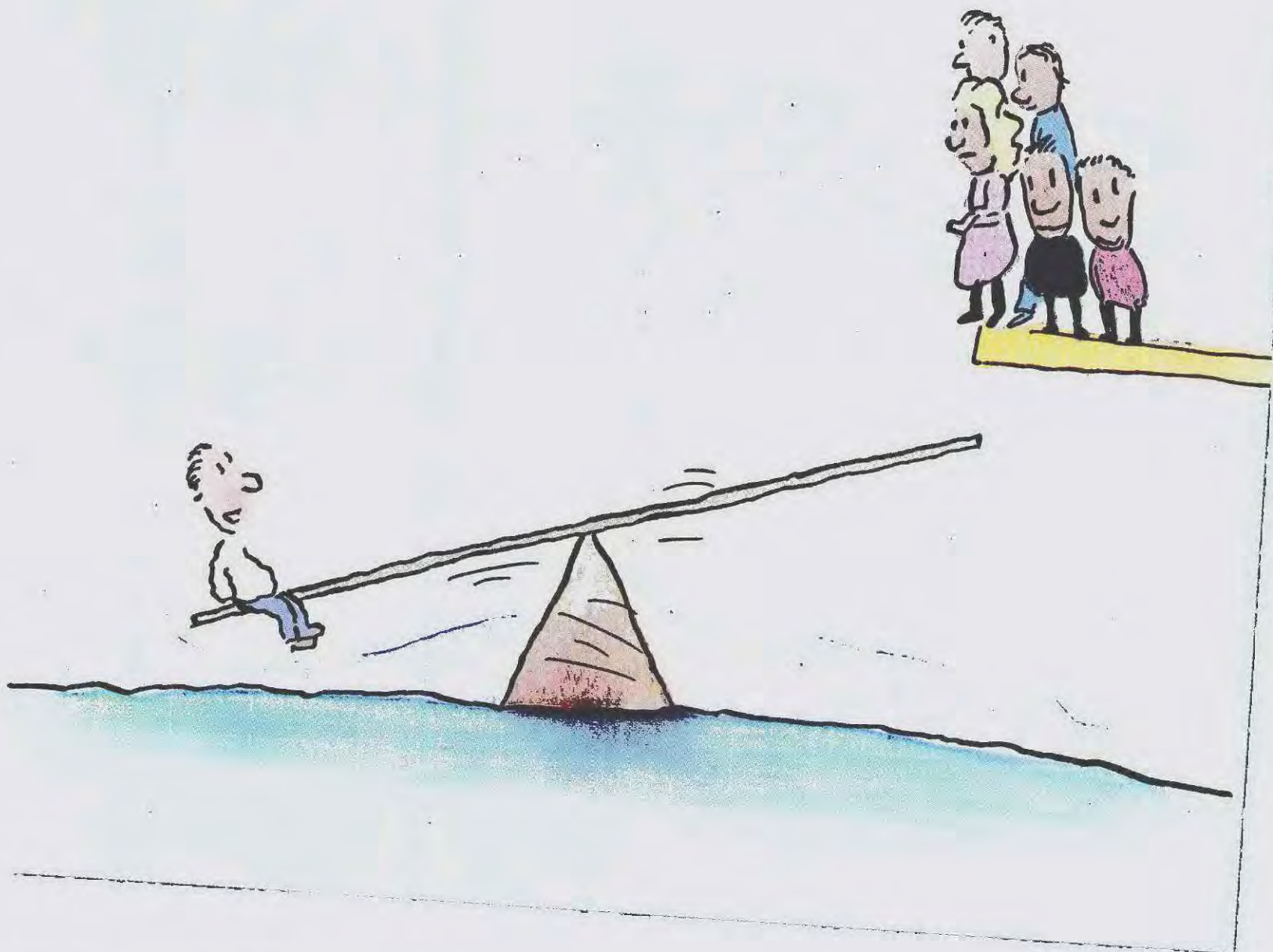
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Pension

Continued from page 99

employee's final salary. If the contribution levels have been computed incorrectly and prove inadequate to match the pension liability, the risk lies with the employer. In a defined contribution plan, though, the pension level depends on the contributions, which effectively transfers the program's risk to the employee.

Moreover, Mr. Pickering said, the regulation of defined benefit plans is much greater than that of defined contribution plans, resulting in a heavier burden on employers that maintain such plans.

While defined contribution plans can offer employers—and, often, employees—a preferable option, there is "some cause for concern for society at large if the switch to defined contribution plans is accompanied by a reduction in contributions," Mr. Pickering said.

That is a concern Mercer raised in

its latest pension survey results, published April 17.

A survey of 288 U.K. companies showed that average contributions by defined contribution plan members have risen slightly in the last two years, to 3.5% of pay from 3%. The survey found that employers' contributions also rose, to an average of 6.25% from 5.7%.

But Mercer notes, though, that, for most people, current contribution rates are still inadequate to provide acceptable income in retirement.

"With improving longevity, the decline in interest and annuity rates and worsening returns on investment, many members will not be able to maintain the same standard of living that they enjoyed whilst at work," said Jonathan Gainsford, European partner at Mercer.

"On average, total contribution levels for employers and employees are less than 10% of pay. A figure of 15% to 20% would be more realistic to secure adequate pensions—especially in the current environment,"

Mr. Gainsford said. He added that "many people will be blissfully ignorant of the level of benefits they are going to get. Members need to be given a clear indication of their likely pension and, where this doesn't meet their expectations, encouraged to save more."

According to the Mercer survey, 67% of companies do not automatically provide projections of individual members' retirement benefits. New regulations, though, will require companies throughout the United Kingdom to provide such projections at least once a year, beginning in April 2002.

"The level of benefits revealed could come as an unpleasant surprise to many members," Mr. Gainsford said.

Messrs. Pickering and Gainsford stressed the need for effective communication of benefits to employees. Good communication is particularly important in switching from a defined benefit to a defined contribution plan, Mr. Pickering said.

To convince employees of the advantages of defined contribution plans and to counter criticism about the changeover, employers often focus on the upside of the change, such as increased empowerment for employees, Mr. Pickering said. But, he said, employers fail to stress the increased risk to the employee.

Meanwhile, Mercer's survey showed that just 15% of plans use Internet technology to provide members regularly with up-to-date information about their benefits.

In those instances in which Internet technology is used, it most often provides only general information about plans. Access to personal fund information coupled with the ability to change the contribution levels for investment options is available in fewer than 1% of the defined contribution plans surveyed.

"Twenty-four-hour access to members' information, with transactional facilities, is a goal that all schemes should ultimately be aiming for," Mr. Gainsford said.

In regard to plan management, Mercer's survey showed a decline in the number of plans administered in-house—from 20% in 1998 to just 6% in 2000. Currently, 55% of plans are run by third-party administrators, 34% by insurance companies and 5% by investment managers.

"Companies are becoming increasingly aware of the substantial risks involved in administering DC plans. Mistakes in calculating members' contributions or investing them can be costly and are often difficult to correct," Mr. Gainsford said.

