WEEK OF APRIL 6, 1981

business insurance®

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Big buyers escape Aetna's rate hikes

Firestone, insurer nearing settlement in tire rim litigation

Strike:

Risk Manager of the Year: Hanna's Allen

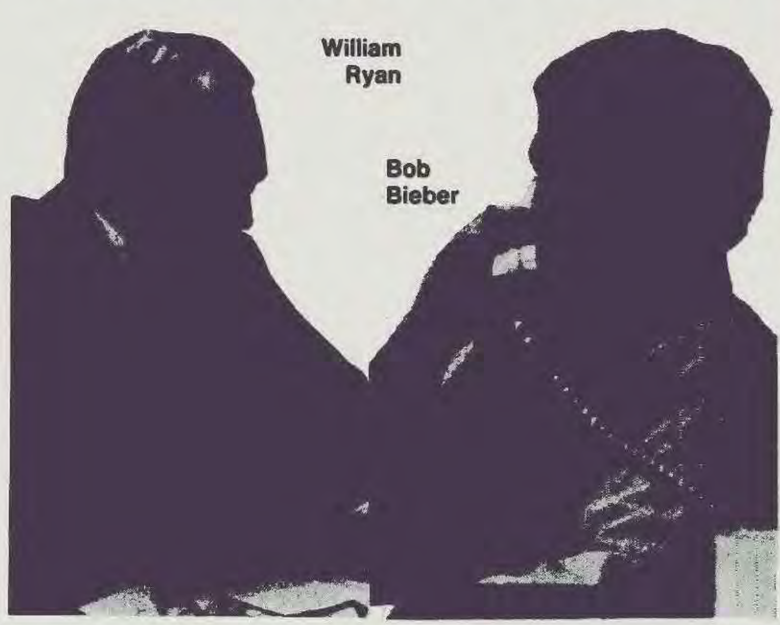
Duane C. Allen, assistant treasurer of Hanna Mining Co. in Cleveland, is the 1981 *Business Insurance* Risk Manager of the Year.

His achievements in risk management as outlined in a nominating statement were considered the most outstanding by a panel of 10 distinguished judges representing all aspects of the commerical insurance business.

Ten Cleveland-area risk managers endorsed the nomination of Mr. Allen, who has worked for 15 years at the natural resources company generating $330 million in sales in 1981.

Two risk managers are named to the 1981 Business Insurance Risk Manager Honor Roll: William Ryan, insurance and risk manager of the University of Michigan in Ann Arbor, representing not-for-profit institutions, and Bob Bieber, director of risk management for Westchester County, N.Y., representing public entities.

Risk Manager Honor Roll


William Ryan

Bob Bieber

NEWSPAPER

INSIDE: Allen: 73 | Ryan: 90 | Bieber: 94

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If imagination is lacking in an approach to a problem, don't expect it in the solution. At Johnson & Higgins, we don't hesitate to challenge our own thinking or to look for ways to reshape it. We aren't satisfied just to bring you ideas that are superior to those of other firms. J&H wants to bring you the ideas they haven't had at all. Ideas such as our unique Flexible Retirement Strategies™ program (FRS™).
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update: MGM back-dated plans to cost more for less

LOS ANGELES—Broker Frank B. Hall & Co. is determined to place a third-layer of back-dated liability insurance above $70 million already delivered to MGM Grand Hotels Inc.

The third and possibly top layer will be $25 million and is being offered at a hiked premium of $100,000 per million.

Continued on next page

Illustration: Insurance Institute for Highway Safety

Under pressure, the locking ring on a multipiece tire rim (left) can come off; the single-piece rim has no such ring.

Firestone, insurer nearing settlement in tire rim litigation

By JERRY GEISEL

KANSAS CITY—Firestone Tire & Rubber Co. is near settling litigation with its product liability insurer over coverage for more than 150 lawsuits seeking hundreds of millions of dollars in damages.

The Home Insurance Co. has tried in 15 months of litigation here in U.S. District Court to deny coverage under excess and umbrella liability policies written for Firestone over 11 years, contending Firestone did not disclose information about faulty products.

The value of the nine policies during those years ranged from $1 million to $10 million.

The Home also is suing to recover at least $4.5 million, the amount

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Big buyers escape Aetna's rate hikes

By STUART EMMRICH

Big corporate accounts at Aetna Life & Casualty Insurance Co. will pass through renewals unscathed by the insurer's announced rate hike program.

"We are not focusing on large corporate accounts. Those prices appear to be adequate," said Oliver Patrell, vp of commercial underwriting at Aetna.

Commercial insurance buyers large and small also can breathe more easily since renewals this year won't bring huge rate increases from most insurers.

Other insurers are patting Aetna on the back for its decision to try to stem underwriting losses, but they qualify any suggestion they might follow suit, denying they need big rate hikes.

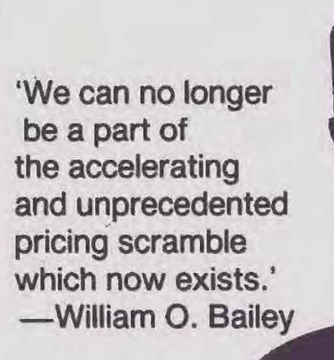
In contrast to the strongly worded statement last week of Aetna president William Bailey when he announced the rate hikes, Mr. Patrell said, "We are not withdrawing in a dramatic way. We are not shutting the door on business. We will retain some flexibility."

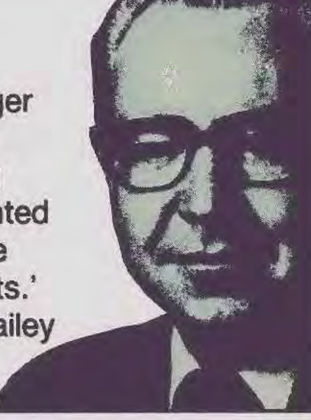
Commerical insurance products Aetna is targeting for rate increases, Mr. Patrell said, include product liability, especially in such areas as toxic wastes; professional liability; commercial auto liability, and property coverages.

Mr. Patrell said not all of Aetna's clients would be hit with price increases at renewal time. Increases would vary by product line and by state, he said, refusing to discuss how big the rate hikes might be.

In the week since Aetna ballyhooed its decision to hike insurance rates and stem the tide of mounting underwriting losses, everyone has been waiting for the other shoe to drop.

When one of the nation's largest insurance companies announces it is hiking prices, sacrificing market share, can the others be far behind?





The answer—at least for now—appears to be yes.

"We've been watching movement in prices of property and casualty (business) versus costs and inflation and it's very clear that 1981 is the year we are going to have to raise prices more than we did in 1980," said Richard Shima, executive vp of The Travelers Insurance Cos. But, he added, "I don't see any need for drastic-type pricing action. We feel firm about getting higher prices, but we don't want to take sharp action."

George Kashbohm, vp of underwriting for Kemper, said the company was "pleased" with Aetna's decision. Kemper has tried to avoid what it calls excessive price-cutting over the past couple of

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Strike: Baseball cover rides on reinsurance suit

BY LEN STRAZEWSKI

LOS ANGELES—The wall of insurance protecting the major league baseball club owners from strike damage has a $19.5 million crack, *Business Insurance* has learned.

Though Allianz Underwriters Inc. "has every present intention of standing by its policies," according to attorney Jonathan Bank, the insurer is suing Switzerland General Insurance Corp. of New York and a host of others over a portion of the strike coverage it never intended to keep.

The suit, filed last month in California Superior Court, involves two portions, totaling $19.5 million, of the baseball owners $70 million business interruption insurance policy.

It is the latest development in the story of phantom reinsurance allegedly placed with Switzerland General, Winterthur Insurance Co. of New York and Northern Assurance Co. by Richard Browning of Metropolitan Insurance Managers Inc. (*BI*, March 9).

Also named in the suit is Whitcomb Surplus Lines Inc., which solicited the cover from Allianz, and Willcox Baringer Inc., a reinsurance intermediary that allegedly placed the faulty reinsurance through Mr. Browning's Metropolitan.

Switzerland General and the two other insurers have consistently denied knowledge of the reinsurance and Richard Browning who allegedly represented himself as their agent.

Allianz, according to court documents, agreed to insure baseball club owners for $7.5 million, part of a $20 million layer by Southern American Insurance Co. (Crump International) in excess of $10 million.

Under a separate contract, Allianz agreed to share the next $20 million layer of cover with Southern American, providing $12 million in insurance.

Both agreements, according to the Allianz complaint, were predicated upon 100% reinsurance provided by Switzerland General through Willcox Baringer, Whitcomb Surplus Lines, California broker Robert Burnham of Burnham Brokerage Inc. and Mr. Browning of Metropolitan for a reinsurance premium of $307,500. The premium had been tendered to the intermediaries.

The Allianz suit, which charges Willcox Baringer, Mr. Burnham and Mr. Browning with "fraud and deceit" and "negligent misrepresentation," is seeking to bind Switzerland General to reinsurance of the strike risks and $50 million in punitive damages.

The insurer is charging Whitcomb only with negligence for failing to properly investigate the authority of the others to place the reinsurance and is seeking any damage not covered by reinsurance plus 7% interest from Whitcomb and the other intermediaries.

The lawsuit, according to Allianz counsel, is aimed at protecting the interests of the baseball club owners who are self-insuring

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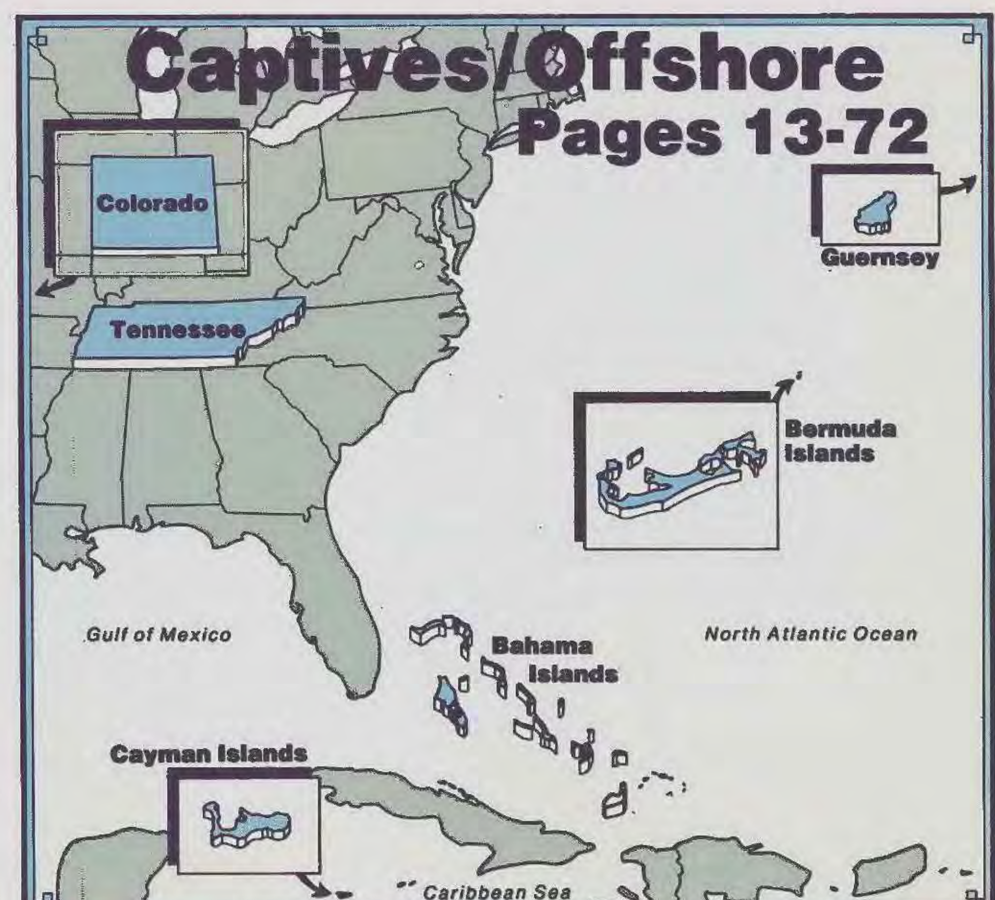

Map: Toby Roberts

update:

MGM back-dated policies

Continued from previous page

Instead of $200 million in coverage, MGM may settle for $125 million—$95 million in back-dated coverage above the $30 million of insurance it had at the time of the fire.

Retroactive liability insurance also has been marketed in the name of G.K. Technologies by Marsh & McLennan to as much as $110 million, possibly to be purchased by Penn Central if it acquires the company. GK Technologies had done electrical work at the MGM Las Vegas Hotel that burned Nov. 21, killing 84 people (*BI*, Feb.9).

The MGM policies will respond like guaranteed cost insurance, but some say reinsurers won't pay losses exceeding premium collected plus investment income earned according to a prescribed interest schedule. MGM will pay the premium over three years.

Gen Re has a substantial participation in the first layer, some in the second. The third layer likely will be underwritten on a net line basis by a number of insurers and reinsurers to avoid involving other reinsurers, many of whom have issued disclaimers to the marketplace in general that they won't pay on back-dated policies.

Five face jail for bond scheme

PHILADELPHIA—Five men face jail sentences for selling $350,000 in bogus construction performance bonds.

Four were convicted March 12 by a federal court jury here: Alex Feinman, 31, of Morristown, N.J., for conspiracy, wire fraud, mail fraud, transporting falsely made securities in interstate commerce and transporting fraudulently obtained money in interstate commerce (maximum sentence 120 years and $113,000 fine); John V. Goepfert, 53, of Wall Township, N.J., for conspiracy and transporting falsely made securities in interstate commerce (maximum sentence 15 years and $20,000 fine); Lawrence Rush of Port Washington, N.Y., for conspiracy and wire fraud (maximum sentence 10 years and $11,000 fine), and Mark Snyder, 35, of Cherry Hill, N.J., for conspiracy and wire fraud (maximum sentence 15 years and a $12,000 fine).

Another defendant, Thomas Eli Scott, 33, of Banner Elk, N.C., pleaded guilty on three charges and faces a 15-year prison term.

A sixth defendant, Seymour Pollack, 59, of New York, will be tried next month.

The six men, indicted last August, were charged with falsely describing the security of Casualty & Indemnity Co. of Belize and issuing fraudulent bonds worth $25 million, receiving $350,000 from at least four construction firms.

Mr. Feinman and Mr. Snyder are awaiting trial in New Jersey on similar charges stemming from the operation of Somerset Insurance Co. (*BI*, May 5, 1980). Casualty & Indemnity was described in the federal indictment as the "successor to Somerset."

Warner-Lambert execs cleared

WASHINGTON—The Supreme Court last week let stand a New York Court of Appeals order dismissing criminal charges against four Warner-Lambert Co. executives in connection with a 1976 explosion at a company plant in Long Island that left six workers dead. (*BI*, Dec. 1, 1980).

INA insures sabotaged utility

MIAMI—Florida Power & Light Co. is asking Insurance Co. of North America to cover all but one $250,000 deductible on a $4.2 million loss from two explosions believed to be sabotage.

The two explosions March 28 at two different substations were similar and simultaneous, indicating they were set by the same party and, therefore, are one occurrence, says risk manager Richard E. Hinds.

DC10 crash liability split

CHICAGO—McDonnell Douglas Corp. and American Airlines will each pay a portion of damage settlements and jury awards in the worst airline tragedy in U.S. history.

The agreement, announced in federal court here last week, settles a suit filed in January by the aircraft manufacturer asking that American be held responsible for payment of all damage claims by relatives of victims of the May 25, 1979 crash of a DC10 jetliner near O'Hare International Airport here that killed 273 people.

Details of the agreement were kept confidential.

United States Aircraft Insurance Group is lead underwriter for American Airlines. Associated Aviation Underwriters shares a portion of the risk but most of it is brokered in the London market by C.E. Heath.

So far 110 of 275 possible claims have been settled, mostly out of court, and in all but five cases offers have been made.

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Condo collapse kills insurance rep's son

By STEVE SHERWOOD

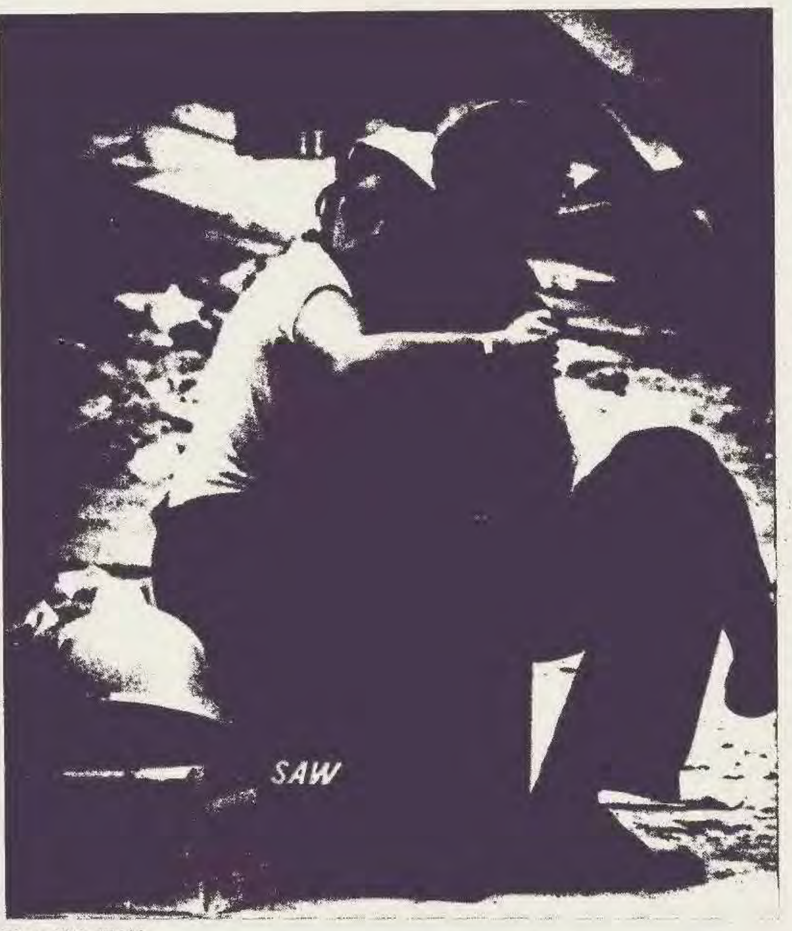

Photo: Wide World

Nationwide insurance agent Con Nowakowski is consoled by his daughter as rescue workers search for son and brother Darrell.

COCOA BEACH, Fla.—Nationwide Insurance Co. agent Con Nowakowski waited and watched at the scene of the collapsed Harbour Cay condominium he had insured—until they found his son's body.

Twenty-two-year-old Darrell Nowakowski had taken a job just two days earlier as a glazier on the project his father had insured with Nationwide.

The condominium structure collapsed March 27, killing 11, injuring 21 and causing an estimated $1.5 million damage destroying the structure.

Darrell Nowakowski's body was the last to be found after rescue workers dug through and searched the rubble for 11 hours.

Nationwide Insurance Co. of Columbus, Ohio, underwrote several million dollars worth of special multiperil, umbrella, inland-marine and workers compensation coverage on the project, a Nationwide official said.

The 45-unit Harbour Cay condominium was under construction by local contractor Univel Inc. and part of a larger project worth an estimated $10 million.

The finished value of the building was insured for $3.5 million, but a value of $1.5 million has been put on the five unfinished floors built before the collapse, Nation-

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Coalition pushes legislators for special HMO rating law

WASHINGTON—An informal coalition of insurers, Blue Cross/Blue Shield plans and some HMOs are lobbying for changes in how health maintenance organizations set their rates.

They want HMOs to be allowed to experience-rate employer groups, which would allow benefit managers to negotiate rates with federally qualified HMOs for the first time.

The time is ripe for amending the law requiring HMOs to charge one community rate. Congress must pass another law replacing The HMO Act of 1973, which expires in September.

Congress, however, is moving toward allowing HMOs flexibility in setting rates.

Rep. Henry Waxman's (D-Calif.) bill (H.R. 2480) allows HMOs to consider age, sex and marital status in setting rates.

The Reagan administration, which is drafting a new HMO bill, favors making HMOs more competitive.

Under the 1973 law, which paved the way for massive federal financial assistance to HMOs, a federally qualified HMO must set its rates at a level reflecting the average cost of providing care to all members, regardless of the experience of one employer group compared with another.

HMOs could compete more effectively with other insurers if they could experience-rate groups the way conventional insurers can, argue opponents of community rating.

Now federally qualified HMOs are at a competitive disadvantage with conventional indemnity insurers, some health maintenance organization experts argue.

"Elimination of community rating would enable HMOs, especially small and mid-sized HMOs, to compete more effectively in the marketplace," says Robert Gumbiner, chief executive officer of Family Health Plan in Fountain Valley, Calif.

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errors & omissions

• Due to a ghostly error on our part, a March 23 RiskWatch column implied that notorious bank robber Willie Sutton was alive and waiting for parole. We realize, as several of our readers have pointed out, that Mr. Sutton is dead.

• Presidio Insurance Co., which is seeking recision of a reinsurance treaty with Unigard Insurance Co. in Los Angeles Superior Court, expects to incur $500,000 in net paid and future losses from the business, not $5 million as previously reported (*BI*, Dec. 8, 1980). ▪

Insurers fear rash of libel suits

By RHONDA L. RUNDLE

Photo: Wide World

LOS ANGELES—The $1.6 million judgment awarded to comedienne Carol Burnett in her libel suit against the *National Enquirer* could spur a rash of lawsuits against publications, insurers fear.

"The decision definitely puts a chill on First Amendment rights," one insurance company executive observed. The jury verdict favoring Ms. Burnett will encourage attorneys to pursue nuisance suits further through the legal system, he said.

"We believe the decision was erroneous and completely unwarranted by the evidence in the case," said *Enquirer* attorney William Masterson. "We plan to appeal, and we are confident that our appeal will be

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Lone Star firms shooting to bust self-funding ban

By STEVE SHERWOOD

AUSTIN—Major corporations in Texas want the option to self-insure workers compensation and are backing a bill in the state legislature to permit it.

At least some insurance companies oppose the bill, and one industry spokesman calls it "lousy."

But 50 of the state's largest employers, including Shell Oil, Dresser Industries,

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Nuclear plants need more policy power, industry pools warn

By STUART EMMRICH

HARTFORD—The nuclear insurance pools are starting an ambitious campaign to dramatically raise the limits of property insurance available to nuclear utilities.

Limits of up to $450 million per plant, compared with the present $300 million, are the target for next year. And some insurance officials say the pools ultimately might offer $1 billion in coverage. Many utility risk managers say limits that high are necessary for the risk involved.

"One chief executive (of a utility company) has stated that he will not be able to sleep nights until he has $1 billion of property damage coverage at each of his nuclear sites," says LeRoy Simon, senior vp of Prudential Reinsurance Co. and chairman of American Nuclear Insurers.

Limits on property policies are to jump to $375 million from $300 million this month.

Although the nuclear pools have been gradually raising limits, the latest capacity drive has been sparked by three forces: the drawn-out and expensive cleanup of Three Mile Island, increased pressure from utility companies and the spectre of goverment involvement in insuring nuclear plants.

Utility experts say Three Mile Island is the most graphic demonstration of the inadequacy of present limits. The $300 million of insurance will cover less than a third of what it is estimated it will cost to put the plant back in operation. The company says finding the remaining funds could bankrupt it.

But what worries the insurance industry most is the possibility of the government taking over part of the responsibility for insuring these plants.

A bill recently introduced by Rep. Alan Ertel (D-Pa.) would supplement the present private insurance arrangement with a combination of funds from the government and nuclear utilities (*BI*, Feb. 23).

"This form of government involvement in insurance could have been avoided and the nuclear industry much better served if the insurance industry had been able to provide capacity commitments on the order of $1 billion," Mr. Simon said at ANI's recent annual meeting here. "We have the capacity worldwide—we just need the resolve."

The drive for more capacity will take two different tacks in coming months.

ANI officials are organizing a "summit meeting" with chief executive officers of nuclear utilities to better understand their needs and concerns and to determine how it might be possible to increase insurance limits.

One thing that undoubtedly will be discussed is the extra cost utilities will have to

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Airline captives taxi again

By JERRY GEISEL

WASHINGTON—The nation's major airlines, which once aborted a plan for two Bermuda captives to write hull insurance, are taxiing the proposal down the runway again.

But it is too soon to say if the plan will fly.

A special task force of the Air Transport Assn. of America, a trade group representing most airlines, is studying reactivation of two captives formed more than 10 years ago but never capitalized.

Air Transport Insurance Ltd. and Air Transport Guarantee Ltd. were formed in Bermuda in 1970 to write airline hull and excess hull insurance during a capacity shortage.

But the captives never wrote any coverage because the shortage eased.

The problem in the market this time isn't capacity, but a sharp increase in deductibles and rates imposed by the London market last fall which are spreading worldwide.

Airlines renewing policies are finding deductibles for engine damage or loss due to ingestion of foreign objects have increased more than 400%.

USAIR of Washington, D.C., for example, was slapped with a four-fold increase in deductibles for foreign object ingestion. Deductibles for engines powering the popular narrow-body Boeing 727 jetliner jumped to $250,000 per engine from around $60,000 per engine, says LaRue Knauss, manager of corporate insurance.

Deductibles for engines powering the wide-body DC10 and 747 also have been increased sharply to $600,000 per engine, say aviation brokers.

Airline risk managers say the higher deductibles are not justified.

"I can't see what all the fuss is about," said Francis Roach, senior vp at Capitol International Airways in Smyrna, Tenn. "We haven't had an ingestion claim since 1960."

"They (insurers) have taken an intransigent attitude," says USAIR's Ms. Knauss. "They have asked for an increase beyond reason."

"If you're an airline with a poor record, I can understand the increases, but not when you have a perfect record," one risk manager complained. "Insurers are not rating individually."

But there is some skepticism over whether the airlines' Bermuda captives will emerge from their cocoon

Continued on page 114

Penny-wise but safety foolish

BY STACY SHAPIRO

LONDON—Risk managers spend too much time counting pennies and not enough time controlling losses, says Jim Tye, director general of the British safety council.

"Just take a look at the Risk & Insurance Management Society's conference schedule and you will see that there is more emphasis on saving money for losses than preventing the losses to begin with," he says.

"At RIMS there is an emphasis on benefits and pinching the pennies," said Mr. Tye, a leading international expert on occupational safety, who is attending the RIMS conference this week.

Mr. Tye finds weaknesses in several discussion groups.

• #33, "Safety, the Risk Manager's Most Important Tool," does not have one safety expert listed for its panel, notes Mr. Tye.

• #34, "Corporate Loss Control—Where do Safety Programs Fit In?" has a risk manager and not a safety expert at the helm, he adds.

Mr. Tye conducts safety programs for the British safety council, which teaches over 30,000 people each year about industrial safety.

As a conference registrant, Mr. Tye plans to attend the RIMS session on modern safety and loss control program featuring Frank Bird, president of the International Loss Control Institute.

Mr. Tye doesn't agree totally with ILCI's five star safety program (*BI*, Dec. 1, 1980).

"I prefer nowadays to teach senior managers and risk managers how to formulate questions to ask rather than give them a Mickey Mouse checklist of questions to ask," said Mr. Tye, who contributed

Continued on page 113

NYINSURANCE EXCHANGE • NYINSURANCE EXCHANGE

By ELLIS SIMON

NEW YORK—Born into an age of too much insurance capacity, the New York Insurance Exchange faced the destiny of a waif in the world reinsurance market.

On its first birthday last week, however, it showed enough vim and vigor to suggest it's on its way to becoming the favorite son of the American reinsurance market.

Annualized premium volume on business written through its first 360 days totals $58.5 million, more than its proud parents had hoped for a year ago.

Then, exchange president Donald E. Reutershan had predicted the exchange would write $40 million to $50 million in premiums in its first year.

The exchange is now 23 syndicates, almost double its weight of 14 at its birth March 31, 1980.

And it has more muscle: The capacity it can put out on a single risk has developed from $3 million to more than $30 million for facultative property risks, $20 million for facultative casualty risks and $13 million on reinsurance treaties.

The exchange wrote more business during the first two months of 1981, when most reinsurance treaties are renewed, than during all of 1980.

The exchange is growing under the tender care of its backers and its professional underwriters and the nourishment of reinsurance intermediaries.

The costs to rear it are going down and its guardians are showing latitude, making it more attractive.

Its future growth could be stimulated by an injection of surplus lines business if the New York Legislature approves and private investment capital if the Internal Revenue Service rules favorably.

Less responsive markets elsewhere would help, too, but no one knows when the world insurance market will change its prices and terms.

"It works because of the enthusiastic support of the members," says Walter Groden, president of broker member D.C. White Agency of Lynbrook, N.Y.

"Underwriting members and their parent companies are going out of their way to make sure business is going to the exchange," he says.

"National Union (of the American International Group) doesn't need to run reinsurance through (AIG syndicate manager) Martin Jackson."

Insurers reinsuring with the exchange have a vested interest in its success, says James F. Zagorski, casualty underwriting manager for Continental Reed Stenhouse Man-

Continued on page 111

Photo: Ellis Simon

New York Insurance Exchange brokers and underwriters gather at exchange offices to celebrate the NYIE's first anniversary.

World Book offers extra cover

Salaried employees at World Book-Childcraft International Inc. in Chicago will be able to purchase supplementary accidental death and dismemberment coverage at a reduced rate.

Through a change in insurers to World Book Life Insurance Co., employees will be offered the coverage for $4.56 a year for an individual employee and $6.24 for a family plan of $10,000 minimum coverage. Limits of $250,000 are available.

Previously, employees were charged $6 for individual coverage and $9 for family coverage from American Home Assurance Co. The company does not pay any of the premium because the coverage is optional over the $10,000 coverage provided in World Book's health insurance plan.

benefit beat

New dental plan

Paperworkers at the St. Regis Paper Co. plant in Sheldon, Texas, have won a dental plan and increased life and disability benefits.

The dental plan, underwritten by Equitable Life Assurance Society of America, will provide a maximum of $750 a year for regular dental services with deductibles of $25 per person, $50 per family.

Employees will pay $2.51 per week in premiums for individuals, $4.25 for one dependent and $4.87 for two or more.

Life and accidental death and disability insurance has been increased to a minimum of $15,000 each for workers making less than $8.73 per hour from the previous $14,000. Disability benefits will rise $140 for 26 weeks from the previous $100 per week.

HMO planned

Blue Cross and Blue Shield of Delaware is planning to open the state's first health maintenance organization in early 1983.

Incorporated as The HMO of Delaware, it will be a staff model group practice in southern Newcastle County, between Newark and Wilmington. Other sites may be built if needed, said Berry Meyers, director of health care program development.

"We feel the public deserves an alternative to traditional fee-for-service care and they have expressed that desire," Mr. Meyers said. "We wish to meet that demand."

The HMO, which plans on enrollment of 35,000 in the first five years, will principally solicit subscribers from area employers such as Du Pont, Chrysler and Hercules, Mr. Meyers said.

Nationwide, Blue Cross/Blue Shield sponsors 43 alternate delivery systems, most of which are HMOs.

•

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around the states

Illinois views amendment to pool rules

SPRINGFIELD—An amendment that would change the criteria for employers who want to form workers compensation pools has been introduced in the Illinois legislature.

Senate Bill 383 would amend the Workers Compensation Act to permit two or more employers that are members of a bona fide professional, commercial, industrial or trade association to pool their liabilities group self-insurers.

The Illinois Department of Insurance had released regulations for group pools that said members of each pool would have to have "similar risk characteristics" before the insurance department would consider approval of membership.

But the Illinois Manufacturers' Assn. and other industry groups protested that the category would be restrictive and not allow them flexibility in forming self-insurance pools.

Complaint dropped

INDIANAPOLIS—The federal Occupational Safety and Health Administration has withdrawn its complaint seeking withdrawal of Indiana's authority to run its own job safety and health plan.

OSHA, in a complaint filed with an administrative law judge, said the six-year-old Indiana safety program had a "consistent pattern of poor performance in program areas."

But now the federal safety agency has changed its mind. The withdrawal complaint was rescinded "based upon a re-evaluation of the evidence and upon the fact that considerable time has passed since the evidence was obtained together with a review of the information collected subsequently," said OSHA chief Thorne Auchter.

Heath resigns

CARSON CITY—Nevada Insurance Commissioner Donald W. Heath has resigned effective April 11 to return to private business, Gov. Robert List has announced.

Patsy Redmon, chief deputy commissioner, is expected to serve as acting commissioner until a replacement is named.

The Nevada commerce director has initiated a statewide search to fill the insurance post, salaried at $30,500 a year.

During Mr. Heath's two-year stint as commissioner, the department took great strides, including creation of legislation to create an insurance fraud bureau, said Gov. List.

Washington reform

OLYMPIA—The Washington Senate has approved legislation (S.B. 3158) that would bar most product liability suits against wholesalers and retailers.

Product sellers can only be sued if they made products or if a manufacturerwas bankrupt.

The bill also attempts to limit suits against manufacturers 12 years after a product is made, but legal experts say the 12-year statute of repose would not affect current state tort law which already requires that plaintiffs prove a product is defective to establish liability. ■

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EEOC to appeal pregnancy benefits rule

washington

BY JERRY GEISEL

WASHINGTON—The Equal Employment Opportunity Commission will appeal a federal court ruling that employers do not have to offer equitable pregnancy benefits to spouses of male employees.

In a landmark case, U.S. District Court Judge J. Calvitt Clarke Jr. overturned a 1979 EEOC guideline that says if an employer's health insurance plan covers the medical expenses of female employees' spouses, it must equally cover maternity expenses of male employees' wives (*BI*, Feb. 23).

Newport News Shipbuilding of Newport News, Va., one of the nation's largest shipbuilders with 23,000 employees, filed suit against the agency last year, charging the EEOC had no legal authority to require equitable pregnancy coverage for male employees' wives, a point Judge Clarke upheld.

Newport News Shipbuilding now pays all reasonable and customary health expenses for spouses of female employees, but places a $500 cap on pregnancy benefits for spouses of male employees.

Social Security

Rep. J.J. Pickle (D-Tex.), chairman of the House Social Security subcommittee, says his panel will study several proposed changes to prop up the financially ailing Social Security system. The proposals include:

- Gradually raising the age at which retired a worker can collect full Social Security benefits from 65 to 68 by 2012.
- Basing cost-of-living increases for Social Security retirees on average wage increases instead of the Consumer Price Index when wages are rising slower than prices.
- Removing the earnings level limit that bars some employees working after age 65 from receiving full Social Security benefits.
- Shifting the date of payment for annual Social Security benefit increases to Oct. 3 from July 3.

Social Security benefits are slated to jump 11.2% in July, the Social Security Administration estimates.

The average monthly benefit is expected to rise to $371, while the maximum benefit is expected to climb to $753 a month.

Risk Retention Act

The Alliance of American Insurers says it no longer will oppose the Risk Retention Act.

Although the industry trade group doesn't believe there is a need for the product liability pooling legislation, it "won't stand in the way if business groups want it," says Tom O'Day, government relatons officer for the Alliance.

Under the proposal (S. 69) introduced by Sen. Howard Cannon (D-Nev.), group-owned companies that underwrite owners' product liability risks only and receive an insurance company charter in any state, Bermuda or the Cayman Islands would be permitted to service members in all states.

The measure would eliminate the need for the groups to be licensed in each state or use a fronting insurer.

The American Insurance Assn. also has dropped its opposition to the Risk Retention Act (*BI*, March 2).

OSHA's lead rule

The Occupational Safety and Health Administration has delayed until May 1 its controversial rule requiring employers to remove workers from their jobs if they are exposed to certain levels of lead.

The final rule was to go into effect March 1, but OSHA agreed to delay the rule to reconsider employer complaints.

"This brief additional delay will enable all interested persons to submit their comments and information and will allow the agency to better evaluate the requests and responses to determine what long-term action, if any, is appropriate," explained OSHA chief Thorne Auchter.

Under the rule, employers must lay off but pay workers whose blood contains 60 or more micrograms of lead per 100 grams of whole blood.

The employees could return to their jobs when their blood lead level drops to 40 micrograms.

Employers say layoffs resulting from the rule would impair plant operation and production. Business groups want a one-year delay on the rule.

Comments on the OSHA blood level rule should be sent by April 15 to the OSHA Docket Office, Docket #H-004M, Room S-6212, U.S. Department of Labor, 200 Constitution Ave. N.W., Washington, D.C. 20210. Or call OSHA at 202-523-7894.

HMO reporting

The Reagan administration has reduced the paperwork for employers sponsoring health maintenance organizations.

The administration has eliminated duplicate filings to the Labor Department. Only one filing must be made with the Department of Health and Human Services.

The final HMO reporting rule, which went into effect March 30, was one of the more than 100 Carter administration "midnight" regulations that President Reagan held up for review. ■

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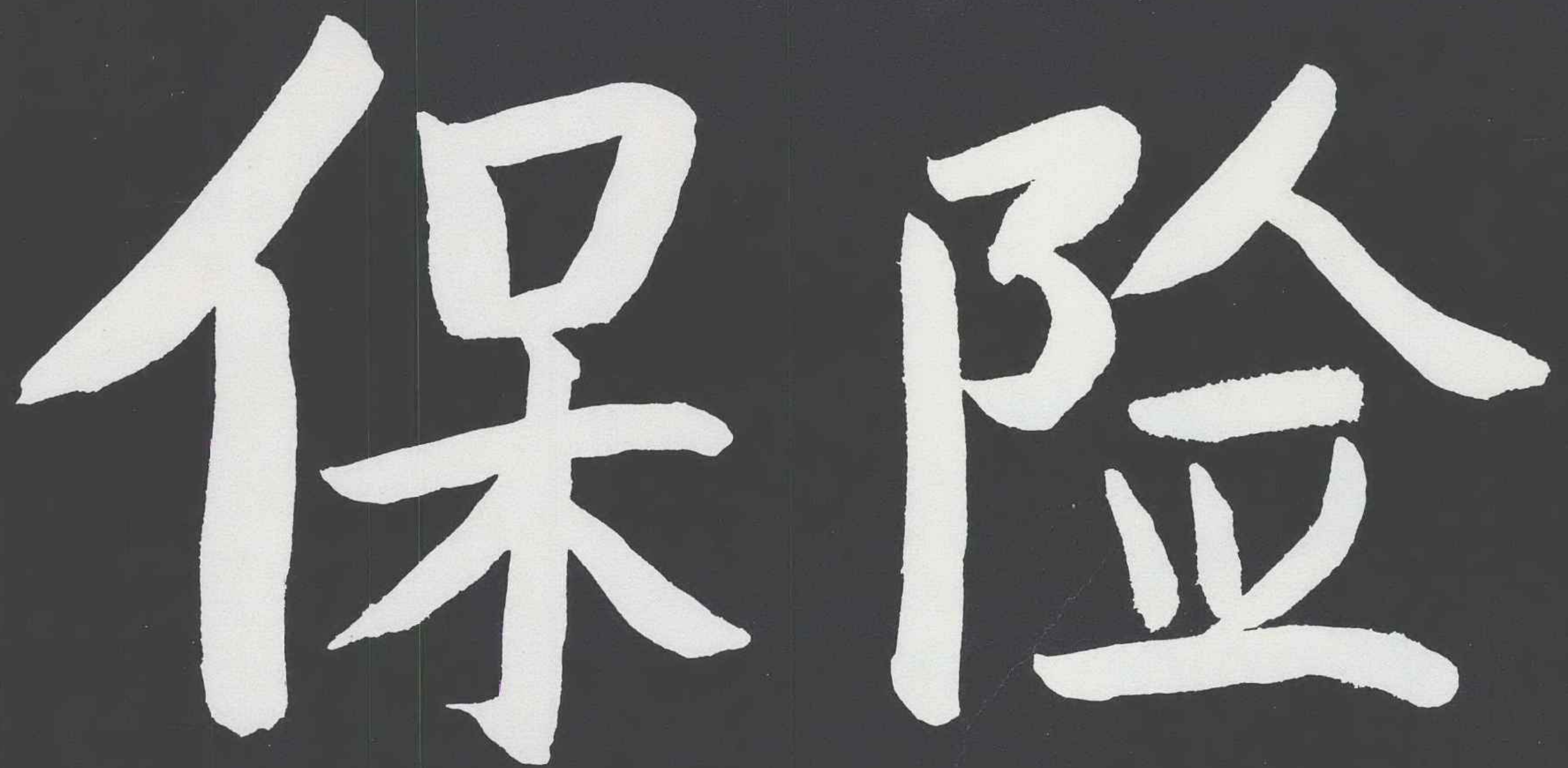

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editorial opinions

Winning ways

THE RISK MANAGER of the Year competition and the new honor roll awards provide an annual opportunity to recognize and commend the creative work being done in the risk management field.

The competition, sponsored by Business Insurance, also provides an opportunity to spotlight the qualities that put risk management programs on the cutting edge of the profession and to recognize individuals whose personal efforts are judged worthy of emulation.

Business Insurance commends the 1981 Risk Manager of the Year, Duane Allen of Hanna Mining Co., and his colleagues on the Risk Management Honor Roll, Robert Bieber of Westchester County, N.Y., and William Ryan of the University of Michigan.

We would like to echo the bible and tell all risk and insurance managers to go forth and do likewise, but the clear message of our honored executives is that good risk management programs are neither born fully-formed nor imitated.

They are designed slowly and carefully by talented executives who respond to corporate or institutional needs from the depths of their own training, will and personal style. More so than in any other year, the 1981 pacesetters demonstrate the diversity of technique and style contained within the risk management universe.

• Duane Allen, "a details man" according to his colleagues and peers, demonstrates the skill and discipline required to protect and fund the diverse risks of a major corporation. In addition, his ability to innovate takes his risk management role one step beyond tradition, into the profit-making leadership of a captive and captive mangement firm.

• Robert Bieber, who taps a methodical approach to public risk management, reflects the ethics and techniques needed to control risks associated with governmental bodies, a field the courts continue to expand with new liabilities.

• William Ryan, a "conceptual" leader, shows forethought and flexibility in the design of a program to protect the wide-ranging and sometimes ground-breaking exposures of a major teaching, medical and research public institution.

Though all of our honorees have impressed us with a trademark, we know that all three are disciplined, methodical and flexible. We can see these qualities reflected in their programs and in the risk-planning of others they have influenced.

■ Influence and leadership, according to our panel of peer and industry judges, are important qualities spotlighted by the competition. With that in mind, it is important to acknowledge the role of the Risk Management Honor Roll, awarded for the first time this year.

An expansion of our competition, the honor roll makes certain that the leadership and influence of risk managers in all types of businesses and institutions are recognized and commended.

The winners of our competition are in the limelight. But those who nominated them and the judges who scored their achievements share with them another important quality: their quality of care for the risk management profession.

We offer all the participants our thanks.

letters

Business Insurance welcomes letters from its readers. Please keep your comments as brief as possible and we reserve the right to edit or shorten letters for clarity or space. Please send your comments to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

Carnation's battle is moot

To the editor: Thanks for your editorial in the March 23 issue of *Business Insurance*.

The Carnation case once again proves that bad tax issues make terrible case law. IRS is happy to contest these blatant attempts to save expiring foreign tax credits. But we must keep in mind that Carnaton didn't really lose anything except attorneys' fees which are deductible; they just didn't gain anything.

Getting into third-party underwriting is just one alternative. I believe risk managers and tax managers will choose a better alternative, that of showing the revenue agent that taxable income and taxes paid under subpart F make it unproductive to deny the deductibility of premiums. This assumes, of course, that the premiums have not been deductible for a year or two and have been traded off for issues the IRS doesn't have on their hit list.

Captives have matured, they have survived IRS attacks for nine years now and keep growing in numbers. Overall, the beginning start-up tax advantage is all but forgotten, reserves are in place, subpart F income is being generated and taxes are being paid.

Don't forget that subpart F losses are not deductible, a real deterrent to third-party underwriting. The tax problem is becoming the problem of the new captive.

Charles J. Eades
Vp-insurance
Ingram Industries Inc.
Nashville, Tenn.

RM consultant correction

To the editor: An error was made in the preparation of our questionnaire for your risk management consultant listing (*BI*, Feb. 16).

We thought you were asking if we were affiliated with any U.S. retail brokerage firm, but in rereading the qualification we understand that you were asking if we were affiliated with any insurance institution at all.

Our firm is owned 80% by Alexander Howden Group Ltd.

Robert N. Hughes
President
Robert Hughes Associates Inc.

Titanic rescue's rates leak

To the editor: I read with interest the article "Titanic rescue insured for all but the dream" (*BI*, March 16).

Your magazine interviewed me concerning the insurance of undersea risks for its March 16, 1970, issue.

In the intervening 11 years, a great number of submersibles, both manned and remotely controlled, have been insured in the London insurance market through this specialist company at rates and with deductibles far below those described for the Titanic by Art Pendleton of Frank B. Hall.

There are certainly no exclusions as to the ingress of water since a manned submersible has a pressure hull with its penetrations for outside lights, sonar and other equipment safely protected by tightly packed insulation into which seepage of water would be virtually impossible.

Access to the long-established market on undersea risks is a simple approach to a Lloyd's broker correspondent, who can be referred to this company and obtain viable terms for military submarines, acceptable to any operator of these vehicles.

The search for the Titanic in such a large area of the western Atlantic is a feat of considerable difficulty since there are many wrecks in these waters, strewn among canyons, boulders and "false targets" to mislead the operators of vehicles controlled from the surface.

James Dawson
Managing director
Undersea Projects Insurance Brokers Ltd.
London, England

Rating evidence

To the editor: As third-party administrators, it is easy for us to relate to your article "Medical claim fever sends rates soaring" (*BI*, Jan. 26). What is not easy is justifying these rate increases to our clients. Showing them your article does help.

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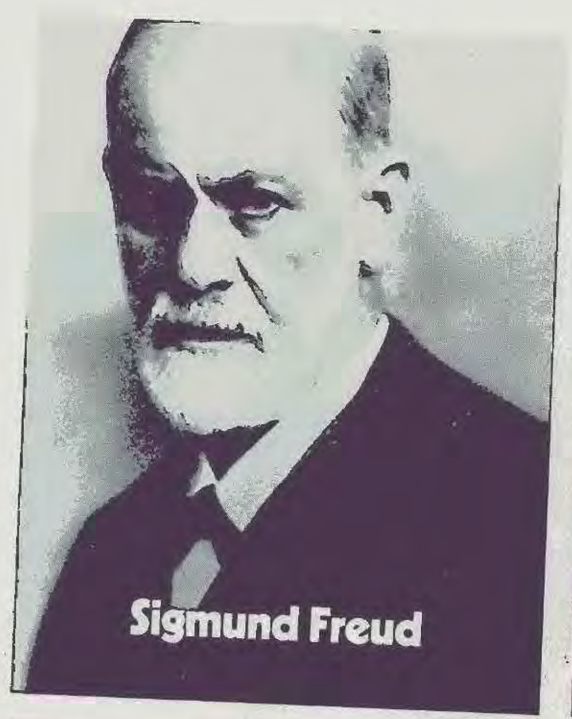

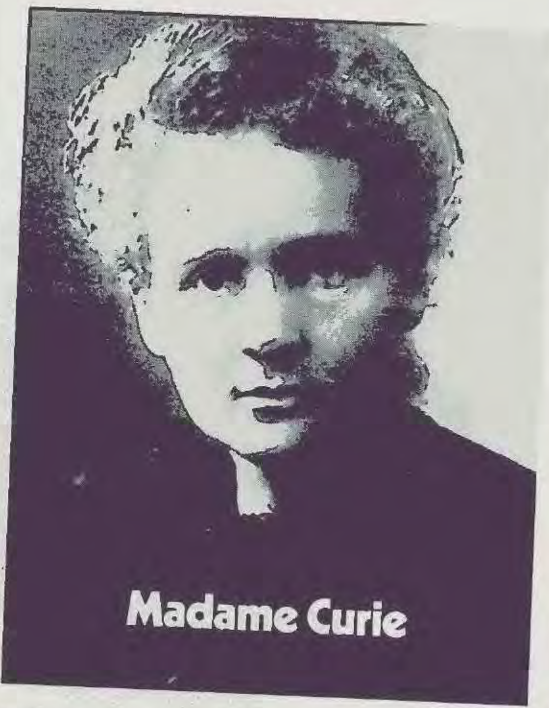

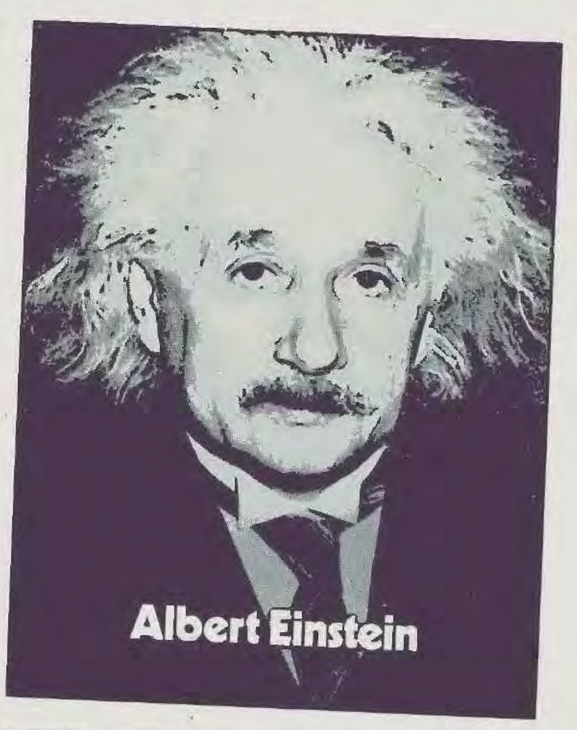

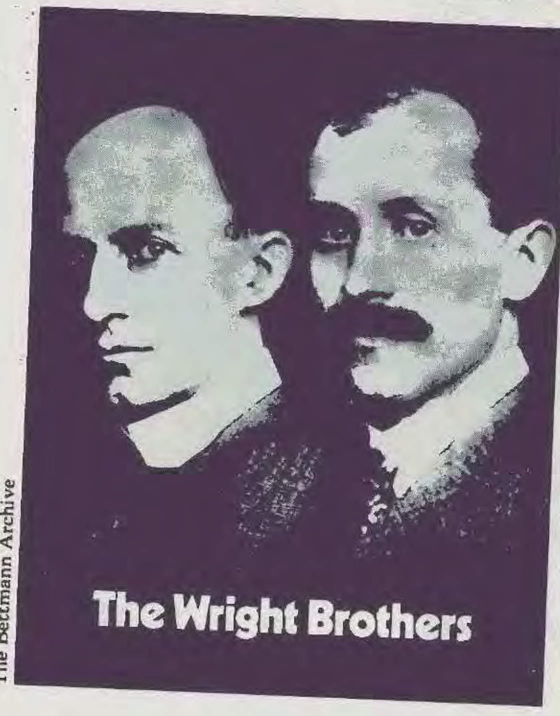

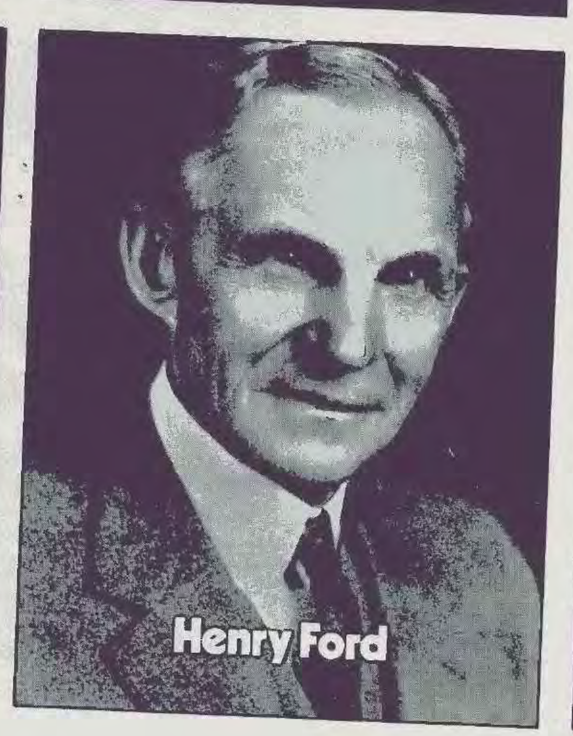

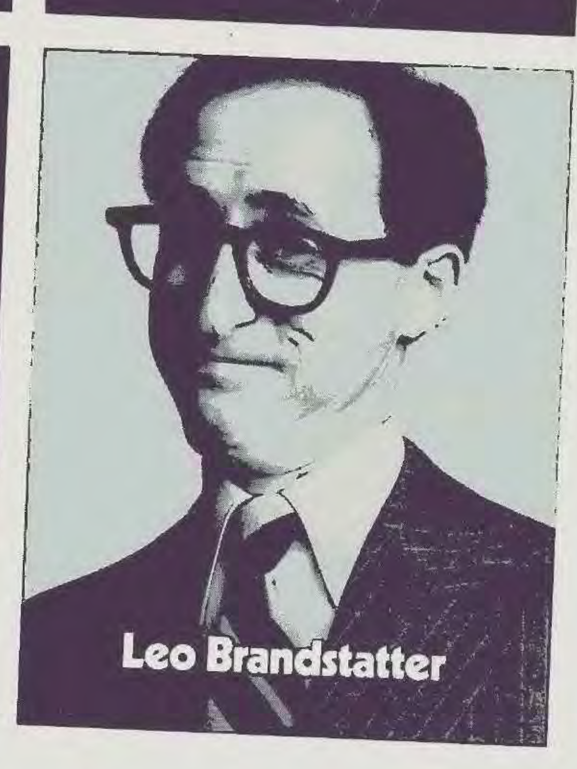

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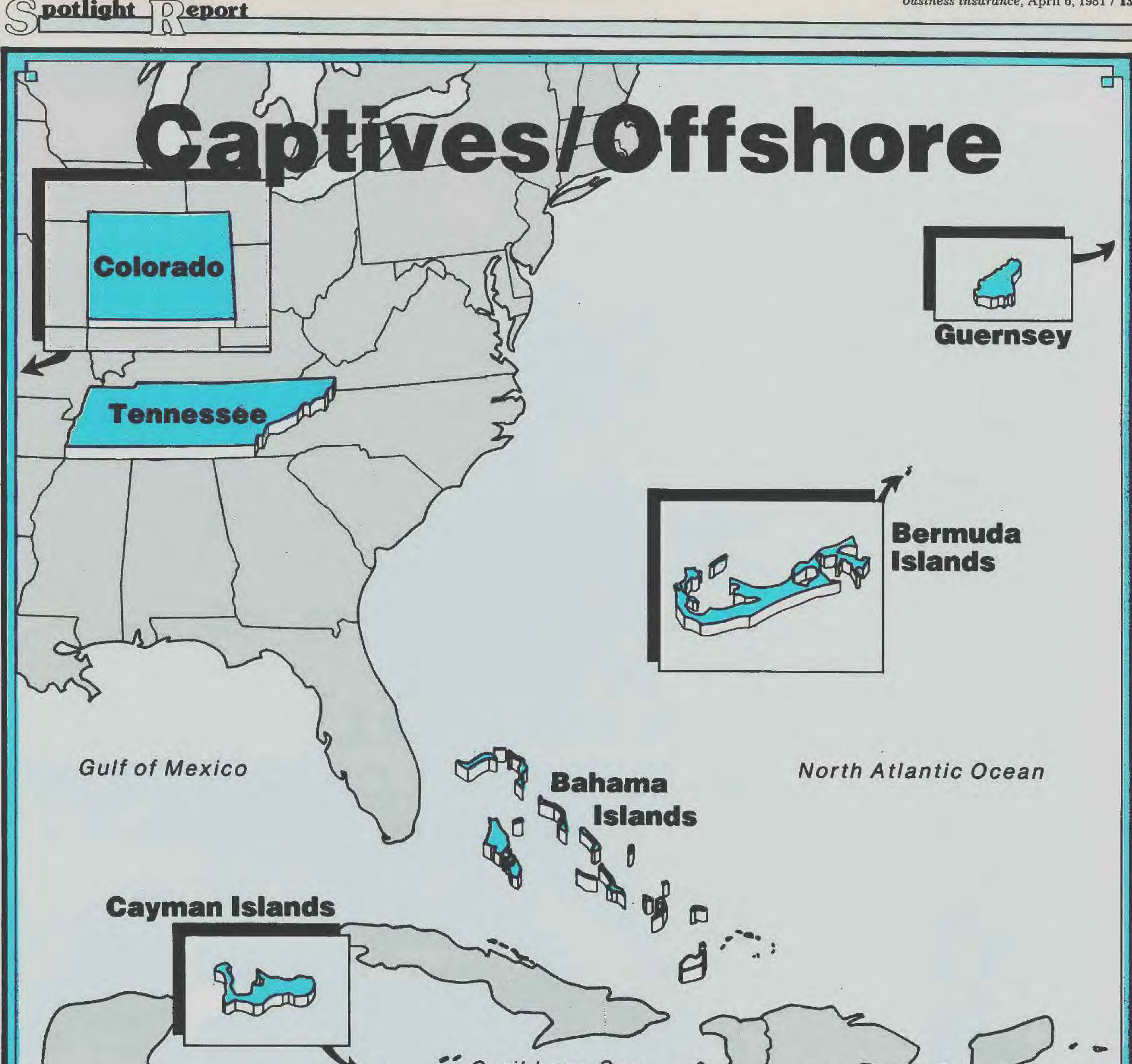

Map: Toby Roberts

Bermuda dominates captive market

By KATHRYN J. McINTYRE

HAMILTON, Bermuda—If the extinct volcano poking out of the Atlantic Ocean 775 miles east of South Carolina ever rumbled to life again, it would shake the foundations of the worldwide commerical insurance business.

This tiny picturesque town of British gentility and American tourists perched atop the volcano is the main port of the estimated $6 billion captive insurance company industry and a port-of-call for international reinsurers trading risks.

More than 1,000 of the nearly 1,400 captives in the world are based in Bermuda. They include pure captives underwriting the risks of only related companies, reinsurance pools in which captives mix and share their choice business, senior captives underwriting risks of unrelated companies to put to work their accumulated capital and new reinsurance ventures.

Sailing in behind the captives, the traditional market fraternity of insurers, reinsurers and brokers is taking up berths in Bermuda.

"The Bermuda market is in on every major placement that the major brokers make," said a leading U.S. broker.

Other jurisdictions—like the Cayman Islands, Bahamas and Guernsey offshore and Colorado and Tennessee in the U.S.— vie for captive business claiming unique advantages and growing, inexpensive service capabilities to rival Bermuda's.

But no other captive domicile bustles with so many captive managers or pulses with a concentrated reinsurance market. And no commercial insurance rate-cutting or cash-flow programs can stop the growth of captives in Bermuda.

Risk managers are turning a risk funding alternative forced upon them by expensive and unresponsive insurance markets into a major force in the international insurance and reinsurance business.

Business Insurance, which has followed the development of captives from the late 1960s, devotes this spotlight report to the dynamic captive insurance company industry operating off and onshore. And like Risk Planning Group when it looked for a place to hold the Fifth International Captive Insurance Companies Conference (pages 100-106), *BI* begins in Bermuda.

Bermuda dualities

Captives and commercial reinsurers, the American insurance system and the British insurance style, purists and eclectics create and coexist in the Bermuda insurance market.

The market is 1,017 registered insurance companies, about 90% of which are captives managed by one of more than 50 active managers on the island. Among the captives are association-owned companies, some so large, such as Oil Insurance Ltd. and Nuclear Mutual Ltd., that they have their own management staffs.

About 40 of the insurance companies, either under their own management or through an underwriting agent, actively underwrite insurance for over 30 reinsurance brokers on the island and slews of U.S. and London brokers who fly in for a few days, according to one broker's market roster

The amount of gross premium volume flowing in this market is estimated at $4 billion to $5 billion, with $1.5 billion of it written as commercial insurance, not captive business.

From afar it appears to many that the market is stagnating in a saturated state of development compared with its potential growth during the 1970s. Horror stories of too little office space, too few qualified Bermudians and not enough housing for expatriates are told by the promoters of other jurisdictions competing for captive business.

Many observers are also waiting for the quick growth of captives underwriting outside risks to show heavy losses. Most recently, the insurance market has buzzed with speculation that Phillips' Walton Insurance Co. will be among the first to show bad underwriting results from growing too quickly.

Neither observation is confirmed by Bermuda market leaders.

Continued on next page

Bermuda facilities grow with demand

Continued from previous page

Visits to new office buildings occupied in the last year around Hamilton, filled with new and expanded staffs, shows steady growth with room for more.

Captive managers contend they can manage more captives without expanding staff and point to additional room in new quarters or new buildings under construction that could accommodate more staff.

"There are still enough services here to serve the new captive," says Richard S. Thompson, president of Altamid Management Co. Ltd., which manages 10 companies with a total premium volume of about $70 million. "Companies may have to take other than the leading lawyers and later deadlines with accountants," he noted of the two services most overtaxed.

Mr. Thompson, a Bermudian by birth, also contends there are plenty of qualified Bermudians to be hired and trained in the insurance business.

Training exists under an education program conducted by the Bermuda Insurance Institute, which has hired a full-time person to conduct insurance classes on the island.

So far there is no proof that the underwriting on this island will blow the companies out of the water.

Underwriting results for companies entering the commercial insurance market appear to be no worse so far than the losses hitting insurers elsewhere, underwriters, including those at Walton, say.

The best reinsurance stays in London, says Jonathon Crawley.

And the captive managers report captive business is still running very profitably.

Statistics also suggest continued growth in the Bermuda market.

In 1980, 117 exempt insurance companies were registered in Bermuda, just one fewer than in 1979, bringing the total number of exempted companies in Bermuda to 988 at year-end 1980. The pace of new company development isn't slowing in 1981. In the first three months of this year, 29 new insurers were incorporated and seven more are awaiting incorporation approval.

Curiously, the major captive managers aren't reporting big growth in client rosters to match the new company incorporation rate. Some speculate that the newer companies are being readied for a change in commerical market when risk managers will want an alternative risk-funding mechanism.

The statistics, however, concern some people looking at the future of Bermuda. Registrar of Companies Austin Ward concedes that at some point Bermuda may have to restrict the registration of new companies if the support services become overloaded, but he denies Bermuda is at that saturation point now.

Although the figures of $3 billion to $4 billion in premium flowing into Bermuda-based captives sound impressive, no one is sure and no one will even guess what percentage of premiums flows back out again to the U.S. and U.K. for reinsurance of the captives.

"Too much," says Jonathan J. Crawley, a British insurance broker-turned-underwriter as executive vp of Beneficial Finance's insurance operations in Bermuda.

"The best reinsurance business doesn't leave London and the best reinsurance risks don't leave the U.S. There are exceptions, but generally what gets exported is never the cream. Why does the cream of this island leave when there are a number of reinsurers here with stability and security?"

He answers his own question: because most of the captives are managed by affiliates of U.S. brokers which most often use their New York offices to place the reinsurance for the captives.

J&H Ltd. does use the Bermuda office of its reinsurance brokerage affiliate Willcox, Baringer to place some reinsurance for captives, J&H executives say. Reinsurance for "a fair amount" of the 86 captive clients of Marsh & McLennan (Bermuda) Ltd. is placed in the Bermuda market by M&M's excess/surplus lines brokerage NBA, which has an office in Bermuda, says David Vaughan, managing director of M&M's Bermuda office.

John J. Lorhan, president of Corroon & Black Ltd., which manages 16 captives, admits none of his clients use the Bermuda reinsurance market, preferring London and New York reinsurers.

"In one case in which a client was reinsured in Bermuda, the Bermuda market was replaced with Lloyd's and U.S. companies on a pricing decision," he said.

While growing in number, few existing captives are growing in size in this competitive commercial insurance market. Some are even shrinking.

Executives at J&H Ltd. and Alexander International Ltd. noted that a few of their clients are pulling risks out of their captives to take advantage of the cheap cost of commercial insurance, betting their losses will be more than the premium quoted. M&M has similarly recommended the tactic to a few of its clients, Mr. Vaughan said.

Rent-a-captive ventures, which are designed to offer small companies the benefits of using a captive without spending the money to own one, aren't selling like hot cakes, either. But Bermuda insurers continue to develop them.

WHEN YOU START PINCHING PENNIES ON HEALTH CARE COVERAGE, MAKE SURE YOU PUT THE SQUEEZE ON THE RIGHT COSTS.

Wellington Insurance Managers Ltd., part of Ivanhoe Group Ltd., has developed a plan similar to Aneco's profit-center program. Both programs include arms-length investments designed to provide the client with the benefits of good underwriting experience without U.S. tax problems.

Within the more than 1,000 registered exempted companies are some twin captives of one parent company—one to underwrite domestic risks and one to underwrite international risks. But some of these companies are being consolidated to cut operating costs, since careful accounting can keep the accounts separate for tax purposes.

Any effort to hold down rising operating costs is understandable. A small captive can cost about $36,000 annually to operate in Bermuda.

The management fee alone for a simple Bermuda captive is most often quoted as $20,000, with the price rising as the number of contracts and losses increase.

The inflated cost of doing business and the cost of supporting more professional staffs—including underwriters, claims specialists and investment managers as well as accountants—are driving up management fees, the managers say.

Attorneys' fees continue to rise. Appleby, Spurling & Kempe, one of the leading law firms serving the Bermuda insurance market, recently announced that its fees for representing captives will increase June 1 to $3,000 annually for new clients and $2,500 annually for existing clients from the current charge of $2,000.

Government license fees, however, will go down in 1982. The $2,000 annual insurance company registration fee this year becomes $1,500 in 1982 and the insurance company tax remains at $2,250.

Auditors' charges, a certain expense since the Bermuda insurance law now requires an annual audit of every insurer, run about $5,000 to $7,000 for a small capive and as much as $20,000 for a reinsurance pool with about a dozen participants.

At no extra charge, most captives in Bermuda can expect more words on the audit than they want. Captive managers agree that as a rule the auditors are qualifying their opinions subject to the correctness of the loss reserves maintained by the captive.

