AUGUST 29, 1988

Business Insurance®

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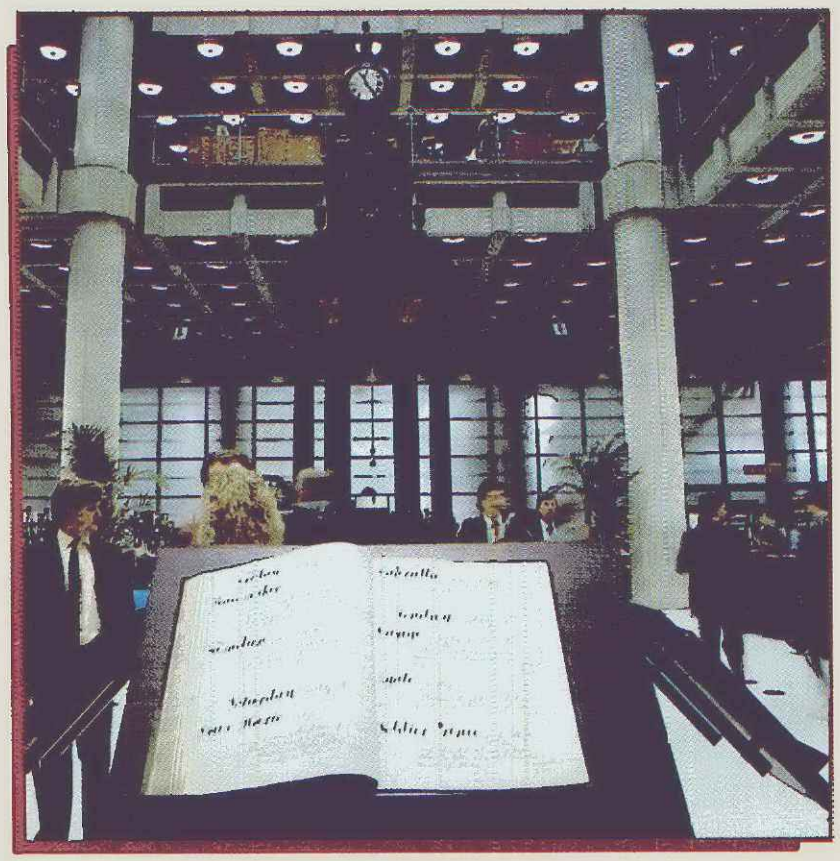
Inside the Illinois Insurance Exchange

Lloyd's in its 300th year



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Update

Damages from Lisbon blaze expected to top $100 million

LISBON, Portugal—A fire that raged through Lisbon's historic Chiado shopping district Thursday caused at least $100 million in insured damages, sources in London say.

The fire, which took more than six hours to control, swept though four blocks of the city, destroying about 100 buildings, including several major department stores and office blocks. One person was killed and more than 40 injured, according to newspaper reports.

Continued on next page

401(k) rules may deter participation

By DONNA DiBLASE

Employee benefit managers are concerned—but not panicked—that new rules governing hardship withdrawals from 401(k) salary reduction plans will discourage employee participation in the plans.

And, many benefits experts feel the new Internal Revenue Service regulations, which take effect Jan. 1, could exacerbate problems some employers already are having in trying to pass the 401(k) non-discrimination tests established by the Tax Reform Act of 1986.

To counteract the new IRS rules, some employers say they will beef up their communication efforts to educate and encourage all employees to take advantage of the tax-deferred retirement savings the plans provide.

Still others say the implementation of loan provisions by employers sponsoring 401(k) plans now could become more popular as a means of encouraging employees to participate in the plans.

However, 401(k) plans that already enforce strict hardship withdrawal rules will not be adversely affected by the new regulations, some employee benefit managers and benefit consultants say.

"We are facing a double-edged sword: the hardship withdrawal provisions and the non-discrimination tests in the Tax Reform Act," said Donna D. Taylor, assistant vp and manager of employee benefits for Barnett Banks Inc. in Jacksonville, Fla.

"We've been particularly concerned about the effects on

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Voters to review bad faith ruling

By STACY ADLER

SACRAMENTO, Calif.—Two propositions on the November ballot in California would effectively quash a state Supreme Court ruling this month that prohibits personal injury plaintiffs from suing defendants' insurers for bad faith.

Under Proposition 100, which is sponsored by consumer advocates, plaintiffs' attorneys and bankers, the right to sue a defendant's insurer for bad faith would be reinstated in its entirety.

However, under Proposition 104, which is sponsored by the insurance industry, claimants could sue only those defendant's insurers that refuse to arbitrate claims.

A recent poll found that because of other provisions contained in the propositions, voters are much more likely to approve Proposition 100 than Proposition 104.

Supporters of Proposition 104 contend the survey is misleading because the pollsters poorly explained the proposition to respondents.

If both propositions are approved by voters on Nov. 8, the bad faith provision contained in the proposition that garnered the most votes would be controlling.

If both propositions fail, the state Supreme Court ruling will stand and claimants in California would have no remedy to sue a defendant's insurer for bad faith.

Plaintiffs in personal injury cases lost that right when the California Supreme Court on Aug. 18 reversed its precedential 1979 ruling in *Royal Globe vs. Superior Court* (*BI*, Aug. 22).

A more conservative Supreme Court ruled in *Parvaneh Moradi-Shalal vs. Fireman's Fund Insurance Cos.* that the Royal Globe doctrine has caused "escalating insurance costs to the general public resulting from insurers' increased ex-

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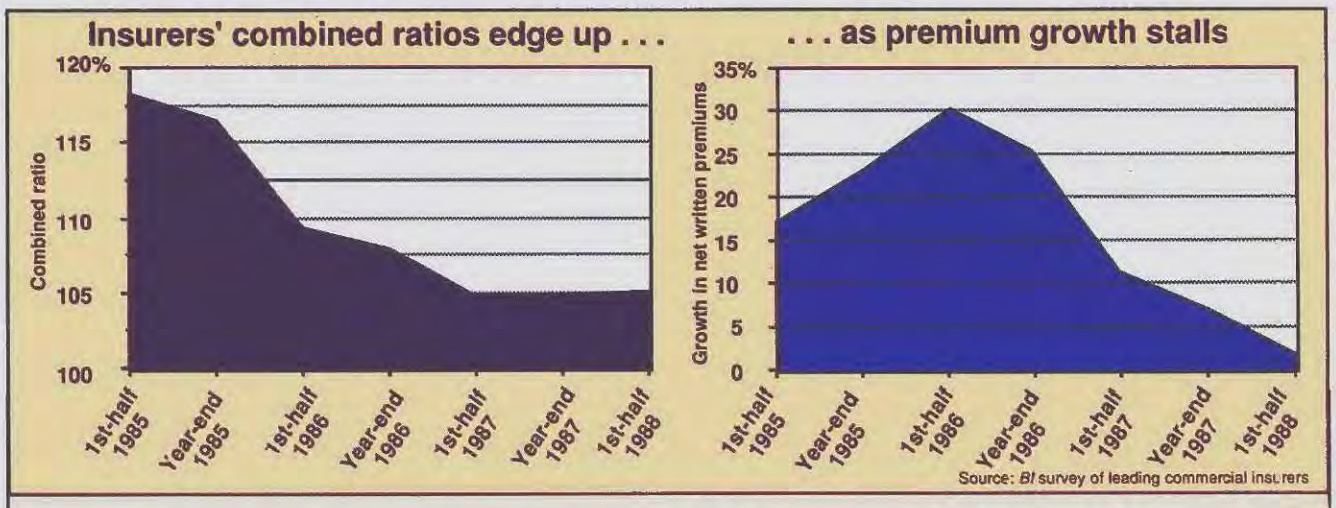

Insurer profit outlook: continuing erosion

By JUDY GREENWALD

Competition will increasingly drain property/casualty insurers' earnings for the remainder of the year and through 1989, analysts and insurers agree.

At the same time, rate cutting will cause combined ratios to swell, while premium growth will remain flat or possibly decline, they say.

However, the increased tax liabilities imposed on insurers by the Tax Reform Act of 1986 will help keep the companies' rate competition in check, observers point out. And, they add, improving group health insurance results could help multiline insurers' performance.

While half of the commercial property/casualty insurers surveyed by *Business Insurance* reported higher earnings in the first half, insurers and analysts say that more companies soon will see their profits slide.

"I think earnings are going to drop faster than most companies are talking about and most analysts have got in their minds," said a CIGNA Corp. official. "I think next year could have worse results than anything expected."

"You're probably looking at a situation that's starting to go south," said Michael Lewis, first vp with Dean Witter Reynolds in New York.

Mr. Lewis pointed out that while insurer results were "very respectable" for the first half, they will "start deteriorating in the very near future because of the rate pressures that are starting to bear" and because of reserve strengthening.

Lower rates are reducing insurers' cash flow, which in turn will cut investment income growth, added Mr. Lewis. "That's something else that's going to produce an ongoing slowdown of the earnings of the sector," which will increase in 1989, he predicted.

An official at USF&G Corp. noted that the company's 24% first-half de-

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Executive comp goes long term

By LINDA J. COLLINS

The average earnings of the top executives of commercial insurance and reinsurance companies outpaced their companies' earnings growth last year.

The average cash compensation—salaries and cash bonuses—of 30 major insurance and reinsurance company chief executive officers rose 9.5% in 1987 to $836,705 from $763,782 in 1986, according to a *Business Insurance* review of the companies' proxy statements and annual reports (*BI*, July 6, 1987).

Mr. Steinberg

At the same time, the companies' net income rose an average of only 3.1%.

However, consultants point out that the compensation of insurance company executives, especially property/casualty insurer officials, is increasingly being linked to the performance of their companies.

And, the consultants note, many property/casualty insurers have turned to long-term forms of compensation to reflect the companies' performance over several years rather than the vagaries of the insurance cycle.

The highest-paid CEO among major commercial insurers last year again was Reliance Group Holdings Inc.'s Saul P. Steinberg, 48, who received $4.27 million in cash compensation, up only 2% from $4.19 million in 1986, when he also topped the chart (see page 72).

In addition, Mr. Steinberg holds 45.3 million shares—or 60.5%—of Reliance's common stock with a market value of $232.2 million as of Aug. 18. The Steinberg Group, which includes other members of Mr. Steinberg's family, holds 78.3% of Reliance's common stock.

Mr. Manley

Combined with other investments held by Mr. Steinberg, his estimated net worth exceeded $660 million last year, according to Forbes magazine.

The Home Group Inc.'s Marshall Manley, 47, finished second in the compensation derby for the second consecutive year. Mr. Manley received $1.76 million in cash compensation last year, a 3.8% decrease from $1.83 million in 1986. That was in line with the company's net income, which dropped 3.6% in 1987.

While insurance company executives' cash compensation rose more quickly than earnings last year, their pay still is less than CEOs at other financial services companies, according to a private survey of 90 diversified fi-

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Update

Fire damage tops $100 million

Continued from previous page

Portuguese television reports estimated total damage at between 30 billion to 40 billion escudos ($196.7 million to $262.3 million). However, "insured damage is likely to be considerably less," said John Pearce, manager of Willis Wrightson Ltd. Lisbon, a unit of Lloyd's of London broker Willis Faber P.L.C. London sources said claims were likely to top $100 million.

Initial claims will be paid by Portuguese insurers, though a large proportion of the loss likely was reinsured in the London, U.S. and European markets, Mr. Pearce said.

"This is a major disaster. Many of Lisbon's 18th- and 19th-century buildings have been destroyed," Mr. Pearce said.

Insurance claims will include business interruption losses as well as property damage for buildings and contents. An estimated 2,000 people are believed to have lost their jobs because of the fire.

Maxicare loses $59.5 million

LOS ANGELES—Maxicare Health Plans Inc., the nation's largest publicly traded health maintenance organization company, reported a second-quarter loss of $59.5 million, compared with a 1987 second-quarter loss of $8 million, a company spokeswoman said.

Included in the second-quarter 1988 loss were special charges of $28 million deducted from accounts receivable for retroactive enrollment deletions and a $7.6 million charge related to investment divestitures.

The company lost $80.8 million for the six months ended June 30, compared with a $21.9 million loss for the corresponding period last year.

The HMO reported gross revenues of $462.64 in the second quarter, up marginally from $462.59 in the second quarter of last year.

Maxicare now is in the process of selling assets and closing nonprofitable operations (*BI*, Aug. 22).

Reinsurer results deteriorate

WASHINGTON—The U.S. reinsurance industry posted a 101.9% combined ratio for the first half of 1988, slightly worse than the 101.5% ratio for the comparable 1987 period, according to a survey of 66 reinsurers by the Reinsurance Assn. of America.

Reinsurers reported a 101.2% combined ratio for the first quarter of 1988 (*BI,* June 27).

Net written premiums totaled $6.1 billion in the first half, down 4.7% from $6.4 billion in the first six months of 1987.

"The results are not quite as good as they were a year ago, but they're certainly a lot better than they were two years ago," said Andre Maisonpierre, RAA president. It is "heartening to see the industry is holding fairly close to the 100% mark," he said, referring to the combined ratio.

Mr. Maisonpierre attributed the reduced premium volume to greater retentions by ceding insurers. "We will certainly end up with less premium at the end of '88 than we had at the end of '87," he said.

Mission, Integrity hearings set

WASHINGTON—The first comprehensive hearings on the 1987 collapses of Mission Insurance Group Inc. and Integrity Insurance Co. will be held by a congressional subcommittee next month.

Evidence gathered by the House Energy and Commerce Oversight and Investigations Subcommittee during its four-month investigation of the Mission and Integrity insolvencies will be presented at the Sept. 14-15 hearings.

"These will be case studies on what happened, why it happened and to understand what happened. This is an in-depth look at what went wrong," said a subcommittee attorney.

The Mission insolvency has been estimated at $900 million, making it the largest U.S. insurance company insolvency ever, while Integrity's insolvency has been put at $300 million.

The subcommittee's investigation of Mission and Integrity is part of the panel's broader look at the adequacy of state regulation of the insurance industry (*BI*, May 16).

Approval of Farmers sale likely

LOS ANGELES—State regulators opposed to the acquisition of Farmers Group Inc. by Batus Inc. will likely reverse their position now that Farmers has agreed to the merger, observers say.

The Los Angeles-based insurer accepted Batus' offer of $75 per share, or a total of about $5.2 billion, last week.

Three of the nine states that must approve the transaction—Oregon, Washington and Idaho—had ruled against a hostile takeover of Farmers by Batus, a Louisville, Ky.-based subsidiary of London conglomerate B.A.T. Industries P.L.C. However, "a friendly takeover is less disruptive" and thus more likely to gain state approval, said Edward Ives, deputy commissioner to Washington Insurance Commissioner Richard Marquardt.

"We firmly believe that Farmers and Batus can work with the insurance regulators to give the assurances necessary to enable this merger to be accomplished to the benefit of all parties," said Leo E. Denlea Jr., Farmers' chairman and chief executive officer.

Illinois, Ohio and Arizona have approved the purchase, and a state court voided California Insurance Commissioner Roxani Gillespie's attempt to block the takeover (*BI,* Aug. 15; June 27).

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Errors & omissions

• An Aug. 22 story on hurricane preparedness did not properly identify Robert M. Bieber, who currently is president of Ebasco Risk Management Consultants Inc. in New York and formerly was risk manager of Westchester County, N.Y.

Schools urged to require risk management study

By MARK A. HOFMANN

RENO, Nev.—The Risk & Insurance Management Society Inc. will team up with the American Risk & Insurance Assn. in its longtime effort to make risk management studies required coursework at business schools accredited by the American Assembly of Collegiate Schools of Business.

"You want clout? You've got it," said Marge Layne, vp-education of RIMS.

But Ms. Layne and other members of a panel discussion at ARIA's 56th annual meeting Aug. 17 in Reno, stressed that persuading the AACSB to require schools to provide core risk and insurance courses will be neither easy nor swift: The 72-year-old, St. Louis-based AACSB has rebuffed ARIA's past efforts.

To demonstrate RIMS' support, Ms. Layne, risk manager for California & Hawaiian Sugar Co. in Concord, Calif., offered to put ARIA members working on the curriculum project in contact with the education chairmen of each RIMS chapter.

Requiring business schools to offer risk management courses as part of their core curriculum also is advocated by Ellen Thrower, president of The College of Insurance in New York, which does not hold AACSB accreditation.

"I think the standard business curriculum cheats students if it doesn't require at least some knowledge of insurance and risk management by the time they graduate," Ms. Thrower said after the discussion.

"We will have to work closely with business school deans, and we need the chief financial officers of various industries to impress upon them the importance of risk management and insurance to any well-balanced business program," Ms. Thrower said.

The AACSB-recommended core curriculum touches on five broad areas, explained Jay L. Tontz, dean of the school of business at California State University at Haywood and a member of the AACSB accreditation committee for several years. They are:

- Production, marketing and finance.
- The economic and legal environment of for-profit and not-for-profit organizations, with ethical considerations.
- The concepts of accounting and management information systems.
- Work theory, behavior and personal communications.
- Administrative processes.

The standards are flexible and the AACSB does not spell out how much weight each subject area is to be given, Mr. Tontz stressed.

While AACSB accreditation is not as crucial to a business schools as accreditation is to a law or nursing school, "accreditation is a professional review of outside peers that says something about the quality of a program," Mr. Tontz pointed out.

Of roughly 3,000 colleges and universities in the United States, only 261 have AACSB-accredited business programs, Mr. Tontz noted.

These schools account for about 55% of all business degrees awarded each year, according to the AACSB. Accredited schools include Harvard University, Stan-

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New Jersey court to hear Allied-Signal coverage suit

By STACY ADLER

MORRISTOWN, N.J.—In a victory for policyholders, a New Jersey Superior Court judge will not break up the litigation between Allied-Signal Corp. and 177 of its liability insurers over coverage for cleaning up more than 239 hazardous waste sites nationwide.

New Jersey Superior Court Judge Reginald Stanton late last week decided not to follow a ruling by New Jersey Superior Court Judge Lawrence Weiss earlier this year that split up the massive coverage battle between Westinghouse Electric Corp. and 140 of its liability insurers.

Judge Weiss will hear only coverage litigation involving Westinghouse's New Jersey sites and about 150 personal injury claims resulting from exposure to toxic substances in the state (*BI*, April 4; March 28).

That decision is being appealed.

Last week's decision by Judge Stanton could aid Westinghouse's attempt to have Judge Weiss' ruling overturned, according to Westinghouse attorney Peter Kalis.

"It is an incredible victory for policyholders," agreed Allied-Signal attorney Eugene Anderson, with Anderson, Russell, Kill & Olick in New York. "Insurance companies can no longer atomize these cases so it is too expensive except for gigantic companies to claim coverage."

Judge Stanton's ruling also reinforced the pro-policyholder reputation of New Jersey courts, in which "more policyholders will bring lawsuits," Mr. Anderson predicted.

Judge Stanton ruled that because more Allied-Signal sites are in New Jersey than in any other state, New Jersey has a significant interest in the litigation. In addition Allied-Signal is based in Morristown, N.J.

Travelers Indemnity Co., Allied-Signal's primary insurer since 1950, had sought a stay of the New Jersey litigation.

Attorneys for Travelers say they have not yet discussed the possibility of an appeal.

Meanwhile, Travelers still is pressing a coverage lawsuit filed against Allied-Signal in U.S. District Court in Baltimore. Allied-Signal is involved in two hazardous waste sites in Baltimore.

In that litigation, the court will determine only Travelers' liability, not the liability of any other Allied-Signal insurer.

Insurers litigating with Allied-Signal in New Jersey include dozens of Lloyd's of London syndicates; Aetna Casualty & Surety Co. of Hartford, Conn., which wrote primary and excess insurance for Allied-Signal between 1958 and 1986; Continental Insurance Co. of New York, which wrote primary and excess insurance from 1936 to 1986; Fireman's Fund Insurance Cos. of Novato, Calif, which wrote excess insurance between 1968 and 1985; The Home Insurance Co. of New York, which wrote excess insurance between 1969 and 1985; and National Union Insurance Co. of Pittsburgh, Pa., a unit of American International Group Inc., which wrote excess insurance between 1976 and 1986.

In addition, Allied-Signal has named the New Jersey Property-Liability Insurance Guaranty Assn. because several of its liability insurers are now insolvent, including Holland-America Insurance Co. of Kansas City, Mo.; Integrity Insurance Co. of Paramus, N.J.; Midland Insurance Co. of New York; Mission American Insurance Co. of Los Angeles; Mutual Fire Marine & Inland Insurance Co. of Philadelphia; Pine Top Insurance Co. of Schaumburg, Ill.; Reserve Insurance Co. of Chicago; Transport Indemnity Co. of Los Angeles; and Transit Casualty Co. of St. Louis. ■

Inside

✔ This week's editorial points out that there are plenty of short- and long-term benefits to be realized by requiring risk management education in business schools, as the Risk & Insurance Management Society Inc. and American Risk & Insurance Assn. suggest. **PAGE 8**

✔ An employer coalition in the Roanoke Valley region of Virginia has developed a health care purchasing plan aimed at establishing favorable rates with area health care providers. **PAGE 65**

✔ The National Council on Compensation Insurance is seeking an average 36.7% increase in workers compensation insurance rates in Texas. **PAGE 68**

On the cover: Three views of the ultramodern Lloyd's of London building, where the market carries on the traditions begun 300 years ago in Edward Lloyd's coffee house. (Photos: Robin Anderson)

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Lloyd's of London

Oldest insurance market eyes changes

An in-depth look at Lloyd's

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Outwaite ruling expected next month Page 45

By STACY SHAPIRO

LONDON—Revolutionary changes lie ahead for Lloyd's of London if some of the ideas for realigning and improving the 300-year-old market come to fruition.

Currently, several of Lloyd's 52 committees are trying to decide whether new and radical ideas being bandied around the market are viable.

In particular, committees are studying:

- The elimination of unlimited liability for Lloyd's members.
- The elimination of three-year accounting for Lloyd's syndicates.
- Ways to reduce the number of syndicates that leave their accounts open, which market observers say is reaching epidemic proportions.
- New methods to settle claims, including a unified claims settlement department.
- Alternative access to Lloyd's syndicates via Lloyd's offices outside the Lloyd's building on Lime Street in London's financial district.
- The abolition of Lloyd's traditional four-market structure.

"All these things are being studied by the market," confirmed Lloyd's Chairman Murray Lawrence. "A report from the committee on a unified claims settlement should come in shortly.

"I would like us to tackle all of the commercial situations. . .although just looking at the issues doesn't mean we will change them. But I hope we will make huge strides," he said.

"There are so many revolutionary ideas floating around in the market at the moment," summed up Eugene Ryan, a director at Gooda Walker Ltd. "We are seeing the best of times now. . .to get things done."

New ideas for making Lloyd's more attractive to members and policyholders are popping up all over, now that the marketplace is no longer on the defensive to solve regulatory and disciplinary problems.

Most of the major scandals that came to light after the Lloyd's Act of 1982 was passed have been settled and most members whose conduct was found unethical have been expelled, suspended or fined.

More than 40 of the 70 recommendations made in 1987 by a government-appointed committee chaired by Sir Patrick Neill have been implemented, including new regulations for Lloyd's brokers, pointed out Lloyd's Chief Executive Alan Lord.

With that accomplished, threats to Lloyd's self-regulation, as codified by the Lloyd's Act of 1982, have virtually disappeared.

And Lloyd's has satisfied the Inland Revenue, the British tax agency, that the current taxation of Lloyd's members and syndicates is fair and that no further taxes are needed (*BI*, Aug. 31, 1987).

As a result, Lloyd's now is turning its energies to commercial-related problems to stop the defection of members and to attract more business to the market.

Proponents of changes at Lloyd's point to the nearly 1,700 of Lloyd's 33,532 members who are expected to resign from underwriting in 1989—which would be the greatest number of members ever to resign in a single year.

Lloyd's, however, is not worried about the capacity that will be lost because of the resignations. The market has more than 11 billion pounds ($18.7 billion) of allocated capacity this year, compared with 4.9 billion pounds ($7.1 billion at year-end 1985 exchange rate) in 1985. In addition, premium volume has fallen in just about every sector of the market this year. In fact, many syndicates have said that they have only written between 60% and 85% of their total capacity this year.

The definite resignation of 1,206 members so far only accounts for 3% of Lloyd's total capacity, or 287 million pounds ($487.9 million), estimated a Lloyd's spokesman.

The loss of members should be offset somewhat by the nearly 1,000 new members expected to join next year and additional capacity that will be offered by current members, added Mr. Lawrence.

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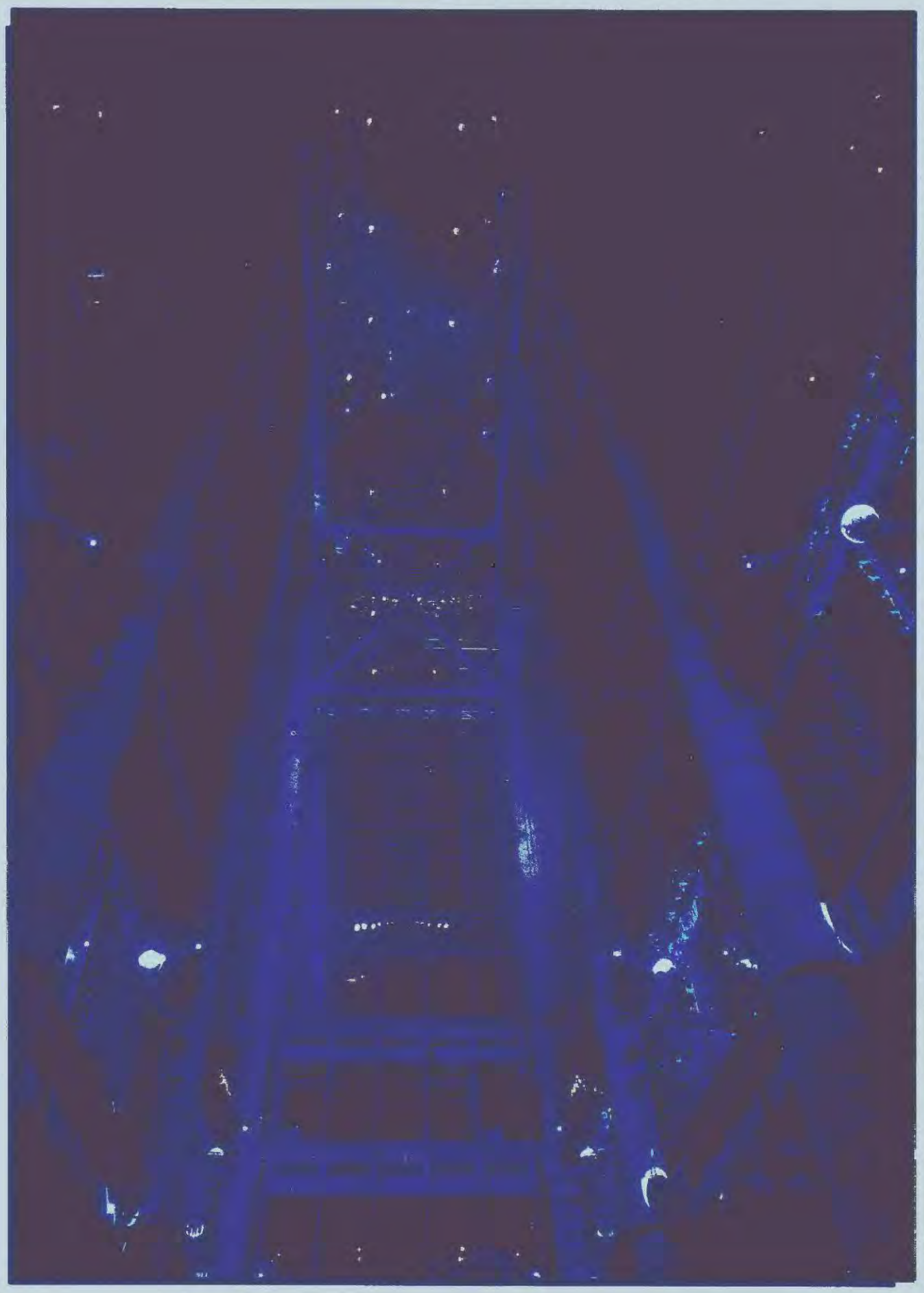

The illumination of the Lloyd's building bathes the market's famous glass atrium in a dramatic light.
(Photo: Lloyd's of London)

The U.S. exchanges

- Syndicates on the Illinois Insurance Exchange, the last operational exchange in the United States, are eschewing rapid growth in a competitive market to ensure profitability. In addition, IIE executives are working with regulators and others to polish the exchange's image as a surplus lines insurance market. See page 49.
- The two other U.S. exchanges—the New York Insurance Exchange and the Insurance Exchange of the Americas in Miami—currently are running off their business as officials examine why the markets, which were opened with such fanfare, were doomed to failure. See pages 58 and 62.

Spotlight report

Lloyd's changes

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Two of the most radical proposals for making Lloyd's more attractive to members is the suggestion that Lloyd's change to a limited liability system for its names and drop its unique three-year accounting system.

A Lloyd's committee is discussing whether Lloyd's should abolish its 300-year-tradition of requiring unlimited liability for Lloyd's members (*BI*, June 6). Currently, all of Lloyd's 33,532 members are responsible down to their last shirt button for losses sustained by the syndicates in which they invest.

However, in recent years Lloyd's members have balked at paying huge losses that presented the possibility of bankruptcy and have threatened litigation against Lloyd's and other parties for negligence and mismanagement.

Largest Lloyd's syndicates

(Based on 1988 gross allocated capacity in millions of pounds)

Syndicate	Managing agency	Underwriter	Capacity 1988	Capacity 1987[1]
Marine 418	Merrett Underwriting Agency Management Ltd.	Stephen Merrett	287.5	288.3
Marine 206	R.W. Sturge & Co.	M.J.H. Maughan	235.5	262.3
Non-marine 799	Merrett Underwriting Agency Management Ltd.	R.A.G. Jackson	227.3	229.7
Non-marine 210	R.W. Sturge & Co.	A. G. Lee	191.0	218.5[2]
Non-Marine 190	Three Quays Underwriting Management Ltd.	R.D. Hazell	160.5	147.7
Marine 367	F.L.P. Secretan & Co. Ltd.	A.D. Pilcher	150.5	148.2
Non-marine 362	Murray Lawrence & Partners	R.J.R. Keeling	146.2	152.0
Marine 448	Wellington Underwriting Agencies Ltd.	D.A. Beaumont	139.3	137.5
Marine 932	Janson Green Management Ltd.	Richard Youell	131.9	123.1
Marine 483	Methuen (Lloyd's Underwriting Agents) Ltd.	P.R. Chandler	126.1	131.4

[1]Adjusted to 1987 gross allocated capacity [2]Includes syndicate capacity for syndicate 204 which becomes a separate syndicate in 1988

Source: Lloyd's of London

Currently, for example, many of the 190 members of loss-riddled syndicates formerly managed by Oakeley Vaughan (Underwriting) Ltd. are refusing to pay at least 20 million pounds ($34 million) in claims and 50 members are embroiled in litigation with Lloyd's over the losses (*BI*, May 9).

Lloyd's twice this decade has bailed out members who refused to meet their unlimited liability responsibilities.

In 1980, Lloyd's paid 16 million pounds ($38.2 million at 1980 exchange rates) under a settlement with members of Sasse syndicate 762 to pay claims from the 1976 and 1977 accounting years (*BI*, Feb. 11, 1980).

Last year, to avoid long litigation, Lloyd's organized a 103 million pound ($193.6 million at year-end 1987 exchange rate) settlement with members of non-marine syndicates formerly managed by PCW Underwriting Agencies Ltd. Under the settlement, members received immunity from further losses but relinquished their rights to sue Lloyd's and other parties to the settlement (*BI*, June 6; April 13, 1987).

"A rash of losses has caused member action groups and committees to spring up and litigation to begin and that's sad," said Michael Payne, underwriter for non-marine syndicate 386, Lloyd's sixth-largest, managed by Janson Payne Management Ltd. "In the old days, they would have swallowed the big losses.

"Lloyd's is a sophisticated form of gambling. You win some, you lose some and when you lose some, you pay up and shut up. But too many people have joined Lloyd's that expect goodies to fall out of the sky. You have to expect losses," Mr. Payne said.

To avoid these problems and make Lloyd's more attractive to members, many of Lloyd's leaders suggest that Lloyd's limit members' liability to the amount each member invests in Lloyd's syndicates.

"We have limited liability now" and that policy should be put in writing, summed up Bob Keville, chairman of Lloyd's Insurance Brokers Committee and chairman of the marine division at Willis Faber P.L.C., noting that the wealth of Lloyd's members extends only so far.

"If it is to be attractive to be a Lloyd's member, then we should have limited liability," Mr. Keville said.

However, others believe that Lloyd's could lose business if members' liability were limited because policyholders would feel that the security of a Lloyd's policy—which has been unquestioned—would be tarnished.

"Lloyd's would lose a great deal of its attraction to business if limited liability came in," said Ken Barrett, underwriter for a sub-unit of non-marine syndicate 799, managed by Merrett Underwriting Agency Management Ltd.

"I would be very sorry to see unlimited liability go," added David Tudor-Williams, joint managing director for A.J. Archer & Co. Ltd.

"It is a fashionable view, but I don't think (members' unlimited liability) will change," said Mr. Lord.

Lloyd's underwriting agencies, however, are suggesting alternatives to the elimination of unlimited liability. One suggestion is "unitization," whereby members invest in a group of syndicates resembling a mutual fund that would be managed by members' agencies. Such a system would give members a broader spread of business.

Lloyd's also plans to increase the means test that members must

Continued on page 6

ILLINOIS INSURANCE EXCHANGE

STRENGTH IN NUMBERS

The Illinois Insurance Exchange is one of the strongest and best-managed property and casualty insurers in the United States.

That statement may surprise you. But we can prove it.

In 1986, we were among the top ten surplus lines companies in total admitted assets; policyholders' surplus; gross, direct and net written premium; and net operating income; and in the top third in combined ratio and NWP/PHS and GWP/PHS.

In 1987, we moved up in total admitted assets and direct and net written premium, resulting in a ranking in the top five surplus lines companies overall. Here's how we did:

Gross Written Premium	$238,974,657
Direct Written Premium	204,876,511
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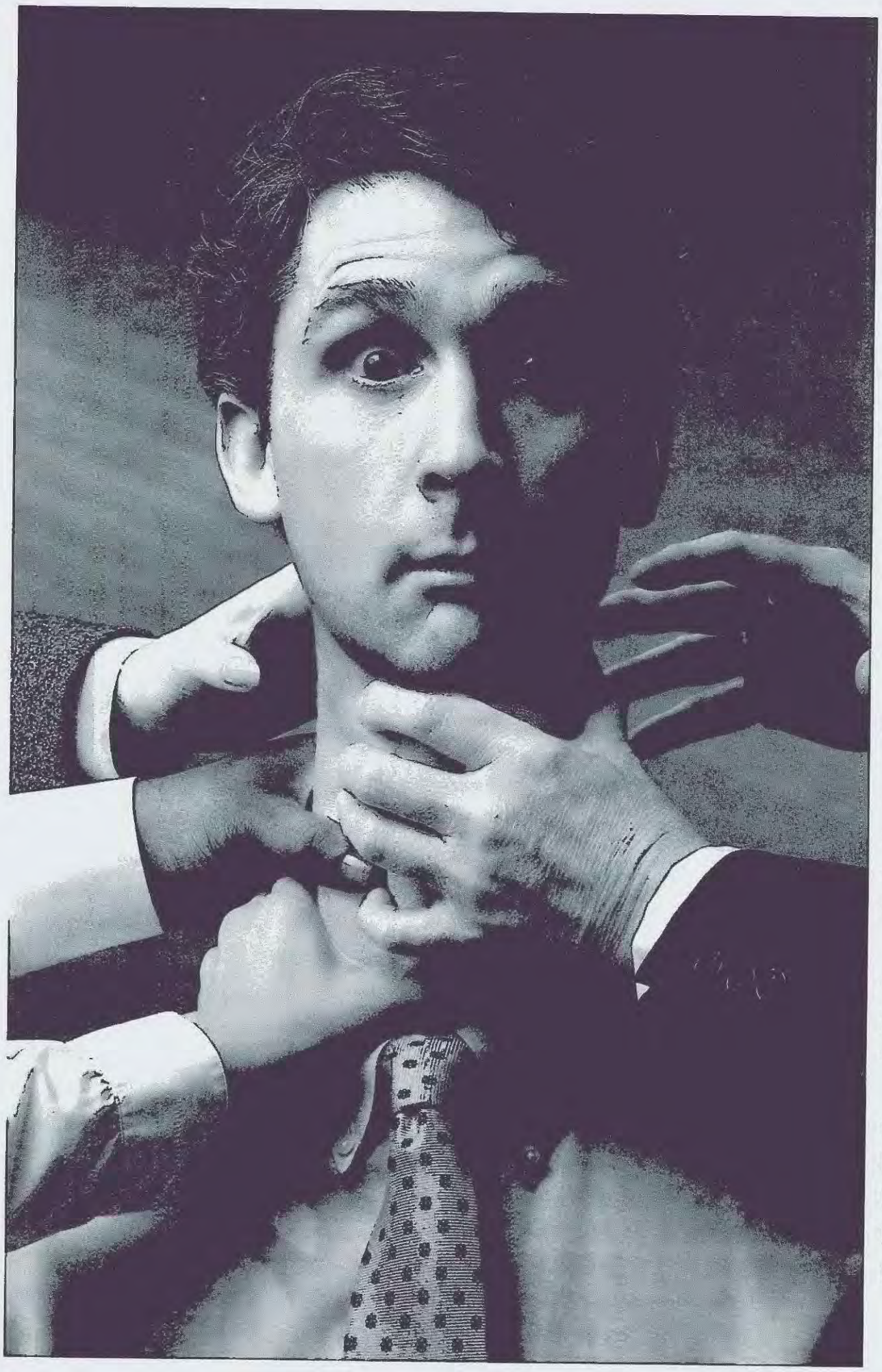

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Lloyd's changes

Continued from page 4

meet, said Mr. Lawrence. Currently, those with 100,000 pounds ($170,000) in assets are allowed to join Lloyd's, but the chairman says that the means test should be increased so that Lloyd's members are wealthy enough to pay a big loss without fear of bankruptcy.

Market sources agree that the Council of Lloyds soon will increase the means test to 250,000 pounds ($425,000) for all members, effective Jan. 1, 1990, while also increasing the members' funds deposited with Lloyd's to 30% of their gross premium volume from 20%.

Also, Lloyd's is investigating how to reduce the number of syndicates that leave their accounts open past Lloyd's three-year accounting deadline. This inquiry, some say, could lead to three-year accounting system changes.

This year, three of Lloyd's 10 largest marine syndicates have kept their accounts open for 1985, the year just closing under the three-year accounting system. Altogether, more than 76 syndicates left a total of 120 syndicate account years open this year, said a Lloyd's spokesman. Open accounts leave members for those years vulnerable to any losses in the year left open and previous years.

The problem has been aggravated by disputes between syndicate 317/661 managed by R.H.M. Outhwaite (Underwriting Agencies) Ltd. and eight Lloyd's syndicates over runoff reinsurance policies Outhwaite wrote prior to 1982. Outhwaite has left open its 1982 accounting year, which should have closed Dec. 31, 1984, because the syndicate has ongoing disputes on 13 runoff reinsurance contracts that have produced more than 185 million pounds ($314.5 million) in claims (see story, page 45).

Lloyd's has formed a committee to review the increasing number of syndicate accounts that are being left open, but Lloyd's has no intention of interfering with the Outhwaite disputes, said Mr. Lawrence. "We would interfere in the Outhwaite disputes at our peril."

Many Lloyd's brokers and underwriters think the number of syndicate accounts left open is reaching epidemic proportions and must be cured, perhaps by levying a penalty on managing agencies' profit commissions for each syndicate account left open.

"More than half of Lloyd's members are on at least one open syndicate year," said Christopher Rome, chairman of Lloyd's Underwriters Assn.

"We have got to find a way of rolling open years into ongoing years," said Ken Randall, managing director of Merrett Holdings P.L.C., whose marine syndicate 418 —Lloyd's largest syndicate—has kept its 1985 underwriting year open (see story, page 11).

"Lloyd's should stop leaving their years open," said Alan Colls, chairman of Lloyd's broker Nicholson Chamberlain Colls Ltd. "If it proliferates, there will be thousands and thousands of open years."

"There is a growing tendency for people to leave an account open if there is a problem," said Chris Burton, joint managing director for Lloyd's underwriting agency A.J. Archer & Co. Ltd. "Twenty years ago people would have moved heaven and earth to close an account."

Robin Gilkes, chairman of Lloyd's Underwriting Agents' Assn., is so concerned about open accounts that he plans to write a letter to Mr. Lawrence addressing the topic.

"It was never explained to Lloyd's names that their accounts could be left open after three years because until recently it was a very rare occurrence," he said. "But now it is common because with pollution and other long-tail U.S. claims it is very difficult to ascertain exposure."

"One way to resolve it is to have one-year accounting," he said.

Meanwhile, several Lloyd's underwriting and broker committees are examining ways to increase the business that flows into Lloyd's and service Lloyd's existing business more efficiently.

One Lloyd's committee chaired by former Lloyd's Chairman Peter Miller is examining a unified claims system for the entire market.

Currently, three different claims settlement offices serve the marine, non-marine and aviation markets. Each works differently and pays claims at a different pace.

For example, Lloyd's Underwriters Claims and Recoveries Office, which serves the marine market, has paid claims on a monthly basis until the July loss of the Piper Alpha drilling platform forced LUCRO to implement weekly settlements. On the other hand, Lloyd's Underwriters Non-Marine Claims Office has traditionally settled claims weekly.

A centralized Lloyd's claims office "is in the cards," according to Mr. Ryan, who also is chairman of Lloyd's Aviation Claims Center.

Mr. Lawrence also hopes one central claims settlement office will be established, as well as a standard procedure whereby claims are not delayed because many people must examine them before they are paid.

Meanwhile, a huge debate between Lloyd's brokers and Lloyd's underwriters is brewing over business not shown to the underwriters because it is too expensive for the brokers to administer.

Much of this is smaller personal and commercial U.K. risks from outside London that Lloyd's brokers—the only source of Lloyd's underwriters' business—find easier to place outside the market.

To solve this problem, Lloyd's underwriters want to establish offices outside Lloyd's to write this provincial business, though the business would still be placed by Lloyd's brokers. Already, the chairman's underwriting agency, Murray Lawrence & Partners, and Merrett Holdings have set up such offices.

"I think we have to look at our sources of business," said Stephen Burnhope, another sub-unit of Merrett-managed syndicate 799. "Underwriters should take a more active approach to marketing Lloyd's. Direct dealing is not a panacea for Lloyd's problems, but underwriters are reacting to the importance of seeing business. They can become isolated from the business in the Ivory Tower of Lloyd's."

"We are interested in exploring alternative routes for our business," added Richard Lawrence, also an underwriter for a sub-unit of syndicate 799.

Mr. Lawrence personally would like Lloyd's to go one step further. He says he would like to see Lloyd's offices around the world to market Lloyd's the way most of the major insurance companies do.

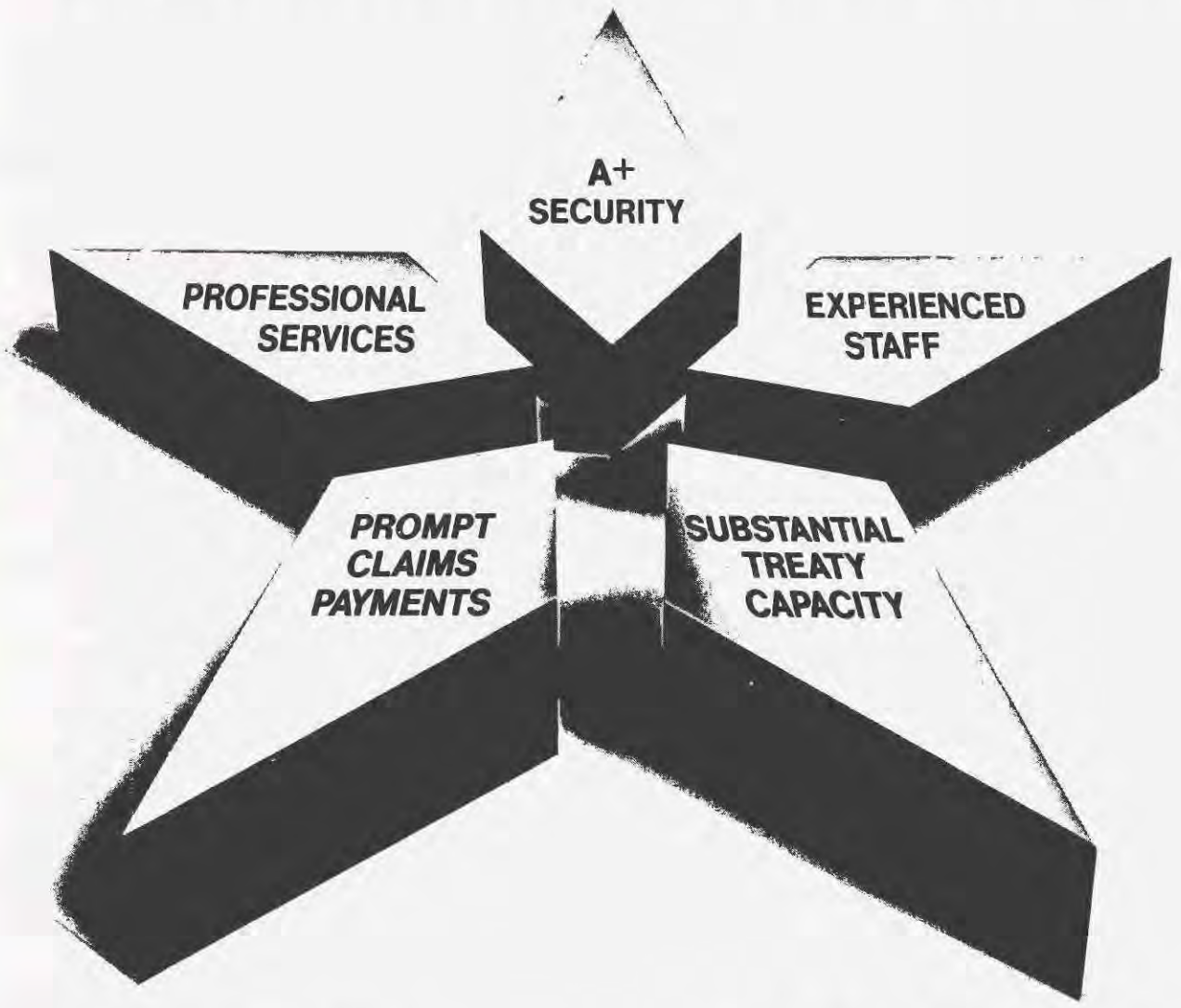
"I don't think we will get the small and medium-sized business without getting closer to the policyholder. He (the client) sees the Commercial Unions and the Sun Alliances on the street and he should see Lloyd's, too. But how do you institute that?"

To become more than primarily a reinsurance market, "we have to get closer to the policyholder," he said.

A Lloyd's committee is also examining whether Lloyd's four-market structure—marine, non-marine, aviation and motor—should

Continued on page 10

IF YOU DON'T HAVE ALL THE PIECES— YOU DON'T HAVE THE STAR



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Opinions

ARIA plan deserves an 'A'

THE AMERICAN Risk & Insurance Assn. has a terrific idea.

Risk management should be included in the core curriculum of colleges accredited by the American Assembly of Collegiate Schools of Business, says ARIA.

And the Risk & Insurance Management Society Inc. now has offered its support for the requirement (see story, page 2).

This is a project for risk managers, insurers, brokers, consultants and lawyers to fully support. There are plenty of short- and long-term benefits to be realized by requiring risk management education in business schools.

The short-term benefits are obvious: Business graduates familiar with the concepts of risk management will be more willing to work in risk management departments as well as insurance companies, brokerages and consulting firms. It is generally agreed that there is a dearth of super talent in these professions.

The long-term benefits of risk management education will be felt beyond the risk management sphere. Business graduates with a background in risk management will be far more supportive of it during their working careers.

It will be a lot easier to sell the manager of an operating unit on the need to sprinkler a plant or change a manufacturing process to protect workers if that top manager is already familiar with and committed to the concept of risk management.

More risk management education surely will result in better risk management in corporate America, including better loss prevention and loss control programs to protect lives and property.

As we reported recently, America's plaintiffs' trial lawyers believe that only by holding the threat of lawsuits to business leaders' heads will the consumer—the little man—be protected from corporate irresponsibility toward people and the environment.

Those committed to risk management know differently.

While only 261 colleges and universities have AACSB-accredited business programs, these schools graduate 55% of all business majors.

ARIA deserves support for its effort to include risk management in the curriculum of these important business schools.

Letters

Letter illuminates Tye, not Nader

To the editor: The comment in James Tye's letter (*BI*, Aug. 22) that Ralph Nader has the same stature as Sir Winston Churchill and Dwight D. Eisenhower says more about Mr. Tye than it does about Mr. Nader.

Ronald M. Pateman
Director
R.M. Pateman Underwriting Agencies Ltd.
London

Hunting tale illustrates cycle

To the editor: In view of the soft market cycle we are now mired in, and with the horror stories of the mid-1980s still fresh in the memories of the wounded, the cry comes up from the masses, "Won't they ever learn?"

Two commercial casualty underwriters left for Canada on their annual bear hunting trip. The camp was located on a lake surrounded on all sides by huge pine trees.

The bush pilot that flew the two adventurers to their camp warned that only one bear could be flown out with them and their gear, since the pontoon plane was small and quite sensitive to weight distribution.

The pilot dropped off the underwriters and their gear and as he uneasily turned to taxi across the lake he again warned his passengers that only one bear could be taken out upon his return one week later.

The two hunters seemingly ignored his warning because when the pilot returned one week later there lay on the dock two large trophy bears. The pilot's fear became confused with anger, but the underwriters persisted.

"I know we can make it," one underwriter said.

"You worry too much," the other said.

Almost at gunpoint the two forced the pilot to load the plane with their trophies and as the plane lumbered across the lake it barely lifted off the surface and brushed the tree tops before crashing into the woods.

The pilot, though stunned, said "I told you guys we wouldn't make it."

One of the underwriters turned to the pilot and said "Yeah, but we made it 100 yards farther than we did last year."

Lanny Garrett
Vp
Minton Insurance Agency
Eau Claire, Wis.

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

Cover photo is personal affront

To the editor: I take personal exception to the cover photo on the Aug. 15 issue of *Business Insurance*.

The photo, to me, was not an insurance convention nor GOP furtherance. It was a one-quarter, front page ad for the National and New Orleans right-to-life organizations.

Doug Palmer
Columbus, Ohio

■ *Editor's note: The photo was selected because it showed the site of the convention and one of the billboards in honor of Republican Presidential nominee George Bush. It was not intended as an ad.*

ATLA represents *plaintiffs'* lawyers

To the editor: I read with interest your articles in the Aug. 15 issue on the recent convention of *plaintiffs'* trial lawyers that took place in Kansas City, Mo., recently. As your editorial in the same issue pointed out, it is important for all of us who are proud to work on the defense side of the street to be aware of what those on the other side are doing and saying.