"Compared with defined benefit schemes, DC plans are much more complex and demanding to administer. Few companies have the experience to cope in house or can afford the systems to deliver services comparable to what the leading external providers are offering," Mr. Gainsford said. "It is not surprising we have seen a rapid move towards outsourcing the day-to-day running of DC schemes."

Ergonomics debate, GLB color comp outlook

By MEG FLETCHER

ORLANDO, Fla.—Workers compensation advocates continue to face a broad array of legislative and regulatory challenges at both the national and state levels, according to several speakers at the annual issues symposium of the National Council on Compensation Insurance, held April 17-19 in Orlando, Fla.

On the national level, several concerns remain despite the decision last month by Congress and the Bush administration to rescind the ergonomics rules developed by the Occupational Safety and Health Administration during the Clinton administration.

While President George W. Bush voiced fears about compliance costs for small businesses, representatives of workers comp insurers and employers also focused on the negative impact of a proposed compensation plan contained in those rules. If enacted, the plan would have undermined the exclusive-remedy provisions of states' workers comp laws, according to several representatives of insurer trade associations.

Among the members of Congress who supported the rescission of the ergonomic rules was Rep. Dave Weldon, R-Fla. Rep. Weldon, a physician, said that many of those rules were "overkill" and were designed by a bureaucracy that was out of

touch with the needs of employers and insurers.

As a clinician who has seen patients with carpal tunnel syndrome, though, Rep. Weldon said he sup-



ports "reasonable and appropriate" ergonomic rules. Federal law requires, however, that the new rules not be "substantially similar" to those that were rescinded.

While OSHA may be busy crafting the new ergonomics rules over the next few years (see story, page 3), several other workers comp-related concerns affect the nation.

A key matter is the implementation of privacy protections for medical information under the U.S. Department of Health and Human Services' medical privacy regulations. The Bush administration recently adopted those measures, though it promised that some modifications would be made before it began implementing them.

As a result, Rep. Weldon said, HHS will be scrutinizing the privacy regulations, which were crafted during the Clinton administration, to help ensure that the rules are reasonable and do not negatively affect America's competitiveness.

Rep. Weldon said he believes that insurers "must be able to access medical information to determine if the injury is work-related" and to discourage fraudulent claims.

While the privacy rules specifically exclude their application to workers compensation care, they still contain provisions that could negatively affect the workers comp system, speakers said.

For example, the rules allow a claimant—or his or her attorney—to revise the records, said Eric Oxfeld, president of UWC—Strategic Services on Unemployment and Workers Compensation. The Washington-based national lobbying group represents business interests.

Another potential problem in the

processing of workers comp claims stems from the failure of the provisions to clarify the authority of a "covered entity" to disclose information to a workers comp insurer, said Bruce Wood, assistant general counsel with the Washington-based American Insurance Assn.

Overall, the new HHS privacy rules constitute "a new cost driver," said Rodger S. Lawson, president of the Downers Grove, Ill.-based Alliance of American Insurers.

Other important privacy concerns result from provisions of the federal Gramm-Leach-Bliley financial modernization law that allow state insurance regulators to impose stricter standards on insurers to protect consumers' health information.

The issue is more relevant to insurers than to banks because, typically, an insurer has greater access to an individual's personal health information, such as the test results required when that person applies for life insurance, said Kathleen Sebelius, president of the National Assn. of Insurance Commissioners in Kansas City, Mo. As a result, state insurance regulators maintain that an opt-in standard is most appropriate in many cases, said Ms. Sebelius, who also serves as the Kansas insurance commissioner.

Another key concern is whether insurers should be able to obtain national charters, which would eliminate the need for an insurer to seek approval from each individual state in which it seeks to operate.

Rep. Weldon said he doesn't think Congress is ready for national insurance charters, because, he said, the topic could be "very divisive." In predicting whether Congress would pass any major legislation on the topic, he said, "It is highly unlikely."

Meanwhile, state legislatures are engaged in related legislation.

For example, many states are busy adopting measures related to the implementation of the Gramm-Leach-Bliley Act. To achieve this, some are considering either the adoption of a new NAIC model law or the updating of an old NAIC model, while other legislatures favor a more liberal model proposed by the National Conference of Insurance Legislators.

That act also encourages state legislatures to establish more uniform

licensing of agents and brokers.

In that regard, Ms. Sebelius said "Congress set the bar way too low," by merely requiring that at least 29 jurisdictions adopt similar reciprocal licensing arrangements. She said many more states would adopt more extensive licensing requirements that would encourage uniformity. In addition, she said, such changes could be implemented with the help of a new, sophisticated agent database being developed in conjunction with the NAIC.

Furthermore, Ms. Sebelius said, states are making great strides in streamlining the licensing and regulation of insurers, as well as the approval process for new products.

But insurers don't want to see legislatures impose "rollbacks" on earlier tort and benefit reforms of workers compensation, said Nancy M. Schroeder, assistant vp of the Des Plaines, Ill.-based National Assn. of Independent Insurers.

Concurring, Mr. Oxfeld said that while the political pendulum has not yet swung back, such a shift is always a danger.

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NCCI meeting draws 540

ORLANDO, Fla.—Some of the nation's largest workers compensation insurers and their service providers were among the 540 registrants at the National Council on Compensation Insurance's annual issues symposium, held earlier this month.

NCCI Holdings Inc., a Boca Raton, Fla.-based umbrella organization providing data and rating information, hosted the April 17-19 conference at the Hyatt Regency Grand Cypress Resort in Orlando, Fla.

NCCI's next issues symposium will be May 7-9, 2002, at the same location. For additional information, contact the NCCI at 561-997-1000 or visit its Web site at www.ncci.com.

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COMMENTARY

Banking on our privacy rights

I've received my first "Important Privacy Notice," as required of financial institutions by the Gramm-Leach-Bliley Act. While I am mildly put off by some of the promotional content in this notice, I am indeed thankful that the bank had to send it and that I read it.

The 5x7-inch brochure with a bar-code address did not look particularly inviting, and I started to throw it away, despite the words "Important Privacy Notice" printed on the front.

We've been writing a good deal in *Business Insurance* about the new privacy requirements under the 1999 federal law that permits the convergence of banks, insurance companies and securities firms. So I decided to take a minute to see how my bank was handling its new responsibilities to inform me of my right to stop them from using information about me to cross-sell me products.

The 10-page leaflet from my bank reads more like a sales promotion for all the wonderful services the bank can bring me if I allow them to disseminate my private information than a straightforward effort to explain to me my rights to privacy as established by Gramm-Leach-Bliley.

Included in my bank's four key values, which it says form the foundation of its privacy policy, is a blatant rationalization for spreading around whatever it wants about me. That value is stated as: "Responsible use of information is beneficial."

How? The bank says: "Information is important for meeting your needs and providing consistent service quality. Information is also the source of new ideas. The more we understand about you and your needs, the better we can suggest products and services, create new opportunities for you and help you manage your financial assets."

Thanks but no thanks. I use the bank to temporarily park my funds that I need to pay bills. I have not hired my bank to be my financial adviser.

Nor do I want my bank to hawk insurance products to me, despite my bank's assertion that "people often tell us that they prefer a financial services provider that takes an 'integrated approach.' They want us to understand a range of needs and make recommendations about a variety of financial services."