These so-called "soft qualifications" by auditors don't imply the captives are underfunded; the auditors aren't satisfied with the quality of loss history used to set the reserves. Most Bermuda-based captives and the companies underwriting unrelated or open market risks are underwriting at a one-to-one or less than one-to-one premium to surplus ratio.

Only a few companies have had to increase their capitalization to comply with the Bermuda insurance law that requires minimum capitalization of $120,000 and allows companies to write to as high a ratio as five-to-one.

Although the law was just amended last month to allow the Minister of Finance to grant exemptions to the law instead of requiring exemptions be approved by the Parliament, no one should interpret the new procedure to mean there will be wholesale exemptions, Mr. Ward said.

Most of the exemptions granted will be to protection and indemnity clubs and mutual insurers which can't meet the five-to-one ratio but can assess owner-members after a big loss.

Captive insurers in Bermuda can also look forward to paying out an additional service fee in 1981 if they underwrite product liability or medical malpractice insurance. The insurance regulations now require that companies whose premiums for these two risks exceed 10% of total premium volume submit to the registrar a certification of the loss reserves by an actuary or loss reserve specialist. However, the attorney general is now reviewing proposed amendments to the regulation increasing the pecentage to perhaps 50% before the loss reserve certification will be required.

So far there is only one licensed loss reserve specialist in Bermuda: Shelton Burgess, the former registrar of insurance companies who has established his own insurance consulting firm here under his name. The firm has entered into a reciprocal consulting arrangement with Atlanta-based Tillinghast, Nelson & Warren to tap the actuarial expertise needed to certify loss reserves. A TNW actuary also will move to Bermuda.

The two companies are ahead of competitors who will have to present individuals to be certified by

Don't expect wholesale capital exemptions, says Austin Ward.

Mr. Ward as loss reserve specialists. The alternative, which Mr. Ward says is more difficult, is for a U.S. actuary to obtain a work permit to practice in Bermuda.

While the captive insurance company business is the mainstay of the Bermuda insurance market, the most notable development in the Bermuda market is the continued growth of the reinsurance market here.

The reinsurance market includes senior captives underwriting risks for unrelated companies, branch offices or subsidiaries of international reinsurers and new reinsurance ventures (see related story, page 18).

Most often they underwrite on a British slip system, taking various percentages of risks, but American underwriters are known to take the full risk if it's attractive and they have the capacity—a practice considered selfish by the British-trained underwriters.

Both facultative and treaty reinsurance business is offered by local brokers, U.S. brokers who come to call and via telex submissions, most often from American intermediaries. More than 100 brokers, mostly from the U.S., tap the Bermuda market.

Bermuda underwriters say they prefer to deal with U.S. brokers because premiums flow more quickly from the U.S. than the U.K.

Brokers here contend they could put together $25 million in capacity if they were given the right to market an attractive program. Three years ago the Bermuda market offered capacity of $350,000, which could be stretched to $1.2 million for the right risk, according to one broker.

The typical slip filled out in Bermuda is for a $5 million layer because Bermuda seldom gets the full order on a program. The risk is usually outside the working layer because Bermuda companies don't

Continued on next page

The cost of health care coverage is actually two costs. The retention costs (which cover everything from administrative costs to reserves). And the cost of benefits. All too often, only retention costs get much attention.

THE EXPENSIVE ASSUMPTION.

Some buyers make the assumption that the cost of benefits will always be the same. After all, the same people will get sick and incur the same costs, no matter who the carrier is. So how can there be a difference?

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Bermuda's rates float over bottom

Continued from previous page

want to write business generating a lot of paperwork. They usually take the $5 million excess of a $1 million layer.

A Bermuda-based reinsurer generally will take a line varying from $150,000 to $2 million, depending upon the class of business and how well it likes the risk, says Derek C. Hutton, vp and director of Insurance & Reinsurance Brokers (Bermuda) Ltd.

His firm, owned in equal shares by Petrofina's Brittany Insurance Ltd., C.E. Heath (Bermuda) Ltd., R.B. Jones Corp. and Phillips' Walton Insurance Ltd., brokered nearly $37 million in premiums in 1980. About 30% of that was to the non-Bermuda market.

Despite reference to Bermuda as "innocent capacity," the market isn't cheap here. One broker bemoans the amount of business he loses on price to the U.S. and U.K.

The market also is developing a sense of camaraderie. Every segment of the market is now organized into an association. Some of the leaders would like to see their associations take over from the government and its appointed committees the job of enforcing the Bermuda insurance law.

The alignment of leaders by profession is heightening the awareness that some people in the market wear more than one hat of captive manager, broker or underwriter, which is becoming an issue to some people.

The purists say there must be management separation in companies performing more than one function to avoid at the least the appearance of conflict of interest when one person tries to represent buyer, intermediary and underwriter.

"It comes down to the integrity of the person, doesn't it?" retorts Michael Bott of Bott & Associates, who is among those who function in all three roles.

Bermuda as an insurance center takes a knock sometimes for prohibiting branch banking by major international banks.

William D. Thompson, assistant general manager-international of The Bank of Bermuda Ltd., defends the island's banking services. His bank shops the world banking markets to service clients, landing competitive prices that compensate for the local bank's service charge, he says.

The priceless characteristics of Bermuda attractive to the business person include a stable government, easy access and social amenities.

The incumbent party in Bermuda lost seats to the opposition in the recent election, but Bermudians contend that even a change in government to the Progressive Labor Party from the incumbent United Bermuda Party would not affect the insurance industry here. The PLP has said it welcomes the insurance industry and the commerce it brings to the island.

Independence is being debated by residents of this self-governing Crown Colony who are concerned about how an independent Bermuda would pay for foreign embassies, not if it would change the business or social climate in Bermuda.

Bermuda also boasts the best access to offshore domiciles for business travelers. Flights leave for Bermuda from New York, Newark, Boston, Baltimore, Philadelphia, Toronto and Atlanta. Miami will added soon.

The recent Atlanta connection is appreciated in Bermuda as attracting the Southeastern-based U.S. companies that might have been more inclined to use Cayman.

Accommodations in Bermuda are excellent. There are hotels within walking distance of the insurance community in Hamilton and villas along the beach just a short cab ride from town.

The selection of restaurants, night spots and shops is far greater than one finds in Cayman and more personal than the glitter of the Bahamas.

But you can't count on the weather in Bermuda in winter. Although a welcome escape from snow and cold, it's likely to be windy and rainy through March. ■

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Photo: Kathryn J. McIntyre

Francis Carter offers captives a stop-loss insurance product.

Oil firm captives fuel Bermuda

HAMILTON, Bermuda—Tap the Bermuda insurance market and you'll likely strike oil money.

The biggest senior captives underwriting commercial reinsurance in Bermuda are the subsidiaries of oil companies: Insco Insurance Ltd., owned by Gulf Oil; Walton Insurance Ltd., owned by Phillips Petroleum Co., and Mentor Insurance Ltd., owned by Ocean Drilling & Exploration Co.

These three market leaders are also among the first to show signs that Bermuda companies are subject to the same underwriting losses hitting other international reinsurers (see story, page 22).

Expanding its underwriting also is Ancon Insurance S.A., Exxon's Panamanian registered insurance subsidiary, ready to use the $487 million in capital and surplus it has accumulated since 1942. But in 1980, less than 5% of its $134 million in gross premiums was from unrelated risk underwriting.

In addition to hiring underwriters in Bermuda, Ancon has established a U.K. company, Ancon Insurance Co., with 5 million pounds of capital. Jim Hunt, formerly with Peter Wilson at Weavers in London, will underwrite for the new company.

Oil money flows into Oil Insurance Ltd., too, the Bermuda-based group-owned reinsurer of the oil industry. But last year, more money flowed out than in, with $192.2 million in losses and expenses paid against $85.6 million in net written and earned premiums. Yet, OIL at year-end 1980 showed a surplus of $148.6 million for its 38 member companies.

The Bermuda reinsurance market of 40-odd companies includes branches or subsidiaries of international reinsurance companies and new reinsurance companies such as Trenwick.

American ownership dominates, but there are British, Canadian and Far Eastern interests here, too.

The long-recognized leader of the Bermuda reinsurance market is Insco, with its president Leslie Dew, former deputy chairman of Lloyd's, the first big-name underwriting talent to arrive here.

Other senior captives, such as Mentor and Walton, are stealing some of Insco's thunder.

Some big names in the Bermuda market aren't connected with the most money.

Francis Carter, a former Lloyd's underwriter who first underwrote in Bermuda for Mentor Insurance Ltd., is president of Belvedere Insurance Co. Ltd., and a frequent lead underwriter here.

In 1980, Belvedere underwrote $9.6 million in gross premiums and reported net premiums retained of $2.9 million against just under $10 million investors' capital.

Now Belvedere Underwriting Agents Ltd., a related company, is underwriting equal shares for Belevedere and Telect, General Telephone & Electronics Corp.'s insurance subsidiary. Telect adds capital and surplus of $33 million to the agency. It's possible the agency could write $10 million in net premiums this year.

Its maximum line now for both companies is $2 million.

Mr. Carter is especially interested in underwriting financial reinsurance treaties, such as buying out reserves of other companies. The tax-free environment in Bermuda makes the business, which depends on investment income to be profitable, attractive.

About 20% of Belvedere's business is leading reinsurance for captive accounts. Many reinsurers are chasing the business now, but Mr. Carter contends he pioneered the product almost a decade ago at Mentor.

Hudson Reinsurance Co. Ltd. is another highly respected and active reinsurer in Bermuda, operating under the direction of Robert A. Baker, formerly underwriting vp for treaty reinsurance at North American Re, among other posts.

Hudson Re, through Hudson Underwriting Ltd., underwrote $8.5 million in premiums in 1980 in its first full year of operation. It has $10 million in capital, $8 million of which has been subscribed and paid, invested by several European insurers, including Scandia Sweden and Scandia U.S.

Trenwick, now with $30 million in capital, is looking at a lot more business than it is underwriting. It underwrote only $3 million in premiums in 1980, rejecting 96% of the business it saw.

But what it wrote, it usually led, often using its $2 million capacity.

Although not writing great hordes of business, Jonathan Crawley at Beneficial Corp.'s insurance ventures in Bermuda is emerging as a market leader.

He is expanding the business of two insurance companies which have primarily reinsured credit insurance risks generated by Beneficial's finance operations.

The former Lloyd's of London broker is underwriting stop-loss reinsurance treaties for captive insurers underwriting only related-company risks for about $1.5 million in premiums on 40 treaties. He is also selectively adding business from the U.S. and London markets at about $3 million in annual premiums. The London volume is business he has found, not what is brought to the island by London brokers who, he says, come to Bermuda "to plunder."

A risk placed in the Bermuda market is also likely to tap the capacity of such well-known American companies as Crum & Forster and General Re, which operate here.

Among the new emerging markets is Frank B. Hall (Underwriting Managers) Ltd., which is projecting $10 million in premiums in 1981 for Hall's wholly owned insurance subsidiary Union Indemnity Insurance Co. of New York, and Grumman Corp.'s Paumanock. ■

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Spotlight Report

Captives share sour underwriting loss

Photo: Kathryn J. McIntyre

Walton is no worse off than the marketplace, says Frank Taylor.

HAMILTON, Bermuda—Captives turned commercial reinsurance companies here are discovering they aren't immune to the sour underwriting results turning the stomachs of insurance company executives around the world.

Three of the leading young reinsurance companies are spending profits earned on good parent company business to pay the losses reported on under policies issued to unrelated companies.

They are three senior captives owned by U.S. oil companies:

• Walton Insurance Ltd., the Phillips Petroleum subsidiary, reports a $3.1 million loss for a 106.2% combined loss and expense ratio on its unrelated risk underwriting, while Phillips risks produced a $6.9 million underwriting profit for a 67.9% combined ratio.

Net underwriting income in 1980 fell to $3.7 million from $13.3 million in 1979, reducing net income to $18.6 million in 1980 from $23.1 million in 1979. Its first big year of writing unrelated risks was 1977.

• Insco Ltd., the Gulf Oil subsidiary, reported a 111% combined loss and expense ratio on its unrelated business while Gulf risks continued to be profitable despite increased loss frequency.

Underwriting income at Insco fell to $1.1 million in 1980 from $11.6 million in 1979, reducing net income to $21.8 million from $25 million. It has been underwriting more unrelated risks than Gulf group risks since 1978.

• Mentor Insurance Ltd., the Ocean Drilling & Exploration Co. subsidiary, lost $9.4 million on underwriting in 1980, all on unrelated risk underwriting, for a combined loss and expense ratio of 132.5% on the consolidated results compared with a 72% combined ratio of ODECO business.

Its net income fell to $3.9 million from $9.5 million last year. It has been underwriting a substantial amount of unrelated risks since 1974.

Executives at these companies aren't alarmed.

"If the industry is running at a 105% to 106% loss ratio, we can't do sensationally better than anyone else," commented Harold E. Tornquist, chairman of Walton.

Insco's president Leslie Dew expects rates to rise by the end of the year and business to return to profitable underwriting.

And ODECO is getting ready to expand its insurance business, perhaps with U.S.-based insurance companies.

"Walton's problems are no worse than those of the worldwide market," said Frank Taylor, vp of underwriting who just joined the staff as part of Mr. Tornquist's staff expansion drive.

Since he arrived at Walton in June 1980 from the American insurance market, Mr. Tornquist has added a bevy of experienced underwriters and is enforcing underwriting guidelines against certain risks.

The addition of many new underwriters who are turning down business they don't consider profitable is fueling specualtion in Bermuda that Walton is facing massive underwriting losses.

"It's not true," Mr. Tornquist asserts. The 1980 results reflect strengthened loss reserves and Walton has realigned its reinsurance protection.

"We're underwriting on a much more professional basis," says Mr. Taylor.

The company expects to increase its premium volume in 1981, although most of it will come from premiums just arriving on business written in the past. Gross premium in 1981 is expected to be $160 million, up from $118.8 million in 1980.

Capital and surplus is expected to top $100 million at year-end 1981, up from $90 million at year-end 1980.

Only about $21 million of Walton's net premiums of $70 million in 1980 came from Phillips risks.

Insco's results, though showing less of an underwriting profit than Walton for 1980, are fueling less speculation.

President Leslie Dew states in the annual report that the results are acceptable by market standards.

Insco wrote $153.7 million gross and $77.1 million net premiums in 1980, against capital and surplus of $110 million.

Mr. Dew says he is looking forward to rate increases for some casualty lines at the end of the year for 1982 renewals and considerable hardening of rates for all business in 1982.

Meanwhile, he says he is building up staff and systems to be ready when the rates are more attractive.

Only $30.1 million of Insco's net premium income is from Gulf risks.

The only one of the three companies to show a substantial cutback in underwriting, citing cheap rates it won't accept, is Mentor. "Who wants to write in this market?" asks Norris Hayes, vp in charge of the operation.

He has doubled Mentor's loss reserves over the last two years to more than $40 million and has taken Mentor out of the aviation and facultative hull insurance markets that showed terrible results.

Sitting on capital and surplus of $48 million, Mentor posted just $22.2 million in net earned premiums in 1980, a big drop from $41 million in 1979. About 10% of the premiums are attributable to ODECO risks.

ODECO is planning to expand its insurance operations, possibly with U.S.-based insurance companies. The expansion drive will be headed by Mr. Hayes from the company's New Orleans headquarters. ■

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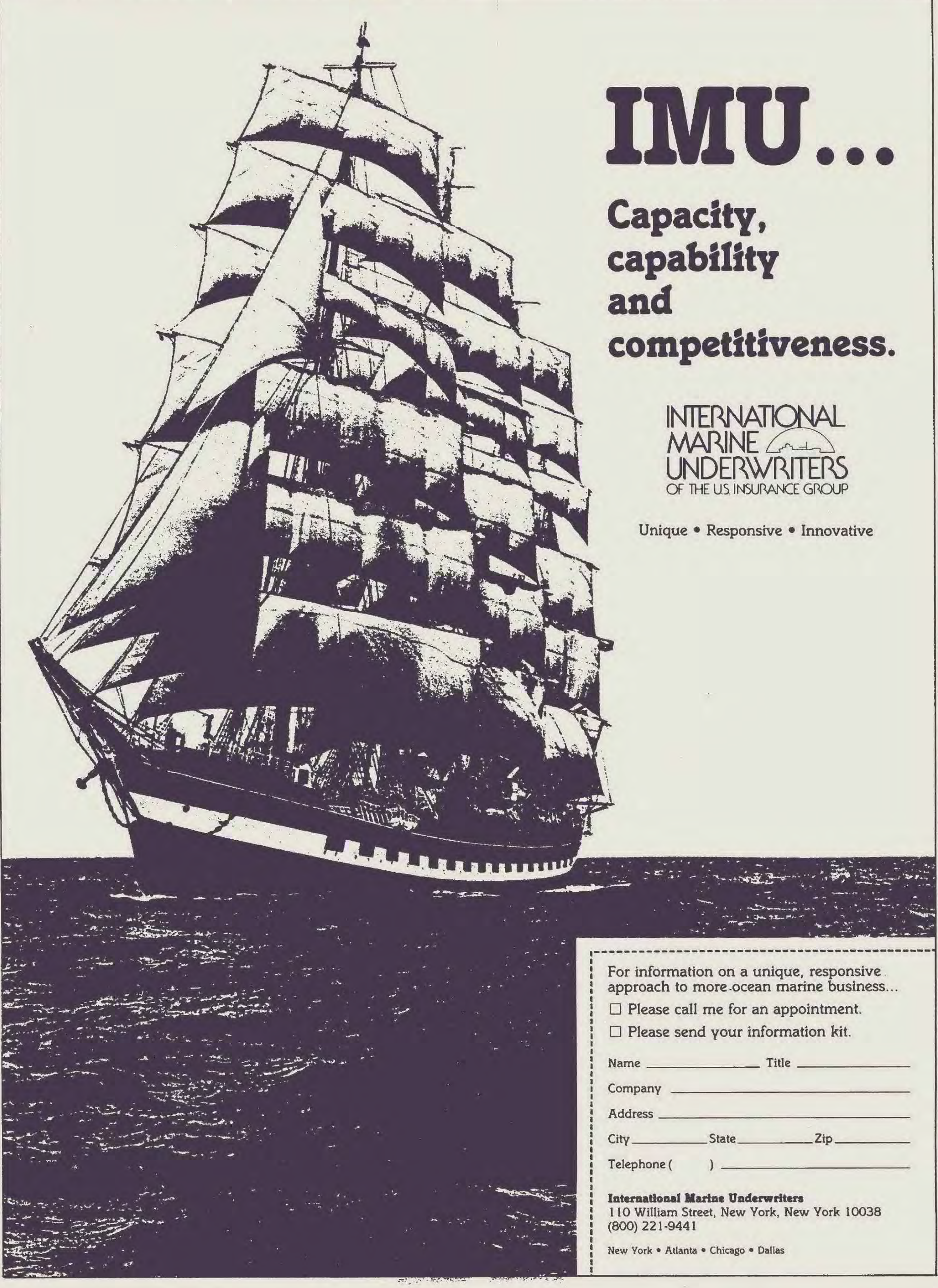

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HAMILTON, Bermuda—Insurers here aren't housed in tents upon shifting sands.

One could imagine such a scene from descriptions of the Bermuda insurance market coming out of London, where the competition charges Bermuda insurers with lacking professionalism, security and continuity (see story, page 26).

The scene is quite different.

Visits to insurers' stylish offices turn up British- and U.S.-trained underwriters, some with decades of experience from leading insurers.

The expanded staffs include new claims specialists to handle the losses beginning to emerge as the insurers' business matures. Computer systems are being installed to streamline operations.

"There is probably more underwriting talent here per million of premium volume than anywhere else in the world," contends Norris Hayes, vp of Mentor Insurance Ltd.

"The business done here is done at least as professionally as in the U.S. market and are in many cases more professionally," says Angus Robinson, senior vp of Trenwick. "The level of experience among underwriters is significantly higher than in other world markets. We don't have junior people looking at risks down here."

The most professional and active operations are, by consensus of Bermuda sources, Insco, Hudson Re, Mentor, Walton, Belvedere, Trenwick, Beneficial International and Ancon.

Missing from the list of high-profile professional operations are companies such as as Ivanhoe International, run by Kenneth Biersak, a veteran of Royal Insurance who underwrote the General Motors account for years, and many others who are emerging with more staff and capital.

Paul Branscombe, Willcox Baringer vp, is annoyed.

"It annoys me when people say the market lacks expertise. I feel we are criticized by people who haven't come to Bermuda to meet the underwriters," says broker Paul Branscombe, vp of Willcox, Baringer (Bermuda) Ltd.

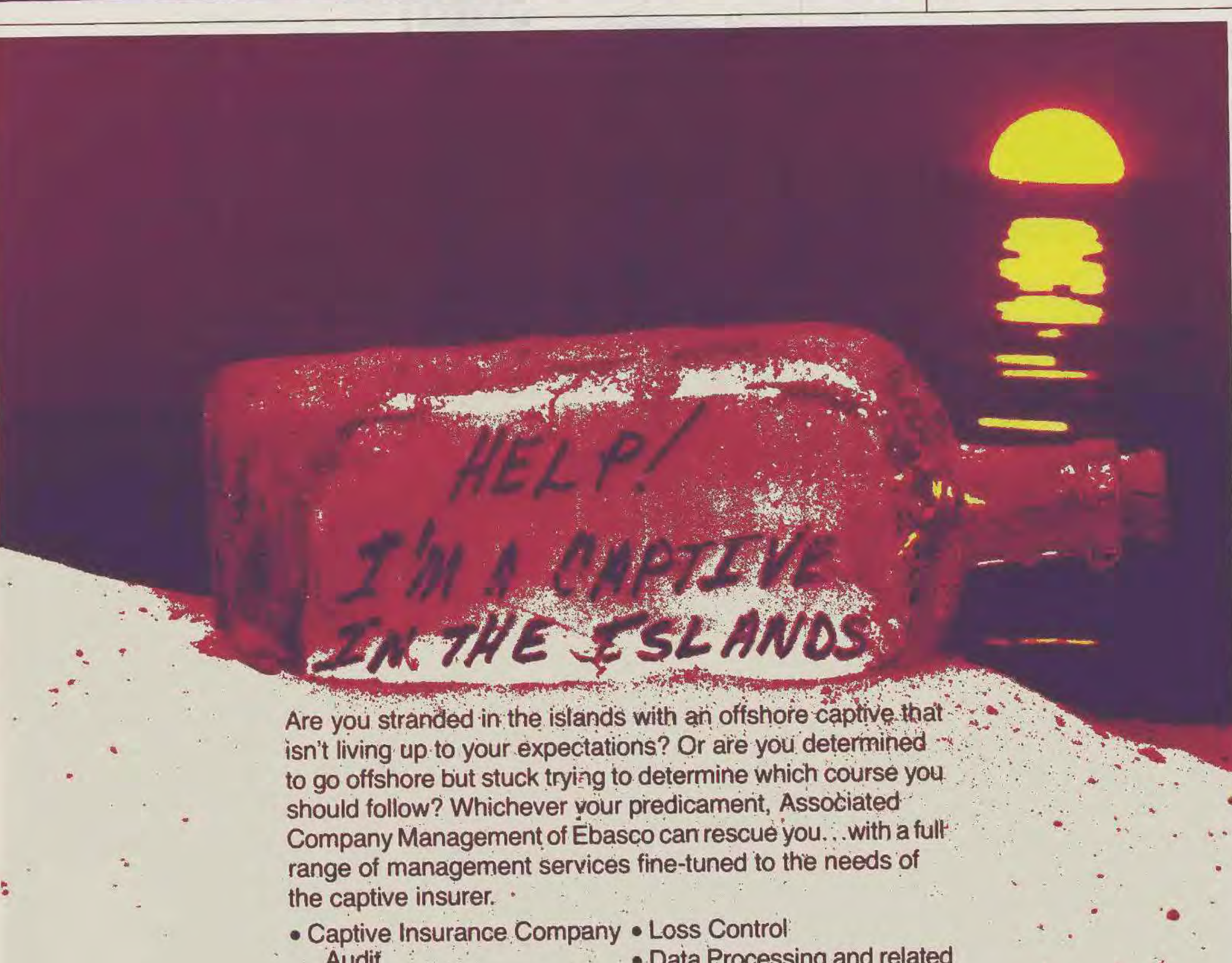
Proof of Bermuda's professionalism is in its prices—high, the market leaders say.

"Bermuda is a more select market than New York," contends Mr. Robinson. "We're not cutting prices because there is interest among underwriters to prove Bermuda is for real."

Disparaging remarks about the security behind Bermuda companies are countered with a litany of the names of the parent companies behind the insurers, including the major oil companies.

And despite the first signs of underwriting losses at some of the major underwriters, none of them appears to be ready to call the parent for more capital.

Charges that Bermuda insurers don't provide market continuity can't be validated or disputed yet by the track record of such a young reinsurance market. ■



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Bermuda tactics just can't impress London brokers

By STACY SHAPIRO

LONDON—Underwriters and brokers here say they avoid doing business on the sunny island of Bermuda to avoid getting burned.

Few Bermuda-based captive insurers exhibit the professionalism, security and continuity London wants in reinsurers, Lloyd's sources charge.

Only the "untouchable" risks go to Bermuda.

"They're reinsuring substandard people on substandard business," said one Lloyd's underwriter. "It's where a lot of cheap and bad business is being dumped. It's the market of last resort."

When talking down Bermuda, London sources do not include their own subsidiaries there or subsidiaries of established reinsurers. And they always pay respect to Insco, the Gulf Oil insurance subsidiary run by former Lloyd's deputy chairman Leslie Dew.

They also acknowledge there are a few companies run by other insurance professionals.

In interviews they agreed to only if they wouldn't be quoted by name, the London sources charged most Bermuda-based captives breaking into the insurance business will insure anything offered.

"The Bermuda market has been attracting long-tail business simply because of investment income. There have been, and probably still are, Bermuda markets that are lapping up long-tail business that is totally unplaceable," said a Lloyd's broker.

Another broker said he takes to Bermuda risks no one else will reinsure, such as business from developing countries, motor treaties from South American and business from unestablished industry.

Reflecting concern about security behind Bermuda companies, one broker said, "If a client wanted his business in Bermuda where it is tax-free, I'd place it. But I'd have a letter (from the client) to fall back on in case there was a claims dispute."

Lloyd's sources peg their distrust of most of the Bermuda market on their perception that business in Bermuda isn't conducted "professionally."

"I would not consider them a professional market. They're not professional insurance people," said a Lloyd's broker.

The widespread impression of the Bermuda insurance company employee is of a clerk who just types and files and knows nothing about insurance, reinsurance or how to pay claims.

"They find it difficult to import experienced underwriters," said one broker.

Some sources claim from personal experience in the Bermuda market that Bermuda-based insurers are unreliable in paying their claims.

Lloyd's sources criticize Bermuda companies as investment-, not underwriting-oriented business people, and say they are erratic in granting renewals.

"There are certain captive companies owned outside our business where the owner may have no long-term commitment to our business. They will withdraw because they have been burnt or because they need income elsewhere," said one broker.

Lloyd's sources also stress they depend upon the personal contact with their business associates, which they can't easily make with Bermuda because of distance. "There's no longer that extra pressure on your integrity to face someone personally," said one underwriter.

Most Lloyd's brokers and underwriters prefer to walk over to Lime Street to the floor of Lloyd's or to call or telex their reinsurers in Europe with whom they have traditionally done business, they say. ■

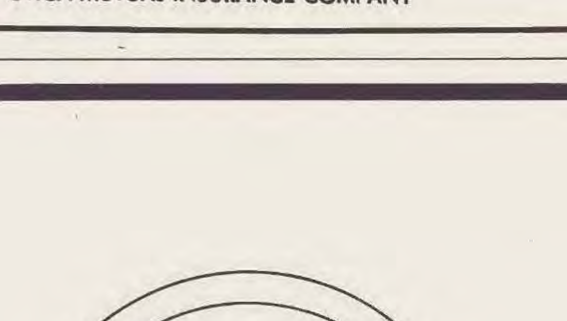

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Photo: Kathryn J. McIntyre

Cayman Islands insurance superintendent John Darwood has broad power of discretion in regulating captive insurance companies.

Cayman

Bidding for captive market

By KATHRYN J. McINTYRE

GRAND CAYMAN, B.W.I.—Government, business and climate beckon the firm in search of an offshore home to anchor a captive insurance company.

A risk manager who answers the call by boarding a quick flight from Houston or Miami will find on arrival in Grand Cayman:

• An insurance market of about 200 companies, mostly subsidiaries of U.S. corporations, usually writing $200,000 to $5 million in premiums.

• An insurance regulator who will consider the business plan of each insurance company, based on its own merits, before issuing or refusing a license.

• A growing list of captive managers who are keenly aware of competitively pricing their services against Bermuda prices.

• A bustling banking community a captive could move into with its own bank.

• Lawyers and accountants, eager to serve, who also competitively price their services against Bermuda.

• A stable government and a friendly nation of 17,000.

• A vacation paradise year-round.

But there are two services woefully missing in Cayman:

• An active commercial insurance market to provide broad insurance expertise and access to third-party risks to diversify the captive's portfolio.

• Business accommodations such as hotel rooms and golf courses.

"If you want to get into the insurance market proper, there is no sense in coming to Cayman," admits one of the largest captive managers on the island.

"We need more accommodations," allows another captive manager, sympathetic to the complaints about the short supply of hotel rooms and the high cost of condominium rentals during winter.

Cayman is best suited to the Southwest-based firm that wants to create a pure captive, underwriting only related-company risks, and that can rely on insurance expertise available in the U.S. Association captives just getting started which are very small may find more regulatory flexibility and lower costs than in Bermuda.

"If our growth goes on, it will be companies not looking to become number ones," says insurance superintendent John Darwood.

> 'We've been known to turn something around in two weeks.'

The captive insurance business here is built on these modest companies and the captives tossed ashore by the regulatory tide that swept companies out of Bermuda in the mid-1970s. Cayman boasts it is the harbor for Harvard University's medical malpractice captive, whose organizers were offended by the probing questions of Bermuda regulators.

This Crown Colony also is the home of International Risk Management's super captive, United.

Cayman now also boasts of tossing out any riffraff without overregulating legitimate insurance companies operating under its new insurance law.

One law firm which acts as a registered office lost 30 of its 60 registered companies that had insurance in their names after the law requiring the registration of insurance companies came into effect this year.

"I don't think many of them were in insurance; they were investment operations," speculated one partner.

"I'm confident the ones we have left are on the up-and-up."

Some observers in London, for example, are still skeptical. "There's dirty money in Cayman," sniffed one London underwriter.

Companies that left Cayman are said to have headed for the Turks and Caicos Islands, which don't have an insurance law.

The emphasis of the Cayman law, enforced by a British expatriate who likes to meet with new captive owners to find out who they are and what they intend to do, is on legitimate.

Continued on page 30

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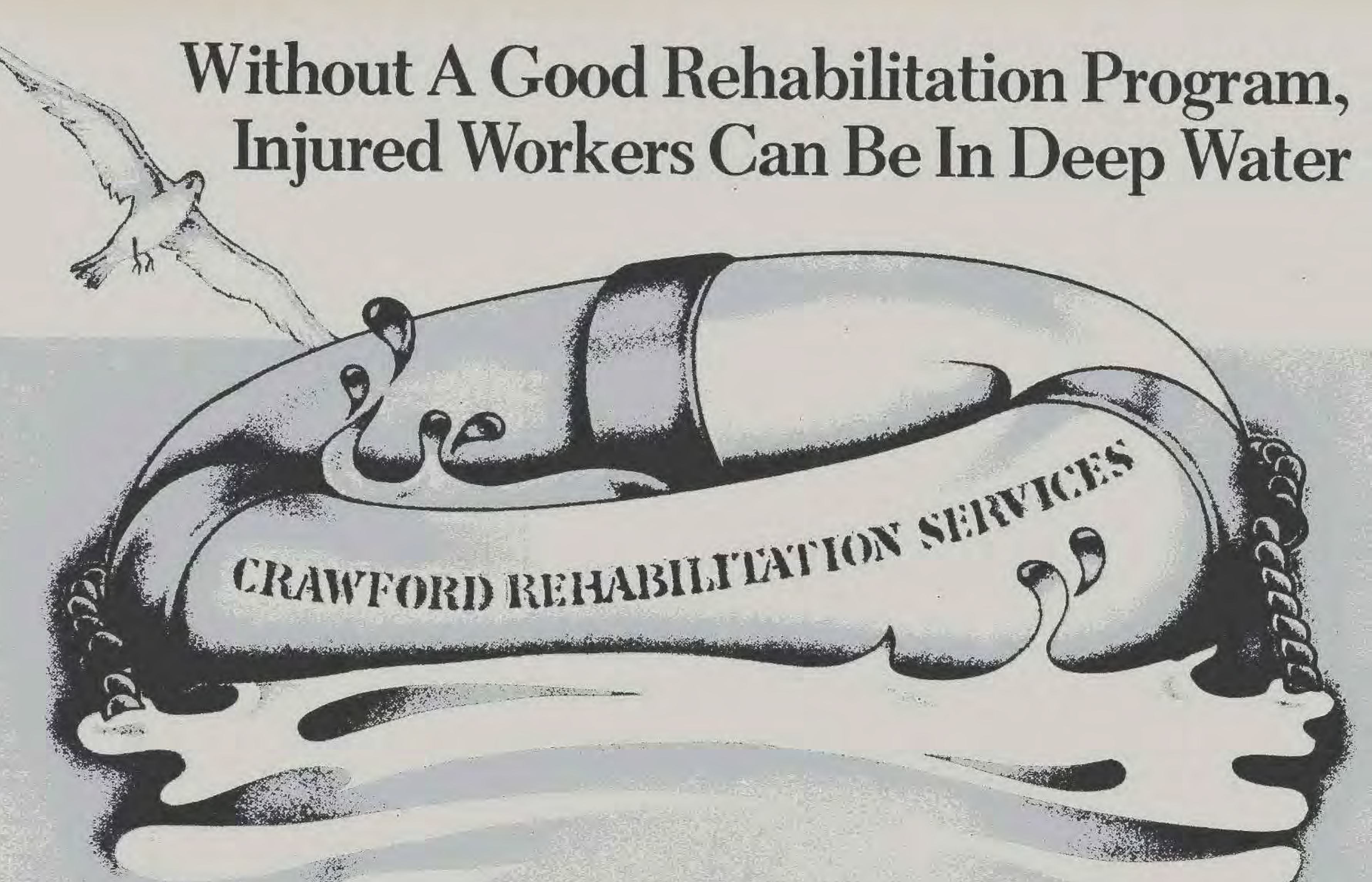

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Captive requests flow to Cayman

Continued from page 28

Mr. Darwood, formerly in charge of Mentor Insurance Co.'s British operation, arrived in Cayman in April 1980 to administer the insurance law passed in 1979. He now is plowing through hundreds of license applications with the wide powers to refuse a company a license without even saying why.

So far he has granted permanent licenses to about 10 underwriting managers and 50 insurance companies. He hasn't yet turned down an applicant for an insurance company license, but admits to refusing one person an underwriting manager's license. He won't confirm it, but sources in Cayman say it was Dave DeMarco, the former president of the now defunct Cayman Underwriters Services Ltd., who was refused a license (See related story, page 42). Mr. DeMarco could not be located for comment.

Besides the 50 insurance companies granted permanent licenses under the insurance law, another 140 are operating under temporary licenses that expire in June. The temporary licenses were granted on as little as a letter requesting them and as much as a nearly compelete license application.

There are new applications pouring in. Since the first of the year, over 20 new ones have been made.

Many of the captive managers in Cayman suggest the early rush this year only compensates for the slowdown they saw late last year as people waited to form companies until they saw the effect of the new law.

Among the new applicants are captive managers, called underwriting managers under the Cayman insurance law, including Johnson & Higgins (Cayman), the first major U.S. broker to set up its own office in Cayman. The J&H office is being managed by David Campbell, a British chartered accountant who left Cayman Underwriters Services after helping Charter Oil wind down the company.

The other new license applications are mostly for unrestricted B licenses, which are granted companies that immediately or at some point in the future want to write non-Caymanian risks unrelated to the company owners. The law requires these companies show a minimum net worth of $120,000 to underwrite property/casualty insurance, but Mr. Darwood can require more.

Restricted B licenses are issued to captives that state they will write only related company risks. The law doesn't set a minimum capitalization, but again, Mr. Darwood can.

Less than 15% of the insurers are underwriting unrelated risks, Mr. Darwood says, which pleases him. "I'm glad they aren't rushing in," he said, "and those that are into outside business are getting it from one or two sources. They are not openly soliciting it from agents or brokers."

There is not yet a reinsurance broker in Cayman from whom to solicit business, however.

Most of the Cayman registered captives underwrite workers compensation and general liability risks, Mr. Darwood said. Association captives, many of which underwrite medical malpractice risks, and private ventures into the insurance business round out the market.

Except for United, with an estimated annual premium volume of about $200 million, the companies generally generate about $200,000 to $5 million in annual premiums.

"Every now and then we see a company with $3 million to $5 million in premium volume, but for each of those we have four or five that are substantially less than $1 million," Mr. Darwood said.

About 75% of the Cayman registered insurers are subsidiaries of corporations, he says. The other 25% are pretty evenly split between association captives and private ventures into the insurance business. These private ventures are by insurance agents or friends of agents underwriting low-risk property exposures or taking small

Continued on page 32

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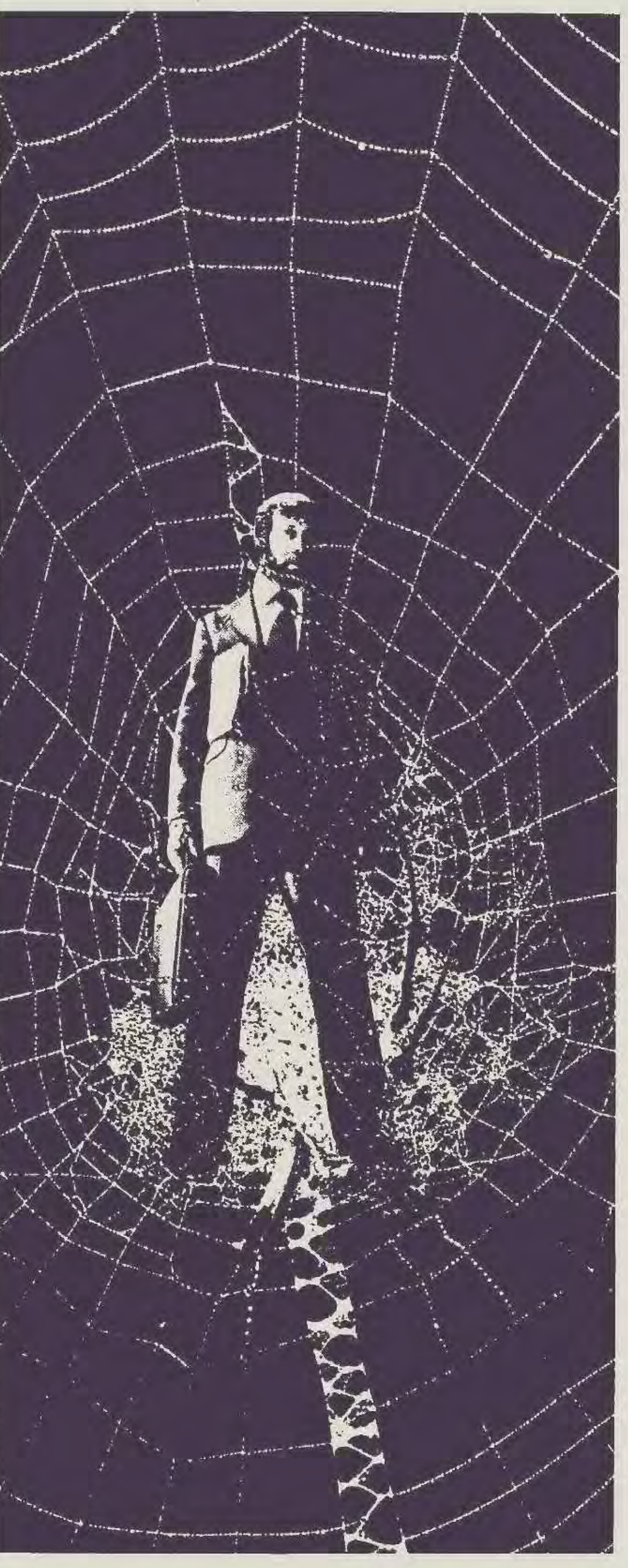

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Cayman beckons to captives

Photo: Kathryn J. McIntyre

Ian Kilpatrick is signing up new captives for Grand Cayman.

Continued from page 30

lines on reinsurance treaties.

Mr. Darwood declined to even guess at the premium volume flowing to the island until he can release an accurate figure in June 1982, when all companies are licensed and reporting their financial standings. Based on interviews with the largest captive managers on the island, *Business Insurance* estimates the annual premium volume flowing to Cayman at $350 million to $400 million.

"There could be some surprises out there," Mr. Darwood warns, referring to the companies that have not completed license applications.

The large volume of workers compensation risks in Cayman companies suits Mr. Darwood because the captives need a fronting insurer in the U.S. to underwrite workers compensation. The approval of a fronting company laying its surplus on the line to a captive reinsurer makes Mr. Darwood's job of judging solvency a lot easier.

With almost 200 companies to review, Mr. Darwood can use all the help he can get. He is, however, planning to hire an assistant to help him review the underwriting and financial information he intends to request of companies under his broad authority.

The insurance superintendent also can rely on the captive insurance company managers to help him police the companies. They are obliged to report to him any activity that they suspect violates the insurance act.

Mr. Darwood sometimes finds himself puzzling over license applications. "People do construct some of their deals to take advantage of the favorable tax treatment, but they are just putting off the awful day," he says. "There are things we are not used to seeing, but there is a sufficient sprinkling of regular insurance deals to be encouraged."

Some captive insurance company experts question how effective Mr. Darwood will be at spotting financially questionable proposals. His track record as manager of Mentor U.K. was one of underwriting losses, they point out. Others defend Mr. Darwood as a knowledgeable insurance professional who will weed out or help revamp shaky propositions.

Mr. Darwood needs about a month to process a license application for an insurance company.

"We have been known to turn something around in about two weeks, but that's not normal."

The annual insurance company license fee in Cayman is $3,600.

In reviewing an application for an insurance company license, Mr. Darwood says he applies normal insurance industry standards to determine if the venture is feasible. However, he is not as strict in applying premium to surplus ratios in a pure captive, for example, as he is in applying them to a company that intends to underwrite risks of unrelated companies.

Mr. Darwood appears to be using his wide powers of authority to require financial information and business plans in approving and refusing licenses to the satisfaction of the captive managers on the island. They are still honeymooning with the new regulator.

Their chief complaint is not against him but rather the law that dubbs a captive manager an underwriting manager and only defines the person as someone who delivers "underwiting and insurance expertise."

Roger Corbin, a Caymanian citizen who parlayed his local brokerage business into managing captives, contended he shouldn't register as a captive manager because he doesn't provide underwriting expertise.

He defers to U.S. underwriting experts, he says. But, having complained, he says he will register.

Bankamerica Trust & Banking Corp. (Cayman) Ltd., which services about 40 captives, hasn't registered under the law for the same reason.

"We provide accounting, investment management, banking and safekeeping," says senior trust officer Graham K.R. Stapeley.

Mr. Darwood admits that the definition of captive manager may need to be amended in the future. In the meantime, he says, he will require any company providing services essential to the operation of a captive to register.

The Bank of Nova Scotia Trust Co. (Cayman) Ltd., the largest captive manager on the island, has registered under the law.

It has also created a special nine-person division to serve 66 clients' management needs under the direction of Anthony B. Stelling, a 15-year veteran of the U.K. insurance market.

"The creation of the division reflects the stupendous growth here," says Mr. Stelling.

"We'll play devil's advocate to insurance programs brought down here," Mr. Stelling says. He will also tap his connections in the London insurance market to place reinsurance for clients, a service he admits is complicated by the new links between U.S. and London brokers. He has to choose the appropriate linked—or unlinked—London broker that will serve his clients' needs best.

Controlled Risks, the Harvard medical malpractice captive, is among the bank's 53 active insurance company clients and the one that attracted the bank to the captive management business in its Cayman base.

Many U.S. brokers, including Johnson & Higgins and Rollins Burdick Hunter, established management relationships with Nova Scotia because their clients using Cayman captives were too few to

Continued on page 34

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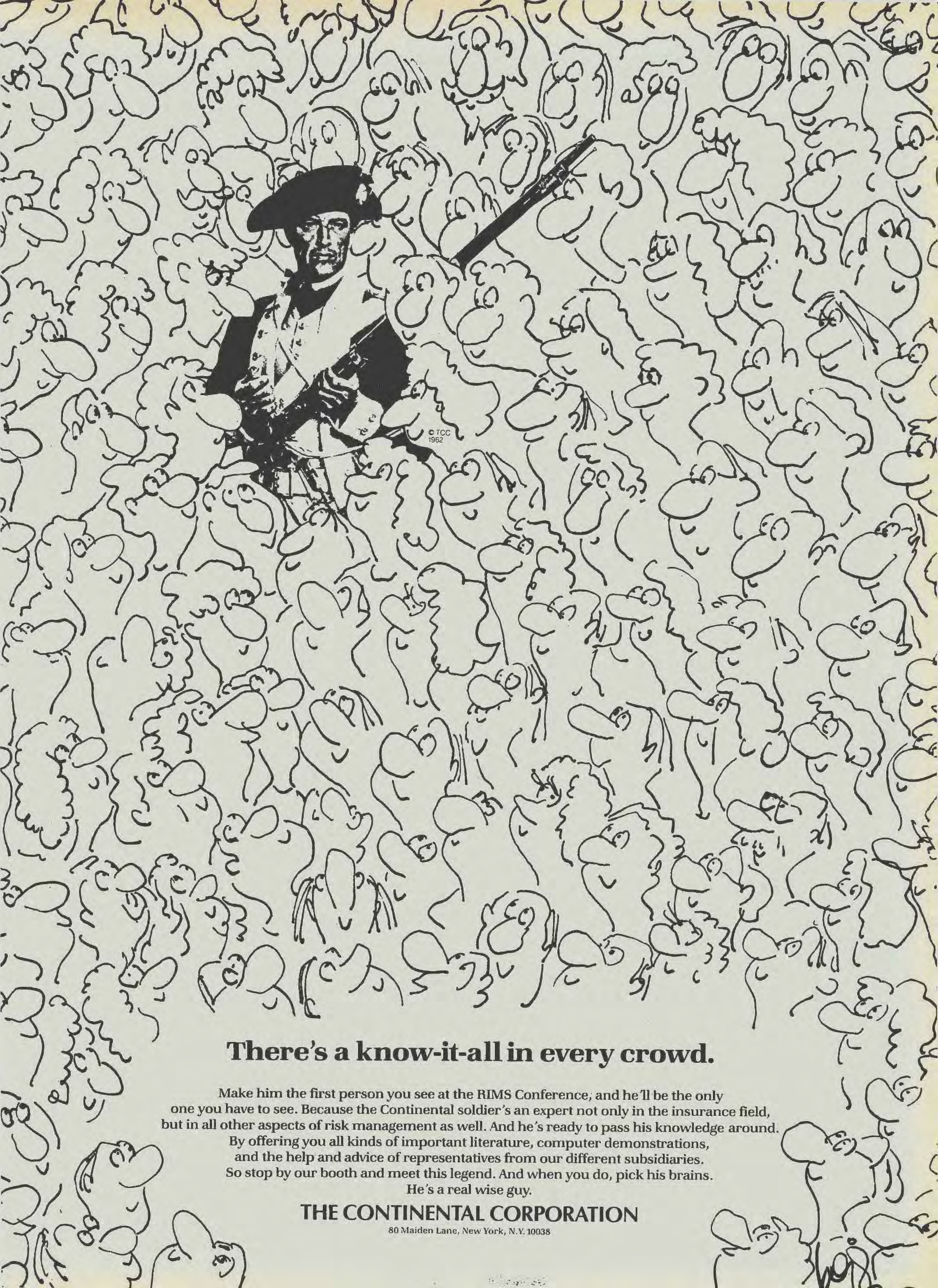
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Captive services grow in Cayman

Continued from page 32

nce on the island. Although J&H will use its own office now to service J&H clients forming new Cayman-based captives, its former clients, including the Harvard captive, will remain with Nova Scotia.

A captive can negotiate a management fee for as little as $5,000 with the bank. But the bank won't service companies that directly issue many insurance policies. "Most of our clients are looked after by a broker or consultant in the U.S.," Mr. Stelling says.

The bank doesn't have the staff to accommodate a lot of paperwork, despite the recent installation of an IBM 34 computer to streamline work.

Mr. Stelling's minimum fee is half of what other captive managers on the island quote as their minimum fee for managing a simple captive.

The services delivered for the low fee of $10,000 is for minimal accounting and financial services at management firms with small staffs to support, not for complete access to all the international captive management and related services provided by J&H or Transnational and its affiliate, American Risk Management.

Transnational, the Fred Reiss company formed to participate in and manage the supercaptive United, will soon restrict its operations to United.

The captive management facilities of the company will be provided under the name Compass, although all the same people and services of the office will be used.

So far Transnational/Compass is believed to manage only about a half-dozen captives in Cayman, but they are said to be the larger captives requiring the most work. And the firm is obviously gearing up to take on a lot more business in new headquarters being built by another Reiss-related company.

The spacious quarters, to be ready in September, will include enough office space for Transnational/Compass, more to rent until needed by the companies, and an upstairs apartment for Mr. Reiss. The latter accommodation and the size of the new building is breeding speculation in Cayman that Mr. Reiss may move the base of his International Risk Management operations to Cayman from Bermuda.

Compass is most interested in managing larger captives, confirmed general manager Don Westmoreland. An annual premium volume of at least $1 million is considered necessary at Compass to make a captive worthwhile.

Besides the services of the international network of Reiss-related companies offering a client, the general manager of Transnational is respected on the island as one of the most experienced insurance experts in Cayman.

Mr. Westmoreland, a 27-year veteran of Commerical Union in London, also plucked an underwriter from CU for the 16-person staff.

Even this experience, however, is now restricted to clients of Reiss-related companies and isn't yet benefiting the island with creating an accessible market or helping another market develop.

"I'd like to see market development," Mr. Westmoreland says. "We don't have the facility now, but this is a very good place for one."

Third-party reinsurance facilities in Cayman are getting off to a slow start. Cayman Islands Reinsurance Corp. Ltd. was been forced to lower its capitalization sites to $6 million from $12 million because investors moved slowly. And it has added new officers from the initial offering.

TASCO, a reinsurance pool formed by captives formerly in the now defunct CORAL, was just recently licensed.

TASCO is managed by Carribean Risk Specialist Ltd., a captive management firm formed in June 1980 by Houston-based Anderson, Greenwood & Co. after news of internal management problems at Cayman Underwriters Services became public.

Continued on page 38

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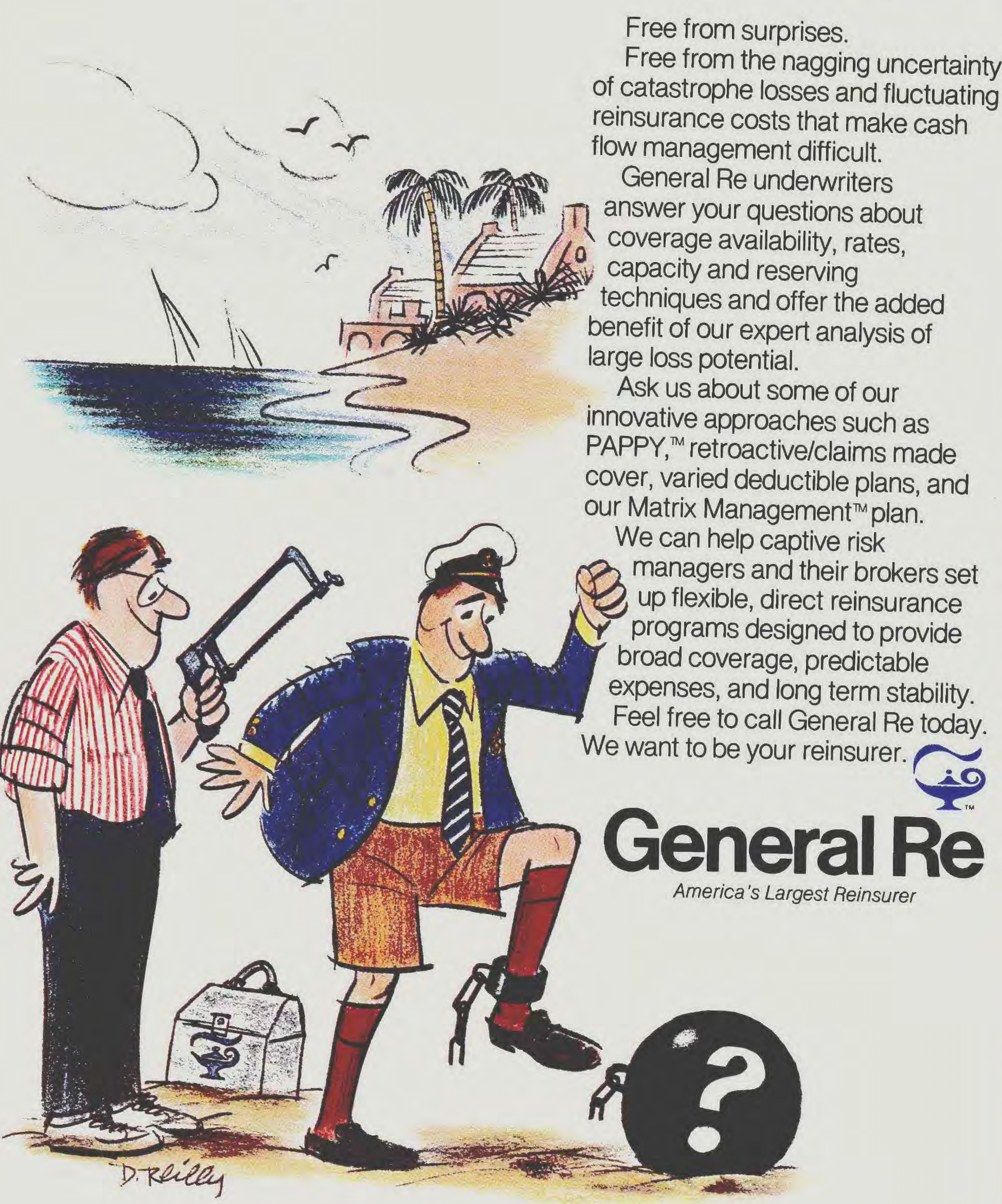

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Mount St. Helens spews fire, mud and ash.

VANCOUVER, Wash., May 18, 1980.

Mount St. Helens exploded this morning with a thud that was felt over 100 miles away. A heavy cloud of steam and ash turned day into night. At least a half-dozen people were killed trying to escape flood waters, fires and mudslides that devastated the Toutle River valley shortly after the eruption.

A spokesman for the Washington Department of Emergency Services said that police working from helicopters had found some of the dead. "We have many overturned vehicles in the Toutle River valley," he said, "and our communications with the helicopters is so fragile that all I can tell you is that we have found several bodies." Two of them, found at a logging camp,

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Captive managers expand in Cayman

Continued from page 34
The office managers, Caymanians Turney Rankine and Kathleen Bodden, left CUS to join the new company at the request of Anderson, Greenwood.

Now Caribbean Risk Specialists manages nine companies with expected annual premium volumes totaling $7 million, including TASCO and two Anderson, Greenwood captives. More prospective clients, one with an annual projected premium volume of $7 million, are in the wings, too.

"We could handle 12 to 15 good sized companies," says Ms. Bodden with an aggressive gleam in her eye.

Another aggressive captive manager in Cayman is Ian Kilpatrick, a former Transnational employee who has formed Insurance Management Consultants Ltd. The company expects to add a seventh client this summer, bringing the total premium volume of managed companies to about $7 million.

Four of the companies are privately owned ventures into the reinsurance business, requiring little management effort. But Mr. Kilpatrick is marketing his services to bring in more clients like the captive on the drawing boards for 22 Michigan nursing homes.

Delayed from starting on its target date of April 1 because of a tax issue, the new captive is now planned for activation July 1. It will underwrite workers compensation risks on $16.5 million of payroll for $2 million in annual premium. The captive will retain the first $25,000 of every loss. The upper layers will be reinsured with Bermuda and U.S. reinsurers.

Another prospect is a captive to write general liability insurance for the Michigan Assn. of Counties. Even though this captive is still in "very formative stages," Mr. Kilpatrick is looking for a September start. So far, Insurance Management Consultants Inc. has the go-ahead for a feasibility study for the association.

All the captive managers promote the island's extensive banking community. With more than 300 banks and trust companies here, the competition for clients is vigorous.

Letters of credit, for example, sell for as little as one-eighth of 1% of value, according to one local banker.

Only a few of the captive managers, however, are marketing a unique feature of the Cayman banking community: it offers captives the opportunity to join it.

Cayman's banking law allows the formation of a private bank. A captive accumulating surplus, whose parent did not want to expand into the insurance busi-

Continued on page 40

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Super captive insures pool of U.S. risks

GRAND CAYMAN, B.W.I.—United Insurance Co. is the star of the captive insurance company industry here.

The super captive, owned by 28 companies and writing an estimated $200 million in annual premiums for mostly casualty risks, is Cayman-based and managed by Transnational, one of its owners and an affiliate of International Risk Management.

About half of United's annual premium volume is generated by a risk-sharing pool for owner-captives. The pool allows them to trade low layer risks to diversify their portfolios and to stabilize their annual results with larger spreading of risks.

United's subsidiary, Universal Insurance Co. of Ireland Ltd., provides United with risks to underwrite that are unrelated to the owners. The business is ceded to Universal by major reinsurers around the world who reinsure the risks of United owners. This is reciprocity: the practice of providing captive insurance companies with good risks to diversify their portfolios in return for the privilege of reinsuring their captives.

A number of other pools are maintained.

The 1980 accounts of United are due this month, making 1979 the latest accounts available.

The 1979 published statements show United wrote $97 million in gross premiums and $10.7 million in net premiums. Its net underwriting profit of $355,916 was increased to a net income for the year of $2.2 million by $1.8 million in investment income.

Its retained earnings at year end 1979 were $6 million.

The owners of United, which is now a closed pool, are the captive insurance companies of: Rockwell International Corp.; Genstar Ltd.; Petrofina, S.A.; Sundstrand Corp.; I.C. Insurance Holdings Ltd.; Glenmore Distilleries; General Mills Inc.; Archer Daniels Midland Co.; Weyerhaeuser Co.; Inco Ltd.; Castle & Cook Inc.; Rexnord Inc.; Sperry Corp.; Owens Illinois Inc.; Mead Reinsurance Corp.; TRW Inc.; International Harvester Acceptance Corp. Ltd.; Thomas J. Lipton Inc.; American Cyanamid Co.; CPC International Inc.; Firestone Tire & Rubber Co.; Rohr Industries Inc.; Brunswick Corp.; Eaton Corp.; Celanese Corp.; Diamond Financial Holdings; Cargill Inc, and the Reiss-affiliated insurer Transnational. ■

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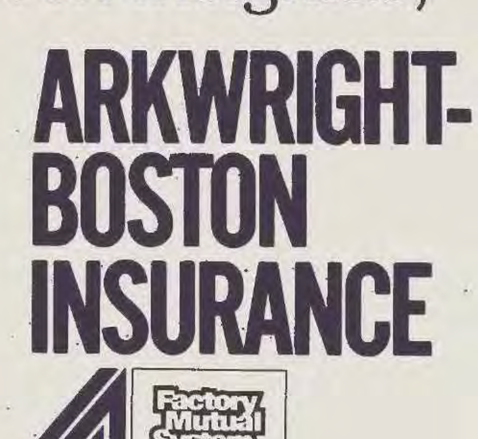

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Cayman captive hunt

Continued from page 38
ness, could form a private bank as a subsidiary of the captive.

Mr. Stelling at Nova Scotia Trust is enamored of the private bank opportunity. "You need $250,000 to capitalize a private bank. You could do your banking with it; other subsidiaries could do banking with it. And you could place your CDs with it," he suggests.

"You could operate a private bank as a sister company," agrees Mr. Westmoreland of Transnational. "The flow of funds could be straight out of the insurer and then you would have them for commercial lending."

No insurer would put all its money with its sister bank, however, he stressed.

"The idea is super, but practically, it's difficult," said Timothy Ridley of Maples & Caulder, the most prestigious law firm in Cayman.

Convincing subsidiaries in foreign countries to give up their local bank accounts and the prestige those accounts afford the subsidiary managers can be a tough sell, Mr. Ridley explained.

If subsidiaries are accustomed to insuring with a Cayman-based insurer, it is easier to sell them on using a Cayman bank, he suggests.

"Managing the operation is also a lot of work, too," he said. "Management logistics require a fairly high officer of the company be put in Cayman to give orders around the world. You wouldn't want to use another bank as the manager."

At least two multinational firms among his clients have taken advantage of this opportunity, he noted. One is a Fortune 500 company and the other a privately held company. Both have a substantial number of subsidiaries around the world.

"It's the pooling of capital from around the world that makes it work," he explained. "Multinationals can pool their funds to lend or to go to the Interbank market and get better deals. The more money under control, the better the deal they can get."

Insurance superintendent Mr. Darwood didn't immediately embrace the idea when asked about the concept. "The bank inspector and I would have to take each proposition in its own right," he said. "But I'm not sure we would be particularly happy to see insurance funds being used to back a banking operation. If the funds are corporate and no outside interests are involved, I may not be adverse.

"I don't want to indicate that the Caymans may be a good place to link banking and insurance. The bank could lose money that could be needed to pay claims.

"One would also prefer that the buck stop here rather than pass the work onto the bank inspector," he added.

If the private bank doesn't sell a potential client on Cayman, the Cayman-based captive manager touts the professionalism of the island's 45 lawyers and 70 members of the Cayman Island Society of Professional Accountants, most of whom are chartered accountants or "international equivalents," according to Peter Baker, president of the Society.

Besides recent expertise in insurance, the lawyers and accountants have been working on banking and investment businesses that have been Cayman's commercial mainstay.

Their prices are somewhat lower than their colleagues' prices in Bermuda, the captive managers say. But the accountants and lawyers quoted fees very similar to those charged in Bermuda.

"Our standard rates are very close," said Mr. Baker, who is also apartner at Peat, Marwick, Mitchell & Co.

Charged standard rates for time spent, a small insurance company would pay about $2,000 for an audit and a larger company would pay $15,000 to $20,000, he said.

Peat, Marwick has about 60 insurance company clients now, reflecting a big increase in clients since the new insurance law requiring annual audits became effective. About half the clients are captives of fairly large U.S. firms.

Mr. Ridley, whose firm represents 50 isurance company clients including the largest insurers in Cayman, contends legal fees in Bermuda and Cayman are about the same. "The minimum legal fee to get a simple, straight forward

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company licensed is about $2,000. Companies with complicated shareholder agreements will pay about $5,000 to $6,000."

One benefit Cayman offers a captive owner is priceless: a sense of a stable government. The last Crown Colony in the Caribbean seems to be in no hurry to seek independence. Most Caymanians white and colored (a term they prefer to black) say they are happy as a Crown Colony and don't want independence from England.

"There's no advantage to independence," says Ms. Bodden of Caribbean Risk Specialists. "We have economic stability now." And, the Caymanians run their own internal affairs.

There is no obvious racial tension in Cayman, with many intermarriages between the races.

As in other island communities, the government enforces policies to give local citizens the first crack at jobs. But when a company can prove there are no local Caymanians to fill a post, an expatriate is given a work permit and welcomed to the island. There is some debate among captive managers about the length of time required to secure a work permit for an expatriate. One says it moves quickly enough; another contends he has to wait months too long.

So far there is little evidence of any anti-expatriate feelings. Some expatriates who have been in Cayman longer and socialize more with local Caymanians, however, criticize their newer-arrived colleagues who tend to isolate themselves.

The business visitor to Cayman will find the Caymanians friendly, but not inclined to deliver red-carpet treatment. Their style is more relaxed, but so is the attire expected of guests. Ties are uncommon in the evening and daytime wear among professional men is short-sleeved shirts and ties to tolerate the 80 degree weather in winter, not to mention 90 degree summer days. Professional women usually wear simple cotton skirts and blouses.

Hotel accommodations are limited. It's recommended visitors rent condominiums instead of hotel rooms. The stretch of rental units along the seven-mile beach is most popular; just a few minutes from town and just a few steps from the ocean that is inviting year-round.

Snorkeling and deep-sea diving are the most popular sports among active visitors. The more sedate prefer to lounge on the beach.

There are no golf courses, although two are supposed to be under development. One Cayman captive manager contends he is sure that he lost a client to a Bermuda manager for that very shortcoming.

But attorney Mr. Ridley contends that there are good risk management reasons other companies are forming Cayman-based captives. "Quite a few big companies have decided that the amount invested in Bermuda is enough—based on geographical and political risk—and the time is now to set up in Cayman."

No one, not even the most ardent Cayman booster, pretends Cayman can offer the breadth of captive management and insurance expertise and service that Bermuda can.

"Cayman hasn't reached the sophistication of Bermuda," admits Mr. Kilpatrick of Insurance Management Consultants. "But Cayman has 200 legitimate insurance companies in two-and-a-half years. It took Bermuda 10 years to get established." ■

Lawyer wins captive rep

GRAND CAYMAN, B.W.I.—Modesty is not among characteristics of the most respected captive insurance company counsel on Grand Cayman, Timothy Ridley.

Told he had been referred to as the up-and-coming Sidney Pine, one of the best-known U.S. attorneys specializing in captive insurance companies, Mr. Ridley quipped: "I thought I'd made it."

His piercing blue eyes twinkled.

Mr. Ridley does not specialize in tax matters as Mr. Pine does. In his position with Maples & Calder, Mr. Ridley advises insurance companies setting up in Cayman.

Among his clients is the largest insurer in Cayman: the super captive United. He is also counsel to the two open-market reinsurers forming, Cayman Islands Reinsurance Corp. Ltd. and TASCO.

