NEWSPAPER

AUGUST 28, 1995

Business Insurance®

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

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Remaking Lloyd's of London



World's Largest Reinsurers

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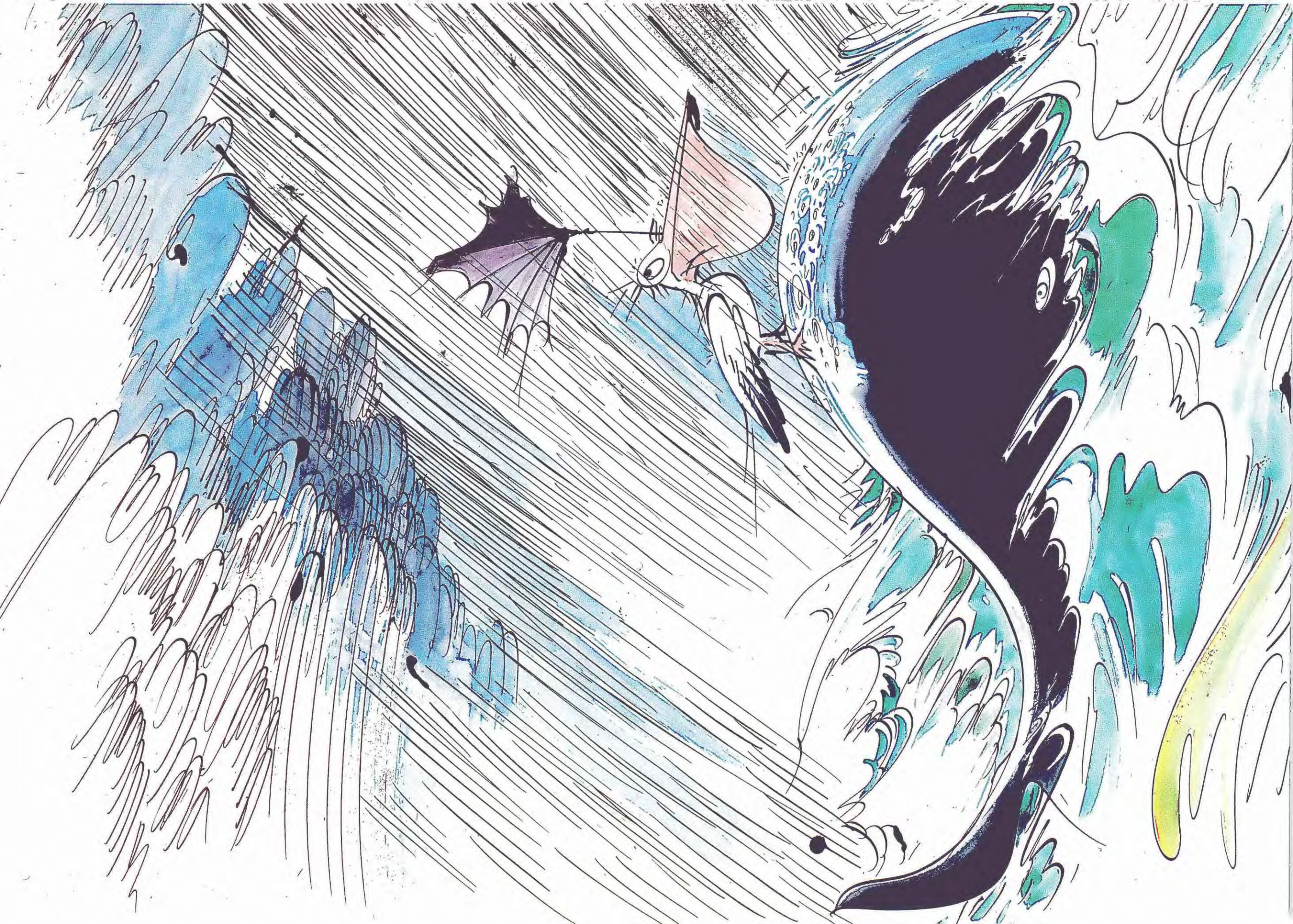
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Seeking Shelter from the Storm?





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Updates

NAIC team to recommend accreditation for Vermont

MONTPELIER, Vt.—After visiting Vermont last week, a National Assn. of Insurance Commissioners accreditation examination team will recommend that the NAIC's Financial Standards and Accreditation Committee award Vermont a five-year accreditation.

The NAIC's accreditation subcommittee is expected to vote on the recommendation at the NAIC's meeting in Philadelphia in September.

Vermont's accreditation has been the sub-

See **Updates** *on next page*



AP/WIDE WORLD

Investigators examine the wreckage of an Atlantic Southeast Airlines commuter plane that crashed last Monday in Georgia. Five people died and 24 were injured in the crash, which experts say may have resulted from a propeller blade problem.

Propeller cited in crash of ASA plane

Delta affiliate insured for loss

By DAVE LENCKUS and STACY SHAPIRO

CARROLLTON, Ga.—Federal investigators are focusing on the maintenance history of a propeller blade that snapped off of an Atlantic Southeast Airlines Inc. commuter airplane that crashed in rural Georgia last week.

The Aug. 21 crash, which killed five and injured 24, will not likely drive already-rising aviation insurance rates any higher, however.

Four passengers and the pilot aboard Flight 529 from Atlanta's Hartsfield International Airport to Gulfport, Miss., were killed when engine and subsequent problems apparently forced the pilot to ditch the 30-seat twin-engine turboprop in a hayfield near Carrollton, Ga., shortly after takeoff. Twenty-four people—22 passengers and two crew members—were injured in the crash about 45 miles west of Atlanta.

Neither Atlanta-based ASA nor its partner, Delta Air Lines Inc., would comment on ASA's liability and hull insurance program. Delta holds an approximate 22% stake in ASA. ASA's flight schedule feeds into

See **ASA** *on page 70*

Captive tax deduction denied

Court ruling may be open to misinterpretation, experts fear

By JOANNE WOJCIK

CINCINNATI—Companies cannot claim a tax deduction for premiums paid to a captive insurer if the captive does not adequately shift risk away from the parent, according to a federal appeals court ruling.

In an Aug. 18 decision, the 6th U.S. Circuit Court of Appeals overturned a U.S. Tax Court decision that had granted the deduction to Malone & Hyde Inc. and eight of its subsidiaries for premiums paid to Bermuda-based captive reinsurer Eastland Insurance Ltd.

Memphis, Tenn.-based Malone & Hyde formed the captive in 1977 to reinsure the wholesale food distributor's workers compensation, auto liability and general liability risks.

Although the ruling counters an earlier landmark decision by the 6th Circuit granting a tax deduction for premiums that Humana Inc. paid to its captive (*BI*, Aug. 7, 1989), the decision did not come as much of a surprise, say captive tax experts.

However, the language of the decision could open up a whole new can of worms for captive owners, according to Bruce Wright, a partner at New York law firm LeBoeuf, Lamb, Greene & MacRae, who specializes in captive tax issues.

"If the opinion is read to mean that there's no deduction when the captive reinsurer is undercapitalized and there is a hold-harmless agreement" issued to the primary insurance company, that's OK, Mr. Wright said.

"But the language in the case is confusing, and I hope it's not interpreted to mean that Humana's purpose becomes the standard" for determining tax deductibility of captive premiums, he said.

See **Tax** *on page 71*

New York expanding GIC options

Plan sponsors welcome approval of new investment products

By JUDY GREENWALD

NEW YORK—Two recent decisions by the New York Insurance Department broaden the number of guaranteed investment contract options for sponsors of 401(k) and other savings plans.

New York regulators for the first time will allow life insurers to issue synthetic guaranteed investment contracts.

Unlike traditional GICs, the underlying assets in synthetic GICs are actually owned by the plan itself rather than by an insurer, which can give added comfort to plan sponsors who are concerned about the long-term security of life insurers.

In addition, New York will permit AAA-rated financial guarantee insurers to back GICs issued by lower-rated life insurers, which could lead to some additional competition in the market (see story, page 72).

The move by Insurance Superintendent Edward J. Muhl, an appointee of Republican Gov. George E. Pataki, to permit life insurers to issue synthetic GICS reverses a decision of Democratic Gov. Mario Cuomo's appointee, Salvatore Curiale.

The language of the decision came as a surprise, said attorney Jonathan L. Mercier, of Manchester, Conn.-based Turco & Mercier, who said that while rescinding the earlier ban was anticipated, he also was expecting the department to issue special requirements that would restrict New York-licensed insurers.

"That does not appear to be the case here," said Mr. Mercier. "My assumption is that the decision reflects a

See **GICs** *on page 72*

CEOs get meager pay raise

Greenberg highest paid as CEO ranks jumbled by shaken profits

By SALLY ROBERTS

The Northridge earthquake took a toll on many insurance industry chief executives' wallets in 1994 and shook up the rankings of the highest paid CEOs as well.

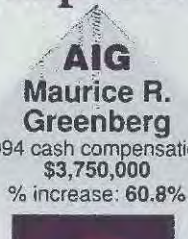
The average leading commercial insurer and reinsurer CEO made $1,129,885 in salary and bonus during 1994, according to a *Business Insurance* study of proxy statements. That represents only a 2.5% increase in average cash compensation over 1993 levels of $1,102,755, which includes five individuals who held positions other than CEO in 1993. Last year, with a slightly different group of CEOs, the average 1993 cash compensation rose 15.1% over 1992 levels (*BI*, Aug. 29, 1994).

In addition, of the 37 CEOs surveyed, 13 received pay cuts in 1994, compared with only five in 1993. In most cases, pay cuts coincided with lower profits exemplifying the trend toward tying executive pay to com-

See **CEOs** *on page 69*

Top CEOs' fortunes rise and fall

AIG
Maurice R. Greenberg
1994 cash compensation: **$3,750,000**
% increase: **60.8%**





Travelers
Sanford I. Weill
1994 cash compensation: **$3,678,750**
% decrease: **9.1%**



Reliance
Saul P. Steinberg
1994 cash compensation: **$3,675,000**
% decrease: **31.9%**

American General
Harold S. Hook
1994 cash compensation: **$1,960,000**
% increase: **11.1%**



CIGNA
Wilson H. Taylor
1994 cash compensation: **$1,722,900**
% increase: **118.1%**



Source: Company proxy statements and annual reports

GRAPHIC BY MIKE GARVEY

Updates

Vermont may be accredited

Continued from previous page
ject of a long-running dispute, centering in large part on the state's regulation of risk retention groups as captives rather than as traditional insurers as the NAIC's model stipulates. Earlier this year, however, the NAIC voted not to require states to regulate risk retention groups organized as captives in the same manner as traditional insurers, paving the way for Vermont's accreditation (*BI*, June 12).

"I have high hopes, but I think we wait until after the vote," said Vermont Commissioner of Banking, Insurance and Securities Elizabeth R. Costle.

Many Vermont observers were reluctant to comment on the examination team's findings until the accreditation vote is finalized.

Risk Capital IPO on hold

NEW YORK—Risk Capital Holdings Inc., a new reinsurance holding company organized by Marsh & McLennan Risk Capital, has postponed its initial public offering until after Labor Day.

The company did not cite a reason for the move, but it follows the withdrawal this month of an unrelated reinsurance IPO for Normandy America Inc. amid questions about Normandy's management and weak demand for its shares (*BI*, Aug. 21).

Potential investors had raised a number of concerns about the Risk Capital offering, including the reinsurer's unusual plan to invest in equities of its ceding insurer policyholders, analysts say.

These questions themselves, though, might not have been enough to cause the delay were it not for the ripple effects of the Normandy withdrawal.

"Had the Normandy thing not happened, this deal would have gone through," one analyst said.

Before the postponement, Risk Capital Holdings cut the size of the offering to $240 million from $280 million.

Copley settles asthma suit

CANTON, Mass.—Product liability insurance will cover most of the $150 million Copley Pharmaceutical Inc. has agreed to pay to settle the massive class-action lawsuit relating to its Albuterol asthma drug.

The Canton, Mass.-based generic drug manufacturer, majority owned by Hoechst-Celanese A.G., expects to take a $5 million to $8 million charge against third-quarter earnings to cover its portion of the settlement. Copley is covered under Hoecht's product liability policies. Hoechst would not provide Copley's coverage details.

Depending on the number of claims that are filed, the settlement figure could increase.

At least 1,100 claimants have opted out of the class and are pursuing individual actions against Copley, said Stephen Meyers of Jacoby & Meyers in New York, which is representing the claimants. An estimated 1,600 to 2,000 have chosen not to accept the settlement.

The drug manufacturer recalled Albuterol nationwide in January 1994 after learning that four batches of the drug were contaminated with bacteria. Lawsuits blamed the tainted drug for various injuries.

In November, U.S. District Court Judge Clarence A. Brimmer granted class-action status to the suits filed in federal courts throughout the country (*BI*, Nov. 28, 1994).

The settlement calls for a maximum liability of $130 million for claims of injury and an additional $20 million maximum for claims involving death.

If Judge Brimmer approves the settlement, all claims must be submitted by Dec. 4 to the U.S. District Court in Cheyenne, Wyo.

ABC settles tobacco litigation

NEW YORK—Capital Cities/ABC Inc. will pay Philip Morris Cos. and R.J. Reynolds Tobacco Co. attorneys fees, costs and out-of-pocket expenses incurred during litigation over the television network's broadcast of allegations that the tobacco industry giants "spiked" and "fortified" cigarettes.

The total amount to be paid to the tobacco companies is estimated at $17 million. The two tobacco companies also won an on-air apology from ABC Inc. last week.

In February and March 1994, the ABC program "Day One" reported that Philip Morris and RJR "spiked" and "fortified" cigarettes with nicotine so smokers would become addicted.

The cigarette makers contend that they do not add nicotine and the finished product actually contains less nicotine than the tobacco that is used to make them.

DuPont to appeal Benlate fine

COLUMBUS, Ga.—E.I. du Pont de Nemours & Co. Inc. will appeal a $115 million fine levied by a federal judge who determined that the chemical giant concealed evidence and committed fraud in the first-ever Benlate DF liability trial in 1993.

Last week, U.S. District Judge Robert Elliott, who presided over that first Benlate case, which DuPont ultimately settled with four plaintiffs for $4.3 million (*BI*, April 3; Dec. 12, 1994), said DuPont "cheated" and committed a "fraud against the court" by withholding key pieces of evidence from plaintiffs' counsel that showed that its Benlate fungicide was contaminated by a toxic herbicide that either killed or crippled plants.

In assessing the fine against DuPont, the judge said DuPont could reduce the penalty to only $14 million by taking out a series of advertisements in major newspapers across the country that acknowledge and apologize for its fraudulent conduct.

DuPont last week said it would appeal the fine and would not immediately place ads that admit wrongdoing. "Neither DuPont

See **Updates** *on page 70*

Muni bond insurers merge

FSA, Capital Guaranty to compete with 'Big Three'

By JUDY GREENWALD

NEW YORK—The planned merger of financial guarantee insurers Financial Security Assurance Holdings Ltd. and Capital Guaranty Corp. is viewed as a good move for both, though analysts disagree whether it will increase competition among municipal bond insurers.

The merger of San Francisco-based Capital Guaranty Corp. with a unit of New York-based FSA is expected to create a more effective competitor for the "Big Three" in the municipal bond guarantee market.

Those three—Armonk, N.Y.-based MBIA Inc., New York-based AMBAC Indemnity Corp. and New York-based Financial Guaranty Insurance Co.—together control about 90% of the municipal bond guarantee market.

FSA and Capital Guaranty announced their definitive agreement Aug. 18.

The transaction, which is valued at $200 million, including $50 million in cash, is expected to be completed by year end, pending necessary shareholder and regulatory approvals.

Under terms of the deal, each Capital Guaranty share will be exchanged for FSA Holdings stock and cash worth $23 per share. How much FSA Holdings stock will be issued will be subject to adjustment if FSA's share value falls below $22.50 or rises above $28.50.

Depending on FSA Holdings' 20-day average stock price before the merger's closing, FSA Holdings will issue between 5.5 million

See **Merger** *on page 68*

UFG unit in Chapter 11

Bankruptcy filing names creditors owed more than $9 million

By DOUGLAS McLEOD

NEW YORK—The insurance brokerage unit of Underwriters Financial Group Inc. has filed for Chapter 11 bankruptcy protection, citing millions of dollars of debts to insurers, brokers and others.

In a filing in U.S. Bankruptcy Court last week, UFG International Inc. said it had about $230,000 in assets and $9.9 million in liabilities as of July 31.

UFG largely ceased operating in June, hobbled by the suicide of one of its top officers, the resignations of others and by a lawsuit charging that it defrauded a premium finance company of $5 million to cover its own debts and operating expenses (*BI*, July 24).

UFGI's largest unsecured creditor, at $4.8 million, is CPF Premium Funding Inc., the Lake Success, N.Y.-based premium finance firm that filed a racketeering complaint against the brokerage and its top officers in June.

The complaint charged that top UFGI officers submitted forged premium finance applications in the names of clients and used the money to benefit the brokerage.

In an affidavit filed with the bankruptcy petition, UFGI Senior Vp Howard Miller says the CPF suit "effectively crippled (UFGI's) ability to arrange financing to remedy its financial problems," triggering the Chapter 11 filing.

Other top creditors, according to the filing, are Frank Crystal & Co. Inc., a New York broker owed $784,536 in commissions; Kerwick & Curran Inc., a Hauppauge, N.Y., wholesale broker owed $503,527

See **UFGI** *on page 72*

Managed care cited for lower increases: CBO

Health spending slowdown

WASHINGTON—Private health care spending will increase by about 7% a year for the next decade, according to a new study by the Congressional Budget Office.

In "The Economic and Budget Outlook: An Update," the CBO credited the increased popularity of managed care for that growth rate, which represents a significant decline over the double-digit growth rates of much of the past decade.

"Unlike traditional insurers, managed care plans actively purchase health care instead of passively paying the bills. These new plans, led by HMOs, have the potential to control the growth of health spending on behalf of enrollees," said the report.

The CBO report warns, however, that there's no guarantee that the slowdown will last indefinitely. "Previous slowdowns in the growth of health spending—in the late 1970s and mid-1980s, for example—proved temporary," the CBO said. If costs follow projections, health care costs will account for 16.7% of the national economy in 2005, compared with about 14% this year.

But, if private health care spending reignites, with costs gradually increasing to 2% a year above the CBO's current projections, health care will account for 19.5% of the economy, according the report.

—By Mark A. Hofmann

US West reaches labor pact

By LEE VELKER

DENVER—US West Communications Inc. will increase union workers' health and pension benefits under tentative new labor agreements.

That settlement leaves only Bell Atlantic Corp., among the major phone companies, at the negotiating table after three-year contracts expired Aug. 5. The other Baby Bells reached agreements with their major labor unions earlier this month (*BI*, Aug. 14).

Denver-based US West's tentative pact with the Communications Workers of America and the International Brotherhood of Electrical Workers will expand health care coverage in a point-of-service plan, increase pension benefits and 401(k) matches and raise other benefit levels.

As part of the deals reached Aug. 19, US West will offer additional services to union employees covered under the POS plan, though each will come with a copayment. Previously, these added medical services under the Metropolitan Life Insurance Co.-administered plan were available only to management employees.

Union employees now will pay a $10 copayment for the following services under the POS plan: obstetrical and gynecological care; chiropractic care; visits to specialists; and physical, speech and occupational therapy. There will be

See **Union** *on page 72*

Inside

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A tough juggling act for Lloyd's

Reconstruction and renewal plan may be market's last and best hope for survival in a changing world

By STACY SHAPIRO

It's now or never for Lloyd's of London.

Leaders of the 307-year-old market say Lloyd's must implement its ambitious "reconstruction and renewal" plan by next spring, or shut its doors forever.

As a result, there is little rest or recreation for people in the market who are working to make Lloyd's so-called R&R plan a reality. Although few expect such a doomsday scenario to actually occur, they agree that the market's course would be uncertain if the plan failed.

Indeed, some market participants contend that the market could survive if the plan is not implemented. And just in case, Lloyd's has contingency measures on the shelf if some aspects of the plan hit snags.

Meanwhile, Lloyd's underwriters continue to write coverage as if it's business as usual. In addition, most sectors of the market—aviation, marine and non-marine—expect to show profits for their efforts.

The prevailing mood in the market is somber and determined.

"I have never felt a stronger sense of commitment from the market generally to get the issues that we're dealing with fixed," said Lloyd's Chairman David Rowland. "There are lots of arguments about lots of things. . .but they understand that at the end of the day they're going to have to get it fixed somehow."

"What is refreshing is that we have now put another plan into the market. . .and nobody in the market is saying that the broad lines of the plan are wrong," added Lloyd's Chief Executive Peter Middleton. "But, of course, where part of the plan impacts on the business of individuals, they want to be persuaded that what we are going to do is absolutely necessary."

Most of Lloyd's 31,000 voting members are committed to seeing the new framework succeed, though they may argue about the details of the plan, according to Mr. Rowland. There is only a minority of "individual wild men and women who are committed to opposing everything because they believe in the destruction of the society," he said. Even one of Lloyd's strongest critics, Chatset Ltd., last week gave broad support for the plan.

The members and the market should support the plan, added Lloyd's chairman, because "the alternative to what we're proposing, or something like what we're proposing, is so infinitely worse for the whole society. . . .The lights-out-at-Lime-Street scenario does not produce anything other than a pretty horrific situation."

If the reconstruction and renewal plan failed, Lloyd's members would continue to pay escalating long-tail claims, syndicate runoff costs and be liable to personally pay all losses.

The R&R plan "has got to work," said Sir David Berriman, chairman of the Assn. of Lloyd's Members. Members are "sick and tired of litigation" and many individual members want to continue to underwrite in a profitable environment, he said.

However, there is no guarantee of success, Mr. Rowland warned.

Some people already think the plan has been implemented, but that is far from the truth, added Mr. Middleton. "The last thing we want is for anyone to feel that it's done. It isn't done. We've put together a framework that we think is the best. But we have a massive amount of work and persuasion to do."



On its surface, what Lloyd's proposes to do by next spring sounds deceptively simple: Transfer all liabilities associated with the "old" Lloyd's—those up to and including the 1992 year of account—to reinsurer Equitas Ltd., which will run off the business. The "new" Lloyd's that would remain in business would then only have liabilities from 1993 onward.

To realize this goal, Lloyd's, among other things, plans to:

- Segregate 584 open years of account into Equitas.
- Raise hundreds of millions of

See **R&R plan** *on next page*

Spotlight on Lloyd's

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Aviation market profits set to soar..... **Page 44**

World's largest reinsurers

Increase in net premiums lower than previous years

Munich Reinsurance Co. remains atop *Business Insurance*'s ranking of the world's largest reinsurers for a seventh-consecutive year, based on $9.97 billion in net reinsurance premiums in 1994.

Munich Re's premiums alone accounted for nearly 20% of the $50.21 billion in net reinsurance premiums written by the world's 20 largest reinsurers.

Second-ranked Swiss Re Group reported $8.23 billion in net reinsurance premiums, while third-ranked General Re Corp. posted $5.55 billion in net premiums.

The pace of premium growth, though, appears to be letting up. The top 20's premium volume was 9.1% higher than the $46.04 billion in premiums reported by a similar, though not identical, group of reinsurers in 1993 (*BI*, Aug. 29, 1994). That compares with a 13.8% increase over 1992 premiums, and a 17.2% increase over 1991 premiums.

General Re became the third-largest reinsurer in 1994 as a result of its acquisition last year of Cologne Re (*BI*, Oct. 31, 1994). However, Employers Reinsurance Group is unlikely to stay in the No. 4 spot for long, after this year acquiring No. 19 Aachen Re Group and a majority stake in No. 9 Frankona Reinsurance Co.

Two reinsurance companies are new to the top 20 this year: Berkshire Hathaway Group's reinsurance division at No. 18; and Societe Anonyme Francaise de Reassurances, or SAFR, at No. 20.

In addition to Cologne Re's disappearance from the rankings after being acquired by Gen Re, 1993's No. 14, Tokio Marine & Fire Insurance Co. Ltd., declined to be listed citing a decision to reduce its international reinsurance underwriting.

The reinsurance market remains a truly global business, with seven countries represented in the top 20. However, acquisitions have brought U.S. reinsurers to the forefront, with six of the leading reinsurers, followed by Germany with five and France with three. Switzerland and Japan each had two, while Italy and the United Kingdom were home to one apiece.

Business Insurance does not include Lloyd's of London in its ranking of the world's largest reinsurers because it cannot provide net reinsurance volume figures. However, Lloyd's would likely rank among the top reinsurers based on $3.45 billion in gross treaty reinsurance premiums. That amount does not include reinsurance premiums paid by Lloyd's syndicates to other syndicates.

Business Insurance ranks the world's 20 leading reinsurers based on the most current available reports of consolidated worldwide net reinsutance premiums written, including both property/casualty and life/health reinsurance. The companies supply that data in response to a *BI* questionnaire.

A report on the major trends witnessed by the leading reinsurers begins on page 47. A chart providing more detailed financial information on these reinsurers is on page 48.

The seventh annual *Business Insurance* directory of international reinsurers begins on page 52.

World's largest reinsurers

All amounts in thousands of dollars

Rank	Reinsurer	Net reinsurance premiums written 1994
1	Munich Reinsurance Co.	$9,966,171
2	Swiss Re Group	8,230,300
3	General Re Corp.	5,551,000
4	Employers Reinsurance Group	3,484,334
5	Assicurazioni Generali S.p.A.	3,257,248
6	Hannover Re/Eisen & Stahl Re Group	3,097,084
7	Gerling Global Reinsurance Group	1,976,464
8	Mercantile & General Reinsurance	1,936,026
9	Frankona Reinsurance Co.	1,850,952
10	SCOR S.A.	1,797,330
11	American Re-Insurance Co.	1,551,223
12	AXA Re	1,196,301
13	The Toa Fire & Marine Reinsurance Co. Ltd.	1,125,948
14	Transatlantic Holdings Inc.	868,370
15	Winterthur Swiss Insurance Co.	788,510
16	The Yasuda Fire & Marine Insurance Co. Ltd.	787,867
17	Prudential Reinsurance Co.	733,383
18	Berkshire Hathaway Reinsurance Division	689,834
19	Aachen Re Group	667,926
20	Societe Anonyme Francaise ce Reassurances	655,130
	Total	**$50,211,401**

Source: *BI* survey

GRAPHIC BY MIKE GARVEY

R&R plan

Continued from previous page
dollars through a variety of charges on agencies and members in the market.

• End member litigation with a settlement package worth £2.8 billion ($4.34 billion) and a cap on liabilities through Equitas.

The reality of dividing the old and new Lloyd's, however, is a very complicated endeavor.

Hundreds of people are working on more than a dozen committees to pull off various aspects of Lloyd's R&R plan.

And no one underestimates the enormity of the tasks involved.

Since 1993, when Messrs. Rowland and Middleton took the helm, implementing the plan has been"the toughest workload of all," said Mr. Middleton. While one or two critical issues need much thought and debate, what really makes it hard is the "sheer volume" of tasks that must be completed.

"People are working very long days under immense pressure, but doing so with real drive and determination," added Ron Sandler, Lloyd's director of special projects, who helped draft the R&R plan and is touted as the market's next chief executive. "We cannot afford to have it not succeed for lack of effort or lack of application."

Lloyd's has reached this impasse following five years of unprecedented losses totaling nearly £8 billion ($12.52 billion) between 1988 and 1992, largely as a result of London market excess-of-loss reinsurance losses and long-tail liabilities from North American asbestos, pollution and health-related liabilities.

Lloyd's posted a 1992 global loss of £1.19 billion ($1.86 billion), which is considerable improvement from the £2.05 billion ($3.03 billion) loss reported for 1991.

Between 40 and 45 members action groups are fighting payment of these losses, alleging they shouldn't be liable because the losses were caused by negligent underwriting in the market. Several court decisions have upheld that view. As a result of those decisions decided to date, members agents and their errors and omissions underwriters owe litigating members at least £500 million ($775 million) (*BI*, July 31; May 29).

But, it looks as if the worst of the underwriting losses are over.

Lloyd's projects that the market will produce a profit of at least £1.05 billion ($1.64 billion) for the 1993 account, which closes at the end of this year. The market also expects profits will be made in 1994 and 1995. Market analyst Chatset Ltd. has predicted Lloyd's will reap profits of more than £1 billion in 1994.

Three years of profitable underwriting have given Lloyd's the chance to settle its problems through the R&R plan, according to Mr. Rowland. When the market realized earlier this year that profits existed, "they had a real opportunity to produce a plan to resolve the issues of the past. They seized that opportunity and put that plan in the public arena, which as a framework for settlement has had a remarkable degree of acceptance," he said.

There are several hurdles to clear before the R&R plan is fully implemented next spring:

• Equitas' reserves must be determined, and premiums for reinsurance to close members' accounts into the runoff reinsurer must be calculated. Preliminary premium calculations are expected to be sent to members in October.

"I believe personally we have three priorities now: Equitas, Equitas and Equitas," summed up Robert Hiscox, Lloyd's deputy chairman and chairman of Hiscox Holdings Ltd. "If you get Equitas up and running, properly funded and licensed, you've got rid of all the problems."

Members must agree to pay the premiums to close their open syndicate accounts into Equitas and also to end their litigation against members agents. By year end, Lloyd's will ask members to vote in favor of the principles of the plan. But members don't actually have to agree to pay their final Equitas premium statements until next spring.

The transfer of pre-1993 reserves into Equitas may hurt some Lloyd's syndicates that have obtained loans using these funds as collateral or that have dipped into investment income from the reserves for cash

See **R&R plan** *on page 6*

Making sense of Lloyd's currency conversions

It is never easy converting foreign currency into U.S. dollars, and currency conversion gets even more complicated when dealing with Lloyd's of London.

Due primarily to the special nature of Lloyd's three-year accounting system, one simply cannot use the corresponding year-end exchange rate to convert Lloyd's results into dollars.

To convert its results, Lloyd's uses the exchange rate at the end of the year in which the underwriting year actually closes.

For example, since the 1992 underwriting year closed on Dec. 31, 1994, Lloyd's uses the year-end 1994 exchange rate of $1.56 to convert its 1992 results from to dollars.

For underwriting years that have not yet closed, Lloyd's uses the exchange rate at the end of the underwriting year itself.

For example, to convert results from the not-yet-closed 1993 underwriting year, Lloyd's uses the year-end 1993 exchange rate of $1.48.

Or, to convert the still open 1990 account of a syndicate, Lloyd's uses the year-end 1990 rate of $1.93.

When the 1993 underwriting year closes at the end of 1995, Lloyd's will then use the year-end 1995 exchange rate to convert its 1993 results to dollars.

To determine the annual gross allocated capacity in terms of dollars, Lloyd's uses the exchange rate at the end of the preceding year, which is when capacity is actually set.

For example, to calculate syndicates' 1995 capacity, Lloyd's used the year-end 1994 rate of 1.565 to convert pounds into dollars. Under this formula, 1995 gross capacity of £10.19 billion totals $15.95 billion.

Throughout this special report on Lloyd's of London, *Business Insurance* follows Lloyd's currency exchange practices.



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Top 10 Lloyd's syndicates

Based on 1995 gross allocated capacity

Syndicate	Managing agency	Underwriter	1995 capacity (in millions)		1992 profit (in millions)	
Marine 672	Wellington Underwriting Agencies Ltd.	I.C. Agnew	£260.3	$407.4	£16.5	$25.8
Marine 861	Brockbank Syndicate Management Ltd.	M.E. Brockbank	245.3	383.9	25.9	40.5
Non-marine 362 [1]	Murray Lawrence & Partners Ltd.	R.J.R. Keeling	230.4	360.6	1.4	2.2
Non-marine 510 [2]	R.J. Kiln & Co. Ltd.	W.F. Rendall	205.4	321.5	4.3	6.7
Marine 40	Murray Lawrence & Partners Ltd.	A.W. Holt	196.7	307.8	9.4	14.7
Motor 218	Christopherson Heath Ltd.	D.R. Heath	195.0	305.2	17.4	27.2
Non-marine 435	D.P. Mann Underwriting Agency Ltd.	D.P. Mann	193.3	302.5	8.4	13.1
Non-marine 33	Hiscox Syndicates Ltd.	R. Childs	188.9	295.6	12.3	19.2
Marine 1003	Catlin Underwriting Agencies Ltd.	S.J. Catlin	169.8	265.7	7.1	11.1
Non-marine 386	Janson Green Ltd.	R.J. Wallace	149.4	233.8	8.8	13.8

[1] 1992 year of account left open [2] 1991 year of account left open.
Source: Lloyd's of London

GRAPHIC BY JOHN HALL

R&R plan

Continued from page 4

flow, Lloyd's executives admitted. But most major syndicates don't think the loss of reserves will cause major financial problems.

• Members must agree to Lloyd's £2.8 billion ($4.34 billion) offer to settle their litigation. Of that amount, £2 billion ($3.1 billion) will be debt credit from writing off unpaid losses. Another £800 million ($1.24 billion) is being raised from members agents, the agents' errors and omissions underwriters and third parties like auditors. It's unlikely that Lloyd's brokers will contribute to the settlement, since they have no legal liability for member losses, market executives believe.

• To help finance the £2 billion debt credit, Lloyd's will require that underwriting agents contribute £200 million ($310 million) from anticipated profit commissions in 1993, 1994 and 1995, which are expected to total £600 million ($939 million).

Some Lloyd's members are calling for agents to part with as much as half of expected profit commissions.

But, managing agencies that had little to do with the LMX debacle at Lloyd's, while willing to pay their share, might oppose greater levies.

The R&R document "is about us paying (losses of other syndicates) which we don't particularly like, but we do see the necessity of doing," said Richard Keeling, chairman of Murray Lawrence Holdings Ltd.

The "triple close" plus the agent's share of the £800 million to settle litigation is likely to cost Murray Lawrence shareholders about half of their net profits from 1993-1995, the agency's executives note. However, paying this sum means that the loss-making years are reinsured into Equitas, and "the further away we are from those loss years, the better security we are," said Mr. Keeling.

• A levy of £450 million ($704.3 million) from members in 1993-1995, which must be voted on and agreed by the end of this year by members. Messrs. Rowland and Middleton think this will be approved.

• The market must release an estimated £2 billion ($3.2 billion) in expected syndicate profits from the 1993, 1994 and 1995 years of account. Members have already borrowed on the 1993 and 1994 profits to cover debt, so this is expected to generate finances of £800 million.

• The British Department of Trade and Industry must license Equitas, and regulators must agree that the new Lloyd's can continue as is.

The DTI is the most important regulator for Lloyd's to deal with, said Mr. Sandler. "But we recognize the need for other regulators to be briefed on our proposals and kept abreast of our progress," he said, referring to regulators in the U.S. and other countries where Lloyd's has licenses to underwrite business.

Lloyd's will seek a conditional authorization from the DTI at the end of this year, subject to the financial condition of Equitas. Lloyd's would then expect unconditional authorization of Equitas in the middle of 1996, said Mr. Sandler.

As Lloyd's works hard to implement the complex plan, problems are arising. The task is "enormous" and "every time the (R&R teams) pick up a stone they find a snake underneath," summed up Sir David, the ALM's chairman.

Most recently, for example, underwriters of members' personal stop-loss coverage began to dispute whether their policies should respond to Equitas' premium-to-close demands. About 15,000 members have stop-loss coverage designed to limit their Lloyd's losses up to the end of 1992, Mr. Middleton said.

Mr. Sandler said this issue should be resolved before final Equitas premiums must be paid next year.

Some members, like Alan Porter, chairman of The Devonshire Names Action Group, also would like Lloyd's to raise the settlement offer to £4.5 billion ($6.98 billion). But other members, including the ALM's Sir David, say that is unrealistic.

What is crucial now is the timetable for all Lloyd's members to agree "very quickly" to what they will be asked to agree, said Mr. Sandler.

"If I'm nervous about anything, it's simply the timetable issues," Mr. Sandler said.

"But we have come a very long way in the past few months and we have made enormous progress. The momentum is very strong and the confidence is very high." BI

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Opinions

Betting on Lloyd's recovery

SHOULD U.S. policyholders continue to stick with Lloyd's of London, given its uncertain future?

We think they should take the gamble—though, as with any insurer, they should be aware of the risks.

If Lloyd's were just another insurance company, many policyholders would have fled the market years ago. There are ample examples of risk managers who continued to support troubled insurance companies and got burned.

But Lloyd's is not just another insurer. It is a unique market of 107 syndicates—mostly led by talented and creative underwriters—that is attempting to shake off its past problems and go forward with a clean slate.

Those problems have brought Lloyd's under intense scrutiny and some criticism from U.S. insurance regulators and customers. The market is struggling with the burden of billions of dollars of old-year liabilities—much of which is from U.S. asbestos- and pollution-related losses—and a tidal wave of litigation by angry investors.

As we report throughout this issue, Lloyd's is taking great steps to resolve those problems and put them in the past, so it can go forward and effectively compete for business in the modern global insurance market.

The market has set a self-imposed deadline of next spring to implement its so-called Restructuring and Renewal Plan.

If it succeeds, Lloyd's will go forward with only three years of liabilities under its belt, rather than the more than 580 years of still-open accounts it currently faces. There are few major global insurers and reinsurers that will be able to make that same claim.

If it fails, however, Lloyd's will cease to exist. While some syndicates surely will transform themselves into successful insurance companies, they will be hampered by liabilities and litigation for years to come.

We think the market's prospects look hopeful, though, given that the 1993, 1994 and 1995 underwriting years are expected to turn a profit, which in fact will be used to help finance Equitas Ltd., the reinsurer that will assume all 1992 and prior outstanding liabilities.



"SIGN MY CAST?"

Even disgruntled members are likely to recognize that the deal being offered to settle their litigation against the market is probably the best they will get—and better than they could hope to win in court from an insolvent Lloyd's.

We think a viable Lloyd's is important for U.S. policyholders. Although recent years have witnessed a reduction in the amount of U.S. business placed with Lloyd's, it remains the largest source of surplus lines coverage in the United States and continues to be a major reinsurer, according to the National Assn. of Insurance Commissioners.

If the R&R plan succeeds, Lloyd's will continue to be a leading source of specialty coverage for buyers in the United States and around the globe. We know there's a lot at stake, but it is not the time for U.S. risk managers to cash in their chips and go home.

AIDS claim fears unfounded

Remember the AIDS crisis—the one that was going to swamp insurers and employers with tens of billions of dollars in claims?

Only a few years ago, those kinds of predictions were common. A 1987 study by an actuarial group predicted that AIDS-related deaths could cost life insurers $70 billion in aggregate claims by the year 2000. About $50 billion, according to the study, would be paid on individual policies and $20 billion would come from group policies.

While 2000 still is a few years off, the amount of AIDS claims paid by life insurers is unlikely to come anywhere near that $70 billion estimate. From 1986—when insurers first began to track AIDS payments—through 1994, life insurers have paid about $5.3 billion in benefits for those with AIDS, according to a study released earlier this month by the American Council of Life Insurance. Of that total, $2.9 billion was paid under group policies and about $2.4 billion from individual policies.

These claims figures are, of course, very significant numbers, but they are nowhere near the estimates that were made a few years ago.

Still better news is the study's finding that AIDS-related claims paid by group health insurers actually are falling. Last year, group health insurers—excluding most Blue Cross & Blue Shield plans and self-funded employers—paid $446 million in claims, according to the survey, which also was conducted by the Health Insurance Assn. of America. That's down from about $484 million in 1993 and about $525 million in 1992.

Back in the 1980s some employers rewrote their health care policies to put in separate and much lower coverage limits for AIDS than for other medical conditions. Employers that put in those lower limits justified their actions by saying that the cost of AIDS claims could threaten the solvency of their health care programs.

Such actions seem totally unjustified given the declining cost of AIDS claims. Indeed, AIDS claims have fallen to 1% of total claims paid by health insurers from 1.5% in 1992.

The reason for that decline: Insurers and employers continue to do a better job of managing AIDS claims, such as through treatment in less costly, more appropriate settings like hospices.

The study's results should not be interpreted to mean that acquired immune deficiency syndrome has not exacted a terrible toll or that the nation should let up on its efforts to find a cure.

What the results do suggest is that the cost of covering AIDS is manageable and that the cost is not going to bankrupt insurers or employers.

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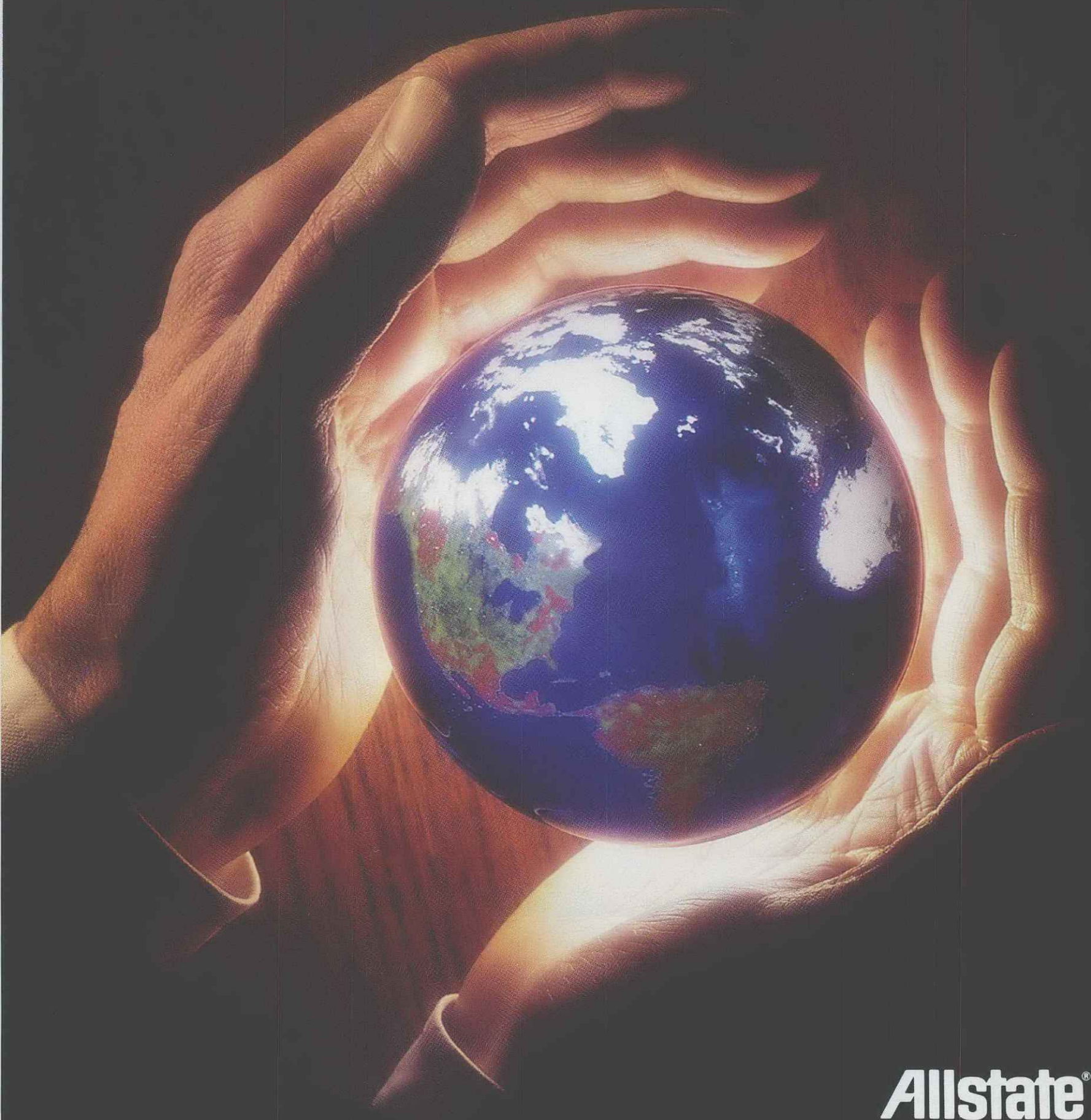
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Lloyd's given a chance to prove itself

Government to postpone review of self-regulation

By STACY SHAPIRO

The debate over self-regulation vs. external regulation at Lloyd's of London is over—for the moment.

But the issue probably will be addressed again after Lloyd's puts into place its reconstruction and renewal plan.