Clearly, insurance is high on my bank's list of new opportunities. The brochure noted that my bank may share information about me with "financial service providers, such as mortgage bankers, securities broker-dealers and insurance agents."

I already have two excellent personal insurance agents—one for life and the other for property and liability insurance—whom I trust immensely to look after my insurance needs. I don't need another insurance agent, and if I did, I'd certainly know where to look for one. Worse still, unless I tell my bank not to, it's selling my name to "nonfinancial companies, such as retailers, direct marketers, membership clubs and publishers; and other companies and organizations, such as nonprofit organizations."

Great. Just what I need—more third-class mail to sort through at night and more phone calls from publishers and charities interrupting the dinner hour.

Despite having to wade through the sales pitch, I am glad that I opened the privacy notice and read it. It reminded me that, unless I tell my bank, and all the other financial institutions I do business with, to keep a lid on my private information, both within the bank and in dealing with others, it has every right to use it to cross-sell me anything.

Even though we have reported dozens of times that Gramm-Leach-Bliley requires financial institutions to allow its consumers to "opt out" of their programs for sharing nonpublic personal information, I'm quite embarrassed to say I was not thinking of my right to opt out when sorting my mail the other night. I wonder how many other consumers will just toss away, unopened, a similar "Important Privacy Notice," not realizing what rights they are throwing away?

Opting out was easy, too. When I called the 888 number listed to keep my private information private, I was greeted by a simple pre-recorded message. I punched in my bank-supplied customer ID number, hit the appropriate keys to opt out and was given a confirmation number for the transaction.

But I was also advised it may take 90 days for my request to become effective. Still, that's better than not being able to opt out at all.

Publishing Director Kathryn J. McIntyre's commentary appears fortnightly and on www.businessinsurance.com. She can be reached at kmcintyre@crain.com.



Kathryn J. McIntyre

Ergonomic

Continued from page 3

in any new standard several of the provisions that employers found so objectionable in the original measure.

Ms. Chao, in the five minutes allotted her for oral testimony, outlined five general priorities she has set for the Labor Department. The first, which Ms. Chao stressed was also her top priority, is to "ensure the safety and health of every workplace." She added that doing so would require a different approach in the 21st century than had been followed in the past. That approach, she said, will be "based on cooperation and prevention, rather than the antiquated, adversarial approach of the past."

But Ms. Chao ran out of time before she could provide the specifics of her department's approach to workplace ergonomic issues. After assuring her that her full testimony would become part of the record, Sen. Specter asked Ms. Chao exactly what timetable or deadline she

intended to set for dealing with ergonomics concerns.

"I would love to give you a timetable and deadline," she responded, adding that a deadline would not do anyone involved in the ergonomics debate any good.

That was not what Sen. Specter wanted to hear, and he cut her off and turned the questioning over to Sen. Harkin. Earlier, Sen. Harkin had drawn a smattering of applause from union members in the audience when he told Ms. Chao that "it's not enough to say we're going to be looking at this some more," and called for an end "to this very sad chapter" that culminated in the rescinding of the first rule. The applause drew a sharp rebuke from Sen. Specter.

Sen. Harkin repeated his colleague's line of inquiry, to which Ms. Chao responded that setting a deadline was "not a responsible course of action."

Increasingly heated exchanges followed, in which Ms. Chao said that she intended to build a consensus among the various interested parties before moving ahead with

the matter. The Labor secretary said that "if we don't find some commonality of interests," the Congressional Review Act would be invoked again against any future ergonomics rule.

Outside the hearing room, Ms. Chao continued to defend the need to reach a consensus before taking action, as she fielded questions from the press. The secretary refused to go into detail about what she planned to do after meeting with stakeholders, adding that she "is not ready to discuss" whether she even intends to issue a rule in the future.

In the written testimony she did not deliver orally at the hearing—at which Sens. Specter and Harkin were the only subcommittee members present—Ms. Chao listed a number of strategies that would guide the department's approach to ergonomics. These included emphasizing the prevention of injuries, basing actions on sound science, stressing flexibility, taking feasibility into account, making sure requirements are made clear and using incentives to achieve goals. **[B]**

Taxes

Continued from page 3

ence this week in Atlanta, she said.

Texas law requires insurance buyers to file a tax report on independently procured insurance if the contract meets several criteria. These include, for example, that at least some of the premium is on a Texas risk, the insurer is not licensed to underwrite business in the state, the insurance contract was negotiated entirely outside the state, and taxes on the premium have not been paid by a surplus lines agent or a registered purchasing group.

Under most state laws regulating surplus lines, a surplus lines broker or licensee pays a tax in the state where the policy is filed. If the insured risk is in more than one state, the tax may be allocated according to the percentage of the risk in that state. To the extent the coverage is taxable in any other state where part of the risk is located, an independent procurement tax is payable by the buyer.

As a result, surplus lines brokers pay most U.S. surplus lines taxes, which are calculated as a state-specific percentage multiplied by the gross written premium for the policy. A *Business Insurance* survey estimated that about \$305 million in such taxes were paid in 1999 to all U.S. jurisdictions (*BI*, Sept. 11, 2000).

"Unfortunately, surplus lines brokers find that there is no consistent or established method by which this premium tax obligation can be fulfilled should a surplus lines transaction cross state lines. This is particularly true for multi-state surplus lines placements which have risks located outside the state that licenses the broker making the placement," according to NAPSLO.

"It's an enormously confused scheme," said Philip R. Ballinger, general manager of the Surplus Lines Stamping Office of Texas in Austin. "Agents do their best to comply with inconsistent and conflicting state laws, and despite their best efforts, they wind up violating some states' laws."

The Texas litigation already is creating concerns for state insur-

ance regulators, who are trying to craft a model proposal for a national premium tax payment system. The National Assn. of Insurance Commissioners' Multi-State Tax Working Group had planned to use a procurement approach as part of its proposed solution but is now rethinking that move in light of the Texas case, said Bob Lohr, the Alaska insurance commissioner

'Agents do their best to comply with inconsistent and conflicting state laws' and still violate some.

— Philip R. Ballinger
Surplus Lines Stamping
Office of Texas

who heads the NAIC working group.

Developing a multi-state tax payment system is a particularly thorny topic because typically revenue collectors in each state want to maximize their share of premium taxes, sometimes with little regard for where the buyer and its risks are or where the insurance transaction occurred.

The Dow case, which is shedding new light on the tax law morass, began after the Texas Comptroller of Public Accounts audited the chemical company's 1991-97 operations in Texas and assessed the Delaware corporation \$427,149 in taxes, penalties and interest for independently procuring surplus lines coverages through what the court termed "out-of-state" insurers. Those coverages included commercial excess liability as well as property damage and business interruption insurance. Dow paid the assessment under protest and filed a lawsuit seeking a refund.

Dow's tactic of paying the tax under protest is one that risk managers may now want to consider, at least in Texas, Mr. Ballinger said.

Under Texas law, a company can seek to protect its refund request by filing a detailed explanation challenging the tax. That explanation should accompany the appropriate

state form and the company's tax payment, which is due May 15 for coverage acquired during the previous year.