About half of the firm's 50 insurance company clients are writing unrelated risks, Mr. Ridley said. "Some pure captives are looking at it, but they are pretty conservative."

When companies do decide to write unrelated business, the lack of a local market to tap for unrelated risks sends them to Bermuda or London, he noted.

About half of the 50 clients are also association captives, Mr. Ridley noted, primarily underwriting medical malpractice insurance. Other programs include a warranty program for car dealers, product liability insurance for chemical companies and product liability insurance for propane dealers.

Mr. Ridley predicts that the future of the captive insurance company business in Cayman depends upon what happens in the Bermuda market. "If Bermuda comes to a halt from size or political problems, we'll get a lot more business. I don't want to see Bermuda go down, don't get me wrong.

"Cayman is young and aggressive. We really want the business. Now Bermuda is forgetting that companies have other places to go—like Cayman." ■

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Manager scandal won't faze Cayman

GRAND CAYMAN, B.W.I.—The internal management scandal at Cayman Underwriters Services Ltd. that rocked Charter Oil into pulling out of the third-party management business is considered a sad tale here, but nothing to live down.

No clients were hurt by the alleged inside dealing of former Charter managers John Ray and Dave DeMarco (*BI*, June 16, 1980), other Cayman management sources stress.

The books of 16 former clients were still piled in boxes in February waiting to be retrieved by owners. Charter had notified clients at the end of March that it was closing the management company and clients should find new managers by Jan. 1, 1981. It was the end of the oldest captive management firm on the island that had grown to 17 staffers with two minicomputers.

Some of its clients had come on referral from Marsh & McLennan, which was a major broker to Charter until recently.

It appeared last fall that the company would be purchased by The Wetzel Co., but after three months of pouring through CUS books, Wetzel did not make an offer to buy. Of the 35 companies left on the books, only 22 were active.

Many former CUS clients are now managed by Caribbean Risk Specialists. At least one, the Michigan bar owners captive writing dram shop liability insurance, went to BankAmerica Trust & Banking Corp. in Cayman.

CORAL, the underwriting pool, is believed to have dissolved, although some members are said to be interested in reviving it under a new manager, possibly Corroon & Black.

Charter Oil moved its own captive business to the Bahamas to be managed by its subsidiary there, Bahamas Underwriters Services. That management company, under former Bahamas insurance companies registrar Charles Donaldson, will manage only Charter's new Bahamas-based captive, New Providence. The new captive replaces the former Cayman-based captive, St. Ives, as Charter's participant in the reinsurance pool CIRCL.

There are no plans for the Bahamas-based management company to manage any unrelated captives.

Former CUS employees were quickly hired by other management firms.

At least one employee, however, intends to go into business for himself.

Rex Rankine, formerly assistant controller and one of the last employees to leave, will open his own management firm in the former CUS offices. It will be a general company management firm initially, although captive management is in the future plans.

Meanwhile, Mr. Ray, convicted of forging a name to a check, is in Cayman while he appeals the conviction to the Court of Appeal in Jamaica. Mr. DeMarco, the former president of CUS, is no longer in Cayman. ▪

Secrecy law binds privacy for captives

GRAND CAYMAN, B.W.I.—A client's business is strictly the client's business in Grand Cayman.

A tradition elsewhere is enforced in Cayman under the Confidential Relationships Law which prohibits anyone from divulging information about a client's business without the client's permission.

The law was written to keep anyone from releasing information to the U.S. Internal Revenue Service about foreign bank accounts of U.S. citizens.

Some captive managers, however, are uncomfortable with the law. "I only want to deal with honest people, but what if I get sucked in by someone who isn't honest?" asks Ian Kilpatrick, managing director of Insurance Management Consultants Ltd.

His colleagues and attorneys on the island answer that he is required under the insurance law to report any suspicions of dishonest dealings to the superintendent of insurance. Since the insurance law was passed after the secrecy law, everyone assumes the insurance law is supreme on this issue.

Captive manager Roger Corbin has another solution. He requires all clients of Absit Insurance Management Ltd. to sign a form giving the firm permission to respond to a competent court inquiry from any jurisdiction through a mutually acceptable lawyer.

"This is not for IRS fishing expeditions," he notes. "But if someone can convince a court to ask for information, I will go."

None of his current seven captive clients has refused to sign the form, he says.

Attorney Timothy Ridley of Maples & Calder suggests that the secrecy law is doing Cayman more publicity damage than it is bringing in goodwill from clients. He anticipates there will be amendments to the law making it clear under what circumstances local residents can respond to inquiries regarding criminal activity—excluding tax issues. ▪

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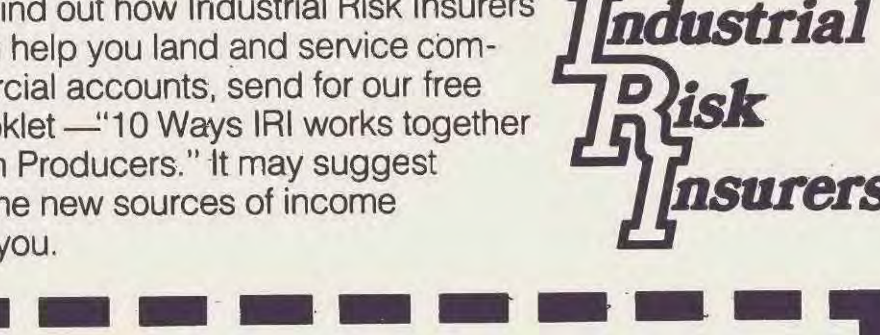

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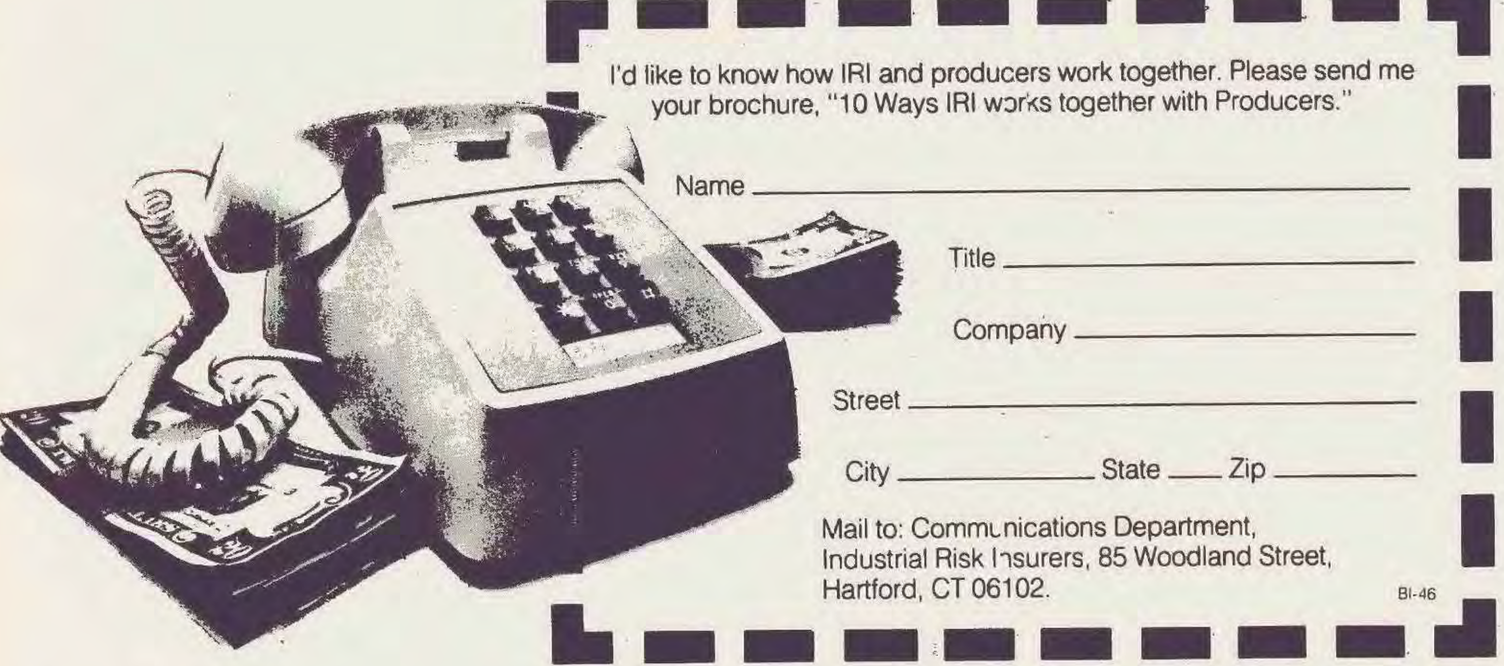

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Bahamas

Business, government stalk captive insurers

By KATHRYN J. McINTYRE

NASSAU, Bahamas—Prime Minister Lynden Piddling is expected to attend the Risk and Insurance Management Society conference in San Francisco this week to demonstrate how much this tourist and banking center wants captive insurance companies to choose The Bahamas.

Government officials here say they support the efforts of a few local insurance company and brokerage firm executives to attract captive insurance company business here.

"A vibrant captive insurance industry will complement and strengthen our existing offshore business—banking and otherwise, and enhance our image as successful financial center," says a report prepared for the deputy prime minister by the Central Bank of The Bahamas.

"While our immediate goal should be attract captives to The Bahamas, our final objective ought to be that of building an offshore insurance community to effectively compete with New York, London, Bermuda and Cayman," the report recommends.

Deputy Prime Minister Arthur Dion Hana told *Business Insurance* in an exclusive interview that The Bahamas is interested in developing an offshore insurance industry.

Local broker Charles Fernie of J.S. Johnson & Co. Ltd., which already manages two captives, and Justin Tierney, a former American broker who is now with British American Insurance Co., are both trying to drum up captive business for The Bahamas.

Bankers Trust is also interested in captive prospects.

Currently there are only 20 non-resident companies registered, about half of which may be captives. Some of them may be managed elsewhere, and few are visible.

Both business and government are trying to overcome the perception that The Bahamas tossed captives out of their cradle there in the late 1960s and that the government doesn't want the business.

They contend The Bahamas is an attractive domicile for captives because it is only a short plane hop from Miami on frequent flights, boasts of well developed banking, legal and accounting services, offers recreation from golf to gambling and maintains excellent communication systems with the U.S., including clear, direct-dial telephone line.

The Bahamas offer the same tax exemptions as Bermuda and Cayman and its insurance companies fees are much lower than those charged in the other two domiciles. The Bahamas charge a $1,000 initial registration fee and $500 annual renewal fee.

Its insurance law, the first to be enacted in an offshore haven for insurance companies, is less strict than the very specific law of Bermuda but is more strict than the Cayman insurance law, which leaves broad discretionary power to regulate to the insurance superintendent.

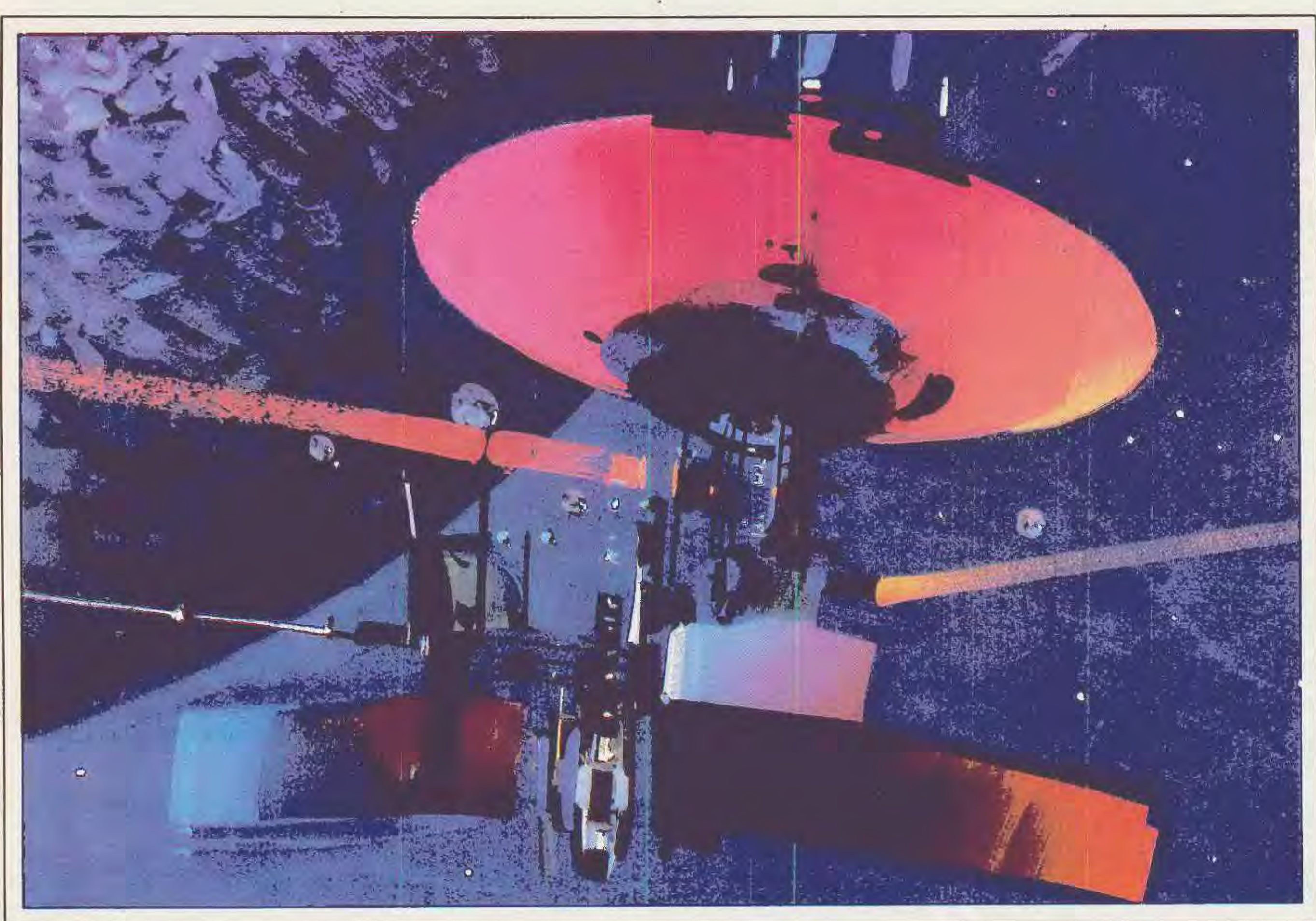
Captive management fees quoted at $10,000 are less than the Bermuda's typical quote of $15,000 to $20,000, but the same as Cayman managers' charges.

No one is sure how many captives were based in The Bahamas before the insurance law was enacted in 1969.

Clive Himsworth, who directed the management of Mobil's captive there from 1964 to 1968, recalls only four or five companies with a management presence in The Bahamas. Exxon and Seagrams both

Continued on page 46

Solving the problem.



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The Bahamas stalk American captives

Continued from page 44
had staff there, he said.

Mobil moved to Bermuda in 1968, he said, "because it was nervous the legislation would make it uneconomical to operate there."

Exxon is also now in Bermuda, but Seagram's captive is still registered in The Bahmas.

The 1969 legislation levied a 1% premium tax on insurance companies.

But the first registrar of insurance companies, Charles Donaldson, maintains the government didn't mean to tax captives or drive them out.

"I didn't anticipate the reaction to the insurance law," he said. "I thought we were chasing out suitcase companies. It didn't dawn on me about captives.

"I wish now I would have said publicly that captives would make themselves known to me and there would be no problem."

The current registrar of insurance companies, Octavia Johnson, stresses that the insurance law has been clarified to state that captives don't owe the tax and that they don't have to publish annual summaries of their financial statements, another requirement of the law that captive owners didn't like.

While she intends to enforce the capital requirements in the law on companies writing risks for unrelated parties, she says she will accept the assets of the parent company as fulfilling the capital requirements if the captive will write only related-risk business. But she would still like to see at least a bond for $140,000 from pure captives.

Otherwise, companies are required to maintain $140,000 more in assets than liabilities for up to $700,000 in premiums. A higher premium volume requires assets exceed liabilities by one-fifth.

The government is now reviewing the insurance law again to see if any more changes can be made to make regulatory climate in The Bahamas as attractive to corporations with captives as the weather is to tourists.

Ms. Johnson has recommended that the law specifically apply less strict regulation to pure captives than companies writing unrelated risks. The secrecy law that applies to banks should also be extended to insurance operations, she added.

Ms. Johnson would like to see one aspect of the law strengthened, however. She wants all captive managers to be forced to register. In the meantime, she is accomplishing the goal by asking them to register under the insurance broker section of the law.

So far there are few managers to register. J.S. Johnson, a broker and underwriting agent writing in excess of $10 million in premium volumes is the only visible, active manager of captives. J.S. Johnson manages two captives: Ginco Assurance Ltd., owned by Gurrentz International Corp. of Chicago, and Can-Am, whose parent he would identify only as "prestigious."

Can-Am was recently registered in The Bahamas. Although registered under the insurance law in The Bahamas, Ginco is a Cayman-incorporated company.

Ginco is underwriting about $600,000 in annual premiums including non-related risks. The risks are nearly all international, such as foreign credit insurance and coverage for losses due to delay of shipments for the meat importer.

J.S. Johnson, which is owned 60% by Hogg Robinson, 20% by Mr. Fernie, 10% by Imperial Insurance Co. of Cayman and 10% by a local resident, is the largest brokerage firm on the island. Its staff of over 50 includes chartered accountants and Fellows of the chartered Insurance Institute, the equivalent of the U.S. designation of Chartered Property and Casualty Underwriter.

Four people currently work on captive business and an IBM-34 computer now being installed will be ready to handle captive accounts, Mr. Fernie says.

"There's a rekindling of interest in captives," says Mr. Fernie, who has been writing memos to the government promoting captives since the mid-1970s. "We have a new governor of The Central

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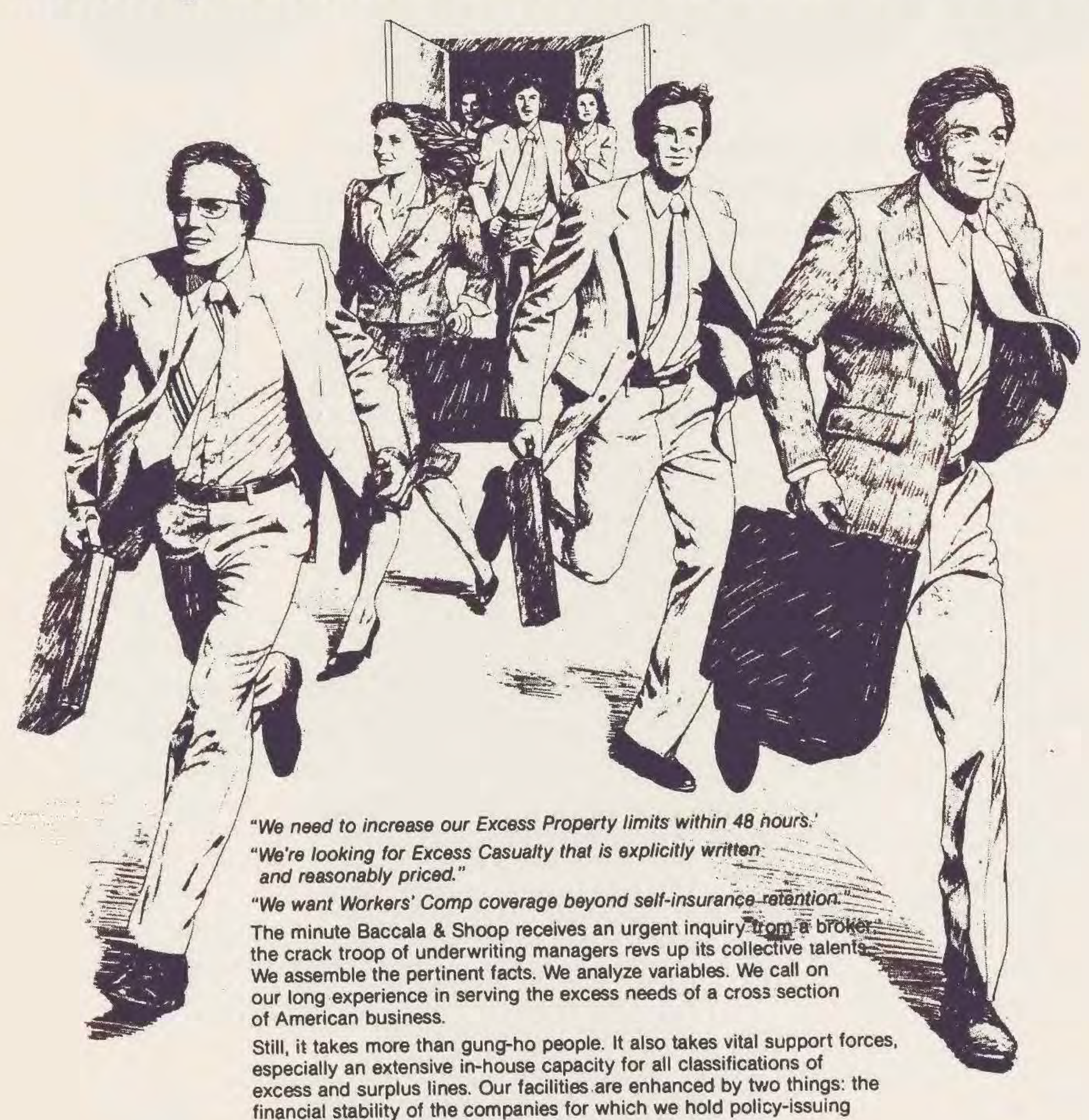

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Bank, a new Financial Secretary and interest in Bankers Trust."

"The official view is that it is sensible for captives to come back. We will assist in the effort to get them," confirmed William C. Allen, the governor of The Central Bank of The Bahamas.

"I can't think of any reason why the government wouldn't want captives," said Ethlyn C. Isaacs, the financial secretary, who is the chief administration officer in the ministry of finance.

"We thought Bermuda provided the home," noted Minister of Finance Mr. Hanna, who has been criticized by some business men for not doing enough to promote The Bahamas as a captive center. "We just recently became aware that local companies are interested in captives."

"We're putting the development of the insurance industry fairly high on the list of priorities," Ms. Isaacs said

To further the effort, the government hosted a meeting March 12 for insurance industry executives from the U.S. and U.K. as well as Bahamas to state its interest in captives.

It could take more than one meeting to produce the results.

"The resistance from the states to the Bahamas is very strong," says Mr. Tierney, president of British-American Management Ltd.

British-American created the subsidiary and hired Mr. Tierney to develop a captive management business in the Bahamas as well as develop a property/casualty business for the life insurance dominated company. But he hasn't landed a captive client yet.

He blames a cheap insurance market for slowing growth of captives in general. But in particular, "people don't trust the government here," he added.

The Bahamas, formerly a British colony, is an independent nation which has elected a Black government since 1967. "We encourage captives to come. This is a stable government. There will always be a Black government here; we are 85% black," said Ms. Isaacs.

One possible roadblock to the development of an insurance business in the Bahamas is the small number of insurance experts here ready to take on captives and the strict immigration laws.

"Once government decides to push this, immigration won't frustrate it," Mr. Hanna declared.

Indeed, Mr. Hanna said he is not opposed to bringing an expatriate insurance expert into the registrar of insurance companies office if such an expert is neeed to attract captives to The Bahamas.

A land policy prohibiting the sale of Bahamian land to non-Bahamians, which some sources said could deter expatriate experts from accepting jobs in The Bahamas, has been moved back to the drawing boards by the government because of local opposition to a number of its provisions.

Mr. Donaldson, who is now managing Charter Oil's captive in The Bahamas, maintains all that needs to be done is for the government to welcome captives. The Bahamas' advantages as a domicile will attract the business as soon as American companies know they are welcome, he says. ■

Manager trys insurer's role

NASSAU, Bahamas—Former Frank B. Hall & Co. executive Justin Tierney is taking British-American Insurance Co. here into the property/casualty insurance business.

As president of British-American Management Ltd., he is looking for captives to manage and as senior vp of British-American Insurance Co. Ltd., he is underwriting property/casualty risks.

Until Mr. Tierney was hired in November 1979, British-American primarily devoted its efforts to personal lines insurance underwriting in 38 countries, predominately in the Caribbean and Third World countries. Its premium volume is about $180 million.

Mr. Tierney has yet to land a captive client, which he blames on the wrong impression American business has of The Bahamas as an unstable government, and the very competitive insurance markets.

When captive management didn't take off, British-American granted Mr. Tierney approval to write reinsurace. "I've written in excess of $5.5 million in annual premiums in 1981, for $4.7 million net annualized," he said.

The mostly treaty business in the excess layers is evenly split between property and casualty risks. Although he has a net line capacity of $250,000 and reinsurance capacity to $2 million, he generally is writing a $25,000 line.

Among the companies whose treaties he has signed onto are Bermuda-based Walton and Mentor and U.S.-based Northbrook, Allianz and Continental.

About 20% of the business is facultative reinsurance, written at higher excess levels for brokers from the U.S., U.K. and Bermuda.

He expects to have underwritten $8.6 million on a written basis by the end of the year.

Mr. Tierney is also planning further expansion into the property/casualty insurance business. "One of the ways we plan to grow is to acquire companies currently managing captive companies. We're looking at companies in The Bahamas, Bermuda and Cayman." ■

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Nearby Guernsey draws U.K. captives

BY STACY SHAPIRO

LONDON—Off the rainy coast of Great Britain, the third largest captive insurance company community is growing up.

Guernsey, the most westerly of the Channel Islands, differs from its two competing offshore domiciles in two significant areas: it taxes the income of captive insurers and it doesn't yet have an insurance law.

It is also just an hour's flight from London, the largest concentrated commercial insurance market in the world.

Promoters of Guernsey point out that the island offers corporations forming captive insurance companies here an air of respectibility with its modest 20% income tax, some freedom in capitalization and competitively priced administrative costs.

The nearness of Guernsey to the London insurance market is considered one of its chief attractions as a home for about 100 active captive insurance companies, especially those formed by U.K. companies.

"Guernsey has a solid insurance infrastructure because it is easy to get U.K. people to live there," observes Michael Savage, general manager of Hogg Robinson (Guernsey) Ltd.

The U.K. brokerage subsidiary is one of less than a half-dozen captive management firms here fully staffed now to manage captives. About another dozen firms are managed by accountants who rely on the U.K. offices of their parent companies, usually brokers, to provide the needed insurance back-up services.

Among the captive managers here are affiliates of U.K. brokers C.T. Bowring and Sedgwick Group and Alexander Howden Group.

Active captives here include those of English companies such as Barclay's Bank and the House of Fraser (owners of Harrod's).

They plant their captives near to native soil to show they are aboveboard. It doesn't always look good to take your business to the other side of the world to tax havens, sources say.

Seven or eight American companies have planted captives here, among them Gould Inc. of Rolling Meadows, Ill.

One Guernsey captive manager speculated the Americans come to Guernsey to avoid the spotlights focused on Bermuda. But Gould quite openly puts on the busines card of its director and secretary, Mr. Savage, that The Meadows Indemnity Co. Ltd. is its subsidiary.

One of the biggest captives in Guernsey is a subsidiary of the Canadian forestry company of Macmillan Bloedel. It is managed by Michael A. Ward, managing director of Risk Management Ltd. in Guernsey.

No one complains about Guernsey's 20% tax rate on individuals and companies. About 120 captives pay the 20% taxation on annual investment income, but not on underwriting profits, as permitted under the law.

Managers are beginning to suggest, however, that the captives pay tax on their total profits, which could really reduce the tax due if underwriting losses eat into investment income gains.

The Guernsey income tax assessment is considered a status symbol by some: Proof that the captive isn't in business just to beat tax laws.

Guernsey, which is still hammering out an insurance law to be enacted, doesn't impose any minimum capital and surplus requirements.

But sometimes Bruce Riley, commercial relation advisor and the man to see to set up a captive, won't allow a captive to start writing a risk. He refused someone who wanted to write medical malpractice insurance because they didn't have enough capitalization, he said.

Most captives here have capital of $100,000, which is expected to become the minimum capitalization requirement in the new insurance law now being prepared. The law will allow exemptions from the capital requirements and will provide for regulation with the advisory and finance committee conducting an annual private audit of registered companies.

Currently, regulatory costs are minimal. A one-half of 1% stamp duty on authorized capital and a 25 pound registration fee are imposed.

Lawyers fees may run 250 pounds. Management company charges of about 10,000 pounds bring the total price tag to maintain a Guernsey-based captive to about 15,000 pounds.

A few Guernsey boosters will suggest that as part of the Duchy of Normandy, Guernsey offers a more stable political environment than the leading captive center of Bermuda.

The first captive insurance companies came to to Guernsey in the 1930s, said Mr. Riley. But activity increased rapidly after Bermuda started to attract captives and it isn't slowing down. "We had more captive companies in 1980 than any other year," he said.

Most Guernsey captives originally set up shop to insure their parent company's property and fire risks. The same insurance market forces of high prices and low availability that send U.S. companies to set up captives in Bermuda sent U.K. companies to do the same in Guernsey.

Now, 100 to 130 companies worth 50,000 pounds to in excess of 5 million pounds write the insurance gamut—from aviation to workers compensation to some product liability. Premium volumes range as high as 10 million pounds, one manager said.

Only a few companies, however, underwrite insurance for companies unrelated to the parent, said Mr. Riley.

One of the few active in this area is Polygon Insurance Co. Ltd., owned by six European Airline Companies including KLM-Royal Dutch Airlines, SAS and Swissair.

Managed by C.T. Bowring's Transglobe Underwriting Management Ltd., Polygon now writes aviation risks from all sources, basing cost on the London market's ratings. The company, capitalized at two million pounds, encourages London brokers to send aviation risks to them. In return, Polygon uses the London market for its reinsurance needs.

A few other captives underwrite insurance for customers, such as television repair warranties for television manufacturers to sell buyers. ■

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Onshore

Tax tussles slow up the domestic captives

By RHONDA L.RUNDLE

DENVER, Colo.—Continuing tax tussles with the Internal Revenue Service, combined with widespread availability of insurance at bargain prices, are keeping the lid on captive insurance company growth in Colorado.

Slow growth has barely kept even with slow attrition, so that the total number of Colorado captives stands at 25, according to the state's insurance division. One captive dissolved under IRS pressure last year, one converted to a multiple lines insurer and two new captives were established (see related story).

Despite the dry spell in new business, however, captive management companies are cautiously optimistic about the future. Sooner or later the markets will tighten, they say, squeezing off coverage, sending prices soaring and spurring a new wave of captive development.

Indeed, the bulk of Colorado captives were formed during the tight market crisis of the mid-1970's, suggesting a correlation in the insurance cycle between captive formation and scarcity of commercial markets.

But if the competitive market is staving off demand for new captives, IRS scrutiny is giving some corporations second thoughts about continuing to operate existing insurance subsidiaries. The pace of audits and challenges does not appear to have changed over the past year, but uncertainty about the tax status of premiums paid to a captive is jangling some corporate nerves.

"There have been no new IRS challenges in the last several months that I know of," observed J. Richard Barnes, commissioner of Colorado's insurance division. "Everybody is waiting to see how some things already in the mill will be resolved."

One company that decided to dissolve its captive rather than fight IRS is Philadelphia Gear Corp. As part of negotiations with IRS, the company agreed to shut down Atlantic Assurance & Guarantee Co. last fall, said Commissioner Barnes.

Another company at a crossroads is Crawford Fitting Co. The IRS is challenging tax deductions of premium paid to its captive, Constance Insurance Co. At company headquarters outside Cleveland, top executives are mulling over their next course of action.

"We are considering the possibility of going ahead and fighting this through the courts; we're also considering the possibility of dissolving the captive," said Norbert J. Tobbe, who serves as president of Constance Insurance Co.

Mr. Tobbe said he had not read the recent Carnation Co. appeal decision and was not familiar with the details but that he expected the outcome "to enter into our plans." Those plans should be set within the next six months, he added.

The landmark 1979 Carnation Co. decision was upheld last month by the 9th Circuit Court of Appeals in San Francisco (*BI*, Jan. 8, 1979; March 16, 1981). The ruling denies Carnation the tax advantages of claiming a deduction for the premiums paid to its Bermuda

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captive. It also states Carnation cannot classify payments received by its offshore captive as foreign source income.

The appeal decision cites for the first time Internal Revenue Ruling 77-316, the official IRS position on captives which disallows deductions for premiums paid to offshore captives. The agency has said in the past that the ruling applies equally to domestic captives (*BI*, Jan. 9, 1978).

"Nearly every Colorado captive owned by a single parent corporation has had trouble with the IRS concerning the attack they are trying to bring under Revenue Ruling 77-316," said Jim Jaeger, president and chief executive officer of Frank B. Hall Management Co., the largest and oldest captive management company in Colorado.

Captive managers and corporation executives point out, however, that large corporations would be routinely audited by the IRS under any circumstances. IRS auditors are even assigned semipermanent office space at some companies, they note.

A group of Colorado captives has collectively engaged counsel to seek a private letter ruling from the IRS on the use of Colorado captives, Mr. Jaeger said.

Joseph H. Thibodeau, a Denver attorney retained by the group, could not be reached for comment on those efforts.

Parthenon Insurance Co., a Tennessee-domiciled captive owned by Hospital Corp. of America, is currently undergoing an IRS audit for the years 1977 and 1978, when it was domiciled in Colorado, acknowledged Bob Reeves, vp-insurance.

Since 1977, Parthenon, owned by the Hospital Corp. of America, has offered comprehensive general liability and hospital coverage. In 1978, the company added property reinsurance and workers compensation coverage, said Mr. Reeves.

The Insurance Co. of Colorado Inc., owned by Darling-Delaware Co., also has recently been audited, confirmed James J. Solari, insurance manager. He declined to discuss the audit except to say that "results are still up in the air."

"One thing we feel fairly certain about now is that filing a consolidated corporate tax return or a separate return for the captive does not appear to affect the likelihood of an audit," observed Arnold Goldstein, assistant vp of Anistics Inc., a provider of captive management services.

Although captive managers in Colorado say they are unable to compare the level of IRS activity focused on corporations with domestic captives compared to those with offshore insurance subsidiaries, the prevalence of challenges here suggests that IRS is not buying Colorado's arm's-length argument.

Because Colorado captives are required to meet virtually the same financial requirements as multiple lines commercial insurance companies, Commissioner Barnes believes corporations with Colorado captives have a strong justification for deducting premiums paid to them.

"We have turned down many corporations looking for a tax dodge that did not have a bona fide need for a captive,"

Continued on next page

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Tax ruling slows down Colo. captive growth

Continued from previous page
said Mr. Barnes. "This is part of our argument with IRS; captives here are more rigidly controlled than noncaptive competitors such as INA and U.S.F.&G.," he said.

To strengthen that argument, in fact, Commissioner Barnes is thinking about asking the legislature to increase the capital and surplus requirements for captives to match last year's increase for other insurace companies.

"We've passed the deadline for submitting new bills this year, so the earliest this might become effective is 1983," he said.

If the change is enacted, new captives would need $1.25 million in capital and a surplus of $750,000.

Although Colorado law permits captive capitalization with a letter of credit, Mr. Barnes says "more and more are not using them because the IRS has been asking questions about that." At least one existing captive has withdrawn its letter of credit and put cash in, he noted.

The reasoning behind the exchange is tied to the Carnation Co. case, explained Commissioner Barnes. "The IRS argued that Carnation's captive did not operate at arm's-length because when loses reached a certain point, the parent pledged to put more capital in. The IRS said that was self-insurance."

Some tax authorities believe a letter of credit might be construed as a compromise with the arm's-length relationship, said Mr. Barnes, "since if claims got high and the captive needed cash, I would call on the letter of credit."

Increasing capital and surplus requirements for captives would make this eventuality more unlikely, added Mr. Barnes. "We want captives to have enough liquid assets that we are not going to have to call on a letter of credit fc them to keep running."

He reports that two propose‹ "pure" corporation-owned—and two proposed association—captives are under study.

He also believes that the new ad ministration in Washington ma view captive formation more fa vorably than its predecesso "There's no direct experience t base affirmative feelings on," h stressed, "but there's a different a titude at many levels towards le ting business develop business."

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Captives fill Colo. vacancies

DENVER, Colo.—Two recently formed Colorado captive insuranc companies are filling rank thinned last year by the dissolutic of one captive and the conversic of another into a multiple lines in surer.

The Emory University Clinic, partnership of 290 physicians Atlanta, formed Clifton Casual Insurance Co. to write profession liability coverage, reports Ro Townsend, company treasurer.

Frank B. Hall Management is managing the captive th opened in September.

Sunset Insurance Co. is the se ond new captive formed by Sout ern Pacific Co., a holding firm th owns railroad, pipeline, truckin leasing and communications subs diaries. The captive will write g coverage below master policies fo general liability, auto liability ar property coverage, said John E wards, who is in charge of ris management for Southern Paci Co.

Aspen Indemnity Co., owned a holding company of 45 who a members of tractor dealers assoc tions, converted to a commerc insurer early last year.

"We wanted to write broad lines of coverage and are now c fering property/casualty packag umbrella liability, workers con pensation, inland marine, and aut and general liability," said Rober Egner, president.

Tax reasons motivated Philade phia Gear Corp. last fall to shu down Atlantic Assurance & Guar antee, its Colorado captive.

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Carnation defeat won't spur panic

By RHONDA L. RUNDLE

LOS ANGELES—The recent appellate court decision against Carnation Co. is not expected to panic the parents of captive insurers because the outcome was a foregone conclusion to many.

The real impact of the Carnation case depends upon Carnation's latest request for a rehearing (*BI*, March 30) and how vigorously IRS moves to enforce the decision, captive experts believe. And no one is venturing to predict what the IRS reaction will be.

The 9th Circuit Court of Appeals ruling that upheld the tax court against Carnation is a reminder that the IRS says premiums paid by a parent corporation to a pure captive are not tax deductible.

They do not expect the Carnation decision to break the back of the captive movement, but it does chip away at cherished tax benefits.

Strengthening the IRS position, the Carnation opinion cites for the first time IRS Revenue Ruling 77-316, the official IRS pronouncement which disallows deductions for premiums paid to captives. Carnation is also barred from classifying payments received by its captive as foreign source income.

"Most knowlegeable people felt the IRS would win this one," observed Thomas S. Chittenden senior vp of Marsh & McLennan in New York. "As to how the decision will impact existing and future captive development—that's the $64,000 question.

"I would guess that solidly established captives where deduction of premiums going in is important will be more interested in writing third party business to distinguish themselves from the Carnation facts," said Mr. Chittenden. Acceptance of outside business would eliminate pure captive status.

There may also be more experiments with rent-a-captives, suggested Mr. Chittenden, to move ownership out of the economic family. Expansion of ownership would be another way to break with the facts of the Carnation Co. case, he explained.

Mr. Chittenden concedes that the Carnation decision, which has to be viewed as a significant legal precedent, might cause some companies considering captive formaton to pull back. Many corporations are wary of provoking the IRS.

The current competitive commercial market is also eroding the economic benefits of captive ownership in many cases. "We've taken the whole matter under study," observes Ralph Perry, risk manager at Amfac Inc., which owns Arms Insurance Co. The Colorado captive writes general and automobile liability, workers comp and errors and omissions coverages.

"For the time being, we've put a hold on the captive; we're not pumping anything more into it," reported Mr. Perry.

He says the corporation has been concerned about the benefits of its captive over the past year-and-a half and may commission a study to evaluate its performance. There's nothing definite yet, he stresses, but some action will probably be taken within a year.

The reassessment is not prompted by IRS pressures, said Mr. Perry, who added that the captive has not been audited by the Internal Revenue Service. Nonetheless, he believes there is a strong need for legislation to address the tax issues raised by captives, self-funded reserves, and cash-flow insurance plans.

The Carnation decision will also be studied by Crawford Fitting Co., headquartered outside Cleveland. The IRS is challenging tax deductions of premiums paid by the company to its Colorado captive, Constance Insurance Co.

The president of Constance Insurance Co., Norbert J. Tobbe, says Crawford Fitting Co. is considering fighting the challenge through the courts or dissolving the captive. A decision will be made within the next six months.

"We had hoped for better results," observed Tom Littell, manager of Marsh & McLennan Insurance Management Services Inc. in Denver. He termed the Carnation decision an "interim setback" but not a knockout blow to future captive development.

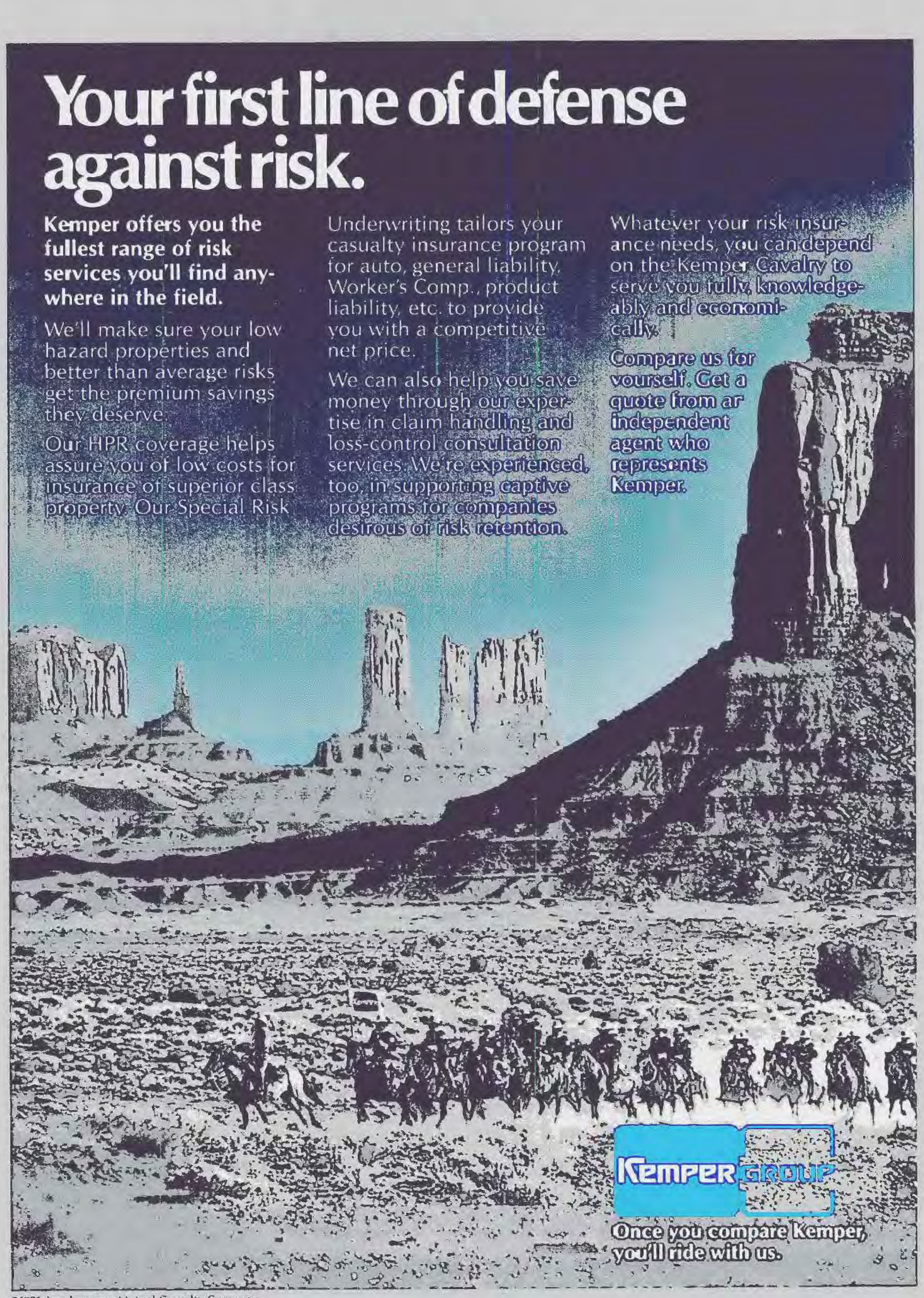
Despite adverse court decisions eroding tax advantages of captives, there are many compelling insurance reasons to use them, he noted. Captives can smooth out the ups and downs in the market, and guarantee availability of coverage for difficult to insure risks.

Risk manager Richard Hunzza at CLC of America in Houston agrees. He is very satisfied with the performance of Interstate Indemnity Co., a Colorado captive formed in 1976.

"If we could be assured that the current soft market would continue indefinitely, we would not need a captive," he said. "But over the long run, we keep insurance costs stable and avoid the headaches of finding coverage in a tight market."

Mr. Hunzza says he does not expect the Carnation Co. decision to hurt existing captives—at least in the short run—because corporations have been on notice concerning IRS attitudes for a long time.

"This really doesn't change anything," he said. ▪



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Malpractice plans spark Tennessee captives' growth

By MARGARET LEROUX

NASHVILLE, Tenn.—Tennessee insurance department officials say captive business is "picking up" and plans are underway for two new malpractice captives to join five other liability underwriters already here.

"We think the state could become a malpractice insurance center," said Ken Smith, head of the Tennessee insurance department's captive division.

Three of the captives established in the state underwrite malpractice insurance. They are Parthenon Insurance Co., owned by Hospital Corp. of America; Hospital Underwriting Group Inc., and Podiatry Insurance Co., a mutual that insures podiatrists around the country.

A group of Tennessee Methodist hospitals is currently planning captive formation and in the coming weeks, state insurance officials will meet with two other corporate parents that are interested in the state.

Other Tennessee-based captives are Pinkerton Insurance Co., which began writing liability coverage for the security guard firm in January, and Financial Services Insurance Co., whose parent is Allis-Chalmers.

Despite the dramatic competition in the liability insurance market, captive business has maintained a steady growth in Tennessee, according to Mr. Smith. Three major brokers, Marsh & McLennan, Corroon & Black and Reed Stenhouse, as well as American Risk Management (ARM), have opened captive management offices in Nashville.

The relative ease is setting up a captive and the support from the insurance department are among the reasons Tennessee was chosen as the new domicile for the Pinkerton captive, according to Jack Ryan, senior vp at ARM, which manages the captive.

ARM moved Pinkerton Insurance Co. from Bermuda and Tennessee insurance department officials are hopeful more ARM-managed captives will follow.

"It takes less time to set up a captive here than in Bermuda," Mr. Smith said. "There's no waiting period. You could do it in a week if you'd done your homework first."

Other state requirements include capitalization of $400,000 with $350,000 in surplus for a pure captive; $600,000 and $400,000 in surplus for an association captive. Any combination of letter of credit and cash can be used in financing the captive.

Following in the footsteps of Tennessee with a much more cautious approach is Virginia, where a year-old captive law has not attracted any business yet.

The Virginia Bar Assn. is considering a captive as one of several risk management options, according to a Virginia insurance department officer, but no steps to establish one have been taken.

The Virginia law restricts captives to Virginia-based corporations. "National corporations might prefer Tennessee or Colorado," commented Gerald Roach, deputy commissioner for financial conditions.

What the Virginia captive law has spurred is similar legislation now pending in the Vermont senate. The Vermont captive law requires capitalization of only $250,000 with $750,000 in surplus for a pure captive, according to George Chaffee, banking and insurace commissioner.

"Beyond the capitalization requirements, there is no need for rate or form approval and no limit on investments the captive may make," said Mr. Chaffee.

The law does require a Vermont captive's parent to be a company whose principal place of business is Vermont and holds an annual board meeting in the state. ■

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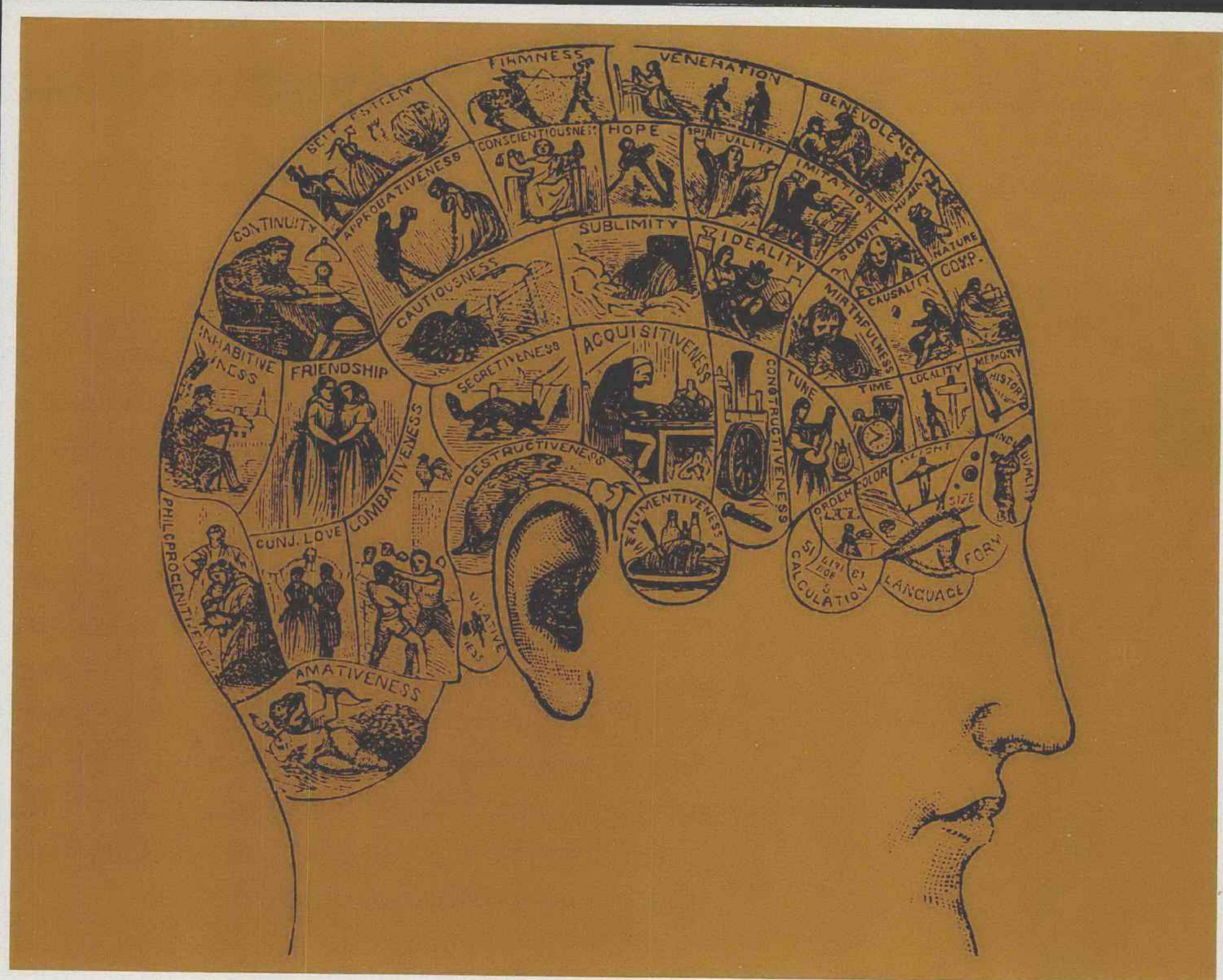

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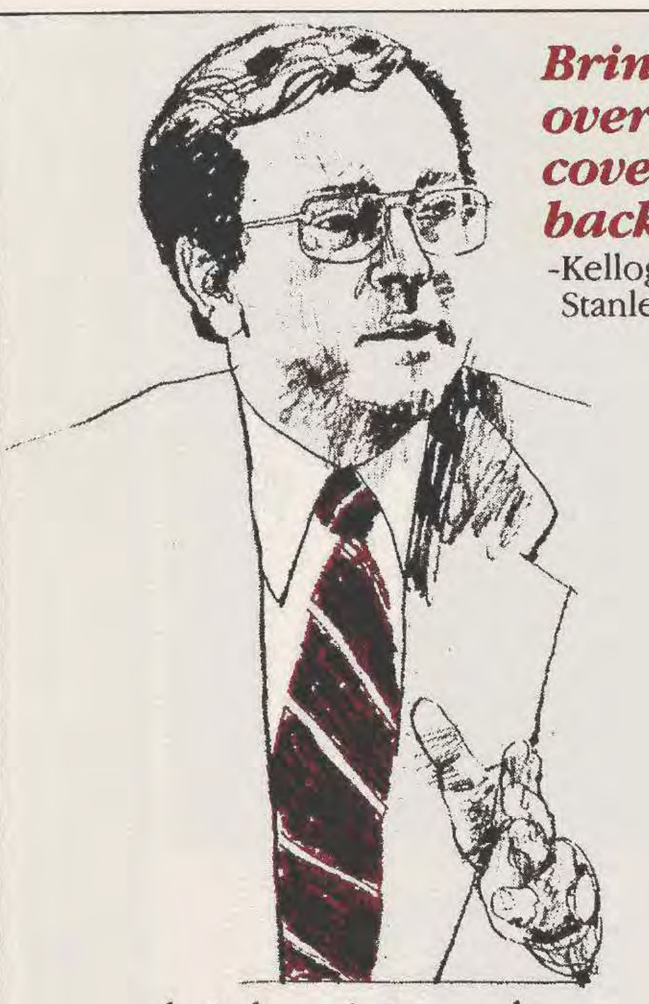


Bringing our overseas coverage back home.
-Kellogg's Stanley King

Until recently, each of the Kellogg Company's overseas plants obtained property coverage from their local insurance markets.

"This left us at the mercy of widely fluctuating rates over which we had no control," says Stanley King, Kellogg's risk manager. "We determined that self-insuring through a captive could cut our foreign insurance costs by as much as 25%."

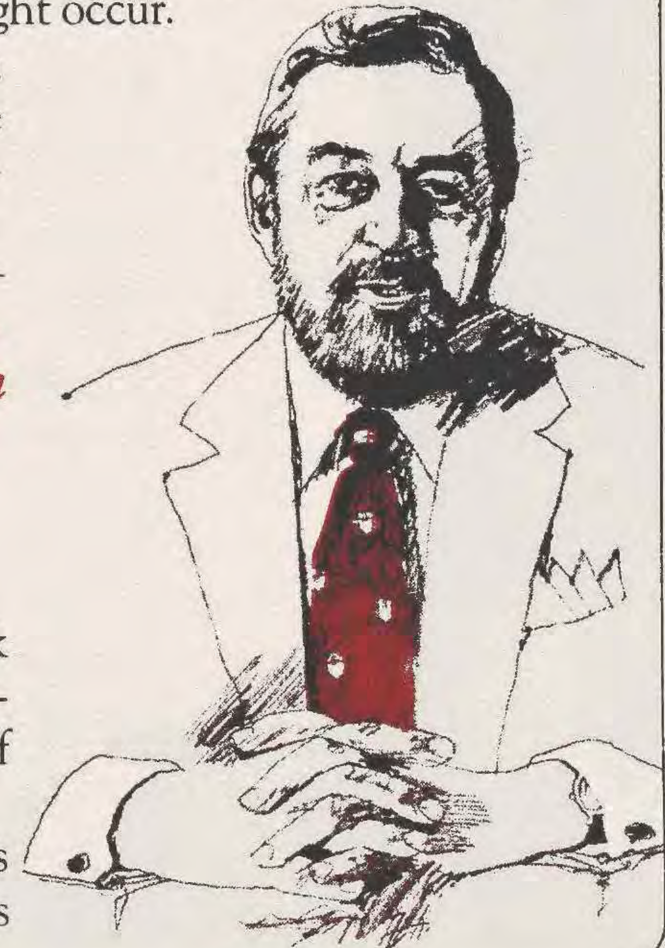
King also decided that the captive operation would require the cooperation of a commercial insurer with strong loss control expertise. "Our 29 foreign plants produce over 750 million pounds of food each year," he notes, "so the loss of even one facility can have a broad impact on distribution and sales."

After reviewing the self-insurance plan with several carriers, Kellogg selected INA. King explains: "INA has exceptional facilities in every country where we have plants. And they helped us design a self-insurance program that doesn't jeopardize our earnings-per-share performance."

Under the plan, INA reinsures the foreign property coverage back through Kellogg's captive, and provides excess protection for catastrophic losses which might occur.

"The INA loss control people work closely with our own engineers to prevent costly shutdowns," says King. "And the cost-efficiency of the captive program has improved our financial performance without reducing the extent of our coverage."

Stopping the dollar-drain on overseas comp.
-Wright & Co's Frank Wright



Each year, thousands of U.S. citizens are sent abroad by the federal government on cultural or scientific assignments. By statute, these individuals are subject to a federally-mandated workers' compensation program that is very broad in its provisions.

"The Defense Base Act (DBA) requires around-the-clock comp protection, and the claim limits–where they exist at all–are very high," explains Frank Wright, chairman and CEO of Wright & Company, a Washington, D.C.-based broker.

Obtaining this insurance on a project-by-project basis became a major expense for one government agency: premiums

often ran as high as 20% of a worker's total annual remuneration.

In an effort to bring these costs down, the government agency invited bids from insurance carriers willing to underwrite all DBA compensation policies. INA International was awarded the contract, with Wright acting as broker. "In the three years since INA took on the program," reports Wright, "premiums have been reduced by 40%." Total savings have amounted to several million dollars.

Wright attributes this dramatic reduction to INA's international capabilities and administrative expertise. "We've seen enormous amounts of tax dollars saved," says Wright, "and we hope to make the INA program a prototype for other government agencies."

Insuring workers' compensation exposures was once very costly for Sea-Land Service, Inc., the nation's largest container ship operator.

"Each of our four largest marine terminals employs over 400 people," explains Harold C. Krulder, director of safety engineering for Sea-Land Industries, the parent company. "They're involved in vehicle maintenance, warehousing, and longshoring operations—all of which are classified as high-risk activities by OSHA."

An outside perspective on in-house risks.
-Sea-Land's
Harold Krulder

In order to bring compensation costs down, Sea-Land launched a self-insurance program three years ago. But this move meant that Sea-Land would have to conduct its own safety inspections, or find an outside company to do so.

"We felt we needed outside inspectors to give us the same level of objective expertise our commercial carrier had provided," recalls Krulder. Bids were requested from several safety inspection firms.

The contract was ultimately awarded to ESIS, an INA Corporation subsidiary. ESIS' safety engineers conduct exhaustive quarterly inspections of Sea-Land's primary terminals and file their recommendations directly with the terminal and Krulder's office.

"Besides helping us meet our own safety standards," he says, "the ESIS people have proved extremely adept at spotting potential OSHA violations. Together, we've brought about a steady reduction in employee accidents." This fact, coupled with the cash-flow advantages of self-insuring, has generated substantial economic savings for Sea-Land.

Comments Krulder: "ESIS provides me with an extra set of 'eyes' in the field. And the quality of their observations has played a large part in the success of our self-insurance program."

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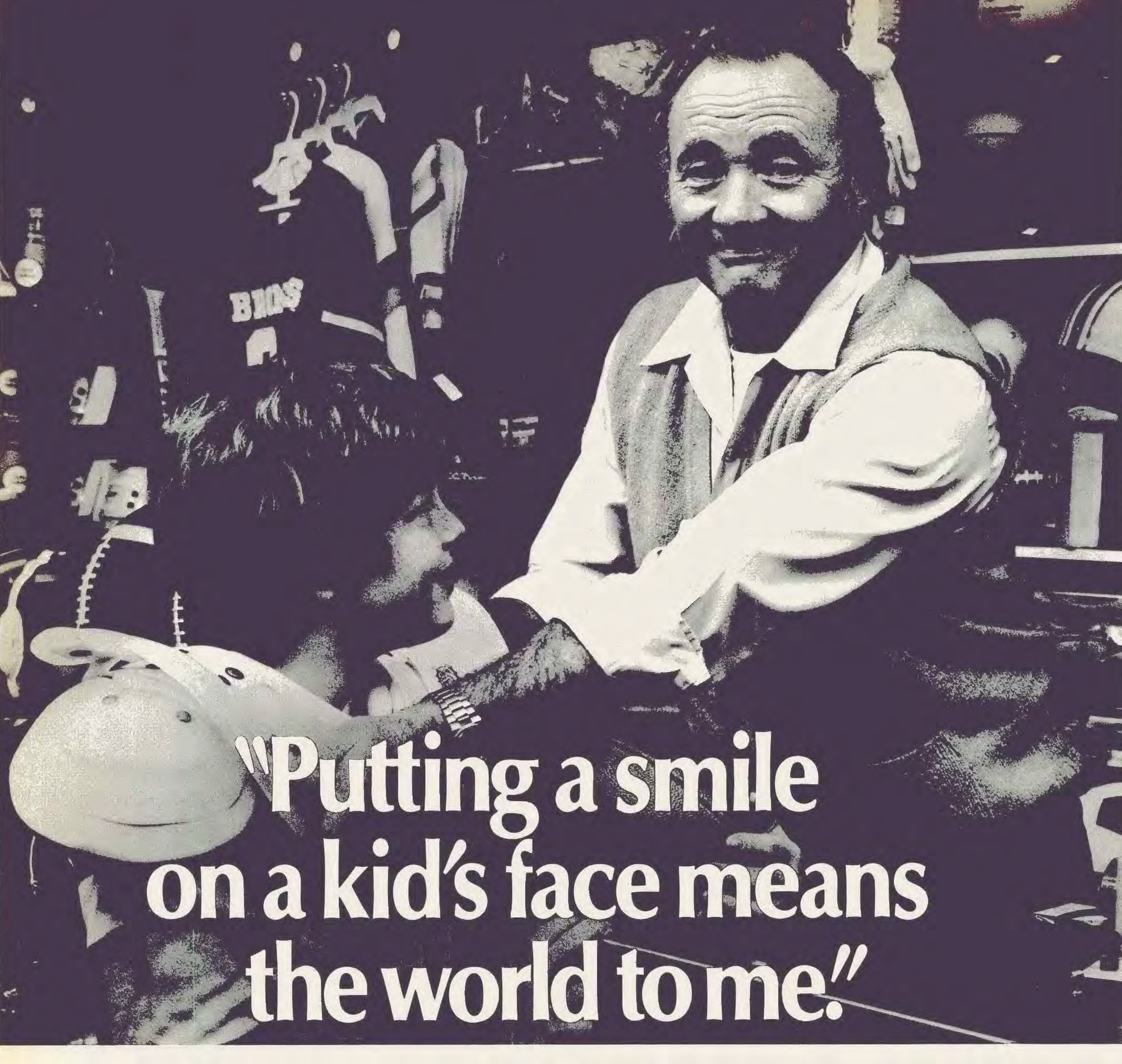

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perspective

The dreaded qualified captive audit

Accounting standards demand careful reserving

By Richard F. Denning

RECEIPT OF A "subject to" opinion or a qualified audit of a captive's financial statements threatens many risk managers. Though the captives may be adequately capitalized and often underwrite using the fronting insurance company's case reserves values, auditors in Bermuda and elsewhere are insisting on tougher standards for quantifying the elusive incurred-but-not-reported (IBNR) reserves.

Of course, there have been sins where captives have had shockingly small levels of IBNR reserves even for the long-tailed liability lines. Today, ignoring loss development would be *primafacie* negligence. Auditors have become more aware of the importance of IBNR reserves, and are insisting on analysis more specific than "industry averages."

Standards for issuing qualified opinions have changed. An auditor may qualify his opinion when certain facts cannot be adequately demonstrated by the records.The financial statements are "subject to" conditions or assumptions not demonstrated to the satisfaction of the auditor. These are American standards, and foreign accounting rules may not conform. However, accounting practices in Bermuda have increasingly been influenced by American practice, a small consolation for firms with Bermuda captives.

The term incurred-but-not-reported is unfortunately not clearly defined in the insurance industry. However, the important issue is to compute an accurate ultimate loss estimate rather than completely define terminology. The reserve is the plug between the values currently on the books and estimates. In the past, IBNR reserves for insurance companies were only of minor significance. The picture is radically changed today. This is particularly so for casualty or liability risks because claims in these long-tailed lines are often slow to be fully reported and require many years to settle. They are vulnerable to inflation and the growing liberalization of legal standards.

Actuaries have struggled to find acceptable methods for estimating IBNR reserves. Judgment and experience still play major roles, but the latest methods involve systematic, mathematically-proven methods which are consistently applied from year to year. In short, while auditors recognize that actual results will be different from those predicted, the use of formula methods permits one to understand why the difference occurred and to how to make a correction in the future. From a very simplistic view, IBNR caculational techniques can be characterized as:

- The wake-of-the-boat method.
- The iceberg theory.
- The drop-back-ten-and-punt technique (see related exhibits).

The essential concern of auditors is that the experience of the captive supports the IBNR calculational technique. Thus, fundamentally, a captive must have some experience as the basis of its reserve calculations. The practical situation is that captives often find their experience base limited in time—small premium volume, erratic loss history.

Many captives have only been in operation for two or three years. Such a limited time frame does not usually provide the necessary loss development informaton to independently calculate a loss develop-

Continued on next page

Time (months from policy year inception)	General liability IBNR as a percent of discovered losses		
	Expected	Lower 95% Confidence Level	Upper 95% Confidence Level
12	113.7	59.8	216.2
24	47.2	28.0	79.3
36	19.5	12.8	29.8
48	8.1	5.7	11.6
60	3.4	2.3	4.8
72	1.4	0.9	2.1

Canadians search for offshore options

By Frank Dougan

BASICALLY, there are five reasons why Canadian corporations are attracted to the offshore captive option:

- To calculate for tax purposes contingent loss reserves which would not be expensible under a non-formalized risk retention program.

Obviously, standard commercial insurance avoids the problem of non-deductibility of loss reserves. However, recently introduced loss financing options also solve the problem without the expense loading charged under a standard insurance program.

- To take advantage of tax deferral or tax avoidance possibilities available via offshore tax havens.
- For international financial management, such as to serving as a channel for repatriating funds from subsidiaries in countries which have exchange controls or currency instability. Also, to facilitate transfer of funds between group companies throughout the world.
- As a basis for expansion into the commercial insurance business.