Following heated public hearings in February, the House of Commons Treasury and Civil Service Committee produced a report in May calling for external regulation of Lloyd's. The 39-page report strongly criticized Lloyd's self-regulation in the past, which led to nearly £8 billion ($12.52 billion) in losses between 1988 and 1992 and the ruin of some Lloyd's members.

The committee in particular gave credence to some members' allegations that the Council of Lloyd's in the mid-1980s failed to provide to potential members information on long-tail asbestos and pollution liability losses, which could have persuaded some not to join.

These allegations, voiced by former members agent executive John Donner, have been investigated by Lloyd's and found to be groundless. However, following the committee's criticism of its investigation, Lloyd's appointed law firm Freshfields to re-examine Mr. Donner's file to see if any disciplinary action should be taken. Lloyd's expects to publish Freshfields' findings next month.

Prime Minister John Major disagreed with the Treasury Committee's findings, however. Late last month, the government published its reply to the committee's report, claiming the government will review Lloyd's self-regulation after the market's reconstruction and renewal plan is activated. But it may not be until the turn of the century that a new law is passed calling for external regulation (*BI*, July 31).

While applauding the delay, many people in the market still believe Lloyd's would be best served if it were regulated externally.

"We believe that you gain very little. . .with self-regulation because as internal regulators we do more to ourselves than any external regulator," said Paul Archard, managing director of Murray Lawrence Holdings Ltd., deputy chairman of the Lloyd's Underwriting Agents Assn. and a member of the Regulatory Board.

It probably wouldn't make a bit of difference whether the market was regulated internally or externally, said Mr. Archard, who praised the current regulatory directorate. "But it sure would make a difference to public perception," he said.

"If we were starting Lloyd's tomorrow, I would have regulation outside the market," added Lloyd's Deputy Chairman John Stace, executive chairman of Stace Barr Underwriting Agencies Ltd.

Focusing on the reconstruction and renewal plan to save Lloyd's is top priority at the moment, added Lloyd's Chairman David Rowland. "I think it would be a perfectly healthy thing at the end of this period for an examination to be made of the systems we all choose and the way, then, regulation should operate," he said.

"There's a logic to that," Lloyd's Chief Executive Peter Middleton agreed. "When we have effected the changes that we want to do. . .then of course Parliament, too, might want to take stock upon what would be the most appropriate legislation for 'the new Lloyd's.' "

New legislation would have to take the new map of Lloyd's into account.

This year, the market's capital is very diversified.

The number of individual members with unlimited liability that are underwriting this year dropped 13% to 14,744 from 17,624 last year. Altogether there are 31,375 Lloyd's members. More than half no longer actively underwrite, though they still vote because they remain on the 584 open syndicate accounts.

About £2.87 billion ($4.49 billion), or 28%, of Lloyd's total capacity this year of £10.19 billion ($15.95 billion) is underwritten by individual members.

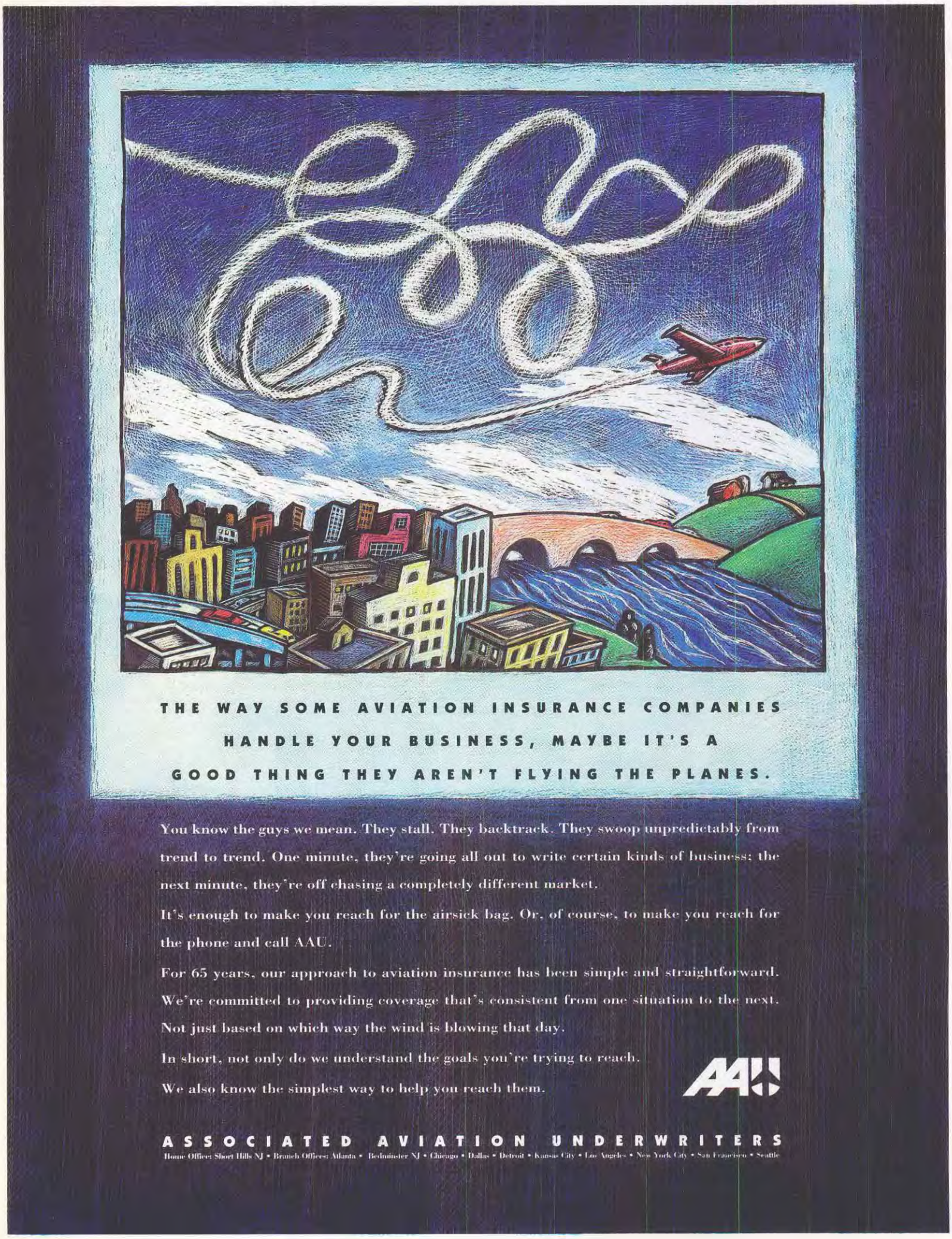
Another £4.96 billion ($7.76 billion) of the market's capacity is written by individual members through investment funds known as members agency pooling arrangements, or MAPAs.

There are 140 corporate members this year, up from 95 corporates last year, which write a total of £2.36 billion pounds ($3.69 billion) in capacity in the market. Only £227.5 million ($356 million) of this was invested in corporate vehicles dedicated to one managing agent's syndicates.

Altogether, there were 170 syndicates this year, only down nine from last year, of which 78 are non-marine, 45 are marine, 20 are motor, 18 are aviation and nine are life.

Gross premium volume excluding intersyndicate reinsurance dropped about 9% to £7.85 billion at year-end 1994 from £8.6 billion (to $12.29 billion from $12.73 billion) the year before.

Last year's gross premiums included: £2.33 billion ($3.65 billion) from U.S. business, a 14% drop from 1993; £3.1 billion ($4.85 billion) from U.K. clients, a 3% drop; £1.01 billion ($1.58 billion) from continental Europe, a 3% drop; and the rest from other parts of the world. BI





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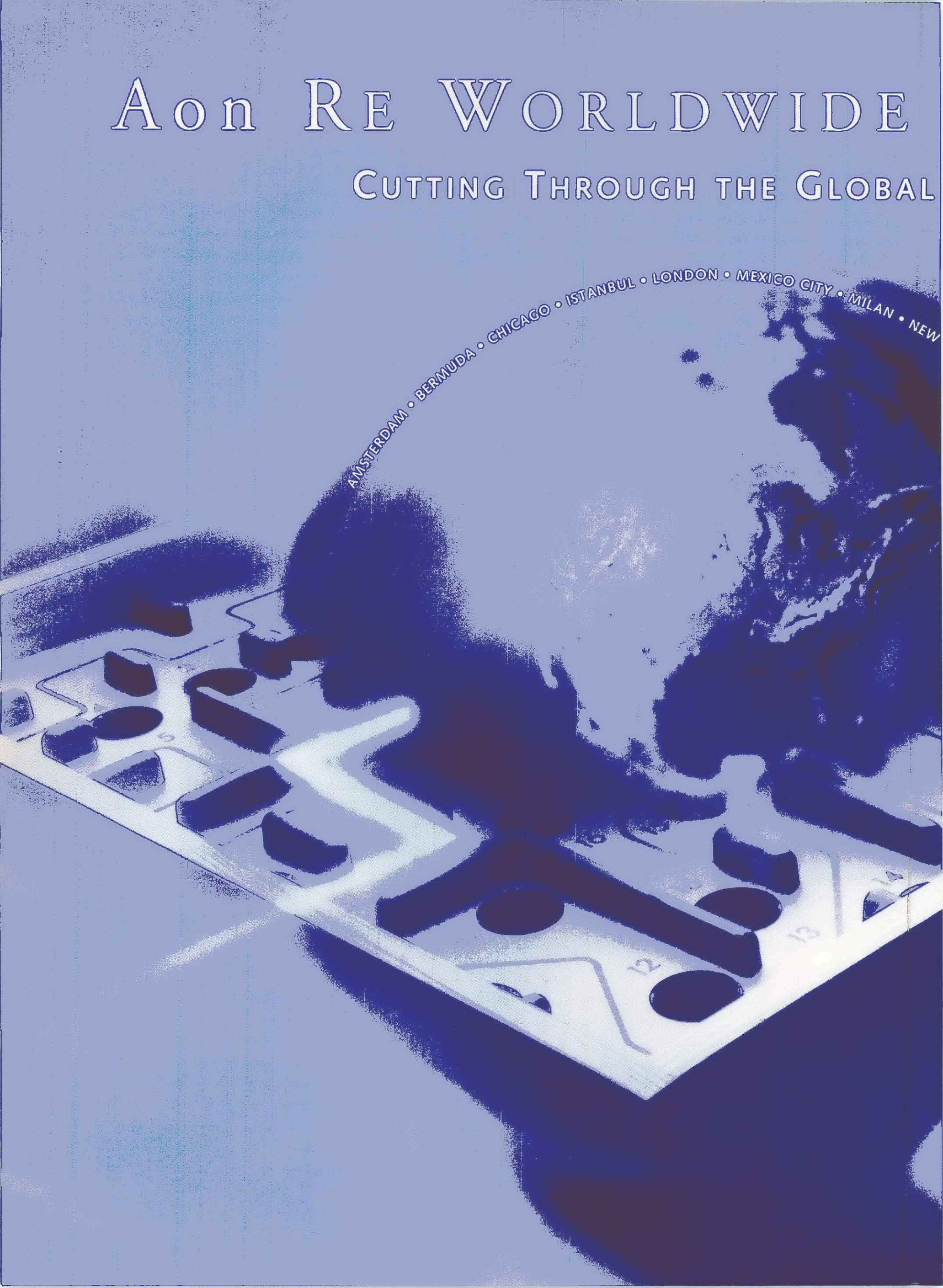
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Equitas project is top priority

Market's reformation hinges on success of reinsurer

By SARAH GODDARD

Ask anybody at Lloyd's of London what is the most important item on the market's reform agenda, and the answer will likely be "Equitas."

The mission for Equitas, the planned runoff reinsurer of Lloyd's syndicates, was expanded greatly earlier this year as part of Lloyd's restructuring and renewal plan (*BI*, May 29). Beginning next spring, Equitas will assume all outstanding liabilities from 1992 and prior accounts.

Given the size of the task, Equitas intends to outsource much of the runoff management. Eventually, though, it says it will centrally manage the runoff. And once it gets up and running, Equitas may consider reinsuring some non-Lloyd's business.

Despite the prominence the reinsurer will play, Heidi Hutter, director of the Equitas project, is modest about the project's importance.

"Lloyd's reconstruction and renewal plan makes it very clear that all its elements are interrelated," said Ms. Hutter. "You can't have one element without another. We won't have Equitas without achieving a settlement; we won't have a settlement without achieving Equitas."

The goal of the Equitas project has changed dramatically from its original aim of reinsuring the pre-1986 liabilities of Lloyd's syndicates. The project originally was designed to "ringfence" long-tail risks written before claims-made wording was incorporated into many liability policies. This effectively meant that asbestos, pollution and health hazard claims from 1985 and prior years would all be pooled into a new reinsurance company, at that time provisionally called NewCo.

But the market's reconstruction and renewal plan has changed all that.

The ringfence looked flimsy and market leaders realized a "fire break" would be needed to contain "the problems of the past," summed up Lloyd's Chairman David Rowland in the market's so-called R&R plan.

To give names greater "finality," the market's leaders decided that the planned runoff reinsurer would have to be expanded.

"We were on the verge of having an operational structure defined and communicated earlier this spring," said Ms. Hutter. "Then along came the R&R plan and expanded our horizons to 1992 and prior years. We didn't have to rethink the entire project but we've certainly had to re-examine a number of aspects so that we can incorporate the new components. The 1986-1992 years add a new dimension of complexity—the volume of business to be handled in the more recent years is much higher."

Equitas' new operational structure will be unveiled in early October. Until then, little information is being released on how one of the world's largest reinsurance companies—to be capitalized at approximately £16 billion ($24.8 billion)—will operate.

One of the plan's new components is outsourcing the run off administration.

Although Equitas has not yet decided how many administrators will be used, runoff management companies currently are seeking authorization from Lloyd's to be among the companies that will help administer the Equitas business.

Approvals are expected to be granted this month, though some of the runoff contractors are complaining about the authorization process and the general delay in getting Equitas off the ground. Since Equitas will be established as a company under the Department of Trade and Industry, Equitas will not have the authority to license runoff managers. Lloyd's, as a self-regulating organization, has been able to charge fees for its licensing process.

"Equitas will not be bound by Lloyd's rules on runoff providers," pointed out Ken Randall, chairman of City Run-Off Ltd., which is recognized as one of the 'big four' runoff companies for Lloyd's syndicates. "We've had a lot of promises that licensing will be complete very soon and that the strategy will be told to us at the end of September. Meanwhile, certainly for the last two years, I've been running a business in limbo."

Anthony Hines, chairman of Syndicate Underwriting Management Ltd., a runoff company owned by Lloyd's that was first set up to administer the runoff of the PCW syndicates, said he also has been frustrated by the lack of information on how Equitas will operate. "The ball game keeps on changing," he said. "SUM's point of view is that as nothing has been decided, we have to make some decisions about where this company is going and how we see its role with Equitas."

To achieve a "critical mass," Mr. Hines noted that SUM recently linked up with two other Lloyd's runoff management firms. Collectively, they handle 25% of the Lloyd's capacity in runoff.

Ms. Hutter sympathizes with the situation facing the runoff operators. "I'm not surprised they say they don't know what is going to be happening," she commented.

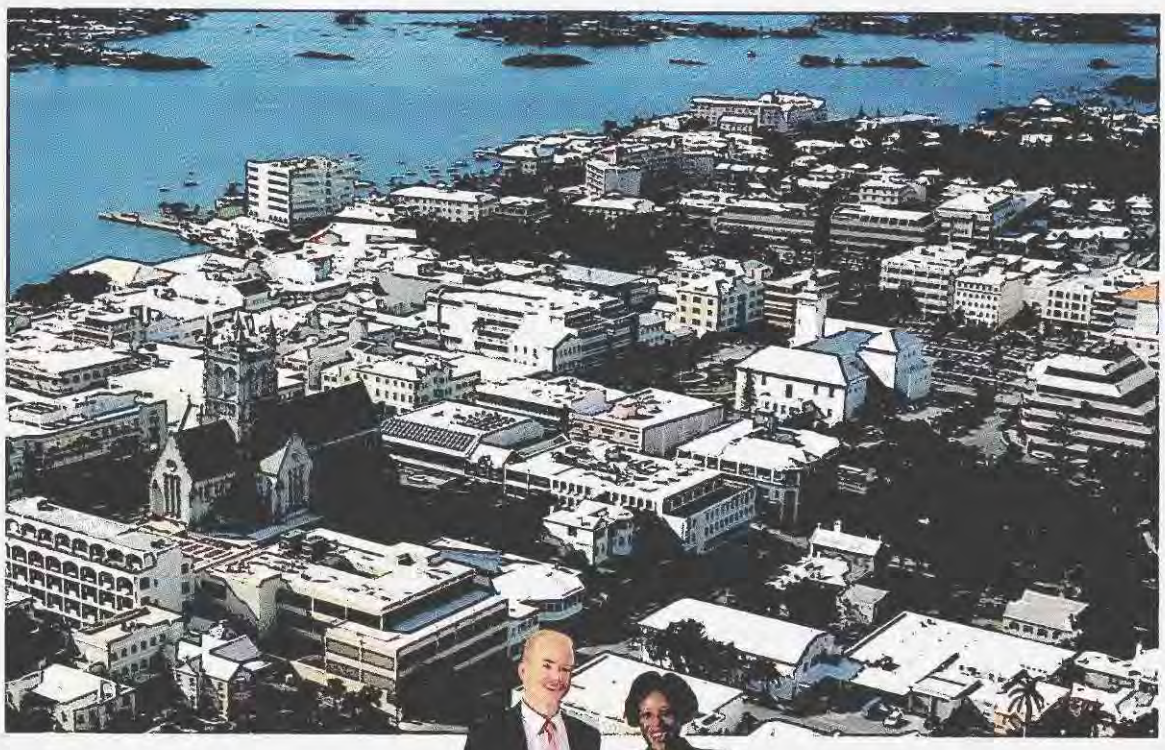
However, she denied that having the approval process operated by Lloyd's is inappropriate. "Although technically Equitas will be a separate company, and technically would not have to use the approved companies, it would be pretty stupid management to ignore it. In fact, the people who are doing the approvals are working hand in hand with the Equitas team."

Critics of the decision to outsource runoff management, at least at the beginning of Equitas' life, say that it limits the company's control of the process. However, one factor behind the outsourcing decision is that for many of the 1986-1992 liabilities, such as the Exxon Valdez and European windstorm claims of the 1990s, where claims activity will be dying down relatively quickly, the runoff life will be short.

"There will be a massive bulge of claims in the first few years, primarily driven by 1986-1992," acknowledged Ms. Hutter. "You'd be pretty stupid to staff up for that peak because you'd see enormous redundancies afterwards," said Ms. Hutter.

See **Equitas** *on next page*

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Equitas

Continued from previous page

Also, with the prospect of taking over 584 open syndicate years as of Jan. 1 next year, it would be impossible for Equitas to set up the necessary infrastructure within the available timeframe. "It would be a disaster," she said.

A transition to centralized runoff management within Equitas will happen over a period of time.

Equitas may be dealing with its final claims in 50 years, which means there will be a lot of claims activity over the next few decades.

"It makes a lot more sense to say that Equitas is going to stay afloat for long-tail claims," she said.

Indeed, sustainability—ensuring that Equitas is still around to pay the last claims—is one of three central principles of the project, along with fairness and being equitable.

"We've always said we want Equitas to be fair to the names, that we're not out to punish or unduly reward them," explained Ms. Hutter. "We want to be equitable among the syndicates, reflecting the exposures they have, so that someone who has a more exposed book of business will pay a higher premium. And sustainable, of course. There's no point in setting up Equitas if it falls over."

Tim Oliver, chairman of Market Group Management P.L.C., another large runoff manager, agreed. "If it doesn't survive in the long term, Lloyd's will have the same problems all over again, only in 10 years."

But Equitas will need to take in new business if it is to survive for the long haul, he said. "No insurance or reinsurance company in the world will survive over the long term unless it's got new business."

An alternative view, which has been voiced by some cynics in the market, is that sustainability is only needed up to a point.

With the average age of Lloyd's members being 59, Equitas may need only to survive a limited number of years, some contend.

"Those that have died in time will have the ultimate reinsurance to close," said one Lloyd's member.

However, that would leave the estates of deceased members unresolved, which is not acceptable to many in the market.

David Newbigging—the chairman-designate of Equitas and as yet the only member of the prospective company's board of director—foresees the company not only surviving but also eventually expanding beyond its original runoff role, according to Ms. Hutter.

But it has to be up and running first, she noted.

"Job No. 1 is taking care of 1992 and prior years," she said. "With the accelerated and expanded Equitas there is no doubt that it will be an all-consuming task for the management for the first few years. But it remains an ambition by year two or three to be in a position to start looking at using the information to write other business, which probably in the first instance will be other people's run off."

Some London market insurers already have inquired about ceding business to Equitas, said Ms. Hutter.

More immediately, in October names will receive primary indications of their Equitas premiums, which are to be paid in spring 1996.

Some still-unresolved issues, such as Superfund reform legislation and the possible breast implant global settlement, will affect the necessary reserve levels after premiums have been paid in spring. But Ms. Hutter is confident of the present reserving system for these sorts of liabilities.

"We are right at the forefront of technology with asbestos, pollution and health hazard claims," said Ms. Hutter. "We are looking at state of the art information in terms of what those exposures are for the insurance industry and what we think it will mean for Lloyd's."

The U.K. Department of Trade and Industry, which regulates insurance companies, has been taking a close interest in the progress of Equitas' reserving procedures, as has the New York Insurance Department. According to Ms. Hutter, if the Equitas reserving policy is wrong, it indicates a problem "in the whole fabric of the insurance industry."

"Ms. Hutter must convince the DTI that the reserves she is taking forward are realistic," said Mr. Hines of SUM. "Bearing in mind that most of the reserves held in syndicates at Lloyd's are considerably higher than the DTI-registered insurance companies, I think she should be able to achieve that. Secondly, it's no good setting those reserves at such a high level that names can't afford them."

Equitas reserves will be discounted to allow for the long-term build-up of investment income, though syndicates currently are not allowed to discount reserves.

The DTI is expected to authorize Equitas to operate as a licensed reinsurance company effective Jan. 1, 1996. However, this may be on a provisional basis, dependent upon a sufficient number of Lloyd's names paying their Equitas premiums next spring, said an Equitas spokesman.

Ms. Hutter anticipates that policyholders will receive "tremendous benefits" from the establishment of Equitas. "They'll have one place to go for settlement and adjustment of their claims," she said. Also, improved investment income will "feed into a sustainable company," she said. "I think that policyholders will benefit tremendously from that."

With Equitas handling so many claims, it will be in a much stronger position to negotiate commutations, according to Ms. Hutter.

This view is not necessarily shared by the runoff operators, though.

"Commutations is an issue which has been sold very hard in relation to Equitas," said City Run-Off's Mr. Randall. "I am well known as being a bit cynical about that. You have to have a reason to commute and in our experience commutations are very hard work."

Also, the diverse way in which Lloyd's records have been kept over the years make the work even harder, he said.

But MGM's Mr. Oliver has found that commutations with Lloyd's syndicates have been increasing over the past two years. "It's because people want cash now," he said, explaining that the insurance industry is experiencing cash-flow problems.

Some observers contend that putting syndicates' reserves into Equitas next year could cause a cash-flow problem for some syndicates.

Depending on how Equitas calculates reserves, syndicate reserves may prove inadequate. Part of the reason for that is because there is no set standard used by syndicates to set reserves. Another problem is that members' refusal to pay cash calls has left some reserves short.

As for members' debts, as part of the market's settlement offer, members will receive about £2 billion ($3.1 billion) in debt credits.

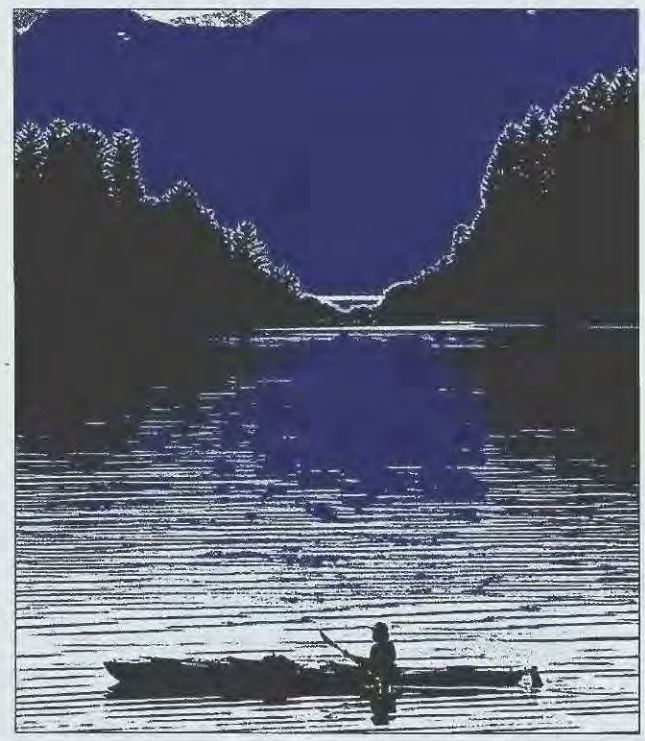
To cover those debt credits, Lloyd's among other things plans to impose a levy on members from 1993 to 1995.

Lloyd's also is looking at a number of facilities to mitigate the potential impact to syndicates and managing agents of transferring the 1992 and earlier cash and reserves to Equitas next spring, Ms. Hutter confirmed. One method being looked at is a treasury facility for managing agents to borrow against their Equitas reserves to minimize disruption in their cash flow.

General opinion says that Equitas is the only viable option for Lloyd's. The alternative—putting the whole of Lloyd's into run off—looks bleak.

"It would therefore freeze not just names' assets at Lloyd's but would possibly freeze their assets outside Lloyd's," said Mr. Hines. "They would be put into the same position as a bankrupt. I don't see that as an alternative, and nobody's put up another one, so I hope and personally believe that it will succeed."

Mr. Randall has reservations about whether Equitas should be outsourcing at the start of its life and the degree of control its management will have, but ultimately supports the reinsurer. "The product at the end of the day will be an excellent one. Provided operationally and strategically it is run by quality people and built on quality systems, I believe there will be sufficient funds to see this job through and there may well be a surplus left over." BI



GET THE BROADER VIEW...

Lloyd's reviewing how it polices itself

Regulatory changes expected, but market to keep internal oversight

By STACY SHAPIRO

Lloyd's of London continues to reassess its system of self-regulation after strong criticism of the market's internal regulators.

Lloyd's is appraising "just what an internal regulator, such as our Regulatory Board, ought to be doing," said Sir Alan Hardcastle, who heads the board.

That review began early this year, long before a House of Commons Treasury Committee lambasted Sir Alan as ineffective and called for outside regulation of Lloyd's (*BI*, May 29), and before the Department of Trade and Industry rejected that course and decided to let self-regulation continue (*BI*, July 31).

The review is coming to a conclusion, and a major streamlining of Lloyd's rules is likely to result.

Meanwhile, the market's Regulatory Board and the Corporation of Lloyd's department of regulatory services are overseeing the changes introduced by Lloyd's reconstruction and renewal plan.

Lloyd's is regulated under 287 bylaws that have been passed by the Lloyd's Council since the Lloyd's Act 1982 and a 1986 review of regulation headed by Sir Patrick Neill.

These bylaws have "been written by the ton," said Sir Alan, "to the point where it's confusing" for regulators and those being regulated to grasp the underlying principles.

Sir Alan said he would like to establish a "bedrock of seven or eight regulatory principles which will be very clearly set out." This would form the basis for both Lloyd's regulation and market discipline, he said.

At the same time, the Regulatory Board would continue "to simulate external independent regulation."

The principles would let syndicates keep taking risks "within reasonable and well-understood limits" and foster the "long-term well-being of the businesses in the market."

Under this new regime, he said, Lloyd's regulators would:

- License the people and companies in the market to make sure they are "fit and proper" and then review the licenses continuously.

Sir Alan said the market's current licensing procedures should be made more rigorous.

During the licensing of syndicate run-off management companies, for instance, regulators now are considering past business conduct, which they have not done for other types of authorizations. "That's going to be a model for the authorizations of (underwriting) agencies as well," said Sir Alan.

- Discreetly supervise the market to protect investors and policyholders.
- Develop procedures for handling complaints.

A lot of these functions exist at the moment, but Sir Alan wants them refined to make regulation more subjective.

Lloyd's bylaws also are being reviewed to improve regulation. For example, Lloyd's introduced a loss review bylaw several years ago to examine syndicates that lost more than 100% of their capacity in any one year. The Regulatory Board plans to alter this bylaw to allow an examination of syndicates before losses get that

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severe.

The current movement to improve regulation marks the third such effort since the Lloyd's Act 1982 was passed.

In 1983, a former Lloyd's chief executive, Ian Hay Davison, and Chairman Peter Miller introduced a set of bylaws designed to end abuses like misappropriations of syndicate funds. Disciplinary bylaws were introduced to set up procedures for fining and expelling internal members found guilty of misdeeds.

The second attempt happened after Sir Patrick Neill's government-appointed committee made 71 recommendations to improve self-regulation. Sixty-nine were implemented in 1987.

The third review began in 1992, when a Lloyd's task force proposed separating the market and regulatory boards. Under the Lloyd's Act, though, these boards still must report to the Lloyd's Council and the chairman.

Today the Regulatory Board consists of: 10 Council members of which five are nominated non-Lloyd's members, including Sir Alan, and five are external members; plus four working members and one appointed external member, who are not on the council; and director of regulatory services Rosalind Gilmore.

Sir Alan is considering adding one or two senior executives to the board from outside the market.

In addition to the board, there are about 150 people employed by the Corporation of Lloyd's regulatory services department, headed by Ms. Gilmore.

Executives in the Lloyd's market look forward to some fundamental changes in self-regulation.

"We feel it's becoming more and more difficult to run our own business," said one senior underwriting executive. Lloyd's regulators are "imposing so much on us now it's a nightmare."

The executive said he used to understand what his agency and underwriters could and couldn't do. Now, though, "I just can't keep up anymore. The only thing I can manage to do these days is wait until alarm bells ring."

Others are concerned that with so much activity involving reforming Lloyd's, regulators may be missing something. That happened in the mid-1980s, when the London market excess-of-loss reinsurance market mushroomed while Lloyd's executives fought to settle members' losses at PCW Underwriting Agencies Ltd.

"I don't think any regulator could say that he could stop something or prevent something," said Sir Alan. "The key thing is to ensure that you make the process of going wrong more difficult than before and, second, spot it early enough in order to take remedial action."

Closer monitoring of syndicate performance, a greater concentration on the syndicate's business plan, and spotchecks will help, he said. "But no one in any area could promise you prevention of failure or loss."

One tool regulators have is a "snitch" bylaw that allows members of the market to confidentially tell regulators about suspicions of wrongdoing.

Regulators are trying to build up their intelligence network in the market, added Sir Alan. "The regulators get to hear quite a lot."

Last year, there were one or two rumors about a new LMX spiral developing, said Sir Alan. The regulators got wind of it and talked to a number of brokers and syndicates about the business. It proved to be under "tolerable control," he said. "But these types of things happen with frightening speed and there's no way a regulator can examine every policy of insurance or reinsurance written."

Policyholders also may doubt the quality of some of the corporate capital entering Lloyd's market, but Sir Alan said he is not too worried about this. If the capital is by way of investment and paid in cash, there isn't much problem because investors have no control over the underwriting. Investors in underwriting agencies, however, will be closely vetted because they will control syndicates, he said.

Given Lloyd's losses, 'we don't have enough evidence of blood on the floor or heads on pikes,' says John Stace.

Meanwhile, some members are frustrated that few market executives blamed for recent problems have been disciplined by Lloyd's.

Between 1988 and 1992, the market lost more than £8 billion ($12.4 billion) "and we don't have enough evidence of blood on the floor or heads on pikes," said John Stace, chairman of Stace Barr Underwriting Agencies Ltd.

"I believe that the membership should have received greater evidence that Lloyd's was able to discipline effectively people who transgressed and used the (old) lax system of our market for many years," said Mr. Stace, a Lloyd's deputy chairman.

Disciplinary proceedings may be going on, but they are kept private until the Council has agreed on a sentence, he added. Only the market's proceedings against former Lloyd's LMX underwriter Derek Walker have been made public (*BI*, April 13, 1992).

Many of the people who caused the LMX and longtail liability losses have left the market, but this doesn't satisfy remaining members, according to Mr. Stace. "There's a general view that Lloyd's has not delivered enough casualties in terms of people who did wrong."

That sentiment is understandable, said a spokesman for Lloyd's, but the question remains whether any individual violated the Lloyd's Act, the market's bylaws or British company law. Lloyd's must prove this has happened before it makes public accusations, he said.

Lloyd's disciplinary procedures set up in 1983 distanced the disciplinary functions from the Council as far as possible. The Investigations Committee, which decides whether charges should be made, is separate from the Regulatory Board.

The Council is not aware of disciplinary charges until a disciplinary tribunal has heard evidence from both sides, and the defendant has been able to appeal the tribunal's decision.

Sir Alan said a review is going on to see whether the Investigations Committee ought to be closer to the Regulatory Board "to provide a seamless path from authorization of business to at the end of the line expulsion from the place in a disciplinary process." Then a whole range of sanctions could be applied throughout the process from warnings to taking people out of the market to discipline.

The whole disciplinary procedure, based on British common law, is heavily in favor of defendants, added the spokesman. So the Investigations Committee must decide whether there is a 50-50 chance of succeeding on a charge, he said.

And the whole procedure lasts at least 12 months, said Sir Alan.

Lloyd's has been reviewing its disciplinary procedures for some months following the criticisms by an appeals court of the delays in disciplining former underwriter Ed Cowen (*BI*, Feb. 14, 1994).

However, delays may continue if a disciplinary proceeding could prejudice a negligence action against underwriters in British courts, according to Sir Alan. "I accept the disciplinary process can always be tightened up, but there is a limit because we are constrained by the law of the land." BI

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U.S. raises oversight of Lloyd's syndicates

Rules may drive some syndicates away

By MEG FLETCHER

U.S. regulators are implementing a new agreement with Lloyd's of London that requires individual syndicates to establish trust funds and meet underwriting and reporting requirements for U.S. insurers.

Regulators say focusing on individual syndicates rather than the market as a whole will give greater security to U.S. policyholders.

The requirements, which went into effect for business written on or after Aug. 1, ultimately may reduce Lloyd's U.S. presence as some syndicates withdraw rather than comply.

The business that Lloyd's syndicates would likely stop writing is only those lines supported by large amounts of reinsurance, said Paul Archard, managing director of managing agency Murray Lawrence & Partners Ltd. (*BI*, July 31).

In addition to a potential decline in U.S. business, Robin Gilkes, chairman of Carter Allen Syndicate Management Ltd., said the new rules will create administrative problems for syndicates. Lloyd's syndicates' share of the U.S. market has been declining in recent years, though they remain the largest source of surplus lines coverage and a major source of reinsurance (see story, page 24).

The U.K. government's recent decision to continue to let Lloyd's regulate itself (*BI*, July 31) "enhances the need for U.S. and other regulators to be vigilant and continue to maintain close scrutiny of Lloyd's activities and developments," said Brian Atchinson, superintendent of insurance in Maine and vp of the National Assn. of Insurance Commissioners.

The willingness of Lloyd's executives to adopt syndicate-specific changes shows "these folks have a game plan and they continue to be at the top of their game," he said. "I think regulators are growing more and more comfortable and confident, though it still has a ways to go."

The major restructuring of Lloyd's U.S. trust funds and accounting arrangements stems from a May agreement between Lloyd's executives and New York insurance regulators, who are the lead negotiators on behalf of all U.S. regulators.

The agreement addressed many of the concerns raised by the first-ever examination of Lloyd's U.S. trust funds by New York examiners. The examiners issued a long-awaited report that found Lloyd's did not comply with New York regulations governing surplus lines placements and credit for reinsurance from unlicensed insurers. Specifically, the regulators found that U.S. trust funds had net deficiencies of $7.75 billion, or more than $18 billion before reinsurance recoveries, at the end of 1993 (*BI*, May 29).

The principal U.S. fund was the Lloyd's American Trust Fund, which from its 1939 inception until the recent restructuring was composed of all U.S. dollar-denominated premiums covering both U.S.-located risks as well as foreign risks denominated in U.S. dollars. Essentially a bookkeeping account on behalf of individual members, the trust paid claims and other expenses (*BI*, March 21, 1994).

In recent years, Lloyd's also established other trusts to meet new regulatory requirements. The combined total of those funds was $12.1 billion at the end of 1994.

Under the New York agreement:

- U.S. regulators will have much more direct oversight of individual syndicates. U.S.-located risks can be covered only by syndicates that meet the New York rules.

Called "sponsoring syndicates," they can write surplus lines or reinsurance or both, if they deposit money equal to anticipated liabilities

See **Regulation** *on page 24*

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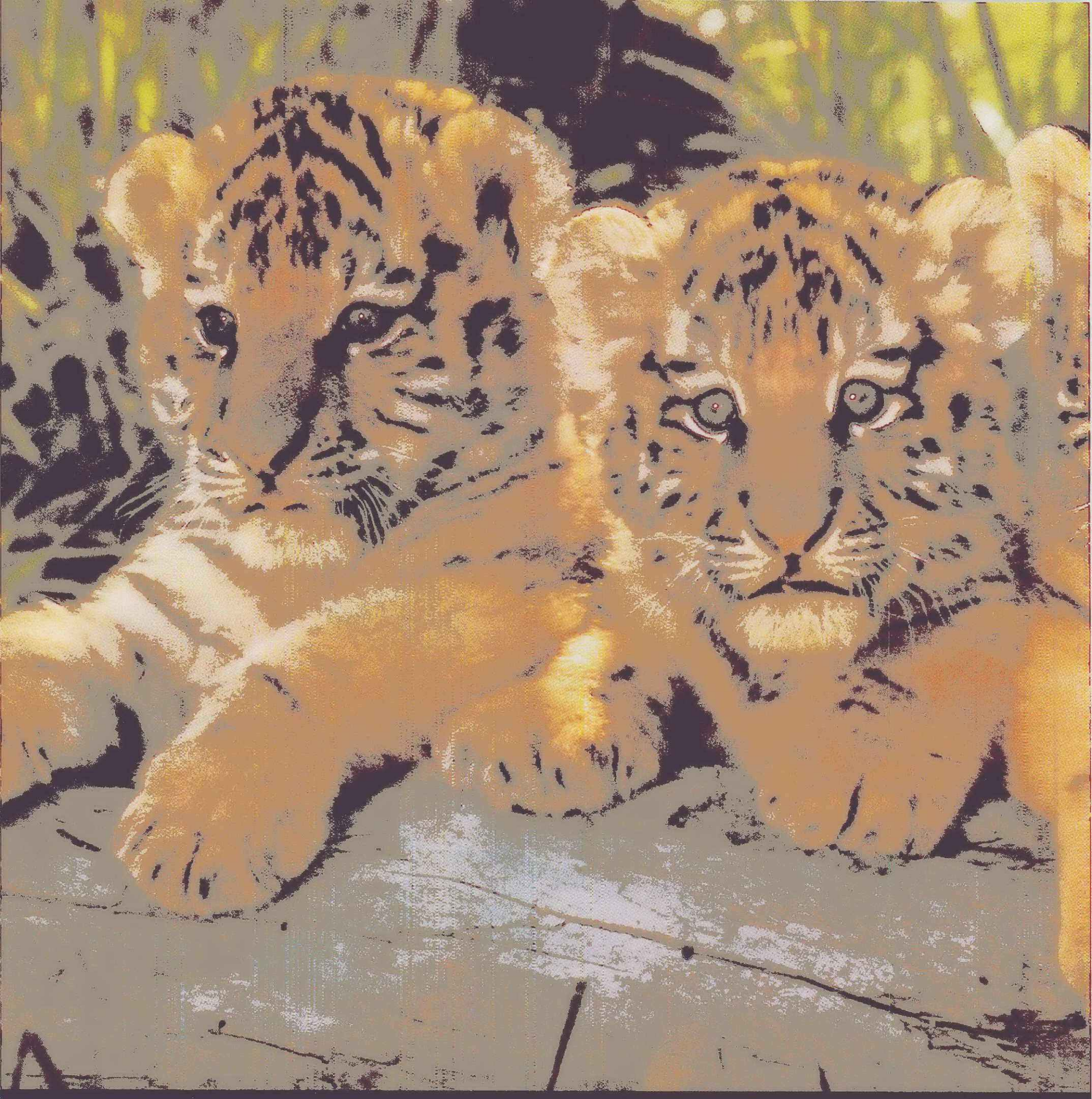
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Regulation

Continued from page 20

gross of reinsurance for U.S. domestic risks in a trust fund designated for the syndicate's business. A syndicate writing both coverages will have to create a separate trust fund for surplus lines insurance and for reinsurance.

Previously, Lloyd's used individual members as the basis for trust fund accounting and syndicates' U.S.-dollar-denominated risks, though some of the coverage denominated in U.S. dollars was for risks not located in the United States.

- Transfer $500 million into the Central Fund United States Trust from the separate Central Fund in London.
- Continue to maintain $100 million in each of two joint and several liability funds to help secure U.S. obligations for surplus lines business and reinsurance, respectively.

Lloyd's also agreed to a U.S. requirement to hold individual members ultimately responsible for all claims by "American policyholders" from 1992 and prior years. Those claims are among those that Lloyd's plans to handle through proposed runoff reinsurer Equitas Ltd.

Striking this deal with U.S. regulators marks a significant step for Lloyd's in implementing its renewal plan, which is considered crucial to the market's survival.

Until members formally sign the new trust agreements and New York actually enacts the new accounting requirements, an interim agreement is in place, said Stewart Keir, an assistant deputy superintendent and chief examiner with the New York Insurance Department. For now, Lloyd's is earmarking funds to the LATF for gross liabilities for policies written on or after Aug. 1.

In light of the changes, Lloyd's members agents are signing amended trust deeds on behalf of names who are on syndicates underwriting U.S. reinsurance and surplus lines business.

However, Christopher Stockwell, chairman of the Lloyd's Names Assn. Working Party, has warned members that their agents are secretly and retroactively amending the deeds establishing the Lloyd's American Trust Fund.

"We have received advice that the proposed changes could be detrimental to names," said Mr. Stockwell. This is because they allow "intermingling" within the fund, in which the funds of solvent names may be loaned to insolvent members.

However, Chief Executive Peter Middleton responded in a bulletin issued marketwide that the legal opinion received by Mr. Stockwell was erroneous because the documents agents are signing are not LATDs, but new trust documents reflecting the agreement with U.S. regulators. The provision referred to in Mr. Stockwell's legal opinion has been contained in the deeds since 1989, though it does not permit loans.

"This provision permits the commingling of a name's American Trust Fund with the American Trust Funds of other names for the purpose of investment only. This provision does not itself permit inter-name or intra-syndicate lending or borrowing," wrote Mr. Middleton.

Of the four new deeds currently being signed by agents, two contain articles which permit the intermingling of names' trust funds for investment purposes.

It's unclear how many syndicates will continue writing U.S. business.

"My guess is it will very much be a majority of Lloyd's syndicates that will choose to be part of the U.S. market," said Maine's Mr. Atchinson.

He and other regulators do not expect the withdrawals of some syndicates to disrupt the U.S. market.

"I don't think it should present a problem to the U.S. market in total or in specific lines or classes of business," said Vincent Laurenzano, assistant deputy superintendent and chief examiner of the New York's Financial Condition Property/Casualty Bureau.

Even in states where businesses are especially dependent on Lloyd's for specialty coverages, regulators do not expect serious problems.

"In the long run, I don't think it will have an impact on capacity," said Marianne K. Burke, insurance director for Alaska, where many oil and gas companies and contractors buy coverage from Lloyd's.

Her department may impose additional security requirements, though, as Michigan did when it began requiring insurers to post concrete security to get credit for reinsurance from Lloyd's syndicates.

Many regulators have concerns about the New York plan—and will ask questions about it at an NAIC meeting Sept. 10-12—but Mr. Keir said he is unaware of any opposition.

On the agenda at that meeting is changing Lloyd's financial filing formats to reflect the new syndicate-specific approach, and increasing Lloyd's trust fund requirements to match those under the Model Non-admitted Insurance Act, said Mr. Keir. For Lloyd's, that would require trust funds equal to the group's liabilities for U.S. business and the $100 million trust fund for excess lines. BI

Lloyd's slice of market falls

Surplus lines and reinsurance share still strong

Lloyd's of London remains a major U.S. presence, though not the force it once was.

