NEWSPAPER

August 29, 1994

Business Insurance®

Reporting Weekly For Corporate Risk, Employee Benefit and Financial Executives / $4

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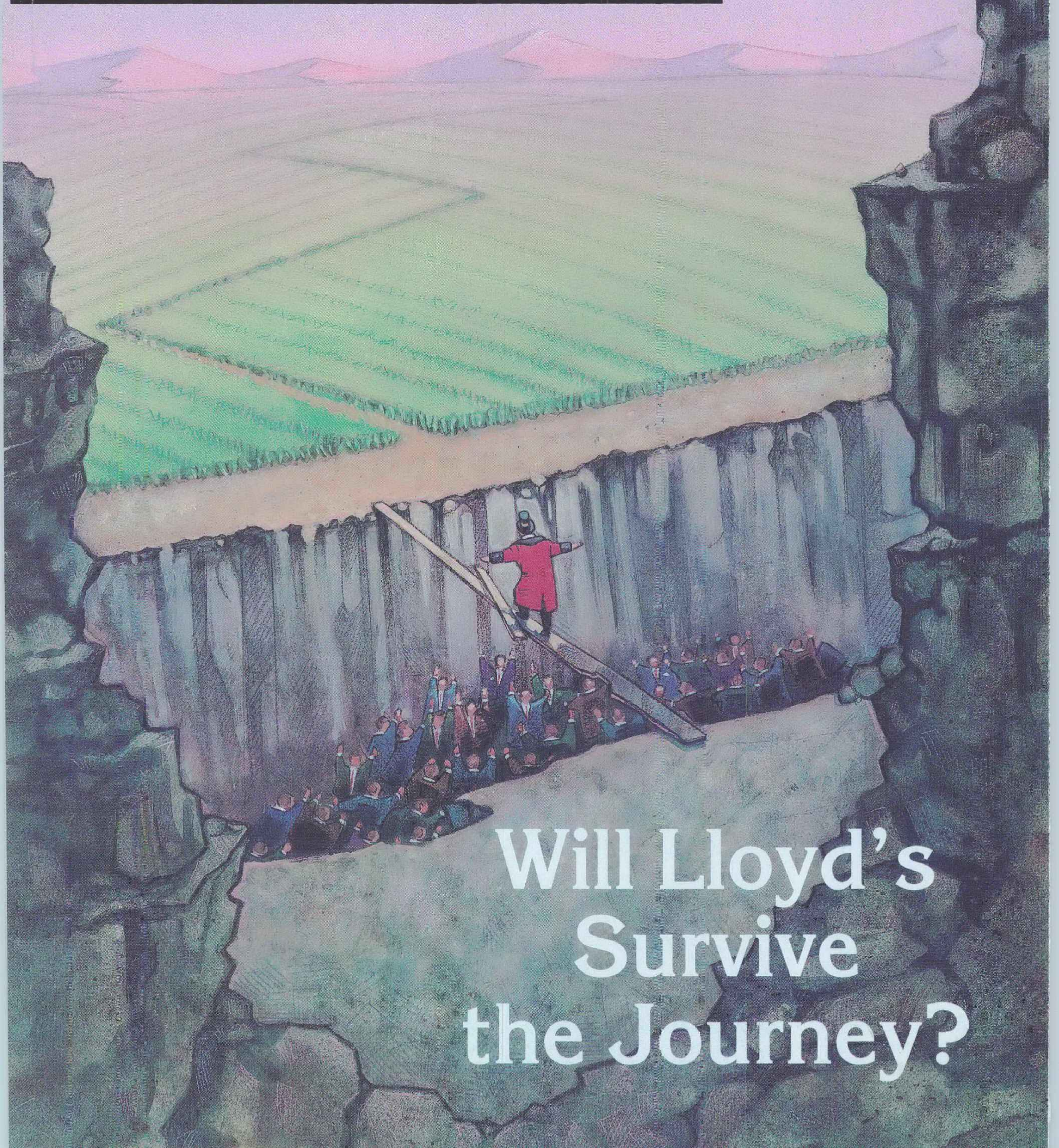
World's Largest Reinsurers



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AUGUST 29, 1994

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Updates

Reinsurers' first-half results deteriorate slightly from 1993

WASHINGTON—U.S. reinsurers' combined ratio deteriorated to 108.7% in the first six months of 1994 from 107.2% in first-half 1993.

That figure, from a survey of 57 reinsurers by the Reinsurance Assn. of America, does indicate a significant improvement over the 113.6% combined ratio a comparable group of reinsurers posted for the catastrophe-prone first quarter (*BI*, June 6).

First-half net income dropped 38.9%, to $581.8 million from $952.7 million in

Continued on next page

P/C insurers report mediocre first-half results

No change in pricing seen on horizon

By JUDY GREENWALD

Commercial insurance buyers can breathe a sigh of relief, but insurers and industry analysts complain that property/casualty rates are unlikely to be raised by lackluster first-half results.

1st HALF

The first six months of 1994 saw net income drop almost 14% for major property/casualty insurers and underwriting losses widen due to record first-half catastrophes claims of $8.56 billion.

But, insurers' results are just not bad enough to offer any hope of significant rate increases, industry observers say. Nor is there any realistic hope for any change in the competitive market in the immediate future, they add.

"I think the results are pretty mediocre, but not bad enough to reduce competition or to induce any pricing increases," said Gordon Luce, an analyst with Brown Bros. Harriman & Co. in New York.

"We're not optimistic about a change in the market at all," agreed Mark Owens, executive vp of marketing with Reliance National Insurance Co. in New York. "Overall, the industry seems to be weathering the soft market," which "doesn't bode well for a market

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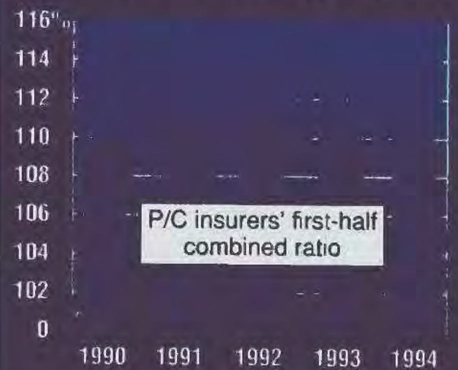

GRAPHIC BY MIKE GARVEY

Superfund momentum expected to increase

By MARK A. HOFMANN

WASHINGTON—The fate of Superfund reauthorization legislation may now depend on whether health care reform lives or dies.

With only 10 weeks to go before the November elections, the administration needs as many high-profile victories as it can get. As the clock winds down and little progress is seen in the House or Senate on health care reform, the White House is looking more and more to Superfund for a potential triumph.

"The administration is desperate to get this bill. They're going to keep the pressure up and we will, too," promised Pam Allen, vp-federal affairs for the National Assn. of Mutual Insurance Cos. in Washington, which opposes the bill.

Risk manager offers advice on assessing a company's pollution exposure.. Page 82

"I know it certainly can pass and I know that the administration badly wants it to pass," said Jack Ramirez, executive vp of the National Assn. of Independent Insurers in Washington, another opponent of the legislation.

Despite the Clinton administration's high hopes for this and other major bills in Congress, Superfund reauthorization isn't moving anytime soon.

The House of Representatives is unlikely to vote on Superfund until after Labor Day, and the Senate is even further behind. The Senate Finance Committee does not expect to send a bill to the floor until mid-September at the earliest. That leaves little time for consideration in a Senate that has yet to consider high-profile issues like welfare reform and the Gen-

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Pension reforms revived

Pension funding provisions may turn up in GATT bill

By JERRY GEISEL

WASHINGTON—A fast-moving bill related to the General Agreement on Tariffs and Trade is giving new life to pension reform legislation that otherwise has virtually no chance of passage.

House members of a special conference committee are insisting on adding pension funding reform provisions to a bill to implement GATT. Those measures, earlier passed by the House Ways and Means and Education and Labor Committees, are designed to shore up financing of the Pension Benefit Guaranty Corp. and accelerate employer contributions to underfunded plans.

Once the conferees and the White House agree on the GATT bill, which is a high priority for both, the proposal would go to the full House and Senate for a straight up-or-down vote.

Business groups and employee benefit managers have long supported closing loopholes in current law that allow companies to maintain hugely underfunded pension plans. Such plans expose the PBGC, which is supported by premiums paid by employers with defined benefit plans, to big losses when companies terminate plans.

In particular, employers support proposals now being considered by the conferees that would extend faster pension contribution schedules to more underfunded pension plans.

"There is a need to preserve pension benefits when companies fail. But there are bad actors out there. I'm not comfortable when companies or participants abuse the system," said Fred Hamacher, vp of compensation and benefits at Dayton Hudson Corp. in Minneapolis.

But benefit experts contend that the proposals being considered

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Improved 1993 results boost CEO pay

By SALLY ROBERTS

Lists of the nation's rich and famous are starting to look an awful lot like a who's who in the insurance industry.

Not only was Warren E. Buffett, chief executive officer of Berkshire Hathaway Inc., dubbed the richest man in America by Forbes magazine this year, but Sanford I. Weill, new CEO of Travelers Inc., ranked as the second-best-paid executive in the country behind only Michael D. Eisner of The Walt Disney Co.

In addition, Patrick G. Ryan, chairman and CEO of Aon Corp., and Saul P. Steinberg of Reliance Group Holdings Inc. joined Mr. Buffett among the ranks of the nation's 400 wealthiest people.

Additionally, almost half of the CEOs from the leading commercial insurers and reinsurers surveyed by *Business Insurance* can be found in Forbes' list of the best-paid CEOs in America, which is based on base salary, bonus, other compensation and stock gains.

The insurance CEOs averaged $1,191,756 in base salary and annual bonus in 1993, according to a *BI* study of proxy statements. That represents a 15.1% rise in average cash compensation over 1992 levels, about three times the rise between 1992 and 1991 (*BI*, Aug. 30, 1993).

Higher bonuses tied to improved company performance accounted for most of that difference.

Base CEO salaries were basically flat in 1993, say executive compensation consultants, citing factors such as continued scrutiny by shareholders, the Securities

Continued on page 74

GRAPHIC BY MIKE GARVEY

Updates

Reinsurer results down slightly

Continued from previous page

1993, the RAA found.

Net premiums written, though, rose 15.1% in the first half to $8.18 billion from $7.1 billion. That compares with a 4.2% increase in premiums reported in a survey of major commercial property/casualty insurers by *Business Insurance* (see story, page 1).

The reinsurers' policyholder surplus increased 7.7%, to $16.42 billion from $15.24 billion.

Mississippi regulator in probe

JACKSON, Miss.—Mississippi's insurance commissioner says he is the target of a new grand jury investigation following federal prosecutors' decision to drop extortion charges in a previous indictment.

The U.S. Attorney's Office in Jackson earlier this month withdrew charges that George R. Dale gave Mississippi Blue Cross & Blue Shield favorable treatment in exchange for campaign contributions.

In asking a judge to dismiss the charges, prosecutors said they have received new information from cooperating witnesses and that the previous indictment "does not adequately encompass the nature and scope of defendant Dale's conduct now being discovered."

Witnesses include Aaron J. Johnston, former Mississippi Blue Cross chief executive officer, who has pleaded no contest to a mail fraud charge as part of a plea bargain agreement.

Earlier this year, federal authorities also withdrew a conspiracy and fraud indictment alleging that Mr. Dale had sought to circumvent campaign reporting rules and that he had omitted money he'd received in reports filed with the state ethics commission (*BI*, June 20).

Mr. Dale said he was "delighted" that the latest charges were dropped but added that a grand jury has subpoenaed Insurance Department employees and campaign contributors and may re-indict him.

"Now that I've spent all my money (defending the two previous indictments), they continue to bring witnesses before the grand jury to indict me a third time now that I'm broke," Mr. Dale said. "If they had a case, they should have brought it the first time."

Kent McDaniel, an assistant U.S. attorney, said he could not comment on grand jury matters but added that "an investigation into the insurance industry in Mississippi is continuing."

Jury denies injury award

CHICAGO—Hyster Co. is not liable for more than $5 million in damages sought by a man partially paralyzed in a 1979 accident involving a forklift made by the company, a state court jury found.

Robert Walker was paralyzed from the waist down after the load he was moving with a Hyster Co. forklift toppled from a height of approximately nine feet and severed his spine. His attorney, Barry Chafetz of Corboy Demetrio Clifford, argued that the forklift was defective because it did not include a welded or retractable overhead guard that would have protected him from the falling load.

Defense attorney Glenn C. Ronaldson of Pope, Cahill & Devine Ltd. in Chicago argued that no industrial lift truck manufacturer has ever provided a welded or retractable overhead guard as standard equipment and, therefore, Portland, Ore.-based Hyster should not be liable.

On Aug. 19, the Circuit Court of Cook County jury returned a not guilty verdict in the strict liability suit, which was filed in 1981.

"The verdict shows that a jury is able to set aside its natural sympathy to focus on the facts to bring in a fair and just verdict," Mr. Ronaldson said.

Crime bill covers insurance

WASHINGTON—The broad anticrime bill approved by the Senate last week and sent to President Clinton would for the first time create specific federal penalties for insurance fraud.

The House had already approved the bill, which would make it a federal crime to knowingly file a fraudulent financial statement or report with a state regulator, embezzle or steal insurance company funds or premiums, falsify insurance company records with the intent to defraud an insurer or policyholder, and criminally obstruct proceedings before state insurance regulators (*BI*, Aug. 8).

Violators would be liable for up to 10 years in prison for these offenses and up to 15 years if their actions caused an insurer to fail.

Insurers and regulators say that current statutes can be difficult to apply to insurance crimes. "Establishing federal fraud-fighting remedies will help tremendously in combating some of the worst types of insurance scams that leave consumers in financial ruin and can cause insurer insolvencies," said Dennis Jay, executive director of the Coalition Against Insurance Fraud in Washington.

The legislation also would expand the federal mail fraud statute to include private mail systems. That provision would close a loophole that has allowed fraudulent operators to evade prosecution by not using the U.S. Postal Service in running their operations.

Gallagher exec sentenced

NEW ORLEANS—The former president of Arthur J. Gallagher & Co.'s Little Rock, Ark., office was sentenced to two years' probation last week after being indicted for secretly paying "fees" to an official of a Gallagher municipal insurance client.

Craig M. Van der Voort, former area president of Gallagher-Little Rock, was indicted earlier this year on federal mail fraud, money laundering and conspiracy charges. The indictment also named David R. Walters, a Gallagher-Little Rock vp, and M.W. "Webb" Hart, an official of St. Tammany Parish, La.

The indictment charged that the three men conspired to have Gal-

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Health reform countdown

Congress leaves town, taking with it most hope for comprehensive reform

By JERRY GEISEL

WASHINGTON—At this late date, it may take a miracle for Congress to pass comprehensive health care reform legislation this year.

This was supposed to be the time, Democratic party leaders said months ago, when Congress would be putting the final touches on sweeping reform legislation.

But the reality has proved far different.

House Democratic leaders earlier decided to put off consideration of reform legislation until Sept. 8.

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Employers unite to print health care legislation gripes in black and white

By CHRISTINE WOOLSEY

Large employers say their lobbying efforts to shape health care legislation have failed, so they are turning to their employees for help in influencing reform.

Sixty large employers have taken a new lobbying tactic by placing in 16 newspapers around the country a single full-page advertisement designed to alert their employees of the possible "dangers" federal health care reform could hold for multistate companies.

The ad, which encourages workers to telephone

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Insurers ponder next move in light of Prop. 103 ruling

By JOANNE WOJCIK

LOS ANGELES—The California Supreme Court's ratification of regulations implementing Proposition 103 rollbacks could trigger a mass exodus of insurers from the state, restricting the availability of both commercial and personal lines insurance.

The regulations apply to all types of insurance except workers compensation and surety bonds.

In ruling that Insurance Commissioner John Garamendi has the ultimate authority to determine an acceptable profit margin for insurers, the state's high court "sent a clear message that the insurance industry should not look to the courts for relief," observed Tom Aceituno, senior vp for the Assn. of California Insurance Cos. in Sacramento.

"The court is telling us that the commissioner has virtually unlimited authority to implement Proposition 103," he said.

Proposition 103 also requires insurers to seek approval before increasing rates for all lines of business except workers comp and surety.

It is uncertain yet whether the ruling, which focused primarily on the department's rollback regulations, will pave the way for the commissioner to dictate profit

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Insurers bidding for portions of Confed Life

Great-West to buy U.S. ventures

By DOUGLAS McLEOD

TORONTO—A U.S. unit of Great-West Life Assurance Co. of Canada will assume most of Confederation Life Insurance Co.'s U.S. group life and health insurance business as of Thursday, Great-West announced last week.

Great-West Life & Annuity Insurance Co., the insurer's Englewood, Colo.-based subsidiary, will take over both the insured business of Confederation Life and the third-party administration business of Confed Admin Services Inc.

The business, which includes 1,500 group policyholders and covers 600,000 people, produces about $480 million Canadian ($348.3 million) in annual revenues and will push Great-West's U.S. life/health revenues to $3.5 billion Canadian ($2.54 billion) in 1994, the company projected.

The business includes a relatively small amount of stop-loss insurance for self-insured clients of Confed Admin Services, which placed about 90% of its clients' coverage with unaffiliated insurers, according to Bill McCallum, president and chief executive of Great-West Life & Annuity.

Great-West will try to pick up a larger share of the stop-loss business as the policies come up for

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The no-fault approach

Projects would alter malpractice system

By ROBERTO CENICEROS

Insurance and health care industry interests in Colorado and Utah hope to inject a potent dose of risk management into patient care by replacing malpractice litigation with no-fault compensation systems.

But first they will have to convince state legislators that little of the money now awarded in malpractice lawsuits actually goes to patients who suffer medical injuries. A significant portion of such awards pays litigation and administrative costs, the interest groups say.

"We are hoping to craft original legislation to abolish the tort-system remedy and replace it with something that looks like workers compensation," said Dr. K. Mason Howard, chief operating officer of COPIC Insurance Co., a Colorado captive that writes malpractice coverage for more than 4,200 of the state's approximately 6,000 doctors.

Dr. Howard is urging Colorado legislators to establish a commission assisted by a private insurer that would determine and pay compensation to injured patients

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Inside

- Lloyd's is at a critical point in its 306-year history, this week's editorial says. **PAGE 8**
- It pays for employers to be blunt with employees in communicating the need for cost containment, a communication expert says. **PAGE 76**
- The tide is turning for some of the largest U.K. insurers, which are posting improved first-half results. **PAGE 79**
- Deciding how to deal with potential pollution liabilities is critical for companies, a risk manager says. **PAGE 82**

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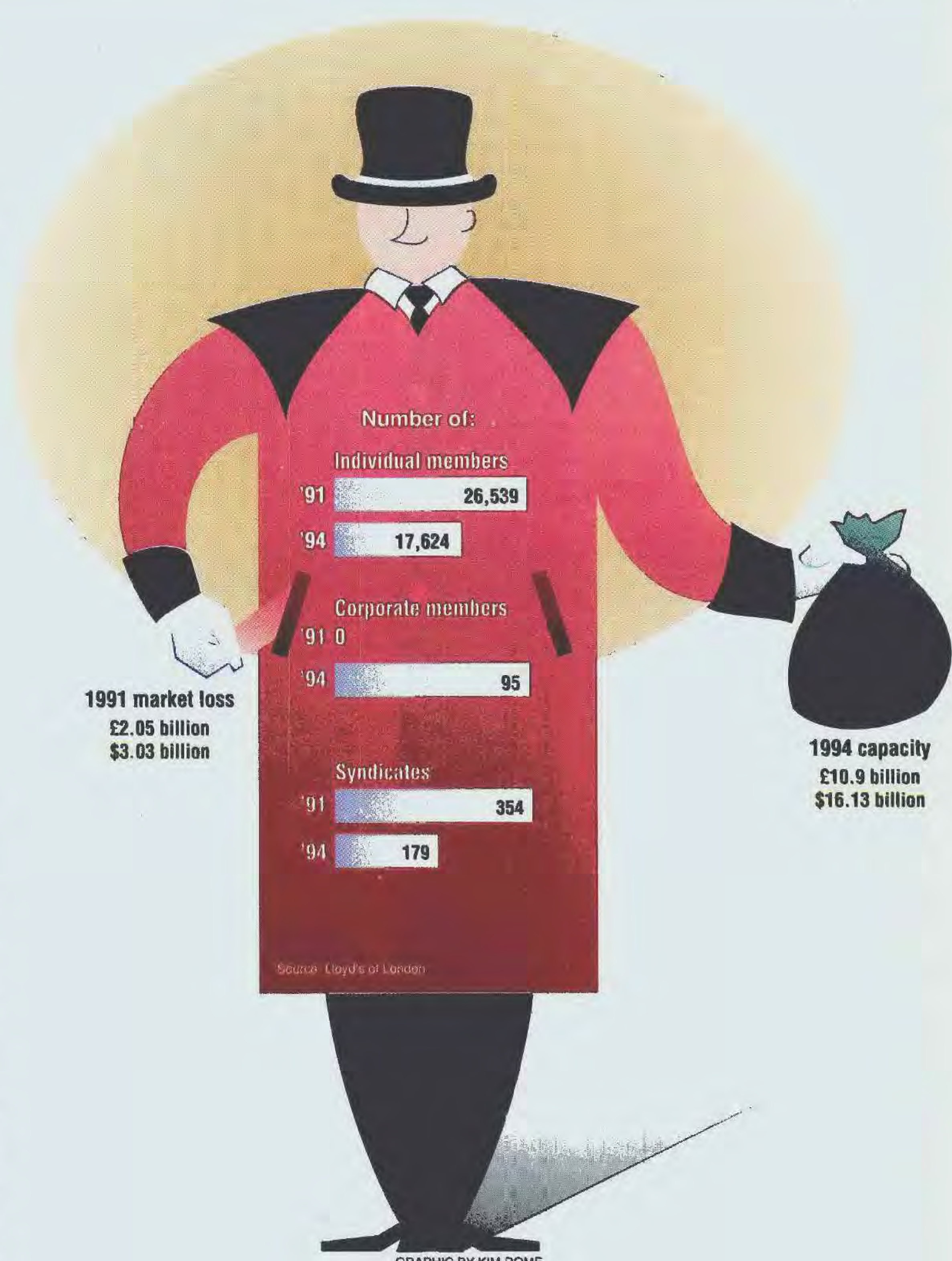
Spotlight report

Lloyd's hopes to put the past behind it and return to profitability

Changes in market have laid foundation to ensure its survival, confident executives say



GRAPHIC BY KIM ROME

By STACY SHAPIRO

There's a cautious sense of optimism floating around Lloyd's of London.

After five years of unprecedented losses and real fears last year that the 306-year-old market would go under, Lloyd's finally may have turned the corner, Lloyd's executives say.

Among the signs they see heralding this turn: Profits are expected to return for the 1993 underwriting year; the market has attracted new sources of capital; policyholders continue to use Lloyd's; and old liabilities may successfully be segregated into a new runoff reinsurer by year-end 1995.

Lloyd's Chairman David Rowland says Lloyd's has a better chance of surviving now than when he assumed his current position at year-end 1992.

"Lloyd's is 20 months older since January 1993, and whatever doubts there are about its future, the fact is that it has survived during this period of time perhaps to a greater degree than many people thought possible," he said. The market has "changed a lot of its fundamental attitudes and outlook and attracted new money. At least it's reasonable to say that having built that platform, the

Continued on next page

World's largest reinsurers

Munich Re again tops list of growing companies

Munich Reinsurance Co. tops *Business Insurance*'s ranking of the world's largest reinsurers for the sixth consecutive year, based on $9.21 billion in net reinsurance premiums written in 1993.

Second-ranked Swiss Re Group tallied $7.58 billion in net reinsurance premiums written.

Together, Munich Re and Swiss Re account for more than 35% of the $46.04 billion in net reinsurance premiums written by the world's 20 largest reinsurers. That total was up 13.8% from $40.45 billion in premiums written by a similar but not identical group of reinsurers in 1992 (*BI*, Aug. 30, 1993).

Employers Reinsurance Group surpassed Assicurazioni Generali S.p.A. to rank third with $3.34 billion in net premiums.

Two companies are new to the list.

Aachen Re Group boosted its net reinsurance premium volume by 30% to $646.58 million, ranking as the 19th largest reinsurer worldwide.

Transatlantic Holdings Inc., in which American International Group Inc. has a 46% stake, ranked No. 20 with net written premiums of $631.69 million, a 31% increase from 1992.

Net reinsurance premium volume plummeted 61% at Skandia Insurance Co. Ltd., knocking it off the list. The Swedish company had announced previously it was reducing its reinsurance operations (*BI*, Nov. 11, 1992). Berkshire Hathaway Insurance Group also fell off the list with a 12% drop in net written premiums.

Seven countries are represented in the Top 20. Germany is home to six of the leading reinsurers, followed by the United States with five and Japan with three. France and Switzerland each had two reinsurers and Italy and the United Kingdom each had one.

Business Insurance does not include Lloyd's of London in its ranking of the world's largest reinsurers. However, Lloyd's would rank among the top reinsurers based on $5.15 billion in gross treaty reinsurance premiums written in 1993. That total includes reinsurance premiums paid by Lloyd's syndicates to other syndicates but does not include facultative reinsurance.

Lloyd's cannot provide net reinsurance volume figures. Even excluding inter-syndicate reinsurance, Lloyd's $3.84 billion in gross reinsurance premiums would place it among the top reinsurers.

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

More detailed financial information on these reinsurers and an explanation of how the companies were ranked and how foreign currencies were converted begins on page 65.

The sixth annual *Business Insurance* directory of international reinsurers begins on page 68.

World's largest reinsurers

[illegible]	[illegible]	[illegible]
1	Munich Reinsurance Co.	$9,212,873
2	Swiss Re Group	7,577,728
3	Employers Reinsurance Group	3,336,857
4	Assicurazioni Generali S.p.A.	2,876,063
5	Hannover Re/Eisen & Stahl Re Group	2,804,520
6	Cologne Re	2,655,848
7	General Re Corp.	2,524,000
8	Frankona Group	1,825,087
9	Gerling Global Reinsurance Group	1,756,479
10	SCOR S.A.	1,742,315
11	Mercantile & General Reinsurance	1,647,844
12	American Re-Insurance Co.	1,371,000
13	AXA Re	999,162
14	The Tokio Marine & Fire Insurance Co. Ltd.	987,524
15	The Toa Fire & Marine Reinsurance Co. Ltd.	985,818
16	Prudential Reinsurance Co.	892,310
17	Winterthur Swiss Insurance Co.	879,423
18	The Yasuda Fire & Marine Insurance Co. Ltd.	688,113
19	Aachen Re Group	645,578
20	Transatlantic Holdings Inc.	631,693
	TOTAL	$46,040,234

Source: *BI* survey

GRAPHIC BY KIM ROME

Lloyd's

Continued from previous page
chances that it will have a similar story to tell in 20 months' time are much greater."

Certainly, though, there are still "difficulties" to overcome, Mr. Rowland admits.

Indeed, Lloyd's global losses from 1988 to 1991 total 6.74 billion pounds ($10.11 billion), and another loss of about 1 billion pounds ($1.52 billion) is expected for 1992, which will be closed at the end of this year. A total of 478 syndicate accounts had been left open as of year-end 1993.

In addition, the market continues to be entangled in litigation. More than 23,000 members, belonging to more than 45 action groups, are suing nearly every members agent and auditor in sight to recover their debts for the market's losses. An effort to settle those complaints earlier this year for 900 million pounds ($1.35 billion) was rejected by the majority of members.

But, depending on the outcome of the first members action group trial to conclude, the Gooda Walker Action Group, another market settlement offer might stand a better chance (see story, page 16). A ruling on the Gooda Walker case is expected to be handed down in October.

While the litigation drags on, Lloyd's has yet to collect about 2 billion pounds ($3.08 billion) in outstanding debt from members who have refused to pay their losses. The Council of Lloyd's next month will examine several proposals for collecting this money.

Current members who want to participate in the 1995 underwriting year also must pass Lloyd's solvency test next month, which for many could be a tight squeeze due to past losses. The failure of members to pass the solvency benchmarks could cut 1995 capacity by as much as 20% from this year's level of 10.9 billion pounds ($16.13 billion).

Corporate investors remain interested in the market, but efforts to attract big new corporate capital are likely to meet with little success in the current sluggish financial markets (see story, page 36).

Despite these continuing "difficulties," Mr. Rowland said, "I can see the route through the difficulties. Therefore, I have much more confidence than I have had in the past."

If Lloyd's had suffered none of these problems, "none of this would have happened," added Lloyd's Deputy Chairman Richard Keeling, referring to major changes that have taken place in the past year. "A 300-year-old operation does not change that easily. These losses have made us do an awful lot of things that are probably right but we would never have done. So out of this comes an awful lot of good."

'A 300-year-old operation does not change that easily. These losses have made us do an awful lot of things that are probably right but we would never have done. So out of this comes an awful lot of good,' says Deputy Chairman Richard Keeling.

Changes are happening so quickly that it's hard to keep up with the evolution of Lloyd's these days.