When a captive moves from insuring only its parent company to non-related risks, it is often referred to as an "escaped" captive. The best example in recent years is probably the Bellefonte Insurance Group, a subsidiary of Armco Steel of the U.S., which wrote over $200 million of property/casualty business in 1979.

A Canadian example is difficult to find, but the Chateau Insurance Company, a subsidiary of Canadian Pacific Enterprises, is often cited as a good example.

- For risk management purposes. Among the advantages cited for a risk management captive are:

Direct access to reinsurers, and cash-flow advantages from use of reserves held for outstanding losses.

Operational advantages such as structuring a sound, more efficient international risk management program with reinsurers.

Deductibility of premiums paid to an offshore captive and admissibility of the captive's loss reserves for tax purposes are vital considerations in setting up a captive.

I will now cite the poor reasons for a Canadian corporation to consider a captive:

Potential tax benefits. Some tax specialists say a properly managed offshore captive offers the potential for tax deferral and even tax avoidance.

Most financial officers recognize that long-term planning based on tax law has an element of risk. Tax laws can change and if there is any room for interpretation of any aspect of the law, the people who

Continued on next page

Canadian Captives

Map: Toby Roberts

perspective

Carefully calculate reserves for IBNR

Continued from previous page
ment curve.

In such cases, there seem to be two potential courses of action. Both require that the captive use data collection which ultimately permits the development of an IBNR reserve based on the captive's own experience. The first plan is to establish experience based on parent corporation records. If a proper job has been done of monitoring loss development by line of risk, it would seem that parent experience would be a credible base for a captive model. An adequate base is often present if loss runs are stored annually.

The second course is to use the limited time frame and compare that with more established industry curves over a longer time. If there is consistency between the data and industry curves, it can be argued that the industry data might be used to extrapolate or extend the available data.

Even for the general liability, IBNR reserves for years prior to the two most current will not be a dominant consideration. Therefore, the ability to establish a development curve through the 24th or 36th month of claim activity should account for the majority of the reserve. Auditors might be more liberal regarding the use of industry data when they appreciate that its impact on the IBNR reserve is only 10% to 15%.

Low credibility of loss experience is more serious than other limitations in the time span of available data. Credibility is influenced by the size of individual losses considered in the IBNR calculations.

While large claims can never be ignored, it is very difficult to handle them when calculating an IBNR reserve for the captive insurance company. Very few captives have a sufficient premium volume to permit the routine analysis of claims in excess of $100,000 to $250,000 per occurrence. Providing IBNR reserves for larger claims might, indeed, pose problems under the constraints of Financial Accounting Standards Board rule five.

Furthermore, attempting to model the impact of large claims produces so much variation that auditors may be skeptical.

The better method is to use the IBNR reserve for only limited size losses. Rely on a qualitative evaluation to assure adequacy of case reserves over such a limit.

One subtle key to successfully avoiding a qualified opinion lies in presentation. IBNR reserves derive from non-trivial calculations which are unfamiliar to the usual auditor. The auditor is not in a position to do the calculaton, yet he must be convinced of its acceptability. Success in convincing the auditor rests largely on the work done in preparation. A well-documented and presented IBNR calculational procedure should be a combination of professional loss forecasts and an annual revision of loss development and loss payout patterns. These, in turn, could be used to develop quarterly IBNR values to monitor the performance of the captive through its fiscal year.

On this basis, the experience of the captive should provide a vehicle to calculate the appropriate reserves. ▪

Richard F. Denning is executive vp of Risk Sciences Group, a risk management consulting firm in Mill Valey, Calif.

The following are three calculation techniques for IBNR estimation.

Drop-back-ten-and-punt technique

The "drop-back..." technique is a description of the loss ratio method. In simple terms, a given loss ratio is assumed and the IBNR reserve is set so as to provide the assumed loss ratio. For example, if the earned premium were $100,000, the assumed loss ratio was 0.65 and actual recorded losses were $35,000, then the IBNR would be:

(0.65) ($100,000) - $35,000
or
$65,000 - $35,000 = $30,000

Such a method is, in fact, legally required during the early years for some closely regulated lines such as workers compensation and automobile liabilty. Using such a method would seem to raise serious accounting problems per FASB No. 5. However, despite these limitations, a loss ratio method does have its place in the statistician's bag of tools.

Iceberg theory

The "iceberg theory" attempts to seek a more objective solution to our problem. By working exclusively with paid losses, it eliminates the dependence on consistent case reserving practices so prominent in the above method. Its theory is that payment patterns are invariant with time. Ergo, as the mass of an iceberg above the waterline is one-ninth of its total mass, the ultimate losses for a policy year are the reciprocal of the predicted percentage paid multiplied times the paid amount at that point in time. For example, if workers compensation is believed to pay out at a rate of 35% during the first year, then if these first-year payments total $150,000, the estimated ultimate loss would be:

$$\frac{1.00}{0.35} \times \$150{,}00 \text{ or } \$428{,}600$$

Major drawbacks of the method are (1) its instability when large losses are settled, particularly early in the development of a policy year, and (2) the assumption that the payout rates are constant with time.

Calculational technique Wake-of-the-boat method

The "wake-of-the-boat" methods are the most common. These simply attempt to predict future changes by carefully modeling the past behavior of incurred losses. These models usually take the form of mathematical fits to existing data. The chosen fit is then extrapolated into the future. Loss development curves are the most common example of such methods. The name suggests its intrinsic limitation, i.e., one cannot navigate a boat by exclusively "looking at the wake." Obviously, considerations such as changing reserving practices, significant alternation in exposures, or the emergence of new theories of liability can impact the validity of past patterns regardless of how well established statistically.

Canadians rate captive insurance options

Continued from previous page
interpret the law are also subject to change.

To get into the commercial insurance business. Personally, I think the success claimed for offshore captives which have blossomed into full-scale insurance companies has been greatly exaggerated. The successes are the exception rather than the rule and even the most successful escaped captive has had its share of challenges.

If you want to get into the insurance business, you might be advised to simply imitate I.T.&T. and buy an insurance com pany. (For a look at the perils of buying aninsurance company, read "I.T.&T.'s Disaster in Hartford," Fortune Magazine, May 1975.)

The most effective risk management tool ever devised to control insurance costs is competition. Canada may well be the most competitive insurance market in the world, especially in recent years.

To cite an example, a major manufacturer in Eastern Canada looked into captives two years ago when its property/casualty premiums exceeded $1.5 million. In the succeeding two years, despite more than $5 million in losses, its premiums have dropped 50% due to competition and rising risk retention levels.

In a climate like this, it is tempting to ask, "Who needs a captive?" This, however, raises the question of whether the premiums would have reached the levels they did in prior tight markets if the client had been in a position to "leverage" a captive for competitive purposes. I would rate marketing leverage as the most understated potential advantage of a captive insurance company, particularly in times of tough markets.

For Canadian risk managers considering the option, I would offer this advice:

• Don't waste too much time exploring the significance of the Le Gierse decision, the Carnation case, F.A.S.B. 5 and other aspects of the U.S. captive scene. While there is some evidence of collaboration between the U.S. and Canada, Canada is a separate sovereign state with its own tax laws.

• Use caution in accepting reports of captive activities published in the national and internatonal press and trade magazines. I find them misleading, not relevant to Canada, too superficial and unbalanced in that they tend to emphasize the potential benefits and de-emphasize the challenges. They also invariably fail to mention that a captive is only one among many risk treatment options.

Some care should also be taken in interpreting the results of captive surveys. Who is being surveyed? Are the criteria relevant to Canada? How many failed to respond to the survey. and why?

On this latter point, James C. Cristy, risk manager of The Upjohn Company, said something in 1965 which is still very relevant: "While captive insurers and self-insurance have strong supporters, there are few detractors,perhaps because those who have tried such techniques and discarded them are reluctant to advertise their experience."

• If you are uncomfortable with risk retention to tolerable loss levels, are you really ready for a captive? Formalization of risk retention via a captive doesn't make it any easier to bear in the event of a serious unanticipated loss, regardless of any other attractions a captive may have for you. Even risk management theorists concede that coming up with a formula approach to risk retention does not, make it economically more viable than other risk transfer options currently available.

Excluding Canadian subsidiaries of multinationals whose parent companies have set up offshore captives, two, maybe three dozen, corporations in Canada appear active. What are the prospects for an increase in this number? I suggest new entries into the field will come from the ranks of the following:

• Conglomerates with complex exposures seeking relief from the problems of orthodox insurance or the tax and accounting difficulties of a non-formalized risk retention program.

• Corporations in a position to control the insurance purchases of non-related entities.

• Corporations forced into substantial risk retention by the very nature of their operations or a drastic deterioration in primary markets.

• Corporations attracted by the incidental tax advantages of captives in the event of a marked increase in the corporate tax burden in Canada.

Apart from companies in these categories and the international corporations, I believe that there are enough risk treatment alternatives open to Canadian risk managers to conclude that a substantial increase in Canadian offshore captives is not likely in the foreseeable future. ▪

Frank Dougan is president and chief executive officer for Morris & Mackenzie, Canadian insurance consultants.

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Choosing a captive manager. . .

By KATHRYN J. McINTYRE

The gem of the risk management program will shine or loose its luster in the hands of its captive manager.

Matching a manager offering the needed professionals and skills to the captive program is the secret to maintaining a polished captive program.

A multifaceted captive insurance program demands a management team employing the range of professionals needed to run an insurance company.

Firms competing for your captive insurance company range from full staffs capable of underwriting and issuing policies, settling claims, providing financial reports, running underwriting pools and investing assets to the old one-man accounting shop which issues periodic financial statements.

Subsidiaries of U.S. commercial insurance brokers dominate the captive management business, especially in Bermuda and in onshore domiciles.

Banks get most of the management work in Grand Cayman.

U.K. brokers are trying to harness the business in Guernsey.

Two firms in The Bahamas, a local broker and an insurance company affiliate, are trying to drum up captives to manage.

Bermuda offers the largest selection of the most developed captive management facilities, and generally the most expensive. A company can expect to pay at least $15,000 to $20,000 for management of a relatively uncomplicated captive.

It's estimated that 90% of the more than 1,000 exempt insurers registered in Bermuda are managed by captive management companies. Of that 90%, about 75% are managed by affiliates of brokerage firms.

The balance in Bermuda are managed either by independent captive managers or their own employed staff.

Although 110 management firms are registered in Bermuda under the insurance law, three managers control about 30% of the managed-company market.

J&H Ltd. in Bermuda is still the largest manager of captives on the island. Envious competitors will suggest that many of the 130 companies under J&H management are dormant, but president Brian Hall says only seven of the 130 are inactive and they will be starting business soon.

Marsh & McLennan (Bermuda) Ltd., with 86 managed companies, is the second largest manager in Bermuda. A staff of 64 in the new Marsh & McLennan House on Front Street manages the giant Nuclear Electic Insurance Ltd., with $73 million in premium volume and 33 policyholders, and 85 other companies.

M&M lost the management contract in the last year for Nuclear Mutual Ltd., the nuclear industry property insurance company, when former vp and treasurer Quentin Jackson set up an independent management shop at the owners' request. Retained earnings of $73 million and an annualized premium volume of about $40 million for policies on 28 nuclear plants justified the formation of an independent management office, Mr. Jackson said.

International Risk Management Ltd., the pioneer in captive management, manages about 85 captives, including the property insurance pool Hopewell.

The other large brokerage subsidiary operations in Bermuda are run by Alexander & Alexander and Frank B. Hall & Co., each managing about 40 captives.

In Grand Cayman, the insurance expertise is just developing, so the management fees are about a third less than in Bermuda.

Over half of the registered exempt companies are managed by two banks: The Bank of Nova Scotia Trust Co. (Cayman) Ltd. and BankAmerica Trust & Banking Corp. (Cayman) Ltd.

Competition is coming from independent management companies like Insurance Management Consultants Ltd., Compass, a Transnational Ltd. affiliate, and Carribean Risk Specialists Ltd., the captive management subsidiary of Anderson, Greenwood & Co. of Houston.

The brokers are moving into Cayman, too. Johnson & Higgins recently hired its own chartered accountant to staff an office, the first broker to open up shop in Cayman.

U.K. brokers in Guernsey quote about 10,000 pounds to manage a company, but some prices are as low as 500 pounds. ■

. . . .from BI's worldwide directory

Sources

Information in this directory of captive management firms was compiled by *Business Insurance* from data suppied by the firms. The profiles include total staff, corporate officers, number of captives under management and a listing of special services, including claims handling, investment management and tax advice.

A

A.C.C. Insurance Services Ltd.

P.O. Box 1381, Hamilton, Bermuda; 809-295-1159

Year founded: 1968.
Parent company: Associated Communications Corp. Ltd., England.
No. of staff: 28.
No. of captives managed: 9.
Underwriting pools: Concord Agency, Bundeslander Agency. Captive must be client to join pool.
Other services: Manual and computerized claims processing, claims reserve analysis, reinsurance facilities, including access to third-party risks; accounting and reciprocal premium arrangements.
Subsidiaries: So numerous, not reported.
1980 Gross revenues: Not reported.
Principal officers: Derek J. Bennett, Anthony Hidden, Michael J. Gregory, Paula A. Forbes.

Abbott & Willoughby Inc.

Suite 515, 6845 Elm St., McLean, Va. 22101; 703-734-3830.
Year founded: 1981.
No. of staff: 3.
Underwriting pools: Parkington Associates (MGA). Captive can join pool without being a client.
Other services: Manual and computerized claims processing; claims reserve analysis; reinsurance facilities, including access to third party business; acquisition- and accounting for U.S. fronts; management for safety and loss control; feasibility studies.
Subsidiaries: Parkington Associates, Suite 515, 6845 Elm St., McLean, Va.
1980 Gross revenues: Not reported.
Principal officers: LeRoy Abbott, president, Lawrence A. Willoughby, executive vp.

Absit Insurance Management Ltd.

P.O. Box 1549, Heritage House, Mary St., Grand Cayman, B.W.I.; 809-949-4688

Year founded: 1976.
No. of staff: 4.
No. of captives managed: 7.
Other services: Manual claims processing; claims reserve analysis; reinsurance facilities, including access to third-party business; limited investment management.
1980 Gross revenues: Not reported.
Principal officers: Roger Corbin, president; Jim Gill, treas urer.

Alexander International Ltd.

P.O. Box 681, Reid & Burnaby Sts., Hamilton, Bermuda; 809-295-3336

Year founded: 1965.
Parent company: Alexander & Alexander Inc., Ave. of the Americas, New York, N.Y. 10036.
No. of staff: 30.
No. of captives managed: 40 plus.
Underwriting pools: HMG Pool. Captive can join pool without being a client.
Other services: Manual claims processing, claims reserve analysis; reinsurance facilities, includingaccess to third-party business;investment management; losslosss forecasting; managementinformation systems.
1980 Gross revenues: Not reported.
Principal officers: John A. Bogardus Jr., president; Robert A. Gielow, Alan C. Cossar, David K. Blair, vps; William D. Schaff, managing director.

Altamid Management Co. Ltd.

Beneficial Bldg., P.O. Box 2002, Hamilton 5, Bermuda; 809-295-2185

Year founded: 1978.
Parent company: The Hanna Mining Co., 100 Erieview Plaza, Cleveland, Ohio 44114.
No. of staff: 10.
No. of captives managed: 9.
Underwriting pools: Corp. Insurance & Reinsurance Co. Ltd. (CIRCL), premium volume $60 million. Captive can join pool without being a client.
Other services: Manual claims processing, will be computerized in 1981; claims reserve analysis; reinsurance facilities, including access to third-party business; risk management analysis; tax and legal advice. Two new pools to be formed in 1981.
1980 Gross revenues: $833,000.
Principal officers: Duane E. Allen, chairman; Richard S. Thompson, president; John Bookless, John A. Keesing, account managers; Lee R. Shealy, claims and underwriting manager.

American International Co. Ltd.

P.O. Box 152, Hamilton 5, Bermuda, 809-295-2121
Year founded: 1947.
Parent company: American International Group Inc., 70 Pine St., New York, N.Y. 10270.
No. of staff: 55.
No. of captives managed: Approximately 35.
Underwriting pools: Sumit II Treaty, $30 million premium volume. Gives preference to AIG clients.
Other services: Any insurance service needed coordinated from Bermuda office with AIG worldwide facilities. Includes manual and computerized claims processing; claims reserve analysis; reinsurance facilities, if requested, including access to third party business; feasibility studies; engineering programs; fronting.
1980 Gross revenues: Not reported.
Principal officers: Joe Johnson, president of American International; Robert S. Davis, director-captive operations; Bruce Thorne, underwriting manager-captives; Paul Robinson, manager-captive accounting.

Anistics Inc.

1600 Broadway, Suite 1630, Denver, Colo. 80202; 303-839-1007

Year founded: 1971.
Parent company: Alexander & Alexander, 1212 Ave. of the Americas, New York, N.Y. 10036.
No. of staff: 3.
No. of captives managed: 4.
Other services: Manual and computerized claims processing; claims reserve analysis and evaluation, reinsurance facilities; investment management if requested; loss forecasting.
1980 Gross revenues: Not reported.
Principal officers: Peter Densen, president.

Argus International Management Ltd.

Argus Insurance Bldg, P.O. Box 1064, Hamilton 5, Bermuda; 809-295-2021
Year founded: 1971.
Parent company: Argus Insurance Co. Ltd., Argus Insurance Bldg., Hamilton, Bermuda.
No. of staff: 6.
No. of captives managed: 7.
Other services: Computerized claims processing; claims reserve analysis; reinsurance facilities, if requested; access to third-party business.
1980 Gross revenues: Not reported.
Principal officers: E.J. Sainsbury, Warren D. Sproule.

Armco Insurance Management Ltd.

P.O. Box 2004, Hamilton 5, Bermuda; 809-295-5207

Year founded: 1971.
Parent company: Armco Inc., Middletown, Ohio.
No. of staff: 26.
No. of captives managed: 25.
Other services: Computerized claims processing; claims reserve analysis; reinsurance facilities, including access to third-party business; investment management; engineering; loss control; underwriting; actuarial; aacounting, and feasibility studies.
Subsidiaries: Member of the Armco Insurance Group that includes Bellefonte Cos., Northwest National Cos., British National and American Druggist.
1980 Gross revenues: $420,000.
Principal officers: Clive W. Himsworth, general manager; E. Edward Morris, vp-finance; Michael G. Baylay, controller.

Association Insurance Consultants Ltd.

The Kenwood Bldg., P.O. Box 2003, Hamilton 5, Bermuda; 809-295-3073

Year founded: 1978.
Parent company: Affiliated with I.M. of America Inc. Washington, D.C.
No. of staff: 7.
No. of captives managed: Eight, mostly association captives.
Other services: Manual and computerized claims processing; claims reserve analysis; reinsurance facilities, including access to third-party business; feasibility studies; loss and inspection engineering; full underwriting for association clients.
Subsidiaries: Association Insurance Consultants (Cayman) Ltd., Cayman Islands.
1980 Gross revenues: Not reported.
Principal officers: John J. Mattenas, president; Michael F. Bott, executive vp; Richard G. Cound, controller.

Atlas Management Ltd.

Dallas Bldg., Victoria St., Hamilton 5, Bermuda; 23073

Year founded: 1973.
No. of staff: 2.
No. of captives managed: 4.
Other services: Manual claims processing.
1980 Gross revenues: Not reported.
Principal officers: Harry New, president.

Atrein Consulting Corp. Ltd.

Trimingham Bldg., Hamilton, Bermuda; 809-295-5688

Year founded: 1978.
Parent company: Aneco Reinsurance Co. Ltd., Trimingham Bldg., Hamilton, Bermuda.
No. of staff: 5.
No. of captives managed: 11.
Other services: Manual claims processing; claims reserve analysis; reinsurance facilities, including access to third-party business; investment management; tax and legal assistance; access to European money management; accounting and financial services; access to reinsurance intermediary consulting firm.
Subsidiaries: Aneco Group of America Inc., 111 John St., New York, N.Y. 10038.
1980 Gross revenues: Consolidated with Aneco Reinsurance, not reported.

Principal officers: Marius M. Dier, assistant vp; Andrew Barile, president-Aneco Group of America Inc.

B

B. F. & M. Management Ltd.

Scarborough House, Pitt's Bay Road, Pembroke, Bermuda; 809-295-5566

Year founded: 1969.
Parent company: Bermuda Fire & Marine Insurance Co. Ltd.
No. of staff: 10.
No. of captives managed: 46.
Other services: Manual and computerized claims processing, claims reserve analysis, reinsurance facilities; investment management.
1980 Gross revenues: Not reported.
Principal officers: James Pearman, president; E. H. Trimingham, vp.; C. R. Rance, managing director; K. R. Lugg, manager/secretary; J. A. Wilkins, treasurer.

Bott & Associates Inc.

The Kenwood Bldg., P.O. Box 1087, Hamilton 5, Bermuda; 809-292-6564

Year founded: 1979.
No. of staff: 7.
No. of captives managed: 14.
Underwriting pools: No pools, but underwriting agent for: River Plate Reinsurance Co. Ltd., Kansa General Insurance Co. Ltd. and Kansa Reinsurance Co. Ltd.
Other services: Manual and computerized claims processing; claims reserve analysis; reinsurance facilities, including access to third-party business; preparation of feasibility studies.
1980 Gross revenues: Not reported.
Principal officers: Michael F. Bott, president; John J. Matternas, executive vp; Donald R. Storey, vp; Raymond Stenning, treasurer.

British American Management Ltd.

51 Frederick St., P.O. Box N-3005, Nassau, Bahamas; 809-322-2694

Year founded: 1980.
Parent company: British American Insurance Co. Ltd., 51 Frederick St., Nassau, Bahamas.
No. of staff: 10.
Underwriting pools: British American First Surplus Treaty. Captives become clients when they join pool.
Other services: Manual and computerized claims processing; claims reserve analysis; reinsurance facilities, including access to third-party business; investment management; on-line communication system with U.S.
Subsidiaries: British American Management Ltd. (Cayman), British American Management Ltd. (Bermuda)
1980 Gross revenues: $360,000.
Principal officers: Justin N. Tierney, president; David L. Watson, vp/secretary; R. Payton Woodson, chairman/director; David Thurlow, president/director of British American Insurance Co. Ltd.

C

Caribbean Risk Specialists Ltd.

P.O. Box 1064, Guinness Mahon Bldg., 2nd floor, Grand Cayman, B.W.I.; 95755, 95649.

Year founded: 1980.
Parent company: Anderson-Greenwood & Co., Houston, Texas.
No. of staff: 3.
No. of captives managed: 9.
Underwriting pools: Tasco, premium volume $5 million. Captive can join pool without being a client..
Other services: Manual claims processing; reinsurance facilities through Houston; access to third-party business only through Tasco pool; handles all banking transactions.
1980 Gross revenues: Not reported.
Principal officers: Bill Gilbert, president; Christopher Simmons, vp.; Turney M. Rankine, financial manager; Kathleen Bodden-Evans, corporate administrator; John Caltadiano, senior consultant.

Continued on next page

— CAPTIVES AND SELF INSUREDS —

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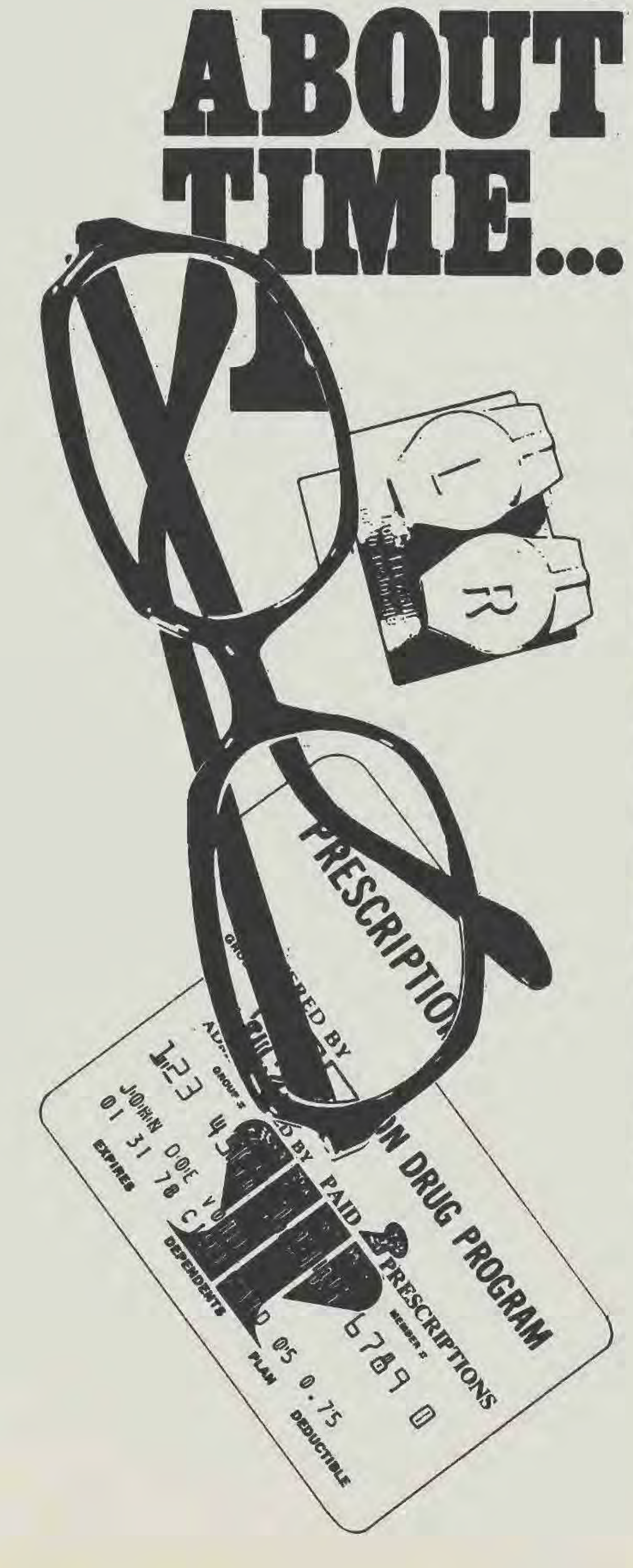

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Continued from previous page

Corroon & Black (Bermuda) Ltd.

Dallas Bldg., 5th floor, Victoria St., Hamilton 5-31, Bermuda; 809-295-3246

Year founded: 1967.
Parent company: Meridian Insurance Co. Ltd., Bank of Bermuda Bldg., Hamilton, Bermuda.
No. of staff: 5.
No. of captives managed: 16.
Other services: Computerized claims processing, loss reserve analysis, reinsurance facilities, including access to third-party business; investment management.
Subsidiaries: Corroon & Black (Cayman) Ltd., P.O. Box 705, George Town, Grand Cayman, B.W.I.
1980 Gross revenues: $300,000.
Principal officers: John J. Lorhan, president/CEO.

Crum & Forster Managers (Bermuda) Ltd.

Hamilton, Bermuda; 809-295-0169

Year founded: 1980, formerly Blades Management Co., 1971..
Parent company: Crum & Forster Insurance Co. (Bermuda) Ltd., Hamilton, Bermuda.
No. of staff: 32.
No. of captives managed: 23.
Other services: Manual claims processing; reinsurance facilities, with access to third-party business.

Subsidiaries: J. H. Blades & Co. (International) Ltd., Hamilton, Bermuda.
1980 Gross revenues: Not reported.
Principal officers: George W. Lee, president.

E.H. Crump (Bermuda) Ltd.

Bermudiana Arcade, Queen St., P.O. Box 1224, Hamilton 5, Bermuda; 809-295-5921

Parent company: Crump Re Intermediaries Inc., 5350 Poplar Ave., P.O. Box 171336, Memphis, Tenn. 38117.
1980 Gross revenues: Not reported.
Principal officers: Sydney A. Stewart Jr., Donald A. Thomas, Michael E. Fisher, Keith B. Spurling, Phillip R. S. Hancock.

Arthur J. Gallagher & Co. (Bermuda) Ltd.

Dallas Bldg., Victoria St., Hamilton 5, Bermuda; 24654

Year founded: 1972.
Parent company: Arthur J. Gallagher & Co., Gould Center, Golf Road, Rolling Meadows, Ill. 60008.
No. of staff: 3.
No. of captives managed: 7.
Other services: Computerized claims processing; claims reserve analysis and adjustment; reinsurance facilities; feasibility studies.
Subsidiaries: Gallagher, Hinton & Vereker Ltd., London, England.
1980 Gross revenues: Not reported.
Principal officers: John P. Gallagher, president; Robert E. Gallagher, vp; Harry New, managing director.

Gibraltar Underwriting Services Ltd.

Suite 2C, Leon House, Gibraltar; 73037

Year founded: 1978.
Parent company: Redbridge Holdings Ltd., Suite 2C, Leon House, Gibraltar.
No. of staff: 4.
No. of captives managed: 10.
Underwriting pools: In process of forming pool for 1982.
Other services: Manual claims processing; investment management through associated company; expert U.K. tax/planning advice; formation and management of offshore investment companies through associated company.
1980 Gross revenues: 40,000.00 pounds sterling.
Principal officers: Mr. J.D. Hassan, Miss M.P. Grech.

S.H. Grayston Management Ltd.

14 Queen St., P.O. Box 1428, Hamilton 5, Bermuda; 809-292-1240

Year founded: 1977.
Parent company: The Grayston Corp. Ltd., Hamilton, Bermuda.
No. of staff: 8.
No. of captives managed: 24.
Other services: Manual and computerized claims processing; reinsurance facilities, including access to third-party business; investment management services in Bermuda; structuring insurance program; accounting; formation of company; compliance with insurance regulations.
1980 Gross revenues: Not reported.
Principal officers: Stuart H. Grayston, Peter H. Grayston.

Frank B. HallManagement Co.

Suite 103, 7409 S. Alton Court, Englewood, Colo. 80112; 303-773-3433

Year founded: 1972.
Parent company: Frank B. Hall & Co. Inc., Briarcliff Manor, N.Y.
No. of staff: 13 plus part-time.
No. of captives managed: 10.
Underwriting pools: Pools underwritten and managed by Union Indemnity Insurance Co. Captive must be client to join pool.
Other services: Manual claims processing, being computerized; claims reserve analysis; reinsurance facilities, including access to third-party business; investment management; claims auditing; loss control services; computerized loss control reports, in process.
1980 Gross revenues: Not reported.
Principal officers: James A. Jaeger, president/CEO; Alverd C. Stutson, vp-operations.

C.E. Heath Agencies (Bermuda) Ltd./C.E. Heath Insurance Broking (Bermuda) Ltd.

P.O. Box 1801, Hamilton, Bermuda; 24241

Year founded: 1977.
Parent company: C.E.Heath & Co. Ltd., 151/154 Minories, London, EC3, England.
No. of staff: 6.
No. of captives managed: 7.
Other services: Manual claims processing; claims reserve analysis; reinsurance facilities, including access to third-party business; investment management.
Subsidiaries: C. E. Heath Group, worldwide.
1980 Gross revenues: Not reported.
Principal officers: R. A. Bell, J. K. Lawrence, A. Kilby.

agent/broker topics

A REGULAR EDITORIAL SECTION EXCLUSIVELY FOR AGENTS AND BROKERS

It's a difficult road to travel down

A confused gentleman has just entered a store filled with computer printouts, terminals and displays. His question? "Is there a computer that I can buy to tell me which one I should choose?"

In this case, the gentleman was only a cartoon character in a recent *New Yorker* magazine. But real people, especially agents and brokers, face the same thoughts every day as the rush to automate moves at a faster and faster pace.

The questions are many. Should businesses add a good accounting system, or is a machine that can take and sort hordes of policy information necessary? If the choice is accounting only, will a less-expensive batch system do the job, or is the answer one of the flashy minicomputer systems now on the market?

If the agency needs more than accounting, then which system has the flexibility needed for future growth? How much will it cost? Can the agency afford it? Is the system reliable? Will the vendor be out of business tomorrow?

Most importantly for any decision, will the agency or brokerage be getting its money's worth?

Agents and brokers looking for the one "right" answer are bound to be disappointed. There's isn't any. And even well-planned firms face a long, tough road to automation success.

In this issue of *Agent/Broker Topics* are the stories and advice of some of the agencies and brokerages that have traveled that road. The answers they relate may be right only for them, but they do illuminate some of the techniques all businesses must follow.

ALTERED STATES:

Has today's agency automation frenzy further closed the gap between man and mini-computer?

Stories by Dave Galanti

KANSAS CITY, Mo.—Melodee Johnson was flabbergasted.

When she and other officials of the Independent Insurance Agents of Kansas and Independent Insurance Agents of Missouri came up with the idea of an automation fair to instruct local agents about computer planning, she expected that 50 or 60 agency administrators would show.

As she stood in the Kansas City hotel ballroom, however, Ms. Johnson could tally nearly 200 agents, computer vendors and assorted onlookers. The fair had been a success beyond her wildest expectations.

Ms. Johnson's reaction may have been common to everyone except agency and brokerage principals who, for a number of reasons, have become desperate to learn more about the little black boxes they call agency minicomputers.

Those principals, who hadn't even heard the word "interface" five years ago, now talk computerese with the best of them, discussing the relative merits of Redshaw over Insurnet over the newer software programs currently being developed by insurers.

It's almost like many agency principals are turning into computers themselves.

Despite all the talk, most agencies haven't taken the leap yet. Sources put the number of agencies and brokerages who have automated at from eight percent to 10% of the total number.

But that doesn't stop the worry of some agents that fear they haven't made the transition from man to machine quickly enough. These agents ask not only whether they should automate, but whether their present system does enough for them.

Unfortunately, experts say, many agents err and turn to the software and hardware vendors for the answers to those questions.

That's a big mistake, says Frederick B. Karl, general counsel of the Florida Association of Insurance Agents.

According to Mr. Karl, and most other experts in agency automation, the first step must be to plan, plan, plan. Without a detailed three-year or five-year plan that shows exactly from what areas their revenues will come there is no use in seeking any system.

Agencies must discover several facts before they even begin to delve into the problem of which system to buy, Mr. Karl says:

- There are no pat solutions.
- Because no two independent insurance agencies are exactly alike, no single, simple automation plan is suitable for all.
- No two agency principals are exactly alike. Some have more money than others, some are management oriented while others concetrate on selling and leave management to others. A few have mechanical aptitude and want to watch something work. Others want to be the first to own a computer. Their approaches to automation are as varied as their attitudes and aptitudes.
- Not all agencies should automate now (see story, page 66N).
- Each agent must appraise his own needs and then move to solve them. Different software vendors offer different programs. One is suited to whatever particular needs an agency has.
- Every agent should move slowly, cautiously and conservatively. The agent should give himself enough time to do the job right.
- If an agent doesn't have the interest or time to do it right, he must hire a person either on a full-time or consulting basis to help him with the decisions.

The next step for agents who are beginning the automation path is to realize what automation can and can not do for them, says Chicago automation consultant Carol Stacey.

"Agents should look at automation as a way to eliminate repetative tasks on a regular basis," she says. "It's only a tool. If agents don't use it properly, it will be of no help whatsoever. It's not going to read your

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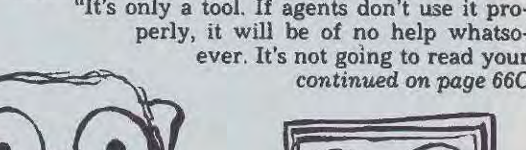

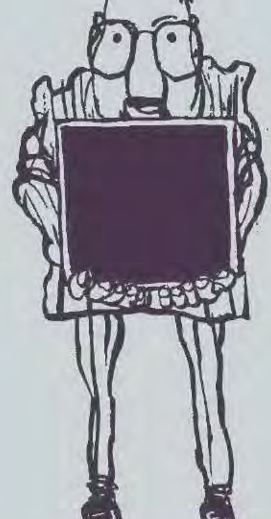

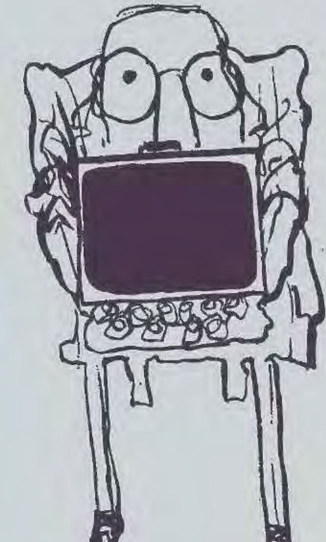

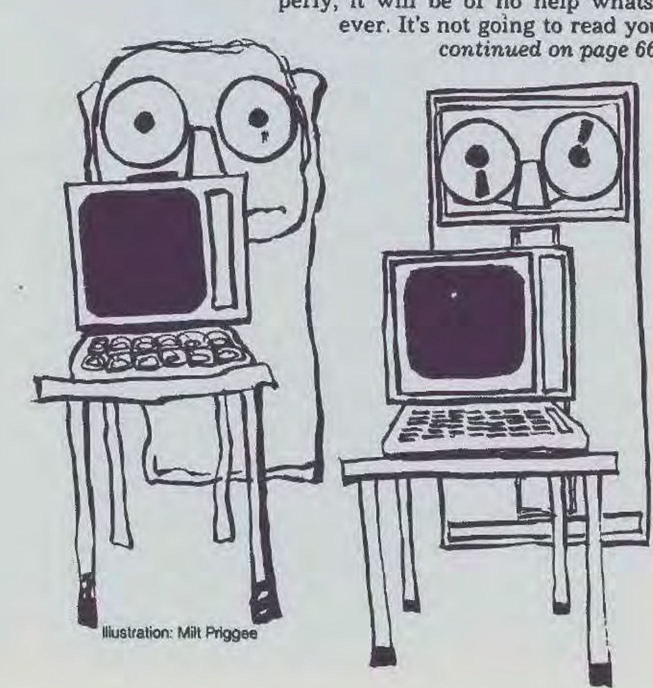

Illustration: Milt Priggee

Inside:
Old and new systems find Indianapolis backers, page 66B • State Farm initiates its automation move, page 66F • Haste makes waste in agency computer plans, page 66N

Two plans:

Agency glad it bought 1978 system

Management Advisors' system is easy to operate, say Nancy Hutson and Bob Mikels.

INDIANAPOLIS—William J. Garrity has a suggestion for agencies who need a computer now but wonder whether they should wait for software improvements before making the big jump.

Don't.

He didn't, and his Management Advisors Inc. agency is three years ahead of the game as a result, says Mr. Garrity.

Management Advisors owns a system sold by Insurnet, a San Francisco-based software vendor. The Indianapolis agency's version includes six terminals (five in Indianapolis plus one in a Layfayette, Ind. branch office), two letter-quality printers, one 300-line-per-minute high-speed printer and a slower, 160-character-per-second printer in Layfayette.

The system was installed in August, 1978.

"If you need the equipment, you need the equipment," says Mr. Garrity. "And if you discover you need it, buy it today. So what if things change. You can't wait for the best time to buy equipment because there may be no best time."

That's the decision he made in 1978. When he took a look at the planned growth for Management Advisors, Mr. Garrity felt he needed to switch from his batch system to a mini-computer.

"One of the initial things we thought we could do was to save money by going from a batch system to our own," he says. "That turned out to be false, although we did see improvements in getting our statements more quickly with better control.

"You know, nobody says they buy these systems for accounting purposes," he adds. "But the accounting aspects are important.

"Mini-computers give a flexibility that a batch system just can not. We didn't buy our system for accounting reasons, either, but last year we were glad we had a good system because we bought several agencies at a time when interest rates were high. We needed to know where every cent we owned was to pull it off."

Mr. Garrity says he's happy with his Insurnet system, although he backs it up with the disclaimer that he isn't in the computer sales business.

"We came up with specifications three years ago and at that time this was the only system that could meet our needs," he says. "We needed a system where we could do different functions at the same time. Except for the closing period at the end of the month, we can. That doesn't seem like much, but it makes a big difference to us. There are other features we like as well."

The main reason Management Advisors made the decision to go to an in-house system, however, was for marketing purposes. The six-office agency is heavily into mass marketing, and needs the flexible policy information obtainable though a computer.

"We really use it as a marketing tool," Mr. Garrity says. "We feel we need to identify prospects who have, for example, homeowners coverage but don't have auto or medical insurance. You simply can't do that with a word processing system alone.

"We're expanding our group and life departments because of the information we can get from our computer," he adds.

Mr. Garrity admits that he would like his system to do more eventually, but for now he's satisfied with its present functions.

"For this agency, as long as the computer does the accounting and marketing functions in the numbers we do it here we think that we are getting our money's worth," he says.

"Of course, there is a lot more that we can't do yet," he adds. "We can't crack our claims business on it yet. Our employee benefit department isn't on it. If you listed our priorities for the system, we're probably only down to number four.

"But to do these we would have to design some software to add to the system," Mr. Garrity explains. "We could do it now, but we would have to get people in here from 4 p.m. to midnight to do it. When you weigh that in terms of cost, motivation, etc. you find it may be better just to wait until you can do it with the staff you have now.

"We'll take it one step at a time." ▪

Broker waits, then buys ideal system

INDIANAPOLIS—After a year and a half of trying, Salen Herke finally has his new computer.

It wasn't as if he wouldn't have preferred to buy one sooner. For 18 months, the president of Herke Insurance Center here had sorted through the maze of pamphlets, articles and advice about agency computer systems and just couldn't find the one he wanted.

Finally, Mr. Herke found the computer that would make him happy—a new system written by EBS that teamed with Data General hardware.

He was so happy with the system that he disregarded the old adage that says agents shouldn't buy a system unless they have seen it in operation in another agency.

The result—a happy one for now—is that the agency bought its system for $61,000 and serves as a test firm for the vendor. Mr. Herke got the hardware and software he wanted. EBS gets his advice on how to improve its software package.

"This is a new system with a highly sophisticated accounting function," boasts Mr. Herke. "It's also very flexible—you can set up your own profit centers, multiple businesses or anything we want. The program is written in COBOL, a sophisticated computer language, and the system itself is very fast.

"We purchased a lot of memory and that helps in the speed in which the computer functions and how much of the programming it can hold."

Herke Insurance's system includes eight video display terminals, a high speed (300 lines per minute) printer and a slower, letter-quality printer. Both the software and hardware can be added on to for future growth, Mr. Herke stresses.

"The trouble with many mini-computer systems for us is that you can't alter the software," he says. "With Redshaw, you take or leave what they have. To alter the ARC (Agency Records Control) system is very costly. And those aren't the only two instances.

"Each system has its benefits, but none were right for us. Some were too personal-lines oriented, other firms had what I felt might be financial problems in the future.

"We have taken a risk with the program we chose because it is new and the vendor isn't totally established yet. I don't think that the firm will fold, however, because the software is so good.

"We can expand quite easily," Mr. Herke continues. "Ours can handle up to 256 terminals and I don't see the need for that many in the future. And the hardware is expandable as well."

Mr. Herke says one of the main benefits of his system is that it can contain an overwhelming amount of policy information. Limits, endorsement information and claims data for each policyholder quickly appear on the screen.

The system calculates and prints payroll checks and keeps track of payments and accounts receivable. It also keeps track of the agency's bank accounts to reconcile with the statement provided by the bank.

The software is easy to use, Mr. Herke adds, because the computer flashes a series of menus, or a display of available functions, that lead employees directly to the needed information.

Despite the possible pitfalls of being one of the first to test a new mini-computer system, Mr. Herke says he relishes the idea.

"Right now, I am in the thick of things," he says. "If something goes wrong, I can get on the phone and call the president of the vendor. I like that. Plus, I have a lot of input on what improvements are made in the computer software's capabilities. I like that, too.

"After all, there is no reason why the computer's development has to stop here. There are many things that can be done in the future, particularly in the transfer of information between agencies and insurers, kicking out differences between their data and ours.

"Companies talk a lot about interfacing on accounting and policy changes, but to me, claims are the number one priority," he adds. "If we could interface totally on that kind of information we could do a much better job."

For now, however, Mr. Herke is still working on getting the system up and operating. Though most of the information has already been put into the system, he's still working at checking and double-checking its accuracy until he is certain that all is well.

He's also pushing for some subtle changes in the software to adapt it to his needs.

"I'm looking for a system that causes the least amount of adaptation for our 35 employees," Mr. Herke says. "Right now, the software is set up to print all invoices and letters at the end of the day. I'd spend a lot of money to change that—it isn't efficient for us. So we're looking to change it."

Mr. Herke says he's looking forward to the day when everything is up and running and he must no longer rely on his old system. It will be then that the agency can really take advantage of the benefits his new computer system can offer.

Fortunately, Mr. Herke says, that day is not too far away.

"If we can get this system up and running in six months we'll be so much better off than if we hadn't gotten it," Mr. Herke says. "I think things are going to work out just fine." ▪

"Our new system is very flexible," boasts Salen Herke. "It is written in COBOL, a sophisticated computer language, and the system is very fast."

Automation options vary widely

continued from page 66A

reports, understand them, or sell insurance."

Ms. Stacey admits that it is easy for agents to become starry-eyed over the glamorous promises of computer system vendors. Although a full-blown, multicapability system may sound heavenly, Ms. Stacey recommends that agents stick to those functions they decided they needed in advance planning sessions.

"In planning to make any automation move, agents should be looking at their own system to see where they can eliminate repetition. They should be looking at their goals for the next three years and trying determine ways to fulfill those goals."

Many agents don't realize that there are many alternative ways to solve different problems. Not all agents need to go to a minicomputer, or even automate at all, she says. Different agencies will need different levels of sophistication.

"The first level of sophistication is the quill pen—doing everything manually," she says.

"And there are still some good agencies on this system. Look, if you are growing 15% a year, not hiring any people, and have a handle on your finances and customer service, then there's no need to change."

For those agencies that need a little bit more, there is the service bureau.

"Many agencies use a service bureau to do its financial data, but not too many use these to their fullest extent," Ms. Stacey says. "Agents can get a lot of the same things from their service bureaus that they could get from a small computer—it just won't be as timely."

The next step still utilizes the service bureau, but a terminal is used to input data.

"The advantage of this type of automation is that you're not making a long-term financial commitment," Ms. Stacey says. "You can cancel the service if you want. You can experiment with the terminal. And if you need help it comes to you from the service bureau—it's their responsibility."

The final level of sophistication spreads in many directions. Agents with heavy interest in mass marketing may be able to get along with sophisticated word processing machines. Others may choose a simple, one-terminal computer system. Larger agencies will probably choose multiterminal, relatively complex minicomputer and software systems.

The determining factor will be which type of machinery can help meet the agency's goals while still being within the firm's pocketbook, Ms. Stacey says.

"The question is not what should I buy but why should I buy something," she says. "The vendors are going to create a market for whatever they produce. The agent's job is to challenge the vendor to see if he can deliver the machinery that can help the agent achieve his goals."

Each level of sophistication has pluses and minuses, agrees J.R. Chapman, of Chapman-Sander Inc. in Webster Groves, Mo. In a speech at the Mid-America Automation Fair, Mr. Chapman outlined the advantages of each.

"With a batch processing system, the agency encodes the data to be put into the system, then it is held by the service bureau until the end of the month. Then the data is run through the service bureau's computer all at once at the end of the month and the data is updated and returned in computed form.

"Some daily and weekly reports are available from some service bureaus, but most reports are monthly," Mr. Chapman continues. The processing time can take from one to two weeks.

"That can be the biggest problem," he adds. "Because agencies don't get their data back immediately, there is always some catching up to do. You have to take the report, then manually look to see what has happened since that time. But in general, this type of system is not disruptive, not costly and you can back out of it if you want."

With an on-line terminal, possibilities change a little bit from the straight batch system, Mr. Chapman says.

"With on-line terminals, data is posted immediately," he says. "The data also can be validated and proofed as it is entered. Other than that, the advantages depend on the software that is used."

With an in-house minicomputer, many of those problems can be eliminated, but this is the most costly option, Mr. Chapman says.

"However, the control of your processing is in your office. You can control what comes out when, report formats and the like. Agencies can also custom program additional functions."

Both Mr. Chapman and Ms. Stacey feel that agencies should be able to write off the expense of any automation system in a three- to five-year period. Mr. Chapman says the chances are good that the present systems will be obsolete by then. Ms. Stacey feels that the agency might just simply outgrow the system.

"Let's face it," Ms. Stacey says. "If an agency grows at a rapid pace facts change and goals change. When that happens an agency may well outgrow its present system.

"But that's nothing to be overly concerned about," she adds. "It's like having to pay more taxes because you've made more salary. Everyone looks for ways not to pay more to the government, but if you have to, you have to. That's better than not making more money at all.

"Sure, if you outgrow a system there could be some pain and suffering in switching to a new computer. But it's not all that bad."

That, of course, doesn't mean that agents shouldn't try to buy the best system possible—one that is financially sound (vendors have

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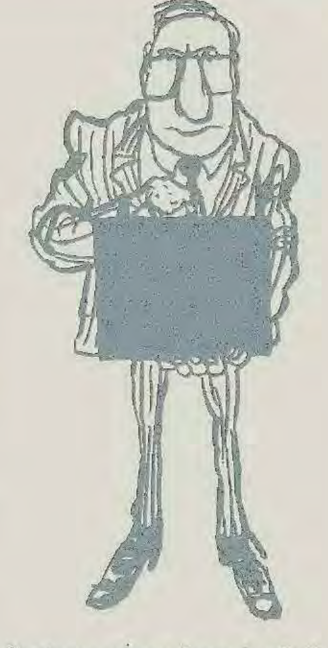

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Broker awaits future software improvements

CHICAGO—Mack & Parker already has a computer system. Even so, it is looking toward the future.

One only has to look at new president Edward Mack III's downtown office here for proof.

"I eventually plan to have a terminal in here for myself," Mr. Mack says, holding up a cord that will one day serve as his personal link to the system.

"But right now I have to look around for someone who's sick or out of the office and use theirs."

Mack & Parker is in the midst of a transformation from an in-house, terminal-driven batch system to a proposed grouping that will allow a horizon of accounting, word processing and marketing functions based on one set of policyholder information.

For now, however, Mr. Mack says he has to be satisfied with his present compromise between the two.

"A year ago, we had a traditional accounting capability on our batch system," Mr. Mack says. "We were also producing limited insurance summaries for both ourselves and our clients, but it was a very difficult task. We had to add more descriptive data beyond what was supplied by the batch system in order for our clients to understand it.

"As a result, we decided we needed an on-line automated claim system. We decided we needed a system where we could order policies and endorsements automatically, prepare insurance summaries easily and maintain good accounting procedures."

Today's 24-terminal system doesn't completely fill that bill, but it is an improvement. It gives the agency improved accounting and word processing capabilities, but lacks the speed and convenience Mr. Mack would prefer.

For those capabilities, the agency will have to wait a couple of more years, he says.

The agency is locked into a leasing arangement with the hardware manufacturer for two more years. Also, Mr. Mack says he isn't sure that the software vendors are ready to supply a state-of-the-art system to his agency yet.

"In the past 12 months, many insurance companies have been making announcements about automation systems that can be adapted for larger agencies," he says. "But this may not be the time to improve what we have. Our plan is to utilize our current system, which we feel can carry our growth here for another three to three-and-a-half years.

"We know that to develop a system sophisticated enough for our needs will take millions of dollars and many manhours," he adds. "There are a lot of factors that go into consideration of a system, and we want to make sure everything is OK before we make a move."

When he does commit to a final computer system, it likely will have three aspects most important to his firm.

"Our system must have complete insurance summary capabilities for us and our clients," Mr. Mack says. "Second, it must have the ability to institute several transactions with one access to the computer—such as being able to order endorsements, bill clients and perform other duties from information put into the system once. Last, the system must have the ability to use a sophisticated data base to use in word processing and marketing."

Mr. Mack says it looks at this point like the firm will eventually choose one of the newer software systems now being developed by insurance company subsidiaries.

Despite the possible negatives of being further linked with particular insurers, Mr. Mack says the firm has to link up with a vendor who is financially stable and able to provide services for many years to come.

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Know how to talk to vendors

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been known to go broke, which at best is inconvenient for the agency, at worst it could cause disaster), employs a number of top-flight programmers who know the insurance agency business and are dedicated to continually updating the software, and uses hardware that is expandable and easily serviced.

Fortunately, there are many of those firms around. Consultants say the big trick again is to know what you want in advance.

"I don't think that in the past agents have really known what they wanted to automate," Mr. Chapman says. "At the same time, vendors really didn't know much about the independent agent.

"The biggest thing is to find a system that will grow with you," he adds. "Know how to talk to vendors. Read a good reference material like the Agency Automation Guide (produced by the Insurance Institute for Research in White Plains, N.Y.). That guide, and others like it, give detailed outlines of what to look for."

Consultants say that comparing various systems is often like comparing apples and oranges—there are too many differences to make direct comparisons over a broad range of functions.

Neither is it possible to "rank" vendors by functions or reputation, because these factors can change quickly. Ms. Stacey tells her clients

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The biggest thing is to find a system that will grow with you.

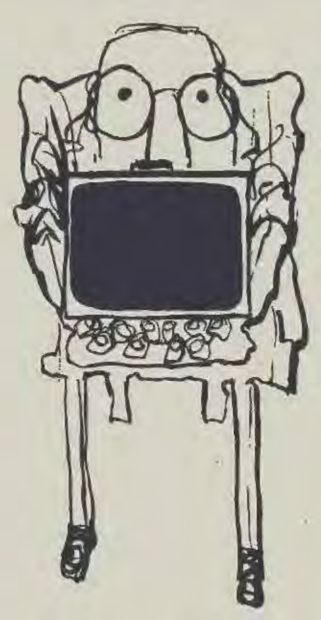
Continued from previous page
that they should be prepared to use her advice within six months, or else the research she does will be largely wasted.

So how does an agency compare systems? Mr. Chapman recommends a proposal request letter.

"What that is is a formal request to a vendor to propose a system based on detailed information you provide about your agency," he says. "This tells vendors what you need rather than the vendor coming in and selling you a system that sounds wonderful but may not really do what you need done."

A good request contains several parts, Mr. Chapman says. It contains a cover letter with the date the agency will make a decision, detailed agency profile data, the agency's specific objectives and requirements and how you want the vendor to respond.

"The request for proposal gives you control of the selection process," he adds. "It provides you with accurate data relating to your particular situation. It also facilitates side-by-side comparisons of vendors. It's not a substitute for interviews and demonstrations, but it's a very good start."



Request formal proposals from vendors to keep facts straight.

While this is going on, Mr. Chapman suggests agency managers read everything there is to be read on the subject, including the Agency Automation Guide or a similar volume, Insurance Agency Computer Power by Insurance Marketing Services in Santa Monica, Calif. Then set up a file that includes in part:

• The financial stability of a vendor. Mr. Chapman believes as a whole the computer industry is undercapitalized.

• Which size agencies are using the systems under consideration.

• The system's capacity, and whether it can be easily and cheaply expanded.

• The costs involved, including materials, supplies, maintenance and installation.

• The functions each system can perform in the areas of word processing, marketing and accounting. Will it do them to the extent you want? "Remember," Mr. Chapman says, "promises are cheap. Make sure the system does what you want it to today."

Help in comparing vendors can be obtained by using reference guides like the volumes mentioned above or a outside consultant. There is no one way to do this, just as there is no one right system to buy.

Again, it all gets back to planning. Even vendors feel knowing what you want is the key.

"No one should buy a computer without a five-year business plan," says Michael T. Wilkinson, president of Agency Management Systems, Inc. a subsidiary of Commercial Union Insurance Cos. "Agencies need to see where they are going. Too many buy a computer and then say 'let's go.' Believe me, if you don't know where you're going, a computer will sure get you there."

Mr. Wilkinson agrees with most consultants that the wait for a complete agency-insurer interface network may well be a long one. Agencies shouldn't plan their automation purchases around it.

"We have today a combination of insurers that are not yet ready with their own computers to do a high level of interfaces and insurers with a high level of automation that are not really interested in spreading it around and making the other companies well," Mr. Wilkinson says.

"The hoax is that Ryder trucks will pull up tomorrow, unload interface terminals and agencies will start communicating with companies. It just isn't going to happen for another five years."

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Bill adds that with the capability to get this kind of information whenever he needs it, "we've had the control we want to allow us to plan. And without planning, you can't grow."

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EI4 81

State Farm develops system

Direct writers take their first step, too

BLOOMINGTON, Ill.—The struggle to automate isn't being fought by independent agents and brokers alone. Their arch enemies, the direct writers, are on the trail, too.

State Farm Mutual Automobile Insurance Co., headquartered here, is testing its own automation system. Norman L. Vincent, vp-data processing for the direct writer, says State Farm currently has installed mini-computer systems in 15 of its agencies. Another 115 systems are in order for agents in Illinois, California and Florida.

"Of course, an important part of how we conduct business is in the relationship between State Farm and our agents," Mr. Vincent says. "To improve that relationship, we felt that we had to begin some kind of automation system."

Mr. Vincent says State Farm investigated many posssible ways of linking agents with the regional and home State Farm offices before deciding on the minicomputer system.

"Our agencies tend to be a one-person operation supplemented by a couple of clerical workers," he adds. "At the same time, we have many agency offices. That determined our original thinking.

"We looked at the use of on-line terminals to a central computer but it just didn't make sense in terms of cost or reliability," he says. "We have 900 agents in Illinois alone and to tie that many lines to one computer would be difficult and unwieldy."

> The State Farm system is planned so that each agency employee will have his or her own terminal.

Another difference resulting from that initial research process is the philosophy of automation that State Farm will follow. Unlike the philosophy of many independent agencies, where many people share a few terminals connected to a computer system, the State Farm system is intended for a one-person, one-terminal approach in which each employee has his or her own work-station terminal.

The solution involves a custom-designed minicomputer system furnished by IBM. Based on IBM's Series I processor, the system can hold from one to five terminals plus print on fast-print or letter-quality printers.

For now, the system operates with the State Farm regional office as its core. After the individual agent inputs new policy data into the computer, the information is sent to the regional office. This information is then cross referenced several ways for marketing purposes, then sent back to the agents on diskettes weekly or monthly for the agent's use.

"We didn't want to start operating a telecommunication system right away," says Mr. Vincent. "When you do that, you get into a whole different level of sophistication. We didn't want to involve oursleves in that level until we had the basic system set up. If all things go well, we will have one agent on a telecommunication basis by the end of this year."

The State Farm computer system provides the agent with about a dozen functions, Mr. Vincent says. They include:

- An inquiry capability. State Farm agents on the system can call up a policy file and find pertenent information without looking in the paper file.
- Rate quoting on some programs, printed so that insureds can understand the information.
- A calandar system that keys important meetings, renewals, questions, etc. to a particular day. On that day, the message will appear on the screen.
- Search capabilities. For example, a State Farm agent on the system could identify all his automobile business with limits under a specified amount. He could then send a pre-prepared direct mail piece to those policyholders.
- A training program that allows the computer to teach employees how to run it plus a 'help' key that explains to employees what the computer is seeking.

The system is designed to be as simple to operate as possible, Mr. Vincent says.

"A typical day for an agent with the system would start with an employee turning the system on," he says. "Three minutes later, the computer has inventoried itself, tested its circuits and is ready to go. Then the agency employee puts in today's date and lets the computer print out the information calendared to that date. After that, the computer is ready for the day's work."

Another benefit of the State Farm system for the agent is that it has an interrupt capability. This means that even if the computer was in the midst of a 30-minute search for policyholder information, employees could halt the process at any time, retrieve some individual information for a policyholder, then start the computer back on the original search at the point where the computer left off.

The first of these systems was installed last October, Mr. Vincent says. State Farm buys the hardware and provides the software for the agent, who picks up the tab for the system. State Farm doesn't anticipate paying off its front-end expenditures for at least three years, Mr. Vincent adds.

Although he expects that 2,000 to 3,000 State Farm agents could be automated by the end of 1983, Mr. Vincent says that State Farm's larger agencies will be the most interested in the system in the near future. ■

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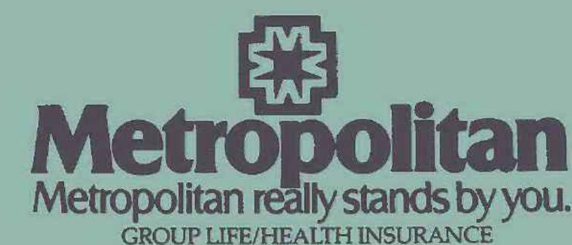

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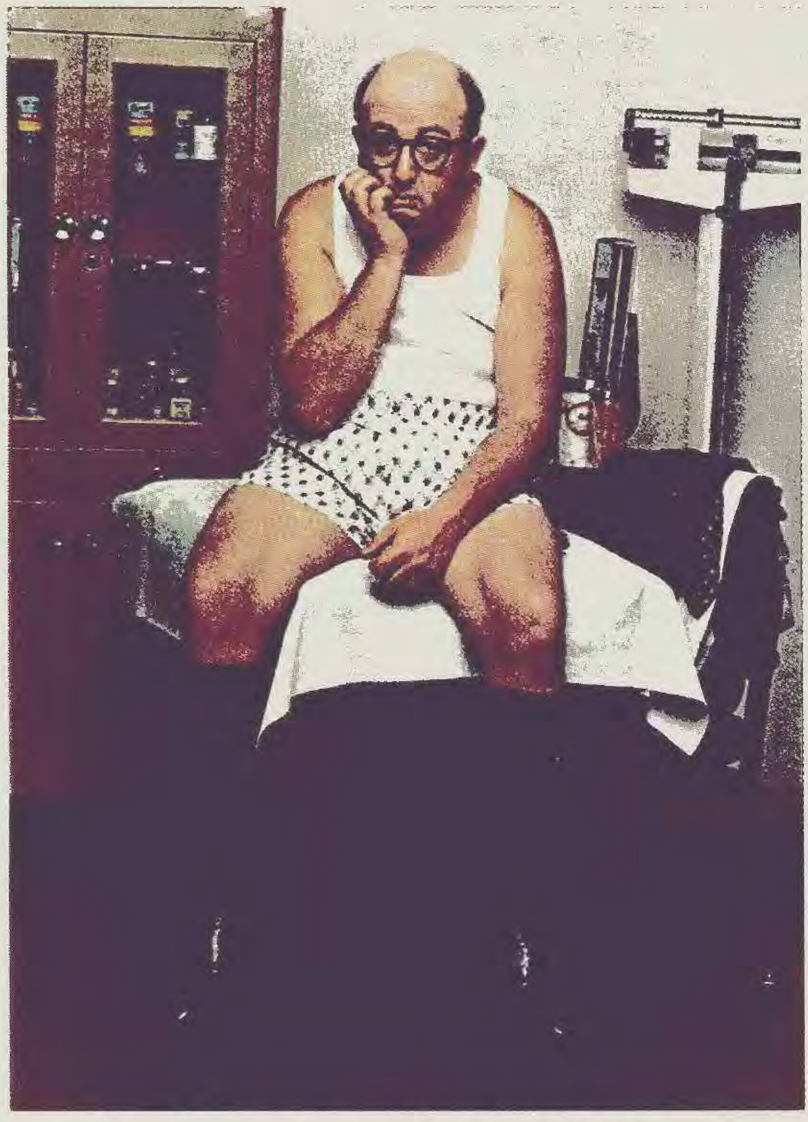

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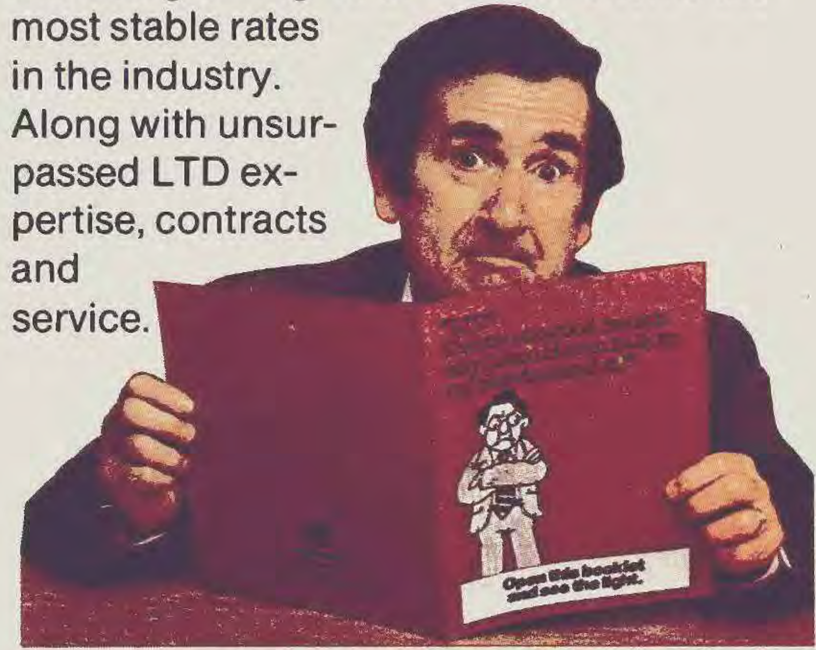

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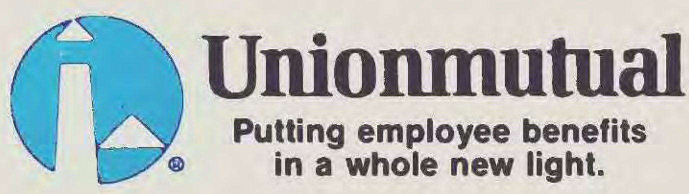

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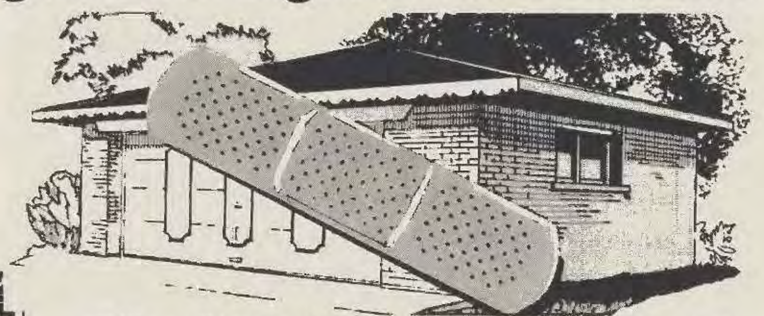

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Don't await linkup to obtain computer

WHITE PLAINS, N.Y.—Agents should not let any agency-company interface plans affect whether or not they buy a minicomputer system at present, advises Art Pavelle, vp of the Insurance Institute for Research.