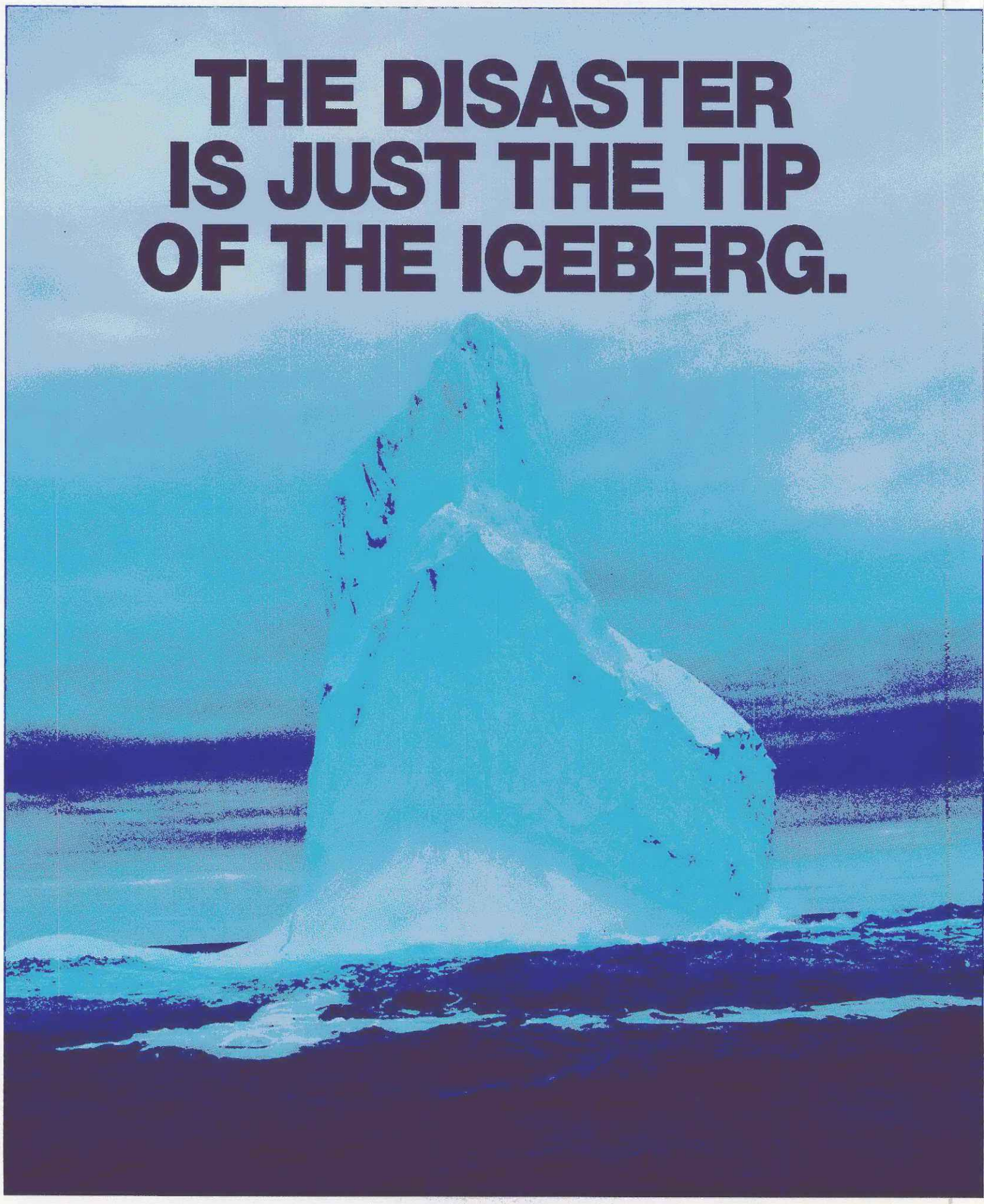
Lloyd's syndicates remain the largest source of surplus lines insurance coverage in the country, but their share of the market has dropped to 19% from 30% of that market in the past decade, said Maine Superintendant of Insurance Brian Atchinson, who is also vp of the Kansas City, Mo.-based National Assn. of Insurance Commissioners and chairman of the NAIC's international task force.

As a reinsurer, Lloyd's again is still a major presence, though its share has declined significantly in recent years, he said, citing NAIC statistics.

Earlier this year, the NAIC calculated that Lloyd's syndicates wrote a total of 15% of all reinsurance ceded to non-U.S. underwriters, which is also 5% of all reinsurance ceded to any reinsurer, he said.

And reinsurance recoverables from Lloyd's syndicates are estimated at 19% of recoverables due from non-U.S. insurers, and 6.5% of those due from all reinsurers, he said.

—By Meg Fletcher



Lloyd's may play a smaller role

North American buyers cautious, but loyal to Lime Street

By GAVIN SOUTER

Risk managers in North America are placing less property/casualty business at Lloyd's of London than they used to.

Concerns about security, lack of capacity, and the refusal of some syndicates to cover many risks in the United States are all factors in their move from Lloyd's.

Nevertheless, the broad coverages available in London, the speciality lines underwritten, and Lloyd's reputation for paying claims ensure that risk managers will still be rooting for Lloyd's to survive as a viable market.

Security concerns are causing some risk managers to reduce the amount of business they place in Lloyd's, said Claude Boudreault, manager of insurance and risks at The SNC Group Inc., a Montreal-based engineering firm.

"I've always used Lloyd's out of choice, and I'm still using them out of choice, but I have to give consideration to the additional risks," he said.

In the past two years, SNC has reduced Lloyd's underwriters' participation on its property insurance program to 50% from 75%, and to 40% from 50% on its general liability program, some parts of which had been 75% underwritten by Lloyd's syndicates, Mr. Boudreault said.

SNC now is placing much of that business with other insurers in London, he said.

Concern about the security of some Lloyd's syndicates also influences Mr. Boudreault's decisions.

SNC plans to increase substantially its errors and omissions limits in 1996 but the likely underwriters will be in Bermuda rather than Lloyd's or U.S. markets. The U.S. insurers that write this coverage have a poor record of paying claims and any additional capacity at Lloyd's is with weak syndicates, according to Mr. Boudreault.

"We need to have strong syndicates that have been profitable, and I have reached the capacity of the sound syndicates in Lloyd's," he said.

Risk managers need to study the strength of individual syndicates carefully rather than view Lloyd's as a single entity, said Judith McDonald, vp-corporate risk management at Comerica Inc.

"We are taking a harder look at Lloyd's, and we are paying more attention to who are the people we are dealing with. We only want to be with the strong syndicates," she said.

The Detroit-based banking company has bought directors and officers liability coverage and financial institution bond coverage from Lloyd's since 1990, Ms. McDonald said.

No big changes are expected at Comerica, she said. "We'll continue to look at the market and be aware of what the situation is, but right now I don't see us changing in the short term."

U.S. businesses' concerns about Lloyd's are mirrored by some Lloyd's syndicates' concerns about the quality of U.S. business they are underwriting, say some risk managers.

While syndicates that have a history of leading U.S. business maintain an interest in that business, much of the following market is refusing to offer adequate coverage, said Cheri J. Hawkins, assistant treasurer and director of insurance at Weyerhaeuser Co. in Tacoma, Wash.

Three years ago, Lloyd's underwriters ceased offering casualty and marine coverage to Weyerhaeuser, and two years ago the market withdrew its property coverage for the wood products company, with following syndicates refusing to provide capacity behind the lead underwriters, according to Ms. Hawkins.

"We had been with them since 1947, but they did not want American business any longer," she said.

Weyerhaeuser replaced the Lloyd's portion of its program with other commercial and mutual insurers, its captive and other alternative market sources, Ms. Hawkins said.

In January 1995, the company bought some Lloyd's marine hull coverage for new vessels. The Lloyd's portion of the coverage was bought primarily because a London broker placing the coverage "understandably went into the market," she said.

But if Lloyd's syndicates want to write more U.S. business for Weyerhaeuser in the future they will have a tough sell, Ms. Hawkins said.

"They severed the relationship, and we feel that they will have to sell themselves back into favor if they want to come back. . .no one is holding their breath waiting for the capacity. There are alternatives there now," she said.

Some U.S. risk managers also are staying away from Lloyd's for more basic reasons—it's too expensive.

Recently, for instance, Luhr Brothers Inc. of Columbia, Ill., turned down a quote for marine hull coverage on barges and towboats.

"We found that they were noncompetitive compared with the U.S. market," said Michael P. Habel, vp-insurance for heavy construction and marine service contractor.

The security of Lloyd's syndicates is generally as good as many other insurers and wasn't a factor in Luhr Brothers' decision, he said.

"They are committed to remaining a factor, so I think they will address their problems," Mr. Habel said.

U.S. risk managers want to see Lloyd's overcome its problems and survive as a market, said William J. Kelly, senior vp at J.P. Morgan & Co. Inc. in New York.

"It does not have the critical role it once did, with all the other capacity now available (in other markets), but it is still important and we want to see it overcome its problems," said Mr. Kelly, who is also president of the Risk & Insur-

See **U.S. risks** *on page 28*

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U.S. risks

Continued from page 25
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One of the most important reasons that risk managers are rooting for Lloyd's to survive is so they can continue to buy the specialized coverages available from the institution.

For example, J.P. Morgan purchases excess coverage for the physical loss of securities from Lloyd's underwriters, Mr. Kelly said.

"There is no other market that would entertain the business on the same basis, so if Lloyd's was not there another market would have to be developed," Mr. Kelly said.

Lloyd's coverage is in many cases broader and less encumbered by restrictive exclusions than that offered by U.S. insurers, according to Ms. McDonald of Comerica.

Lloyd's underwriters are generally more flexible in their approach and are not restricted by rigid guidelines, agreed Mr. Boudreault of SNC.

In addition, Lloyd's syndicates have a reputation for paying claims more readily than some U.S. insurance companies, Mr. Boudreault.

"There are some lines of business where I cannot get the coverage I want elsewhere; for example, E&O for engineering and construction. There is U.S. capacity available, but I don't want to use it because of their poor paying record," he said, referring to a major U.S. insurer he would not identify.

Most U.S. risk managers are taking a wait-and-see attitude about Lloyd's current plans for restructuring and revitalizing the market.

Even if the centuries-old institution does not survive as a whole, the strong syndicates and underwriters are expected to re-emerge as specialists.

"I'm dealing with financially sound syndicates, and those guys will find a way to restructure their companies, so I don't think I will lose this market," Mr. Boudreault said. BI

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Tradition tugs at Lloyd's

Names want to keep independent status

By STACY SHAPIRO

There's a tug-of-war going on at the moment in Lloyd's of London with thousands of members wanting to continue as individual traders with unlimited liability, while managing agents want to entirely switch to corporate capital.

Many people within the market believe that Lloyd's capital base will come entirely from corporate sources in the not-too-distant future.

However, a surprising number of members want to continue to underwrite at Lloyd's in the old-fashioned way, despite the massive losses of the past five years. A recent informal poll of 88 members showed that 45% of them plan to continue underwriting at Lloyd's. Of these, 82% want to write as individual investors with unlimited liability, while the rest would like to participate as investors in limited liability corporate capital vehicles.

About 80% of the 700 attendees at the Assn. of Lloyd's Members annual general meeting this summer showed similar inclination in a show-of-hands poll when asked if they would continue underwriting. Out of the 14,000 members who trade now, "you're going to get 7,000 to 10,000 names continuing for quite a while," predicted ALM Chairman Sir David Berriman.

As "natural members," Sir David explained, they get "phenomenal gearing" letting their assets work twice, allowing them to earn higher returns on their investments. "Corporates don't get the same gearing," he said.

Under Lloyd's rules, individual names have to deposit only 30% of their gross allocated capacity, compared with corporate names, which have to put up 50%. And names in Members Agency Pooling Arrangements only have to put up 25%.

Because of the potential returns, among other reasons, there are members out there who want "to stay unlimited liability members. They like the gearing; they don't mind the unlimited liability risk," said Sir David.

Throughout these bad times—and despite the massive litigation launched by Lloyd's membership against members and managing agents—the market continually has underestimated the resilience of individuals who want to continue in the market, admitted Lloyd's Chairman David Rowland.

"Among the many things that I've gotten wrong here is my assumption a year ago that if in three years time we had 2,000 natural names, that would be surprisingly high," added Lloyd's Chief Executive Peter Middleton. He said he now wouldn't be surprised if 5,000 to 6,000 names still are trading in three years' time, while Mr. Rowland believes there will be more than that.

It was important for Lloyd's to introduce corporate capital into the market in 1993, however, added Mr. Rowland. "I genuinely do not be-

See **Members** *on page 32*

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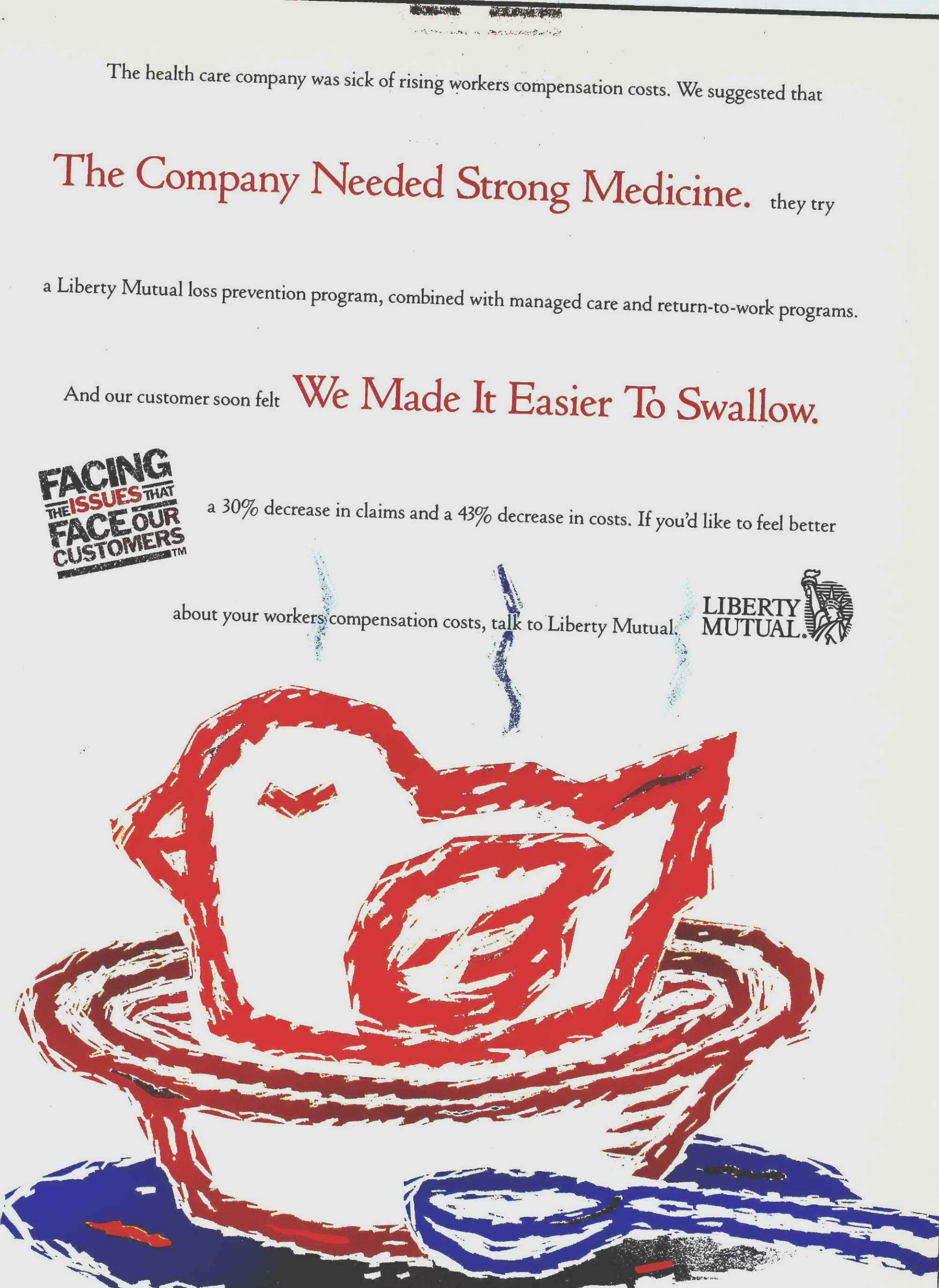
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Members

Continued from page 28

lieve that we would be here today with any sort of chance of bringing off what we are about to do if we had not introduced corporate capital," he said. Bringing in this new source of capital gave a much-needed credibility to the market, which actually saved Lloyd's for "traditional names like me."

Restrictions have been eased recently to allow more corporate capital into the market. At the same time, Lloyd's has decided not to allow any new North American members into the market as unlimited liability names because of the difficulty in collecting debt from them, Mr. Rowland said.

Also a factor is that the introduction of capacity auctions to buy and sell participation on syndicates could require Lloyd's to register with the Securities and Exchange Commission for the first time (*BI*, July 24). Some U.S. names have argued unsuccessfully that Lloyd's should be governed by the SEC and any disputes with the market heard in U.S. courts.

Despite the new rules, Lloyd's ultimately will allow "market forces" to dictate the mix of capital used by syndicates while continuing to protect the individual names' interests, Mr. Middleton emphasized.

However, "we don't actually want more corporate capacity at the moment," said Sir David of the ALM. More corporate capital means more capacity generally in the market, which means more competition and lower premiums, he said.

This new leniency on corporate capital "is a retrograde move," Sir David said. "I think it's two or three years early....The whole thing is stacked a little bit against the natural name, but those natural names continue."

However, many managing agents in the market, such as Lloyd's Deputy Chairman Robert Hiscox, would like to eliminate the individual member and become a totally corporate market. This would wipe out the need for each syndicate paying a reinsurance-to-close premium to the next underwriting account and having to annually seek capital commitments to continue underwriting.

This "annual venture," while used in Lloyd's for most of its 307-year existence, "is absolutely not suitable for underwriting insurance, which is a long-term business," said Mr. Hiscox, chairman of Hiscox Holdings Ltd. In the future, "I would like all (Lloyd's) to go corporate. Therefore, I would like the market to be exactly the same as it is now, but people have shares either in individual syndicates or groups of syndicates."

The market would then be a group of small insurance companies.

Mr. Hiscox is trying to switch all the capital of his agency's four syndicates into Hiscox Dedicated Insurance Fund P.L.C. so he can run the group like a small insurance company. So far, Hiscox Dedicated only has 13% of the syndicates' total capacity because individual members want to continue on Hiscox syndicates. Under Lloyd's syndicate auction system this month, Hiscox also may offer money to buy out retiring members' shares on its syndicates.

"We're not very popular with individual names who say that they should be able to join our syndicate and not Hiscox Dedicated. But I am entitled to raise money for my business from people I wish," said Mr. Hiscox.

Other managing agencies agree that the way forward is corporate, but the move will be evolutionary.

"We still believe that members agencies and natural names have a very great future within Lloyd's," said Paul Archard, managing director of Murray Lawrence Holdings Ltd. However, "I believe medium-term most of the names ought to and probably will become corporate investors, many of them in their own right. I think names underestimate the advantages and overestimate the disadvantages of the change from being natural names to being independent corporate investors."

No one likes change, least of all Lloyd's members, because "they've been through some very hard times even if they haven't been badly damaged," said Mr. Archard. "They see new people coming in and taking over something that was theirs just when they might be able to recoup some of their losses, and they're very, very suspicious."

They are wrong, however, because "even if they change the nature of their investment, we definitely want them to continue and we definitely owe them a huge amount, and it's a debt that I certainly for one would want to repay," Mr. Archard said.

Several members agents see the writing on the wall, too, and are organizing new ventures to allow their individual members to move toward being corporate investors. The members agents also believe their role in the future will be more like capital advisers.

Already, members agent Stace Barr Underwriting Agencies Ltd. has helped set up SBW Insurance Research Ltd. to provide Lloyd's syndicate analysis to members agents and corporate capital funds.

Although there is a large core of "high rollers" wishing to continue as names, "there is no doubt that over the next five to 10 years there will be an increasing demand by syndicates for permanent capital," said John Stace, Lloyd's deputy chairman and executive chairman of members agent Stace Barr Underwriting Agencies Ltd.

Stace Barr, which lost to resignation only five of its 425 members for next year mainly because they are more than 80 years old, will continue to look after traditional members for as long as they wish, said Mr. Stace. But, "I am one of those that says that traditional members agents as we have known them have little or no future....Our roles have got to change....I'm more inclined to seeing a members agent carrying out research and capital raising for the insurance market."

"I want members to move to being corporate investors at a time suitable for the members. But I think now is the time," added David Harrison, chairman of members agent Harrison Brothers Underwriting Agencies Ltd., one of the most successful in the market. That's why his agency is setting up a quoted corporate capital vehicle in November for individual members. The vehicle will invest 15% of its capital into new stock issues in the United States and the rest with Lloyd's syndicates. This should increase the return on members' investments to levels higher than they would receive as unlimited liability names at Lloyd's, he noted. BI

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Top 10 non-marine syndicates*

Based on 1995 gross allocated capacity

Syndicate	Managing agency	Underwriter	1995 capacity (in millions)		1992 profit (loss) (in millions)	
362	Murray Lawrence & Partners Ltd.	R.J.R. Keeling	£230.4	$360.6	£0.2	$0.3
510	R.J. Kiln & Co. Ltd.	G.D. Gilchrist	205.4	321.5	(1.5)	(2.4)
435	D.P. Mann Underwriting Agency Ltd.	D.P. Mann	193.3	302.5	4.2	6.6
33	Hiscox Syndicates Ltd.	R.S. Childs	188.9	295.6	6.1	9.5
386	Janson Green Ltd.	R.J. Wallace	149.4	233.8	3.8	6.0
1007	Spreckley Villers Burnhope & Co. Ltd.	C.W. Spreckley	141.0	220.7	5.7	8.9
51	Wellington Underwriting Agencies Ltd.	A. Taylor	123.9	193.9	(0.9)	(1.4)
205	H.G. Jago Ltd.	H.G. Jago	123.4	193.1	5.0	7.8
376	Venton Underwriting Agencies Ltd.	V.H. Venton	108.8	170.3	(0.2)	(0.3)
1095	Wellington Underwriting Agencies Ltd.	M.W. Petzold	105.8	165.6	0.8	1.3

* Syndicates whose largest proportion of business is non-marine
Source: Lloyd's of London

GRAPHIC BY JOHN HALL

Profits on the horizon for non-marine market

Rising rates, tougher climate drive gains

By CAROLYN ALDRED

As Lloyd's of London fights for its future, many non-marine underwriters once again are predicting profitable years ahead.

The next two years should produce a good return for investors, as results from 1993 and 1994 get posted under Lloyd's three-year accounting system, underwriters claim.

Those same underwriters, though, were way off target in their predictions that 1991 represented the bottom for the market.

Hurricanes Andrew and Iniki helped drive up pure-year 1992 losses more than 300% to £201.1 million ($314.7 million) from £62.3 million ($92.1 million) in 1991. Net premiums for the non-marine market rose 2.6% to £3.51 billion ($5.49 billion) from £3.42 billion ($5.05 billion).

"Bearing in mind we suffered two big catastrophes, including the world's greatest insured loss, the results are not too bad," said David Gilchrist, chairman of the Lloyd's Non-marine Assn.

Both hurricanes were "big, big losses for a market that writes so much high risk," said Mr. Gilchrist, who also is underwriter for syndicate 510, which is managed by R.J. Kiln & Co. Ltd.

Hardening rates and tougher conditions helped syndicate results despite heavy property losses and poor investment returns.

The year 1992 "has proven to be one of the worst property years in the syndicate's history," wrote underwriter V. Venton in the report and accounts of syndicate 376, which is managed by Venton Underwriting Agencies Ltd. "Hurricanes Andrew and Iniki, compounded by greater frequency of loss elsewhere, have created a gross loss ratio of 150%."

Also hurting many non-marine syndicates was an early-1994 slump in worldwide bond markets.

Syndicate 683, which is managed by Janson Green Ltd., reported the "worst investment result in its history," wrote underwriter Robert Wallace in the report and accounts.

Similarly, at syndicate 205, which is managed by H.G. Jago Ltd., "the investment return was decimated by the fall in the bond market," wrote C.G. Jago.

But Mr. Gilchrist, along with most of his peers, promises better results for 1993 and 1994.

"1991 was the bottom of the market. By 1992, the underlying figures are getting a lot better and it just shows the strength of the market that the results are quite respectable despite Hurricane Andrew.

"The higher rating trends carried through to 1993 and there were no catastrophes, so we are going to get good results," he said, adding that 1994's results also should be "respectable, despite the Northridge earthquake."

Low loss frequency, lack of catastrophes, higher rates and tougher conditions will produce a profit of 7.5% to 12.5% for syndicate 376 in 1993, wrote Mr. Venton.

The year 1993 "continues to show all the characteristics of an exceptional result," wrote Colin Spreckley, in the report for syndicate 1007, which is managed by Speckley Villers Burnhope & Co. Ltd. The financial institutions specialist insurer predicts a profit of 15% to 20% for the syndicate's 1993 account.

"During 1993 we were obtaining rate increases on all major

See **Non-marine** *on page 37*

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Non-marine

Continued from page 33

classes of business," wrote Mr. Wallace, who specializes in employers liability insurance. Mr. Wallace predicts a profit of between 12.5% and 17.5% for syndicate 683's 1993 account.

"Firm market conditions and a lack of major losses will ensure that the loss ratios for (1993) will be low," wrote Mr. Gilchrist, predicting a profit for syndicate 510 in the 9% to 14% range.

"If the phrase a 'vintage year' has not been totally devalued, then it adequately describes 1993," wrote Adrian Taylor, underwriter for syndicate 51, which is managed by Wellington Underwriting Agencies Ltd.

Many underwriters are also optimistic about 1994 results.

"Original insurance and reinsurance rates around the world (excluding the U.S.) were at their most favorable for many, many years and in the United States, property reinsurance rates were at an all-time high, although direct U.S. insurance rates on property and casualty continued to be very competitive," said Mr. Taylor.

"Strong market conditions continued well into 1994, with the earthquake in Los Angeles continuing to remind underwriters throughout the world that they cannot control natural catastrophes, but only the exposures on their books," Mr. Gilchrist wrote in his underwriter report.

Rate competition, however, seems to be returning to a market where rates have been high for three years.

"Market forces are working and capacity has come back into the market, causing rates to slip in parts—although not particularly violently," said Mr. Gilchrist.

"There are signs of competition appearing in the market. So far, in general, the competition has not been excessive but some areas, for example, personal accident, have serious problems with the drive for market share from the London company market," noted Robert Childs, underwriter for syndicate 33, which is managed by Hiscox Syndicates Ltd.

"The increases in rates seen last year have not been continued and there has been pressure in many classes of business to reverse some of the improvements seen during 1991 to 1993," wrote Richard Keeling in the report for syndicate 362, which is managed by Murray Lawrence & Partners Ltd.

Competition has been especially evident on catastrophe coverage.

The softening market "has been particularly severe in catastrophe excess of loss and some casualty lines, where overcapacity has produced a market in which any rate quoted can be undercut," said Mr. Keeling. He added that as a result, syndicate 362 has "let go a considerable volume of business rather than write catastrophe or long-tail exposures at unacceptable rates."

For example, Mr. Keeling notes that the "influx of new capacity, coupled with two years of reasonable results" has forced (U.S. and Canadian catastrophe excess-of-loss) rates down by approximately 15% compared with last year.

His unwillingness to cut rates to market levels "has meant the loss of large volumes of business, including some long-term core clients," Mr. Keeling notes in his report.

Rate cuts have been especially noticeable for international catastrophe excess-of-loss business. Rates for non-U.S. catastrophe risks fell an average of 10% to 15% with spectacular cuts coming in countries like Israel and Mexico, said Mr. Taylor of syndicate 51.

New entrants are helping push rates down, said Mr. Jago. "Competition is snapping at our heels. Understandably, new entrants, not having paid any losses, are hungry for business at rates they believe are still at a high level."

Although U.S. rates "are rising substantially where there are catastrophe exposures, the market in general remains sluggish. However, with some increasingly poor results from (U.S.) domestic companies and some very large losses, there are signs that the market is about to improve," wrote Mr. Jago.

On the casualty side, Mr. Jago notes that banks and financial institutions business, errors and omissions and directors and officers liability insurance all remain competitive, though "opportunities for profit do exist with careful underwriting."

Despite the generally flat market, said Mr. Spreckley, "there are opportunities out there for those with the skills to recognize them. . .I still consider there is growth potential in our fine art and specie account as well as our open market directors and officers and errors and omissions book."

As the market softens, many syndicates are losing capacity or remaining steady in 1995.

For example, syndicate 386, which increased its stamp capacity by about 50% from 1992 to 1994, is not expanding this year because, said Mr. Wallace, he "did not consider the time to be right for further significant expansion."

Syndicate 362, where capacity fell 7.5% to £230 million ($360 million) from £248.6 million ($367.7 million) in 1994, anticipates "a further reduction in capacity for 1996 to preserve participants' margins in these challenging market conditions," noted Mr. Keeling.

Only three of the market's 10 largest syndicates increased their

See **Non-marine** *on next page*

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Non-marine

Continued from previous page
capacity for 1995, and then only by small amounts. It is likely that many will reduce capacity for 1996.

How much capacity the non-marine market will lose is uncertain.

Mr. Gilchrist predicts that corporate capacity in the non-marine market will hold steady while capacity from unlimited liability members will fall by about 10%.

"At the beginning of the year, agents were expecting to lose 30% of unlimited liability capacity," said Mr. Gilchrist, who believes that many names will want to see the financial impact of Equitas before withdrawing their underwriting.

Both Lloyd's longstanding problems and the attendant bad publicity are costing the market business.

Mr. Gilchrist attributes the lost business to competition rather than a tarnished image.

Other underwriters, however, are more sure of the impact of bad publicity on Lloyd's.

"Clearly the current press speculation has been damaging, and we have lost significant business as a consequence," writes Mr. Keeling.

"The bad press that Lloyd's has experienced over the past few years has inevitably impacted on our client base but, to date, not irreversibly," wrote Mr. Venton. But, Lloyd's must resolve its problems quickly.

"Lloyd's must remain a marketplace and it is therefore essential that the problems of the old years and outstanding litigation are both resolved quickly (while) Lloyd's continues to be the world's driving force in many classes of insurance and reinsurance business," he wrote.

Media attention is prompting some non-marine underwriters to action.

"I am always concerned about clients' perception of our security and ability to pay and will always talk to clients," said Mr. Gilchrist.

Many underwriters say they are now more willing to deal directly with, and travel to, policyholders.

"To counter-balance the loss of premium volume, it is becoming more than ever necessary for members of the underwriting team to travel to many countries, developing new contracts and cementing relationships with existing clients," he wrote in syndicate 510's annual report. "This marketing of the syndicate is essential to maintain the flow of business. develop opportunities and above all, ensure a better understanding of the business written."

The syndicate's staff during 1994 visited primarily the United States and Europe, but new areas being targeted by the syndicate include Eastern Europe, Russia, South America, Southeast Asia and China.

Syndicate 51 "has always believed in the benefits of traveling to meet our clients on a face-to-face basis on their home territory," wrote underwriter Mr. Taylor. "This policy has paid off well in creating long-term relationships with major players around the world."

Managing agents also have been actively improving underwriting skills and training.

"Modern languages are essential to the international businessman and to that end we have been encouraging the younger members of the underwriting team to pursue linguistic studies, at the syndicate's expense," Mr. Gilchrist wrote in his report.

And at syndicate 362, a new specialized rating team will be responsible for coordinating meteorological, seismological and economic research.

Old-year liabilities appear to be less of a problem today for non-marine syndicates than they have been in the past. Several syndicates recently have released money that had been put into prior-year reserves.

Syndicate 33, for instance, reported a release of £8.2 million ($13 million) pounds in old-year reserves, mainly from its short-tail account.

Other syndicates, though, are leaving open the 1992 account pending the outcome of negotiations with Equitas Ltd.

One such syndicate is 362.

"While we believe an adverse Equitas quote is most unlikely, the very different reserving methodology proposed by Equitas meant that we saw no alternative but to leave the 1992 year open," explained underwriter Mr. Keeling.



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Economies of scale

Murray Lawrence happy with size

By STACY SHAPIRO

Murray Lawrence Holdings Ltd. has no intention of becoming a major financial institution and its managing agency doesn't plan on being the largest at Lloyd's of London.

But neither are they small beer.

The holding company now encompasses three entities: one of the market's largest managing agencies, Murray Lawrence & Partners Ltd.; the largest members agency group, Murray Lawrence Members Agency Ltd.; and one of London's largest runoff companies, Whittington Group.

Although some smaller opportunities may come along, "we have often talked about and decided against turning ourselves into a financial conglomerate," said Paul Archard, managing director of Murray Lawrence Holdings. "We want to stay in businesses we understand. Our core business will always be insurance or insurance-related."

Murray Lawrence & Partners is not the Lloyd's market's largest managing agency, and that is fine with its managing director. "There's nothing magical about being biggest. There's something magical about being best," he said. "Being realistic, when you're on top of the pile, everyone wants to shoot at you and the history of the people on top of the pile has not been brilliant."

Being large is important, though, because size helps an agency provide services it couldn't otherwise.

The second-largest managing agency this year, Murray Lawrence & Partners will probably fall to No. 3 next year when it will manage seven syndicates, down from nine, said Mr. Archard. Those nine syndicates, which accounted for about 7% of Lloyd's total 1995 capacity, wrote premiums of about £550 million ($860.8 million) this year.

Holding company profits rose 91% to £2.2 million ($3.4 million) in 1994, and the managing agency accounted for £1 million ($1.6 million) of that total. The agency's income is derived from profit commissions on the closed 1992 year of account, when 12 syndicates it managed produced total underwriting profits before members' expenses of £356 million

See **Lawrence** *on page 40*



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Lawrence

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($557.1 million).

"The challenge in the managing agency is to deliver better value to our capital, and better and more diverse services to our customers," said Richard Keeling, the agency's deputy chairman.

To that end, the agency next year will merge marine syndicate 28, underwritten by David White, into its main non-marine syndicate, syndicate 362. Syndicate 28 is small and making money but is laboring under high expenses, said Mr. Keeling.

The managing agency likely also will merge marine syndicate 920, which is underwritten by G.C.F. Palmer, into syndicate 40, its main marine syndicate, he said. Syndicate 920 posted a small loss in 1992 but projects big profits in 1994.

Murray Lawrence & Partners also is seeking new business avenues.

"We're still committed to Canada, the United States, Australia, New Zealand, Britain, but there is a tendency for the Anglo-Saxon economies to move in line. When they're up, they're up; when they're down, they're down," explained Mr. Keeling. "So the challenge for us is to grow into other areas."

One obvious target is the Pacific Rim. The company wants Lloyd's to set up an office in Tokyo to write specialized coverages not now available in Japan.

The managing agency's largest syndicate is non-marine 362, which since its origins in the 1920s has been known as the Harvey Bowring syndicate, after its first member. It was managed by C.T. Bowring Underwriting Agents Ltd. until 1984, when it was sold to Murray Lawrence & Partners.

Mr. Keeling, the syndicate's underwriter, was deputy chairman of Lloyd's last year and chairman of the Equitas project. Although he now is focusing on the Murray Lawrence group, he still works on the core reserving group of Equitas.

He continues as syndicate 362's underwriter and chairman of the holding company, in part to show continuity to Lloyd's clients, he said.

A traditionally strong player in property reinsurance, particularly property catastrophe business, syndicate 362 has developed profitable property insurance, accident and health insurance accounts. About 60% of its estimated 1995 premium income of £170 million ($266.1 million) will be from property; 13% from casualty; and 11% from health. The remaining 16% will come from auto insurance and other areas.

Syndicate 362 will have a total of 29 underwriters and assistant underwriters next year. Besides Mr. Keeling and his deputy, David Shipley, the other underwriters include:

- Neil Chapman, who heads the North American property insurance team.
- John Andrews, who writes property pro rata and worldwide proportional reinsurance. In this area, 40% is U.S. business and another 15% is U.S.-dollar denominated business.
- Merna Merrett, who is responsible for the health insurance account, which leads a Lloyd's consortium of syndicates writing this business.
- Richard Trubshaw, who writes international property catastrophe treaty reinsurance. Rapidly declining rates in this line and the decision not to follow the market have reduced the syndicate's property cat writings by 50% in the past three years.

Syndicate 362's capacity for 1996 is expected to remain near the 1995 level of £230.4 million ($360.6 million). Mr. Keeling said capacity was cut from £248 million in 1994 ($367 million) to take into account declining rates. Profits were tiny in 1992—£1.2 million ($1.9 million)—and could soar to £73.9 million ($114.5 million) in 1993.

The syndicate kept its 1992 underwriting year open because proposed runoff reinsurer Equitas Ltd. will require a different reserving method, he said. Syndicate 362 reports that it has tried to buy runoff reinsurance on "commercially acceptable terms" to close the syndicate, but underwriters were "unreceptive."

The managing agency's other main syndicates include:

- Syndicate 40, headed by underwriter A.W. Holt, where capacity fell slightly to £197 million ($308.3 million) this year from £198.4 million ($307.5 million) in 1994. About 47% of its 1994 business was excess-of-loss reinsurance, of which 63% was non-marine, 29% was marine, and 8% was aviation. About 18% of 1994 business was marine hull and liability coverages, with the rest in yachts, aviation and non-marine property/casualty business.

Profits are expected to soar to £102.9 million ($159.5 million) for the 1993 account from £5 million ($7.8 million) in 1992.

- Aviation syndicate 824, headed by underwriter A.J. Medniuk, where excess-of-loss reinsurance losses resulted in a 1992 loss of £8.7 million ($13.6 million) on capacity of £32.6 million ($51 million). Since then, it has dropped LMX business, and Mr. Medniuk now writes for a consortium of syndicates with capacity of about £100 million ($156.5 million), including syndicate 824.

Murray Lawrence Holdings has two other main units—a members agency and a runoff specialist.

Murray Lawrence Members Agency Ltd. looked after the affairs of 980 active names and three corporate members last year, placing £609 million ($953.1 million) of capacity on 124 Lloyd's syndicates.

This year, the holding company formed Murray Lawrence (Underwriting Agents) Ltd. to manage the acquired business of Gardner Mountain & Capel-Cure Agencies Ltd. Together, these members agencies' premium income capacity was £680 million ($1.06 billion), making it the largest members agency group at Lloyd's this year.

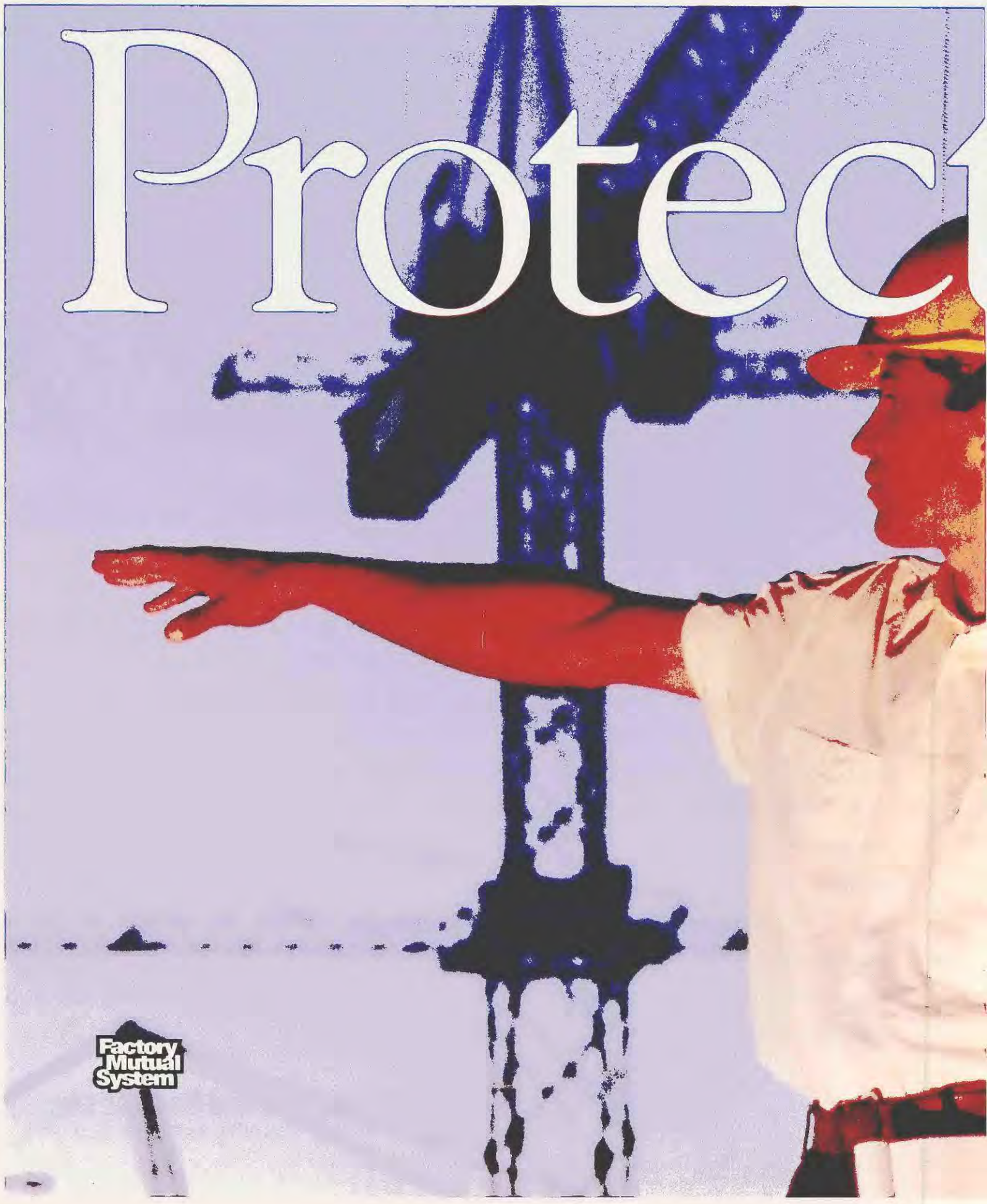
A Members Agency Pooling Arrangement that the agency formed in 1994 accounted for 41% of its capacity last year and for 49% of combined agencies' capacity this year.

The members agency also set up Masthead Insurance Underwriting P.L.C., a publicly traded corporate capital vehicle that raised £41 million ($64.2 million) of capital to write £72 million ($112.7 million) of premium last year. Of that premium, £16 million ($25 million) was placed with its related managing agency. The members agency advised corporate investors with combined 1994 corporate capital of £114 million ($178.4 million).

Murray Lawrence Holdings has set up a dedicated corporate capital vehicle called Sextant Underwriting P.L.C. that is 98% owned by the group and placed £3 million ($4.55 million) with Murray Lawrence syndicates this year.

Members may want to move from being unlimited liability names to being corporate shareholders and it's the members agency's task to help them, said Mr. Keeling. To that end, the group recently hired Ewen Gilmour, formerly manager of

See **Lawrence** *on next page*



Lawrence

Continued from previous page

Lloyd's corporate membership unit. He has no title yet.

Like other members agencies, the Murray Lawrence agency is facing negligence suits over old losses. The agency's E&O insurers fully covered its contribution to the completed Gooda Walker suits, the agency said in its accounts. But, the agency has no E&O coverage for any damages in the other suits and will not have the resources to meet such claims.

If members agree to the market's current £2.8 billion ($4.38 billion) settlement offer, the agency will have to resolve the uncertainty, Mr. Keeling said. Even if damage awards hurt the agency, the holding company's other units will be unaffected, he contends.

The holding company's last major subsidiary is runoff specialist Whittington Group, headed by Chris Keeling, who was managing chairman of now-defunct English & American Group P.L.C. He is Richard Keeling's brother.

Its Whittington Syndicate Management Ltd. unit started last year running off seven Lloyd's syndicates and ended the year running off 39 syndicates with 103 open years and capacity of about £3 billion ($4.7 billion). The unit now employs about 260 people.

The syndicates being run off include those once managed by Merrett Underwriting Agencies Management Ltd.; R.H.M. Outhwaite (Underwriting Agencies) Ltd.; and Cuthbert Heath Underwriting Ltd. The Whittington Group now wants to expand its runoff expertise outside Lloyd's. BI

Tide turning in marine market

Return to profits buoys marine underwriters' hopes

By CAROLYN ALDRED

Marine underwriters at Lloyd's of London once again are making money—at least for now.