The main advantage of this approach is that if a company files a protected claim, "the four-year statute of limitations (on refund requests) wouldn't apply," said Gary Johnson, supervisor of the Insurance Tax Section of the Texas Office of Comptroller of Public Accounts.

Details were not available about the situation in other states.

The advice for Texas surplus lines buyers reflects the fact that no one knows how long it will take for the Dow case to be resolved, especially since the two Texas courts to consider it thus far have disagreed.

A Travis County District Court initially granted the Texas comptroller's motion for summary judgment, but that ruling was overturned by an appeals court on Jan. 25.

Dow's main argument was that a 1962 U.S. Supreme Court ruling in a nearly identical case, *State Board of Insurance vs. Todd Shipyards Corp.*, declared invalid Texas' tax on independently procured insurance. That decision, based on the commerce clause of the Constitution, "remains good law and controls in this case," according to court papers filed by Dow's attorneys at Scott, Douglass & McConico, L.L.P. in Austin. In response, the comptroller's attorneys are asking the Texas Supreme Court to review and overturn the appeals court decision or issue an opinion encouraging the U.S. Supreme Court to address the issue. The state high court is still considering their request.

Although the comptroller's attorneys agree the case is "virtually identical" to *Todd Shipyards*, they argue that the U.S. high court based its decision on due-process principles that have now been rejected.

While yet to be resolved, the Dow litigation is raising awareness of the tax problems associated with multi-state risks.

If this "pernicious" problem is going to be solved, "the consciousness of the industry and the regulators has to be raised," Mr. Bouhan said. **[B]**

Salary

Continued from page 1

6.1% increase over the prior two years.

- At companies with sales volumes that ranged from \$1 billion through \$2 billion, salaries averaged \$115,452, while bonuses averaged \$7,734. The salaries of these risk managers rose 5.9% from the previous two years.

- At companies with sales volumes that ranged from \$2 billion through \$4 billion, risk management salaries averaged \$126,700 and bonuses averaged \$11,099. Those figures represent an increase of 7% over the prior two years.

- At companies with sales volumes that ranged from \$4 billion through \$7 billion, risk manager compensation rose, on average, to \$148,553. The average bonus rose to \$15,233. Compensation for these risk managers rose, on average, 10% over the previous two years.

- At companies with sales volumes that ranged from \$7 billion through \$15 billion, salaries averaged \$173,281 and bonuses averaged \$20,756. Those figures represented an average increase of

12.5% over the prior two years, the greatest average percentage of increase reported for a category.

- The most-recent survey also contains a category for risk managers who worked at companies with annual sales volumes above \$15 billion. It found that a risk manager working at one of these companies earned, on average, \$201,260 in salary and \$26,650 in bonuses. A comparison to previous years' findings is not possible because that category of sales volume did not exist in past Logic surveys.

Mr. Perry said that mergers, acquisitions and other factors are driving up the sales volume of more and more companies, making the new category necessary.

Survey responses support some industry trends reported by employment recruiters who specialize in risk management placement. Among those trends is the increase in the number of risk managers who coordinate strategies to address risks with other department managers in their companies.

For example, 338 risk managers responding to the survey said they had "direct hands-on" experience with corporate data security in 1999 and 2000. Another 559 said they supervised or advised others

regarding that area of concern. In contrast, Logic's last survey, for 1998 and 1997, found that just 312 risk managers had "direct hands-on" experience and just 479 supervised or advised others in that area.

Recruiters say that companies increasingly want risk managers who can work with data processing managers to address data security concerns. That trend may be linked to the growth of Internet-related risks and an overall desire to hire risk managers who can work effectively with the managers of other departments.

"That is definitely happening," said Richard Meyers, chairman and chief executive officer of Richard Meyers & Associates in Florham Park, N.J. His company specializes in recruiting risk managers.

Large companies are looking for "new-school enterprise risk managers," in contrast to "old-school" insurance purchasers, Mr. Meyers said. For every 10 openings for an enterprise risk manager, Mr. Meyers said, he sees just three for companies seeking individuals with skills that need not exceed the buying of insurance.

Increasingly, companies also want risk managers who will ad-

vance a team approach by helping their subordinates become more professional and better educated about risk management responsibilities, Mr. Meyers said.

"There is a lot more concern with mentoring and staff development," Mr. Meyers said. "They want to hire someone who can truly help develop their people."

More women work in risk management

By ROBERTO CENICEROS

The just-released 1999-2000 Risk Management Salary Survey commissioned by Logic Associates Inc. reveals several trends in addition to general tendencies in compensation in risk management. Among these is the continued advancement of women in the risk management profession.

According to the latest survey initiated by the New York recruiting firm, the greatest strides for women during 1999 and 2000 were made at companies where sales volumes ranged from \$2 billion to \$4 billion. The most-recent survey found that 31% percent of the risk managers at those companies were women, an increase of 10 percentage points over the prior two years.

The second-greatest degree of advancement was at companies with sales volumes ranging from \$4 billion to \$7 billion. Women now account for 24% of the risk managers at those companies, up eight percentage points from two years earlier.

The smallest gains were at some of the largest and smallest corporations, but the smaller companies already had a relatively high percentage of women risk managers.

Those companies with sales volumes of between \$201 million and \$501 million saw an increase of just two percentage points in the number of women risk managers over the figures from two years earlier. But two years earlier, 39% of the risk managers at these smaller companies were female. In contrast, the most-recent survey revealed that women made up only 9% of the ranks of risk managers at companies with sales volumes over \$15 billion.

Logic's most-recent survey also reveals that the proportion of bonuses to salary in total compensation did not change from the last time the biannual survey was conducted.

But Richard Meyers, chairman and chief executive officer of Richard Meyers & Associates in Florham Park, N.J., said that he has recently seen bonus amounts decrease even as salaries have increased. The relative drop in bonuses likely is due to lowered stock valuations and the failure of companies to meet their earnings expectations, he said.

"Regardless of how well one does, there has been somewhat of a retrenchment in additional compensation," Mr. Meyers said.

Other Logic survey data show which industries paid the greatest average annual compensation to risk managers.

The highest-paid risk managers—earning total compensation of \$251,070 on average—worked for retail companies with sales exceeding \$15 billion. They were followed by risk managers at

oil and petrochemical companies with sales exceeding \$15 billion, who earned, on average, \$247,525.

In addition to information on gender, salary information and areas of responsibility by industry and sales volume, the Logic survey also provides data on: size of risk management staff; educational level of staff; use of captive insurers; and use of risk management information systems.

Copies of Logic Associates' 17th Risk Management Salary Survey are available for \$75 each from Logic Associates, 67 Wall St., Suite 2411, New York, N.Y. 10005; 212-227-8000.