Although Mr. Pavelle says IIR's work towards establishing computer linkups between different versions of agency mini-computer systems and insurance companies is going at a good pace, he advises against anyone waiting for the magic box to be in place before purchasing a computer.

"I don't think that interfacing is the reason to buy any computer," Mr. Pavelle says. "For one thing, the point where almost all agency-company business will be done via computer is some time away. When it comes, that will be the icing on the cake.

"But there is much more to owning a computer than interface," he adds. "I think that everything we do brings closer the day when the independent agency can operate more efficiently. But today, agencies should be automating for better reasons than interface.

"I would never recommend a computer purchase to someone who doesn't have a three-year or five-year plan for his agency. The real bottom line to determine whether you need one or not will be contained in that plan," he says.

"All computers really help you do is to allow your agency to perform more work in the future with the same number of employees."

Meanwhile, the IIR is continuing its efforts to provide that interface icing, Mr. Pavelle says. A test conducted by the IIR has connected up to 15 different software vendors with up to nine insurers.

"We've proven that it is feasible," Mr. Pavelle says. "One of the big problems, however, is that the insurance companies are not ready yet. Insurers are dependent on existing systems. Those systems are complicated and expensive to change.

"Data processing came to insurers in the early 1960s. And so, their big batch or tape oriented systems are just not of the kind that you would design to interface in the 1980s. It still works fine for them, but it is very hard to adapt to new needs today."

IIR, which is sponsored by agent associations and insurers, is trying to accomplish three goals, Mr. Pavelle says. They include:

- Assisting agencies in automation plans.
- Encouraging insurers to move to interactive computer systems rather than large batch systems.
- Finding ways to make communication between the two sides as economic as possible.

The organization also publishes the Agency Automation Guide, a looseleaf volume intended to advise agents on planning for and buying automation systems. ■

IIR publishes updated guide to computers

The Insurance Institute for Research has published its second annual update of the vendor digest appendix to the Agency Automation Guide.

The digest is an indexed listing of vendors of agency software.

The 1981 revision lists 51 different vendor systems. The base-level entry price of each in-agency system is cited, ranging from $8,000 to $100,000.

Also included is a listing of the system functions offered by the various vendors in the areas of marketing and client information, statements and accounts receivable, accounts payable, general ledger accounting, payroll, claims processing, sales analysis, word processsing, policy training, policy issuance and other functions.

The vendor digest is included in the purchase of any new guide, which is priced at $42.50. For those who already own the AAG, the cost for the new vendor digest is $10.

Orders should be sent to IIR, P.O. Box 881, Kendalville, Ind. 46755. ■

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RBH has long been involved in computer risk management services, says F. Wayne Bowen (seated) and George Burrows.

RBH aids commercial clients with computer risk services

CHICAGO—As independent agents scurry to automate, their big brothers in the national brokerages are taking steps to do more and more tasks with their own black boxes.

Rollins Burdick Hunter, for example, has long been involved with computers for risk management services. RBH aids its clients with such programs as cargo loss control, workers compensation cost center loss profiles and other analytical studies and management information reports.

None of those efforts would be cost effective without use of computers, says F. Wayne Bowen, second vp in RBH's risk management computer services department.

"Anything we can do with computers has been done manually to some extent before," Mr. Bowen says. "There are two areas that brokers have used computers for—accounting and analyzing problems using statistical tools.

"But even that last area has been done for some time using skills that were around before brokers began using computers," he adds. "Even today, a good, talented person could do some of those skills as well as a computer in some instances. What we want to do here at RBH is to develop a computer model that will increase the value of those skills to many clients more quickly."

RBH services come in two areas. In the analytical studies area, RBH can perform loss analysis and loss forecasting on its computers. Other programs in this area include pro forma balance sheets for potential captive insurance companies, cost benefit analysis for converting fire protection measures, incurred but not reported loss development assessments and alternative funding studies.

For management information reports, RBH can provide loss run information, a program for allocating premiums internally for retrospectively rated insurance programs and the cargo loss control system and cost center loss profile mentioned above.

By its nature, this type of computer programming is intended for RBH's larger clients, says vice chairman George S. Burrows.

"The type of services we're talking about here would be very hard to do manually," Mr. Burrows says. "If you're dealing with a large risk, you're also dealing with a large stack of data that is difficult to sort.

"But there is more to it than that. You have to know what to sort," he adds. "You can grind a lot of information through a computer without getting any realistic achievement in terms of conclusions. You have to know the variety of ways to massage that data to make it work."

RBH maintains six people in Mr. Bowen's department. In some ways, however, the department is far larger, Mr. Bowen says.

"With computer systems, the more you push the job out to the user the better," he says. "What we are emphasizing right now is setting up the sophisticated packages while at the same time communicating what we can do to the rest of our organization and the insurance buyers."

"We want to build a high level of sophistication among all our employees as to what we can do in this area," adds Mr. Burrows. "From an early point we had a high level of sophistication in our computer department and in our home office. What we want to do now is to spread both the awareness of what we can do and some of the work of producing it out further into the field.

"To do that, you have to educate a lot of people. It's a long process and we have held many seminars to do it," he adds.

Computer experts can not afford to isolate themselves from other brokerage employees and buyers, warns Mr. Bowen.

"I don't like the word programmers," he says. "The reason is that we are all out to serve clients. If we have to program new products to do that, fine. But we would rather not reinvent the wheel, and we don't have to in many instances.

"If you have an aggressive group of minds within an organization, every one gets into the creative end of this department," Mr. Bowen adds. "Many ideas about what we should and could be doing have come out of the marketing department or from our clients. What our department wants to do is take the ideas from them—the firing line—and translate it for the computer."

The only control on that process is to determine whether or not a particular suggestion will be cost effective, he continues.

"The question of why don't we do this or that comes up often," Mr. Bowen says. "You have to determine whether it is cost effective or not. But in addition, you have to

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look at a project to see how it fits into the changing environment of insurance.

"As it turns out, what my department generally works on are variations of existing themes," he adds. "We usually end up tailoring existing programs rather than coming up with something new."

Mr. Bowen feels that all major brokers have been providing basic computer-based services for some time.

"But the concepts of what we can do is not as important as the execution of the concept in the computer," he says. "If you look at risk management, the basic techniques have been around for some time. It's not hard to establish computer services based on them.

"We, of course, think we do a better job of execution than other brokers," Mr. Bowen adds. "We think we have been able to take a fresh look at some of those risk management concepts and do a better job.

"That fresh look is important, for improvements come from many areas. Sometimes it isn't even a matter of greater sophistication. Maybe improvement will come from better communication —a picture rather than a chart of numbers, for instance."

One of the problems all brokers face in formulating innovative computer risk management programs is the general lack of top-flight personnel trained in both computer systems and insurance, Mr. Bowen says.

"In order to do sophisticated risk management techniques you need the people who know these techniques plus the computer aspects of the problem," he says. "These skills only come through training and experience.

"You have to remember that the computer area has grown a lot in the last 20 years," Mr. Bowen adds. "At that time, it was very difficult to find a computer science course anywhere. That has changed.

"There is another problem as well," he adds. "When I came out of school, I felt that most of the people who graduated with me didn't have a good understanding of the insurance industry. It wasn't necessarily the first thing they thought of. Today, brokers like RBH are trying to provide that good impression, but it takes time to turn these things around."

Mr. Burrows says he feels in the future the majority of Rollins Burdick Hunter's clients will be using some kind of computerized risk management tools. The most likely candidates, however, will continue to be the larger firms and the companies with more complicated exposures.

"One of the things we've always tried to do is not get one program and then try to shove it on everyone," says Mr. Bowen. "We've always been willing to tailor a program to our clients needs.

"Because of that, we've been open to client knowledge," he adds. "That, in turn, teaches us a lot about their needs. What that leads to is new programs or better services that we otherwise might not realize were needed. I think that's one of the biggest strengths of the program here."

As for the future, there are improvements that can be made, Mr. Bowen says.

"We have a lot of rough edges to get off of the technology," he says. "Also, we have a lot of training to do to expand knowledge of our system to outside this department. There's also the problem of bringing the software up to the level of the hardware.

"The future is really going to be a melding of the needs of the risk manager and our staff," he adds. "We have a fuzzy picture of where it is all going, but no one can predict for sure." ■

The trick is in how the computer compiles the data, say Mr. Bowen and Mr. Burrows

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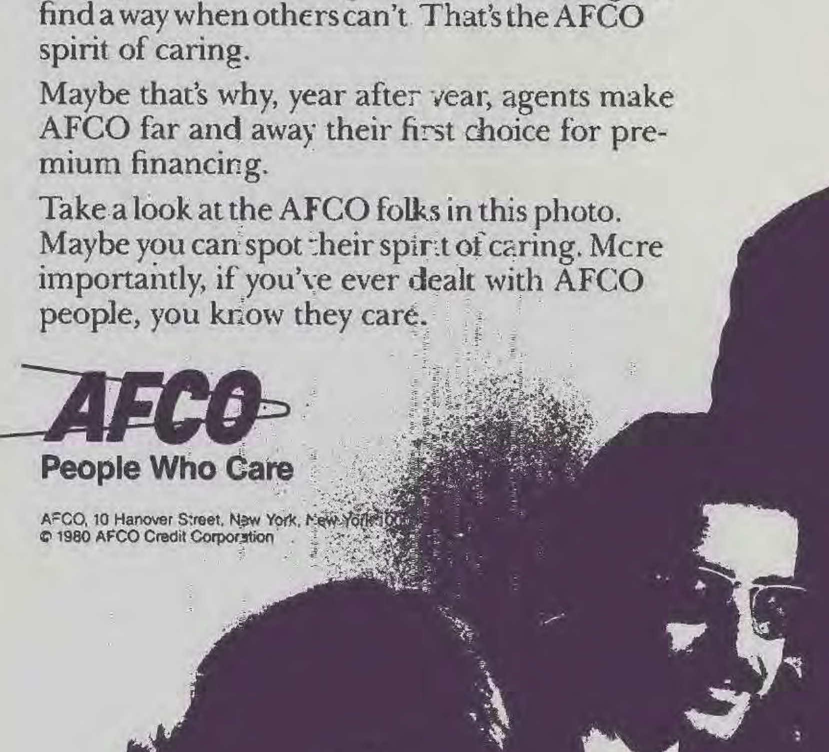

Haste makes waste in computer plans

By FREDERICK B. KARL and WARREN C. LEVY

Once every 120 seconds, the average insurance agent or broker sees or hears a reference to automation, defends himself against a beseeching vendor, or twitches as a random electrical discharge in the brain touches an exposed nerve and flashes before him the urgent and compelling, "I'm late, I'm late. Can I afford to wait?"

And so the independent agent or broker sighs, worried and confused by automation like Alice before Wonderland.

Hyperbole? Maybe.

The average agent justly worries about survival. Research conducted by the Florida Association of Insurance Agents, some in conjunction with The Last Manifesto, a cooperative project involving FAIA and 19 national insurance companies, documents the threat.

Mr. Karl (pictured) and Mr. Levy are general counsel and public relations director of the FAIA.

A forecasting study predicts fewer agencies in tomorrow's frenzied, competitive insurance marketplace. An inquiry into the wheeling and dealing agencies and companies might do to become more competitive reveals that only one-third of today's agents may sign the type of contracts their companies may seek.

Also, today's rate wars deflate the commission income growth agents are used to, making inflation even more troubling. Rumors of an institutionalized combined ratio exceeding 100% only deepen our concerns.

A/BT perspective

Never mind the frightening impact on contingency agreements. What about the inevitable availability crisis which will accompany the next investment income crunch?

It is no wonder then that the urge to efficiency is so great. It is no wonder that the promise of automation garners so much interest.

In response, FAIA's automation committee visited or was visited by most major vendors. We lifted the lid of every promise and poked around inside it. We read whatever we could get our hands on. And, we paid a consultant for an in-depth look at our alternatives. For many agent members of the committee, these discussions were more than academic: they are themselves struggling with an automation decision.

After nearly two years of inquiry, FAIA recommended its members be patient. Move with caution. Automating without proper preparation can be a costly, even destructive experience. Converting from a manual to an electronic system traumatizes; an agency's lifestyle undergoes major transformations.

Think of what it is like to change physical locations. You have three options. Design a new building, remodel an existing one or fit into whatever is available. To design or remodel requires great patience and skill in explaining wants and needs to architect, engineer and builder. To fit into available space requires significant compromise.

Automation options are similar, except that most agents can't explain what they want and need if they seek a customized system, or understand what they're getting if they choose a standard package.

To proceed, however, let's assume agents have a clear picture of their wants and needs. The second reason for caution: today's products are limited. Tempting as it is to believe, there is no perfect product.

To the vendor who promises absolute perfection tomorrow, ask: If this machine were in my office and on-line right this minute, what could I do? There is a long road between the drawing board and your office.

But, for argument's sake, let's make the foolish assumption that hardware and software that can do anything and everything exists. Take a silly, but apt example—a baseball bat. As Nolan Ryan bears down from the pitcher's mound with his famous fast-ball, clearly MVP George Brett has more options with that bat than an untrained player.

Similarly, what all the skilled technicians in the vendors' research and development laboratory might be able to do with any given hardware and software package is rather different than what an agent or broker could do during the turmoil of his day-to-day routine with his existing staff.

Just a few questions. What kind of staff and training would be necessary to make the "perfect system" work? How much updating will the software need? How frequently? Who will do it? How much time must be invested in using all the functions available to you through automation? What will installation cost? What will maintenance of the hardware and software cost? And what will be the cost of any new staff?

So much for the dreary prelude. We don't face gloom passively. FAIA's automation committee, led first by Rocci Lombard of Ft. Lauderdale, and now chaired by Tom Pennekamp of Miami, has changed focus. Automation, it argues, is but one facet of agency management and but one tool necessary to achieve an increase in agency productivity. The agency that survives and prospers in the 80s—and automates effectively—won't fly by the light of the silvery moon.

First, it will emphasize "manual dexterity." If an agency doesn't work well manually, making it work faster only will wreak havoc more quickly.

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And, without clear management objectives, the chance that an agent will make a foolish investment in automation, even a fatal one, increases. One very successful Florida agent who has automated explained to FAIA's automation committee how his investment more than pays for itself, because of his ability to market more effectively. But would that work for the approximately two-thirds of FAIA's membership which had no specific, written plan of marketing goals and strategies for 1980 or 1981? Or the three-quarters of the members with no plans for beyond 1981?

As independent agents learn to compete more effectively with State Farm they will need to understand that the threat of State Farm agents becoming automated lies not in the acquisition of a computer, but in the very specific marketing plan that comes with it.

For instance, State Farm is preparing for the certain attack on its existing book of business which it no doubt has forecast for the 1980s. Knowing that a client with more than one type of coverage is more likely to remain loyal to the company, State Farm has targeted its auto-only policyholders for a homeowners sales blitz.

That's why FAIA's committee wants to put automation into perspective. But, while it focuses on the management decisions that will facilitate automation and productivity, it cannot ignore the frustration of the many agents prepared to automate now.

It's a seller's market and, making matters worse, the buyers are babes. Even worse, too many automation products and services being marketed to agents have been developed without sufficient consultation with agents. They often are sold by exorbitant promises, and apparently many agents sign one-sided contracts. We believe agents should become more aggressive consumers, and their trade associations more prominent lobbyists for their aggregate interests.

Long-range, automation will revolutionize company/agent communication. Without doubt, the agency system will become more efficient.

But how much will it cost? How long will it take? We worry about the Humpty Dumpty syndrome. So much unilateral decision-making is taking place, with so many approaches and systems being designed by different insurance companies.

Will we be able to fuse the fragments, when all is said and done, into as efficient a system as the independent agent dreams will be his? If yes, will we be able to pay the price?

Last, but hardly least, is the matter of major semantics. Automation conjures up visions of computerization, but the two aren't synonomous.

An agent who has determined that he knows what he wants from automation and has analyzed his strengths and weaknesses when operating manaually has numerous options. Take marketing, for instance. Many of the functions touted for mini-computers can be handled by outside suppliers, by fancy and even not-so-fancy word processing systems, and even by special typewriters.

This last note: there is no need for panic. Fewer than 10% of the nation's agencies presently have in-house mini-computers or terminals. State Farm is only starting to embark on a major automation program with its contract agents.

We are not by any stretch arguing for complacency. We are arguing for urgency.

But that urgency should start at step one—a detailed analysis of the current operating efficiency of the un-automated agency and a clear projection of the goals of that agency for the decade of the 1980s. FAIA plans to help its members through this difficult transition and urges all other associations to do likewise. We will reinforce one another, particularly as more aggressive consumers evaluating the automation products and services market. ▪

Folk to speak on automation

John W. Folk, president of the Insurance Institute for Research, will speak on agency automation and other topics at an April 9 seminar sponsored by Independent Insurance Agents of New Mexico.

The session will be held at the Hilton Inn in Albuquerque, N. M.

Joining Mr. Folk will be executives of several insurance companies. New Mexico's superintendent of insurance, Manuel Garcia, will moderate the discussion. ▪

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Most will automate

continued from page 66E

"Applications of data processing range from word processing to very sophisticated data base systems," stresses Ned Bosler, a part-time consultant, part-time representative for vendor TLS Co. "Agencies can start at any level, and getting from one level to the next can be done in steps."

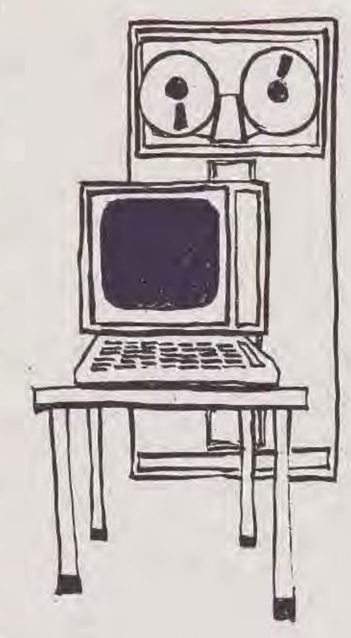
Mr. Bosler says there is no need to constantly upgrade to the top-of-the-line if the present computer is doing the job.

"The computer produced today will be obsolete in five years," he says. "But if in five years it continues to do the job for you, it is still a good investment. Just because there is a better product on the market doesn't mean you shouldn't have bought yours in the first place."

There is still some hope for the person who wants to avoid the headaches of automation planning. But it is a slim hope.

"There are still some reasons not to automate," says Mr. Bosler. "If you plan to merge or sell the agency in the near future, the money spent on a system will not benefit you at sales time.

"Other than that, however, I can't see why anyone wouldn't eventually go to some automation plan. There's just so much out there that there is something to fit almost any need." ■



If your present computer still does the job you want, there is no need to upgrade to a newer, state-of-the-art system, consultants say.

A guide to computer jargon

CHICAGO—Confused by all the jargon?

You're not alone. Here are some rough definitions of some oft-used agency automation terms by an agent who has learned to muddle along despite the jargon.

- **Command**—The appearance of anything on the terminal screen that when entered tells the computer what to do.
- **Interface**—Has many meanings, but to agents means the electronic link between the agency's computer and that of the insurer.
- **Disk storage**—There are several kinds, but all can be roughly compared to an agency file cabinet in a manual system.
- **Hardware**—The stuff you can thump. Comparable to a record player. You can touch it, but it doesn't do anything meaningful until you put the record on.
- **Software**—The stuff you can't thump. The record in the above analogy. A collection of programs that does the work for you and runs the hardware.
- **Program**—A plan that the computer uses to solve a problem. Used as a verb, the process of developing a plan.
- **CPU**—Central Processing Unit: the heart of the computer hardware where data is manipulated and calculations are performed.
- **CRT**—A terminal that uses a television-like screen and keyboard.
- **Language**—The way a program is put into the system. COBOL, BASIC and FORTRAN are all computer languages.
- **bit**—The smallest unit of information accepted by the computer. Stands for binary digit.
- **byte**—A group of eight bits (normally) which are considered a unit. A byte can represent either one alphanumeric character or two numerics.
- **baud**—A measure of speed of transmitting information, used in sending information from one computer to another.
- **batch**—An automation system that works by having the agency store up a number of pieces of work for the computer to do all at once.
- **K**—A measure of disk storage capacity. It means 1,000.
- **Terminal**—Your link to the computer. It may be a CRT, or it may not. A terminal allows you to put information in and get information out of a computer.
- **Turnaround**—The time it takes between the time information is put in and the time you get what you wanted back. Can be expressed in seconds for in-house computer systems or days for batch systems.
- **Edit**—Roughly, this is a control that makes sure you don't do something wrong. For instance, if you are supposed to enter a date 12-24-78 and entered 78-12-24, the computer might stop you because the first digit was not supposed to be larger than 12.

Why on earth would an independent agent tie himself down to one company?

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INA's COMPAR program enables selected agents to enter into an agreement with INA for all of their P&C business. To learn more about qualifying as a COMPAR agency, contact Sergio A. Esperdy, Executive Vice President, Insurance Company of North America, 1600 Arch Street, Philadelphia, PA 19101.

The Professionals

Chuck Matzen of the Deadrich Insurance Agency, San Leandro, California

Continued from previous page

Hogg Robinson (Guernsey) Ltd.

Provident House, Havilland St., St. Peter Port, Guernsey, Channel Islands; 481-26049 (U.K.)

Year founded: 1978.
Parent company: Hogg Robinson Group Ltd., London, England.
No. of staff: 5.
No. of captives managed: Not reported.
Other services: Manual and computerized claims processing; claims reserve analysis; reinsurance facilities, including access to third-party business; banking supervision; feasibility studies.
Subsidiaries: Associated companies in Bermuda and Bahamas.
1980 Gross revenues: Not reported.
Principal officers: Michael J. Savage, general manager; Roger A. Hall, technical director.

Homeland Insurance Management (Cayman) Ltd.

P.O. Box 508, George Town, Grand Cayman, B.W.I.; 92001

Year founded: 1981.
Parent company: Homeland Industrial Corp., 4020 Moorpark Ave., San Jose, Calif. 95117.
No. of staff: 2.
No. of captives managed: 5.
Other services: Computerized claims processing; claims reserve analysis; reinsurance facilities, including access to third-party business; loss control; data processing.
Subsidiaries: Homeland General Corp., Homeland Insurance Co., Homeland Industrial Corp., San Jose, Calif.
1980 Gross revenues: Not reported, new company.
Principal officers: David S. Williams, chairman; Michael Herberger, chief administrative officer-claims; Elmo Joseph, vp-loss control; Nancy Yohannan, corporate secretary.

I

Insurance Management Consultants Ltd.

P.O. Box 1063, Washington International Bank Bldg., George Town, Grand Cayman, B.W.I.; 95722

Year founded: 1979.
No. of staff: 7.
No. of captives managed: 7.
Other services: Manual claims processing; claims reserve analysis; reinsurance facilities, including access to third-party business in some cases; investment management.
Subsidiaries: Seeking licenses in Bermuda and Channel Islands.
1980 Gross revenues: Not reported.
Principal officers: Ian Kilpatrick, managing director; John Scott, director; Brian Allen, treasurer.

Insurance Services International Ltd. (ISIL)

P.O. Box 1345, Abacus House, Grand Cayman, B.W.I.; 95297

Year founded: 1978.
No. of staff: 4.
No. of captives managed: 9.
Other services: Manual claims processing; claims reserve analysis, reinsurance placement, including access to third-party business.
1980 Gross revenues: Not reported.
Principal officers: Klaus J. Gebhardt, chairman; Tim Marsh, president.

International Risk Management Ltd.

P.O. Box 660, Belvedere Bldg., Hamilton 5, Bermuda; 809-295-0713

Year founded: 1962.
Parent company: American Risk Management Inc., 1 Executive Drive, Fort Lee, N.J.
No. of staff: Approximately 300.
No. of captives managed: 100 plus.
Underwriting pools: Various property/casualty and marine pools with aggregate premium volume in excess of $300 million. Captive must be client to join pool.
Other services: Manual and computerized claims processing; claims reserve analysis and supervision; reinsurance facilities, including access to third-party business; investment management through correspondents; administrative, financial, underwriting and technical service; loss control engineering; worldwide computer facilities.
Subsidiaries: European Risk Management Ltd., Weybridge, England and nine other subsidiaries worldwide.
1980 Gross revenues: Not reported.
Principal officers: Fredrick M. Reiss, chairman/president; Arthur H. Deters, executive vp; Morton E. Luber, senior vp; Alan Chilvers, group vp; Anna Summers, vp.

J

J.& H. Ltd.

30 Cedar Ave., Hamilton 5-24, Bermuda; 809-292-4402

Year founded: 1969.
Parent company: J&H, 95 Wall St., New York, N.Y. 10005.
No. of staff: 95.
No. of captives managed: 135.
Underwriting pools: The First Island Reinsurance Assn., premium volume, $51 million. Client must be managed by J&H Ltd. to join pool.
Other services: Computerized claims processing; claims reserve analysis; reinsurance facilities can be arranged, incl. access to third-party business; underwriting, auditing.
Subsidiaries: Johnson & Higgins (Cayman Island) Ltd., Westwind Bldg., P.O. Box 1051, Grand Cayman, B.W.I.; 95988.
1980 Gross revenues: N/A
Principal officers: Patrick J. T. Stephenson, chairman; Brian R. Hall, president; Andrew D. Carr, executive vp; Wayne Morgan, vp-operations; Norman Faulkner, vp; David Campbell, resident manager-Cayman Island.

Continued on next page

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Continued from previous page
Jemark Management Ltd.

Insurance Bldg., P.O. Box 1007, Hamilton 5, Bermuda; 809-292-5229

Year founded: 1977.
Parent company: Jemark Corp., 1801 Ave. of the Stars, Los Angeles, Calif. 90067.
No. of staff: 4.
No. of captives managed: Not reported.
Other services: Manual and computerized claims procesing; claims reserve analysis; reinsurance facilities; actuarial; underwriting, loss control and engineering services.
Subsidiaries: Jemark Administrators Inc., Gibson & Jemark Inc.
1980 Gross revenues: Not reported.
Principal officers: A. R. Killingsworth, president; John Wilkins, vp/treasurer; Clifford Mumford, assistant secretary.

J.S. Johnson & Co. Ltd.

P.O. Box N-8337, Centreville House, 2nd Terrace West, Collins Ave., Nassau, Bahamas; 809-322-2341

Year founded: 1920.
Parent company: Subsidiary of Hogg Robinson.
No. of staff: Approximately 55.
No. of captives managed: 2.
Other services: Manual claims processing, being computerized; claims reserve analysis; re- insurance facilities; including access to third-party business; in-house claims, underwriting.
1980 Gross revenues: Not reported.
Principal officers: Charles T. Fernie, managing director; Allan McGill, director; Darrel Jones, Lindsey M. Scott, reinsurance specialists; Vincent D'Equilar, director; John Hogg, London director; Peter Green, chairman-director.

James (Bermuda) Ltd.

Belvedere Bldg., P.O. Box 509, Hamilton 5, Bermuda; 809-292-6667

Year founded: 1977.
Parent company: Fred S. James & Co., 230 W. Monroe St., Chicago, Ill. 60606
No. of staff: 15.
No. of captives managed: Approximately 25.
Underwriting pools: Not reported.
Other services: Manual and computerized claims processing; claims reserve analysis; reinsurance facilities, including access to third-party business, financial planning and consultant services.
1980 Gross revenues: Not reported/
Principal officers: Stanley Mayhew, president/managing director; Terry Holden, vp.

K

Kitson Management Service Ltd.

P.O. Box 449, Spithead House, Reid St., Hamilton, Bermuda; 809-295-2525

Year founded: 1980.
No. of staff: 6.
No. of captives managed: 8.
Other services: Manual and computerized claims processing; claims reserve analysis; reinsurance facilities, including access to third-party risks; full range of services.
1980 Gross revenues: Not reported.
Principal officers: Kirk Kitson, president; David Thirkill, managing director; Gordon Beale, chief accountant.

L

Landmark International Management (Bermuda) Ltd.

14 Queen St., Box 1428, Hamilton 5, Bermuda; 809-292-1240

Year founded: 1977.
Parent company: Landmark Insurance Group Inc., Oklahoma City, Okla.
No. of staff: 8.
No. of captives managed: 9.
Other services: Manual claims processing; claims reserve analysis; reinsurance facilities, including access to third-party business, if requested; investment management in Bermuda; feasibility studies, fronting company placement.
Subsidiaries: Scottsdale, Ariz.; Dallas, Tex.; Wichita, Kan.; Nassau, Bahamas; Grand Cayman, B.W.I.
1980 Gross revenues: $170,000 plus.
Principal officers: Stuart H. Grayston, president; William E. Thompson, chairman/secretary.

M

M&M Insurance Management Services Inc.

1221 Ave. of the Americas, New York, N.Y. 10020; 212-997-5519

Year founded: 1976.
Parent company: Marsh & McLennan Inc., 1221 Ave. of the Americas, New York, N.Y. 10020.
No. of staff: 9.
No. of captives managed: Not reported.
Other services: Computerized claims processing; claims reserve analysis; reinsurance facilities, including access to third-party business. Risk analysis; actuarial; financial analysis and planning; claims management; loss prevention; management information systems, available through affiliates.
Subsidiaries: M&M Insurance Management Services, 650 S. Cherry St., Denver, Colo. 80222; 500 Church St., Nashville, Tenn. 37219.
1980 Gross revenues: Client premium volume, $37 million.
Principal officers: Peter J. Volpe, president-N.Y.; Thomas G. Littell, assistant vp, manager-Denver office, John J. Middleton, assistant vp, manager-Nashville office.

Marsh & McLennan (Bermuda) Ltd.

P.O. Box 1262, Hamilton 5, Bermuda; 809-295-3278

Year founded: 1970.
Parent company: Marsh & McLennan Inc., 1221 Ave. of the Americas, New York, N.Y. 10020.
No. of staff: 63.
No. of captives managed: Not reported, *BI* estimates 90.
Other services: Computerized claims processing; claims reserve analysis; reinsurance facilities, including access to third-party business; actuarial; financial analysis; claims management; loss control; data processing support,. underwriting consultant
1980 Gross revenues: Aggregate gross premium of managed captives: $270 million.
Principal officers: David B. Vaughan, president; B. M. Pimm, senior vp; Adrian Lee-Emery,

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Clive Tobin, Bryan Thompson, vps.

Marsh & McLennan Inc. (San Francisco)

P.O. Box 3880, San Francisco, Calif. 94119; 415-393-5409

Year founded: 1975-M.I.E.C., 1976-M.I.C.A.
No. of staff: 45.
No. of captives managed: Mutual Insurance Co. of Arizona, Phoenix, Ariz. (M.I.C.A.); Medical Insurance Exchange of California, San Francisco, Calif. (M.I.E.C.). M.I.C.A. is a mutual company and M.I.E.C. is a reciprocal exchange. In each case, medical liability insurance is provided to participating physicians. M&M (San Francisco), which is headed by Thomas J. Grogan, senior vp, is manager of both companies.
Other services: Computerized claims processing; reserve analysis; reinsurance facilities; claims management; underwriting, prevention consulting.
1980 Gross revenues: Aggregate premium under management, $33 million.
Principal officers: Jack Brooks, M.D., president-M.I.C.A., Brad Cohn, M.D., president-M.I.E.C.

Marsh & McLennan Inc. (Seattle)

800 Norton Bldg., Seattle, Wash. 98104; 206-223-1240

Year founded: 1976.
No. of staff: 4.
No. of captives managed: Medical Indemnity Corp. of Alaska. Medical Indemnity Corp. of Alaska was created by the Alaska legislature to provide medical liability and hospital liability insurance to physicians and hospitals in Alaska, as well as related coverages.
Other services: Computerized claims processing; claims reserve analysis and management; reinsurance facilities; underwriting, loss prevention.
1980 Gross revenues: Aggregate premium under management, $1.5 million.
Principal officers: Charles Rigdon, chairman; Arthur Weatherford, executive director.

N

North Star Management Services Ltd.

Box 1111, George Town, Grand Cayman, B.W.I.; 94904

Year founded: 1977.
No. of staff: 3.
No. of captives managed: 7 plus.
Other services: Computerized claims processing; claims reserve analysis; reinsurance facilities, including access to third-party business; investment management through affiliate; legal staff available for specialized captive set-up, either in-house or in Caymans, fronting arrangements.
1980 Gross revenues: Not reported.
Principal officers: David L. Moed, manager, director.

P

Pinehurst Management Co. Ltd.

Dorchester House, Church St., P.O. Box 1752, Hamilton 5, Bermuda; 809-295-4864

Year founded: 1967.
Parent company: Pinehurst Corp., 1800 Ave. of the Stars, Los Angeles, Calif. 90067.
No. of staff: 28.
No. of captives managed: 35.
Underwriting pools: Dorchester Pool. Captive can join pool without being a client.
Other services: Manual claims processing; claims reserve analysis; reinsurance facilities, including access to third-party business; limited investment management services, loss development and feasibility studies.
Subsidiaries: Pinehurst Management Co. (Cayman) Ltd., Barclays Bank Bldg., George Town, Grand Cayman, B.W.I.
1980 Gross revenues: Not reported.
Principal officers: R. C. Whit-

Continued on next page

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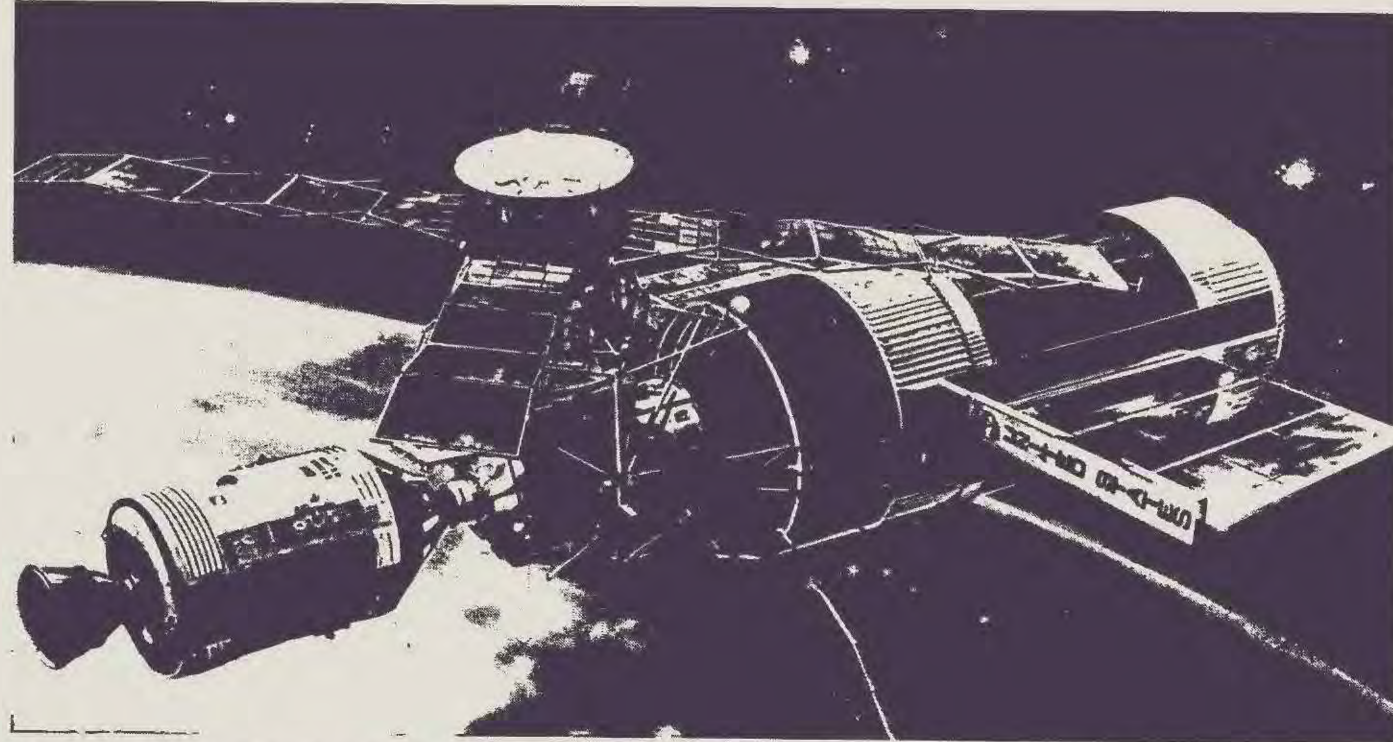

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Continued from previous page
ing, managing director/president; Harry B. Kast, vp; Cyril H. Whitter, assistant controller; George M. Powers, Robert L. Emett, directors.

Risk Management Ltd.

Invicta House, Candie Road, St. Peter Port, Guernsey, Channel Islands; Guernsey 23612

Year founded: 1978.
No. of staff: 11.
No. of captives managed: Not reported.
Other services: Manual claims processing, being computerized; claims reserve analysis; reinsurance facilities, limited access to third-party business; limited investment management services; assistance with captive feasibility studies; full management for Guernsey-based captives, risk management analyses and audits.
1980 Gross revenues: Not reported.
Principal officers: Michael A. Ward, M. John Palin, Diane J. Ward, Peter A. Walpole, Dorothy A. Window.

Risk Treatment Services (Bermuda) Ltd.

Crawford House, Hamilton 5, Bermuda, P.O. Box 2018; 809-295-5425

Year founded: 1973.
Parent company: The Sperry & Hutchinson Co., 330 Madison Ave., New York, N.Y. 10017.
No. of staff: 8.
No. of captives managed: 9.
Other services: Manual claims processing; reinsurance facilities, including access to third-party business, investment management services.
Subsidiaries: Affiliated with Bayly, Martin & Fay Inc. in U.S.
1980 Gross revenues: Not reported.
Principal officers: Hal Forkush, managing director; William R. Kersten, president; Edgar H. Browne, vp.

Risk Treatment Services Inc.

Market Tower II, 3025 S. Parker Road, Suite 825, Aurora, Colo. 80014; 303-752-4912

Year founded: 1979.
No. of staff: 10.
No. of captives managed: 5.
Other services: Computerized claims processing; claims reserve analysis and administration; reinsurance facilities, including access to third-party business; investment management; underwriting; accounting and financial services; general risk management consulting services, self-insurance management services.
1980 Gross revenues: $500,000 plus.
Principal officers: William R. Kersten, president; Gary R. Nelson, executive vp; Robert A. Chorak, vp-claims; Duane W. Metcalf, secretary/treasurer.

Rollins Burdick Hunter Management Inc.

605 Third Ave., New York, N.Y. 10016; 212-661-9000

Year founded: 1970.
Parent company: Rollins Burdick Hunter Cos., 10 S. Riverside Plaza, Chicago, Ill. 60606.
No. of staff: 32.
No. of captives managed: 20.
Other services: Manual and computerized claims processing; claims reserve analysis; reinsurance facilities, including access to third-party business; investment management; management fronting arrangements; coordinating services; insurance diversification services, acquisition analysis.
Subsidiaries: Rollins Burdick Hunter (Bermuda) Ltd., Global House, Gibbons Co. Bldg., Hamilton 5, Bermuda; 809-295-5207. Rollins Burdick Hunter (Caymans) Ltd., P.O. Box 501, George Town, Grand Cayman, B.W.I.; 92001.
1980 Gross revenues: Not reported.
Principal officers: Robert R. Godfrey, president; Michael W. Elliott, assistant vp; Clive Himsworth, managing director; Anthony Stelling, Royan Ellis, resident secretaries.

Skandia Management Office for Captives

S-10350 Stockholm, Sweden; 08-224420

Year founded: 1977.
Parent company: Skandia Insurance Co. Ltd., Stockholm, Sweden.
No. of staff: 2.
No. of captives managed: 1.
Underwriting pools: None. Swedish captives are not licensed to write third-party business.
Other services: Manual claims processing; claims reserve analysis; reinsurance facilities, investment management.
1980 Gross revenues: Not reported.
Principal officers: Lars Arfwidson, Ralph Tellov.

Somerset Underwriting Managment Ltd.

P.O. Box 2009, Washington Mall, Reid St., Hamilton 5, Bermuda; 809-295-1646

Year founded: 1979.
No. of staff: 7.
No. of captives managed: 23.
Other services: Computerized claims processing; claims reserve analysis; reinsurance facilities, including access to third-party business; limited investment management; rent-a-captive, insurance and reinsurance consultancy.
Subsidiaries: Located in London and Guernsey.
1980 Gross revenues: Not reported.
Principal officers: John R. C. Harris, president; Peter J. N. Strong, executive vp; Brenda Smith-Casey, assistant vp.

Southwest Offshore Management Ltd.

P.O. Box 1571, Grand Cayman, B.W.I.; 95422

Year founded: 1979.
No. of staff: 3.
No. of captives managed: 5.
Other services: Manual and computerized claims processing; claims reserve analysis; reinsurance facilities, including access to third-party business; investment management; underwriting; facilities for feasibility studies; actuarial; survey of reinsurance markets, legal counsel.
1980 Gross revenues: Not reported.
Principal officers: Jack W. Hoffman, president; Winnie

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Premium Financing

Chung, executive vp/general manager; Ross Blumentritt, secretary/treasurer.

Tomenson Saunders Whitehead International Ltd.

Trimingham Bldg., Front St., P.O. Box 337, Hamilton 5, Bermuda; 809-292-3402

Year founded: 1973.
Parent company: Tomenson Saunders Whitehead Ltd., Toronto and throughout Canada.
No. of staff: 7.
No. of captives managed: Not reported.
Other services: Manual claims processing; claims reserve analysis; reinsurance facilities, including access to third-party business.
Subsidiaries: TA Associates, throughout Canada; Lionel E. Lalonge et Associes Ltee., Montreal; Tomenson Saunders Whitehead (U.K.) Ltd., London, England; Walsh, Gray & Moore Inc., Denver, Colo.
1980 Gross revenues: Not reported.
Principal officers: James M. Mylrea, Michael Egan.

Transnational Group/Compass Ltd.

P.O. Box 69, Grand Cayman, Cayman Islands, B.W.I.; 94555

Year founded: 1973.
Parent company: Transnational Ltd. (which continues to manage United).
No. of staff: Approximately 100.
No. of captives managed: Approximately 20.
Underwriting pools: Various property/casualty and marine pools with aggregate premium volume in excess of $200 million. Captive must be a client to join pool.
Other services: Manual and computerized claims processing; reserve analysis; reinsurance facilities, including access to third-party business; investment management through correspondents; administrative, financial, underwriting and technical services, loss control engineering and claims supervision utilizing computer facilities, worldwide.
Subsidiaries: Universal Management Ltd., Shannon Airport House, Shannon, County Clare, Ireland 52798; 061-61955; Transnational Guernsey Ltd., 31/33 Le Pillet, St. Peter's Port, Guernsey; Channel Islands, Guernsey (0481) 27220.
1980 Gross revenues: Not reported.
Principal officers: Don Westmoreland, general manager-Transnational; Bryan D. Murphy, general manager-Universal Management Ltd.

Venture Mangement Ltd.

Cedarpark Centre, P.O. Box 1615; Hamilton 5, Bermuda; 23377

Year founded: 1977.
No. of staff: 8.
No. of captives managed: 16.
Other services: Manual claims processing; claims reserve analysis; reinsurance facilities, including access to third-party business, investment management.
Subsidiaries: Anglo-American Insurance Co. Ltd., provides "rent-a-captive" facilities.
1980 Gross revenues: Not reported.
Principal officers: H. Clayton Chambers, president.

W

Western International Financial Group Ltd.

America International Bldg., P.O. Box 100, Hamilton, Bermuda; 809-295-5336

Year founded: 1980.
No. of staff: 5.
Other services: Manual claims processing; claims reserve analysis; reinsurance facilities; investment insurance and financial management services.
Subsidiaries: Western General Insurance Ltd., Intercontinental Trading Co., America International Bldg., Hamilton, Bermuda.
1980 Gross revenues: $2.2 million.
Principal officers: James M. Turnbull, president/managing director; Rosemary Groves, treasurer; Iris Hills, secretary.

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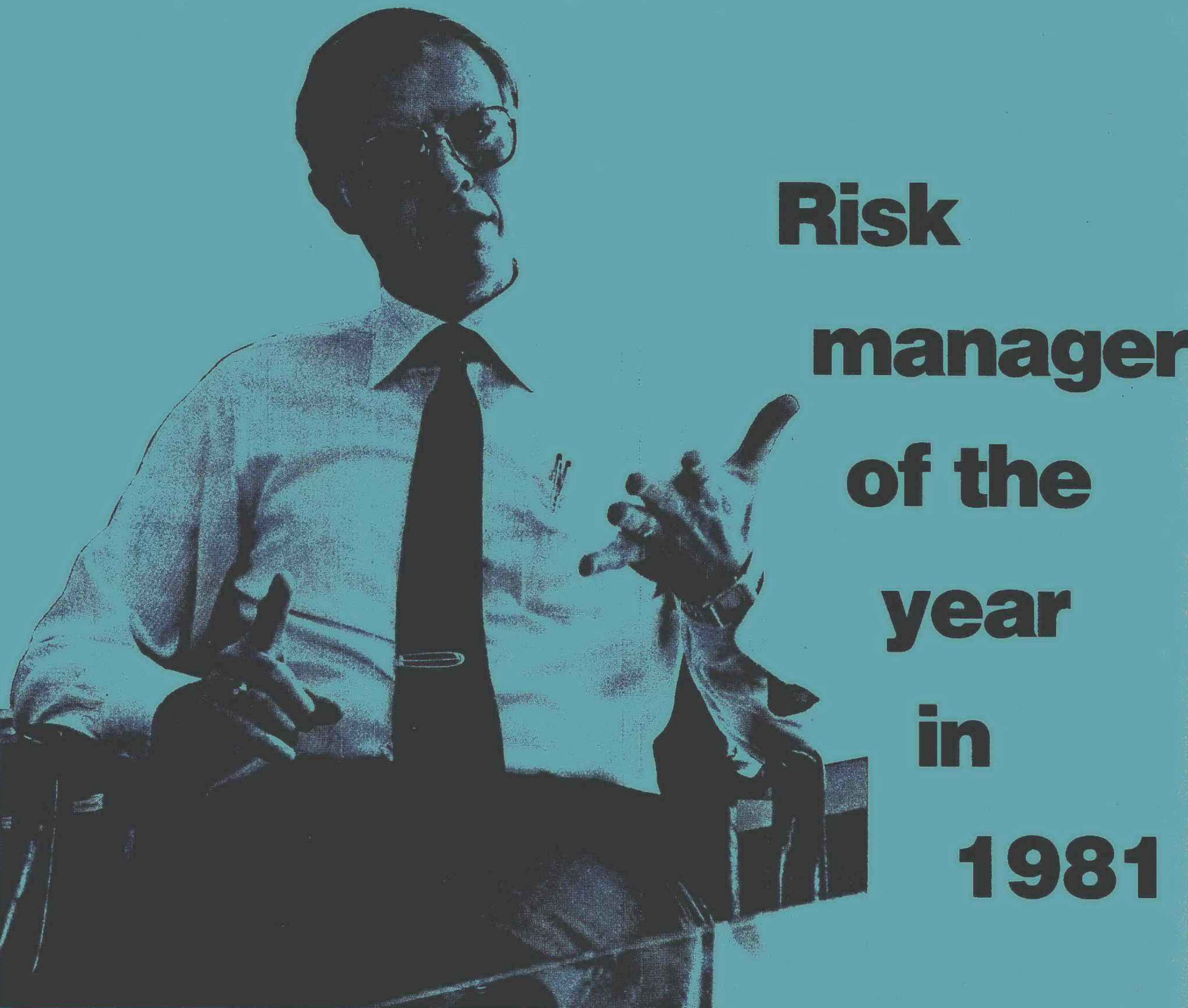

Photo: James Guilford

Risk manager of the year in 1981

Hanna Mining's Allen: A details man

By LORRIE GAWLA

CLEVELAND—Duane E. Allen pulls a pocket Portuguese dictionary from his top desk drawer and looks up *reunidas.*

It bugs him that he can't remember the exact translation of Mineracoes Brasileiras Reunidas, an iron ore mine in Brazil partially owned by Hanna Mining Co. He combs a few pages of the dictionary and finds a close, but not exact, translation: *to bring together,* as in bringing together several interested parties to form a mining company.

That satisfies him for now, but the next time he's in South America he'll ask for an exact translation.

Paying attention to details; that's how the 49-year-old Hanna Mining assistant treasurer/director of the insurance management division and 1981 *Business Insurance* Risk Manager of the Year has built his reputation among his superiors, peers and subordinates. He uses details to create innovations in risk management at the Cleveland-based natural resource company which generated 1980 revenues of $334 million from domestic and international operations, primarily in ferrous minerals and non-ferrous minerals and metals.

"He's a detail man," says Richard S. Thompson, president of Altamid Management Co. Ltd., Hanna Mining Co.'s Bermuda captive management subsidiary devised by Mr. Allen.

"He knows how to put the details together," continues Mr. Thompson. "That's why he's so valuable. He gets down to the minute details. His pockets are full of little papers and notes."

His four-person staff in Cleveland agrees.

"Duane is the idea man," says his assistant risk manager Gene Heskett. "He's always working on something new, spending little time on the old. Once he puts the details of a new concept in place, we administer it."

His detailed brainstorming has produced:

- A risk management program that has propelled Hanna Mining so far into the insurance business that income from its Bermuda operations is now a line item in its annual report.
- Insurance and loss control programs for two joint ventures in Brazil and Colombia where risk management was unheard of. In Colombia, the well thought-out plan cut budgeted insurance costs by 50%; in Brazil, attention to detail helped recover $1.65 million in claim payments after a $2.5-million landslide loss.
- A management style that convinces his superiors to let him operate on a "loose string" and encourages his staff to take the responsibility needed to implement his innovations.

Managing the risks

The 1980 Hanna Mining Co. annual report includes a new line item under "Interests in Associated and Other Companies." Reading across from "insurance companies," the report shows income of $977,000 in 1980 compared with $164,000 in 1979 and $105,000 in 1978.

The profitable subsidiary insurance business includes Erieview and Oceanview, Hanna's captives in Bermuda organized under Mr. Allen's direction more than 10 years ago. The captives "offer cost stability to the operating units through fixing insurance costs in advance" and "allows the corporation to retain higher levels of risk," explains Mr. Allen. This is right in line with his overall philosophy "to buy as little insurance as we can."

For example, under its casualty insurance program with Aetna Casualty & Surety Co., Hanna takes $250,000 of the risk. However, that includes $225,000 insured by Erieview.

Hanna's major mines retain workers compensation risks up to $100,000 of loss with excess workers compensation insurance written to $1.75 million per occurrence by Erieview.

In its marine insurance program, $22,500 of its $25,000 P&I deductible under a West of England policy is insured through Erieview. When Hanna had ownership in ocean vessels, Oceanview took part of the hull risk and provided the life insurance for the crew, including $10,000 for ordinary seamen and $20,000 for officers.

Captives are not unique in risk management, but Mr. Allen has taken an extra step. Hanna Mining now also owns Altamid Managment Co., a company formed by Mr. Allen to manage Hanna's captives. It's a profit center for Hanna, managing eight other captives for other concerns, too.

Mr. Allen was also an organizer of CIRCL—Corporate Insurance & Reinsurance Co. Ltd.

He pooled enough facts and figures to help convince 13 other major industrial companies to join Hanna the Bermuda-based reinsurer to provide casualty reinsurance for their corporate captives. CIRCL now has an annual projected premium volume of $68.5 million and the prospect of a new member company this month.

Last year, Mr. Allen proposed that CIRCL expand to cover black lung risks, too.

(A story on page 77 analyzes Mr. Allen's use of captives and Hanna's Bermuda operations.)

His success with captives and easy access to lower-priced insurance, however, has not diminished Mr. Allen's emphasis on loss prevention.

"Hanna believes first in operating safely to reduce expo-

Continued on next page

Photo: James Guilford

Robert F. Anderson (left), Hanna Mining Co. president, and George Humphrey III, senior vp/finance, congratulate Duane Allen.

All in name of prevention

Continued from previous page

sure to loss," says Mr. Allen.

For example, last month he spent a week in Colombia evaluating sprinkler installations and security measures at a nickel smelter under construction. The trip included a 300-mile plane ride through the Colombian mountains, a 20-kilometer jeep ride from the project airport to the mine site, a walk through the mine and a couple meals at a finca (farmhouse) that was raided by outlaws earlier in the project—all in the name of loss prevention.

At both the Colombian nickel project and an iron ore project in Brazil, Mr. Allen built loss prevention into the construction plans and had Factory Mutual System engineers approve the designs before construction began.

Mr. Allen's loss prevention and control standards follow the Factory Mutual criteria, but he draws some lines.

"I don't follow their advice hook, line and sinker," he stressed. "For example, I'll make sure major operating areas are sprinklered, but I won't do that type of work for minor areas that don't make any difference as far as loss exposure."

He also doesn't send his plant supervisors a bulky loss prevention manual.

"Manuals are ineffective for operating managers because the manuals are too hard to keep up to date," he explains. "I don't have a 'comprehensive' operating manual for anything.

"Instead, we visit each site, check conditions and personally explain to managers what we want. We are lucky to have few enough locations that we can operate that way.

"Our people also know if they have a question, they can call in. If necessary, we can always do a safety audit and issue a memorandum."

Personal visits to plant sites has been Mr. Allen's way of operating since he joined Hanna in 1966 as manager of property insurance.

He quickly set off on a tour of Hanna plants in his first year when he discovered that Hanna had no integrated loss prevention program and major facilities were being built without loss control criteria.

He assessed each site, met with his broker's loss control consultants and the Factory Mutual engineers, ordered changes and supervised the work. Shortly, all Hanna's major plant facilities qualified as highly protected risks.

(Mr. Allen's insurance program for Hanna Mining is outlined on page 82.)

Spreading the word

Loss prevention is a universal language to Mr. Allen.

The same safety epistles preached in the states apply in Brazil, Colombia, Guatemala andanywhere Hanna mines or operates ships.

However, when he crosses the border, Mr. Allen's approach to getting the word out is a little more detailed.

When he wanted to convince the Brazilian operating managers of Mineracoes Brasileiras Reunidas to adopt a risk management program for a joint venture iron ore mine and port facility in which Hanna has a 33% interest, he used a four-point plan:

- Give the operating managers a concrete example of a risk management program in the United States and compare their needs to it.
- Describe and explain the risk management approach by proposing a specific insurance and loss prevention program for their project.
- Use personal persuasion to convince them it is good.
- Use the strength of Hanna's management people to persuade the partner's management that their operating managers should go with the program.

Even with this approach, it takes at least two week-long sessions to convince the site managers that the risk management concept makes sense.

"You have to win their confidence first," Mr. Allen explains. "In the first visit, they just listen to you and size you up. The next time, if they trust you, they ask for the details."

And sometimes Mr. Allen gets to prove that his detailed way works.

Halfway through the construction of the Mineracoes Brasileiras Reunidas iron ore mine and shipping terminal in 1972, a mile-long landslide wiped out an ore-loading structure. It took 1½ years and $2.5 million to replace it, and a second slide damaged the repair work.

The insurers said a design error caused the losses. But Mr. Allen won a $1.65 million claim payment because he knew the loading structure was properly designed, and he spent 11 weeks in Brazil in 1973 convincing the insurers of that.

However, he almost didn't have a case to fight.

When the 1 million cubic yards of earth covered the loading structure, the Brazilian operating managers, never believing this catastrophe could be covered by insurance, shook their heads and wrote the disaster off as a loss in their minds—and nearly missed the deadline for filing the claim.

For Mr. Allen, however, there's no doubt what is covered on a con-

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struction site. He spells out in detail ahead of time what insurance has been arranged, what risks will be self-insured and what will be studied for economic feasibility.

For the Cerro Matoso nickel smelter under construction in Colombia, he prepared a three-page, single-spaced plan for insurance according to each project phase:

• Preoperating—fire, public liability, all-risk equipment, ocean marine cargo, fidelity, workers compensation (self-insured for Colombian employees and provided for U.S. and expatriate employees according to practices of international companies) and automobile insurance.

• Construction—All the above coverages are purchased again but the fire insurance is replaced with a builder's risk insurance policy to cover all risks for the full construction costs with moderate deductibles. Performance bonds also are added.

• Operating—Machinery breakdown insurance and business interruption coverage for losses caused by fire, explosion and machinery breakdown are to be investigated for economic feasibility.

For Mr. Allen, there's no doubt what is covered on the site.

Other coverages used in the construction and preoperating phases will be purchased again with fire insurance now replacing the builder's risk insurance.

In the preoperating phase, retentions were low, but for the construction wrapup insurance plan, property coverage included a $100,000 deductible.

Liability insurance needed on the $300 million project cost only $60,000. Because of the cultural attitudes toward liability claims in South America, injury awards are infrequent and small.

In typical fashion, Mr. Allen attaches a final sheet to the Cerro Matoso insurance plan to detail his concept of risk management again:

1. Operations will be organized and managed with consideration to eliminate hazards for injuries to employees, damage to property and interruption of operations. Facilities and training will be designed to provide for reduction and control of any occurrence which may result in injuries or damage.

2. The costs of injuries and damages which may occur are to be assumed without insurance as much as possible with due consideration to the cost, availability and service provided by insurance.

3. Insurance will be purchased as required under the laws of the Republic of Colombia and when available and economically feasible to provide protection against losses which may reduce financial and operating efficiency of the project.

4. Services and advice concerning prevention of injuries, fire protection, claims handling and insurance will be provided by personnel of the operator with assistance of insurance brokers and insurers.

Making it work

"If there's one thing I don't understand, it's that," says Hanna Mining president Robert F. Anderson, pointing to his risk manager Mr. Allen.

Mr. Allen is working to make risk management understandable. A while back he circulated a report on what his risk management department is doing and how Hanna's Bermuda insurance operations fit into the whole of Hanna's operations, which recorded $333 million in sales last year.

"I left that meeting more confused than when I walked in," says Mr. Anderson. "He's doing a great job for Hanna—I just wish I knew what it is he does."

He probably will understand soon. Mr. Allen took that first department report and has pared it down to a simple slide show of facts and figures that will show Mr. Anderson exactly how Hanna profits from its captives and Altamid Management Co. and let him explain it to the board of directors.

The effort is part of Mr. Allen's four-point plan for making his risk management ideas work:

1. Make an affirmative effort to be on personal terms with management and operating people throughout the company so they understand your goals.

2. Develop a staff that can handle responsibility and then give them the authority and support to use it.

3. Participate actively in profe-

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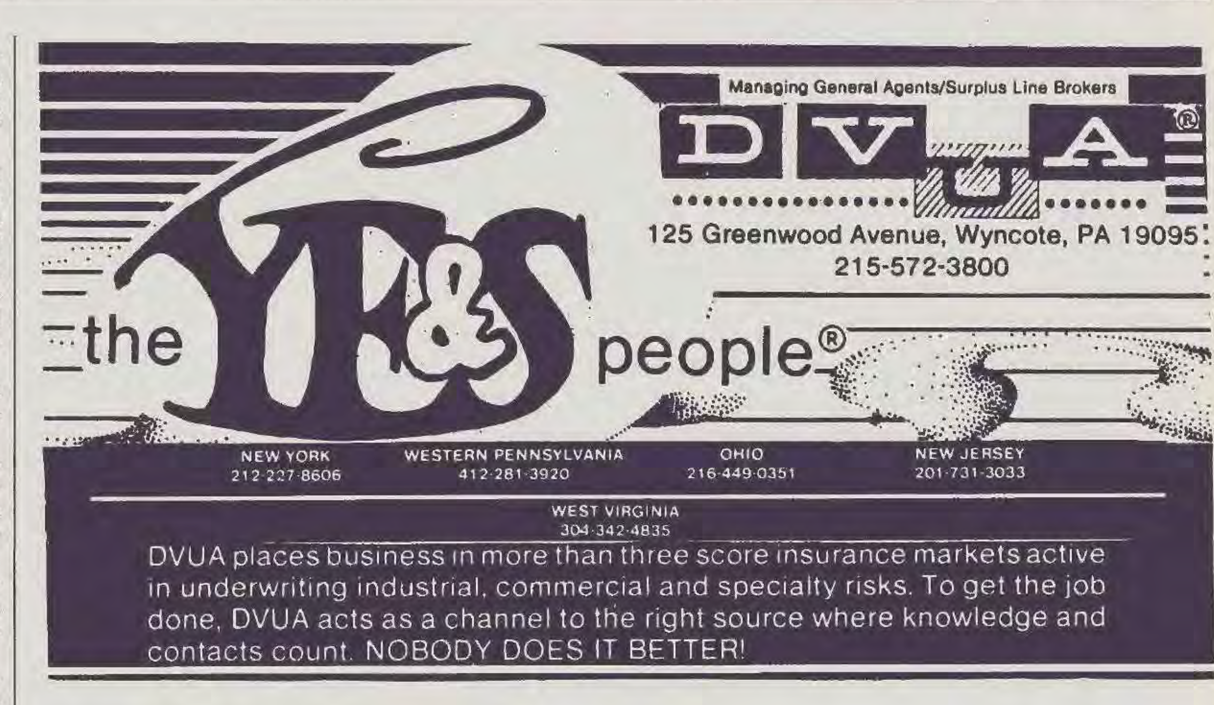

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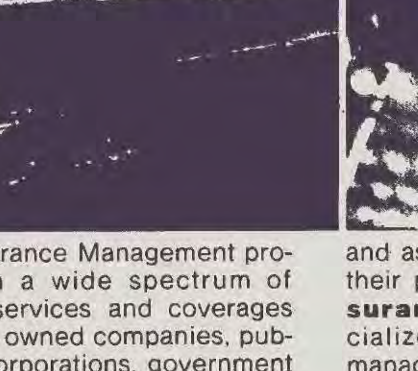

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Developing a staff

Duane Allen (right) confers with staff members (from left) Gene Heskett, Connie Lingle, Lee Shealy and Karen A. McCloskey. Mr. Allen believes in delegating responsibility to the staff.

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Allen's style

Continued from previous page
sional organizations to stimulate personal growth.

4. Use insurance brokers and insurers for the service needed to get the job done.

Mr. Allen looks to Hanna management for policy guidelines.

"I don't go to them with every problem. They don't have the technical experience to give me the answer," he explains.

"But I do need to know their overall objectives."

It is important to his success that they understand his role. "Then they will support me more."

"I appreciate that they let me operate on a loose string although they aren't afraid to jerk. I've had good leaders here."

Mr. Allen applies the same "loose string" theory to his own staff.

"He gives us direction, but not detailed direction," says assistant risk manager Gene Heskett.

Mr. Allen uses participative management techniques. He layers staff assignments to allow the middle layer to supervise the first-level employees. And he delegates authority. Mr. Heskett is Mr. Allen's right-hand man for domestic operations and a year ago Mr. Allen hired Lee Shealy to supervise the Bermuda operations.

He also encourages his staff members to continue to become better at their jobs. His track record is impressive.

His administrative assistant, Karen A. McCloskey, joined him eight years ago, coming to the insurance field from teaching. During the last seven years she has earned her IIA, ARM and CPCU designations.

Mr. Heskett has his ARM designation and is fourth-fifths of the way through the CPCU program. Mr. Shealy, manager of claims and underwriting, has his ARM and Connie Lingle, the newest staff member, has told Mr. Allen that she is signing up for her first IIA course to help her do her secretarial tasks better.

To implement the risk management program he and his staff develops, Mr. Allen encourages participation in decisions by the operating managers at all Hanna sites. "The result is that the decisions reached are more realistic since they involve input of those persons close to the operations," he explains.

Mr. Allen spends a lot of time teaching and directing others, but also replenishes himself by actively participating in RIMS and the Society of CPCU and leading the Captive Insurance Companies Assn.

And he seeks out expert brokers and insurers to discover new ways they can help him do his job more easily or better. ■

In Bermuda, Duane Allen does it himself

By KATHRYN J. McINTYRE

HAMILTON, Bermuda—"Poached eggs. It must be Friday," Duane Allen says before lifting the cover on his breakfast.

It's Friday in Bermuda, where Mr. Allen lives one week a month to be on location as chairman of Altamid Management Co. Ltd., the captive management firm he orchestrated as a Hanna Mining Co. subsidiary.

Mr. Allen, whose stateside title is assistant treasurer of Hanna, has memorized the repetitive breakfast menu at Rosedon, the small, old-fashioned hotel where he lives 12 weeks of the year.

The events of the day at Altamid's offices, a brisk 10-minute walk away, are not as predictable as the breakfast menu.

"Each month it's something different," he says.

In a week in March, the highlights of work included:

Monday: Preparations for committee meetings of Corporate Insurance & Reinsurance Co. Ltd., the group-owned reinsurance captive he helped organize and which Altamid manages. Underwriting information, accounting problems and year-end audits needed review.

Tuesday: CIRCL committee meetings.

Wednesday: A CIRCL directors' meeting in the morning. In the afternoon, gather loss reserve schedules for Hanna's captives for the Internal Revenue Service, which is auditing Hanna.

Thursday: Future planning with Altamid president Richard S. Thompson and work with auditors from Charter Oil, a participant in CIRCL.

Friday: A meeting with the Bermuda registrar of companies to talk about certifying a Hanna employee as a loss reserve specialist to comply with the reserve review provisions of the Bermuda Insurance Act. Also meet with the CPA to plan a present-value insurance program.

During any given week in Bermuda, Mr. Allen's schedule can include consulting with the accountants on treatment of policies, reviewing reserving practices for CIRCL and the other nine Altamid-managed insurance companies, spot-checking insurance contracts and orienting himself with how $40 million of client money is being invested by Altamid's staff investment manager.