Even as net premiums written fell 4.2% to £1.38 billion ($2.16 billion), pure year profits for the just-closed 1992 account soared to £148.5 million ($232.4 million) following two straight years of disastrous losses. And underwriters are projecting profits on the 1993 and 1994 accounts.

But beginning in mid-1994, competition returned to what had been a hard market and now is intensifying in many marine sectors.

"1992 was the start on the path to recovery," said Alan Jackson, chairman of Lloyd's Marine Underwriters' Assn.

"The 1992 account was the first to benefit from the hardening market," Stephen Catlin wrote in the underwriter's report for syndicate 1003, which is managed by Catlin Underwriting Agencies Ltd.

Syndicate 1003's profit—about 5% of capacity—was "wholly attributable to the underwriting profit, as investment income was adversely affected by poor bond markets in 1994," wrote Mr. Catlin.

"We regard this year as the start of the profitable cycle and fully expect that future years within the cycle will offer higher returns," he added, predicting profits of 10% to 15% of capacity for 1993 and 7.5% to 12.5% for 1994.

At syndicate 672, which is managed by Wellington Underwriting Agencies Ltd., 1993 "is developing into one of the very finest underwriting years," wrote underwriter Ian Agnew, predicting profits of 12% to 14%. "With some large catastrophe claims in the account, (1994) will not be as good as the vintage 1993 year, but its results after 12 months are still good," Mr. Agnew said, predicting profits of 12.5% to 17.5%.

Syndicate 861, which is one of the largest syndicates at Lloyd's and is managed by Brockbank Syndicate Management Ltd., returned a profit of 12.2% for 1992.

"Nearly all areas of the account have returned to profit, the most dramatic turnaround in result occurring in the hull and machinery account," wrote underwriter Mark Brockbank. He forecast profits of 20% to 25% for the 1993 account.

In 1993, rates rose and policy terms tightened in nearly all areas, and the marine market "continued to perform well throughout 1994 with further rises being enjoyed in the hull, cargo, specie and energy sectors during the 1993/1994 renewal season," he wrote in syndicate 861's annual report.

Then, in the summer of 1994, competition returned to the market.

"This was particularly true of the hull and machinery account, and similarly for the energy account, with the added dimension that the large oil companies reduced the amount of coverage they purchased," said Mr. Brockbank.

"Capacity rose and competition re-emerged during (1994) and is intensifying now in every sector of our portfolio," wrote Henry Dumas, underwriter for syndicate 1028, which is managed by Wellington Underwriting Agencies Ltd.

"1995 is likely to prove a more difficult year than 1994. Rates and premiums are both falling," he added.

Just how much rates are falling is highlighted by Mr. Agnew. "In many areas of our account over the last three years, we have achieved rate rises of 25% compounded annually. This means that rates in 1994 were often double those in 1990 or 1991," he wrote in syndicate 672's annual report. "Reductions now on offer for some risks from some underwriters are in the order of 15% to 20%, occasionally higher."

Because the reductions are taken off current rates, "at a stroke, 40% of the rate rise achieved over the last three years is given back in one year," Mr. Agnew wrote.

With rates falling, some underwriters are pinning their hopes for continued profits on declining capacity.

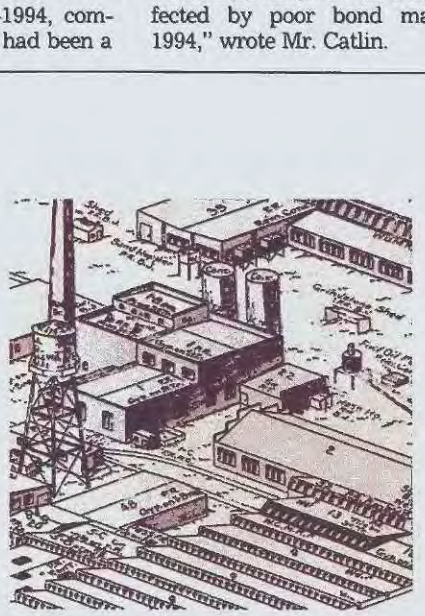
"We anticipate that the Lloyd's market capacity will reduce in 1996, and this is exactly what is required to maintain sound profitability," wrote Mr. Holt.

At syndicate 672, said Mr. Agnew, "we are resolved not to chase business at unrealistic rates and are prepared to drop our stamp capacity to between £240 million ($380.5 million) and £250 million ($396.2 million)" from £260.2 million ($410.3 million) this year.

Mr. Agnew predicts that overall "another and greater reduction in Lloyd's capacity will probably occur

See **Marine** *on next page*





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Top 10 marine syndicates*

Based on 1995 gross allocated capacity

Syndicate	Managing agency	Underwriter	1995 capacity (in millions)		1992 profit (in millions)	
672	Wellington Underwriting Agencies Ltd.	I.C. Agnew	£260.2	$407.2	£10.3	$16.1
861	Brockbank Syndicate Management Ltd.	M.E. Brockbank	245.3	383.9	16.7	26.1
40	Murray Lawrence & Partners Ltd.	A.W. Holt	196.7	307.8	4.4	6.9
1003	Catlin Underwriting Agencies Ltd.	S.J.O. Catlin	169.8	265.7	3.2	5.0
2488	Charman Underwriting Agencies Ltd.[1]	J.R. Charman	160.0	250.4	–	–
79	Janson Green Ltd.	J.R.L. Youell	146.4	229.1	9.5	14.9
625	Hiscox Syndicates Ltd.	T.M. Humm	143.5	224.6	9.6	15.0
488	Charman Underwriting Agencies Ltd.	J.R. Charman	139.6	218.5	26.8	41.9
1028	Wellington Underwriting Agencies Ltd.	H.R. Dumas	125.0	195.6	5.0	7.8
588	Brockbank Syndicate Management Ltd.	S.E. Spinney	119.3	186.7	4.8	7.5

*Syndicates whose largest proportion of business is marine [1] Syndicate 2488 began underwriting for 1995.
Source: Lloyd's of London

GRAPHIC BY JOHN HALL

Marine

Continued from previous page
next year" adding that this "will be no bad thing."

Capacity management is important to Lloyd's future. "The market must learn that a reduction in capital support is not necessarily a criticism. . .nor a negative vote on its future," he said in his report. It is "an effective means of controlling unnecessary and dangerous competition."

In fact, Mr. Catlin of syndicate 1003 was disappointed Lloyd's capital fell only to £10.2 billion ($15.96 billion) in 1995.

"There is no doubt that this is above the level of capital required and may well lead to unnecessary competition in the London market in addition to that from Europe, North America and Bermuda," he said.

Not all underwriters take a sanguine view of declining capacity.

Richard Youell, for instance, says Lloyd's cannot afford to lose much more capacity and must strengthen its corporate capital.

"A still greater interest must be sought from (corporate) sources for 1996 if capacity is not to shrink to a level that will reduce the market's effectiveness," he wrote in the report for syndicate 79, which is managed by Janson Green Ltd.

At syndicate 79, capacity fell 20.9% to £146.4 million ($229.1 million) from £185.6 million ($274.6 million).

And syndicate 861—one of several Lloyd's syndicates that is trying to expand its capacity and the coverages it writes—was forced to buy two quota-share reinsurance policies to write more business on a gross basis after its capacity fell 15.5% to £245 million ($383.4 million) from £290 million ($429.1 million) in 1994. The syndicate had hoped to have £330 million ($516.5 million) of capacity for 1995.

A trend in the market is marine syndicates' expansion into other areas of business.

For example, syndicate 831, though still classified as a marine syndicate, writes many types of business from marine to non-marine, motor and satellite insurance. In the syndicate's annual report, Mr. Brockbank writes that criticism of large composite syndicates is unjustified. Past failures of large Lloyd's syndicates generally have been due to poor management, a problem Brockbank Syndicate Management Ltd. has taken pains to avoid, he wrote.

Another syndicate that has expanded over the years is syndicate 79, which now operates in three major sectors of the market, marine, non-marine and energy. It ceased aviation underwriting in 1993.

Many marine syndicates also increasingly are writing more business in new ways and new places.

Syndicate 79 hopes to expand its underwriting operation in Houston "to garner business that would not otherwise come to London or the syndicate," noted Mr. Youell.

Syndicates also have started underwriting operations outside London to write commercial, domestic or auto coverage.

Many marine syndicates already are using the Electronic Placing Support System, which is scheduled to go online marketwide Jan. 1, 1996.

But, underwriters note that electronic placing, while speeding up processing and some placing, never totally will replace face-to-face brokering.

In the future, underwriters foresee further consolidation and a crucial test for the marine market.

The market now has 46 syndicates—down from 49 in 1994 and 134 in 1989—and mergers and closures will cut that number still further by year end, said Mr. Jackson.

Already, most of the syndicates that were hit worst by the London market excess-of-loss spiral are out of business. Still, because up to 70% of the marine syndicates wrote LMX business, many have old liabilities, making the proposed runoff reinsurer Equitas Ltd. very important.

"The next nine months is of crucial importance to Lloyd's," said Mr. Agnew of syndicate 672.

Intense media scrutiny, which has created what Mr. Agnew calls a "very distorted view," has made policyholders uneasy.

Underwriters and brokers have had to spend a "lot of time explaining how Lloyd's works, how the chain of security of a Lloyd's policy operates, how our solvency is assessed, and giving them hard facts as

See **Marine** *on page 44*





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Marine

Continued from page 42
to why their concerns should be allayed," wrote Mr. Agnew.

"In virtually all cases," he insists, "we are successful in putting the Lloyd's picture in perspective."

If the members litigation can be resolved and Equitas launched successfully, then "the underlying truths about Lloyd's will come to be realized and applauded," he wrote.

"The first of these truths is that Lloyd's always has had and continues to have a very fine group of highly skilled underwriters. . .and that Lloyd's continues to harbor much of the most effective and innovative underwriting skill in the world," he added.

Other underwriters also say they are optimistic. BI

Aviation profits line up for takeoff

Losses fail to ground 1992 results, and 1993 is set to soar

By CAROLYN ALDRED

Lloyd's of London's aviation insurance market continues to contract, though profits got off the ground in the 1992 underwriting year and are expected to continue climbing.

The aviation market reported a pure-year profit of £14 million ($21.9 million) on net premiums written of $446.1 million ($698.1 million) for 1992, the year just closing under Lloyd's three-year accounting system. Those earnings mark a substantial improvement from the market's £106.6 million ($157.8 million) loss on net premiums of £434.9 million ($643.7 million) in 1991.

However, Lloyd's aviation market today is very different from the market in 1992 and 1991.

"The aviation market has now crystallized into 18 syndicates which have a combined stamp capacity of some £800 million ($1.25 billion). This compares with 42 syndicates in 1991 with a stamp capacity of £900 million ($1.74 billion)," according to Robin Eliot, underwriter for syndicate 53, managed by Marchant & Eliot Underwriting Ltd.

Tony Medniuk, writing in the report for syndicate 173, managed by Stewart Syndicates Ltd., agreed. Syndicate 173, which consolidated with three other syndicates in 1993, added another—syndicate 97—to its group in 1994. The goal, he said, is "to create a well-balanced book of aviation business."

Although the number of specialist syndicates in the market has plunged, total aviation capacity has not fallen as dramatically.

At the same time, the aviation market's underwriting performance continues to compare favorably with other markets at Lloyd's.

"The aviation market during the last 11 years has made an aggregate profit of £695 million ($1.08 billion)," noted Mr. Eliot. During the same period, he said, the motor market made a profit of £222 million ($344.1 million), while the marine and non-marine market have made losses of £1.69 billion ($2.62 billion) and £1.59 billion ($2.46 billion), respectively.

Lloyd's aviation market also remains a major player in the world market, underwriters point out.

"Aviation has been the most profitable class underwritten in Lloyd's during the last 11 closed years, 1981 through 1991, with over 30% of the world's aviation business, both direct and reinsurance, underwritten by Lloyd's syndicates," according to Richard Maylam, chairman of Lloyd's Aviation Underwriters Assn.

And he said the future looks bright for aviation underwriters.

"Aviation is very much a growth industry. It is projected that during the period 1993 to 2013 the number of aircraft with 70-plus seats will increase approximately 90%," Mr. Maylam wrote in the 1992 report for syndicate 270, managed by Tower Managing Agents Ltd. Already, "total world airline premiums increased from approximately $1.4 billion in 1993 to an estimated $1.8 billion in 1994, nearly a 30% increase."

Major losses to hit aviation underwriters in 1992 included: the crash of an El Al Israel Airlines Boeing 747-200 jet into an Amsterdam suburb (*BI*, Oct. 12, 1992); the crash of a Pakistan International Airlines Airbus A300 in Nepal (*BI*, Oct. 5, 1992); a Martinair DC-10 that crash-landed in Faro, Portugal; and a Trans World Airlines Lockheed L-1011 that caught fire at Kennedy International Airport (*BI*, Aug. 3, 1992).

In spite of those losses, the Lloyd's aviation market managed to post a profit. However, many underwriters apparently felt lucky to achieve those results in the face of adverse market conditions.

"For our syndicates, and probably the aviation market as a whole, 1992 was a worse year even than 1990" for several reasons, wrote P. Williams, underwriter for syndicates 545/960 and 998, managed by Sturge Aviation Syndicate Management Ltd. "Although large premium increases were charged in the last quarter of 1991, particularly for the airline account, the momentum was not carried into 1992," making the final premium barely better.

And while profitable, the 1992 account suffered from high reinsurance costs, large retentions and poor investment returns due to a collapse in the bond market in 1994, he added.

"Airline premium income for 1992 rose from an estimated $650 million in 1991 to approximately $850 million, whereas, including attrition claims, losses in that portfolio, by our assessment, totaled $1,285 million," wrote Mr. Medniuk. Offsetting those losses were the aviation underwriters' other lines of business.

"With such a large gap still so clearly prevalent in the risk/reward ratio, we could see little point in fully deploying our capacity to this sector of the business," he noted.

Meanwhile, several aviation syndicates have not yet closed their 1992 accounts as a result of Lloyd's plans for syndicates to reinsure their past year liabilities with Equitas (see story, page 17).

Syndicates 53's capacity, for example, fell to £27.1 million ($42.4 million) this year from £44.1 million ($65.3 million) in 1994.

The potential changes in reserving practice between Equitas and Syndicate 53 led Tim Salmon, underwriter for the Ariel Syndicate—syndicate 48—managed by Methuen (Lloyd's Underwriting Agents) Ltd., to believe that he could not "achieve equity" between 1992 names and the 1993 names, "where the capacity is

See **Aviation** *on page 46*



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Aviation

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significantly reduced, if the account were to be closed," he wrote. He has decided to defer closing the 1992 year of account until Dec. 31, 1995, "by which time we should have received our quotation from Equitas."

Syndicate 48's capacity also fell in 1995, declining to £59.7 million ($93.4 million) from £75.4 million ($111.6 million) in 1994.

Underwriters are more optimistic about the 1993 results, which will be released in 1996. They point to a brief return to discipline in aviation market pricing during 1993. As a result, many syndicates predict another profitable year.

A marked reduction in the total Lloyd's aviation capacity in 1993 brought the market discipline, noted Mr. Williams. "Premiums increased reasonably well and there was good reason to believe the market was moving in the right direction."

Consolidation taking place in the aviation market generally and a contraction in "working reinsurance" at lower levels "greatly aided the stability of the marketplace" during 1993, agreed Mr. Medniuk. "The more disciplined environment (in 1993) enabled underwriters to raise airline premiums up to an estimated $1,350 million which. . .contrasts with $1,250 million of comparable losses."

As a result, for the first time in five years the gross premium exceeds the average annual loss amount, he noted, adding that "premium increases were also obtained on most other parts of our account."

Syndicate 173's airport, refueling, products and general aviation portfolios all are benefiting from higher rates, wrote Mr. Medniuk.

Losses during 1993 include 72 Western-built airlines, with hull claims of $850 million, as well as the liability losses stemming from the cost of repairing or replacing light aircraft engines damaged by tainted fuel supplied by Chevron Corp. and Texaco Corp. (*BI*, Jan. 30).

Underwriters are more pessimistic about 1994's results, due to be reported in 1997, as capacity and heavy losses increased.

"When capacity returned in 1994, discipline relaxed and the year turned out to be a disappointment both in terms of pricing and claims," remarked Mr. Williams.

According to Mr. Eliot, there were 21 losses in 1994 of Western-built jets, and the year was also notable for higher liability claims. This was primarily because the 667 passenger fatalities included 413 fatalities in the United States and Japan.

The most significant losses in 1994 were: the crash of a China Airlines Airbus A300-622R in Nagoya, Japan (*BI*, May 2, 1994); the crash of a USAir Inc. DC-9 near Charlotte/Douglas International Airport (*BI*, July 11, 1994); the loss of a USAir Boeing 737-300 that crashed on approach to Pittsburgh (*BI*, Sept. 12, 1994); and the loss of an American Eagle ATR-72 in Northern Indiana (*BI*, Nov. 7, 1994).

"Total airline premiums have now risen to $1.8 billion, mainly due to increased fleet values, but the total (1994) bill for all losses is likely to be $2.2 billion," Mr. Eliot calculated.

Given the 1994 losses, many underwriters are perplexed by sluggish rate increases this year.

"Following the heavy claims' cost in 1994, it would be reasonable to expect some corrective premium increases," said Mr. Williams in 960's report. "To be fair, progress has been made on the refueling account, and space launch premiums are. . .at a high level, but the airline account continues to be the real enigma."

"Airline insurers worldwide freely admit that they need higher premiums but continued over-capacity, coupled with skillful manipulation of underwriters by the intermediaries, makes it nearly impossible to achieve real rate increases," he explained, adding that aviation underwriters now face "market indiscipline."

His fellow underwriters agree.

"Rather perplexingly, the reaction by many underwriters to a year that has produced an unusually heavy incidence of loss has appeared both inhibited and disappointingly constrained," wrote Mr. Medniuk.

"The aviation market is still suffering from underwriters, who, hungry to fill their large capacities, are prepared to write large premium slips. . .at a time when liability awards throughout the world are increasing particularly in the U.S. and Japan," wrote Mr. Eliot. BI

Top 10 aviation syndicates*

Based on 1995 gross allocated capacity

Syndicate	Managing agency	Underwriter	1995 capacity (in millions)		1992 profit (loss) (in millions)	
340	Gravett & Tilling (Underwriting Agencies) Ltd.	J.P. Tilling	£114.2	$178.7	£4.4	$6.9
960	Sturge Aviation Syndicate Management Ltd.	P.M. Williams	104.8	164.0	1.5	2.3
800	Wren Syndicates Management Ltd.	J.A. Westcott	63.4	99.2	0.8	1.3
545	Sturge Aviation Syndicate Management Ltd.	P.M. Williams	60.8	95.2	2.6	4.1
048	Methuen (Lloyd's Underwriting Agents) Ltd.	T.P. Salmon	59.7	93.4	(4.7)	(7.4)
957	Barder & Marsh Ltd.	J.R. Cackett	54.2	84.8	2.2	3.4
824	Murray Lawrence & Partners Ltd.	A.J. Medniuk	52.6	82.3	(8.9)	(13.9)
173	Stewart Syndicates Ltd.	A.J. Medniuk	40.6	63.5	(2.0)	(3.1)
270	Tower Managing Agents Ltd.	R.J. Maylam	39.8	62.3	0.4	0.6
955	R.J. Kiln & Co. Ltd.	P.E. Morris	38.8	60.7	1.1	1.7

*Syndicates whose largest proportion of business is aviation
Source: Lloyd's of London

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Reinsurers see more competition

Consolidation, pricing and market share still shape market

By RODD ZOLKOS

Clients want to pay less, reinsurers want to write more and the international playing field is growing less crowded as reinsurers merge and acquire one another.

That is how executives of international reinsurers characterize the current marketplace, echoing concerns raised in prior years.

Pricing in many areas is called low to inadequate, while some reinsurer executives are concerned that some companies are putting market share ahead of prudent pricing. Those pricing trends coupled with continued consolidation are putting the squeeze on small and medium-sized reinsurers as they struggle to compete with larger, better-capitalized companies, some executives fear.

According to Jean-Pierre Fillebeen, vice chairman and CEO of SAFR Reinsurance Corp. of the United States, "1995 could be described as a year of consolidation among reinsurers and giving way to the real emergence of a global reinsurance market with several reinsurers making significant inroads in establishing a worldwide presence."

"This year has shown a continuation of the trends observed last year, though in certain areas one denotes an acceleration of these trends," said Dirk Lohmann, deputy board member at Hannover Re/Eisen & Stahl Re Group in Hannover, Germany.

That acceleration is particularly apparent, he said, in consolidations and increased globalization within the industry, the restructuring of Lloyd's of London and competition. "In reality, one cannot speak of three separate trends since all three are interlinked," Mr. Lohmann said.

John Engestrom, group chief executive of London-based Mercantile & General Reinsurance, sees some variety in the global reinsurance picture, but that variety might only be a matter of degree. In 1995, "U.S. reinsurance is in the doldrums with insufficient casualty rates and non-catastrophe property rates also under pressure. The market in the U.K. has peaked and there is broker-led pressure on reinsurance rates. Europe and the rest of the world are also varied, but generally the market is becoming softer," he said.

Others agree the worldwide reinsurance market is likely to become more competitive on pricing.

"The global market is still softening with cedants buying more astutely and increasing retentions," said Greg O'Neill, group general manager of Sydney Reinsurance Group Ltd., Sydney, Australia.

"In spite of further mergers in Europe and the strong position of major players, it is a rather fragmented marketplace that shows signs of getting softer again in spite of remaining uncertainty about long-tail reserving," said Willi E. Schurpf, senior executive vp of Winterthur Swiss Insurance Co. in Winterthur, Switzerland.

"Overall, the 1995 marketplace remains highly competitive," said Mahmoud M. Abdallah, divisional president of American Re-Insurance Co. in Princeton, N.J.

"If the second half of 1995 remains relatively catastrophe free, another round of price reductions may be expected for the 1996 catastrophe renewals," Mr. Abdallah said. And such reductions might prompt business strategy changes among the newly capitalized reinsurers offshore, he added.

"Reducing premiums from property catastrophe covers may lead to more aggressive entry by some reinsurers into other types and lines of business," Mr. Abdallah said. "This will add to the already overly competitive conditions among reinsurers found in many parts of the world."

Some reinsurers note that at least the current market shows some stability.

Serge Osouf, chief operating officer at SCOR S.A. in Paris, said the current market is "stable with improved technical results in Europe and Asia. But he also sees the market "changing with the emergence of new global players toward a more competitive stance in the second part of the year."

And the U.S. reinsurance market, he noted, is "highly competitive and unstable."

Ernesto Jutzi, member of the executive board of Zurich-based Swiss Re Group, sees improvement in reinsurers' results.

"Improvements in the terms of trade negotiated in previous years, accompanied by pressure from reinsurers for professional databases, have yielded better technical results for the year, although original premium rates, especially in European markets, are still inadequate," he said.

"More importantly, fewer individual large losses and CAT losses (excluding the Northridge and Kobe earthquakes) have led to more favorable property results," Mr. Jutzi said.

Marie-Louise Wenander, president of Stockholm-based Skandia International Insurance Corp., said she views the international reinsurance market "in a state of optimism, where many reinsurers are experiencing improved results after several problematic years." Still, Ms. Wenander sees a potential dark cloud in the form of "the risk that this optimism is encouraging further capacity into the market."

Business Insurance's survey of international reinsurers shows a continuing trend toward smaller increases in net premiums written by the world's largest reinsurers.

The aggregate net reinsurance premiums written by the world's 20 largest reinsurers in 1994, as ranked by *BI* after converting to U.S. dollars, increased 9.6% to $50.21 billion from $45.81 billion in 1993.

The group of reinsurers making up last year's Top 20—most of which also are included in this year's Top 20—reported a 13.8% increase in aggregate net premiums from 1992 (*BI*, Aug. 29, 1994). That compares with a 17.2% increase reported in 1992 from 1991 by a similar group of reinsurers (*BI*, Aug. 30, 1993).

Two of this year's Top 20 reinsurers actually saw net reinsurance premiums written decline last year. Winterthur Swiss Insurance Co.'s volume declined by 10.2% to $788.5 million in 1994 from $878.1 million in 1993. Prudential Reinsurance Co.'s premiums fell 17.8% to $733.4 million in 1994 from $892.3 million

See **Reinsurers** *on next page*

OUR ATTENTION.

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Tale of two reinsurance markets

Lloyd's, Bermuda seeking to solidify role as players

While a fragile international reinsurance market deals with the impact of consolidation and competition, considerable attention also is being paid to the efforts of two players—one old and one young—to position themselves for the future.

The continuing efforts to achieve a successful restructuring of 307-year-old Lloyd's of London remain a subject of considerable interest among international reinsurers.

"The adverse publicity due to problems affecting some, but not all, of the syndicates at Lloyd's" has had an interesting effect on competition, said Dirk Lohmann, deputy board member at Hannover Re/Eisen & Stahl Re in Hannover, Germany.

Some buyers that relied heavily on Lloyd's reinsurance in the past "are trying to reduce this and are paying a bit more to get alternative security," he said.

But domestic brokers and reinsurers that "are offering extremely competitive terms in the hopes of cherry-picking what remains of London's good business" are "aggressively" courting other reinsurance buyers, particularly in the United States, he said. The problem is that can lead incumbent reinsurers to soften and broaden terms to retain business, Mr. Lohmann suggested, which can lead to "a vicious pricing circle" where ultimately everybody loses.

Most observers believe Lloyd's will succeed in its restructuring, though they differ on the outcome.

"Lloyd's will continue to be a force in the marketplace, although. . .it will be smaller and more focused," Mr. Lohmann said. But, if the most recent settlement offer were torpedoed, that would increase uncertainty, prompting a loss of confidence in Lloyd's future, he believes.

Serge Osouf, chief operating officer of SCOR S.A. in Paris, believes only a major crisis at Lloyd's could keep U.S. reinsurance market conditions from remaining competitive. Such a crisis could "force some cedants and reinsurers to reassess their liability exposures."

Karl Mayr, member of Munich, Germany-based Frankona Reinsurance Co.'s management board, believes Lloyd's will remain a significant player, "however, as a reduced market force."

Pierre D. Croizat, managing director and chief executive officer of Amsterdam, Netherlands-based SOREMA International, said the restructuring of Lloyd's might lead it to become a conventional exchange.

And that restructuring, along with further consolidation in the industry and changing ownership of some large European reinsurers, "might lead to major changes," he said.

While they are keeping an eye on events in London, many reinsurance executives also are tracking Bermuda, where they expect the recently capitalized reinsurance markets to branch out from their property catastrophe base to other lines.

"The Bermuda market will probably take further steps toward diversification as the reality of their inability to generate the returns promised investors by remaining a monoline catastrophe player becomes obvious," Mr. Lohmann said.

"Most of the Bermuda markets have already expanded the scope of what they consider to be catastrophic risk," he said. The question then is whether they will have the skills and pricing power to generate long-term returns, Mr. Lohmann said.

He believes some Bermuda market investors would like to withdraw excess capital from there "if they could get away with it," but "such a move would prove unpopular with cedants."

Clearly, the Bermuda market capacity already has had an impact on the property segment of the international reinsurance market.

"Rates are going down in general due to pressure from international competition, especially in property business, because of increased capacity such as Bermuda," said Yukio Hara, manager at Yasuda Fire & Marine Insurance Co. Ltd. in Tokyo.

Mahmoud M. Abdallah, divisional president of Princeton, N.J.-based American Re-Insurance Co., said the reduction in property catastrophe rates the Bermuda companies' capacity has helped to promote could prompt the Bermuda reinsurers to move into other areas of the market, increasing capacity there and bringing additional price competition.

But despite the effect the market capacity they've brought has had on rates, Bermuda reinsurers are not among those companies some say are pricing coverages at unrealistically low levels simply to gain market share, said Mr. Lohmann.

"You do have to give (the Bermuda market) credit where credit is due," he said. "They have proven to be reasonable competition."

—By Rodd Zolkos



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Reinsurers

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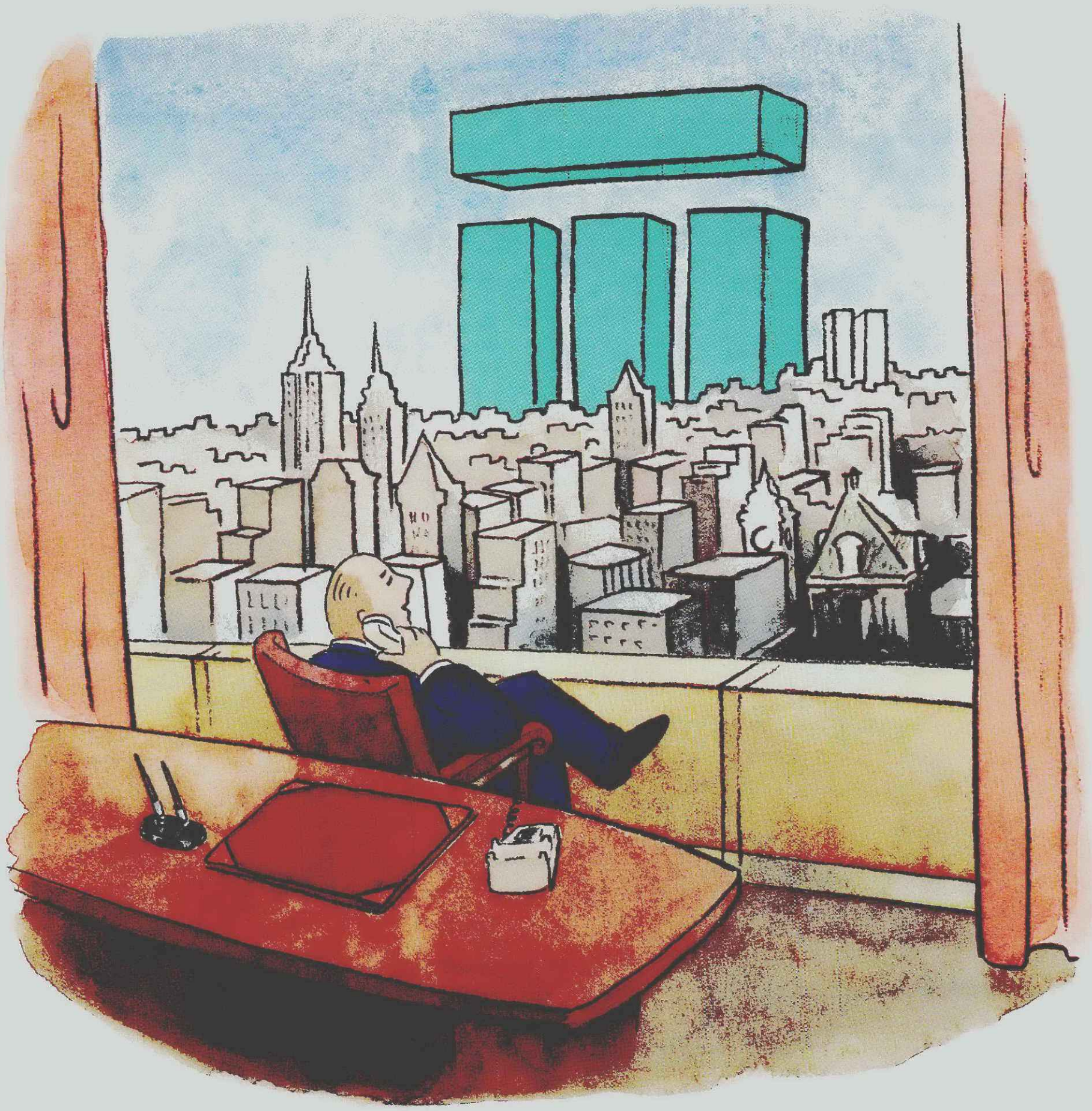
loss-free years think there is nothing to writing" this business.

"This leads to a two-tiered market, where smaller (ceding) companies not requiring international capacity can attract a lower price for their relative exposure than a national carrier requiring worldwide capacity," he said. "Unfortunately, for the principle of reinsurance to work properly, the market needs to have a reasonable spread of risks at adequate risk-adjusted prices."

In the future, M&G Re's Mr. Engestrom sees not only further consolidation and pressure on rates, but ultimately a market "split between informed professional providers, on the one hand, who will price responsibly based on exposure and, on the other hand, premium- or market share-driven players who are willing to write at untechnical rates."

Reinsurers will have to "decide their own destiny and avoid the roller coaster of the infamous 'cycle,'" he said. "Responsible reinsurers—and insurers—can buck this trend."

American Re's Mr. Abdallah offers a similar assessment. "The successful reinsurers will be those that emphasize pricing integrity over market share, he said, "in addition to those that have effectively developed sources of business that are more immune to cyclical variations." BI



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BI's annual directory of world's leading reinsurance companies

A

Aachen Re

Schloss-Rahe-Strasse 15, D-52072
Aachen, Germany; 49-241-9369-0;
fax: 49-241-9369-205

	1993*	1992*
Premiums written	$538,404,228	$555,381,605
Premiums earned	$546,813,063	$533,867,468
Capital & surplus	$472,478,841	$98,375,142
Losses	$376,284,060	$390,412,239
Expenses	$163,507,671	$150,869,662
Aftertax net	$7,971,057	$7,717,929
Loss ratio	80.1%	80.9%
Expense ratio	30.4%	27.2%
Combined ratio	99.2%	100.3%
Treaty	94.1%	95.9%
Facultative	5.9%	4.1%
Domestic	29.5%	18.9%
Foreign	70.5%	81.1%

** Fiscal years ending 12/31/93 and 12/31/92.*

Founded: 1853.
Parent: Employers Reinsurance Corp.
Subsidiaries: Irish European Reinsurance Co., Dublin; Lureco S.A., Luxembourg. Figures from these subsidiaries are *not* included in the figures above.
Employees: 259.
Locations: 179 domestic, 80 foreign.
Specialties: Financial reinsurance.
Officers: Arno Morenz, chairman; Harry Hauptmann, member-board of management; werner Nicoll, duputy member-board of management.
Contact: Curt Hagelmann, Aachen Insurance Intermediaries Inc., Atlanta; 404-673-0725.

Information for Aachen Re and its subsidiaries is included in the consolidated Aachen Re Group listing.

Aachen Re Group

Schloss-Rahe-Strasse 15, D-52072
Aachen, Germany; 49-241-9369-0;
fax: 49-241-9369-205

	1993*	1992*
Premiums written	$667,926,216	$648,148,501
Premiums earned	$664,418,565	$623m432,867
Capital & surplus	$141,082,704	$116,704,500

** Fiscal years ending 12/31/93 and 12/31/92.*

Aachen Re Group figures are consolidated, including Aachen Re and its subsidiares.

Abeille Reassurances

11 rue de La Rochefoucauld, 75009
Paris, France; 331-42-80-75-75;
fax: 331-48-78-53-42

	1994	1993
Premiums written	$650,396,031	$471,080,830
Premiums earned	$641,168,438	$463,402,902
Capital & surplus	$377,165,575	$330,198,483
Losses	$513,874,474	$374,825,122
Expenses	$170,769,328	$148,617,402
Aftertax net	$12,625,667	$10,769,734
Loss ratio	80.1%	80.9%
Expense ratio	26.3%	31.5%
Combined ratio	106.4%	112.4%
Treaty	94.1%	95.9%
Facultative	5.9%	4.1%
Domestic	29.5%	18.9%
Foreign	70.5%	81.1%

Founded: 1976.
Parent: Compagnie de Suez.
Subsidiaries: Abeille Re, U.S., Canada, Hong Kong.
Employees: 135.
Locations: One domestic, three foreign.
Officers: Michel Laparra, chairman/CEO; Claude Porret, Francois Vilnet, deputy general managers.
Contact: David Forrest, executive vp-Abeille Reassurances, U.S. branch, 212-809-7100.

American Re-Insurance Co.

555 College Road E., Princeton,
N.J. 08543; 609-243-4200;
fax: 609-243-4257

	1994	1993
Premiums written	$1,551,223,242	$1,370,999,578
Premiums earned	$1,457,211,383	$1,257,044,898
Capital & surplus	$1,096,344,241	$1,079,283,907
Losses	$1,035,224,060	$813,688,930
Expenses	$504,524,536	$475,787,989
Aftertax net	$129,573,354	$120,593,059
Loss ratio	71.0%	64.7%
Expense ratio	32.5%	34.7%
Combined ratio	103.5%	99.4%
Treaty	71.0%	72.0%
Facultative	29.0%	28.0%
Domestic	81.3%	83.3%
Foreign	18.7%	16.7%

Founded: 1917.
Parent: American Re Corp.
Subsidiaries: American Re-Insurance Co. (Chile) S.A.
Employees: 1,191.
Locations: 13 domestic, 14 foreign.
Officers: Edward B. Jobe, chairman/CEO; Paul Inderbitzin, vice chairman/president; James R. Fisher, divisional president/CFO; Mahmoud M. Abdallah, Edward J. Noonan, divisional presidents.
Contact: Victor M. Giuffre, vp, 609-243-4280.

Assicurazioni Generali S.p.A.

See listing under Generali

AXA Re

39 Rue du Colisee, Paris 75008,
France; 331-40-75-55-00;
fax: 331-40-75-56-32

	1994	1993
Premiums written	$1,196,301,400	$995,880,160
Premiums earned	$1,126,657,668	$787,141,520
Capital & surplus	$620,724,296	$495,862,928
Losses	$852,162,480	$664,889,984
Expenses	$254,120,018	$173,573,840
Aftertax net	$59,057,223	$31,243,872
Loss ratio	75.6%	84.5%
Expense ratio	21.2%	17.4%
Combined ratio	96.8%	101.9%
Treaty	89.1%	89.9%
Facultative	10.9%	10.1%
Domestic	3.0%	3.0%
Foreign	97.0%	97.0%

Founded: 1937.
Parent: AXA Group.
Subsidiaries: AXA Re Asia, AXA Re Canada, AXA Re Mexico, AXA Re USA, AXA Re U.K. P.L.C., AXA Re Vie, C.G.R.M. (Monaco), INTEC (U.S.A.).
Employees: 344.
Locations: One domestic, eight foreign.
Officers: C. Excoffier, CEO; J.M. Nessi, COO; J.P. Benoit, senior executive officer; R. Lippincott, CEO-AXA Re USA; K. Haddon, CEO-AXA Re U.K.
Contact: Thomas Pucci, CFO-AXA Re USA, 212-493-9300.

B

Bavarian Re

Sederanger 4-6, 80538 Munich,
Germany; 49-89-3844-0;
fax: 49-89-3844-2279

	1993*	1992*
Premiums written	$1,016,225,648	$917,300,125
Premiums earned	$1,026,205,717	$896,954,805
Capital & surplus	$360,360,949	$241,718,177
Losses	$680,115,014	$707,800,745
Expenses	$268,671,285	$256,708,398
Loss ratio	66.3%	78.9%
Expense ratio	26.4%	28.0%
Combined ratio	92.7%	106.9%

** Fiscal years ending 12/31/93 and 12/31/92.*

Founded: 1911.
Parent: Swiss Reinsurance Co.
Employees: 371.
Officers: Stefan Lippe, Erich Herrgen, Inge Mahlstedt, Stefan Schroder, Anton Wittl, board members.
Contact: Erich Herrgen, 49-89-3844-1211.

Information for Bavarian Re is included in the consolidated Swiss Re Group listing.

Berkshire Hathaway Reinsurance Division

100 First Stamford Place, Stamford,
Conn. 06902; 203-363-5200;
fax: 203-363-5221

	1994	1993
Premiums written	$689,834,000	$528,698,000
Premiums earned	$688,444,000	$442,360,000
Capital & surplus*	NA	NA
Losses	$476,879,000	$350,847,000
Expenses	$130,844,000	$74,101,000
Loss ratio	69.3%	79.3%
Expense ratio	19.0%	14.0%
Combined ratio	88.3%	93.3%
Treaty	98.0%	99.0%
Facultative	2.0%	1.0%
Domestic	75.0%	75.0%
Foreign	25.0%	25.0%

** Parent company does not allocate specific capital to reinsurance underwriting.*

Founded: 1969.
Parent: Berkshire Hathaway Inc.
Employees: 12.
Locations: One domestic.
Specialties: Property catastrophe, finite risk, marine and aviation excess of loss, limited pro rata.

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Continued from previous page

Officers: Ajit Jain, president; Scott Doerr, vp; Scott Stirling, Brian Garrison, Brian Snover, assistant vps.
Contact: Scott Doerr, 203-363-5207.

C

Caisse Centrale de Reassurance

31, rue de Courcelles, 75008 Paris, France; 331-44-35-3100; fax: 331-44-35-3131

	1994	1993
Premiums written	$603,811,837	$532,266,944
Premiums earned	$696,283,108	$545,977,168
Capital & surplus	$568,248,052	$477,445,232
Losses	$552,306,477	$408,641,024
Expenses	$142,328,988	$164,238,624
Aftertax net	$45,991,557	$51,282,528
Loss ratio	79.3%	74.9%
Expense ratio	23.6%	30.9%
Combined ratio	102.9%	105.7%
Treaty	93.8%	94.7%
Facultative	6.2%	5.3%
Domestic	76.4%	78.3%
Foreign	23.6%	21.7%

Founded: 1946.
Officers: Alexis Ruset, Chairman/CEO; Claude Thevenot, deputy general manager; Rene Vandamme, manager-underwriting division; Gerard Boulier, deputy manager-financial/real estate/legal division; Michel Simonnet, deputy manager-EDPS division; Viviane Zischek, deputy manager-accounts division.

Centre Reinsurance (Bermuda) Ltd. & Subsidiaries

Cumberland House, 1 Victoria St., P.O. Box HM 1788, Hamilton HM HX, Bermuda; 809-295-8501; fax: 809-292-0951

	1994	1993
Premiums written	$487,119,000	$464,685,000
Premiums earned	$502,907,000	$478,703,000
Capital & surplus	$470,226,000	$554,082,000
Losses	$50,095,000	$119,603,000
Expenses	$108,170,000	$187,064,000
Aftertax net	93.5%	115.7%
Loss ratio	10.3%	25.7%
Expense ratio	103.8%	141.4%
Combined ratio	100.0%	100.0%
Treaty	10.0%	10.0%
Domestic	90.0%	90.0%
Foreign		

Founded: 1988.
Parent: Zurich Insurance Co.
Subsidiaries: Centre Reinsurance Ltd., Centre Reinsurance International Co., Centre Reinsurance Co. of New York.
Employees: 121.
Locations: One domestic, three foreign.
Specialties: Finite risk.
Officers: Steven M. Gluckstern, chairman; Jay S. Ralph, president; Laurence Cheng, executive vp/COO; David Brown, executive vp; Steven D. Germain, senior vp/general counsel/secretary; Michael D. Palm, CEO.
Contact: Jay Ralph.

The Chiyoda Fire & Marine Insurance Co. Ltd.

Kyobashi Chiyoda Building, 1-9 Kyobashi 2-chome, Chuo-ku, Tokyo 104, Japan; 81-3-3281-3311; fax: 81-3-3275-0780

	1994*	1993*
Premiums written	$530,798,731	$510,631,061
Capital & surplus	$1,357,682,400	$1,237,363,200
Losses	$434,136,196	$389,265,411
Expenses	$89,739,889	$85,449,894
Expense ratio	16.9%	16.7%
Treaty	99.0%	99.0%
Facultative	1.0%	1.0%
Domestic	60.0%	60.0%
Foreign	40.0%	40.0%

** Fiscal years ending 3/31/95 and 3/31/94.*

Founded: 1897.
Subsidiaries: Chiyoda Europe. Figures from this subsidiary are *not* included in the figures above.
Employees: 40.
Locations: One domestic, one foreign.
Officers: Hideo Kamio, chairman; Takashi Toyabe, president/executive director; Koji Fukuda, senior vp/executive director; Takashi Miyazaki, Yutaka Okada, senior managing directors.
Contact: Yoshio Ohyama, president-Chiyoda Fire & Marine Insurance Co. of America, 212-839-6927.

Constitution Reinsurance Corp.