Some of the key changes, which were introduced in Lloyd's business plan in April 1993 and are being developed now, include:

- Establishing NewCo, the proposed runoff reinsurer that will underwrite pre-1986 liabilities and possibly later losses, beginning in 1996 (see story, page 24).
- Developing Lloyd's Electronic Placing Support system, which should transform the market forever when it is launched next year (see story, page 47).
- Promoting greater professionalism in the market through con-

Continued on page 6

Making sense of Lloyd's currency conversions

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

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

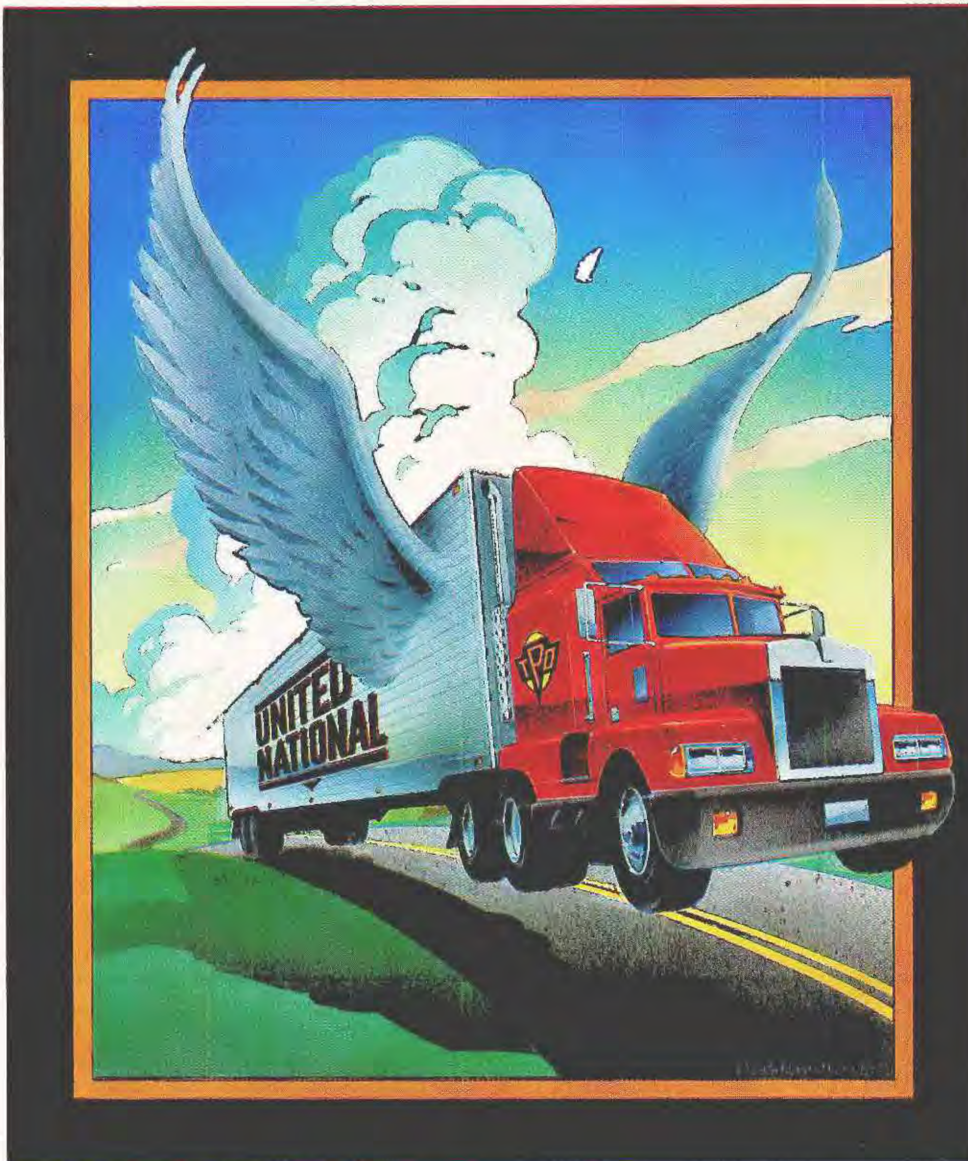
To convert its results, Lloyd's uses the exchange rate at the end of the year in which the underwriting year actually closes. For example, since the 1991 underwriting year closed on Dec. 31, 1993, Lloyd's uses the year-end 1993 exchange rate of $1.48 to convert its 1991 results from pounds to dollars.

For underwriting years that have not yet closed, Lloyd's uses the exchange rate at the end of the underwriting year itself. For example, to convert results from the not-yet-closed 1992 underwriting year, Lloyd's uses the year-end 1992 exchange rate of $1.515. Or, to convert the still open 1990 account of a syndicate, Lloyd's uses the year-end 1990 rate of $1.93.

When the 1992 underwriting year closes at the end of 1994, Lloyd's will then use the year-end 1994 exchange rate to convert its 1992 results to dollars.

To determine the annual gross allocated capacity in terms of dollars, Lloyd's uses the exchange rate at the end of the preceding year, which is when capacity is actually set. For example, to calculate syndicates' 1994 capacity, Lloyd's used the year-end 1993 rate of 1.48 to convert pounds into dollars. Under this formula, 1994 gross capacity of 10.9 billion pounds totals $16.13 billion.

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



Roger Beerworth/United National Group

Some producers struggle with their competition on Truck Physical Damage business. If you are one of those producers, it's probably because you've never discussed the subject with United National Group.

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Lloyd's

Continued from page 4

tinuous training, which began last April.

- Improving the system of governance by changing the voting rights and allowing corporate members to be represented on Lloyd's Council.
- Streamlining Lloyd's distribution network to reduce costs. Lloyd's, which currently depends on licensed Lloyd's brokers to bring business to the market, is looking at proposals for expanding access to Lloyd's.
- Analyzing the insurance needs of non-U.K. markets like continental Europe to develop additional business from those countries.

While these changes are still being finalized, most energies in the market are focused on attracting new capital to the market for 1995.

A key effort to attract new capital was led by Deputy Chairman Robert Hiscox, who headed a working group that reported on "Value at Lloyd's." The group's report suggested new means of attracting corporate capital and transforming individual names' method of participation (see story, 40).

But not everyone is seeing eye to eye on how much capital will be attained next year. The Lloyd's Market Board recently reported that managing agents are seeking 11.5 billion pounds ($17.89 billion) of capacity for 1995, while the capital providers—members agents and corporate capital advisers—say only 10.3 billion pounds ($16.02 billion) is available.

Largest Lloyd's syndicates

Based on 1994 gross allocated capacity in millions of pounds

Syndicate	Managing agency	Underwriter	1994 Capacity		1991 Profit	
Marine 861	Brockbank Syndicate Management Ltd.	M.E. Brockbank	£282.7	$418.4	£ 7.1	$10.4
Marine 488	Charman Underwriting Agencies Ltd.	J.R. Charman	264.0	390.7	17.6	26.0
Marine 672 [1]	Wellington Underwriting Agencies Ltd.	I.C. Agnew	251.8	372.6	(5.7)	(8.4)
Non-marine 362	Murray Lawrence & Partners Ltd.	R.J.R. Keeling	248.6	368.0	6.6	9.8
Non-marine 510 [2]	R.J. Kiln & Co. Ltd.	G.D. Gilchrist	208.9	309.2	1.4	2.1
Non-marine 435	D.P. Mann Underwriting Agency Ltd.	D.P. Mann	205.6	304.2	6.8	10.1
Motor 218	Christopherson Heath Ltd.	D.R. Heath	203.6	301.3	9.9	14.6
Marine 40	Murray Lawrence & Partners Ltd.	A.P.B. Bartleet	198.4	293.6	4.4	6.5
Marine 1003	S.J.O. Catlin Underwriting Agencies Ltd.	S.J. Catlin	191.1	282.9	2.1	3.2
Marine 79	Janson Green Ltd.	J.R.L. Youell	185.6	274.8	(4.5)	(6.6)

[1] Was renumbered from Syndicate 406 in 1994. [2] 1991 account open.
Source: Lloyd's of London

GRAPHIC BY MATTHEW GELLER

Lloyd's Market Board, part of the regulatory triumvirate that now governs Lloyd's, has the power to control the market's overall capacity in order to keep it in line with expected premium income and maintain profit margins.

For example in 1993, before the Market Board exercised this control, 100% of Lloyd's 8.88 billion pounds ($13.45 billion) of capacity was used by underwriters. This year, only about 75% of the 10.9 billion pounds ($16.1 billion) of capacity is expected to be used. The board has deferred any action on next year's capacity until November.

Many people believe, however, that Lloyd's capacity will drop to between 8 billion and 9 billion pounds ($12.32 billion and $13.86 billion).

"I think that there will be a reduction on 1994 and I don't think that will be a bad thing," said Lloyd's Chief Executive Peter Middleton. "I think that the businesses in the market that have expanded quite significantly in the last two or three years would benefit from a slowing down or consolidation so that their support services are able to manage without being too stretched."

Overcapacity in the past has been a failing of Lloyd's mainly because managing agencies were not equipped to take care of the growing size of their syndicates, said Mr. Middleton. "We want to make sure that that does not happen again. So that's one reason why I would welcome a lower capacity figure, which I'm sure we're going to get."

While some of the market's 179 active syndicates this year expect to increase their capacity in 1995, others may reduce it or shut their doors. The amount of capacity a syndicate seeks depends on its size and the business opportunities it sees for the year ahead.

The Brockbank Group P.L.C., for example, is seeking more than 100 million pounds in added capacity for next year to boost its three syndicates' capacity to 530 million pounds ($816.2 million). Most of that increase would go to syndicate 861, which already is the market's largest syndicate, while some would go to syndicate 253 in anticipation of healthy growth in direct-marketed auto insurance business (see story, page 53).

Murray Lawrence & Partners Ltd., on the other hand, is reducing the capacity of syndicate 362, its largest, by 8% next year. The syndicate writes mainly U.S. property/casualty coverage, which continues to remain soft.

Lloyd's Mr. Keeling, underwriter for syndicate 362, said that he accepted additional capital in 1994 because he had expected rates to harden, "but they didn't."

"It seemed to my mind that markets were not growing at the rate we thought they were (and the 1995 reduction) brings capacity more in line with anticipated

Continued on page 12

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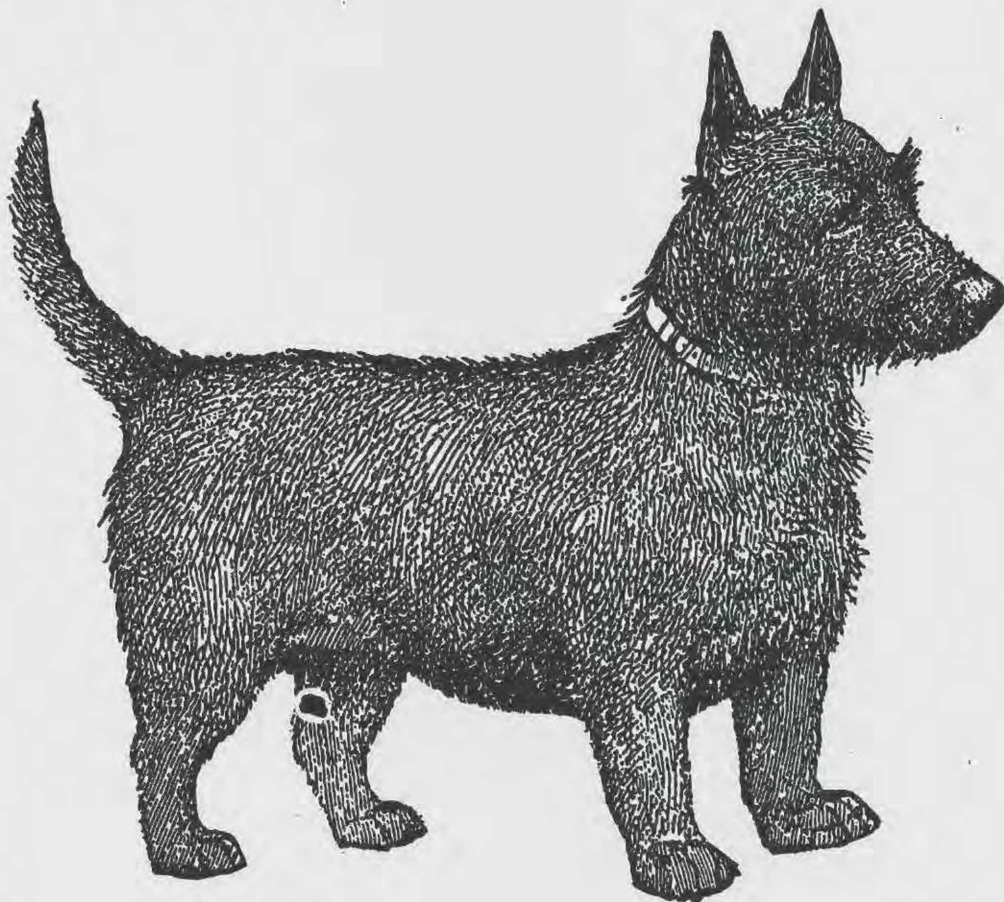

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Opinions

No turning back at Lloyd's

Lloyd's of London is at an important juncture in its 306-year history—one that could decide whether it's still around in another 300 years, or even another decade.

As the market struggles to renew its capital base, it is faced with whether to continue as an insurance market of syndicates supported by individual investors or to become a market of insurance companies or even to become a single insurance company.

We think that now that Lloyd's has embarked on the road to attracting limited liability corporate capital, there's no turning back. This could eventually lead to a Lloyd's made up of syndicates that are really nothing more than small insurance companies.

The current system is unraveling. Numerous names, saddled with the losses of the past, cannot afford to continue their participation in 1995.

And the market's hallmark of names being liable for their losses down to their last shirt buttons is eroding as thousands of members challenge their debts in court.

Lloyd's Deputy Chairman Robert Hiscox has said that the old-style individual member who has unlimited liability will either transfer to the new style via various corporate investment vehicles or "wither and die."

While we believe this is true, the market must ensure it creates a fair mechanism for transferring the individual names to corporate investment vehicles—fair both in terms of compensating them for the value of their participation and of ensuring them access to these new means of investing in the market.

Even if Lloyd's succeeds in transforming its capital base, it is not out of the woods yet.

As the market shifts from investors with unlimited liability to ones with limited liability, it will increasingly rely on its Central Fund to cover future unpaid claims. Like a guaranty fund, the Central Fund can assess all other syndicates to make up any shortfall, such as losses from an insolvent syndicate.

Some see in this parallels to the New York Insurance Exchange, which collapsed in 1988 partly because of big assessments by its security fund to cover expected claims from six insolvent syndicates. Investors in the remaining syndicates balked and fled the market.

To avoid a similar scenario, Lloyd's must ensure a return to profitability. That is the most critical element for continued survival of the market. Without it, corporate investors will walk away and corporate risk managers will increasingly look to healthier insurance markets for their coverage.

Letters

Aid offered in defending premises liability suits

To the editor: As the attorney who successfully represented the New York City Housing Authority at trial against a claim of "inadequate security" brought on behalf of a 12-year-old crime victim who was raped within the housing authority's premises, I was pleased to note the mention of the defense verdict in your July 25 issue, "Ruling Favors Landlord in Negligence Case."

I was also impressed with the number of inquiries I received about the case from various defense attorneys and claims personnel who are "refocusing" their strategies for defending against such high exposure claims.

In recent years, there has been a dramatic influx in the number of negligence claims brought on behalf of crime victims against the owner of property/business where the crime was committed. In seeming proportion to the increase in the number of such cases, appellate courts in many jurisdictions have "redefined" a landowner's duty to provide security measures to guard against crime, greatly expanding the number of instances in which a landlord may face civil liability for criminal acts committed by third persons.

A recent study of reported settlements and verdicts on "premises security" cases across the country indicated that the average settlement for these cases was in excess of $500,000, and the average verdict was in excess of $1 million. However, as evidenced by the New York City Housing Authority's successful trial defense against a claim by a 12-year-old rape victim in Bronx County, N.Y.—a venue that is deemed notoriously "pro plaintiff"—viable defenses do exist and must be vigorously pursued against these claims.

In our particular case, the evidence suggested that the rear entrance to the building had been unlocked and, as such, that the Housing Authority breached its duty to the plaintiff to provide her with "reasonable security measures" to protect against criminal occurrences. However, a thorough investigation into the case suggested that the assailant may have been actually known to the plaintiff and, quite possibly, gained access to the building by means other than the allegedly defective rear entrance.

According to the Department of Justice, the overwhelming majority of violent crimes are committed by assailants who are known to their victims. In those instances, it is doubtful that the security features of the building were a factor in the occurrence of the crime and, as such, the defendant should not face civil liability simply because the crime was committed upon its premises.

Our firm has had the opportunity to work with leading experts on premises security cases and we have prepared various materials essential to the successful defense of a premises liability claim. We would be happy to share these items with interested parties.

Alan Kaminsky
Wilson, Elser, Moskowitz,
Edelman & Dicker
New York, N.Y.

No substitute for injury prevention program

To the editor: The July 25 article, "Take Back the Belts? Maybe" caught our attention. We have seen plenty of examples where a planned back injury prevention program can be cost-effective when back supports are included along with awareness, ergonomics and exercises.

In contrast, we have talked to many employers that tried the "quick-fix" back support program—buy a few back supports and employees' back injuries are supposed to vanish like magic. Wrong.

There is no safety substitute for an injury prevention program that includes:

- Commitment from top management to reduce and eliminate back injuries.
- Commitment from every employee to reduce and eliminate back injuries.
- Commitment by every supervisor/manager to achieve these simple goals.
- A recognition program that reinforces positive results.

Darrell Heppner
Darrell Heppner Risk Management
Services Inc.
San Leandro, Calif.

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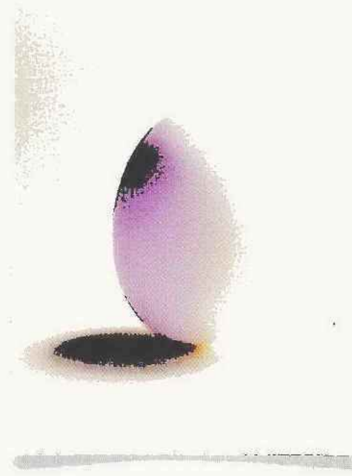

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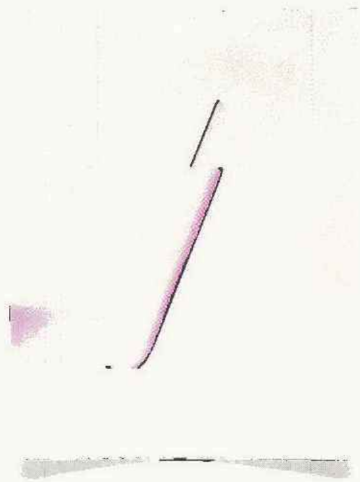

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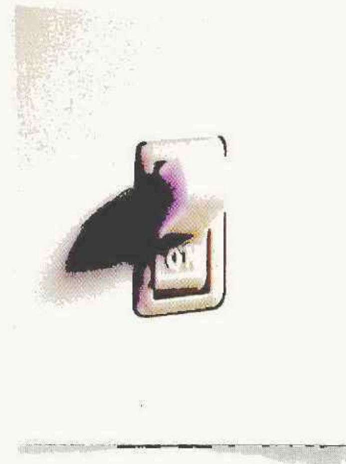

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Lloyd's

Continued from page 6
premium volume."

While managing agents decide how much capacity they need, Lloyd's overall capacity will depend on the solvency and desire of its individual membership.

There are 17,624 individual members this year writing a total of 9.3 billion pounds ($13.76 billion) in capacity, both on a traditional basis and through members agents pooling arrangements, or MAPAs.

Many of these members still have to pay losses from the past before they decide whether to participate next year. This includes their portion of Lloyd's 1991 overall loss of 2.05 billion pounds ($3.03 billion) announced earlier this year under the market's three-year accounting plan (*BI*, May 23).

That figure does not include "double counting," which would have brought Lloyd's 1991 losses to 2.58 billion pounds ($3.82 billion). Double counting occurs when a syndicate incurs a loss that is reinsured with another syndicate. Members on both syndicates are each liable to pay the same loss.

Though Lloyd's excluded double-counting in reporting its 1991 global results, members are still responsible for paying those losses.

To ease the burden of paying past losses, Lloyd's has allowed members to borrow 5% of their 1993 premium income and 3% of their 1994 premium income.

Nevertheless, if after paying losses members don't have enough assets to meet the British Department of Trade and Industry's solvency tests in September, they will be unable to participate in Lloyd's next year.

It also will depend on whether "they have an appetite for it" after paying their 1991 losses, said Malcolm Mackenzie, chairman of Lloyd's Underwriting Agents Assn. "Early indications are that names have had enough and that we can expect them to draw down on their funds at Lloyd's and reduce their underwriting."

And it's not yet clear how big corporate capital's appetite is for replacing that capacity, said Mr. Mackenzie. "Certainly we wouldn't be too unhappy to see a reduction in capacity anyway, because I think the market has turned (downwards) and there needs to be some tension to discourage stupidity and people cutting each other's throats. That would be healthy. I would like to see it somewhere between 8.5 billion and 9.5 billion pounds."

"Solvency and capacity worry us very much for next year," said Sir David Berriman, chairman of the Assn. of Lloyd's Members. "The ALM believes that Lloyd's is overestimating its capacity for 1995. The ALM believes that the losses in 1991 and the limited help that Lloyd's has given to meet solvency will result in a bigger fall (in capacity). While some fall in capacity will be healthy, an excessive fall we believe would be unhealthy at this stage and result in too many syndicates going out of business."

Sir David predicts that individual names will reduce their capacity in 1995 to between 6.5 billion and 7.5 billion pounds ($10.11 billion and $11.66 billion) from 9.3 billion pounds ($13.76 billion) this year.

If corporate capital only provides about 2 billion pounds ($3.11 billion) in capacity next year—up from 1.59 billion pounds ($2.35 billion) this year—then the market's total capacity next year could drop to between 8.5 billion and 9.5 billion pounds ($13.22 billion and $14.78 billion).

Sir David would like to see Lloyd's and the DTI give some type of relief to members who wish to continue underwriting by: giving members further credit for their expected 1993 profits and reducing members' losses by the amount that is double-counted. So far, Lloyd's has turned down Sir David's requests.

Mr. Rowland is confident that the market overall will pass the DTI's solvency requirements in September.

But some people have suggested that the DTI would do anything to get Lloyd's over the solvency hurdles, even if it were technically insolvent, because Lloyd's is an essential ingredient to London's status as a leading financial community in Europe and the world.

'We wouldn't be too unhappy to see a reduction in capacity anyway, because I think the market has turned (downwards) and there needs to be some tension to discourage stupidity and people cutting each other's throats,' says Malcolm Mackenzie.

That sort of suggestion causes Mr. Middleton to fume.

"That's not true. I rarely get hot, but those are people impugning the integrity of government officials and government ministers without any evidence to back up what they say," Mr. Middleton said. "What compensation would it be (to the DTI) not to apply in full their rules when two years later, let's say, Lloyd's ran into difficulties?"

It is true that one of the main issues in the market is Lloyd's "financial robustness," he said.

It's also the main reason why the Council of Lloyd's on Sept. 14 will decide on its strategy for how to recover much of the 2 billion pounds that is still owed by members who are refusing to pay their debts. "We have to do it with sensitivity and imagination, but we have to do it," he said.

Even after writing off the 2 billion pounds as bad debt—though some of that will be recovered—Lloyd's will pass its solvency tests this year, Mr. Middleton said.

"Of course, the loss-making years have rendered the finances more fragile than they were four or five years ago," he admitted. But all signs are that 1993 will be a profitable year, which will boost Lloyd's coffers.

Although most people are generally satisfied with the leadership of Messrs. Rowland and Middleton and with the current direction of the market, a vocal minority of people continues to criticize Lloyd's in general and the two executives in particular.

"Lloyd's is corrupt," said John Rew, chairman of the Sturge Names Action Group, who no longer underwrites at Lloyd's but

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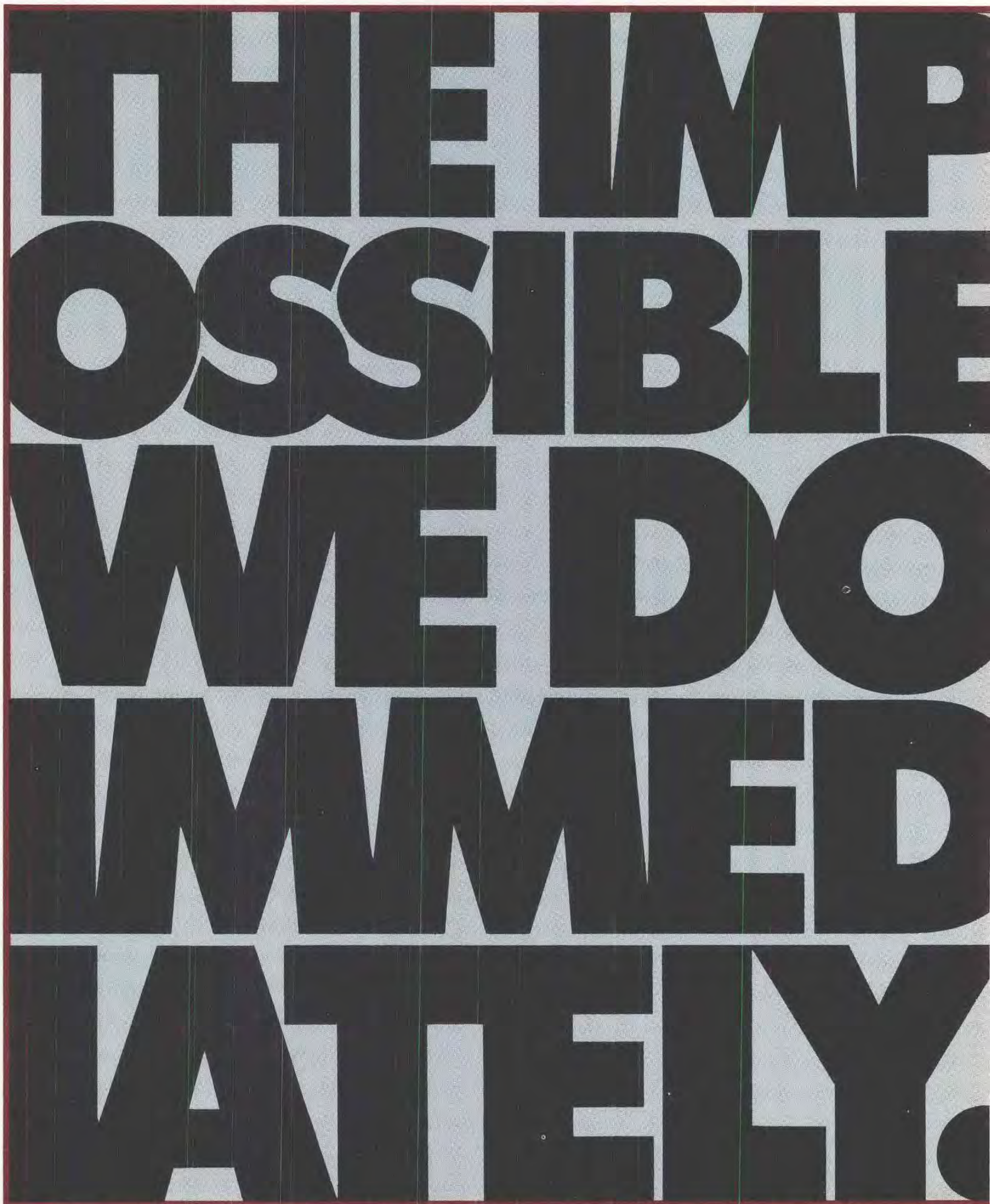

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still faces big losses. "There has to be a completely new ethic at Lloyd's and actually, to a certain extent, in the entire insurance industry."

There has to be value for the money put up by investors, Mr. Rew said. "The essence of honesty in a market is that (investors) can see what is happening and understand what is happening."

Another complaint is that Lloyd's Market Board "is trying to move too fast" and its actions could eventually wipe out the market, said one members agent who asked not be identified. The agent contended that Mr. Middleton and other executives are trying to create a "Lloyd's P.L.C." by reducing the number of syndicates in the market and allowing managing agents to control corporate capital brought into the market.

"Neither David nor I are attracted to a P.L.C. as an end point. Certainly I don't envisage that would be actively discussed during the time we're here," responded Mr. Middleton, adding that both executives believe Lloyd's must continue to be a market. "The unique characteristic of Lloyd's is its market and marketplace. To destroy that, which a P.L.C. would do, would be to destroy any uniqueness that Lloyd's has. It's very rarely a smart commercial strategy to wipe out the one competitive difference that you have in your business."

What the relationship will be between the market and the Corporation of Lloyd's is another question.

"I think that the market will see a continuation of a more active regulation than has been present in the past," said Mr. Middleton. BI

Market outgrowing 1982 regulations

Changing scene at Lloyd's prompts calls for new act

By STACY SHAPIRO

Both critics and supporters of Lloyd's of London agree on this much: The market needs a new act.

The Lloyd's Act of 1982, which permits self-regulation, has become outmoded, they say, and Lloyd's instead should be regulated by the Securities and Investment Board or a similar body overseen by the British Department of Trade and Industry.

Others believe the Lloyd's Act of 1982 unduly restricts what the market can do as it tries to reinvent itself.

"Life moves on, and the Lloyd's of 1982 is not the Lloyd's we have now with the introduction of corporate capital and all the other changes at Lloyd's," said Sir David Berriman, chairman of the Assn. of Lloyd's Members. "A lot of aspects about the Lloyd's 1982 Act are out of date and need modifying. The ALM would welcome a new Lloyd's act to bring it up to date."

Chairman David Rowland acknowledges that he would like to see portions of the Lloyd's Act of 1982 changed.

However, "I do not think it's a priority, because changing the act—the work involved and the political troubles—would be a major distraction from the absolutely crucial thing of restoring this place to profitability and treating as fairly as we can all those to whom we owe a duty," said Mr. Rowland.

Changing the act would not be simple. At least 40 members of Parliament, all Conservatives, are members of Lloyd's. They might have to abstain from voting on any Lloyd's bill that the current government put before the House of Commons, giving the Labour Party an upper hand. That many abstensions could doom any effort by the Conservative Party, which holds only a narrow majority in the House of Commons.