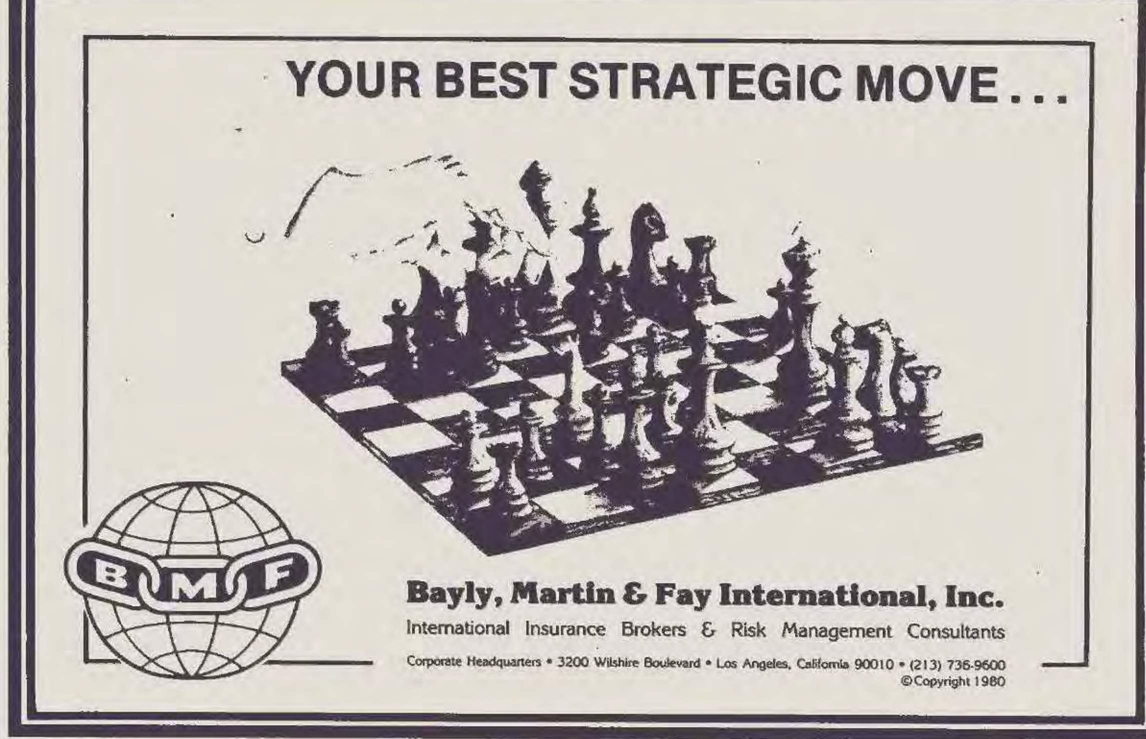
And there is planning—about 25% of his time.

Hanna bills Altamid $75,000 annually for Mr. Allen's insurance consulting and time away from its Cleveland headquarters. For travel costs and the services of other Hanna staff delivered to Altamid, about half of Hanna's $300,000 risk management administration budget is billed to Altamid.

Continued on next page

Photo: Kathryn J. McIntyre

Richard Thompson and Duane Allen meet at Altamid.



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'What can we do better?'

Continued from previous page

The formation of Altamid and Hanna's other Bermuda insurance operations resulted from Mr. Allen's tendency to look at Hanna's risk management and insurance needs and ask, "What can we do ourselves, better?"

The answers to that question led to the creation in 1970 of a low-level operation in Bermuda to increase Hanna's insurance-buying effectiveness. Now the Bermuda operation is a significant operating unit, generating $1.8 million in income in 1980.

Hanna's interest in the operation was recognized for the first time this year with a line item in the 1980 annual report: $977,000 pretax profit, an 87.8% return on equity of $1.1 million in 1979.

It's projected the insurance operation in Bermuda, which also includes two captive insurance companies and a brokerage firm, will pay more than $1 million in dividends to Hanna and its partners in 1981, with more than half going to Hanna. The average projected rate of return on equity over the next five years is 58%.

Net premium volume in Hanna's two captives—generated by Hanna, its partner National Steel and commercial insurance underwriting—was $7.4 million in 1980.

"Hanna got interested in captives when our trading partner Cargill established one in the late 1960s," Mr. Allen recalls. "I initiated a feasibility study in 1968 soon after I joined Hanna. I did the study myself, using Marsh & McLennan experts at the time to counsel on the results."

The results were acted upon in 1970. Hanna formed Erieview Insurance Co. Ltd. to underwrite domestic risks and Oceanview Insurance Co. Ltd. to underwrite international risks, primarily marine.

"We started with charterer's liability insurance in Oceanview for the momentus premium of $50,000. We insured $95,000 excess of $5,000 per claim—with an insurer with a capital base of $100,000," Mr. Allen shutters to recall.

The tiny companies were under the management of the joint venture trading company with Cargill in Bermuda.

"We made $40,000 profit in Oceanview the first year—because we didn't know about IBNRs. Our learning curve was just beginning," he smiles.

National Steel, a principal trading partner, joined Hanna as a participant in Oceanview and Erieview, which was capitalized at $480,000.

P&I risks were placed with Oceanview in 1971 and with Erieview in 1972. Hull risks were added to both insurers in 1972.

Mr. Allen also discovered IBNRs in 1972. The payment schedule he developed for P&I and hull losses is still used today.

The first casualty risks were insured with Erieview in 1973 when Hanna's casualty insurer, Aetna Casualty & Surety, ceded 50% of the $75,000 excess of $25,000 layer to Erieview.

Workers compensation risks were added in 1974: A $50,000 excess layer over a $100,000 self-insured retention. Because Hanna's excess workers compensation insurer, General Reinsurance Corp., would not reinsure with a small captive, the layer was reported as self-insured.

Management of the companies changed in 1975 when A. Martin

Smith resigned to join International Risk Management Ltd. and Mr. Thompson was hired.

By 1976, the net worth of the two Hanna/National Steel insurance companies had increased to $1.5 million on the success of the captive insurance programs and Hanna decided to look into commercial insurance ventures. On the basis of a feasibility study conducted by Mr. Allen and Hanna's treasurer, four reinsurance contracts were lined up, one for 1976 and three for 1977:

- Excess casualty insurance, 2% of a $500,000 excess primary program written by Stonewall Insurance Co. for 1976.
- Excess property/casualty insurance business offered by Prudential's MUF pool.
- A small participation in Alliance's pool for captives seeking reinsurance business.
- A share in the Highlands underwriting facility in London.

The outside reinsurance business dropped Erieview's percentage of related business to 41% on $820,000 in 1977 net premiums. The premium volume is understated for the risk taken because the premiums were slow to arrive.

Participation in Corporate Insurance & Reinsurance Co. Ltd. in 1978 rocketed Erieview into substantially larger premiums.

CIRCL, founded by 11 companies to reinsure their captives to spread their risks and increase their capacity, allowed Hanna and National Steel to increase their insurance programs with Erieview.

Premium volume from Hanna and National Steel increased to $5 million on the insurance on a large share of National Steel's primary casualty insurance and a larger share of Hanna's workers compensation and general liability risks.

Adding the reinsurance of CIRCL risks to the commercial insurance underwritten reduced Erieview's percentage of controlled business to 2% of $11.2 million in gross premiums, $5.8 million net.

Creation of CIRCL also moved Hanna into owning a full-fledged captive management company. CIRCL participants wanted an independent manager, and Mr. Thompson was selected. A management contract was signed with a newly created Altamid Management Co. Ltd., wholly owned by Hanna. Initial investment: $12,000.

The CIRCL and Altamid organizing efforts demanded Mr. Allen visit Bermuda four times in 1977. But by September 1978 he found he needed to be in Bermuda once a month.

"We had to develop a complete new administration system for CIRCL, which changed my activity," Mr. Allen said. "I became involved, as chairman of the underwriting and rating committee of CIRCL, in drafting treaties, policy issuance and financial reports."

Seaview Insurance Ltd. also was rolling along by this time. The Bermuda-based insurance broker was formed after Mr. Allen realized in 1976 that he was gathering all the marine risks of Hanna and associated companies to concentrate buying power.

"We determined we were doing the producing and the brokers were servicing so we wanted to see if we could do it ourselves." Mr. Allen wanted a share of the 5% service fee on the $5 million marine insurance account.

"We decided to organize a Bermuda broker, concentrate the premium with one broker and have our broker act as co-broker for a negotiated commission."

Marsh & McLennan, the co-broker for the marine business, receives a 3% commission for service and Seaview gets 2%.

Seaview is jointly owned by Hanna and Skaarup Shipping, which has managed Hanna's ocean marine division for 25 years. Although that arrangement just ended because Hanna isn't floating as much cargo across the ocean, Mr. Allen continues as insurance consultant to Skaarup, and Seaview continues to pull together Skaarup and Hanna marine risks.

Oceanview is underwriting some of the hull, P&I, life insurance for crews and other marine risks for Skaarup and Hanna's Canadian-flag Seaway fleet for a current annualized premium of $290,000.

Seaview just declared a $36,000 dividend for 1980, split 50-50 by the owners.

Erieview also declared dividends to its owners: $500,000 split by National Steel and Hanna. "1980 was a very good year for Erieview," said Mr. Allen of the $1.5 million in income reported.

Erieview has had losses. It shows a net loss of $1 million on the commercial insurance underwritten since 1977, due to a big loss in 1977 on the Highlands underwriting agency business.

Continued on next page

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Allen as Altamid consultant

Continued from previous page

Even though Highlands restructured the agreement and no more losses came in, Hanna canceled the reinsurance contract effective January 1981.

"We can't and don't need to be underwriting in the London market," Mr. Allen said. "The premium flow to Bermuda is too slow and the profit margins aren't terribly great."

Premiums from the Highlands business will continue to flow in addition to about $250,000 in premium from Prudential's pool and less than $100,000 from the Alliance pool. The Stonewall contract lasted only one year because the insurer got out of writing the business and was later acquired by another insurer.

But Erieview's premium volume for 1981 will be down substantially from 1980 because National Steel has created is own captive, Riverside. The volume of business from National Steel was considered out of proportion to Hanna's in Erieview and Mr. Allen helped establish Riverside.

Risks of Hanna, National Steel, commercial insurance and participation in CIRCL will give Erieview a 1981 premium volume of about $3 million, against net worth of $3 million.

Altamid also turned a profit of $78,000 in 1980, but the money is being plowed back into office furnishings for the new headquarters and computer programming.

From a staff of three in 1978—Mr. Thompson, a bookkeeper and a secretary—Altamid has grown to 10 people to manage 10 companies. Professionals include two account managers, an underwriting and claims administrator and an investment manager. Two secretaries double as computer operators for Altamid's in-house computer.

Mr. Allen provides the technical expertise required to operate Altamid, although Lee Shealy, Hanna's manager of claims and underwriting, is picking up more.

"But when you contract with Altamid, you get me," Mr. Allen grins. "I function in the role of a consultant, as part of Altamid's service contract with its clients."

Altamid would like to manage 25 companies. "After 25, we couldn't maintain the quality of service and personal relationship with our clients," Mr. Thompson says.

Potential clients include EPIC, the name coined for the second CIRCL-type pool for smaller companies. It would write smaller excess insurance layers than the $5 million offered by CIRCL.

Twenty companies have expressed interest in EPIC, but only four are ready to sign up. Mr. Allen wants six before kicking off the new venture.

CIRCL, with 14 participants and projected 1981 premium volume of $68.5 million, may add another participant. Its bylaws allow for growth to 25 members.

Another potential client is COAL, a prospective coal-industry owned captive to underwrite black lung risks. Mr. Allen is coordinating a study with consultants from Trenwick and is tackling the job of determining what discount factor to use in funding these long-term liabilities.

At a time when some insurance experts are questioning the advantages of captive insurance companies, Mr. Allen remains a staunch advocate.

"Captives will continue to grow because the alternative is to put money in someone else's control. Pools allow you to underwrite a multiple of limits if properly structured—not the low-limit pools."

Paid-loss retrospectively rated insurance plans, the biggest competition now for captive funding plans, don't interest Mr. Allen because Hanna is involved in so many joint ventures that have to stand on their own and can't retain as much risk as Hanna can.

"One affiliate really needs the cash in its business so it does use a paid-loss retro," Mr. Allen noted. "But if a company is cash rich, captives are better," he maintains.

Even under a paid-loss retro the insurer wants to close out the reserves at some point, he notes, and the company ends up paying more than it would if it held the reserves.

Captives will continue to mature and grow more complex, Mr. Allen predicts. He expects to need an underwriter on the staff of Altamid within the next two years.

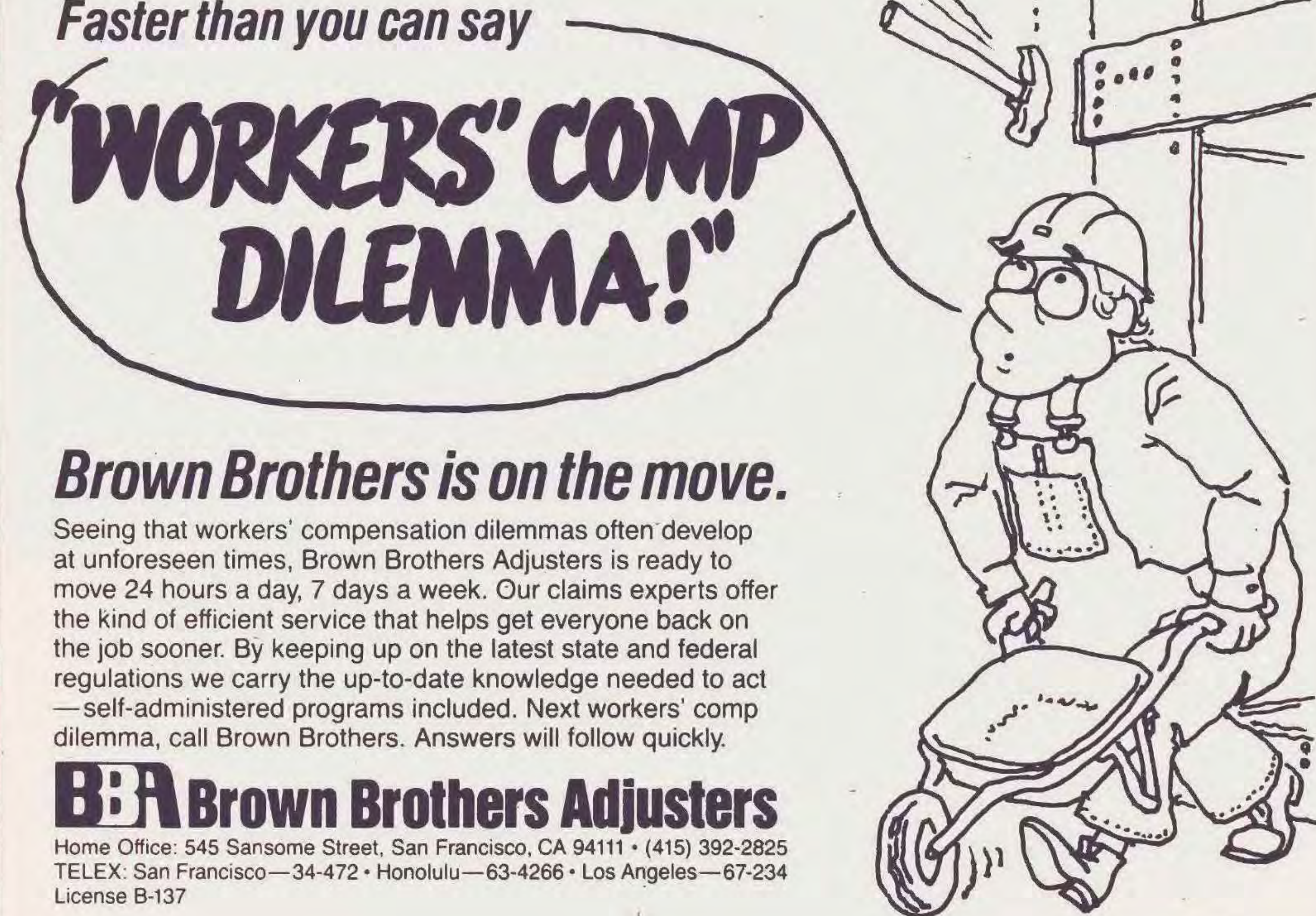
He isn't concerned about the tax implications of using a captive insurer since Hanna's companies have been jointly owned and underwriting unrelated risks for so long. He isn't "particularly worried" about the IRS audit of Hanna in progress, although it is the first IRS audit of a CIRCL participant for the years it has been in CIRCL.

The IRS will become more aggressive in pursuing the deductibility of premiums to captives lacking outside business now that it has won the Carnation case at the appeals level, Mr. Allen predicts.

He hopes companies looking for outside business will concede that the best business comes from pools like CIRCL. "They offer controlled, identifiable risks from companies with financial integrity and management strength."

It's obvious he wants to see CIRCL, EPIC, COAL and possibly other pools grow under Altamid management also for the personal challenge the work offers him.

"It's exciting. It expands involvement with reinsurance underwriters, who are leading participants' risks, with auditors in Bermuda to explain the pools, with people like Conning & Co. hired to work on the reserves and for me to handle participants' underwriting and claims." ■



Allen chooses diplomat's hat for joint ventures

CLEVELAND—A world map hangs on the wall behind Duane Allen's desk. As an ambassador, he needs it.

Hanna Mining Co.'s joint ventures in mining, shipping and energy projects thrust him in that role at home and in places like Brazil, Colombia, and Guatemala.

Whether he's conferring on joint risks with a fellow American risk manager or negotiating with a Brazilian insurer through an interpreter, diplomacy is what works.

"You learn to look at the interests of everyone, not just your own company," he explains. "You become more open in deciding how you should handle a risk."

In the U.S., joint ventures don't usually present unusual risk problems. The partner designated as manager of the venture is directly responsible for the risk management. If Hanna is the manager, Mr. Allen includes that operation in his overall insurance program and monitors loss prevention.

On projects not managed by Hanna, Mr. Allen might be consulted on the insurance program or may be asked to make specific recommendations, but once it is in place, the risk is not Hanna's directly.

"Of course, you still stand the risk of losing your investment if the operation is completely wiped out or maybe a D&O suit for trusting the managing partners' risk management too much," he said.

The diverse joint ventures have made his job "different but not more difficult," he says.

In South America, where he is a technical advisor on an iron ore project in Brazil and a consultant on a nickel smelter in Colombia, it's a little more difficult.

He's learned to negotiate with insurers who don't speak his language, meet the insurance and safety regulations of foreign governments and provide for the security of Hanna employees.

He scales the language barrier in insurance by using a bilingual broker to help him place risks.

And he's set one rule for dealing with foreign governments: meet all their demands and then some.

That means designing safety programs that meet worldwide standards, planning financing that would please the World Bank, meeting the standards of groups like the Brazilian Reinsurance Institute, which must clear all external insurance arrangements.

"No way do you not fully comply with the spirit of the law," he said.

"Everyone involved in the project must clearly understand from the beginning that you will comply with any demand the foreign government has for doing business in their country.

"If I'm involved at all, that's the way it must be. Your integrity and your companies' are on the line."

He's on the line with Hanna's employees, too. They are looking to his department to make life in a strange company safe for them and their families.

At the company nickel smelting project under construction in Colombia, the staff is uneasy because of raids by small bands of bandits.

"The situation is nothing like El Salvador where they are whole armies of insurgents. These are small groups and it's hard to determine if they are politically motivated or just crooks."

One group raided their mine, stole equipment and told the employees they would return again.

Tight security measures are considered for the employees' homes and they are encouraged to travel together.

"Much of it is just cultural orientation of our employees who aren't accustomed to the language, the customs, the medical facilites, etc.," he explained.

"We have orientation sessions and warn them about small things like not traveling alone or wearing jewelry openly on the streets."

And its a sure bet he teaches a little about diplomacy, too. ■

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In 1972, a landslide damaged this ore-loading structure at Mineracoes Brasileiras Reunidas in Brazil.

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Allen practices gospel of long relationships

CLEVELAND—Duane Allen picks his brokers for their expertise and his insurers for a long time.

For the $3-million-premium property/casualty insurance and $3.5-million-premium marine coverage for Hanna Mining Co.'s wholly owned and domestic joint ventures, Mr. Allen went to New York, Chicago, Cincinnati and Pittsburgh for the brokers.

For the insurance, he used competitive bidding but developed the programs with major underwriters on a long-term basis. He benefits from the good relationships time builds and the carriers know they will have a number of years to recover initial costs.

Aetna Casualty & Surety Co. has been on Hanna's casualty risks since the 1920s. For the last 23 years, the Allendale Insurance Co., a member of the Factory Mutual System, has underwritten Hanna's property insurance.

Marsh & McLennan brokers Hanna's major insurance programs, but Mr. Allen puts his business where the experts are. For marine, it's M&M New York; for property, M&M Pittsburgh, and for casualty risks, M&M Cincinnati.

"We don't wait for the local office of the brokers to come to us offering their services," says Mr. Allen. "We take our business to the office that has the best man for the job."

For example, when Mr. Allen first commissioned a broker for his casualty risks, he went to Chicago and struck up a relationship with M&M's Ron Luckett because "Chicago was the center of the casualty market and Ron Luckett was there."

When Mr. Luckett moved to M&M's Cincinnati office, the Hanna account moved with him.

The policy written with Aetna C&S includes comprehensive liability and auto liability with a basic limit of $1 million. Hanna has a low-level retrospective retention of $25,000 and insures the next $225,000 with Erieview Insurance Co., its captive in Bermuda, for a full retention of $250,000.

This includes Hanna's longshoremen and harbor workers' compensation risks at two coal-loading docks in Ohio and two iron ore-unloading docks in Ohio annd Pennsylvania.

"There are not a lot of people involved here, but it is a high-loss area," Mr. Allen explains.

Continued on next page

'The sinking of the Feddy'

There won't be a ballad on "The Sinking of the Feddy," but that marine loss will cost Hanna Mining Co. $91,500 more than its loss from the famed wreck of the Edmund Fitzgerald.

The sinking of the Edmund Fitzgerald on Lake Superior in 1975 gave singer Gordon Lightfoot material for a hit song and cost Hanna a $625,000 load of iron ore that was being shipped by the Fitzgerald's owner. However, Hanna's cargo insurance picked up the full loss.

The story of the Feddy has a much different ending.

The Liberian tanker, whose name stands for nothing but the quickest way to rename a ship called the Eddy, sank in the Mediterranean Feb. 10 when it collided with a Greek ship off the coast of Algeria.

Thirty-one of the 34 crew members on the Feddy, which was jointly owned by Hanna and the Skaarup Shipping Group in New York, drowned when the hull collapsed as the Greek vessel tried to pull free of the wreckage.

Oceanview, a Hanna captive in Bermuda, underwrote 2% of the $3.5 million hull value ($70,000) and the life insurance on the crew members at $10,000 per ordinary seaman and $20,000 per officer ($420,000).

It also underwrote the first layer of protection and indemnity coverage to $40,000 with a $6,000 deductible.

Together, these losses total more than $500,000 but Oceanview's reinsurance on the hull and life coverage cut its losses to $17,500 and $40,000, respectively. That, added to the $34,000 P&I claim, gave Oceanview—and indirectly Hanna—a $91,500 loss on the Feddy.

Underwriters in London and U.S. markets already have paid the remaining hull claim to full value, the P&I claim with West of England is pending and no one has heard when "The Sinking of the Feddy" will be in the record stores.

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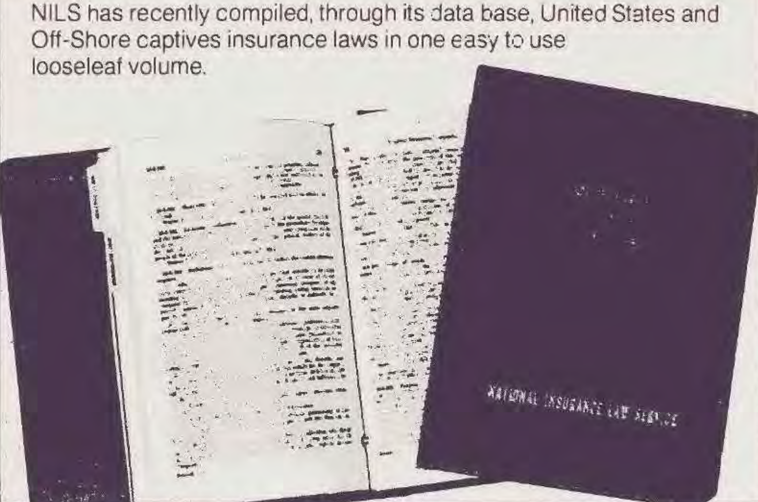

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What? Me worry?

CLEVELAND—Duane Allen carries in his wallet a picture of Alfred E. Neumann encircled with the campaign slogan: *A vote for Alfred E. Neumann for president is never having to say you worry.*

The *Mad Magazine* character is Mr. Allen's hero and the slogan is part of his risk management philosophy at Hanna Mining Co.

The campaign card was given to him by a fellow worker.

"I spend a lot of time thinking about problems, but I don't worry," Mr. Allen explains. "It doesn't do any good, does it?"

Continued from previous page

An umbrella policy placed in the London market and led by Peter Wilson of Weaver Syndicates provides excess coverage over Aetna's $1 million limit.

Aetna also underwrites a fidelity policy for Hanna with limits of $5 million and a $25,000 deductible.

A directors and officers policy of "fairly high" limits is written by National Union.

Hanna always has self-insured the bulk of its workers compensation risks—ever since the workers compensation laws were enacted. In the early 1900s, it used a trustee account to pay the losses but had to change the arrangement in the 1940s because of tax laws.

Excess insurance above its self-insured limit of $100,000 per occurrence at each mine is placed mostly with the Erieview captive in Bermuda, up to $1.75 million per occurrence. General Reinsurance Co. takes a 10% share of this layer excess of $250,000 as the lead reinsurer for Erieview's program with the group-owned reinsurance company CIRCL.

Additional excess layers also are placed with General Re for a total limit of $6 million over Hanna's self-insured layer.

The program costs Hanna $2 million a year in benefit payments, administration and reserves.

Hanna also participates in the state workers compensation funds in Nevada and Oregon, where it mines.

The Allendale property package covers fire and supplemental perils, all-risk DIC and boiler and machinery. The policy is written on an actual loss sustained basis for the value of the property. Hanna has a $200,000 combined deductible for property damage and business interruption.

Hanna's two private jets are insured with Associated Aviation Underwriters "for very high limits."

Hanna's risks don't end with the last scoop of iron ore, coal or nickel extracted and processed. They continue on the Great Lakes and St. Lawrence Seaway where Hanna runs a fleet of five U.S. flag ships and six Canadian flag ships valued at $264 million to deliver its products to the market.

The hulls are insured to full value. The Great Lakes Protective Assn., a reciprocal insurance company operated by six Great Lakes shipping companies, takes 40% of the risk. The other 60% is in the U.S. and London markets.

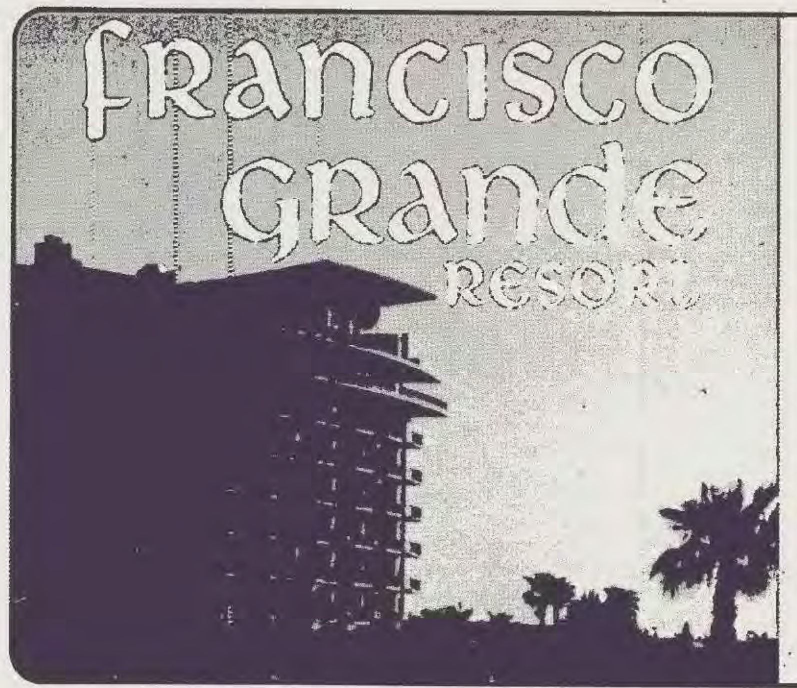
Hanna also has increased value and added total loss insurance on the vessels that range in size up to 1,000 feet long with 56,000 ton capacity. The highest value on a single ship is $60 million.

For its cargo insurance, Hanna profits by the nature of its business. Because risk is low on the Great Lakes and trips are very short (average time for goods to be in a hull is two days), Hanna gets one of the lowest rates available for its Great Lakes shipments, explained Mr. Allen. The rate on the coverage placed in the U.S. and London market is .0075 per $100 value.

Unlimited P&I coverage excess of a $25,000 deductible is placed with West of England of Luxembourg. Hanna insures $22,500 of the deductible with its captive Erieview.

Since February, when The Feddy, a Liberian tanker, sank in the Mediterranean, Hanna has not had any jointly owned ocean vessels to worry about insuring.

However, Mr. Allen is still involved in placing the insurance for Skaarup Group, a shipping management company with which Hanna has had a long standing relationship and to which Mr. Allen acts as a consultant. The risks are placed in the U.S. and London markets, with Hanna's captive Oceanview writing a share. ■



Loss avoidance: It's 2 pools and a bar

What do you call it when a mining company purchases a 112-room, eight-story hotel with a main pool shaped like a baseball bat, a kiddies' pool shaped like a baseball, four baseball fields, an 18-hole golf course, a bar and a restaurant?

Diversification?

Capital investment?

Acquisition?

At Hanna Mining Co., they call it *loss avoidance*.

Hanna owns a copper deposit in Casa Grande, Ariz., adjacent to the Francisco Grande Hotel, the spring training site of the San Francisco Giants baseball team.

Although mining of the site has not begun, the Hanna management took some early loss prevention steps. It bought the hotel.

The company, therefore, is protected from potential hotel owner lawsuits if the eventual mining affects the hotel's underground water supply, its guests' pleasure and its profits or if the digging underground unsettles the hotel's foundation, causing shifting or sinking.

Now, if the baseball bat pool cracks or the hotel bar looks tilted no matter what time of day it is, the Hanna management can just head for the golf course and relax.

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Photo: James Guilford

Erwin Kuebler (left) led the drive to nominate Duane Allen.

10 fellow RMs say Allen's it

CLEVELAND—Erwin Kuebler is in hot water with some Cleveland-area risk managers. They, too, wanted to nominate Duane Allen for Risk Manager of the Year.

Mr. Kuebler, insurance manager of Pickands Mather & Co. in Cleveland, led the campaign to have fellow risk manager Duane Allen of Hanna Mining Co. nominated for the *Business Insurance* award. The drive picked up so much momentum that the nominating letter sent to *BI* includes the signatures of 10 Cleveland risk managers.

"Now I have other risk managers giving me a hard time because they weren't included," laments Mr. Kuebler. "I would have, but we were working so close to the nominating deadline I only had time to send my secretary to the businesses in downtown Cleveland for the signatures."

It's the first time in the *Business Insurance* contest that a group of risk managers have nominated a peer. But in Mr. Allen's case, it was a way of thanking him.

"He not only is a very energetic, resourceful, knowledgeable insurance man, but he also is always prepared to help others," said Mr. Kuebler, who has known Mr. Allen since 1966 and worked with him on mutual problems and in professional organizations.

"I've taken some of my problems to him to share views, and he's always free and willing to give me the help I need."

Paul Ozan, president of the Risk & Insurance Management Society, also signed the nominating letter.

"Duane Allen is the ultimate professional," said Mr. Ozan, assistant general counsel at American Greetings Corp. "He is always helpful. Always a leader.

"If you need some advice, he'll take the time to answer your question if he can, or tell you where you can find the answer."

Mr. Ozan met Mr. Allen 15 years ago through RIMS. "When he transferred here from California (Kaiser Industries Corp.), he introduced the whole idea of regional RIMS seminars to this area," Mr. Ozan explains.

Mr. Allen has been active in RIMS since 1959 on the national level and in both the Northern California and Cleveland-Akron chapters.

Also signing the nominating letter for Mr. Allen were Steve Pen-

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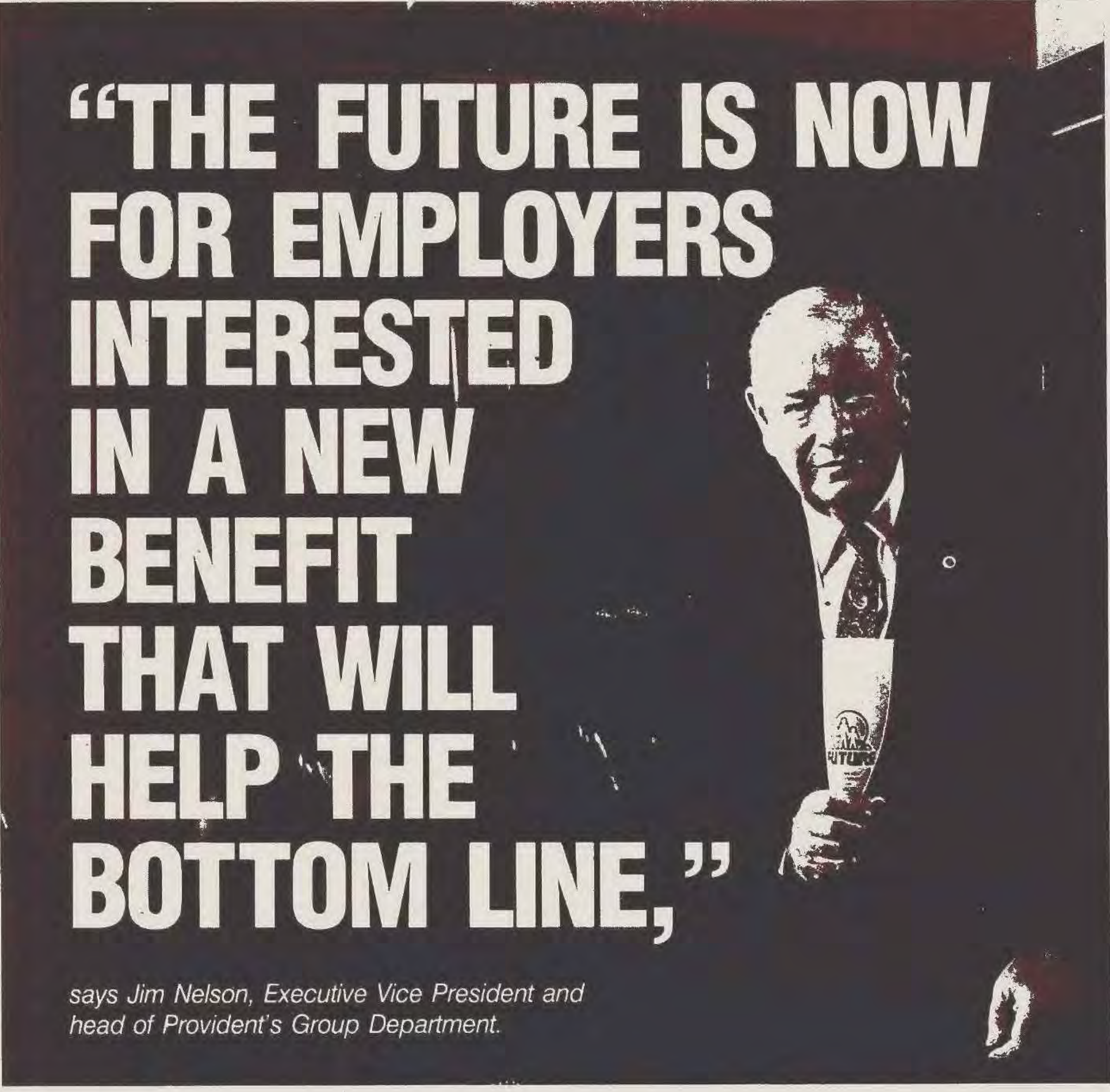

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"Employers who are already offering FUTURE to their employees are enthusiastic because the program offers employees a chance to help fund their own permanent insurance programs. The only expense employers have is the cost of payroll deduction.

"FUTURE is really a product whose time has come."

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Continued from previous page
ton, manager of corporate insurance, Oglebay Norton Co.; Arlington Beck, corporate risk manager, Lamson & Sessions Co.; Robert Urban, corporate insurance department, Cleveland Electric Illuminating Co.; Francis (Frank) Gaskins, assistant treasurer/manager of insurance, Cleveland-Cliffs Iron Co.; Ed Geraci, supervisor of insurance and taxes, Ferro Corp.; Joe Cline Jr., director of risk management/treasury department, Republic Steel Corp.; George Alexander, manager of insurance and benefits, Durkee Foods Division of SCM; and Frank Baldwin, assistant vp, Central National Bank of Cleveland.

"Aside from Duane being one of the most dynamic and resourceful individuals in the field of risk management, he also has made a significant contribution to risk management over a period of many years as an instructor, author of many insurance articles, chairman of numerous insurance associations and leader of seminars," the risk managers wrote in their nominating letter.

Respect for Mr. Allen comes from his superiors, too. In a letter endorsing his nomination, C.E. Nickels Jr., executive vice president of Hanna Mining Co., wrote:

"Within our organization, Mr. Allen has established a reputation for thorough and competent handling of insurance coverages, collection of losses, implementation of sound safety and fire protection programs and development of cost-effective insurance programs for our affiliated companies.

"He has developed close relationships with executives in the home office, as well as operating management in the field offices.

"The reaction of those individuals outside our company who work with Duane and with whom I have contact is that he is among the most able of the risk managers in the United States.

'He's a real professional and knows the business.'

"Top management of Allendale Mutual Insurance Co., of which I am a director, has been highly complimentary of Duane's performance and expertise in his particular field.

"Mr. Allen is included among the key executives in our organization whose recommendations and opinions are sought and used for planning of almost all facets of the company's operations.

"His approach to eliminate risks when possible and assume those which are reasonable has resulted in considerable cost savings to the company.

"Duane's leadership role in the organization and development of CIRCL has led to the dramatic growth in our affiliated insurance companies' activities and the development of Altamid Management Co. of Bermuda. This has resulted in a new profit center for Hanna. The successful involvement of our company in this area can be attributed largely to Mr. Allen's initiative and perseverance. We feel that these accomplishments will continue to grow for the substantial benefit of the company."

At a luncheon March 12 for Mr. Allen, the praise was echoed by Robert F. Anderson, president and chief executive officer of Hanna Mining.

"Duane has done an outstanding job for Hanna," he said.

George Humphrey, senior vp/finance and Mr. Allen's immediate superior, praised his ability to "stay with a problem" and his "good judgment in implementing the right course of action.

"He has only been reporting to me for about eight months now, but I aready have gained the highest respect for him," Mr. Humphrey said.

"He's a real professional and knows the insurance business inside and out."

For the first 15 years Mr. Allen was at Hanna Mining Co., he reported to Russell A. Beale, who retired last year. Contacted in Florida, Mr. Beale said Mr. Allen is respected by many.

"He is outstanding, and I'm not the only one who thinks that," he said. "Many people have commented to me about his ability, his inventiveness. They say he is the top risk manager in the country.

"He's known for his work with RIMS, his knowledge of insurance and several papers he's written, but he's also done a great job at home developing a staff that can carry out the details of his plans."

He especially praised Allen for his part in the formation of CIRCL, the Bermuda-based reinsurer that provides casualty reinsurance for Hanna and 13 other companies.

"He's a hard-working, smart, loyal employee." ■

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He won't say he's best, but he's happy

CLEVELAND—A *Business Insurance* Risk Manager of the Year plaque now hangs on his wall, too, but Duane Allen says he's still trying to keep up with Howard Weber of 3M Co., *BI*'s first Risk Manager of the Year.

Mr. Allen isn't shy about admitting he's tickled with the award, but he won't bill himself as the "best" risk manager.

"I don't know that you can find a 'best' risk manager," he explained. "Some people have greater experience, some have greater knowledge, some have greater problems. I'd have to run to keep up with Howard Weber."

Best or not, Mr. Allen is satisfied. "I'm very happy with what I'm doing," he says. "I enjoy my work. I enjoy the people at Hanna Mining. And I smile a lot."

He mentions repeatedly that he is indebted to his senior management for giving him the room to be an effective risk manager. "I have lots of projects going here so life is interesting. Actually, no two days are alike and I seldom end up doing what I anticipated."

He has been managing Hanna's risks for 15 years. He came to Cleveland in 1966 from Kaiser Industries Corp. in California where he was insurance manager. He had worked for Kaiser in various insurance management capacities since 1959.

The 20-year-veteran insurance buyer and risk manager started his career in 1959 with broker Marsh & McLennan in San Francisco.

At Hanna, Mr. Allen's first title was manager of property insurance. He handled the property, casualty and marine insurance and loss prevention programs from 1966 to 1974.

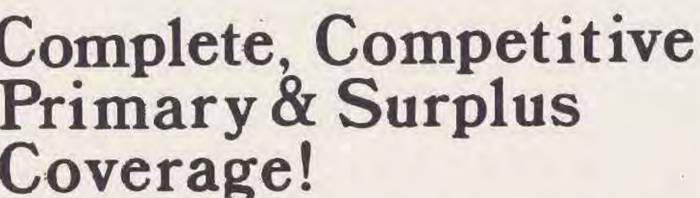
In 1974, he was promoted to assistant treasurer/risk manager and in 1979, he moved to his current post of assistant treasurer/director of insurance management division. He still supervises all risk management programs and also is chairman of Altamid Management Co. Ltd., Hanna's captive management company in Bermuda.

Mr. Allen, who says he can juggle all the pokers he has in the fire in an 8:30 a.m. to 5 p.m. workday, also expends a lot of energy in leadership roles in the risk management profession:

- He has been director of the Risk & Insurance Management Society on the national level for both the Northern California and Cleveland-Akron chapters. He also served as past president, director and committee member for the Cleveland chapters of RIMS and the Society of CPCU.
- He served on the RIMS National Educational Committee and on the Insurance Industry Liaison Committee.
- He has been active in CPCU on a national level encouraging development of its programs to include the area of risk management. (He has completed the CPCU and IIA Associate in Risk Management programs).
- He is president of the Captive Insurance Companies Assn.
- He organized a Cleveland risk management education program and taught classes for a number of years. He was a member of the Insurance Institute of America steering committee for development of the risk management program.

Outside the office and away from professional groups, Mr. Allen is somewhat of the athlete. He plays tennis and basketball, swims and skis, both downhill and cross-country.

He takes his wife, Ann, and their two children on vacations to Yucatan to explore the Maya ruins and can do the electrical, plumbing and carpentry work necessary to renovate an old home.



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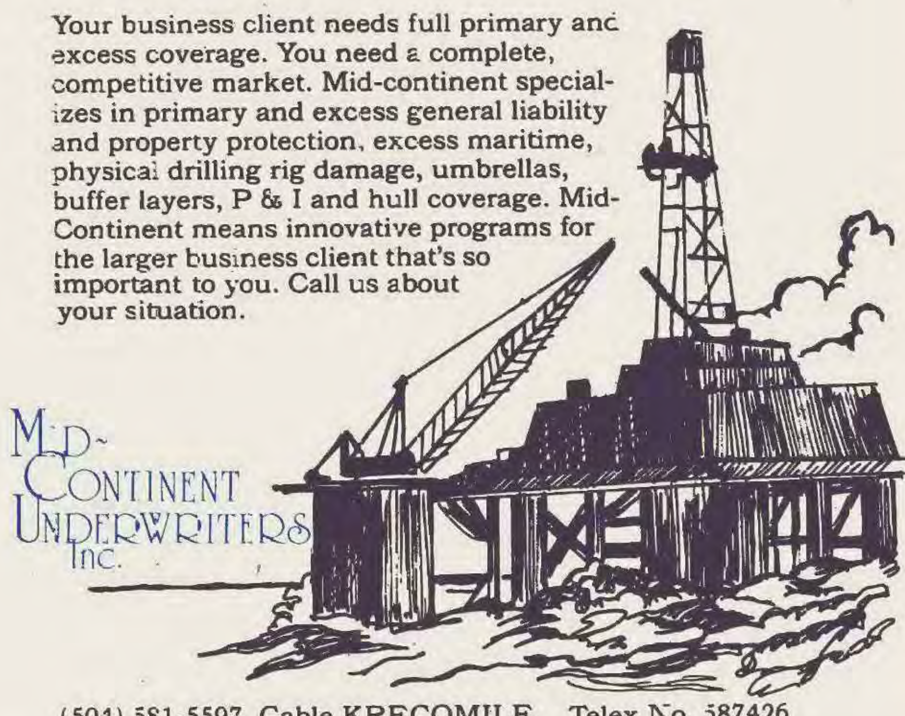

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Photos: Courtesy of Hanna Mining Co.

The risks that Duane Allen manages for Hanna Mining Co. range from those on the Great Lakes to those in the wilderness of Oregon. Above, the Joseph H. Thompson, one of the bulk cargo carriers owned by Hanna, carries a load of iron ore near Detroit. At right, A load of nickel ore is carried on a tramway from a mine in Riddle, Ore., to the smelter 1,800 feet below.

What the judges said

The Risk Manager of the Year judges are given a chance to add comments to their scoring on each candidate. Following are some of the things they had to say about Duane Allen:

"This is an exceptional candidate who has not only established an effective risk management program within his own organization over a 10-year period, but he has also shown creativity which benefits the overall cause of risk management in the country."

"An excellent candidate for *Business Insurance* Risk Manager of the Year. He has performed exceptionally in each of the nine criteria."

"Personnel security and loss prevention are risk management—at last!"

"An extra plus for the nominations from his fellow (risk) managers."

"A risk manager in the process of turning into an insurance company president."

"Superior performance over time and at least he is a *risk manager*."

"Overall, an outstanding record."

"This candidate meets all the criteria for judging."

"A very impressive track record."

"Big name in risk management."

"It seems to me that the complexity of problems in South America, which appear to be handled well, was a major achievement and my principal reason for the highest rating. Leadership in captive insurance companies also a big factor.

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Here's the panel that selected Allen

The judges who selected the 1981 *Business Insurance* Risk Manager of the Year and Risk Manager Honor Roll are:

• **E. William Altstaetter,** staff vp for pensions, insurance and risk management at Rockwell International Corp. in Pittsburgh, representing the risk management community.

Mr. Altstaetter is a former national president of the Risk & Insurance Management Society and a recipient of its Goodell Award.

• **Ralph E. Gentry,** insurance manager for the Times Mirror Co. in Los Angeles, also representing risk management. He is a past national president of RIMS.

• **Thomas V. Hallett,** the 1980 *Business Insurance* Risk Manager of the Year, who joined the panel in the tradition of naming the winner a judge for the next year. Mr. Hallett, risk manager at General Motors Corp. when he won the award, is now vp and director of risk management at Frank B. Hall & Co. in Briarcliff Manor, N.Y.

• **Robert Clements,** president of Marsh & McLennan Inc., the nation's largest brokerage firm. Mr. Clements, representing the brokerage community, served on the panel for the first time in 1981.

• **William C. Cohen Jr.,** president of Insurance Management Associates Inc. in Wichita, Kan., also represented the brokers. It was his second year as a judge.

• **Joseph P. DeAlessandro,** president of the National Union Fire Insurance Co. of Pittsburgh, a unit of American International Group. He represented stock insurance companies.

• **George R. West,** chairman and president of Allendale Mutual Insurance Co. in Johnston, R.I., represented mutual insurers.

Both insurance company representatives were new to the panel.

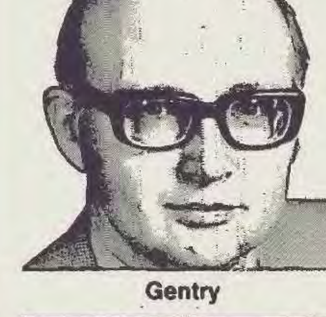
• **Bud Griffin,** president of Warren, McVeigh & Griffin in Newport Beach, Calif., represented risk management consulting.

• **Thomas B. Morehart,** associate professor of insurance at the Arizona State University College of Business Administration, served his second year on the panel representing insurance educators.

• **Kenneth F. Reimer,** executive vp of operations at the Lehndorff Group of Companies, a Dallas-based real estate holding and development firm, represented senior management. ■

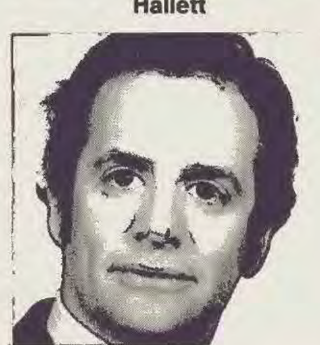
The Judges

Altstaetter


Gentry

Hallett

Clements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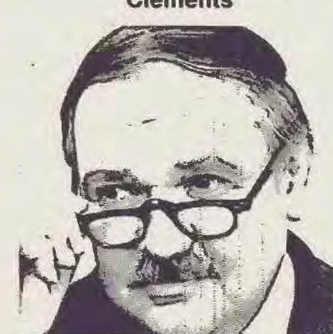
DeAlessandro

West

Griffin

Morehart

Reimer

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It's not too early to nominate '82 winner

If you know a risk manager you want to nominate for the 1982 *Business Insurance* Risk Manager of the Year award, begin the campaign work now.

Start by requesting the information from *Business Insurance* on the procedures for nominating a risk manager for the annual award intended to draw attention to the role of risk management.

Among your tasks will be preparing nine one-page essays explaining how the candidate meets each of the nine criteria established for selecting the Risk Manager of the Year.

The Risk Manager of the Year and members of the Risk Manager Honor Roll will be selected from the nominating statements by a panel of 10 distinguished judges representing all segments of the risk management and commercial insurance business.

The judges will choose one risk manager to recognize for accomplishing the most outstanding achievements.

Other exemplary risk managers from specific types of organizations not represented by the Risk Manager of the Year will be named to the Risk Manager Honor Roll. The four employment categories are:

- Large corporations with more than $300 million in sales and/or more than 1,000 employees.
- Small corporations with less than $300 million in sales and/or fewer than 1,000 employees.
- Government entities.
- Not-for-profit or tax-exempt organizations.

The nominees are scored on how he or she:

- Established and implemented an effective risk management program within the organization.
- Tackled and solved one or more major problems for his or her organization.
- Innovatively applies the diverse tools of risk management and insurance.
- Creatively and effectively uses the insurance markets.
- Established a workable intelligence system inside and outside the organization culminating in access to a flow of information about events and activities that affect the organization's risk management and insurance.
- Skillfully applies the principles of management in the overall organization and within the risk management/insurance department.
- Achieves the most effective program at the optimum cost over the long term.
- Developed technical expertise in any or all of the broad categories included within risk management (insurance, safety, law, industrial hygiene, claims control/administration, underwriting, communications, information systems, etc.) leading to a better managerial grasp of the operational aspects of the job.
- Exhibits an attitude and performs activities fostering the advancement of the risk management profession.

The candidate with the highest score will be named the Risk Manager of the Year.

The candidates from the employment categories not represented by the Risk Manager of the Year will be segregated according to employment categories and the candidates with the highest scores in each category will be named to the Risk Manager Honor Roll.

To request information on how to nominate someone for Risk Manager of the Year, write *Business Insurance* Risk Manager of the Year, *Business Insurance*, 740 N. Rush, Chicago, Ill. 60611. The deadline for entries will be Dec. 1.

The winner is traditionally announced in a special section of *Business Insurance* in April in conjunction with the Risk and Insurance Management Society's annual conference.

If you have a risk manager in mind, it's not too early to begin working on nominating him.

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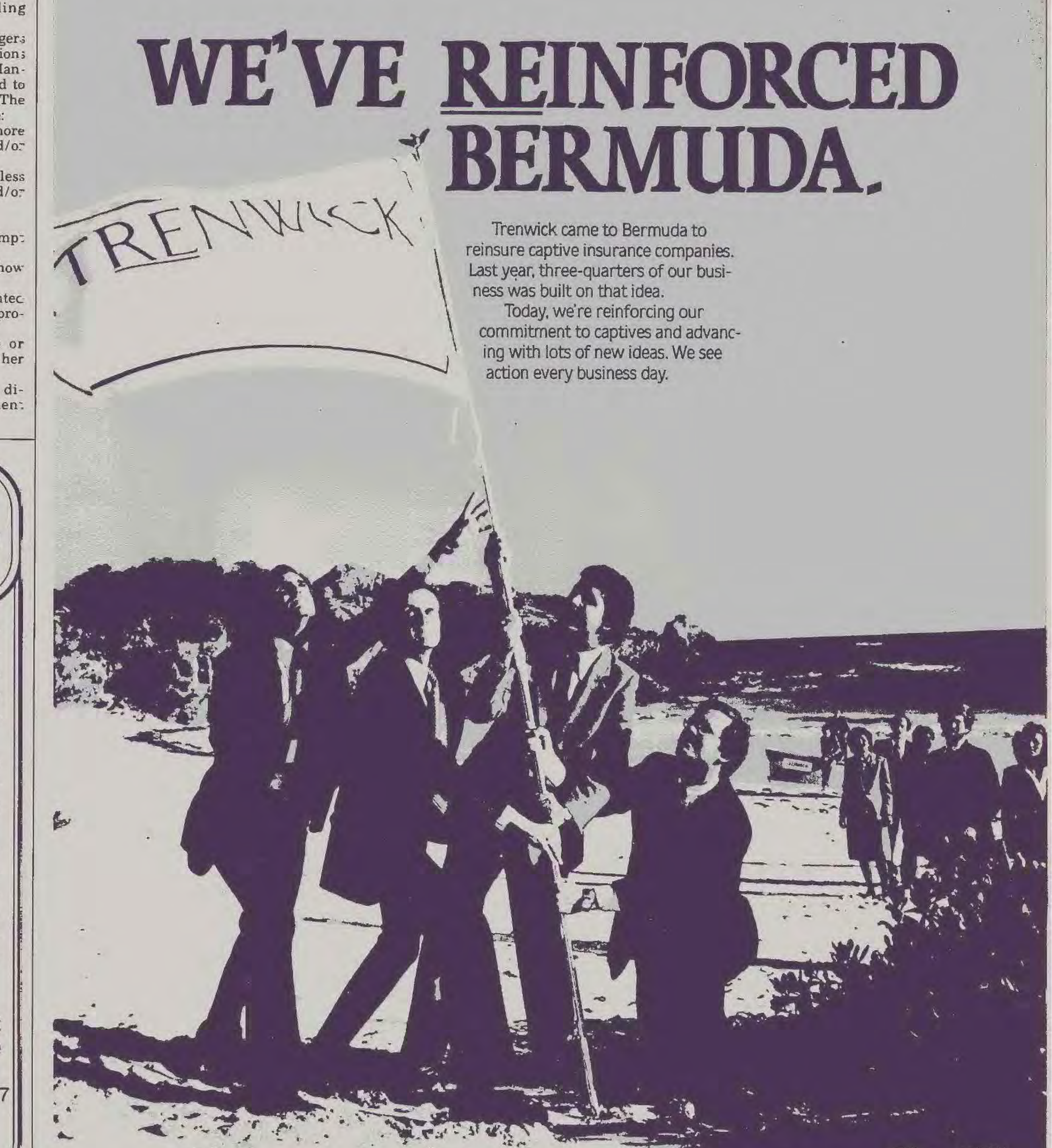

Photos: Len Strazewski and University of Michigan

Each University of Michigan department buys insurance from William Ryan's (inset) department.

A bit of magic lets UM's Ryan turn a profit

By LEN STRAZEWSKI

ANN ARBOR, Mich.—The University of Michigan buys all its insurance from an Irish leprechaun who lives on campus.

He rates departmental risks, charges a fair premium, issues insurance certificates and pays infrequent losses. With leprechaun magic and a sophisticated risk management team that includes underwriting and claims analysts, he does what few insurers are able to do: He underwrites to a profit.

William Ryan, UM's insurance and risk manager, runs his office like a captive insurance company, using the large self-insured retentions as leverage to enforce simple and direct loss prevention programs. Through good communication and professional foresight, he anticipates risks and prepares for market crunches with his flexible, comprehensive risk management program.

His "magic" has earned him a spot on the 1981 *Business Insurance* Risk Manager of the Year Honor Roll in the not-for-profit business category.

By charging university departments individual premiums for their coverage, he establishes fully-funded loss reserves and helps pay the operating expense of a nine-person risk management department.

Through the ups and downs of campus unrest, international growth and a medical malpractice crises, Mr. Ryan has kept his college safely insured while others floundered in coverage crises. Since 1975, he has saved the university an estimated $5 million with a philosophy of strict discipline and a broad, conceptual risk management program that absorbs small losses and tiny risks in favor of catastrophe loss protection.

Sometimes Mr. Ryan taps his Irish charm to get his way. Sometimes he uses the same tough business tactics an insurer uses on stubborn policyholders. To university officials, that's magic.

"What we do is exactly what an insurer does with a premium," Mr. Ryan explains. "We estimate our losses, establish a loss prevention program and decide what kind of premium is fair for each department.

"Every self-insurer does something like that, but we take it all a step farther. We also plan our reserving practices, plot expenses and try to estimate our investment income."

The general goal of the program is to reduce the university's dependence on state general revenue funds for insurance premiums and risk management expenses.

Most self-insurers, however, are content to pay small losses within the retention. So will the university—if the appropriate department has bought its insurance.

Under a $100,000 per occurrence property insurance retention—part of a 40-year-old program with Industrial Risk Insurers—the university insurance department sells all-risk insurance policies for property on campus and equipment taken off campus.

The university departments pay an annual rate of $2 per $100 of value to buy coverage for property and off-campus equipment. When it pays its premium, it is issued a University of Michigan certificate of insurance signifying the coverage. The certificate is recognized as insurance by Michigan state agencies. If there's a loss, the university pays up to the insured value. Each department has a $300 deductible.

The program, according to Mr. Ryan, reminds the individual departments about their responsibility and the value of the equipment they use.

At any given time, the univer-

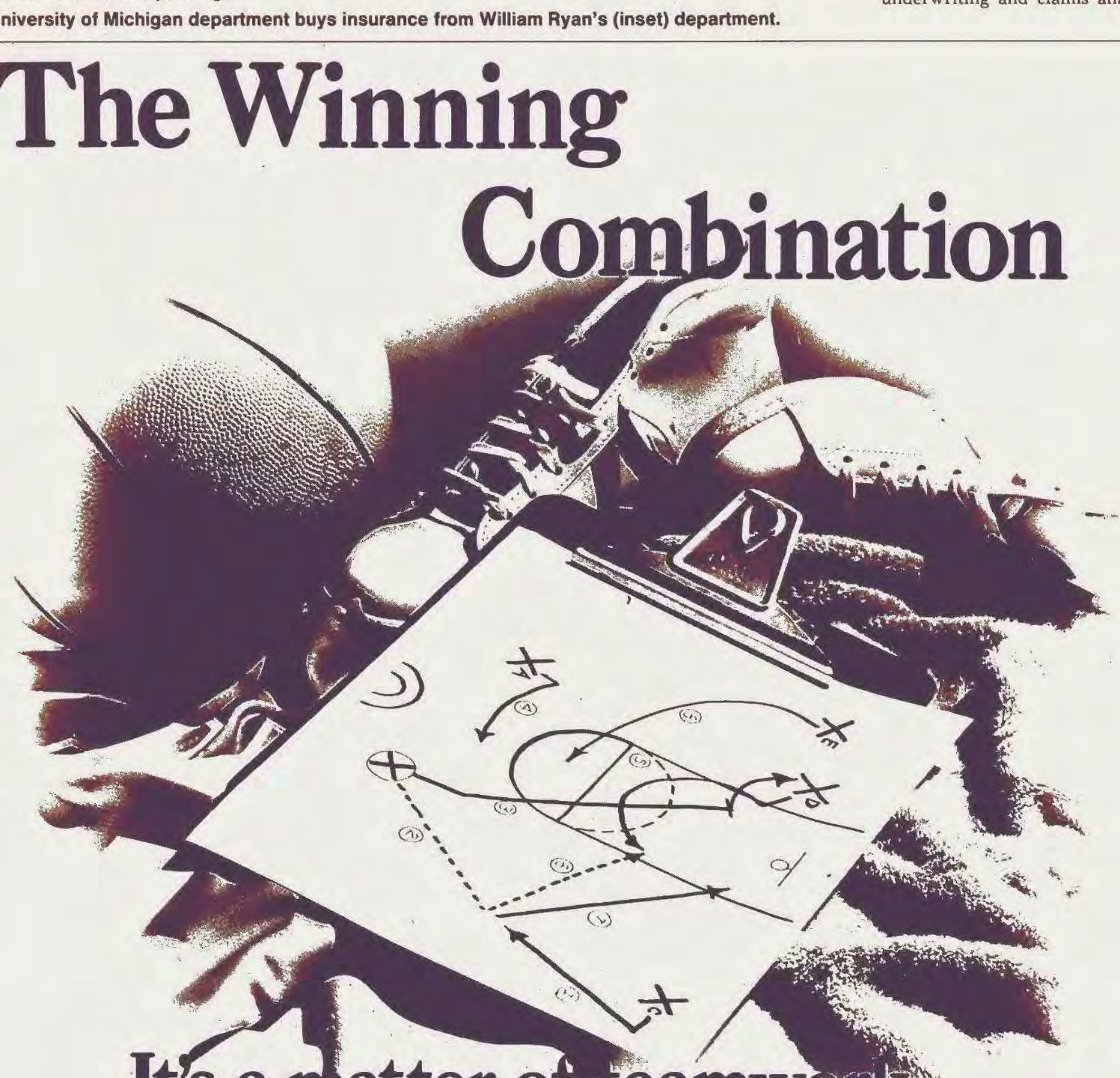

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Photo: University of Michigan

A flag on the landmark University of Michigan Burton Tower welcomes home the American hostages returning from Iran.

What the judges said

Judges' comments about William Ryan included:

"One of the top university risk managers in the country who is responsible for a complex insurance and risk management program."

"An outstanding record. Definitely a leader in the government/institutional field."

"A leader in his industry; his captive study was very well received."

"High marks for internal communication."

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sity has $9 million to $12 million in off-campus outstanding coverage under the internal all-risk plan, just a small part of the estimated $1.2 billion in property values belonging to the university.

"Sometimes we do have problems with losses that are hard to deal with," Mr. Ryan notes. "One department had a continuing problem with audiovisual equipment. When the department would not follow the loss prevention program I designed for them, I raised its rate to $5 per $100 of value.

"They had more losses so I raised the rate to $10. The department head blew up, but the losses continued. So I canceled the department from the university coverage."

Soon after, every loss control measure magically appeared in place, at the direction of the university's financial chief and the department head. The $2 rate resumed.

"Actually our property coverage is fairly cheap. Our self-insured portion costs more than our catastrophe coverage—even at our giant values," Mr. Ryan explained. "And we rarely have losses over $100,000."

For $420,000 in annual premium, IRI provides a property insurance package that includes a boiler and machinery policy underwritten by the Royal Insurance Co. and difference-in-conditions coverage. The plan covers a variety of exotic property risks, including historic university buildings, the nation's largest college football stadium, a water-bath nuclear reactor, other U.S. and international research facilities and a ramshackle house on Michigan's Sugar Island that was donated to the college by a former president.

As part of the package, IRI also provides excess insurance for business interruption, directors and officers liability, fidelity, all theft and vandalism, workers compensation medical-costs-only claims, and

Continued on next page

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Riding out a crisis

Continued from previous page
physical damage to the 500 vehicle fleet.

The college hasn't had a rate increase since 1968.

The late 1960s and early 1970s were a test of the long-standing relationships, however. Insurers expected that the rowdy students of the period would produce massive property losses.

"The underwriters were stunned," Mr. Ryan says with pride. "They never saw a broken window or peeling paint. We order all repairs from the risk management office as soon as they are reported. It keeps the campus looking good."

Its relationship with insurers helped UM take a step to risk management sophistication. Under Mr. Ryan's direction, the university negotiated one of the first major trust fund pacts with its insurers, aimed at keeping control of investment income.

The trust fund, negotiated in 1976, was reportedly one of the first in the country. It returns a portion of investment income to the policyholder and allows UM to invest its own earnings and use the funds to pay risk management expenses. The UM department now fully pays its own way and the investment fund, administered by a separate university department, tops $1.7 million.

UM also had to work to avoid the catastrophic loss in coverage that faced many universities and hospital groups in the mid-1970s. The medical malpractice crisis hit many medical groups hard but early planning and more insurer negotiation kept the college out of trouble.

"In 1976, our medical malpractice coverage was included with our comprehensive general liability insurance placed with Hartford," Mr. Ryan relates. "We negotiated the coverage out of the CGL policy and into a separate retro plan."

This was the first step in coping with a crisis that most medical risk managers were just beginning to divine. The separate policy was designed to allow the university to establish its own experience data for use in rate negotiating. It also caused the rates to jump.

The deposit premium for $4 million per occurrence in coverage jumped to $3.5 million, an outrageous cash outlay. Rate hikes like this drove many medical groups out of the commercial insurance markets and into captives or "bedpan mutuals." UM stayed with its insurer, despite the hike.

On the lookout for options, however, Mr. Ryan began a three-year study of captive insurers, culminating in a landmark study that spurred captive formation by several Eastern universities. UM rejected the concept at Mr. Ryan's recommendation, but he retains an affection and fascination for captives (see related story).

In 1977, UM began a patient-staff relations program aimed at cutting potential malpractice claims. The medical center began developing its own organized loss data that ranked ahead of the industry.

By 1981, the deposit premium for medical malpractice insurance dropped to $1.5 million and the university hospitals never lost occurrence coverage.

"We rode the crisis out," Mr. Ryan notes with pride. "We just went through a period when premiums were high. We didn't have to go to a captive or complete self-insurance.

"Now we are probably the last of the medical centers to take the traditional route, building self-insurance through a retro."

CNA now provides most liability coverages, including medical malpractice, comprehensive general liability and workers compensation. After a bit of explanation and negotiation, CNA extended liability coverage to genetic research and gene-splicing experiments.

"That's the great thing about Bill," noted Jack Dalrymple, assistant to the UM controller and Mr. Ryan's direct supervisor. "Whenever he sees the need for expansion of coverage, he goes out and gets it—written as broadly as possible. When we started getting into DNA research, we found that most of our risks were already covered."