110 William St., New York, N.Y. 10038; 212-225-1000; fax: 212-225-1109

	1994	1993
Premiums written	$481,774,476	$453,888,825
Premiums earned	$466,103,476	$445,479,433
Capital & surplus	$301,003,301	$286,328,258
Losses	$321,488,520	$311,210,126
Expenses	$154,408,055	$146,896,422
Aftertax net	$34,328,258	$31,441,837
Loss ratio	69.0%	69.9%
Expense ratio	32.0%	32.4%
Combined ratio	101.0%	102.3%
Treaty	95.5%	95.7%
Facultative	4.5%	4.3%
Domestic	100.0%	100.0%

Founded: 1940.
Parent: EXOR Group.
Employees: 192.
Locations: Five domestic.
Specialties: Non-standard automobile and low-value dwelling coverages.
Officers: Bard E. Bunaes, chairman/CEO; Francis D. Ruyak, president; William K. Lowry, senior vp/CFO; Roger M. Hughes, senior vp; William F. Davis, senior vp/controller.
Contact: William K. Lowry, 212-225-1100.

Copenhagen Reinsurance Co. Ltd.

4, Lyngby Hovedgade, P.O. Box 325, Copenhagen, Denmark; 45-45-96-75-75; fax: 45-45-97-72-72

	1994	1993
Premiums written	$251,514,000	$295,680,000
Premiums earned	$250,572,000	$271,040,000
Capital & surplus	$164,379,000	$119,658,000
Losses	$140,201,000	$225,302,000
Expenses	$69,551,000	$73,458,000
Aftertax net	$12,717,000	$18,172,000
Loss ratio	56.0%	83.1%
Expense ratio	27.7%	24.8%
Combined ratio	83.7%	107.9%
Treaty	75.0%	70.0%
Facultative	25.0%	30.0%
Domestic	10.0%	10.0%
Foreign	90.0%	90.0%

Founded: 1915.
Subsidiaries: Copenhagen Reinsurance Co. (Australia) Ltd.; Copenhagen Reinsurance Co. (Far East) Pte. Ltd., Singapore; Copenhagen Reinsurance Co. (U.K.) Ltd.
Employees: 145.
Locations: One domestic, five foreign.
Officers: Leif Corinth-Hansen, general manager.
Contact: Alain Debbas, assistant general manager.

E

Eisen & Stahl Re

Karl Wiechert Allee 50, D-30625 Hannover, Germany; 49-511-5604-0; fax: 49-511-5604-188

	1994	1993
Premiums written	$895,343,265	$856,090,557
Premiums earned	$887,628,049	$851,917,194
Capital & surplus*	$355,951,617	$295,979,535
Losses	$665,855,824	$674,217,315
Expenses	$208,497,770	$200,967,237
Aftertax net	$54,899,110	$53,648,307
Loss ratio	75.0%	79.1%
Expense ratio	23.3%	23.5%
Combined ratio	98.3%	102.6%
Treaty	99.0%	99.0%
Facultative	1.0%	1.0%
Domestic	67.0%	68.0%
Foreign	33.0%	32.0%

** Includes share capital subscription receivable and surplus debenture.*

Founded: 1923.
Parent: Hannover Re.
Subsidiaries: Eisen & Stahl Reinsurance (Ireland) Ltd.; Life Reinsurance of Australasia Ltd., Australia. Figures from these subsidiaries are *not* included in the figures above.
Employees:** 172.
Locations: One domestic, nine foreign.
Specialties: Professional liability, surety, fidelity, aviation, marine, credit, life, health, financial reinsurance.
Officers: Udo Schubach, deputy chairman; Wolf Becke, Jurgen Brenzel, Andreas-Peter Hecker, Winfried Kruger, board members; Herbert K. Haas, Dirk Lohmann, deputy board members.
Contact: John McLain, vp-U.S. representative office, 708-310-3854.

*** Employee figure is not stated on a full-time equivalent basis.*

Information for Eisen & Stahl Re and its subsidiaries is included in the consolidated Hannover Re/Eisen & Stahl Re Group listing.

Employers Reinsurance Group

P.O. Box 2991, 5200 Metcalf, Overland Park, Kan. 66201; 913-676-5200; fax: 913-676-5380

	1994	1993
Premiums written	$3,484,334,000	$3,336,857,000
Premiums earned	$3,398,388,000	$3,210,162,000
Capital & surplus	$2,481,585,000	$2,336,945,000
Losses	$2,868,250,000	$2,994,427,000
Expenses	$939,727,000	$656,470,000
Aftertax net	$510,776,000	$376,480,000
Loss ratio*	79.1%	81.3%
Expense ratio*	25.5%	23.9%
Combined ratio*	104.6%	105.2%
Treaty	72.4%	70.9%
Facultative	27.6%	29.1%
Domestic	69.9%	77.7%
Foreign	30.1%	22.3%

** Ratios relate to property/casualty business only.*

Founded: 1914.
Parent: General Electric Capital Services.
Subsidiaries: Employers Re Corp. (U.K.) Ltd., Employers Reassurance Corp., Employers Reinsurance Corp., Employers Reinsurance International A/S, First Excess & Reinsurance Corp., First Specialty Insurance Corp., Westport Insurance Corp.
Employees: 1,259.
Locations: 17 domestic, nine foreign.
Officers: Kaj Ahlmann, chairman/president/CEO; Hoyt H. Wood Jr., senior vp-underwriting/claims; C. Alan Mauch, senior vp-marketing/administration; James F. Dore, vp/CFO; John Connelly, senior vp/general counsel/secretary.
Contact: Kaj Ahlmann.

F

F&G Re Inc. (USF&G)

P.O. Box 1958, 55 Madison Ave., Morristown, N.J. 07960-1958; 201-898-9393; fax: 201-326-9453

	1994	1993
Premiums written	$409,083,140	$398,032,531
Premiums earned	$396,630,495	$380,082,354
Capital & surplus*	NA	NA
Losses	$271,821,270	$256,125,412
Expenses	$93,148,260	$98,351,707
Loss ratio	68.5%	67.4%
Expense ratio	22.8%	24.7%
Combined ratio	91.3%	92.1%
Treaty	100.0%	100.0%
Domestic	61.9%	67.5%
Foreign	38.1%	32.5%

** Parent company does not allocate specific capital to reinsurance underwriting.*

Founded: 1983.
Parent: United States Fidelity & Guaranty Co.
Employees: 53.
Locations: One domestic, one foreign.
Officers: Paul B. Ingrey, president; John Berger, executive vp; Dwight E. Evans, Wayne Paglieri, Timothy J. Olson, senior vps; Roland W. Jackson, senior vp/comptroller.
Contact: Roland W. Jackson.

Continued on next page

Reinsurer directory explained

The seventh annual directory of the world's largest reinsurance companies lists reinsurers that responded to a *Business Insurance* questionnaire. The listings are published free of charge as an editorial service.

Financial information was gathered from the responses to the *BI* questionnaire, annual statements/reports and telephone interviews.

Figures are reported in U.S. dollars, using average currency exchange rates corresponding with each companies' balance sheet fiscal year, which is the same as the calendar year unless otherwise noted.

The company listings begin with the home office address, telephone and fax numbers, followed by financial information based on the company's worldwide consolidated (unless otherwise noted) reinsurance operations.

Net premiums written, net premiums earned, total capital and surplus, aftertax net income, loss and loss adjustment expenses and underwriting expenses are given, along with loss ratios, expense ratios and combined ratios. The percentages of business written as treaty and as facultative reinsurance are included, as well as the percentage of reinsurance written in the company's domestic and foreign markets.

The year founded, parent company name (if any) and major reinsurance subsidiaries follow the financial information. If the companies' financial information is not consolidated or only partly consolidated, subsidiaries not included in the figures are noted here. Also included are the number of employees, in full-time equivalent for year-end 1994 and number of domestic and foreign locations. (The term "domestic" refers to the country in which the company is based.) Names and titles of principal officers, as well as a contact person complete the listings.

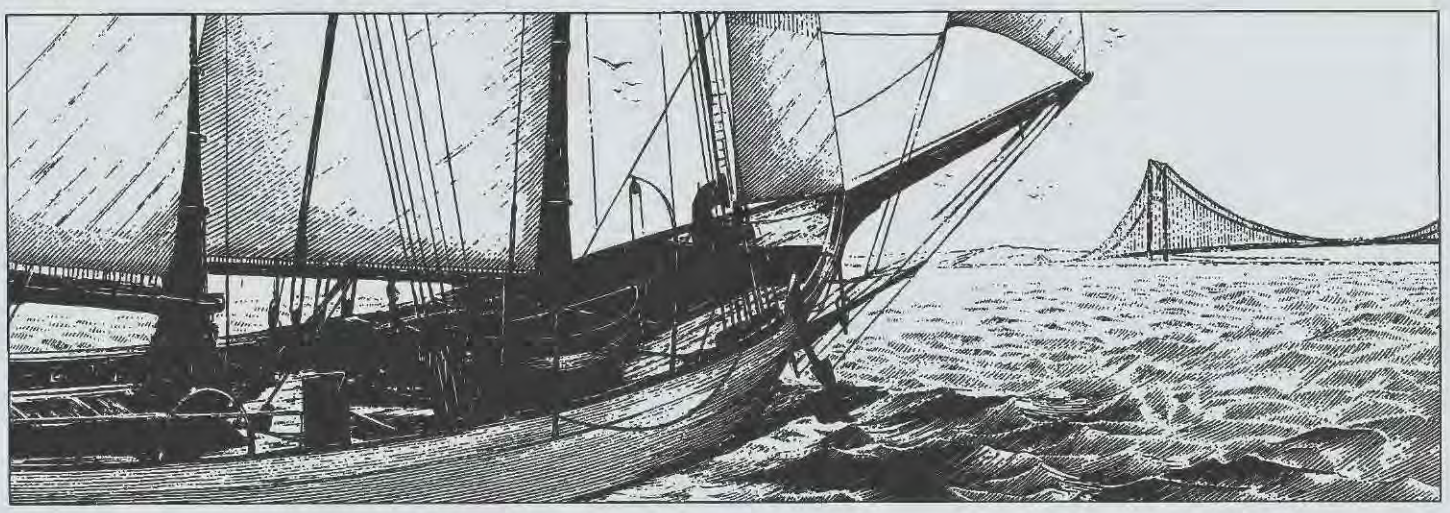
Although every effort has been made to publish complete and accurate listings, *BI* is not able to verify all information provided by the reinsurers.

With great regret we must announce the passing of a friend and colleague.

Larry C. Sundstrom
1936 – 1995

Rollins Hudig Hall of Southern California

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New York, New York 10019
Telephone: 212 974 0100
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Capital Re

Continued from previous page

Frankona Reinsurance Co.

Maria-Theresia-Strasse 35, D-81675 Munich, Germany; 49-89-9228-438; fax: 49-89-9228-609

	1994*	1993*
Premiums written	$1,850,952,003	$1,730,645,378
Premiums earned	$1,799,064,364	$1,669,596,106
Capital & surplus	$200,560,390	$236,397,874
Losses	$1,307,302,167	$1,180,614,997
Expenses	$437,032,369	$437,913,866
Aftertax net	$13,289,314	$10,295,901
Loss ratio	72.7%	70.7%
Expense ratio	23.6%	25.3%
Combined ratio	96.3%	96.0%
Treaty	87.0%	90.4%
Facultative	13.0%	9.6%
Domestic	34.7%	62.3%
Foreign	65.3%	37.7%

** Fiscal years ending 6/30/94 and 6/30/93.*

Founded: 1886.

Parent:** Gerling-Konzern Versicherungs-Beteiligungs-AG.

Subsidiaries: Frankona America Life Reassurance Co., Kansas City, Mo.; Frankona America Reinsurance Co., Kansas City, Mo.; Frankona Reinsurance Co. (U.K.) Ltd., London.

Employees: 544.

Locations: One domestic, six foreign.

Officers: Achim Kann, chairman/CEO; Dieter W. Luer, Karl Mayr, board members; Klaus Gierstner, Gabriele Stache, Gerd Strecker, Ernst Wehe, executive vps.

Contact: Karl Mayr, 49-89-922-8700.

*** Employers Reinsurance Corp. will own 76% of the company if the pending purchase of Gerling group's share is approved by authorities.*

G

General Re Corp.

695 E. Main St., Stamford, Conn. 06904; 203-328-5000; fax: 203-328-5061

	1994	1993
Premiums written*	$5,551,000,000	$4,91[illegible],000,000
Premiums earned*	$5,306,000,000	$4,78[illegible],000,000
Capital & surplus	$4,859,000,000	$4,761,000,000
Losses	$1,981,000,000	$1,72[illegible],000,000
Expenses	$847,000,000	$76[illegible],000,000
Aftertax net**	$621,000,000	$60[illegible],000,000
Loss ratio	70.7%	70.6%
Expense ratio	30.6%	30.9%
Combined ratio	101.3%	101.5%
Domestic*	47.0%	46.0%
Foreign*	53.0%	54.0%

** Figures reported on a pro forma basis and include Cologne Re.*

*** Figures reflect aftertax operating income.*

Founded: 1921.

Subsidiaries: General Reinsurance Corp., Cologne Reinsurance Co.

Employees: 2,600.

Officers: Ronald E. Ferguson, chairman/CEO; John C. Etling, vice chairman; James E. Gustafson, president/COO; Tom N. Kellogg, Peter Lutke-Bornefeld, executive vps.

Contact: Deborah C. Nelson, second vp, 203-328-6448.

Assicurazioni Generali S.p.A.

Piazza Duca degli Abruzzi 2, Trieste, Italy 34132; 39-40-6711; fax: 39-40-671600

	1994	1993
Premiums written	$3,257,248,344	$2,840,111,936
Premiums earned	$3,210,365,725	$2,811,359,096
Capital & surplus*	$5,992,153,552	$5,656,185,120
Losses	$2,092,813,996	$2,016,204,504
Expenses	$870,994,495	$719,794,280
Aftertax net	$399,263,256	$385,611,640
Loss ratio	65.2%	71.7%
Expense ratio	26.7%	25.3%
Combined ratio	91.9%	97.0%
Treaty	96.9%	96.9%
Facultative	3.1%	3.1%
Domestic	18.6%	17.6%
Foreign	81.4%	82.4%

** Capital & surplus figures include profit for the year.*

Founded: 1831.

Subsidiaries: Business Men's Assurance Co. of America, Kansas City, Mo.; EA-Generali, Vienna, Austria; Generali Ruckversicherung, Vienna, Austria; La Concorde, Paris; Union Suisse, Geneva.

Employees:** 900.

Locations: 14 domestic, 78 foreign.

Officers: Antoine Bernheim, chairman; Gianfranco Gutty, vice chairman/managing director; Fabio Cerchiai, Umberto Della Casa, Camillo Giussani, general managers.

Contact: Riccard Nicolini, COO-Assicurazioni Generali, New York, 212-602-7600.

*** Company estimate.*

Gerling Global Reinsurance Group

Gereonshof, 50597 Cologne/Koln, Germany; 49-221-144-1; fax: 49-221-144-4856

	1994*	1993*
Premiums written	$1,976,463,860	$1,763,605,094
Premiums earned	$1,888,118,260	$1,715,321,128
Capital & surplus	$371,161,000	$323,162,073
Losses	$1,304,868,320	$1,255,990,143
Expenses	$554,381,730	$504,095,861
Aftertax net	$9,398,025	$8,181,724
Loss ratio	69.1%	73.2%
Expense ratio	28.0%	28.6%
Combined ratio	97.1%	101.8%
Domestic	63.8%	65.7%
Foreign	36.2%	34.3%

** Fiscal years ending 6/30/94 and 6/30/93.*

Founded: 1954.

Subsidiaries: Gerling Global General & Reinsurance, London; Gerling Global Group of Australia, Sydney; Gerling Global Life, Toronto; Gerling Global Reinsurance, Toronto; Gerling Global Reinsurance, Malaysia; Gerling Global Reinsurance, Johannesburg, South Africa; Gerling Global Reinsurance, U.S; Gerling Globale, Zug, Switzerland.

Employees: 488.

Locations: One domestic, 15 foreign.

Officers: Norbert Strohschen, chairman; Klaus Bultmann, Uwe Eymer, Gerhard Niebuhr, executive board members.

Contact: Gerhard Niebuhr, president-Gerling Global Reinsurance Corp., U.S., 212-752-8900.

H

Hannover Re

Karl Wiechert Allee 50, D-30625 Hannover, Germany; 49-511-5604-0; fax: 49-511-5604-188

	1994	1993
Premiums written	$1,670,887,746	$1,607,984,523
Premiums earned	$1,634,307,941	$1,565,582,769
Capital & surplus*	$763,394,749	$598,501,620
Losses	$1,140,631,300	$1,157,078,610
Expenses	$398,383,448	$402,331,851
Aftertax net	$138,480,823	$139,134,411
Loss ratio	69.8%	73.9%
Expense ratio	23.8%	25.0%
Combined ratio	93.6%	98.9%
Treaty	97.0%	97.0%
Facultative	3.0%	3.0%
Domestic	41.0%	40.0%
Foreign	59.0%	60.0%

** Includes share capital subscription receivable and surplus debenture.*

Founded: 1966.

Parent: HDI Haftpflichtverband der Deutschen Industrie V.a.G.

Subsidiaries: HANNOVER Reinsurance (Ireland) Ltd.; Hollandia Reinsurance Group, South Africa; Insurance Corp. of Hannover, U.S.; International Insurance Co. of Hannover Ltd., U.K.; Life Reinsurance of Australasia Ltd., Australia; Reassurance Co. of Hannover, U.S. Figures from these subsidiaries are *not* included above.

Employees:** 355.

Locations: One domestic, 17 foreign.

Specialties: Professional liability, surety, fidelity, aviation, marine, credit, life, health, financial reinsurance.

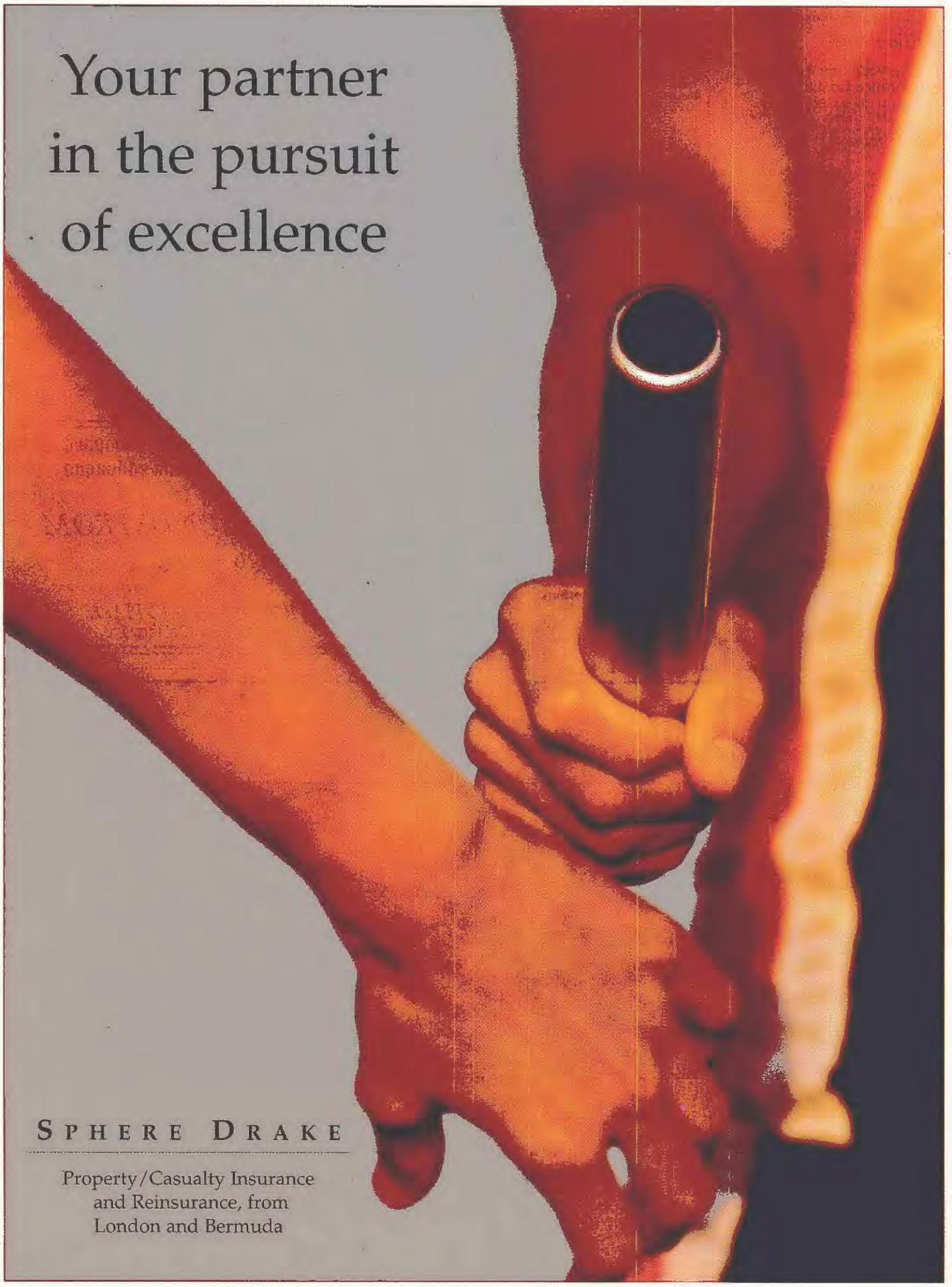
Officers: Andreas-Peter Hecker, deputy chairman; Wolf Becke, Jurgen Brenzel, Winfried Kruger, Udo Schubach, board members; Herbert K. Hass, Dirk Lohmann, deputy board members.

Contact: John McLain, vp-U.S. representative office, 708-310-3854.

*** Employee figure is not stated on a full-time equivalent basis.*

Information for Hannover Re and its subsidiaries is included in the consolidated Hannover Re/Eisen & Stahl Re Group listing.

Continued on next page



Continued from previous page

Hannover Re/Eisen & Stahl Re Group

Karl Wiechert Allee 50, D-30625
Hannover, Germany; 49-511-5604-0;
fax: 49-511-5604-188

	1994	1993
Premiums written	$3,097,084,173	$2,796,635,610
Premiums earned	$3,045,688,603	$2,738,454,552
Capital & surplus*	$1,078,398,897	$905,936,949
Losses	$2,126,161,008	$2,073,952,170
Expenses	$704,101,977	$685,104,480
Aftertax net	$152,985,850	$183,737,718
Loss ratio	69.8%	75.7%
Expense ratio	22.7%	24.5%
Combined ratio	92.5%	100.2%

** Includes share capital subscription receivable and surplus debenture.*

Parent: HDI Haftpflichtverband der Deutschen Industrie V.a.G.

Subsidiaries: Eisen & Stahl Reinsurance (Ireland) Ltd.; Hannover Reinsurance (Ireland) Ltd.; Hollandia Reinsurance Group, South Africa; Insurance Corp. of Hannover, U.S.; International Insurance Co. of Hannover Ltd., U.K.; Life Reinsurance of Australasia Ltd., Australia; Reassurance Co. of Hannover, U.S.

Employees:** 527.

Locations: One domestic, 17 foreign.

Contact: John McLain, vp-U.S. representative office, 708-310-3854.

*** Employee figure represents Hannover, Germany, offices only and is not stated on a full-time equivalent basis.*

Hartford Re Co.

55 Farmington Ave., Suite 800,
Hartford, Conn. 06115; 203-520-2700;
fax: 203-520-2726

	1994	1993
Premiums written	$481,330,000	$375,411,000
Premiums earned	$454,802,000	$370,248,000
Capital & surplus*	NA	NA
Losses	$345,365,000	$274,677,000
Expenses	$124,668,000	$90,288,000
Loss ratio	75.9%	74.2%
Expense ratio	25.9%	24.1%
Combined ratio	101.8%	98.3%
Treaty	96.0%	97.0%
Facultative	4.0%	3.0%
Domestic	67.0%	63.0%
Foreign	33.0%	37.0%

** Parent company does not allocate specific capital to reinsurance underwriting.*

Founded: 1983.

Parent: ITT Hartford Insurance Group.

Employees: 150.

Locations: One domestic, four foreign.

Officers: Dennis Zettervall, CEO; John Sullivan, president; Dan R. Eudy, executive vp; John Daly, general manager-Hartford Re Europe.

Contact: Dan R. Eudy, 203-520-2808.

I

Instituto de Resseguros do Brasil

Avenida Marechal Camara 171,
Castelo, Rio de Janeiro, Brazil
20023-900; 55-21-272-0200;
fax: 55-21-240-87

	1994*	1993*
Premiums written	$500,362,884	$349,024,328
Premiums earned	$503,239,952	$220,254,194
Capital & surplus	$409,793,146	$402,546,979
Losses	$320,829,787	$255,030,201
Expenses	$167,098,108	$129,339,765
Aftertax net	($157,627,659)	$29,399,328
Loss ratio	63.8%	115.8%
Expense ratio	33.4%	37.1%
Combined ratio	97.2%	152.9%
Domestic	98.0%	98.0%
Foreign	2.0%	2.0%

** Figures provided in constant purchasing power, which accounts for the effects of high inflation on the Brazilian currency.*

Founded: 1939.

Employees: 1,275.

Locations: Nine domestic, two foreign.

Officers: Demosthenes Madureira de Pinho Filho, president; Carlos Alberto Lenz Cesar Protasio, director-national operations; Paulo Cesar Perfeira Reis, director-international operations; Antonio Carlos Monteiro, director-finance; Ivan Motta Lagrotta, director-administration.

K

Kemper Reinsurance Co.

1 Kemper Drive, Long Grove,
Ill. 60049; 708-320-2600;
fax: 708-320-2014

	1994	1993
Premiums written	$519,654,000	$428,137,000
Premiums earned	$533,843,000	$427,050,000
Capital & surplus	$416,024,000	$403,472,000
Losses	$459,755,000	$426,810,000
Expenses	$122,300,000	$125,015,000
Aftertax net	$15,994,000	$2,855,000
Loss ratio	87.9%	97.7%
Expense ratio	23.5%	29.2%
Combined ratio	111.4%	126.9%
Treaty	98.0%	98.0%
Facultative	2.0%	2.0%
Domestic	62.0%	62.0%
Foreign	38.0%	38.0%

Founded: 1969.

Parent: Lumbermens Mutual Casualty Co.

Subsidiaries: Kemper Europe Reassurances S.A., Kemper Reinsurance (Bermuda) Ltd., Kemper Reinsurance London Ltd.

Employees: 260.

Locations: One domestic, five foreign.

Officers: Michael R. Pinter, chairman/president/CEO; Michel Y. Beyens, William E. Flaherty, James R. Miller, executive vps; Jeffrey J. Cooper, F. Paul D'Amore, Melvin S. Silver, Cary R. Stone, Philippe Guyot, senior vps.

Contact: James R. Miller.

Continued on next page

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Continued from previous page

M

Mercantile & General Reinsurance

Moorfields House, Moorfields, London, EC2Y 9AL,England; 44-171-628-7070; fax: 44-171-588-4629

	1994	1993
Premiums written	$1,936,025,700	$1,554,175,000
Premiums earned	$1,984,621,800	$1,606,155,600
Capital & surplus	$316,411,200	$430,525,200
Losses	$1,551,855,900	$1,448,416,200
Expenses	$452,081,700	$411,950,000
Aftertax net	$144,255,300	$115,795,400
Loss ratio	78.2%	90.2%
Expense ratio	23.4%	26.5%
Combined ratio	101.6%	116.7%
Domestic	35.1%	16.2%
Foreign	64.9%	83.8%

Founded: 1907.
Parent: Prudential Corp.
Subsidiaries: Mercantile & General Reinsurance Co. P.L.C.

All figures appearing in the directory are listed in U.S. dollars. The yearly average exchange rate used for the specified fiscal year end is as follows: Australian Dollar=$0.693 (6/30/94), $0.698 (6/30/93); British Pound=$1.533 (12/31/94), $1.498 (12/31/93); Danish Krone=$0.157 (12/31/94), $0.154 (12/31/93); Deutsche Mark=$0.619 (12/31/94), $0.603 (12/31/93), $0.643 (12/31/92), $0.595 (6/30/94), $0.641 (6/30/93); Dutch Guilder=$0.552 (12/31/94), $0.537 (12/31/93); French Franc=$0.181 (12/31/94), $0.176 (12/31/93); Italian Lira=$0.000623 (12/31/94), $0.000632 (12/31/93); Japanese Yen=$0.010 (12/31/94), $0.00907 (12/31/93), $0.101 (3/31/95), $0.00934 (3/31/94); Swedish Krona=$0.130 (12/31/94), $0.127 (12/31/93); Swiss Franc=$0.732 (12/31/94), $0.676 (12/31/93), $0.716 (12/31/92).

Employees: 1,500.
Locations: Three domestic, 11 foreign.
Officers: John Engestrom, chairman/group CEO; Richard Brewster, group finance director; Hans-Erik Andersson, Roger Sansom, executive directors; Stuart McAdam, group human resources director.
Contact: William L. Munson, president/COO-Mercantile & General Reinsurance Co. of America, 201-898-9480.

Mid Ocean Ltd.

Richmond House, 6th Floor, 12 Par-La-Ville Road, Hamilton HM 08, Bermuda; 809-292-1358; fax: 809-292-0876

	1994*	1993*
Premiums written	$346,455,000	$246,755,000
Premiums earned	$301,017,000	$138,155,000
Capital & surplus	$804,573,000	$769,433,000
Losses	$197,072,000	$74,685,000
Expenses	$46,228,000	$30,960,000
Aftertax net	$90,978,000	$67,678,000
Loss ratio	65.5%	54.1%
Expense ratio**	15.3%	22.4%
Combined ratio	80.8%	76.5%
Treaty	100.0%	100.0%
Foreign	100.0%	100.0%

** Fiscal years ending 10/31/94 and 10/31/93. ** Expense ratio calculated using premiums earned.*

Founded: 1992.
Subsidiaries: Mid Ocean Reinsurance Co. Ltd.
Employees: 35.
Locations: One domestic, one foreign.
Specialties: Property catastrophe, property risk excess, marine and energy, aviation and satellite.
Officers: Robert J. Newhouse Jr., chairman; Michael A. Butt, president/CEO; Charles F. Hays, senior vp/chief financial and administrating officer; Henry C.V. Keeling, senior vp/underwriter.

Munich Reinsurance Co.

Koeniginstrasse 107, D-80791 Muenchen, Germany; 49-89-3891-0; fax: 49-89-3990-56

	1994*	1993*
Premiums written	$9,966,171,460	$8,220,621,545
Premiums earned	$9,724,193,290	$8,074,931,219
Capital & surplus**	$3,423,130,795	$2,997,674,960
Losses	$6,628,781,355	$6,619,556,361
Expenses	$2,838,565,310	$2,745,460,690
Aftertax net	$14,021,770	$18,819,760
Loss ratio	68.2%	72.9%
Expense ratio	28.5%	29.8%
Combined ratio	96.7%	102.7%
Domestic	46.0%	47.0%
Foreign	54.0%	53.0%

** Fiscal years ending 6/30/94 and 6/30/93. ** Capital & surplus includes direct insurance business.*

Founded: 1880.
Subsidiaries: The Great Lakes Reinsurance Co., Toronto; Great Lakes Reinsurance (U.K.) P.L.C., London; Munchener Ruck Italia S.p.A., Milan, Italy; Munich American Reassurance Co., Atlanta; Munich American Reinsurance Co., New York; Munich Reinsurance Co. of Australia Ltd., Sydney, Australia; Munich Reinsurance Co. of Canada, Toronto; Munich Reinsurance Co. of South Africa Ltd., Johannesburg, South Africa; New Reinsurance Co., Geneva.
Employees: 3,126.
Locations: One domestic, 60 foreign.
Officers: Hans-Jurgen Schinzler, chairman; Wolf Otto Bauer, Klaus Conrad, Rudolf Ficker, Dieter Gobel, Claus Helbig, Fedor Nierhaus, Dieter Nonhoff, Hans Rathnow, Ralph Roth, Detlef Schneidawind, Hans-Dieter Sellschopp, Hans-Wilmar von Stockhausen, board members; Heiner Hasford, deputy board member.
Contact: John N. Lombardo, president/CEO-Munich American Reinsurance Co., New York, 212-310-1600.

N

NAC Reinsurance Corp.

1 Greenwich Plaza, P.O. Box 2568, Greenwich, Conn. 06836; 203-622-5200; fax: 203-622-1494

	1994	1993
Premiums written	$438,201,000	$336,941,000
Premiums earned	$395,731,000	$306,379,000
Capital & surplus	$407,024,000	$406,163,000
Losses	$266,123,000	$214,222,000
Expenses	$170,202,000	$138,336,000
Aftertax net	$24,879,000	$30,443,000
Loss ratio	67.2%	69.9%
Expense ratio	38.9%	41.0%
Combined ratio	106.1%	110.9%
Treaty	86.6%	90.0%
Facultative	13.4%	10.0%
Domestic	94.1%	100.0%
Foreign	5.9%	NA

Founded: 1985.
Parent: NAC Re Corp.
Subsidiaries: Greenwich Insurance Co., Indian Harbor Insurance Co., NAC Re International Holdings Ltd.
Employees: 236.
Locations: Five domestic, one foreign.
Specialties: Property/casualty.
Officers: Ronald L. Bornhuetter, president/CEO; Martha G. Bannerman, executive vp/general counsel/secretary; Stanley J. Kott, C. Fred Madsen, executive vps; Paul J. Malvasio, senior vp/CFO/treasurer.
Contact: Paul J. Malvasio, 203-622-5226.

National Reinsurance Corp.

777 Long Ridge Road, P.O. Box 10167, Stamford, Conn. 06904-2167; 203-329-7700; fax: 203-329-6950

	1994	1993
Premiums written	$310,876,447	$332,560,360
Premiums earned	$334,124,900	$299,945,398
Capital & surplus	$353,236,830	$355,742,986
Losses	$235,059,707	$191,270,666
Expenses	$87,147,234	$119,866,324
Aftertax net	$40,637,448	$54,688,122
Loss ratio	70.4%	63.8%
Expense ratio	28.0%	36.0%
Combined ratio	98.4%	99.8%
Treaty	79.0%	83.0%
Facultative	21.0%	17.0%
Domestic	100.0%	100.0%

Founded: 1963.
Parent: National Re Corp.
Employees: 265.
Locations: Eight domestic.
Officers: William D. Warren, chairman/CEO/president; Peter A. Cheney, executive vp/CFO; Robert W. Eager Jr., executive vp-reinsurance operations; Timothy T. McCaffrey, executive vp-legal/corporate affairs.
Contact: William D. Warren.

P

Prudential Reinsurance Co.

3 Gateway Center, Newark, N.J. 07102-4082; 201-802-8000; fax: 201-802-2541

	1994	1993
Premiums written	$733,383,043	$760,525,666
Premiums earned	$722,454,447	$756,581,049
Capital & surplus	$600,678,509	$607,687,709
Losses	$619,807,056	$612,532,106
Expenses	$238,854,745	$221,309,380
Aftertax net	$2,986,786	$105,938,095
Loss ratio	85.8%	81.0%
Expense ratio	32.6%	29.1%
Combined ratio	118.4%	110.1%
Treaty	88.4%	90.5%
Facultative	11.6%	9.5%
Domestic	65.6%	68.6%
Foreign	34.4%	31.4%

Founded: 1973.
Parent: Prudential Reinsurance Holdings Inc.
Subsidiaries: LeRocher Reinsurance Ltd.
Employees*: 637.
Locations: Four domestic, four foreign.
Specialties: Property/casualty reinsurance, including surety, marine and aviation, medical malpractice and specialty lines.
Officers: Joseph V. Taranto, chairman/CEO/president; Janet Burak Melchione, senior vp/secretary; Robert P. Jacobson, senior vp/CFO/comptroller; Stephen L. Limauro, vp/treasurer/assistant comptroller; Thomas James Gallagher, Bonnie L. Boccitto, senior vps.
Contact: Grace Osborne, assistant comptroller, 201-802-7877.
** Employees at year-end 1994. Number of employees as of June 1995 is 468.*

S

SAFR (Societe Anonyme Francaise de Reassurances)

153, rue de Courcelles, 75817 Paris Cedex 17, France; 331-44-01-17-17; fax: 331-44-01-17-80

	1994	1993
Premiums written	$655,129,862	$596,611,840
Premiums earned	$624,048,904	$571,825,408

Continued on next page

The Working Dynamics of BEP International

It takes the right set of dynamics to design timely and responsive reinsurance programs. At BEP International, technical expertise, sophisticated analysis and our continent-wide team approach are driven by the strength of our customer focus... so that every BEP precision-made product delivered across North America is as unique as the client and as personalized as a handshake.

A member of the Sodarcan Group, ranked among the world's top insurance brokers, BEP International enjoys a tradition of more than 30 years amongst the leading reinsurance brokers in North America.

BEP International

Jersey City, Minneapolis, Seattle, Toronto, Montreal

Conning & Company

is a leading provider of

Asset Management Services

to insurance companies

Our tailored product includes:

- Client-Specific Asset Management
- Investment Consulting & Asset Allocation
- Investment Accounting, Operations & Reporting (Schedule D)

We have $28 billion under management or advisement.

Our clients range from $10 million to over $5.8 billion in assets.

For more information about Conning's Asset Management Services, write or call Bill Shenton at Conning & Company, 185 Asylum St., Hartford, CT 06103. Phone: 203-520-1296. Fax: 203-520-1202.

Conning & Company

Insurance Asset Management

Continued from previous page

Capital & surplus	$475,439,216	$395,609,984
Losses	$467,882,466	$462,805,728
Expenses	$204,930,010	$195,560,816
Aftertax net	$40,630,518	$32,689,008
Loss ratio	75.0%	80.9%
Expense ratio	31.3%	32.8%
Combined ratio	106.3%	113.7%
Treaty	93.0%	94.0%
Facultative	7.0%	6.0%
Domestic	30.0%	31.0%
Foreign	70.0%	69.0%

Founded: 1884.
Parent: AGF Group (45.8%), Athena Assurances (8.8%), Swiss Re Group (21.56%).
Subsidiaries: SAFR Reinsurance Corp. of the U.S., New York.
Employees: 263.
Officers: Herve Cachin, chairman/general manager; Jean-Luc Barbe, Jean-Noel Schoutteten, deputy general managers; Francois-Bernard Savelli, manager; Pierre Laurent, deputy manager.
Contact: Jean-Pierre Fillebeen, vice chairman/CEO-SAFR Reinsurance Corp. of the U.S., 212-422-0380.

The St. Paul Cos. & Subsidiaries

195 Broadway, New York, N.Y. 10007; 212-238-9200; fax: 212-238-4092

	1994	1993
Premiums written	$513,321,000	$431,242,000
Premiums earned	$483,367,000	$395,008,000
Losses	$372,802,000	$301,063,000
Expenses	$143,231,000	$116,190,000
Loss ratio	77.1%	76.2%
Expense ratio	27.9%	26.9%
Combined ratio	105.0%	103.1%
Treaty	85.7%	87.2%
Facultative	14.3%	12.8%
Domestic	64.1%	68.6%
Foreign	35.9%	31.4%

Founded: 1983.
Subsidiaries: St. Paul Re, New York, Brussels, London and Tokyo. (Tokyo has a representative office only).
Locations: Two domestic, four foreign.
Officers: James F. Duffy, president/CEO; David Greefe, CFO/senior vp; Michael Wacek, general manager-St. Paul Re, London; Michael Schell, manager-domestic, St. Paul Re, New York/senior vp; Peter Aubrey-Smith, manager-international, St. Paul Re, New York/senior vp; Neal Schmidt, senior vp-specialty underwriting.
Contact: James F. Duffy.

SCOR S.A.

1 Avenue du President Wilson, 92074 Paris La Defense, France; 331-46-98-70-00; fax: 331-47-67-04-09

	1994	1993
Premiums written	$1,797,330,000	$1,733,072,000
Premiums earned	$1,697,780,000	$1,546,864,000
Capital & surplus	$978,667,000	$953,744,000
Losses	$1,361,301,000	$1,281,456,000
Expenses	$532,321,000	$501,072,000
Aftertax net	$50,680,000	$31,152,000
Loss ratio	80.2%	82.8%
Expense ratio	29.6%	28.9%
Combined ratio	109.8%	111.7%
Domestic	25.0%	25.0%
Foreign	75.0%	75.0%

Founded: 1970.
Subsidiaries: Commercial Risk Partners (figures from this subsidiary are *not* included in the figures above), La Vittoria Ri, SCOR Australia, SCOR Canada, SCOR Deutschland, SCOR Pacific, SCOR Reassurance, SCOR U.K., SCOR U.S., SCOR Vie.
Employees: 1,076.
Locations: One domestic, 22 foreign.
Officers: J. Blondeau, chairman/CEO; S. Osouf, COO; P.D. Champvillard, F.M. Reach, deputy COOs.
Contact: J. Karter, CEO-SCOR U.S., New York, 212-978-8200.

SCOR U.S. Group

2 World Trade Center, New York, N.Y. 10048-0178; 212-390-5200; fax: 212-390-5415

	1994	1993
Premiums written	$232,720,012	$236,866,483
Premiums earned	$229,904,270	$227,505,659
Capital & surplus	$243,416,060	$271,895,437
Losses	$192,469,707	$161,843,343
Expenses	$81,527,147	$77,201,107
Aftertax net	($1,108,948)	$34,735,387
Loss ratio	83.7%	71.1%
Expense ratio	35.0%	32.6%
Combined ratio	118.7%	103.7%
Treaty	82.0%	85.0%
Facultative	18.0%	15.0%
Domestic	100.0%	100.0%

Founded: 1981.
Parent: SCOR S.A.
Subsidiaries: California Reinsurance Management Corp., SCOR Reinsurance Co., The Unity Fire & General Insurance Co.
Locations: Five domestic, one foreign.
Officers: Jacques P. Blondeau, chairman; Serge Osouf, vice chairman; Jerome Karter, president/CEO/director-SCOR U.S.; John T. Andrews Jr., senior vp/general counsel/corporate secretary; Jeffrey Dale Tropsey Sr., vp/CFO.
Contact: Jerome Karter.
Information for SCOR U.S. Group is included in the consolidated SCOR S.A. listing.

Sirius International Insurance Corp.

S-113 96 Stockholm, Sweden; 46-8-458-55-00; fax: 46-8-458-55-99

	1994	1993
Premiums written	$386,909,770	$276,581,235
Premiums earned	$391,919,970	$232,788,206
Capital & surplus	$670,540,000	$691,515,000
Losses	$216,093,020	$164,763,704
Expenses	$189,023,380	$89,917,143
Aftertax net	$31,851,170	$29,371,036
Loss ratio	55.1%	70.8%
Expense ratio	48.2%	38.6%
Combined ratio	103.3%	109.4%
Domestic	3.0%	4.0%
Foreign	97.0%	96.0%

Founded: 1945.
Parent: ABB Financial Services AB.
Subsidiaries: Scandinavian Reinsurance Co. Ltd., Hamilton, Bermuda.
Employees: 105.
Officers: Goran Thorstensson, CEO/president; Lars Ek, executive vp.
Contact: Monica Cramer Manhem, vp.

Skandia America Reinsurance Corp.

1 Liberty Plaza, New York, N.Y. 10006; 212-978-4700; fax: 212-385-2469

	1994	1993
Premiums written	$164,441,000	$176,665,000
Premiums earned	$164,026,000	$247,133,000
Capital & surplus	$312,836,000	$325,517,000
Losses	$148,447,000	$224,317,000
Expenses	$55,994,000	$65,949,000
Aftertax net	$31,734,000	$46,228,000
Loss ratio	90.5%	90.8%
Expense ratio	34.1%	37.3%
Combined ratio	124.6%	128.1%
Treaty	70.0%	70.0%
Facultative	30.0%	30.0%
Domestic	100.0%	100.0%

Founded: 1900.
Parent: Skandia Insurance Co. Ltd.
Employees: 217.
Locations: Six domestic.
Specialties: Casualty lines.
Officers: James F. Dowd, chairman; Donald R. Alexander, president; Susan D. Young, senior vp/CFO; Thomas M. Tobin, senior vp/general counsel; Anthony J. Narciso Jr., senior vp/controller.
Contact: Cary M. Crisp, assistant vp, 212-978-2822.

Skandia International Insurance Corp.