A bill also would take about three years to get through Parliament, said Mr. Rowland. The process, he added, "would be a terrible distraction when in fact none of the inhibiting factors in the 1982 act is a factor in returning this place to profitability."

The market has a long way to go before profitability. Another loss of at least 1 billion pounds ($1.52 billion) is expected when the 1992 account closes at the end of this year. However, when the 1992 results are posted next May, agents may give an indication of expected profits for 1993.

Even with a big loss, 1992 could still be Lloyd's best account in years. The global loss on the 1991 account was 2.05 billion pounds ($3.03 billion), and the restated 1990 global loss was 2.32 billion pounds ($3.51 billion).

Lloyd's restated its 1989 and 1990 global losses, eliminating "double counting" from its results, which occurs when a syndicate is reinsured by another syndicate and both have reserved for the same loss.

This year, Lloyd's capacity totals 10.89 billion pounds ($16.11 billion), up from 8.8 billion pounds ($13.33 billion) last year but lower than 11.38 billion pounds ($21.28 billion) in 1991.

There are 179 syndicates this year, about half of the 1991 total. Of the 111 active syndicates in 1991—which together made a profit of 205 million pounds ($303.4 million)—96 are trading today, accounting for 63% of 1994 capacity.

Individual membership has fallen 34% to 17,624 today from 26,539 in 1991. Individual members' interests are managed by 46 independent members agents and 12 members agents owned by managing agencies.

There are also 95 corporate names this year for the first time ever, whose business is administered by six licensed Lloyd's corporate advisers.

Business flowing into Lloyd's comes mainly from 220 brokerages that are licensed to place coverage in the market.

Out of the 8.13 billion pounds ($12.03 billion) of gross premium volume—excluding intersyndicate reinsurance written at year-end 1993—the majority, 3.21 billion pounds ($4.75 billion), is derived from the United Kingdom. Next comes the United States with premiums totaling 2.72 billion pounds ($4.03 billion); and continental Europe with 1.04 billion pounds ($1.54 billion).

The remainder comes from the Far East; Canada; Central and South America; Africa and the Middle East. BI

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Spotlight report

Outlook better for marketwide settlement

By STACY SHAPIRO

A window of opportunity may open for another attempt at a marketwide settlement to end litigation between loss-stricken Lloyd's of London members and their underwriting agents.

Members and market observers are awaiting the October ruling of Justice Phillips on whether former underwriters of defunct syndicates managed by Gooda Walker Ltd. were negligent when they underwrote London market excess-of-loss reinsurance in the late 1980s.

The judge also may render an opinion on the entire LMX "spiral," which would either help or hinder members in many of the major lawsuits filed against underwriting agents (*BI*, Aug. 1).

Regardless of the decision, thousands of members and hundreds of underwriting agency errors and omissions insurers may now be more willing to sit down again and consider a settlement that could end LMX syndicate litigation once and for all.

The judgment also could spur other members to settle suits against agents if, as proposed, runoff reinsurer NewCo is also used to cap post 1985 losses.

To no one's surprise, a 900 million pound ($1.35 billion) marketwide settlement offer died in January after it was rejected by Gooda Walker names—who would have received 23% of the money (*BI*, Feb. 21; Jan. 24). Many members rejected the offer because it would not have capped their future liabilities.

In April, the 3,095 members of the Good Walker Action Group went to trial on their claims for 600 million pounds ($900 million). Many observers think the members have proved negligence by the underwriters; others think Justice Phillips will also condemn the underwriting of the entire 1980s LMX market.

He may also give a formula for determining damages against 65 members agents named in the suit.

"The commercial court really would like a lot of this Lloyd's litigation to settle, and the various judges involved have made it clear that they would like to provide a guidance (on LMX underwriting)," explained Michael Deeny, chairman of the Gooda Walker Action Group.

A ruling generally critical of the LMX market could encourage other members action groups with claims against LMX syndicates to settle.

Lloyd's Chairman David Rowland believes that however Justice Phillips rules, there may be a chance for another market settlement offer. But it won't be like the last one, he said.

"Having tried and failed on the jumbo offer, we both feel that it is unlikely that an offer like that could be repeated," said Mr. Rowland last month at a press conference. "But we feel very strongly—and we hope—that there will be opportunities as the cases unfold to use influence or ideas or anything else within our power to try and bring about a settlement."

The Gooda Walker judgment might be a catalyst for further work, depending on what's actually in it, Mr. Rowland added. "I don't mind at all what it says. But what I want, please, is a clear statement about the situation, because there are names on either side of the equation. . . .I mind only that there is clarity and a basis which we could use in our offices to try and bring about a solution."

Malcolm Mackenzie, chairman of the Lloyd's Underwriting Agents Assn., agreed that "a lot may change" when the Gooda Walker judgment comes down. "It may change all sorts of views. It may change the position of the names themselves and the action groups; it may well change attitudes on the 12th floor (where Lloyd's executives sit) as well as in the rest of the market. So whatever happens, the decision will be crucial in terms of litigation resolution."

People in Lloyd's are talking about some kind of commutation between members and underwriting agents to finally settle the suits, other underwriting agents add.

Members probably would have to pay a portion of their losses, since it is generally acknowledged that there are 2 billion to 3 billion pounds ($3 billion to $4.5 billion) of claims and only 1 billion to 2 billion pounds of agents' E&O coverage to pay them.

But such a plan could include a cap on future liabilities, provided members agree to end litigation.

"NewCo is going to be critical for this," noted one underwriting agent. "If (the proposed runoff reinsurer) provides the cap, then that would solve a lot of problems."

Sir David Berriman, chairman of the Assn. of Lloyd's Members, hopes that the Gooda Walker judgment will prompt another settlement offer to litigating members on LMX syndicates by the end of the year or the beginning of 1995.

Otherwise, the Gooda Walker members could get first crack at the E&O insurance money, leaving little for other litigating members, he.

"There is a strongly held view that it is inequitable for any one of those cases to get their nose in the trough before the others just because of the order in which they came to court," considering "the (alleged) negligence happened all at the same time, around 1988 or 1989," said Sir David.

Some judicial and Lloyd's market

Continued on page 20

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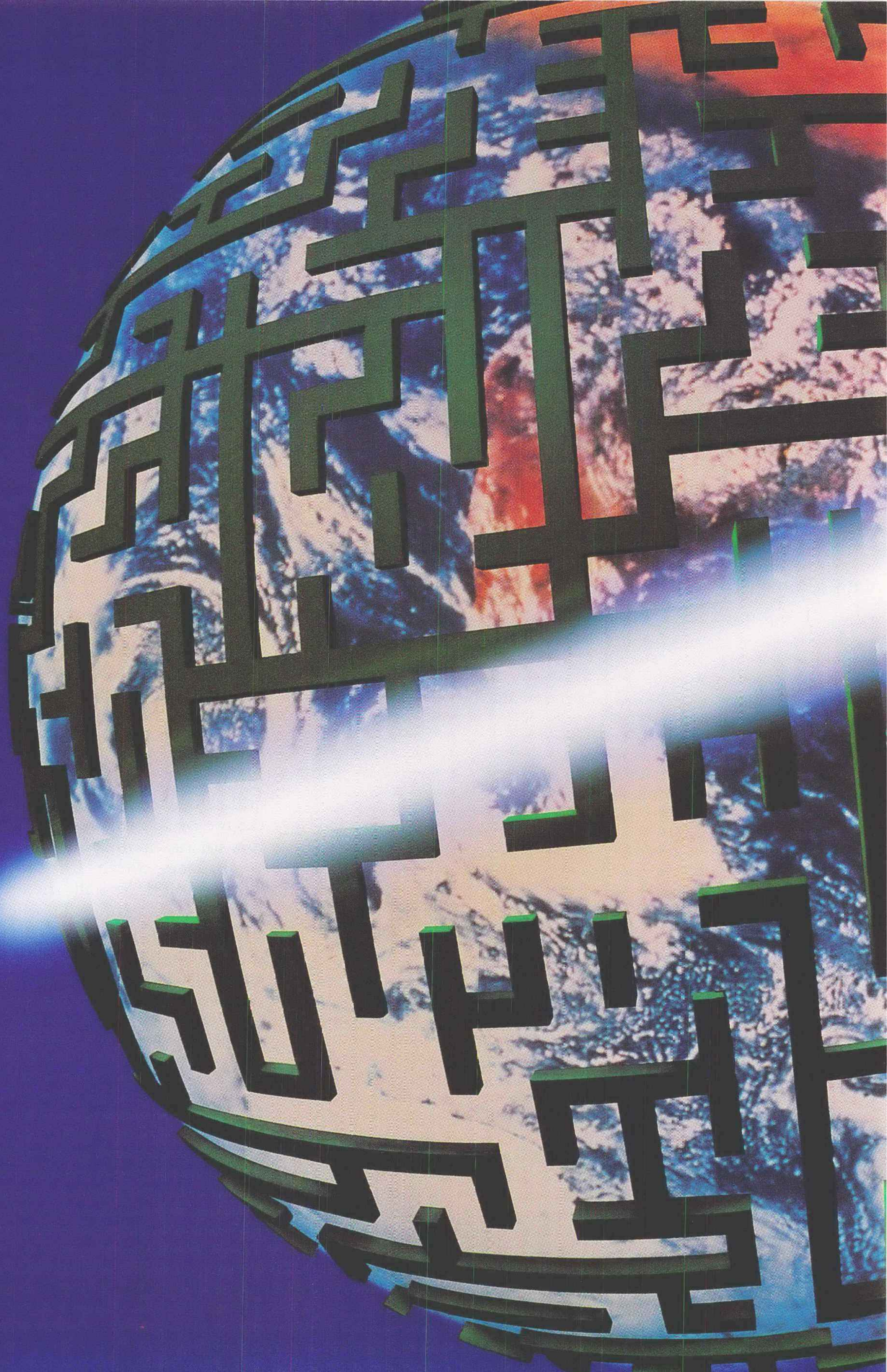

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Settlement

Continued from page 16

figures believe "that if they could all be treated simultaneously, it would be more equitable. And therefore a new offer that was made by Lloyd's would effectively mutualize that particular problem," he said.

If no settlement offer is made, then the next major members' cases to go to trial will be the Feltrim Names Assn. in the fall and the Merrett Syndicate 418 (1985) Names Assn., which is set for trial on March 27.

Meanwhile, many of the 46 members action groups have been positioning themselves to be included in any settlement offer by organizing lawsuits in the High Court.

These include:

• 3,000 members of the Sturge Names Action Group who are planning to file suit against underwriting agents and auditing firm Neville Russell for long-tail liabilities on 18 Sturge syndicates.

John Rew, chairman of the Sturge group, stated recently that the managing agent owned by Sturge Holdings P.L.C. was negligent for underwriting the business in the first place and for commuting an unlimited runoff reinsurance policy in 1989 that would have protected non-marine syndicate 210.

• 1,140 members of the Devonshire Names Action Group filed lawsuits in early August against managing agent Devonshire Underwriting Agencies Ltd. and 42 members agents.

The names are alleging that there was negligent underwriting on LMX syndicates 216 and 833 and are claiming compensation for 173 million pounds ($260 million) in losses together with an indemnity against future losses. BI

U.S. names still pressing for home court advantage

New suits allege fraud by Lloyd's

By GAVIN SOUTER

Lloyd's of London faces another barrage of litigation in the United States as hundreds of members use new tactics to get into U.S. courts.

In five suits, Lloyd's names are trying to prove that they were fraudulently misled when they joined Lloyd's and that the fraud negates their agreements to have any disputes with Lloyd's heard in England.

Jury trials and the extensive pretrial discovery in U.S. courts could improve members' chances of recouping millions in losses.

Trying a different approach, one set of U.S. members is suing the U.S. law firm that represents Lloyd's alleging it should have told members of huge asbestos and pollution liabilities. Another suit also alleges that the members' auditor, Ernst & Young, should have issued similar warnings.

The fraud suits come after three U.S. courts dismissed earlier suits, ruling that members were bound by agreements they signed when they joined Lloyd's, including pledges to sue Lloyd's only in English courts.

Lawyers in the newer cases, though, say that if members can show fraud, the U.S. courts will take the cases.

Members would fare better in U.S. courts, explained Fred Tufts of Crutcher-Tufts, a New Orleans law firm that represents a group of members. "In Britain, the cases are not heard by a jury of peers, and in the U.S. we have much more extensive discovery."

The most advanced of the new round of cases is pending in U.S. District Court in Houston. The court has not actually accepted the case but has temporarily enjoined a bank from drawing down on the letter of credit of member Robert Leslie.

Mr. Leslie, who joined Lloyd's in the late 1970s and ceased underwriting in 1985, is a member of several syndicates where years with large asbestos and pollution liabilities remain open, said his lawyer, J.C. Nickens.

It was well known in the late 1970s and early 1980s that Lloyd's would face considerable long-tail pollution and asbestos losses, said Mr. Nickens of Clements, O'Neill, Pierce & Nickens in Houston.

"There were material factors not disclosed, and if (Mr. Leslie) had known about them he would not have joined Lloyd's or remained a member so long," Mr. Nickens said.

Fraud is also the central issue in a members' suit in New Orleans.

The four plaintiffs were originally parties to a New York suit that charged Lloyd's with violating federal securities laws. Ultimately, a federal judge ruled that he had no jurisdiction. But while the case was pending, the members, who are New Orleans residents, filed suit there seeking an injunction to prevent their banks from drawing down on their letters of credit, Mr. Tufts said.

After a state judge granted a temporary injunction, Lloyd's intervened, removing the action to federal court and seeking dismissal there. By those actions, "we claim that Lloyd's rescinded the forum selection clause," Mr. Tufts said.

The New Orleans members also allege that when that clause was drafted in 1986, insiders were trying to add to the membership ranks to cover expected long-term claims.

"In Louisiana, in order to waive your right to something you must be aware of the right you are waiving. So when the members signed the forum selection clause,

Continued on page 24

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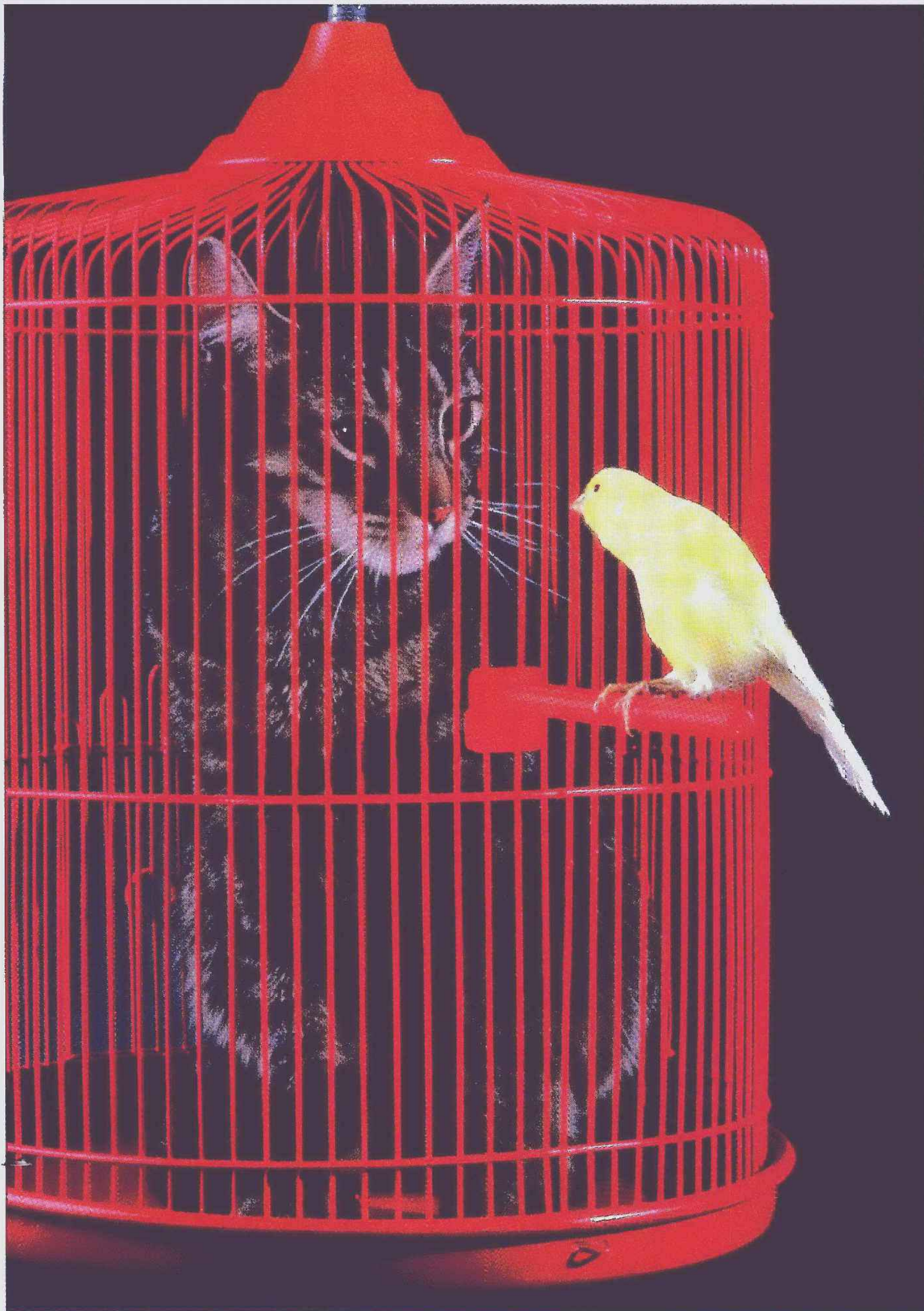

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Spotlight report

U.S. suits

Continued from page 20

they had a cause of action for fraud because they had not been told about the asbestos losses," Mr. Tufts said.

More than 500 members also are expected to file suit soon in federal court in California.

They, too, are alleging fraud, saying that insiders knew of the big losses and did not tell potential members, said their lawyer, Ray Robbins, a partner with Robbins & Keehn in San Diego.

Also, the members allege that they were the victims of another fraud when they were placed on LMX reinsurance syndicates without having the risky nature of LMX business explained to them.

LMX business refers to Lloyd's syndicates reinsuring the business of other Lloyd's syndicates, which often resulted in the risk being centered in a few high-risk syndicates.

The litigants are members of the American Names Assn. which was established in California last year.

Another group of 26 members in Ohio is suing LeBoeuf, Lamb, Greene & McRae, a New York law firm that represents Lloyd's.

Their suit, filed in U.S. District Court in Cincinnati, alleges that they were also clients of the firm and that the firm should have warned them about the potential losses at Lloyd's. The members allege breach of fiduciary duties, negligent representation and legal malpractice.

The members had no formal attorney/client agreement with the firm, but allege that there was, in practice, an attorney/client relationship. For example, LeBoeuf wrote a tax manual that was distributed to members, and in relations with the third parties such as the Internal Revenue Service, they claim to represent "underwriters at Lloyd's," a term that could refer to members.

The members, who face millions of dollars in losses, say that Lloyd's lawyers knew about problems at Lloyd's long before members did, and they should have warned their member "clients."

A fifth action was filed late last month in the California Superior Court in Los Angeles. The members allege fraud by Lloyd's for not disclosing details about long-tail liability losses; breach of California's securities laws and insurance code; and breach of fiduciary duty and negligence by their accountants Ernst & Young, which they say should have informed them of the potential for long-tail liability.

The members, David West and his daughters Susan and Deborah, have lost more than $400,000 at Lloyd's and are seeking compensatory and punitive damages.

Meanwhile, in Canada, three banks are suing 17 members in a joint action to be heard in the Ontario Supreme Court on Sept. 19.

The banks—the Royal Bank; the Hong Kong Bank of Canada; and Citibank of Canada—drew down on members' letters of credit to pay Lloyd's more than $1 million Canadian ($727,000).

The members are refusing to pay the banks, alleging that they alerted the banks to fraud at Lloyd's before the payments were made and consequently the banks should not have paid Lloyd's, said a lawyer for Royal Bank, George S. Glezos of Lerner & Associates in Toronto.

"They are relying on the precedent of another case where it was ruled that if customers establish knowledge of fraud prior to the payments to the beneficiary, then the bank pays its own money," he said. "We say that there were only allegations of fraud and there was no clear or obvious fraud established."

The Canadian members allege a variety of fraud by Lloyd's entities. Some, for instance, say that they specifically requested to not be on syndicates with asbestos reinsurance liabilities, requests that members agents did not heed.

Members who are willing to pay their Lloyd's liabilities but lack the resources to do so are being offered an alternative to bankruptcy. The American Members' Mediation and Settlement Plan is similar to the hardship fund offered to members in Britain. A member's assets are assessed and a payment settlement with Lloyd's is mediated with the Lloyd's Central Fund meeting any liabilities that the member is unable to pay. In return, members must drop any suits against Lloyd's. BI

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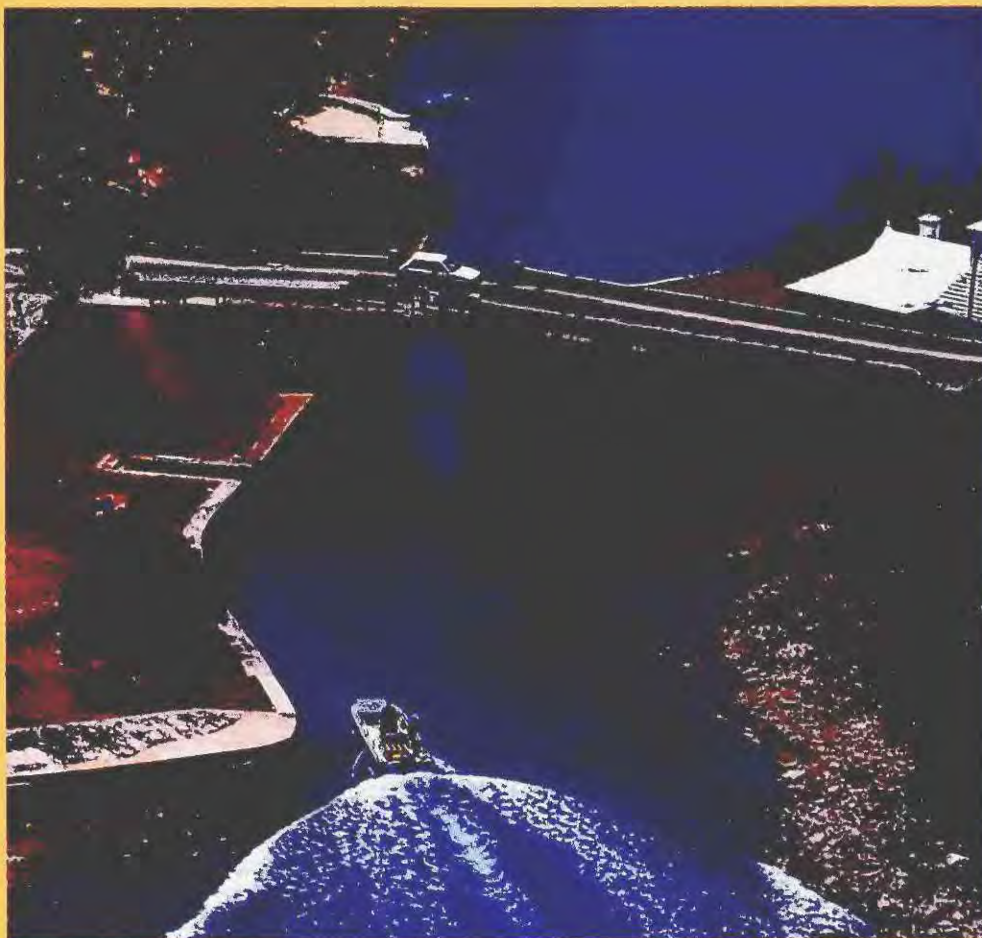

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Lloyd's pinning its hopes on NewCo

Some members remain doubtful

BY STACY SHAPIRO

All roads that lead to a successful future for Lloyd's of London pass through NewCo, the reinsurance company designed to run off most of the market's nagging past losses.

If NewCo is set up as planned at the beginning of 1996, and loss-riddled members have the money to pay a one-time reinsurance premium to close their syndicate accounts into NewCo, then much of the "Old Lloyd's" will finally be severed from the "New Lloyd's" now being formed.

There are a few doubts, though, that NewCo will get off the ground.

"NewCo is being registered to go bust," said Lloyd's member John Rew, chairman of the Society of Names and the Sturge Names Action Group, referring to the licensing process by the Department of Trade and Industry that all full-fledged reinsurers must undergo. "NewCo is going to be set up as an honest attempt to pay the policyholders. But there isn't enough money in Lloyd's to do it. It's being set up as a dishonest attempt to bluff the policyholders."

And, he contends, if NewCo is bound to fail, the best thing to do is to put those syndicates into receivership now and stop paying policyholders.

But most members and market participants see NewCo as their only salvation.

Even litigating members believe NewCo will be a key ingredient in any new global settlement offers to end litigation, because it could be used to cap to their future liabilities (*BI*, Feb. 14). The lack of a cap on members' liabilities was a key reason for the failure of the market's 900 million pound (1.38 billion) settlement offer earlier this year (*BI*, Feb. 21).

And many members and market participants see Richard Keeling, chairman of the NewCo supervisory board, and Heidi Hutter,

Continued on page 28

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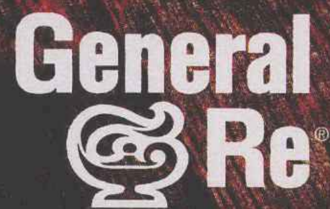

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NewCo

Continued from page 24

NewCo's project director, as gurus who will pull the needed rabbits out of hats with the help of an 80-member team of young, bright, ambitious employees.

"I think some of the best reinsurance brains are involved, like Richard Keeling and Heidi Hutter and (Lloyd's underwriter) Elvin Patrick," said Malcolm Mackenzie, chairman of the Lloyd's Underwriting Agents Assn. "If they can't do it, nobody can."

If the team pulls off NewCo, "then what we'll be doing is setting the precedent which we expect the rest of the insurance markets to follow," said Mr. Mackenzie. "What we're actually trying to do is set up the largest reinsurance company in the world. That's a pretty substantial undertaking."

"NewCo is very important for Lloyd's," said Sir David Berriman, chairman of the Assn. of Lloyd's Members. At the moment, thousands of members of Lloyd's are no longer underwriting but are still voting members because they are still paying debts on open syndicate accounts.

It is not healthy for Lloyd's to have so many "damaged" members on the books, said Sir David. "NewCo provides finality and enables names to get out. . . .It's in Lloyd's interest as well as the names' interest to make it work."

"If NewCo provides a cap (on future liabilities), then that would solve an awful lot," added a Lloyd's underwriting agent who asked not to be identified. "The trouble is, of course, that there's a lot of doom and gloom around about whether NewCo is going to work. I'm deeply suspicious of this attitude. It always seems to me that this type of thing always attracts its share of doom-and-gloom merchants. Nobody really knows," the agent said.

The NewCo project began in earnest late last year, when Ms. Hutter was hired to head up the reinsurer's two-year development (*BI*, Feb. 14).

The project this year has a budget of 9 million pounds ($13.8 million), and by the end of the year will employ 80 people, of which 50 will be hired by Lloyd's and the remainder from outside consultants like Ernst & Young, Coopers & Lybrand and Tillinghast.

"The news is that we're on track," Ms. Hutter said recently. "I consider that news, because with such a large project it would have capabilities to go off track."

The original and primary aim of the project is to find a way to close all pre-1986 syndicate accounts into NewCo by the beginning of 1996. Currently, Ms. Hutter's team also is exploring whether it could be used to reinsure 1986 and later years of account, among other new projects (see story, page 32).

However, NewCo will not assume the liabilities of Lioncover Insurance Co. Ltd., a reinsurer set up as part of a marketwide settlement by Lloyd's in 1987 to run off former syndicates managed by PCW Underwriting Agencies Ltd. Lioncover, which accounts for 750 million pounds ($1.16 billion) of Lloyd's past losses, is unable to join NewCo because, unlike NewCo, it is backed by Lloyd's Central Fund (*BI*, April 13, 1987).

Through four different groups, the NewCo team is currently calculating how much the reinsurer will be required to hold in reserves to pay the long-tail claims it assumes.

Lloyd's syndicates already hold more than 4 billion pounds ($6 billion) in reserves to pay 1985 and prior losses. The question is whether the syndicates' reserves are adequate to meet their outstanding liabilities and, if not, how much members will have to pay as a reinsurance premium to top off those reserves and close their accounts into NewCo.

The NewCo team will give its final estimate for the reinsurance company's reserves "only at the time we create NewCo," when Lloyd's 1993 underwriting year is closed at the end of 1995 and is calculated in the spring of 1996, noted Ms. Hutter.

By the end of this year, though, NewCo will feed back to the managing agents as much information as it can on the reserving work that has been done to date and give them some guidance on the reserve levels that will be required.

This will be a "dress rehearsal" for the type of reserves that will be needed in each syndicate for pre-1986 underwriting accounts, said Mr. Keeling, who is also Lloyd's deputy chairman in addition to his position as chairman of the NewCo Supervisory Board.

Updated information also will be supplied to managing agents by next July, the same month in which Lloyd's will submit a final application for NewCo to be authorized as a U.K. reinsurance company to the Department of Trade and Industry.

One thing is for sure about the year-end reserving dress rehearsal: "We guarantee this will be wrong," said Mr. Keeling.

NewCo will give a range for proper reserving, "but we don't want that range to be gospel," he said. "Please, no one hang us on this because what we want to do, really, is send a message to the syndicates who are really badly reserved, if there are any."