One of the articles, "Trial Lawyers Aim at Insurers, Manufacturers," deserves clarification. It began: "They call themselves hunters and killers. Their prey are insurers, chemical manufacturers and doctors. They are America's trial lawyers."

Correctly stated, the article should indicate that they are America's *plaintiffs'* trial lawyers.

For some time now, the American Trial Lawyers Assn. has sought to portray itself as "the trial lawyers' association." It is not. It is an organization of *plaintiffs'* trial lawyers.

While ATLA represents the views of trial lawyers who represent plaintiffs, it certainly does not represent the view of all, or perhaps even most, civil trial lawyers.

The other side of the civil trial bar, composed of defense trial lawyers, does support most elements of tort reform and is working hard to retain some element of fairness and good sense in our civil justice system.

Defense trial lawyer organizations are active nationally and in most states. These organizations and their members strongly support tort reform, even though it may be against their economic self-interest, because it is right and fair.

Your article does just what ATLA wants.

It fails to distinguish between plaintiffs' trial lawyers and defense trial lawyers and unwittingly misrepresents the positions of defense trial lawyers.

James K. Archibald
President
The Maryland Assn. of Defense Trial Counsel

Chubb's record speaks for itself

To the editor: I take exception to Jerry Nisker's letter (*BI*, Aug. 8) denouncing Chubb Corp. for the alleged ills that have befallen our industry.

I have been a Chubb agent for 38 years and have never known a company to have performed more honestly, fairly or responsibly in its dealings with customers and agents alike.

Chubb's century of outstanding service bears witness to the integrity of this fine organization. Indeed, integrity is the cornerstone of its being.

Chubb has labored long and hard to build this enviable reputation, and I have every confidence that it will achieve an honorable solution to the "rain insurance" dilemma.

Charles S. Drew Jr.
St. Louis

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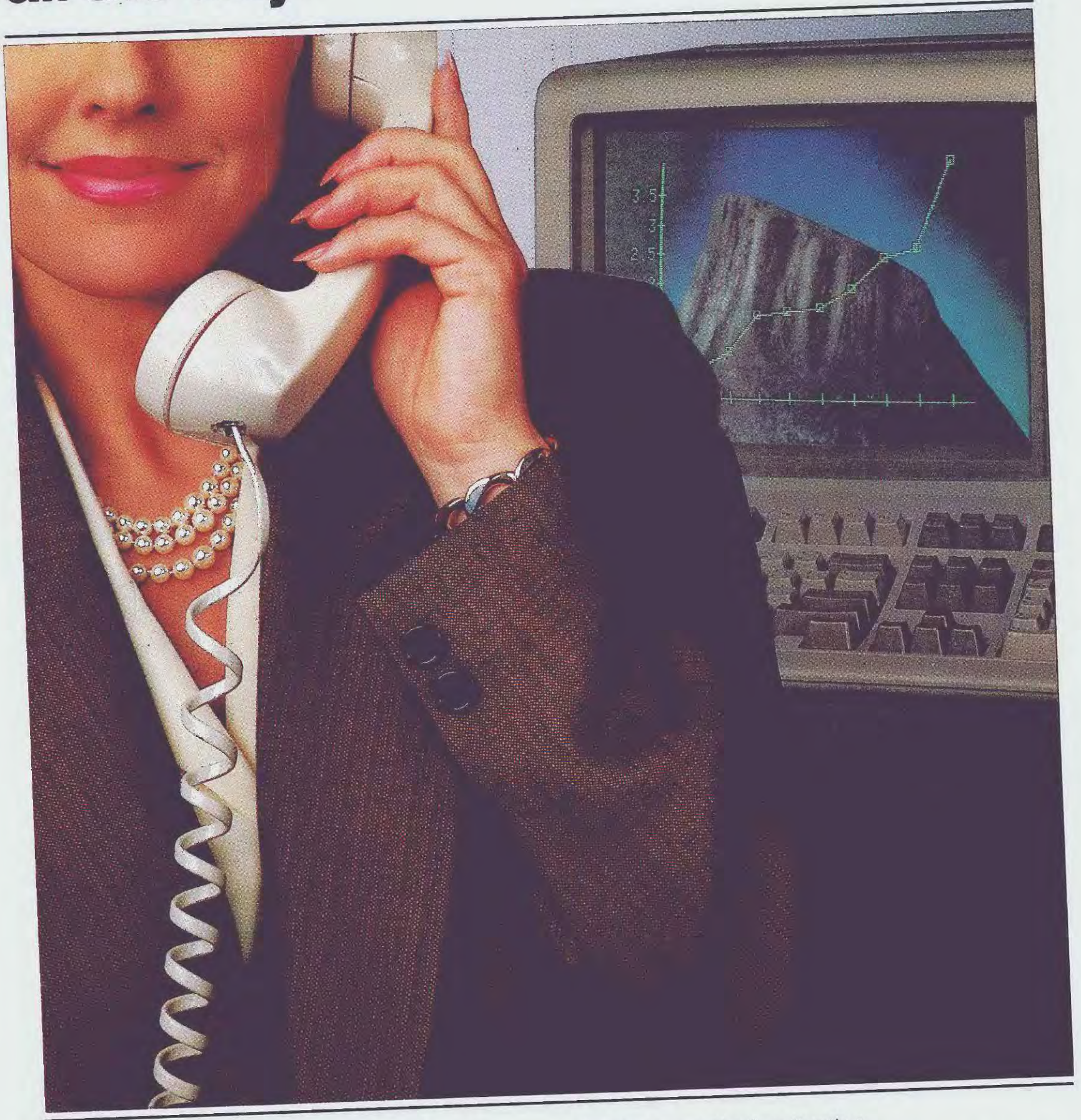

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Spotlight report

Lloyd's '85 profits projected to drop 25%

By STACY SHAPIRO

LONDON—Lloyd's of London is expected to report a 25% decrease in its global profits for 1985 compared with 1984 when the market's results are announced Sept. 8.

The Assn. of Lloyd's Members estimates that Lloyd's 1985 global profits, before commissions but after losses from runoff syndicates, will total 209 million pounds ($392.9 million at appropriate exchange rate), down about 25% from 278.3 million pounds ($412.6 million) in 1984.

Although the Lloyd's marine, non-marine and aviation markets will post profits, the 1979-1984 runoff of old syndicates and a loss in the motor market will reduce Lloyd's profitability this year, the ALM explains.

Lloyd's 1985 results closed Dec. 31, 1987, under Lloyd's three-year accounting system. In 1985, there were 374 syndicates with a total net allocated capacity of 4.8 billion pounds ($9 billion).

Currently, Lloyd's has 376 syndicates with total gross premium capacity of more than 11 billion pounds ($18.7 billion), according to Lloyd's, up from 365 syndicates in 1987 with a total of 10.3 billion pounds ($19.4 billion) in gross premium capacity.

Lloyd's has changed its methods for calculating capacity. Up until last year, Lloyd's allowed syndicates to write up to 30% above their allocated capacity—known as net premium income capacity—before they were considered to be overwriting.

However, beginning this year, Lloyd's underwriters are allowed to write only 100% of their allocated capacity, or stamp capacity. Stamp capacity now includes net premium income limits plus 25% and is referred to as gross premium income capacity.

But Lloyd's has more than enough capacity because of competition in the marine, non-marine and aviation markets.

This year there are 33,532 Lloyd's members, including 2,815 Americans. Although nearly 1,700 members are expected to resign next year, Lloyd's believes another 1,000 members will join the market in 1989.

Of Lloyd's gross premium capacity this year, more than 4.7 billion pounds ($8 billion) is in the marine market; 6.2 billion pounds ($7.1 billion) in non-marine 992.7 million pounds ($1.7 billion) in aviation; 761.6 million pounds ($1.3 billion) in motor; 21.2 million pounds ($36 million) in livestock; 12.7 million pounds ($21.6 million) in short-tail life; 4.5 million pounds ($7.7 million) in common law; 1.5 million pounds ($2.6 million) in credit reinsurance; and 278 million ($472.6 million) in capacity that is not allocated to any specific market.

The marine market, the oldest of Lloyd's four markets, dates back to 1638 when shipowners gathered at Edward Lloyd's coffeehouse to insure each other's vessels. The marine market, now with 132 syndicates compared with 128 last year, provides about 40% of the world's marine insurance capacity (see story, page 11).

Lloyd's second-largest market in capacity is non-marine, which this year has the most syndicates of any market. There are now 159 non-marine syndicates, up from 142 syndicates last year. The non-marine market provides 1% to 2% of the world's non-marine insurance and is the Lloyd's market most used by U.S. policyholders (see story, page 16).

Lloyd's third-largest market is its aviation market, with 41 syndicates, up only one from last year. The market accounts for as much as 20% of the world's aviation insurance capacity (see story, page 23).

Syndicates are managed by 365 registered underwriting agencies.

Syndicates are shown business by 275 Lloyd's brokers, all of which must be reregistered with Lloyd's following the passage of Lloyd's broker regulations Aug. 1 (see story, page 31). ■

Lloyd's changes

Continued from page 6

be eliminated. Then, each syndicate could write all types of policies, specifying the type of business when submitting the policy to Lloyd's Policy Signing Office.

Many underwriters, including non-marine underwriter Richard D. Hazell, have lobbied for the elimination of market delineations (*BI,* June 27). They point out that the marine market already is allowed to use 10% of its capacity to write pure non-marine business and 20% to write non-marine risks as part of marine-related insurance packages.

"Maybe the proper answer is that anyone can write anything providing they tell the names (on their syndicate) what the syndicate is writing," says Mr. Rome of Lloyd's Underwriters Assn., who is not opposed to the four-market structure.

However, other market leaders believe the four-market structure should not be tampered with.

"I believe it would be better to keep (four) separate markets," said Mr. Tudor-Williams of A.J. Archer. "I am not against a situation where a syndicate can write all types of business, but you have to have specialist underwriters and there must be adequate disclosure so that members agents are aware what business is being written.

"With the boundaries in place, you know who the experts are (in each market)," he said.

Mr. Lawrence himself is proposing another change at Lloyd's: He would like Lloyd's to open talks with U.S. policyholders on the possibility of Lloyd's selling first-party liability policies, possibly to individuals, instead of third-party liability policies, which have caused most of Lloyd's current problems.

A first-party liability policy reimburses the policyholder for damages suffered by the policyholder due to the acts of a third party.

Sir Peter Miller, Lloyd's former chairman, called for U.S. tort reform to allow underwriters to continue offering third-party liability insurance in the United States. As a result, Sir Peter, along with other Lloyd's leaders and U.S. insurance industry leaders, is a defendant in the antitrust litigation filed by 19 U.S. state attorneys general (*BI,* July 11; June 20; March 28).

Nevertheless, Mr. Lawrence says, "I wonder if in the long run we are hitting against a brick wall when we ask for tort reform. Maybe we should look again at whether we should write third-party liability insurance."

If the U.S. courts plan to continue imposing strict liability, "then maybe we should look at writing some kind of no-fault coverage," Mr. Lawrence said.

•

Associate Editor Carolyn Aldred in London also contributed to this story.

Marine market rate cuts come to a halt

By CAROLYN ALDRED

LONDON—Excessive competition and rate slashing in the Lloyd's of London marine insurance market are coming to a screeching halt following last month's explosion of a $790 million North Sea oil drilling rig.

Total claims from the July 7 Piper Alpha rig explosion, which killed 167 people, likely will exceed $1 billion, making it the world's largest man-made insured loss (*BI*, July 11).

"Two months ago, all marine rates were being reduced. Today it is very difficult to get any rate reductions," said Chris Rome of C.W. Rome (Underwriting Agencies) Ltd. and chairman of Lloyd's Underwriters' Assn.

"It is no good hoping to get all the money back from operators of North Sea oil rigs. The whole marine market will have to get rates up, though no doubt the major rises will fall in the rig market," he said.

The Piper Alpha explosion followed a series of major marine losses this year. They include:

- April's $330 million loss of an offshore platform owned by Petrobas S.A. in Brazil (*BI*, May 20). The Enchova platform was insured by Instituto de Resseguros do Brasil and reinsured in the London market.
- The destruction of the Japanese ship Reijin, which went aground off the coast of Portugal on her maiden voyage in April with a full load of about 5,000 new autos. The ship and cargo were a total loss and insurance claims could exceed $60 million.
- Claims hitting the marine excess-of-loss reinsurance market from last October's storm that devastated parts of England and Western Europe. Total claims from the storm now are expected to reach $3 billion (*BI*, Oct. 26, 1987).

Already, underwriters are paying additional premiums to reinstate their catastrophe reinsurance for the rest of the year because of the Piper Alpha and other losses (*BI*, Aug. 1).

In addition, capacity will be reduced in the excess-of-loss reinsurance market, forcing rates up further and reducing capacity in the direct marine market, predicted Mr. Rome.

Meanwhile, efforts are being made to ensure a speedy flow of reinsurance settlements arising from the Piper Alpha loss, he said.

For example, the marine market is making weekly, rather than monthly, settlements of the related reinsurance claims, he said.

Mr. Rome also has persuaded most underwriters to authorize the Lloyd's Underwriters Claims and Recoveries Office to settle claims arising from the Piper Alpha disaster. Although LUCRO is the marine market's official claims handling department, "there has been a tendency in recent years for syndicates to see more claims and withdraw their authority to LUCRO, slowing down the claims process," he said.

However, the Piper loss still will cause major cash-flow problems in the marine market, underwriters say.

"It is too early to say whether there will be casualties, but there will certainly be cash-flow problems, particularly for the newer and smaller syndicates," said Alan Jackson, underwriter for marine syndicate 735/473 managed by Wren Underwriting Agencies Ltd.

Underwriters also speculate that marine underwriter Graham Naish resigned as underwriter of newly formed marine excess-of-loss syndicate 1084 because of the oil rig loss.

But, according to the syndicate's managing agent, Cuthbert Heath Underwriting Ltd., Mr. Naish resigned this month for "personal reasons."

Harry Bristow has taken over the underwriting for syndicate 1084, which only started writing in January, until a new underwriter is appointed.

Mr. Bristow, who also is underwriter for syndicate 401, would not say why Mr. Naish left and said it was too early to estimate the syndicate's exposure to the Piper Alpha loss. Mr. Naish could not be reached for comment.

Meanwhile, the expected turnaround in the marine market also could result in a reduction of non-marine business written by marine syndicates, Mr. Rome predicted.

While marine rates slumped in recent years, an increasing proportion of some marine syndicates' volume has come from non-marine business.

Marine underwriters at Lloyd's can write non-marine business either through an incidental non-marine syndicate, which is allocated up to 10% of a marine syndicate's premium capacity, or as part of a package policy if at least 80% of the total risk is a marine risk.

Mr. Rome

"The marine market has always written a lot of business which is either non-marine or dual-market business," said Mr. Rome.

For example, the marine market is a key market for the huge property/casualty insurance programs of the world's major oil companies.

However, some underwriters are continuing to write the same, or higher levels, of non-marine business while levels of marine business are falling, thereby changing the balance of syndicates' accounts, many observers note.

Indeed, several marine underwriters have commented about the situation in their most recent syndicate reports.

"While packaging exists, there is no doubt that there is a hidden non-marine content; this is not new... but it is an increasing trend while marine business is so finite and the market so weak," said Underwriter David Beaumont in the report of syndicate 448, managed by Wellington Underwriting Agencies Ltd.

"A marine account is never...completely static; it changes as the business itself changes and market forces, both in London and worldwide, exert their influences. An example of this has been the continuous move toward more package policies," marine underwriter Michael Maughan stated in syndicate 206's report.

However, "this was something that was tried some years ago with disastrous results. These package policies may include an element of non-marine liability, which in most cases I have been unwilling to accept," he added.

Some non-marine underwriters also believe they are losing business to the marine market.

"There is a general feeling that more non-marine business is going to the mariners. The non-marine market feels the non-marine expertise is in the (non-marine) market and that the business should stay there," said Michael Williams, chairman of the Lloyd's Non-Marine Underwriters' Assn.

Continued on next page

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Marine market

Continued from previous page

An eradication of the market divisions is one issue currently under debate at Lloyd's (see story, page 3).

"There is a strong possibility that we will see the breakdown of market (barriers) within the next two years," Mr. Rome predicted.

Meanwhile, he believes marine underwriters will write less non-marine business as marine rates rise.

The Assn. of Lloyd's Members is predicting the Lloyd's marine market will report a total profit of 155.6 million pounds ($292.5 million at the appropriate exchange rate) for 1985, the year just closing under Lloyd's three-year accounting system. This estimate excludes underwriting agents' profit commissions and losses incurred by syndicates in runoff.

Total capacity for the marine market this year is 4.7 billion pounds ($8 billion), spread among 132 marine syndicates.

Largest Lloyd's marine syndicates

(Based on 1988 gross allocated capacity in millions of pounds)

Syndicate	Managing agency	Underwriter	Capacity 1988	Capacity 1987[1]
418	Merrett Underwriting Agency Management Ltd.	Stephen Merrett	287.5	288.3
206	R.W. Sturge & Co.	M.J.H. Maughan	235.5	262.3
367	F.L.P. Secretan & Co. Ltd.	A.D. Pilcher	150.5	148.2
448	Wellington Underwriting Agencies Ltd.	D.A. Beaumont	139.3	137.5
932	Janson Green Management Ltd.	Richard Youell	131.9	123.1
483	Methuen (Lloyd's Underwriting Agents) Ltd.	P.R. Chandler	126.1	131.4
406	Wellington Underwriting Agencies Ltd.	S.I. Cowley	115.5	119.2
488	Charman Underwriting Agencies Ltd.	J.R. Charman	106.0	96.7
65	H.G. Chester & Co. Ltd.	Geoffrey Welch	104.9	101.8
209	R.W. Sturge & Co.	B.G. Adams	104.2	112.1

[1]Adjusted to 1987 gross allocated capacity

Source: Lloyd's of London

The largest marine syndicate in 1988 stamp capacity is syndicate 418, underwritten by Stephen Merrett, a member of the Council of Lloyd's, and managed by Merrett Underwriting Agency Management Ltd. The syndicate's 1988 capacity remains almost static at 287.5 million pounds ($488.8 million), compared with 288.3 million pounds ($542 million) in 1987 (see story, page 48).

Syndicate 418, which also is the largest syndicate in the entire Lloyd's market, is being restructured into three autonomous divisions for the 1989 underwriting year (*BI,* Aug. 22).

Meanwhile, syndicate 418 was forced to keep open its 1985 accounts because of uncertainties over runoff reinsurance policies it wrote during 1982 (*BI,* May 23).

Syndicate 418 and incidental non-marine syndicate 417 wrote 11 runoff contracts, "which reinsure a number of Lloyd's syndicates and insurance companies against further claims deterioration in business written in prior years," according to the syndicate's report.

Accumulated losses on the runoff contracts totaled $109 million at Dec. 31, 1987, the report states.

In addition, syndicate 418 also is questioning the validity of some claims being presented by cedants.

Runoff reinsurance contracts also are causing problems for other Lloyd's syndicates.

Marine syndicate 317/661, managed by R.H.M. Outhwaite (Underwriting Agencies) Ltd., faces outstanding losses of 262 million pounds ($445.4 million) on its open 1982 underwriting account arising from more than 50 reinsurance runoff policies written into the 1982 account (see story, page 45).

The syndicate's 1988 premium capacity has fallen to 103.9 million pounds ($176.6 million) from a gross premium capacity in 1987 of 116.6 million pounds ($219.2 million). As a result, syndicate 317/661 fell from the Top 10 rankings of marine syndicates, based on premium capacity, dropping to 11th place from eighth place in 1987 and third place in 1986.

Meanwhile, two other syndicates among the marine market's 10 largest also were forced to keep open their 1985 underwriting account because of runoff reinsurance disputes.

The two syndicates, both managed by Wellington Underwriting Agencies Ltd., are:

- Syndicate 448, underwritten by David Beaumont, is the fourth-largest marine syndicate with a 1988 stamp capacity of 139.3 million pounds ($236.8 million), compared with a 1987 capacity of 138.7 million pounds ($260.8 million).

However, Mr. Beaumont expects to close its 1985 account next year following settlement of an unlimited runoff reinsurance contract with Mr. Outhwaite in April.

Under the settlement, Mr. Outhwaite paid syndicate 448 a total of $49.3 million while Mr. Beaumont reassumed all future liabilities stemming from the runoff policy (*BI,* April 25).

- Syndicate 406, underwritten by Stephen Cowley, is the seventh-largest marine syndicate with a 1988 premium capacity of 115.5 million pounds ($196.4 million), compared with a 1987 gross capacity of 119.6 million pounds ($224.8 million).

In 1982 syndicate 406 ceded two runoff reinsurance policies covering non-marine business written in 1974 and prior underwriting years.

The lower-layer policy was reinsured with a reinsurance company the syndicate has not identified. The top layer was underwritten by syndicate 317/661. The policy covers one-third of all claims with no limit, with the remaining two-thirds being retained by syndicate 406.

Both of syndicate 406's reinsurers now are questioning the runoff policies, said Mr. Cowley.

Meanwhile, gross premium capacity among the largest marine syndicates has remained almost stagnant.

For example, capacity of second-largest syndicate 206, managed by R.W. Sturge & Co. Ltd. and underwritten by Michael Maughan, fell to 235.5 million pounds ($400.4 million) compared with a gross premium capacity of 262.3 million pounds ($493.1 million) in 1987.

Capacity of third-largest marine syndicate 367, managed by F.L.P. Secretan & Co. Ltd. and underwritten by Antony Pilcher, increased to 150.5 million pounds ($255.9 million) from 148.2 million pounds ($278.6 million) in 1987.

Capacity of the fifth-largest marine syndicate 932, managed by Janson Green Management Ltd. and underwritten by Richard Youell, rose to 131.9 million pounds ($224.2 million) from 123.1 million pounds ($231.4 million) in 1987. ■

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Spotlight report

Catlin rises from file clerk to agency chief

By CAROLYN ALDRED

LONDON—Stephen Catlin could, but for a quirk of fate, be drilling teeth today rather than insuring drilling rigs for the world's energy industry.

"My father was a doctor and I was going to be a dentist. I even had a place at dentist school lined up. But I didn't get the grades," Mr. Catlin said with little regret.

Instead, he applied to work in the Lloyd's of London market because he knew somebody "who worked in the market and it sounded interesting."

In 1973, he cut several inches off his shoulder-length hair, bought a suit and began work as a filing clerk at marine syndicate 264, managed by Anton Underwriting Agencies Ltd.

By 1984, at the age of 30, Mr. Catlin was setting up his own agency, S.J.O. Catlin Underwriting Agencies Ltd.; he is one of the youngest underwriters to set up a managing agency in recent years.

It was, Mr. Catlin admits, "ridiculously early to set up on my own."

However, since 1985—its first year of underwriting—marine syndicate 1003/1005 has increased its capacity 260% to 21.6 million pounds ($36.7 million at current exchange rate) in 1988 from 6 million pounds ($11.3 million at appropriate exchange rate) in 1985. In addition, the agency has increased its staff to 15 from three.

The agency now is forming a non-marine syndicate, scheduled to begin underwriting in January.

Mr. Catlin regards his three years as an entry boy—the market's term for a filing clerk—as the most valuable training ground for his role as a Lloyd's underwriter.

"An intelligent person picks up a lot from filing, from the constant exposure to risk ratings and claims. It may often be tedious but, if someone is being sensible about their career, it is a path they will take," he said.

In 1982, he was appointed a deputy underwriter at syndicate 264. And, by February 1984, others were recruiting him.

"I went through a spell of being offered job after job. But I never actually talked to anybody seriously. I enjoyed working with Brian Evens (syndicate 264's underwriter) and I was in no tearing rush to get out," he said.

Mr. Catlin considered leaving syndicate 264 when the insurance market was hardening and it appeared many managing agents would be divested by brokers.

Although many agencies were acquired by their management following the required broker divestment of their underwriting agencies, Mr. Catlin believed Anton would be taken over by one of the larger managing agency groups "and that didn't appeal" to him.

Anton Underwriting Agencies was acquired by Merrett Holdings P.L.C. from Lloyd's broker Gibbs Hartley Cooper Ltd.

"I perceived that divestment would leave a certain number of people disgruntled. I thought it would be best to (start a new syndicate) before others" in the market did so, said Mr. Catlin.

Fate looked kindly on him in the first year of underwriting. "One needs a lot of luck starting. A massive loss in the first year of a new syndicate can be terminal," he said.

"In 1985 we were very lucky. We missed some of the losses other underwriters had, probably more by luck than through judgment."

In 1985, syndicate 1003/1005 wrote gross premiums of 3.6 million pounds ($6.8 million) with net premiums written of 2.2 million pounds ($4.1 million). The syndicate's final profit for the year was 596,970 pounds ($1.1 million).

The syndicate writes a complete cross-section of marine-related insurance including hull, cargo, war risks, energy risks, excess-of-loss reinsurance and incidental non-marine coverages.

The most significant part of its portfolio—35% to 40%—is the energy account, which includes both direct and some facultative reinsurance. Excess-of-loss reinsurance generates 25% of revenue, of which half is written for London market underwriters.

Mr. Catlin

Despite the syndicate's heavy involvement in energy-related risks and excess-of-loss business, Mr. Catlin says he is "comfortable" with the syndicate's probable net loss on the Piper Alpha oil rig, which exploded in July (*BI*, July 11). Total claims from the loss are expected to exceed $1 billion.

The syndicate's net loss "is likely to be what we imagined from a billion dollar loss and I have always expected (the market) to have such a loss. I am staggered by the excitement it's caused," he said, adding that the Lloyd's market is "here to pay such losses."

He declined to disclose an estimate of his syndicate's probable net loss.

Mr. Catlin is supported in his marine box by Deputy Underwriter Rupert Atkin, one of the original staffers, and Paul Brand, who specializes in energy and liability risks.

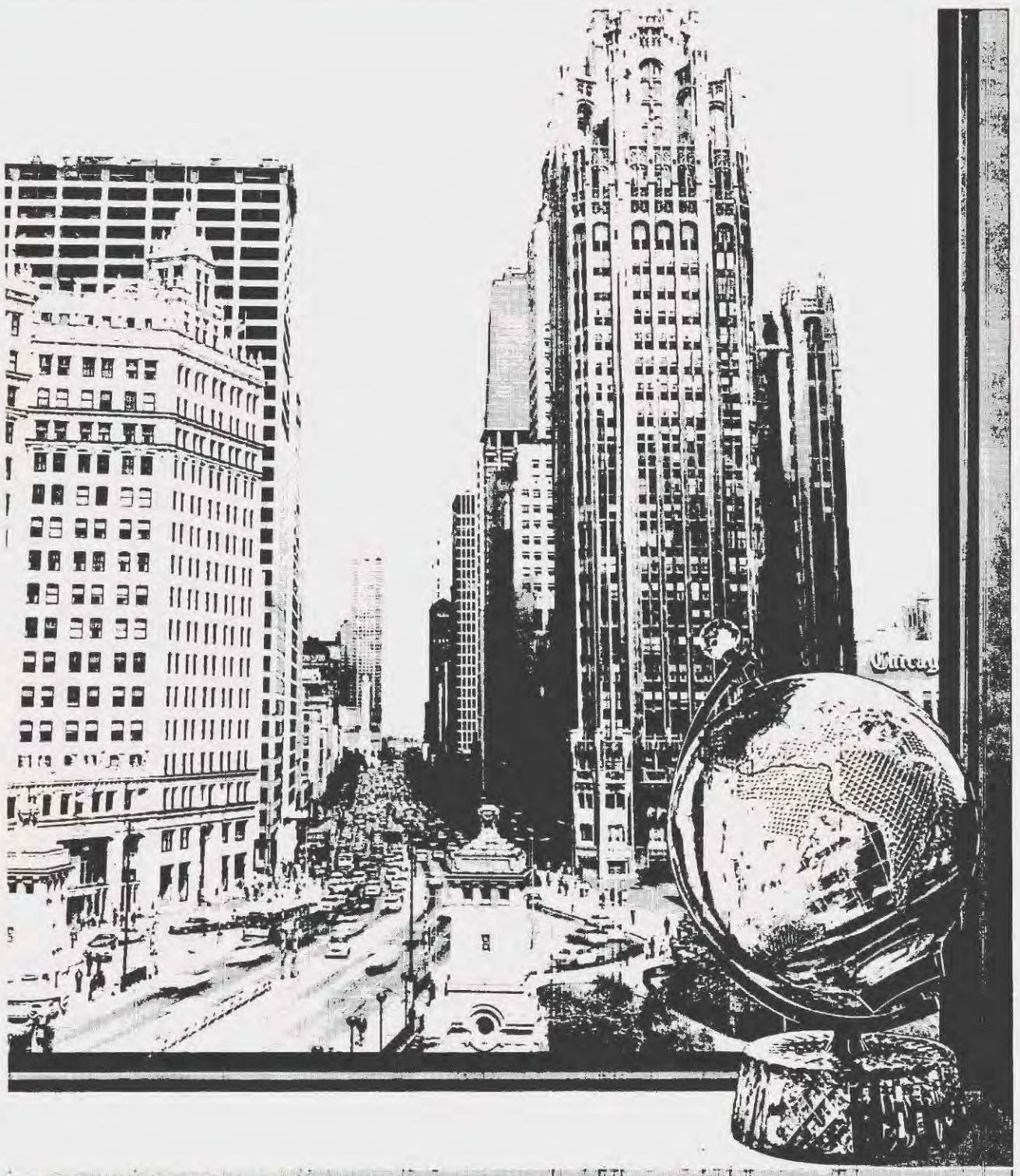
In January, the agency's non-marine syndicate 1113 will begin underwriting with premium capacity of 7.5 million pounds ($12.8 million).

Ian Smith, who formerly wrote North American facultative property reinsurance for Robin A.G. Jackson's non-marine syndicate 799, managed by Merrett Underwriting Agency Management Ltd., will be the underwriter. When syndicate 799 split into three subunits last year, Mr. Smith continued to be responsible for the U.S. facultative property account with Richard Lawrence's syndicate 1068 (see story, page 18).

Initially, the Catlin non-marine syndicate's underwriting will be about 52.5% property, much of it as excess-of-loss reinsurance; 12.5% U.S. property insurance written under binding authorities; 22.5% Canadian personal lines business; and 12.5% miscellaneous risks.

About 55% of the non-marine syndicate's premiums is expected to be in U.S. dollars, 25% in Canadian dollars and the remainder in other currencies.

Continued on page 16



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Losses to hike non-marine reinsurance costs

By CAROLYN ALDRED

LONDON—Lloyd's of London's non-marine underwriters expect to be hit with higher reinsurance rates this coming renewal season following two of history's largest insurance losses.

However, underwriters will not be able to hike policyholders' rates, particularly in the United States, to pay for the increased costs, market sources say.

Losses from October's windstorm, which wreaked havoc in parts of southeastern England, western France, Portugal and Norway, are expected to hit $3 billion, making it the world's most expensive catastrophe (*BI*, May 9; Oct. 26, 1987).

In addition, the insured loss of the Piper Alpha oil platform in the North Sea in July is expected to exceed $1 billion (*BI*, Aug. 1; July 18; July 11). Although most of the loss is expected to be paid by marine underwriters, it also will affect the non-marine reinsurance and retrocessional market.

The October windstorm, which has been given the title 87-J by Lloyd's Underwriters Non-Marine Claims Office, "is bigger than anyone expected. It will go through the retrocessional market and it will hurt people in the year-end renewal season ahead," said Richard Hazell, underwriter for non-marine syndicate 190, managed by Three Quays Underwriting Management Ltd.

Mr. Williams

"The U.K. and European windstorm in October, which I believe is the largest catastrophe loss ever to be funded by the insurance industry, will have a profound impact on the reinsurance market," underwriter Richard Keeling said in his annual report for syndicate 362, managed by Murray Lawrence & Partners.

Already, some syndicates have been hit by increased reinsurance rates as a result of the storm.

"We paid a higher price for our reinsurance (renewed July 1) than we would have done if 87-J hadn't happened," said Ker. Barrett, underwriter for syndicate 1066, which is a sub-unit of syndicate 799, managed by Merrett Underwriting Agency Management Ltd.

"But we can't hike rates to the U.S. ceding companies for their reinsurance because they weren't affected by 87-J," Mr. Barrett added.

Some underwriters predict that the two catastrophes may have a stabilizing effect on direct insurance rates, despite competitive pressures from the U.S. market.

"The Piper Alpha will capture attention, particularly following the October storm, which will hurt some people. I don't think you will see a sudden rush (of rates rising) like you did a few years ago, but I don't see rate competition continuing either," said Mr. Hazell.

"In the light of the 1987 catastrophe, there are hopes that the European markets will be more responsible, but it must be borne in mind that reinsurance protection is likely to cost more as the impact of the 1987 catastrophe penetrates the market," said underwriter John Pryke in his annual report on syndicate 404, which is managed by Cuthbert Heath Underwriting Ltd.

Meanwhile, rates in many areas still are softening partly because of competition from the U.S. property/casualty insurance market, according to Michael Williams, chairman of Lloyd's Non-Marine Underwriters' Assn.

Continued on next page

Catlin agency

Continued from page 14

Mr. Smith also will specialize in North American electric utilities. He will be assisted in the box by Howard J. Reed, his former assistant at syndicate 1068, and Geraldine Prust, also a former assistant of Mr. Smith at the Merrett Group.

Meanwhile, the Catlin agency plans to gradually expand its members agency, which currently manages the affairs of just 22 names. Mr. Catlin recruited Kim Beddall in May as managing director with specific responsibilities for the members agency department. Mr. Beddall previously was a director of Lloyd's broker Willis Faber P.L.C.'s energy division.

This, in turn, allows fellow director and early staffer Lesley Denekamp to concentrate on expanding the managing agency business.

Mr. Catlin, however, stressed that the agency has no ambitions to grow rapidly.

"The way we see satisfactory growth is to improve our management and expertise before taking each step," he said. "We will expand when the timing is right. We're all interested in the long term, but we don't have to find an opportunity. We will simply take it when it comes."

Mr. Catlin admits he is "still learning," adding that the agency's management "runs a tight ship."

While the average age of Catlin agency personnel is 30, Mr. Catlin is concerned that opportunities for young underwriters starting up on their own at Lloyd's are diminishing.

Setting up independent agencies is becoming more and more difficult, partly as a result of the increasing rules and regulations being imposed on the financial community as a whole and at Lloyd's in particular, he said.

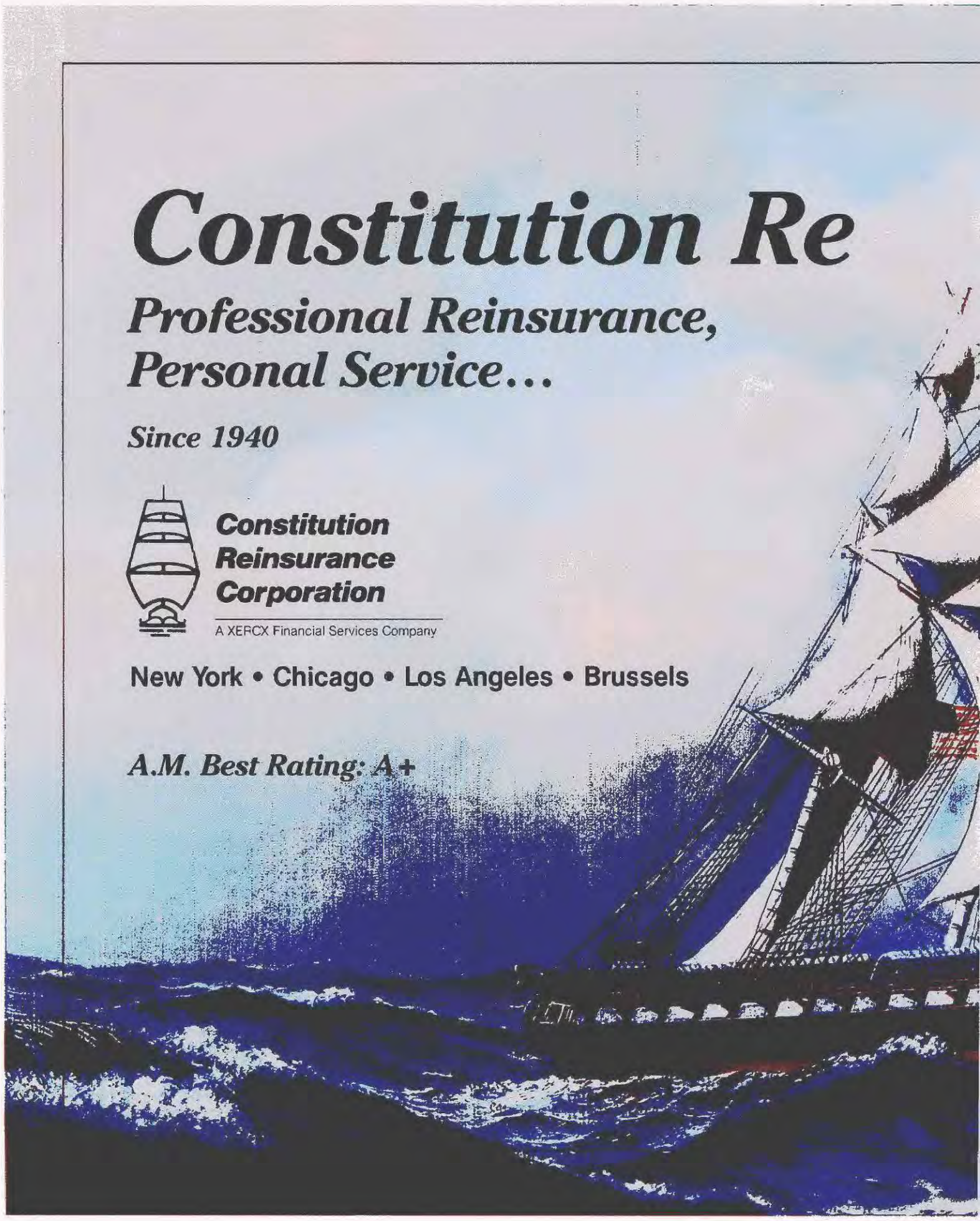
Like the underwriters who supported him when he started, Mr. Catlin is keen to support others.

"We would like to see more people doing what we have done. The marketplace has to be about death and regeneration. We have not had enough regeneration," he said. As a result, Lloyd's lost a lot of "bright young things" to other financial institutions.

"If you look at the marketplace there is a gap—except for a few exceptional underwriters—from the age of about 35 to 55. People were not being rewarded and left, creating a vacuum," he noted.

The continuing ability to create small, new entities at Lloyd's is vital for the market, he said.

"The market is going to have to decide whether it wants to see big entities and fewer of them or a balance. I believe there is an important place for both. The marketplace, if it's to be a marketplace, needs big and small," he said. ■



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However, "I believe that the current market is healthy. What we are writing and doing as a market is likely to be profitable," he said.

Although "there have been some pretty substantial reductions in U.S. property rates," underwriters had a "good run of high rates" at a time when there were few catastrophes or large property losses, Mr. Williams noted.

Rates for directors and officers liability insurance are weakening with average reductions of about 20%, according to Richard Lawrence, who leads 70% of all D&O business in London. He underwrites for syndicate 1068, a sub-unit of syndicate 799.

Financial institution business also is softening, according to Stephen Burnhope, underwriter for syndicate 1067, another sub-unit of syndicate 799.

"There is more capacity in the business after some disastrous years. I don't think, however, we should be unduly concerned," Mr. Burnhope said.

However, many underwriters in Lloyd's non-marine market still are refusing to write U.S. casualty risks on an occurrence basis, which will reduce the U.S. casualty business being written by Lloyd's, said NMUA's Mr. Williams.

"There have been some pretty substantial reductions (on U.S. business), which has made people look elsewhere. Rates outside the U.S. are holding up pretty well," he noted.

For example, "Europe is very interesting. We see our role in Europe as a positive one, where we can offer flexibility of cover," said Mr. Williams.

Many insurers and brokers already are gearing up for the dismantling of trade barriers within the European Common Market in the next few years. In 1990 there will be no trade restrictions for major industrial risks among the 12 EC countries and, in 1992, all other trade barriers will be removed (*BI*, May 16).

Lloyd's last year established a representative in Italy and also is hoping to set up a representative in West Germany by the end of this year. The Corporation of Lloyd's already has representatives in Ireland, France, the Netherlands and Belgium.

"We have established ourselves in Italy because we would like to write small commercial and household risks as well as large business," said Mr. Williams.

One of the non-marine market's largest syndicates, syndicate 210, managed by R.W. Sturge (Non-marine) Ltd., noted in its annual report this year that the syndicate, "in common with most Lloyd's non-marine underwriters, is attempting to do more business within the EEC."

Lloyd's underwriters also are examining ways to attract more business into Lloyd's both through existing channels and by developing new routes into the market.

However, while underwriters may be looking to attract business from other areas, U.S. property/casualty business remains the single most important market to Lloyd's, underwriters agree.

Past U.S. casualty business, however, still is causing concern to many non-marine syndicates, said Mr. Williams.

"The results of the non-marine market are worsened by the asbestos problem. Everybody is aware that 1987 was a particularly bad year for incidents of new asbestos claims. Any syndicate writing business when asbestos was being made or used has had to increase reserves," he said.

Pollution also worries many underwriters who are looking anxiously at the progress of the Shell trial in California involving coverage claims for pollution cleanup at the Rocky Mountain Arsenal near Denver (*BI*, May 30; May 23; March 21; Feb. 8).

"We do not feel we should be made to pay to clean up America. Individually we are going to fight the claims very strongly," said Mr. Williams.

However, many underwriters are more optimistic about the extent of pollution losses compared with asbestos losses. "We feel we have far better defenses (for pollution coverage litigation) and that we are better prepared than we were over the asbestos situation where, to put it mildly, we were raped," Mr. Williams added.

Meanwhile, the market is upset by the antitrust litigation, in which 19 U.S. state attorneys general are suing Lloyd's, several U.S. insurers and others alleging "boycott, coercion and intimidation" (*BI*, June 20, March 28).

Many underwriters "feel that it's desperately unfair that we should be attacked in this fashion. There was no plot to do anything. We had lost a lot of money in certain classes of business and, for commercial reasons, some underwriters decided they could no longer afford to write certain business," Mr. Williams said.

"People had to take a realistic approach in order to survive. But each decision was an individual decision. Some people adopted the claims-made form, others didn't," he added.

Lloyd's has never deserted the United States, he stressed. For example, when pollution coverage

Continued on next page

Largest Lloyd's non-marine syndicates

(Based on 1988 gross allocated capacity in millions of pounds)

Syndicate	Managing agency	Underwriter	Capacity 1988	Capacity 1987[1]
799	Merrett Underwriting Agency Management Ltd.	R.A.G. Jackson	227.3	229.7
210	R.W. Sturge (Non-Marine) Ltd.	A.G. Lee	191.0	218.5
190	Three Quays Underwriting Management Ltd.	R.D. Hazell	160.5	147.7[2]
362	Murray Lawrence & Partners	R.J.R. Keeling	146.2	152.0
510	R.J. Kiln & Co. Ltd.	G.D. Gilchrist	120.0	122.7
386	Janson Payne Management Ltd.	M.W. Payne	109.4	97.4
33	Roberts & Hiscox Ltd.	I.N. Thomson	93.3	96.6
839	Castle Underwriting Agents Ltd.	A. Sharp	89.8	63.7
404	Cuthbert Heath Underwrting Ltd.	J.W. Pryke	80.7	69.3
484	Methuen (Lloyd's Underwriting Agents) Ltd.	R.E. Thomson	79.4	82.7

[1] Adjusted to 1987 gross allocated capacity

[2] Includes syndicate capacity for syndicate 204 which becomes a separate syndicate in 1988

Source: Lloyd's of London

Non-marine market

Continued from previous page
was excluded by insurers under comprehensive general liability policies, Lloyd's stepped in during the early 1980s to offer environmental impairment liability protection on a claims-made basis, resulting in huge losses to the market, he said.

The Assn. of Lloyd's predicts total profits for Lloyd's non-marine market of 117.6 million pounds for the 1985 underwriting year ($221.1 million at the appropriate exchange rate), the year just closed under Lloyd's three-year accounting system.

This figure is net of underwriting agents' profit commissions but does not include results from syndicates in runoff.

This year, total capacity for 159 non-marine syndicates at Lloyd's is 4.2 billion pounds ($7.1 billion), according to Lloyd's.

The largest non-marine syndicate is 799, managed by Merrett Underwriting Agency Management Ltd., with a gross allocated capacity this year of 227.3 million pounds ($386.4 million).

In 1985, the year just closing under Lloyd's three-year accounting system, syndicate 799 made a profit of 11.5 million pounds ($21.6 million). The syndicate, which had an allocated net premium capacity of 113 million pounds ($212.4 million), wrote gross premiums totaling 169.6 million pounds ($318.8 million) and net premiums of 118.4 million pounds ($222.6 million).

Although the accounts show evidence of overwriting, "that is because we were monitored on our premium income at a uniquely low rate of (currency) exchange as of January 1985 for the 1985 account and these final accounts are based on a rate of exchange as at Dec. 31, 1986. Although we substantially overwrote in 1985 on the premium income monitoring basis, we were only modestly over the limit on a closing of the account basis," Mr. Jackson said in his annual report.

Syndicate 799's current stamp capacity of 227.3 million pounds is slightly less than its gross allocated capacity last year of 229.7 million pounds ($431.8 million).

The 1988 stamp capacity of syndicate 210, the non-marine market's second largest syndicate, also has been reduced slightly to 191 million pounds ($324.7 million).

Syndicate 210 this year is underwritten by Alan Lee, succeeding Ralph Rokeby-Johnson, who retired from underwriting this year but remains active in Lloyd's committees and at Sturge.

The syndicate formally split this year from syndicate 204, underwritten by Roger Field. Combined gross premium capacity for the syndicates last year was 218.5 million pounds ($410.8 million). Syndicate 204 generally wrote 10% of the combined premiums, making 210's gross capacity in 1987 about 196.5 million pounds ($369.4 million).

Meanwhile, syndicate 190, managed by Three Quays Underwriting Management Ltd., increased its gross premium capacity to 160.5 million pounds ($272.9 million) from 147.7 million pounds ($277.7 million) making it the market's third-largest syndicate this year (see story, page 26).

Dropping from third to fourth this year is syndicate 362, managed by Murray Lawrence & Partners, which has a slightly decreased capacity of 146.2 million pounds ($248.5 million), compared with a gross capacity in 1987 of 152 million pounds ($235.8 million).

Similarly, syndicate 510, the market's fifth-largest syndicate, managed by R.J. Kiln & Co. Ltd. and underwritten by G.D. Gilchrist, has a slightly decreased capacity of 120 million pounds ($204 million) compared with 122.7 million pounds ($230.7 million) in 1987. ■

Three succeed Jackson at syndicate 799

By STACY SHAPIRO

LONDON—This year marks the end of one era and the beginning of another in the non-marine camp of Lloyd's of London's Merrett Underwriting Agency Management Ltd.

After 27 years in insurance, Lloyd's most vociferous non-marine underwriter, Robin A.G. Jackson, director of Merrett Holdings P.L.C., retires from underwriting, and with him goes Lloyd's largest non-marine syndicate 799, which he built up since joining Merrett in 1976.

In his place will be his three deputy underwriters and succeeding 799 will be three new syndicates.

Each of the deputy underwriters is young, a leader in his field and very knowledgeable about North American underwriting. They are:

- Ken Barrett, 34, underwriter for syndicate 1066, which will write the most famous of syndicate 799's products—North American casualty treaty reinsurance for the top U.S. insurance companies—and medical malpractice coverage.
- Stephen Burnhope, 32, underwriter for syndicate 1067, who already is the leading Lloyd's underwriter of financial institution coverage.
- Richard Lawrence, 41, underwriter for syndicate 1068, who already is one of the leading Lloyd's underwriters of directors and officers liability coverage.

Mr. Jackson, 53, will retire from underwriting at the end of the 1988 underwriting year having served 11 years with General Reinsurance Co. in the United States, five years with Unionamerica Insurance Co. Ltd. in London and 11 years with syndicate 799. He will continue as an executive of Merrett until the 1987 underwriting year is closed in 1990.

"I've always said that I would retire earlier than later," Mr. Jackson said last year. "I think 12 years is pretty much the length of time to run a Lloyd's syndicate, and I've reached that. Besides, there are other things to do in life than insurance. . . .It's silly to do those things when you are 65 and too old to enjoy them" (*BI,* May 4, 1987).

With his retirement in sight, Mr. Jackson decided early last year that the best future for syndicate 799 and its 50 employees would be to split it up, and the Merrett board agreed.

This year, syndicate 799 has more than 5,500 members with an allocated capacity of 227.3 million pounds ($386.4 million), nearly 10 times greater than the 27.1 million pounds ($46.1 million at the current exchange rate) the syndicate had when Mr. Jackson started underwriting in 1977.

'I've always said that I would retire earlier than later,' Robin A.G. Jackson has said in the past.

The philosophy that smaller is more beautiful also is being used by Merrett in restructuring Lloyd's largest marine syndicate 418/417/422, which was announced recently (see story, page 11).

Syndicate 799 was split at the beginning of this year into three sub-units with their own syndicate numbers led by Mr. Barrett, Mr. Burnhope and Mr. Lawrence.

While the sub-units have been given their own numbers and are treated in the market as separate entities, they are still part of syndicate 799 and share a single reinsurance program, members and senior underwriter Mr. Jackson.

The three units were allocated 90% of syndicate 799's overall capacity, which Merrett estimated at around 230 million pounds ($391 million) for this purpose instead of the 227.3 million pounds ($427.3 million at year-end 1987 exchange rate) Lloyd's estimated on Dec. 31, 1987. The other 10% was left unallocated for budgetary control.

Mr. Barrett's syndicate 1066 this year has 72 million pounds ($122.4 million) of capacity; Mr. Burnhope's syndicate 1067 has 85 million pounds ($144.5 million) of capacity; and Mr. Lawrence's syndicate 1068 has 50 million pounds ($85 million) of capacity.

Beginning with the 1989 underwriting year, syndicate 799 ceases to exist and in its place will be three new syndicates. The new independent syndicates each will take a share of syndicate 799's reinsurance premiums to close at the end of this year proportionate to its capacity. MUAM will provide a new central administration to handle the claims and the reinsurance on the old years of 799.

Each new syndicate will have its own members and buy its own reinsurance in 1989. Syndicate 799 members have been asked to participate in each of the three new syndicates in a fixed proportion to each syndicate's capacity in 1989. Mr. Barrett will receive 40% of the members' total capacity; Mr. Burnhope will receive 40%; and Mr. Lawrence will receive 20%.

In 1990, the members may vary their involvement on the three syndicates as they wish.

Both Mr. Jackson and Merrett Holdings Chairman Stephen Merrett will continue as members on all three syndicates according to the syndicates' fixed proportions.

Each new underwriter started in insurance by working for a Lloyd's broker and grew up professionally on syndicate 799.