S-103 50 Stockholm, Sweden; 46-8-788-4500; fax: 46-8-85-7748

	1994	1993
Premiums written	$343,980,000	$438,150,000
Premiums earned	$325,130,000	$458,216,000
Capital & surplus	$241,150,000	$233,934,000
Losses	$239,330,000	$372,745,000
Expenses*	$123,760,000	$193,548,000
Aftertax net	$5,590,000	$43,053,000
Loss ratio	74.0%	81.0%
Expense ratio**	38.0%	42.0%
Combined ratio	112.0%	123.0%
Domestic	NA	3.0%
Foreign	NA	97.0%

** Includes change in deferred acquisition costs.*
*** Based on premiums earned.*

Founded: 1917.
Parent: Skandia Insurance Co. Ltd.
Subsidiaries: Skandia U.K. Insurance P.L.C., Skandia Re U.K.
Employees: 325.
Locations: One domestic, nine foreign.
Officers: Marie-Louise Wenander, president; Johan Bergenstjerna, executive vp; Harry Kvist, Lars Ringbom, Hans Sandstrom, Bengt Wihman, senior vps.

SOREMA International

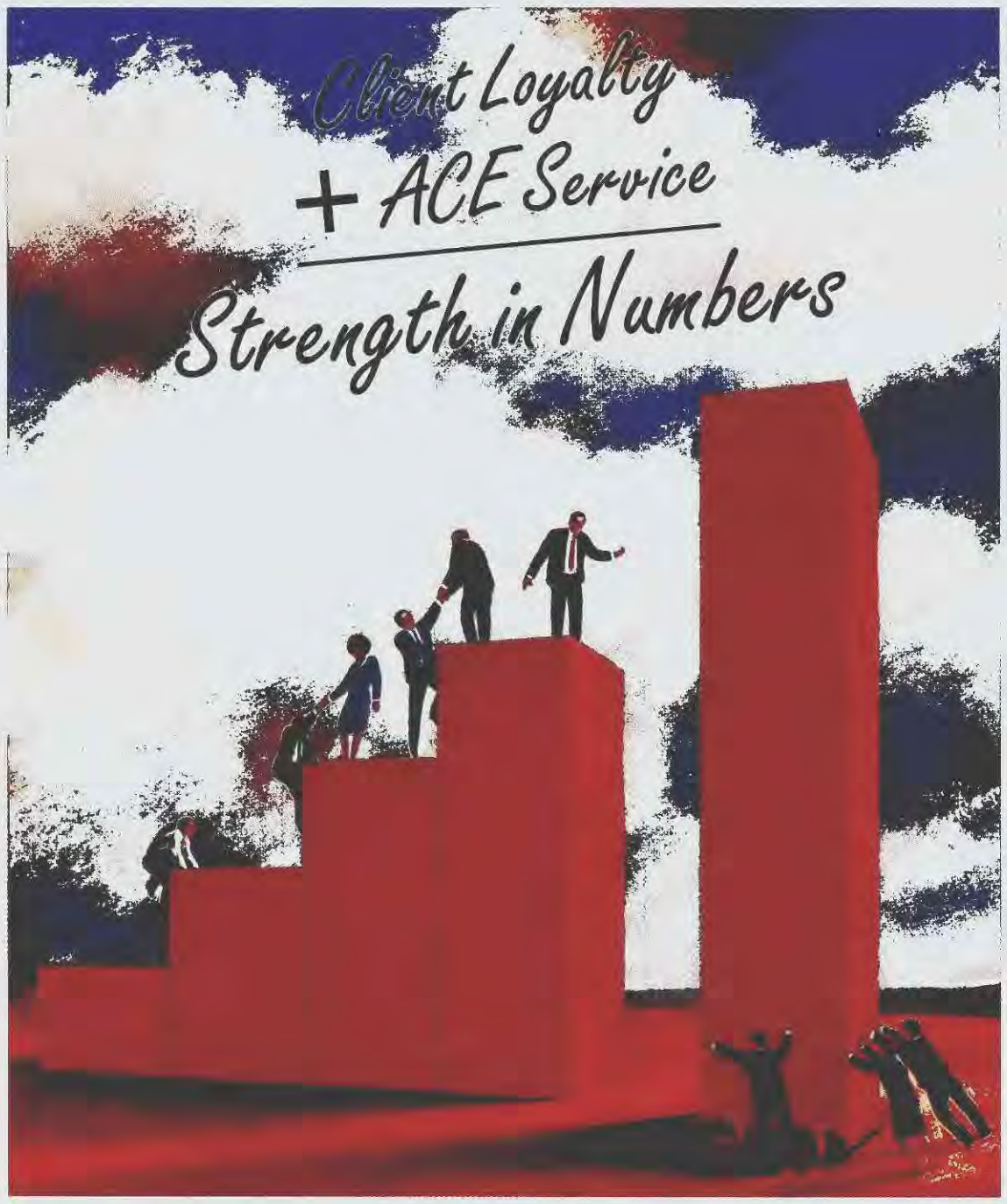
Atrium Building, Strawinskylaan 3115, 7th Floor, Amsterdam 1077 ZX, Netherlands; 31-20-5-481-481

	1994	1993
Premiums written	$527,322,000	$496,432,000
Premiums earned	$471,541,000	$472,841,000
Capital & surplus	$325,290,000	$271,764,000
Losses	$301,701,000	$350,522,000
Expenses	$174,294,000	$145,347,000
Aftertax net	$30,525,000	$25,403,000
Loss ratio	64.0%	74.1%
Expense ratio	33.1%	29.3%
Combined ratio	97.1%	103.4%
Treaty	76.5%	84.5%
Facultative	23.5%	15.5%
Domestic	1.0%	1.0%
Foreign	99.0%	99.0%

Figures were reported in U.S. dollars, which is the company's balance sheet currency.

Founded: 1993.
Parent: GROUPAMA.
Subsidiaries: SOREMA North America Reinsurance Co., New York; Societe de Reassurance des Assurances Mutuelles Agricoles, Paris.
Employees: 330.
Locations: One domestic, 10 foreign.
Specialties: Facultative property fo-

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Long-term relationships are important to Skandia America Re. In fact, more than 40% of our treaty and facultative clients have been doing business with us for over 16 years—and 76% have been with us for five years or more. Their continued votes of confidence are a direct measure of Skandia's ability to anticipate our clients' needs and resolve their insurance challenges quickly, consistently and competitively. At Skandia America Re, we're committed to providing ACE (Above Customer Expectations) service to all members of the reinsurance community.

Skandia

Skandia America Reinsurance Corporation
Rated "A- (Excellent)" by A.M. Best Company
One Liberty Plaza, New York, NY 10006
Tel: (212) 978-4700 Fax: (212) 385-2169

Branch Offices

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Tel: (212) 978-4925
Fax: (212) 385-8660

Chicago
Tel: (312) 236-7833
Fax: (312) 236-3826
(800) 621-9260

Atlanta
Tel: (404) 303-9710
Fax: (404) 303-9712
(800) 242-7044

Norwalk
Tel: (203) 854-9966
Fax: (203) 853-4005

San Francisco
Tel: (415) 398-1700
Fax: (415) 398-1544

Skandia/Facman
Tel: (203) 854-9966
Fax: (203) 853-4005

Continued from previous page
highly-engineered risks.

Officers: Pierre D. Croizat, managing director/CEO; Francois M. Chavel, Jean-Paul Lasserre, general managers; Peter A. Jones, deputy general manager/CFO; Daniel E. Schmidt IV, deputy general manager/general counsel/corporate secretary.

Contact: Peter A. Jones, 212-480-1900.

Swiss Re Group

Mythenquai 50/60, P.O. Box CH-8022, Zurich, Switzerland; 411-285-21-21; fax: 411-285-29-99

	1993*	1992*
Premiums written	$8,230,300,000	$7,626,832,000
Premiums earned	$7,970,040,000	$7,367,640,000
Capital & surplus**	$3,283,332,000	$2,824,620,000
Losses	$5,982,600,000	$6,102,468,000
Expenses	$1,833,988,000	$1,662,552,000
Aftertax net**	$219,700,000	$201,196,000
Domestic	5.1%	5.7%
Foreign	94.9%	94.3%

** Fiscal years ending 12/31/93 and 12/31/92.*
*** Capital & surplus and income are consolidated figures relating to all insurance services.*

Founded: 1863.
Subsidiaries: Atlantic International Reinsurance Co. Ltd., Australian Reinsurance Co. Ltd., Bavarian Reinsurance Co. Ltd., Bavarian Reinsurance Ireland Ltd., Canadian Reassurance Co., Canadian Reinsurance Co., Englewood Reinsurance Co. Ltd., European Reinsurance Co. of Zurich, European International Reinsurance Co. Ltd., Swiss-Am Reassurance Co., Swiss Re Life Co. America, Swiss Reinsurance America Corp., Swiss Reinsurance Co. (U.K.) Ltd., Swiss-South African Reinsurance Co. Ltd., Union Reinsurance Co., Western Atlantic Reinsurance Corp.
Employees*:** 3,352.
Officers: L. Muhlemann, CEO; Rudolf Kellenberger, Northern Europe/special lines; Ernesto Jutzi, Bruno Porro, Southern Europe/South America; Urs H. Winter, Asia/Pacific/Africa; Walter B. Kiehlholz, alternative risk transfer markets; John R. Coomber, life reassurance; N. David Thompson, chairman/CEO-Swiss Reinsurance America Corp.
Contact: N. David Thompson, 212-907-8040.
**** Figure reflects employees in reinsurance at year-end 1993.*

Sydney Reinsurance Group Ltd.

Level 7, 345 George St., Sydney, New South Wales 2000, Australia; 61-2-375-4000; fax: 61-2-375-4050

	1994*	1993*
Premiums written	$242,287,406	$188,290,706
Premiums earned	$243,166,647	$153,405,874
Capital & surplus	$151,956,189	$118,492,480
Losses	$169,526,511	$109,580,416
Expenses	$70,947,954	$47,306,252
Aftertax net	$22,560,615	$16,932,782
Loss ratio	69.7%	71.4%
Expense ratio	29.3%	25.1%
Combined ratio	99.0%	96.5%
Treaty	87.2%	95.6%
Facultative	12.8%	4.4%
Domestic	8.2%	17.8%
Foreign	91.8%	82.2%

** Fiscal years ending 6/30/94 and 6/30/93.*

Founded:** 1991.
Parent: QBE Insurance Group Ltd.
Subsidiaries: Equator Reinsurance Ltd., QBE Insurance & Reinsurance (Europe) Ltd., QBE International Insurance Ltd., Sydney Reinsurance Co. Ltd., Sydney Reinsurance Corp.
Employees: 180.
Locations: One domestic, four foreign.
Officers: Greg O'Neill, group general manager-Sydney Reinsurance Group Ltd.; Abe Altman, president-Sydney Reinsurance Corp.; Robert Grant, general manager-QBE European Operations; Aidan McCarthy, general manager-Sydney Reinsurance Co. Ltd.
Contact: Abe Altman, New York, 212-225-7560.
*** Sydney Reinsurance Group was established to consolidate the reinsurance operations of QBE Insurance Group Ltd. which was founded in 1886.*

T

TIG Reinsurance Co.

300 First Stamford Place, Stamford, Conn. 06902; 203-977-8000; fax: 203-359-9854

	1994	1993
Premiums written	$440,287,798	$346,108,772
Premiums earned	$394,457,605	$331,254,270
Capital & surplus	$371,967,602	$329,616,112
Losses	$299,294,848	$259,931,321
Expenses	$125,392,295	$107,950,532
Aftertax net	$42,204,697	$59,030,071
Loss ratio	75.9%	78.5%
Expense ratio	28.5%	31.2%
Combined ratio	104.4%	109.7%
Treaty	100.0%	100.0%
Domestic	98.0%	100.0%
Foreign	2.0%	NA

Founded: 1986.
Parent: TIG Insurance Co.
Employees: 90.
Locations: Two domestic, one foreign.
Officers: William Goodman Clark, chairman/CEO; Edwin Michael Millette, president/COO; Stephen George Franks, treasurer/CFO; Mark Wainwright Hinkley, Lydia Beatriz Kam Lyew, executive vps.
Contact: Stephen G. Franks, 203-977-8008.

The Toa Fire & Marine Reinsurance Co. Ltd.

6, Kanda-Surugadai 3-chome, Chiyoda-ku, Tokyo 101, Japan; 81-3-3253-3179; fax: 81-3-3257-1448

	1994*	1993*
Premiums written	$1,125,948,000	$993,262,300
Capital & surplus	$243,500,900	$221,862,360
Losses**	$631,138,900	$657,928,280
Expenses	$379,487,300	$341,470,400
Aftertax net	$6,120,600	$6,519,320
Loss ratio**	56.1%	66.2%
Expense ratio	33.7%	34.4%
Combined ratio	89.8%	100.6%

** Fiscal years ending 3/31/95 and 3/31/94.*
*** Losses and loss ratio reflect paid losses only.*

Founded: 1940.
Subsidiaries: The Toa-Re Insurance Co. of America, The Toa-Re Insurance Co. (U.K.) Ltd. Figures from these subsidiaries are *not* included in the figures above.
Officers: Hiroshi Ohashi, president/director; Kohji Furuta, senior managing director; Koichiro Abe, Katsunori Mori, Yoshio Shimizu, managing directors.

Transatlantic Holdings Inc.

80 Pine St., 7th Floor, New York, N.Y. 10005; 212-770-2000; fax: 212-248-0965

	1994	1993
Premiums written	$868,369,596	$631,692,871
Premiums earned	$851,182,745	$581,056,178
Capital & surplus	$590,930,202	$533,252,641
Losses	$681,903,857	$465,395,983
Expenses	$221,837,077	$171,280,981
Aftertax net	$86,336,398	$62,488,174
Loss ratio	80.1%	80.1%
Expense ratio	25.6%	27.1%
Combined ratio	105.7%	107.2%
Treaty	84.0%	83.0%
Facultative	16.0%	17.0%
Domestic	72.0%	80.0%
Foreign	28.0%	20.0%

Founded: 1986*.
Parent: American International Group Inc.
Subsidiaries: Putnam Reinsurance Co., Transatlantic Reinsurance Co.
Employees: 245.
Locations: Three domestic, four foreign.
Specialties: Property/casualty, including professional liability, medical malpractice, D&O, environmental impairment liability, auto liability, aviation and marine, surety.
Officers: M.R. Greenberg, chairman; Robert F. Orlich, president/CEO; Andrew A. Barnard, executive vp/chief underwriting officer; Paul A. Bonny, senior vp-international operations; Robert V. Mucci, senior vp/actuary; Steven S. Skalicky, senior vp/controller; David W. Smith, senior vp/general counsel.
Contact: David W. Smith, 212-770-2162.
** Transatlantic Reinsurance Co. was founded in 1952.*

U

Union Re

Genferstrasse 27, CH-8027 Zurich, Switzerland; 411-209-91-11; fax: 411-201-18-95

	1993*	1992*
Premiums written	$606,710,000	$504,493,600
Premiums earned	$540,867,600	$498,622,400
Capital & surplus	$114,108,800	$115,920,400
Losses	$417,294,800	$394,516,000
Expenses	$180,086,400	$165,825,600
Aftertax net	$8,720,400	$5,656,400
Loss ratio	77.1%	79.1%
Expense ratio	29.7%	32.9%
Combined ratio	106.8%	112.0%
Treaty	96.9%	97.3%
Facultative	3.1%	2.7%
Domestic	7.2%	8.4%
Foreign	92.8%	91.6%

** Fiscal years ending 12/31/93 and 12/31/92.*

Founded: 1923.
Parent: Swiss Reinsurance Co. Zurich.
Employees: 190.
Locations: One domestic, one foreign.
Officers: Peter C. Colombo, president/CEO; Hans Hasler, Mario Kochli, Fulco Lock, Walter J. Wickli, executive vps.
Information for Union Re is included in the consolidated Swiss Re Group listing.

W

Winterthur Reinsurance Corp. of America

225 Liberty St., 42nd Floor, New York, N.Y. 10281-1076; 212-416-5700; fax: 212-524-6839

	1994	1993
Premiums written	$218,947,838	$207,214,626
Premiums earned	$217,922,090	$207,880,468
Capital & surplus	$210,764,600	$204,915,776
Losses	$159,773,717	$157,903,832
Expenses	$71,604,994	$68,582,411
Aftertax net	$40,191,430	$16,250,993
Loss ratio	73.3%	76.0%
Expense ratio	32.7%	33.1%
Combined ratio	106.0%	109.1%
Treaty	97.1%	97.1%
Facultative	2.9%	2.9%
Domestic	90.6%	90.0%
Foreign	9.4%	10.0%

Founded: 1936.
Parent: Winterthur Swiss Insurance Co.
Employees: 78.
Locations: 69 domestic, nine foreign
Specialties: Property/casualty, surety.
Officers: John G. Bidwell, president/CEO; Robert C. Wood, senior vp/CCO; Vincent T. Assennato, senior vp/CFO; Michael C. Skay, senior vp/secretary; Denis O'Connor, vp/treasurer; Reto Koller, vp.
Contact: Denis O'Connor.
Information for Winterthur Reinsurance Corp. of America is included in the consolidated Winterthur Swiss Insurance Co. listing.

Winterthur Swiss Insurance Co.

40 General Guisan-Strasse, 8401 Winterthur, Switzerland; 41-52-261-1111; fax: 41-52-261-5815

	1994	1993
Premiums written	$788,510,400	$878,124,000
Premiums earned	$582,013,200	$674,310,000
Capital & surplus	$2,890,302,000	$3,557,179,500
Losses	$494,685,600	$586,294,800
Expenses*	$241,120,800	$201,312,800
Aftertax net	$266,594,400	$219,294,400
Loss ratio	85.0%	86.9%
Expense ratio	30.6%	22.9%
Combined ratio	115.6%	109.8%

** Underwriting expenses reflects only commission expenses.*

Founded: 1875.
Subsidiaries: Winterthur Life Re Insurance, Dallas; Winterthur Reinsurance Corp. of America, New York.
Employees: 344.
Locations: One domestic, two foreign.
Specialties: Aviation, surety, engineering and agricultural.
Officers: Willi E. Schurpf, general manager-reinsurance & international division; Bruno Meyenhofer, manager-non-life reinsurance; Kurt Roth, manager-life reinsurance; John Bidwell, CEO-Winterthur Re, N.Y.; Ulrich Thalmann, manager-group risk management.
Contact: John Bidwell, 212-416-5710.

Y

The Yasuda Fire & Marine Insurance Co. Ltd.

26-1, Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo 160, Japan; 81-3-3349-3763; fax: 81-3-5322-6073

	1994*	1993*
Premiums written	$787,867,180	$756,594,798
Capital & surplus	$2,459,521,700	$2,230,195,860
Aftertax net	$109,534,500	$114,004,040
Domestic	93.5%	93.5%
Foreign	6.5%	6.5%

** Fiscal years ending 3/31/95 and 3/31/94.*

Founded: 1888.
Subsidiaries: Yasuda Re (Hong Kong). Figures from this subsidiary are *not* included in the figures above.
Employees: 73.
Locations: One domestic, two foreign.
Officers: Norio Yoshimi, managing director-Yasuda Re (H.K.)

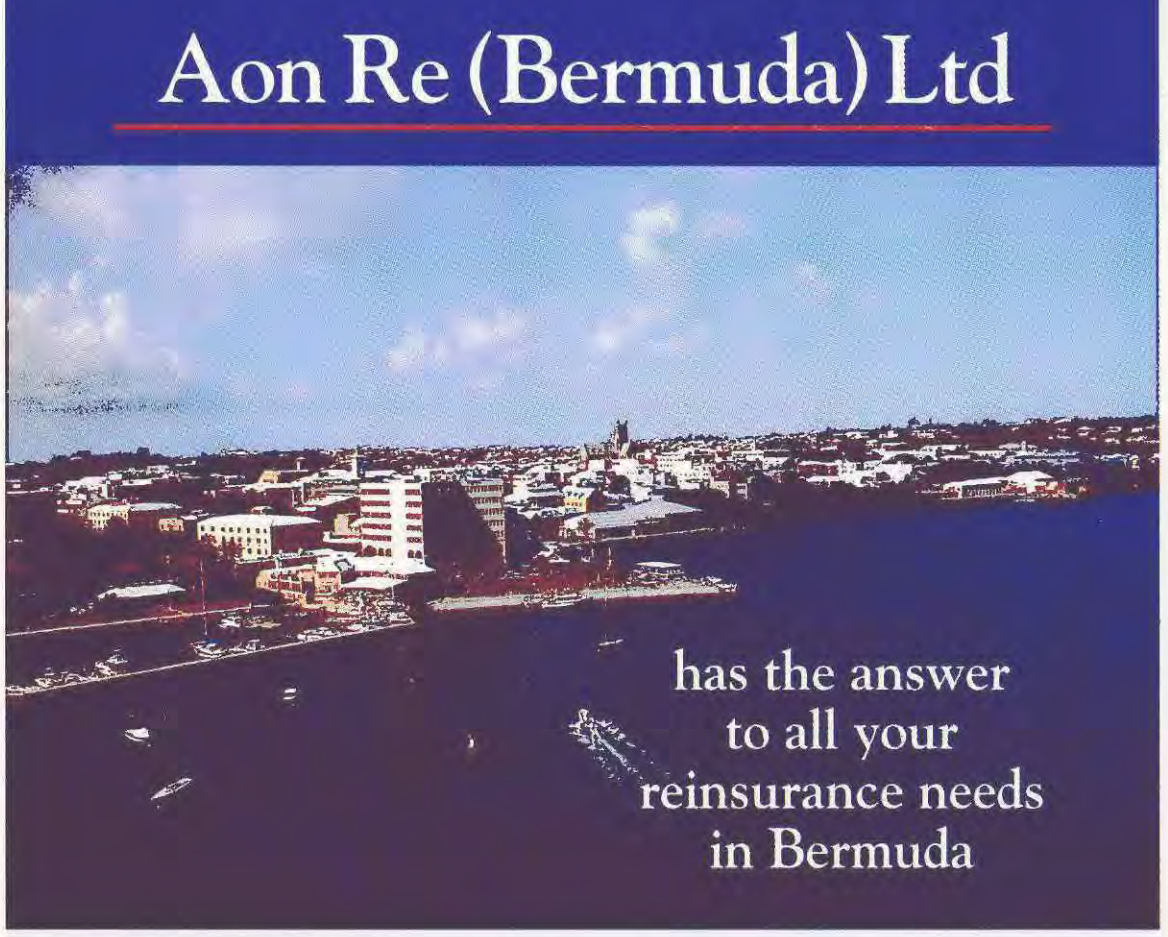
Z

Zurich Reinsurance Centre Inc.

1 Chase Manhattan Plaza, 43rd Floor, New York, N.Y. 10005; 212-898-5000; fax: 212-898-5009

	1994	1993
Premiums written	$302,188,000	$98,875,000
Premiums earned	$221,814,000	$83,544,000
Capital & surplus	$607,470,000	$614,650,000
Losses	$182,845,000	$70,147,000
Expenses	$97,159,000	$70,147,000
Aftertax net	($41,933,000)	$8,745,000
Loss ratio	82.4%	83.9%
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For the Record

North Carolina enacts maternity stay law

RALEIGH, N.C.—Health insurers and health maintenance organizations in North Carolina, starting Oct. 1, will have to offer at least 48 hours of inpatient hospital coverage for the mother and infant following a natural birth and 96 hours after a Caesarean section under legislation enacted last month.

The provision, attached to a broader bill, S.B. 345, is modeled after new laws in New Jersey and Maryland. Similar measures are pending in at least two other states: California and Pennsylvania.

In addition, a bill that would set the same minimum coverage periods for all health plans, including those offered by self-funded employers, has been introduced in the U.S. House and Senate (*BI*, July 10).

The proposals are a backlash against the efforts of health insurers and HMOs to reduce the length of hospital stays for childbirth.

New hat in ring for NAIC presidency

KANSAS CITY, Mo.—Campaigning for the post of president of the National Assn. of Insurance Commissioners will be livelier than usual this year.

Utah Insurance Commissioner Robert Wilcox is challenging Brian Atchinson, who is currently vp of the NAIC, traditionally the stepping stone to the presidency. Elections of new NAIC officers to one-year terms will be held in December.

Mr. Wilcox said several commissioners drafted him to run. Top insurance regulators from 10 states—Alabama, Arizona, Idaho, Mississippi, New Mexico, North Carolina, Ohio, South Dakota, Virginia and Wyoming—signed a letter endorsing his candidacy, which was sent to all NAIC members. Mississippi Commissioner George Dale, though, later said he is uncommitted.

Mr. Wilcox is an actuary, a former private consultant and expert in technical issues. Mr. Atchinson is an attorney and former manager/marketer with international expertise.

Litigation continuing in salt mine collapse

NEW YORK—A suit filed by Akzo Nobel Salt Inc. against its insurers is still pending, even though a federal agency has ruled that the company was not responsible for a March 1994 collapse at a mine it operated in New York.

Clarks Summit, Pa.-based Akzo filed the $261 million lawsuit in New York Supreme Court after Allianz Underwriters Insurance Co. withheld payment of the company's claim. Burbank, Calif.-based Allianz has said it is conducting its own investigation into the accident to determine whether Akzo's mining techniques were responsible.

The federal report prepared by the Mine Safety and Health Administration attributed the salt mine collapse to abnormalities in the rock layers above the 18-square-mile mine and said the company had taken proper steps to ensure the mine's safety.

California adopts UR comp regulations

SAN FRANCISCO—California's Administrative Director of the Division of Workers Compensation has adopted utilization review regulations for insurers and self-ensured employers.

Employers and insurers that implement or maintain a workers comp UR system will be required to comply with the new standards by July 1, 1996.

According to the administrative director's office, the regulations consist of three essential components:

- Medical providers who request authorization for a specific course of treatment for an injured worker must receive a prompt response. A written authorization, denial, or notice of delay must be placed in the U.S. mail no later than seven working days after an insurer's receipt of the request.
- Credible, physician-developed, medically based criteria must be used in the UR process, and the criteria must be made available to affected parties on request.
- Only physicians with appropriate training and experience may deny authorization for medical treatment recommended by the treating physician.

Additionally, insurers must main-

Continued on next page

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For the Record

Continued from previous page
tain a written summary of their UR system and make it available to the administrative director upon request.

A copy of the standards can be obtained from the State of California Division of Workers Compensation, 415-703-3731.

$350 million award in wrongful death suit

KANSAS CITY, Mo.—A jury awarded $350 million in a wrongful death case to the family of a Life Flight helicopter pilot who was killed when its engine failed, causing it to crash.

The damage award is one of the largest ever for a wrongful death verdict, said Gary C. Robb, partner at Kansas City law firm Robb & Robb, who represented the family.

The July 20 verdict, issued by the Circuit Court of Jackson County, Mo., jury, ordered the French helicopter manufacturer, Turbomeca S.A., and its U.S. subsidiary, Grand Prairie, Texas-based Turbomeca Engine Corp., to pay $175 million in compensatory and $175 million in punitive damages to James S. Barnett's family. Mr. Barnett and patient Sherry Letz died, and two paramedics were paralyzed, when the St. Luke's Hospital of Kansas City Life Flight helicopter crashed in 1993.

In July 1994, the National Transportation Safety Board ruled the crash was caused by engine failure stemming from a damaged seal.

Turbomeca knew of the defect in its engine and failed to recall them, said Mr. Robb, adding that "the conduct of the defendant was, according to the jury, 'criminal.' "

Turbomeca will appeal the verdict, said the company's attorney, Douglas N. Ghertnerm of Field, Gentry & Benjamin P.C. in Kansas City, who declined further comment. Turbomeca Engine Corp. officials declined comment and could not say if the damages would be covered by any insurance.

The family of Sherry Letz, whom the helicopter was delivering to the hospital when the crash occurred, was awarded $70 million in damages in April. The two injured paramedics settled out of court.

IRS rules on 401(k) salary deferrals

WASHINGTON—The Internal Revenue Service this month officially released a private letter ruling that could open up a new way for highly compensated employees to maximize deferrals to 401(k) plans while reducing employers' administrative burdens.

The ruling, 9530038, involves the pairing of a 401(k) plan and a non-qualified plan open only to highly compensated employees (*BI*, July 17).

Highly compensated employees in the non-qualified plan would agree to defer part of their salary to the non-qualified plan and then have an amount—based on the results of the basic IRS non-discrimination test that compares deferrals of top-paid employees with rank-and-file employees—later transferred from the non-qualified plan to the 401(k) plan.

For example, a senior management employee agrees to defer a total of 10% of salary in 1995 to the non-qualified plan. In the case of a calendar-year plan, this decision—an irrevocable one—would have to be made no later than the last day of the preceding year, or Dec. 31, 1994.

At the end of January 1996, the employer would run the non-discrimination test. The employer might find that highly compensated employees in the non-qualified plan could defer 5% to the 401(k) plan and still pass the non-discrimination test.

That amount then would be transferred to from the non-qualified plan to the 401(k) plan with the 5% remaining in the non-qualified plan.

An IRS private letter ruling does not carry the weight of law or regulations. It cannot be cited as a precedent. But it does provide an indication of the agency's reasoning on an issue.

NCQA standardizes health care survey

WASHINGTON—The National Committee for Quality Assurance has issued a new standardized annual member health care survey to produce member satisfaction data that employers can use to compare health care plans.

"The survey is primarily designed to respond to the needs of corporate purchasers, who are looking for a standardized instrument that can be readily and consistently implemented and that can permit direct comparisons," said Dr. Cary Sennett, NCQA's vp for performance measurement.

Some employers criticized the NCQA's first national quality assurance survey and evaluation—the Health Plan Employer Data and Information Set—because it did not rank or compare plans.

In addition, HEDIS 2.5, the current version used by plans to report 1995, does not include standardized member satisfaction measures.

The standardized member survey will likely be incorporated into the next version of the HEDIS, a draft of which is due to be released in late 1996.

"We find that member satisfaction survey results are very important to our employees and we want to be able to show them how one plan compares to the next," said Helen Darling, manager of health care strategy and programs for Xerox Corp. and chairwoman of the committee that developed the instrument.

"Like other employers, Xerox is also interested in knowing about the health status of our employees in different plans and how their status may be improving, or not, over time," she said.

Information in brief

The Pension Benefit Guaranty Corp. said last week it is taking over two pension plans sponsored by Hawaii-based **Hamakua Sugar Co.**, which filed for bankruptcy in 1992 and now is being liquidated. The two plans have about $15 million in unfunded benefits and 1,100 participants. . . .Beginning next year, **Blue Cross & Blue Shield of Texas** will process Medicare Part A claims in New Mexico and Colorado, while BC/BS of South Carolina will process Medicare home health care and hospice claims in Arkansas, Louisiana, New Mexico and Texas. The two Blues replace the current federal contract holder, New Mexico BC/BS. . . .**Metropolitan Life Insurance Co.** may soon be the largest mutual seller of life insurance in the United States after a merger with **New England Mutual Life Insurance Co.** is finalized. New England Mutual will keep its name and sales force. . . .A dispute between the **Illinois Insurance Exchange** and Classic Syndicate Inc. was resolved with a settlement that allows the syndicate to do limited underwriting for 60 days while it complies with IIE reporting rules. BI

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Wortman takes the lead at Anthem Casualty

J. John Wortman, former president and chief executive officer of Detroit-based Michigan Mutual Insurance Co. and its subsidiary, Amerisure Cos., has been named president and CEO of Shelby, Ohio-based Anthem Casualty Insurance Group.

Mr. Wortman replaces **Dan R. Carmichael,** who was named president and CEO of the Insurance Value Added Network Services in Greenwich, Conn. Mr. Carmichael replaces Robert Y. Barham Jr., who died May 29.

In other insurer changes:

National Union Fire Insurance Co. of Pittsburgh, Pa., a subsidiary of American International Group Inc., made several new appointments: **Robert Omahne** named president of its new financial institutions division, which will market blended and finite risk products; **Gregory Flood** named president of its management liability division, responsible for all commercial management liability products; **Louis Lubrano** named president of its middle-market division; **John Doyle** named senior vp in the professional and programs division, responsible for professional liability and patent infringement products; and **John Phinney** named senior vp of its surety bond division.

Jeffrey A. Burchill named vp and treasurer of Protection Mutual Insurance Co. in Park Ridge, Ill. He replaces **Alan B. Lange**, who is retiring.

Herbert B. Schneiderman has been named senior vp-medical delivery systems development for Alliance Blue Cross & Blue Shield in St. Louis. Previously, he was CEO at St. Louis University Hospital.

John R. Kessler Jr. named senior vp-marketing at PHICO Group, the Mechanicsburg, Pa.-based medical liability insurer.

Louis Parisi named vp-fraud investigation and detection at Empire Blue Cross & Blue Shield in New York. Previously, Mr. Parisi headed the New Jersey Department of Insurance fraud division.

Agents/brokers

Vivian P. Duff has been promoted to executive vp of Rollins Hudig Hall of New Jersey Inc. in Parsippany and will manage the day-to-day activities of the subsidiary. Previously, Ms. Duff was senior vp at RHH of Greenwich.

Curtis S. Anderson named national director-property claims at Alexander & Alexander Inc. in New York.

Kirk Metcalf named executive vp and chief operating officer of Willis Corroon Corp. of Maryland/Washington, D.C.

Elizabeth Francy Demaret named vp/international accounts manager for Near North Insurance Brokerage Inc. in Chicago.

Also at Near North, **Mike B. McAllister** joined as president of the entertainment and communications division in Los Angeles. Previously, Mr. McAllister was with Rollins Hudig Hall Group Inc.

Ben Granito joined Integrated Insurance Brokerage Services Inc. in Chicago as senior vp-risk management services.

Bonnie Gracey Gamble named corporate vp of quality control and market security at Jardine Insurance Brokers Inc. in San Francisco.

Reinsurance

Gerald S. King and **Adrienne W. Reid** named senior vps of Zurich Reinsurance Centre Holdings Inc. in New York. They will jointly head ZRC's underwriting department.

W. Weldon Wilson named executive vp of Life Reassurance Corp. of America in Stamford, Conn.

Joanne F. Neidlinger named vp and head of CIGNA Reinsurance's health care reinsurance operations in Hartford, Conn.

Michael R. Mirabito named vp in the facultative department of American Re-Insurance Co. in Los Angeles.

Winifred A. Baker joined New York-based Minet Re North America Inc. as senior vp and will focus on developing new business opportunities. Previously, Ms. Baker was head of marketing for Continental Corp.'s specialty operations group.

Raymond A. Dowling joined Towers Perrin Reinsurance as vp in its integrated reinsurance risk management unit in New York.

Surplus lines

Leonard R. Olsen Jr. named vp-international operations at ECS Inc., an Exton, Pa.-based environmental insurance, consulting and claims management service firm.

Other suppliers

Howard Weizmann was named manager of the Washington office of Watson Wyatt Worldwide, while **John Haley** was named director of its retirement consulting practice.

Marjorie N. Taylor joined actuarial consulting firm Milliman & Robertson Inc. as director of research benefits communications in Washington. Previously, Ms. Taylor had been director of communications for the ERISA Industry Committee.

William R. Azzara joined AM-RE Consultants Inc., a wholly owned subsidiary of American Re Corp. in Princeton, N.J., as vp and team leader of claim services consulting.

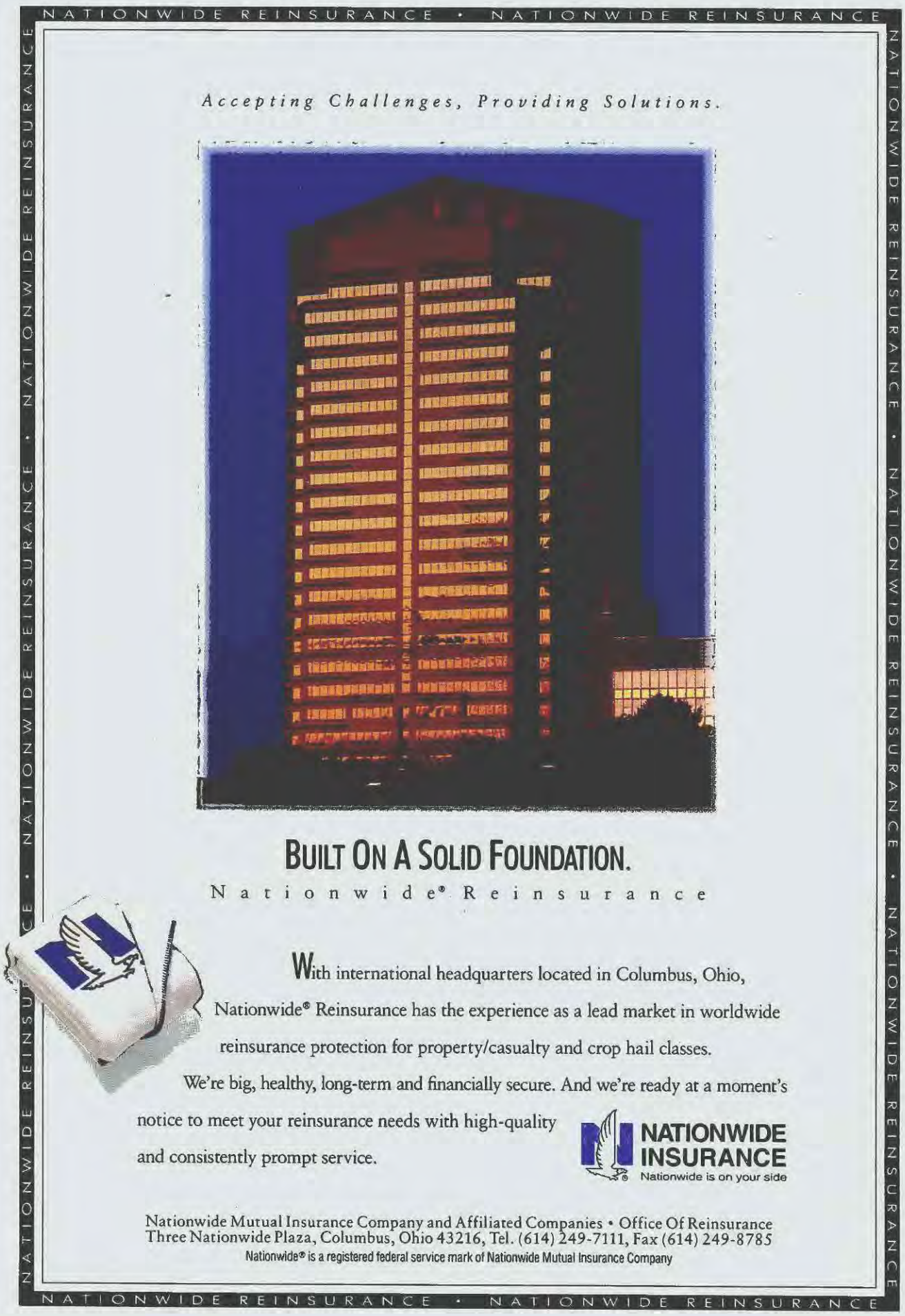
David Ellender joined Alexander & Alexander Consulting Group as the health and welfare practice leader in the Dallas office. Previously, Mr. Ellender was the health and welfare practice leader at Watson Wyatt Worldwide.

Richard A. Goldman, former president and chief operating officer at Home Life Insurance Co. in New York, joined Tillinghast/Towers Perrin as a life and health practice consultant in New York.

Martin S. Cullen named vp and chief underwriter in the provider markets group division at Alden Risk Management Services in Miami.

HMOs/PPOs

Sharon Koser Muscarella named vp-sales and marketing at HealthAmerica of Central Pennsylvania in Harrisburg and **Connie Bednar** named director of new market development for the managed care organization. BI



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Rail tragedy partly insured

Crewman initially blamed for collision killing hundreds

By SAMEERA KHAN

NEW DELHI, India—Survivors and relatives of victims from last week's train wreck in India will receive compensation under a year-old passenger insurance scheme, though the Indian government is not insured for its property losses in the disaster.

Two trains, both superfast expresses headed for the capital city, New Delhi, on Aug. 20, collided with each other, injuring more than 250 and apparently killing more than 400 people.

As workers continued to dig dead bodies out of the wreckage late last week, the Indian government made a conservative preliminary estimate of the death toll of around 280, which is expected to rise, which makes it the country's worst train accident ever.

The accident occurred on the outskirts of the northern Indian town of Ferozabad, when the speeding Purushottam Express, coming from Puri in Orissa, rammed into the stationary Kalindi Express, which apparently damaged the vacuum system of its engine after it hit a cow that had strayed onto the tracks.

India's Prime Minister, P.V. Narasimha Rao, has termed the accident a result of "human error" and an inquiry under the supervision of the chief commissioner of railway safety is underway.

A preliminary investigation placed the blame for the crash on a switchman who gave the green signal to the second train, even though an automatic signaling system should have alerted him that the track was not clear.

According to a spokesman for Northern Railway, a unit of Indian Railway, the trains damaged in the accident are not privately insured, which is typical for Indian government assets.

However, Indian Railways began last year to insure its passenger liabilities. Under this passenger insurance scheme, the next of kin of each deceased person will receive approximately $6,500, while those injured will receive varying amounts depending on the extent of their injuries, the spokesman said. Details on the insurers were unavailable.

The accident raises questions on the safety record of the Indian railways.

Last week's death toll is the highest in the 142 year history of the Indian Railways, surpassing even the 1981 accident in the central Indian state of Bihar, where 270 people were killed when a train plunged in the Bagmati river.

The last major train accident was in 1988, when 107 people died in the Island Express mishap in Kerala. However, between May 14 and mid-June this year, there were as many as five accidents. In fact, on June 1 this year, 73 people were killed in two separate train accidents in West Bengal and Orissa.

Still, on paper at least, the safety record of the Indian Railways does not look too bad, particularly when railway officials compare the 501 rail accidents in 1994 with the grim statistics of the early 1960s, when more than 2,000 accidents were reported in a single year. Add to that the fact that India has the world's fourth-largest train network, consisting of broad and narrow gauge tracks, running across more than 38,440 miles.

Each day 10,000 trains, diesel and electric, traverse the length and breadth of India, carrying goods as well as more than 9 million passengers, and connect 7,000 stations. Indian Railways, completely owned and managed by the government, is the world's largest employer with more than 1.6 million employees. Its revenues for the 1994 fiscal year were $6.24 billion.

While the incidence of train accidents per million train kilometers, or 620,000 miles, which railway officials claim is the fairest way to determine the safety record, has improved from 1.5 in 1984 to 0.78 last year, their causes have remained consistent.



AP/WIDE WORLD

Rescuers comb through the wreckage of two express passenger trains that collided en route to New Delhi. Indian Railways does not insure its property damage, though passengers will receive some compensation.

Most of the accidents are derailments, according to a spokesman for Central Railway in Bombay.

"Unchecked trespassing and damage by people and cattle of railway tracks is our No. 1 problem," he said. However, statutory inquiries into rail accidents over the years reveal that most accidents are blamed on human error. In 1993, 68.9% of the accidents were attributed by the Indian Railways to the failure of railway staff, while 11% were attributed to failure of equipment, including rail tracks.

Safety is a priority and all categories of railway staff periodically are sent for refresher training courses in safety, the spokesman said. Several divisional safety officers report to a chief safety officer, each of them involved with different departments of the railways, including locomotive and engineering. Regular and surprise safety checks are made on personnel and equipment, he said.

Besides training of staff, modernization and investment in technology and equipment, including adequate communications and signalling infrastructure, is believed to be the other key to safer commuting. However, as a public sector-run enterprise with a constant resource crunch, the Indian Railways have seen few investments on that front. BI

Corporate names can't escape levy

The cost of investment goes up

By SARAH GODDARD

LONDON—Lloyd's of London's corporate members, who came into the market in 1994 with £1.6 billion ($2.4 billion) of capital, have found that the rules of the game are changing.

Along with other current Lloyd's members, the market's reconstruction and renewal plan will require corporate members to provide cash from their underwriting profits to help segregate the problems of the past, even though those problems arose well before they entered the market.

All members of Lloyd's syndicates in 1993, 1994 and 1995—whether they are traditional unlimited liability names or limited liability corporate capital vehicles—will be hit with levies to cover—among other things—startup costs for Equitas Ltd., the reinsurance company that will cover old losses.

Jonathan Agnew, chairman of Lloyd's Insurance Market Investment Trust P.L.C.—the largest of the investment funds with £580 million ($907.7 million) in 1995 capacity—said that the LIMIT board "regrets" the levy.