Both Ms. Hutter and Mr. Keeling have said that NewCo will benefit from certain factors that Lloyd's syndicates haven't been able to take advantage of before. These include:

- Creating a single claims administration unit, which will reduce overhead and help obtain favorable settlements.
- Providing a single force to negotiate commutations with policyholders. Commutations, however, are not necessary for NewCo to become viable, said Ms. Hutter.
- Creating a single team to handle reinsurance collections to improve cash flow.
- Matching the maturity of investments to the liabilities of NewCo.

There have been both wild and conservative calculations about the amount NewCo will need to pay these losses, none of which has been confirmed or denied by NewCo executives because their work is not completed yet.

"We will not give credence to any of them," said Ms. Hutter.

A report issued in April by insurance archaeologist R.M. Fields & Co. contends that Lloyd's requires 15 billion pounds ($22.5 billion) in reserves to pay for its portion of billions of dollars in global asbestos and pollution claims, which account for the lion's share of the past liabilities NewCo will assume.

Of the 4 billion pounds ($6.16 billion) in current syndicate reserves, Fields estimates there's a shortfall of 1.4 billion pounds

Continued on page 32

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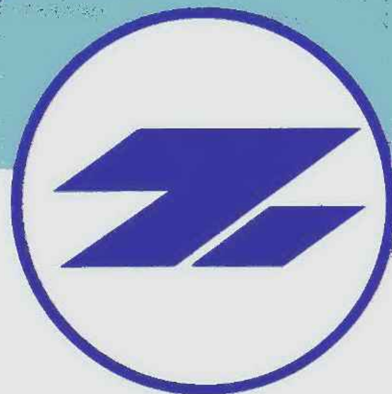

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NewCo

Continued from page 28

($2.16 billion) due to extensive use of time-and-distance reinsurance policies (*BI*, April 25; May 2). Fields contends the shortfall could affect the availability of syndicate resources needed to capitalize NewCo.

Syndicate analyst Chatset Ltd. also said last year that syndicates were underreserved, estimating that about 8.6 billion pounds ($13.24 billion) more in reserves will be needed to run off open years (*BI*, Dec. 20, 1993).

However, London stock analyst Nick Bunker of Hoare Govett earlier this month forecast that Lloyd's would only need another 500 million pounds ($750 million) to bring NewCo's reserves to a "comfortably adequate level."

If his calculations are right, Mr. Bunker says, members will likely be able to pay their NewCo reinsurance premium from their expected 1993 profits.

Hoare Govett's external analysis "might be viewed as an external endorsement of the whole plan," noted Ms. Hutter.

In the past few weeks, though, Lloyd's members agent P.W. Kininmonth Ltd., in conjunction with Chatset, estimated that the final bill to members to close pre-1986 Syndicate accounts will be closer to 1.75 billion pounds ($2.7 billion).

Kininmonth Managing Director C.A. Norman thinks members will be able to afford the payoff if the members in the Gooda Walker trial win their case. If the judge rules that former underwriters of syndicates managed by Gooda Walker Ltd. were negligent and the 69 defending members agents have to pay damages, Lloyd's might seek another market settlement of all litigation, said Mr. Norman. This settlement could be worth up to 1 billion pounds ($1.54 billion), which would help members pay for the NewCo bill.

Mr. Norman added, "I have the highest opinion of the NewCo project." Although he didn't believe at first that Lloyd's could pull it off, he said he does now.

Whatever the final payment will be, NewCo must take into account the tax status of the members who are going to pay the bill, noted Sir David of the ALM.

"At the moment, it is premature to know what the cost of the closure is going to be, globally or name-by-name. Everyone is bandying around the figures and really nobody knows until NewCo is further down the trail," he said. "The fact that the liabilities can be discounted to present value means that the chance of names meeting (the call) is quite higher."

But there is a question of tax relief for those members who are no longer underwriting, he added.

Normally, each Lloyd's member can offset his or her underwriting losses against Lloyd's profits except in the year in which the loss arises, or against other income, Sir David explained. This has helped many loss-making members receive some tax relief in the past five years.

But if NewCo is set up at the end of 1995 and all the losses are crystallized into one year, names will not have enough income to offset their one-time payment to close their syndicates.

"Therefore, under the present tax treatment, names may find they are tax-disadvantaged from an outright closure into one year," said Sir David. "Lloyd's needs to look and (is) looking very carefully at this aspect before finalizing what they'll do."

Sir David hopes the Inland Revenue will allow members to deduct their loss over several years for optimum tax relief. "If Lloyd's allows a deferred payment arrangement into which you pay losses over 10 years, the ideal would be for the Inland Revenue to allow you to match tax relief over those 10 years. But that is not in accordance with current tax legislation," he said. "An alternative might be that Lloyd's closes some syndicates in one year and some in another."

Ms. Hutter noted that Lloyd's is planning to offer members structured payment plans for their NewCo reinsurance to close premium. BI

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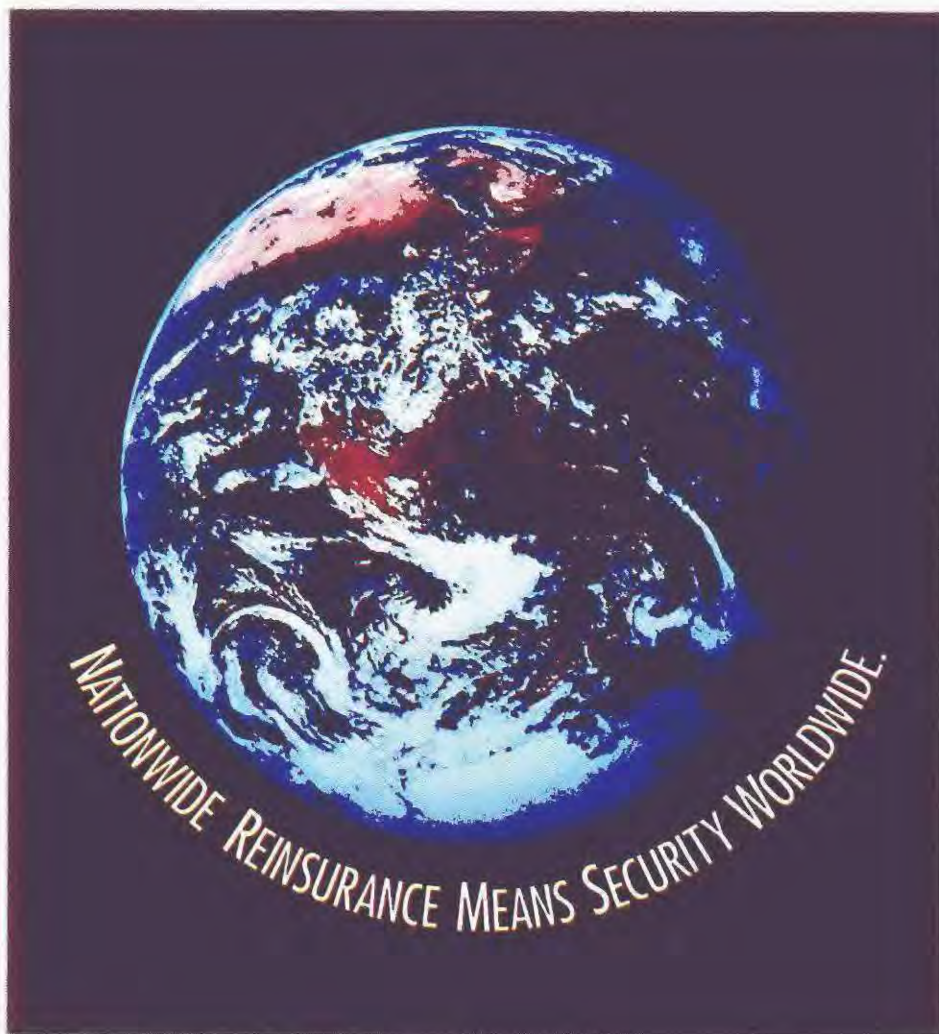

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To do list for NewCo's leader: Set up reinsurer; set its premiums

By STACY SHAPIRO

There are two basic goals that the NewCo project is hoping to achieve, according to Project Director Heidi Hutter.

One is to price the reinsurance premium that Lloyd's of London members will have to pay to close their pre-1986 liabilities by the beginning of 1996.

The other is to formally set up the company—which is expected to adopt another name soon—that will write the reinsurance.

NewCo must be approved as a licensed reinsurer by the Department of Trade and Industry. The NewCo team already communicating with the DTI on a regular basis is headed by Jeremy Heath, project manager for DTI authorization and a consultant with Coopers & Lybrand.

Mr. Heath also is involved in a steering committee that is looking at the capitalization of NewCo.

Lloyd's members have expressed a desire to have some form of tradable investment in NewCo, "so that is very much in our thinking" though no one is committed to a capital structure yet, said Ms. Hutter.

Investors outside Lloyd's also might be interested in providing capital to NewCo and Lloyd's is talking to investment advisers about the possibility, she noted.

It's too early to say what the reinsurer's capital structure will be, though "I think we have a creditable story" for investors, Ms. Hutter said.

Later this year, NewCo will be looking at creating a board of directors, management positions and employing a full-time staff. The company hopes to obtain DTI authorization by the end of 1995.

On the pricing side of the NewCo project there are four working parties:

• The Inwards and Outwards Reinsurance Group. This group, headed by Lloyd's underwriter Elvin Patrick of Bankside Syndicate Management Ltd., is analyzing the syndicate reinsurance available to pay pre-1986 losses. A questionnaire was recently sent out to syndicates to ascertain the amount of their reinsurance recoverables.

• The Macro Group. Headed by

Continued on page 36

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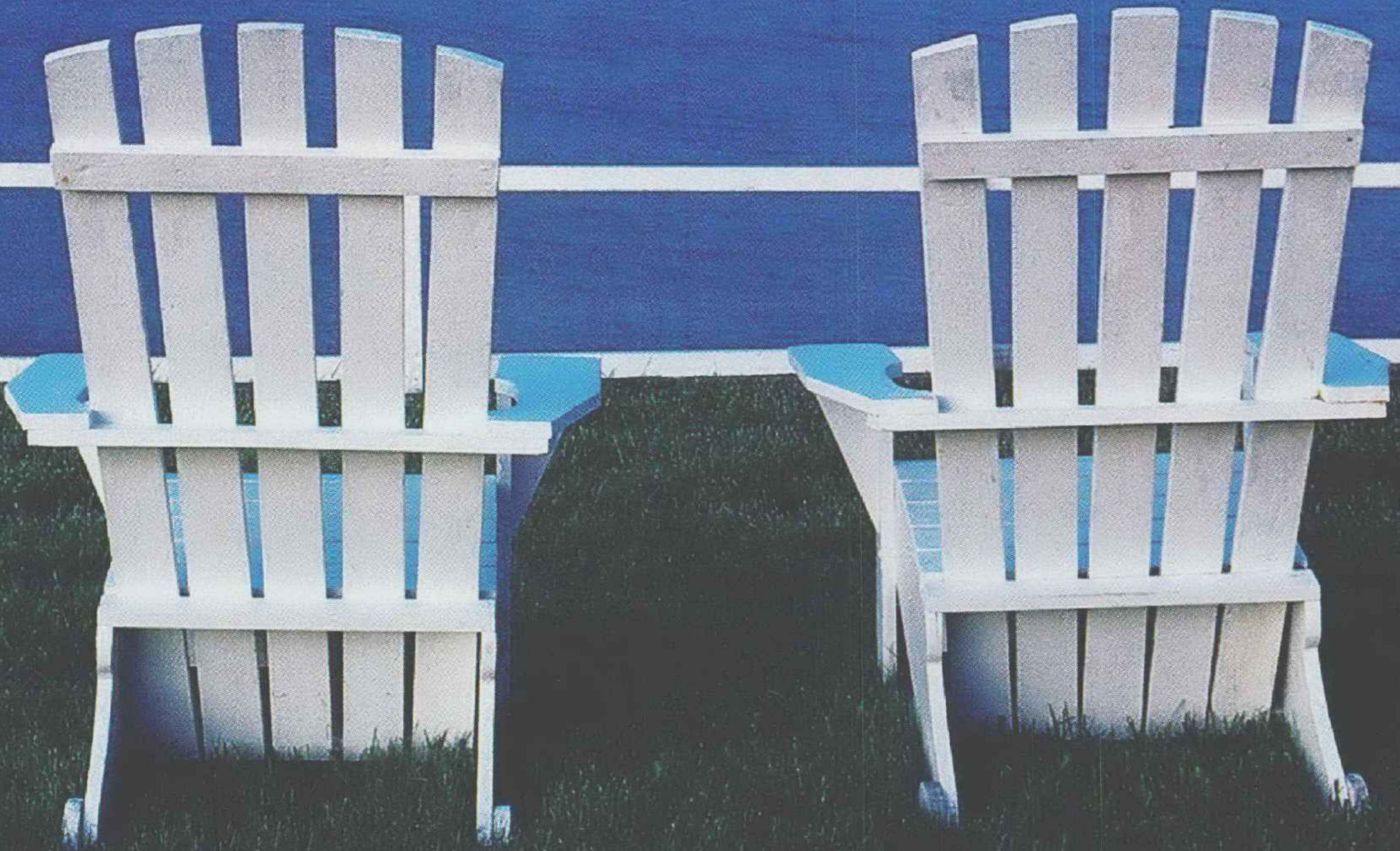

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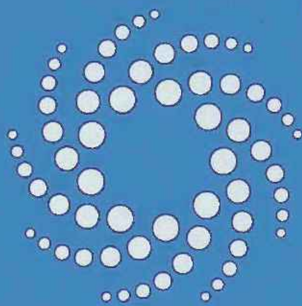

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Pace of new corporate funds entering market slows

Agents looking to create new investment vehicles

By ADRIAN LADBURY

Lloyd's of London will not see another dramatic influx of new corporate capital in 1995, predicts a market executive.

Investors will be deterred by sluggish U.S. and European markets for new stock issues, uncertainty over the performance of this year's corporate capital vehicles until the 1994 account closes, and continued unpredictability from market litigation and NewCo, said Ewen Gilmour, Lloyd's corporate capital manager.

Mr. Gilmour predicted that new types of corporate investment vehicles, plus any newly formed investment trusts, could generate 300 million pounds ($462 million) to 500 million pounds ($770 million) in capacity for 1995.

Corporate capital contributed 1.59 billion pounds ($2.35 billion) of the market's overall 10.9 billion pounds ($16.12 billion) in capacity this year.

At the same time, Lloyd's is predicted to lose 15% to 20% of its traditional individual membership, which still accounts for the majority of annual capacity.

In those clouds, Mr. Gilmour and Robert Hiscox, deputy chairman of Lloyd's, think they see a silver lining.

Both predict that losing the capacity should spur managing and members agents to develop new ways of raising capital, particularly among corporate investors.

And other observers say that despite the unlikelihood of huge new vehicles—like London Insurance Market Investment Trust P.L.C., which raised 280 million pounds ($414.4 million) last year—there is interest in more modest private placements, especially in the United States.

Overall, it seems likely that new corporate capital will come in smaller and more varied packages in 1995.

Lloyd's managing agents are developing a number of alternative investment vehicles to attract corporate investors. Among them are so-called dedicated vehicles, which would raise money from private and institutional investors and invest it in a single syndicate or range of syndicates all controlled by one managing agency.

Many leading managing agents like the concept and a number have plans to set up such programs (*BI*, Aug. 8).

Dedicated corporate trusts also have a role model and champion in Mr. Hiscox.

For the 1994 year, he launched Hiscox Dedicated Insurance Fund P.L.C., which invested in four syndicates managed by his managing agency, Hiscox Syndicates Ltd.

"I do not expect to see many more investment trusts. The current ones are trading at a discount. I do expect to see dedicated vehicles with syndicates managed by one managing agency or large corporate-backed syndicates. And I expect to see investment trusts being able to buy shares in them," said Mr. Hiscox.

Such corporate syndicates were first proposed in Lloyd's so-called value report last May, which suggested that a corporate vehicle could be created that would allow investors to place their money in a single syndicate. Current members would be able to trade or sell their individual participation for shares in the new corporate vehicles.

Much of the new corporate money could come from the United States, said Mr. Gilmour, who previously was an investment banker for Charterhouse Bank Ltd. in London.

"It's as difficult to predict as it was last year. There is plenty of academic interest and certainly plenty of interest among managing agents for corporate syndicates. But in the current new issues environment, it will be difficult to float anything this autumn, even more difficult if it's insurance-based and even more difficult if it's Lloyd's-based," he said.

Also hindering the flow of corporate capital, Mr. Gilmour said, is investors waiting to see how this year's corporate vehicles fare when the 1994 year is closed at the end of 1996.

Investors also are nervous about unresolved problems, such as the mountain of litigation against members and managing agents, old-year liabilities and the proposed run-off reinsurer NewCo (see story, page 24).

"NewCo is the biggest single factor," said Mr. Gilmour.

"We do not expect vast amounts of new capital from the U.K. We have the same phenomenon in the U.S. as last year where investors are showing a great deal of interest currently but. . .it will be impossible to predict the outcome," he said.

Last year, three big U.S.-based corporate investment trusts raised about 35 million pounds ($50 million) in capital—out of a total of almost 900 million pounds ($1.29 billion) raised by corporate vehicles.

Other big U.S. investment trusts failed to get off the ground.

A joint venture of Salomon Brothers and Johnson & Higgins, for instance, failed to raise $300 million.

And Anton Members Agency Ltd., Donaldson, Lufkin & Jenrette Securities Corp. and London-based Phoenix Securities Ltd. failed to launch Lutine Capital Corporation Ltd. which also hoped to raise $300 million.

Those failures were blamed on the depressed state of the new issue markets, especially following the flow of billions of dollars to Bermuda, and a lack of time.

Investors lined up for last year's non-starters, though, could provide a good slice of any new capital this year.

For example, the four partners that attempted to launch Lutine are back at it. According to David Reid-Scott, managing partner with Phoenix Securities, the team has decided on a private rather than public placement and will focus its fund-raising efforts in the United States.

They are also looking into alternatives like dedicated corporate vehicles.

"It is fair to say that the general appetite in the U.K. for Lloyd's corporate capital is fairly sparse while the situation in the U.S. is less clear. . .it's all a bit uncertain," Mr. Reid-Scott said.

He cited four reasons for the uncertainty: the general state of the U.K. equity market; shares in all of last year's U.K.-based investment trusts are trading at a discount; uncertainty over the level of traditional individual capacity that will remain in 1995; and concern over the prospects for NewCo.

The lackluster environment for initial public offerings is also likely to deter any of this year's current corporate vehicles from raising extra cash for 1995.

"We raised a lot of money last year and those backers quite rightly want to see what sort of investment they have already made before they decide to commit more," said Allan Nichols, research director at London Insurance Market Investment Trust, last year's biggest investment trust with 502.5 million pounds ($743.7 million) underwriting capacity.

Despite the uncertainty hanging over the money markets, several managing agents are trying to attract investors for dedicated capital vehicles.

Cater Allen Syndicate Management Ltd. is planning to launch a dedicated trust called Atlantic Syndicate Capital Ltd. that will back four of its five syndicates in 1995.

A preliminary prospectus has already been circulated. If it raises enough interest, a full prospectus will be issued in September in time for a private placement of $20 million to $30 million to close in mid- to late October (*BI*, Aug. 8).

Cater Allen's dedicated vehicle will differ from most because, in addition to institutional investors, the agency expects major industrial and commercial U.S. policyholders to back the venture.

Cater Allen Chairman Robin Gilkes said he is a fan of dedicated-style capital largely because of the certainty it provides for underwriter, managing agent and, ultimately, policyholder.

"Having to reconstitute the capital every year is a nonsense. It's very difficult to run a company like that. Essentially we are going back to the future. Twenty years ago members took very big limits and stuck with their syndicates year in, year out. Theoretically, we didn't have continuity because the syndicates still had to be reconstituted every year but in practice there was much greater continuity," he said.

Despite his agency's hopes, Mr. Gilkes said that underwriters should not expect dedicated capital to come rushing to the market in droves.

"This is a damned hard sell. In my mind, however, the prize is worth it," he said.

"It's utterly fluid at the moment. We have a number of discussions going on but nothing firm," George Stevens, chairman of Brockbank Syndicate Management Ltd., said of his agency's efforts to attract additional corporate capital.

Mr. Stevens said he is keen to raise external capital to support his agency's syndicates, partly to replace an expected drop in capacity provided by traditional individual members. However, the form that investment takes—such as creating a dedicated vehicle or attracting capacity from corporate investment trusts—is still uncertain.

"Everyone we are talking to is U.S.-based; that's where the interest lies. U.S. investors seem to have a greater degree of understanding of the market and appreciate the need for long-term planning," he said.

The Brockbank Group recently announced that it plans to increase its three syndicates' capacity by more than 100 million pounds ($154 million) for 1995. Some of this could be dedicated capital.

R.J. Kiln & Co. Ltd. and Wellington Underwriting Agencies Ltd. are two other leading managing agents that are currently trying to raise dedicated capital for next year.

Wellington, the largest managing agency at Lloyd's this year, with 762 million pounds ($1.13 billion) of capacity under management, confirmed last week that it is considering the launch of a dedicated trust to back its syndicates.

Wellington hopes to raise the cash among both U.S. and U.K. investors.

Kiln, Lloyd's sixth-largest managing agency this year with 503 million pounds ($744.4 million) under management, confirmed that it, Morgan Stanley & Co., London stockbrokerage Cazenove & Co, and New York based insurance investment specialist John Head & Partners L.P. plan to launch a dedicated fund.

Kiln has no set figure in mind for its dedicated fund. John Head will take only a minority interest at the initial placement stage and the bulk of the money will come from U.S. and U.K. equity investors in a public offering in New York and London, according to the agency. Kiln says the new capital would be distributed evenly across its nine syndicates trading in 1995. BI

Newco goals

Continued from page 32

Tony Jones, former director of Sturge Holdings P.L.C. and now a consultant with Tillinghast, this group is gathering global information on court decisions and subsequent insurance claims that affect the liability of the insurance industry and ultimately Lloyd's.

- The Micro Group. This team, headed by Ralph Sharp, managing director of A.J. Archer Holdings P.L.C., is examining Lloyd's Claims Bureau statistics.
- The Syndicate Extrapolation Group. This group, which is headed by Robin Jackson, chairman of CentreWrite Ltd., is in charge of gathering syndicate reserving data centrally for the first time.

The group, which has its own computer system and offices in the Lloyd's building, has sent two questionnaires to each syndicate and the second questionnaire is expected to be analyzed this autumn.

The team is reviewing 374 syndicate "lives," or open accounts, for 1985 and prior years and another 176 syndicate accounts for 1986 and later years.

Ms. Hutter acknowledges that there is a "disparity" between the quality of data received from each syndicate. But already the team has found that the syndicates generally are holding assets in good quality securities. "That is very good news," she said.

Another NewCo committee headed by Lloyd's underwriter Anthony Bartleet, chairman of Murray Lawrence & Partners Ltd., has just been set up to examine the possibility of reinsuring 1986 and later years of account into NewCo.

This would include the disastrous London market excess-of-loss syndicates that accounted for much of Lloyd's recent losses. Leading Lloyd's underwriters Tony Cassidy and Barnabas Hurst-Bannister have also joined the committee.

Lloyd's CentreWrite Ltd. subsidiary has been offering quotes to run-off post-1985 accounts, but the process has been expensive, said Lloyd's Deputy Chairman Richard Keeling, who is also chairman of the NewCo Supervisory Committee. Mr. Bartleet's committee will now look at the feasibility of closing these syndicate accounts into NewCo rather than into CentreWrite.

The post-1985 accounts, which generally have been affected by catastrophic short-tail claims, should be much easier to manage than pre-1986 liabilities, said Mr. Keeling.

Another committee headed by Mark Fidler of Coopers & Lybrand is now examining whether there should be a "Liveco" subsidiary of NewCo that would offer some kind of ongoing insurance services to third parties.

One reason for the setting up of such a parallel company would be to encourage the highest-caliber people to come work for NewCo knowing that there is a future career path after the runoff starts shrinking, said Mr. Keeling. "You need something that as (NewCo) shrinks in size something else is growing."

It also is easier to manage runoff companies when there is an income stream from somewhere else, he said.

In the meantime, Lloyd's will soon be publishing its list of rules to become a licensed runoff syndicate manager. The rules have been drawn up by a Lloyd's committee headed by Jane Hives, a partner with Ernst & Young, that is working alongside the NewCo project.

There are currently 10 companies running off old syndicate accounts in addition to some managing agents that are running off their own syndicate accounts.

The rules, which will be the first of their kind anywhere in the world for runoff managers, will make sure that the companies are well organized and that employees are competent technically, as well as "fit and proper" people.

Licensed runoff managers also must provide the best services for the most cost-effective price.

One company expected to be approved as a licensed runoff manager is Syndicate Underwriting Management Ltd., a nonprofit subsidiary of Lloyd's that is running off former syndicates managed by PCW Underwriting Agencies Ltd. and F.L.P. Secretan & Co. Ltd.

Another firm expected to apply for licensing will be the merged operations of TSS Eastgate Group Ltd.—an affiliate of John Head & Partners L.P.—and Randall Holdings Ltd., which manage the runoff of the former Gooda Walker Ltd. syndicates. BI

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Corporate capital investments here to stay

By ADRIAN LADBURY

Hiscox aims to ease transition for individual members

The dramatic arrival of corporate capital at Lloyd's of London has persuaded most within the market that it eventually will account for the lion's share of the market's capacity.

The old-style individual member who has unlimited liability will either transfer to the new style via various corporate investment vehicles or "wither and die," said Lloyd's Deputy Chairman Robert Hiscox.

The market's leadership recognized this possibility and decided it must find a way to make this transition in the smoothest and least painful manner possible.

It also decided that the current individual members must not get fleeced in the process and, most important, they should be able to continue to take part in and profit from the new Lloyd's.

The task of working out how that could best be achieved was given to a working group under the chairmanship of Mr. Hiscox. In May, the group published a report, "Value at Lloyd's," that, among other things, proposed setting a value on syndicate participation and allowing members to trade and sell their participation like stock (*BI*, May 9; Feb. 28).

The report suggested that if members were given a right to continue to participate on the same syndicate in following years then their participation would have some value that could be traded or sold to other members—both individual and corporate.

However, the report has met with some opposition in the market and caused confusion.

The report's leading critics are syndicate managing agents, which contend they should control at least some of the value of their syndicates, rather than have it accrue entirely to the members. Members agents and the Council of Lloyd's, though, support the system proposed by the working group (see story, page 48).

"There has been a minor debate about who owns what, but they haven't really given it a great deal of thought," said Mr. Hiscox. "I think it would be fairer if the members, who pay all the expenses, could get some value for that. Especially having seen that the vehicles we raised last year do have a value given to them because they are members of syndicates," he added, referring to the variety of investment vehicles created to attract corporate capital.

Mr. Hiscox sees long-term benefits in providing value to members' participation at Lloyd's. He said it should help the members transfer their participation to a corporate capital vehicle with limited liability status, which would be better for them and the market as a whole.

"I make no bones about the fact that I like limited liability and do not like unlimited liability. I believe it will make it easier to get people to give up unlimited liability and go limited if (their participation) can be bought," he said.

This system would also open the way to a much more efficient allocation of capital, Mr. Hiscox said.

"Value will also get a better distribution of syndicate placings. If you have to buy a share in something, it's open to all. That was the main driving force behind the task force report," he said. The biggest complaint about the current system is that syndicate participation is reliant on the "grace and favor" of managing agents, he noted. "If there is value there is equity. It replaces grace and favor with simple buyers and sellers."

The group decided not to publish specific rules on how a system of syndicate value would work. Rather, it suggested a framework for how such a system would work but left the methodology largely up to the market.

Mr. Hiscox acknowledges that the group's decision has not helped clarify what is a confusing subject. "Everyone is waiting for a book of rules on how to create value, whereas what we said is, 'It's up to you to use your brains and be as creative as you see fit.' "

The group suggested a three-stage process for introducing syndicate value. First, Lloyd's would have to work out a mechanism for creating value within the market. Next, the market would have to create a means of transferring that value to its rightful owners, the syndicate's members. Finally, Lloyd's would have to develop a means of realizing that value.

Lloyd's is close to achieving the first goal, as it has or hopes to adopt the following regulations for 1995:

- Managing and members agents will have to seek approval from the Council of Lloyd's before they terminate a member's participation on a syndicate. This is part of an amendment to the standard agency agreement that is expected to pass next month.

This was partly prompted by moves earlier this year by a number of managing agents, concerned that they were losing control of their syndicates' capital, to cancel individual members' participation for 1995 (*BI*, April 25).

- The Council passed a bylaw in late May that gives syndicate members in 1994 and subsequent years pre-emption rights to participate in their current syndicates. This gives current members the right of first refusal whether to continue to participate in a syndicate or to increase their participation, assuming the managing agent increases the syndicate's capacity.
- Under the same bylaw, any increase in a syndicate's capacity by more than 15% will require approval by members agents on behalf of their members, who will have the opportunity to vote on the increase.

The value working group hopes that once this package of reforms is fully in place it will give the current members of syndicates a chance to participate in the future of those syndicates, alongside the new capital, and to profit from the transformation of the market.

The next and probably more difficult step is to establish a system of transferring that value.

"Names would be given the right to transfer participation in a syndicate for future years of account to another member. This is likely to be

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Continued from previous page
the fundamental 'building block' for any system of value," the value report says.

Lloyd's says that it has worked out how most but not all types of members would be able to transfer from one form to another.

Lloyd's expects to have rules in place for the 1995 underwriting year that would allow traditional individual members to assign their participation to corporate investment trusts.