Though the insurer was already on the risk, Mr. Ryan preserved the relationship by bringing the underwriters to campus to discuss the new risk. "After a tour and a few answers to questions, they found out that most of the risks they feared didn't exist," Mr. Ryan noted.

Relationship and communication take top importance with the UM risk management department and changes in broker and insurer come rarely. The university changed from Hartford Insurance Group to CNA only recently, spurred by CNA's offer to split investment income 50-50 with the institution.

Not dissatisfied with the Hartford service, Mr. Ryan hired the local Hartford claims manager as workers compensation claims administrator, part of a comprehensive workers comp loss control revamp.

"Divorces are expensive," Mr. Ryan explains. "We live very much in a glass house here and we do not competitively bid, so anyone can make a presentation to us at any time. But before I make a change, I want to see the cost figures, the reinsurance and the policy exactly as it would be issued."

Unlike some risk managers who produce coverage specifications drawn to the most minute detail and ask for an insurer to fill it, Mr. Ryan prefers a broad, conceptual set of specifications that allow the insurer to make a creative proposal with the broadest possible coverage.

Mr. Ryan treats brokers the same way. He claims to be open to anyone at any time, but once his choice of agency is affirmed, he gives his agent nearly free rein. Risk managers, he says, need their brokers for marketplace clout, and he leans heavily on UM's longtime broker Alexander & Alexander in Detroit.

"Pick an agent and let him carry the ball," he says. "That's the best method. We want to be involved in negotiations and I always sit in to answer underwriters' questions, but it's the broker that is exploring the market for us and we can't match his clout."

Insurance brokers, or agents according to Michigan state law, "are a major part of my communication and information network," Mr. Ryan adds. "Maybe I seem nosey about what's going on in the industry, but if some entity—an insurer or a consultant—talks to us, I want to be able to understand. I want to know what the problems are."

"A lot of our credibility in the insurance industry is a result of our openness," adds Mr. Dalrymple, "and Bill is responsible for that.

"If you keep lines of communication open, you avoid a lot of anxiety," Mr. Dalrymple said. "If you plan for the future and develop a flexible, comprehensive program the way Bill has, you aren't always rushing around trying to fill gaps."

And when the university needs insurance coverage for what it thinks is an unexpected risk, it finds out that, through some magic, the coverage is already there. ■

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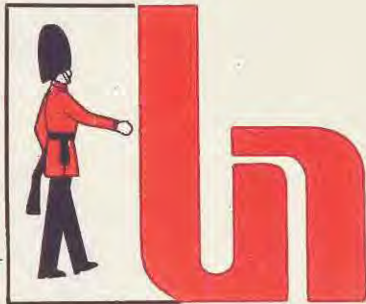

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Touring campus, Ryan traces his life

ANN ARBOR, Mich.—Touring the University of Michigan campus with risk manager William Ryan is like walking through a mansion with the latest in an old line of family retainers. His personal history seems intertwined with the institution.

"That's the original land grant of the college," he noted, pointing to a row of ancient buildings. "They call it the Square. But my great-grandfather used to graze horses across from it before the campus started to grow."

The university's insurance records provide more history. A 19th century boiler inspection certificate is the oldest document in the files and is hanging framed on the wall of the risk management office. The boiler has since been replaced and so has the insurance buyer of the time.

"I keep everything," Mr. Ryan says, "every certificate and study report. Someday, someone is going to want to know what Ryan did way back when in ancient history and they'll be able to blow the dust off the records and see. I'm a believer in the importance of history, and I want to keep everything for historical purposes."

A Michigan native, Mr. Ryan graduated from UM with a bachelor of arts degree in 1948 and later did graduate work at the University of Michigan Law School. Through a governmental miracle, however, he moved to Hawaii and developed his business expertise there.

"Someone decided to give a war and the federal government made me an offer I couldn't refuse," he jokes about the draft. "It seemed like the thing to do at the time."

Mr. Ryan returned to UM in 1968 as an insurance analyst, leaving grown children and, later, grandchildren in the islands. In 1969, he was promoted to insurance manager.

In 1975, the university added risk management to his title and a string of committee memberships that include responsibilities for OSHA compliance, fire protection, data systems security and medical malpractice loss prevention.

An industry leader, Mr. Ryan is a former director of the Risk & Insurance Management Society Detroit chapter, a present director of the University Risk Management & Insurance Assn., a director of the American Hospital Risk Management & Insurance Assn. and member of the National Task Force on Institutional Liability.

And he knows the University of Michigan with the intimacy most people reserve for their homes. Walking through a student residential area, he points to a boarded-up window. "There's just no need for them to go putting plywood up over broken windows. We can get it fixed today," he says.

Passing a rusting piece of "modern art" sculpture, he shakes his head. "It's insured for scrap value," he quips. "If there's ever another war, I'll personally donate it to a metal drive to show my patriotism."

A few years ago, his wife died in the Women's Hospital branch of the UM Medical Center.

"For a long time I didn't like coming up here," he said, pointing out the building. "But I'm really proud of the medical center."

The UM Medical Center is a big part of Mr. Ryan's future. Facing a giant construction task of what may be the largest medical center of its kind, Mr. Ryan is researching a wraparound performance bond program for the proposed project.

"It's still in the design and fund-raising stages," he explains, "but I've started working on the problem. I'm not sure it can be done with one program."

He points to the site from a high back road about a half-mile from the site. The new medical center will be a complete new campus.

"Considering that the funding isn't settled, we're not sure exactly how big it will be, but it sure will be a beauty." ∎

He's for captives, but not at UM

ANN ARBOR, Mich.—The University of Michigan may someday use a captive insurer to cover its multibillion-dollar risks, but probably not until its home state opens its arms to the captive concept, says risk and insurance manager William Ryan.

Though Mr. Ryan has avoided the captive concept completely in planning the college's coverage, his 1978 study of captives for nonprofit institutions is considered a landmark work.

The 1978 study, an end product of three years of research including visits to domestic and offshore captive markets, proved to Mr. Ryan that captives could work.

But UM stuck to its traditional retrospective rating plans and self-insured retentions.

"It may not look like it, but I really am a fan of captives," Mr. Ryan explained. "The simple reason we never chose a captive method is that we didn't have to."

When hospitals, medical centers and medical groups leaped to captives and mutual insurers, UM stood pat and never felt it had to form a captive (see main story).

"The captive is still a very viable concept for us and other institutions," Mr. Ryan says. "But the needs of a public institution are not the same as the needs of a big corporation. We wouldn't be looking for any kind of tax advantage.

"Any advantage we could get from a captive we are receiving now from our insurers due to our self-funding program. If there's ever a coverage that we suddenly need but find unavailable, I wouldn't hesitate to re-examine a captive for us.

"That's a big part of the risk manager's job, to constantly evaluate alternatives," he adds. "One of our major concerns is that we cannot defer the insurance premium into the cost of a product. Our most pressing concern is to bring the cost of education down."

The UM insurance program, modeled after a commercial insurance company, however, shows the continuing interest in captives. The university risk management department works like an informal captive, billing departments for coverage and establishing reserves.

"I do like the captive approach, and I can see the advantage of having a mechanism in place in case you have to move fast to provide a specific coverage. But what I would really like to see is a change in the Michigan insurance laws with regard to capitalization and underwriting ratios to allow domestic captives here. If we ever established a captive, I'd like to see it in Michigan." ∎

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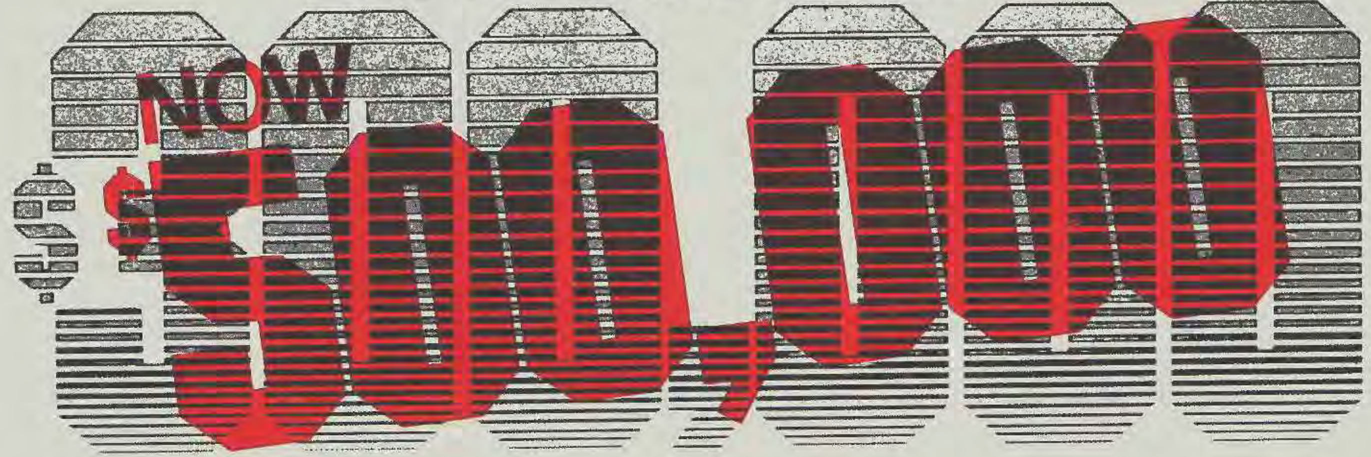

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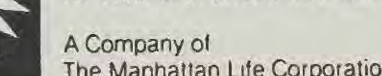

Methodically, Bieber builds county plan

By STUART EMMRICH

WHITE PLAINS, N.Y.—It was a little after 7 p.m. and Bob Bieber had just dismissed the risk management class he teaches at a local school.

As he got into his car, he automatically switched on the police radio.

"There was a lot of action on the radio and I knew something was up," Mr. Bieber recalls. "I called in and found out they had been trying to reach me for some time.'

The reason: a crash at the Westchester County Airport Feb. 11 that killed the chairman of Texasgulf Inc. and six aides.

Within minutes, Mr. Bieber was at the airport coordinating the flow of information at the communications center set up to monitor what turned out to be a futile attempt to rescue the seven men.

Control headquarters might seem an unlikely place for the risk manager of Westchester County, but Mr. Bieber's duties are far beyond the purchase of insurance. That helped him win a spot on the 1981 Business Insurance Risk Manager of the Year Honor Roll in the public entities category.

He also is the county's disaster director, responsible for coordinating action in an emergency, a job that comes from his training in emergency medical services.

If there is an accident at the airport, a major fire in the county or a disaster that requires evacuation, Mr. Bieber is among the first people on the scene. His job is to make sure the appropriate people are carrying out their responsibilities.

Dashing to disasters suits Mr. Bieber, a man who can't sit still even during the day in his office. If he isn't pacing the small, white office on the seventh floor of the county building, he is thrusting back in his chair, engaged in vigorous discussion with his broker for the property insurance on the county's recreational facility.

Or he is digging out his files to check the medical malpractice insurance on the county's 800-bed hospital.

The next minute he dashes out to his assistant with the computer printout on the county's workers compensation claims. Claims are going down.

Another phone call: this one from the executive director of the Public Risk & Insurance Management Assn., the national organization of public risk managers. She wants to discuss a seminar for the next annual meeting.

He's up walking again—and glancing out the corner window toward the nearby county courthouse recently made famous by the Jean Harris murder trial.

Spinning in this whirl of activity is a methodical man who has gradually, analytically and confidently put together from scratch a highly effective insurance and loss control program for this populous county north of New York City.

From its $420 million budget, the county allocates $85,000 to $90,000 to the administrative budget of the three-person risk management department.

The management of the county's liability insurance program—which covers general liability, workers compensation, auto liability, medical malpractice and other liability exposures except for political officials' acts—exemplifies Mr. Bieber's methodical approach.

At policy renewal time last year, he considered changing a three-year retro program with Liberty Mutual to self-insurance.

The premiums might be better spent on paying off losses and playing the investment market, he figured.

But after looking at several proposals, Mr. Bieber chose to stay with Liberty Mutual in a program that straddles the line between its old retro policy and going self-in

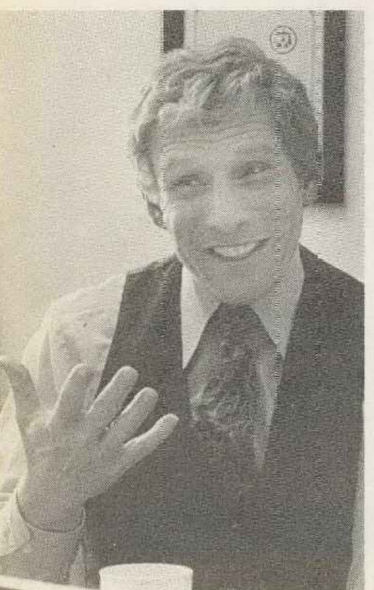

Photo: Stuart Emmrich
Bob Bieber is familiar face at Westchester disaster scenes.

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CONTRACT NO. 5854-02 CONTRACT PERIOD 01 78 TO 01 78
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1 LACERATED FOOT 46 CLOSED
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AICO10 COHEN S FROM ELEVATION 46 CLOSED
1 SPRAINED BACK MS 46 CLOSED
AT001 TOTAL 05 30 75 MS 46 CLOSED

sured. Under this selective cash-flow program, the county projects that it will save $900,000 the first year, with interest in the program ultimately yielding county coffers $7 million to $14 million over 10 years.

The county pays $3.6 million in premium, $2.3 million of which has been projected to cover losses, fixed and variable expenses and the cost of excess insurance. The $2.3 million is deposited in a trust fund from which the insurer will draw $56,000 monthly. In the meantime, interest on the money goes to the county.

Coverage reaches $1.5 million, with an umbrella policy providing another $20 million. The first $150,000 of losses is retained by the county.

Mr. Bieber freely admits that he is looking at this program, which will be reviewed at the end of the year, as a possible intermediate step to going self-insured.

"I have always taken a very conservative approach on how to proceed from one step to another," he says.

Excess insurers on the policy are New England Reinsurance Corp. and Fireman's Fund.

No broker was used to place the account with the direct-writing Liberty Mutual. "Brokers do bid and it's not that we don't like them and don't think they have valuable services to offer. We may in fact decide to use one some day, but for now, I think this office can handle it," he says.

The same sense of reaching for innovation, but not grasping for it haphazardly, also played a part in the county recently pulling out of the New York state health plan for its group health coverage.

For the last couple years, rates had been steadily increasing under the program administered by Blue Cross/Blue Shield. Westchester County, like other state municipalities, was getting more exasperated, not only about that trend, but also because it was impossible to get loss experience from the state.

After looking at several alternatives, including going self-insured or switching to a private carrier, Westchester decided to stay with Blue Cross/Blue Shield, but individually.

The county still had to pay higher premiums, but lower than under the state plan. More importantly, the county was guaranteed access to loss figures and the right to take over much of the administration of the program, including coordination of benefits. These changes will make it possible for the county to self-insure at some point.

The switch is being watched very closely by other state municipalities increasingly unhappy with their experience with the state plan (*BI*, Nov. 24). It also has sparked a lot of interest among municipalities in Westchester County.

"The first thing local governments wanted to know was if they could get in the county program," Mr. Bieber said. "We told them to at least give us a year to see how things worked out."

Looking at the county's workers compensation programs, Mr. Bieber had two aims: lower reserves and reduce losses. Both goals are being met.

Mr. Bieber initiated a claims control service in which the county and the insurer get together on a quarterly basis to check the reliability of reserves set up by the insurer. In the last four years, this process helped cut the size of the reserves by $1.5 million.

'I've always taken a conservative approach.'

"We discuss each case that I want to review and I question their reserves if I think they are too high. We negotiate back and forth, sometimes I win, sometimes they do. But now it is an established policy," Mr. Bieber says.

Getting losses under control was a more massive task, considering the size and the complexity of the county government.

"In the corporate sector, loss prevention is usually handled by a safety director. We looked at the county and decided something like that was not feasible.

"You can't have one safety director go into a hospital, the police department and the recreation department and teach them all the same things about safety control," he says. "I can't expect the safety director of the recreation department to go into the police department and put in an effective loss control program to meet that department's specific needs."

Instead, Mr. Bieber designated a safety director for each department, who was then trained in loss and safety control and expected to report to his department head and Mr. Bieber.

The county also stepped up its own safety and loss control education programs, including such things as how department heads should handle a workers compensation claim.

"We told them not to play doctor," he explains. "You don't write on a report 'Man had heart attack.' Just describe exactly what happened."

The county estimates that within 1½ years of instituting the program, it cut the severity and frequency of its losses by almost $600,000.

Perhaps the best test of Mr. Bieber's methodical approach to his job was winning over a sometimes suspicious labor force—civil

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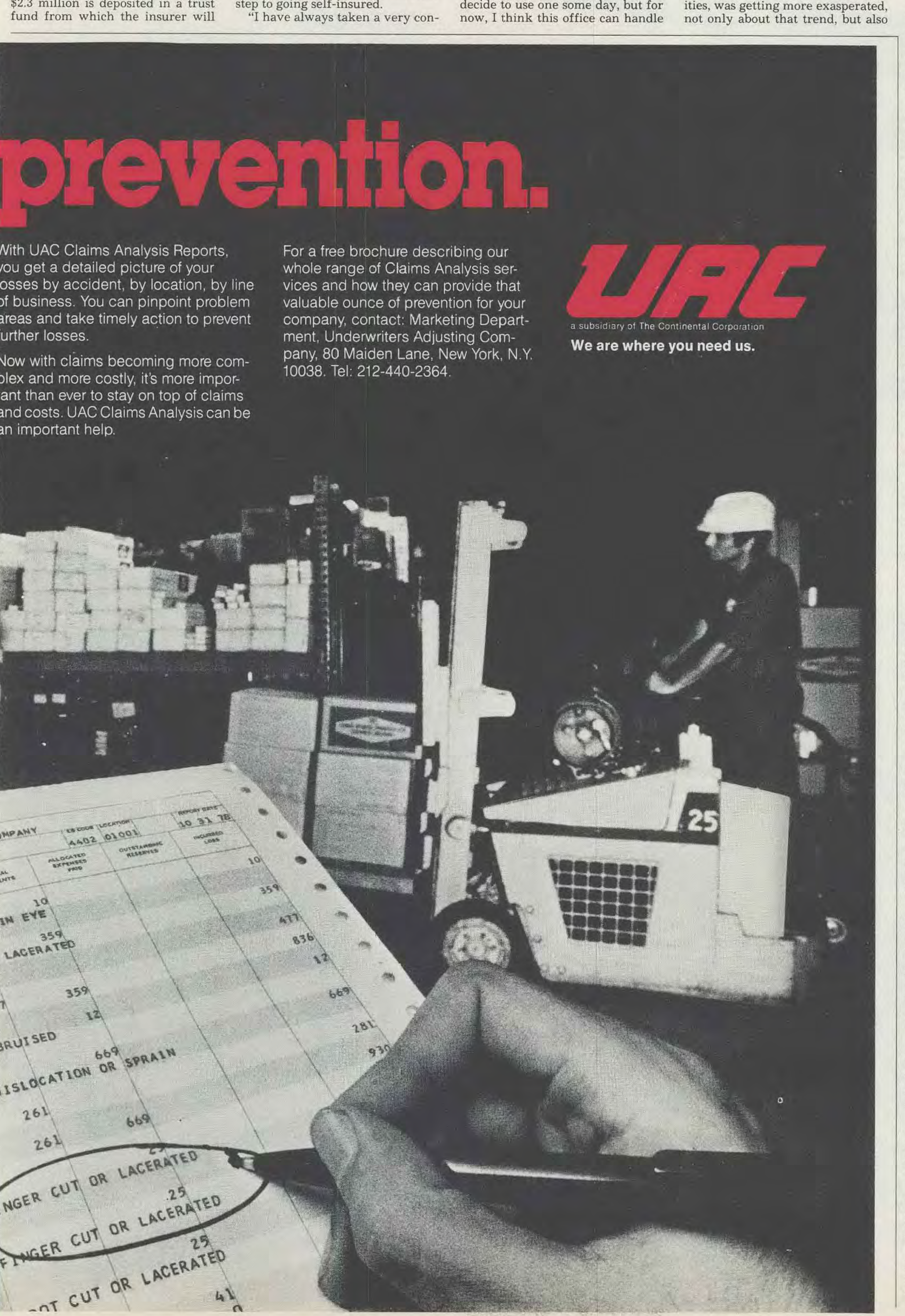

Stepping out of character to prove a point

Sometimes the methodical Bob Bieber steps out of character.

In his early days with Westchester County, he suspected there was no clear-cut program for monitoring the county offices in the event of a fire and no one who would take charge in such a situation.

So he pulled a false alarm to see what would happen in such an emergency.

Chaos ensued. No one panicked enough to cause problems, but it was clear that the county needed someone to put together a workable plan.

Mr. Bieber got the job.

'You can't shove this stuff down people's throats'

Continued from previous page

servants who had been there before he came, knew they would probably still be there after he left and had no idea what risk management was.

"I found that constant communication was going to be the key to getting things done. You can't shove this stuff down people's throats," he says.

"It can be a long process, but once you gain their confidence, they will open up to you and that is when you can really get to work."

The best way to gain workers' acceptance of risk management goals is to "come up with something that can show very quick, positive results," Mr. Bieber said.

He tried this with a simple directive that employees' driving records would be checked to keep those who were accident-prone or had bad records off the road

"There was a lot of resistance at first from the unions. But we were able to convince them that it would be good for both the employees and the county. And the fact that we were able to reduce workers compensation and accident losses within a short period really helped."

The county's vast property holdings are insured under a policy with Improved Risk Mutuals that provides replacement value coverage to $272 million. The policy, costing $195,000, carries a $50,000 deductible. It is brokered by Knox, Lent & Tucker.

A comprehensive crime policy covering possible thefts by county employees is written by Fireman's Fund, with limits of $250,000 and excess of another $250,000. There's a deductible of $1,000 on the policy that costs $6,000.

Boiler and machinery is covered by Hartford Steam Boiler, up to $15 million per accident with a deductible of $10,000.

Not all the risks of a huge county such as Westchester are run-of-the-mill exposures.

There is a $25 million airport liability policy to cover the county's exposure at Westchester Airport, the third-largest in the state. Purchased through Pan Am, which manages the airport, the policy is written by American Home, Southern Marine & Aviation, La Concorde Aviation Assn., the Assn. of Aviation Underwriters and Lloyd's of London.

Welfare recipients who have to work off their grants are covered under a special workers compensation policy written by Liberty Mutual that costs $15,000 a year.

Volunteers who provide services to the county can get up to $10,000 for loss of life or limbs under a policy that cost the county $1,000.

Artists aren't forgotten by the county. Any piece of work that is loaned or rented to the county for display in public buildings is covered by a $150,000 policy written by INA that costs $528 a year. ■

Photo: Stuart Emmrich

There's room for some laughter when Bob Bieber works with his staff members Arthur Harris, director of risk management, and Grace McPolin, administrative assistant.

On the scene...

with Sherwood.

Company President Don Sherwood (center), and Account Executives (left to right) Bob Linder, Bill Booth, Owen Hakes and Jim Barnes discuss a client's risk.

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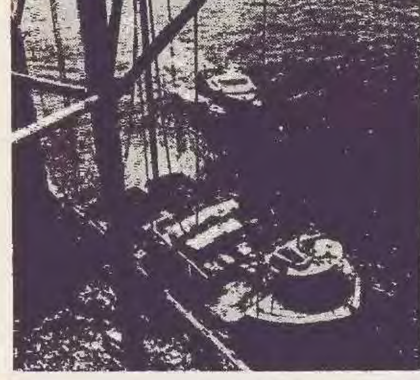

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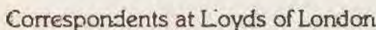

Bieber pioneers risk management for governments

WHITE PLAINS, N.Y.—"Government risk management is still in its infancy," says Westchester County risk manager Bob Bieber.

If that is the case, he's one of the midwives.

Eleven years ago when risk management was just beginning to make significant inroads in private industry and the concept was as novel as balanced budgets to local governments, Mr. Bieber took up the reins as insurance administrator for the city of Yonkers, N.Y.

Three years later, after putting together comprehensive insurance and self-insurance programs, setting up a system of loss control and reducing the city's total insurance cost by $250,000, he moved on. His new, bigger task would be to create from scratch a risk management department for the huge Westchester County government.

"In the beginning there was just me," Mr. Bieber recalls. "Before I came, a county lawyer reviewed insurance contracts and made sure we had coverages, but there was

'Government can be more challenging.'

no one really involved in what you could call risk management."

The county's risk management department is still small—three people—but its size belies the enormous influence it has on the county's 35 departments, 94 local municipalities and school districts and 13,000 employees.

Much of that credit goes to Mr. Bieber, a young-looking 41-year-old with wavy red hair and a tendency to wax enthusiastically about government risk management when given the chance.

"I really think that government risk management can be more challenging than risk management in the private sector," he says.

"Let's say you work for a manufacturing firm. All you really get involved in are manufacturing-related risks. But here my job involves one of the largest medical centers in the area, a modern water treatment facility, the third-largest airport in the state, law enforcement agencies, a parks and recreation department, a huge amusement park and an annual county budget of $420 million."

"That is the exciting part of the job—the many disparate parts of the exposure," he says.

It is an opportunity that is opening up more around the country.

"There has been an enormous growth in the number of government risk managers in the past five years," says Natalie Wasserman, executive director of PRIMA, the Public Risk and Insurance Managers Assn.

Although there are no statistics available on the number of government risk managers, PRIMA has grown to 600 members since forming in 1978. Some 100 joined the organization last year alone.

Mr. Bieber, the second president of PRIMA and still an active member, says the challenge of forging new ground is beginning to attract very talented people to public risk management.

"It is very exciting, especially at the beginning," he says. "You start at zero with nowhere to go but up. You can take a nothing program and make it really dynamite," Mr. Bieber enthuses.

What makes public risk management an especially rewarding profession, Mr. Bieber says, is the close bond among government colleagues. Public risk managers are concerned with the overall concepts of risk management, but particularly are interested in the civil servant factors of their positions. As the number of public risk managers has mushroomed, the need for constructive advice has grown.

"We may not see each other physically that much, but we talk to each other constantly," Mr. Bieber says. "People from all over the state or the country are always calling to ask how are you doing this or that, trying to find out how we can help each other solve similar problems."

Mr. Bieber is involved on various PRIMA committees, is planning a seminar at this year's annual meeting in Denver and is also trying to develop in New York state a committee of people in risk management who also have safety duties.

Although he praises government risk management, Mr. Bieber admits it is a job that often depends on the political whims of the party in power. If the right corporate job came along, he wouldn't automatically say no, he says.

"There is not a lot of growth potential in government," he says. "Corporate risk managers can always aspire to be top financial officers," he says. In government, those jobs often go to political appointees or elected officials.

But Mr. Bieber is trying to expand the concept of risk management in Westchester County to allow himself to head a major department encompassing risk management, emergency services and safety direction. That proposal is still in the talking stages, he says.

"People are beginning to appreciate that the risk manager is someone who can save a lot of money for government," he says. "Salaries are beginning to pay almost equal that of the private sector, with many people earning around $35,000," he says.

"Sometimes people, especially in the private sector, don't realize that people government can be just as professional.

That is changing, though, especially among people at the higher financial levels. We are making sure of it." ▪

As risk manager of Westchester County, Bob Bieber has an airport to worry about, too.

What the judges said

Judges' comments on Bob Bieber included:

"Creative accomplishments appear to be excellent."

"Mr. Bieber is without question one of the foremost government risk managers in the country."

"One of the better governmental risk managers."

"Good RM techniques and problem-solving."

"A good record overall. *Excellent* in some areas."

"Well-rounded risk management effort."

Escape Breathing Mask will save lives in hotel fires.

PITTSBURGH, PA — National Draeger, Inc. has introduced to the United States a new type of escape breathing mask which could save lives in the event of hotel or motel fires.

The PARAT mask was developed because statistics reveal that the majority of deaths in hotel fires result from breathing carbon monoxide and other noxious fumes, rather than from direct burns. The unit is used in Europe, particularly so where zoning laws require such a device be available in hotels. The PARAT mask allows individuals to avoid panic, to stay conscious and to follow instructions of the firemen.

When the PARAT system is used, a mask is held in a wall-mounted container. If a fire is suspected, the room occupant opens the container, dons the mask and begins breathing normally. The mask covers the entire head, protecting long hair, beard and spectacles.

PARAT provides a minimum of 15 minutes of safe breathing in the presence of carbon monoxide and noxious fumes, such as hydrogen cyanide and hydrochloric acid — as long as sufficient oxygen is present. The unit includes a filter for smoke and combustion gases which contains a special chemical which protects against the gases and fumes.

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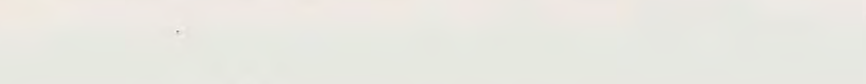

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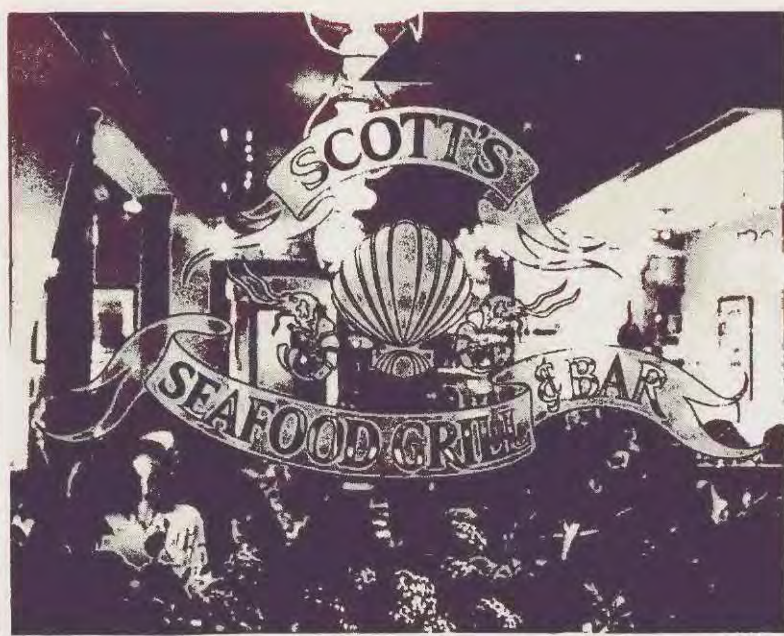

The seafood gets an excellent rating at Scott's Seafood Grill & Bar, located at 2400 Lombard St. and 3 Embarcadero Center.

Feast yourself on fine dining during RIMS

By CAROL G. BLITZER

SAN FRANCISCO—Ask a half-dozen risk managers a simple question, and you can bet you'll get a variety of responses. But ask them about their favorite place to eat in in San Francisco, and the number of answers is mind-boggling.

Of course, in San Francisco the question isn't really all that simple: Do you mean favorite all-around restaurant, favorite Chinese, Italian, you-name-it ethnic, nicest ambiance, best view, most authentically San Francisco, or what?

To aid the RIMS members in town this week for the Risk and Insurance Management Society annual conference, the Northern California RIMS chapter has prepared a pocket-sized, 11-page pamphlet with information on close to 100 restaurants, said Marge Layne, risk manager for California and Hawaiian Sugar Co. and conference chairperson.

Beginning with the restaurant guide published by the San Francisco Convention Bureau, committee members went through and struck the turkeys and retained what they believe are the cream of the crop. "We tried to include everybody's favorite," Ms. Layne says.

The guides will be in guest bags and extras, along with city maps, will be available at the information booth.

To help narrow the field even further, *Business Insurance* asked several local risk managers to name their favorite eating places.

Ralph Perry, assistant vp and director of risk management for Amfac Inc., says Julius Castle has it all—uniqueness, tradition and a marvelous view of the bay.

The restaurant specializes in veal, but also has entrees of steak, lamb, and a variety of fish (including salmon, petrale, sea bass and snapper) and salads.

For lunch you can expect to pay $7 to $8, and dinner runs about $25.30 per person without drinks.

Mr. Perry also praises Ruby's at Fourth and Brannan, noting it has "superb food and it's fun." For lunch, he recommends Jack's at 615 Sacramento, Sam's (Sam's Grill and Seafood Restaurant) on Bush and Bardelli's at 243 O'Farrell.

Another spot with a memorable view of the bay is The Waterfront, located at Pier 7, Broadway and Embarcadero, says Thomas Lister, manager of the insurance division of Standard Oil. The Waterfront primarily features seafood, but also throws in a New York steak and sirloin, pastas and salads. Nightly specials often include veal and shellfish. The average check at The Waterfront runs $12 for lunch and $18 for dinner. Reservations are recommended. Large groups can be accommodated.

For the true flavor of San Francisco, you can try the Tadich Grill at 240 California in the financial district, suggests John Foudy, insurance manager for Foremost-McKesson Inc.

Tadich's has been around since 1849 and some nights it feels like you've been waiting that long. Tadich's does not take reservations and you can expect to wait at least an hour during peak times. (The manager suggests coming between 2 and 5 p.m. for a short wait.) However, once you get past the sardine-packed waiting area, the seafood is wonderful, both in flavor and variety, and the decor is delightfully turn-of-the-century. Entrees average $8.50.

Sam's Grill on Bush also offers an extensive seafood menu beginning at $6. Again, no reservations are taken and the wait varies. But get there early, because it closes by 8 p.m.

Mr. Foudy also notes a new restaurant called Donateloo at 501 Post St., La Bourgogne at 330 Mason for excellent French food, The Shadows near Coit Tower for German food and The Mandarin at Ghirardelli Square for Chinese food.

For lunch, he favors Graziano's at 453 Pine, formerly called Marciano's. He says the Carnelian Room at the top of the Bank of America building is great for a cocktail, but you can skip the food.

Other interesting drinking spots are Paoli's bar and The Royal Exchange.

For a good Italian dinner, W.P. Noone of Pacific Gas and Electric Co. recommends the North Beach Restaurant on Stockton. Although noted for its veal specialties, the fish is fresh off the restaurant's own boat. A full seven-course dinner runs $13 to $15. Reservations

for three or more are required.

A second favorite he recommends for out-of-towners is the Garden Court of the Sheraton-Palace Hotel. Besides offering a sumptuous breakfast buffet, the restaurant is in a historical San Francisco building.

Bill Leder, assistant risk manager for Mattson Lines, seconds the suggestion on the North Beach, and adds Kan's 708 Grant Ave. for Chinese food, Schroeder's for German and Ceasar's.

If you enjoy watching the cook preparing food, Gary Lindsey of Itel Corp. says Vanessi's at 498 Broadway is the spot.

He also notes The Coachman at Washington and Powell for not-too-hot English chicken curry. For the very hot, he suggests trying the Hunan.

If you want to escape to a small restaurant, good for talking, Mr. Lindsey says Judy's at 2268 Chestnut or the Chestnut Grill at 2231 Chestnut are appropriate.

For a romantic interlude during the week, Rue St. Pierre at California and Pacific is an ideal, lovely French restaurant, says Dick Soper of Levi Strauss & Co. He suggests trying the pink lamp chop in Wellington pastry.

Another classic for continental cuisine is The Big Four, which sits atop Nob Hill, and is named for California's robber barons. Mr. Soper adds that the Nob Hill Cafe is a real sleeper with only seven tables, but it is a unique experience.

For elegance, he suggests Le Club at Clay and Jones, which he describes as "the ultimate." For casual fare, he suggests the Washington Square Bar and Grill or Mama's for a brunch or light lunch.

> If you're into squid, Scott's Seafood Grill & Bar can fill your order.

Gary Perusse, risk manager for Bay Area Rapid Transit, says that the seafood at Scott's Seafood Grill & Bar is excellent. There are two locations: 2400 Lombard and 3 Embarcadero Center.

Its specialties include seafood saute (crabs, scallops and prawns in a meuniere sauce), a fisherman's stew (same as above but in a less fattening broth) and petrale. Out-of-towners might want to try calamary—squid—with lemon and garlic. Or you might want to gorge on Seafood Louis.

Entrees range from $4.95 to $14 (for king crab and filet mignon). No reservations are taken. If you're planning to come in a large group, the restaurant at Embarcardero Center is the one you want.

For a more unusual dinner, Mr. Perusse suggests Mamounia on Balboa or Yamato's on California Street.

If you're willing to leave the city, you might want to try Mr. Perusse's favorite—Le Camembert in Mill Valley. He says the food is good, the place is quiet and the prices are moderate.

A quicker trip across the bay via ferry takes you to Sausalito where you'll find Ondine's and the Alta Mira for fine food plus views of the San Francisco skyline.

In the East Bay, Spenger's in Berkeley has fantastic seafood, says Roger Anderson of Shaklee Corp. Again no reservations are taken.

And if there are any mild evenings left on your San Francisco tour, you might like to swing over to Jack London Square in Oakland. ■

Photo: The Waterfront Restaurant

For a view of the bay and some excellent veal and shellfish specials try The Waterfront Restaurant at Pier 7, Broadway and Embarcadero.

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Captive conference

Foremost-McKesson gets out

BY KATHRYN J. McINTYRE

HAMILTON, Bermuda—Foremost-McKesson Inc. has two fewer people in its risk management department and $1 million more in revenues since it drastically reduced use of its captive insurance company.

The company instead is self-insuring and buying insurance in the commercial marketplace, relegating Golden State Insurance Co. Ltd. to underwriting a small portion of the company's primary and excess casualty program for less than $1.5 million in premiums.

Just 3½ years ago, Golden State participated in the insurance of every company risk except boiler and machinery and was a member of two International Risk Management pools, Hopewell and United. It had annual premium volume of $7.5 million.

"I believe in captives. They are a valuable risk management tool," said assistant treasurer and director of risk management Alan Pearce, who dismantled the company's captive program. "But they must be compared to other risk financing alternatives.

"Sometimes, risk managers become complacent."

Mr. Pearce detailed the price and profit motives behind his decision to revamp use of Golden State during the Fifth International Captive Insurance Company Conference sponsored here by the Risk Planning Group. The captive's usefulness came full cycle in almost 10 years.

The distribution company first considered a captive on the recommendation of a broker with a management company subsidiary. The broker had proposed a captive to cut 35% off the company's $700,000 cost of property insurance.

The company's premium was high, Mr. Pearce noted, because only 60% of its property qualified as HPR (highly protected risk) and the rest was "mediocre to real dogs."

A general management consultant was hired to consider the broker's recommendation. Confirmation led to the creation of Golden State in 1972 in Bermuda.

A property insurance program was constructed as: $25,000 deductible, the next $75,000 with the captive for 75% of the premium and the excess limits reinsured for a 15% ceding commission. Net savings: $135,000 after management and other costs.

The company never considered self-insuring the first $100,000 of property risks because the president had said it would be folly for Foremost-McKesson to retain $100,000 of risk.

Pearce

In 1972, the first $100,000 of marine cargo risk, which averaged $20,000 annually in losses, was added to the captive for 80% of the $150,000 premium. Reinsurance cost about $30,000. Savings: $100,000.

In the first five years, there were no significant losses.

Primary casualty risks were added in 1977, taken out of the cash-flow standard retro the company had negotiated with a commerical insurance company. The captive saved the company $300,000 in the first year just by reducing the fees and expenses under the retro program with a $4 million standard premium and $1 million expense charge.

Excess casualty insurance was added, too, after the company had been denied coverage in 1976 by the tightened commerical market. Although 100% of the first excess layer was insured directly with the captive, 90% was reinsured.

Golden State also started underwriting unrelated risks by participating in two reinsurance pools, Hopewell (1972) and United (1977), organized by International Risk Management.

"It was fashionable, an opportunity for profit and a response to Internal Sevice Revenue Ruling 77-316," observed Mr. Pearce.

Among the 100 reinsurance treaties Golden State insured through United was one from a reinsurer writing the company's excess liability insurance.

When Mr. Pearce arrived in late 1977, the company was writing $7.5 million in premiums against capital and surplus of $2.4 million.

He first re-examined the property insurance program, which carried a net cost of $960,000 even though the company had increased its corporate deductible to $400,000 and the property had been upgraded with new plants meeting HPR standards.

"I looked for a lower rate from the reinsurers, but was unsuccessful," Mr. Pearce noted.

He sent a broker into the market looking for coverage meeting three conditions:

- Placed with two insurers.
- A five-year guaranteed rate.

Continued on page 103

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Republic Steel moves in

HAMILTON, Bermuda—Republic Steel Corp. is forging ahead but missing one ingredient for its plan to mold an insurance subsidiary with underwriting, broking and captive management operations.

The missing ingredient: a broker.

Republic designed a joint venture late last summer with Hogg Robinson, its long-standing broker for international risks. The goal: to get into the brokerage business via Republic Hogg Robinson. However, no brokerage firm has been purchased yet or staffed to begin the work.

Industry sources say Republic is still looking for a brokerage firm to purchase, but Mr. Cline declined to confirm the company's plans.

The captive management venture in Bermuda, however, is progressing, and the company's captive insurer is expanding its unrelated risk underwriting, Mr. Cline said.

The corporate risk manager, who is also an executive of the Republic Steel Services Group Inc. created to take Republic into the insurance business, defends the integration of insurance services within one company.

"I think the insurance industry is in a changing mode," he says. "While there may be conflicts in brokers owning insurers and vice versa, we will see more and more vertical integration. We'll see brokers and insurers buliding links, probably in the form of equity.

Cline

"We hear that insurers are already looking at brokerage companies with an interest in taking an equity position. I think that's the future of the business.

"If you're going to get into the business, you have to look toward the future. We don't want to be a 'me too.' We want to be leaders as opposed to followers—conservative leaders, but nevertheless leaders."

Cedar Hill Management Ltd., which now manages Republic's captive Kingsley International Insurance Ltd., is recruiting captive clients to manage and expects to pick up two more in the next two months.

Kingsley, meanwhile, is expanding the amount of unrelated risks it writes to $1.5 million of its $6.5 million premium volume. The unrelated risks are reinsurance of U.S. and U.K. reinsurers.

The captive also plans to pick up a quota share reinsurance treaty on a mass-marketed personal lines program that is on the drawing boards to be marketed to Republic employees and available to other employers.

The program would provide employees, through a payroll deduction plan, a package for home,

Continued on next page

IBA carves a niche

HAMILTON, Bermuda—A small business advocate is tussling with state and federal laws to provide reasonably priced health and life insurance to small businesses in Michigan.

So far, he's on a winning streak.

Under a self-insured trust and an association-owned mutual insurance company, 2,000 small businesses in Michigan are saving 10% to 15% on group health benefits and receiving claims payments within 10 days. Rate increases, when needed, aren't a shock either under a triannual rating plan.

Sanford

A captive insurer to underwrite life insurance for additional savings also could be activated.

The efforts of Richard B. Sanford, president of the Independent Business Assn., illustrate that the corporate risk-financing alternatives employed by major corporations can be used to benefit small businesses, too.

Funding alternatives for group benefit plans were sought by IBA for the same reason major corporations have started self-insuring and forming captives: cost.

"Small business people are misused by insurers," Mr. Sanford said in a speech at the Risk Planning Group conference. "Associations and their members are at the mercy of insurance companies' rating and renewal practices."

There was no mercy in 1974 when IBA was told rates for its group health insurance program would go up 30%, even though its claims' experience was less than 40% of premium.

"Small businessmen don't get sick. They can't afford it," Mr. Sanford explained. "And the people who work for them tend to have the same attitude."

Mr. Sanford, who at one time owned a string of small agencies in Michigan, recommended the association self-fund its group health insurance plan. Lafayette Life Insurance Co. agreed to provide the group with stop-loss insurance and it underwrote the group life insurance plan.

Costs were lowered 10% to 15%, claims were paid more quickly and the group had established reserves. The trust applied in 1975 for standing as an ERISA plan to exempt it from state insurance regulation.

Enter government regulators in 1978. "We were doing something successful so they wanted to talk," Mr. Sanford quipped.

He conceded that regulatory interest in IBA's self-funded group trust was spurred by the number of such trusts that had been poorly organized and managed by agents interested in big commissions.

IBA, however, allowed only independent agents who joined its association to market the plan to members for a flat 10% commission.

Continued on next page

Conference observations on captive insurers

HAMILTON, Bermuda—Felix Kloman was in charge of the weather during the Fifth International Captive Insurance Company Conference his consulting firm sponsored in Bermuda March 23-25:

The sun didn't come out until he finished his remarks at the end of the last session.

Mr. Kloman, president of Risk Planning Group of Darien, Conn., and considered an innovator in the field of risk management, summarized the observations of speakers who addressed more than 200 conference registrants:

Kloman

- Captives are feeling their oats. They aren't fearful of scrutiny, are much more confident of their financial stability and are more aggressive in taking their place in the commerical insurance industry.
- Legal and tax issues involved in using a captive are still muddy.
- Regulation will be more reasonable.
- Captive funds should be invested cautiously, recognizing the need for relative liquidity, with the counsel of professionals.
- There will be a fallout of financially unstable captives, but the tendency of captives to underwrite to a premium-to-surplus ratio of one-to-one shows strength.

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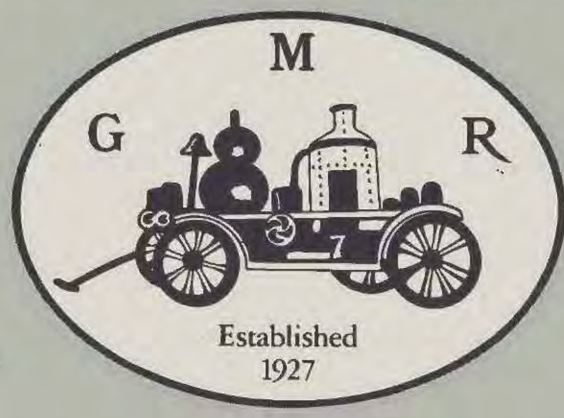

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Republic Steel still seeking broker for captive venture

Continued from previous page
auto, personal umbrella and personal inland marine insurance.

The employees would benefit from reduced prices won with group purchasing power, purchasing ease through payroll deduction and improved service with a 24-hour hotline to add and delete coverage and handle claims.

A major U.S. insurer would underwrite the program, ceding a quota share to Kingsley. Federal regulations would not prohibit the reinsurance of this employee benefit with offshore insurance companies because the product is not an ERISA-ruled plan and will be fully paid for by the employee.

Kingsley will benefit from the addition of unrelated risks to underwrite.

Any other company that maintained its own captive insurer could offer the program and also reinsure it on a quota share basis.

Insurers and brokers consulted by Republic have been talking about the plan with other employers who are interested, Mr. Cline said. If the right program is created, Kingsley may end up reinsuring a share of another employer's program before the benefit is introduced at Republic.

Republic, which generated $3.7 billion in sales in 1980 from shipping, railroading, aircraft and steel production, is venturing into the insurance business after hammering out a comprehensive business plan with the aid of insurance industry analysts Conning & Co., Mr. Cline stressed in a speech to the Fifth International Captive Insurance Cos. Conference held here late last month.

In March 1977, Kingsley was providing the services inherent in using a captive insurance company. It underwrote general liability insurance, which was too high priced by the commercial market for too limited coverage, Mr. Cline said. It saved Republic $300,000 over three months as the reinsurer of workers compensation insurance for a coal-mining subsidiary and provided the clout to drive the price of annuities needed for employees of a foreign subsidiary.

Republic pursued expanding Kingsley in 1978, hiring Conning & Co. to develop a business plan. The plan, accepted in 1979, outlined underwriting guidelines, investment policies, provisions for financial and operating reports, cash control policies, retention and reinsurance guidelines, claims policies, management and organizational structure.

Republic Steel Services Group was created two years ago to act as "buffer layer between the parent company and the clients," noted Mr. Cline, who is vp-insurance operations for the new group and continuing as director of risk management for Republic Steel. The services group now owns Kingsley and is the participant in the joint venture with Hogg Robinson.

Mr. Cline devotes two-thirds of his time developing the new insurance services venture and one-third on Republic Steel's risk management programs, which are implemented by a staff of seven.

Many risk management-related functions at Republic are under the purview of other departments, including safety, industrial health, workers compensation, medical and security. The directors of each department meet regularly as members of the risk management committee, chaired by Mr. Cline, to review Republic's programs.

"The risk management organization is in place and functioning," Mr. Cline said. ■

Finds niche

Continued from previous page
When the Department of Labor finally refused in 1979 to grant the trust standing as an ERISA plan, Mr. Sanford and the Michigan attorney general hammered out a way to save the trust program.

The trust became IBA Mutual Insurance Co. on July 1, 1980, under a seldom used provision of Michigan law. The mutual, however, was restricted from underwriting life insurance.

The association wouldn't give up trying to recapture some of the $178,000 underwriting profit (after a 25% retention) on the $50 million of life insurance purchased by its members.

The association decided to form a Cayman Islands-based captive insurer to underwrite life insurance for its members with $50,000 in capital from the group dividend stabilization fund reserve account. Aggregate and specific stop-loss insurance would be purchased to protect the capital.

But the captive never started underwriting life insurance for the members.

For the first time in 11 years, the group's profitable experience turned into losses on unprecedented accidents among policyholders.

The insurer started to pay losses out of the stabilization fund, reducing the capital available to fund the captive.

At the same time, IBA learned that ownership of the captive could jeopardize its tax-exempt status.

As the association restudies the captive life insurance company proposal, which met some member resistance because of concerns about reserves, it is considering changing ownership from the association to IBA Mutual Insurance Co. to avoid problems with the IRS.

If he had it to do over again, Mr. Sanford said he would look into a rent-a-captive arrangement to avoid ownership problems, save on start-up costs, tap insurance expertise and avoid IRS concerns.

A rent-a-captive arrangement, however, would not provide the association with the public relations benefit of having its name on the insurance policy, would take some control out of the hands of the association, could be less flexible and would add another layer of management to be involved in the making of any insurance decisions. ■

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Golden State dismantled

Continued from page 100

• Non-cancellable policy.

The proposal presented was close. The coverage was split between Mission Insurance Group and Aetna Insurance Co. for a three-year rate (which has been extended), but the policy is subject to cancellation with 90-days notice.

Cost: $450,000, for a savings of $510,000 on the fire and extended coverage insurance.

Marine cargo insurance came up next for scrutiny. The risks hadn't changed much. The company still averaged $20,000 to $25,000 in losses. But only three losses had exceeded the captive's $100,000 retention, with $300,000 the largest.

"So I canceled the reinsurance contract and pulled the risk out because it is more convenient to self-insure," Mr. Pearce explained.

Excess liability insurance with the captive passed Mr. Pearce's test for efficiency. "I was so pleased with it, I expanded it."

The captive underwrites $20 million of the company's liability insurance: $10 million excess of $5 million and $10 million excess of $30 million. The intervening layer is insured in the London market.

The fronted workers compensation and auto liability insurance program was now costing as much to manage as the old retro plan, when one added up the management and fronting fees of $1 million.

"I decided qualified self-insurance was more attractive. There are no front fees or broker commissions. State self-insurance assessments are less than the premium tax."

He started by self-insuring wherever the premium exceeded $250,000 for workers compensation insurance and auto liability insurance. He also decided to self-insure the company's general liability and product liability risks.

Only 20% of the program is fronted and administration expenses were reduced by $475,000. The savings in premium taxes alone was $150,000.

The company retains $1 million of liability and workers compensation losses and insures the next $4 million under a chronological stabilization plan. Coverage for workers compensation losses exceeding $5 million is under the umbrella program.

"The non-related business in the captive bothered me," Mr. Pearce recalled. "I couldn't tell if it was good business. No one knew the expected losses.

"I was on over 100 treaties, so I studied the reinsurance market."

When he found domestic reinsurers averaged a 2.7% underwriting loss from 1972 to 1977, he decided the best the captive could hope for would be 5% since it lost the commissions.

"I looked at the cash flow, and there were many impediments: some funds were withheld, some paid nominal interest, other premiums trickled in.

"I concluded we wouldn't lose money, but wouldn't make any, either.

"I sold the entire book to another captive that wanted into unrelated business."

IC Insurance Holdings Ltd. took Foremost-McKesson's place in United Insurance Co. effective Dec. 31, 1979.

Golden State is now running off $5.5 million in reserves for insurance it underwrote for Foremost-McKesson.

"We haven't burned our bridges," Mr. Pearce said. If the commercial insurance market tightens up again, the captive is still in Bermuda. ▪

AIG exec fears captive collapse

HAMILTON, Bermuda—Corporations taking their captive insurers into the commerical insurance business have a responsibility to act prudently to avoid insurance company insolvencies, warns Joseph C. Smetana.

"A captive collapse would have repercussions throughout the industry," the president of AIG Risk Management said.

Smetana

Captives entering the traditional underwriter's role, brokers making risk selections for captives, underwriting pools and commercial ventures by the larger captives present "a potentially dangerous, explosive situation."

He commended captives for providing additional capacity to the the industry, but advised captives getting into the commerical insurance business to employ "proper talent or seek true underwriting expertise from outside sources."

The insurance industry, he said, has a responsibility to lend its expertise to the buyer so the buyer can act responsibly.

"Technical underwriting must remain separate from marketing and tax concerns," he advised.

Captives intent upon finding unrelated risks to underwrite could look to syndicates on the New York Insurance Exchange, Mr. Smetana suggested.

But before a company further develops its captive, it should reassess its decision to send its risks offshore, he advised.

There are commercial insurance alternatives to captives available which should be explored, he said.

Corporate management also must decide whether tax advantages are worth the risk of assuming losses on unrelated business. Does the parent company really want to get into the commercial insurance business, committing the talent and capital required?

He predicted there will be a major trend back to cash-flow insurance programs offered by commerical insurers.

"I don't mean to sound like doom and gloom," he noted. "Captives will persist and evolve. I can see some captives becoming licensed commercial carriers in the U.S.

"There will be a proliferation of group or association captives" motivated by the desire to cut insurance costs and win favorable tax treatment.

The IRS will continue to be more aggressive in pursuing what it considers self-insured risk-funding mechanisms, Mr. Smetana predicted, questioning if some of the "camouflage" techniques used to confuse the IRS may not invite charges of fraud.

Straight Talk, in Any Language

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Check out agency before joining

HAMILTON, BERMUDA—Know who will join you before you walk into the reinsurance business on the arm of an underwriting agent, advises an underwriter.

"The more companies participating in the agency, the larger the collective capital and surplus and underwriting capacity," notes Francis Carter, president of Belvedere Underwriting Agents Ltd. "But the agency's stamp is only as strong as the weakest company. Make sure you know which other companies are being represented by the agency."

Mr. Carter, whose agency underwrites for General Telephone & Electronic Corp.'s captive and its own Belvedere Insurance Co. Ltd., also advises:

- Make sure the agency is participating in the risk through its own reinsurance company.
- Insist on common account reinsurance.
- Be sure agency fees are computed on net premium.
- Make certain you are receiving the full cash-flow and also are being credited with interest income on the agency's escrow account.
- Do not enter into any cross liability agreement.
- Be fully conversant with the reserving policy.

In his own business, Mr. Carter takes pride that Telect is an investor in the underwriting agency as well as under a five-year agency agreement. "It's the best relationship you can have."

New captives should limit unrelated risks, says Hogg

HAMILTON, Bermuda—Ever get bounced from the London insurance market when you looked for reinsurance protection or participation for your captive insurer?

The London market is willing to work with captives, but you may have failed one of the critical tests it applies to captive insurance companies.

The tests, as described by John G. Hogg, deputy chairman of Hogg Robinson Group Ltd., provide the captive owner with a checklist not only for preparing to visit the London market but also for reviewing the stability of the captive.

Mr. Hogg advises new captives to limit themselves to underwriting related company risks.

"Companies whose mainstream activity is not insurance should tread warily into this field (unrelated risks). The artificial factors of tax and interest earnings should not mask the risks involved."

Only about 10% of the captives owned by U.K. companies underwrite risks for unrelated companies, he noted.

"There is at this moment much less chance of making operating profits on outside business," he cautioned, referring to the hot competition in the insurance market.

He confirmed that Bermuda underwriters are justified in their frequent complaints about the slow premium flow to Bermuda from London.

"We have an expression in London, 'Premiums flow like glue,'" he said.

He defended brokers, however, against all the blame, noting that ceding insurers take their time sending on premium.

"If it is necessary to underwrite other business, possibly the exchange of business between captives is one way of achieving this with lower acquisition costs and less risk of underwriting losses," he suggested.

Captives determined to use or become a reinsurer of the London market can take cues from Mr. Hogg's observations of how the market evaluates a captive applying for reinsurance or to underwrite reinsurance.

As viewed by a broker, the tests are:

- Ownership of the captive. A large, profitable, publicly held company is the most attractive.
- Capitalization of the captive. There must be an obvious commitment to the captive, including enough paid-in capital to support the volume and type of business written. At least $5 million is needed. Net worth, including retained earnings and contributed surplus, is not as impressive because these funds can be withdrawn at any time.
- Domicile of the captive. Bermuda offers at least some regulation under the Bermuda insurance law, although some reinsurers find it does not exert enough control.

Hogg

Underwriters dig deeper for and weigh heavier information from a captive looking for reinsurance on unrelated risk underwriting.

The location of the captive is especially important when it wants to underwrite reinsurance for the London market because insurers look ahead to where potential disputes will be resolved.

When considering a captive using an underwriting agency as a reinsurer, the underwriter also will look very carefully at whether fronting is permitted or whether the captive is used as a front.

Considering a captive as security to reinsure London market underwriters raises additional questions about an agency agreement. London will want to know that the agency has authority to front, not only from the fronting company but also from the reinsurer.

The financial status of the captive also will be closely examined, including the solvency margins on premiums written.

The investment practices of the captive are scrutinized. Underwriters don't want to find big investments in activities or properties of the parent company.

They also don't want to see large transfers to the parent by way of dividends or capital repayment.

Sudden growth in premium volume also won't bode well in London, Mr. Hogg observed, because such growth in the current competitive market might hint at unsound underwriting practices.

The captive's reserves and its reinsurance program will be important to the London underwriter.

The gut-feel about a company and its reputation in the market where there is "considerable exchange of information between brokers and other reinsurers" can be a decisive factor, he noted. ■

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IRS action favors half unrelated risks

HAMILTON, Bermuda—A captive may need to receive 50% of its premium income from unrelated companies to keep the Internal Revenue Service off the back of the parent company.

A 50% rule recently was applied by the IRS in regulations governing the tax implications of benefits paid under self-insured medical reimbursement plans.

The Jan. 31 regulations state:

"A policy of insurance issued by a captive insurance company is not considered self-insured for purposes of this section if for the plan year the premiums paid by companies unrelated to the captive insurance company equal or exceed 50% of the total premiums received and the policy of insurance is similar to policies sold to such unrelated companies" (Section 105).

"This indicates the direction of the IRS," observes James Cameron, a leading authority on captive tax issues with Baker & McKenzie in New York.

How much unrelated risk business a captive must underwrite to secure tax advantages for its parent company is an old question asked with a new sense of urgency since Carnation Co. lost its appeal of a tax court decision against its use of a captive insurer (see related story, page 54).

Mr. Cameron predicts that corporations concerned about losing tax deductions for premiums paid to captive insurers will respond to the Carnation decision with:

- Increased underwriting of unrelated risks.
- More pools and industry captives.
- Sale of loss reserves to reinsurers to secure a tax deduction for the reinsurance.

Corporations with captives pursuing these paths will find many willing service companies in Bermuda.

Brokers and independent service companies operate reinsurance pools allowing member companies to mix and redistribute their risks. At least one reinsurer, Trenwick, operates a risk exchange allowing captives to reinsure each other, passing the premium through Trenwick, which takes a 5% commission.

Bermuda-based reinsurers, such as Belvedere Insurance Co. Ltd., also are interested in buying out loss reserves.

The IRS will try to use the recent 9th Circuit Court of Appeals decision citing Revenue Ruling 77-316 in the Carnation case as court approval of the IRS ruling and the IRS position against recognizing transactions with captives as insurance, Mr. Cameron predicts.

"We will argue that it is not binding because (citing the IRS revenue ruling) was not needed to decide the case," Mr. Cameron said.

Brian M. Freeman, a tax attorney who gained insight into the Treasury Department when he put together the Lockheed loan guarantee program, observes "the service (IRS) and tax people are beginning to focus only on the extremes."

Since the tax policy office of the Treasury is assuming more responsibility formerly held by the IRS, he also expects fewer initiatives from the IRS, especially in the insurance area.

His sources tell him there are no regulations coming in the insurance tax area. A recent report on tax havens by a member of the IRS staff citing IRS concerns about captives is only one person's opinion, he noted.

However, Mr. Freeman said he wouldn't encourage companies to use a wholly owned captive retaining all its parent company risk, since the IRS has the strength of Carnation behind it.

But there are many open questions, he noted, since case law so far considers only extreme cases where there was minimal transfer of risk.

Areas to be decided, he suggested, include the tax treatment of companies using captives that underwrite unrelated risks and the treatment of retrospectively rated insurance plans.

The current climate leaves "room for creative thinking, but no guidance," he added. ■

Several companies fight tax rulings on captives

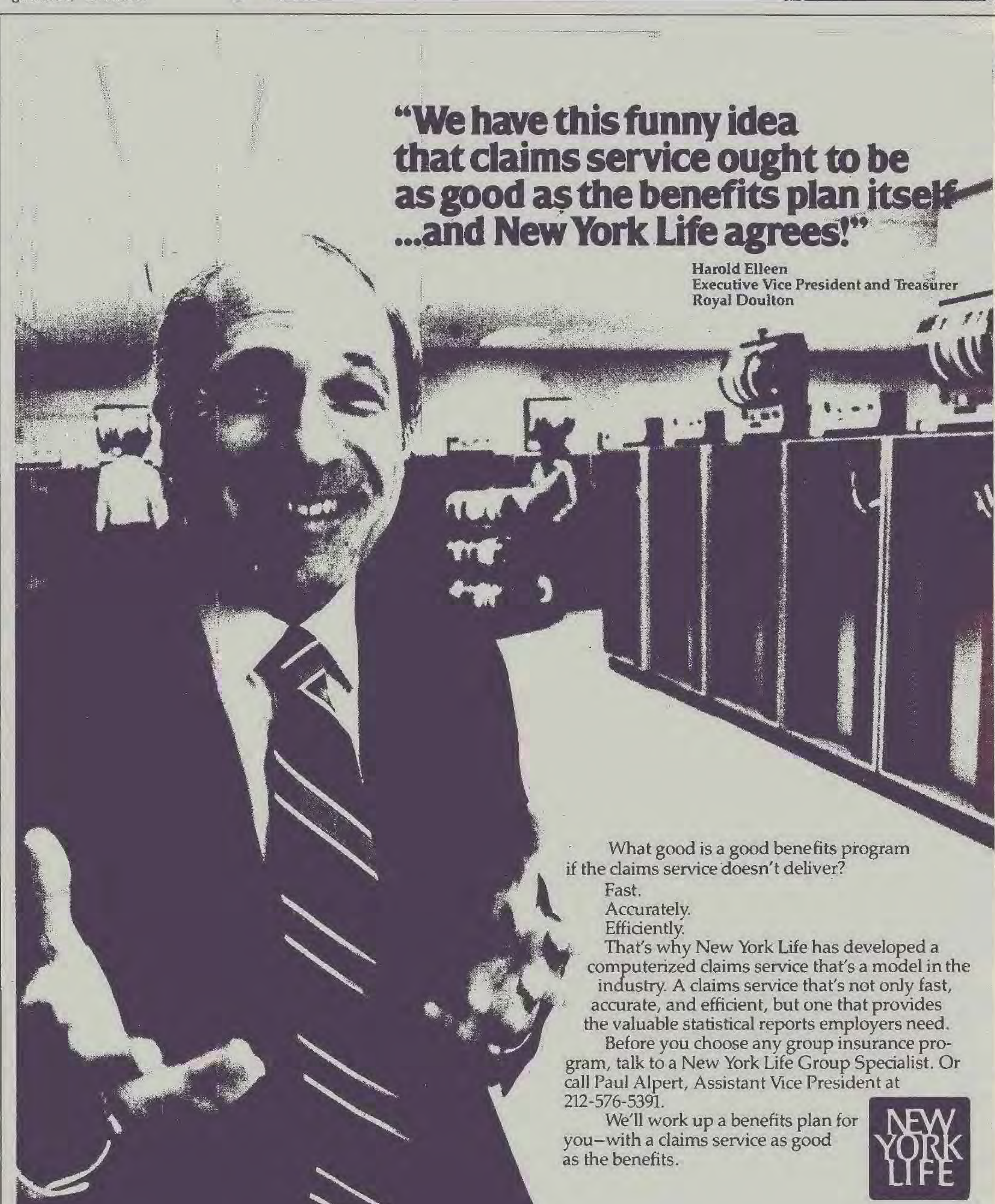
Carnation is not the final word on the tax implications of dealing with a captive insurer.

More court cases are pending that could further guide the IRS and corporations on the tax treatment of premiums paid to captive insurance companies and related tax issues.

In all the cases, the corporations are fighting IRS challenges of their insurance programs as self-insurance plans which don't qualify as insurance for tax purposes.

The pending cases include:

- Ocean Drilling & Exploration Co. vs. U.S. (Ct. Cl. No. 152-77, filed March 18, 1977). Mentor Insurance Ltd., a captive insurer, participated in 1969 on insurance for drilling barges, receiving $302,000 in premium and earning $80,190 in interest income. Issues include whether the portion of the insurance premium paid Mentor is tax deductible, whether ODECO is taxable on the interest income, if the premium income constitutes Subpart F income.
- Mobil Oil Corp. vs. U.S. (Ct. Cl. No. 358-78, filed Aug. 2, 1978). Premiums were paid from 1961 through 1969 by members of the group to what the IRS contends constituted a self-insurance reserve fund. Deduction for premiums is at issue and, if the premium deduction is denied, whether a deduction or offsetting adjustment is due for the losses sustained and the value of services performed by the recipients of the premiums, and if the plaintiff is entitled to a refund of the excise tax paid
- Ashland Oil Inc. vs. Commissioner (T.C. No. 2210-80, filed Feb. 15, 1980; T.C. No. 12117-79, filed Aug. 17, 1979; T.C. No. 10122-78, filed Sept. 1, 1978). Involves years 1972 through 1975, including participation in the oil industry captive Oil Insurance Ltd. Issues are if premiums paid to a wholly owned captive are deductible and if a portion of the premiums paid to OIL is a contribution of capital or deductible expense.
- Castle & Cooke Inc. vs. U.S. (Ct. Cl. No. 78-80-T, filed Feb. 21, 1980). Issue is whether a tax deduction is due for premiums paid to a captive for the tax years 1971 through 1973.