Mr. Barrett, underwriter for 1066, started in the Lloyd's community at the age of 17 "purely by accident." He had interviews with two banks and with Lloyd's broker E.W. Payne & Co., but was more attracted to Payne than to the banks. After 18 months, he moved to syndicate 799, which was then led by underwriter Leslie Dew, former deputy chairman of Lloyd's.

For several years "I moved around the box," Mr. Barrett recalls, including a stint with Mr. Dew, which he described as "awesome."

When Mr. Jackson arrived in 1976, "he studied us all for six months and he identified me as the person to understudy him on medical malpractice, and I've been doing it ever since," said Mr. Barrett. "I became a Lloyd's leader (in medical malpractice) under his tutoring."

Mr. Barrett also shared the casualty treaty underwriting, and in January 1986 became one of three deputy underwriters of the syndicate along with Mr. Burnhope and Mr. Lawrence.

With his new syndicate, Mr. Barrett will continue to be a leading Lloyd's underwriter in medical malpractice coverage with 45 clients mainly in the United States, including the California Hospitals Assn. He also continues as one of a half-dozen leading underwriters of casualty treaty reinsurance for 100 ceding companies, 95% of which are in the United States.

The syndicate, which will employ 16 people, roughly divides its capacity as follows: 25 million pounds ($42.5 million) for medical malpractice risks; 24 million pounds ($40.8 million) for casualty treaty reinsurance; 16 million pounds ($27.2 million) for property treaty reinsurance; 6 million pounds ($10.2 million) for non-medical coverages like professional liability and D&O liability; and 1 million pounds ($1.7 million) for short-tail casualty classes.

Along with Mr. Barrett is Terry Wheatley, who will underwrite casualty treaties, and Andrew Robinson, who writes property business.

Syndicate 1066 is based on the fourth floor of the Lloyd's building, which so far is occupied by only a few underwriting boxes.

Mr. Barrett inherits some of the business that drew Mr. Jackson into U.S. antitrust litigation filed by 19 attorneys general who accused Mr. Jackson and scores of others in the U.S. and London market of conspiring to restrict li-

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Merrett syndicate

Continued from page 18

ability coverage a few years ago (*BI,* June 27; June 20; March 28).

The litigation alleges that London reinsurers tried to force restrictions in coverage by imposing claims-made wordings on ceding companies.

Most of Mr. Barrett's inherited business is reinsurance of mainly occurrence policies, and the syndicate imposes sunset clauses to reduce the reinsurance tail of the original policies.

"We weren't mandating claims-made forms, but we were encouraging them," said Mr. Barrett. "Our view hasn't changed but we are not trying to change the world. The U.S. (insurance) industry is consumer-driven, and we try to design products to meet the needs of the business."

Syndicate 799 in 1984 de-emphasized long-tail risk-exposed re-

'We will stay pretty much the way we are today,' says Ken Barrett of the future of his syndicate 1066 that will follow when 799 is split. 'We will stay in medical malpractice and casualty treaty and we will stay in reinsurance.'

insurance contracts and emphasized auto reinsurance and clash casualty reinsurance, which pays when a ceding company receives more than one claim from a single disaster.

In 1986 and 1987, the syndicate was forced to restrict the amount of casualty treaty reinsurance it underwrote to comply with Lloyd's ruling that it only write 85% of its allocated capacity.

Mr. Barrett plans to pursue the same strategies and to increase those lines that he had to reduce up to the pre-1986 levels.

"We will stay pretty much the way we are today," said Mr. Barrett.

"We will stay in medical malpractice and casualty treaty and we will stay in reinsurance. I doubt we will go into direct insurance underwriting in the foreseeable future," he said.

Gregarious Mr. Burnhope, who at 32 is the youngest of the three new underwriters, will become underwriter for syndicate 1067 following 16 years in the insurance community.

"I was a school-leaver at the age of 16, which people wouldn't do today to become underwriters at Lloyd's, and I knew someone who worked at Lloyd's," Mr. Burnhope recalls.

"I thought that underwriting looked like an artistic science and it appealed to me."

There was an advertisement on television at the time for another insurance company that made insurance sound dull, "but Lloyd's was more interesting than I assumed," he said.

After several years with Lloyd's insurance brokers, including J.H. Minet & Co. Ltd., Mr. Burnhope joined syndicate 799 on June 15, 1975. "I remember that date more than my birthday," he said.

He started by working with now retired underwriter George Milton on Mr. Dew's syndicate and began the personal accident account. Two years after Mr. Jackson joined the syndicate, he asked Mr. Burnhope to work with John Twitchett on financial institutions.

Upon Mr. Twitchett's retirement in 1982, Mr. Burnhope took over financial institution underwriting.

"It was a rather nice little opportunity for me, and I have been a financial institutions underwriter ever since," Mr. Burnhope said.

In 1986, Mr. Burnhope became a deputy underwriter on the syndicate.

Mr. Burnhope, who is considered the leading underwriter in London of financial institution coverage, will employ 23 people on his new syndicate, including assistant Polly Amos. Also underwriting on the syndicate will be Richard Fielder, who will write U.S. property coverage; Peter Battle, who will write financial institutions coverage; Mark Coupland, who will join the syndicate in October from J.H. Minet & Co. Ltd. to underwrite professional liability coverage; and Keith Thoroughgood, who will write personal accident and non-U.S. property coverage.

Mr. Burnhope also has acquired most of the senior claims personnel from syndicate 799, except Jim Ayliffe, who retired this year.

"We want to stick to what we are good at (and) bring on some new business. . .although there is no particular pressure to do that," he said.

Mr. Lawrence, underwriter for syndicate 1068, this month celebrates his 20th year with Merrett. He, like Mr. Burnhope, started on the Lloyd's brokerage side at the age of 16.

He worked at Matthew Wrightson Ltd. and Glanvill Enthoven Ltd. before joining Merrett at the age of 21 in 1968.

"I wanted to join underwriting because it seemed more challenging than broking," Mr. Lawrence recalls. "Syndicate 799 was a syndicate I knew from my broking days and it was a go-getting syndicate and that's why I wanted to be with it."

Mr. Lawrence also worked around the box, first in non-U.S. dollar property and financial institutions before he became involved in D&O liability insurance in 1974. Mr. Lawrence took over underwriting D&O coverage for the syndicate in 1981. In 1986 he helped write a new trend-setting policy wording for D&O insurance, which restricted coverage and allowed syndicate 799 to keep offering the coverage while other D&O underwriters pulled out of the market altogether, causing a crisis (*BI,* Jan. 27, 1986).

In the D&O market, he says, "we have no competitors, only imitators." Mr. Lawrence says he leads about 70% of the major D&O business in the London market, which is predominantly U.S.-based.

Approximately 60% of the syndicate's capacity is allocated to short-tail risks, such as U.S. property business, particularly excess-of-loss property reinsurance; some Canadian auto; worldwide non-dollar accounts, such as U.K. homeowners coverages; and some bloodstock insurance.

The remaining 40% of the syndicate's capacity is allocated to medium-tail business, such as D&O liability and errors and omissions coverages.

There are 14 people on syndicate 1068, including Jerry Oligslager, who has replaced Ian Smith to write North American property programs. Mr. Smith left this year to start a new non-marine syndicate alongside Lloyd's marine underwriter Stephen Catlin (see story, page 14).

Mr. Oligslager worked on a syndicate of the now-defunct New York Insurance Exchange managed by CIGNA Corp. before joining Mr. Lawrence.

Also underwriting on Mr. Lawrence's syndicate is Alan Haycock, who will write non-U.S. dollar property coverage. ■

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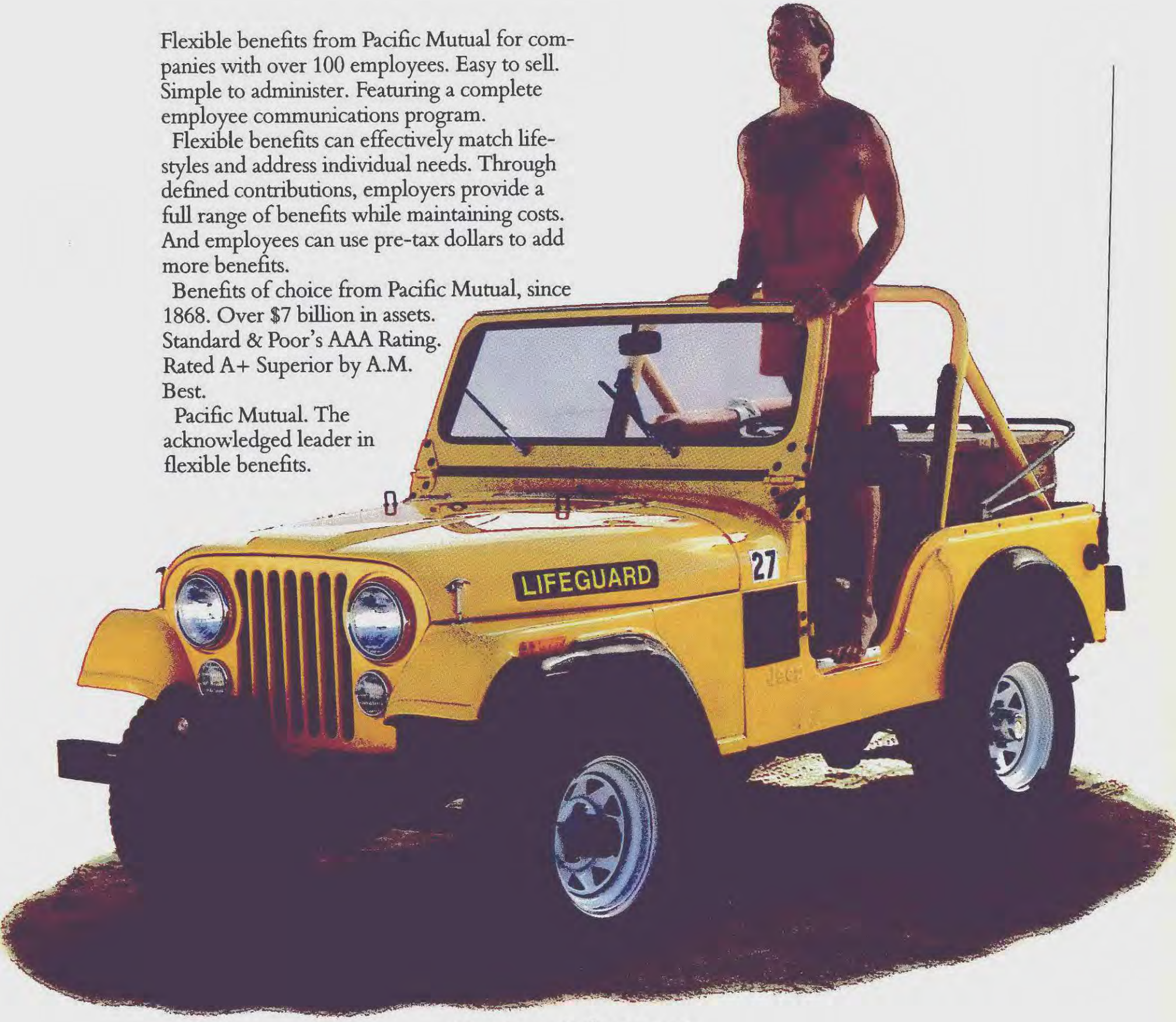

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Never a slow day for Lloyd's chairman

Photo: Ashley Ashwood/Financial Times

Lloyd's of London Chairman Murray Lawrence spends much of his day in his office on the 12th floor of Lloyd's futuristic building.

By STACY SHAPIRO

LONDON—Lloyd's of London's chairman is the market's senior statesman, future planner and best listener.

He is prepared to shake a hand at a moment's notice and listen to ideas that might improve the market. He leads the Council of Lloyd's monthly meetings; keeps in touch with about 50 market committees; attends luncheons, cocktail parties and dinners; gives speeches; and travels the world meeting industry and government leaders.

Critics of the Lloyd's chairman's role suggest he should be only a figurehead, but advocates of the position say that his extensive knowledge of the market is vital to running the 300-year old institution.

Even on what Lloyd's calls a slow day in the slow month of August, the market's current chairman, Murray Lawrence, conducts a seemingly endless string of meetings on topics ranging from his trip to New Zealand, Australia and Hong Kong in late October to his speech accompanying the Sept. 8 announcement of Lloyd's global results.

Mr. Lawrence granted this *Business Insurance* reporter's request to sit with him on Aug. 11, which is the first time any journalist has followed a Lloyd's chairman for a day.

At 9:15 a.m., Lloyd's Chief Press Officer David Larner and this reporter are announced by the chairman's waiter, Malcolm Archard.

With his jacket already off, which remained off all day except for his luncheon engagement, Mr. Lawrence recounts the morning's events so far:

As usual, the day began at 8 a.m. when driver John Nichols picked him up at his apartment in Victoria in London in the chairman's Rolls Royce. The license plate of the chairman's car is always NUC 2, the designation assigned to Lloyd's first Rolls and carried forward

Mr. Lawrence inherited Mr. Nichols and the Rolls when he became Lloyd's chairman on Jan. 1, as well as 40 ex-officio positions including president of The Cutty Sark Society; membership in the Confederation of British Industry, Royal National Lifeboat Institution, London Chamber of Commerce and Royal Merchant Navy School in Bearwood; honorary membership in the Royal Yacht Squadron and Honorable Company of Master Mariners; and president or patron of 11 of Lloyd's after-work clubs such as Dramatic, Operatic & Music Society; Railway Society; Room Rifle Club; Sports Club; Swimming Club; Yacht Club; and Cricket Club.

By 8:30 a.m., Mr. Lawrence was in the chairman's office on Lloyd's plush 12th floor.

The 11th and 12th floors at the top of the building are a sharp contrast to the marketplace below. Instead of blue carpeting, the floors are laid in pale magnolia marble to match the walls and are connected by a central marble staircase.

On the 12th floor are the offices of the chairman; Senior Deputy Chairman David Coleridge; Junior Deputy Chairman Alan Parry; Chief Executive Alan Lord and his personal assistant; Head of Regulatory Services Andrew Duguid; and Solicitor to Lloyd's Corporation William C. Beckett.

Also on the 11th and 12th floors are Lloyd's Council Secretariat office and the Council Room from the 1928 Lloyd's building, which was moved the 1958 building and again into the new building in November 1986.

The beautifully decorated chairman's office is filled with Lloyd's tercentenary crystal bowls; books; rust and blue-colored couch and chairs; the traditional chairman's oak desk, which has been in the last three Lloyd's buildings; a new mahogany dining table; and a grandfather clock from the Weatherfield collection.

The atmosphere, unlike the busy and noisy market below, is peaceful, with the tic-toc of the grandfather clock in the background of discussions. Only occasionally does the sound of the market below intrude, echoing from Lloyd's famous atrium.

Light streams in from the atrium through white blinds over windows on one side of the room, while uncovered windows on the other side reveal an exquisite view of Southeast London.

Mr. Lawrence began the day's work trying to telephone Lloyd's New Zealand representative for more information about New Zealand's tax reform bill, which could tax Lloyd's members' foreign income for the first time. Unsuccessful, he asked his waiter to try. He eventually gives up and sends a telex.

Around 8:45 a.m., Mr. Lawrence held his regular weekly meeting with Paul Archard, managing director of Lloyd's underwriting agency Murray Lawrence & Partners, where Mr. Lawrence is senior partner.

"It's New Zealand day today," Mr. Lawrence explains to this reporter, referring to work he will do to prepare for his trip, which begins Oct. 22.

Mr. Lawrence's personal assistant, Jill Bromley, will be leaving shortly for vacation, so Mr. Lawrence wants to organize the New Zealand trip before she leaves.

New Zealand is very important to Lloyd's because it has more Lloyd's members per capita than any other country in the world: 400 members out of a population of about 3 million.

It is Mr. Lawrence's fourth extensive foreign trip this year and will last about three weeks. A Lloyd's chairman never travels for more than three weeks at one time, because he cannot afford to miss two council meetings, his advisers say.

While discussing the day, Mr. Lawrence passes to Mr. Larner a draft transcription of an interview conducted with a Philippine reporter. He asks Mr. Larner to edit it for structure rather than content.

Mr. Larner is the chairman's personal press officer and will travel with him in October.

Acting as the market's liaison with the world's press, the chairman gives more than 100 interviews a year to newspapers, magazines, radio and television. He also periodically invites journalists to private lunches.

The biggest press event, however, is the announcement of Lloyd's global results, Mr. Larner said.

By 9:30 a.m., a string of meetings gets under way, each beginning with Mr. Archard, the chairman's waiter, announcing—either by phone or in person—his next guest.

Four waiters on the 12th floor of Lloyd's answer phones, assist visitors, send messages and gather information for the chairman, senior and junior deputy chairmen and Mr. Lord. The staff is inherited by each Lloyd's chairman and also includes the chairman's secretary, Shirley Wright.

As a sign of respect, nearly all visitors and staff call Mr. Lawrence "Mr. Chairman," "Chairman" or "Sir" and rarely address him as Mr. Lawrence or Murray.

First to arrive is Ms. Wright, a seven-year veteran in her post.

Mr. Lawrence dictates letters, including one to Robert Clements, chairman of Marsh & McLennan Inc., about a speech the chairman will give at the National Assn. of Insurance Brokers meeting next year.

He is interrupted by a phone call from a Lloyd's market leader who has a suggestion for reducing the number of syndicates that are left open. Mr. Lawrence listens politely, says they are interesting ideas and thanks the caller. He moves back to dictating without missing a beat.

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Lloyd's chairman

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Ms. Wright tells the chairman about his luncheon partner, invitations to cocktail parties and suggests whether to attend.

Mr. Lawrence tries to accept most invitations to market functions. Attendance at other parties or dinners given by companies outside Lloyd's is decided based on the hosts and guests.

Ms. Wright is compiling a file of events Mr. Lawrence has attended and comments on who he has met so he and future chairmen can recall functions that were useful and interesting.

"If I meet someone from the Department of Trade or Industry or the Treasury, then the party was well worth it," Mr. Lawrence says.

The Lloyd's chairman also is obliged to attend several dinners annually, including those given by the Bank of England and the Lord Mayor of London, as well as state functions. And this year he attended a private luncheon with Queen Elizabeth II.

Mr. Lawrence also has hosted several tercentenary functions, including: the February lighting of the Lloyd's building attended by Queen Elizabeth, the Queen Mother; the June banquet in the Lloyd's building attended by Princess Anne; and the March conference aboard the Royal Yacht Britannia where the Duke of York greeted guests (*BI,* March 14).

Among the other birthday celebrations Mr. Lawrence attended were a concert hosted by Lloyd's broker C.T. Bowring & Co. Ltd. and a Lloyd's Tercentenary Polo Match in which Prince Charles played.

Generally, except in August, Mr. Lawrence says he attends about three evening functions a week, sometimes accompanied by his wife, Sally.

At 10 a.m., Lloyd's Head of Public Affairs Peter Hill and Parliamentary Liaison Irene (pronounced Ireenee) Dick sit down at the oval dining table in the chairman's office to discuss the third draft of Mr. Lawrence's speech accompanying the announcement of Lloyd's results. The second draft had been reviewed by Lloyd's Committee of working members on Lloyd's Council and suggestions had been made.

Mr. Lawrence, Mr. Hill and Ms. Dick carefully examine the third draft, checking figures for accuracy and that the messages Lloyd's wants to communicate are clear.

The three also discuss what the chairman should say in his 10-minute summary at the Lloyd's global press conference, which follows distribution of his speech.

He can use these minutes to hit home some of the main points he hopes will appear in newspapers and magazines.

The meeting is interrupted briefly by Senior Deputy Chairman Coleridge, who wanders in unannounced through the door connecting his office to the chairman's. Several times during the day Mr. Coleridge will walk into the chairman's office, or Mr. Lawrence will visit Mr. Coleridge, to discuss market issues—and sometimes personal matters.

The senior deputy chairman, a post Mr. Lawrence held for four years under Chairman Peter Miller, works very closely with the chairman on a daily, if not hourly, basis.

On this occasion, Mr. Coleridge comes to chat about his 17½-year-old son getting his driver's license and how he should be insured. Mr. Lawrence has some tips.

Mr. Coleridge also is chairman of Lloyd's largest underwriting agency, Sturge Holdings P.L.C.

At 11 a.m. Mr. Lawrence welcomes an executive from a Lloyd's members' agency to discuss a particularly controversial problem in the London market. Mr. Lawrence points out that Lloyd's tries at all costs not to get involved in market problems.

By 11:40 a.m. Mr. Lawrence is discussing New Zealand again with Ms. Bromley and Lloyd's Taxation Department Manager David Culliford. The issues: Should there be three member meetings in New Zealand? What should Mr. Lawrence discuss when he meets with the New Zealand's prime minister and deputy prime minister?

At 12:15 p.m. Mr. Lawrence signs letters.

He leaves at 1 p.m. for lunch with Gerrard & National Holdings P.L.C. Director R.B. Williamson, walking to lunch.

At 2:30 p.m., Mr. Lawrence meets with John Greig, chairman of Lloyd's broker Greig Fester Group Ltd., and Ms. Bromley to learn more about New Zealand's Government Earthquake Scheme and Lloyd's involvement with it.

When Mr. Greig and Ms. Bromley leave, Mr. Lawrence walks out of his office to greet Dennis Mahoney, chairman of Alexander Howden Ltd. The meeting is one of Mr. Lawrence's longest of the day, lasting nearly an hour.

They discuss one of the market's most important topics: developing more business.

The two men spar across the table just as other brokers and underwriters are probably doing 12 floors below in the underwriting room about alternative access to Lloyd's to attract more business.

Mr. Lawrence is concerned about Lloyd's brokers taking business that Lloyd's underwriters want to see to market rivals. But Mr. Mahoney says that it costs more to present business to Lloyd's than to other London-based insurance companies.

"That's a pity," Mr. Lawrence says earnestly. He asks Mr. Mahoney to draw up a list of the main areas that Lloyd's must address.

Mr. Lawrence, himself an underwriter, also wonders what administrative or marketing tasks handled by Lloyd's brokers can be taken over by Lloyd's underwriters. However, Mr. Mahoney, who is concerned that Lloyd's loss adjuster Toplis & Harding was sold, wonders if Lloyd's underwriters can take over those roles from brokers.

The chairman suggests that Mr. Mahoney investigate setting up a pilot program with a small group of Lloyd's underwriters to broker and administer business in the most efficient way possible.

Mr. Mahoney says he is already looking into the project.

The two men and others were to further discuss this issue when the chairman sailed with the Lloyd's Insurance Brokers Committee last weekend on the Queen Elizabeth II in the English Channel. The chairman, deputy chairmen and members of the council had been invited by LIBC to celebrate Lloyd's tercentenary.

Finally, at about 4:45 p.m., Mr. Lawrence leaves the chairman's office and walks to his office at Murray Lawrence & Partners to meet with his secretary, Hazel Hayden, to discuss agency matters.

Mr. Lawrence devotes four to 4½ days a week to the chairmanship.

His day ends no later than 7 p.m. and sometimes earlier on Friday, unless he attends a party or dinner.

However, tonight will be early. "August is blissfully quiet," muses the chairman of Lloyd's. ■

'87 windstorm claims create flurry of activity

By CAROLYN ALDRED

LONDON—Lloyd's of London Claims Manager Douglas Clark blames the night of Oct. 16, 1987, for the unusually large number of claims landing on his desk this summer.

"Normally during August this would be empty," he said, pointing to a shelf piled high with files above his claims box at Lloyd's.

In the early hours of Oct. 16, hurricane-force winds swept up the English Channel, devastating areas of southern England and western France. Total claims from the storm could reach $3 billion, making it the most expensive natural disaster in the world, some underwriters say (*BI,* May 9; Feb. 29; Nov. 23, 1987; Oct. 26, 1987).

"The loss has affected us far more than Hurricane Alicia or any of the U.S. windstorms did," said Tony Pitt, deputy underwriter for syndicate 544, managed by A.J. Archer & Co. Ltd., and underwritten by Derek Dolling-Baker. Alicia, which devastated portions of the Texas coast in August 1983, caused more than $1.3 billion in insured damages (*BI,* Oct. 10, 1983; Sept. 5, 1983; Aug. 29, 1983).

In fact, "October 87-J," as it is known at Lloyd's, has produced the largest-ever loss to the syndicate, before reinsurance, confirmed Mr. Clark, claims manager for syndicate 544. However, Mr. Clark did not provide actual claims figures.

New claims from the October storm still are being presented to the syndicate, partly because of the enormous backlog of work by builders and loss adjusters in southeast England, Mr. Clark said.

"We have never seen anything like this in the U.K. before. It is unprecedented," he added.

Mr. Clark estimates that claim payments arising from the windstorm exceeded the syndicate's total net retention by the end of November. All claims paid since then are being collected from syndicate 544's reinsurers, he said.

In recent years, syndicate 544 has been moving away from U.S. property/casualty business, now deriving much of its premium revenue from U.K. personal lines insurance, written mainly through binding authorities granted to brokers, all of whom are personally vetted by the syndicate.

The syndicate also specializes in insurance for musical instruments, particularly for pop groups and recording studios. It is also one of the market leaders in philatelic insurance, offering insurance protection for private stamp collectors, professional stamp sellers and stamp exhibitions worldwide.

Mr. Clark's day usually begins at 8:30 a.m. in A.J. Archer's offices situated in a vintage 1920s office block near Lloyd's. There he deals with administrative tasks and discusses the rest of the day's work with his colleagues, who include Assistant Manager Graham White, box assistants Stephen Humphrey and Keith Bryant, and Josie Watts, who works three days a week dealing specifically with asbestos-related claims.

In addition, Mr. Clark recently recruited another trainee to assist with claims. Brian Cheeseman started work on Aug. 15, the same day *Business Insurance* spent a day with Mr. Clark at his claims box.

By 11 a.m., when a *BI* reporter arrived at Mr. Clark's claims box on the first floor of Lloyd's, there already was a large pile of personal lines claims left by brokers to be collected the following day. Meanwhile, brokers were sitting discussing larger and more complex claims, such as U.S. property/casualty claims, with Mr. White.

"We like to see all the claims files that have been left by the following day. However, the October storm has meant some delays because of the extra workload," noted Mr. Clark.

Sometimes Mr. Clark will write additional questions for the broker on the claims form or appoint a loss adjuster to further investigate the claim.

One claim that had been left for Mr. Clark on Aug. 15 was for roof and chimney repairs on a house on the south coast of England near the town of Brighton.

"Brighton was flattened by the storm. We have had so many claims from that part of the country," noted Mr. Clark.

Although the final claim on the roof and chimney repairs was slightly more than the loss adjuster's original estimate, Mr. Clark agreed to pay it.

"The broker probably now will take the claim to LUNCO, the market's claims handling office," said Mr. Clark.

Lloyd's Underwriters' Non-Marine Claims Office, or LUNCO, will make a decision on the claim for all other underwriters on the slip, known as the following market.

LUNCO acts for about 95% of all following underwriters for property claims, according to a LUNCO spokesman. However, LUNCO has less authority to settle liability claims on behalf of following underwriters, he added.

LUNCO sends details of advised claims, including a reserve figure, in the form of a card slightly larger than a postcard to all syndicates on the risk. LUNCO sends a second card to syndicates when the claim is paid, specifying the final amount.

Claims are paid through the Lloyd's Policy Signing Office, Lloyd's central accounting office for all classes of business.

A computer network linking LUNCO with syndicates and brokers, due to begin operation soon, is expected to speed up the claims process, according to Mr. Clark.

Flicking through the LUNCO cards waiting to be filed into the syndicate's computer, Mr. Clark pointed out that the majority have October 1987 as the date of loss.

Continued on page 26

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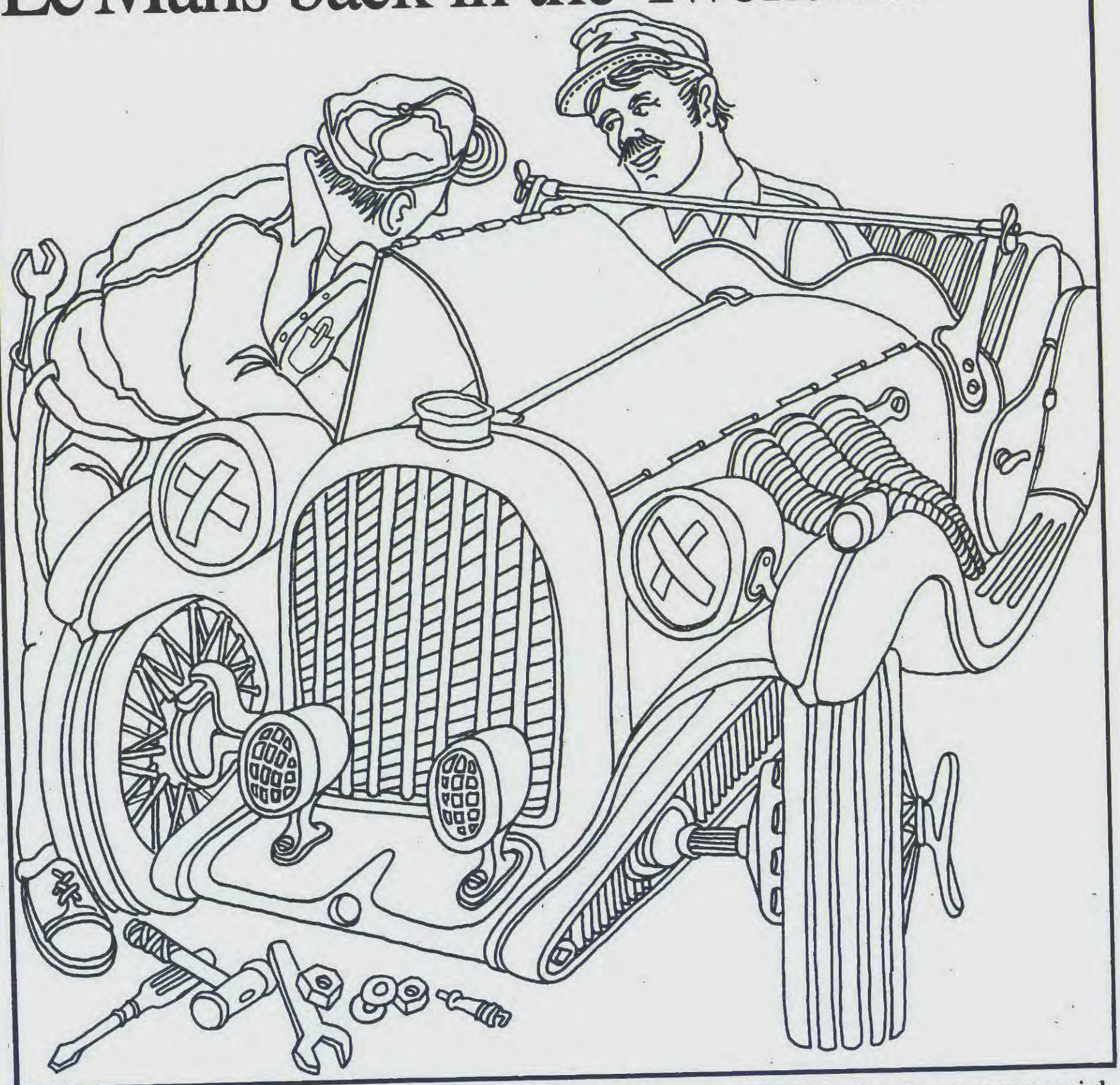

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'Discount house' becomes power at Lloyd's

By STACY SHAPIRO

LONDON—Cater Allen Lloyd's Holdings Ltd. is the only Lloyd's of London underwriting agency group wholly owned by a non-Lloyd's financial company.

Parent Cater Allen Holdings P.L.C., founded in 1816, is one of eight London "discount houses" trading in money markets and government securities.

Although less than a year old, Cater Allen Lloyd's has grown by acquisition to become one of the larger agency groups: It manages five syndicates with more than 255 million pounds ($433.5 million) in allocated capacity.

The short history of the agency group began on Jan. 1, 1986, when Standon Underwriting Management Ltd., a subsidiary of Lloyd's brokerage group Sedgwick Group P.L.C., sold Three Quays Underwriting Management Ltd. to Cater Allen Holdings for 2.4 million pounds ($3.6 million at year-end 1986 rates).

Three Quays manages Lloyd's third-largest non-marine syndicate, syndicate 190, underwritten by Richard D. Hazell.

Standon sold Three Quays to comply with the Lloyd's Act of 1982, which forced all Lloyd's brokers to sell their managing agencies by the end of July 1987.

Many other Lloyd's managing agencies were bought by the management of the agencies, some with a minority shareholding from non-Lloyd's companies. However, Mr. Hazell said he was not interested in a management buyout because of the pressures on the families of management to sell once the directors reach retirement age.

The buyout offer from Cater Allen Holdings, which was looking to diversify, was therefore an excellent alternative.

"I knew Cater Allen because we had done business with them," Mr. Hazell said. "It was a natural fit because when their business does well, ours does badly and when theirs does badly, ours does well, so it balances out. And they are nice people."

At the same time, Cater Allen Holdings was looking to diversify from its traditional discount house role and had started to invest in a futures broker, now known as Cater Allen Futures Ltd., and a bank now called Cater Allen Bank (Jersey) Ltd. in Jersey in the Channel Islands.

"We felt it was important to diversify," said David White, chairman of Cater Allen Lloyd's and deputy chairman and managing director of parent Cater Allen Holdings. "We looked around and thought of Lloyd's.

"We are not insurance people at all, but we are moving away from being a discount house to being an investor in specialist financial market-based businesses," he said.

But, Mr. Hazell and Cater Allen Holdings were aware that a managing agency could not grow just by managing one syndicate.

Cater Allen then ventured into the London market and bought:

- Lloyd's members' agency Citicorp Underwriting Agencies Ltd. from Citicorp Insurance Holdings Ltd. for 375,000 pounds ($550,000) in October 1986. The agency is headed by Managing Director Bryan Taylor.
- Fleet (Underwriting Agents) Ltd., which manages Lloyd's motor syndicate 897, from Safeguard (Managing Agency) Ltd. in July 1987.
- Mark Loveday Underwriting Agencies Ltd., which manages Lloyd's marine syndicate 573/579, from its management for 2.1 million pounds ($3.95 million at year-end 1987 exchange rates) in October 1987.
- R.D. Robertson Underwriting Agency Ltd., which manages Lloyd's non-marine syndicate 322, from its management in March for 2.6 million pounds ($4.4 million at current exchange rates).

Continued on next page

Storm claims

Continued from page 24

Meanwhile, U.S. property/casualty claims continue to take up much of Mr. Clark's day even though the syndicate has greatly reduced its U.S. business.

The syndicate has three large claims books dating back to 1937 in which all the major claims are recorded.

Sometimes the syndicate cannot accurately quantify the size of the claim until years after it has first been notified, said Mr. Clark.

During the afternoon, several brokers visited Mr. Clark's box to inform him of the latest details of several long-running U.S. court cases. These included:

- Claims stemming from fraudulent activities in a U.S. bank. A lawsuit claiming millions of dollars in damages, including punitive damages, was filed several years ago. Mr. Clark reviewed the situation based on attorneys' reports and made a note of developments in the appropriate claims book.
- Several claims stemming from a California-based hospital. One of the newly advised claims is from a woman whose baby suffered injuries as a result of a forceps delivery. The woman, who was 44 years old at the time of the delivery, is suing the hospital for negligence. Mr. Clark, admitting that he still finds it difficult to comprehend some of the U.S. court decisions, changed the outstanding liability figure for the hospital's contract in the claims book and also made a note to advise his reinsurers of the new claims.
- A claim involving a U.S. truck collision that killed several people. The collision led to a complicated mass of litigation involving relatives of the victims, the truck's owners, the owners of the land where the accident happened and the state highway authority. The original jury verdict that apportioned the blame among the three defendants was overturned on appeal and now the insurers for the truck's owners, which lost ground on the last appeal, have to decide whether to appeal again. There is, however, a chance to make an out-of-court settlement with one of the other parties. Mr. Clark has to review the trial papers and weigh likely attorney fees against the likelihood of winning the appeal before making a decision.

By about 5 p.m. there are no more brokers hovering around the box, and Mr. Clark decides to go back to the office to see how the "new boy" is faring. But before he leaves, Mr. Clark gathers several claims files under his arm to last his hour-long train journey home through London's suburbs.

"The extra hour is useful at the moment to help clear the backlog from October," he noted as he left the Lloyd's building. ■

Continued from previous page

Following the acquisitions, Cater Allen Holdings earlier this year grouped the agencies into one holding company called Cater Allen Lloyd's Holdings, headed by Managing Director Christopher Finch, formerly finance director of The British National Oil Corp.

Cater Allen Holdings hopes to buy more Lloyd's agencies. "But, we don't feel we have to," Mr. White added.

Officials of Cater Allen Holdings, which is capitalized at 70 million pounds ($119 million), say they also are happy with the company's acquisitions.

Of the group's 7.15 million pounds ($13.4 million at the appropriate exchange rates) aftertax profits for the year ending April 30, 1988, 1.2 million pounds ($2.3 million), or about 16.8%, is derived from Cater Allen Lloyd's, according to the company's annual report.

Other financial conglomerates may have been deterred from acquiring Lloyd's agencies because the conglomerates would not have majority voting rights in the managing agencies under Lloyd's rules, Mr. White explained.

Lloyd's insists that two-thirds of the voting rights of a managing agency be in the hands of working Lloyd's members and annual subscribers who work in the market but are not full members.

However, Cater Allen Holdings, which is a small company in the world of finance, is comfortable with that rule, he said.

"If there is something I am unhappy with, I can blow the whistle, and if I am very unhappy, I can go to the Council of Lloyd's" to obtain permission to make changes, Mr. White pointed out.

Three Quays non-marine syndicate 190 is by far the largest syndicate that Cater Allen Lloyd's manages, with a 1988 allocated gross premium income capacity of 160.5 million pounds ($272.9 million), according to Lloyd's.

Mr. Hazell remains the syndicate underwriter. The deputy underwriters are Robert Edwards, who is responsible mainly for physical damage coverages, particularly excess-of-loss reinsurance, and Derek Johnston, who is mainly responsible for the syndicate's reinsurance underwriting.

Also underwriting for the syndicate are John Worsfold, non-dollar property risks; Mark Bodkin, U.S. dollar property risks; Jonathon Drew, liability risks; David Oates, aviation risks; and Howard Long, incidental marine business.

For the 1985 account just closed, syndicate 190 admits that it overwrote its premium income capacity because premium prices soared and the dollar was strong against the pound.

But the syndicate's overwriting "is by no means as severe as it had at one time looked to be," said Mr. Hazell in the syndicate's 1987 report.

The syndicate's 1985 gross premiums of more than 104 million pounds ($195.5 million) exceeded the syndicate's allocated net premium income capacity of 77.5 million pounds ($145.7 million) by 34%, 4 percentage points more than Lloyd's allowed until the 1988 underwriting year, when syndicates could not write more than their allocated capacity.

Profits totaled 11.5 million pounds ($21.6 million), up from nearly 10 million pounds ($14.8 million) in 1984.

As a result of overwriting in 1985, Lloyd's imposed an edict on syndicate 190 that it write only 85% of its syndicate's capacity in 1986. The 85% rule also was imposed on the syndicate in 1987 but lifted this year.

The edict would have meant that syndicate 190 in 1986 could have written 89.25 million pounds ($132.1 million) of its 105 million pounds ($155.4 million) allocated net premium income capacity.

But the syndicate actually wrote 94% of its allocated capacity: 98.8 million pounds ($146.2 million) in gross premiums after two years reporting. In 1987, the syndicate wrote only 85% of its allocated capacity.

Lloyd's abolished its edict this year.

However, because of the softening non-marine market, only about 70% to 75% of the syndicate's total capacity was written this year anyway, Mr. Hazell pointed out. Roughly 65% of the syndicate's business is based in the United States.

Syndicate 190 is one of the syndicates hardest hit by the Piper Alpha North Sea oil platform explosion on July 6 (*BI*, Aug. 1, July 18, July 11). The syndicate is the lead underwriter on the reinsurance of OIL Insurance Ltd., which insured up to $300 million of the loss as an insurer of platform operator Occidental Petroleum Corp.

The syndicate also participates on another Occidental insurance policy and on coverage for another of the platform's four owners, Texaco Britain Ltd., a subsidiary of Texaco Inc., Mr. Hazell said.

Mr. Hazell has confirmed that the loss will cost the syndicate between $40 million and $80 million before reinsurance, but he stresses that the net loss to the syndicate will cost members only between 2.5% and 3% of their capacity on the syndicate, or between $4 million and $5 million.

Piper Alpha is also a "large loss" to marine syndicate 573/579 managed by Mark Loveday Underwriting Agencies Ltd., which is a member of Cater Allen Lloyd's, according to Gale Coles, who will take over as the syndicate's underwriter from Mark Loveday for the 1989 renewals.

However, the syndicate's reinsurance was in place when the Piper Alpha exploded, which will ease the impact of the loss on the syndicate.

Lloyd's members' agencies are saying the net loss will be a small portion of the syndicate's 41.7 million pounds ($70.9 million) of gross premium income capacity.

Syndicate 573/579 is a leader on an insurance program for one of Piper Alpha's owners, which Mr. Coles would not name.

The syndicate uses roughly 10.5% of its gross capacity for cargo/voyage risks; 57.6% for hull risks; 14.7% for liability risks, up from 2.2% in 1984; 7.7% for war risks, down from 23.9% in 1984; 8% for incidental non-marine risks; and the rest for miscellaneous risks.

Profits for syndicate 573/579 decreased in 1985 to 1.9 million pounds ($3.6 million) from 2.3 million pounds ($3.4 million) in 1984 following the decrease in the syndicate's gross written premiums in 1985 to 14.5 million pounds ($27.3 million) from 16.2 million pounds ($24 million) in 1984.

Loveday states in its 1987 report on its 1985 closed results that the weakening U.S. dollar adversely affected the use of the syndicate's capacity. The net premium income, as calculated at year-end 1987 exchange rates of $1.88, was 61.5% of capacity. However, had the $1.16 exchange rate at the beginning of 1985 applied, the syndicate would have used 86% of its capacity.

Also in the Cater Allen Lloyd's camp is non-marine syndicate 322, managed and underwritten by R.D. Robertson. The syndicate's gross premium income capacity decreased to 51.5 million pounds ($87.6 million) this year from 55 million pounds in 1987 ($103.4 million). Roughly 55% of the syndicate's net written premium income is written in U.S. dollars, although the syndicate tries not to be too dependent on North American business.

The syndicate writes mainly worldwide physical damage, professional indemnity, third-party liability, worldwide catastrophe and homeowners comprehensive insurance. For 1985, the syndicate made a 2.3 million pound ($4.3 million) profit on 19.2 million pounds ($36 million) of premium income. ■

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Competition cuts aviation syndicate volume

By STACY SHAPIRO

LONDON—Premium volume is shrinking this year at nearly every Lloyd's of London aviation syndicate because competition is driving down aviation insurance rates, says John Tilling, chairman of Lloyd's Aviation Underwriters Assn.

Rates for both airlines and aviation product manufacturers have plummeted by as much as 50% this year, aviation brokers and underwriters agree.

"By and large, nearly everyone's income is falling," said Mr. Tilling, referring to premiums. Syndicates "are getting the same or less premium for the same exposure."

"Severely reduced rates and weakening conditions are in the ascendancy and the immediate underwriting climate is stormy," according to Brian Beagley, underwriter for syndicate 960, Lloyd's largest aviation syndicate, writing in the syndicate's 1987 annual report.

There is no sign that rates will increase in the near future, brokers and underwriters agree, despite losses this year that include the crash of a $112.3 million Air France Boeing 747, the largest hull loss ever (*BI*, July 4).

Largest Lloyd's aviation syndicates
(Based on 1988 gross allocated capacity in millions of pounds)

Syndicate	Managing agency	Underwriter	Capacity 1988	Capacity 1987[1]
960	R.W. Sturge & Co.	B.E. Beagley	109.5	100.4
48	Methuen (Lloyd's Underwriting Agents) Ltd.	Tim Salmon	67.0	66.2
950	Oxford Syndicate Management Ltd.	J.C. Nevitt	62.6	36.8
545	F.L.P. Secretan & Co. Ltd.	T.O. Pitron	57.0	51.5
97	Wellington Underwriting Agencies Ltd.	R.J. Morse	56.4	54.0
270	A.J. Archer & Co. Ltd.	R.J. Maylam	48.4	36.8
340	Gravett & Tilling (Underwriting Agencies) Ltd.	J.P. Tilling	47.3	35.0
800	Wren Underwriting Agencies Ltd.	J.A. Westcott	43.7	32.4
53	G.P. Eliot & Co. Ltd.	R.F. Eliot	42.7	43.2
271	Langton Underwriting Agents Ltd.	R.B. Pearson	34.9	32.9

[1] Adjusted to 1987 gross allocated capacity
Source: Lloyd's of London

Aviation hull and liability insurance rate descent began in 1987, even though last year was the second worst underwriting year on record with insured airline losses totaling $850 million (*BI*, March 28).

Airlines, which earlier this year completed renewals as early as 4½ months in advance, received average hull rate reductions of 50% and liability rate cuts of up to 35% through July 1 renewals.

"For airline business which renewed July 1, rate reductions continued to occur," said Mr. Tilling.

"Aviation products liability coverage has suffered a downward trend as well, but not as much as the airlines. It is a general downward trend in the aviation market."

Some London aviation underwriters say that upcoming rate reductions will be smaller than the rate cuts earlier in the year.

"We are still seeing rates dipping, but the pace of reductions has slowed down. We are seeing a hardening of attitude of underwriters who feel they have gone far enough," said one London aviation underwriter who purchases reinsurance from the Lloyd's aviation market.

Others, though, do not see much of a change.

Underwriters report they are offering up to 40% hull rate reductions to airlines renewing in October. In addition, some airlines are being offered from $750 million to $1 billion in liability coverage for the same premium as they paid for $400 million to $450 million in coverage last year.

"The market is still very soft," said a Lloyd's aviation broker. "We're seeing 50% reductions in airline hulls and aviation products (liability) will command 50% reductions, too. And there is no obvious sign of hardening."

Despite the soft aviation insurance market, three new Lloyd's aviation syndicates will write business next year.

One new aviation syndicate, 1128, will be underwritten by Trevor Church, former aviation underwriter for the Arab Insurance Group in Bahrain, United Arab Emirates. The new syndicate, managed by Langton Underwriting Agents Ltd., will have a 1989 gross allocated capacity of between 8 million pounds and 10 million pounds ($13.6 million to $17 million).

Langton is aware of the risk of opening a new syndicate in a soft market, but the syndicate's prospectus says that the size of rate reductions is expected to decrease by the end of the year. And, as 1987 losses circulate through the aviation market, "there could well be an upward pressure on rates," the prospectus says.

This year, 41 of Lloyd's 376 syndicates are aviation syndicates. These 41 syndicates have a total allocated capacity of 992.7 million pounds ($1.69 billion).

For the 1985 accounting year, which closed under Lloyd's three-year accounting system on Dec. 31, 1987, 42 aviation syndicates produced a total net profit—after profit commissions but before deduction for losses from syndicates in run-off—of 47.7 million pounds ($89.68 million), according to the Assn. of Lloyd's Members.

The estimated profits are surprisingly good, considering that insured airline losses in 1985 totaled more than $990 million, a record.

Continued on page 30

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Aviation syndicates

Continued from page 28

Direct aviation insurers were able to post a profit by recovering losses from reinsurers, said Mr. Tilling. However, "it wasn't a good year for me or other reinsurers," he said.

By far, Lloyd's largest aviation syndicate for four years running is syndicate 960, managed by R.W. Sturge & Co., a subsidiary of Sturge Holdings P.L.C., and underwritten by Mr. Beagley.

Mr. Tilling

The syndicate has a 1988 allocated capacity of 109.5 million pounds ($186.2 million), up 9.1% from 1987 gross allocated capacity of 100.4 million ($188.7 million) (see story, page 30).

Eddie Simms, the longtime underwriter for syndicate 48, Lloyd's second-largest aviation syndicate, resigned abruptly last year and was replaced by his deputy, Tim Salmon.

The syndicate's 1988 gross allocated capacity is 67 million pounds ($113.9 million), only slightly higher than its 1987 gross allocated capacity of 66.2 million pounds ($124.5 million).

Under Mr. Simms, the syndicate made a profit in 1985 of 2.4 million pounds ($4.5 million) from its net allocated capacity of 23.6 million pounds ($44.4 million), according to the Assn. of Lloyd's Members.

The third-largest aviation syndicate—syndicate 950, underwritten by J.C. Nevitt—has had its managing agency name changed to Oxford Syndicate Management Ltd. following the purchase of K.F. Alder (Underwriting Agency) Ltd. by Sturge Holdings P.L.C. earlier this year.

Syndicate 950, which moved up from seventh place last year, registered a 70.1% increase in allocated gross capacity to 62.6 million pounds ($106.4 million) this year from 36.8 million pounds ($69.1 million) in 1987.

The fourth-largest aviation syndicate in 1988 is syndicate 545, underwritten by Terry Pitron and managed by F.L.P. Secretan & Co. Ltd.

Its gross allocated capacity rose 10.7% to 57 million pounds ($96.9 million) from 51.5 million pounds ($96.8 million) in 1987.

In fifth place, down from third last year, is syndicate 97, underwritten by Rodney Morse and managed by Wellington Underwriting Agencies Ltd. Its gross allocated capacity increased 4.4% to 56.4 million pounds ($95.9 million) this year from 54 million pounds ($101.5 million) in 1987. ■

Capacity hike not needed at top aviation syndicate

LONDON—The largest aviation syndicate at Lloyd's of London does not expect to need more capacity next year.

Aviation underwriter Brian Beagley believes the premium volume of syndicate 960—nearly all of which is written in U.S. dollars—will use up a smaller proportion of the syndicate's capacity next year because the pound will be stronger against the dollar.

Also, he believes that aviation underwriters have seen the best of increasing premium prices and will see more competition, severely reduced rates and weakening conditions.

Therefore, Mr. Beagley does not anticipate any need to increase the syndicate's capacity for 1989.

With 1988 allocated premium capacity of 109.5 million ($186.2 million), syndicate 960 dwarfs the rest of the Lloyd's aviation market. Syndicate 960's capacity is 63% larger than the 67 million-pound ($113.9 million) capacity of syndicate 48, the second-largest aviation syndicate.

For the fifth year in the *Business Insurance* rankings, Mr. Beagley's syndicate, managed by R.W. Sturge & Co., is the largest in the Lloyd's aviation market. During that time, it has more than quadrupled its capacity from 23.9 million pounds ($35.4 million) in 1984.

While the largest aviation underwriter at Lloyd's, Mr. Beagley prefers to keep a low-profile. He has refused to be interviewed by *Business Insurance*, despite repeated attempts.

Mr. Beagley, 49, joined The British Aviation Insurance Co. Ltd. in 1955 and joined Sturge in 1973.