Risk managers' pay by industry

In companies with \$501 million-1 billion in sales volume

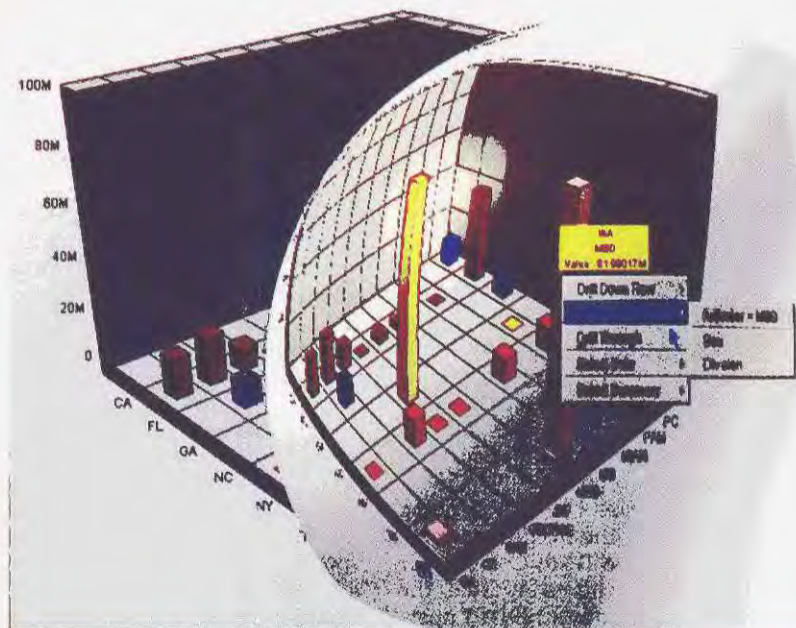
Industry	Average total
Chemical	\$113,328
Communications	\$95,181
Conglomerate	\$105,140
Construction	\$105,439
Consumer products	\$100,824
Cosmetics	\$102,100
Drug/pharmaceutical	\$102,100
Entertainment	\$108,972
Food	\$97,384
Hotel	\$106,738
Manufacturing	\$114,837
Natural resources	\$86,600
Oil/petrochemical	\$122,360
Paper	\$87,800
Publishing	\$110,056
Retail	\$106,240
Service	\$109,795
Utility	\$108,892
Miscellaneous	\$86,523

Source: Logic Associates Inc.

GRAPHIC BY ADAM D



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Erie County

Continued from page 1

August. The 3rd U.S. Circuit Court of Appeals, in a landmark decision, ruled that the federal law that bars employers from discriminating against older employees in benefit offerings applies to retiree health care plans (*BI*, Aug. 14, 2000). Previously, it was widely thought that the Age Discrimination in Employment Act applied only to active employees.

The appeals court said the ADEA allows age bias suits against employers that provide lesser health care benefits to Medicare-eligible retirees than to other retirees.

To defend itself against a discrimination charge, the appeals court said, an employer must prove that the benefits provided to early and Medicare-eligible retirees were equal or that the employer's cost for providing health care benefits for the two groups was equal. Those so-called equal benefit/equal cost safe harbors are part of ADEA, though their relevance, prior to the appeals court decision, was only to benefits provided to active employees.

The appeals court ruling set the stage for Judge McLaughlin's decision and what could be a flood of litigation against employers that provide to retirees past age 65 health care programs that differ from those offered to retirees not yet eligible for Medicare.

"It would not surprise me if the plaintiffs' bar picks this up," said Chip Kerby, an attorney with William M. Mercer Inc. in Washington.

Indeed, few employers, benefit experts say, could comply with either safe harbor.

"The vast majority of employers would have a problem," said Rich Ostuw, a consultant with Watson Wyatt Worldwide in Stamford, Conn.

That is because the benefit needs of the two groups are different. For younger retirees, employers will often provide the same coverage as they do for active employees.

There is no need for employers, though, to do the same for older retirees. That is because retirees 65 and older are eligible for Medicare, which provides basic health care coverage. Older retirees also can opt for Medicare HMOs, if available, and some employers encourage older workers to enroll in Medicare HMOs by paying any premiums charged by the plans.

Whether other courts concur with the 3rd Circuit ruling remains to be seen. "Other courts may reach different conclusions. This is one circuit court ruling, and one should not lose sight of that," Mr. Kerby said.

But if other courts follow the 3rd Circuit's path, some observers say Congress almost certainly will intervene.

"The real solution may have to be a legislative one," said John Piro, an attorney in the Norwalk,

Conn., office of Hewitt Associates L.L.C.

"I think we probably would see congressional action if other courts go along," said Nancy Ross, a partner at law firm McDermott, Will & Emery in Chicago.

If the ruling were to stand, employers could face huge costs trying to comply with the equal benefit/equal cost rule.

The biggest and most costly problem would be faced by employers that offer health care coverage to younger retirees but not to retirees 65 and older who are eligible for the federal Medicare program.

Those employers would face very difficult choices. One option would be to add a new health care plan for older retirees equal to that provided to younger retirees, which could be hugely expensive.

Another alternative, to keep costs level, would be to cut benefits offered to younger retirees and

'If this case is to mean that companies can't make distinctions in their retiree health care plans, companies will get out of the retiree health care business.'

— Dennis Coleman

Unifi Network

offer a comparable plan to older retirees, a decision that likely would be unpopular with younger retirees.

Other companies that offer "unequal" health care plans to the groups would have to either improve benefits for Medicare-eligible retirees or provide less benefits to younger retirees, which effectively are "two bad choices," Mr. Ostuw said.

Yet another action, taken by many employers since the early 1990s, is to terminate their retiree health care plans. "If this case is to mean that companies can't make distinctions in their retiree health care plans, companies will get out of the retiree health care business that much faster. That would not be a result Congress would want," said Dennis Coleman, a principal in Teaneck, N.J., with Unifi Network, a PricewaterhouseCoopers L.L.P. unit.

The Erie County case, though, is not over. The next likely step would be for the court to determine what damages Erie County owes to older retirees.

Erie County Retirees Assn. and Lyman Cohen vs. The County of Erie, Pa., and Erie County Employees' Retirement Board, U.S. District Court for the Western District of Pennsylvania; CA No. 98-272 Erie.

suing their trustees and Segal.

Mr. Birmingham said the electrical workers' pension fund "took a \$44 million hit," bringing its assets down to \$3 million from \$47 million. Fortunately, the plan should be able to pay benefits as they come due, despite the losses, he said.

U.S. District Court Judge Garr King in Portland has ordered mediation of the 10 Oregon lawsuits and requested that the defendants bring their insurance policies to the negotiating table, said Pam Singer, an attorney at Muhleim, Palmer & Wade in Portland who is representing Capital Consultants. Elizabeth Potter, courtroom deputy for Judge King, said the mediation has been scheduled for May 29 through June 15.

Under ERISA, all pension fund trustees must purchase fidelity bonds equal to at least 10% of the amount of money handled by each fund, up to a maximum of \$500,000.

All of the plans named in the suits also have fiduciary liability insurance underwritten by either Federal Insurance Co., a

unit of Chubb Corp. in Warren, N.J.; or Legion Insurance Co., the Philadelphia-based insurance subsidiary of Mutual Risk Management Ltd., said Mr. Feinberg.

And Capital Consultants itself has an errors and omissions policy from American International Specialty Lines Insurance Co., the specialty underwriting unit of American International Group Inc. of New York, Ms. Singer said.