The Council issued a market bulletin on Aug. 17 which suggests how this can be achieved and has called for market comment by Sept. 30. It plans to issue a definitive final text by early December so that assignment will be operational for the 1995 underwriting year.

Rules are not expected to be in place by then, though, that would enable individual members to assign participation to fellow individual members or for corporate members to transfer participation to other corporate members.

The third and final stage of the value group's report, on how to realize the value of syndicate participation, received the most enthusiastic welcome from the market, particularly from managing agents who see new business opportunities.

Mr. Hiscox's group proposed three methods of realizing value:

- An auction market in future syndicate participations.

Participations would be traded through the members agents and trading would be confined to the period between August and November each year.

- Corporate pooling arrangements, or COPAs.

The report proposed the creation of pooled investment vehicles, similar to MAPAs, that would invest in a variety of syndicates with the backing of existing members, financial institutions and equity investors.

These pooling arrangements would be listed on the London Stock Exchange and existing members could trade the value of their syndicate participation for shares in the COPA.

- Corporate syndicates.

This essentially would entail a syndicate having a single, corporate member. Existing individual members could assign their future participation rights to the corporate member. If some members did not want to join the corporate syndicate, the managing agent would be obliged to run the original syndicate and a new corporate syndicate in parallel.

The report also envisions that once a corporate syndicate has paid its reinsurance to close for its final year as a traditional syndicate, it would no longer have to do so since the same member would participate in subsequent years.

"For existing members, it is probably the best opportunity to realize the value associated with their syndicate participations and provides the most specialized route to invest in the Lloyd's market with liquidity and limited liability," the value report says. "For underwriters, it tackles a number of competitive disadvantages of the annual venture system, particularly for the larger syndicates which compete directly with the company market."

Market response to creating an auction market in syndicate participations was very cool and it is unlikely that Lloyd's will take the idea any further.

COPAs and corporate syndicates, however, received a much warmer response. Lloyd's Corporate Capital Manager Ewen Gilmour confirmed that a number of members and managing agents are working on developing the two mechanisms.

He said COPAs will probably be more common than corporate syndicates but expects both forms to be up and running next year.

It will only be a matter of time before members take advantage of the assignment system to realize their value and join in an all-corporate vision of Lloyd's membership, Mr. Hiscox said.

Managing and members agents that want to create COPAs and corporate syndicates would simply have to run the corporate syndicates in parallel with the traditional individual-backed syndicates, he explained. If the individual members do not want to take advantage of the value created and opportunity to transfer into some limited liability corporate entity, then so be it, he said.

"My struggle has been to get value for the individual member. . . I have probably caused more complication doing this than I would have done by saying let's have corporate membership and get on with it," he said. "I'm thought to be the champion of corporate capital—that's absolute rubbish. I am the champion of Lloyd's and Lloyd's is basically made up of individual names and the arrival of corporate capital. . . .gave an enormous boost of confidence. I am actually the champion of all names and I'm one myself. I just thought it fair. . . .to give them some value." BI

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Spotlight report

U.S. regulators step up oversight of Lloyd's

Review of American fund, security requirements on agenda

By MEG FLETCHER

U.S. insurance regulators are taking several steps—including their first-ever examination of Lloyd's American Trust Fund—to reassure U.S. policyholders who continue to buy coverage from the troubled market.

The New York Insurance Department expects to complete its review of the funding and accounting policies of the American trust fund next month, said Vincent Laurenzano, assistant deputy superintendent of the Property Companies Bureau.

Policyholders, he said, should not be unduly alarmed by the examination of the trust fund, which was established in New York more than half a century ago and now contains about $9.6 billion (*BI*, March 21).

"I have confidence that Lloyd's will continue to meet its policyholder obligations," said Mr. Laurenzano, who confirmed that the New York investigation is the first by U.S. regulators. "I have that feeling because there are a lot of checks and balances in the Lloyd's system. The exam is designed to verify those checks and balances and provide details on their effectiveness."

Focusing on the asset side of the trust fund's operation, regulators are seeking more detailed financial information on a syndicate-by-syndicate basis, he said.

Often mistaken as a guaranty fund, the LATF is in fact essentially a bookkeeping account for individual names that is used to pay claims and expenses.

It avoided public scrutiny earlier this year in a reinsurance coverage dispute involving Lloyd's and Travelers Insurance Co. In a dispute over asbestos claims, Travelers had argued that Lloyd's syndicates should be required to post additional security because the LATF did not adequately protect U.S. policyholders. Lloyd's objected and the state court judge ordered a hearing on whether the fund offered adequate protection.

But the two sides settled the security question out of court and no hearing was held, said a Travelers attorney.

Lloyd's, for its part, now says it welcomes scrutiny of the LATF in New York.

"I think Lloyd's has a very rigorous system for solvency regulation. It is not widely or clearly understood. They welcome the invitation to sit down and have it reviewed by someone as well regarded as the New York Insurance Department," said Peter Demmerle, a U.S. spokesman for Lloyd's and an attorney with LeBoeuf, Lamb, Greene & MacRae in New York.

Outside New York, other regulatory actions are also afoot.

The National Assn. of Insurance Commissioners next month is expected to formally vote to increase security requirements for Lloyd's of London's as part of a general campaign to tighten up requirements for non-admitted insurers. Lloyd's syndicates, which are licensed as a whole in Illinois, Kentucky and the U.S. Virgin Islands, write various coverages in other states on a non-admitted basis.

Under the proposed NAIC rules, Lloyd's would be required to double the assets it maintains in a smaller trust for surplus lines policyholders to $100 million and to hold the funds "jointly for the benefit of United States surplus lines policyholders." Currently, the $50 million in the trust fund is not held jointly; if one account is exhausted in paying claims, other accounts within the LATF could theoretically not be tapped to pay claims.

The NAIC's Surplus Lines Task Force continues to monitor the trust fund to see whether $100 million is too low, said Jim Brown, chairman of the task force and insurance commissioner of Louisiana.

The NAIC is expected to vote on the Non-Admitted Insurers Model Act during its fall meeting Sept. 18-20 in Minneapolis. States then would be free to adopt the act. Regulators have not decided whether the model act will become part of the body of model laws that states must adopt to be accredited by the NAIC.

At that fall meeting, Mr. Brown said he plans to encourage regulators to establish a "reinsurance certification" program for non-U.S. insurers, so the NAIC can strengthen its role as a gatekeeper.

Currently, an NAIC unit reviews the financial data of non-U.S. insurers but does not specifically approve them.

Mr. Brown's state, Louisiana, is particularly dependent on non-U.S. insurers, like Lloyd's, for oil and gas and marine coverages.

Michigan is another state particularly concerned about Lloyd's. Regulators there continue to require a handful of ceding insurers to obtain more concrete security, like letters of credit, for crucial reinsurance recoverables from Lloyd's syndicates.

That requirement stems from Michigan treating Lloyd's syndicates like any other non-admitted reinsurers, instead of granting special treatment to the market as most other states do, said Robert Bailey, first deputy commissioner of the Michigan Insurance Bureau.

The stricter requirement, though, could become unnecessary if Lloyd's becomes an accredited reinsurer in accordance with a Michigan law passed in June that parallels the NAIC's Model Credit for Reinsurance Act, Mr. Bailey said.

To become accredited, Lloyd's would have to file a complete annual statement with regulators, including new information about the adequacy of loss reserves as well as the amount and collectibility of reinsurance, Mr. Bailey said. Lloyd's hopes to be able to file the complete statement next year, though an examination of Lloyd's may also be required, he said.

Other outstanding regulatory issues affecting Lloyd's include whether its liabilities should be

Continued on next page

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Continued from previous page
counted on a gross basis, or net of reinsurance, as the Non-Admitted Insurers Model Act would require. Another concern is whether liabilities should also include incurred-but-not-reported claims.

The question is important because an insurer's liabilities are used to determine how large a trust fund the insurer must maintain to do business in the United States.

For purposes of credit for reinsurance, the Reinsurance Assn. of America favors determining insurer liabilities on a gross basis and including IBNR claims, said Debra J. Hall, vp and general counsel of Washington trade group. Only then will ceding insurers be protected if the reinsurance is not collectible, she said.

At the present time, the LATF is made up of a combination of both gross and net liabilities, said Lloyd's attorney Mr. Demmerle. Lloyd's is currently discussing this issue with New York regulators.

The RAA also believes a similar standard should apply to the surplus lines marketplace. "Consistency is important for the protection of surplus lines policyholders, too," Ms. Hall said.

Thus far, regulators drafting the Non-Admitted Insurers Model Act Ave been more concerned with preserving the marketplace than pressing that point. "I'd love to have 125% of gross (liabilities), but in the real world we may not be able to accomplish it," said Stewart Keir, assistant deputy superintendent and chief examiner of the New York Insurance Department.

Insurers also note that if the standards are set too high they may force non-admitted insurers to withdraw from the market, which would could reduce capacity.

Open discussions of these and other regulatory issues are having a mixed impact on U.S. policyholders' willingness to buy Lloyd's of London coverage.

"There are certainly more questions being raised about Lloyd's," said Gerald J. Sullivan, president and chief executive officer of Los Angeles reinsurance brokerage G.J. Sullivan Co. However, he has found that a full explanation of Lloyd's security arrangements can satisfy nearly all would-be policyholders, he said. "Lloyd's continues to meet all obligations, without any question," he pointed out. "The people who suffer are the investors, not the policyholders."

"Certainly there are concerns about what is going on in the London market," said Ellen Wiese, a trustee of Aircraft Builders Council in New York. The consortium of aircraft product manufacturers purchases coverage from both a Lloyd's underwriter as well as a non-Lloyd's company.

However, she considers it to be "a strong and viable market," though one or two, very small companies on ABC's London-based slip did become defunct.

Lauren Ladd, risk manager for O'Brien-Kreitzberg & Associates Inc. in San Francisco, sees it differently.

Her construction management company stopped buying professional liability insurance in London in 1992 because of a combination of factors: There was "instability" in the marketplace and cost of coverage continued to rise, even after three years of no claims.

"At this point, I, and my senior management, are somewhat reticent. Hopefully things will shake out and settle down," Ms. Ladd said. BI

Members say time is ripe for changes in regulation

Lloyd's defends self-regulation

By ADRIAN LADBURY

Lloyd's of London is a self-regulated market and Sir Alan Hardcastle believes it should remain that way.

With better information and the benefits of hindsight, the market is better prepared to regulate itself than ever before, according to the chairman of Lloyd's Regulatory Board.

Needless to say, many loss-racked members take a different view. To them, self-regulation is a key reason why they have lost so much money and why a mountain of litigation now burdens the market. Calling Sir Alan a paper tiger, these members are out for blood and demand that it be spilled publicly to prove that Lloyd's has its act together.

The conflict over the adequacy of market regulation rages on nearly two years after Lloyd's first moved to strengthen oversight by placing two powerful boards—the Regulatory Board and the Market Board—under what used to be the market's sole governing body, the Council of Lloyd's.

Rejecting the notion that "public executions" are needed to strengthen oversight of Lloyd's, Sir Alan insists that his 200-person department can work best by working quietly to oversee market conduct.

Though he recognizes the "horrors" created by the London market excess-of-loss spiral, he says little blame can be laid at the door of his predecessors. "To say that Lloyd's failed implies that there was rueful disregard of what was happening, or pretty reckless disregard, and I don't believe that was the case. I honestly don't."

Regulation of the market was extremely difficult in the totally different environment regulators worked in at that time, he said.

"There was always enormous resistance" to giving all business information to a central authority like the Council, he said. "It was an extraordinary approach but I don't criticize the Council. The incompetence and dishonesty, if there was any, was beyond their comprehension. It was an old-style system and let's face it, other parts of the City were the same," said Sir Alan, referring to London's financial district.

That has all changed now and for the better, he said. "There is a greater realism. It's in everybody's interest that a certain amount of information must be yielded to the center, in confidence, for everyone to benefit. There is. . .a new generation of people who by and large realize it's not in anybody's interest to hold information back. Sadly it has taken some real awful traumas to get this far."

Sir Alan pointed out that his regulatory department is now: independent of the corporation staff; answerable only to him; and furnished with far more and bet-

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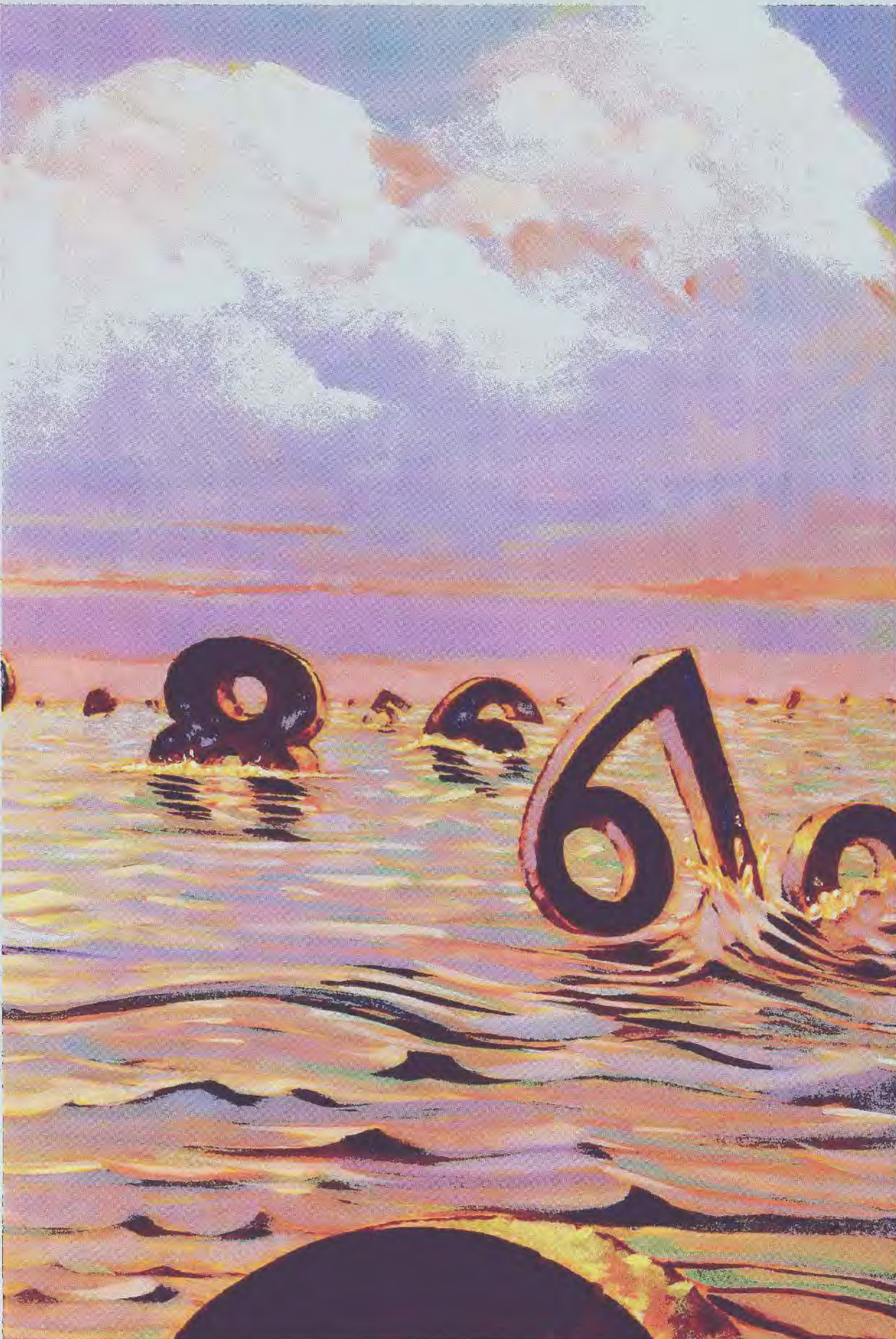

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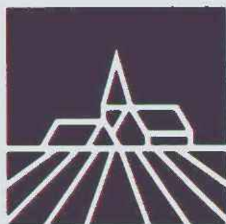

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Regulation

Continued from page 43

ter information on syndicate operations. And, ultimately, if a conflict of interest should arise between himself and the Council he could carry the day since members of the Regulatory Board actually comprise a majority on the Council.

Loss-racked members share little of his optimism.

Lloyd's failed to adequately regulate the market in the past and there is little evidence to suggest it will do any better in the future, asserted Christopher Stockwell, chairman of the Lloyd's Names' Assn. Working Party, an umbrella organization for the members action groups embroiled in litigation.

"There can be no satisfactory regulation of the future without clearing up the problems of the past. The past was fatally flawed and they give us no evidence that the future will be much better," said Mr. Stockwell.

One example he points to is companies placing their Lloyd's members agency subsidiaries into voluntary liquidation to avoid liability for impending litigation.

That practice infuriates Mr. Stockwell, who accuses agencies' parent companies of abandoning their former clients and siphoning away valuable assets to affiliates, leaving syndicate members with liabilities but few assets.

"They are not doing their job. The problems of the past are influencing the way the future is shaped and Lloyd's is doing nothing to change it. The assets are being siphoned away through special dividends, management charges and the like," charged Mr. Stockwell.

Sir Alan said he also is concerned about the recent rash of liquidations and will do everything in his power to ensure the members are not cheated. But, he added that he is restrained by corporate law.

"One has got to be realistic and in one or two cases we have persuaded the company to provide some support to insolvent agents. There is no way a shareholder faced with litigation claims can be forced to put more money into the capital of the agent," he said.

"What we can do is ensure that any business transferred out of the company goes for the proper value. We must ensure there is a fair price. . .and ensure that value stays in the old company. In one or two cases we are insisting on independent valuations," said Sir Alan.

Such claims of Lloyd's impotency to step in and protect members' interests merely underline the need for long overdue external regulation of the market, according to some dissident members and also members of Parliament like Labour Party backbencher Peter Hain.

The British government is in the midst of a year-long review of regulation of the financial services industry and Lloyd's is on the agenda.

The Treasury Select Committee, the government's standing committee responsible for overseeing the government's purse strings, commenced its review this March and intends to report its findings to Parliament next spring.

Sir Alan said that he has not been interviewed yet by the committee, adding that he is unsure whether the committee is even considering changing the Lloyd's Act to eliminate self-regulation, or whether Lloyd's is even properly within Treasury's purview.

Mr. Stockwell, however, said he is convinced that Lloyd's will lose its privileged status—and sooner rather than later.

"Outside regulation is inevitable, especially if the government changes. It is likely to change regardless though as a result of the Treasury Select Committee's review," he said.

Another criticism leveled at Lloyd's is that when it does regulate it does so so quietly that nobody even knows about it.

Sir Alan responds that he does not feel that he needs to show results to placate a blood-thirsty membership or scandal-obsessed media. He prefers the subtle approach.

"I don't feel under any pressure of quotas. At a recent conference I said don't, for God's sake, look to see in the press or elsewhere that we are de-registering two or three agencies because most of the time that just will not happen in that way.

"What we are more likely to do is put them under immense pressure to make sure the names are transferred into safe hands. If possible make sure they have some sort of choice in that and then to have that first agent withdraw from business."

In at least one regulatory area, Sir Alan has shown himself to be no paper tiger.

Two months ago, his department had started work on, or given notification of intent to start work on, 12 loss reviews. The reviews, started in 1992, are voluminous, detailed and often highly critical investigations into managing agents with unusually large syndicate losses.

Though not their intended purpose, the findings have greatly assisted the members action groups in preparing for their lawsuits accusing agents of negligence.

This fact has not been lost on the defendants and now that the members' cases are beginning to reach the courts, some members and managing agents have begun to call for cessation of the investigations.

"Yes, we have been challenged in a number of cases now. Three of them were totally absurd—the litigation hadn't even started. I will not entertain any challenge to them where there is no litigation at all. It's absolutely ridiculous and they have accepted my point," said Sir Alan.

Sir Alan added that the only thing that would prevent him from continuing with the loss reviews were if a criminal investigation were involved or if one of the defendants successfully obtained a court order blocking an investigation.

"Regulators should never set out to be popular" said Sir Alan. He did say, however, that the tone of his correspondence from members is now less confrontational and more constructive than it was when he first started.

There will, however, always be a large minority of loss-stricken members, who will never be satisfied until they see heads roll.

"If Lloyd's wants to look to now and to the future, then they have to look to the people who were involved in the disasters of the past and make sure they are not involved in the management of the society going forward—and that clearly is not happening," said Mr. Stockwell of the Lloyd's Names' Assn. Working Party. BI

Face to face with an electronic future

Some brokers, underwriters uneasy with Lloyd's plans

BY STACY SHAPIRO

Imagine a Lloyd's of London without long lines of brokers burdened with bundles of documents and waiting hours to see underwriters who hopefully will, with the flourish of a quill or fountain pen, indicate their willingness to assume a risk.

Instead, each underwriter would sit in a comfortable chair in their offices, with the flick of a switch and the stroke of a few keys on a computer, could agree to write risks that brokers had sent electronically from their offices.

With risks too complicated to explain over the phone, underwriters could meet with brokers in their offices or at their boxes and hash out deals with the complete information about a risk available on-line.

Such a scenario at Lloyd's is not far off. Electronic transactions are scheduled to become reality by the end of 1995.

Brokers eventually will be able to send client-approved orders, line slips, endorsements and declarations to underwriters through Lloyd's wide area network, called the Electronic Placing Support System, and underwriters will be able to look at them and "sign" them electronically.

Chief Executive Peter Middleton says this will revolutionize underwriting at Lloyd's. Fewer people will be needed in the market, which will dramatically cut overhead, and timelier information will be available on a centralized basis.

But several managing agents think the mainframe-based system that Lloyd's is pushing will eventually hinder rather than help the market in attracting business.

"I think a central mainframe system is a grave mistake," said one managing agent who asked not to be identified. The system would restrict access to the market by requiring brokers and clients to adapt to the Lloyd's system, which could be a cumbersome process, rather than expand access to the market by using already available software or networks, the managing agent said.

"I wholeheartedly disagree with it," said another managing agent.

Lloyd's business plan, published last year, called for full electronic business processing by 1996. All underwriters were to be connected to a system by the end of 1993, and all business was to be "supported" by an electronic version of an insurance contract by 1996.

To comply with the plan, all underwriters were put online on Dec. 1, 1993, with the "Electronic Placing Support" system, initially to place their own reinsurance protections. A few brokers also are now online.

So far, only 3,500 risks have been written electronically, accounting for about 1% to 2% of the market's total premium volume, confirmed Andy Coppell, Lloyd's systems and operations director.

Beginning next month, underwriters will be able to download data from the mainframe to the computers in their managing agents' offices, said Mandy Stilwell, business applications support analyst. This will replace the hard copies of data that the managing agents now get for business they underwrite.

And by the end of next year, Lloyd's wants 100% of its premium volume to be written via computers, said Mr. Coppell.

Some Lloyd's underwriters favor the new system.

"Electronic placing will come, (and) it won't be the feared animal that many underwriters seem to think it will be," said Tony Berry, managing director of Cotesworth & Co. Ltd. "You have to go through the process of change, and in the generation to come, they'll all deal electronically and think nothing of it."

Some fear that the system will do away with the face-to-face negotiation between broker and underwriter that has been the hallmark of the London market.

That is not Lloyd's intention, Ms. Stilwell confirmed. Lloyd's is trying to reduce the time underwriters take on routine matters to give them more time to write new business, she said.

"At the moment, the brokers come into the (Lloyd's Underwriting) Room and they go around to all the underwriters to try and place business. . . .And they go around with a slip and a pile of documents and they queue up for hours on end and wait, and when the underwriter finally sees them, it would be for just a couple of minutes because something needs to be initialed or signed," said Ms. Stilwell.

"The only time the broker really needs to spend a lot of time with the underwriter is when he is placing a completely new order or a new risk and needs to go into detail about what it involves. In that case, he really will sit down with the underwriter for hours. That's what we're trying to improve upon," she said.

By allowing the more mundane business to be placed electronically, the underwriter would have more time to look at new risks in detail.

Other underwriters and managing agents, however, have raised other concerns about the new Electronic Placing Support System.

One managing agent, for example, believes the system will be antiquated before it is up and running and will only link underwriters with brokers rather than with a gamut of other parties like policyholders, lawyers, claims adjusters and accountants.

Existing global networks would allow underwriters to work with all these people electronically, the agent contends.

Instead, all the business coming into Lloyd's will have to go into a large mainframe environment, putting a "very large concentrated single choke point" into the system, he said.

Another managing agent believes Lloyd's originally thought up the electronic system to be a "support" system and not a means of electronically placing business. "That concept was a good one," he said of the former plan.

"I think emphasis on the word 'support' is so important because electronic support would minimize the paper flow in routine transactions," said a Lloyd's marine underwriter. "But if (EPS) is going to be the driving force (in trading), then that can't be acceptable. But it is moving very quickly, and people seem to be committed to deadlines which they are going to adhere to regardless of whether the system is tried and tested or acceptable."

Despite such opposition, Lloyd's Mr. Middleton maintains that the Electronic Placing Support System is the right way to go. "Why on earth would you do it any other way?" he asked rhetorically.

"What we are saying is that we want a common system of data transmission in today's market," he said. "Second, we want that system to be used to transmit all data relating to underwriting proposals. And thirdly, when an agreement is reached between a broker and an underwriter, it will be the electronic version of the slip that is the legal one."

Savings are difficult to estimate, said Mr. Middleton, but he added that they will be "very, very substantial."

That's not to say that when a broker meets with the underwriter, the broker won't be carrying a piece of paper. "But the data on the piece of paper will be available to the underwriter on his screen. And I have no doubt that there will be some underwriters who will want—for a period, until they get attuned to this—their own hard copy," said Mr. Middleton.

Lloyd's plans to hold 47 workshops between now and next March to help underwriters become familiar with the new system.

In the meantime, not far from Lloyd's, an innovative global network is coming to the end of its pilot program in the offices of C.T. Bowring & Co. Ltd.

Bowring's parent, Marsh & McLennan Cos. Inc., is developing its prototype Global Broking Centre, an automated system designed to streamline insurance placements for large policyholders (*BI*, July 18).

Last year, M&M built a trading room in London to link up with several insurance "markets" around the world, said Stephen Matanle, managing director and chief executive of Bowring Worldwide Insurance Brokers Ltd. From an initial 10 insurance companies and two Lloyd's syndicates, the system has grown to 19 companies in Europe and the United States and eight Lloyd's syndicates, he said.

When the Global Broking Centre is finally launched next year, M&M hopes to have 60 to 70 markets online, said Mr. Matanle. The intention, however, is not to replace face-to-face negotiation between broker and underwriter but "to complement it."

Underwriters, which pay to be members, are supplied with the software, installation and the training.

The pilot program electronically links London with several of M&M's retail offices, which send details on risks they want to insure by placing documents through a scanner, which transfers their data into the computer. M&M's wholesale brokers and selected online markets can then see the list of risks. The underwriters can then pull information about the risks in which they are interested.

If the underwriters choose to write those risks, however, they must agree in the old-fashioned way by signing paper line slips and policy documents, Mr. Matanle noted. That may change when the system is launched.

At the moment, the Global Broking Centre is working on improving its compatibility with other electronic systems, Mr. Matanle said. BI

Spotlight report

Managing, members agents face off on capital

'Value' report raises concerns over control of Lloyd's capital

By STACY SHAPIRO

Managing agents and members agents are fighting for control of the capital of the Lloyd's of London market.

Battle lines were drawn this spring just before a Lloyd's working group issued a report that proposed setting a value on syndicate participation and allowing members to sell that commodity.

Concerned that those proposals would leave them with little or no control over their syndicates' value or capital, several managing agents gave individual members notice that their participation would be canceled in 1995.

These cancellations, many of which were later withdrawn, especially targeted members agent pooling arrangements, or MAPAs, which are effectively member-backed investment trusts managed by members agencies.

"We said over our dead bodies" to the cancellations, said one Lloyd's members agent.

Matters got worse when the so-called value report was published in May (see story, page 40).

"It was immediately apparent to us that the composition of the value group was dominated by large managing agents" and large "predominantly MAPA" members' agents, wrote James Sinclair, managing director of members agent Willis Faber & Dumas (Agencies) Ltd., in a letter to Andrew Duguid, secretary to the Council of Lloyd's. "The result of this was key input was missing from the value group and has left many short-comings in the paper which (Willis Faber) hopes the Council will consider correcting."

The feud grew after Lloyd's adopted the Syndicate Pre-emption (1994) Bylaw, which gives syndicate members pre-emption rights to participate in their current syndicates. This essentially gives current members the right of first refusal as to whether to continue to participate in a syndicate or to increase their participation, assuming the managing agent increases the syndicate's capacity.

But adoption of that bylaw required members agents to act quickly—far too quickly, they say—to notify members and guarantee them a place on syndicates in 1995.

"The requirements for complying with the bylaw and the difficulty of meeting the timetable set by Council have effectively voided the attempt to increase members' rights," said David Harrison, chairman of independent members agent Harrison Bros. Underwriting Agencies Ltd.

Today the rift between the two camps is so great that the Lloyd's Underwriting Agents Assn. is considering restructuring itself to give managing agents, members agents and corporate capital their own subcommittees so they would have a more independent voice in the organization. The LUAA currently represents combined members and managing agencies, independent members agencies and independent managing agencies.

Each subcommittee's chairman would be made a deputy chairman of the LUAA, and the LUAA's chairman would alternate each year between a representative of the managing agents and the members agents.

A vote on the proposed change is set for next month and, if passed, could take effect in January.

"The advent of corporate capital, MAPA, pre-emption rights and so on have emphasized that there is a growing difference" in the needs of members and managing agencies, said Malcolm Mackenzie, chairman of the LUAA and managing director of managing agency D.P. Mann & Co. Ltd.