Syndicate 960 writes a "mainstream aviation account containing all forms of aviation hull risks including war, commercial space satellite risks, aircraft, airport, aviation products, refuelers, and service and repair liabilities," said Mr. Beagley in the syndicate's annual report.

Mr. Beagley leads many large U.S. aviation product liability accounts and international airline accounts, although he stopped writing coverage for U.S. airlines a few years ago.

Like other aviation syndicates, 960 also writes personal accident coverage, though in 1986 Mr. Beagley discontinued writing kidnap and ransom coverage.

Syndicate 960's business has changed over the last three years. For example, 53% of its capacity was allocated to aviation products and related coverages in 1987, up from 50% in 1986 and 34% in 1985.

The "very rapid escalation" of aviation product liability rates significantly altered the syndicate's mix of business, he said in the report.

The syndicate's aircraft liability coverage generated 18% of business last year, compared with 21% in 1986 and 23% in 1985. And aviation hull accounts generated 26% of business 1987, compared with 24% in 1986 and 35% in 1985.

In 1985, the last closed year under Lloyd's accounting system, the syndicate reported profits of 12.5 million pounds ($23.5 million) on premiums of 27.9 million pounds ($52.5 million), even though 1985 was the most disastrous year for airline losses.

Mr. Beagley had limited the amount of business he wrote so the syndicate did not exceed its allocated capacity, and "as a direct consequence of this, the syndicate's exposure to some of the many major aviation losses which occurred during 1985 was either reduced or eliminated."

Also, Mr. Beagley said the syndicate "had a number of entirely fortuitous pieces of good luck." In one instance, the syndicate reduced its participation on a program 48 hours before the policyholder suffered an $80 million loss.

For 1986, the account that will close at the end of this year, the lack of losses in 1986 has given the syndicate "the lowest incurred loss ratio ever by the syndicate in its history," said Mr. Beagley.

Rate reductions begin to show in the syndicate's 1987 account. "Though all classes of business have seen the effect of this, it is at its most severe for our airline book of business," he said. "This trend continues with no loss of momentum."

Mr. Beagley also underwrites for syndicate 998, managed by R.W. Sturge (Aviation) Ltd., which was established in 1979. The syndicate, with a 1988 capacity of 10.6 million pounds ($18 million), writes mostly aviation product liability and aircraft liability coverage. ■

New Lloyd's broker rules may hurt specialist firms

By STACY SHAPIRO

LONDON—The new Lloyd's of London broker regulations that took effect earlier this month may stifle entrepreneurial spirit by forcing smaller, specialist brokers out of business and making it more difficult for new brokers to enter the market, brokers say.

The new regulations, which were prompted in part by a government inquiry of the market headed by Sir Patrick Neill, impose higher solvency requirements, stricter recordkeeping rules and more complete disclosure to policyholders of broker/insurer relationships (*BI*, March 7; Nov. 23, 1987; Feb. 9, 1987; Jan. 26, 1987; Jan. 19, 1987).

As many as 40 of the 275 Lloyd's brokers may not be able to meet the stricter requirements, meaning they may not be re-registered by Lloyd's over the next three years as required, said Bob Keville, chairman of Lloyd's Insurance Brokers Committee.

"The regulations will sort out the weaker members that cause concern to the broker community. But we will also say goodbye to the specialist broker and frankly I am sad," said Mr. Keville, who also is chairman of the marine division of Willis Faber P.L.C.

"The market has been made up of individuals, and the regulations are going to force the market to have fewer and bigger brokers, which I think is a retrograde step," he added.

"Neil Mills (former chairman of Sedgwick Group P.L.C.) once said that by the end of the 1980s there would be five large Lloyd's brokers and no middle-sized brokers and some small brokers, and I think he was right," Mr. Keville said.

The Lloyd's broker regulations "may shake out a few brokers," concurred Philip Wroughton, chairman of Lloyd's third-largest brokerage, C.T. Bowring & Co. Ltd., a unit of Marsh & McLennan Cos. Inc.

"The future lies with large brokers with substantial financial resources worldwide and with niche specialist brokers. But I'm not so confident of the (future of) medium-sized brokers. In part, this is because of (Lloyd's) broker regulations," Mr. Wroughton said.

"I think conceptually it is good that brokers are expected to have higher standards and I welcome (the regulations)," said John Barton, chairman of Jardine Insurance Brokers Group, Lloyd's eighth-largest brokerage group.

"But the regulations will put more pressure on brokers' profits," he said, also noting that he questions "whether the rules ultimately protect the consumers more."

In addition to the Lloyd's Brokers Bylaw, Lloyd's on Aug. 1 instituted the Lloyd's Brokers Code of Practice, providing a guideline for standard professional conduct, and a bylaw that allows a brokerage group to apprentice under a Lloyd's broker before being approved by Lloyd's.

The new broker regulations had been opposed by six Lloyd's underwriting agencies, including some of the market's largest—such as Merrett Holdings P.L.C.—which sought regulation of brokers by authorities outside Lloyd's.

The agencies said that it was impractical for Lloyd's to strictly regulate all of the business of large, international brokers regardless of the percentage of their business placed at Lloyd's. And, instead of being restricted to only accepting business from Lloyd's-regulated brokers, the agencies wanted to be able to accept business from other sources to attract small commercial and personal lines risks (*BI*, March 7).

Some of the agencies raised their grievances in January with the Lloyd's Broker Regulation Policy Committee chaired by Lloyd's Deputy Chairman Alan Parry, noted Barry Gibson, general manager of Lloyd's brokers department.

Mr. Parry also is the non-executive chairman of Lloyd's broker Johnson & Higgins Ltd.

"We answered that Lloyd's has already been doing the job and besides, if brokers are to carry the Lloyd's name, they should be up to Lloyd's standards," said Mr. Gibson.

The agencies also were concerned about the cost of broker regulation. But, Mr. Gibson says, Lloyd's brokers will pay for their own regulation. Lloyd's is considering a implementing a charge of 2,500 pounds ($4,250) plus 0.03% of each Lloyd's broker's brokerage revenues beginning next year, he said. Currently, each Lloyd's broker pays an annual flat sum of 1,100 pounds ($1,870).

Lloyd's broker regulation department already employs 19 people and is not expected to hire any more, he said.

Continued on next page

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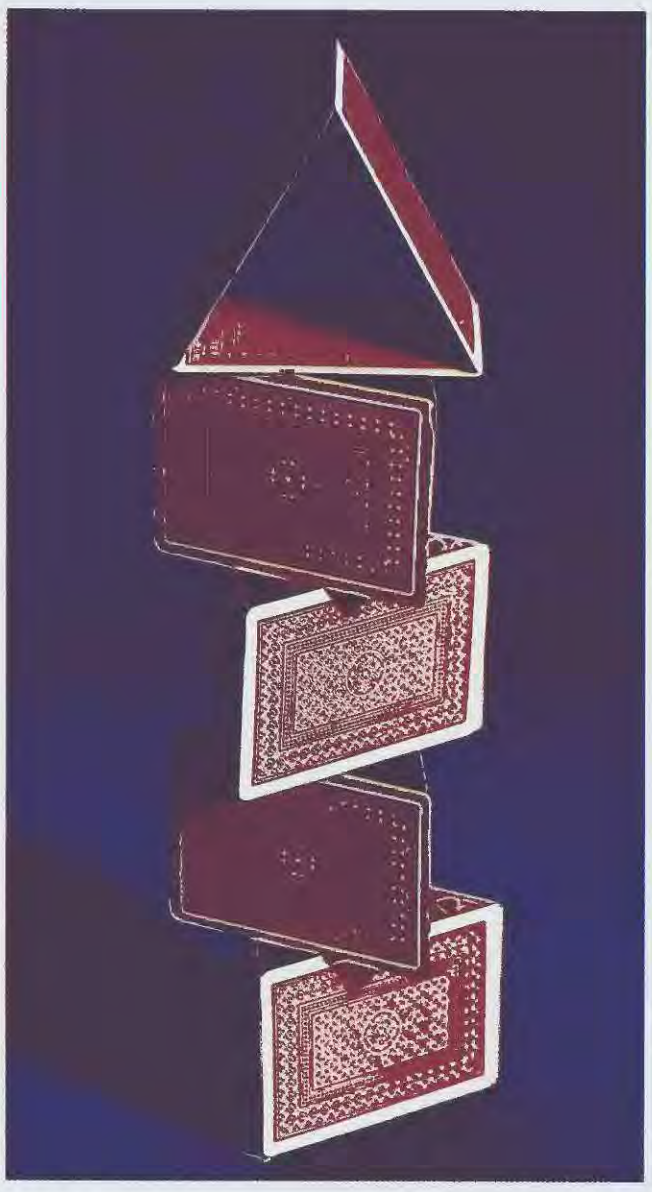

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Broker rules

Continued from previous page

The agencies also were concerned that Lloyd's broker regulations would be too tough and would discourage brokers from joining and showing business to Lloyd's, he said.

"We have been in such close liaison with brokers we have no reason to think that many will bail out," said Mr. Gibson. "But the proof of the pudding is yet to be seen."

To be reregistered as a Lloyd's broker, the broker must be a member of the Insurance Brokers Registration Council, which regulates British brokers under the Insurance Brokers (Registration) Act of 1977. Most brokers already are members.

In addition, the broker must be "fit and proper," which Lloyd's Council will determine by examining:

- The character and suitability of the broker's directors.
- The reputation of any person controlling the broker.
- The adequacy of the capital.
- Whether the broker's business is or is likely to become unduly dependent on a particular insurer or insurers, or a particular source or class of business.
- The ability and willingness of the broker to supervise and service all of its activities and responsibilities and to account fully and properly for those activities.
- The location, adequacy and suitability of the staff.
- The location of accounting and other records.
- Any other matters that in the opinion of the council should be taken into account.

The regulations, however, do not restrict the ownership of Lloyd's brokers. As a result, insurance companies may own more than 26% of a Lloyd's broker, which was the previous limit.

But the regulations do restrict the directorship of the Lloyd's broker. Each director must be a Lloyd's member or an annual subscriber to Lloyd's, who is a nonprofit-making, working employee at Lloyd's.

And, a Lloyd's broker director cannot also be a director of an insurance company without the previous consent of the council.

This rule could affect Lloyd's broker J.H. Minet & Co. Ltd., whose parent, Minet Holdings P.L.C., is owned by the St. Paul, Minn.-based St. Paul Cos. Inc. No director of St. Paul sits on the board of the Lloyd's broker.

Lloyd's approved the sale of Minet to St. Paul before the acquisition was completed earlier this year (*BI,* Feb. 8).

According to the regulations, each Lloyd's broker also must establish a separate "Insurance Broking Account" with a bank approved by Lloyd's in which to deposit premiums and claims funds. All Lloyd's brokers by practice have maintained such accounts for the last 10 years, said Mr. Gibson.

Each Lloyd's broker also must meet stringent solvency requirements.

The premiums and claims funds kept in the Insurance Broking Account must be 5% greater than the first 1 million pounds ($1.7 million) of brokerage revenues; 4% of the next 2 million pounds ($3.4 million); 3% of the next 2 million pounds; 1% of the next 5 million pounds ($8.5 million); and 1% of the next 21 million pounds ($35.7 million).

The margins are subject to a minimum of 25,000 pounds ($42,500) and a maximum of 500,000 pounds ($850,000).

In addition, Lloyd's brokers must ensure that the value of current assets less the value of current liabilities is maintained at specific percentages of operating expenses "so they don't dip into their premiums to pay their bills," said Mr. Gibson. The percentages: 10% of the first 1 million pounds of operating expenses; 7.5% of the next 2 million pounds; and 5% of the next 15 million pounds ($25.5 million). The minimum required margin is 50,000 pounds ($85,000) and the maximum is 1 million pounds.

Lloyd's also is increasing the overall solvency requirement, which had been 10% of brokerage revenue subject to a minimum of 25,000 pounds and a maximum of 1 million pounds.

Now, the overall solvency margin is 30% of the first 1 million pounds of either brokerage revenues or expenses, which ever is greater; 15% of the next 3 million pounds ($5.1 million); and 5% for

Continued on next page

Largest Lloyd's brokerage groups

(Based on 1988 brokerage revenues of Lloyd's brokers in millions of pounds)*

Parent	Lloyd's brokerage revenues Pounds	Lloyd's brokerage revenues Dollars	Total revenues Pounds	Total revenues Dollars	London subsidiary
Sedgwick Group P.L.C.	195.5	367.5	650.9	1,223.7	20 Lloyd's brokers
Willis Faber P.L.C.	169.9	319.4	198.6	373.4	Six Lloyd's brokers
Marsh & McLennan Cos. Inc.	126.1	237.1	1,158.5	2,178.0	C.T. Bowring & Co. Ltd., which has five Lloyd's brokers
Alexander & Alexander Services Inc.	84.0	157.9	627.7	1,180.0	Alexander Howden Group Ltd. and Alexander Stenhouse Ltd., which have eight Lloyd's brokers
Inchcape P.L.C.	62.1	116.7	79.4	149.3	Bain Clarkson Ltd., which has three Lloyd's brokers
C.E. Heath P.L.C.	44.0	82.7	89.1	167.5	Seven Lloyd's brokers
St. Paul Cos. Inc.	38.0	71.4	156.5[1]	294.2[1]	Minet Holdings P.L.C., which has one Lloyd's broker
Jardine, Matheson & Co. Inc.	35.7	67.1	110.1	207.0	Jardine Insurance Brokers, which has three Lloyd's brokers
The Frizzell Group Ltd.	33.6	63.2	41.8	78.6	Six Lloyd's brokers
Lowndes Lambert Group Ltd.	29.1	54.7	38.9	73.1	Seven Lloyd's brokers

[1] Brokerage revenues only

*Source: Lloyd's of London

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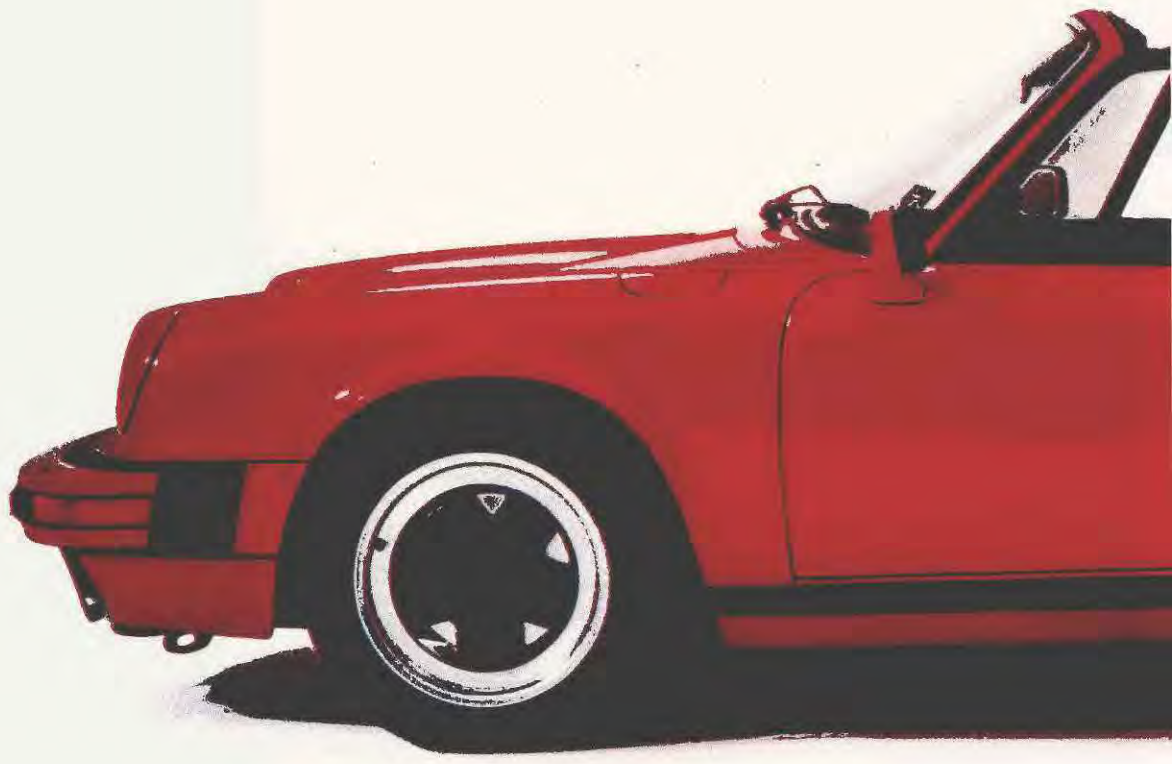

To some underwriters this is an eighteen-year-old with a hot car. A bad risk.

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Continued from previous page
the next 25 million pounds. The minimum solvency margin is 250,000 pounds ($425,000) and the maximum is 2 million pounds.

In addition, the Lloyd's broker bylaw for the first time sets strict operating rules. For example, brokers must keep concise records of all policyholder insurance and reinsurance contracts. The records must identify all participating insurers and the amount of their respective participation and include specific terms and conditions of the contract; the broker's slip; a copy of the policy; and other details. The broker also must abide by rules for documenting binding authorities.

And, the bylaw requires for the first time that all Lloyd's brokers keep records of U.K. accounts and closed claim accounts for 15 years and all open accounts, regardless of the policyholder's country of origin, for 80 years.

A Lloyd's broker also must provide clients with details of every transaction where more than 10% of the contract is underwritten by an insurer related to the broker. The total value of those transactions must be reported to Lloyd's at the end of the financial year.

Each broker also will have to buy professional liability insurance, at yet-to-be-determined limits. Lloyd's is expected to require limits equal to four times the broker's U.K. non-marine brokerage revenue plus six times all of its other brokerage revenue.

One-fourth of the Lloyd's brokers that must be reregistered have already been notified, with a deadline to reregister by the end of October. Lloyd's will give all brokers three months from the time of notification to reregister and expects the notification and reregistration process to take three years. All reregistered brokers' accounts will be on public file at Lloyd's, according to the bylaw. Each broker will have to submit audited accounts to Lloyd's annually.

Alexander Howden's Dennis Mahoney describes the regulations as 'a necessary evil.'

About one-fourth, or 66 of the 275 Lloyd's brokers, are owned by 10 companies whose Lloyd's brokerage revenues rank them as the largest Lloyd's brokerage groups and each one of these brokers must be reregistered.

For example, Lloyd's largest brokerage group, Sedgwick Group P.L.C. in London, owns 20 Lloyd's brokers that generated 1987 brokerage revenues of 195.5 million pounds ($367.5 million), according to Lloyd's, or 30% of the company's 1987 gross revenues of 650.9 million pounds ($1.2 billion).

The regulations, however, are causing Sedgwick to re-examine whether so many Lloyd's brokerage units are necessary, confirmed Sedgwick Chief Executive David Rowland.

"If the regulations make it more awkward (to own so many Lloyd's brokers), then we will have to relook at our structure," he said.

Lloyd's second-largest brokerage group, Willis Faber P.L.C. in London, owns six Lloyd's brokers, which generated 1987 brokerage revenues of 169.9 million pounds ($319.4 million), or 86% of the company's total 1987 gross revenues of 198.6 million pounds ($373.4 million).

"We don't know how regulations will affect us," said Mr. Keville, referring to all brokers.

He expressed some concern, however, that the new information that will be on file for the public to see could affect the stock price of publicly traded companies.

Lloyd's third-largest brokerage group, ranked by the ultimate parent company, is Marsh & McLennan Cos. Inc. in New York.

M&M's London operating company is C.T. Bowring & Co. Ltd., which has five Lloyd's brokers. Their 1987 brokerage revenues totaled 126.1 million pounds ($237.1 million), according to Lloyd's, or 11% of the 1987 gross revenues of M&M, which are 1.2 billion pounds ($2.2 billion). Bowring's 1987 revenues topped 156 million pounds ($293.3 million), said Bowring Chairman Mr. Wroughton.

"I believe that Bowring already conducts its business in a manner which is wholly compatible" with broker regulations, said Mr. Wroughton, who worked with Mr. Rowland and others on the code of practice.

The fourth-largest company by revenues of its Lloyd's brokers is Alexander & Alexander Services Inc. of New York. It owns eight Lloyd's brokers through its two London operating subsidiaries, Alexander Howden Group Ltd. and Alexander Stenhouse Ltd.

A&A's Lloyd's brokers generated 1987 brokerage revenues of 84 million pounds ($157.9 million), or 13% of A&A's 1987 revenues of 627.7 million pounds ($1.18 billion), according to Lloyd's.

Dennis Mahoney, co-chairman of Alexander Howden Group Ltd., who as a member of Lloyd's Insurance Broker Committee read 21 drafts of the regulations, described them as "a necessary evil."

"I've decided after reading so many drafts of the thing that regulation makes you go blind," he quipped.

The other companies rounding out the 10 largest based on Lloyd's brokerage revenues, according to Lloyd's, are:

- Fifth-placed Inchcape P.L.C. in London, which owns Bain Clarkson Ltd., which in turn owns three Lloyd's brokers with 1987 brokerage revenues of 62.1 million pounds ($116.7 million), or 78% of Bain Clarkson's 1987 revenues of 79.4 million pounds ($149.3 million).
- Sixth-placed C.E. Heath P.L.C. in London, which owns seven Lloyd's brokers with 1987 brokerage revenues of 44 million pounds ($82.7 million), or 49% of the company's 1987 revenues of 89.1 million pounds ($167.5 million).
- Seventh-placed St. Paul Cos. Inc. of St. Paul, Minn., whose Minet Holdings P.L.C. in London has one Lloyd's broker with 1987 Lloyd's brokerage revenue of 38 million pounds ($71.4 million), or 24% of the 1987 revenues of St. Paul-owned brokers.
- Eighth-placed Jardine, Matheson & Co. Ltd. of Hong Kong, which owns London-based Jardine Insurance Brokers, which owns three Lloyd's brokers with 1987 brokerage revenues of 35.7 million pounds ($67.1 million), or 32% of JIB's total 1987 revenues of 110.1 million pounds ($207.0 million).
- Ninth-placed The Frizzell Group Ltd. in London, which owns six Lloyd's brokers with 1987 brokerage revenues of 33.6 million pounds ($63.2 million), or 80% of total 1987 revenues of 41.8 million pounds ($78.6 million).
- Tenth-placed Lowndes Lambert Group Ltd. in London, which owns seven Lloyd's brokers with 1987 brokerage revenues of 29.1 million pounds ($54.7 million), or 75% of the group's 1987 revenues of 38.9 million pounds ($73.1 million).

Former parent Hill Samuel Group Ltd. sold the company to senior management and a group of institutional investors for 15 million pounds ($25.5 million) in April (*BI*, May 2). ■

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Spotlight report

SBJ plans expansion into specialty lines

By STACY SHAPIRO

LONDON—Lloyd's of London broker Steel Burrill Jones Group P.L.C., a specialist in marine insurance and reinsurance brokering, is diversifying.

SBJ Group recently developed a five-year plan to expand into specialty lines. The group already has moved into other brokerage areas by acquiring interests in companies that SBJ hopes to later buy out.

And, SBJ Group shareholders' decided in June to purchase H. Stephenson Group Ltd., a U.K. retail broker, for between 5.1 million pounds and 6.2 million pounds ($8.7 million and $10.5 million). Shareholders also approved the purchase of Ansford Management Ltd., an insurance consultant, for 300,000 pounds ($510,000).

Stephenson Group, which began business in 1926, will provide SBJ Group with a vehicle to expand U.K. retail brokerage business.

And, the acquisition of Stephenson and Ansford added four new members to the SBJ Group board, all but one of whom worked for former Lloyd's broker Stewart Wrightson Holdings P.L.C. (*BI*, June 20).

The new members are Stephenson Chairman John Wynn; Group Directors Tony Keys, former group development director of Stewart Wrightson Ltd., and George Boden, deputy chairman of Stewart Wrightson who started Ansford in October last year after leaving Stewart Wrightson; and Bill Barratt, now chief executive of Stephenson who had been chief executive of the London region of Stewart Wrightson Corporate Risks Ltd.

The new directors "are in charge of developing the group in new areas," said Mr. Keys.

All the senior directors work in an open office area, including SBJ Group Chairman Derek Steel; David Beresford Jones, chairman of marine insurance and reinsurance broker Steel Burrill Jones Ltd.. and Christopher Birrell, SBJ Group finance director. Brokers sit in another open office area, while claims and data processing employees share another open area.

With many of SBJ's directors from other companies, an office rule states that a 1-pound fine ($1.70) will be assessed to anyone who mentions their former employer. "We are at pains not to say 'when we were at so and so,' " explained Mr. Keys.

Recently, the extended board drew up a five-year "blueprint" for expansion into specialty areas of the London market. The areas include U.K. retail brokering, but otherwise SBJ Group would not be more specific.

"We have got to make moves in order for our earnings per share to grow," Mr. Keys said. "We can identify specialist sections of the market, and by a combination of recruiting people (and other techniques), we can bring SBJ into these areas."

SBJ Group over the past few years has moved into other brokerage areas by investing in new companies. SBJ eventually plans to acquire them all.

For example, SBJ Group owns about 75% of non-marine broker Steel Burrill Jones (Non-Marine) Ltd. in London, which is run by former employees of Lloyd's broker Wigham Poland Ltd. The Wigham Poland employees joined SBJ in 1985 when Sedgwick bought Wigham Poland's parent, Fred S. James & Co. Inc.

SBJ plans to own 100% of the company by 1990, said Mr. Birrell.

In addition, SBJ Group owns:

- Nearly 68% of SBJ & Associates Ltd., a London-based life insurance and pension consultant headed by Peter Gray, who came from C.T. Bowring & Co. Ltd. SBJ Group plans to buy 100% of the company by the early 1990s, said Mr. Birrell.
- 30% percent of insurance and reinsurance broker R. Mears & Co. Ltd. in London.
- 22½% of insurance and reinsurance broker Newman & Martin Ltd. in London.
- 83⅓% of non-marine insurance and reinsurance broker A.F.A. Wattiez & Co. Inc. in Montreal.
- 25% percent of London-based personal financial planning consultant John Lamb Group Ltd.

"It is much cheaper" to invest in new brokerage ventures than to acquire existing companies, said Mr. Keys, because "you don't buy the liabilities."

In addition, "you give someone a share of their own company and they feel much more a part of their company," said Mr. Birrell.

SBJ Group, since its establishment in 1977, has specialized in brokering marine insurance and London market excess-of-loss reinsurance. About 90% of the group's 9.5 million pounds ($17.9 million) in brokerage revenue last year was generated by marine reinsurance and insurance contracts placed by Steel Burrill Jones Ltd.

SBJ Group was formed when Mr. Steel, Graham W. Burrill, who recently became a non-executive director of SBJ Group, and Mr. Beresford Jones left reinsurance broker Bland Payne Ltd. "to be their own masters," explained Mr. Birrell. Bland Payne subsequently merged with Sedgwick Forbes Ltd. to become Sedgwick Group P.L.C.

By October 1985, SBJ Group was listed on the London Stock Exchange.

SBJ will play a major role in handling claims from the July explosion of the Piper Alpha North Sea oil platform. The estimated $1 billion loss will hit "nearly every contract that SBJ is involved in," said Mr. Keys (*BI*, Aug. 1, July 11).

Fortunately, a computerized claims handling system was installed just before the Piper Alpha explosion. The system should be up and running to handle the many claims that are expected, said SBJ's Claims Manager Debbie Harbison (see story, page 44).

Stock analysts say that SBJ Group may benefit in 1989 from the Piper Alpha explosion because the loss is forcing marine excess-of-loss reinsurance underwriters to raise rates, which will increase the broker's commissions.

The rate hikes are not expected to boost 1988 profits because most LMX reinsurance renewals were completed by July 1 when rates were still competitive.

SBJ's gross revenues last year increased slightly to 11.5 million pounds ($21.6 million) from 11.3 million pounds ($16.7 million) in 1986. Brokerage revenue totaled 9.5 million pounds ($17.9 million), up from 9.4 million pounds ($13.9 million) in 1986.

With 140 people employed last year, expenses grew to 7.1 million pounds ($13.3 million) from 5.8 million pounds ($8.6 million) in 1986, forcing SBJ to post a 24% decrease in 1987 operating profit to 4.4 million pounds ($8.3 million) from 5.8 million pounds ($8.6 million). ■

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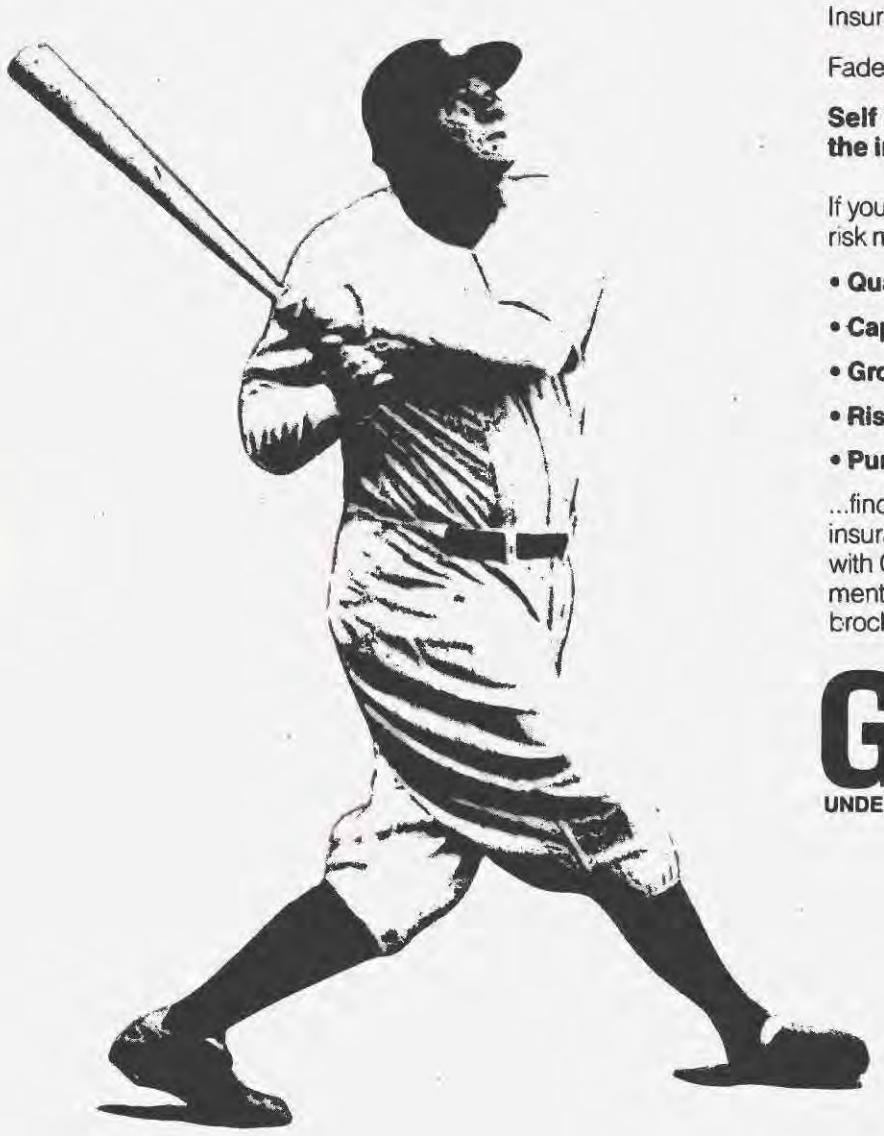

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Gibbs Hartley Cooper regains lost ground

By CAROLYN ALDRED

LONDON—Lloyd's of London broker Gibbs Hartley Cooper Ltd. once more is a recognized force in the London market, says Chairman Graham Puttergill.

"When I joined the broking company in 1985, Gibbs Hartley Cooper was regarded in the market as being on its way out," conceded Mr. Puttergill.

However, the company has returned to profitability. Gibbs Hartley Cooper's reported an aftertax profit of 556,000 pounds ($1 million at year-end 1987 exchange rates), compared with a record loss of about 2 million pounds in 1984 ($2.3 million at year-end 1984 exchange rates).

This year, the company expects to report an aftertax profit of 1.5 million pounds ($2.6 million at current exchange rates).

Next year, Mr. Puttergill is aiming for at least 3 million pounds in profits ($5.1 million at current exchange rates).

GHC's 1987 brokerage revenues totaled 10.3 million pounds ($19.4 million), up 9.6% from 9.4 million pounds ($13.9 million) in 1986. Of its 1987 revenues, 5.8 million pounds ($10.9 million) came from the United Kingdom and 3 million pounds ($5.6 million) came from the United States, with the remainder coming from other regions of the world.

Gibbs Hartley Cooper is the product of a 1983 merger of Lloyd's broker Hartley Cooper Ltd. with Gibbs Sage Ltd., a small broker owned by former British merchant bank Anthony Gibbs & Sons Ltd.

Hong Kong & Shanghai Banking Corp. of Hong Kong had acquired Anthony Gibbs in 1981.

However, the merger of the brokers soon proved to be a disaster, according to Mr. Puttergill.

"Both brokers were losing business at the time and the merger also brought to light bad-debt problems in both companies," he explained.

As a result, 1985 was spent "bringing in top-quality financial people and putting in good systems infrastructure," he said.

The rebuilding of the brokerage was encouraged by Hong Kong & Shanghai, which moved Mr. Puttergill from Anthony Gibbs' pension fund consulting division to "shake up" the brokerage subsidiary in 1985.

Since then, the company has beefed up its management, put into place better financial controls and recruited experienced brokers from throughout the Lloyd's and London market, according to Mr. Puttergill.

Teams of specialist brokers in at least five areas have joined Gibbs Hartley Cooper since 1985.

Hong Kong & Shanghai "wanted to be significant in insurance broking, and we spent a long time looking at acquisition possibilities. However, as an outsider looking at the Lloyd's market, I was instinctively cautious and also at the time I felt we were at the top of an insurance cycle," said Mr. Puttergill.

As a result, the company, which now employs 419 people, decided to grow slowly by recruiting new staff members rather than making acquisitions, he explained.

GHC's recruiting policy is to choose "established and successful brokers with a track record," but also brokers who have shown loyalty to their employers, he said.

GHC does not hire brokers who have worked with many different companies. "We look for company men who will add to GHC's strength," said Mr. Puttergill.

The three-year recruiting drive has led to the formation of several new divisions. These include:

• Hartley Coopers Associates Ltd., which specializes in the insurance needs of the jewelry and diamond trade and bullion dealers, as well as fine arts and other valuable commodities. The division was formed in early 1986 by former directors of Alexander Howden Ltd., the Lloyd's brokerage subsidiary of Alexander & Alexander Services Inc.

Hartley Coopers Associates produces annual brokerage revenues of about 2 million pounds ($3.4 million), said Mr. Puttergill. The

Continued on page 38

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GHC revival

Continued from page 35

division's joint chairmen are John Evans and Brian Hough. It employs 34 people.

● GHC Financial Institutions Insurance Services Ltd., which specializes in brokering crime, computer fraud and professional liability coverages for financial institutions.

The division was formed in 1986 and is headed by Richard Sheehan as chief executive and Keith Jones as managing director. GHC recruited Mr. Sheehan from Lloyd's broker C.T. Bowring Ltd. and Mr. Jones from Scor (U.K.) Reinsurance Co. Ltd.

The division, which employs 34 people, including experienced brokers, "has probably the longest involvement of any broker in arranging insurance for some of the largest banks and financial institutions in the world," according to the company.

It currently generates annual brokerage revenue of about 2 million pounds ($3.4 million), according to Mr. Puttergill.

GHC also has a political risk and export credit insurance division, headed by Roger Cook, who was formerly a director with Citicorp Insurance Brokers Ltd.

The division was formed in April 1987 to provide synergy with the Hong Kong Banking Group's existing business, according to Mr. Puttergill. The division specializes in arranging contract frustration insurance, currency inconvertibility coverage, export credit insurance, kidnap and ransom insurance, and confiscation, expropriation and nationalization insurance.

In addition, the company recruited a new marine team in January 1986 when its existing marine team left in 1985. The new team is headed by Managing Director Peter Ahlas, previously a broker with Jardine Thompson Graham Ltd.

'It is essential for us to be larger in U.S. business,' says Gibbs Hartley Cooper's Mr. Puttergill.

Also, late last year GHC recruited Paul Coseaux and Paul Bumpstead from the treaty reinsurance divisions of Lloyd's broker P.W.S. Group P.L.C. It has since hired reinsurance broker Mike Bishop, who worked as a broker for Golding Stewart Wrightson Ltd., now part of Willis Faber P.L.C. (*BI*, June 20).

Reinsurance currently contributes about 2% of the group's total brokerage revenues, although Mr. Puttergill hopes to increase this percentage to about 10% and is looking for further opportunities to recruit good reinsurance brokers.

North American casualty and property insurance is another area Mr. Puttergill has set his sights on. The company hopes to have a North American brokerage team in place well before the end of 1988, Mr. Puttergill said.

"It is essential for us to be larger in U.S. business as it is such an important part of the world's insurance market," he explained.

GHC's previous experience in the U.S. market has been a painful one and limited mainly to U.S. bloodstock business and binding authority, or contract, business, said Mr. Puttergill.

"The North American contract business left us unhappy," he said, adding that in May GHC sold its North American contract book of business to Lloyd's broker Thos. R. Miller & Son Ltd.

The binding authority business, in which a managing agent in the U.S. underwrote risks on behalf of Lloyd's underwriters and London insurers, led to two major lawsuits in which GHC, in its role as a Lloyd's broker, became caught in the crossfire, said Mr. Puttergill.

One of suits involved a $15 million claim in 1983 by the Federal Deposit Insurance Corp. against GHC and underwriters after fraud was uncovered at two California banks. The case was eventually settled out of court by GHC and the underwriters, with no admission of liability, for about $1 million, according to Mr. Puttergill.

"We decided to settle to avoid protracted and expensive litigation," he explained.

The other lawsuit, which is still pending, involves defaulted private mortgage-backed securities allegedly guaranteed by insurers under binding authorities granted to Atlas Underwriting Ltd., a Richmond, Va., wholesaler in the early 1980s.

The mass of litigation filed in the United States and London involved lawsuits filed by 31 U.S. financial institutions against 24 Lloyd's syndicates, a London-based company, two U.S. insurers and a syndicate on the now defunct Insurance Exchange of the Americas (*BI*, Aug. 10, 1987).

Total claims were estimated at between $47 million to $79 million.

Lloyd's underwriters and London-based Excess Insurance Co. (U.K.) Ltd., part of Hartford Insurance Group, settled late last year for about $2.5 million and no longer are involved in that aspect of the litigation.

Meanwhile, the Lloyd's underwriters are suing GHC in London's Commercial Court claiming that if GHC had given them details of the financial guarantee policy, they would have terminated the policy and not renewed the binding authority.

GHC plans to defend the lawsuit, which will not come to trial until about 1991, said Mr. Puttergill.

Despite the litigation, GHC is "eager to do more, higher-quality business in the U.S.," he said.

Meanwhile, U.K. activities currently represent more than 50% of the company's brokerage revenues.

About 1.5 million pounds ($2.5 million) are generated mainly by Hartley Cooper & Warner Ltd., which was formed in November 1981 to provide Lloyd's facilities to U.K. brokers based outside London.

Although the vast majority of the business handled by the company is automobile insurance, it also places other risks, such as homeowners insurance, coverage for store owners, travel insurance and employers' liability insurance.

GHC also handles accounts for many midsized U.K. corporations, which represent about 20% of the company's brokerage revenues, said Mr. Puttergill.

Mr. Puttergill hopes this business segment will increase following Hong Kong & Shanghai's acquisition of a 14.9% shareholding in Britain's Midland Bank P.L.C.

"We are currently having discussions with Midland Bank to see how we can help them with the insurance needs of their corporate clients," said Mr. Puttergill.

GHC is the center of the Hong Kong & Shanghai Bank's worldwide brokerage activities. Other brokerage companies owned by the bank include:

● London-based Anthony Gibbs Pension Services Ltd., which provides consulting services for pension funds, primarily in the U.K.

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Fledgling brokerage already market fixture, founders say

By STACY SHAPIRO

LONDON—Six-month-old Lloyd's of London broker Nicholson Chamberlain & Colls Ltd. already is regarded as an established part of the market, the broker's executives say.

NCC is considered one of the leading brokers in placing aviation insurance and reinsurance and North American railroad accounts, the executives say.

"We have built up a reputation already," said NCC Chairman Alan Colls.

"After six months, we are already considered an established broker," agreed Nigel Chamberlain, a director of NCC. "We are fully accepted in the market."

By the end of the year, NCC is expected to generate about 10 million pounds ($17 million) in brokerage revenues and will employ about 160 people.

NCC is backed by minority shareholder Aon Corp., whose subsidiaries include Chicago-based broker Rollins Burdick Hunter Co. RBH is the seventh-largest U.S. broker based on 1987 gross revenues of $223.5 million (*BI*, June 20).

NCC owes its beginnings to Lloyd's broker Willis Faber P.L.C., which bought Lloyd's broker Stewart Wrightson Holdings P.L.C. in July 1987. Since the turbulent merger—considered the most controversial since Marsh & McLennan Cos. Inc. bought C.T. Bowring & Co. Ltd. in 1980—200 former Stewart Wrightson employees have defected, many of which ended up at NCC.

Those who left Stewart Wrightson and helped form NCC include:

- Mr. Colls, formerly chairman of Stewart Wrightson Ltd. Mr. Colls was the first Stewart Wrightson executive asked to be on the Willis Faber board to leave the merged companies.
- Executives of former Stewart Wrightson aviation reinsurance subsidiary Nicholson Stewart-Brown Ltd., which was 49% owned by Martin Nicholson, Brian Stewart-Brown and Richard Holt. The executives bought the other 51% of the stock from Willis Faber last year.

Nicholson Stewart-Brown continues to operate under its own banner. It employs about 50 people and provides NCC with backup systems that are required to establish a brokerage.

- Executives of Stewart Wrightson North America Development Ltd., which was 49% owned by Nigel Chamberlain, Tony Fell and Graham Addiscott. The executives had been with C.E. Heath P.L.C. before joining Stewart Wrightson.

The company, with about 22 people, now does business as Nicholson Chamberlain Colls (North America) Ltd. About 30% of the unit's business is generated from North American railroad accounts, while the remaining 70% is a cross-section of U.S. property/casualty accounts of Fortune 1,000 companies.

About 40% of the North American division's business is produced by RBH.

- Jonathan Palmer-Brown, former chairman of Stewart Wrightson Aviation Ltd., Peter Butler, former managing director, and about 30 other former employees, who have formed Nicholson Chamberlain & Colls Aviation Ltd.

Some 15 aviation accounts have moved from Willis Faber to NCC Aviation, even though the new broker did not solicit the business.

The NCC staff also will be complemented by other leading brokers in the market.

NCC in May confirmed that a leading team of nine London market excess-of-loss reinsurance brokers, headed by Colin Bryan, would leave Lloyd's broker E.W. Payne Cos. Ltd. to join NCC this fall.

The brokers from Payne have been hired to develop "all classes of non-marine reinsurance" particularly from the United States, Mr. Colls said. "It's always been an area I've wanted to develop."

Also, financial institution brokers Paul Milton and Andrew Johnson will join NCC in October from Lloyd's broker Citicorp Insurance Brokers Ltd. Financial institution brokerage "is an area where RBH is strong and an area which we wish to develop," Mr. Colls explained. "Obviously we need to build a team behind these two."

NCC also hopes to build its marine insurance and reinsurance business.

However, the company has no plans to enter the U.K. retail brokerage market, Mr. Colls said.

"Our plan is to develop a top team of niche businesses," he said. "We have a five-year plan, but we want to hire only the top people. We believe very much that this is a people business." ■

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300 years: 'Something to celebrate'

By STACY SHAPIRO

LONDON—Most brokers and underwriters at Lloyd's of London consider the market's 300th anniversary something to celebrate.

"I think it's wonderful," summed up Lloyd's non-marine underwriter Richard Lawrence for syndicate 1068, a unit of Lloyd's largest non-marine syndicate 799 managed by Merrett Underwriting Agency Management Ltd. "The (celebrations) have been muted really, but being around 300 years is worth celebrating."

However, some think that the year-long 300th birthday party thrown by the Corporation of Lloyd's is too costly.

In particular, several Lloyd's underwriters complained that this year's nightly floodlighting of the Lloyd's building is too expensive. The lighting fixtures alone cost 1.2 million pounds ($2 million).

"It is fine to celebrate. But I am a hawk on expenditure and I don't like the cost we spent on the fairy lights on the building, particularly this year when members are seeing losses," said one Lloyd's non-marine underwriter.

While another Lloyd's underwriter acknowledges that the Lloyd's Tercentenary Foundation—which was set up to provide money for medical, scientific and business research—is a worthwhile charity, he thinks the money donated to the foundation could have been used to fund market advertising.

"Some people might have wanted the money for good advertising, but you really can't knock putting the money with the foundation," the underwriter said.

Lloyd's Chief Executive Alan Lord said there are "mixed views on the floodlighting of the building. But the amount we spent on entertaining is about 3% of what our competitors spend on advertising annually. It would have been odd if an institution that lasted 300 years didn't celebrate."

Lloyd's Chairman Murray Lawrence added: "There are those who have been carping at the tercentenary and entertainment expenses at Lloyd's. But the tercentenary is unique. I don't know any other industry apart from the Hudson's (Bay) Co. which has celebrated 300 years. I don't think the expenditure is extensive (and) we have had a lot of mileage out of it."

Lloyd's of London and its surrounding market are celebrating the first reference to Edward Lloyd's Coffee House, which appeared Feb. 18, 1688, in an advertisement in the London Gazette, the only daily newspaper of the day. The advertisement was submitted by Edward Bransby offering a reward of one guinea for any information about five stolen silver watches. The ad said that the reward could be claimed "at Mr. Edward Lloyd's Coffee House in Tower Street."

According to the Tercentenary Issue of Lloyd's Log, in 1688 the famous coffee house was located near the Thames River docks, where tall ships abounded in the late 17th century. And at that time, St. Paul's Cathedral, now a landmark fixture near the coffeehouse's original location, would have been under construction.

No one knows exactly when Mr. Lloyd set up his coffeehouse, which became a center for shipping merchants to exchange information and lay off their shipping risks with colleagues. All that is known about Mr. Lloyd is that he was married three times and had seven children; like his father, was a member of the Framework-Knitters Society; and was a churchwarden of St. Mary Woolnoth's, the Lloyd's Log says.

Some members of Lloyd's point out that the present-day market actually had its origins in March 1769, when Lloyd's waiter Thomas Fielding—upset at the gambling scandals that plagued Lloyd's in the 1760s—left the original coffeehouse to set up his own establishment called New Lloyd's Coffee House. Many underwriters and brokers followed him there. A more formal structure for what is today's market began in December 1771, when 79 of those who followed Mr. Fielding signed an agreement whereby each subscribed 100 pounds to a central fund and established a governing committee.

Lloyd's Tercentenary celebrations started off this year on Feb. 18, when honorary Lloyd's member Queen Elizabeth, the Queen Mother, turned on the lights that illuminate the new building. She and the rest of the market watched a display of smoke, lights and videos inside Lloyd's atrium followed by a fireworks display above the building. Lloyd's building since then has been bathed nightly in red, white and blue lights that can be seen for miles.

Throughout the year, the celebrations have been a mixture of large bashes hosted by Lloyd's and events hosted by other organizations surrounding Lloyd's. At many of the festivities at least one member of the royal family has been present, signifying the importance of Lloyd's to the United Kingdom.

Along with concerts and balls, golf and cricket matches, the celebrations included:

- A conference hosted by Lloyd's on Her Majesty's Yacht Britannia on March 2 in Long Beach, Calif., one of only 10 times that the royal yacht has been used to promote British business. All the guests—including many Lloyd's and U.S. market leaders—were greeted by the Duke of York (*BI*, March 14).
- The Tercentenary Foundation dinner, which was held June 10 and turned the downstairs of Lloyd's into a grand ballroom. Princess Anne was the market's royal guest.

Before the dinner, Tercentenary Foundation awards were distributed by the foundation's chairman, former Lloyd's Chairman Peter Miller, and Princess Anne. Lloyd's contributed 1 million pounds ($1.7 million at appropriate exchange rate) to the foundation and other Tercentenary events collected about an additional 1 million pounds, said a Lloyd's spokesman.

- The Tercentenary Polo Match and Ball, sponsored by Lloyd's Saddle Club and headed by Garth Bearman, managing director of Lloyd's broker Robert Fraser Insurance Brokers Ltd.

Prince Charles, a keen polo player, competed in the event while other members of the royal family watched. The Duchess of York presented awards to the players, including Mr. Bearman.

- A concert to mark Lloyd's Tercentenary, featuring Dame Kiri Te Kanawa and the Royal Philharmonic Orchestra at the Barbican Center.

The event, hosted by C.T. Bowring & Co. Ltd., was attended by Prince Charles.

"The 300th anniversary is something to celebrate and I wanted to find something of caliber," said Philip Wroughton, chairman of Bowring, a subsidiary of Marsh & McLennan Cos. Inc. "I am very honored that Prince Charles accepted our invitation and came to the concert."

Meanwhile, Lloyd's Gift Shop is selling Tercentenary paraphernalia for those who wish to acquire a memento of Lloyd's historic 300th birthday. The gifts range from a Lloyd's Tercentenary Coffee Pot for 2,270 pounds ($3,859) to a Tercentenary video for 15.95 pounds ($27.12) to Lloyd's Tercentenary coasters for 1.98 pounds each ($3.40). ■

At many of the festivities celebrating Lloyd's of London's 300th birthday, at least one member of the royal family has been present. Among them, Prince Charles competed in the Tercentenary Polo Match and Ball sponsored by Lloyd's Saddle Club (top); honorary Lloyd's member Queen Elizabeth, the Queen Mother, turned on the lights that illuminate the new building every night in red, white and blue (left); and the Duke of York addressed guests aboard Her Majesty's Yacht Britannia off Long Beach, Calif., one of only 10 times that the royal yacht has been used to promote British business (bottom).

Committee leadership fits Wren well: Haydon

By CAROLYN ALDRED

LONDON—Wren Underwriting Agencies Ltd., the seventh-largest managing agency at Lloyd's of London, operates under distinctly democratic management.

Its 18 directors meet monthly around a circular table in Wren's boardroom on the ninth floor of the Lloyd's Building and discuss issues raised by in-house committees, which cover most aspects of the agency's business.

The committee structure ensures that there is input from everyone involved in the business, according to Chairman Nick Haydon.

For example, current committees include a members agency committee, an investment committee, a computer users group and a motor syndicate committee.

The 18 that meet include Chairman Haydon, two deputy chairmen—underwriter Alan Jackson and former underwriter Bruce McKay Forbes—14 executive directors, most of whom are underwriters, and non-executive director J.F. Goble, the former senior partner of London law firm Herbert Smith & Co.

Most of the agency's 73 shareholders are employees, the result of a management buyout in December 1986.

The buyout was prompted when French insurance company Groupe des Assurances Nationales acquired Minster Assets P.L.C., which owned London-based insurer Minster Insurance Co. Ltd. and four Lloyd's underwriting agencies.