The parties involved in the litigation would not divulge policy limits.

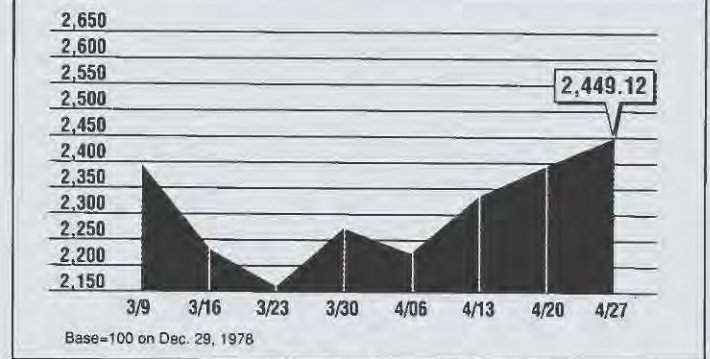
However, Chubb's fiduciary liability policy for labor management trusts and their trustees provides limits up to \$25 million, according to company marketing literature.

Legion provides fiduciary liability coverage limits up to \$10 million for both union and single-employer plans, said Glen Partridge, executive vp.

AISLIC's capacity for most casualty lines is \$50 million (*BI*, Oct 4, 1999). *Business Insurance* also was able to obtain fidelity

See **Fiduciary** on next page

BI/Stock Index - 4/27/2001



BROKERS	Weekly Price	Year to date % change	Year to date % change	High	Low	Vol.(000)
Aon Corp.	NYS 33.12	3.50	-3.30	42.31	24.44	8712
Brown & Brown	NYS 43.05	10.53	23.00	43.05	19.00	374
Clark Bards Holdings	NDQ 12.00	18.81	18.52	17.88	7.25	34
E.W. Blanch Holdings Inc.	NYS 13.23	0.76	-24.13	29.50	6.70	618
Gallagher Arthur J. & Co.	NYS 25.93	-1.07	-18.49	34.25	14.94	1160
Hib, Rogal & Hamilton	NYS 39.18	0.46	-1.74	42.13	26.94	97
Kaye Group Inc.	NDQ 13.66	4.27	76.26	13.69	5.00	94
Marsh & McLennan	NYS 98.37	4.26	-15.92	135.69	80.30	4739
BROKERS AVERAGE		5.19	6.77			

INSURERS/REINSURERS	Weekly Price	Year to date % change	Year to date % change	High	Low	Vol.(000)
ACE Ltd.	NYS 35.21	-0.11	-17.03	43.94	20.00	8463
Accel International Corp.	NDQ 0.07	0.00	-76.42	0.88	0.07	0
Acceptance Insurance Cos.	NYS 3.85	1.05	-26.67	6.94	3.70	34
AEGON N.V.	NYS 33.44	2.99	-19.30	43.00	25.92	430
AFLAC Inc.	NYS 31.90	11.73	-11.62	37.47	21.88	14382
Allmerica Financial Corp.	NYS 50.48	3.48	-30.36	74.25	45.63	1311
Allstate Corp.	NYS 42.26	-0.75	-2.99	44.75	20.06	12305
Amfac Financial Group	NYS 54.20	0.37	-7.05	64.00	29.75	3984
American Financial Group	NYS 26.28	3.59	-1.06	29.00	18.69	621
American General	NYS 43.52	1.42	6.80	44.09	25.84	12946
American Intl Group	NYS 80.70	2.15	-18.12	103.75	66.70	24226
American Safety Insurance	NYS 8.05	-2.07	31.43	9.10	3.25	4
Argonaut Group	NDQ 17.00	9.61	-19.05	21.25	13.50	146
AXA-UAP Group	NYS 59.30	3.13	-17.42	81.50	49.16	563
Baldwin & Lyons Inc.	NDQ 26.07	8.63	12.13	28.75	15.25	10
Berkley W.R. Corp.	NDQ 41.15	-0.12	-12.79	48.75	18.13	3170
Berkshire Hathaway Inc.	NYS 67005.00	-2.33	-5.63	74600.00	51600.00	1
Capitol Transamerica Corp.	NAS 13.00	1.56	4.52	14.44	10.00	2
Chubb Corp.	NYS 66.10	-0.42	-23.58	90.25	58.56	7548
Cincinnati Financial Corp.	NYS 38.96	3.62	-1.52	43.31	31.00	1565
Citigroup	NYS 50.91	3.01	-0.30	59.13	39.00	51486
CNA Financial Corp.	NYS 35.25	0.17	-9.03	41.94	27.13	734
CNA Surety	NYS 13.73	0.51	-3.65	14.94	10.38	143
EMC Insurance Group Inc.	NDQ 12.03	-6.31	2.38	13.13	6.81	9
ESG Fla Limited	NDQ 2.29	8.53	24.20	4.75	1.72	18
Everest Reinsurance	NYS 63.99	-2.93	-10.66	74.75	27.31	3221
Fremont General Corp.	NYS 3.98	5.01	41.51	6.88	1.50	579
Gainco Inc.	NYS 1.41	7.63	-46.29	6.13	1.10	207
Harleysville Group	NDQ 26.10	3.57	-10.77	30.63	14.00	200
HCC Insurance Holdings	NYS 28.00	-0.57	3.94	29.66	10.94	1881
ING Group N.V.	NYS 69.05	1.89	-13.82	83.94	52.44	521
IPC Holdings Ltd.	NDQ 22.16	6.23	5.52	24.50	11.25	329
Hartford Financial Services	NYS 61.40	3.70	-13.06	80.00	44.00	7378
John Hancock Financial Serv.	NYS 37.00	4.67	-1.66	40.00	16.38	4146
Lincoln National	NYS 45.64	3.45	-3.54	56.38	29.00	4409
MAIC Holdings Inc.	NYS 16.28	12.20	-2.44	21.00	10.00	160
Market Corp.	NYS 205.00	3.93	13.26	205.40	133.50	148
MBIA Insurance Group	NYS 48.03	0.31	-2.81	55.86	32.00	4175
Meadowbrook Insur. Group	NYS 2.80	-11.11	-65.54	8.38	2.50	52
MetLife	NYS 29.08	0.10	-16.91	36.63	14.25	6592
Mutual Risk Mgmt. Ltd.	NYS 6.30	0.80	-58.52	23.75	3.40	2008
Navigator Group	NDQ 13.90	1.02	4.41	14.70	8.63	6
NYMag Inc.	NYS 20.45	7.07	8.34	20.52	13.00	42
Ohio Casualty Corp.	NDQ 9.13	6.04	-8.70	17.63	6.13	461
Old Republic Intl	NYS 28.80	2.53	-10.00	32.06	12.25	1567
Partner Re Ltd.	NYS 49.00	-1.80	-19.67	62.50	33.63	1414
Penn-America Group Inc.	NYS 10.00	-2.53	31.15	10.60	6.88	20
PMA Capital Corp.	NDQ 16.90	-1.57	-2.03	19.03	15.19	44
Philadelphia Cons. Holding	NDQ 27.50	-1.01	-10.93	31.92	14.25	417
PXRE Corp.	NYS 18.00	0.56	6.67	20.10	12.50	66
RenaissanceRe Holdings Ltd.	NYS 64.29	-7.30	-17.91	84.19	36.13	1821
RL Corp.	NYS 40.00	-1.67	-10.49	46.16	31.25	44
St. Paul Cos.	NYS 45.32	5.89	-16.56	57.00	29.31	7110
SCOR	NYS 43.61	-1.22	-13.21	53.75	38.38	28
SAFECO Corp.	NDQ 26.96	-6.13	-17.99	35.88	19.56	6305
SCPIE Holdings Inc.	NYS 19.30	-3.50	-18.31	31.40	18.31	NA
Seibels Bruce Group	NDQ 1.96	1.03	248.44	2.25	0.53	34
Selective Ins. Group	NDQ 25.60	4.70	5.57	26.94	15.25	439
Tokio Marine & Fire	NDQ 52.70	4.15	-7.54	61.00	45.25	52
Torchmark Corp.	NYS 38.20	2.25	-0.62	41.19	21.63	3186
Transatlantic Holdings	NYS 107.44	1.25	1.48	107.44	80.38	48
Tremwick Group Inc.	NYS 20.10	3.45	-18.99	27.12	12.75	303
"Unico American Corp."	NDQ 6.00	9.09	2.13	7.75	4.50	7
United Fire & Casualty	NDQ 23.50	-3.09	18.99	25.00	15.50	49
Unitrin	NDQ 36.39	-1.62	-10.42	41.94	27.19	302
UNUM Corp.	NYS 29.95	1.94	11.44	30.44	14.81	4981
Vesta Insurance Co.	NYS 7.03	3.38	38.66	8.39	4.13	216
Xl Capital Ltd.	NYS 69.55	-0.50	-20.40	89.25	43.75	6002
Zenith National Ins.	NYS 26.45	2.84	-9.96	30.70	20.00	44
INSURERS/REINSURERS AVERAGE		1.70	-3.48			