At the core of the spat is ownership of the value of a syndicate, which is currently only a hypothetical concept since syndicates have no value under the market's present structure.

Prior to this year, Lloyd's capital was totally provided by individual members who have unlimited liability. These individual members are required to deposit 30% of their premium income capacity with Lloyd's, so their premium-to-surplus ratio is 3-to-1. But when claims roll in, they are contractually liable down to their last shirt button to pay losses, so the ratio is virtually meaningless.

Powerful members agents control member participation on syndicates. They can make syndicates, or break them as happened last year when the lack of members agent support forced the closure of syndicates managed by Merrett Underwriting Agency Management Ltd. (*BI*, Dec. 6, 1993).

Following the market's billions of dollars in losses in recent years, Lloyd's introduced two other forms of capacity beginning this year: corporate capital and the MAPAs. Corporate capital vehicles must deposit 50% of their premium income capacity with Lloyd's, writing at a 2-to-1 premium-to-surplus ratio. MAPAs require members to deposit 25% of their capacity, writing at a 4-to-1 premium-to-surplus ratio.

This year, 53.6% of the market's total capacity of 10.89 billion pounds ($16.12 billion) has come from the 54 MAPAs that have been developed by 41 combined or independent members agents.

Another 31.8%, or 3.46 billion pounds ($5.12 billion), came from traditional individual members.

Even with the new forms of capacity, a total of 85.4% of Lloyd's capacity this year came from individual members. Only 14.6%, or 1.59 billion pounds ($2.35 billion), came from corporate capital providers.

Yet members agencies, which control this capacity at Lloyd's, "are being treated like they don't exist," complained one members agent.

To begin with, the pre-emption rights bylaw was thrust on members agents this year with no consultation from the agents or enough advance notice to develop the proper administrative and computer systems to handle the changes, noted Mr. Sinclair of WFDA. "It was badly handled and rushed," he said.

The new pre-emption rights required that managing agents tell members by July 15 whether syndicate capacity would go up or down next year and gave members until Aug. 31 to decide whether they would participate in 1995.

But, since members were not due to pay their 1991 cash calls until July 31, many did not know until then whether they would be solvent enough to participate next year, said Mr. Sinclair.

Mr. Sinclair told Lloyd's he thought this was a "trick to force names into early payment" of their cash calls.

In fact, most members agents ignored these deadlines because they were impossible to meet.

In response, on July 29 the Council's Mr. Duguid sent a memo to all members and managing agents acknowledging that the pre-emption bylaw had "given rise to several problems" and saying the system would be changed by next year.

Other developments arising from the value report also continue to stick in the craw of members agents.

Since the publication of the value report in May, managing agents have been focusing on how to attract new capital to their syndicates, which they are sure will increasingly come from the limited liability corporate market.

"A lot will hinge on the rules which Lloyd's is currently formulating on what is admissible and what is not," said Mr. Mackenzie of the LUAA.

There are a range of ideas being proposed for attracting corporate capital, he said. "They range from brand new, 100% incorporated syndicates to dedicated corporate vehicles...to parallel syndicate proposals articulated in the value group report. That's a wide range of possibilities."

Dedicated corporate capital vehicles would consolidate all the capital of syndicates belonging to one managing agency into a single "dedicated" unit (see story, page 36).

Many members agents, though, are vehemently opposed to dedicated vehicles. They contend that dedicated corporate vehicles could allow managing agents to keep alive syndicates that otherwise would fail to attract members and be shut down. It also might restrict the access that individual members have to the syndicates, leaving them with the losses of the past and no opportunity to offset those losses with potential future profits.

These vehicles "must be watched, controlled and limited by Lloyd's Central," said Mr. Sinclair of WFDA. "These (create) dangers to names and therefore the well-being of Lloyd's." The unstated intention of these vehicles is to allow managing agents to "claw back capacity" from members who have resigned or died and control it from the managing agency, he said.

"Some members agents are becoming alarmed that if managing agents are successful in their quest for corporate capital dedicated solely to their own managed syndicates, this will free those agencies from the effective controls imposed by a free market in participations," added Mr. Harrison of Harrison Bros.

Another idea is to form a corporate syndicate, whereby the managing agent is folded into the syndicate and an insurance company effectively is formed, backed by corporate capital. Dividends would be paid on the capital that has been invested; profits would be retained to build up capital funds and "you can build up a pretty big business in a pretty short space of time," said one managing agent.

"We want to help names make the transition into incorporation," said David Mann, underwriter for D.P. Mann syndicate 435. "But once the capital is paid up, there is no reason for an annually renewable venture. Then you wouldn't need a separate managing agency to run the syndicate."

However, this plan and dedicated corporate capital would sideline members who "have paid in excess of 10 billion pounds over the loss cycle 1938-1992," said Mr. Sinclair of WFDA. "That is new cash paid into the society—equivalent to the cost of one Channel Tunnel—for no equity stake in the business and is seen as dead money by names."

While these corporate capital ideas are gaining interest within Lloyd's management, the MAPA concept is losing support.

MAPAs have wielded a lot of power this year and "it is because the power of MAPAs has been recognized by the managing agencies that they would like to treat them as transitional arrangements and persuade (Lloyd's) to reduce their influence," said Mr. Harrison, whose agency manages three MAPAs. "It is likely to prove difficult to achieve, as MAPA managers are now in a strong position to take strategic decisions on behalf of the members."

Mr. Harrison noted that Lloyd's authorities could be worried about the dilution of the market's solvency ratio to 25% if MAPAs predominate, rather than the 30% solvency ratio of individual members and 50% ratio of corporate members. "These are reasonable targets and in the long-term interest of the Society. The timing of such moves, however, must be open to debate."

If MAPAs are allowed to continue, they could become traded on the stock market and create corporate mirrors of themselves in three years time, which would allow members to sell their syndicate participations through the stock market. This would allow members complete withdrawal from the market for a price, said Mr. Harrison.

Whatever happens, though, members agents will lose their power as corporate capital becomes more dominant in the market, most Lloyd's pundits agree.

"What members agencies are going to have to do is diversify their business mix," said Mr. Mackenzie of the LUAA.

"They won't simply be able to act as advisers....It will be in their role as analysts or as MAPA managers. But I have to say their influence will be reduced. Many managing agents will tell you (members agents' current) power is wholly disproportionate to their roles," he said. BI

Marine underwriters predict smooth sailing in year ahead

By ADRIAN LADBURY

The marine market at Lloyd's of London is back with a vengeance, say leading hull, energy and cargo underwriters.

Since 1991, rates, deductibles and standards imposed on marine insurance buyers are sharply higher, while loss ratios, the number of players in the market and capacity have gone in the other direction.

The net effect of these trends will be a sorely needed return of profits. Most marine underwriters expect to break even or post minor profits for the 1992 underwriting year, good profits for the 1993 year and excellent—perhaps record—profits for 1994.

That comes on the heels of substantial underwriting losses in preceding years and a dramatic consolidation in the marine market (*BI*, Aug. 30, 1993). The marine market's total pure loss in the 1991 underwriting year was 452 million pounds ($668.7 million) before members' personal expenses, a 49% improvement from a loss of 892.9 million pounds ($1.35 billion) in 1990 (*BI*, May 23).

However, even as the market improves, some observers contend there already are signs that sharply reduced profits will be reported for 1995, while 1996 could witness a return to losses.

Many leading Lloyd's underwriters bemoan a recent return of capacity in London and elsewhere, which they say is already pressing rates downward in most marine classes.

They complain that an irresponsible core of London and international marine underwriters blinded by greed for market share are succumbing to lower rates, which means that profits will inevitably follow rates downward.

But, others in the market argue that the capacity recovery is itself a short-term phenomenon and that the long-term prospects for harder rates and profits are good, at least until the end of the decade.

Prudent underwriters will be able to resist the pressure to cut rates and relax conditions without losing too many customers and premium volume, they say.

"It's probably acknowledged within the marine market that we have wound up with a bit more capacity than we really need. It's a very fine balance and something that is very difficult to achieve," said Peter Chandler, chairman of the Lloyd's Marine Underwriters' Assn. and underwriter of syndicate 483, managed by Methuen (Lloyd's Underwriting Agents) Ltd.

Mr. Chandler's own syndicate reflects the changes in the market. The syndicate's gross premiums written in 1993 were 29.5% higher than in 1992, while stamp capacity fell nearly 9% to 116 million pounds ($175.7 million) from 127 million pounds ($237.5 million) over the same period. The increase in premium income was achieved on the back of major rate increases, he said.

Mr. Chandler retired from active underwriting July 31 and will retire as director of Methuen on Dec. 31. The syndicate's acting underwriter is Robin Todd. Mr.

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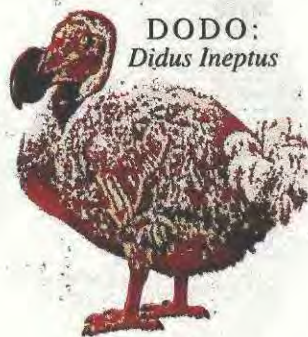

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Spotlight report

Marine

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Chandler warned his successors and peers that the return of good times could be short-lived unless underwriters are resolute in the face of growing competition.

"In 1994, I certainly think we are beginning to see the first signs of renewed interest internationally (in writing marine business) and, yes, there are certainly now other markets that are beginning to come back in a stronger, competitive way," he said.

Mr. Chandler cited U.S. and Norwegian marine underwriters as Lloyd's key competitors.

He and many others in the Lloyd's marine market believe, however, that the current consolidation of the Lloyd's market into fewer and bigger syndicates that are taking the lead position on fewer and bigger accounts will enable them to resist the trend to reduce rates. The marine market has 49 syndicates this year, down from 134 in 1989.

"I certainly think that because of the contraction in the number of underwriters it should certainly assist the market practitioners in maintaining a harder line," said Mr. Chandler.

Other marine underwriters also are seeing improved results.

"1993 was a year when prices and deductibles continued to improve again, driven by a serious shortage of reinsurance capacity. Our book reflected that and we ended up with much bigger involvements in fewer programs for fewer clients through fewer brokers. . . .It is also likely to show a good profit," wrote Elvin Patrick, underwriter of syndicate 566/586, a marine excess-of-loss reinsurance specialist managed by Bankside Syndicates Ltd., in his annual report.

Mr. Patrick also is confident of profits in 1994 and 1995 but, like Mr. Chandler, sees storm clouds looming beyond those years.

"Unfortunately, extremism is now the order of the day in our trading environment. Capital enters and exits the reinsurance industry in very large amounts and in a very short space of time," Mr. Patrick said, pointing to London and Bermuda as the destination for most of the new capital.

For Lloyd's syndicates specializing in marine business, the supply of reinsurance was much better this year than in 1992 and 1993.

Richard Youell, underwriter for leading energy syndicate 79, managed by Janson Green Ltd., noted in his underwriter's report that he had been able to arrange $100 million of vertical, or excess-of-loss, reinsurance coverage this year compared with only $40 million two years ago.

'There is considerable competition from other markets—in particular, Bermuda,' says Stephen Catlin.

Hull rates picked up in 1991 and are still on the increase. But, the rate of increase is slowing and steep increases in deductibles of a few years ago may have reached optimum levels, underwriters say.

"As we entered the fourth year of the hardening market, it was to be expected that the increases in premiums of previous years could not be at the same levels," wrote Trevor Hart, underwriter of syndicate 62, managed by Barder & Marsh Ltd.

The energy market hardened at the same time as the hull market in 1991, and underwriters report the drive for higher rates and tougher conditions is slowing here as well.

Much of the blame for the recent pressure on rates is leveled at the new capacity in international markets and, for casualty business, in Bermuda. Mr. Chandler and other underwriters say Bermuda companies are competing with Lloyd's marine underwriters for excess liability business, most notably in the energy market, and general liability business.

"The increase in capacity at Lloyd's in 1994, together with the growing demand from external markets for energy business, has meant that while profit potential remains good, growth in the short term is unlikely," said Stephen Catlin, underwriter for syndicate 1003, managed by Catlin Underwriting Agencies Ltd.

"While capacity in London remains limited, there is considerable competition from other markets—in particular, Bermuda," he

Continued on next page

Largest Lloyd's marine syndicates*

Based on 1994 gross allocated capacity in millions of pounds

Syndicate	Managing agency	Underwriter	1994 capacity		1991 profit	
861	Brockbank Syndicate Management Ltd.	M.E. Brockbank	£282.7	$418.4	£7.1	$10.4
488	Charman Underwriting Agencies Ltd.	J.R. Charman	264.0	390.7	17.6	26.0
672[1]	Wellington Underwriting Agencies Ltd.	I.C. Agnew	251.8	372.6	(5.7)	(8.4)
40	Murray Lawrence & Partners Ltd.	A.P. Bartleet	198.4	293.6	4.4	6.5
1003	S.J.O. Catlin Underwriting Agencies Ltd.	S.J. Catlin	191.1	282.9	2.1	3.2
79	Janson Green Ltd.	J.R.L. Youell	185.6	274.8	(4.5)	(6.6)
1028	Wellington Underwriting Agencies Ltd.	H.R. Dumas	141.4	209.3	6.3	9.3
625	Hiscox Syndicates Ltd.	T.M. Humm	139.2	206.1	(0.6)	(0.8)
483[2]	Methuen (Lloyd's Underwriting Agents) Ltd.	P.R. Chandler	132.6	196.2	(29.1)	(43)
735	Wren Syndicates Management Ltd.	A. Shone	125.5	185.7	9.0	13.4

*Syndicates whose largest proportion of business is marine [1] Was renumbered from Syndicate 406 in 1994 [2] 1991 account open

Source: Lloyd's of London

GRAPHIC BY KIM ROME

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Rising star with his feet on the ground

Disciplined yet driven, Mark Brockbank plans to be on top for a long time

By ADRIAN LADBURY

Lloyd's of London underwriter Mark Brockbank knows well the tale of the rise and fall of Lloyd's biggest and brightest stars.

"There is a great tradition in Lloyd's. You get a really good underwriter who does terribly well and is probably the majority shareholder in the managing agency. He eventually wants to retire but still wants to hold onto the action. So he passes nothing on to the next generation. He never attracts anyone who is anything like as good as he was to take over his job and so the syndicates collapse. That has happened time and time again," he said.

Mr. Brockbank, 42, is the biggest shareholder in The Brockbank Group P.L.C., parent of Lloyd's seventh-largest managing agency this year, chief underwriter of syndicate 861, the market's largest syndicate this year, and a member of Lloyd's Market Board.

Mr. Brockbank would seem positioned to follow that well trodden path to obscurity. But he has no intention of becoming the latest star to plummet. He believes that with the right people, management controls and structures, there is no reason why Lloyd's cannot accommodate a syndicate with capacity of a billion pounds.

Syndicate 861, with 1994 capacity of 282.7 million pounds ($418.4 million), is Lloyd's biggest this year. The second-largest, with 264 million pounds of capacity ($390.7 million), is syndicate 488, managed by Charman Underwriting Agencies Ltd.

Next year, 861 is likely to remain the biggest syndicate, perhaps by an even larger margin.

George Stevens, chairman of the Brockbank Group, recently announced that it has won approval from members of its three syndicates to expand the group's capacity 26% to 530 million pounds ($816.2 million) next year from 422.3 million pounds ($625 million) in 1994.

Syndicate 861 alone will receive about 78 million pounds ($120.1 million) of that new capacity, raising its total to 361 million pounds ($537.2 million), a 27% increase.

That would come on the heels of rapid growth in recent years. Syndicate 861's capacity more than quadrupled between 1990 and 1992, jumping from 31.3 million pounds to 143.9 million pounds ($50.5 million to $269.1 million). Capacity fell a bit in 1993 to 137 million pounds ($207.5 million) but soared again this year to 282.7 million pounds.

Brockbank syndicate 588, led by underwriter Simon Spinney, expects to increase capacity for 1995 by 9% to 124.4 million pounds ($191.6 million) from 114.2 million pounds ($169 million) this year.

And syndicate 253, led by underwriter Jerry Kendall, will increase capacity 83% to 46.4 million pounds ($71.5 million) next year from 25.4 million pounds ($37.6 million) this

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Marine

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said, referring to energy-related liability business.

"The capacity that has developed in Bermuda has certainly impacted on the marketplace here. A reduction in rating has been resisted but has resulted in the loss of a certain amount of business and we have got to be prepared for that. If we are not prepared to acknowledge that there is not enough premium for a risk, then we will rapidly see a fall in profits," echoed Mr. Chandler.

"For higher-level risks, we have faced considerable competition for our business from companies in Bermuda, who write on broader coverage and often at a premium which is much lower than ours. Thus we have lost a fair amount of business to them, but we do not compromise our terms in the light of this competition as the risks can be dangerous and are not worth retaining if you cannot achieve the correct terms," wrote Ian Agnew, underwriter for syndicate 406, managed by Wellington Underwriting Agencies Ltd., of his marine liability book.

Mr. Agnew, however, is not so sure that the rest of the market shares his resolve.

"Rates have improved to generally acceptable levels over the last three years, although in some areas further improvements are necessary. There is still a cheap London market for energy risks, in which limits of indemnity are not great, up to $100 million values or so. Brokers, not surprisingly, are quick to develop such underwriters and they probably believe they are setting reasonable or good terms for the business they write," Mr. Agnew wrote.

Elsewhere in the marine market, rate increases in the cargo market came almost a year later than hull and energy, but now most cargo underwriters report healthy increases. Continued pressure is required, however, because peak levels have not yet been reached, most Lloyd's marine underwriters say. BI

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- EARLY REGISTRATION & WELCOME RECEPTION

THURSDAY, OCTOBER 20, 1994

- Registration & Continental Breakfast
- NEW INITIATIVES FOR CONTROLLING WORKERS COMPENSATION HEALTH CARE COSTS
- DISABILITY MANAGEMENT
- LUNCHEON SPEAKER – ALLEN IAMPAGLIA RISK MANAGER, CITY OF GLENDALE, ARIZONA
- EMPLOYER CASE STUDIES
  - IN-HOUSE CASE MANAGEMENT WORKS
  - CARPAL TUNNEL SYNDROME CASES DON'T HAVE TO COST AN ARM
  - THE TRUTH AND CONSEQUENCES OF COMBATTING FRAUD
- FINANCING ALTERNATIVES FOR WORKERS COMPENSATION: HOW TO EVALUATE AND DECIDE WHICH FINANCING METHOD IS RIGHT FOR YOUR COMPANY
- Reception

FRIDAY, OCTOBER 21, 1994

- Continental Breakfast
- DEALING WITH CONTESTED CLAIMS
- CUMULATIVE TRAUMA DISORDERS: CONTROLLING THE WORKERS COMPENSATION MONSTER
- ESTABLISHING AND MANAGING THE CLAIMS AUDIT PROCESS
- LUNCHEON SPEAKER – DOUGLAS MCCOY RESIDENT VICE PRESIDENT, COMMERCIAL LINES, THE TRAVELERS CORPORATION
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BIWC4

Brockbank

Continued from page 53

($37.6 million) this year. One reason for the big increase in 253's capacity is anticipated growth of the syndicate's direct-marketed auto insurance business.

Mr. Brockbank contends that Lloyd's needs large syndicates because they attract the big business that the market needs. But he insists that size isn't everything—proper management is key to success.

As long as management is disciplined in underwriting methods, structured to allow specialists to focus on their specialties, carries out good research and development and is able to delegate underwriting responsibilities to the appropriate personnel, there should be no limit to the size of a syndicate, according to Mr. Brockbank.

"There is absolutely no reason at all why you should not have a billion pound syndicate in Lloyd's that is effectively managed with great long-term prospects of profitability. It's a sad indictment that we haven't got that," he said.

Despite the advantages of size, he still believes there is room in Lloyd's for smaller specialist syndicates that can feed off the bigger fish.

"There is absolutely nothing wrong with small specialist units, but you can't have a market that is made up purely of those entities. You have got to have core, big syndicates which attract the big business to the market. At the end of the day, brokers come to us to place their big, difficult risks and we have to be in a position to respond to those demands. Otherwise, they will find other markets," he said.

> **'You have got to have core, big syndicates which attract the big business to the market,' says Mark Brockbank.**

Syndicate 861 is what is known within Lloyd's as a composite syndicate. Prior to 1990, Lloyd's syndicates were restricted to writing mainly the business in which they professed to specialize.

Since Lloyd's lifted the restrictions, a number of very large and so far successful composite syndicates, with diversified lines, have sprouted up—with syndicate 861 at the forefront.

Although marine business still accounts for the largest proportion of business it writes, the syndicate now is involved in 13 classes of business. In its 1994 business plan, it planned to underwrite: 20.4% marine hull, which is Mr. Brockbank's own specialty; 17.3% energy; 14.4% motor; 8.8% war and political risk; 7.7% property; 5.8% specie, or collections of coins or fine art; 5.8% professional indemnity; 5.8% liability; 5% cargo; 2% extended warranty; 2% bankers blanket bonds; 1.9% personal accident; and 3.1% other business.

As with other composite syndicates, Mr. Brockbank delegates the underwriting authority for each specific class to a specialist underwriter in each field. He does not get involved with the day-to-day underwriting of the class underwriters, describing his role as more of a "strategist."

It is the diffuse structure of the syndicate and ability to shift investment from one class to another quickly and easily that gives syndicate 861 its strength. It allows it to grow indefinitely without overreaching itself, as other large syndicates have done in the past, Mr. Brockbank contends.

"It's a question of structure rather than being the biggest. Syndicates are an artificial grouping for trading purposes. We firmly believe in this group that you should have as few as possible. To manage class underwriters within a defined syndicate structure is much easier to do than manage a series of syndicates.

"We are opportunistic and we believe flexibility is key. The composite syndicate gives you that flexibility because if I don't like the look of a class of business I will tell the underwriter to simply cool it for a couple of years until things get better and then we can switch the capacity elsewhere," Mr. Brockbank said.

To help read the cycles within the different classes of business, the managing agency is setting up a specialist research and development unit and has hired a former management consultant to run the operation starting next month.

The new management consultant and his team will help Mr. Brockbank and Mr. Stevens determine the future growth of the syndicates.

For now, the Brockbank Group plans a more than 100 million pound ($154 million) increase in 1995 capacity, though that appears larger than it actually is, he explained.

Last year, about 15% of the Brockbank syndicates' capacity was supplied by corporate capital, which is in line with the market as a whole. Some very large corporate investment vehicles failed to get off the ground, however, and this meant that the Brockbank syndicates started this year with about 20 million pounds ($29.6 million) less than expected.

To satisfy their respective business plans, the Brockbank syndicates have been underwriting to 100% of capacity even though recent figures suggest that market capacity utilization on average is only about 75% this year.

"We are writing 100% of our limits for 1994 whereas we actually like to write to about 90%. So, in order to write the same business we would require an additional 30 million pounds ($44.4 million); you need that buffer. Second, there is no expansion on the marine side, where I don't see a great deal of opportunity. The expansion is mainly on the motor side, which demands big increases to comply with our business plan," Mr. Brockbank explained.

In 1993, the Brockbank Group became the first Lloyd's managing agency to enter the direct motor market with the creation of Admiral Insurance Services Ltd. In the United Kingdom, selling motor insurance via the telephone is rapidly replacing the traditional broker-led distribution system.

Last year, Jerry Kendall's syndicate 253 was renamed "the Brockbank Motor Syndicate." The syndicate's Admiral Insurance Services and Zenith Insurance Policies units were amalgamated. Admiral is 253's direct marketing arm for auto business while Zenith handles the broker-led auto accounts.

Mr. Brockbank was a member of the working group chaired by Lloyd's Deputy Chairman Robert Hiscox that published the "Value at Lloyd's Report" in May.

The value report considered

Continued on next page

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Corporate capital flocking to Cotesworth & Co.

BY STACY SHAPIRO

But longtime managing agency still committed to individual names

Managing agency Cotesworth & Co. Ltd. expects it will have no problem next year reaching the level of capacity it wants for its five ongoing syndicates.

Most of its syndicates made a profit or a below-average loss in 1991, the latest year to close. And the agency's flagship marine syndicate 535 is free of long-tail liabilities and London market excess-of-loss reinsurance claims.

Cotesworth was the third most popular agency among corporate investors at Lloyd's this year. Corporate members provided 74.9 million pounds ($110.9 million) out of 275 million pounds ($407 million) for its five managed syndicates (*BI*, Jan. 24).

And, corporate capital advisers are lining up to join the agency's syndicates in 1995. "We have corporate people waiting," said Tony Berry, Cotesworth's managing director.

Despite the added interest, Cotesworth wants to maintain the same level of capacity next year. And it has no plans to set up a dedicated corporate vehicle that would allow the managing agency to invest in its own syndicates. Instead, Cotesworth wants its existing members agents to have first crack at the syndicates.

"We're very much mindful of the support from the people who backed us up when we were building up Cotesworth," said Chairman Peter Aitchison.

About 73% of the managing agency's capacity this year came from individual Lloyd's members. Most invested through members agency pooling arrangements, including the Kiln Cotesworth's MAPA, which accounted for 11.5% of the Cotesworth syndicates' capacity. Kiln Cotesworth was set up at the end of last year and is jointly owned by Cotesworth and managing agent R.J. Kiln & Co. Ltd.

Cotesworth traces its origins to 1854, when marine syndicate 535 began underwriting in Lloyd's early Royal Exchange facility, which Queen Victoria opened in 1844.

The Cotesworth agency managing syndicate 535 sprang out of a family-owned firm of shipowners that traded cargo along the East African coast.

Cotesworth remained an independent partnership of underwriters until 1973, when it was bought by Arbuthnot Insurance Services Ltd., which also owned former reinsurance broker Golding Collins Ltd. Mr. Aitchison was a director of Golding Collins.

Mr. Aitchison has been a member of Lloyd's since 1966, the year after Hurricane Betsy lashed the U.S. Gulf Coast and wiped out much of the market. Upon approval of the Arbuthnot board, he bought 12.5% of Cotesworth with colleague Christopher Dunkley.

The Lloyd's Act of 1982, which forbade brokers from owning managing agencies, gave Messrs. Aitchison and Dunkley the chance to buy 100% of Cotesworth in 1982. In 1991, Cotesworth's shareholding was restructured so that Messrs. Aitchison, Dunkley and Berry each own one-third.

From 1982 on, without borrow-

Continued on next page

Brockbank

Continued from previous page

how value could be created within members' shares in syndicates, how those shares could be traded and what new types of corporate vehicles could be formed in the future (see story, page 40).

Like others in the market, Mr. Brockbank is certain that his agency's capital base will change over the next few years and that corporate capital will grow in significance as individual limited liability capital declines.

The Brockbank Group is one of the many managing agencies that are trying to raise external corporate capital, which would be dedicated exclusively to their syndicates in the 1995 underwriting year (see story, page 36).

However, Mr. Brockbank does not believe the demise of the individual member at Lloyd's is inevitable and says he will not abandon his individual names. For the moment, he says he is happy to have both types of members.

"It's very difficult to develop business when your capital changes on an annual basis, and we believe we need a core of permanent capital. This will be the bedplate of the syndicates. But, I am very happy to manage other people's capacity on a year-to-year basis," he said.

"I am not so convinced that the transfer of individual members to corporate is inevitable. I'm convinced that the core of the market will become corporate over time but not to the total exclusion of individual members." BI

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Cotesworth

Continued from previous page

ing a single penny, Cotesworth slowly expanded its operation, offering underwriters an equity partnership "because at Lloyd's you may be able to recruit them with money, but there's always somebody who will pay them more money," said Mr. Aitchison.

Today, the agency, now a subsidiary of Cotesworth Holdings Ltd., is made up of five syndicates:

• Marine syndicate 535, the agency's flagship. It had 2.25 million pounds ($3.5 million) of capacity in 1982 when Mr. Aitchison hired Mr. Berry, then with Eagle Star Insurance Co. Ltd.

Known as an excess-of-loss reinsurer, Mr. Berry began underwriting for syndicate 535 and established marine excess liability syndicate 536 in 1983. Together the syndicates had a combined capacity of 5 million pounds ($8.1 million).

Also in 1983, syndicate 535 bought an unlimited runoff reinsurance policy from syndicate 317/661, underwritten by Richard Outhwaite, for incidental non-marine business written by 535 prior to 1978. Although Mr. Outhwaite's syndicate is now defunct, syndicate 535's policy is still paying long-tail claims in excess of the $625,000 retention.

Since November 1985, the syndicate has been underwritten by Graham Davies, who worked with Mr. Berry at Eagle Star.

Mr. Berry also writes an excess liability account for the syndicates, writing 80% of each line with syndicate 536 and 20% with 535.

Total 1994 capacity of 101.09 million pounds ($149.6 million) made syndicate 535 the 12th-largest marine syndicate at Lloyd's.

Syndicate 535 had only its seventh loss in 130 years in 1990, when it reported a total loss before syndicate expenses, including an additional Central Fund levy, of 3.08 million pounds ($4.7 million) on 1990 capacity of 38.77 million ($62.6 million) pounds. In 1991, however, it made a small profit.

• Excess-of-loss marine syndicate 536, underwritten by Mr. Berry. Despite the 1980s risks, this syndicate has made a profit every year.

In suits, members have cited Mr. Berry as an example of an LMX underwriter who knew how to play the market. Indeed, he warned after the 1988 Piper Alpha disaster that the LMX Market was unstable and amateurs would be hurt (*BI*, Oct. 31, 1988).

He credits good training, common sense and experience with Hurricane Betsy in the 1960s for his success.

The collapse of the LMX market "had to come if you looked at the gross result in the excess-of-loss syndicates prior to 1987 or 1988," he said.