The Lloyd's Act of 1982 prevents companies from owning more than 10% of any Lloyd's underwriting agency without the permission of Lloyd's. GAN therefore had to sell 90% of the underwriting agencies Robt. Bradford (Underwriting) Ltd., Joseph W. Hobbs & Co. Ltd., Savill Gough & Hay Ltd. and E.R.H. Hill (Agencies) Ltd.

Management and employees purchased the 90% shareholding in the four underwriting agencies and Gray McKay Forbes (Underwriting Agencies) Ltd. and Alan Jackson (Underwriting Agencies) Ltd., which were associated through common directorships with Minster Assets.

Wren now manages eight syndicates with a total premium capacity of 294.2 million pounds ($500.1 million). It employs 459 people.

The syndicates—one marine, one non-marine, two aviation, three motor and one life—span every type of insurance business written at Lloyd's.

Wren's members agency represents 838 names allocated to 160 syndicates throughout Lloyd's, said Mr. Haydon.

This year the agency is celebrating the 50th anniversary of one of its aviation syndicates. Syndicate 800 was formed in 1938 by E.R.H. (Jack) Hill as the first specialist aviation syndicate at Lloyd's. Prior to 1938, aviation risks were written by either non-marine or marine syndicates.

To celebrate the anniversary, the agency commissioned a book by Ian Ormes on the history of aviation, the syndicate and aviation underwriting.

"The book gave us a wonderful opportunity to speak to some of the pioneers of aviation insurance and record its early years," pointed out John Westcott, the current underwriter for syndicate 800.

Syndicate 800, which began writing with 25 members and a capacity of 47,000 pounds ($112,800) on Jan. 1, 1938, today has 2,423 members and a capacity of 43.7 million pounds ($74.3 million).

The syndicate's principal business is hull and liability insurance for the world's major airlines and aircraft manufacturers. The syndicate also insures aircraft used by executives and for pleasure, and the risks of airports, refueling, maintenance and other support operations.

"In view of the number of United States' aircraft in airline use, it is axiomatic that the composition of our overall account is heavily dollar orientated," according to Mr. Westcott, writing in the syndicate's 1987 underwriter's report, published this year.

In fact, 80% of the syndicate's

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Continued from previous page

account in 1985 was written in U.S. and Canadian dollars, though by 1987 this fell slightly to 75% because of the weakening of the U.S. dollar.

Aircraft, airport, manufacturers' products and other aviation long-tail risks accounted for 58% of the syndicate's 1985 premium income compared with 65% in 1987.

The ratio of short-tail and long-tail liability risks has changed because the "relative resilience of liability rates to competitive forces has maintained our long-tail income compared to short-tail business," Mr. Westcott notes in his report.

This ratio "will inevitably vary from year to year as we try to weave our way through the vagaries of rating of the aviation market," he adds.

The 1985 underwriting year, which just closed under Lloyd's three-year accounting system, was the worst year ever for major aviation accidents, loss of life and total claims costs. Aviation claims worldwide totaled about $2 billion in 1985. Reinsurance, however, transformed syndicate 300's gross underwriting loss into a net underwriting profit for 1985 of 2.6 million pounds ($4.9 million).

Total profit for 1985, including investment income and less expenses, was 3.6 million pounds ($6.8 million) on gross premiums of 19 million pounds ($35.7 million) and net premiums of 13.8 million pounds ($25.9 million).

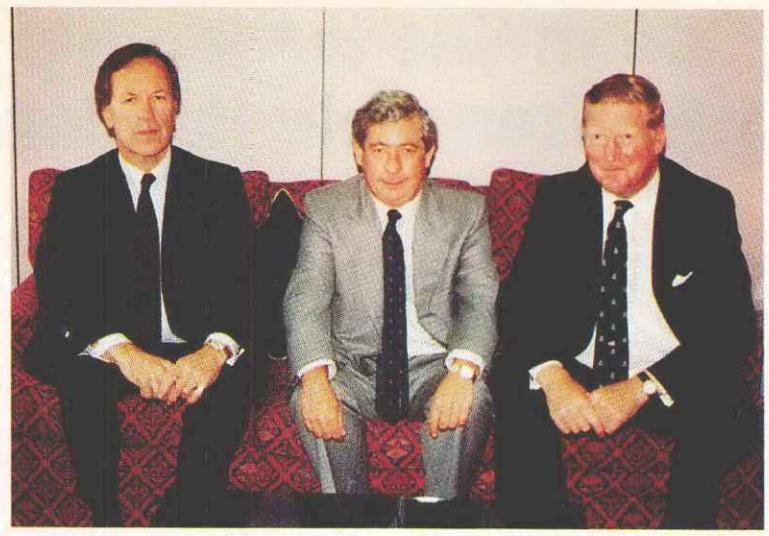

Photo: Carolyn Aldred

Wren Underwriting Agencies Chairman Nick Haydon, left, marine underwriter Alan Jackson and aviation underwriter John Wescott.

But Mr. Westcott is pessimistic about the current aviation insurance market.

"The rates are depressed and we are in another down cycle," he said, gloomily.

The only hope of a reduction in the rate slides will be the long-term effect on the reinsurance market of this year's loss of the North Sea oil rig, the Piper Alpha, according to Mr. Westcott (*BI*, Aug. 1; July 11).

"The Piper Alpha loss is bound to have an impact on other markets when it hits the reinsurance and excess-of-loss underwriters," he said.

Syndicate 431, Wren's other aviation syndicate, specializes in personal accident, illness and travel insurance, which in 1987 generated 84% of the syndicate's account. Aviation insurance was only 7%, kidnap and ransom insurance 7%, excess-of-loss personal accident 1% and other risks 1%.

In 1987, 20% of the syndicate's premium was written in U.S. dollars compared with 34% in 1985.

The syndicate, whose lead un-

Continued on next page

Protection . . .

Continued from previous page
derwriter is John Lingham, was created by the December 1986 merger of syndicate 431 with parallel aviation syndicates 443 and 432.

Syndicate 431 reported a 1985 profit of 2.3 million pounds ($4.3 million) on gross premiums of 8.9 million pounds ($16.7 million) and net premiums of 6.4 million pounds ($12 million).

Wren's largest syndicate is marine syndicate 735 with 1988 premium capacity of 89.6 million pounds ($152.3 million).

The syndicate, whose current underwriter is Alan Jackson, was started in 1928.

Although for many years it underwrote mainly a hull account, in recent years the syndicate expanded and in 1988 its business includes 23% cargo, 10% war risks, 11% liability and 8% non-marine risks.

In addition, about 25% of the account likely will be excess-of-loss business, of which up to 80% is London market excess-of-loss business, according to Mr. Jackson.

Mr. Jackson expects to write gross premiums this year of about 75 million pounds ($127.5 million), with about 70% in U.S. dollars.

Syndicate 735 reported a profit of 8.8 million pounds ($16.5 million) for 1985 on gross premiums of 43.7 million pounds ($82.2 million) and net premiums of 32.2 million pounds ($60.5 million).

Mr. Jackson expects the Piper Alpha North Sea oil rig loss to stabilize the marine market after several years of rate slashing.

The second-largest syndicate managed by Wren is non-marine syndicate 250 with a premium capacity in 1988 of 48.2 million pounds ($81.9 million). This syndicate, however, will split off its errors and omissions business next year to a new syndicate under E&O underwriter Rodney Stone.

In 1987, errors and omissions and fidelity insurance, written on a claims-made basis, accounted for about 45% of the syndicate's business. Personal lines insurance and commercial property insurance and reinsurance, underwritten by David Flett, accounted for 55%.

Only 18% of the syndicate's premium last year was written in U.S. dollars.

Syndicate 250 reported a profit for the 1985 underwriting year of 2.2 million pounds ($4.1 million) on gross premiums of 20.8 million pounds ($39.1 million) and net premiums of 17.1 million pounds ($32.1 million).

The Wren agency also has three automobile syndicates with a total premium capacity of 80.5 million pounds ($136.9 million). The three syndicates—R.B. Motor Syndicate 93, Anchor Motor Syndicate 816 and Paladin Motor Policies Syndicate 388—operate six offices throughout the United Kingdom.

All three syndicates lost money in 1985: a total of 906,354 pounds ($1.7 million) on gross premiums of 41.7 million pounds ($78.4 million).

However, massive rate hikes in the last three years are expected to reverse that trend, underwriters agree.

Wren also is examining how to increase efficiency at the syndicates, according to Mr. Haydon. Automobile syndicates are by far the most labor-intensive syndicates at Lloyd's.

The agency currently is looking at upgrading the syndicates' computer systems and may introduce a centralized system for all three.

At present, there is no connection among the three motor syndicates, with each operating from its own boxes and offices with different underwriters and staff.

The smallest of Wren's managed syndicates is life syndicate 389, which has premium capacity this year of 2.8 million pounds ($4.8 million).

Lloyd's underwriters currently are permitted to write only short-term life insurance contracts, with a contract lasting for a maximum of 10 years.

Group life policies represent about 80% of the syndicate's gross premium income.

The syndicate also writes key-man life insurance and provides coverage for company employees working abroad.

The syndicate made an overall profit in 1985 of 410,833 pounds ($772,366) on gross premiums of 2 million pounds ($3.7 million) and net premiums of 1.2 million pounds ($2.2 million). ■

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SBJ prepares for flood of rig blast claims

By STACY SHAPIRO

LONDON—The head of claims at Lloyd's of London broker Steel Burrill Jones Ltd. first heard about the July 6 explosion on the Piper Alpha North Sea oil platform while watching television the next morning.

"Good grief," thought Raymond Westhead at the time. "It's going to get busy."

What he didn't know then was that the disaster would be the largest insured man-made loss ever, totaling more than $1 billion (*BI*, July 11), and would push SBJ's claims department into high gear.

"It is tragic about the loss of life (on the platform), but it sure got the adrenaline running," said Mr. Westhead, an SBJ director. "Piper Alpha is something completely different" from any other loss he has seen since he started in the market in 1962, he explained.

"Piper Alpha is the loss you are told you are there for, but you don't expect to happen," added Debbie Harbison, SBJ's claims manager.

By the time Mr. Westhead arrived at his office near Lloyd's at 8:30 a.m. July 7, one of his colleagues already knew the value of the platform. The television set was turned on to provide news of the Piper during the entire day.

"We immediately started to evaluate the loss," Mr. Westhead recalls.

The claims team at SBJ, which is primarily a marine London market excess-of-loss reinsurance broker, got help from the entire company—from Derek Steel, chairman of the broker's parent, Steel Burrill Jones Group P.L.C., on down—to collect information about which SBJ-brokered contracts covered the loss.

In addition to ensuring that all of SBJ clients' rig reinsurance renewals and general excess-of-loss reinsurance coverage were in place, "we investigated to make sure that all premiums were received and paid or were being hurried along," Mr. Westhead said.

The staff also ran a computer check to see how the loss would affect SBJ's reinsurance collections.

That afternoon, SBJ held a staff meeting to explain to its young claims and brokerage staff—employees average 24 years old—how the Piper claims would be handled since so few had ever experienced such a large disaster.

Only Mr. Steel and SBJ co-founder David Beresford Jones could remember what the marine insurance market was like during the last major disaster: Hurricane Betsy, which in 1965 whipped through the U.S. coastline and destroyed dozens of offshore drilling rigs.

"There were no computers then, and they said they had charts all over the walls, practically wallpapering the office" to understand how the London market was hit by the storm losses, said Mr. Westhead.

The delay in payment of the first insurance claims on the Piper Alpha loss has allowed SBJ "to get our information in place," he said.

"We are still gathering as much information as we can. Claims advices (notifications) are coming through and we are advising underwriters. We are marking up files and tuning up the way we will handle the claims," he added.

When the reinsurance claims do come in, SBJ claims personnel will take Piper Alpha files to the leading underwriters in the London marine market. Normally, each claims broker will see two to five people about payment, he said.

Once the underwriters agree to the claim, it will be sent to the Lloyd's Underwriters Claims Registration Office, the central marine claims center at Lloyd's. If LUCRO is satisfied with the claim, the claim will be given "a signing number" and date and go to Lloyd's central accounting system for payment.

Normally in the marine market, a broker will be paid within 30 days of the time the claim receives a LUCRO signing date. However, Lloyd's marine underwriters have been setting up a weekly claims settlement system similar to that already used in the non-marine market, so Piper claims may be settled on a weekly, rather than monthly, basis, said Mr. Westhead.

Although SBJ's claims team, like much of the London market, has been ready to submit the Piper reinsurance claims since mid-August, it has played a waiting game while the four owners of the Piper Alpha and their brokers—Willis Faber & Dumas Ltd. and Alexander Howden Ltd.—and the leading underwriters negotiate insurance claims payments.

Payment for some reinsurance claims could be filed with SBJ this week, following payment of two of the four owners' insurance claims (*BI*, Aug. 22; Aug. 15).

Three or four weeks after the first reinsurance claims are filed, claims on the excess-of-loss retrocessions on underlying excess of loss reinsurance contracts—or XLs on XLs—will be filed. That will be the busiest time for SBJ, said Mr. Westhead. "We will be expected to move money as quickly as possible," he said.

Neither Mr. Westhead nor Ms. Harbison have any idea of how many claims will be processed by SBJ from the Piper loss. But, Mr. Westhead said, "I wouldn't be surprised if when the first Piper claim comes to the office the person who has it will stand in the middle of the room and announce it. We are still processing other claims, but there's sort of a buzz" about the Piper, he said.

The company has been preparing for Piper Alpha claims: A sign posted in the claims department reading "PIPER ALPHA EXCLUSION ZONE" delineates files that are not Piper-related, while another sign reading "PIPER ALPHA" shows where the Piper claims will be handled. It is the first time since the company was established in 1977 that a specific area in the office has been designated for a single loss.

The Piper claims "will go on for years," said Mr. Westhead. Because the London market passes risks on again and again in the form of retrocessions, a loss of this magnitude may take 10 to 15 years to settle, he said.

For example, Mr. Westhead's team currently is working on reinsurance claims from the last major North Sea oil platform disaster in 1980, when the Alexander Kielland capsized in a gale, killing 123 men on board (*BI*, April 7, 1980).

In addition, the company is awaiting more reinsurance claims settlements from the 1978 Amoco Cadiz disaster. The supertanker, laden with 230,000 tons of crude oil, ran aground in the English Channel, spilling tons of oil over the coastline of Brittany in France (*BI*, Oct. 26, 1987). Currently, Amoco Corp. is appealing a $85.4 million U.S. District Court judgment (*BI*, Jan. 18).

"Just because the losses are more than 8 years old doesn't mean their reinsurance is over," said Mr. Westhead. ■

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Ruling expected next month on Outhwaite runoff policies

By CAROLYN ALDRED

LONDON—Next month could be a watershed for Lloyd's of London underwriting agency R.H.M. Outhwaite (Underwriting Agencies) Ltd. in its efforts to avoid massive losses and breach of duty litigation stemming from runoff reinsurance policies underwriter Richard Outhwaite issued in the early 1980s.

The Outhwaite agency and Mr. Outhwaite are anxiously awaiting the first decision by an arbitration tribunal on one of several disputes between Mr. Outhwaite and underwriters who ceded past liabilities to Lloyd's of London syndicate 317/661 in 1981 and 1982. Mr. Outhwaite is contending the cedants did not fully disclose information about the risks to be reinsured.

If Mr. Outhwaite wins the dispute, it could mean a significant reduction of the $145 million in losses that members now face.

However, if Mr. Outhwaite loses the dispute, the 1982 members of syndicate 317/661 may be prompted to sue the Outhwaite agency for negligence and breach of contract.

And, underlying the outcome of the arbitration is an opinion by London trial attorney Stewart Boyd that the agency could face a tougher legal battle with syndicate members than a London law firm previously concluded.

Meanwhile, current members of syndicate 317/661 have been given until Sept. 30 to see how events unfold before officially deciding whether to remain on the syndicate for the 1989 underwriting year, following a three-month extension granted by the agency.

Members of syndicate 317/661 during the 1982 underwriting year face an underwriting loss of at least $145 million arising mainly from more than 50 runoff policies Mr. Outhwaite wrote in 1982 and earlier years for more than 30 Lloyd's syndicates and several insurance companies.

The Outhwaite agency in May asked the 1,614 members of marine syndicate 317 and "mirror" non-marine syndicate 661 during the 1982 underwriting year to pay 20.5 million pounds ($34.9 at current exchange rate) by July 29 toward an underwriting loss of 85 million pounds ($144.5 million) on the 1982 accounts, which are being kept open.

Most members already have paid their portion of the loss, an Outhwaite spokesman says.

The runoff reinsurance policies covered the unlimited liability of cedants' underwriting years as far back as the 1950s.

Many of the runoff policies covered losses arising from asbestosis and environmental pollution in the United States.. Outhwaite is disputing at least 13 of the 51 runoff policies on the grounds that the ceding syndicates and insurers did not fully disclose information about the risks to be reinsured, particularly asbestos risks (*BI*, May 23). The 13 policies are expected to produce claims totaling more than 185 million pounds ($314.5 million). Current reserves to meet outstanding liabilities for the 1982 underwriting year now total 263.3 million pounds ($447.6 million), 85.4 million pounds ($145 million) of which is members' reserves.

Arbitration proceedings between Mr. Outhwaite and fellow Lloyd's underwriter Michael Cockell are due to be decided at the end of September, according to a spokesman from the Outhwaite agency.

Non-marine syndicate 570/347, managed by M.H. Cockell & Partners, has an unlimited runoff reinsurance policy for liabilities exceeding an attachment point of $12 million (*BI*, Sept. 14, 1987).

At least one other arbitration is expected to be concluded later this year, sources say.

"If Mr. Outhwaite wins his arguments over inadequate disclosure, members' potential losses will be considerably reduced," noted one members' agency executive.

Members' agencies and Lloyd's executives, including Chairman Murray Lawrence, believe members should refrain from litigation and continue to support Mr. Outhwaite.

As a result, many of the members' agencies have agreed in principle to extend standstill agreements that protect members' legal rights beyond December, confirmed Peter Rawlins, managing director of Sturge Holdings P.L.C. and a member of the members' agency steering committee formed to investigate the runoff policies written by Outhwaite.

Without the extension, members of the syndicate in 1982 might lose their right to file litigation after December under England's six-year statute of limitations.

The agencies will only extend the agreement if the agencies' error and omissions insurers agree and Mr. Outhwaite extends his standstill agreement with the agencies.

The Outhwaite agency is "considering extending the agreements," said a spokesman.

Although current members are

Continued on next page

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Spotlight report

Outhwaite

Continued from previous page

not affected by the huge runoff losses, a three-month extension from the usual June 30 deadline for resignations was given "as a courtesy" to existing members, said an Outhwaite spokesman.

Most members' agencies are expected to retain current members on the Outhwaite syndicate, although several may suggest that members resign from the syndicate, particularly if the Cockell judgment goes against the Outhwaite agency, sources say.

Meanwhile, members of the Outhwaite syndicate in 1982 may have a stronger legal case to avoid paying losses than a legal report earlier this year suggested, according to Mr. Boyd.

Mr. Boyd was commissioned by Lloyd's on behalf of the syndicate's members during 1982 to ensure that a report by London law firm Freshfields on members' legal standing in the matter and a financial report by accounting firm Coopers & Lybrand in London were "adequate and fair."

The Coopers & Lybrand report calls on the Corporation of Lloyd's to step in and to assess the syndicate's exposure to reduce extreme uncertainty surrounding losses on the runoff reinsurance policies (see story, page 47).

Both of the reports were commissioned by 102 members' agencies to investigate the writing of the runoff reinsurance policies.

Mr. Boyd agreed with Freshfields that, based on the information Freshfields had available to it, winning a judgment against the Outhwaite agency for negligence or breach of duty would be difficult.

However, he observed that the Freshfields report was based on "limited" information. He hinted that members may find it easier than Freshfields concluded to win a breach of duty judgment against the Outhwaite agency if the members have access to more information than Freshfields had.

Mr. Boyd advised members late last month to obtain independent advice on their legal and financial position (*BI,* Aug. 1).

According to Mr. Boyd, the main factors justifying a breach of duty case against the Outhwaite agency include that:

- Mr. Outhwaite wrote runoff risks "on a scale which was unique in the market. Syndicate 661 became very much the major syndicate in this field."
- Mr. Outhwaite wrote runoff risks "in the knowledge that the expansion of the business was directly related to the asbestosis situation. He knew that the losses were going to be significant, and that the scale of the problem was not accurately quantifiable."
- Mr. Outhwaite failed "to identify sufficiently precisely the basis of the figures presented to him with the placing information" and did not attempt "to reconcile his own predictions of outcome with the cedants' own estimates," according to Mr. Boyd, citing the Freshfields report.
- "It was generally recognized that the usual methods for the analysis of runoff policies were primitive. . . .Mr. Outhwaite's own method consisted simply of mentally constructing a pay-out pattern."
- "The potential impact of asbestosis on his syndicates was substantial, and this ought to have influenced the degree of investigation which he should have undertaken."
- Mr. Outhwaite "wrote very large lines, often 100%, and the majority of the contracts are unlimited, although the taking of 100%, or large lines, is unusual, and most underwriters are reluctant to take unlimited risks."
- "The total runoff premium for 1982, on a gross basis, is a very sizeable proportion (15%) of the total premiums for 317/661 for 1982. It changed significantly the balance of risks within the syndicate."
- Mr. Outhwaite had "no formal system for monitoring the aggregation of risks between various contracts."
- "There were inadequate controls for monitoring estimated premium income or unusual items."

Mr. Boyd agreed with Freshfields that the case would be difficult to win on the basis of the expert evidence presented to Freshfields, including advice from witnesses Chris Rome, chairman of Lloyd's Underwriting Assn., and Brian Wood, chief underwriter at Norwich Winterthur Reinsurance Corporation Ltd.

According to Mr. Boyd, this expert advice concluded that:

- "The syndicates that were reinsured by Outhwaite were generally of good quality and it was not unreasonable to reinsure them."
- "The figures and other information which Mr. Outhwaite said he regarded as essential to enable the runoff to be analyzed corresponded to what market practice regarded as the crucial factors."
- "The specimen set of papers provided by Outhwaite contain the information which a reasonable underwriter would require."
- "The taking of 100%, or large lines on substantial risks is highly unusual, but not in this case a matter for criticism." Freshfields did not elaborate.
- "The systems and controls in place in Outhwaites in the early 1980s. . .were not significantly worse than those in place in many underwriting agencies of Outhwaite's type at that time."
- Other underwriters "underestimated the impact of asbestosis, and it was not until 1984 that the full size of the problem was fully appreciated in the market."
- "Analysis of runoff policies. . . was relatively primitive in the 1980's. . .At that time actuaries were very rarely found in this type of work and a great deal depended on the native feel and judgment of the underwriter."
- Without considering the terms of particular contracts covered by runoff policies, which was outside the intended scope of the Freshfields investigation, accepting runoff business "does not necessarily demonstrate lack of reasonable care and skill."

However, Mr. Boyd noted in his review that "without the benefit of the expert opinions expressed in the (Freshfields) report, I should myself have expected the minimum standards of a reasonable underwriter in 1981/82 to have been higher in a number of respects than those which the experts regard as acceptable for those days."

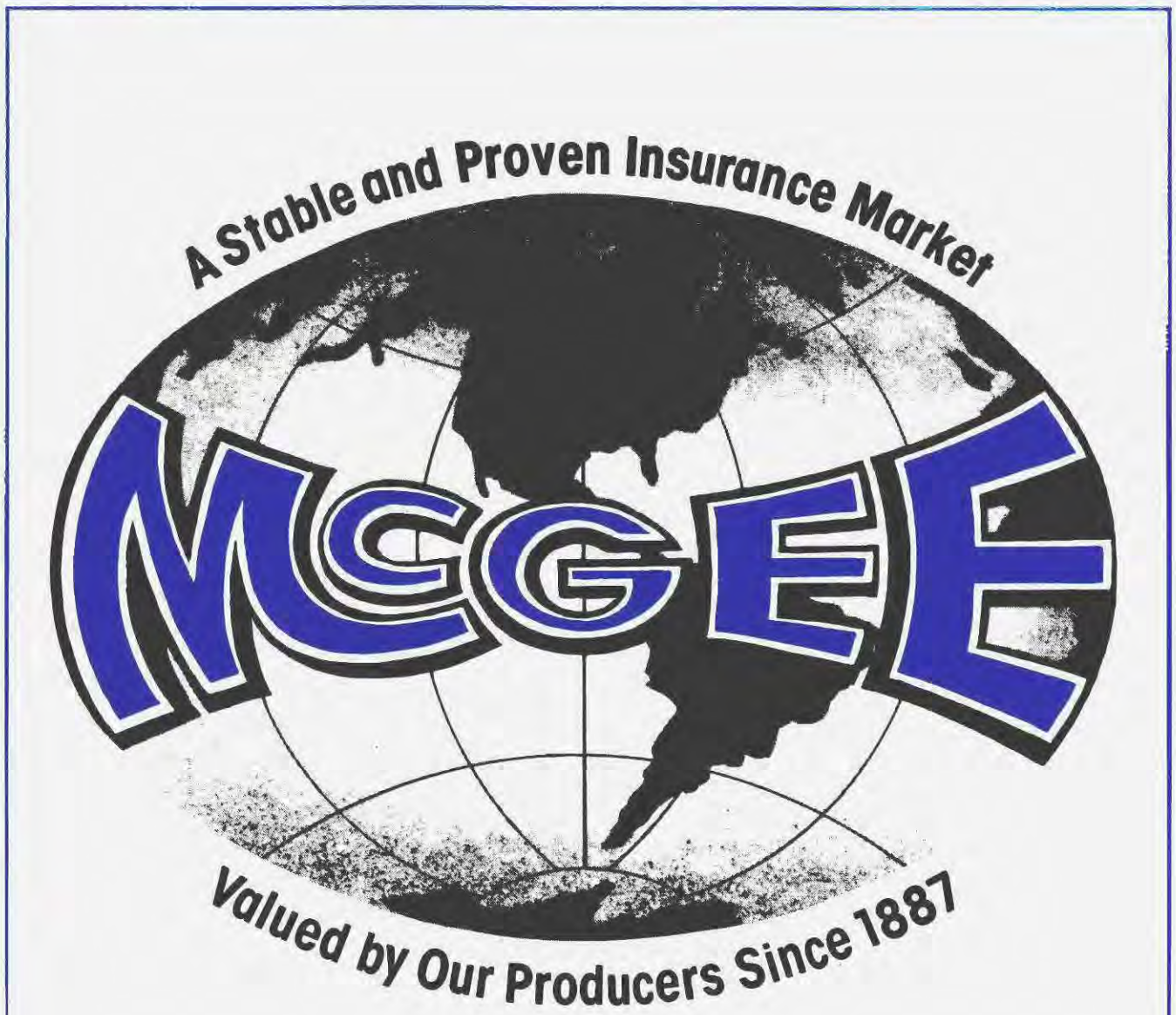
Mr. Boyd added that "a court or arbitrator might take the same view."

It "must be remembered that (Freshfields') conclusions, like the conclusions of any other enquiry, are based solely on the evidence and expert advice given to them. I do not know whether other evidence or expert advice would be available to the names from other sources," Mr. Boyd said.

The reports' limitations stem from the legal limitations on Freshfields and Coopers & Lybrand to investigate the matter and other limitations imposed by the members' agencies, Mr. Boyd said.

For example, according to Mr. Boyd, Freshfields:

- Was not asked to consider the liability of any other person or firm or corporate body, other than Outhwaite, whose conduct might have been open to criticism.
- Was not asked to inquire about the soundness of judgment of underwriting any particular policy that proved problematic.
- Had no statutory powers to compel the attendance of witnesses and production of documents.
- Had no powers to probe the evidence provided by the Outhwaite agency, obliging Freshfields "generally to accept what they were told by Outhwaite at face value." ■



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Report on Outhwaite calls for Lloyd's help

By CAROLYN ALDRED

LONDON—Extreme uncertainty surrounding losses on runoff policies written by Lloyd's of London underwriter Richard Outhwaite could be reduced if the Council of Lloyd's steps in to help assess the syndicate's exposure, says a leading London accounting firm.

However, Lloyd's Chairman Murray Lawrence says Lloyd's does not plan to intervene, contending that the affair is a market matter that falls outside the council's jurisdiction.

In a report commissioned by 102 Lloyd's members' agencies on behalf of members of syndicates 317 and 661, managed by R.H.M. Outhwaite (Underwriting Agencies) Ltd., Coopers & Lybrand recommends that Lloyd's take measures to limit the uncertainty surrounding the syndicate's 1982 account.

The 1,614 syndicate members during 1982, who face at least $145 million in losses on runoff reinsurance policies, were asked to pay 20.7 million pounds ($35.1 million) by July 29 and face future cash calls, possibly at two-year intervals until 1994. Current reserves for liabilities total 263.3 million pounds ($447.6 million) (*BI*, June 13). Most of the members have paid their portion of the loss, according to an Outhwaite spokesman.

The syndicate's losses stem from runoff policies underwritten by Mr. Outhwaite mainly in 1981 and 1982 that provided liability protection, often unlimited, for other syndicates' and insurers' past underwriting years. Many of the policies covered asbestos and environmental pollution claims from the United States.

Future cash calls depend on the adequacy of the agency's reserves. For example, if reserves for the runoff contracts prove to be understated by 20% and settlements with ceding insurers increase by 20%, "further cash calls of approximately 49 million pounds ($83.3 million) could be required," estimates the Coopers & Lybrand report issued in July.

However, the report also points out that if insurers prevail in their pollution coverage litigation with U.S. policyholders, "there may well be substantial surpluses."

Overall, though, "we consider that the future cash calls which the agency has estimated are probably the most favorable that can prudently be assumed," the report states.

The "agency has suffered from a lack of adequate information—and limited rights to press for such information—from the ceding syndicates and companies, which has made it extremely difficult to arrive at reasonable estimates of reserve requirements," the report notes.

The Outhwaite agency told Coopers & Lybrand "that it has not in all cases wished to exercise such rights as it had for fear that such exercise of rights might preclude them thereafter from avoiding the contracts on grounds of material non-disclosure or misrepresentation."

However, there are two significant ways "in which this uncertainty could be limited," according to the report. These are:

- If cedants were "required by Lloyd's to do detailed projections of the likely outcome of their contracts with the Outhwaite syndicates. . .and to advise the (Outhwaite) syndicates of the result."
- If Lloyd's "were to require cedant syndicates to make available sufficient data to enable proper projections to be done by an independent party to estimate the expected outcome of such runoff contracts in aggregate."

Both Mr. Lawrence and Lloyd's Chief Executive Alan Lord this month said that the Corporation of Lloyd's should not become involved in the matter.

"It is not easy to go into this without taking sides in what is a commercial dispute," Mr. Lord said. But, "we shall look at what Coopers & Lybrand have to say to see if we need to make changes in the auditing of solvency certificates" and whether higher standards should be applied to information provided reinsurers.

The report points out that part of the problem concerning the policies regards misunderstandings over the information originally presented to Mr. Outhwaite from the ceding companies and syndicates.

"The agency does not appear to have been aware of the basis on which the ceding syndicates and companies determined the outstanding (liabilities) notified to them and whether any loadings were applied by cedants (net of available reinsurance recoveries) to allow for losses incurred but not reported," the report says.

In earlier years, reserving principles were based on the assumption that known problem areas, such as asbestos, had been adequately considered in the outstanding liabilities cedants reported and that "a relatively small IBNR, allocated on a global basis, would cover the syndicate for a deterioration of existing claims and the potential for another problem to emerge," according to the report. However, "this approach did not anticipate the rapid development of notified losses," which grew nearly five-fold to $640.7 million by 1987 from $111 million in 1982.

According to a legal report by the London law firm Freshfields, which also was commissioned by the members' agencies, "Mr. Outhwaite's contention is that the figures supplied to him by the syndicates. . .were akin to reinsurance to close and reflected all matters known to the syndicate, relating to all the years in question."

Asbestos "was a known problem and if syndicates failed adequately to account for it when giving information prior to the placing of the runoff, then syndicate 661 should not be liable," Mr. Outhwaite argues. ■

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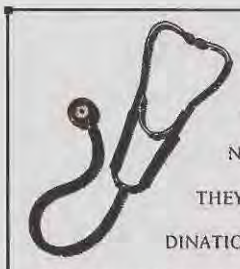

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AAU Raising Your Expectations

Lloyd's shares marine limelight with ILU

By CAROLYN ALDRED

LONDON—Lloyd's of London is not the only central insurance marketplace in London.

A few hundred feet from the new Lloyd's building, another indoor market is bustling with brokers trying to place some of the world's largest shipping, aviation and energy risks.

The Institute of London Underwriters, at 49 Leadenhall St., includes marine and aviation underwriters representing more than 100 insurance companies from throughout the world.

Like the Lloyd's market, ILU underwriters subscribe to a collective insurance policy known as an ILU policy, which brokers carry from underwriter to underwriter until 100% of the risk is placed.

ILU members write premiums totaling at least 2 billion pounds ($3.4 billion at current exchange rates), making the ILU as large as Lloyd's marine market.

The ILU was originally formed in 1884 as an association of underwriters working in the London market.

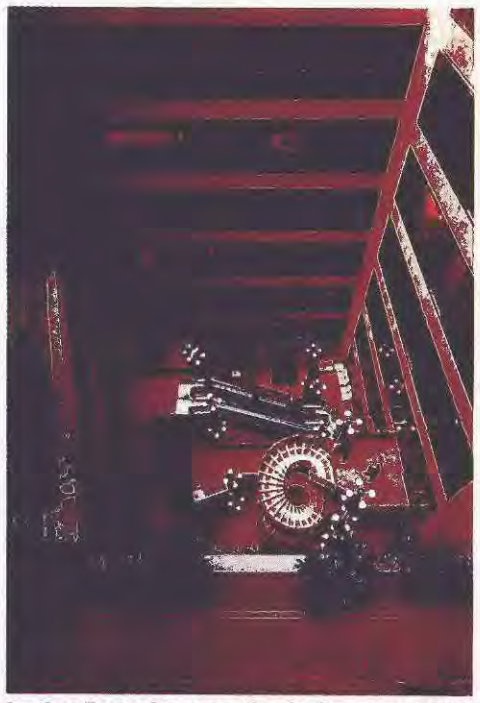
It wasn't until World War II, when a shortage of civilian labor led to the formation of a central policy department, that the ILU policy was introduced.

Two decades later, in 1967, central accounting was introduced, followed 10 years later by a central claims and premium settlement department.

However, recognition of the ILU as a major insurance marketplace has increased dramatically since March 1986 when the ILU underwriting center was opened, uniting all of the institute's underwriters in the same building for the first time.

"Being together in the one building has put the London company market on the map," according to ILU Chairman John Parton.

Prior to acquiring 49 Leadenhall St.—the former address of Lloyd's broker Alexander Howden Ltd.—the ILU underwriters were located throughout the City of London, London's financial center.



In the first nine months in its new building at 49 Leadenhall St., the ILU increased its marine market share by about 20%.

"Where it used to take two and a half days for brokers to place an ILU underwriting slip, it now takes half a day," commented Matthew Marshall, deputy secretary of the ILU.

Also, "it was very hard to get the concept of the ILU across to people when we were all in different buildings," explained Mr. Parton.

Even more confusing to some people was the fact that many ILU members were based in the 1928 Lloyd's building, just across the street from the 1958 Lloyd's building, causing many people to believe the ILU was actually part of Lloyd's, said Mr. Parton.

When Lloyd's demolished the 1928 building to erect the new Lloyd's building, ILU members were offered rental space on the upper floors of the new hi-tech Lloyd's marketplace. But the ILU underwriters were unhappy with the terms of the offer and concerned about being located five floors above their competitors, noted Mr. Parton.

Fortunately, during negotiations with the Corporation of Lloyd's, a vacant building became available close to Lloyd's that was capable of holding the entire ILU membership.

"Lloyd's gave us the luck by forcing us to do something to our advantage and to their disadvantage," said Mr. Parton.

In the first nine months of being in the ILU building, the institute increased its share of the marine market by about 20%, estimated ILU General Manager Peter Worsfold.

London's company marine market "is still just as much the single entity it was before, but by being together in their own center, with easy access for brokers, the companies themselves now are clearly visible within the market as equal partners with Lloyd's," notes an ILU brochure.

Within the ILU center, each member company has its own underwriting room and independence in accepting business and settling claims. The institute itself acts as a servicing office, dealing with the accounting and documentation of each risk insured by an ILU policy.

The ILU policy department and accounting center is located in Folkestone, about 70 miles from London, and employs 170 of the ILU's total staff of 220.

A central settlement service allows all payments between brokers and member companies—premiums and claims—to be cleared once a month in a single transaction based on the net balance owed to or from the market.

Where faster payments are required, the institute can prepare documentation and provide for direct claims payment from its members.

The institute also maintains a worldwide network of claims survey and settling agents to handle losses.

The institute itself is controlled by a committee of 15 people elected from among the nominated representatives of its member companies. The committee, in turn, elects a chairman and deputy chairman, who normally serve for two years.

Although the ILU does not have a central guarantee fund, all members are closely vetted to ensure financial security, according to Mr. Parton.

"Each ILU member is responsible only for its own proportion of insurance. . . .It is not responsible for the share of any other insurer. . .and there is no central guarantee fund to be called on if a member should default," according to the ILU brochure.

"Paradoxically, it is this lack of a guarantee fund which itself leads to the high security of an ILU policy. Member companies are acutely concerned that their partners on those policies should not default, so they monitor each other's accounts to ensure that all members are able to meet in full their own liabilities under ILU policies," the brochure explains.

An ILU Accountants' Committee, comprised of accountants and underwriters selected from member companies, screens new applicants and existing members "to ensure their compliance with strict solvency rules," the brochure adds.

Parent companies must act as guarantors of their subsidiaries before a subsidiary is granted membership of the ILU, according to Mr. Parton. ■

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IIE maps slow, sure road to profitability

By MEG FLETCHER

CHICAGO—Syndicates on the Illinois Insurance Exchange are working together to meet their goal of long-term profitability rather than short-term returns.

The 11 active IIE syndicates are drawing closer together to encourage adequate pricing in the face of competition, to build joint capacity through the formation of a new line slip and a lead/follow underwriting system and to tighten surplus and other regulatory requirements to further improve the exchange's image.

IIE executives also are working to enhance the exchange's stature as a surplus lines insurance market with regulators, prospective policyholders and investors, especially in light of the closings of the New York Insurance Exchange and the Insurance Exchange of the Americas.

However, the continued softening of the commercial property/casualty insurance market—not problems at other exchanges—is foremost on the minds of IIE syndicate executives.

"We are just not willing to follow prices down," said Frederick Easty, executive vp of Resure Inc. Syndicate, the 10th-largest on the IIE based on 1987 gross written premiums.

The exchange's competition is coming primarily from admitted companies, especially stock companies, rather than surplus lines insurers, pointed out Peter O'Shaughnessy, president of Transco Insurance Services, which manages Transco Syndicate No. 1 Ltd., the second-largest IIE syndicate.

"Most of the competition is price and not form," said David Steeb, senior underwriter for First Oak Brook Corp. Syndicate, the ninth-largest on the IIE.

Some syndicate executives see competition across all classes of business, while others say rate cutting varies by type of coverage.

For example, rates for property insurance have dropped more quickly than rates for professional liability coverages.

However, some admitted insurers are writing casualty coverage at 50% of what would be a reasonable price while, at the same time, throwing in extras like free tail coverage for tough product liability risks, said Donald Hopfensperger, president of fourth-ranked Alliance Syndicate Inc.

"It is just ridiculous."

However, "since we are not playing the competitive game, we are losing some ground with market share," noted Jerome Shaw, president of seventh-ranked First Mercury Syndicate Inc.

The 11 active IIE syndicates probably will write $180 million to $200 million in gross premiums by year-end, 16% to 25% less than in 1987, predicts IIE President and Chief Executive Officer James M. Skelton.

Executives from six IIE syndicates predicted their premium volume would fall between 10% and 40% this year, while executives from five other syndicates expect volume to hold steady or even increase (see story, page 52).

In the first half of 1988, gross premiums written by the 11 syndicates fell 32.7% to $90.3 million from $134.1 million written during the first half of 1987.

IIE syndicates last year wrote $239 million in gross premium, down 9.1% from $262.7 million in 1986, but up 275.2% from $63.7 in 1985. About 86% of gross premiums was written as surplus lines insurance and only 14% was reinsurance, about the same as in 1986.

Net written premiums totaled $141.8 million in 1987, up 35.3% from $104.8 million in 1986.

However, underwriting results deteriorated slightly as the exchange's combined ratio rose to 97% in 1987 from 94.3% in 1986.

Most of the change occurred in the expense ratio, which increased to 27% from 22.9% in 1986, while the loss ratio decreased slightly to 70% from 71.4%.

The IIE recorded a $2.5 million underwriting profit in 1987, its first since it began operations in 1982, Mr. Skelton said. In 1986, the exchange posted a $4.3 million underwriting loss.

"This is an important milestone for the exchange," Mr. Skelton said. "Especially in light of the soft market we faced, it demonstrates the effectiveness of our underwriting."

The IIE's net investment income rose a dramatic 220.9% to $15.2 million last year from $6.7 million in 1986.

Net income topped $4.8 million, up 300% from $1.2 million the previous year. Policyholder surplus rose 4% to $92.7 million from $89.1 million.

"Every measure of our performance was strong in 1987," Mr. Skelton said. "Despite a drop in gross premium, the net income of member syndicates quadrupled."

The exchange's profits would have been even greater except for tax reform. IIE syndicates' tax liabilities totaled $12.5 million last year, a skyrocketing increase from $590,418 in 1986. The 1987 tax bill whittled a $17.6 million pretax gain down to $4.8 million.

"We really got creamed in 1987," said Transco's Mr. O'Shaughnessy.

Effective tax rates on syndicates ranged from 30% to 110%.

The tax law was "particularly onerous" for new insurers with a high mix of casualty business, which characterizes most syndicates on the exchange, First Mercury's Mr. Shaw said.

For example, third-ranked Britamco Underwriters Inc. paid $2.9 million in federal income tax on $3.4 million in pretax profits, lowering the syndicate's net income to $520,068.

In light of this tax bite, Britamco Executive Vp Myron Burdge said he wonders how some admitted insurers can continue cutting prices, unless they are on a "suicide mission."

Pressures brought on by the soft market helped reduce the number of active IIE syndicates to 11 from 13 during the first half of this year.

Erie Syndicate Inc., which was founded in June 1986 primarily by Ohio-based investors who were attracted by the investment returns available during a hard market, withdrew from the exchange as of Jan. 1 because of the softening market, said Mr. O'Shaughnessy. Erie's business was taken over by Transco Syndicate No. 1 Ltd., which previously underwrote business jointly with Erie.

In addition, Second Mercury Syndicate Inc. merged with the First Mercury Syndicate Inc. in May to enlarge the syndicate's financial base and enhance efficiency, said First Mercury's Mr. Shaw.

Executives of the 11 active syndicates applaud the fact that most of their peers appear to be pricing prudently, although syndicate managers concede they are reducing some rates.

Continued on next page

"Imagine getting sued all over the Common Market for a product you didn't make."

Gianni Zunino, V.P. International, on the E.E.C. Product Liability Directive:

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Representative syndicate capacity at the Illinois Insurance Exchange

(In thousands of dollars

Syndicate	Primary/excess per insured: Domestic primary property	Domestic excess property	Domestic primary casualty	Domestic excess casualty	International primary property	International excess property	International primary casualty	International excess casualty	Facultative per risk: Domestic property excess-of-loss	Domestic property proportiona	Domestic casualty excess-of-loss	Domestic casualty quota share	International property proportional	Treaty per reinsured: Domestic property excess-of-loss	Domestic casualty excess-of-loss
AAI Syndicate #1 Ltd.			250	250			250	250			250		250		250
Alliance Syndicate Inc.	1,000	1,000	1,000	1,000											
Britamco Underwriters Inc.	500		500												
Calfed Insurance Syndicate Inc.	750	750	1,000	2,500	750	750	250	2,500	750	750	2,500	750	2,500		
Classic Syndicate Inc.	1,000	1,000	1,000	1,000										250	250
Comprehensive Ensurers Market Syndicate			200	200			200	200			200		200		200
First Mercury Syndicate Inc.	500	500	5,000	5,000					500	500	500			500	500
First Oak Brook Corp. Syndicate	2,000	2,000	500	250					150	150	150			150	150
LUI Insurance Syndicate Inc.	750	750	1,000	2,500	750	750	250	2,500	750	750	2,500	750	2,500		
Resure Inc. Syndicate														250	250
Transco Syndicate #1 Ltd.	1,000	1,000	1,000	1,000					1,000		1,000			250	250

Source: *BI* survey

Chart: Amy Palmer

Illinois exchange

Continued from previous page

"Everyone is being more selective, but you have to stay in business. So prices are dropping generally," but less so for casualty coverages, said Richard Foss, who is president and chief executive officer of LUI Management Inc., which manages fifth-ranked LUI Insurance Syndicate Inc. and sixth-ranked Calfed Insurance Syndicate Inc. He is also an executive with both syndicates.

The LUI and Calfed syndicates are offering competitive prices—to a limit—for property risks, although they are more selective about the risks they write, Mr. Foss said. On the casualty side, competition is forcing the two syndicates to attach at a higher level, which cuts premium volume, he explained. For example, the syndicates now are attaching at $10 million to $25 million, up from $5 million to $10 million attachment points last year, Mr. Foss said.

LUI is responding to the soft market by developing new market niches. For example, it is writing smaller accounts and new types of program business, including private passenger auto physical damage coverage.

Britamco is trimming renewal rates on some lines of business by up to 10% and offering broader coverage to some clients, said Mr. Burdge.

And, 12th-ranked Comprehensive Ensurers Market Syndicate is cutting rates for a few profitable classes only, while raising rates on recreation-related business that it considers high risk.

Nearly all IIE syndicate representatives agree that the syndicates are cooperating more than ever before.

"We are pulling together more than in the past," said First Mercury's Mr. Shaw, who admits to being "flabbergasted" by the willingness of the entrepreneurs who operate syndicates to help one another. "It has improved as we face problems common to the exchange and the surplus lines industry."

As evidence of that, four syndicates—Classic Syndicate Inc., Alliance Syndicate Inc., AAI Syndicate No. 1 Ltd. and First Oak Brook Syndicate Inc.—announced in May that they would share both capacity and underwriting capabilities to create "Line Slip No 1." The slip offers up to $1 million in primary or excess casualty coverage primarily written on a claims-made basis (*BI,* May 23).

The line slip, which already has generated $1 million in premium, and other examples of the lead/follow underwriting system are working "very well," said Kevin Ottley, underwriting manager for AAI.

Under a lead/follow system, like that used at Lloyd's of London, one

Continued on next page

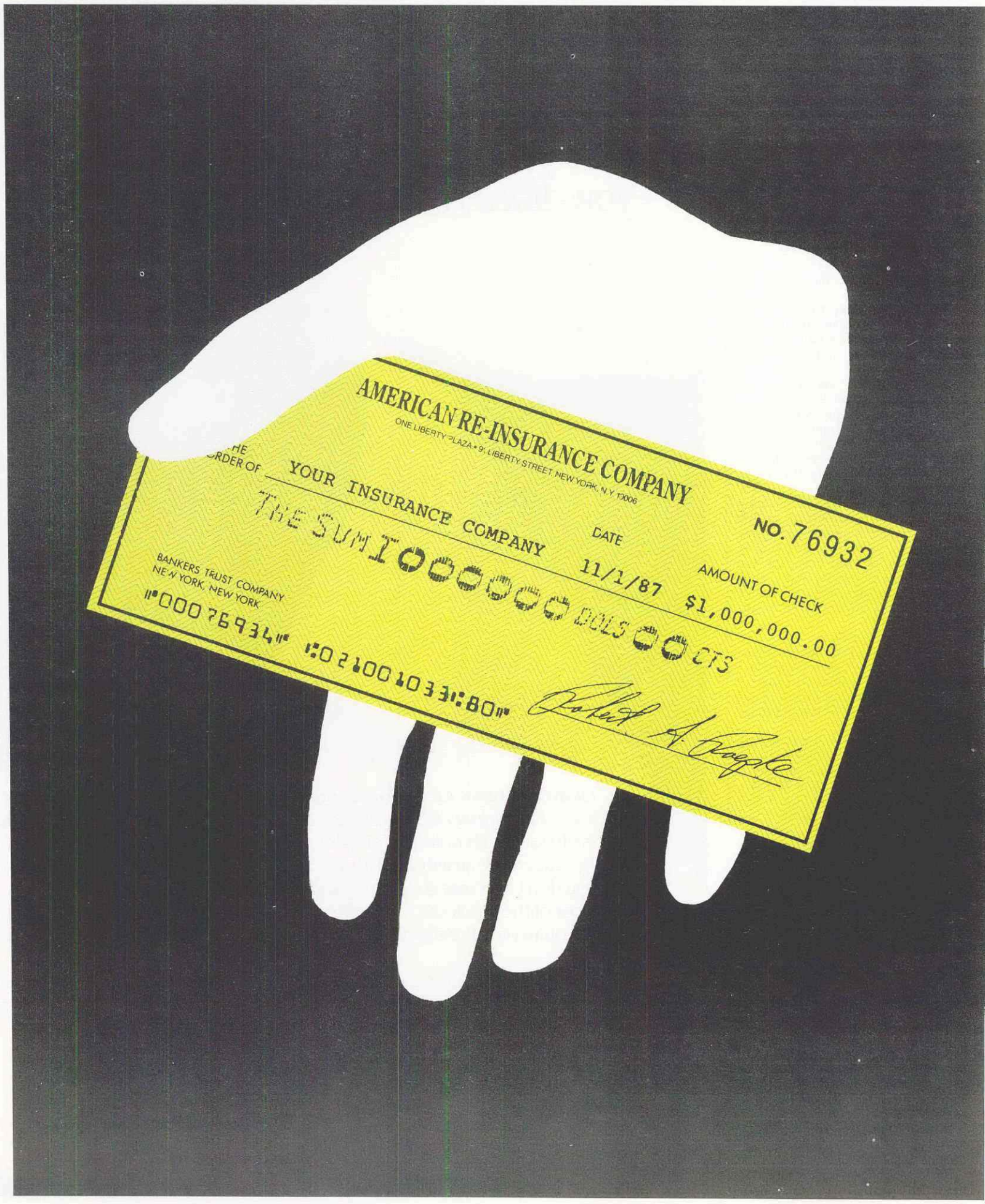

Photo: Stan Miskiewicz

Gordon Teach, left, chairman of the IIE's board of trustees, and IIE President and CEO James M. Skelton.

Continued from previous page

underwriter sets the terms and conditions of a policy and other underwriters follow that lead, each writing a portion of the slip.

While Line Slip No. 1 is the only formal line slip on the IIE, observers say more underwriters are using the lead/follow system. In fact, syndicate executives say the IIE can now offer up to $7 million in casualty limits when several syndicates participate on a policy.

Hank Mueller, vp with Nebel & Clark Inc., a surplus lines broker in Inverness, Ill., said he has used the lead/follow system to put together "numerous $5 million deals" in the past year.