MANAGED CARE COMPANIES	Weekly Price	Year to date % change	Year to date % change	High	Low	Vol.(000)
Aetna Inc.	NYS 28.35	8.79	-30.86	-42.69	24.05	3346
CIGNA Corp.	NYS 107.00	6.05	-19.12	136.75	73.38	5474
Health Net Inc.	NYS 21.21	9.33	-19.01	26.94	7.69	2920
Humana Inc.	NYS 10.09	11.49	-33.84	15.81	4.75	4226
Oxford Health Plans	NDQ 24.13	0.00	-38.91	42.75	13.50	2666
Pacificare Health Sys.	NDQ 32.22	5.05	114.80	72.31	9.81	3502
Sierra Health Services	NYS 5.14	-0.19	35.26	6.70	2.44	391
United Health Group	NYS 66.22	8.32	6.26	65.25	28.88	10750
Wellpoint Health Networks	NYS 98.24	11.08	-14.76	121.50	66.75	4251
MANAGED CARE COMPANIES AVERAGE		6.66	-0.03			
ALL COMPANIES		4.52	1.09			

Top advancing issues: Clark Bards Holdings, MAIC Holdings Inc., AFLAC Inc. Leading decliners: Meadowbrook Insurance Group, RenaissanceRe Holdings Ltd., EMC Insurance Group. Most active issue: Citigroup. The BI index increased 2.3%; the Dow Jones 30 Industrials rose 2.2%; the S&P 500 went up 0.8%; and the NYSE Composite increased 2.3%. Average P/E: Brokers, 21.0; Insurers/reinsurers, 31.3; and managed care companies, 16.7.

Source: CNET Investor (investor.cnet.com) Boulder, Colo.

Fiduciary

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As well as many plan members and trustees, are suing Capital Consultants and its officers. The suits, all filed in federal court in Portland, charge that the firm imprudently invested pension assets in a risky loan to Wilshire Capital Corp. Wilshire Capital filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code in 1998. The loan portfolio is now worth a fraction of its original value.

One of the suits, filed by the Denver-based Eighth District Electrical Pension Fund, also names Segal Advisers, a unit of New York-based benefit consultant The Segal Co., for its involvement in selecting Capital Consultants. A Segal spokeswoman declined to comment, citing the pending litigation.

Segal also provided actuarial services to the plan, according to Rich Birmingham, a partner with Birmingham, Thorson & Arnett P.C. in Seattle, who is representing the union members

Quality

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the defunct Quality Insurance Congress left off. The society's quality committee, headed by R. Suzen Shaw, aims to learn from the QIC's mistakes. When the QIC in 1998 issued its first scorecard that measured risk managers' satisfaction with their business partners, an outcry was heard from some of those who were poorly rated.

"It seemed important that we do something that the QIC didn't do," said Ms. Shaw, who is vp-quality systems and risk manager at First National Bank of Anchorage. "That is, talk with the partners and set up performance expectations before the ratings are started."

Under the old scorecard, which RIMS administered after the QIC failed, insurers, brokers and third-party administrators were unaware of how they were being graded, Ms. Shaw said. As part of the new process, general performance expectations will be established for handling business among insurance buyers, brokers, risk management consultants, TPAs, insurers and safety/loss control consultants.

A performance satisfaction measurement tool, which will replace the scorecard in its current form, is being developed to assess how all parties are performing compared to expectations. It will be administered on a biannual basis, and the measurements will be published on the society's Web site, www.rims.org.

Former RIMS President William J. Kelly, who has long championed quality improvements, said it is important to define and measure problems if any effort to correct them is to succeed. "If you can't define it, at the end of the day you're not going to make much improvement."

That was part of the problem with the scorecard, he pointed out. "At the end of the day, everyone got 60s and 70s. What did that mean? It didn't provide a game

plan for improvement."

Among the insurers upset over the results of the first scorecard was American International Group Inc. The insurer was rated by risk managers at the bottom of the satisfaction ranking. Since then, AIG has devoted significant resources to deal with quality issues and is seeing favorable results (see related story).

'It seemed important that we do something that the QIC didn't do. That is, talk with the partners and set up performance expectations before the ratings are started.'

— R. Suzen Shaw
First National Bank of Anchorage

Neil A. Faulkner, executive vp and chief operations officer at AIG's domestic brokerage group, said RIMS is on the right track with its new approach. "It's much more pragmatic and fairer," he said, as opposed to the old scorecard method of "telling someone they're no good" without constructive direction for improvements.

P. Richard Hackenburg, also a former RIMS president, agreed that efforts by RIMS and other groups are now headed in the right direction. The debate has shifted to a cooperative effort that is "focused on doing, rather than talking about or grading poor performance," said Mr. Hackenburg.

"The whole concept of grading or benchmarks is OK in the first instance. You have to define the problem. To redefine the problem doesn't do much good," he said.

Other quality initiatives are in the works. One, still in its infancy, has the potential to clean up some of the problems risk managers, brokers and insurers experience with premium and claims payments, its developers say.