After Piper Alpha, syndicate 536 reduced its aggregate exposure in the excess liability market and bought sufficient reinsurance. Critics say Mr. Berry was not underwriting but arbitraging. But he disagrees: "It's knowing your liabilities and deciding that at the price you're getting the risk, the reward ratio is all wrong (and) you can't see any hope of making a decent profit for that risk."

Syndicate 536's premium income substantially exceeded its total allocated capacity in 1989, 1990 and 1991 because of "a high volume of (reinsurance) reinstatement premiums," Mr. Berry said in his syndicate accounts. Lloyd's frowns on any syndicate overwriting its stated gross capacity, so syndicate 536 is now writing no more than 65% to 70% of its stamp capacity.

Nevertheless, syndicate 536 closed its 1991 account with a profit of 6.66 million pounds ($9.9 million) from total allocated capacity of 52.79 million pounds ($101.9 million) and gross premiums of 58.9 million pounds ($110.1 million).

• Non-marine syndicate 896 was purchased in 1984 from broker Willis Faber P.L.C. Deputy underwriter G.H. Bailey became the syndicate's lead underwriter in 1989.

Syndicate 896, which specializes in small to medium-sized commercial property and auto and personal lines in the United Kingdom and United States, left its 1990 underwriting year open with a loss of 4.2 million pounds ($8.1 million). For purposes of the Lloyd's members' solvency test, however, the syndicate's 1990 account has a deficit of 6.02 million pounds ($9.1 million) on capacity totaling 16.28 million pounds ($26.3 million).

The syndicate lost 2.56 million pounds ($3.8 million) on its closed 1991 account, but compared with the rest of the market that was creditable, Mr. Bailey said in the syndicate's accounts.

One of the smallest syndicates in the market, syndicate 896 had total capacity of 21.3 million pounds this year ($31.5 million).

• Non-marine syndicate 1069, which began in 1988 with underwriter Malcolm Warrington.

Financial institution business accounts for 34% of its 1994 book. About 39% comes from property, personal accident, contingency liability, livestock and bloodstock accounts.

Syndicate 1069 kept its 1990 account open last year when it was faced with "considerable uncertainty" about potential claims on underwriting agents' errors and omissions insurance. The syndicate was able to close its 1990 account this year with a substantial profit of 3.24 million pounds ($4.9 million) after expenses from capacity of 24.7 million pounds ($39.9 million).

Syndicate 1069 suffered a small loss before expenses in 1991 of 140,427 pounds ($262,598) and 1.15 million pounds ($2.15 million) after expenses, including a Central Fund levy. Its 1991 capacity was 26.06 million pounds ($50.3 million), which had more than doubled by 1994 to 54.54 million pounds ($80.7 million).

• Marine syndicate 228 was acquired by Cotesworth last year from Peter Pepper (Underwriting Agencies) Ltd. and is underwritten by B.G. Devereese.

The syndicate, which writes most classes of marine insurance and reinsurance, including energy and hull, kept its 1991 year of account open because of the size of known and unknown outstanding liability reserves and uncertainty about the outcome of catastrophes from 1987 to 1990. The syndicate, which had capacity totaling 62.78 million pounds ($121.2 million) in 1991, so far shows a profit before expenses of 1.25 million pounds ($1.85 million) and a loss after expenses of 1.28 million pounds ($1.89 million).

The syndicate's stamp capacity dropped to 26.12 million pounds ($39.6 million) in 1993 but increased to 41.2 million pounds ($60.98 million) this year after Cotesworth took it over. ■

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Has non-marine market bottomed out?

Improvement seen for 1992 account, profits by 1993

By CAROLYN ALDRED

Non-marine underwriters are confident that their diminished and dented marketplace is once again heading in the right direction—albeit on a slippery slope upward.

Many underwriters agree that 1991, the year just closing under Lloyd's of London's three-year accounting system, represents the bottom of a ravaging soft cycle with more profitable years close on its heels.

"The most significant facts are 1991 pure was an improvement on 1990, 1992 is better than 1991 and 1993 is (so far) the best of all," said Bob Wallace in his underwriter's report for syndicate 386/683, managed by Janson Green Ltd.

1991 "represents the low point in the current market cycle," agreed Richard Keeling in his report for syndicate 362, managed by Murray Lawrence & Partners Ltd.

1991's pure underwriting result, not allowing for additional reserves made by syndicates for prior underwriting years, "was a small loss but better than (the result) for 1990 and 1989," said Michael Williams, current chairman of Lloyd's Non-Marine Assn.

"There is no question that the market is looking better year-on-year. 1992, even if it is a loss, will be better than 1991," said Mr. Williams, adding that it looks like names will make money in 1993.

The major non-marine losses to hit insurers in 1991 were Japanese Typhoon Mireille, estimated to be a loss of $5.5 billion; the Oakland Hills fires, an estimated loss of $1.7 billion; and Hurricane Bob, which is estimated to have cost underwriters about $620 million.

Exacerbating the impact of these losses were rating levels that were "still depressed and too low," said Mr. Williams, who is also underwriter for life syndicate 44 and a director of Tower Underwriting Agents Ltd.

"The real problem in 1991 was the low level of direct insurance rates worldwide, which impacted all classes of our property business at a time when outward reinsurance costs had risen dramatically as a response to losses incurred by the retrocessional market from Hurricane Hugo (1989) and the 1990 U.K./Europe storms," wrote Adrian Taylor, underwriter for syndicate 51, managed by Wellington Underwriting Agencies Ltd.

1991 "was a year which saw overcapacity and pressure on premiums," agreed Mr. Wallace, although his syndicate 386/683 produced the best result in its history in 1991.

Meanwhile, many underwriters predict that 1992, although impacted by Hurricane Andrew, which is estimated to have cost insurers $15.5 billion, will produce a better result than 1991.

"Despite the ravages of Andrew and Iniki, we continue to forecast a small profit between nil and 5% for the 1992 account," wrote David Mann, underwriter for syndicate 435, managed by D.P. Mann Underwriting Agency Ltd.

And the forecasts for 1993 are even better, with many non-marine underwriters predicting good profits.

"1993 heralded the return of better trading conditions and if not a hard market, at least a harder market. For the first time in five years we were able to obtain rate increases on the vast majority of accounts," said Mr. Wallace of syndicate 386/683, predicting an excellent year.

"1993 is set to produce the best results since 1988," wrote underwriter Colin Spreckley in the report of syndicate 1007, managed by Spreckley Villers Burnhope & Co. Ltd.

"1993 has been remarkably free of natural disasters and shows early signs of producing a result among our best," according to Mr. Mann.

The optimism for future profits is only tempered by a future fear that the rate hikes of recent years will produce enough of a cushion for an early return to excessive competition, particularly for catastrophe reinsurance.

This could be exacerbated by new capacity in Bermuda and elsewhere.

"Competition is snapping at our heels. Understandably new entrants not having paid any losses are hungry for business at rates they believe are at an all-time high," wrote C.G. Jago in his report for syndicate 205, managed by H.G. Jago Ltd.

"The effect of an influx of new capacity in the catastrophe market is posing some question marks over renewals," agreed Adrian Taylor in his underwriter's report for syndicate 51, managed by Wellington Underwriting Agencies Ltd.

"We still have excess capacity in world markets and. . .competition is fierce for the best business, noted Mr. Spreckley, who added, "we now have excess capacity in Lloyd's and unnecessary competition from undemanding, weak-willed underwriters."

"The catastrophe rating levels peaked during 1993 and we are

Continued on next page

THE WAY SOME AVIATION INSURANCE COMPANIES HANDLE YOUR BUSINESS, MAYBE IT'S A GOOD THING THEY AREN'T FLYING THE PLANES.

ASSOCIATED AVIATION UNDERWRITERS

Non-marine

Continued from previous page

unlikely to see their like again for some time. Indeed, we are already witnessing the effect of the excessive reinsurance capacity in Bermuda," noted P.M. Brotherton in his report for syndicate 490, managed by RGB Underwriting Agencies Ltd.

The "rosy picture has been tarnished by the threat of over-capacity, which could severely impair all the hard won achievements of the catastrophe market," said Mr. Taylor, warning that "if this situation fully develops it will not be confined to just the catastrophe area, but will spread to all classes of property insurance and reinsurance business."

However, several underwriters noted that there is a concerted effort being made to sustain the gains in recent years in most sectors.

"We expect (underwriters) to sustain the momentum achieved over the last three years, although we believe rating increases may well be more selectively applied," wrote J.H. Venton, underwriter for syndicate 376, managed by Venton Underwriting Agencies Ltd.

"Increased capacity in the market has meant that the large premium accounts are heavily sought after and risks that could not be finished in previous years are signing down," he added.

Meanwhile, "there is little doubt that Lloyd's problems and the resultant bad press have affected the flow of business into the market and we are working to rectify this," said Mr. Venton.

"The market has emerged leaner, meaner and fitter and is now poised to re-establish itself as a profitable, professional and forward-looking organization," he added.

Indeed, the dire results of the late 1980s, including such catastrophic losses as Hurricane Hugo, the Piper Alpha explosion and the European windstorms, have radically thinned out the non-marine market.

The non-marine market has gone through a "major shakeup," said Mr. Williams, estimating that the LNMA membership fell from an all-time high of about 200 in 1991 to 100 in 1994. The leading underwriter of each non-marine syndicate is entitled to join the LNMA.

Since the early 1990s, when big losses began to cripple the market, dozens of syndicates have been forced to close or merge into larger, stronger syndicates, as the support of the members dwindled. Syndicates have come to realize that their survival depends on profits returning quickly.

"The dramatic reshaping of the syndicates comprising the non-marine market during 1992 and 1993 has driven home the message to the underwriters of continuing syndicates that significant profits to names are vital," said Mr. Taylor.

Capacity in the market, though, has not fallen as many syndicates have boosted their membership greatly during the years of upheaval.

"We've ended up with some very big syndicates and some of the smaller syndicates have disappeared," said Mr. Williams.

On the whole, the larger ones have fared better in both attracting corporate capital and increasing their individual membership in recent years.

For example, Mr. Wallace's syndicate 386/683 already has seen an increase of about 50% in capacity in the last two years and has been forced to turn away additional requests to boost capacity further.

Other syndicates that nearly doubled their stamp capacity this year were syndicate 51, managed by Wellington, with 123 million pounds ($182 million), and syndicate 205, managed by H.G. Jago Ltd., with 120 million pounds ($171.6 million).

Syndicate 1007 increased its capacity for 1994 56% to 138 million pounds ($197.3 million) from 88 million pounds ($133.3 million). "With many syndicates ceasing to trade for the 1994 account, opportunities will exist to write larger lines on proven profitable business," Mr. Spreckley said in his report.

Despite such dramatic expansion, many syndicates say they have tried to retain specialist skills to meet broad underwriting needs.

Syndicate 435, where capacity has nearly doubled to 205 million pounds ($293.2 million), has attempted "to create a business which promotes the strength of specialist underwriting," said Mr. Mann in his report.

Meanwhile, old-year liabilities continue to tax underwriters' minds and members' pockets.

"Asbestosis and pollution are continuing to be a pain, though there's a fair chance that pollution will not be the problem it has been anticipated to be," said LNMA Chairman Mr. Williams.

More topical areas of concern regarding past-year liabilities include silicone breast implants, U.S. sexual abuse claims and, most significantly, Lloyd's members' errors and omissions claims.

"Following the failure of the Lloyd's offer to avoid litigation by names, it has been necessary to establish further reserves against notifications made in 1991 by Lloyd's members and managing agents under E&O policies written by the syndicate," wrote Mr. Wallace in his report. "It is indeed ironic that litigation by names produces further losses, often to the same names."

Several syndicates, though, have been able to release some reserves set aside for more recent accounts.

"The 1990 reinsurance-to-close has produced a surplus of 17.5%. This release has resulted from favorable developments in ultimate loss ratio projections on the long-tail account for all years post 1985," said Mr. Taylor of syndicate 51.

Most non-marine underwriters, though, are pinning their hopes for a long-term solution to the problem of old-year losses on NewCo, Lloyd's proposed runoff reinsurer.

Mr. Williams, who as chairman of Turret Run-Off Services Ltd., an Archer Group P.L.C. unit, is responsible for running off several syndicates, noted that the pooling of reserves set aside by active and closed syndicates will create an enormous fund of money to generate investment income.

"We desperately need NewCo to work," he wrote. BI

Largest Lloyd's non-marine syndicates*

Based on 1994 gross allocated capacity in millions of pounds

Syndicate	Managing agency	Underwriter	1994 capacity		1991 profit	
362	Murray Lawrence & Partners Ltd.	R.J.R. Keeling	£248.6	$368.0	£6.6	$9.8
510[1]	R.J. Kiln & Co. Ltd.	G.D. Gilchrist	208.9	309.2	1.4	2.1
435	D.P. Mann Underwriting Agency Ltd.	D.P. Mann	205.6	304.2	6.8	10.1
33	Hiscox Syndicates Ltd.	R.S. Childs	184.0	273.4	14.2	21.0
386	Janson Green Ltd.	R.J. Wallace	150.8	223.1	40.2	59.5
1007	Spreckley Villers Burnhope & Co. Ltd.	C.W. Spreckley	138.8	205.4	8.1	11.9
490	RGB Underwriting Agencies Ltd.	P.M. Brotherton	137.3	203.3	(1.5)	(2.3)
51	Wellington Underwriting Agencies Ltd.	A. Taylor	123.7	183.0	2.2	3.2
205	H.G. Jago Ltd.	C.G. Jago	120.3	178.0	5.2	7.7
376	Venton Underwriting Agencies Ltd.	J.H. Venton	114.4	169.4	1.8	2.7

* Syndicates whose largest proportion of business is non-marine [1]1991 account open
Source: Lloyd's of London

GRAPHIC BY JOHN HALL

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Winds of change hit managing agencies

Archer expands, Sturge downsizes and Merrett closes

By CAROLYN ALDRED

Massive losses and tumultuous changes at Lloyd's of London have prompted radical restructuring at three of the market's largest underwriting agencies.

While Archer Group Holdings P.L.C. has expanded rapidly in the last few years, Sturge Group P.L.C. has closed down nine syndicates and laid off hundreds on its insurance staff over the past few years.

More dramatically, Merrett Holdings P.L.C., once one of Lloyd's most innovative and well-known agencies, has been forced to give up its underwriting activities at Lloyd's entirely after leading members agencies withdrew their support of Merrett syndicates (*BI*, Dec. 6, 1993).

Catastrophic losses, which prompted many Lloyd's members to resign in recent years, have resulted in a radical change in the marketplace's structure, with syndicates merging or closing by the dozen. This has induced a restructuring among managing and members agencies, with a spate of mergers and acquisitions.

One of the most successful managing agencies in recent years on the acquisition and expansion front has been Archer Group P.L.C.

Archer, founded in 1985, initially consisted of the former Alexander Howden syndicates and was put together by former Lloyd's underwriter Jimmy Archer after the syndicates were divested from Howden. Although the group successfully obtained a London Stock Exchange listing in the 1980s, it did not expand significantly until the 1990s, according to Chairman Bryan Kellett.

Archer and Sturge are the only Lloyd's agencies listed on the London Stock Exchange.

However, following the losses of 1989 and 1990 and the unprecedented closure of many syndicates at Lloyd's, "by the middle of 1992, it was recognized by (Archer's management) that a strengthening of the group would be needed, in anticipation and preparation for the stormy period which lay ahead," according to Archer's 1993 annual report.

In November 1992, Archer acquired fellow underwriting agency Kellett (Holdings) Ltd. and Mr. Kellett was appointed chief executive of Archer.

In July 1993, the group acquired Castle Underwriting Holdings Ltd., after which Mr. Kellett succeeded Richard Maylam as chairman of Archer. Ralph Sharp, Castle's chief executive, was appointed group managing director.

Mr. Maylam remains deputy chairman but has devoted more of his time to aviation underwriting, leaving the management of the group to Messrs. Kellett and Sharp.

As a result of the Castle acquisition, Archer Group's total premium capacity increased to 390 million pounds ($590.9 million) in 1993, from 200 million pounds ($303 million).

Since then, the group has further increased managed capacity—primarily by attracting more members and increased participation in its existing syndicates—to 520 million pounds ($769.6 million) for 1994. Of this capacity, 20%, or 105 million pounds ($155.4 million), is generated by corporate capital, Mr. Kellett said.

With the acquisition of Castle and Kellett, Archer's members agency capacity for 1994 increased more than six fold to 184 million pounds ($272.3 million) from 23 million pounds ($34.8 million).

Archer Group last month announced it was acquiring another members agency, Cox Tudsbery & Wills Ltd., which would boost its members agency capacity to 540 million pounds ($799.2 million) from 184 million pounds ($272.3 million), making it the sixth-largest members agency at Lloyd's. Archer hopes to complete the acquisition in October.

Like most agencies at Lloyd's, Archer also has been forced to close or merge syndicates and has set up Turret Run-Off Services Ltd. to manage the syndicate runoffs. Archer has 29 syndicates in runoff.

Archer Group has 15 active syndicates in all markets—marine, non-marine, aviation, motor and life—and no one syndicate represents more than 20% of the group's total capacity, according to the annual report.

Mr. Kellett predicts moderate growth of 7.5% to 10% of managed capacity during the agency's next few years.

"At the present time, we see that a modest growth is all we need to maintain business and profitability. Our objective is to make sure that our syndicates have sufficient capacity to continue in business at a level where they can make a decent profit," he explained.

Mr. Kellett did not rule out future acquisitions, saying the com-

Continued on next page

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Agents

Continued from previous page

pany is "always ready to listen to new proposals." But, Archer has now "reached the stage where we're happy with our size in the marketplace."

Its size already provides economic benefits and has prompted the expansion and establishment of companies that are able to provide services to Archer's own syndicates as well as generate fee income.

Resource Underwriting Ltd. is an underwriting service company for Archer syndicates with offices in Glasgow, Scotland, and Leeds, Chelmsford and Bristol, England, and with a 75% share in Australia-based Resource Underwriting Pacific Pty. Ltd.

Also this year, Archer set up loss adjusting and insurance claims investigation service companies. Continuing with the medieval name theme established through the merger of Archer and Castle and then adopted for Turret, the company decided to call the new companies Bowman Loss Adjusters and Bowman Investigators.

The Archer Group's management, administration and managing agency functions moved into one building this year and much effort has been spent in recent months to make everyone feel part of the same group, Mr. Kellett said.

A new logo, featuring a bow and arrow across a castle turret, has recently been introduced to give the group a clear corporate identity.

"One of the more important things we have been doing is to achieve a corporate identity and to harmonize the different cultures" of the various companies that have been brought together, said Mr. Kellett, adding that he wants "everyone to feel that they're working for the same company."

For a company that now employs 700 employees, compared with about 150 in the "old" Archer days, it is a big task, he said.

On the opposite side of the spectrum, fellow underwriting agency Sturge has had to shed about 300 insurance-related jobs in the last 2½ years as its capacity under management shrank.

Sturge, chaired by former Lloyd's Chairman David Coleridge, has long been and remains one of the largest and most influential underwriting agencies at Lloyd's. However, it underwent a radical restructuring last year to streamline its operations as market capacity fell dramatically.

At the beginning of 1993, Sturge managed 22 syndicates. But, nine syndicates were closed last year "because they were not performing adequately and their recent results suggested that they would not secure sufficient support for the future," according to a company statement.

As a result, Sturge currently manages 13 syndicates with an overall 1994 capacity of 665 million pounds ($984.2 million), down from about 750 million pounds ($1.4 billion) in 1992, said company Secretary Johnston Brown.

The group was restructured to separate the management of the ongoing syndicates from those that had been placed in runoff. Three managing agencies, Sturge Aviation, Motor and Non-Marine, now concentrate on managing the 13 ongoing syndicates, while two runoff agencies specializing in marine and non-marine classes of business manage the affairs of the Sturge syndicates that have ceased to trade.

'One of the more important things we have been doing is to achieve a corporate identity and to harmonize the different cultures' of the various companies that have been brought together, says Bryan Kellett, Archer Group's chairman.

Meanwhile, the company announced this summer that it plans to merge its two wholly owned members agents, RW Sturge Ltd. and Donner Underwriting Agencies Ltd.

Initially, the agency's joint management will own 51% of the shares of the merged members agent with Sturge Group retaining 49%. However, the plan is that the members agent's management will gradually increase its shareholding to 100%.

The resulting management buyout will let Sturge concentrate on its managing agency operations, Mr. Brown said.

Sturge's restructuring now is regarded as complete and the major changes now confronting the company are at the top. As of Sept. 1, David Poole joins Sturge as group chief executive, one of two replacements for current Chairman and CEO David Coleridge, who will retire in February 1995.

Lord Poole previously was working for the prime minister's Policy Unit, while on temporary leave from James Capel & Co., where he was a main board director. Sturge still is looking to appoint a non-executive chairman.

Most Sturge syndicates, apart from the motor syndicates, are not seeking to increase capacity for 1995. Corporate capital currently represents about 9% of Sturge syndicates' capacity and the group "welcomes corporate capital support with the caveat that it does not in any way damage or detract from the status of the traditional names," a spokesman said.

The group also believes that Lloyd's is entering a recovery period, "with much greater emphasis on professionalism and a realistic acceptance of the need for radical change," he said.

During the recent tumultuous period at Lloyd's, Sturge, unlike most other underwriting agents, benefited from concentrating a large part of its operations on non-insurance-related business.

For example, the company's stockbroking unit, Wise Speke Ltd., continues to expand and enabled the group to remain profitable even when the Lloyd's market was suffering.

Not all the agencies were so lucky. Former underwriting agency giant Merrett Holdings P.L.C. probably has suffered more than most in the market. Merrett Underwriting Agency Management Ltd., the company's managing agency, ceased all active underwriting this year.

Merrett Holdings was forced to either close or sell its syndicates, which include some of the largest and most well-known at Lloyd's, after members agents refused to commit sufficient capacity to enable the syndicates to continue underwriting under MUAM management.

Several factors—including the personal management style of group Chairman Stephen Merrett, poor forecasting of results, litigation connected with syndicate 418's loss-filled 1985 year and other old Merrett syndicate years, and the decision to leave open the 1990 underwriting year of syndicates 418 and 1067—precipitated the crisis.

The crisis deepened after Travelers Corp. withdrew a proposal to purchase a majority stake in Merrett (*BI*, Dec. 6, 1993; Nov. 22, 1993).

Now the group is in negotiations to transfer its runoff operations, responsible for 11 of its former syndicates, to Whittington Syndicate Management Ltd. The move would leave MUAM a dormant company, said John Winter, MUAM's managing director.

If the deal goes through as planned, 103 MUAM employees, including Mr. Winter, will move over to Whittington, where they will be responsible for the runoff of the closed Merrett syndicates.

As a result of the move, Merrett will be left with its insurance services operations, including financial investigation work, computer services and its loss adjusting division, said group Chief Executive Alan Cleary.

Merrett Holdings has a major share in the U.K. loss adjusting consortium Miller Knight. This consortium consists of two companies: Graham Miller & Co. (Northern), which is owned by Merrett Holdings, and Peter Knight & Co., owned by founder Peter Knight. Miller Knight was restructured in 1993 and its number of offices was trimmed to 20 from 59. The company produced a substantial loss for the year ended Sept. 30, 1993, of 2.1 million pounds ($3.1 million), compared with a loss of about 900,000 pounds ($1.6 million) in fiscal 1992.

Merrett also owns loss adjusting firm Robert Bishop (Southern) Ltd., a personal accident and sickness claims specialist.

The group's insurance services division includes Merrett Health Risk Management Ltd., a risk management consulting firm specializing in the health care industry, BSC Management (U.K.) Ltd. and BSC Management Inc., a New York-based consulting firm specializing in reinsurance recovery and litigation. Merrett also owns an information technology service company. BI

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Lloyd's flying high in aviation market despite dropouts

Specialty still strong: LUAA chief

By STACY SHAPIRO

Despite the drop in the number of aviation specialty syndicates, Lloyd's of London remains the world's leading aviation market, says the chairman of the Lloyd's Aviation Underwriters Assn.

"Over 30% of the world's aviation business, both direct and reinsurance, is placed at Lloyd's," said Richard Maylam, chairman of the LUAA and aviation underwriter for syndicate 270, managed by Tower Underwriting Agents Ltd.

Add the London-based insurers that write aviation business and it seems that 40% to 50% of the world's aviation coverage is placed in London, Mr. Maylam said. "So I still consider London to be the major lead on the world's major aviation business."

Nevertheless, consolidation within Lloyd's aviation market continues. This year, there are only 20 aviation syndicates with total capacity of 904.49 million pounds ($1.34 billion), compared with 41 syndicates with total capacity of 995 million pounds ($1.86 billion) only three years earlier.

But the number of aviation syndicates consolidating or leaving the market has slowed. Only five dropped out this year and 1994 capacity is 28% larger than 708 million pounds ($1.07 billion) in 1993 capacity.

The aviation market is now smaller than Lloyd's motor market, which had total capacity of 1.47 billion pounds ($2.84 billion) this year.

"A number of the smaller aviation syndicates disappeared at the end of 1993," said Mr. Maylam. "But, all of the main syndicates, which are the lead syndicates in the market and play a major part in the large amount of aviation business in Lloyd's, continued."

Consolidation has allowed aviation syndicates to underwrite effectively, said Tony Medniuk in one of his syndicates' annual reports. Mr. Medniuk became the underwriter for four consolidated aviation syndicates in the 1993 underwriting year: syndicate 173, managed by Stewart Syndicates Ltd.; syndicate 824, managed by Murray Lawrence & Partners Ltd.; and two aviation syndicates that ceased underwriting and were consolidated into other syndicates in 1992.

Having fewer underwriters made the market more disciplined, Mr. Medniuk said. "By the end of (1993) we estimated that airline (premium) income had reached approximately $1.35 billion against $1.22 billion of comparable loss. The 1993 account still has the majority of its exposure to run, as many policies signed into that year continue to be at risk until well into 1994. Nevertheless, this is the first time in five years that gross airline income has come close to or even exceeded the average annual loss amount—which must be an encouraging sign."

Aviation market consolidation is expected to continue through this year. "This will enable a further concentration of capital strength, together with a greater depth of resource and expertise into fewer but larger specialist units," said Mr. Medniuk.

This consolidation mirrors the worldwide amalgamations among airlines. "These usually enlarged entities are increasingly focusing their attention on the financial

Continued on next page

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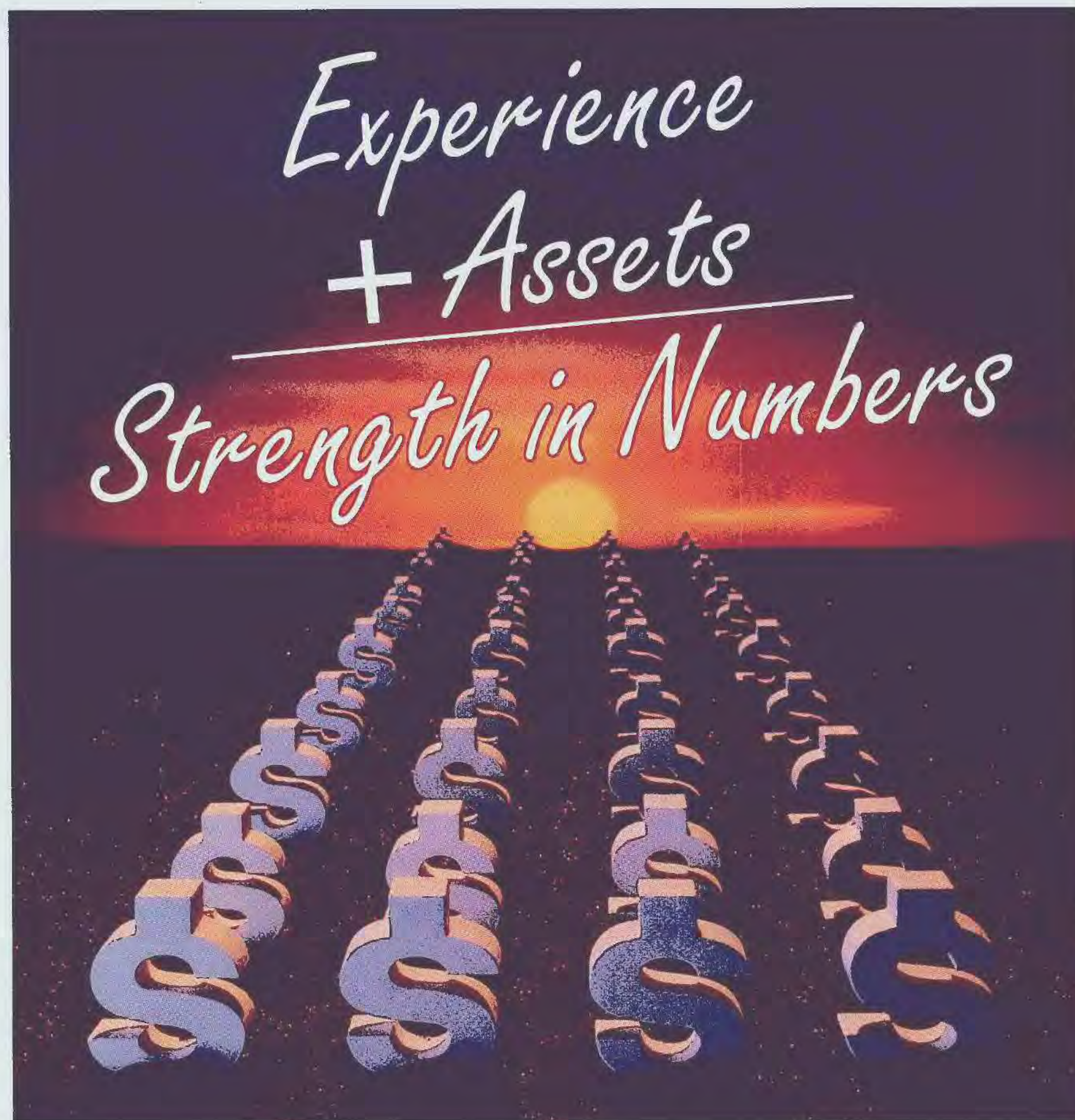

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Aviation

Continued from previous page

caliber of their insurers, and at Lloyd's, notwithstanding our well-publicized travails, on this subject we have a good story to tell," he said.