"Lead/follow is slowly growing," Mr. Skelton said. "I think there will be continual development."

The system has been aided by underwriters developing greater commonality in forms and wording, IIE observers point out. And, a new slip format is being developed to meet the needs of underwriters, brokers and the IIE's data processing department.

The data processing department was moved in-house at the start of 1988 with the installation of a new minicomputer and customized software. It has streamlined collection and transmittal of premium and claims data as well as accounts receivable and accounts payable records. It also affords faster, more accurate distribution of premium payments from brokers to syndicates.

The exchange currently is analyzing how it issues policies, pays claims and books broker accounts receivable to determine whether those systems can be improved, Mr. Skelton said.

One of the IIE's most significant strengths is that many syndicate executives have personally invested in their syndicates, syndicate officials say. As a result, most encourage tighter regulations as a means of protecting the guaranty fund to which all exchange syndicates contribute.

The fund totaled $24 million at year-end 1987.

The IIE has adopted some measures that are designed to enhance the exchange's image in the eyes of prospective policyholders and investors, as well as regulators.

The measures include:

- Increasing initial minimum capital and surplus for syndicates begun on or after July 15, 1987, to $4 million by July 1988 and $5 million by July 1989. The minimum previously was $2 million.

Although the exchange permits syndicates to use letters of credit to finance their surplus requirements, many syndicates are converting to cash or cash equivalents in an effort to please regulators like those in California, who recognize only cash or cash equivalents as surplus.

- Mandating that all reinsurers to which IIE syndicates cede business have a minimum of $5 million in surplus, effective Jan. 1, 1989.
- Requiring syndicates to provide actuarial certification of their loss reserves.
- Encouraging the Illinois Insurance Department to review the IIE's operations so that exchange information can be made readily available (see story, page 56).

A 1987 departmental review of the IIE's compliance with regulatory provisions and its own guidelines from 1981-1986 found that the IIE was performing adequately (*BI*, Nov. 30, 1987).

The department currently is reviewing individual IIE syndicate operations.

- Delivering its message to regulators, brokers and potential investors and policyholders.

The exchange is holding a series of meetings to encourage industry representatives to examine the exchange, said Gordon Teach, the new chairman of the IIE's board of trustees. Mr. Teach, who assumed the post earlier this year following the death of Bernard Epton, is chairman of Illinois Co. Inc., a Chicago stockbroker.

The exchange's chief tool is a report titled "How We Compare," which was researched and written by Transco's Mr. O'Shaughnessy. The exchange says the report shows the IIE is among the top 10 U.S. surplus lines insurers.

The IIE also hired the public relations firm of Hill & Knowlton to help deliver its message.

As a result of these efforts, some syndicate executives say there has been an increased willingness on the part of insurers to write coverage excess of IIE syndicates, though others disagree.

For example, Karel Ruml, underwriting manager for Classic Syndicate Inc., the largest IIE syndicate, said he has noted that insurers are more willing to write above his syndicate on excess insurance programs, though it "is still tempered by the specter of New York and Florida that hangs over the exchange." ■

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Syndicates vow not to slash rates to keep business

By MEG FLETCHER

CHICAGO—Executives of the 11 active syndicates on the Illinois Insurance Exchange say they would rather pocket their underwriting pens than slash rates unreasonably.

As a result, executives of six IIE syndicates predict their syndicates' premium volumes will drop an average of 28% in 1988. However, executives of the other five active IIE syndicates expect their volume to increase or at least hold steady this year, despite competition from admitted insurers.

As of June 30, all the syndicates' gross written premium volume declined 32.7% to $90.3 million from $134.1 million in the first six months of last year.

Some syndicate executives say they are trying to retain renewal business by modestly reducing prices and offering broader coverage. In addition, some syndicates are seeking new business by writing small risks they formerly rejected and by attempting to carve out market niches, especially through group or association programs.

While gross premium volume on the exchange fell 11.1% last year, only four of the 12 syndicates actively writing business last year reported lower volumes. However, the loss of several syndicates that withdrew from the exchange in 1986—including Titan Holdings Syndicates Inc., which was the largest IIE syndicate in 1986 with gross written premiums of $44.3 million—contributed to the IIE's reduced premium volume.

Active IIE syndicates in 1987 included:

Classic Syndicate

Classic Syndicate Inc., which had been the third-largest IIE syndicate in 1986, jumped to first place last year on the strength of a 35.9% increase in gross premium volume to $39.9 million from $29.3 million the previous year.

However, Classic may have trouble retaining the top spot this year: Its officials expect volume to decline by at least 40% to about $24 million.

Classic wrote $14.5 million in gross premiums in the first six months of 1988, said Karel Ruml, underwriting manager of the syndicate's Chicago office.

Classic wrote $12.6 million in net premiums last year, up 38.9% from $9 million in 1986. The syndicate's combined ratio increased to 112.7% in 1987 from 81.1% the previous year, while its net income fell 30.9% to $506,736 from $734,001 in 1986.

Classic concentrates on writing domestic primary property and casualty coverages. It writes seven group programs, including property and liability coverages for restaurants and professional liability coverage for architects and engineers.

The syndicate generated 86% of its 1987 gross premiums from surplus lines business and 14% from treaty reinsurance.

As of June 30 this year, Classic had capital and surplus of nearly $7 million, all but $375,000 of which is cash, said James H. Ryan, syndicate president.

Classic is owned by the Classic Fire & Marine Insurance Co. of Des Moines, Iowa, a subsidiary of Concord General Corp. of Concord, Calif.

Transco Syndicate No. 1

Transco Syndicate No. 1 Ltd. remained the second-largest IIE syndicate in 1987 and could leapfrog ahead of Classic this year.

Transco wrote $37.4 million in gross premiums last year, a slight decrease from $37.8 million in 1986.

The syndicate wrote $19 million in gross premiums in the first six months of this year, and its executives project that its 1988 volume could top last year's since Transco is picking up business formerly written by Erie Syndicate Inc., which became inactive effective Jan. 1.

Erie, which like Transco was managed by Transco Insurance Services, automatically assumed about 20% of the business written by Transco.

Erie was founded in June 1986 primarily by Ohio-based investors attracted by the investment returns available during a hard market. However, the investors decided to withdraw when the market softened, said Peter O'Shaughnessy, president of the Transco syndicate.

Erie, which was the 10th-largest IIE syndicate last year, wrote $9.9 million in gross premiums in 1987, down 13.9% from $11.5 million the previous year.

Without picking up business formerly written by Erie, Transco's gross volume could have dropped by as much as 15% this year, Mr. O'Shaughnessy said.

Transco wrote $23.8 million in net premiums in 1987, up 89.7% from $12.3 million the previous year. Its combined ratio rose to 96.5% from 88.7%, while its net income fell 69.5% to $359,534 last year from $1.2 million in 1986.

Transco issued 1,451 policies last year, primarily liability coverage for product manufacturers and contractors. It also writes property and ocean marine coverages.

Last year, 94% of Transco's business was written on a surplus lines basis, while 5% was treaty reinsurance and 1% was facultative reinsurance.

As of June 30, Transco had capital and surplus of $9.2 million in cash.

Transco is owned by Transco/IMI Holdings Inc. of Solvang, Calif.

Britamco Underwriters

Third-ranked Britamco Underwriters Inc. expects to write between $31 million and $32 million of surplus lines business by year-end, or about 10% less than last year, said Myron Burdge, the syndicate's executive vp.

Britamco wrote $35.4 million in gross premiums during 1987, up 29.9% from $27.2 million in 1986. Net premiums totaled $34.6 million in 1987, up 44.2% from $24 million the previous year.

Britamco's combined ratio rose to 95.1% in 1987 from 85% the previous year, while net income rose 527.7% to $520,068 last year from $82,856 in 1986.

Britamco currently is on target to meet its year-end volume goal: It wrote $16.2 million in gross premiums in the first six months of this year.

Britamco wrote 12,000 policies in 1987, including 4,000 as part of group programs. It offers property, liability and liquor liability coverage for restaurants and taverns as well as property and liability in-

Continued on next page

Illinois Insurance Exchange syndicates
(Ranked by gross premium volume in thousands of dollars)

	Gross premiums written		Net premiums written		Policyholder surplus		Net premium to surplus ratio		Combined ratio		Net investment income		Net income (loss)	
	1987	1986	1987	1986	1987	1986	1987	1986	1987	1986	1987	1986	1987	1986
Classic Syndicate Inc.	39,865	29,324	12,561	9,042	6,023	5,239	2.09:1	1.72:1	112.7%	81.1%	$2,729	$389	$507	$734
Transco Syndicate #1 Ltd.	37,419	37,839	23,373	12,318	7,923	7,284	3.08:1	1.69:1	96.5	88.7	2,320	931	360	1,178
Britamco Underwriters Inc.	35,425	27,261	34,646	24,031	12,113	10,994	2.86:1	2.19:1	95.1	85	3,058	1,044	520	83
Alliance Syndicate Inc.	21,649	13,303	5,498	3,058	2,845	2,392	1.93:1	1.28:1	93.0	91.0	417	69	108	(108)
LUI Insurance Syndicate Inc.	18,680	24,887	11,846	6,210	10,472	10,424	1.13:1	0.60:1	99.9	105.6	1,284	973	(121)	431
Calfed Insurance Syndicate Inc.	18,271	11,502	11,696	3,174	9,803	10,075	1.19:1	0.32:1	102.6	117.8	1,000	471	(496)	80
First Mercury Syndicate Inc.	13,436	18,664	10,296	13,173	7,962	6,284	1.29:1	2.10:1	88.1	101.9	1,268	717	1,364	(37)
Second Mercury Syndicate Inc.[1]	12,784	11,275	10,318	10,374	7,334	6,785	1.41:1	1.50:1	96.9	88.9	686	97	360	(848)
First Oak Brook Corp. Syndicate	11,181	1,586	4,857	801	3,135	2,301	1.55:1	0.35:1	75.8	95.8	122	31	234	(199)
Erie Syndicate Inc.[2]	9,916	11,524	6,452	—	3,918	3,837	1.65:1	—	98	—	520	17	62	(111)
Resure Inc. Syndicate	6,249	3,700	3,200	3,456	4,203	4,031	0.76:1	0.86:1	92.6	97.7	411	252	437	131
Comprehensive Ensurers Market Syndicate	4,311	2,751	3,712	2,230	3,146	2,593	1.18:1	0.86:1	108.9	97.3	155	115	(229)	(185)
AAI Syndicate #1 Ltd.	3,072	—	3,072	—	3,926	—	78.26:1	—	89.2	—	60	—	(318)	—

[1] Merged with First Mercury in May 1988. [2] Inactive as of Jan. 1, 1988.

Source: Illinois Insurance Exchange 1987 annual statements Chart: Amy Palmer

Continued from previous page

surance for retail stores and garages. It also writes general liability coverage for small contractors, professional liability insurance for dentists and other types of liability coverage.

As of June 30, the syndicate had slightly more than $14 million in capital and surplus in cash or equivalents.

Britamco is owned by Stephen Weicholz and Weicholz Management Corp. of Coral Springs, Fla.

Alliance Syndicate

Alliance Syndicate Inc. catapulted to fourth place from eighth place on the strength of $21.6 million in gross written premiums in 1987, a 62.7% increase from $13.3 million in 1986.

However, Syndicate President Donald Hopfensperger expects Alliance to write little more than $14 million in gross premiums this year, losing more than one-third of its volume to the admitted market.

Alliance wrote $8.7 million in gross premiums in the first six months of 1988.

The syndicate reported net written premiums of $5.5 million in 1987, up 79.8% from $3.1 million in 1986. While its combined ratio increased slightly to 93% from 91%, it made a $108,000 profit last year, compared with a $108,000 loss the previous year.

Alliance wrote 564 surplus lines policies in 1987. About 85% of its premiums are derived from domestic primary liability coverages, and 15% from property coverage, Mr. Hopfensperger said. The percentage of the syndicate's book generated by property insurance has grown from 5% in 1986.

As of June 30, Alliance had an estimated $3.25 million in capital and surplus, all in cash.

The syndicate is owned by Donald V. McCann and Ralph W. Applegate Jr., who also own Alliance General Insurance Co. of Chicago, which reinsures a small part of the syndicate's business.

LUI Insurance Syndicate/ Calfed Insurance Syndicate

Two syndicates managed by LUI Management Inc.—LUI Insurance Syndicate Inc. and Calfed Insurance Syndicate Inc.—will each continue to write about $18 million in gross premiums in 1988 despite the soft market, predicts Richard Foss, president and chief executive officer of LUI Management and the LUI syndicate and vp of Calfed.

Each syndicate wrote $6.6 million in gross premiums in the first half of 1988.

The syndicates, which write excess liability insurance for large risks as well as primary and excess property coverages, plan to hold their own by finding new market niches, including smaller risks.

Smaller property accounts

Continued on next page

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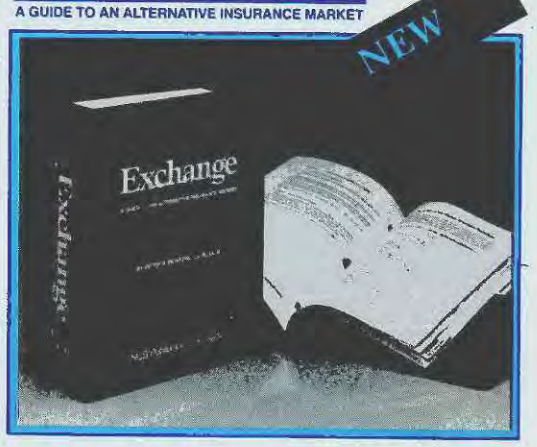

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IIE syndicates

Continued from previous page
helped drop average property premiums to $2,592 in the first half of 1988, compared with $9,000 in 1987. And, average casualty premiums dipped to $112,000 from $160,000.

In addition, the syndicates are developing programs for private passenger auto physical damage coverage, mobile home coverage and rental equipment property and casualty coverage.

Both syndicates wrote 546 policies in 1987, including 317 individual risks and 229 program policies. Surplus lines business generated 65% of the syndicates' 1987 gross volume, while treaty reinsurance contributed 23% and facultative reinsurance contributed 12%.

LUI Insurance Syndicate Inc. maintained fifth place among IIE syndicates despite a 24.9% drop in 1987 gross premiums to $18.7 million from $24.9 million in 1986.

While gross premium volume on the exchange fell 11.1% last year, only four of the 12 syndicates actively writing business last year reported lower volumes. However, the loss of several syndicates contributed to the IIE's reduced premium volume.

Part of that decrease was caused by the increased limits offered by London-based H.S. Weavers (Underwriting) Agencies Ltd., which like LUI is ultimately owned by London United Investments (Holdings) P.L.C. By increasing its limits, Weavers reduced the amount of business LUI writes excess of Weavers on a policyholder's program.

However, LUI's net premiums jumped 90.7% to $11.8 million in 1987 from $6.2 million from 1986.

The syndicate's combined ratio dropped to 99.9% last year from 105.6% in 1986. But, LUI posted a net loss of $121,292 in 1987, compared with a gain of $431,198 in 1986, because of increased tax liabilities due to the Tax Reform Act of 1986. In 1987, the syndicate owed taxes of $1.3 million on $1.2 million of pretax income. Its 1986 tax bill totaled $329,816 on $761,014 of pretax profits.

As of June 30, LUI had $10.9 million in cash as capital and surplus.

Calfed jumped to sixth place from 10th on the strength of $18.3 million in gross written premiums in 1987, up 58.9% from $11.5 million in 1986. Net premiums in 1987 totaled $11.7 million, up 268.4% from $3.2 million in 1986.

The syndicate's combined ratio dropped to 102.6% last year from 117.8% in 1986, but Calfed posted a $495,627 loss in 1987—compared with a $79,578 profit in 1986—because of a $1.1 million tax liability.

As of June 30 this year, Calfed had nearly $9.9 million in cash as capital and surplus.

Calfed is owned by CalFed Inc., an insurance holding company incorporated in California.

First Mercury Syndicate/ Second Mercury Syndicate

The recent merger of Second Mercury Syndicate Inc. into First Mercury Syndicate Inc. should help First Mercury reach a goal of $22 million in 1988 gross premiums, syndicate officials say.

First Mercury wrote $8.8 million in gross premiums in the first half of this year.

The syndicates were merged at the end of May to enlarge First Mercury's financial base and enhance efficiency, said Jerome M. Shaw, syndicate president. As of June 30, First Mercury had $16.3 million in capital and surplus, of which 60% to 65% was letters of credit and the remainder cash, he said.

During 1987, First Mercury kept its seventh-place rank by writing $13.4 million in gross written premium, down 28% from $18.7 million in 1986.

Meanwhile, Second Mercury leapfrogged to eighth from 11th place on the strength of $12.8 million in gross premiums during its first full year of operation, up 13.4% from $11.3 million in 1986.

First Mercury wrote $10.3 million in net premiums last year, down 21.8% from $13.2 million in 1986, while Second Mercury's net premium volume held nearly steady at $10.4 million.

First Mercury's combined ratio dropped to 88.1% from 101.9% in 1986, while Second Mercury's combined ratio increased to 96.9% from 88.9%.

Both syndicates finished 1987 in the black. First Mercury reported nearly $1.4 million in net income, compared with a $36,801 loss in 1986, while Second Mercury posted a $360,003 gain, compared with a $848,060 loss in 1986.

First Mercury writes general and professional liability coverage for security guards and patrols, armored car companies, alarm manufacturers, and alarm installation and monitoring firms. It also writes coverage for fire suppression contractors and diagnostic laboratories.

During 1987, 95% of the syndicates' gross written premiums were derived from surplus lines risks, with the remainder split equally between treaty and facultative reinsurance.

First Mercury is owned by investors associated with Mr. Shaw.

First Oak Brook

First Oak Brook Corp. Syndicate expects to write $12 million to $12.5 million in surplus lines premiums by year-end, which would be a small gain over the $11.2 million it wrote in 1987 during its first full year of operation.

The syndicate wrote $5.2 million in gross premiums in the first half of the year, according to Joseph Nicosia Jr., syndicate president.

Ninth-ranked First Oak Brook began writing in June 1986, and wrote gross premiums of $1.6 million during the second half of that year.

First Oak Brook wrote $4.9 million in net premiums last year, compared with $801,115 during its first half-year of operation.

Its combined ratio in 1987 stood at 75.8%, an improvement from 95.8% in 1986. Net income totaled $233,915 last year, compared with a $198,507 loss in 1986.

The syndicate currently underwrites only individual risks, although it is not averse to writing group programs.

Its current book of business includes special multiperil package policies, monoline property and casualty coverage as well as physical damage coverage for trucking and public transportation risks.

As of June 30 this year, First Oak Brook reported nearly $3.6 million in cash as capital and surplus.

The syndicate is owned by United Financial Group of Illinois, Inc., an Illinois-based insurance holding company.

Resure Inc. Syndicate

Eleventh-ranked Resure Inc. Syndicate expects to write between

Continued on next page

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Continued from previous page

$4.75 million and $5.25 million in gross premiums by year-end, or at least 16% less than the $6.3 million in 1987 gross premium.

The syndicate wrote $2.6 million in gross premiums in the first six months of this year, reported by Frederick Easty, executive vp of Talon Re Inc. of Los Angeles, which manages Resure.

Resure, which only writes treaty reinsurance, increased its gross premium volume 68.9% last year from $3.7 million in 1986. Net premiums, however, declined 7.4% to $3.2 million in 1987 from $3.5 million in 1986.

The syndicate's combined ratio dropped to 92.6% last year from 97.7% in 1986, while net income rose 233% to $436,515 from $131,102 in 1986.

The syndicate wrote about 80 reinsurance contracts last year.

As of June 30, Resure had an estimated $4.5 million in capital and surplus, which was equally split between letters of credit and cash, said Wolfgang Daniel, syndicate president.

Resure is owned by individual investors and Hexco Inc., a California corporation.

Comprehensive Ensurers Market Syndicate

Comprehensive Ensurers Market Syndicate Inc. hopes to write about $6 million in 1988 gross premiums, up nearly 40% from the 1987's $4.3 million, said Lawrence T.P. Molloy, vp and underwriter of the IIE's 12th-largest syndicate.

Gross premium volume leaped 56.7% last year from about $2.8 million in 1986. Net premiums rose 66.5% to $3.7 million in 1987 from $2.2 million the previous year.

CEM's combined ratio rose to 112.7% in 1987 from 81.1% the prior year, and it posted a loss of $229,383 last year, up from a $185,134 loss in 1986.

CEM generated 97.5% of its 1987 premium volume from surplus lines business and 2.5% from treaty reinsurance. About 90% of its premium came from group programs.

CEM writes professional liability insurance for: attorneys, judges, independent laboratories and professional associations. It also writes a general liability insurance program for the National Forest Recreational Assn., whose members include dude ranches and horse outfitters.

Sixty percent of AAI's gross premium volume was generated by surplus lines risks.

As of June 30, CEM had capital and surplus of $3.2 million, of which at least 70% was in the form of letters of credit.

CEM is owned by 11 private investors.

AAI Syndicate No. 1

AAI Syndicate No. 1 Ltd., which ranked 13th, expects to write $4.5 million to $6 million in premium in 1988, its first full year of operation.

AAI, which began operating in March 1987, wrote $3.1 million in gross and net premiums in 1987. Its combined ratio was 89.2% and it reported a net loss of $317,594.

Sixty percent of AAI's gross premium volume was generated by surplus lines risks with the remainder split between treaty and facultative reinsurance.

AAI writes general and product liability insurance. In addition, it writes liability insurance for railroad and transit systems, commercial auto liability insurance and professional liability insurance.

As of June 30 this year, AAI had at least $4 million in capital and surplus, more than half of which was cash, said Kevin Ottley, underwriting manager.

In addition to these syndicates, inactive IIE syndicates running off their business reported $16.6 million in gross written premiums last year.

Besides Titan, these syndicates included LWB Syndicate Inc., Travelers Illinois Syndicate and RCA Syndicate No. 1 Ltd. ■

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Brokers generally applaud changes at Illinois exchange

By MEG FLETCHER

CHICAGO—The Illinois Insurance Exchange is maturing into a marketplace that meets the needs of big as well as small brokers, brokers say.

For example, in mid-May, four IIE syndicates began offering $1 million of primary or excess casualty insurance on a claims-made basis through Line Slip No. 1. The syndicates, which share capacity and underwriting responsibilities, can bind coverage for a risk in a single transaction.

Response time is reduced for brokers because they can deal with one underwriter, noted Donald J. Hopfensperger, president of the Alliance Syndicate Inc.

In addition, brokers have benefitted from recent exchange efforts to develop more common forms "and thereby reduce disparities in the wording of some policies," said Alison J. Renner, president of both the Illinois Insurance Exchange's Brokers' Assn. and wholesale broker A.J. Renner & Associates Inc. of Chicago.

Brokers also applaud the IIE's effort to improve its image as a surplus lines insurance market after the failures of the New York Insurance Exchange and the Insurance Exchange of the Americas in Miami.

The IIE hired a public relations firm that helped develop a report favorably comparing the IIE with other surplus lines markets.

Ms. Renner said she placed at least 12 new accounts on the IIE as a result.

But the IIE thinks of the little things affecting brokers, too. For example, it allocated an exchange cubicle—dubbed the "broker box"—for brokers to use as an office while at the exchange. The box is equipped with a telephone and basic supplies.

But not all IIE broker-oriented efforts work.

A market coordinator position was eliminated early this summer because brokers and underwriters preferred to deal with each other directly.

The number of broker association members dropped 10.9% to 156 from 175 in the past year. But, broker application requests are increasing, said James Skelton, IIE president and chief executive officer.

Some of the decline may be due to the doubling of annual membership fees to $2,000, said Hank Mueller, vp of Nebel & Clark Inc., a wholesale broker in Inverness, Ill.

It was hoped that increase would weed out brokers doing little business on the exchange, allowing underwriters to deal with more committed brokers. However, critics questioned the boost when the IIE already was losing business to competing admitted insurers.

One out-of-state broker said he decided not to renew his association membership because too many IIE syndicates had their capacity tied up with affiliated brokers.

This is a sore spot with many independent brokers who join the association. Brokers and risk managers can deal directly with syndicate-affiliated brokers to gain access to the syndicate's capacity, but such an arrangement may limit the purchaser to the particular syndicate involved.

In addition, out-of-state brokers complain that underwriters are too often absent from their underwriting boxes, though other brokers said that this has improved in the past year.

Ms. Renner, who placed about $10 million in premiums with IIE syndicates in 1987, said she would like to see more capacity on the exchange. It would be "nifty" to be able to place $10 million regularly, she said, adding that's nearly possible now. ■

IIE negotiates with states over regulatory disputes

By MEG FLETCHER

CHICAGO—The Illinois Insurance Exchange plays to mixed reviews from state insurance regulators.

A frequent issue in some states is whether the exchange should be authorized as a whole or whether each syndicate should be considered individually.

The IIE as a whole is an approved surplus lines insurer or an approved reinsurer in 44 jurisdictions. Currently, only three states—California, Florida and Michigan—approve syndicates on an individual basis, though New York and Nevada plan to follow this route.

IIE officials want the exchange to be approved as a whole, like Lloyd's of London. They argue that syndicates are inextricably linked by a $24 million guaranty fund as well as by exchange self-regulation.

"We'd like to play by the same set of rules," said Gordon Teach, chairman of the IIE board of trustees.

However, many regulators—in light of syndicate insolvencies on the two defunct U.S. exchanges—want to take a syndicate-by-syndicate approach. They contend that will allow them to strictly impose rules on each individual syndicate.

In addition, regulators appear to be more comfortable with Lloyd's because of its long history, its extensive trust funds on deposit in the United States and the unlimited personal liability of Lloyd's members.

The recent spate of regulatory review of the IIE began last fall when the California Insurance Department temporarily prohibited three IIE syndicates from writing business in California because they could not meet newly established eligibility requirements for surplus lines insurers.

The requirements stipulated that a surplus lines insurer must have operated for a minimum of three years, have at least $2.8 million in capital and surplus and be examined by the insurance department in its home state (*BI,* Nov. 30, 1987; Nov. 23, 1987).

After five months of negotiations, the California department suspended its objections against the syndicates until year-end, by which time the Illinois Insurance Department will have completed examinations of all IIE syndicates (*BI,* April 25).

In other recent regulatory developments:

- Nevada notified the IIE last fall that it would no longer be an approved surplus lines market as of Jan. 1, 1988, and that syndicates must apply individually, said Insurance Commissioner David Gates.
- One or two syndicate applications have been rejected for not meeting minimum requirements, and four or five other applications are under review with a decision expected by September, said Herschell Dunham, assistant chief examiner with the Nevada Insurance Department.
- The Oklahoma Insurance De-

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partment currently is reviewing whether it is appropriate for the IIE —as opposed to individual syndicates —to continue to be approved as a surplus lines insurer, said Mary Clark, the department's assistant general counsel.

Although a department spokesman asked the exchange in a July 15 letter to voluntarily withdraw from the market, the department later decided to allow the exchange to write business during the review period.

The issue arose this summer when a policyholder filed suit to resolve a coverage dispute with an IIE syndicate. The policyholder's attorney named the syndicate and the IIE as defendants, but the IIE argued that only the syndicate could be sued.

• Questions about how to regulate the IIE under Colorado law arose because the exchange is not technically an insurer, said Colorado Insurance Commissioner John Kezer.

Those questions resulted in the IIE's name being dropped from the Colorado Insurance Department's annual list of eligible surplus lines insurers in July.

However, the exchange continues to be eligible and will be listed when the list is retyped, he said.

"We don't have any problems with the exchange but procedural/technical ones," he explained.

Although the department is still working out the exact process, it is likely that brokers using an IIE syndicate as an insurer will have to document the placement with a notification letter to the state brokers' association, Mr. Kezer said.

IIE executives have been "frustrated" by lower-level regulators in some of these states who act first to curtail the exchange's activities and ask questions later, said IIE Executive Vp Gary Hackley. "I am prepared to hold informational meetings with these (state insurance) departments" before actions are taken.

In addition, the IIE is taking steps to gain approval in other states.

The IIE has a request pending in Arizona to write surplus lines business. And, several syndicates are seeking to write surplus lines coverages in Florida, where at least three syndicates are currently allowed.

The IIE is contesting the Florida department's rejection of more than a half-dozen syndicates, primarily because they have not been in operation for 36 months, the minimum requirement, he added. That issue will be considered at an administrative hearing this fall.

In addition, individual syndicates plan to seek approval in New York, Mr. Hackley said.

While the IIE has run into roadblocks in some states, it has won victories in others.

For example, New Jersey passed a law last year allowing the IIE to operate as a surplus lines market without participating in the state's surplus lines guaranty fund.

However, one of the monetary advantages resulting from that exemption—syndicate coverage could be cheaper because IIE policyholders are exempted from a fund surcharge —led to cries of unfair competition from other surplus lines insurers, said Mr. Hackley.

The New Jersey Insurance Department is reviewing a legislative proposal that would eliminate that exemption, a spokesman said.

The heightened scrutiny of the IIE may be a product of the soft market, in which admitted insurers are more willing to write the hard-to-place risks in which the IIE specializes.

"When regulators don't need us, they end up putting a lot of blockades in front of us," said Richard Foss, president of LUI Management Inc. ■

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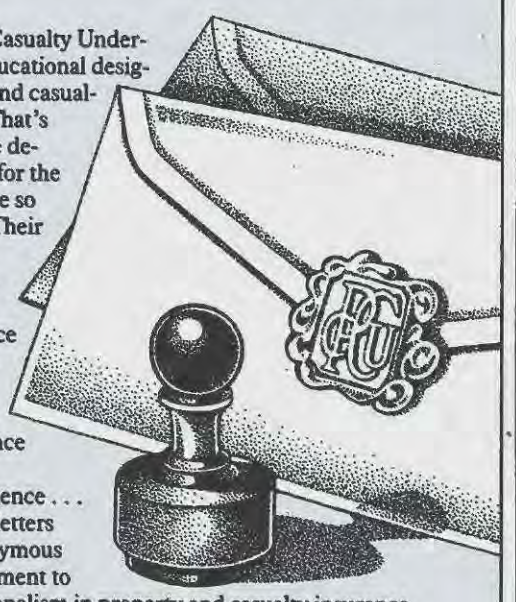

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NYIE turns over runoff responsibility

By DOUGLAS McLEOD

NEW YORK—The New York Insurance Exchange is rapidly dismantling itself as it turns over responsibility for running off syndicate business to the syndicates' managers.

Throughout this summer, the exchange—which had previously acted as a conduit for processing syndicate transactions—has gradually relinquished responsibility for new premium and claims accounting work, contract processing and microfiche recordkeeping, says President Joseph Fahys.

As of Jan. 31, 1989, the exchange will not be involved in runoff-related data processing at all and will perform only "supervisory" duties for syndicates, he said.

From a high of 250 employees, the exchange—shut down by a vote of its member syndicates and brokers in November—now employs 46.

By the end of the year, the number will be down to 39 employees, most involved in reconciliation of old premium accounts, preparing the exchange's consolidated financial statements and administrative and corporate accounting duties, Mr. Fahys said.

By the end of 1992, the exchange plans to employ only five.

The exchange's disintegration was the culmination of several longstanding problems at the market, some observers say. Nevertheless, it seemed to come suddenly and surprise many members.

As recently as June 30, 1987, the exchange—then the 20th-largest U.S. reinsurance market with $82.6 million in first-half net written premium volume—had 45 syndicates, of which an estimated 24 were active. The market's membership also included 71 brokers and 34 associate brokers.

Several of the inactive syndicates that had written large volumes of casualty business during the soft market of the early 1980s had stopped underwriting—some as early as 1984—after hitting premium-to-surplus limits outlined in exchange guidelines.

During 1985, other syndicates decided for various reasons to withdraw from the exchange (see story, page 61).

But also by June 1987, eight exchange underwriting members had been declared insolvent by the market's board of governors.

Observers point to an actuarial study of six of the eight insolvent syndicates as the precipitating factor in a series of events that led to the closing of the exchange.

The report, by the Tillinghast division of Towers, Perrin, Forster & Crosby Inc., concluded that the six syndicates were insolvent by a total of $170 million. After reviewing the report, the directors of the NYIE Security Fund Inc.—a fund created to deal with the possibility of syndicate insolvencies—announced on Sept. 2, 1987, that the fund would draw down $500,000 from each syndicate, or a total of $25 million, to cover expected claims against the six syndicates.

The drawdown announcement sparked a protest from numerous syndicate owners, who pointed out that the announcement was made the day after the Sept. 1 deadline syndicates faced for filing notices of intent to withdraw from the exchange during 1988.

Eleven exchange syndicates had filed withdrawal notices by the deadline, but the exchange board, under pressure from other underwriting members, later extended the deadline to Nov. 10.

Taking advantage of this, 27 of the exchange's 37 solvent syndicates, 33 brokers and 13 associate brokers made plans to leave.

The exchange board subsequently recommended that the exchange shut itself down, at least temporarily. A majority of member syndicates and brokers approved the recommendation on Nov. 23 (*BI*, Nov. 30, 1987).

While the rapid-fire succession of events sparked by the security fund drawdown seemed to be the cause of the exchange's demise, several observers—including Mr. Fahys—point to other underlying causes for the collapse, including:

- The poor timing of the exchange's 1981 opening, which led to poor results for many of the exchange's syndicates in addition to the outright insolvency of eight.
- The failure of the exchange to develop into the bustling, autonomous Lloyd's of London-type market its founders envisioned.

Many of the exchange's syndicates—including most of its oldest and largest underwriting members—are owned by insurance companies. Many of these syndicates did not maintain staffs of underwriters on the exchange floor, and many ultimately decided the exchange offered no special underwriting advantages and that their capital could be used as well off the exchange.

- The exchange's failure to live up to its promise to be an efficient, lower-cost alternative to operating as a traditional licensed insurer.

Almost from the beginning, the exchange was plagued with back-office accounting problems, including premium and claims processing difficulties. Many syndicates and brokers maintained their own duplicate accounting systems rather than rely on the exchange's central processing facility.

Exchange members also were burdened with significant fixed costs, including those related to the exchange's 1984 purchase of a new headquarters building in lower Manhattan and the leasing of back-office computer systems.

- The rising concern over reinsurance security. As unrecoverable reinsurance became a more widely recognized problem in the wake of the soft market, ceding companies generally sought reinsurers with larger capital and surplus bases.

Exchange syndicates with $5 million to $10 million in surplus often fell short of ceding insurers' minimum requirements and thus became less viable as reinsurance markets.

Continued on next page

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Continued from previous page

These and other market forces converged and "led to restlessness among members," Mr. Fahys said.

The result: When the exchange board presented syndicates with the extended withdrawal opportunity last fall, syndicates and brokers jumped at the chance.

Under exchange rules, a withdrawing syndicate must obtain the exchange board's approval of a plan detailing how it will cover its ongoing obligations to policyholders. Generally, a syndicate can either remain in place and run off its own business or arrange for all of its business to be assumed by a reinsurer acceptable to the exchange.

The exchange board has not yet approved any of the syndicates' withdrawal plans, though the plans were supposed to have been acted on by March 31.

The board is expected to deal with all of the withdrawal plans—which will be effective as of the same date—by the end of October, according to Mr. Fahys, who explained that the exchange wanted to resolve other problems before acting on the plans.

One problem, he noted, was the foreclosure action filed against the exchange last March by the New York State Teachers Retirement System, which held a $20 million mortgage on the exchange's building and which sought to take over the building after the exchange missed monthly payments in January and February (*BI*, April 4).

In an Aug. 3 letter to members, Mr. Fahys announced a settlement under which the exchange agreed not to oppose foreclosure and to pay the Teachers Retirement System a lump sum in an amount less than the mortgage payments due for the remainder of 1988. In return, the Teachers Retirement System released the exchange and its members from further liability for the building.

Mr. Fahys described the settlement as a positive result for the exchange, given the current poor climate for commercial real estate in New York.

Meanwhile, the exchange also had to pay off the $2.2 million balance on a loan from Irving Trust Co., the terms of which required full repayment upon transfer of the building.

Costs connected with the foreclosure settlement and the loan payoff were not included in the exchange's 1988 budget, and as a result the exchange this month announced a special assessment on the remaining members totaling about $4.5 million, Mr. Fahys said.

Syndicate assessments will cover about 90% of the total, while brokers and associate brokers assessments will cover the remaining 10%, according to Mr. Fahys' letter.

The exchange board delayed acting on withdrawal petitions pending resolution of the building dispute, in part so that all members would clearly be responsible for sharing the costs of the settlement, Mr. Fahys explained.

He added that he does not expect further assessments of the same magnitude; the Aug. 3 letter points out that withdrawal agreements will limit the use of future assessments to the payment of costs directly related to obligations on business written before the exchange's Nov. 23 closing.

"If you have not previously applied for withdrawal and wish to do so now, you are encouraged to contact the exchange's legal department at your earliest possible convenience," Mr. Fahys' letter concludes.

With the building dispute out of the way, the exchange's budget is expected to shrink dramatically as it turns over more runoff-related work to syndicate managers and brokers and cuts staff.

Losses to the staff in recent months have included some senior exchange officials, among them William L. Smith, vp-finance and accounting, who went to Coopers & Lybrand, and William G. Hughes, vp and treasurer-member operations, now with Transamerica Reinsurance Co.

A. William Urquhart, vp and general counsel, said he has committed to staying as long as he is needed but expects to join the Los Angeles law firm of Quinn & Emanuel later this year as a senior partner.

Mr. Fahys, meanwhile, said he will stay "until the exchange is on the right course and in the right hands and as long as the members and board want me to stay." He said he is not currently looking for a job.

The exchange's budget will probably amount to $1.5 million to $2 million annually for the next couple of years, down from a 1987 budget of roughly $14 million, said Mr. Fahys.

This will be good news for the syndicates, managers note.

"At this point the biggest problem we have is the expense of getting out of here," said Richard Kane, senior vp and chief financial officer of Johnson & Higgins Willis Faber (U.S.A.) Inc., manager for five syndicates.

Mr. Kane added that the runoff of the five syndicates' business has gone "extremely well" so far and that—ironically—the business will probably produce a profit for the syndicates when the runoff is complete.

While it is still possible that a new exchange could reopen for business at some point, most observers do not expect that to happen.

The enabling legislation that allowed for the formation of the exchange will remain in place, as will the exchange corporate entity itself, in case a tightening market revives interest in the facility, Mr. Urquhart noted.

A new exchange would be drastically different, though, with comprise much more highly capitalized syndicates that maintain their own back office accounting systems, Mr. Urquhart and Mr. Fahys agreed.

But "as of now, there is no rush to form new syndicates and infuse new capital," Mr. Fahys noted.

"I can't imagine it," Mr. Kane said of a reorganized exchange. ■

Commutation plans set precedent in N.Y.

By DOUGLAS McLEOD

NEW YORK—While the shuttered New York Insurance Exchange fades into the background, exchange and syndicate officials can point to at least one achievement: court approval of rehabilitation plans for three insolvent syndicates.

Since the beginning of the year, a New York state judge has approved rehabilitation plans that will commute roughly $84 million in paid and outstanding losses of three syndicates: KCC New York Syndicate Corp., First New York Syndicate Corp. and Burt Syndicate Inc.

Together, these syndicates represented about half of the $170 million shortfall projected for six of the exchange's eight insolvent syndicates last year by the Tillinghast division of Towers, Perrin, Forster & Crosby Inc.

The Tillinghast report triggered a drawdown of the exchange's security fund last September and set in motion a series of events that led to the market's closing on Nov. 23 (see story, page 58).

In addition to KCC, First New York and Burt, a fourth insolvent syndicate, Candon Syndicate N.V., currently is pursuing a similar commutation plan.

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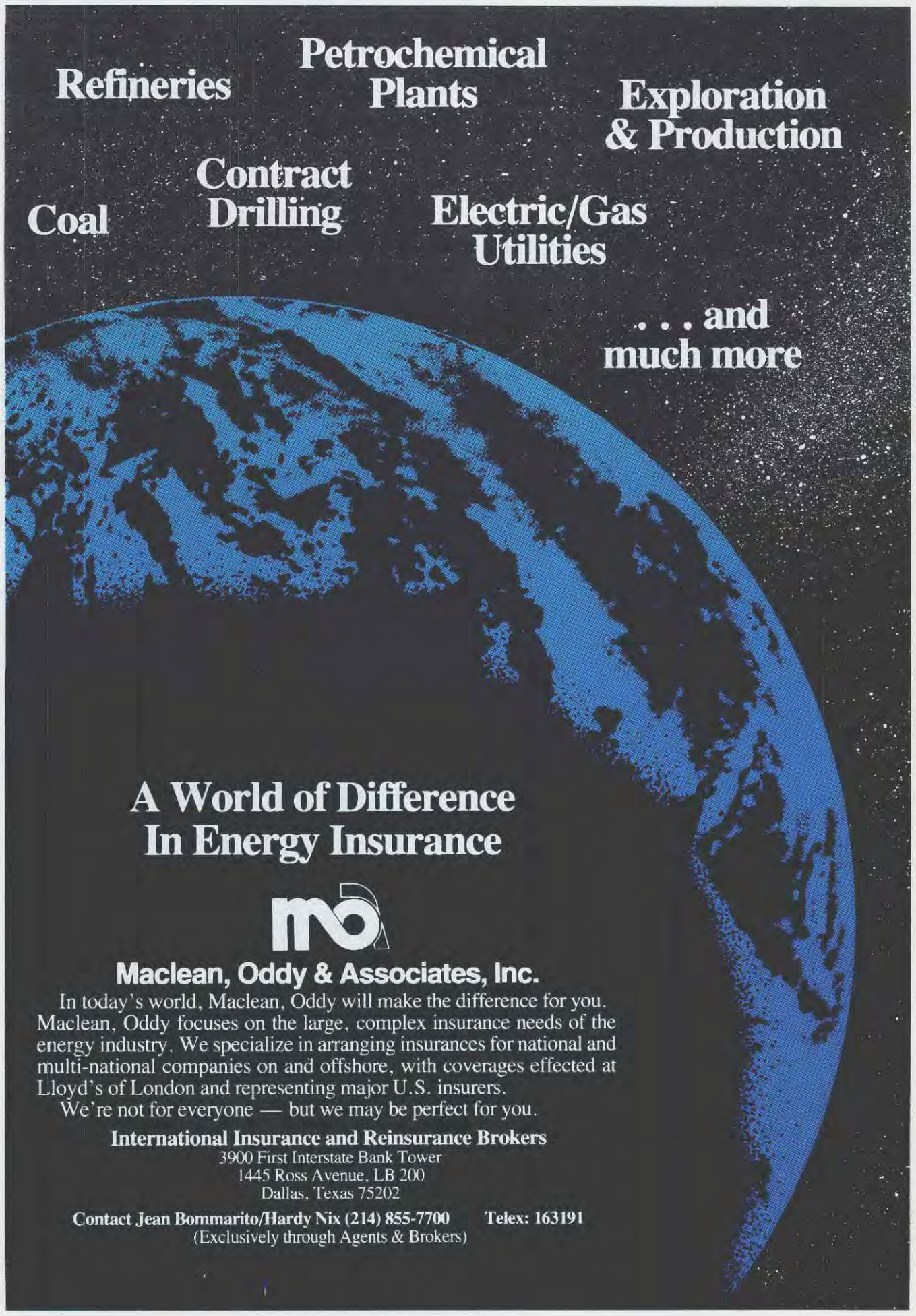

Commutations

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Four other exchange syndicates —Heartland Group Inc., Realex Group N.V., U.S. Risk Inc. and Pine Top Syndicate Inc.—were ordered liquidated before the first of the rehabilitation plans was approved.

Exchange sources familiar with the plans call them significant for several reasons: The three syndicates have not only succeeded in commuting dozens of reinsurance and retrocessional agreements, avoiding a drawn-out liquidation process, but also have overcome initial opposition from the Insurance Department, which had sought to liquidate the syndicates at the exchange's request.

The department, which in the past has opposed commutations as a rehabilitation tool, has not approved any of the syndicates' plans. However, it has not opposed their approval by New York State Supreme Court Judge Irving Kirschenbaum, who is supervising the rehabilitations.

Exchange sources familiar with the plans express hope that they will become a more common method for dealing with other reinsurer insolvencies in the state.

"It's a tremendous opportunity to find a new and more efficient way to handle reinsurance company insolvencies," observed Peter Bickford with the New York law firm of Bickford, Hahn & Hayes, representing KCC and Burt.

"It's a new approach that I think should be encouraged," he added, pointing to the New York Insurance Department's proposal to use commutations in the liquidation of Constellation Reinsurance Co.

"I think this is a major event in the whole world of insurance," said A. William Urquhart, vp and general counsel for the exchange.

The individual rehabilitation plans have gone forward where master plans for running off the business of all eight insolvent syndicates foundered.

For several months before the exchange closed last year, exchange and syndicate officials were working on plans to consolidate the assets and liabilities of the insolvent members in a single runoff syndicate, to be known as Syndicate 100 (*BI*, Aug. 31, 1987).

Mr. Bickford proposed a separate plan for a "market solution," similar in several respects to the Syndicate 100 plan.

Judge Kirschenbaum appointed a committee to study the plans that included representatives of the exchange, insolvent syndicates and the New York department. The committee, however, couldn't agree on plan implementation.

The New York department, for example, objected to the proposed court appointment of a special deputy to oversee the runoff, arguing that the liquidations would have to follow procedures established by New York insurance law.

In a move that signaled the death of a "market solution" to the insolvencies, Judge Kirschenbaum ordered the liquidation of Realex Group last Dec. 29 and U.S. Risk on Jan. 5, the first liquidation orders since Heartland was ordered liquidated in April 1987.

After ordering the liquidation of these syndicates and Pine Top Syndicate—whose parent, Pine Top Insurance Co., is being liquidated by Illinois regulators—Judge Kirschenbaum gave his approval to complex rehabilitation plans for three other syndicates.

Proceedings on the Insurance Department's liquidation petitions for the three syndicates have been adjourned pending fulfillment of the plans' requirements. If the requirements—including execution of commutations—are completed, the liquidation petitions will be dismissed; if they are not met, the Insurance Department may resume efforts to liquidate the syndicates.

The structure of the rehabilitation plans has evolved since the first and smallest of the plans, KCC's, was approved earlier this year, Mr. Bickford noted.

The KCC plan, due to be completed by mid-December, calls for the commutation of about $7 million in losses owed to 30 or 40 ceding insurers for total payments of about $3.5 million.

Unlike the other two plans, however, the KCC plan calls only for commutation of contracts with ceding insurers and not commutation of KCC's contracts with its own retrocessionaires, according to Mr. Bickford, who noted that KCC is now in the process of collecting retrocessions on its paid claims.

The First New York rehabilitation plan, approved in May, featured a more comprehensive commutation schedule. Under the plan, First New York's eight insurance company shareholders agreed to contribute a total of $29.4 million.

The shareholders, which also were quota-share retrocessionaires of the syndicate, contributed the cash in exchange for commutation of their reinsurance obligations.

Meanwhile, more than 200 First New York policyholders representing 92.7% of the syndicate's past due balances and known outstanding losses agreed to commute their contracts for $25.9 million, or about 70 cents on the dollar of total known losses of $37 million.

If an estimate of incurred-but-not-reported losses were included, First New York's liabilities could amount to roughly $100 million, making the commutations worth about 25 cents on the dollar.

Six of the syndicate's shareholder/retrocessionaires are reinsuring the uncommuted portion of the book, providing a maximum limit of $14 million for a premium of $10.5 million.

In addition to the contributions from First New York shareholders, the NYIE Security Fund Inc. contributed $500,000 toward the $10.5 million reinsurance premium.

At the behest of the New York department, First New York representatives also arranged for Miami-based Ryder System Inc. to acquire the rehabilitated syndicate, satisfying a requirement of New York law that the syndicate emerge as a going concern.

The plan is scheduled for completion by Dec. 15.

The rehabilitation plan for Burt Syndicate, approved July 25, calls for about 150 Burt policyholders to receive payments totaling about $24 million—including about $7 million in letter-of-credit proceeds and cash withheld—to commute about $40 million past due balances and known losses.

This represents a recovery of about 60 cents on the dollar. If IBNR losses are included, Burt's total liabilities also could hit roughly $100 million, making the commutations worth about 24 cents on the dollar.

Ceding insurers recovering the largest dollar amounts include Crum & Forster, $1.7 million; Home Insurance Group, $1.7 million; Benico Holding Corp., $1.3 million; Drum Corp., $1.3 million; and Integrity Insurance Group, $1.1 million.

Ceding insurers representing 96% of Burt's past due and known outstanding losses agreed to commutations. The syndicate has arranged reinsurance with Bermuda-based Forum Reinsurance Co. to cover the remaining 4%.

Under the plan, Burt will receive about $15 million from commutations with numerous quota-share, facultative and catastrophe excess retrocessionaires. After releasing its $500,000 security fund deposit, Burt will also receive $2.6 million

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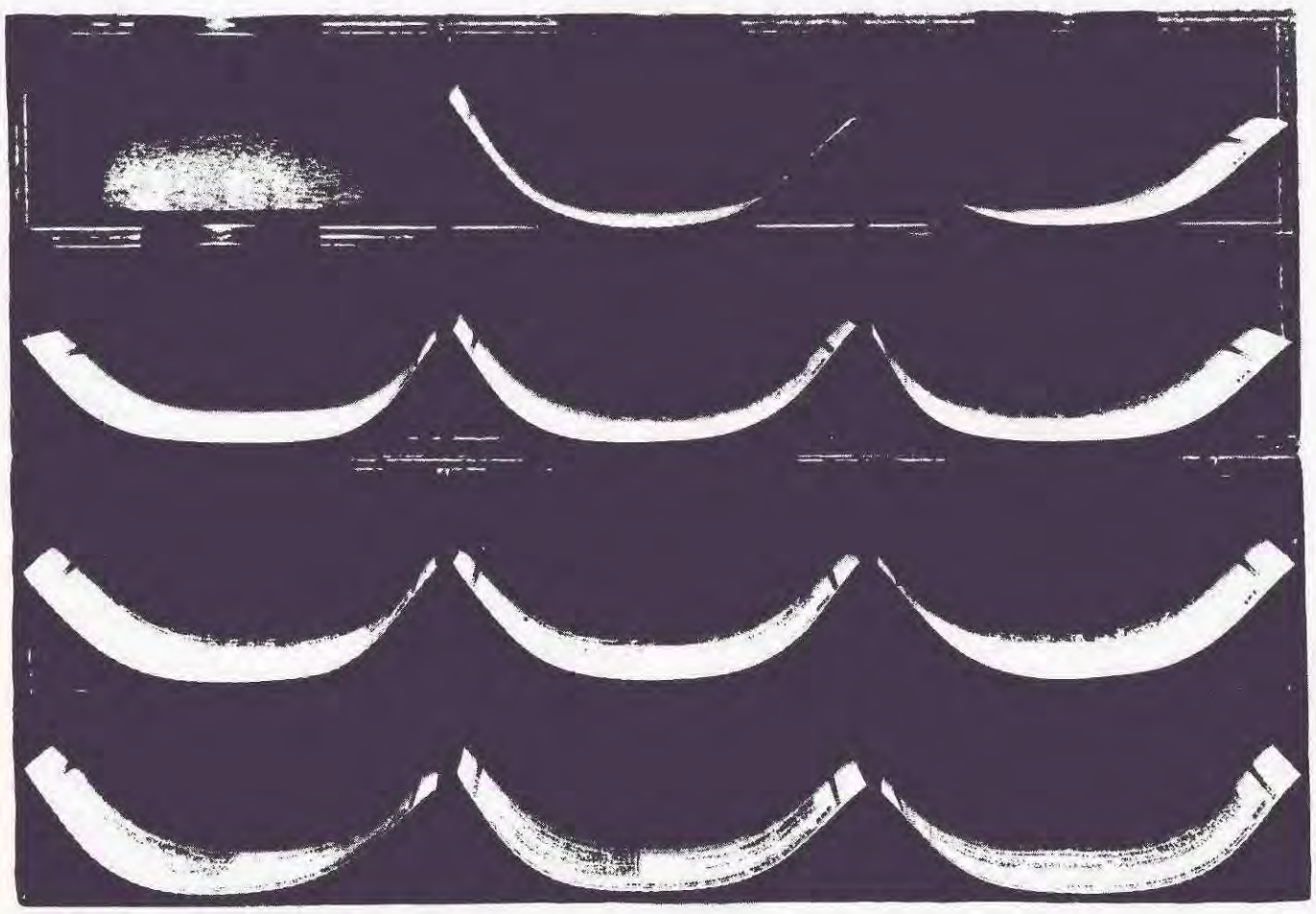

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The rise and fall of the N.Y. exchange

June 1978: The New York Legislature adopts legislation, later signed by Gov. Hugh Carey, creating the New York Insurance Exchange, a new marketplace for reinsurance, direct insurance of risks outside the United States and direct insurance of New York risks rejected by the Free Trade Zone.