"There was certainly an informal understanding that the corporate members who came in after all these problems in 1994 and 1995 would only be asked in exceptional circumstances to pay for the problems of the past," he said. "However, the effect of the levy is considerably mitigated by the fact that the levy can be credited against future annual Central Fund contributions," Mr. Agnew said.

"I think from our point of view in some ways it is almost an ideal situation," said Andrew Smithers, chairman of Angerstein Underwriting Trust P.L.C.

"We now get to start from scratch with no baggage from the past. OK, the price of that is we are going to have to pay a levy, but the levy is only effectively a loan because we will get it back over the course of the following two years when we don't have to pay our contributions to the Central Fund."

James Stuart, a director of corporate capital investor Euclidian P.L.C., sees Lloyd's having a "great future" through the changes to be brought about by the reconstruction and renewal plan.

But he said that those investors who will be required to contribute to Equitas should have some form of ownership of it. "It is going to be an asset," he said, "and it could be an income generator."

See **Capital** *on next page*

Thailand opening doors

New government may license more foreign insurers

By KATE TILLEY

BANGKOK, Thailand—The election of a new government in Thailand may ease foreign insurers' entry into that country's market.

The government, a seven-party coalition led by the Chart Thai Party that took power in July, is expected to adhere to a Sept. 7 deadline set by the prior government for insurers to apply to enter Thailand.

However, no new laws or policy changes have been implemented to allow the entry of more foreign or domestic life and non-life insurers. The former coalition government issued a financial master plan, which includes allowing companies to bid for an unspecified number of new licenses to write life and non-life business.

The laws governing insurers are the Life Insurance and Non-Life Insurance Acts of 1992. These laws formally limit foreign ownership to 25%, and set out the procedures by which companies must apply for licenses.

However, the number of insurers allowed in the country has been a matter of government policy rather than law. It is subject to approval by the Insurance Commissioner.

The liberalization of the Thai insurance market is part of Thailand's commitment to the General Agreement on Tariffs and Trade, now the World Trade Organization's General Agreement on Trade in Services. Countries participating in the WTO agreement have committed to gradually liberalizing financial markets, including insurance (*BI*, June 31).

Greg Carmody, senior trade commissioner at the Australian Embassy in Bangkok, said he already has spoken with some Australian insurers eager to enter the market.



IMAGE BANK

Thailand is taking steps to open its insurance market to foreign insurers, though insurers interested in entering the market must apply for licenses by Sept. 7.

The change of government is unlikely to alter the licensing plan, he said. "I'm pretty confident they will continue to support liberalization."

Some members of the former ruling coalition are members of the new coalition, which may assist in continuity of government policies.

The Thai government has not established the number of new licenses to be granted, nor has it stipulated how applications will be processed. Mr. Carmody estimated 10 to 15 new insurance licenses could be issued.

"It's only a concept; there's no legislation to back it," he said.

Foreign ownership of insurers would still be limited to 25%, but Mr. Carmody said the Thai government has indicated it will allow an increase to 49% within five years.

"It will be a process of steady, gradual liberalization," he said.

Applicants for the new Thai licenses must meet the current solvency standards, which were introduced in 1992, after a pro-democracy government was installed, replacing the military rule that had existed since 1945, Mr. Insurers must have a solvency margin of no less than the greater of 10% of the total net premium for the preceding year or 30 million baht ($1.2 million), according to accounting firm Coopers & Lybrand L.L.P.

Premiums must be approved by the regulatory authority, which is the director general of the Ministry of Commerce's Insurance Depart-

See **Thailand** *on next page*

Capital

Continued from previous page

When Lloyd's first announced it was going to admit corporate capacity, insurance conditions and rating levels were at their best in years, while the staying power of traditional names appeared shaky. Lloyd's business plan had already proposed reinsuring pre-1986 liabilities into a new company, now called Equitas, which would provide the "ringfence" to protect current capital providers from an exposure to old-year claims.

At the same time, there was a very buoyant stock market in London.

"Lloyd's hopped on the back of it," explained Alistair Kelsey, technical officer of the corporate membership unit at Lloyd's, "and actually created a bit of a Lloyd's fever in itself."

Most merchant banks became involved with raising funds for the new Lloyd's corporate capital vehicles, though not all the prospective entities materialized. A number of proposed corporate capital providers dropped away as the level of participation on the vehicles already created became clear.

The 1995 corporate participants are different from their earlier cousins, which generally invested in a spread of syndicates. From that style of Lloyd's investment, a new creature evolved: the dedicated fund. Substantially smaller than the "spread" vehicles, the capital of dedicated funds is committed to one managing agency's syndicates or, in some cases, to a single syndicate.

Some of the corporate spread vehicles now are placing part of their investment funds into the dedicated capital providers.

With the exception of syndicate 190, which is wholly funded by Liberty Corporate Capital Ltd., part of the Boston-based Liberty Mutual Insurance Group, the corporate syndicates are run parallel to syndicates that are traditionally capitalized and carry the same syndicate number. Four syndicates are trading this way for 1995.

But this is just the beginning.

A Lloyd's working party report on the future capital structure of the Lloyd's market, published in July (*BI*, July 17), proposed several changes to corporate capital regulations. Although the report strongly suggests that market forces be allowed to shape the future structure of Lloyd's capital base, several changes recommended by it have already been accepted and will be in place from 1996 onward.

From that date, restrictions will be lifted on the amount of capital one corporate outfit can provide to a syndicate—currently set at 25% of total capacity. Also, common ownership of corporate capital providers and Lloyd's agencies into "Lloyd's integrated vehicles" will be permitted—effectively creating Lloyd's insurance companies. In addition, insurers will be allowed to purchase managing agencies.

These changes are reflected in the interest being shown by the insurance industry and insurance venture capital funds. European and U.S. insurers have been showing great interest in forming investment vehicles in Lloyd's, said Mr. Kelsey, although he anticipates that most will not start trading until 1997.

Duncanson & Holt Group has already set up a new managing agency for two syndicates, partly capitalized by funds from a different D&H subsidiary (*BI*, July 31) and Robert Morey, a private investor from Tiburon, Calif., will be investing in a personal accident and health syndicate and its new managing agency (*BI*, July 17).

Possibly the most enticing feature is Lloyd's global licensing arrangements. Insurance companies that are not even licensed in the London market may be able to gain access to markets in Europe, Australasia, North America and parts of Africa through investment in Lloyd's. The Far East will soon be accessible through a proposed Japanese satellite office of Lloyd's, and licenses to transact business in other Far Eastern countries are actively being investigated.

Those businesses that invest in Lloyd's next year may eventually have the upper hand, suggested Mr. Kelsey.

If there is a rush to join in 1997, it will probably be through the Lloyd's integrated vehicle route. This will put a premium on investment in managing agencies, increasing the costs of joining Lloyd's.

Meanwhile, the strength and tenacity of the unlimited liability names to continue in the market should not be underestimated: They continued to underwrite in 1994, even though the general opinion was that they could no longer afford it.

There are higher leverage ratios for unlimited liability members, as well as tax relief for trading losses and more relaxed investment criteria compared with the corporate members.

Amid these changes, the first forms of corporate capital—the corporate spread vehicles—are beginning to realize that size will be their greatest strength.

Recently, Angerstein announced that it will merge with Delian Lloyd's Investment Trust P.L.C. to create the market's second-largest investment vehicle with combined underwriting capacity for 1995 of £214 million ($330.2 million).

The rationale behind Angerstein's decision was to increase access to syndicates through the power of large tranches of capital—which also circumvents any need to join in the capacity auction scheme which started this year—and to reduce operational costs.

"We see Lloyd's evolving more and more towards the corporate sector," said Mr. Smithers.

"We think that if Equitas works, which I think it will do, then finality will be achieved for the unlimited liability names. At that point in time, there will be some stalwarts who would like the gearing and the leverage of unlimited liability, but your average name will probably over time gravitate towards the limited liability mode of underwriting at Lloyd's.

"We felt that if Angerstein is going to play its true part, then it had to be bigger, have more clout, both vis-a-vis Lloyd's itself and also with the underwriters to get better underwriting participations. We also think costs are going to be a critical factor amongst these trusts," he said. "Clearly, if you get bigger, you can spread your costs over a much wider area and so per unit of capacity you bring your costs down."

Analysts at SBC Warburg see this merger as the beginning of a "positive trend within the Lloyd's fund subsector."

Mergers such as that of Angerstein and Delian represent welcome progress, SBC analysts said, adding, "We must now expect more of the same." BI

Thailand

Continued from previous page

ment. Non-life contracts must conform to legislative wording.

Some foreign insurers that have been in Thailand since before the restrictions were introduced have larger shares in local companies.

American International Assurance Co. Ltd., a wholly owned American International Group Inc. life insurance unit, registered in Thailand in 1938. The company's 50% market share is the largest among life insurers in Thailand, according to a market assessment by Coopers & Lybrand. In 1993, non-life premium volume was 33 million baht ($1.3 million)

In addition, there are four non-life companies, also licensed before the current regulations came into force, which have foreign ownership greater than 25%. Three are partly owned by U.K. multiline insurers and one by the New Zealand Insurance Group Ltd.

Currently, 94 insurers—72 of which are non-life insurers—operate in Thailand, which has a population of 58 million.

Sydney, Australia-based QBE Insurance Group Ltd., which has a 25% ownership stake in Sahasin-QBE Insurance Co. Ltd., wants to increase its ownership of the Thai insurer, said Ray Hick, general manager-international operations at QBE.

"We would like to increase our percentage if we could; we'd like to be a majority owner because we have confidence in the Thai market," Mr. Hick said.

Thailand has permitted up to 25% foreign ownership since 1992, up from the prior 15% limit.

Some insurers interested in establishing a presence in Thailand may not be ready to act by the September deadline.

Sydney, Australia-based GIO Australia Holdings Ltd. is considering a joint venture with a Thai insurer but will not have an application to the government before Sept. 7, said Owen Roach, GIO executive director-general and reinsurance.

"Deadlines come and go," he said. "The practical reality is we need the right partner."

GIO often receives offers to enter into joint ventures in Asian countries, Mr. Roach said.

"We are taking a cautious approach." If negotiations with the potential Thai partner, whom Mr. Roach would not name, do not come to fruition, there likely would be another partner in the future, he said.

"We expect to have joint ventures throughout the region, but we're taking it slowly. The region is alive with opportunities," he said.

Other countries in the region are also responding to the WTO agreements.

The Philippines government is planning measures similar to Thailand's to liberalize its market.

It has already issued guidelines on entry of foreign insurers that will allow 100% ownership under certain conditions. Insurers already registered in the Phillipines are only allowed 40% foreign ownership.

Mr. Hick said that while QBE now has no operations there, he plans to visit the country in early October to see what changes are occurring.

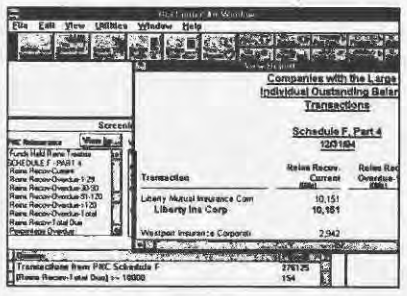
Malaysia's market also is expected to be liberalized, though GIO's Mr. Roach does not expect it to happen as quickly as in Thailand. Currently, foreign insurers can own up to 30% of a Malaysian insurer.

Malaysia is eager to develop its island of Labuan as a major insurance center, but insurers have been slow to take up the government's initiative. BI

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INTERNATIONAL

Sedgwick reports drop in revenues

LONDON—If the first half of 1995 is any indication, Rollins Hudig Hall Group Inc. soon may surpass Sedgwick Group P.L.C. as the world's second-largest broker.

Willis Corroon Group P.L.C. stood its ground, reporting an increase in six-month profits, though gross revenues declined slightly.

Sedgwick reported a 0.5% drop in both pretax profits and gross revenues for the first six months of 1995. Profits fell to £63.1 million from £63.4 million in first-half 1994, on gross revenues of £474.8 million compared with £477.2 million in 1994.

In dollar terms, Sedgwick's revenues increased a modest 2.7% to $754.9 million from $734.9 million in 1994 (converted at the respective June 30 rate). Pretax profits rose 2.8% to $100.3 million from $97.6 million.

In comparison, Chicago-based RHH reported a 21.1% increase in gross revenues for the first half of 1995 to $848.9 million from $701.1 million in 1994 (*BI*, Aug. 7).

Sedgwick attributes its lackluster results to rate softening in most lines in the London market, depressed U.K. individual life and pension business, and weak U.K. benefit consulting business.

As a result, Sedgwick is aiming to streamline its business. In January, Sedgwick Europe and Sedgwick Payne, its specialty and reinsurance brokering arm, will merge to form Sedgwick Europe Risk Services Ltd. Decisions on possible staff cutbacks have not been made yet, according to a spokeswoman.

In addition, the U.K. operations of Sedgwick Noble Lowndes Group, the firm's benefit consulting arm, are being restructured into three regional units instead of operating by practice line, allowing clients to obtain all their benefit needs from one office.

Meanwhile, following last year's poor performance, Willis Corroon Group's 1995 six month pretax profits rose 23% to £66.3 million ($105.4 million) from £54.1 million ($83.3 million) in the first six months of last year. Gross revenues, however, declined about 1% to £379.8 million ($603.9 million) from £382.7 million ($589.4 million) in the first half of last year.

Willis Corroon's Executive Chairman Roger Elliott blamed "tough" market conditions for the marginal decline. The improved profits, however, "confirm that the corrective actions we have been taking are working and have been especially appropriate given the continuing difficult operating environment," he said. "We remain on the course we have set ourselves."

Willis Corroon devised a cost-cutting, management shakeup strategy—including laying off 800 people—last year to improve results following last year's sharply lower profits (*BI*, July 17).

—By Sally Roberts and Stacy Shapiro

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NOTICE TO CREDITORS

Notice is hereby given that by Orders of the High Court of Justice in London on 31 July 1995, the liquidations of the above-named companies are to be conducted ancillary to bankruptcy proceedings currently proceeding in Finland under the conduct of the Joint Administrators appointed by the Finnish Court. Also by the same Orders, the liquidators, Ralph Preece and David Morgan of Touche Ross & Co, PO Box 810, 8-9 East Harding Street, London, EC4A 3AS, have been empowered to remit any assets realized by them directly to the Finnish Joint Administrators to be dealt with in the Finnish Bankruptcy proceedings.

The liquidators will not be dealing with any proofs of debt submitted to them. Proofs of claim for submission in the Finnish bankruptcy proceedings may be obtained (free of charge) from Jukka Laitasalo (one of the Finnish Joint Administrators) at Merilampi, Marttila & Laitasalo, Kalevankatu 9A, 00100 Helsinki, Finland.

Persons considering themselves to be creditors of either of the companies should send their proofs of claim to the Finnish Joint Administrators by no later than 15 September 1995 being the bar date for submission of creditors claims imposed by the Finnish Court, failing which they will be excluded from participating in any dividend declared by the Finnish Joint Administrators.

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Broadening risk horizons

Innovative risk managers covering speculative risks

By ROBERTO CENICEROS

SEATTLE—Enterprising risk managers are increasing their value and their influence on their employer's bottom line by looking beyond "pure" risks to managing speculative risks.

More and more organizations need risk managers with such skills, contends James V. Davis, chairman of the Advanced Risk Management Services division of Willis Corroon Group P.L.C. in Nashville, Tenn.

Mr. Davis offered several illustrations of this trend during a session on "The Changing Scope of Risk Management," at the 1995 annual meeting of the American Risk & Insurance Assn. in Seattle earlier this month.

For example, he cited a risk manager for a large oil company who recently arranged an innovative insurance contract with coverage that requires a "double trigger."

Two things must happen simultaneously in order for the policyholder to obtain coverage under the contract: the company's losses must exceed a particular dollar amount; and oil prices must decline more than a specified amount over several fiscal quarters from their level at the time of the initiation of the insurance contract.

"Now, from a business standpoint that puts the insurance risk manager in the enviable position of being able to go to his or her management and point out, 'The one big thing that can impact our earnings is a reduction in oil prices. And I have provided—through the insurance marketplace—an insurance contract that will help mitigate that for our firm,' " said Mr. Davis.

Only a "handful" of companies have negotiated double-trigger contracts, Mr. Davis said in a later interview.

The first trigger could be negotiated as anything a particular company needs to be defined as a loss, such as a decrease in oil prices or a decline in the price of certain commodities, for example, Mr. Davis said.

While a company may be able to retain one of the types of losses without insurance, the occurrence of both triggers simultaneously could be too large to absorb and could require the added protection provided by this type of contract.

Although insurance for such speculative risks generally remains limited, Mr. Davis provided other examples of risk managers who are finding ways to cover that type of risk.

One risk manager for a "health care organization" arranged for coverage in case his company's cost of providing care exceeds the capitated cost contracts under which it operates.

"He has found an underwriter that in fact is willing to provide some actual risk transfer for that exposure," Mr. Davis said.

"So that in the program that he has put together, he has taken both 'pure' insurance risk and speculative insurance risk and rolled it into the same insurance contract," he said.

"Business is very much a 'What have you done for me lately' kind of occupation," Mr. Davis said.

"If a risk manager has concentrated his or her career in the loss financing side of risk management, as you climb up the scale, you have nothing new to report to your management in terms of what you are contributing to the firm," he said.

However, it is difficult to expand one's horizon when risk management and insurance textbooks have traditionally focused on "pure" insurable risks, Mr. Davis said.

That leads risk managers, brokers and others in the field to think it is not appropriate to set their sights on managing speculative risks. That, in turn, minimizes the pressure on insurance markets to provide the necessary coverage for risks that are truly insurable, he said.

Looking at pure and speculative risks, what I would like to suggest to you is that the pure risk definition that is used in academia and shows up in most of the text books is insurance risk management. It has sharply limited the development of the field," Mr. Davis said.

Yet the changing marketplace is making it obsolete for risk managers to limit their focus to "pure" risks.

"In Canada, for example, the Toronto Stock Exchange has put in a rule that requires all Canadian companies listed on that stock exchange to report to the board of directors annually the total portfolios of risk faced by an organization," he said.

To meet that requirement, the treasurer of one large manufacturer prepared a diagram using principles from strategic planning and modified it for risk management.

The diagram depicted all the risks faced by the company, including economic risks, operational risks, legal risks and political risks.

And, in risk management fashion, the diagram helps provide a picture of which of those risks the company is going to retain and which ones it is going to pass on to insurers or some alternative financing mechanism.

The reinsurance market is also shifting its focus, Mr. Davis pointed out.

He referred to the "securitization" of insurance products and cited the joint effort of Swiss Reinsurance Co. and CS Holding, the Zurich parent of Credit Suisse bank, to jointly study ways of transforming insurance risks into a unit that can be bought and sold in the investment market.

That project is likely to result in financial derivatives based on reinsurance risks, according to Swiss Re (*BI*, Dec. 19, 1994).

Zurich Reinsurance Co., through its U.S. subsidiaries Center Trading Partners and Center Trading Holding, is also developing security products that will substitute for insurance, Mr. Davis noted. BI

It's difficult to expand one's horizon when risk management and insurance textbooks have traditionally focused on 'pure' insurable risks, says James V. Davis.

RIMS sees new designation

SEATTLE—The Risk & Insurance Management Society Inc. is working to develop a new advanced educational designation for risk managers.

RIMS President William J. Kelly told members of the American Risk & Insurance Assn. earlier this month that a six-member RIMS task force currently is working on the best way to roll out the program in the United States.

The program likely will be called the "Fellow in Risk Management" designation and more information will be available at next year's RIMS conference, according to a RIMS' spokesman.

The Associate in Risk Management designation, which is administered by the Insurance Institute of America, will continue to be offered, Mr. Kelly said. But unlike the ARM designation, which requires three courses, the new designation is expected to require an additional seven courses in finance, law and business administration.

Most of the additional courses being proposed already are offered by accredited colleges and universities, Mr. Kelly told ARIA members who gathered for the organization's 1995 annual meeting Aug. 13-16 in Seattle. About 180 people attended the conference.

The next annual ARIA conference will be held in Philadelphia Aug. 11-14, 1996. For more information, call 914-699-2020.

—By Roberto Ceniceros

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Merger

Continued from page 2
and 6.5 million shares.

As of June 30, FSA had $595 million in equity and cash and $783 million of invested assets, while Capital Guaranty had $197 million in equity and cash and $303 million of invested assets.

Three institutions hold 78.5% of FSA's outstanding shares: US WEST Capital Corp., Fund American Enterprises Holding Inc. and The Tokio Marine & Fire Insurance Co. Ltd.

Capital Guaranty is 82% publicly held, with the remaining shares owned by: Constellation Investments Inc., an affiliate of Baltimore Gas & Electric Co.; SAFECO Corp.; and Sibag Finance Corp., an affiliate of Siemens A.G.

Capital Guaranty always has specialized in municipal bond insurance coverage, while FSA, which originally focused on asset-backed securities, expanded in 1990 to also insure municipal bonds.

Moody's Investors Service pegs FSA's share of the municipal bond insurance market at about 5.4% as of June 30, while Capital Guaranty had a 4.5% share.

"Each company's a good company. Together they would be a better company, and the potential is to be the best company in the industry," said Michael Djordjevich, chairman, president and chief executive officer of Capital Guaranty.

Mr. Djordjevich will become vice chairman of FSA after the merger is completed. John J. Byrne, chairman of Fund American, is FSA's chairman.

Mr. Djordjevich also will be a member of the office of the chairman and serve as chairman of the board's finance committee. He will continue to be based in San Francisco, where FSA will have a regional office while maintaining its New York headquarters.

Others also praised the merger.

"In general, we believe that it is a very positive consolidation within the underlying financial guarantee insurance industry," said Michael Satz, chairman and CEO of New York-based Capital Re Corp., which operates financial guarantee reinsurer Capital Reinsurance Co.

"It will help create a more effective competitive force within the industry relative to the traditionally dominant companies, AMBAC, FGIC and MBIA. We also believe, from the vantage of Capital Reinsurance Co., that it should create a more effective client for our reinsurance services. In an industry that has been characterized by lower volume and increasing competitive pressures, a very positive reaction to that environment has always been some level of consolidation, and this is a good example of that process," Mr. Satz said.

The merger "makes a lot of sense," said Anne Ross, vp and manager of research at Roosevelt & Cross in New York. She noted that with new municipal bond issues down, FSA may not have penetrated the business at the rate it expected when it entered the market.

In merging with Capital Guaranty, however, FSA is picking up a "pure" book of municipal insurance business that has improved significantly in credit quality over the last several years, said Ms. Ross.

And, though Capital Guaranty had increased its market share despite the lower municipal bond issuance, it still did not have a large enough share to command the premium prices needed to generate sufficient profit to keep stockholders happy, said Ms. Ross.

"I think those companies combined now will clearly have a critical mass," said Ms. Ross. "There'll be a positive synergy there by putting these two companies together."

"If the merger really jells and the dust settles quickly, I think they'll be a power to reckon with," she added.

"The surviving insurance entity will be a larger entity and presumably better able to compete against the larger competitors in the business.

And, in effect, by merging they remove each other as a competitor in addition to all the other names that were competitors out there," said Richard P. Smith, senior vp at Standard & Poor's Insurance Rating Services in New York.

But, this could increase competition in the market, Mr. Smith said.

Premiums will be "under even more pressure than they were," he observed.

"I think it'll make it ever more competitive than it's been in the past," said Donald A. Pasten, group vp at Duff & Phelps Credit Rating Co. in New York.

But others disagree.

"We think the downward trend in pricing is probably at a base level that would be difficult to impact through the activities of a single company," said Capital Re's Mr. Satz, who said he does not believe that the merger will add significant pressure to pricing.

Brady Tournillon, an analyst at rating agency Fitch Investors Service in New York, said while he does not believe it changes the landscape "a tremendous amount," there is even "a possibility of easing" of the competitive environment with one less competitor.

Robert P. Cochran, FSA's president and CEO, said he is unsure how the merger will influence the competitive environment. While the combined company will be a more effective competitor, "we will not be driven by market share objectives," he said.

However, "it depends on how others react to the combination of the two companies," Mr. Cochran said.

"We would hope the combination will be a stabilizing force in the industry." BI

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CEOs

Continued from page 1

pany performance. Aggregate net income of the 37 companies rose only 5.5% in 1994 and only 16 of the companies reported increased earnings for 1994.

At the same time, Saul P. Steinberg of Reliance Group Holdings Inc. ended a nine-year streak as the highest-paid CEO in *BI*'s rankings. He switched places with Maurice R. Greenberg of American International Group Inc., who was the third-highest-paid CEO based on 1993 earnings. Sanford I. Weill of The Travelers Inc. maintains the No. 2 spot.

More than ever, CEO pay is tied to the performance of the company, compensation consultants say.

That trend can be explained partly by recent Securities and Exchange Commission proxy rules, which require increased disclosure of executive pay, and Section 162(m) of the Internal Revenue Code, which came into effect in 1994 and denies tax deductions for any amount paid to executives in excess of $1 million, unless it is performance-based.

"I'm much more comfortable saying that if bonuses are all over the place, it's due to the performance of the company," said Matt Ward, a compensation consultant with Watson Wyatt Worldwide in San Francisco. "There is a much better link (between company performance and CEO bonus) than ever before."

Many insurers and reinsurers surveyed by *BI* cite losses from the Northridge earthquake, which hit the Los Angeles area in January 1994, as one of the catalysts behind poor year-end performances.

Most notably, W.R. Berkley Corp. reported a 52.1% drop in earnings to $24.7 million from $51.6 million reported in 1993. In addition to after-tax realized investment losses, Signet Star Reinsurance Co., the insurer's reinsurance unit, reported a net pretax $20 million loss from the Northridge earthquake, according to the company's annual report.

As a result of the insurer's financial performance, CEO William R. Berkley did not receive a bonus in 1994, the company's proxy noted. Mr. Berkley took home $950,000 in base salary—a 24% cut from the $1,250,700 salary and bonus he received in 1993—dropping him to the No. 17 spot in the rankings from No. 11 in 1993.

A 16.2% cut in salary and bonus for Dennis H. Chookaszian of CNA Insurance Cos. dropped him to the No. 12 spot from No. 6 last year. CNA reported an 86.4% decline in profits to $36.5 million from $267.5 million. According to the company's annual report, CNA's profits were adversely affected by pretax catastrophe losses of $283 million, primarily related to the Northridge earthquake and winter storms.

CNA does not have a compensation committee. Instead, Mr. Chookaszian's bonus is determined by Laurence A. Tisch, CEO of CNA Financial Corp., based on his review and appraisal of the overall performance of Mr. Chookaszian in the prior year, the company's proxy said.

The *BI* survey group's 5.5% growth in aggregate earnings and 2.5% gain in pay during 1994 is not in line with general industry, according to one survey.

A William M. Mercer Inc. survey says the annual median salary and bonus for a typical large U.S. corporation's CEO rose 11.4% in 1994 as company profits spiked nearly 30%.

The median 1994 salary and bonus for the 350 companies Mercer surveyed was $1,294,316. The median 1994 salary and bonus of the 37 insurance CEOs *BI* surveyed was $918,083.

"Generally, it was a pretty good year for business and consequently annual incentive awards were fairly substantial," said Ken Hugessen, a managing director for Mercer in Toronto. However, CEO paychecks should be directly linked to the company's performance. If the insurance industry had a tough year, paychecks will reflect that, he said.

One insurer that defied the norm was AIG, whose profits rose 14.9% in 1994 to $2.18 billion from $1.93 billion in 1993.

As a result, Mr. Greenberg received a 60.8% pay raise, bumping him to the premier spot in the rankings for the first time. He took home $3,750,000 in 1994, compared with $2,331,731 in 1993.

Mr. Greenberg's $2,750,000 bonus is more than double the $1,100,000 bonus he received in 1993, while his base salary dropped to $1,000,000 from $1,231,731.

According to the company's proxy, AIG is complying with Section 162(m) and any amount paid above $1 million will be performance-based and therefore deductible under Section 162.

Despite taking a pay cut, Sanford I. Weill of The Travelers Inc. remained the second-highest-paid executive, taking home a $1,025,000 base salary and a $2,653,750 bonus in 1994. His $3,678,750 cash compensation was 9.1% lower than the $4,049,063 compensation he took home in 1993.

Travelers' profits rose 48.7% to $1.36 billion in 1994, from $916 million in 1993.

According to Travelers' proxy, "1994 was a year of accomplishment for the company" for which "Mr. Weill provided the leadership." Despite the good year, Mr. Weill's bonus was $376,563 lower in 1994.

In accordance with Reliance's 40.4% drop in profits in 1994, Mr. Steinberg received a 31.9% pay cut for the year. His cash compensation of $3,675,000 pales in comparison with the $5,400,000 in base salary and bonus he earned in 1993. Reliance reported $43.8 million in net income in 1994, compared with $73.5 million in 1993. Mr. Steinberg received an additional $50,000 in directors' fees in 1994.

According to Reliance's 1994 and 1995 proxies, Mr. Steinberg's salary was reduced by $950,000 on Jan. 1, 1994, and his bonus was paid in accordance with the terms of the company's bonus plan, which provides for a maximum bonus equal to 115% of annual base salary if certain objective performance goals are met. Mr. Steinberg's 1994 bonus was equal to 110% of his base salary.

Remaining the fourth-highest-paid CEO, Harold S. Hook of American General Corp. received an 11.1% pay raise in 1994, taking home a $980,000 salary and a $980,000 bonus. While Mr. Hook's salary remained flat, his bonus increased 25% from $784,000 in 1993.

American General's net income more than doubled in 1994 to $513 million from $214 million in 1993.

Wilson H. Taylor of CIGNA Corp. jumped 16 spots to round out the top five highest-paid executives. Mr. Taylor received a 118.1% pay increase in 1994, taking home an $822,900 base salary and a $900,000 bonus. In 1993, Mr. Taylor received no bonus due to the company's poor earning results, according to its proxy. In 1994, profits soared 136.8% to $554 million from $234 million in 1993.

While Mr. Taylor's paycheck increased more than 100%, it was not the biggest raise among the group.

Gordon W. Kreh, who became CEO of The Hartford Steam Boiler Inspection & Insurance Co. in April 1994, received a 133.7% increase in salary and bonus in 1994, coming in at the No. 31 spot. Mr. Kreh, who succeeded the retiring Wilson Wilde, made $576,731 in 1994, compared with $246,731 in 1993 when he was president of the company. Last year, Mr. Wilde came in at No. 35 based on $500,000 in compensation.

Hartford Steam Boiler's profits soared 446.3% in 1994 to $51.9 million from $9.5 million in 1993.

In addition to Mr. Kreh, four other CEOs are making their debut in the *BI* rankings, succeeding retiring chief executives:

- Brian M. O'Hara, former vice chairman of EXEL Ltd., became CEO in October 1994, succeeding Michael J. Kevany. Mr. O'Hara debuts at No. 21 based on his 1994 earnings of $812,500, a 19.5% increase over his 1993 compensation of $680,000.

EXEL's profits fell 63.1% to $144 million from $379.2 million in 1993.

- Lauren N. Patch, president of Ohio Casualty Corp., took on the additional role of CEO in January 1994, succeeding Joseph L. Marcum, who retired. Mr. Patch, who holds the No. 34 position, took home $349,616 in base salary in 1994, a 7.6% increase over his $324,808 salary in 1993.

Ohio Casualty's net income rose 11.4% to $96.9 million from $87 million in 1993.

- Jerome Karter, former executive vp of SCOR U.S. Corp., became CEO at the end of September 1994, succeeding Jacques P. Blondeau, who served as CEO from June 16, 1994, through Sept. 30, 1994. Prior to Mr. Blondeau, Patrick Peugeot served as CEO.

Mr. Karter came in at No. 35, taking home $301,641 in base salary in 1994, a 17.2% decline from his $364,112 paycheck in 1993, which included a $75,000 bonus.

SCOR reported a $7.8 million loss in 1994 compared with a $25.3 million profit in 1993.

Mr. Blondeau and Mr. Peugeot

See **CEOs** *on next page*

The highest-paid CEOs among leading commercial insurers/reinsurers

Rank	Rev. Rank	CEO/Age	Company	1994 cash compensation	1993 cash compensation	% change from 1993	Market value of shares directly held[1]	1994 total revenues (in millions)	% change from 1993	1994 net income (in millions)	% change from 1993
1	1	Maurice R. Greenberg, 69	American International Group Inc.	$3,750,000	$2,331,731	60.8%	$506,872,254	$22,442.0	11.5%	$2,176.0	14.9%
2	2	Sanford I. Weill, 61	Travelers Inc.	3,678,750	4,049,063	(9.1)	179,640,614	18,465.0	171.7	1,362.0	48.7
3	17	Saul P. Steinberg, 55	Reliance Group Holdings Inc.	3,675,000	5,400,000	(31.9)	194,657,151	3,047.1	2.8	43.8	(40.4)
4	9	Harold S. Hook, 63	American General Corp.	1,960,000	1,764,000	11.1	6,399,713	4,841.0	0.2	513.0	151.5
5	3	Wilson H. Taylor, 51	CIGNA Corp.	1,722,900	790,000	118.1	6,638,850	18,392.0	(0.1)	554.0	136.8
6	16	Norman P. Blake Jr., 53	USF&G Corp.	1,466,480	1,658,475	(11.6)	993,013	3,221.0	(0.9)	232.0	40.6
7	13	Ronald E. Ferguson, 53	General Reinsurance Corp.	1,457,971	1,378,750	5.7	8,774,700	3,837.0	7.8	665.0	(6.5)
8	7	Dean R. O'Hare, 52	Chubb Corp.	1,393,492	1,396,545	(0.2)	3,976,628	5,709.5	3.8	528.5	63.0
9	11	Patrick G. Ryan, 57	Aon Corp.	1,327,233	1,132,013	17.2	484,915,533	4,156.9	8.1	360.0	11.2
10	10	Douglas W. Leatherdale, 58	The St. Paul Cos. Inc.	1,294,206	1,167,870	10.8	3,940,816	4,701.3	5.4	442.8	3.6
11	34	Steven M. Gluckstern, 43	Zurich Reinsurance Centre Holdings Inc.	1,272,500	607,380[2]	109.5	2,177,256	243.2	76.4	(31.2)	(278.3)
12	5	Dennis H. Chookaszian, 51	CNA Insurance Cos.	1,242,091	1,482,716	(16.2)	91,250	10,999.5	(0.1)	36.5	(86.4)
13	24	James A. McIntyre, 62	Fremont General Corp.	1,111,532	1,211,177	(8.2)	26,126,900	653.1	0.3	55.8	30.7
14	4	Ronald E. Compton, 62	Aetna Life & Casualty Co.	1,075,000	1,325,000	(18.9)	1,195,160	17,525.0	1.9[3]	468.0	227.9
15	20	Edward B. Jobe, 65	American Re Corp.	995,823	982,385	1.4	13,173,877	1,678.5	16.2	97.5	(1.0)
16	18	Jon W. Rotenstreich, 51	TIG Holdings Inc.	960,000	559,091[4]	71.7	5,912,237	1,778.0	(5.5)	52.0	140.6
17	22	William R. Berkley, 49	W.R. Berkley Corp.	950,000	1,250,700	(24.0)	100,010,785	830.8	23.4[3]	24.7	(52.1)
18	6	Ian M. Rolland, 61	Lincoln National Corp.	938,077	896,494	4.6	5,597,502	6,984.4	(15.7)	349.9	9.7
19	19	A.C. Zucaro, 55	Old Republic International Corp.	918,083	854,850	7.4	4,660,133	1,679.0	(3.3)	151.0	(13.7)
20	23	Alan R. Gruber, 67	Orion Capital Corp.	889,496	836,794	6.3	5,290,025	780.9	8.4	55.2	(19.8)
21	25	Brian M. O'Hara, 46	EXEL Ltd.	812,500	680,000[5]	19.5	3,819,550	633.3	(20.8)	144.0	(63.1)
22	29	Ronald L. Bornhuetter, 61	NAC Re Corp.	762,756	691,250	10.3	3,695,174	478.4	19.0	35.6	(15.9)
23	31	William D. Warren, 58	National Reinsurance Corp.	754,546	703,617	7.2	7,277,580	377.8	(5.9)	21.8	(62.9)
24	8	John P. Mascotte, 55	Continental Corp.	735,192	1,029,038	(28.6)	336,260	5,101.4	(1.4)	(602.9)	(387.1)
25	37	Robert A. Mulderig, 42	Mutual Risk Management Ltd.	722,093	623,776	15.8	18,092,796	128.7	21.3	24.0	15.9
26	27	Walter A. Scott, 57	ACE Ltd.	675,004	678,754	(0.6)	558,220	537.5	(0.1)	(45.7)	(120.4)
27	32	Michael A. Butt, 52	Mid Ocean Ltd.	675,000	525,000[6]	28.6	1,032,900	334.3	92.9	91.0	34.4
28	36	James F. Billett Jr., 50	Trenwick Group Inc.	672,388	635,250	5.8	4,521,308	166.4	28.0	20.3	(14.3)
29	15	James F. Orr III, 52	UNUM Corp.	626,154	1,060,754	(41.0)	6,083,318	3,623.7	6.7	154.7	(48.4)
30	14	Roger H. Eigsti, 52	SAFECO Corp.	600,743	568,334	5.7	2,389,407	3,727.0	5.3	314.4	(26.7)
31	26	Gordon W. Kreh, 47	The Hartford Steam Boiler Inspection & Insurance Co.	576,731	246,731[5]	133.7	471,544	603.6	(5.1)	51.9	446.3
32	30	Charles E. Rinsch, 62	Argonaut Group Inc.	562,750	558,750	0.7	2,423,408	394.2	(10.2)	76.7	(13.9)
33	35	Walter A. Rhulen, 63	Frontier Insurance Group Inc.	500,000	700,000	(28.6)	28,343,924	180.0	29.3	17.0	(28.9)
34	21	Lauren N. Patch, 44	Ohio Casualty Corp.	349,616	324,808[5]	7.6	957,255	1,558.7	(6.7)	96.9	11.4
35	33	Jerome Karter, 57	SCOR U.S. Corp.	301,641	364,112[5]	(17.2)	0	270.2	(7.1)	(7.8)	(130.8)
36	28	Walter R. Bateman II, 47	Harleysville Group Inc.	300,000	236,718[5]	26.7	139,625	525.5	14.8	18.5	(42.0)
37	12	Warren E. Buffett, 64	Berkshire Hathaway Inc.	100,000	100,000	0.0	11,669,055,700	3,847.5	6.9[3]	494.8	(28.1)
		TOTALS		$41,805,748	$40,801,926	2.5%	$13,310,242,366	$154,453	10.8%	$9,042	5.5%

[1] Stock values as of Aug. 11, 1995. Stock values do not include stock options and shares held in company savings and retirement plans, when broken out.
[2] Compensation from March 1993 to December 1993.
[3] Based on restated 1993 figures.
[4] Mr. Rotenstreich's salary reflects a $600,000 base salary, prorated from his start date in April 1993 through December 1993.
[5] Individual was not a CEO in 1993. Compensation reflects previous position within company.
[6] Amount shown represents Mr. Butt's compensation from the period May 1, 1993, to fiscal year ended Oct. 31, 1993.
Source: Company proxy statements and annual reports
Research by Sally Roberts.

GRAPHIC BY MIKE GARVEY

CEOs

Continued from previous page
earned $175,000 and $153,750 in 1994, respectively, at SCOR U.S. in addition to their salaries at the parent company in Paris.

• Walter R. Bateman II, former president and chief operating officer of Harleysville Group Inc., became president and CEO Jan. 1, 1994. He succeeded Bradford W. Mitchell, who retired at year-end 1993.

Mr. Bateman took home $300,000 in 1994, a 26.7% increase over his $236,718 compensation in 1993, and placed at No. 36.

Harleysville's net income fell 42% in 1994 to $18.5 million from $31.9 million in 1993.

Additionally, Walter A. Scott of ACE Ltd. retired as CEO Sept. 30, 1994. Brian Duperreault, former chairman and CEO of American International Underwriters Inc., an AIG subsidiary, succeeded Mr. Scott.

For the nine months he served as CEO, Mr. Scott received a $675,004 compensation—coming in at the No. 26 spot—0.6% lower than the $678,754 he received in 1993.

ACE reported a $45.7 million loss in 1994 compared to a $223.5 million profit in 1993.

Of the 37 CEOs on this year's list, 23 received a pay raise, 13 received a pay cut and one, Berkshire Hathaway Inc.'s Warren E. Buffett, saw no change in his $100,000 cash compensation. A year ago, when a similar group of 37 CEOs were surveyed, 28 received raises, five took pay cuts and Mr. Buffett's compensation was unchanged.

According to Berkshire's proxy, Mr. Buffett has been paid an annual salary of $100,000 for the last 14 years and neither the profitability of the company nor the market value of its stock are considered in setting salaries and bonuses. Instead, Mr. Buffett informs the board of directors the amount, typically determined subjectively, of his compensation as well as the rest of Berkshire's executive officers.

In the company's annual report, Mr. Buffett explains that he and Charles T. Munger, vice chairman of the company, work under "idyllic conditions" and "don't expect shareholders to ante up loads of compensation for which we have no possible need. Indeed, if we were not paid at all, Charlie and I would be delighted with the cushy jobs we hold."

Mr. Munger's compensation also remained at $100,000.

While Mr. Buffett bottomed out the charts with his salary, his 479,222 shares of Berkshire stock were worth $11.67 billion on Aug. 11, making him one of the nation's wealthiest people.

In addition to Mr. Buffett, who owns 40.7% of Berkshire's stock, six other executives owned 5% or more of the company stock:

• Mr. Steinberg owned 47.1% of Reliance stock as of Feb. 15. Excluding shares for which he disclaims beneficial ownership, he directly owned 29.4 million shares worth $194.7 million on Aug. 11.

• Mr. Berkley owned 15.3% of W.R. Berkley stock as of March 29. Those 2.5 million shares were worth $100 million on Aug. 11.

• Aon Corp.'s Patrick G. Ryan owned 12.4% of the company's stock as of Feb. 28. His 12.9 million shares, which include beneficial interest in the allocated portion of shares of Aon's employee stock ownership plan, were worth $484.9 million Aug. 11. Mr. Ryan also received a 17.2% pay raise in 1994 to $1,327,233 from $1,132,013 in 1993. Likewise, Aon's profits rose 11.2% over the year to $360 million from $323.8 million reported in 1993.

• James A. McIntyre owned 8.5% of Fremont General's stock as of March 13. Excluding shares subject to exercisable options and shares not directly held, Mr. McIntyre's 954,233 shares were worth $26.1 million on Aug. 11. Mr. McIntyre took an 8.2% pay cut in 1994, taking home $1,111,532 compared with $1,211,177 in 1993. Fremont's profits rose 30.7% over the year to $55.8 million from $42.7 million in 1993.

• Walter A. Rhulen owned 7.8% of Frontier Insurance Group Inc.'s stock as of March 31. Those 1,012,283 shares were worth $28.3 million on Aug. 11.

Mr. Rhulen received a 28.6% pay cut in 1994, taking home $500,000 compared with $700,000 in 1993. Likewise, Frontier's profits fell 28.9% to $17 million from $23.9 million in 1993.

• James F. Billett Jr. owned 5% of Trenwick Group Inc. stock as of March 31. Excluding shares subject to exercisable stock options, Mr. Billett's 97,484 shares were worth $4.5 million as of Aug. 11.

Additionally, Mr. Billett received a 5.8% raise in 1994, taking home $672,388 in 1994 compared to $635,250 in 1993. However, Trenwick's profits fell 14.3% in 1994 to $20.3 million from $23.7 million in 1993. BI

ASA crash

Continued from page 1
Delta's.

Commuter airlines that have similar partnerships with large commercial airlines often piggyback their coverage on the larger airlines' programs. That gives the commuter airlines substantial rate benefits, brokers explained.

However, brokers believe and U.S. Department of Transportation documents indicate that ASA obtained its coverage separately from Delta. Because of the partnership, underwriters still may give ASA a rating break, though that is less likely, one aviation broker said.

Market sources believe ASA has about $250 million of liability insurance to respond to claims from last week's crash.

The 6-year-old Embraer 120 airplane, built by Brazilian manufacturer Empresa Brasileira de Aeronautica S.A., has a $5 million hull value, sources say.

According to DOT records, Alexander & Alexander Inc.'s Atlanta office placed the coverage with several aviation underwriters worldwide, including:

• American Home Assurance Co. of New York, a subsidiary of American International Group Inc.

• Assurance France Aviation of Paris.