Marsh Inc. is working with other brokers and underwriters to determine whether a type of clearinghouse can be set up to process premium and claims payments, said Heidi G. Miller, vice chairman at the New York-based brokerage. "There may be a role for processing as a shared function," she said. Such a project is so far "just in the talking stage," she noted.

Early discussions call for an automated system that would connect insurers, brokers and policyholders with compatible data standards and allow the payments to be processed. The efficiencies gained from the single entry of data and the system's ability to reconcile receivables and payables for the parties involved would streamline the process.

The American Institute for CPCU and the Insurance Institute of America's Center for Performance Improvement & Innovation has begun its Guiding Stars Project to analyze organizations and provide benchmarks and best practices that can be used to improve quality and performance.

The project's first report, issued earlier this year, analyzed independent insurance agencies with high levels of customer satisfaction and retention rates. The results provide agencies with information on how to achieve similar results.

"The idea is that the customer has to be the focus," explained James Jones, director of the center and director of claims education at the Malvern, Pa.-based institutes. "(The reports) have to explain what the customer wanted and how they put in place the processes to give them what they wanted."

Some risk managers are working on their own to improve the quality of prod-

ucts and services they receive from their business partners.

Susan R. Meltzer, assistant vp-insurance and risk management at Sun Life Assurance Co. of Canada in Toronto, said her efforts have been helped by the "whole consciousness raising" of the quality issue, which makes it easier to demand that insurers and brokers deliver what the risk manager pays for. "I have to say that my individual efforts on behalf of my company have had a positive influence. I think it's because of the backdrop of demand for quality overall."

"I recently met with our three key insurers and broker and kind of laid the groundwork," she said. "I choose the broker and insurers; they make the service transparent to me. They need to work together to give me the service I need. Given RIMS' push on quality, it's easier to say that than it was a few years ago."

Risk managers have a role in the quality improvement process as well, sources agree. Providing complete and accurate information to brokers and underwriters is one of the most important.

During renewals, for example, the broker's responsibility is to meet early on with the policyholder to request information, said Lloyd C. Reid, chief quality officer of Marsh North America. "The client can help us with that information."

He pointed out that Marsh is taking a look at what information "is really required" so risk managers are not inundated with unnecessary requests.

As part of RIMS' quality improvement process, the risk manager's role will be more clearly defined, according to Ms. Shaw. The process calls for one-on-one sessions among industry partners, during which buyers can learn how they are performing. "Is it fair for me to rate the insurance company for not getting the policy to me if I don't get information to them? This is an opportunity for them to rate me and my performance."

Fiduciary

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bond limits for several of the pension funds using the plans' most recent Form 5500 filings, which are required by ERISA.

For example, the Portland-based United Assn. Union Local 290 Plumbers, Steamfitters and Shipfitters Pension Fund has a \$1 million fidelity bond underwritten by Chubb, according to its 1998 Form 5500. The Denver-based Sheet Metal Workers Local Union No. 9 Pension Trust Fund has a \$700,000 fidelity bond from Baltimore-based Fidelity & Deposit Co. of Maryland; and the Electrical Industry Benefit Vacation and Paid Holiday Fund has a \$500,000 bond from Ulico Casualty Co. of Valhalla, N.Y. All three of these funds' trustees have been named as defendants in the plan members' lawsuits.

The fidelity bonds will likely respond first, then, after those limits have been exhausted, the fiduciary liability policies will serve as excess coverage, explained a consultant specializing in multiemployer plans who requested anonymity because a competitor is named in the litigation.

The Pension Benefit Guaranty Corp., which serves as an insurer of last resort for insolvent defined-benefit pension plans, would step in only if the plans are still deemed insolvent after these two layers of coverage

have been paid out, according to a spokesman for the Washington-based PBGC.

However, that scenario is very unlikely, the spokesman said. In the 27-year history of the PBGC, only 27 of the 1,750 multiemployer pension plans it insures have needed financial assistance, he said.

"It's very unusual for a multiemployer plan to get in severe financial distress," said another benefit consultant who asked not to be named. "Multiemployer plans have been, in recent years, quite sound financially. In order to put a plan in financial distress, you've got to be talking big-time malfeasance."

The multiemployer program is funded and maintained separately from PBGC's other insurance program, which covers only single-employer plans. Each multiemployer plan pays an annual insurance premium of \$2.60 per participant to the PBGC, which uses the money to provide financial assistance through loans to insolvent plans.

Furthermore, the PBGC is unlikely to pay for much of the investment losses because they involved defined contribution plans, which the agency does not insure. Union-sponsored defined contribution plans, often referred to as "annuity plans," are similar to 401(k) plans, with employees and employers both making pretax contributions. **BI**

New approach pays off

AIG reverses quality levels

By MICHAEL BRADFORD

NEW YORK—It was a rude awakening that got American International Group Inc. on track to improve the quality of its products and services.

In 1998, the Quality Insurance Congress released its first scorecard of satisfaction rankings by risk managers of insurers, brokers and third-party administrators. AIG was at the bottom. The insurer's management was very clear at the time about its dissatisfaction over how the survey was conducted.

Neil A. Faulkner, executive vp and chief operations officer of AIG's domestic brokerage group, recalled that AIG Chairman Maurice R. Greenberg ordered internal surveys of customer satisfaction. When those were completed, Mr. Faulkner said, AIG had to face the "harsh reality" that despite being an innovative designer of products and services and an industry leader in providing insurance capacity, "we were also the worst in quality."

It was so bad, Mr. Faulkner said, that "adverse selection was starting to take place. People weren't giving us the simple, easy deals because we would screw them up."

Mr. Faulkner was tapped by Mr. Greenberg to analyze AIG's operations under a "six sigma" approach, an exhaustive methodology that aims to reduce products and services errors to a negligible level. The effort led to the creation in 1999 of the insurer's Performance Management Program, which represented AIG's commitment to providing quality products and services, beginning with its domestic brokerage group, Mr. Faulkner said.

He said that it became clear after conversations with brokers that policy issuance was a major concern among customers, who felt there were too many errors in the documents.

"We built a checklist," he said, "and we began to check every policy we issue. Everyone thought that was draconian. But it taught us that we had an error rate that was significantly higher than we imagined—around 90%."

Those errors included incorrect wording, math that didn't add up, coverage mistakes and other problems, Mr. Faulkner said. AIG went through its policy issuance and service procedures "line by line," he said.

As a result, Mr. Faulkner said, the error rate has fallen to

about 5%. "It's a night-and-day experience," he said.

"We were sending bills that people couldn't read," he said. "We've done a lot of work streamlining how we bill people."

AIG also was guilty of sending claimants reservation-of-rights letters "as a matter of course," Mr. Faulkner said. "It read like it came from a terrorist."

The tone of those letters has been softened, and they now go out only on claims that may be contested, he said.

Mr. Faulkner said AIG's quality-improvement program costs around \$20 million annually. He said the efficiencies it has generated have returned about \$40 million, and "there is the potential for much more than that."

But despite the potential for savings, Mr. Faulkner stressed that the project was put in place as a way to improve the quality of products and services, not as a cost-cutter. "There has never been a question about a return on investment," he said.

Mr. Faulkner said that AIG plans to expand the quality approach and will look next at its personal lines business.



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