March 31, 1980: The exchange opens its doors with 43 broker members and 14 underwriting syndicates, most owned by large property/casualty insurers. The exchange's president and chief executive officer is Donald E. Reutershan, a lawyer and former executive vp of Sentry Insurance.

February 1982: State lawmakers and Gov. Carey expand the exchange's authority to write direct insurance business in states outside New York, though the vast majority of the exchange's premiums will continue to come from treaty and facultative reinsurance.

January 1981-December 1984: During the most fiercely competitive property/casualty insurance market in history, exchange gross premium volume balloons from $72.5 million in 1981, the exchange's first full year of operation, to $345.6 million in 1984. The syndicates' combined ratios, meanwhile, climb from an aggregate 110.6% in 1981 to 137.3% in 1984.

March 1984: Seeking more space for its underwriting floor and back office facilities, the exchange purchases a new headquarters building in lower Manhattan from Aetna Casualty & Surety Co. Temporary financing for the purchase is replaced in 1985 with a $20 million mortgage from the New York State Teachers Retirement System.

March-September 1985: Six of the exchange's largest syndicates—Anex Syndicate Inc., North Star Syndicate Inc., Polaris Syndicate Inc., Chubb Syndicate Inc., First State Syndicate Inc., and William Street Syndicate Inc.—announce plans to withdraw from the market. The announcements follow 1984 underwriting suspensions by Burt Syndicate Inc., First New York Syndicate Corp. and Realex Group N.V., which hit exchange underwriting limits.

The suspensions and withdrawals, along with tightening in retrocessional markets, drastically cut underwriting capacity.

Sept. 20, 1985: Three exchange officers, including General Counsel Peter H. Bickford, resign over "policy differences" with Mr. Reutershan.

October 1985: Four more large exchange syndicates managed by a Prudential Reinsurance Co. unit stop underwriting: Pruco Syndicate Inc., Essex Syndicate Inc., John Street Syndicate Inc. and Republic Western Syndicate Inc.

Dec. 13, 1985: The exchange board of governors elects Joseph Fahys, a managing director of Marsh & McLennan Inc., to replace Mr. Reutershan as exchange president and chief executive as of Jan. 1, 1986.

Dec. 31, 1985: The exchange's gross written premiums slip to $309.5 million for 1985 while its aggregate combined ratio jumps to 152.3%.

Oct. 31, 1986: The New York Insurance Department files petitions in New York State Supreme Court to liquidate Burt Syndicate and First New York Syndicate.

Nov. 14, 1986: The exchange board declares three more syndicates insolvent: Heartland Group Inc., Realex Group and Candon Syndicate N.V.

The board asks the New York Insurance Department to seek liquidation of Heartland and Realex, but Candon obtains a preliminary injunction barring proceedings against it.

Dec. 31, 1986: Exchange gross premiums continue to slide to $261.8 million, while its aggregate combined ratio improves to 124.1%.

April 8, 1987: A New York Supreme Court judge orders Heartland liquidated, the first such order against an exchange syndicate.

May 1987: The exchange announces the hiring of Joseph LaMonte, former New York deputy insurance commissioner in charge of the department's liquidation bureau, to act as a consultant on syndicate rehabilitation.

June 26, 1987: The exchange board votes to seek liquidation of three more syndicates—KCC New York Syndicate Corp., Pine Top Syndicate Inc. and U.S. Risk Inc.—bringing to eight the number of insolvent underwriting members.

Sept. 1, 1987: Eleven of the exchange's 37 solvent syndicates file notices of their intention to withdraw. A 12th syndicate will file a withdrawal petition on Sept. 11, 10 days past the Sept. 1 deadline for syndicates that want to leave the exchange in 1988. In accordance with exchange rules, the 12 syndicates will file final withdrawal plans by Oct. 1.

Sept. 2, 1987: The board of directors of NYIE Security Fund Inc. votes to draw down $25 million from the exchange's deposit fund after actuaries project the shortfall of six of the insolvent syndicates at $170 million, more than four times the total $39.1 million in the security fund.

Sept. 18-21, 1987: Three of the withdrawing syndicates sue the exchange to block the drawdown of their security fund deposits.

Oct. 23, 1987: To the surprise of several exchange members, NYIE officials announce they will extend the filing deadline for withdrawal plans to Nov. 10. The extension follows complaints from several syndicates that the security fund drawdown was announced the day after the Sept. 1 deadline for filing withdrawal petitions.

Nov. 13, 1987: The exchange board recommends a total underwriting suspension after additional withdrawal filings bring the number of syndicates seeking to leave the exchange to 27.

Nov. 23, 1987: Exchange syndicates and brokers vote overwhelmingly to halt underwriting. Hours before the vote, a New York Supreme Court judge refuses a request by six syndicates to restrain the vote. The six syndicates are the only underwriting members to cast their ballots against the underwriting moratorium.

The exchange begins a cost-cutting drive that sharply reduces back-office staff and operations, turning many runoff related duties over to syndicate managers and brokers.

March 4, 1988: The New York State Teachers Retirement System moves to foreclose on the exchange's headquarters building after the exchange misses its monthly mortgage payments in January and February. The exchange will later agree not to fight the foreclosure and to rent the space it is using until March 1989.

May 17, 1988: A New York state judge approves a rehabilitation plan for First New York Syndicate, calling for commutation of the syndicate's contracts. The same judge will approve a similar plan for Burt Syndicate on July 25.

Together, Burt and First New York accounted for slightly less than half the estimated $170 million shortfall of six insolvent syndicates.

—By Douglas McLeod

NYIE commutations

Continued from previous page

from the security fund to help pay for the Forum reinsurance.

In addition, Burt will receive $1.4 million in supplemental payments from its quota-share retrocessionaires and from Ormond Re Group Inc., the syndicate's owner.

The plan also requires Ormond Re to put up a $220,000 LOC for the benefit of the syndicate, to be drawn down to the extent Burt Syndicate falls short of a minimum $1 million policyholder surplus goal after all of the commutations are completed.

The plan is scheduled for completion by May 15, 1989.

"One of the incredible things about this was how fast we were able to accomplish it," said W. Lockwood Burt, president of Burt Management Inc., in an interview last month.

Burt Syndicate and First New York—both managed by Burt Management—mailed their commutation offers in late February and had received all their replies by the first week of May, Mr. Burt said.

Several factors—including the Tillinghast report, the security fund drawdown and the shutdown of the exchange itself—probably contributed to the various parties' interest in negotiating commutations, Mr. Bickford observed.

"The mood was a lot different by the middle of 1988 than it was in the middle of 1986," when bailout plans for the insolvent syndicates were being discussed, he noted.

Mr. Bickford and exchange officials also agreed that the four syndicates ordered into liquidation might still benefit from commutation plans similar to those arranged for KCC, Burt and First New York.

"It's hard to reverse a liquidation order," noted exchange President Joseph Fahys.

"But," the NYIE's Mr. Urquhart added, "just because it's hard is no reason why it can't be done." ■

Spotlight report

Many causes blamed for IEA's death

By MICHAEL BRADFORD

MIAMI—Modeled after the 300-year-old Lloyd's of London, the Insurance Exchange of the Americas was a welcome alternative in the hard market of the mid-1980s, but foundered and died after only four years of underwriting.

The reasons for its quick demise ranged from incestuous relationships on the underwriting floor between brokers and underwriters to ineptitude in the front office and back shop, according to those associated with the failed facility.

Of the 15 syndicates that remained at the exchange when it stopped accepting business in 1987, seven remain in rehabilitation. The eight others currently are solvent and running off their books of business under the supervision of the Florida Department of Insurance.

A Leon County Circuit Court placed the IEA in receivership earlier this year, giving the Florida Department of Insurance the authority to oversee all operations of the dormant exchange (*BI*, Jan. 11).

The special deputy receiver of the Insurance Exchange of the Americas hopes to soon gain permission for the seven syndicates in rehabilitation to begin making payments equal to 25% of claims on direct writings.

Joe Fogarty, the deputy receiver, said earlier this month that the accounting firm of Price Waterhouse is continuing its audit of the exchange to determine the cash position of all the syndicates in rehabilitation.

"When that is completed, I will be petitioning the court to allow the syndicates to make partial payments on direct business," he said.

He was unsure how long the Price Waterhouse audit would take.

The syndicates that remain in rehabilitation are: RAM Syndicate Inc.; AIB Syndicate Inc.; Syndicate Three Inc.; Syndicate One Inc.; Syndicate Two Inc.; Syndicate Four Inc.; and Hispano American Insurance Syndicate Ltd. Inc.

While the IEA's guaranty fund still holds about $15 million, Mr. Fogarty said, that money cannot be used to pay claims unless syndicates are liquidated and declared bankrupt. The IEA's constitution also calls for a $500,000 assessment on each of the other solvent syndicates to pay claims before the guaranty fund is tapped.

But if the fund is never tapped, contributions would be returned to the syndicates.

It was "gross mismanagement" that led to the failure of the south Florida marketplace, according to Mr. Fogarty.

Although the IEA was under the ultimate authority of the Insurance Department, the exchange was allowed to regulate itself, he pointed out. When it became apparent that the regulatory framework was not working, "the department had to force itself in to take command."

The exchange, Mr. Fogarty said, "was one hell of a concept. It was just totally mismanaged here."

Richard Lehman, president of First Investors Syndicate Inc., one of the underwriting members not in rehabilitation, agreed that the idea of an exchange was not flawed.

"If it had been properly executed, it could have been a big success," he said.

The problem with the exchange, he added, was that "they let a lot of crooks in. That's the biggest reason" for the failure, Mr. Lehman remarked. "And those of us who weren't crooks weren't smart enough to watch the crooks."

The IEA's problem, Mr. Lehman says, was that 'they let a lot of crooks in. That's the biggest reason,' for its failure. 'And those of us who weren't crooks weren't smart enough to watch the crooks.'

Although he would not identify those he labeled as "crooks," Mr. Lehman did point to some of the unorthodox business practices that were popular at the exchange.

"The worst was the incestuous relationships," he said, referring to the situations created by cross-ownership of syndicates and member brokers that was allowed for some time at the IEA.

For example, exchange broker United Management Services Inc., underwriting member Administrative Management Services Syndicate Ltd. Inc. and underwriting manager C. Management Services Inc. were all owned by Sam C. Hakemian, according to Mr. Fogarty.

"So long as the brokerage company made money, it didn't matter if the syndicate took on bad risks," said Mr. Lehman, "because the broker was making more money than the syndicate was losing."

Daniel Vaisman, the last president of the Insurance Exchange of the America's Brokers Assn. and the president of IEA broker Miami Brokers Inc., said it was "greed, no question about it," that caused the exchange to collapse.

There were some underwriting managers "who really filled their pockets up," without regard to the type of business they were writing at the exchange, said Mr. Vaisman. "They're all gone," he said of the unscrupulous members of the IEA. "The ones that are not gone are retired; they'll never have to work again; they don't care."

And the marketplace made a mistake, he said, in writing reinsurance so early in its formation. Syndicates should have written only direct business until their capital and surplus was heftier, Mr. Vaisman observed.

All of the exchange brokers that held office space in the IEA's downtown headquarters building have left, said Mr. Vaisman. But about $3,000 in dues they paid as members of the brokers association remains in an interest-bearing account.

But Mr. Vaisman said he isn't counting on keeping the money around in case there is a resurrection of the IEA. "I'll just let it ride for a while. If nothing happens, maybe we'll use it to throw a five-year death party," he quipped.

Mr. Vaisman was especially disappointed to see the IEA fail. A staunch supporter of the marketplace during his tenure as head of the brokers association, he was an energetic cheerleader of the exchange.

"We didn't get rich," he said of his brokerage's dealings with the exchange. "But you know what it was? More than anything else, it was fun. It was fun to be able to go down to the underwriting floor and sit face to face with the underwriter and discuss the business."

Just after Mr. Vaisman moved Miami Brokers out of the exchange building, there was a prophetic disaster.

Ten days after vacating the office, "the roof collapsed," Mr. Vaisman recalled. Water from the air conditioning system accumulated in the ceiling and caused it to cave in above a next-door office.

"It ruined a zillion documents and who knows what else," said Mr. Vaisman. If his computer system had been in its customary spot along the wall that separated the offices, it would have been ruined, he said.

The Florida Department of Insurance, recognizing that there are many reasons for the failure of the exchange, formed a task force in March to determine what brought the IEA down.

"If you're looking for a flashy term, we're doing an autopsy," said Mike Berry, coordinator of the Insurance Exchange of the Americas Task Force.

Mr. Berry, who is an attorney with the Insurance Department's Division of Rehabilitation and Liquidation, said he expects to examine the corpse for another three or four years in an effort to determine the cause of death.

If the task force finds any evidence of criminal activity during its investigation, that information will be delivered to authorities, said Mr. Berry.

"We are not specifically looking for that," he said, "but if we find it, we'll hand it over to the proper law enforcement agency."

Mr. Berry would not say whether any evidence of criminal activity has been uncovered so far.

Nicholas L.S. Cross, the IEA's president from December 1986 to November 1987, said it is hard to pin down the exact causes of the IEA's failure.

"It's difficult to sever causes and effects," said Mr. Cross. "Someone might say, for example, that weak underwriting standards could be an effect rather than a cause" of inadequate capital among syndicates, he noted.

Inadequate capital, Mr. Cross pointed out, may have prompted some underwriters to lower their underwriting standards to bring in more premium dollars. If standards had been kept high in the early years, the heavy losses that drained capital may not have occurred, he said.

And although he admits that there was some "bad" business written at the IEA, Mr. Cross disputes the notion that a lot of too-risky business was accepted.

"If you look at the number of risks written, the vast majority were sound," he remarked. "But the ones that were not sound were the big treaties, not the small risks."

Mr. Cross said he has mixed emotions about the closing of the IEA. Although he was unable to do much as an administrator during his tenure because the exchange shut down soon after he assumed his position, the former president said: "I still feel disappointment at the failure of the exchange. I still think it is a concept that is valid."

The exchange was created by legislation passed in 1979 and began writing its first risks in 1983.

The marketplace, guided by its first president, Alan Teale, wrote $36.5 million in gross premiums during its first full year in operation in 1984.

When Mr. Teale left in 1984, he was replaced by Arturo Toro, who previously headed the Latin American operations

Continued on next page

IEA's Usher Syndicate seeks new life

By MICHAEL BRADFORD

MIAMI—The Usher Syndicate Ltd., one of the 10 largest at the Insurance Exchange of the Americas in its last full year of underwriting, is planning to reorganize as a surplus lines insurer in Florida.

One other syndicate, W.F. Poe Syndicate Inc., also is considering re-structuring as an insurance company.

John Kummer, assistant director of company regulation at the Florida Department of Insurance, confirmed that the Usher syndicate was granted permission by the Leon County Circuit Court to withdraw from the inactive exchange and is seeking status as a surplus lines insurer in the state.

"They have been formally released from the exchange and have applied to become an eligible surplus lines company," Mr. Kummer said of the Usher Syndicate. "We should decide fairly soon."

Joe Fogarty, special deputy receiver of the exchange, said the syndicate was granted permission to withdraw after showing surplus of $4.5 million. Florida law requires surplus lines insurers in the state to have $1 million in capital.

According to figures submitted to the Insurance Department, the syndicate finished 1986 as the 10th-largest syndicate at the IEA, reporting gross premiums of $7.5 million.

Its policyholder surplus stood at $1.3 million in that last full year of underwriting.

Net investment income amounted to $151,000 and the syndicate showed a 1986 net loss of $47,000. While an underwriting loss figure for 1986 was not available, the syndicate had a combined ratio that year of 103.5%.

The Usher Syndicate was an Antigua-based company owned by Usher Holdings Ltd., a holding company incorporated in the Bahamas that is 80% owned by Thomas Usher and 20% by Anthony Bainbridge, according to Mr. Kummer. As a surplus lines insurer, Usher would continue to be based in Antigua and would operate with an office in Miami.

The Usher Syndicate and its manager, Lincoln Underwriting Management Inc., gained some notoriety at the IEA when Lincoln hired as an underwriter Peter Cameron-Webb, who was sued in connection with his underwriting as chairman of PCW Underwriting Agencies Ltd. at Lloyd's of London.

Officials at the exchange admitted that Mr. Cameron-Webb's presence may have scared away potential investors, but some stressed that his contributions as an experienced marine underwriter helped the marketplace (*BI*, Sept. 2, 1985).

After hiring Mr. Cameron-Webb, and even since his departure, Lincoln has refused to answer telephone calls requesting information on the syndicate or its activities.

Mr. Cameron-Webb left the IEA to form a Miami-based consulting firm in February 1986 (*BI*, Feb. 10, 1986).

William F. Poe, owner of the Poe Syndicate and president of Tampa-based Poe & Associates Inc., the 15th-largest U.S. insurance brokerage based on 1987 gross revenues of $31 million, said he also is considering setting up his syndicate as either an admitted or surplus lines insurer.

"That's an alternative we're looking at. Whether it's a reasonable plan at this point, we don't know," he remarked.

Other options, Mr. Poe said, would be to continue the runoff of the syndicate's business and either liquidate or "get into other businesses" using the syndicate's assets.

The Poe Syndicate led all the syndicates in gross premium volume written in 1986, the last full year of the IEA's operation. That year, the syndicate wrote $27.3 million in premiums, up 105% from $13.3 million the year before.

Net premiums in 1986 amounted to $20 million and policyholder surplus stood at $2.3 million.

The Poe Syndicate turned in a 101.1% combined ratio in 1986, up slightly from 100.9% in 1985. Investment income in 1986 jumped to $308,000, a 155% increase from $121,000 the year before.

The syndicate turned a profit of $49,000 in 1986 after losing $79,000 in 1985.

If the syndicate is restructured as an insurance company, it will be operated from Poe's Tampa office, Mr. Poe said.

As for the continued runoff of exchange business, Mr. Poe said claims payments are being made regularly and the syndicate remains in stable financial condition.

"We believe we're in good financial shape," said Mr. Poe. "We certainly meet the criteria for the normal chartering of a business in Florida and probably any other state."

Although he could not predict how long the runoff would take, Mr. Poe said it may not take as long as for other members of the failed exchange that waited later than his syndicate did to stop writing treaty reinsurance.

"We stopped writing treaty business in '85," he said of the long-tail business. "So we've been off most of the treaties for a good period of time."

The remainder of the Poe Syndicate's writings were facultative reinsurance and direct business, Mr. Poe observed. "An awful lot of that is very short-tail. That part, unless there are some surprises, is probably pretty much over with."

No syndicates other than Usher have applied for licenses to reorganize as an insurance company, according to the Florida Department of Insurance.

Continued from previous page

of American International Underwriters Corp., a unit of American International Group Inc.

Mr. Toro's tenure began with the start of the hard market cycle, which sent business rejected by admitted companies tumbling onto the IEA underwriting floor. When the business flood began arriving at the exchange, it overwhelmed the back shop's ability to keep track.

Figures finally submitted to the Florida Insurance Department showed IEA syndicates booked 1985 gross premiums of $132 million, a 262% increase from the prior year.

But some of that business, the exchange admitted, was written in earlier years but not recorded until 1985.

William F. Poe, owner of the W.F. Poe Syndicate Inc. and president of Tampa-based Poe & Associates Inc., said inadequate financial controls contributed heavily to the exchange's failure.

"Nobody really knew what they were doing financially," said Mr. Poe, who heads the 15th-largest U.S. insurance brokerage based on 1987 gross revenues of $31 million (*BI*, June 20).

"They got way too far down the stream before that got a reasonable system. . . .Once you get into a situation like that, it's very difficult to get out."

Although the exchange officials "represented themselves as having appropriate systems, they did not," he said.

After two full years of operation, exchange syndicates posted their first profitable year, with combined net income of $402,777.

Although the exchange appeared to be maturing, it has become apparent that the facility actually was unraveling during those three years. Many associated with the exchange have indicated that during the period a "good old boy" network of favoritism among brokers and syndicates began to form (*BI*, Aug. 31, 1987).

In addition, lawsuits plagued the IEA during Mr. Toro's tenure. One of the largest and most complex suits was filed by Omaha Indemnity Co. against RAM Syndicate Inc. and Administrative Management Services Inc. The suit claimed the syndicates did not have the financial strength to reinsure business ceded by two managing general agents on behalf of Omaha Indemnity (*BI*, Sept. 1, 1986; June 1, 1986; April 28, 1986).

That suit, which some say could expose the IEA's $15 million guaranty fund, is still pending.

A string of other lawsuits were filed following the Omaha Indemnity action, including one by Colony Insurance Co. of Warwick, R.I., which sought to recover reinsurance losses on financial guarantee business (*BI*, Aug. 24, 1987). After arbitration, Colony's reinsurance contracts with two syndicates—B.G.H. Syndicate Inc. and Administrative Management Services Syndicate Ltd. Inc.—were rescinded and premiums were returned. Litigation between Colony and other IEA syndicates is still pending.

Suits filed against the IEA that named the exchange and syndicates in rehabilitation have been routinely stayed or dismissed. If a suit also names syndicates that are not in rehabilitation, the suits can go forward against those syndicates or those syndicates can file a motion to have the suit stayed or dismissed.

The exchange was shut down soon after Mr. Cross replaced Mr. Toro in December 1986, following huge treaty reinsurance losses uncovered in February. Despite two reopening dates set later in the year, the marketplace never wrote any more business.

"We're still doing the nuts and bolts of trying to figure the assets and liabilities" of the syndicates and the IEA, said Mr. Fogarty, who expects the financial legwork to continue for some time, with several obstacles in the way of tracking down all the money owed to syndicates and those underwriting members' liabilities.

Among those obstacles is the reluctance of insurers that ceded business to IEA syndicates to reveal the amount of business they sent to the exchange and whether premiums were paid, said Mr. Fogarty.

Brokers, too, have not been especially helpful in releasing information regarding dealings with syndicates, Mr. Fogarty noted. He said he is trying to determine whether some may be holding premiums that were never paid to the syndicates.

In its efforts to accumulate as much financial information as possible regarding the exchange and its syndicates, the Insurance Department is attempting to wrest IEA files from William Sadowski, the exchange's former counsel.

"It's an issue that needs to be resolved," said Mr. Sadowski, who is with the Miami firm of Akerman, Senterfitt & Eidson. "They're doing what they probably should do and so are we. We'll have to wait for the court to tell us what is right."

Mr. Sadowski said his firm is owed fees by the IEA and plans to keep original client files until the money is paid. The files in which Mr. Fogarty is interested contain information regarding the Omaha Indemnity case, according to Mr. Sadowski.

Although Mr. Sadowski would not say how much his firm is owed, Mr. Fogarty put the figure at around $180,000.

Mr. Sadowski said the receiver has requested the files, but he is refusing to release them because they give the firm a "retaining lien" against the IEA for the money owed. "Once you lose possession, the lien is no longer protected," said Mr. Sadowski.

He said a Florida appellate court earlier this year overturned a lower court's decision calling for Akerman, Senterfitt to turn over the documents, but then reversed itself.

"We're still fighting for them to consider the merits of the appeal," said Mr. Sadowski.

Meanwhile, those involved with the IEA admit there is no hope of ever placing another risk on the IEA underwriting floor, but they do not dismiss the notion that one day there may be another such marketplace in Florida.

The legislation allowing formation of an exchange is still in place, they point out.

Mr. Lehman, who said his syndicate will likely be liquidated, noted that there were "enough good things that almost happened that it gives you hope" for an exchange in the state.

However, he added, creation of another exchange is unlikely because the IEA's problems were so widely publicized, there will not be another group of "pioneers to make the sacrifices that are necessary" to start up such a marketplace.

Mr. Fogarty pronounced the IEA "dead" and said it would never re-open. But he did remark that he "wouldn't be surprised" if someone tried one day to revive the exchange concept in Florida.

"I feel bad that it died," said Mr. Vaisman. "The potential was the best in the world. I wouldn't be surprised that if in five or 10 years there is another exchange."

Mr. Poe commented: "I don't know, but I would suggest that it will probably be a long time between drinks on that one. If someone was going to do it, they might want to do it in Mississippi or Wyoming or somewhere like that rather than Florida where there were less than positive results." ■

Vision of IEA endures less than one decade

July 1979: The Insurance Exchange of the Americas is created by a special act of the Florida Legislature. The exchange's developers envision the IEA as a center for Latin American risks.

May 1981: The IEA hires its first president, Alan Teale, formerly director of the British Insurance Brokers Assn. in London. Widely regarded as a "promotions man," Mr. Teale is given the task of promoting the exchange and attracting investors.

April 4, 1983: The doors to the IEA's underwriting floor are opened in downtown Miami with four syndicates authorized to write property/casualty insurance and life coverages.

Dec. 31, 1983: Eight syndicates record gross written premiums of $3.4 million during the soft insurance market. The syndicates report a net underwriting loss of $2.8 million and a net loss of $2.1 million for the year.

May 1984: Alan Teale steps down as president of the IEA at the expiration of his contract. There are 15 syndicates with $25.5 million in capital, far from his prediction of 40 syndicates with $100 million by the time his contract ended. He later blames broken promises by investors. Mr. Teale is replaced by Arturo Toro, a former executive vp of the exchange

Continued on next page

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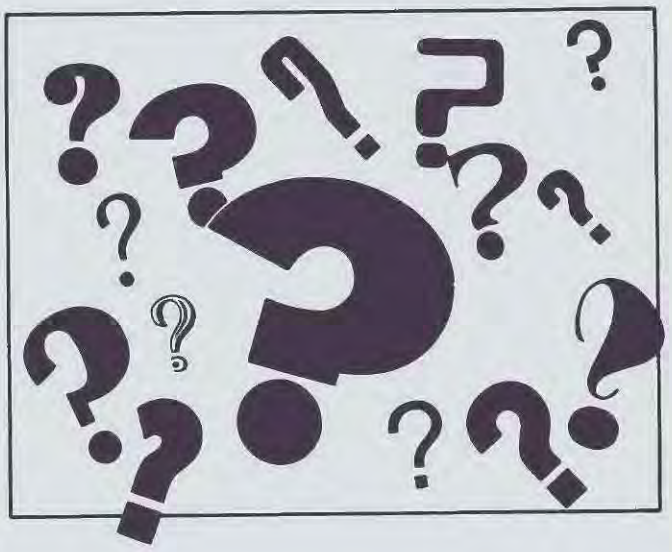

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Spotlight report

IEA vision

Continued from previous page

who came to the IEA after heading the Latin American operations of American International Underwriters Corp., a unit of American International Group Inc. The selection of Mr. Toro indicates the IEA's board wants an "operations man" to take the exchange out of the promotions stage and into an era of growth.

Dec. 31, 1984: The exchange is riding on the coattails of the hardening insurance market. In the right place at the right time, the marketplace sees surplus lines business increase dramatically as admitted insurers become more selective about the risks they will write. In its first full year of operation, the exchange writes $36.5 million in gross premiums, 90% of which is treaty reinsurance. Only three syndicates are profitable, and the underwriting loss for the year for all syndicates stands at $3.9 million. The net loss is $1.7 million.

Aug. 1, 1985: Through the first seven months of the year, 18 syndicates write approximately $25.5 million in gross premiums. Total capital among the syndicates stands at $37.8 million, a figure exchange officials admit is too low. Mr. Toro says he would like to see at least 40 syndicates with a minimum of $60 million in capital. There are 68 member brokers, 12 of which are reinsurance brokers. The IEA's plan to become a center for Latin American risks has fallen apart along with the currency in that part of the world. More than half of the IEA business is coming from the United States.

Dec. 31, 1985: Confusion over how much business has been written during the year is blamed on problems in the IEA's central processing facility. Finally, it is learned the exchange wrote gross premiums of $132 million, a 262% increase above the $36.5 million written the year before. There are 23 syndicates showing policyholder surplus of $30.8 million. After two full years of operation, the 21 syndicates licensed to write property/casualty business record their first profit, with combined net income of $402,777. Some syndicates indicate they are shifting their emphasis away from reinsurance writings, but treaty reinsurance still accounts for 87% of premium volume at the exchange. Only four of the 10 largest syndicates record a profit. The fourth-largest syndicate, Hispano American Insurance Syndicate Ltd. Inc., did not write any business in 1985 because its surplus fell below minimum requirements.

February 1986: Administrative Management Services Ltd. Inc., the largest syndicate based on 1985 writings, stops underwriting when IEA officials find the underwriting member has written too much business. RAM Syndicate Inc., the third-largest, also ceases underwriting.

April 1986: Omaha Indemnity Co., a unit of the Mutual of Omaha Group, files suit in U.S. District Court in Kansas City, charging that AMS and RAM accepted reinsurance they were not financially capable of handling. The case, which is still pending, raises concerns that the two syndicates could be forced into insolvency if ordered to pay a large award and that the IEA's $13 million guaranty fund could be exposed.

September 1986: Only 15 of 23 exchange syndicates are active. Exchange members fear that the Omaha Indemnity litigation is deterring new investors. IEA officials claim an updated computer system has the central processing department back on track.

Dec. 1, 1986: Outgoing president Arturo Toro is replaced by Nicholas L.S. Cross, a founding member of the IEA's board of directors. He comes to the exchange with 20 years of experience with Lloyd's Bank in four countries, and he also served as president of a Coral Gables, Fla., bank. Mr. Cross says he will "work on building the credibility of the exchange with regulators, with colleagues in the insurance industry and with the community of Miami."

Dec. 31, 1986: Syndicates record $211.3 million in gross premiums for the year, up from $132 million the previous year. Policyholder surplus has dwindled to $8.2 million.

February 1987: Huge reinsurance treaty losses are uncovered at the exchange and the marketplace stops writing all new and renewal business. The Florida Department of Insurance files petitions for court-supervised rehabilitation of Syndicate One Inc., Syndicate Two Inc. and Syndicate Three Inc. Hispano-American is ordered into rehabilitation by a Leon County Circuit Court judge (*BI*, Feb. 16, 1987).

March 1987: Syndicate Four Inc., RAM and AIB Syndicate Inc. are placed into rehabilitation, bringing to seven the number of syndicates under court-supervised rehabilitation. To conserve cash, the IEA slashes its staff by 30%. Jules Reese, the IEA's chief operating officer, resigns.

June 1987: New legislation calls for the IEA guaranty fund to respond only to insurance policyholder claims, up to $300,000, but not reinsurance policyholder claims. The legislation also calls for a reorganization of the exchange's board of governors, doubles capitalization requirements for syndicates to $3 million, lowers to 4-to-1 the maximum premium-to-surplus underwriting ratio and increases policyholder surplus requirements to $2 million. The exchange sets Sept. 1 for reopening and announces it will be a market for surplus lines insurance only. Litigation naming syndicates and the IEA mounts. Around two dozen suits seek damages ranging from amounts as small as unpaid automobile claims to tens of millions of dollars in more complex litigation.

August 1987: The IEA delays its planned reopening until Oct. 1, saying more time is needed to examine a new constitution the Florida Department of Insurance is preparing. Only 38 of 72 member brokers a year earlier remain.

Oct. 1, 1987: The exchange fails to reopen because solvent syndicates are not ready to resume operations.

Nov. 10, 1987: Mr. Cross leaves the exchange, resigning his post and saying his duties are "no longer relevant."

January 1988: The IEA is placed into receivership by a state Circuit Court judge.

August 1988: Seven syndicates remain in rehabilitation. The Insurance Department continues to work to determine the assets and liabilities of all the syndicates and supervises run-off of those in rehabilitation. The eight solvent syndicates not in rehabilitation continue to run off their books of business. The IEA is declared dead by Mike Berry, coordinator of a task force set up by the Insurance Department to investigate the failure of the marketplace. "We're doing an autopsy," he says.

—By Michael Bradford

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SEPT. 7-9. Pension and Cafeteria Plan seminars in Chicago, sponsored by Corbel & Co.; $225 for pension session; $150 for cafeteria plan session; $335 for both sessions. Brenda Chatham, Corbel & Co., 6620 S. Southpoint Drive, Jacksonville, Fla. 32216; 904-731-4455.

SEPT. 7-9. Fire Protection for Safety Professionals course in Long Grove, Ill., sponsored by the National Loss Control Service Corp.; $495. National Loss Control Service Corp., K-3, Long Grove, Ill. 60049; 312-540-2400.

SEPT. 7-9. Reinsurance Auditing and Accounting course in New York City, sponsored by The College of Insurance; $795 for college sponsors; $895 for non-sponsors; less $100 for subsequent registrants from the same organization. **Also Oct. 10-12** in Chicago. The College of Insurance, 1 Insurance Plaza, 101 Murray St., New York, N.Y. 10007; 212-962-4111.

SEPT. 8. OSHA Hazard Communication/Superfund, Title III seminar Springfield, Ill., sponsored by The Illinois State Chamber of Commerce; $100 for ISCC members; $150 for non-members. **Also Sept. 15** in Chicago. ISCC Center for Business Management, 20 N. Wacker Drive, Chicago, Ill. 60606; 312-372-7373.

SEPT. 8-9. Video Display Terminal Safety course in Los Angeles, sponsored by the University of Southern California, Institute of Safety and Systems Management; $275. Institute of Safety and Systems Management, Professional Programs, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 213-743-6523.

SEPT. 8-9. Financial Analysis For Risk Management seminar in New York City, sponsored by The College of Insurance; $595 for College of Insurance sponsors and Insurance Services Office Inc. members; $695 for non-sponsors and non-members of ISO. **Also Oct. 13-14** in Chicago, **Nov. 3-4** in Atlanta and **Dec. 8-9** in San Francisco. The College of Insurance, 1 Insurance Plaza, 101 Murray St., New York, N.Y. 10007.

SEPT. 8-9. Employee Benefits: Marketing Strategies for the Future conference in Boston, sponsored by the Life Insurance Marketing & Research Assn.; $350 for LIMRA members; $700 for non-members. LIMRA International, 8 Farm Springs, Farmington, Conn. 06032.

SEPT. 10. A Sophisticated Approach to Rehabilitation: The California System seminar in San Francisco, sponsored by The Empowerment Group; $225 (includes textbook). The Empowerment Group, P.O. Box 3559, Culver City, Calif. 90231-3559; 213-398-3538.

SEPT. 12-16. Developing and Managing a Basic Safety and Health Program course in Long Grove, Ill., sponsored by the National Loss Control Service Corp.; $750. **Also Oct. 24-28.** National Loss Control Service Corp., K-3, Long Grove, Ill. 60049-0075.

SEPT. 13-15. Fire Protection Engineering Methods symposium and roundtable in Gaithersburg, Md., sponsored by the Society of Fire Protection Engineers; $195. Sonya Cherry, Center for Fire Research/NBS, A247 Building 224, Gaithersburg, Md. 20899; 301-975-6854.

SEPT. 14-15. Insurance Claims Supervision seminar in Minneapolis, sponsored by the Defense Research Institute Inc.; $295 for DRI members; $320 for non-members. Defense Research Institute, Insurance Claims Supervision Seminar, 750 N. Lake Shore Drive, Suite 500, Chicago, Ill. 60611; 312-944-0575.

SEPT. 14-16. Training Methods and Techniques in Occupational Safety and Health course in Irvine, Calif., sponsored by the University of Southern California, Institute of Safety and Systems Management; $435. Institute of Safety and Systems Management, Professional Programs, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 213-743-6523.

SEPT. 14-16. The Association Benefits Management Conference in Chicago, sponsored by The International Foundation of Employee Benefit Plans; $525 for IFEBP members; $600 for non-members. Registration Department, International Foundation of Employee Benefit Plans, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

SEPT. 14-16. Techniques of Risk Management course in Toronto, sponsored by the Risk & Insurance Management Society Inc.; $540 for RIMS members; $640 for non-members. **Also Dec. 7-9** in Atlanta. Risk & Insurance Management Society, 205 E. 42nd St., Suite 1504, New York, N.Y. 10017; 212-286-9292.

SEPT. 14-16. Changing Perceptions of Loss Control conference in Newport, R.I., sponsored by the Engineering & Safety Service division of American Insurance Services Group Inc.; $195. Ronald A. Krauss, Engineering and Safety Service division, American Insurance Services Group Inc., 85 John St., New York, N.Y. 10038.

The Datebook is compiled from notices sent to Business Insurance. Notices should be sent at least eight weeks in advance to Datebook, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590. Please include the price, if any, of the meeting and information on registration for interested readers. Business Insurance reserves the right to select meetings of most interest.

Coalition forms health care purchasing plan

By GLENN HUNTLEY

An employer coalition in the Roanoke Valley region of Virginia has developed a health care purchasing plan aimed at establishing favorable rates with area health care providers.

The Roanoke Valley Health Care Coalition has contracted with San Diego-based Community Care Network Inc., which will negotiate rates, arrange for utilization review services and administer a system of selective contracts with preferred providers.

The coalition had sought to provide discounted care without developing its own preferred provider organization, according to Pamela Corcoran, director of the coalition.

Developing its own PPO would require the coalition to conduct complex administration since the Virginia insurance code considers PPOs to be insurance contracts or policies, which are subject to regulation by the Virginia Insurance Department, Ms. Corcoran explained.

Through CCN, a health care management company, the coalition has requested rate proposals from 18 area hospitals and specialty care facilities, including rural acute care centers and eye, ear and nose clinics. Responses are expected back by Sept. 16.

The Roanoke Valley plan also will include utilization review and other cost-containment features that have not yet been finalized, said Robert M. Colasanto, CCN president.

Under the coalition's program, employers will be able to offer employees the opportunity to pay lower out-of-pocket expenses by using network providers for their health care, Ms. Corcoran said. As in most PPOs, employees also would be able to choose any health care provider and pay higher out-of-pocket expenses under the employer's traditional indemnity plan.

"We are confident the CCN program will help control costs while assuring quality health care for our member companies' employees and dependents," Ms. Corcoran commented.

Each employer participating in the negotiated fee system will pay CCN a fee per employee, which the coalition would not reveal.

So far 24 employers representing more than 18,000 employees and 40,000 covered lives have signed up for the program, Ms. Corcoran said, adding that the number of employers likely will grow. Area employers that do not belong to the coalition also can join the program, and many have expressed an interest, she added.

"This high level of participation indicates the seriousness of the health care cost issue for local employers," said William Battle, president of Shenandoah Life Insurance Co. and coalition president.

CCN has encouraged employer-sponsored PPOs for several years, Mr. Colasanto said, though most PPOs remain sponsored by insurers, providers or unions.

The Roanoke Valley coalition, which has 37 member employers, is located in the western part of Virginia, which has a population of about 250,000 in a prescribed area within a 75-mile radius of Roanoke.

Participating employers include General Electric Co., Crestar Bank, the County of Roanoke, Universal Communication Systems, Mohawk Rubber Co. and Shenandoah Life Insurance Co.

Child care

Employees at a suburban Chicago newspaper now can pay for child day-care services with pretax dollars through a new salary reduction plan.

More than 400 employees of Paddock Publications, publisher of The Daily Herald in Arlington Heights, Ill., are eligible for the program.

Under the plan, employees' pretax payroll deductions are collected by Scarsdale, N.Y.-based Voucher Corp., and then returned as vouchers that employees use to pay for child-care services, said Judi Szabados, Paddock's director of employee benefits. Employees can deduct up to $5,000 annually on a pretax basis to pay for child day-care services under Internal Revenue Service rules.

However, employees must use the entire amount deducted for child-care expenses or they will lose the funds.

Although employee response during the initial enrollment period that ended Aug. 8 was slight, Ms. Szabados said the number is expected to increase dramatically in December during a second enrollment period. Deductions of employees who sign up in December will begin Jan. 1.

Employees were simply unprepared to make a decision when the plan was unveiled this month, she said. Already, numerous employees who have child care responsibilities are expressing interest in the tax-reduction arrangements, she said.

Paddock Publications, like other participants, paid Voucher a start-up fee and a monthly administrative fee not to exceed 7% of total salary deductions for the service (*BI*, April 13, 1987).

Voucher issues the payment vouchers, which employees, in turn, give to day-care providers or baby-sitters of their choice. The vouchers, which are "much like travelers checks," can be then be exchanged with Voucher Corp. for cash by the providers, according to Ms. Szabados.

"It makes it an easy system for us to use. We're not recommending any providers or providing any facilities," she said.

"With the vouchers they (child care providers) know they are getting payment on time," Ms. Szabados said.

Because federal tax law allows employees to set aside up to $5,000 in pretax pay for child-care expenses, the benefit may amount to tax savings as high as $2,000, said Donna Martino, marketing representative of Voucher in Schaumburg, Ill.

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401(k) withdrawals

Continued from page 1

lower-paid employees of limiting their access to the money in their 401(k) accounts," Ms. Taylor pointed out.

For example, portions of the new rules that will limit withdrawals used to finance education costs "could really close down their ability to participate at all in the 401(k)," Ms. Taylor said.

However, "right now, we're probably more concerned with looking at passing the non-discrimination tests," she noted. "But, we really have to communicate the hardship withdrawal regulations to employees."

About 70% of Barnett Banks' 13,000 employees participate in the company's 401(k) plan.

The new IRS regulations, published earlier this month in the Federal Register, permit hardship withdrawals from 401(k) plans by participants only under certain circumstances (*BI*, Aug. 15).

The rules establish a two-prong test.

Under the first prong, employees can make withdrawals only for uninsured medical expenses incurred by the employee, a spouse or dependent; purchase of a primary residence; payment of tuition for the next quarter or semester of college education; or the need to prevent the eviction of the employee from his or her home.

But, before an employee can make such a withdrawal, he or she must prove to the employer that the financial need could not first be met through other methods, such as liquidating assets or taking a loan from an employer-sponsored savings plan or from a commercial source, like a bank.

Employers that do not want to go through the time and expense of verifying whether employees are truly in financial need have another alternative. Under this safe harbor, a withdrawal to satisfy financial needs automatically would be allowed if:

- The employee first obtains all other distributions and loans available from all saving plans maintained by the employer.
- The employer bars the employee from making contributions to the plan for 12 months following the withdrawal.
- The maximum 401(k) contribution the employee can make in the tax year following a hardship withdrawal is reduced by the amount contributed to the plan in the year the withdrawal was made.

Some benefit managers say they are concerned about even small declines in participation in their 401(k) plans because of the new rules.

"We think that restrictions on withdrawals and other needless rules obviously are going to affect participation in 401(k)s," said Paul Nordine, a benefit consultant in the benefits planning division of BankAmerica Corp. in San Francisco.

"You have to give employees reasonable access to their money or they could just leave the plan,"he added.

"We have a balanced retirement program that is made up of a defined benefit pension plan and our 401(k). These plans are supportive of each other, providing employees with retirement income from the company as well as income from their own savings. So, to the extent we don't have participation in the 401(k), that defeats our objective in the retirement program," he explained.

About 56% of the company's 50,000 or so eligible employees participate in its 401(k) plan, he estimated.

"My basic reaction to these rules is that they certainly will have a negative effect on participation by lower-paid employees," observed David Chandler, first vp in charge of compensation and benefits at Los Angeles-based Security Pacific Corp.

Some 70% of the 70,000 or so eligible employees participate in the bank holding company's 401(k) plan.

However, Jeanne Kardos, director of employee benefits for Southern New England Telephone Co. in New Haven, Conn., says she believes the new IRS regulations "will not impact participation in 401(k) plans."

"The Tax Reform Act, which requires employees to pay a 10% excise tax on in-service withdrawals was what impacted participation," she said.

Some benefit consultants also say the new rules are not cause for alarm.

Many employers "have been administering hardship withdrawals under their 401(k) plans pretty much in line with what the regulations now say, so I don't see any real panic at this point," said Don Pfaff, a principal in the Los Angeles office of benefit consultant William M. Mercer-Meidinger-Hansen Inc.

"Most employers have been watching the withdrawals pretty strictly and communicate to employees that the 401(k) is not like a credit union, but is for retirement savings purposes," he added.

Indeed, SNET "anticipated the hardship provision rules when we implemented our 401(k) plan in 1985. So, we've never allowed withdrawals for the purchase of a home or for education," two of the most common hardships identified by the IRS, Ms. Kardos said.

"We only allowed withdrawals for extreme financial hardship," she added.

About 75% of the approximately 13,000 eligible management and union employees at SNET participate in the company's 401(k) plan.

Participation in 401(k) plans probably will not be significantly reduced because "the benefit of deferring some money for retirement is still so great that limiting the access to the money in this way is not that great an issue," said Karen Frost, a consultant in the Lincolnshire, Ill., office of Hewitt Associates.

"Not that many people really use the hardship withdrawal provision anyway," she observed.

While many employers already have established strict hardship withdrawal rules in line with the IRS regulations, at least one benefit consultant warned employers to carefully evaluate their requirements, because "these regulations considerably tighten up the game."

"I don't think any employer has gotten to the administrative level required by the two-pronged test in these regulations," said Frederick Rumack, director of taxes and legal services for Buck Consultants Inc. in New York.

Some benefits experts say that employers that do not already offer a loan program with their 401(k) plans could become more interested in such programs as a means to maintain or increase participation in the plans.

"The fact that hardship withdrawals now are so difficult to obtain may precipitate having a loan provision," said Tony D'Andrea, a manager in the benefits planning department of American Telephone & Telegraph Co. in Morristown, N.J.

The telecommunications firm currently is evaluating whether to implement a loan provision in its 401(k) plan, he said. Among other things, the company is awaiting the final Labor Department regulations on loans from 401(k) plans, he said.

"These regulations could really boost loan provisions and maybe even expedite the drafting of loan rules by the DOL," said Mr. Rumack of Buck.

Based on a Wyatt Co. 1987 survey of 700 employers sponsoring 401(k) plans, 48% offered loan provisions with their plans, said Lou Valentino, manager of the defined contribution practice for the New York region and a member of Wyatt's national defined contribution practice.

"I would estimate that that has increased to about 60% now and will continue to increase," he said.

A loan provision "was our tax reform strategy," said SNET's Ms. Kardos, explaining that the company already offers such a provision with its 401(k).

Security Pacific also offers a loan provision, Mr. Chandler said.

BankAmerica, however, decided against a loan provision because of the administrative time and expense of such a program, as well as because of the uncertainty over final Labor Department rules on loans, Mr. Nordine said.

"To the extent that employers want to make the money more accessible to employees, loan provisions may become more popular," Ms. Frost of Hewitt said.

"However, employers may want to wait now that there is uncertainty about the loan regulations," she said. ■

Education proposal

Continued from page 2

ford University, Northwestern University, Drake University, University of California at Los Angeles, Ohio State University, the University of California at Berkeley and the University of Georgia.

And, of the 70 U.S. colleges that offer baccalaureate programs in risk and insurance, 49 had AACSB accreditation as of May of this year, said Ms. Thrower of The College of Insurance.

Part of the difficulty ARIA faces involves the AACSB's insistence that no more than 60% of a business major's course load be business-related classes, Mr. Tontz said.

Most schools' business curriculums already account for 60% of business majors' coursework, he explained. The addition of risk management courses would be "a zero-sum game" because other coursework would have to be eliminated, he said.

College faculty also may be a hurdle blocking the addition of risk management to the core curriculum, said James F. Kane, dean of the school of business at the University of South Carolina at Columbia.

"Businessmen do recognize the importance of risk management, but I'm not sure your academic colleagues do," he said, pointing out that he gained understanding of the importance of risk management education only by serving on corporate boards.

Mr. Kane spelled out a multifaceted strategy for ARIA to win AACSB recognition:

First, ARIA should use its past presidents and some sympathetic retired deans of business schools to lobby for the ARIA's cause. Committees of active faculty members do not have the time to lobby effectively on ARIA's behalf, he explained.

However, ARIA must win the support from faculty members in fields like economics and finance, who are most likely to favor including risk management courses in business curriculum, Mr. Kane said.

"Muster your business support," he said. He recommended that ARIA activists try to tap the energies of insurers and other industries through trade associations.

Part of the difficulty in persuading colleges and universities that risk management is a necessary part of business education can be traced to the amorphous image of risk management, he said.

"Make sure you know why you're going after this and be able to articulate it on its own merits, because right now everybody thinks you're out trying to create jobs" for risk management and insurance professors, Mr. Kane said.

John W. Hall, professor emeritus of insurance at Atlanta's Georgia State University, advocated creating a strong theoretical base for risk management studies, accompanied by theory-based risk management literature.

ARIA's most effective approach may be to present its case as part of a call to re-examine the entire body of knowledge required of AACSB schools, Mr. Hall said.

These tactics should enhance risk management's status in the eyes of academia, he said.

"If we are correct that risk management is as important to business as other subjects, we in the business community must push for change. We must keep the best interests of future leaders in mind," Mr. Hall said.

Like Mr. Kane, Mr. Hall stressed that ARIA must have the support of a broad range of businesses—not just insurance and finance—in achieving its goal.

Ms. Layne bolstered that point by saying that risk managers, academics and business people alike have to tell college administrators "there is a need for this."

Sandra Gustavson, professor of insurance at the University of Georgia in Athens, moderated the panel.

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Bad faith ruling

Continued from page 1

penditures to fund coerced settlements, excessive jury awards and increased attorney fees."

The court also noted there has been tremendous scholarly criticism of the Royal Globe doctrine and that many other states have failed to adopt a similar doctrine.

The ruling means that 4,000 to 5,000 claimants who sue California insurers each year for bad faith have lost their remedy.

Provisions of the two insurance propositions were initially intended to codify certain aspects of the Royal Globe doctrine. However, now they would create bad faith insurance law in California.