U.K. is more sympathetic toward captives

HAMILTON, Bermuda—U.K. corporations with captives get a more sympathetic hearing from the Inland Revenue in England than U.S. corporations get from the IRS.

"We understand captives fulfill an economic need," observed Ian N. Hunter of the Inland Revenue Technical Division.

Understanding the economic need for captives, however, doesn't suggest the U.K. or U.S. will approve of corporations with captives trying to take advantage of a recent tax treaty between the two countries to avoid paying the U.S. excise tax due on insurance premiums paid to most foreign insurers.

Since the new treaty exempts premiums paid to U.K. insurers from the excise tax, some experts have suggested U.S. companies use a British company to front for a captive. The movement of premium from the U.S. to the U.K. to Bermuda wouldn't be subject to the U.S. excise tax of 4% on direct premiums and 1% on reinsurance premiums due if the premiums went straight to Bermuda.

"If the treaty is exploited for artificial purposes, the U.S. would review it," Mr. Hunter suggested.

Stressing that his remarks before the Risk Planning Group conference were his own opinion, Mr. Hunter explained that U.K. companies are allowed tax deductions for premiums paid for insurance when the Inland Revenue is satisfied the payments are "for the purposes of the payer's trade and not for that of the recipients, and that the payment was made at arm's length," he said.

The Inland Revenue considers each case involving a captive separately, asking the following questions:

• Was the premium paid reasonable?

• Did the captive possess resources adequate to meet the risks insured?

• Did the captive possess sufficient skill to charge an arm's length premium?

• Did the captive reinsure any of the risk so as to increase the security of the insured?

If the answer to any of the questions is no, it is possible the premium deduction won't be allowed, he said.

The U.K. also is concerned about the growing use of tax haven domiciles by British-controlled companies to avoid taxes.

A proposed revision of its tax law could affect some captive operations.

The new law would tax profits of companies under U.K. control operating in tax havens for the purpose of avoiding taxes, Mr. Hunter noted.

"The aim is to impose a charge to U.K. tax on unremitted overseas income and capital gains where arrangements were made or transactions entered into with the object of avoiding tax," an Inland Revenue document explains.

But profits derived by overseas companies from genuine trading activities or for bona fide commercial reasons, even if earned in a tax haven, should be excluded from the charge, the document suggests.

Full of sound and fury, ...signifying nothing

The British at least have a sense of humor about tax issues.

It's not a captive case, but the Court of Appeal comments may be applicable to some insurance programs devised to beat IRS objections:

"The facts as set out in the case demonstrate yet another circular game in which the taxpayer and a few hired performers act out a play; nothing happens save that the Houdini taxpayer appears to escape from the manacles of tax. The game is recognisable by four rules. First, the play is devised and scripted prior to performance. Secondly, real money and real documents are circulated and exchanged. Thirdly, the money is returned by the end of the performance. Fourthly, the financial position of the actors is the same at the end as it was in the beginning save that the taxpayer in the course of the performance pays the hired actors for their services. The object of the performance is to create the illusion that something has happened, that Hamlet has been killed and that Bottom did don an ass's head, so that tax advantages can be claimed as if something had happened. The audience is informed that the actors reserve the right to walk out in the middle of the performance but in fact they are the creatures of the consultant who has sold and the taxpayer who has bought the play; the actors are never in a position to make a profit and there is no chance that they will go on strike. The critics are mistakenly informed that the play is based on a classic masterpiece called "The Duke of Westminster," but in that piece the old retainer entered the theatre with his salary and left with a genuine entitlement to his salary and to an additional annuity."

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Valero charges Tobias with new post

comings & goings: buyers

VALERO ENERGY CORP. in San Antonio, Texas, has named **Rick Tobias** insurance accounting research analyst and **Frank Aaron** claims analyst. Mr. Tobias, who was insurance analyst before being promoted to this newly created post, is working toward a master's of business administration at the University of Texas at San Antonio. Mr. Aaron, who was regional claims supervisor at United Services Auto Assn. before accepting this new position, is working toward a CPCU designation. Both men report to Gary W. Spangler, manager of business risk insurance.

* * *

John Vlassick has been named risk manager for the city of Fond du Lac, Wis., a position that has been vacant for months. Mr. Vlassick, who reports to director of administration Eugene Meier, recently graduated from University of Wisconsin at Madison with a bachelor of business administration degree in accounting and risk management. He interned at the university's risk management department.

* * *

NCNB Corp. in Charlotte, N.C., has promoted **Thomas N. Black** from assistant vp to vp in the corporate finance division. Mr. Black, who will continue to be responsible for risk and insurance management, will report to senior financial officer Bruce Beery. Before becoming risk insurance manager and director of investor relations in 1979, he was assistant controller and director of profit-planning at the corporation. Mr. Black, 50, is a graduate of the Bank Administration Institute at the University of Wisconsin and has a graduate certificate from the American Institute of Banking. He is a past member of the national board of directors of RIMS and has held several offices in the Carolinas chapter.

* * *

George Sterling, manager of corporate insurance at Burroughs Corp. in Detroit, retired April 1. **Paul Quigley,** formerly manager of group insurance, has been promoted to fill the vacancy. Mr. Sterling, who joined Burrough's insurance department in 1952, is a former president of the Detroit chapter of RIMS and served on the national long-range planning committee.

* * *

Donald J. Sullivan, 28, has joined Harris Corp. in Melbourne, Fla., as supervisor of corporate risk management. Mr. Sullivan, who was casualty insurance manager at American Cyanamid Co. in Wayne, N.J., will report to F.X. McCahill III. Mr. Sullivan has a law degree from St. John's University School of Law.

* * *

Bankers Life and Casualty Co. in Chicago has named **William H. Hrabak,** 53, to the newly created position of director of compensation and benefits. Mr. Hrabak previously was director of human resources for Santa Fe Industries and has worked in the human resources and compensation area for 25 years. He has a bachelor of science degree in business administration and psychology from Ohio State University and belongs to the American Management Assn. and the American Compensation Council.

* * *

Caesar's World Inc. in Los Angeles has named **Susan Hoffner** to the newly created position of employee benefits manager. Ms. Hoffner, who reports to vp of administration Carl Propes, previously handled benefits for City Investing Co. before its operation moved to New York from Beverly Hills. She has a bachelor's degree from the University of California at Santa Barbara.

* * *

McGraw-Hill Inc. in New York has named **Bernard C. Koval** director of employee benefits to replace **Alan Macdonald,** who left the company. Mr. Koval, who reports to senior vp of personnel relations Joseph P. Famularo, previously was director of personnel at Betz Laboratories in Trevose, Pa., and before that was employed as manager of employee benefits at ICI Americas Inc. in Wilmington, Del. He received a bachelor's degree from Penn State University. ■

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business insurance

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when they're ready to buy.

see page 114

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Allendale promotes top administrators

Allendale Insurance has promoted three members of its staff. **John J. Carey**, formerly senior vp-regional operations, has been elected executive vice president. **Donald H. Adams**, formerly group vp-administration, has been named senior vp and **Shivan S. Subramaniam** has been promoted to vice president and treasurer.

Carey

Elizabeth Foley promoted to claims manager of the San Jose division of EBI Cos.

comings & goings: industry

John F. Wheaton elected president and chief executive officer of Equitable General Insurance Co. in Fort Worth, Texas.

Frank J. Hoenemeyer elected vice chairman of The Prudential Insurance Co. of America, Newark.

North American Life and Casualty Co. has announced several appointments and promotions: **J. Ward Hamlin** elected second vp-director of underwriting; **Thomas J. Lynch** appointed assistant vp-director of mass marketing sales and underwriting; **James P. Kelso** promoted to manager of association group, and **Ralph W. Temple** named marketing manager-association group.

John J. Dwyer named vp, bond department, casualty and surety division, Aetna Life & Casualty.

Dale S. Bergland named secretary at Reliance Special Risk Inc. in Philadelphia. **Joseph F. Peloso** elected assistant vp at Reliance Risk Management Inc. **William R. Warfell II** elected assistant secretary at Reliance Insurance Co.

Patrick L. Caranfa appointed vp and manager of Northwestern National Insurance Co.'s commercial casualty department.

Caranfa

Joseph Hendrick promoted to regional group manager in charge of the Prudential Insurance Co.'s Milwaukee group insurance office. He replaces **Robert D. Iannucci**, director of group insurance marketing, who transferred to the Cleveland group office.

Kenneth M. McRoy promoted to loss control supervisor in the Moorestown, N.J., branch office of the Harleysville Insurance Cos.

William L. Tindall named regional group vp in the Boston group office of Massachusetts Mutual Life Insurance Co.

Geraldine May was named manager of the Chicago/Kraft group claims office of John Hancock Mutual Life Insurance Co.

May

Myron W. Grubryn, assistant vp of Northwestern National Insurance Co., named vp-claims for the multiple line property and casualty company.

Richard W. Schmidt advanced to director, group market development in the group sales department of Phoenix Mutual Life Insurance Co., Hartford.

Robert M. Gleason named the Kemper Group's mid-Atlantic president succeeding **James Wilson Jr.**, who retired from the post.

Excess/surplus

Nicholas C. Mesogianes and **Charles L. Schumacher** appointed assistant vps of RFC Intermediaries Inc. in Los Angeles.

Robert M. Daniels elected vp of J.H. Blades & Co. Inc. in Houston.

Lowell Anderson joined Houston-based American Aviation Underwriters, a department of Cravens, Dargan & Co. Special Risks, as an underwriter.

Other suppliers

Robert L. Wilkinson, has been named a senior consultant with the risk management consulting firm of Warren, McVeigh & Griffin in Newport Beach, Calif. Mr. Wilkinson formerly was risk manager at Avery International Corp.

Booke & Co. has promoted four people to assistant vp: **Gary L. Wilhelm**, pension project manager in Winston-Salem; **Susan W. Bailey**, insurance consultant; **Constance L. Tricebock**, risk management consultant, and **Carl W. Malmberg**, safety engineering consultant in Charlotte, N.C.

Reinsurers

General Reinsurance Corp. has appointed five assistant secretaries: **Paul O. Christensen** and **Allison J. Murray** (Toronto office), **Richard E. Eckis** (Dallas office), **Claudia J. Hansen** (St. Paul office) and **Glenn R. Partridge**, Philadelphia office).

New York-based North Star has promoted **Joseph F. O'Day** to assistant vp and **Robert J. Gerlich** to assistant treasurer.

Agents/brokers

Patrick T. Meagher joined NOVA Reinsurance Brokers Inc. in Chicago to handle facultative reinsurance for ceding companies with whom NOVA is associated.

Gale W. Tenney and **Marilyn Micare** joined the employee benefit division of the Robert F. Driver Co. in San Diego, Calif. The two are life and health underwriters who will head a new employee-benefits communication service.

William M. Egg promoted to vp marketing of Corroon & Black of Memphis, Inc.

Egg

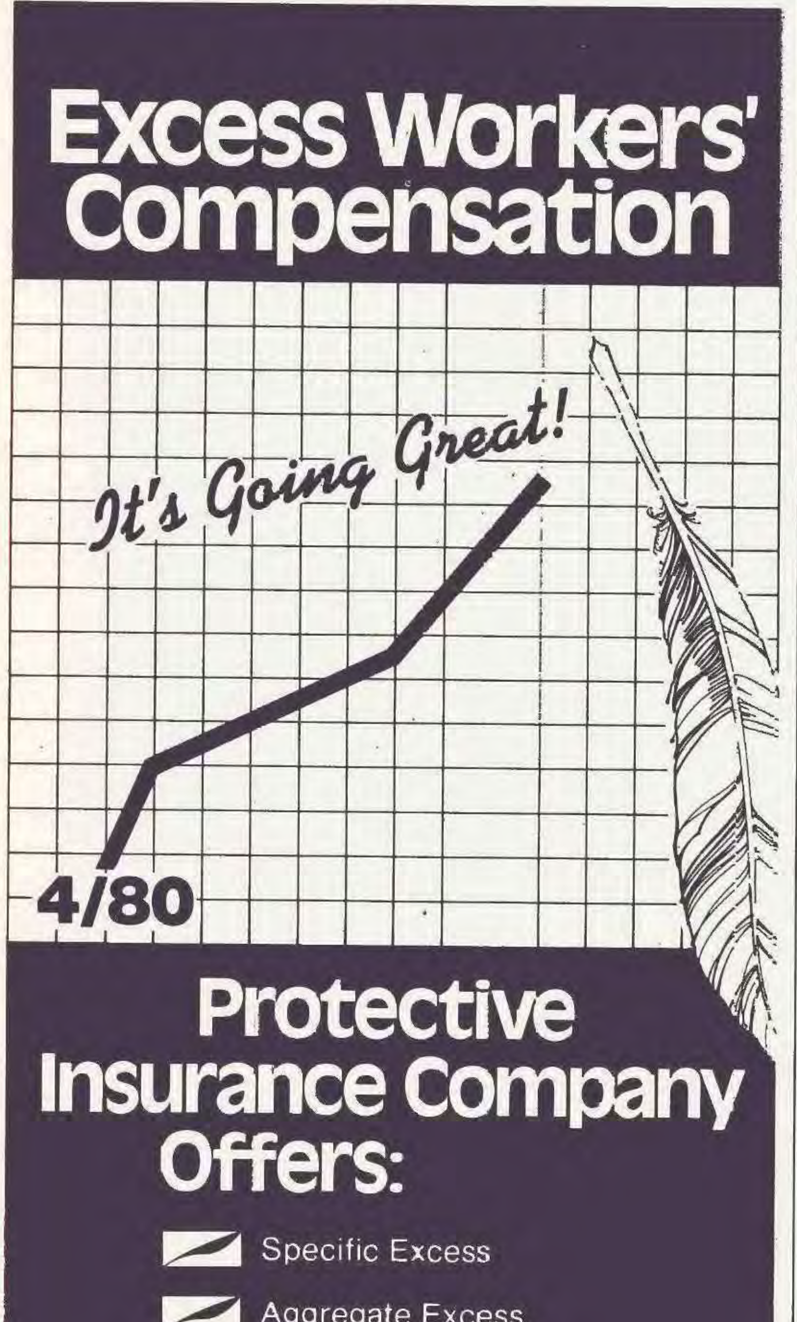
Edward E. Mack III has been elected president of Mack & Parker Inc., where he has been executive vp and chief operating officer since 1978. **Edward E. Mack Jr.**, former president, will continue as chairman and chief executive officer.

Jack R. Perez named vp and Eastern regional coordinator of Reed Stenhouse International. He will be based at Reed's New York branch office at Wall Street Plaza, where he will be responsible for developing and marketing international business in the Eastern region of the U.S.

Robert L. Hannon Jr. elected chairman and chief executive officer of Johnson & Higgins of Michigan. **David W. Bianchi** was named president and chief operating officer. Mr. Hannon continues to be a director of the parent company in New York.

Timothy Bonnell named vp-advertising and promotions coordinator of Don Flower Associates Inc., a subsidiary of Rollins Burdick Hunter in Wichita, Kan. **Gary Johnson** named vp-credit manager; **Rod Turner**, vp-office administrator; **Lee Kiefer**, vp-production coordinator; **Helen Beard**, treasurer/accounting department manager, and **Polly Bronston**, secretary.

Douglas M. Michel joined Bayly, Martin & Fay in Los Angeles as senior vp/employee benefits. **Gary T. Peterson** joined the entertainment division as an account executive. ■



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Big buyers escape Aetna rate increase

Continued from page 1

years, losing part of its market share in the process, he said.

"The most likely companies to follow Aetna's lead are those with poor fourth-quarter results," observed one insurer executive.

But even Continental, a big 1980 loser with a 33% drop in operating income and a $187 million underwriting loss compared with a $36 million loss in 1979, isn't ready to do more than continue to raise base prices, said John Bretherick, executive vp at Continental Insurance Co.

"Hopefully, it will be a positive step in the marketplace—we'll just have to wait and see how it will translate into action," said James J. Meenaghan, executive vp of Fireman's Fund Insurance Cos.

"We see no need to make dramatic price increases now," he added. "We as a company have been very consistent in pricing over the past two or three years, trying to plow a steady course."

Fireman's Fund's results confirm Mr. Meenaghan's assertions.

The company has grown only about 3½% a year compared with the industry average of 7%. But its 1980 expense and loss ratio improved and its operating income was up 13%.

"I applaud the statement Mr. Bailey made, and I think it will be meaningful if followed by many of the major multiple line carriers," said E.R. DeRose, president and chief executive officer of Mission Insurance Group in Los Angeles.

"There will have to be more bloody noses before underwriting losses become a factor that will substantially change management thinking," he added. First-quarter results could deliver the punch, he speculated.

Mission, however, as a major California workers compensation insurer, doesn't face the same pressures as commercial multi-peril companies, he said. With its moderate book of casualty and excess/surplus lines business, Mission reported a combined operating ratio of 98.9% for 1980—an underwriting profit.

Although some industry observers say that Aetna's decision might be the first sign of a real turn in the market, they add that it would be wrong to expect the dramatic turnaround of the mid-1970s.

Lorne Palmason, senior vp for Marsh & McLennan, said Aetna's decision might turn out to be "the tip of the iceberg" of a turnaround in the market, but "even when the market does turn, I don't think the increase in prices will be as dramatic as they were in the past. We still will have all this capacity.

"Insurers will not repeat the mistakes they made before when they over-reacted, especially in such lines as product liability and medical malpractice," said Mr. Palmason.

Insurance industry analysts don't expect to see much change in the marketplace, either.

For almost a year, analysts and industry officials have predicted that mounting underwriting losses will force insurers to start raising prices. Some have said all it might take is a major catastrophe or a few major insurers taking the initiative for the market to start turning.

But insurance company officials scoff at suggestions that they have been waiting for a competitor to make the first pricing move.

Herrick Drake, president of Aetna Insurance Co., the Connecticut General subsidiary, denies that a pricing decision by another insurer is going to have a dramatic impact on his company.

"I don't think we will go back and look at our plan for 1981 just because of what Aetna Life & Casualty does. It really doesn't impact us," Mr. Drake said.

Continental "applauded" Aetna's move, but Mr. Bretherick said it won't affect Continental.

"I don't think insurers follow in a pack at all, he said."

Although Aetna has made a point of publicizing its decision to seek price increases, Mr. Patrell denied that the insurer is casting itself as a leader in the movement to turn around the market.

"We are not trying to be a leader. We just looked at our results and made a decision based on what we expect will be an unsatisfactory first quarter," Mr. Patrell said. "I don't think an action like this by a single company will turn things around, but if other people see the same results we are, I dare say they will start doing things differently, too."

Some observers suggest that instead of following Aetna's lead in raising prices, competitors will instead scramble for the company's business, a likelihood acknowledged by Aetna officials.

"We must face up to our pricing responsibilities, even if this must mean some temporary shrinkage in our business," Aetna president Mr. Bailey said.

Mr. Patrell said the company was prepared to lose some business, but had no projections on the loss.

Some speculate Aetna eventually will step back from its hard-line posture on pricing.

"I'm sure Aetna will carry this decision through, but I am also sure that they are not going to risk losing some of those larger accounts that would be difficult to regain," Mr. Palmason said.

Oppenheimer analyst Myron Picoult wonders why other insurers aren't announcing rate hikes.

"What makes everyone so sure that the underwriting debacle that hit Aetna is not going to hit everyone else?" Mr. Picoult asked. Safeco posted large losses at the end of 1980, Aetna at the beginning of 1981 and "it will be somebody else in the second quarter," he said.

"It was a very bullish move," Mr. Picoult said of Aetna. "Somebody has to take the lead and say market share is secondary to underwriting posture."

Bache analyst Herbert Goodfriend called Aetna's decision a "noble effort," but he expects it will take more than that effort for prices to really start climbing.

"You are going to have to have more companies experiencing red ink and maybe some shock effect from corporate events such as an insolvency, belly-up or catastrophe that will impact the domestic insurance market."

M&M's Mr. Palmason said a more likely spur to a market turnabout would be a change in the money markets affecting the investment income.

"We will know more in May when the first-quarter results are out. If companies continue to show a deterioration of rates and underwriting results come out consistently bad, then a continuation of inflation and a drop in the money markets would almost certainly mean things would break." ■

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Condo collapse kills agent's son

Continued from page 2
wide officials say.

"We've sent in special claims teams to handle the situation down there," a Nationwide spokesman said. "There are still a lot of unanswered questions and we are not certain about the extent of injuries."

Death benefits under Florida's workers compensation law for surviving spouses and children are 66⅔% of the employee's average weekly wage to a maximum of $228 per week. The maximum burial allowance is $1,000.

The state's wage-loss law provides benefits for permanent partial disabilities when a worker can't earn at least 85% of his former wage. The benefit is 95% of the difference between pre-injury and post-injury wages.

The Occupational Safety & Health Administration is not commenting on the accident until it concludes its investigation. OSHA sealed off the building site and is analyzing concrete samples and reviewing Univel's records for clues to the cause of the collapse.

"It looked like a war zone when I got there," said Jim Atkins, Brevard County civil defense director. "They were pouring concrete on the fifth floor when it happened. The story I got was there was some sort of vibration while they were pouring and all five floors came down, one after the other, looking like a stack of pancakes. Most of the people on the top floors survived, but those on the other floors were all killed."

In all, around 2,000 men were on the accident scene the first night to help in the search for survivors among the wreckage, Mr. Atkins said. "The Kennedy Space Center came in with 140-ton cranes. Some of the biggest cranes in the country were there to help move concrete slabs."

The search for missing workers began shortly after the accident happened at 3 p.m. on March 27 and continued through 2 a.m. March 30, Cocoa Fire Chief Robert Walker said.

Univel Inc. is a private company of "substantial size," said a Univel spokesman. "It has been building in the Cocoa Beach area for 8-10 years."

Construction on the collapsed building, part of a project to contain 118 residential units, began last December.

There is no way to tell now if any victims of the accident or their families are planning litigation against Univel, a company spokesman said. "I can say there were lawyers flying up from Miami trying to contact the families to see if they could hustle business."

Most of the men who died were local residents, but one came from Tennessee. Many had worked for Univel on previous projects.

A source who met with Mr. Con Nowakowski shortly after the accident said, "They have been taking this with a lot of strength," he said."The terrible irony of the situation is obvious."

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Shooting for self-funding

Continued from page 3
Hughes Tool, Lone Star Brewing and Tenneco, have banded together to lobby in support of the self-insurance bill.

Texas law now requires employers to purchase workers compensation insurance.

"We're supporting the bill," says Bill Walker, workers compensation manager for Dresser Industries in Dallas. "Self-insurance is a more viable way to handle insurance problems. It would give us more control over fiscal affairs and, hopefully, save us money."

Dresser now pays an annual premium of about $2.5 million to Continental Insurance Co. for a workers compensation policy covering its estimated 10,000 Texas employees. It is self-insured in 17 other states where it has a substantial number of employees, Mr. Walker says.

A similar bill was introduced in the Texas Legislature in 1979 but failed to reach the floor, he says.

Hughes Tool in Houston helped organize the coalition of companies favoring the bill, says Allen Mansfield, risk and insurance manager. The coalition, made up of around 50 companies who would be eligible to self-insure if the bill passes, hired a lobbyist.

"We are cautiously optimistic," Mr. Mansfield says. "Insurance companies are fighting it tooth and nail. They service us now and stand to lose if we're allowed to self-insure."

Hughes Tool probably would not self-insure right away even if the bill passes, he says. But "it is a viable alternative."

Mr. Mansfield would not reveal who insures his company or the premium.

Lone Star Brewing of San Antonio contributed to the self-insurance coalition, reports controller Bill Millikin.

"We would consider self-insuring," he says. "It would cut out the middlemen and give companies more control over their cash reserves."

His company's workers compensation risks are insured by Gulf Insurance Group for a $150,000 premium. Lone Star Brewing employs 370 and does an estimated $50 million in business each year.

Shell Oil favors the bill. "I'm not saying we would necessarily self-insure, but we do want that option," says Cecil Roberts, workers compensation manager.

"We have not evaluated the financial impact it would have," he explained.

Shell's workers compensation is insured by Employers Reinsurance Co. Mr. Roberts would not release any policy details.

The Houston-based oil company self-insures workers compensation in every state that permits it if the number of employees warrants it, he says.

Dallas' Braniff International Airlines is not presently staffed to handle self-insurance, says Sandy McClure, workers compensation manager. "I'm sure it is something we'd look into if the bill passes. Braniff is in a turn-off-the-faucet stage and we're doing everything we can to cut costs."

Braniff's 11,500 employees are insured for workers compensation by Ranger Insurance Co. of Houston for a "sizeable" premium.

Tenneco supports the self-insurance bill because it would provide an alternative, says Jim Brewster, senior adjuster in insurance and loss control for the Houston-based concern.

"It is too early to tell what effect the bill will have on us," he says. "But I don't think we would be first in line to self-insure. We would have to see if it is good economics."

The company's estimated 5,000 Texas employees are covered under a policy with The Travelers Insurance Co., Mr. Brewster said. He would not reveal premium.

Under the proposed legislation, S.B. 415 and H.B. 902, a single employer could self-insure workers compensation if it has a nationwide payroll resulting in a "manual rate premium" of $500,000 or more.

In addition, a group of companies could self-insure through an employers' fund if its aggregate national payroll resulted in a manual rate premium of $2.5 million or more.

The manual rate, set by the Texas Board of Insurance, is the amount an employer must pay toward workers compensation for each employee every week. Rates range from 24 cents per $100 payroll (on the first $300) for clerical workers to $27.23 per $100 payroll for wrecking crew members.

Each vocation has its own manual rate, based on loss experience. The combination of manual rates paid by a company for all employees in one year equals the manual rate premium.

After meeting the premium requirement, an employer would have to show it could meet financial obligations, purchase up to $30 million excess insurance, post a cash security equal to 75% of its manual rate premium to secure payment and employ a contractor or staff members to adjust claims.

William Huff, president of the Texas Employers Insurance Assn. in Houston, is against the bill, particularly the section that would allow pooling.

"It's a lousy bill," he says. "I feel if employers want to group together and insure risks, they should form an insurance company and be subject to the same burdens. One hundred percent of our assets are at stake when we insure a risk. I feel theirs should be too."

Mr. Huff says the bill would allow self-insurance by companies that should not self-insure. He said there is no receivership provision if a company does not make payments.

If companies account for costs, they will find self-insurance more expensive than an insurance policy, he says. "Workers compensation, like product liability, takes a long time to develop claims. Very rarely will an injury of any severity be settled within the year it occurs. The ultimate payoff may be substantial even 20 to 30 years down the road."

An employer with bad experience might demonstrate savings under self-insurance if fewer losses were incurred the following year, he says. However, increased exposure might outweigh any savings.

"I don't think it is a well drafted bill," Mr. Huff says. "I believe the insurance industry, as a whole, is opposed to it."

William E. Dandy, vp of American Fire & Casualty Co.'s casualty department, shrugged off the bill.

"Some people say they can do a better job by self-insuring workers compensation," he says. "I think not, but would certainly welcome fair competition in the area."

Although workers compensation amounts to 22% of his company's total business, he does not consider the bill a threat. ■

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Exchange bounds into its second year

Continued from page 3

agement Co., which manages two exchange syndicates.

Unlike Lloyd's "names," who are silent partners turning their affairs over to professional underwriters, the New York Insurance Exchange members have access to the market and can bring business to the exchange, says Donald Kramer, investment banker who developed the exchange concept and participates in a syndicate management company.

The ownership of so many syndicates by insurance companies is criticized by some, however, as merely providing the same capacity and underwriting philosophy in a new location. "The syndicates underwrite like their parent companies," complained one broker.

Exchange underwriters deny being of one mind.

"If I don't write a risk, within a 75-yard circumference the broker probably will find someone who will," says Robert Pingeon, underwriting deputy with Chubb Syndicate.

Although the exchange mostly has written conventional property and casualty coverages, it has accepted some more exotic placements, such as strike insurance for a professional sports league, cancellation insurance for the upcoming royal wedding and certain retroactive insurance coverages, notes Mr. Pingeon.

He wouldn't say whether the retroactive coverages involve the MGM Grand Hotel fire, but other underwriters on the exchange said they were offered retroactive coverage for MGM Grand and GK Technologies, an electrical contractor for the hotel.

Mr. Groden convinced most syndicates on the exchange to provide more than 1 million pounds sterling capacity for one of three British brokers offering wedding cancellation insurance, he says. It took less than 72 hours.

Another broker says he has placed high layers for jumbo property risks and reinsurance of claims-prone layers of casualty programs.

Brokers are drawn to the exchange by the reputation and calibre of its underwriters.

"If an underwriter has a following in the market that's different from mine, he has brought brokers in whom I can't," explains AIG Syndicate Managers senior vp Martin P. Jackson.

Brokers also have confidence in the security backing the insurance exchange and like its location in the heart of New York's insurance district, says Peter Black, president of Willcox, Baringer & Co., reinsurance intermediaries.

As a broker, Mr. Groden says he's impressed by the cooperative spirit among exchange underwriters. "The brokers and syndicate underwriters are becoming a very nice club. The concern is making the exchange viable."

"Brokers are getting used to dealing with the exchange and are finding it easier than other methods," says Continental Reed Stenhouse's Mr. Zagorski. "They can get an offer and acceptance the same day instead of waiting for telexes."

But at first, brokers were hesitant to the use the exchange, like a new father uncertain about holding a baby.

Broker members did not have anyone on their staffs who knew how to use an insurance exchange. "There's a big difference between being a guest on the floor of Lloyd's and actually going through the process of placing a risk," Mr. Reutershan said. "We needed people who knew how to place business."

Fortunately for the exchange, "Americans have learned quickly," he added.

A system of lead underwriters is beginning to emerge on the exchange.

"The United States has never been a following market like London, where certain insurers will not sign on a placing slip unless the names of certain other underwriters appear," says Richard Cole, president of Sten-Re Cole Associates. "Syndicates don't follow blindly, but underwriters have respect for certain of their peers."

"Brokers know whom they prefer to deal with, but a common knowledge doesn't exist," says Continental Reed Stenhouse property underwriting manager Peter Larsen.

The exchange also had a few growing pains, learning to maneuver. In the early days, few syndicates were fully operational and it took several months for them to arrange their own reinsurance support needed to expand their capacity, Mr. Reutershan said.

The cost of care and feeding the exchange is going down, too. As business expands, the exchange runs more economically.

"When we had $1.5 million annualized premium in April 1980, our expense ratios were horrendous," Mr. Reutershan admitted. "Against $58.5 million, the expense ratio is much different and it is quickly coming in line with other insurers."

Exchange expenses last year were less than expected so members were returned 31% of their 1980 assessments.

Exchange management has shown flexibility in developing procedures and vision to recognize what does not work.

When brokers and underwriters complained that premium assessments kept business away, the exchange switched to a flat fee for members to cover expenses.

The young market believes it will be ready to carry the load of risks that will be too heavy for older insurers facing cash-flow problems as losses continue to mount while investment income remains stable or drops.

"It's unusual for insurance organizations to have a negative cash flow, and they deal with problems quickly when it happens," Mr. Reutershan says.

The exchange will become a major factor when the established insurance market changes, predicts Mr. Cole.

Insurance superintendent Albert Lewis agrees.

He is also supporting a bill in the New York Legislature permitting the exchange to write surplus lines risks from outside New York.

"Direct business would generate more activity," Mr. Reutershan says.

It may also require more staff on syndicates since the present underwriters are reinsurance specialists, says Chubb's Mr. Pingeon.

But developing as a surplus lines market will take time because other states will have to approve the market. It could take up to three years if other states retaliate against New York for changing its excess and surplus lines regulations to require a three-year track record from non-admitted insurers seeking approval, says Mr. Groden.

Mr. Lewis says he can, and has, waived requirements, but he does not predict what other states would do for the exchange.

The exchange would be a good surplus lines market since it has agreed to collect premium taxes for the other states and has a guaranty fund, he adds.

Favorable rulings from the IRS could boost the exchange, too.

The IRS will be asked later this year to permit syndicates to be organized as partnerhsips instead of corporations and to allow partnership syndicates to deduct loss reserves.

Two requests for the rulings were withdrawn in early March when negative decisions were feared (*BI*, March 23). The petitioners hope the Reagan administration appointees will be more receptive than Carter administration officials were.

Favorable tax treatment is crucial to bringing private investors into the exchange, maintains Mr. Reutershan. Only two of the 23 syndicates now are comprised of private investors.

"I can't see a private citizen going into a risky business (like insurance) with adverse tax consequences," Mr. Reutershan says.

"I'm sure Lloyd's of London would have no investors if there were negative tax consequences." ■

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Firestone nears settlement in rim suit

Continued from page 1
it paid to settle claims covered under the policies.

Firestone is one of four manufacturers being sued by plaintiffs charging they were injured when allegedly defective multipiece wheel rims caused tires to explode with enormous force, showering the air with pieces of the rim.

Hundreds of multipiece rim product liability suits have been consolidated before the U.S. District Court here under multidistrict litigation rules.

Firestone, which said it was near a settlement with The Home, denies any of its products are defective. Accidents have been caused by inadequate precautions rather than defective design, Firestone says.

The litigation is mammoth, although no one is sure how much in damages is being sought.

"It is hard to say if multipiece rim litigation will be the all-time record product liability suit. There is DES and asbestos, too, but it ranks up there," one attorney said.

At least 300 persons have been injured and 100 killed by the exploding multipiece wheel rim used on all tube-type truck tires, according to the Insurance Institute for Highway Safety, a research group in Washington, D.C., funded by the insurance industry.

Two-piece rims consist of the rim base and a side ring. Three-piece rims have a rim base, a side ring or flange and a locking ring. The ring, or flange, holds the tire onto the wheel. Tire explosions can occur if the components become misaligned, reducing support for the air pressure in the tire.

Firestone deliberately withheld the information about its product so that Home would renew the liability insurance policies that it sold to Firestone between 1967 and 1978, the insurer charges.

"If Home had been properly advised as to the true circumstances and facts, Home would have refused to renew said policies of insurance...and Home hereby elects to rescind and cancel said contracts of insurance," the Home suit said.

The Home suit is a counterclaim filed in response to a Firestone suit. Firestone filed suit to have Home-cover settlements Firestone paid in cases where Kansas City attorney John C. Risjord was involved. Firestone earlier sought to have plaintiffs' attorney Risjord disqualified from any litigation because of a conflict of interest.

Mr. Risjord represents several plaintiffs who were allegedly injured by defective Firestone truck tire rims. Mr. Risjord also has represented The Home.

Mr. Risjord is in an "inherently improper situation" by representing the insurer and plaintiffs who have brought suit against the huge Akron-based tire and rubber manufacturer, Firestone said in court briefs (*BI*, June 23, 1980).

The Supreme Court recently let stand lower court rulings rejecting Firestone's plea.

Product liability suits also have been filed against three other manufacturers of truck tire rims: Goodyear Tire & Rubber Co., Fruehauf Corp.'s Kelsey-Hayes Co. unit and Budd Co., a subsidiary of Thysen A.G., a West German corporation.

"Millions of multipiece rims are manufactured and distributed each year in every industrialized nation in the world," Firestone said.

More than 70% of all medium to heavy trucks are believed to be equipped withmultipiece rims.

There has been one maintenance-related accident for every 1.06 million rims serviced between 1970-78, according to a report prepared for the National Wheel & Rim Assn. by Failure Analysis Associates, a Palo Alto, Calif., testing company.

Some 76% of fatal accidents and 71% of the injuries could have been avoided if an Occupational Safety & Health Administration regulation on servicing the rims had been followed, Failure Analysis reported.

OSHA said "accidents that have caused the greatest number of injuries appear to have been due to improper mounting, use of damaged parts or mismatch of component parts.

"Many accidents appear to have resulted from a lack of knowledge on the part of the employee servicing the tire as to proper handling techniques and the dangers involved."

However, the Department of Transportation in a 1971 internal memo has reported that "because the wheels are so difficult to put together, because such precise safety practices must be followed, and because these wheels are being handled by a large population that is unaware of the need for such precision, the wheels present a safety hazard by their very nature."

The Insurance Institute for Highway Safety says "there is conclusive evidence of the hazards inherent in these (multipiece) designs....The possibility of error in the assembly process is enormous since the design...makes a visual inspection of the seating of the components difficult if not impossible." ▪

Nuclear plants need policy power

Continued from page 3
pay to guarantee more insurance protection. The date of the meeting has not been set.

Insurance officials say they don't know yet what premium increases will be necessary to fund the increased capacity. But Mr. Simon said a representative from a foreign nuclear pool that provides part of the coverage for ANI's clients said his pool would double its present share if the basic premium were increased two or three times.

ANI also is planning meetings around the country in the next two months with groups of insurers not in the pools in addition to pool members abroad.

A film and public relations presentation has been developed to convince some 300 companies that they should participate.

The same program will be used to try to convince present pool members to increase their participation, said ANI president Burt Proom.

If ANI is going to come anywhere near its goal of $475 million, not to mention $1 billion, it is going to have to also dramatically increase the participation of foreign pools and Lloyd's of London.

Together, those two sources provide about 50% of ANI's capacity.

Mr. Proom said ANI is going to go for capacity offered by captive insurers and the New York Insurance Exchange.

ANI officials are optimistic that they will be able to find at least the $450 million of coverage by 1982, even though efforts to raise the present property limits to $375 million from $300 million hit snags last year and a small "sliver" of coverage remains to be placed.

The drive to raise property policies to $375 million got a late start last year and was hampered by insurers also being asked to provide coverage for an extra expense program set up by the American Public Power Assn., Mr. Proom said.

He says ANI is better prepared to sell the capacity program this year than it was last year.

Baseball cover rides lawsuit

Continued from page 1
the first $15.3 million of the total package as the Central Fund of Major League Baseball.

"Baseball is not a party to the suit," explained Mr. Bank. "We feel the suit protects both baseball and our own interests."

Willcox Baringer and Mr. Browning previously have refused to comment on suits relating to Switzerland General and reinsurance allegedly placed with it. However, in other legal action taken against him by Switzerland General, Mr. Browning claimed to represent a European Insurance Co. of Switzerland that had reinsurance authority from Switzerland General through European's owner Marc Weder.

Several sources interested in the cases report Mr. Weder died in an automobile crash in February.

Switzerland General had previously disclaimed coverage sold by Mr. Burnham and Mr. Browning by placing ads in financial newspapers around the country.

Though its suit is still pending, the Swiss-based insurer has received a temporary injunction that prevents Mr. Browning and several others from claiming to represent the firm. ▪

Penny-wise; safety foolish

Continued from page 3
to the deliberations forming the U.S. Occupational Safety & Health Administration.

Armed with the five star system checklist, Mr.Tye's students left his seminars and went into the foreign working conditions where the format didn't fit.

"A native (in Zambia) says, 'What about the witch doctor?' Until he gives a chant no one goes down into the mines. So you have to include the witch doctor."

If risk managers spent more time on safety programs and watched for the early warning signs, they could prevent most product liability lawsuits, Mr. Tye contends.

Many famous product problems, including auto recalls and chemical damages, were predictable by safety experts, he says.

Corporations also knew there would be damage caused by the Agent Orange chemical used in the Vietnam war, Mr. Tye contends.

"It was used expressly to burn up the countryside. It's obvious that you must use caution and not have it bounce back on your troops.

"If the U.S. Army is so negligent, it should be held responsible," he added.

Mr. Tye hopes that the European Economic Community eventually passes the product liability directive, making EEC member manufacturers fully liable for all accidents caused by a product even if they didn't know there was a fault prior to a lawsuit.

"Incredible pressure is then put on the manufacturers to make sure products and chemicals put on the market are wholly safe," he said.

With the right attitude, risk managers can avoid calling on insurance policies to pay losses and focus more on occupational and product safety, says Mr. Tye.

"A risk manager is really a person who runs fire, safety, security and occupational health programs of a company, and pays the premium for what he can't cover," said Mr. Tye. "It's your job to conserve all the aspects of your company."

The risk managers should be skilled in fire and safety ideas, security and occupational safety, and attend as many seminars as possible before settling a firm's insurance and loss prevention program, Mr. Tye says. ▪

CORRECTION

The Risk Sciences Group, Inc. advertisement on page 86 carries an incorrect phone number.

The correct phone number is:
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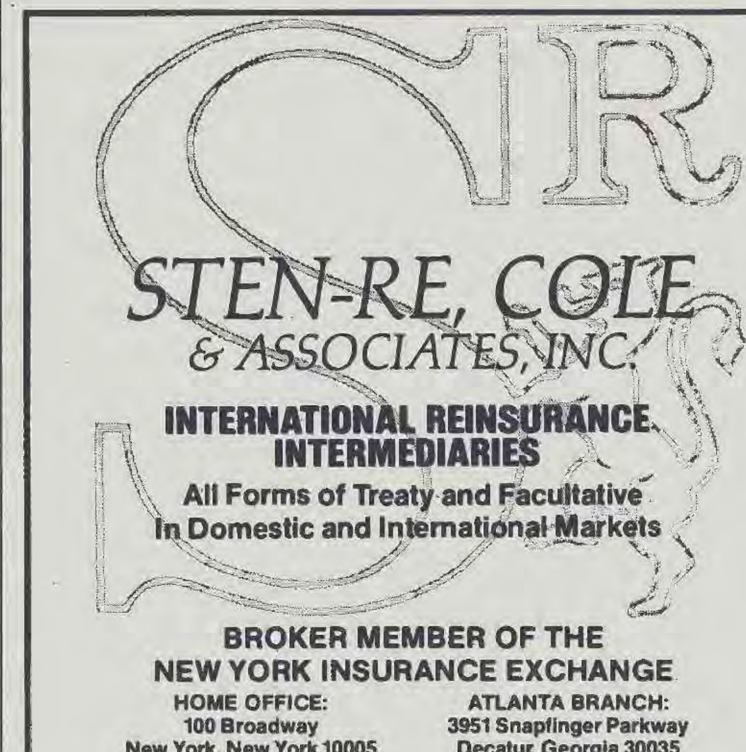

Insurers fear rash of libel suits

Continued from page 2

upheld."

Publisher's liability insurers also were sharply critical of the verdict. They say that Ms. Burnett failed to prove ill will, hostility or malice on the part of the *Enquirer*. Such proof is required under California law to recover punitive damages in a libel action.

The lion's share of the award—$1.3 million—was for punitive damages, which are not insurable. The *National Enquirer* does not discuss its libel insurance, but it is believed the publication carries multimillion-dollar limits with a large deductible.

During the first day of the trial in Los Angeles Superior Court, insurance briefly became an issue when a mention of libel coverage inadvertently was read into the record by *Enquirer* attorney Masterson.

A freelance tipster whose information provided the basis for the *Enquirer* story about Ms. Burnett said in deposition testimony read to the court: "Iain Calder, editor and chief (sic) of the *National Enquirer*, told me that I would be in no way held personally reliable (sic) and that we have insurance."

Ms. Burnett's attorney raised an objection and Mr. Masterson, embarrassed, agreed that he had not intended the jury to hear that.

Availability of insurance is believed by many legal experts to prejudice jurors' thinking. Following a meeting with both attorneys, Judge Peter Smith instructed the jury that there was no insurance.

Court minutes of that meeting show that this fact was never established, however. All parties agreed to the unusual instruction because insurance coverage was not considered material to the suit.

Another aspect of the case that surprised libel insurers was the judge's ruling that the *Enquirer* is a magazine and not a newspaper. California law permits a plaintiff to recover significantly greater damages against a magazine than against a newspaper.

Judge Peter Smith determined that the *Enquirer* did not deal in timely news, Mr. Masterson told *Business Insurance*.

"This decision could have a disturbing impact on a number of national publications that use the newspaper format," observed Roger Rudkin, second vp of Employers Reinsurance Corp., a major libel insurer. He said libel insurers distinguish between magazines and newspapers for rating purposes.

Employers Re in Kansas City is frequently mentioned as the likely underwriter of the Enquirer's libel insurance. Mr. Rudkin would not comment.

Libel insurance rates for publications amenable to suit in California are already higher than in most other states, reported Larry Worrall, president and general counsel of Media Professional Insurance Agency Inc. in Kansas City.

California does not apply the law equally to different parties, complained Mr. Worrall. The courts in California are unpredictable and make special exceptions for celebrities and personalities, he said. He called the Burnett outcome a product of "passion and prejudice."

In a prepared statement issued after the trial, Mr. Masterson revealed that there are 10 other suits pending against the *Enquirer*.

"Compared to the number of suits outstanding against other major news organs, this is a very small number—particularly in light of the many celebrity stories the *Enquirer* prints," he said.

The Burnett suit charged that a gossip column item in a 1976 issue of the *Enquirer* implied the comedienne was drunk while dining in a Washington, D.C., restaurant. She said a retraction printed by the tabloid was insufficient.

HMO community rating urged

Continued from page 2

"In the case of the Southern California marketplace, the effect of mandated community rating appears to be that of driving health care costs up and effectively preventing federally qualified HMOs from providing health care to certain employer groups," Dr. Gumbiner adds.

Dr. Gumbiner says FHP could slash its monthly premiums for employer groups 7.8% to 22% if it were allowed to rate employers by experience.

Other HMO experts argue community rating is an integral part of HMOs' efforts to restrain health care costs. A shift to experience rating is a step backwards on cost control, says James Doherty, executive director of the Group Health Assn. of America.

Most agree, however, that federally qualified HMOs should be allowed to trim their benefit packages in order to give insurers more price competition.

Mental health, drug and alcohol abuse benefits should no longer be mandated in the basic benefit package required from HMOs, says Robert Biblo, president of the GHA. ■

Airline captives taxi again

Continued from page 3

and fly.

"It has been a dream for 40 years, but something always stops it," says Mr. Roach of Capitol International Airways.

Several airline risk managers said they would consider joining an industry captive, but wouldn't comment until more details are known.

Dan Hansen, director of insurance for United Airlines, chairman of the task force evaluating whether to reactivate the captives, declined to comment, pointing out that the task force has just been formed.

Other task force members are James F. O'Neil, director of insurance and retirement for TWA in Kansas City, Mo., and Richard Ralston, manager of insurance for Ozark Air Lines in St. Louis. ■

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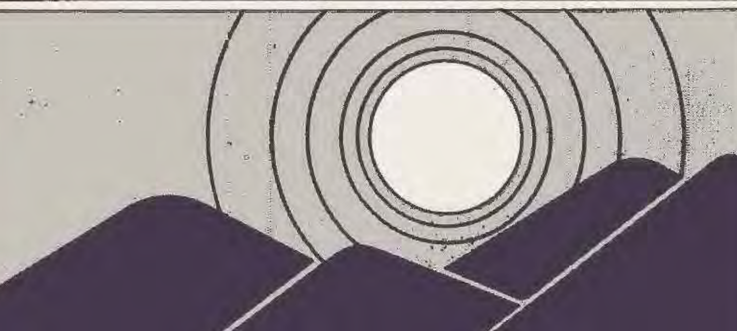

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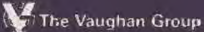
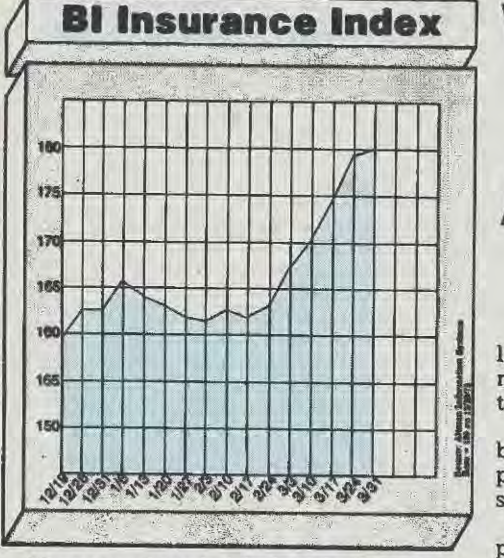


The Vaughan Group



After several weeks of whopping increases, the Business Insurance stock index rose only a half point to 179.9 from 179.4. Thirty-one stocks declined, 29 rose and 11 were unchanged. Showing the largest increases were: Foremost Corp. of America, 9.2%; Corroon & Black Corp., 8.4%; Rollins Burdick Hunter Co., 7.8%; United Fire & Casualty Co., 7.3%, and Kemper Corp., 6.8%. Largest decreases were: Tokio Fire & Marine Insurance Co., 6.1%; Aneco Reinsurance Ltd., 5.4%; Farmers Group Inc., 4.9%, and Travelers Corp., 4.7%. The index increased an overall 0.3% but the rise was slower than all three major market indicators.

British Issues

3/31 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence pence
Comml Union	168	8.8	15.45	9.2	171—165
Eagle Star	236	8.8	15.00	6.4	241—231
Genl Accident	340	8.5	19.29	5.7	342—332
Gdn Royal Exch	340	8.9	21.43	6.3	344—336
Phoenix	272	8.5	21.43	7.9	280—270
Royal	381	8.3	34.29	9.0	381—375
Sun Alliance	774	10.5	45.00	5.8	790—772
Brokers					
CE Heath	232	11.3	13.87	6.0	232—230
Hogg Robinson	116	9.3	8.14	7.0	116—107
Alex Howden	121	9.2	10.00	8.3	123—115
JH Minet	102	12.8	6.45	6.3	102—101
Sedg Grp	119	11.8	7.14	6.0	119—116
Stenhouse Hldg	80	7.6	6.64	8.3	80— 79
Stew Wrightson	230	11.2	17.14	7.4	230—220
Willis Faber	310	13.0	17.14	5.5	310—302

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

Winds of fortune help lift Allendale to new profits

BY ELLIS SIMON

JOHNSTON, R.I.—Allendale Insurance is leaner today than two years ago when chairman and president George R. West came to town from Arkwright-Boston.

Since then, the mutual insurer has cut back unprofitable accounts, reduced expenses and discontinued a deficit-ridden casualty business.

In 1980, Allendale posted a $16.7-million profit after two consecutive years of losses. At the same time, revenues dropped 13% to $284.6 million from $317.8 million in 1979.

Credit for the turnabout, however, does not rest entirely with Allendale's management, Mr. West concedes. The winds of fortune blew in the firm's direction as weather-related losses slowed.

Because Allendale retains a large portion of the risk it insures, instead of heavily reinsuring, the firm tends to get a more random loss pattern than other insurers, he explains.

The largest member of the Factory Mutual System also has encouraged clients to improve their properties. Firms with unprofitable risks were asked to pay more premium or take other steps to modify their contracts, Mr. West says.

"We accepted a somewhat lower sales volume and emphasized balanced relationships with our accounts," he continues. "If we did not pursue this route, our sales could have been higher, and our profits probably would have been lower."

More than half the accounts hit with policy modifications agreed to the changes rather than switch insurers, he adds.

Allendale's withdrawal from casualty insurance, which was mostly written by its Affiliated FM subsidiary, accounted for half the decline in revenues during 1980.

"We're withdrawing because we are losing money," Mr. West says.

While Allendale's talents for insuring property risks and developing loss prevention programs are among the best in the country, it did not have similar talents in the casualty area.

"To put in place the skills that are needed in casualty requires additional expenditures, and the marketplace didn't need us," says Mr. West.

The uncertainty and spectre of casualty results will remain with Allendale for some time. Affiliated FM insured asbestos risks and other long-tail exposures.

Currently, Allendale is reserving $70 million for casualty losses. Although a 1980 analysis suggested the reserves "have some redundancy," Mr. West says the firm probably won't make any adjustments downward for three years.

Allendale's efforts at controlling expenses have been better than the insurance industry average. Even with a 13% drop in revenues, Allendale's expense ratio rose only one-half of 1%, Mr. West notes.

Allendale's staff also has been cut through attrition. At the end of 1980, the insurer reduced staff by 16%, exceeding a targeted 9% drop. Salary savings accounted for half of a $10 million drop in operating expenses last year, notes executive vp John J. Carey.

The company has stepped up its use of data processing to maintain service levels despite fewer personnel. Allendale was a latecomer to the use of data processing because it services a relatively small number of large accounts, all of which have custom-designed programs, says Mr. West.

Unlike stock companies, Allendale Insurance does not have to maximize profit. If profit levels are excessive, they are returned to policyholders as dividends, Mr. West notes. Because Allendale's premium-to-surplus ratio is less than 1-to-1, it can withstand deficits without hurting stability.

Mr. West is somewhat skeptical on 1981's outlook because of the current competitive environment in the highly protected risk property market.

"If the market stays the way it is, any company making a profit will have done a great deal," he says.

Allendale's strategy calls for renewed commitment to better loss prevention, account selectivity and control over wasteful spending. However, inflation and interest rates will affect 1981's results.

"The most important person on our staff is Ronald Reagan," Mr. West says. "If his program works, it will bring down the prime rate and inflation."

The high prime interest rate has made Allendale vulnerable to attacks on premium deposits, the mechanism by which Factory Mutual policyholders pay several years' premium in advance, providing the insurers with a capital base.

If the interest rate drops, it will be hard to beat Allendale for prices and service. "By the end of 1981 (if interest rate drops), there won't be a lower cost operation in the U.S. giving service that's comparable with this company," he says.

"The prime rate has a direct effect on interest in the premium deposit," adds Mr. Carey. "The lower the prime rate, the lower the interest in the premium deposit."

The premium deposit system enabled Allendale to provide needed market capacity in 1974, Mr. Carey points out.

Allendale also credits investment income earned on the premium deposit in its rate formula, Mr. West adds.

The state of the economy should work to Allendale's advantage in reducing loss experience, Mr. West says. "In some cases, when there is less active utilization of plant capacity, firms do more maintenance. However, it is more difficult during hard times to get insureds to commit large sums for improvements," he adds.

Business interruption exposure is reduced during a recession because idle capacity is available if an accident shuts down a plant.

Allendale, traditionally an insurer of industrial properties, is expected to underwrite more hotel and office building business as owners become more conscious of loss prevention in the aftermath of tragic hotel fires in recent months, Mr. West adds.

"We've been in the hotel and office market for some time, but we haven't been able to get adequate protection (from potential policyholders)," he explains. "The protection we want is inexpensive compared with what some governments want today."

Allendale picked up the Del Webb Hotel account in Nevada eight days before the MGM Grand Hotel fire, Mr. Carey notes. The insurer also covers Marriott hotels.

"We've had inquiries since (the big hotel fires), but we would only insure those properties from which we got a commitment to adequate loss prevention," he says.

"There's no question large offices and hotel complexes are undergoing changes in attitude. They're trying to prevent these things in the future."

Also in Allendale's future is greater use of captives by its insureds, Mr. Carey predicts. "Once someone uses captives for any reason, they'll look at the total program."

Allendale was not an enthusiastic supporter of captives when companies began expanding use of insurance subsidiaries several years ago, but now Mr. Carey says "it's in our mutual interest for the client to be aware of the business side of insurance."

Last year, Allendale established New Providence Mutual Ltd. as a Bermuda facility to service clients wanting a captives to insure the lower exposures of property risks.

"It's competition in one sense, but it's a question of who can do it best," Mr. Carey says. "If people think they can make something better or cheaper than buying it, then they will."

BI ticker

BI Industry Stock Report

MAR. 31, 1981 — 3/25/81 THRU 3/31/81

Insurance Cos.

Company	Exch.	Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol. (000)
Aetna Life & Cas Co	NYSE	35.75	-2.4	5.7	2.32	6.5	37.63	35.25	977.9
American Bankers Ins Group	OTC	6.88	-3.5	4.6	0.22	3.2	7.13	6.88	77.6
American Finl Corp Ohio	OTC	27.75	0.9	5.7	0.50	1.8	27.75	27.50	20.4
American Gen Ins Co	NYSE	43.38	-0.6	6.6	2.00	4.6	44.63*	42.38	201.2
American Indty Finl Corp	OTC	17.63	-0.7	6.8	1.12	6.4	17.75	17.63	2.6
American Intl Group Inc	OTC	80.50	-4.5	10.8	0.60	0.7	83.88	80.00	184.3
American Natl Ins Co	OTC	14.50	2.7	6.6	0.68	4.7	14.75	14.38	81.5
American Sta Life Ins Co	OTC	17.50	0.0	6.0	0.72	4.1	17.50	17.50	0.9
Aneco Reins Ltd	OTC	4.38	-5.4	0.0	0.00	0.0	4.75	4.38	34.7
Appalachian Natl Corp	OTC	2.13	0.0	6.1	0.05	2.4	2.13	2.13	3.4
Avemco Corp	AMEX	9.50	1.3	8.2	0.50	5.3	9.63	9.38	19.0
Banks Iowa Inc	OTC	31.00	3.3	5.2	1.44	4.6	31.00*	30.00	8.6
Bitco Corp	OTC	39.50	1.3	5.7	2.16	5.5	39.50	39.50	4.4
Carolina Cas Ins Co	OTC	9.50	2.7	6.1	0.32	3.4	9.50	9.25	1.4
Central Natl Finl Corp	OTC	10.88	3.6	4.0	0.65	6.0	10.88	10.75	2.6
Chubb Corp	OTC	44.38	0.3	5.2	2.68	6.0	44.38	43.50	107.3
Combined Intl Corp	NYSE	21.50	2.4	6.1	1.60	7.4	21.63*	21.00	219.7
Connecticut Gen Ins Corp	NYSE	53.63	-0.7	7.0	1.76	3.3	54.63*	53.63	233.2
Continental Corp	NYSE	26.63	0.5	7.1	2.40	9.0	27.75	26.63	296.4
Crawford & Co	OTC	19.50	0.0	14.9	0.52	2.7	19.75*	19.50	44.5
Crown Life Ins Co	OTC	98.50	2.3	8.3	2.80	2.8	100.00*	98.50	0.7
Crum & Forster	NYSE	29.25	-1.3	5.4	1.44	4.9	30.00	28.25	208.2
Employers Cas Co	OTC	33.25	-0.7	5.4	1.20	3.6	33.75	33.25	3.6
Equifax Inc	NYSE	21.00	-1.2	6.6	2.40	11.4	21.25	20.75	2.0
Farmers Group Inc	OTC	31.13	-5.0	9.9	1.12	3.6	32.50	31.00	198.5
First Colony Life Ins Co	OTC	39.00	0.0	13.4	0.80	2.1	39.50	39.00	5.3
Foremost Corp Amer	OTC	25.25	9.2	8.3	0.80	3.2	25.25*	24.00	27.4
Great West Life Assurn Co	OTC	270.00	0.0	11.2	10.00	3.7	270.00	270.00	0.0
Hanover Ins Co	OTC	44.50	-2.2	4.1	0.72	1.6	45.25	44.50	12.4
Hartford Steam Boiler Inspctn	OTC	38.00	1.3	7.6	2.60	6.8	38.00	37.50	10.2
Jefferson Natl Life Ins Co	OTC	47.00	6.8	22.0	0.64	1.4	49.00	47.00	27.8
Kemper Corp	OTC	33.38	-0.7	5.1	1.60	4.8	33.38	32.75	66.1
Lincoln Natl Corp Ind	NYSE	44.25	0.0	6.1	3.00	6.8	44.25	42.38	50.5
Mgic Invt Corp	NYSE	34.88	-3.1	9.6	1.28	3.7	37.00*	34.88	435.2
Mission Ins Group Inc	NYSE	43.38	1.5	8.5	1.00	2.3	43.75	43.38	41.9
Nationwide Corp Ohio	OTC	23.13	0.5	6.6	0.70	3.0	23.13*	23.13	2.4
Northwestern Natl Life Ins	OTC	29.25	-0.8	6.5	1.25	4.3	29.50	29.25	80.1
Ohio Cas Corp	OTC	40.63	-4.4	6.8	2.04	5.0	41.50	40.00	140.8
Old Rep Intl Corp	OTC	18.25	6.6	5.0	0.92	5.0	18.25	17.63	192.1
Pinehurst Corp	OTC	6.38	-1.9	0.0	0.00	0.0	6.50	6.25	25.0
Preferred Risk Life Ins Co	OTC	18.88	-0.7	6.3	0.80	4.2	18.88	18.88	3.3
Provident Life & Acc Ins Co	OTC	45.50	0.0	6.7	2.20	4.8	45.50	45.50	41.4
Republic Natl Life Ins Co	OTC	26.88	5.9	16.2	0.70	2.6	26.88*	25.63	22.7
Ryan Ins Group Inc	OTC	23.00	0.0	9.1	0.12	0.5	23.00	23.00	0.6
St Paul Cos Inc	OTC	40.63	-2.7	7.7	2.32	5.7	41.88	40.25	76.5
Safeco Corp	OTC	38.75	-1.0	6.9	2.00	5.2	39.13	38.38	47.3
Sri Corp	OTC	33.00	1.5	5.5	1.20	3.6	33.00*	32.50	14.5
Seibels Bruce Group Inc	OTC	21.63	12.3	10.9	0.80	3.7	21.63*	19.50	40.6
Statesman Group Inc	OTC	6.00	0.0	4.6	0.15	2.5	6.00	5.88	29.9
Tokio Marine & Fire Ins Co	OTC	149.50	-6.1	16.5	1.03	0.7	157.00	149.50	1.7
Travelers Corp	NYSE	46.00	-4.7	5.3	2.88	6.3	48.50	45.63	361.3
United Fire & Cas Co	OTC	44.00	7.3	11.5	1.00	2.3	44.00*	41.00	1.5
United States Fid & Gty Co	NYSE	43.63	0.3	5.3	3.20	7.3	44.00	43.50	200.5
United Svcs Life Ins Co	OTC	16.25	-1.5	6.6	1.00	6.2	16.63*	16.13	43.9
Uslife Corp	NYSE	32.50	0.0	9.1	0.72	2.2	32.50	31.63	499.3
Washington Natl Corp	NYSE	34.88	-4.1	6.8	1.62	4.6	36.00	34.88	38.2
Zenith Natl Ins Corp	OTC	16.75	4.7	10.4	0.50	3.0	16.75*	16.25	46.6
INSURANCE COMPANIES	AVERAGE			7.7		3.8			

Agents/Brokers

Company	Exch.	Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol. (000)
Alexander & Alexander Svcs	OTC	35.75	-0.7	11.7	1.84	5.1	36.00	35.50	128.0
Baldwin & Lyons Inc	OTC	31.25	2.5	5.5	0.80	2.6	31.25	30.50	11.9
Corroon & Black Corp	NYSE	26.00	8.3	11.0	1.76	6.8	26.00	24.25	18.7
Crump E H Cos Inc	OTC	12.75	-1.0	11.2	0.40	3.1	12.88	12.75	17.2
Hall Frank B & Co Inc	NYSE	27.63	3.8	10.1	1.60	5.8	27.88	27.63	42.0
Integrated Res Inc	AMEX	15.88	-3.8	7.4	0.00	0.0	16.75	15.88	39.3
James Fred S & Co Inc	NYSE	25.25	1.0	10.8	1.60	6.3	26.00	24.75	144.2
Marsh & Mclennan Cos Inc	NYSE	37.75	2.0	12.1	2.00	5.3	38.00*	37.25	192.9
Penncorp Fincl Inc	NYSE	6.63	-1.9	5.9	0.16	2.4	6.75	6.50	105.7
Reed Stenhouse Cos Ltd	OTC	11.63	-1.1	11.0	0.56	4.8	11.75	11.63	27.2
Rollins Burdick Hunter Co	OTC	24.25	7.8	11.7	1.24	5.1	24.25	23.00	14.5
AGENTS/BROKERS	AVERAGE			9.5		4.7			

Conglomerates/Holding Cos.

Company	Exch.	Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol. (000)
American Express(Fireman's Fd)	NYSE	45.63	-2.7	8.7	2.00	4.4	46.50	45.50	514.4
Anderson Clayton(Ranger/PanAm)	NYSE	21.63	-2.3	5.9	1.20	5.5	21.75	21.38	20.1
Armco Inc	NYSE	41.63	2.8	10.6	1.64	3.9	41.63*	41.13	257.2
City Investing Co. (Home Ins.)	NYSE	26.13	-0.5	7.1	1.60	6.1	27.38	26.00	958.6
CNA Finl Corp (CNA)	NYSE	16.13	-4.4	6.0	0.00	0.0	16.75	16.13	29.9
Control Data (Comml. Credit)	NYSE	68.88	6.2	8.3	0.90	1.3	68.88	65.75	423.1
General Re Corp	NYSE	63.00	0.0	8.9	1.76	2.8	63.38	62.88	75.4
INA Corp (Ins. Co. of NA)	NYSE	42.63	-2.0	6.0	2.40	5.6	44.38	41.25	321.4
ITT (Hartford Group)	NYSE	32.63	-1.9	5.3	2.60	8.0	33.38	32.13	781.2
Reliance Group Inc	NYSE	73.00	-2.7	5.8	3.00	4.1	75.00	72.00	14.7
Sears Roebuck & Co. (Allstate)	NYSE	18.38	2.1	9.6	1.36	7.4	18.63	18.38	2,088.8
S & H Co. (Bayly Martin & Fay)	NYSE	32.88	1.2	15.3	1.00	3.0	33.00*	32.75	24.8
Teledyne Inc (Argonaut)	NYSE	150.00	10.4	9.8	0.00	0.0	150.00	142.01	605.9
Transamerica Corp (Occidental)	NYSE	21.00	-2.3	5.7	1.28	6.1	21.25	20.38	356.1
CONGLOMERATES/HOLDING COS.	AVERAGE			7.8		3.2			

*Record high/low since Jan. 1, 1981.

System design: Altman Information Systems

Financial briefs

Prudential

Group life sales grew 31.8% to $26.2 billion in 1980, Prudential Insurance Co. reports, while the total premium income for the year rose 7% to $8.6 billion.

Company officials predict group heath premiums may rise as much as 15%-20% in 1981, tracking rises in the nation's health costs. ▪

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