• LaReunion Aerienne of Paris.

• Mutual Marine Office Inc., a New York-based subsidiary of NYMAGIC Inc.

• London market companies and Lloyd's of London syndicates.

The London coverage, placed by Alexander Howden Ltd., is led by British Aviation Insurance Group, according to a source. A BAIG spokesman would confirm only that the company participates on the coverage.

• CIGNA Corp. of Philadelphia.

• Aero Assurance Ltd.

Comparable accounts from crash survivors about the airplane's engine problems are helping investigators piece together what went wrong.

An 8-inch stub is all that remains of one of four 5-foot blades on the propeller unit driven by the airplane's left engine, according to a spokesman for the National Transportation Safety Board in Carrollton, Ga.

Based on survivors' accounts, investigators believe the blade broke off in mid-flight due to metal fatigue.

The Embraer 120, which the Federal Aviation Administration certified for use in the United States in July 1985, is designed to fly on one engine. But, at about the same time the blade broke off, an explosion detached the propeller unit from the engine and lodged it onto the front edge of the left wing, according to survivors' accounts.

If that occurred, the airplane's design would have been significantly reconfigured, making flying difficult, the NTSB spokesman said. "If that in fact did happen, it certainly would have created a lot of drag for that side."

The same blade was removed from the propeller unit last year after a sound test during an FAA-directed test indicated that "an anomaly" existed, the NTSB spokesman said. However, there was no visible problem with the propeller blade.

The blade was shipped back to its manufacturer, Hamilton Standard Co. of Windsor Locks, Conn. The United Technologies Corp. subsidiary later returned the blade to the airline, which reinstalled it on the propeller unit in August 1994, the NTSB spokesman said. The blade had logged about 2,400 hours of flight time since, he said.

The NTSB late last week was focusing on, among other things, how Hamilton serviced the blade and the tools that were used to remove and reattach the blade.

A Hamilton spokeswoman, citing the crash investigation, would not discuss how the company serviced the blade.

Pratt-Whitney Canada Inc. of Montreal, another United Technologies subsidiary, built the airplane's engines.

In April 1992, the NTSB determined that "the deficient design of the propeller control unit" manufactured by Hamilton contributed to the crash of another ASA Embraer 120 airplane a year earlier. That crash in Brunswick, Ga., killed all 23 passengers and crew, including John Tower, a former U.S. Senator from Texas.

The FAA in 1992 and in 1994 ordered various design and inspection changes for the propeller unit.

Aviation authorities did not cite the Pratt-Whitney engines in the 1991 crash, but both Pratt-Whitney and Hamilton were sued by victims' families. Both companies say they have settled all of that litigation.

Last week's crash will not have a "great deal of effect" on hull and liability insurance rates when most airlines begin renewing their programs in October, according to Philip Tuite-Dalton, managing director of Willis Corroon Aerospace in London.

"U.S. liability rates are going up anyway" as a result of last year's string of losses, he said. During July airline renewals for fleets valued at more than $100 million, liability rates worldwide rose 10% on average, and hull rates increased 6% on average, according to a Willis Corroon Aerospace news brief.

Still, last week's crash highlights the "volatility" of the U.S. commuter airline loss record, Mr. Tuite-Dalton said. Underwriters already have become "very, very wary" about insuring commuter

See **ASA** *on next page*

Updates

DuPont to appeal Benlate fine

Continued from page 2
employees nor any of the company's attorneys ever concealed or withheld any data illegally or inappropriately," the company said.

DuPont also is appealing $23.8 million in sanctions imposed by a Hawaii jury that found that DuPont, through its outside lawyers at Alston & Bird of Atlanta, pressured a lab to change the results of tests performed on the plaintiffs' soil samples in the original Georgia case (*BI*, Jan. 23).

OSHA adopts new programs

WASHINGTON—The Occupational Safety and Health Administration plans early next month to issue final versions of six new policies that could lower penalties for many employers found liable for minor OSHA violations.

The six policies, part of OSHA's plan to "reinvent" itself, include a so-called quick fix program. Under that program, if an employer corrects an alleged violation during an inspection, the penalty could be cut by 25%. Another policy will eliminate citations for certain minor paperwork violations. Yet another change will implement a program of "focused inspections," under which OSHA will concentrate its enforcement efforts on the biggest dangers in the most hazardous industries.

The other directives provide for: reducing fines by as much as 80% for certain violations, with reductions based on an employer's overall safety record; relaxing requirements for certain written certifications concerning safety standards; and reducing penalties for some violations committed by employers with fewer than 250 employees.

The final versions are expected to take effect Oct. 2.

Lloyd's profits predicted

LONDON—Lloyd's of London will post profits of £970 million ($1.44 billion) for 1993, independent Lloyd's analyst Chatset Ltd. of London predicted last week.

That estimate is up from the £800 million ($1.18 billion) Chatset predicted for 1993 a year ago. The £970 million profit would represent an 11% return on stamp capacity.

Chatset expects the 1994 year of account to produce even bigger profits, at just more than £1 billion ($1.57 billion), though the return on stamp capacity would be about 9.5%. Chatset attributes the lower return to the unexpected increase in capacity from the entry of corporate capital and continuance of unlimited liability names in 1994.

The syndicate analyst warned, though, that profits on both these years would be reduced by the special levy Lloyd's intends to impose as part of its reconstruction and renewal plan.

Meanwhile, Lloyd's last week reported that its first capacity auctions saw £246 million ($381.3 million) in capacity change hands at a total value of £4.2 million ($6.5 million).

During the auction period, participation in 99 of the 170 syndicates operating this year were traded by members, and approximately 8,250 offers to buy or sell places on syndicates were made.

Hurricane danger slim for now

MIAMI—As Hurricane Humberto and Tropical Storm Iris made their way across the Atlantic toward the Caribbean late last week, Tropical Storm Jerry weakened to a tropical depression Aug. 24 after dumping more than 10 inches of rain on some areas of Florida.

While forecasters indicated Jerry could strengthen to a storm again as it passed over the Gulf of Mexico and could strike the Florida panhandle, they were unsure whether Humberto and Iris would hit land.

Meanwhile, the estimate of insured property damage resulting from Hurricane Erin earlier this month remains at $375 million, according to the Property Claims Service of the American Insurance Services Group Inc. in Rahway, N.J. The PCS has not assigned a catastrophe number to Hurricane Felix, which never hit Bermuda or the East Coast of the United States with full force (*BI*, Aug. 21).

Briefly noted

The Pension Benefit Guaranty Corp. and **James River Corp.** have reached an agreement under which the manufacturer will guarantee the pensions of workers who will become employed by a new company—Crown Vantage Inc.—when James River finishes spinning off most of its communications paper operations. . . .Omaha-based Berkshire Hathaway Inc. has offered to buy the remaining 49% it does not own of **Government Employees Insurance Co.** for $70 a share, or approximately $2.3 billion. . . .A.M. Best Co. has given A ratings to **X.L. Insurance Co. Ltd.** in Bermuda and X.L. Europe Insurance in Dublin, Ireland. It is the first time that Best has rated the excess liability insurers. . . .**David Saul**, the former finance minister of Bermuda, was sworn in as premier last Friday following his election to the leadership of the governing United Bermuda Party by UPB members of Parliament. Mr. Saul succeeds John Swan, who resigned after a referendum vote against independence from Britain (*BI*, Aug. 21). . . .Chase Manhattan Corp. has closed a $1 billion syndicated credit facility for the **Florida Windstorm Underwriting Assn.**, the residual market provider of insurance coverage on commercial and residential property in the state. Chase arranged the lending syndicate, which included 27 other banks. The facility will be used to finance claims incurred as result of windstorms, hurricanes, tornadoes and other covered events. . . .Seven defendants charged with running a nearly four-year investment scam that drained more than $13 million from the **Chicago Housing Authority's pension funds** will stand trial in U.S. District Court in Chicago Nov. 6. All seven defendants have pleaded not guilty to the charges. A federal grand jury on Aug. 15 issued new indictments in connection with the alleged fraud but did not name John Lauer, the CHA's former director of risk management and benefits.

Tax ruling

Continued from page 1

In *Humana*, the 6th Circuit court observed that the company had formed the captive when it was unable to obtain coverage from the standard market, while Malone & Hyde formed its captive to reduce its insurance costs, he said.

In its decision, a three-judge panel of the 6th Circuit said its primary reason for denying the deduction for Malone & Hyde was because its captive arrangement was a "sham."

It is not known whether Malone & Hyde will seek a hearing before the full court. Attorneys for the company did not return phone calls.

Malone & Hyde formed Eastland in 1977 to reinsure workers comp, auto and general liability coverage written for itself and its subsidiaries. Eastland was capitalized at $120,000, the minimum required by Bermuda law.

Milwaukee-based Northwestern National Insurance Co. served as Malone & Hyde's primary insurer, with Eastland reinsuring the first $150,000 in coverage per claim. Under terms of the reinsurance agreement, executed in July 1978, Eastland provided Northwestern National with an irrevocable letter of credit in the amount of $250,000 to cover any amounts unpaid under the reinsurance agreement.

But at the time, Eastland had no assets other than its paid-in capital of $120,000.

The letter of credit was amended in February 1980 to increase the amount to $600,000.

Malone & Hyde also executed hold harmless agreements to Northwestern National that guaranteed the captive parent would shield the primary insurer from any liability should Eastland default on its obligations as a reinsurer.

Despite the letters of credit and hold harmless agreements, Malone & Hyde argued that because the risk of loss was shifted away from its subsidiaries' assets, premiums paid by those subsidiaries constituted valid insurance payments, deductible as business expenses on the consolidated tax returns.

But after an audit, the Internal Revenue Service disagreed and denied the tax deduction. On appeal, the U.S. Tax Court reversed and directed a recomputation of the corporation's income tax liability for the years in question.

The Aug. 18 ruling overturns the Tax Court's decision and reinstates the IRS's first judgment.

In explaining its 1941 decision, the court observed that "the U.S. Supreme Court in *Helvering vs. Le Gierse* established a test for identifying insurance for federal income tax purposes."

Under the *Le Gierse* test, which was also used in *Humana*, unless the transaction involves both risk shifting (from the policyholder's perspective) and risk distribution (from the insurer's perspective), it is not insurance for purposes of the Internal Revenue Code, according to that decision.

"Risk shifting involves the transfer from the insured to the insurer of one or more risks that present uncertainty," the 6th Circuit said.

But the court also suggested that Malone & Hyde's captive was formed primarily for tax avoidance since the parent company was able to obtain insurance in the standard market.

"The court in *Humana* also applied the *Le Gierse* analysis, but only after analyzing whether Humana's Colorado captive served a legitimate business purpose," the court wrote.

"In contrast to the situation in Humana, Malone & Hyde had no problems obtaining insurance from an unrelated insurance carrier," the court said. "Humana, a hospital chain with enormous risk exposure, found itself without coverage when its insurance was canceled. It faced an obvious dilemma and acted in a legitimate manner in seeking to find an answer."

"Malone & Hyde was not responding to any such crisis when it created Eastland. Rather, it departed drastically from the norm, and without any legitimate reason, devised the circuitous scheme for realizing tax deductions heretofore described," the court said.

And, Humana created HCI as a fully capitalized insurer under Colorado law, subject to regulatory control of that state's insurance commission. In contrast, Eastland undertook to reinsure the first $150,000 of each claim against Malone & Hyde while operating on the "extremely thin" minimum capitalization required by Bermuda law, the 6th Circuit said.

"The record does not indicate that Bermuda exercised oversight similar to that which Colorado exercised over Humana's captive insurer," the court said. In conclusion, "we believe the Tax Court put the cart before the horse in this case. . . .It should have determined first whether Malone & Hyde created Eastland for a legitimate business purpose or whether the captive was in fact a sham corporation."

"While a taxpayer is free to arrange its financial affairs to minimize his tax liability, the establishment of a tax deduction is not, in and of itself, an otherwise bona fide transaction if the deduction is accomplished through the use of an undercapitalized foreign insurance captive that is propped up by guarantees of the parent corporation," the court said.

"The captive in such a case is essentially a sham corporation and the payments to such a captive that are designated as insurance premiums do not constitute a bona fide business expense, entitling the taxpayer to a deduction."

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Malone & Hyde Inc. and Subsidiaries vs. Commissioner of Internal Revenue, 6th U.S. Circuit Court of Appeals, No. 94-1607; Aug. 18, 1995.

ASA crash

Continued from previous page

airlines and are considering covering them separately from major airlines' hull and liability insurance programs, Mr. Tuite-Dalton said.

In 1994, the accident rate for commuter airplanes was 0.097 per 100,000 departures, just about double the 0.049 rate for large airlines, according to the NTSB. Commuter airlines' safety record is worse than large airlines' every year—and often much more so than last year's record, according to NTSB records.

The FAA, though, defines commuter airplanes as those planes with 30 or fewer seats, while insurers often consider planes with as many as 60 or so seats to be commuter airplanes.

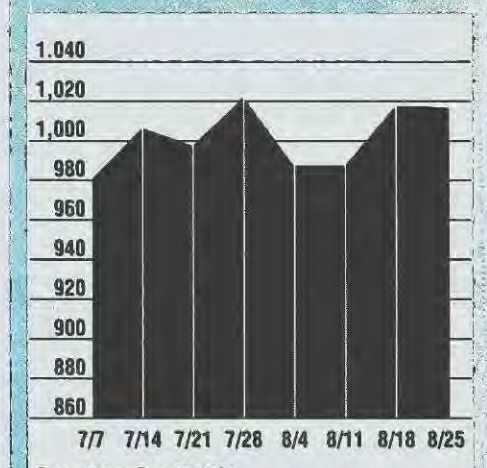
But, Bill Behan, president of aviation broker AirSure Ltd. of Golden, Colo., does not believe underwriters will end commuter airlines' piggyback coverage for two reasons.

First, he believes the market is too competitive to end that arrangement.

Second, the market should be able to generate a significant profit by increasing liability rates 10% to 15% without ending the piggyback arrangement, because losses have been so low this year.

Before the ASA crash, major airline losses in 1995 had totaled around $150 million, a substantial drop from $800 million at this time in 1994, according to Willis Corroon's news brief. BI

BI Insurance Index



Base=100 on Dec. 29, 1978
Source: Nordby International Inc.

Catastrophe insurance option call spreads

As of Aug. 25

Call spread	Price bid/ask	Rate on line %	Call spread	Price bid/ask	Rate on line %
Eastern September 1995			Eastern September 1995		
45/65	—/7	—/35	45	12/20	7.7/12.9
50/70	2.5/5	12.5/25	50	9/14	6/9.3
60/80	—/5	—/25	60	6.9/14.9	4.9/10.6
50/80	—/8.4	—/28	70	7/11	5.3/8.5
100/120	1.4/2.2	7/11	20p	—/5	
			50p	19/—	

Total volume: 99 Total open interest: 2,477

For quotes, call the CBOT trading floor at 312-341-3342. For general information, call 312-435-3674.

British Issues

Aug. 24 Companies	Price pence	P/E	Div. pence	Yield %	1 week high—low
Commi Union	606	12.1	33.0	5.4	618—606
Genl Accident	618	9.1	36.3	5.9	626—618
Gdn Royal Exch	219	N/M	10.3	4.7	225—218
Independent	343	9.5	11.9	3.5	343—342
Royal	347	6.6	15.0	4.3	348—346
Sun Alliance	353	11.9	19.7	5.6	353—350
Brokers					
Bradstock	55	6.2	7.1	12.9	55—55
Fenchurch	146	10.2	10.0	6.8	146—145
CE Heath	196	12.3	20.0	10.2	203—196
JIB Group	124	10.8	9.4	7.6	124—124
Lloyd Thmpson	159	11.0	9.8	6.2	161—159
Lowndes Lmbrt	169	9.4	10.3	6.1	174—169
Nelson Hurst	149	11.6	8.3	5.6	150—145
PWS Holdings	16	N/M	0.8	5.0	16—16
Sedgwick Grp	129	11.7	8.1	6.3	132—129
Steel Bri Jones	93	10.9	11.3	12.1	98—93
Willis Corroon	139	N/M	8.3	6.0	146—139

Source: Philip Olsen, London

BI Industry Stock Report AUG. 21, 1995, THROUGH AUG. 25, 1995

		Price	Weekly % change	Year to date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt./Bk. value
BROKERS												
Acordia Inc.	NYS	27.5	-2.22	-17.91	34.50	26.00	28	0.72	2.62	13	14.00	1.96
Alexander & Alexander	NYS	23.375	1.08	26.35	26.44	18.50	184	0.1	0.43	-11	19.17	1.22
E.W. Blanch Holdings Inc.	NYS	18.25	2.10	-11.52	23.00	16.50	148	0.4	2.19	15	1.40	13.04
Gallagher Arthur J. & Co.	NYS	37	-1.00	15.63	38.00	29.63	19	1	2.70	16	6.48	5.71
Hilb, Rogal & Hamilton	NYS	12.875	-0.96	6.19	13.38	10.50	354	0.56	4.35	16	1.21	10.64
Marsh & McLennan	NYS	81	3.02	2.21	86.00	71.50	728	2.9	3.58	15	19.95	4.06
Poe & Brown	NDQ	24.25	1.04	11.49	25.25	19.50	639	0.48	1.98	15	5.15	4.71
BROKERS	AVERAGE		0.4	4.6					2.5	11		
INSURERS/REINSURERS												
ACE Ltd.	NYS	30.125	0.42	28.88	31.38	20.75	203	0.00	0.00	0	22.45	1.34
Acceptance Insurance Cos.	NYS	15.625	-0.79	4.17	18.00	12.63	142	0.00	0.00	11	10.76	1.45
AEGON N.V.	NYS	34.375	-4.51	35.33	37.25	22.13	202	1	2.91	13	17.28	1.99
Aetna Life & Casualty	NYS	63.5	1.60	34.75	64.88	43.13	1220	2.76	4.35	47	48.85	1.30
AFLAC Inc.	NYS	39.25	-3.09	22.66	44.75	31.63	1987	0.52	1.32	12	17.58	2.23
Allied Group Inc.	NDQ	29.625	3.04	19.70	31.00	22.00	123	0.68	2.30	7	21.81	1.36
Allmerica Prop. & Casualty	NYS	24	2.67	42.22	24.13	14.63	164	0.16	0.67	10	19.87	1.21
Allstate Corp.	NYS	32.625	3.98	37.37	33.38	22.63	5079	0.78	2.39	10	18.75	1.74
American Financial Group	NYS	28.625	6.02	36.31	28.88	22.00	553	1	3.49	318	24.94	1.15
American General	NYS	34.625	0.00	22.57	36.88	25.63	1427	1.24	3.58	13	17.03	2.03
American Heritage Life Ins.	NYS	20.125	1.26	5.92	21.50	16.25	22	0.72	3.58	11	12.51	1.61
American Indemnity/Fin'l	NDQ	10	5.26	-1.23	12.75	9.00	11	0.3	3.00	6	15.92	0.63
American International	NYS	78.75	2.77	-19.64	79.75	58.50	2806	0.34	0.43	16	34.66	2.27
American Re Corp.	NYS	37.5	5.63	16.28	39.88	25.50	195	0.32	0.85	15	16.77	2.24
Aon Corp.	NYS	38	2.36	18.75	39.00	29.25	386	1.36	3.58	12	18.30	2.08
Argonaut Group	NDQ	30.25	0.83	7.08	32.50	27.50	23	1.32	4.36	11	29.91	1.01
AVEMCO Corp.	NYS	16.125	3.20	4.88	18.25	13.38	36	0.48	2.98	14	6.28	2.57
Baldwin & Lyons Inc.	NDQ	15.375	0.82	4.24	17.63	14.50	127	0.32	2.08	12	13.90	1.11
Berkley W.R. Corp.	NDQ	39.125	0.64	4.33	40.50	32.50	317	0.48	1.23	19	34.46	1.14
Berkshire Hathaway Inc.	NYS	25400	1.20	24.51	25500.00	18200.00	1	0.00	0.00	60	10089.11	2.52
Capital RE Corporation	NYS	28.5	3.64	4.11	28.50	20.50	47	0.2	0.70	10	22.30	1.28
Capsure Holdings Corp.	NYS	14	0.90	-4.27	14.88	12.13	41	0.00	0.00	13	14.61	0.96
Chubb Corp.	NYS	90.5	2.12	16.96	90.50	57.00	930	1.96	2.17	13	48.92	1.85
CIGNA Corp.	NYS	93.5	3.31	46.95	93.50	59.00	1219	3.04	3.25	8	80.46	1.16
CNA Financial Corp.	NYS	94.25	0.67	45.28	94.25	60.75	83	0.00	0.00	11	71.13	1.33
EMC Insurance Group Inc.	NDQ	13.25	0.00	39.47	13.25	8.75	19	0.52	3.92	8	11.13	1.19
Emphesys Financial Gr. Inc.	NYS	36.25	-0.34	14.17	39.50	22.63	204	0.6	1.66	10	17.69	2.05
EXEL Ltd.	NYS	54.125	0.46	37.03	54.50	36.88	870	0.00	0.00	0	31.47	1.72
Fremont General Corp.	NYS	27.25	-1.36	16.58	28.75	18.88	76	0.8	2.94	8	19.04	1.43
Frontier Insurance Group	NYS	29.625	2.60	35.43	33.75	16.75	34	0.48	1.62	22	14.65	2.02
Gainsco Inc.	ASE	9.125	0.00	10.61	11.00	7.75	291	0.04	0.44	12	3.98	2.29
General RE Corp.	NYS	147.375	3.24	19.33	147.38	104.50	582	1.96	1.33	16	59.35	2.48
Guaranty National Corp.	NYS	16.375	-0.76	-10.88	19.00	15.13	268	0.5	3.05	9	11.60	1.41
Harleysville Group	NDQ	25	0.00	3.09	26.50	20.25	67	0.76	3.04	9	20.72	1.21
Hartford Steam Boiler	NYS	45.5	1.68	14.11	46.00	35.88	144	2.28	5.01	17	14.68	3.10
HCC Insurance Holdings	NYS	30.375	-1.22	44.64	32.25	18.50	63	0.00	0.00	17	11.76	2.58
ITT (Hartford Group)	NYS	120.875	3.09	36.39	121.88	77.00	1973	1.98	1.64	6	45.46	2.66
Lincoln National	NYS	41.5	2.79	18.57	46.25	34.63	953	1.72	4.14	11	28.90	1.44
Markel Corp.	NDQ	67	-2.19	61.45	69.50	40.25	42	0.00	0.00	16	25.71	2.61
Mid Ocean Ltd.	NDQ	32	-1.92	17.43	34.63	22.25	288	0.00	0.00	0	22.18	1.44
Mutual Risk Mgmt. Ltd.	NYS	38	4.83	44.76	38.00	24.38	127	0.32	0.84	19	9.72	3.91
NAC Re Corp.	NDQ	35.75	-1.04	6.72	37.25	24.25	86	0.2	0.56	14	18.23	1.96
National Re Corp.	NYS	32	0.00	21.90	34.38	22.25	116	0.16	0.50	18	17.05	1.88
Navigators Group	NDQ	13.5	-5.26	-6.90	19.75	12.75	77	0.00	0.00	96	10.21	1.32
Nobel Insurance Ltd.	NDQ	11.875	6.74	43.94	11.88	8.00	33	0.00	0.00	0	6.84	1.74
Ohio Casualty Corp.	NDQ	32	1.19	13.27	34.25	27.00	138	1.52	4.75	13	23.64	1.35
Old Republic Int'l	NYS	27.375	0.46	28.82	27.63	18.88	137	0.52	1.90	10	25.79	1.06
Orion Capital Corp.	NYS	41.125	0.30	16.67	42.50	28.13	93	0.8	1.95	9	26.00	1.58
Partner Re Ltd.	NDQ	28	7.69	34.94	28.00	18.50	1117	0.00	0.00	0	20.37	1.37
Penn-America Group Inc.	NDQ	10.75	2.38	45.76	11.25	6.50	20	0.12	1.12	11	6.40	1.68
Philadelphia Cons. Holding	NDQ	17.25	1.47	40.82	17.25	10.88	9	0.00	0.00	16	9.05	1.91
Phoenix RE Corp.	NDQ	25	0.00	-11.50	29.00	21.00	168	0.6	2.40	4	21.27	1.18
Provident Life	NYS	26	5.58	19.54	29.88	20.50	144	0.72	2.77	12	22.34	1.16
Reliance Group Holdings	NYS	7.625	8.93	46.99	7.75	4.88	1188	0.32	4.20	11	3.42	2.23
Reliastar Financial Corp.	NYS	37.375	-2.29	28.88	39.63	27.00	276	1	2.68	10	24.53	1.52
RLI Corp.	NYS	22.375	2.29	36.43	23.63	16.00	112	0.52	2.32	11	20.51	1.09
St. Paul Companies	NYS	50.75	2.53	13.41	51.88	39.38	1098	1.6	3.15	9	32.46	1.56
SAFECO Corp.	NDQ	60.625	2.11	16.59	60.63	47.13	910	2.12	3.50	11	44.95	1.35
SCOR U.S. Corp.	NYS	11.5	8.88	37.31	12.00	7.50	51	0.2	1.74	15	13.60	0.85
Seibels Bruce Group	NDQ	0.9375	7.14	-62.50	3.50	0.75	47	0.00	0.00	0	0.04	23.44
Selective Ins. Group	NDQ	32.75	0.77	29.70	33.75	23.50	153	1.12	3.42	10	23.23	1.41
Sohere Drake Holdings	NYS	17.375	5.30	25.23	17.38	10.75	73	0.00	0.00	0	13.86	1.25
T G Holdings	NYS	25	-0.50	33.33	25.50	17.00	492	0.2	0.80	19	16.62	1.50
Titan Holdings, Inc.	NYS	13.75	2.80	41.03	13.88	8.25	32	0.3	2.18	10	9.04	1.52
Tokio Marine & Fire	NDQ	59.75	0.00	-1.65	63.63	49.88	11	0.4	0.67	52	57.72	1.04
Torchmark Corp.	NYS	39.25	1.29	13.77	44.50	32.38	466	1.16	2.96	10	17.37	2.26
Transatlantic Holdings	NYS	69.5	0.36	24.38	70.13	47.75	77	0.4	0.58	13	33.30	2.09
Transnational Re Corp.	NDQ	22.75	1.68	-3.19	24.00	18.75	19	0.00	0.00	7	18.84	1.21
Travelers Corp.	NYS	49.375	4.77	52.51	49.38	30.38	2418	0.8	1.62	12	24.77	1.99
Tranwick Group Inc.	NDQ	47.125	0.53	11.21	47.75	36.50	110	1.12	2.38	12	29.23	1.61
United Fire & Casualty	NDQ	35.25	4.44	27.41	37.00	26.38	9	0.8	2.27	10	28.96	1.22
Unitrin	NDQ	47.5	-1.04	10.47	51.50	41.50	326	2	4.21	13	37.51	1.27
UNUM Corp.	NYS	47.375	0.00	25.50	50.00	35.13	549	1.06	2.24	23	26.45	1.79
US Facilities Corp.	NDQ	18.5	2.78	85.00	18.75	9.13	530	0.2	1.08	13	11.66	1.59
USF&G Corp.	NYS	17.75	-0.70	31.48	18.13	12.63	2559	0.2	1.13	8	10.86	1.63
USLIFE Corp.	NYS	42.875	-0.87	22.94	44.25	30.88	246	1.4	3.27	10	38.45	1.12
Washington National	NYS	22.125	-0.56	16.45	23.25	17.75	70	1.08	4.88	9	25.13	0.88
Zenith National Ins.	NYS	22.75	0.55	0.00	27.38	19.38	60	1	4.40	12	16.35	1.39
Zutich Reinsurance Centr.	NYS	29.75	0.42	3.03	30.88	25.00	23	0.00	0.00	-41	21.64	1.37
INSURERS/REINSURERS	AVERAGE		1.6	21.4					2.0	17.7		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	NDQ	24.25	-3.96	-5.83	31.00	19.50	1453	0.00	0.00	13	28.15	0.86
Humana Inc.	NYS	18.375	-3.29	-18.78	27.13	17.00	9458	0.00	0.00	16	6.56	2.80
Pacificare Health Sys.	NDQ	54	-0.46	-17.08	79.50	44.50	456	0.00	0.00	16	15.02	3.60
Safeguard Health Enter.	NDQ	11.875	10.47	28.38	12.38	8.25	107	0.00	0.00	70	6.15	1.93
Sierra Health Services	NYS	26.875	0.47	-15.02	33.63	22.13	353	0.00	0.00	15	9.22	2.91
United Healthcare Corp.	NYS	41.75	-4.84	-7.48	55.38	34.13	7105	0.03	0.07	21	16.17	2.58
U.S. Healthcare	NDQ	32	-3.40	-22.42	49.00	26.50	4617	1	3.13	13	5.66	5.65
Wel point Health Networks	NYS	30.125	3.88	3.43	37.00	24.75	304	0.00	0.00	14	14.26	2.11
HMOs	AVERAGE		-0.1	-6.9					0.4	20		
ALL COMPANIES	AVERAGE		0.6	6.4					2.2	20		

Top advancing issues: Safeguard Health Enter.; Reliance Group Holdings; SCOR U.S. Corp. Leading decliners: Navigators Group; United Healthcare Corp.; AEGON N.V. Most active issue: Humana Inc. The BI Index rose 1.9%; the Dow Jones 30 Industrials fell 0.3%; the S&P 500 increased 0.9% and the NYSE Composite gained 1.0%.

System design: Nordby International Inc.

GICs

Continued from page 1

change in the political climate," he added.

"The philosophy of the superintendent is that if we can assist business and insurance companies in the state to compete, we should be doing that," said a spokesman for the New York insurance department.

An estimated 30% to 40% of new investment in stable value funds is now made in synthetic GICs, which is the fastest growing segment of the $200 billion-$300 billion stable value market, according to market observers.

Until now, these instruments have been largely offered by investment managers, banks and other financial institutions, as well as by some insurers outside New York.

Insurers, including Metropolitan Life Insurance Co., Aetna Life Insurance Co., New York Life Insurance Co. and a unit of Prudential Insurance Co. of America, indicate they are eager to explore becoming involved in the growing synthetic GIC market.

Plan sponsors as well as plan consultants generally say they welcome the change.

"It gives me as a plan sponsor the ability to buy more competitive products from a wider universe of issuers," said Donald Butt, manager of trust investments for telecommunications company US WEST Communications Inc. in Denver, who said he welcomed the insurance superintendent's decision.

"I think it's a very positive change," said Mike Wyatt, portfolio manager-savings plans, for E.I. du Pont de Nemours & Co. in Wilmington, Del.

"It's certainly going to expand the universe of providers in the industry. I view that very favorably," he said.

"It's long overdue," commented David Kaiser, vp of retirement benefits and investments for Nestle USA Inc. in Solon, Ohio. Many companies, especially those with a large amount of 401(k) plan assets in stable value funds, are becoming concerned about the risks inherent in placing their funds with insurance companies, said Mr. Kaiser.

They "are looking for ways to segregate the company's savings plan assets from the general assets of the insurance companies, and I think many companies are looking for synthetic vehicles to do that," he said.

"We're certainly looking in that area to increase our portfolio in synthetics and some other vehicles," Mr. Kaiser said. Obviously the more options that are available, the more competitive the market, which leads to better rates, he said.

The decision is "a very positive sign and will make the market more competitive and allow more diversification because most of the higher-quality companies are licensed in New York, so they've been precluded from writing these wrappers before," said Bruce Vane, senior vp with San Francisco-based Certus Assets Advisers.

Others agree the entry could make rates of return for synthetic GICs more competitive.

"I think you're going to find that some companies will be very competitive" because they are looking to just get into the market hoping they will make a profit somewhere "down the road," said Kevin Maloney, vp and director of research for Fiduciary Capital Management, based in Woodbury, Conn.

Those entities that have been able to participate in the synthetic market to the exclusion of New York insurers are "going to feel the heat of a little bit more competition, and it's probably a good thing for the consumer," said Mike Zarcone, assistant vp for Metropolitan Life Insurance Co.

However, Sandy Koeppel, vp-issues management, for Prudential Asset Management Group in Newark, N.J., said, "I think that every issuer needs to evaluate the risk and determine what they need to do to price the product appropriately, so I don't see it having any major impact on rates."

Some observers question how big an impact the New York insurers will even have in this area.

"I think adding the New York insurers as synthetic providers might be adding a little more to the competition in terms of knocking the prices down a little bit more, but not significantly. I think the dominating firms in the synthetics right now are going to remain the asset managers and the banks," said Richard Cowan, a principal with Brentwood Asset Advisers in Santa Monica, Calif.

Carl J. Gedeon, manager-pensions investments, with Cleveland-based B.P. America Inc. questioned whether the insurers are even needed in the market.

"You've got a tremendous number of fixed-income managers out there that have excellent track records in terms of managing a variety of different sectors of fixed income and I'm not sure the insurance companies have any more expertise than the existing fixed income managers, so it's really going to be a case of already having quite a few managers to choose from," explained Mr. Gedeon.

However, James Hiner, a principal with William M. Mercer Inc. in Chicago, said, "the insurance companies are the ones who historically have been pretty ingenious about coming up with different types of products."

The New York superintendent's decision creates a level playing field, which is healthy for the market, Mr. Hiner said.

"I think it's going to have a positive influence on the market," he said.

Meanwhile, California Gov. Pete Wilson signed legislation Aug. 10 authorizing California-domiciled life insurance companies to issue synthetic GICs in California.

John Carlson, assistant vp and pensions investments attorney for Newport Beach, Calif.-based Pacific Mutual Life Insurance Co., said the company had stopped writing the business a year ago when the California department said it did not believe insurers were authorized to issue synthetics under current law.

The department supported the unanimously approved legislation, noted Mr. Carlson. He said that Pacific Mutual plans to reenter the market for synthetic GICs.

DuPont's Mr. Wyatt said the California legislation will have a lesser impact than the New York regulatory action, "because there are probably fewer major players in California. New York is the big state for insurance GICs." BI

Mixed views on GIC decision

Benefit managers, competitors split on need for new product

NEW YORK—While plan sponsors welcome New York's decision to permit financial guarantee insurers to back guaranteed investment contracts issued by life insurance companies, some observers question whether there is a market for these GICs and how competitively priced they would be.

New York Insurance Superintendent Edward J. Muhl issued his decision, which would permit financial guarantee insurers to confer their AAA rating on lower-rated GIC contracts, in an Aug. 17 letter. All but two of the nation's financial guarantee insurers are based in New York state.

Financial guarantee insurer MBIA Inc., based in Armonk, N.Y., had sought unsuccessfully to have legislation passed that would permit financial guarantee insurers to back GICs. Opponents of the legislation included some highly rated life insurers that would face new competition from the financial guarantee companies (*BI*, May 9, 1994).

Several plan sponsors say they welcome financial guarantee insurers' involvement in the market.

"In the past, anyway, when we've gone with traditional GICs, quality was always the first consideration. If we could be assured that a smaller company would be wrapped by a high-quality carrier, it would certainly increase our comfort level," said David Kaiser, vp of retirement benefits and investments for Nestle USA Inc. in Solon, Ohio. "We would consider looking at that company."

"I think that's probably. . .a valuable addition to the marketplace," said Donald Butt, manager-trust investments for US West Communications Inc. in Denver.

"I would certainly welcome that if it increases the competition, I guess, and the supply on the GIC side," said Carl J. Gedeon, manager-pensions investments at Cleveland-based B.P. America Inc.

But, Daniel Gross, president and CEO of New York-based Enhance Financial Services Group Inc., which operates financial guarantee reinsurer Enhance Reinsurance Co., questioned whether there is sufficient demand for the product.

A few years ago, with the insolvency of Mutual Benefit Life Insurance Co., "GIC holders were very concerned, to put it mildly, about the solvency of major life insurance companies," so there was a strong demand for financial guarantee insurers to guarantee GICs.

However, "I think that concern has considerably ameliorated over time and clearly the demand is not what it was," and it is hard to tell whether there will even be much activity in this area, said Mr. Gross.

Some observers also question whether the product could be competitively priced by the financial guarantee insurers.

"The last thing they want to do is jeopardize their AAA ratings, so it remains to be seen how attractive or how competitive they will be in this area," said Brian Clark, a consultant with A. Foster Higgins & Co. Inc. in Princeton, N.J.

Are you better off enhancing the credit of a lower-rated insurance company and indirectly paying the cost or dealing with a higher-rated insurer to begin with? asked Murray Becker of Becker & Rooney in Teaneck, N.J., a GIC consultant. "The marketplace in effect will sort that issue out," he said.

"We think there's definitely room for this type of product," said Pat Brosnan, vp at MBIA. If the financial guarantee insurers add value and price it effectively, "it will definitely sell," she said.

Officials of New York-based financial guarantee insurers Financial Guaranty Insurance Co. and AMBAC Indemnity Corp. said they plan to explore opportunities in the market.

—By Judy Greenwald

Union

Continued from page 2

a $50 copayment for outpatient surgery and emergency room visits that do not require a hospital stay and a $100 copayment for each hospital admission, up to a $300 limit.

Retirees also have access to the POS plan, which started in 1991, but they have not been offered the new covered services. But, as part of the proposed agreement, retirees will pay no premiums for the health care plan until at least 2002.

Other benefit changes include:

- An increase in the company's 401(k) plan match to 70% of an employee's contributions from 66.66%., beginning Jan. 1, 1997.
- A 12% increase in monthly pension benefits for current employees.
- A higher cap and increased coverage for the 10 most common dental restorative procedures.
- A renewed commitment to work/family benefits, including a new adoption assistance program and the implementation of a Family and Work Development Fund.

The deals, subject to member ratification by Sept. 29, cover: US West Communications Inc. and 33,000 CWA workers; US West Business Resources Inc., US West's procurement, warehousing and fleet management organization, and 2,000 CWA employees; and US West Communications Inc. and 500 IBEW workers.

Wage increases differ between the deals, ranging from 10.4% to 10.6% over three years and signing bonuses range from $700 to $1,500.

Bell Atlantic proposed a third contract offer to CWA negotiators on Aug. 15 and remains in negotiations.

CWA workers and Philadelphia-based Bell Atlantic have been working without a contract since Aug. 5.

"This proposal provides an innovative combination of competitive benefits and wages, significant compensation, employment security, broadband work guarantees and the potential for new union work," said Al Koeppe, the Bell Atlantic executive in charge of bargaining.

The proposal, which union leaders are considering, includes more preventive/wellness coverage in the standard managed care plan; increased pensions, profit-sharing and adoption assistance; and dental and managed prescription plans. BI

UFGI

Continued from page 2

in premiums; and Cortese & Associates, another New York wholesaler owed $500,000 in premiums.

The filing also lists more than a dozen other creditors, among them several insurers owed hundreds of thousands of dollars in premiums. These include Kemper Insurance Co., Gerling America Insurance Co., Zurich Insurance Group, ITT Hartford Group Inc., Fireman's Fund Insurance Cos. and General Accident Insurance Co. of America.

Other creditors include Delta Management Ltd., the manager of an inactive UFGI underwriting affiliate in the Cayman Islands, owed $160,000; National Restaurants Inc., a New York-based client owed $100,000 in premiums; and UFGI's current New York landlord, owed $67,395 in unpaid rent.

The bankruptcy filing only covers UFGI and does not include parent company UFG, which was publicly traded until its stock was delisted by the American Stock Exchange earlier this month.

Also not covered are certain other UFG units, including White House Agency Inc., a life and employee benefits unit, according to Mr. Miller.

Mr. Miller said he does not know if the filing includes International General Insurance Co., the Cayman underwriting unit.

The filing lists more than a dozen other creditors, including insurers owed hundreds of thousands of dollars in premiums.

Earlier this year, International General defaulted on a $1.4 million promissory note it issued to Reliance Group Holdings Inc. after it commuted several reinsurance treaties with Reliance units. The promissory note was guaranteed by UFG and secured with UFG stock.

Meanwhile, Mr. Miller's affidavit also reports that "certain accounting records of UFGI are in the possession of the U.S. Department of Justice."

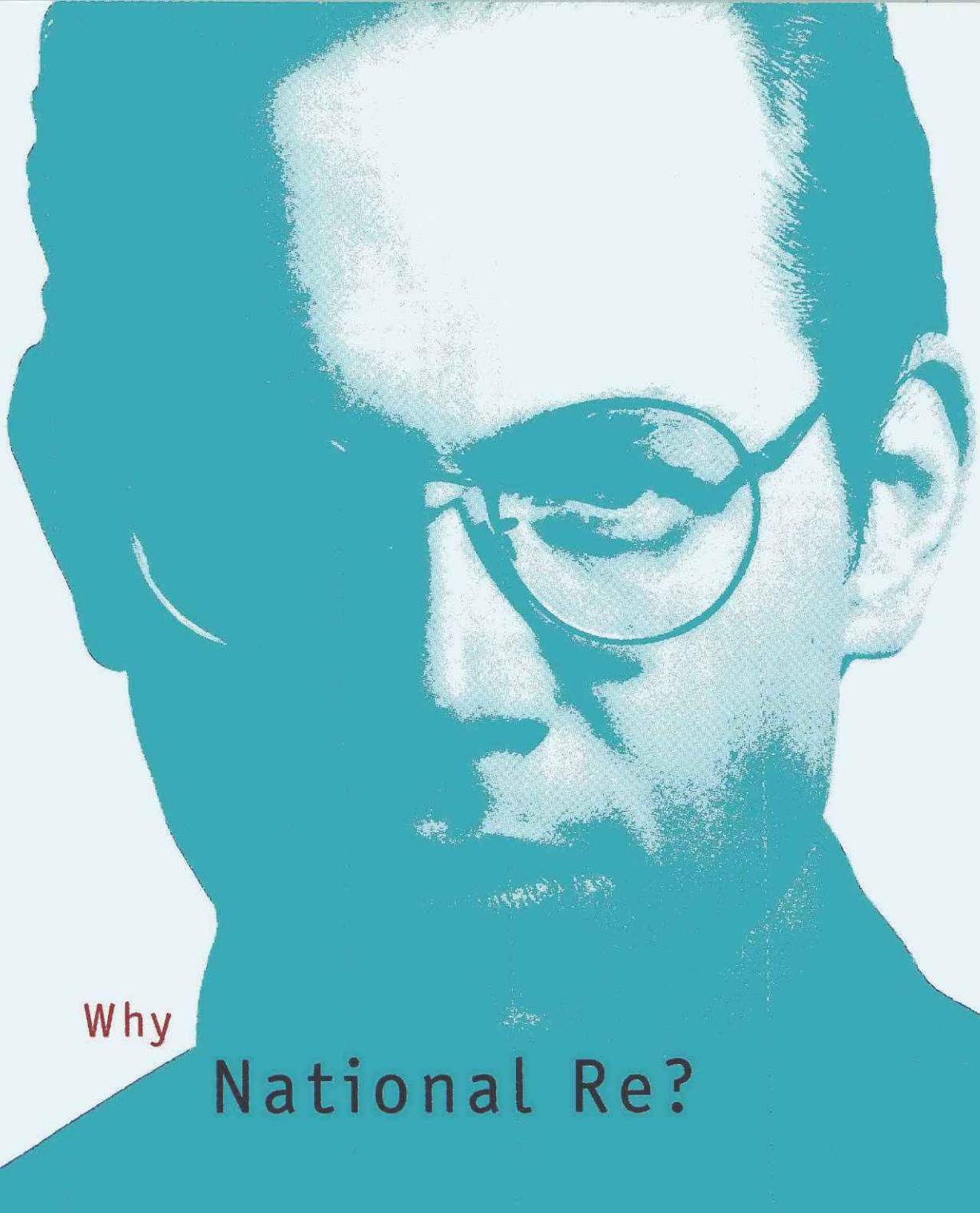
The filing does not elaborate, and Mr. Miller declined to comment further.

Sources familiar with the firm say the FBI has visited UFG's offices and subpoenaed records, though the focus of its interest is unknown. An FBI spokesman would not confirm or deny the existence of an investigation.

The Securities and Exchange Commission and the New York Insurance Department also are investigating UFG, though SEC officials have refused to confirm or deny an investigation and a New York department spokesman has declined to comment (*BI*, July 17).

UFG Chairman Donald Ferrarini could not be reached. Mr. Miller—the only UFGI official to sign the firm's bankruptcy filings—referred questions to the UFGI's lawyers, who could not be reached.

Mr. Miller, who said in a July interview that he had resigned from the firm, said last week that he is still an officer. BI



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