The main thrust of Proposition 100, supported by the Insurance Consumers Action Network and largely sponsored by the Assn. of California Trial Attorneys, is to cut auto insurance rates for California drivers with good records by 20%.

It also would require prior approval for rate changes that exceed 7.5% for personal lines coverage and 15% for commercial lines coverage. And, the proposition calls for repeal of insurance company exemptions from state antitrust laws.

However, the proposition also contains language in fine print that would fully reinstate the Royal Globe doctrine.

Proposition 100 states: "Any person engaged in the business of insurance in the state of California is required to act in good faith toward, and to deal fairly with, current and prospective policyholders and other persons intended to be protected by any policy of insurance.

"A policyholder or a third party may bring an action against an insurer or licensee for violation of the provisions of this article including but not limited to Subdivision (h) of Section 790.03" of the California Insurance Code, the proposition states.

This section of the California Insurance Code outlines 15 actions by insurers that would constitute bad faith if the insurer commits them "with such frequency as to indicate a general business practice." This is the same section of the code that was the basis for the Royal Globe ruling.

Among the acts that would constitute bad faith are:

- Misrepresenting to claimants pertinent facts of insurance policy provisions.
- Failing to acknowledge a claimant's communication and react reasonably promptly to it.
- Failing to investigate and deny or pay a claim in a timely fashion.
- Failing to settle claims promptly when the liability of the policyholder is apparent.
- Advising a claimant not to retain an attorney.
- Misleading a claimant about the applicable statute of limitations.

"It appears Proposition 100 would reinstate Royal Globe," said Robert Mecherle, claims vp for State Farm Mutual Automobile Insurance Co. in Bloomington, Ill. State Farm is the largest insurer in California.

"Proposition 100 would restore Royal Globe to its full confused stature," said N. Douglas Martin Jr., vp and counsel with Fireman's Fund Insurance Cos. in Novato, Calif.

"Proposition 100 will spawn a tremendous amount of litigation over its meaning and application just as Royal Globe did nine years ago," Mr. Martin predicted. "Proposition 100 puts us back where we were nine years ago, and the only ones who will win are the lawyers."

He helped draft a competing, insurance industry-sponsored proposition, No. 104, that would give claimants only limited ability to sue defendants' insurers for bad faith.

Proposition 104 seeks to replace the tort system with a no-fault system whereby insurers would pay auto claimants amounts specified under a schedule for medical expenses, wage loss and other expenses.

In addition, Proposition 104 would mandate a 20% rollback in auto insurance premiums for bodily injury coverage.

The proposition also would allow claimants to settle disputes with insurers through an arbitration system designed to reduce the time and expense of tort litigation. The measure would allow a claimant to sue for bad faith only if an insurer refuses to arbitrate.

"Proposition 104 will create a new Royal Globe structure that the insurance industry can live with," said Fireman's Fund Mr. Martin.

The proposition states: "No claimant may maintain a private civil action for violation of section 790.03(h). . .unless that claimant has, at least 90 days prior to commencement of the action, served upon the insurer a demand to resolve the claim" with that demand being denied by the insurer.

Mr. Martin said this section was designed to restore a portion of the Royal Globe doctrine in the event it was overturned in the courts and to compete directly with Proposition 100.

"Proposition 104, if passed by a larger vote, would still give voters some rights, it would reduce the amount of litigation and speed up the process for payment of claims," Mr. Martin explained.

According to a poll by San Francisco-based Field Research Corp., popularly known as the California Field Poll, Proposition 100 is the most-favored of all of the propositions on the ballot, while it appears Proposition 104 may not pass.

Some 85% of the 809 registered voters surveyed said they support Proposition 100, while 6% said they oppose the proposition and 9% were undecided.

Support for the proposition dropped to 78% when poll participants were told that a lawyers' group supports it.

However, only 33% of the voters polled said they supported Proposition 104, while 46% said they oppose it and 21% were undecided.

Support for the proposition slipped to 29% when it was revealed to poll participants that the insurance industry sponsored the measure, according to Field.

However, a spokesman for Citizens for No-Fault, a group backing Proposition 104, say the proposal fared badly in the poll because the pollsters told respondents the proposition "would establish no-fault auto insurance and would allow accident victims to recover damages only when they exceed certain minimum mounts."

"Any fair-minded person would conclude the poll was biased against no-fault," the spokesman said. ■

NCCI seeking 36.7% increase in Texas rates

AUSTIN, Texas—The National Council on Compensation Insurance is looking for an average increase of 36.7% in workers compensation insurance rates in Texas.

In a filing with the Texas State Board of Insurance, the NCCI requested the rate hike because of escalating costs for medical and compensation benefits in the state. If approved, the increase would go into effect Jan. 1.

Texas regulators will consider the NCCI's request in a Sept. 28 hearing, said a spokesman for the State Board. At that time, the board's staff will recommend whether there should be a change in the rates, he said. State Board actuaries use "a different methodology than the NCCI, taking investment income (of insurers) into consideration," the spokesman explained.

Last year, the State Board approved a 25% workers comp rate increase for 1988, the largest in terms of additional premiums ever approved (*BI*, Nov. 30, 1987). That rate hike was less than the 43.2% sought by workers comp insurers but more than the 16.1% recommended by State Board actuaries.

Workers comp rates in Texas were increased 17.7% at the beginning of 1987.

In a statement announcing the most recent request for a rate hike, NCCI Senior Vp Robert Hilton said: "Workers compensation continues to be a highly unprofitable line of insurance in Texas. Underwriting losses by Texas workers compensation insurers exceeded $900 million in 1987 alone."

The average cost of a workers comp claim in a lost-time case in Texas has almost doubled in the last four years to $13,300 in 1986-1987 from $6,800 in 1982-1983, according to NCCI statistics.

The rate hike request comes at a time when several groups are calling for reforms to the system, which has been called one of the most expensive in the country (*BI*, June 20).

—By Michael Bradford

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Update

Judge slashes lawyers' fees

WHITE PLAINS, N.Y.—Several law firms that were awarded only 3.5% of the $10 million in fees they sought for representing shareholders in 16 derivative lawsuits against Texaco Inc.'s directors and officers will likely appeal the award.

U.S. Bankruptcy Judge Howard Schwartzberg ruled Aug. 17 that the 19 firms involved in the derivative suits were entitled to only $352,000 in fees, plus $165,630 more in expenses, because only one suit was needed to protect shareholders' rights. The White Plains, N.Y.-based judge said he refused to compensate the attorneys "for time spent reading the newspapers to keep abreast of the Texaco bankruptcy."

An appeal is "highly likely," said Melvin Weiss, a partner of Milberg Weiss Berchad Specthrie & Lerach in New York.

Texaco sought Chapter 11 bankruptcy protection after Pennzoil Co. won a record $10.5 billion judgment against Texaco in a suit over Texaco's 1984 acquisition of Getty Oil Co.

The shareholders, who sought to tap Texaco's $100 million in directors and officers liability insurance, dropped their suits against Texaco's directors and officers earlier this year as part of a court-approved reorganization plan for the company (*BI*, March 28).

Under the agreement, Texaco's D&O liability insurers agreed to pay no more than 50% of the shareholders' total legal fees up to $5 million if fees totaled $10 million or more.

Texaco's principal D&O insurer is National Union Fire Insurance Co. of Pittsburgh, Pa., a unit of American International Group Inc. Other insurers that participated in various layers of the Texaco D&O program at one time or another include Lloyd's of London underwriters; Federal Insurance Co., a Chubb Corp. unit; and Harbor Insurance Co., a unit of Continental Corp. (*BI*, Feb. 22).

Lawsuit includes Times Beach site

WASHINGTON—The Department of Justice is adding the pollution of 21 hazardous waste sites, including toxic-laden Times Beach, Mo., to its 1984 lawsuit against 22 companies and individuals seeking recovery of more than $64 million in cleanup costs for the Missouri sites.

Among the companies named in the lawsuit are Syntex Corp. and two of its subsidiaries; now-defunct Northeastern Pharmaceutical & Chemical Co. Inc. (*BI*, March 7); Primerica Corp., corporate successor to American Can Corp.; and Independent Petrochemical Corp., a waste hauling subsidiary of Charter Co., which has filed for reorganization under federal bankruptcy laws.

The 1984 lawsuit, which targeted the alleged polluters of six Missouri hazardous waste dumps, has not yet been heard in U.S. District Court in St. Louis.

Ashland agrees to settlement

ASHLAND, Ky.—Ashland Oil Inc. has agreed in principle to a $25 million settlement of a wrongful termination lawsuit brought against the company by two former executives.

The settlement follows Ashland's two-month fight of a $69 million jury award against the company. Although Ashland has a $75 million directors and officers liability policy written by a unit of The Home Group Inc., "no determination has been made" about whether the policy will cover the settlement, an Ashland spokesman said.

Bill E. McKay Jr., a former corporate vp. and Harry D. Williams, a former Ashland vp and lobbyist, sued Ashland after they were dismissed in 1983 for protesting alleged illegal payments to Middle East oil contractors to obtain crude oil.

A jury in the U.S. District Court in Covington, Ky., on June 10 awarded the two former executives $3 million in punitive damages and $22.1 million in compensatory damages. The compensatory awards were trebled under provisions of the federal Racketeer Influenced and Corrupt Organizations act.

Briefly noted

Opening arguments in phase two of the **Shell Oil Co.** litigation over coverage for cleaning up two hazardous wastes sites near Denver and Fullerton, Calif., are scheduled to begin Tuesday. This phase will deal with the events surrounding pollution of the sites. . . .President Reagan last week signed into law the **Price-Anderson Act**, which limits to about $7.5 billion for the next 15 years the nuclear power industry's liability in an accident. . . .**Union Carbide Co.** reassured an Indian court last week that it would maintain $3 billion in assets, the amount the Indian government is seeking as compensation for the Bhopal gas disaster. . . .Illinois Gov. James Thompson last week made **auto insurance mandatory** effective Jan. 1, 1989. The law requires all owners and drivers to maintain minimum bodily injury coverage limits of $20,000 per person/$40,000 aggregate and $15,000 property damage limits. Violators face stiff fines and vehicle registration suspension (*BI*, July 4). . . .Allstate Insurance Co. will pay **Manville Corp.** $15 million to settle an asbestos property damage and bodily injury coverage dispute. Allstate wrote liability coverage for Manville from July 1980 to July 1983. To date, Manville has reached settlements with insurers totaling more than $800 million. . . .A U.S. District Court jury in St. Paul, Minn., began deliberations Thursday in a landmark product liability case pending against pharmaceutical manufacturer G.D. Searle & Co. over its now discontinued Copper-7 intrauterine contraceptive (*BI*, Feb. 15). The plaintiff, alleging that the device rendered her sterile, seeks up to $2.5 million in compensatory damages and $15 million in punitive damages. . . .**CIGNA Corp.** will sell Horace Mann Insurance Cos., which writes personal lines coverage for educators, to HME Holdings Inc., a corporation formed by Horace Mann managers and Gibbons Green van Amrongen, a New York investment banking firm, for about $500 million. The sale is part of CIGNA's strategy to sell units not engaged primarily in commercial property/casualty insurance and investment products. . . .**Morton Thiokol Inc.** has agreed to a settlement with the family of astronaut Michael Smith, who died in the January 1986 space shuttle Challenger explosion. Thiokol already reached undisclosed settlements with the families of the other six astronauts who were killed. ■

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Insurer results

Continued from page 1

cline in operating income likely will "be a trend for this year and probably for next."

"Most standard line commercial companies are going to start to see lower earnings," said Udayan D. Ghose, an analyst with Shearson Lehman Brothers in New York.

"I really do believe 1987 was the peak of the earnings as far as the cycle is concerned," said Joanne Morrissey, principal with Firemark Consultants Inc. in Morristown, N.J., an insurance research and investment banking firm. "This is not going to be a good year for the property/casualty industry, especially the big players."

Property/casualty insurers likely will post an aggregate combined ratio of 106% or higher this year, about 109% next year and 112% in 1990, said Edwin J. Goss, chairman and chief executive officer of Indianapolis-based American States Insurance Co., the principal property/casualty operation of Lincoln National Corp., which is included in the *BI* survey for the first time.

The insurers surveyed by *BI* reported an aggregate combined ratio of 105.5% in the first half.

Property/casualty insurers are already beginning to experience precipitous increases in underwriting losses, according to the *BI* survey.

Twenty-seven major commercial property/casualty insurers reported an aggregate 17% increase in underwriting losses to $1.9 billion for the first half of 1988. Underwriting losses had increased 10.5% in the first quarter (*BI*, June 6).

Among other first-half results posted by the insurers surveyed by *BI*:

- Net written premium volume increased just 2.4% to $45.1 billion, about even with the 2.2% growth in the first quarter, but off sharply from an 11.5% increase in the first half of 1987.
- Investment income increased 11.5% to $5.9 billion. This compares with an 11.2% increase in the first quarter of 1988 and an 11.5% jump in last year's first half.
- The insurers reported a 105.5% combined ratio, a slight improvement from 105.6% in the first quarter but up from 105.3% in the first half of 1987.
- Policyholder surplus increased 3.7% to $28.4 billion, down from a 4.4% increase in this year's first quarter and a 22.9% rise in the first half of 1987.
- Aftertax operating income declined 5.4% to $3.6 billion, which actually was an improvement over the 7.2% decline in the first quarter, but off sharply from the 59.7% increase in last year's first half.

If Fireman's Fund Corp.—which reported almost a 300% increase in first-half operating earnings—is excluded from the survey, the insurers' aggregate operating profits would have declined by 8% in the first half of this year.

Fireman's Fund increased its reserves by $587 million in the second quarter of 1987, which skewed year-to-year comparisons (*BI*, July 27, 1987).

Several companies reported "unusual" items during the second quarter, said Gloria Vogel, associate director at Bear, Stearns & Co. in New York. "It was kind of a weird quarter in that sense."

Among the anomalies reported in the quarter:

- Travelers Corp. added $415 million to reserves for its real estate operations, which reduced its second-quarter operating income by $80 million.
- Aetna Life & Casualty Co. posted a $45.1 million aftertax charge because of reserve additions stemming from its role in the reorganization plan for A.H. Robins Co., manufacturer of the Dalkon Shield intrauterine device (*BI*, Aug. 22).
- The Home Group Inc. posted a special $25 million pretax charge as a result of a special addition to reserves following an arbitration decision involving a Home unit, Commonwealth Insurance Co. of Canada Ltd., and American Centennial Insurance Co. (*BI*, June 6).
- CIGNA Corp. earned a $29.1 million profit from its investment in a leveraged buyout, though this was partially offset by a $14.3 million charge for estimated costs associated with moving its corporate headquarters and property/casualty operations.

This profit helped boost the investment income of some of CIGNA's property/casualty subsidiaries that had participated in the initial investment, said the CIGNA spokesman.

In addition, multiline insurers started to report improvements in the group health insurance results in the second quarter, observers point out.

For instance, CIGNA's employee life and benefits segment reported $17.9 million in income in the second quarter, though the unit posted a $37.8 million loss for the half because of poor first-quarter results.

"We might be headed into some better times" for group health insurance results, said Shearson's Mr. Ghose. "The trends certainly look a lot better."

"I think the evidence is already getting better," said Ms. Vogel. "I think you're going to see some good emergence of profits."

The improvement in multiline companies' group health insurance earnings could offset declining profits among their property/casualty operations, she said.

"I think it's turning," said the CIGNA official, referring to the group health insurance operations. "I don't think it's completely turned. It's gaining momentum and certainly, from our point of view, should be reasonably sufficient to offset any decline in the property/casualty cycle."

Meanwhile, the Tax Reform Act of 1986 could help restrain insurer competition by further dragging down insurers' profits, observers say, though they add its full impact is not expected to be felt until next year.

The lower corporate tax rate implemented by tax reform plus Fresh Start benefits so far have "muffled to a significant degree" the tax law's negative impact, said American State's Mr. Goss. But, beginning next year, "the impact will be significant," he added.

"That's one of the reasons why we will see a relatively short cyclical downturn this time, because, of course, the tax impact will obviously be affecting earnings as we go along to a degree it didn't in the last downturn," said Mr. Goss.

"We really haven't seen the effect of (tax reform) yet in terms of companies changing their underwriting philosophy," said Ms. Vogel, adding "I'm hopeful it will slow or stop the price cutting."

"That's going to turn the pricing game around," agreed an official at The Home.

Property/casualty insurers are "going to be in the position to write some very heavy checks to the IRS for the first time in their lives," said Robert Branche of Branche Insurance Research Group in Morrisville, Pa. "I think it's really going to prompt some hard lines on rates—and I think it should."

George Yonker, assistant controller at SAFECO

Continued on next page

Georgia regulator orders new rate reviews

ATLANTA—Georgia Insurance Commissioner Warren D. Evans ordered new rate examinations of six property/casualty insurers after finding that attorneys of the auditing firm, Insurance Management Services Inc., also performed legal services for the insurers.

"Because the possibility of a conflict of interest exists, the commissioner—as a matter of good business—ordered a re-examination," an Insurance Department spokesman said. "We have no reason to believe that the companies have done anything wrong."

A report filed by the department's chief deputy of insurance said that only six of the more than 700 insurance companies examined by IMS in recent years had connections with attorneys associated with IMS.

Although Mr. Evans has been searching for individuals or firms to conduct new audits for the six companies, "he is having some difficulty finding people who do qualified rate exams," the spokesman said.

The six property/casualty insurance companies to be re-examined are: Aegis Security Insurance of Harrisburg, Pa.; Insurance Corp. of America in Houston; International Indemnity Co. in Decatur, Ga.; Southern General Insurance Co. in Marietta, Ga.; Voyager Indemnity Insurance Co. in Folkston, Ga.; and Waco Fire & Casualty Insurance Co. of Atlanta.

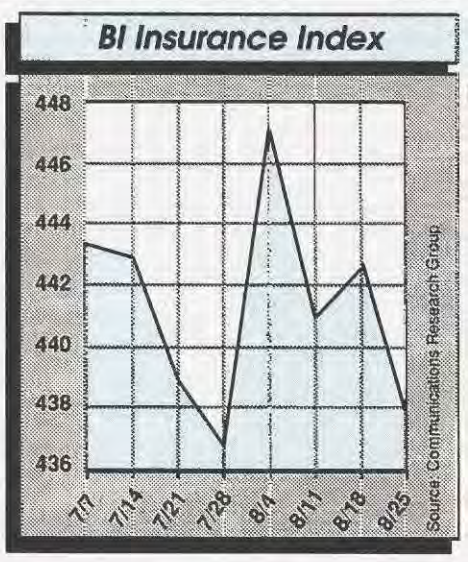
—By Lauren Sinai

British Issues

Aug. 25 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Comml Union	346	13.1	21.9	6.2	362	346
Genl Accident	880	10.2	47.9	5.3	900	880
Gdn Royal Exch	177	13.2	11.0	6.2	186	177
Royal	381	10.1	26.4	6.7	398	381
Sun Alliance	957	15.6	43.1	4.3	973	957
Brokers						
Bradstock	234	13.1	5.0	2.8	234	228
CE Heath	417	16.0	34.5	8.2	427	417
Hogg Robinson	160	12.8	9.6	5.8	165	160
Lloyd Thompson	190	16.5	6.8	3.5	192	190
PWS Holdings	153	6.4	14.4	9.2	155	153
Sedgwick Grp	233	14.5	16.4	6.9	240	233
Steel Brrl Jones	208	14.5	13.7	6.4	208	199
Willis Faber	240	12.6	15.4	6.4	253	240

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

Insurance industry stocks followed the downward trend of the markets last week, as the *Business Insurance Index* fell 4.9 points to 438.1 on Aug. 25, from 443 on Aug. 18. The *BI* index declined 1.1% for the period, faring worse than the leading market indicators: The Standard & Poor's 500 and the Dow Jones 30 Industrials each dropped 0.8%; and the NYSE Composite lost 0.6%.



Summary of major property/casualty insurers' first-half results

(All amounts in thousands of dollars)

(Ranked by change in aftertax operating income)

		Corporate			Property/casualty operations									
Rank 1988		Consolidated revenues 1988	Aftertax[1] operating income 1988	Percent increase (decline) 1987-1988	Combined[1] ratio 1988	Combined[1] ratio 1987	Net premiums written 1988	Percent increase (decrease) 1987-1988	Pretax underwriting income (loss) 1988	Percent increase (decline) 1987-1988	Pretax investment income 1988	Percent increase (decrease) 1987-1988	Policyholders surplus 1988	Percent increase (decrease) 1987-1988
1	Fireman's Fund Ins. Cos.	1,862,765	126,587	298.4	107.8	122.8	1,519,513	(17.4)	(122,607)	(70.0)	231,206	7.0	1,348,898	(6.5)
2	Fremont General Corp.	157,832	13,999	52.1	104.5	106.1	135,533	—	(6,112)	25.8	21,551	16.6	112,172	10.8
3	Ohio Casualty Corp.	784,774	64,127	27.8	100.4[2]	101.7[2]	684,957[2]	(1.9)	(8,246)	31.9	83,929	10.6	464,066	(13.6)
4	American International Group	6,391,800	559,385	26.4	99.4	99.9	4,313,384	11.7	36,511	302.1	401,488	26.5	N/A	N/A
5	General Re Corp.	1,427,903	253,412	18.3	99.0[2]	100.5[2]	974,274	(16.3)	1,567	150.6	261,693	12.7	2,129,667	(2.5)
6	Crum & Forster Inc.	2,153,600	174,200	16.1	108.1	107.8	1,658,600	6.4	(128,500)	7.5	266,500	12.7	1,377,600	7.1
7	Hartford Steam Boiler	217,616	29,603	11.0	85.2	85.3	133,407	(5.0)	21,270	2.0	17,406	7.2	244,076	6.0
8	Chubb Corp.	1,947,800	188,600	10.8	97.7	96.5	1,372,600	4.6	33,600	(25.7)	173,700	34.8	1,324,800	6.1
9	The St. Paul Cos. Inc.	1,748,202	159,180	7.6	104.9[2]	106.8[2]	1,264,961	0.4	(53,384)	21.6	261,259	9.3	1,350,085	16.0
10	CNA Financial Corp.	3,949,000	194,300	6.1	106.4[2]	112.1[2]	2,647,000[2]	11.5	213,500[2]	31.0	411,100[2]	12.5	2,394,000	25.9
11	SAFECO Corp.	1,445,756	117,531	5.2	98.9	99.0	751,366	5.8	7,893	10.8	105,051	23.1	797,279	4.5
12	Hartford Insurance Group	5,011,606	168,487	4.9	104.1	103.2	3,199,376	(2.6)	(95,841)	(19.4)	354,890	17.3	2,484,169	(0.9)
13	Lincoln National Corp.	3,287,800	120,200	(4.1)	99.1	97.8	1,116,500	5.2	6,500	(70.9)	133,600	11.7	1,199,600	12.0
14	Kemper Corp.	1,989,701	104,149	(4.8)	103.9[2]	100.7[2]	393,078	4.4	(15,642)	(104.4)	42,081	10.4	495,319	6.4
15	Old Republic Int'l (incl. life)[3]	532,600	45,906	(7.4)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
16	Continental Corp.	2,840,000	146,600	(11.8)	104.6[2]	102.4[2]	2,488,200[2]	(0.8)	(133,900)[2]	(27.0)	287,100[2]	9.9	N/A	N/A
17	American General Corp.	3,819,000	227,000	(16.8)	107.5[2]	101.9[2]	968,000	14.6	(51,000)	(292.3)	88,000	10.0	876,000	(6.7)
18	Reliance Ins. Co. & subs.	1,761,044	72,409	(22.0)	101.3[2]	103.1[2]	888,120	22.2	(25,972)	5.2	97,599	6.7	N/A	N/A
19	USF&G Corp.	2,671,681	147,259	(24.0)	105.3[2]	103.7[2]	1,921,737[2]	(0.8)	(107,162)	(110.9)	308,834	3.3	1,387,700	4.5
20	Aetna Life & Casualty Co.	12,299,300	280,500	(31.2)	111.6	106.8	3,359,000	1.1	(387,900)	82.2	439,100	9.0	2,073,688	—
21	CIGNA Corp.	8,527,600	187,500	(33.5)	106.6	106.1	2,873,600	3.4	(195,500)	(13.3)	392,800	4.0	2,185,000	13.7
22	The Home Group Inc.	1,366,800	39,800	(39.3)	107.9[2]	109.5[2]	1,121,300	10.7	(104,800)	5.4	174,100	(8.8)	816,300	(3.9)
23	Royal Group (U.S. subs.)[2]	N/A	31,800	(45.7)	109.3	101.3	1,106,100	1.0	(78,800)	(1,150.8)	139,200	9.2	N/A	N/A
24	Travelers Corp.	10,585,600	105,600	(52.6)	105.5	103.3	2,704,900	(1.7)	(132,800)	(60.2)	304,400	14.6	1,645,400	(12.2)
25	Sentry Insurance Cos.[2]	656,333	13,394	(55.1)	106.2	103.1	585,727	1.9	(45,739)	69.4	65,081	9.1	504,359	13.7
—	Commercial Union Ins. (U.S.)[2]	N/A	N/A	N/A	104.0[3]	106.1[3]	636,900	13.5	(41,400)	15.5	72,900	(6.0)	556,400	4.6
—	Nationwide Mutual Ins. Co.[2]	N/A	N/A	N/A	105.2	105.8	2,725,939	(3.6)	(120,001)	8.1	309,497	12.2	2,621,945	4.0
—	Liberty Mutual Ins. Co.[2]	N/A	N/A	N/A	114.4	111.6	3,570,003	6.6	(344,224)	(20.2)	439,069	16.7	N/A	N/A
	Cumulative	77,436,113	3,571,528	(5.4)	105.5	105.3	45,114,075	2.4	(1,878,689)	(17.0)	5,883,134	11.5	28,388,523	3.7

[1] After dividends. [2] Statutory. [3] Before dividends. N/A—Company did not provide data

Continued from previous page

Corp., said SAFECO already has paid $27 million in taxes this year, double what it estimates its tax liability would have been without tax reform.

The tax law also is continuing to influence insurance companies' investment strategies, observers say.

Insurers must be careful in their investment strategies to avoid having to pay the alternative minimum tax, noted June Hoffer, an analyst with Prudential/Bache Securities in New York. Under the tax law, insurers must pay at least some tax, even if they do not report taxable income.

'The attractiveness of municipal securities is not what it used to be' because part of their income is now taxable, says Ms. Vogel.

"The attractiveness of municipal securities is not what it used to be" because part of the income from these investments is now taxable and an even greater portion of it will be taxable in the future, added Ms. Vogel.

Mr. Ghose said there will be a "fairly significant" shift among insurers towards higher-yielding taxable investments as underwriting losses increase since underwriting losses can be used to offset tax liabilities.

Some insurers are focusing in part on the maturities of their bond portfolios. USF&G, for instance, has an ongoing effort to shorten the average maturity of its bonds to about five to seven years to more closely match its assets with its liabilities, said the company official. Several years ago, he noted, most of the insurer's bonds had maturities of 20 to 25 years. "Our clients were paid off a lot quicker than that," he said.

"Flexibility is one key," said a spokesman for The Home, which also is reducing the maturities of its bonds to 12 to 14 years or less from an average of 19 to 20 years while simultaneously improving the quality of its investments. The Home, he noted, is trying to get its average maturity a "little bit closer to where the rest of the pack might be, but it's going to take awhile. You just don't do that overnight."

The Home posted an 8.8% decline in first-half investment income partly as a result of this strategy. ■

BI Industry Stock Report

AUGUST 25, 1988 — 8/19/88 THRU 8/25/88

BROKERS		Price	Weekly % change	Year to Date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt/Bk value
Alexander & Alexander Svcs	NYSE	22.25	-1.7	25.4	24.88	17.75	257	1.00	4.5	15.9	3.71	6.00
Baldwin & Lyons Inc.	OTC	16.50	0.0	37.5	16.50	12.00	0	0.20	1.2	6.5	18.31	0.90
Corroon & Black Corp.	NYSE	28.38	-1.3	0.5	34.75	26.00	70	1.08	3.8	4.3	5.43	5.23
Gallagher Arthur J. & Co.	NYSE	17.63	-0.7	10.2	18.88	13.88	14	0.48	2.7	12.7	5.16	3.42
Hall Frank B. & Co.	NYSE	3.75	0.0	30.2	5.50	2.88	39	0.00	0.0	12.7	0.00	N/A
Hilb, Rogal & Hamilton	OTC	11.25	-2.2	15.4	12.75	9.75	25	0.00	0.0	12.7	0.00	N/A
Marsh & McLennan Cos. Inc.	NYSE	55.13	1.8	11.4	58.50	45.25	309	2.40	4.4	13.5	6.74	8.18
Poe & Assoc. Inc.	OTC	8.50	0.0	21.4	9.25	6.75	0	0.40	4.7	10.8	0.27	31.48
BROKERS	AVERAGE		-0.5	19.0					2.7	10.6		
CONGLOMERATES & HOLDING COMPANIES												
Berkley W.R. Corp.	OTC	27.25	0.9	13.5	29.00	23.50	164	0.36	1.3	6.1	17.63	1.55
Berkshire Hathaway Inc.	OTC	4350.00	-1.1	47.5	4525.00	2755.00	102	0.00	0.0	19.2	69.38	11.78
ITT (Hartford Group)	NYSE	47.13	0.0	4.7	53.38	43.25	989	1.25	2.7	6.5	52.23	0.90
Sears, Roebuck & Co. (Allstate)	NYSE	35.13	-2.4	4.5	39.88	32.25	1639	2.00	5.7	8.7	34.74	1.01
CONGLOMERATES	AVERAGE		-0.7	17.6					2.4	10.1		
INSURERS & REINSURERS												
Aetna Life & Cas Co.	NYSE	47.75	-1.3	5.5	49.88	39.50	678	2.76	5.8	7.4	53.56	0.89
American General Corp.	NYSE	33.00	-1.1	3.9	36.38	27.50	954	1.40	4.2	8.9	28.04	1.18
Amer Heritage Life Invt	NYSE	24.75	2.1	2.1	26.00	24.00	1	1.08	4.4	10.8	20.98	1.18
Amer Indty Fin'l Corp.	OTC	11.63	-3.1	29.2	12.00	8.25	6	0.56	4.8	44.7	15.26	0.76
American Int'l Group	NYSE	62.88	2.7	4.8	65.38	49.00	1816	0.40	0.6	9.8	33.56	1.87
Aon Corp.	NYSE	26.75	-0.5	16.9	27.75	21.88	154	1.28	4.8	9.1	15.13	1.77
Argonaut Group	OTC	44.75	1.7	50.4	49.00	29.50	153	0.00	0.0	7.3	29.19	1.53
AVEMCO Corp.	NYSE	23.63	-2.1	20.4	28.75	17.88	68	0.34	1.4	11.5	7.74	3.05
Belvedere Corp.	AMEX	4.63	-5.1	5.7	6.00	4.00	2	0.04	0.9	6.4	7.87	0.59
BMA Corp.	OTC	31.50	0.0	17.8	36.75	25.50	24	1.20	3.8	29.2	24.45	1.29
Chubb Corp.	NYSE	54.63	2.3	-2.2	63.38	51.25	346	2.16	4.0	6.3	46.13	1.18
CIGNA Corp.	NYSE	48.75	-0.5	11.1	51.88	42.75	466	2.96	6.1	7.9	49.19	0.99
CNA Fin'l Corp.	NYSE	54.25	1.9	-2.5	64.25	51.00	106	0.00	0.0	8.1	46.40	1.17
Continental Corp.	NYSE	39.75	-1.6	2.6	41.63	34.75	555	2.60	6.5	8.0	42.10	0.94
Durham Corp.	OTC	32.00	-3.8	48.8	36.25	21.50	16	0.92	2.9	30.2	26.00	1.23
Farmers Group Inc.	OTC	70.00	4.1	73.9	70.13	40.50	5423	1.44	2.1	16.7	22.02	3.18
Fireman's Fund Corp.	NYSE	31.38	0.8	20.7	33.50	25.75	263	0.50	1.6	11.0	26.17	1.20
Forum Re Group	OTC	2.13	-19.0	-37.0	4.00	2.25	24	0.00	0.0	3.7	2.58	0.83
Fremont Gen Corp.	OTC	11.38	8.4	18.2	13.50	8.75	105	0.60	5.3	3.7	16.24	0.70
General Re Corp.	NYSE	53.25	-2.3	-4.7	57.38	45.50	683	1.20	2.3	11.4	26.21	2.03
Home Group Inc.	NYSE	11.63	-5.1	-2.1	14.38	11.50	99	0.20	1.7	2.8	17.75	0.66
Hanover Ins Co.	OTC	26.63	-2.3	14.5	27.75	20.50	67	0.36	1.4	5.5	25.10	1.06
Harleysville Group Inc.	OTC	15.00	-4.0	14.3	16.38	13.38	23	0.48	3.2	6.4	16.65	0.90
Hartford Steam Boiler	OTC	30.00	-1.6	30.4	32.75	22.50	104	1.20	4.0	10.8	10.65	2.82
Kansas City Life	OTC	31.00	-0.8	18.1	31.25	25.25	0	0.00	0.0	10.8	0.00	N/A
Kemper Corp.	OTC	25.00	-1.0	22.0	27.50	20.75	175	0.72	2.9	7.8	26.50	0.94
Lawrence Ins. Group	AMEX	11.00	0.0	144.4	11.63	4.50	1	0.21	1.9	18.0	2.90	3.79
Liberty Corp. S.C.	NYSE	39.00	0.0	9.9	47.25	34.50	12	0.80	2.1	13.8	17.40	2.24
Lincoln Nat'l Corp.	NYSE	50.88	-2.2	26.8	53.00	40.25	241	2.36	4.6	9.9	36.62	1.39
NAC Re Corp.	OTC	26.50	1.4	49.3	27.50	18.50	155	0.00	0.0	13.5	19.92	1.33
Nobel Ins Ltd.	OTC	5.50	-4.3	-37.1	9.50	4.50	23	0.44	8.0	26.2	9.37	0.59
Northwestern Nat'l Life	OTC	30.25	2.5	32.2	30.38	22.63	110	1.12	3.7	7.1	35.05	0.86
Ohio Cas Corp.	OTC	34.50	-1.4	-4.8	38.25	32.25	149	1.88	5.4	6.9	27.86	1.24
Old Rep Int'l Corp.	OTC	22.75	-7.1	13.8	25.88	19.13	142	0.74	3.3	5.4	27.82	0.82
Orion Cap Corp.	NYSE	15.00	0.0	11.1	17.63	13.13	11	0.76	5.1	4.8	9.34	1.61
Phoenix Re Corp.	OTC	8.25	-5.7	26.9	9.50	6.75	30	0.00	0.0	4.8	11.08	0.74
Protective Life Corp.	OTC	13.50	-1.8	10.2	15.13	12.25	29	0.70	5.2	14.7	17.25	0.78
Re Capital Corp.	AMEX	9.38	1.4	-10.7	11.75	9.13	5	0.00	0.0	29.3	11.49	0.82
Provident Life & Acc Ins Co.	OTC	23.13	0.0	48.0	23.50	15.63	175	0.84	3.6	50.3	27.45	0.84
St. Paul Cos. Inc.	OTC	41.50	0.0	-9.8	51.00	38.25	550	2.00	4.8	5.9	35.83	1.16
SAFECO Corp.	OTC	24.88	0.5	-10.3	30.00	22.75	622	1.08	4.3	7.7	21.39	1.16
SCOR US Corp.	NYSE	7.75	0.0	-16.2	9.50	6.63	28	0.10	1.3	5.4	9.39	0.83
Seibels Bruce Group Inc.	OTC	13.25	1.9	17.8	14.25	11.00	92	0.80	6.0	8.8	12.51	1.06
Selective Ins Group Inc.	OTC	24.50	-3.0	28.9	26.25	19.25	16	1.24	5.1	5.5	19.52	1.26
Statesman Group Inc.	OTC	3.50	1.7	-25.4	5.56	3.44	15	0.05	1.4	5.5	3.48	1.01
Tokio Marine & Fire Ins	OTC	72.00	-4.6	9.3	85.88	63.25	22	0.22	0.3	64.3	0.00	N/A
Torchmark Corp.	NYSE	32.50	0.8	32.7	33.50	24.50	209	1.20	3.7	10.3	12.24	2.66
Transamerica Corp.	NYSE	33.25	-0.7	11.8	36.75	29.75	489	1.84	5.5	6.9	24.94	1.33
Travelers Corp.	NYSE	33.63	-1.1	-4.3	40.00	33.00	726	2.40	7.1	11.6	45.28	0.74
Trenwick Group Inc.	OTC	12.88	-2.8	25.7	13.50	9.75	6	0.16	1.2	10.0	15.41	0.84
United Fire & Cas Co.	OTC	26.00	-1.9	0.0	27.00	24.00	3	1.08	4.2	4.7	22.56	1.15
United States Fid & Gty	NYSE	30.00	-1.6	5.3	34.38	28.88	1223	2.64	8.8	7.5	19.53	1.54
UNUM Corp.	NYSE	23.38	-4.6	26.4	25.00	17.88	337	0.48	2.1	10.6	28.53	0.82
USLIFE Corp.	NYSE	37.50	-2.3	31.6	40.13	28.00	206	1.28	3.4	9.7	46.77	0.80
Washington Nat'l Corp.	NYSE	26.38	-4.1	10.5	28.75	24.00	29	1.08	4.1	12.3	32.33	0.82
Zenith Nat'l Ins Corp.	NYSE	18.63	1.4	24.2	23.88	15.00	47	0.80	4.3	8.9	12.53	1.49
INSURERS & REINSURERS	AVERAGE		-1.2	15.4					3.3	12.7		
ALL COMPANIES	AVERAGE		-1.1	15.9					3.2	12.4		

System design: Communications Research Group

The best-paid CEOs among leading commercial insurers

Rank	Firm rank	CEO/age	Company	1987 cash compensation	1986 cash compensation	% change from 1986	Market value of shares held	1987 total revenues (in millions)	% change from 1986	1987 net income (in millions)	% change from 1986
1	16	Saul P. Steinberg, 48	Reliance Group Holdings Inc.	$4,272,000	$4,188,000	2.0%	$232,162,921	$3,363.2	4.3%	$125.8	99.7%
2	18	Marshall Manley, 47	The Home Group Inc.	1,755,804	1,825,477	(3.8)	17,021,204	2,495.4	13.7	172.2	(3.6)
3	5	James R. Harvey, 53	Transamerica Corp.	1,300,000	807,600	61.0	6,413,843	7,174.5	18.1	427.2	54.9
4	7	Edward J. Noha, 60	CNA Financial Corp.	1,276,880	800,333	59.5	23,963	7,121.2	11.4	393.5	(2.5)
5	3	Robert D. Kilpatrick, 64	CIGNA Corp.	1,259,700	1,217,500	3.5	2,136,694	16,909.3	6.5	728.3	(10.9)
6	6	Harold S. Hook, 56	American General Corp.	1,059,300	939,216	12.8	10,702,629	7,157.6	16.2	563.8	(15.7)
7	1	James T. Lynn, 61	Aetna Life & Casualty Co.	1,046,885	798,626	31.1	3,779,833	22,114.1	8.0	920.6	(11.7)
8	12	Henry U. Harder, 63	The Chubb Corp.	968,800	788,485	22.9	1,895,150	3,714.4	15.8	330.1	23.2
9	2	Edward H. Budd, 54	The Travelers Corp.	875,500	829,769	5.5	5,720,772	17,459.1	8.8	374.4	(31.4)
10	4	Maurice R. Greenberg, 62	American International Group	875,000	822,500	6.4	225,707,475	11,278.0	27.1	1,042.0	30.9
11	10	Jack Moseley, 56	USF&G Corp.	873,266	1,211,656	(27.9)	2,647,065	4,826.1	11.3	279.2	(5.8)
12	15	Robert J. Haugh, 62	The St. Paul Cos.	851,567	720,455	18.2	2,285,654	3,365.7	5.8	324.3	103.3
13	14	Ronald E. Ferguson, 46	General Re Corp.	835,443	New CEO	N/A	385,969	3,448.4	8.6	510.8	55.4
14	25	William R. Berkley, 42	W. R. Berkley Corp.	723,850	572,608	26.4	46,116,054	521.0	26.0	59.2	51.0
15	8	Ian M. Rolland, 54	Lincoln National Corp.	717,642	704,782	1.8	3,447,548	6,960.0	16.0	236.9	(16.7)
16	19	Patrick G. Ryan, 50	AON Corp.	658,447	617,835	6.6	233,710,310	2,468.9	36.7	156.2	(36.8)
17	26	Wilson Wilde, 60	The Hartford Steam Boiler Inspection & Insurance Co.	619,232	567,692	9.0	1,456,772	421.6	8.5	60.6	14.1
18	9	John Mascotte, 47	Continental Corp.	512,700	464,615	10.3	1,172,877	5,800.9	11.5	233.7	(48.0)
19	24	Alan R. Gruber, 60	Orion Capital Corp.	498,729	351,814	41.7	7,480,935	533.5	11.4	25.7	N/M
20	11	John J. Byrne, 55	Fireman's Fund Corp.	491,231	670,000	(26.7)	65,528,650	3,927.0	6.2	362.0	58.7
21	27	Ronald L. Bornhuetter, 55	NAC Re Corp.	473,407	New CEO	N/A	1,368,506	162.7	68.1	11.1	82.0
22	21	James F. Orr III, 45	UNUM Corp.	453,903	New CEO	N/A	245,000	2,093.9	(1.1)	94.8	(17.6)
23	17	Bruce Maines, 61	SAFECO Corp.	442,331	394,763	12.0	1,728,218	2,775.2	6.8	253.0	29.3
24	28	James F. Billett Jr., 43	Trenwick Group Inc.	438,263	225,625	94.2	2,882,167	121.1	67.4	10.5	80.0
25	30	James A. McIntyre, 55	Fremont General Corp.	404,905	413,745	(2.1)	2,807,585	99.9	7.3	(7.7)	66.3
26	13	Joseph E. Luecke, 61	Kemper Corp.	356,906	301,168	18.5	2,607,542	3,668.6	10.2	251.4	25.0
27	22	John G. Sloneker, 66	Ohio Casualty Corp.	339,647	300,000	13.2	28,808,780	1,575.2	11.3	78.5	(23.6)
28	29	Pierre D. Croizat, 47	Scor U.S. Corp.	331,300	669,694[1]	(50.5)	960,551	102.0	73.8	17.3	70.8
29	23	William R. Stover, 65	Old Republic International Corp.	288,241	264,200	9.1	46,980,318	1,094.5	(4.3)	102.8	51.9
30	20	Warren E. Buffett, 57	Berkshire Hathaway Inc.	100,275	101,099	(0.8)	2,271,922,400	2,337.6	7.4	234.5	(16.9)

[1]Includes housing allowance N/A-Not available N/M-Not meaningful

Research: Communications Research Group

CEO compensation

Continued from page 1

nancial services companies conducted by Lincolnshire, Ill.-based Hewitt Associates.

The average cash compensation of all surveyed CEOs totaled $899,600, 10.2% more than the average cash compensation of $816,500 reported by 20 life and property/casualty insurers.

The 90 CEOs surveyed by Hewitt reported an average base 1987 salary of $491,100 and an average cash bonus of $408,500, while the insurance company executives surveyed reported a base salary of $543,200 and an average bonus of $273,300.

According to Hewitt, the insurer CEOs' 1987 cash compensation represented a 15.1% increase from an average of $709,300 reported by 20 insurer CEOs the previous year.

But, while increases in insurance company CEOs' 1987 cash compensation reflect cash bonuses based on the annual earnings performance of the insurer or reinsurer, compensation consultants point out that insurers are placing greater emphasis on long-term incentive programs—like performance unit plans and stock incentives—that span market cycles.

Performance unit plans, which typically span three to four years, "are based on achieving certain targets tied to both growth of the company and profitability," and are usually forfeited if the executive leaves the company before the end of the term, explained William K. Frymoyer, an executive compensation consultant at The Wyatt Co. in Chicago.

Insurers or reinsurers can also issue restricted stock grants tied to long-term improvements in corporate performance.

The "most significant" change in recent years in insurer executive compensation plans is an "increased reliance on long-term incentives," says David C. Cates, a consultant in Hewitt's executive compensation division. "This is particularly appropriate to the property/casualty industry, which is very cyclical.

"Some property/casualty advisers believe that a short-term orientation to the business induces these cyclical patterns and they are trying to moderate or even out the cycles. One way to do so is to decrease the emphasis on annual incentives and increase the emphasis on long-term sustained performance," Mr. Cates continued.

Most insurers are structuring their executive compensation packages "to reflect a mix of fixed and variable and short- and long-term plans. The industry in general is focusing on a desire to get compensation plans in line with shareholder gains," observed Richard F. Meischeid, a principal of TPF&C, a division of Towers, Perrin, Forster & Crosby Inc. in Philadelphia.

With the establishment of long-term incentive programs, "a major portion of the CEO's income is tied to shareholder gains," he explained. This also insures that the CEO "has a stake in the company."

"The potential variability of executive compensation has increased. It's becoming more of a performance-oriented culture," agreed David A. Baker, vp and national director of Hay Management Consultants' insurance consulting practice.

While some predicted that provisions in the Tax Reform Act of 1986 that subject capital gains to the same tax rate as regular income might reduce stock-related executive compensation, that has not been the case, according to consultants.

"The radical shift anticipated in stock compensation as a result of tax changes simply hasn't occurred," said Wyatt's Mr. Frymoyer.

In fact, "we're seeing more in terms of stock compensation for top executives, because that is the best way to tie the executives to what the shareholders are experiencing. Boards of directors want to see managements affected in their own pocketbooks" by the performance of the companies, Mr. Cates pointed out.

Long-term incentive plans also offer executives a financial incentive to stay with a company during bad times, when bonuses are often slashed. An insurer "wants to have mechanisms to retain its key people, especially when the industry goes into a period of downturn," Mr. Frymoyer stressed.

Seven CEOs at insurers in the *BI* survey collected more than $1 million in cash compensation last year, compared with only four CEOs in 1986.

Besides Mr. Steinberg and Mr. Manley, other insurer CEOs whose 1987 cash compensation exceeded $1 million were:

The 'most significant' change in recent years in insurer executive compensation plans is an 'increased reliance on long-term incentives,' says David C. Cates of Hewitt Associates.

- Transamerica Corp.'s James R. Harvey, 53, whose 1987 cash compensation rose 61% to $1.3 million from $807,600 in 1986. The company reported a 54.9% increase in net income in 1987.

A Transamerica spokesman said the company's earnings performance, combined with the successful completion of "a profitable company restructuring program," contributed to Mr. Harvey's increase in cash compensation.

- CNA Financial Corp.'s Edward J. Noha, 60, whose 1987 cash compensation jumped 59.5% to $1.28 million from $800,333 in 1986. The company's net income dropped 2.5% in 1987 from 1986.

A CNA spokeswoman noted that 1986 and 1987 were "two of the best years in CNA history in terms of both growth and profitability," which was reflected in Mr. Noha's 1987 cash compensation increase.

- CIGNA Corp.'s Robert D. Kilpatrick, 64, whose 1987 cash compensation increased 3.5% to $1.26 million from $1.22 million in 1986. The company's net income dropped 10.9% in 1987.

- American General Corp.'s Harold S. Hook, 56, whose 1987 cash compensation rose 12.8% to $1.06 million from $939,216 in 1986. At the same time, the company's net income rose 3.3%

- Aetna Life & Casualty Co.'s James T. Lynn, 61, who received a 31.1% increase in cash compensation in 1987 to $1.05 million from $798,626 in 1986, while the company's net income dropped 11.7%. Aetna would not comment on why Mr. Lynn's cash compensation rose significantly last year.

Other insurer CEOs whose 1987 cash compensation increased substantially included:

- Orion Capital Corp.'s Alan R. Gruber, 60, whose 1987 compensation rose 41.7% to $498,729 from $351,814 in 1986. The company reported a $25.7 million net profit in 1987, compared with a $36 million net loss in 1986.

Mr. Gruber "received a cash bonus in 1987 based on the profitable results of the company," said Michael Maloney, vp and general counsel.

- Trenwick Group Inc.'s James F. Billett Jr., 43, whose compensation rose 94.2% to $438,263 in 1987 $225,625 in 1986. The company's net income rose 81% in 1987.

Nothing in the company's proxy statement indicates "that there were other considerations than company profitability" reflected in Mr. Billett's increase, said Alan Hunte, vp and treasurer.

Two executives who saw substantial decreases in their 1987 cash compensation from 1986 were: USF&G Corp.'s Jack Moseley, 56, whose compensation dropped 27.9% to $873,266 from $1.21 million, and Fireman's Fund Corp.'s John J. Byrne, 55, whose compensation dropped 26.7% to $491,231 from $670,000.

Mr. Moseley's 1986 compensation was inflated by a long-term incentive plan that came to term that year, a USF&G spokeswoman explained. Fireman's Fund declined to discuss the reason for Mr. Byrne's reduction in cash compensation in 1987.

The Scor U.S. Corp. proxy statement reported a 50.5% decrease in cash compensation for CEO Pierre D. Croizat, 47, to $331,300 in 1987 from $669,694 in 1986.

However, Mr. Croizat's 1986 cash compensation included a housing allowance that Scor's parent, Paris-based Societe Commerciale de Reassurance, pays to all expatriate executives, said Chief Financial Officer Peter Jones. This was not included in the 1987 figures.

Mr. Croizat's actual cash compensation in 1986 was $273,229, Mr. Jones said.

Annual cash compensation is not the only indication of a CEO's wealth. For example, Berkshire Hathaway's Warren E. Buffett, 57, received 1987 cash compensation that was lower than any other CEO tracked: $100,275.

However, Mr. Buffett holds 479,342 shares of Berkshire Hathaway stock—41.8% of the company's outstanding shares—with a market value exceeding $2.27 billion, making him the only known billionaire among the 30 CEOs.

A survey released last week by Fortune magazine valued Mr. Buffet's wealth at $2.4 billion, ranking him 41st on the magazine's list of the world's wealthiest people.

Mr. Buffett's modest salary is not indicative of the pay scale at Berkshire Hathaway: Vp Michael A. Goldberg received $3.06 million in cash compensation in 1987, more than any insurer CEO tracked except Mr. Steinberg.

Two other CEOs with substantial stock holdings are:

- American International Group Inc.'s Maurice R. Greenberg, 62, who holds 3.69 million shares of AIG common stock—2.26% of outstanding shares—with a market value of $225.7 million.

- Aon Corp.'s Patrick G. Ryan, 50, whose 8.69 million shares of Aon common stock—13.4% of the class—have a market value of $233.7 million.

Six of the 30 CEOs surveyed exercised stock options in 1987: AIG's Mr. Greenberg purchased 2.65 million shares; Aetna's Mr. Lynn purchased 1.52 million shares; American General's Mr. Hook purchased 1.16 million shares; Hartford Steam Boiler's Wilson Wilde, 60, purchased 607,500 shares; Scor's Mr. Croizat purchased 113,436 shares; and Ohio Casualty Corp.'s John G. Sloneker, 66, purchased 235,125 shares. ■

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