Sturge Aviation Syndicate Management Ltd. also consolidated its underwriting for three aviation syndicates into the "960 Group" of syndicates. The syndicates, numbered 545, 960 and 998, were all underwritten this year by one of the most successful aviation underwriters in the market, Brian Beagley.

Mr. Beagley will become underwriting director for Sturge Aviation on Oct. 1 and will be succeeded by his deputy underwriter, Peter Williams.

Because Lloyd's aviation market capacity dropped last year, "there arose a willingness to fight harder for better prices; the fight was successful and real improvements were achieved," said Mr. Beagley. But, he added, the process "is still incomplete."

Lloyd's aviation market of 41 syndicates reported a pure-year underwriting loss in 1991 of 106.6 million pounds ($199.3 million), substantially worse than 1990's loss of 14 million pounds ($27 million). At the same time, net premiums were up a third to 432.2 million pounds ($808.2 million) in 1991 from 324 million pounds ($625.3 million) a year earlier.

Among the syndicates with underwriting losses in 1991 was Mr. Maylam's syndicate 270, which had a loss of 3.3 million pounds ($6.2 million). Its largest loss involved the 1991 crash of a Lauda Air Boeing 767 in Thailand, which generated a gross claim of 2.6 million pounds ($4.9 million) (*BI*, June 3, 1991).

However, syndicate accounts show that several aviation underwriters—including Mr. Maylam and John Westcott, underwriter for syndicate 800, managed by Wren Syndicates Management Ltd.—were able to "release" to members reserves that had previously been set aside for pollution-related liabilities, such as a claim against the Tucson Airport Authority.

The Arizona airport was named in a suit seeking hundreds of millions of dollars for cleanup and damages related to chemicals that Hughes Aircraft Co. had allegedly spilled near the airport (*BI*, Sept. 3, 1990). Underwriters say the airport has been dropped from the suit.

Underwriters say that conditions also improved for the 1992 year of account, which is not yet closed, despite large losses that year like the crash of an El Al Boeing 747 in an Amsterdam apartment complex in October 1992 (*BI*, Oct. 12, 1992).

Rate increases in 1993 were substantial, particularly for airline hull and liability insurance programs, said Mr. Maylam.

Airlines paid an average hull and liability premium increase of 60% to 70%, he said. This means that worldwide airline premiums rose to about $1.4 billion at the end of 1993 from about $300 million in 1990.

But rates couldn't continue rising to unreachable levels, so Mr. Maylam said he believes that aviation rate hikes have leveled off this year. And there has been more individual underwriting of different airlines, so rates have fluctuated depending on the loss experience of the airline.

Most airlines renew after Oct. 1, and Mr. Maylam said it's "difficult to know" how rates will be affected by one of the latest jetliner disasters, the crash of a $62 million Korean Air Lines Airbus (*BI*, Aug. 15). The loss brought total airline hull and liability losses for 1994 to date to about $850 million. Airline premiums are expected to total between $1.5 billion and $1.6 billion by the end of this year.

Rates will probably increase for airlines with bad loss experience that renew later this year, such as China Airlines, Air France and KAL, Mr. Maylam said.

Although 1993 was a successful year for Lloyd's aviation market "we are still, some say away from the comfort zone," noted Mr. Beagley.

"Because of the misplaced belief that trading conditions have reached utopian levels, capacity has been enthusiastically returned to the aviation market for 1994," Mr. Beagley stated.

"In addition, very large capacity increases have been granted to some syndicates in other disciplines. The effect on 1994 could be very dangerous indeed, as cash flow and market share underwriting appear to be back in fashion, and premium income needs to be generated to feed this rapacious capacity." ■

Largest Lloyd's aviation syndicates*

Based on 1994 gross allocated capacity in millions of pounds

Syndicate	Managing agency	Underwriter	1994 capacity		1991 profit	
340	Gravett & Tilling (Underwriting Agencies) Ltd.	J.P. Tilling	£115.9	$171.5	£8.6	$12.8
960	Sturge Aviation Syndicate Management Ltd.	B.E. Beagley	111.5	164.9	8.6	12.7
48	Methuen (Lloyd's Underwriting Agents) Ltd.	T.P. Salmon	75.4	111.5	3.2	4.8
800	Wren Syndicates Management Ltd.	J.A. Westcott	69.4	102.7	2.3	3.4
545	Sturge Aviation Syndicate Management Ltd.	B.E. Beagley	63.4	93.9	5.4	7.9
824[1]	Murray Lawrence & Partners Ltd.	A.J. Medniuk[2]	54.6	80.8	(16.4)	(24.3)
957	Barder & Marsh Ltd.	J.R. Cackett	45.7	67.6	4.7	6.9
270	Tower Underwriting Agents Ltd.	R.J. Maylam	45.4	67.3	(3.0)	(4.4)
53	Marchant & Eliot Underwriting Ltd.	R.F. Eliot	44.1	65.3	0.7	1.0
172	Stewart & Hughman Ltd.	A.J. Medniuk	40.7	60.2	1.2	1.7

*Syndicates whose largest proportion of business is aviation [1] 1991 account open [2] Appointed underwriter January 1992
Source: Lloyd's of London

GRAPHIC BY MIKE GARVEY

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Top reinsurers bemoan 'inadequate' rates

Rising premium volume isn't keeping pace with risk

By SARA MARLEY

Reinsurance property catastrophe rates are barely adequate and other rates are still increasing too slowly despite the exposures being assumed, reinsurance company executives worldwide agree.

Some reinsurance company executives complain that property catastrophe rates generate too little premium in the entire market to cover a major loss, while others fear that competitive pressures will begin to reduce these rates.

At the same time, casualty reinsurance rates are not sufficient compared with the environmental and product liability exposures reinsurers face, these executives say.

"With little impact from natural catastrophes in 1993 and only a fraction of the Northridge earthquake being borne by reinsurers, competition is already setting in and putting pressure on the business," said Karl Mayr, deputy board member of Frankona Reinsurance Co. in Munich, Germany.

The Los Angeles earthquake in January contributed to making the first quarter the worst on record for U.S. insured catastrophe losses, but it created only minor ripples in the international reinsurance market (*BI*, Feb. 7).

"After substantial improvements, particularly for catastrophe protections, the market has become more volatile again," observed Willi E. Schurpf, senior executive vp-reinsurance and international division for Winterthur Group in Winterthur, Switzerland. "The new Bermuda capacity is being felt and many primary markets have not reached adequate levels of pricing."

Catastrophe reinsurance facilities in Bermuda are contributing to worldwide overcapacity, said Bard Bunaes, chairman and chief executive officer of Constitution Reinsurance Corp. in New York.

"The hardening which began with Hugo and the European storms, culminating with Andrew and Iniki, was reversed in early 1994, and this trend will continue in spite of the L.A. quake losses," he contended.

The aggregate net reinsurance premium volume written by the world's 20 largest reinsurers, as ranked by *Business Insurance* based on U.S. dollars, increased 13.8% in 1993. That compares with a 17.2% increase reported by a similar—but not identical—group of reinsurers that comprised last year's Top 20 (*BI*, Aug. 30, 1993).

Two reinsurers in the Top 20 saw net written premiums decline in 1993, but the decreases reflect devaluations of some currencies against the U.S. dollar. Both companies—Assicurazioni Generali S.p.A. and Mercantile & General Reinsurance—posted increased premiums in their home currencies.

Despite the increases in premium volume, however, most reinsurance executives maintain that the market is not collecting enough for property catastrophe coverage.

"The marketplace is highly competitive with continued rate insufficiency," explained N. David Thompson, chairman and CEO of North American Reinsurance Corp. in New York. "Casualty rates are marginal with respect to long-tail business due to future uncertainties of both economic and social inflation. Property rates are not sufficient in the aggregate to fund a major catastrophe loss such as have been experienced in recent years."

The reinsurance marketplace "continues to be over-optimistic, over-capitalized and over-generous, especially with regard to property proportional treaties and casualty excess-of-loss rates," said M.L. Tickell, group deputy general manager of Sydney Reinsurance Group Ltd. in Sydney, Australia.

The market has matured "but (is) still a very competitive market trying to prepare itself for the challenge of the difficult years to come," said Jean-Pierre Fillebeen, vice chairman and CEO of SAFR Reinsurance Corp. of the United States in New York.

The hardening in the property market in 1993, which was led by a severe contraction in property catastrophe capacity, has been followed by a lull, said Mahmoud Abdallah, senior vp of American Re-Insurance Co. in Princeton, N.J.

"This could be in anticipation of, or a precursor to, a return to softer conditions," Mr. Abdallah said.

"There is no clearly defined direction in the market," he continued. "We could be headed back down the slippery slope of hyper-competition, or the lull could simply be a sign that the market thinks things are about where they should be and is prepared to sit at an apparently comfortable level for the foreseeable future."

Frequent and severe catastrophic losses have maintained "pressure on catastrophe rates at the same time as new risk capital has become available in the reinsurance markets through Bermuda and corporate capital investment in Lloyd's syndicates. The consequence appears to have been a stabilization in cat rates," said Peter Frey, co-head of reinsurance for Swiss Re Group in Zurich, Switzerland.

Equilibrium is also what Pierre D. Croizat, managing director and chief executive officer of SOREMA International Holding N.V. of Amsterdam, sees. "We are no longer seeing the exorbitant price increases that took place with many of the 1993 renewals in the wake of Hurricane Andrew."

While reinsurance terms and conditions have improved steadily from reinsurers' point of view since 1992, they are still only adequate in a few segments, said Karl Wittmann, executive manager of Munich Reinsurance Co. in Munich, Germany.

"Past losses have to be earned back," he noted.

Proportional property reinsurance is one of those segments.

"Terms and conditions for most

Continued on next page

World's largest reinsurers

Ranked by net reinsurance premiums written. Figures converted to U.S. dollars at 12-month average exchange rate ending at Dec. 31, 1993 Dec. 31, 1992.
All amounts in thousands of dollars.

Rank	Company	Net reinsurance premiums written 1993	Net reinsurance premiums written 1992	Net reinsurance premiums earned 1993	Aftertax net income 1993	Policyholder surplus (reinsurance only) 1993	Losses & loss adjustment expenses 1993	Loss ratio 1993	Underwriting expenses 1993	Expense ratio 1993	Combined ratio 1993	Combined ratio 1992
1	**Munich Reinsurance Co.**[1]	$9,212,873	$7,672,974	$9,066,851	$18,573	$2,995,385	$6,613,927	72.9%	$2,743,047	29.8%	102.7%	104.2%
2	**Swiss Re Group**[2,3]	7,577,726	6,119,685	7,320,203	199,901	2,806,434	6,063,177	NA	1,651,848	NA	NA	NA
	Bavarian Re[2]	913,662	743,629	893,398	NA	240,760	704,994	78.9	255,690	28.0	106.9	96.4
	North American Reinsurance Group	776,409	680,542	725,956	31,781	655,415	532,063	73.3	294,168	37.9	111.2	135.8
	Union Re[2]	501,245	426,600	495,412	5,620	115,174	391,976	79.1	164,758	32.9	112.0	111.9
3	**Employers Reinsurance Group**[4]	3,336,857	3,101,080	3,210,162	376,480	2,336,945	2,994,427	81.3	656,470	23.9	105.2	105.5
4	**Assicurazioni Generali S.p.A.**[5]	2,876,063	3,191,535	2,846,946	390,493	5,727,782	2,041,726	71.7	728,906	25.3	97.1	95.2
5	**Hannover Re/Eisen & Stahl Re Group**[6]	2,804,520	2,273,685	2,746,175	184,256	908,491	2,079,799	75.7	687,036	24.5	100.2	104.7
	Hannover Re[6]	1,612,518	1,323,936	1,569,997	139,527	600,189	1,160,341	73.9	403,466	25.0	98.9	102.9
	Eisen & Stahl Re[6]	858,504	764,104	854,319	53,800	296,814	676,118	79.1	201,534	23.5	102.6	104.6
6	**Cologne Re**	2,655,848	2,435,526	2,615,375	NA	NA	NA	NA	NA	NA	NA	105.1
7	**General Re Corp.**[7]	2,524,000	2,349,000	2,446,000	604,000	3,836,000	1,723,000	70.6	760,000	30.9	101.5	108.4
8	**Frankona Group**[8]	1,825,087	1,723,653	1,781,056	15,568	229,716	1,298,548	72.9	464,735	25.5	98.4	96.0
9	**Gerling Global Reinsurance Group**[9]	1,756,479	1,477,918	1,708,390	8,149	321,856	1,250,915	73.2	502,059	28.6	101.8	107.7
10	**SCOR S.A.**	1,742,315	1,596,861	1,551,962	31,255	956,887	1,285,679	82.8	502,723	28.9	111.7	118.2
	SCOR U.S. Group	236,866	205,544	227,506	34,735	271,895	161,843	71.1	77,201	32.6	103.7	123.4
11	**Mercantile & General Reinsurance**	1,647,844	1,804,183	NA	116,255	431,675	1,458,142	88.5	444,592	27.0	115.5	132.7
12	**American Re-Insurance Co.**	1,371,000	1,020,356	1,257,045	120,593	1,079,284	813,689	64.7	475,788	34.7	99.4	102.8
13	**AXA Re**	999,162	695,941	789,736	31,347	497,497	667,081	84.5	174,146	17.4	101.9	108.3
14	**The Tokio Marine & Fire Insurance Co. Ltd.**[10,11]	987,524	976,114	NA	NA	20,126,190	NA	NA	NA	NA	NA	NA
15	**The Toa Fire & Marine Reinsurance Co. Ltd.**[10,12]	985,818	779,985	NA	6,470	220,200	652,997	66.2	338,911	34.4	100.6	111.3
16	**Prudential Reinsurance Co.**	892,310	767,786	883,219	111,006	607,688	687,389	77.8	253,540	28.4	106.2	147.1
17	**Winterthur Swiss Insurance Co.**[13]	879,423	851,890	675,308	219,619	3,562,442	587,162	86.9	201,611	22.9	109.8	116.5
	Winterthur Reinsurance Corp. of America	218,948	217,822	217,922	40,191	210,765	159,774	73.3	71,605	32.7	106.0	121.5
18	**The Yasuda Fire & Marine Insurance Co. Ltd.**[10]	688,113	636,986	NA	113,156	2,213,483	NA	NA	NA	NA	NA	NA
19	**Aachen Re Group**[2]	645,578	496,619	620,960	NA	116,242	NA	NA	NA	NA	NA	NA
	Aachen Reinsurance Co.[2]	553,179	452,482	531,750	7,687	97,985	388,864	73.1	150,271	27.2	100.3	103.8
20	**Transatlantic Holdings Inc.**	631,693	481,868	581,056	62,488	533,253	465,396	80.1	171,281	27.1	107.2	111.4
	TOTALS	$46,040,234	$40,453,644	$40,100,443	$2,609,607	$49,507,449	$30,683,054	76.5%	$10,756,692	23.4%	99.9%	110.3%

[1] Policyholder surplus includes direct insurance business; reinsurance business converted as of 12/31/92; 12/31/91. [2] Fiscal years ending 12/31/92; 12/31/91. [3] Policyholder surplus and income figures reflect all insurance services. [4] Ratios relate to property/casualty business only. [5] Policyholder surplus includes profit for the year. [6] Policyholder surplus includes share capital subscription receivable and surplus debenture. [7] Policyholder surplus related to domestic business only; figures reflect aftertax operating income. [8] Fiscal years ending 6/30/94; 6/30/93; 1994 figures represent company estimates. [9] Fiscal years ending 6/30/93; 6/30/92. [10] Fiscal years ending 3/31/94; 3/31/93. [11] Parent company capital and surplus. [12] Losses and loss ratio reflect paid losses only. [13] Underwriting expenses reflect commission expenses only.

Source: *BI* survey

GRAPHIC BY KIM FOME

Reinsurers

Continued from previous page

property proportional covers remain hard in 1994 due to the catastrophe exposure inherent in most such covers, while the pricing for property risk excess-of-loss covers still remains soft," SCREMA's Mr. Croizat said. "Exceptions would be on the facultative end with any catastrophe exposed risks."

"Property proportional capacity—particularly in regions containing significant (wind and earthquake) accumulations—remains at a premium," said Dirk Lohmann, deputy board member of Hannover Re/Eisen & Stahl Re Group in Hannover, Germany.

These policies are being written more and more with occurrence limits, he said.

"Market share considerations will push a softening trend in certain areas but the increasing awareness of aggregate exposures from more sophisticated data base tracking and loss simulation modeling will drive the market, particularly in catastrophe-prone regions, to more drastic control mechanisms for proportional exposure build-ups," American Re's Mr. Abdallah said.

As the property reinsurance market shows signs of stabilizing, reinsurers cite continuing problems on the casualty side of the house.

"The recent settlement offer of breast implant manufacturers of $4.75 billion to compensate injured third parties, whether ultimately accepted or not, demonstrates how brief the gestation period from discovery to settlement has become for latent disease or cumulative trauma claims," said Mr. Lohmann of Hannover Re/Eisen & Stahl (*BI*, July 18; Sept. 13, 1993).

"Insurers and reinsurers alike no longer have the luxury of gradually building up reserves for past liabilities over time. Given the impact of recent settlements on operating earnings for old asbestos related claims, it would appear obvious that reserve adequacy remains a serious problem," he said.

Although the lack of major catastrophe losses in 1993 "enabled a number of companies to replenish their coffers and strengthen their balance sheets. . .looming on the horizon remains the specter of environmental and latent disease claims." Mr. Lohmann added.

"None of the casualty problems of the past—asbestosis, pollution, litigation syndrome—in North America affecting largely London and Lloyd's and to an extent some U.S. and continental European reinsurers has been solved," said Serge Osouf, president of reinsurance operations for SCOR S.A. in Paris. "The same is true, at least so far, for Lloyd's and its conflicts between its names and their agents. Price adjustments for casualty exposures in North America and Europe have not yet taken place. All this continues to threaten the reinsurance industry and will lead sooner or later to a new casualty crisis."

"Reserving for long-tail business, particularly in the U.S., remains a problem," said Winterthur's Mr. Schurpf. "A fair solution for Superfund is urgently needed," he said, referring to the U.S. federal law that governs pollution cleanup liability. Analysts say that the insurance industry is not adequately reserved for the potential total cleanup costs.

Yet, casualty reinsurance pricing remains soft.

"There is an abundance of willing capacity for the great majority of casualty coverages," said Elizabeth Ventura, vp of investor relations and corporate communications for Zurich Reinsurance Centre in New York. "It's a market that shows no signs visible to us of being close to a classic market turn."

"Casualty capacity remains abundant and the market extremely competitive," said Dan Eudy, executive vp of Hartford Re Management Co. in Hartford, Conn.

"There will be continued emphasis by reinsurers on developing non-catastrophe related business as long-time established reinsurers put more emphasis on casualty business and special niche programs to reduce their catastrophic exposures," said Robert C. Wood, senior vp and chief operating officer of Winterthur Reinsurance Corp. of America in New York.

A market turn is needed, Hannover Re's Mr. Lohmann said.

"Many markets seem to be trying to position themselves for a turn in the market by securing strategic shares of prestigious programs," he said. "Casualty rates are due for an increase, but I have given up trying to predict when that will occur. Our own scenarios, however, do not anticipate a severe correction such as that witnessed during the last

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Reinsurers ask where new Bermuda capital will go

New facilities seen writing more lines

By SARA MARLEY

Reinsurance company executives from around the world say they are still uncertain about how the new capital that has flowed into Bermuda and Lloyd's of London will be deployed.

"Some segments of the recently developed Bermuda cat market will expand their business base into other reinsurance lines," predicted Mahmoud Abdallah, senior vp of American Re-Insurance Co. in Princeton, N.J.

But the reinsurance market may not be able to afford the favorable terms the Bermuda reinsurance companies would have to offer to expand, particularly in the event of a string of catastrophes, said Serge Osouf, president-reinsurance operations for SCOR S.A. in Paris.

"The Bermuda market is tempted to move outside of its boundaries in writing retrocession cat covers at terms which may prove unbearable by some minor reinsurers and for limits which may exceed their true capacity to face an unusual frequency of catastrophes such as what happened in 1989 or 1990," according to Mr. Osouf.

"The Bermuda market will play an ever-larger role in the property catastrophe market where a shortage of capacity will continue to be a factor for the large primary companies who have more catastrophe exposure than they can readily protect in today's market," said Robert C. Wood, who is senior vp as well as chief operating officer of Winterthur Reinsurance Co. of America in New York.

Nearly $4 billion in capital has been pumped into eight new companies in Bermuda since 1992, and their premium volume is growing rapidly.

At Mid Ocean Reinsurance Co. Ltd., for instance, premium volume of $277 million for the first six months of fiscal year 1994 exceeds what the reinsurance company wrote for all of fiscal year 1993.

The Bermuda reinsurance facilities, however, are not immune to the same forces that traditional reinsurance companies are currently facing.

"Bermuda capital (will be) desperately looking for additional business" in 1995, said Karl Mayr, deputy board member of Frankona Reinsurance Co. in Munich, Germany.

"By the end of 1995, I suspect that the opportunist segment of the Bermudian investors may wake up to the fact that the anticipated return on their investment is just not going to be achieved," said M.L. Tickell, group deputy general manager of Sydney Reinsurance Group Ltd. in Sydney, Australia.

Across the Atlantic, additional corporate investors in Lloyd's are expected.

'By the end of 1995, I suspect that the opportunist segment of the Bermudian investors may wake up to the fact that the anticipated return on their investment is just not going to be achieved,' says M.L. Tickell of Sydney Reinsurance.

"The trend toward a more 'corporate' Lloyd's will accelerate," Mr. Abdallah predicted. "The percentage share of corporate capital will increase and there will be more movement toward the reformation of major syndicates to limited liability."

"Increasing reliance upon corporate capital will force continued changes in Lloyd's regulation of reinsurance purchased by syndicates," said Dirk Lohmann, deputy board member of Hannover Re/Eisen & Stahl Re Group in Hannover, Germany.

"The increased restrictions on proportional reinsurance and continued bias toward excess-of-loss reinsurances, coupled with increased security requirements, will favor the larger and stronger capitalized reinsurers," said Mr. Lohmann.

"The London market has totally disappeared from traditional reinsurance placements but is very aggressive in specialty classes," such as bankers blanket bond, professional indemnity, offshore oil, gas and aviation, Mr. Osouf said.

The competition for specialty lines insurance business has slowed the rate increases that began in 1992.

The marine insurance market has softened since reaching its zenith in 1993, Mr. Lohmann contends.

"The marine market will in all likelihood remain stable, although it is likely that we may observe a continued purging of non-marine elements out of marine underwriters' portfolios, particularly after some unpleasant surprises following the Northridge (Los Angeles) earthquake," he said.

Aviation insurance rates have been rising for two years but appeared to level off during the first quarter of 1994 "to a point which in the aggregate is still insufficient to generate enough premium to pay expected losses after taking into account inflation," Mr. Lohmann said.

"Aviation rates will generally remain flat despite what appears to be shaping up as a disappointing 1993-1994 underwriting year," he added. "This is largely due to the continued availability of surplus capacity in this market segment." BI

Exchange rate fluctuations impact reinsurer ranks

Business Insurance once again has turned to average exchange rates to convert foreign reinsurers' results into dollars.

The exchange rates are calculated as an average of the daily exchange rates for the 12 months prior to each company's fiscal year end.

Despite the attempt to mitigate distortions caused by fluctuations in exchange rates, they cannot be eliminated entirely.

Two reinsurers—Assicurazioni Generali S.p.A. and Mercantile & General Group Ltd.—posted declines in net reinsurance premiums written when converted to dollars but registered increases in their home currencies. Several other European reinsurers saw their growth shrink when their premium volume was converted to dollars.

Some European currencies devalued more than 20% against the dollar between 1992 and 1993.

Conversely, Japanese companies benefited from the weakness of the dollar against the yen. The dollar dropped to an average of 107.83 yen for the 12 months ending March 31, 1994, from 124.75 for the 12 months ending March 31, 1993.

The Tokio Marine & Fire Insurance Co. Ltd. and Yasuda Fire & Marine Insurance Co. Ltd. both posted declines in net reinsurance premiums written in yen, but the figures appear as increases when converted into dollars.

While *BI* sought the most recent data, the most recent figures for Swiss Re Group, Bavarian Re, Aachen Re Group and Aachen Reinsurance Co. are from calendar-year 1992. Companies also use various fiscal years: U.S. and some European companies use calendar-year accounting, while some German companies close their accounts on June 30 and the Japanese on March 31.

The world's largest reinsurance companies are ranked based on net reinsurance premiums written, both in property/casualty and life/health.

Swiss Re requested that no ratios be published because its figures include life/health business. Employers Reinsurance Corp. provided ratios for property/casualty business only.

Finally, reinsurers worldwide value their assets differently, so a comparison of reported policyholder surplus is deceiving. The German reinsurers, for example, value their assets at the lesser of cost or market value as of the balance sheet date, thus creating hidden reserves.

Neither Munich Reinsurance Co. nor Swiss Re Group could provide surplus figures for reinsurance only, so the surpluses reported are those of the groups.

The surplus figure provided by General Re Corp. relates to domestic business only; its after-tax operating income reported in the chart as $604 million compares with net income of $643.7 million.

Tokio Marine & Fire reports the capital and surplus of its parent company.

Acknowledging the inherent distortions in comparing companies from around the world, *Business Insurance* presents its ranking of the world's 20 largest reinsurers as the most comprehensive effort in the industry.

—*By Sara Marley*

Reinsurers

Continued from previous page

hard market. I believe that the capital markets have demonstrated quite ably that they are willing to pour new money into clean shells if there is even a hint of a chance of profit being made in the insurance and reinsurance business."

Most executives predict little increase in rates during the remainder of 1994 and in 1995, provided there are no major catastrophes.

"The industry has seen its surplus go down considerably due to losses in the financial markets," observed Winterthur's Mr. Schurpf. In addition, reinsurers' investment income is suffering with lower interest rates.

"Heavy downward pressure on catastrophe rates as various markets fight to win or hold on to existing business," is the prediction of Sydney Re's Mr. Tickell.

Next year will bring "continued emphasis on reinsurers to improve their service and to provide innovative and cost-effective capacity to their clients," predicted Paul J. Malvasio, senior vp, chief financial officer and treasurer of NAC Reinsurance Corp. in Greenwich, Conn.

In 1995, Mark W. Hinkley, executive vp of TIG Reinsurance Co. in Stamford, Conn., predicts, "continued consolidation of markets, increased expansion by U.S. reinsures into the international marketplace and emerging loss development will begin to plague certain companies."

But reinsurers are not entirely pessimistic.

The influx of new capital in Bermuda has not replaced all of the capacity that other reinsurers have withdrawn, resulting in ongoing demand for catastrophe capacity, Mr. Croizat said.

"The increased scrutiny of rating agencies and accounting rule changes—such as eliminating the usage of certain types of financial reinsurance—have also prompted insurers to seek additional amounts of reinsurance coverage," he added.

Anticipated risk-based capital standards for U.S. property/casualty insurers also could create a new demand for reinsurance.

"Primary companies which do not fare as well as expected with risk-based capital may seek to enhance their performance through the use of reinsurance," North American Re's Mr. Thompson said. BI

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Aachen Re

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

	1992*	1991*
Premiums written	$553,179,081	$452,481,847
Premiums earned	$531,750,264	$437,703,643
Capital & surplus	$97,985,007	$77,646,444
Aftertax net	$7,687,321	$6,027,000
Losses	$388,863,948	$312,158,822
Loss ratio	73.1%	71.3%
Expenses	$150,271,345	$146,894,263
Expense ratio	27.2%	32.5%
Combined ratio	100.3%	103.8%
Treaty	93.0%	94.0%
Facultative	7.0%	6.0%
Domestic	58.5%	59.4%
Foreign	41.5%	40.6%

** Fiscal years ending 12/31/92 and 12/31/91.*

Founded: 1853.
Parent: Aachener & Munchener Beteiligungs Gesellschaft A.G.
Subsidiaries: Irish European Re, Dublin; Lureco S.A., Luxembourg. Figures from these subsidiaries are *not* included in the figures above.
Employees: 200.
Locations: One domestic, 10 foreign.
Officers: A. Morenz, chairman; H. Hauptmann, F. Schmitz, H. Von Treskow, board members; W. Nicoll, director.
Contact: Curt Hagelmann, Aachen Insurance Intermediaries Inc., Atlanta, 404-698-7095.

Aachen Re Group

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

	1992*	1991*
Premiums written	$645,578,083	$496,619,376
Premiums earned	$620,960,466	$481,671,210
Capital & surplus	$116,241,675	$91,550,130

** Fiscal years ending 12/31/92 and 12/31/91.*

Founded: 1853.
Subsidiaries: Aachen Re, Aachen, Germany; Irish European Re, Dublin, Ireland; Lureco S.A., Luxembourg.
Contact: Curt Hagelmann, Aachen Insurance Intermediaries Inc., Atlanta, 404-698-7095.

Abeille Re

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

	1993	1992
Premiums written	$472,633,256	$398,955,874
Premiums earned	$464,930,026	$384,394,303
Capital & surplus	$331,286,637	$248,808,976
Aftertax net	$10,805,225	$9,351,876
Losses	$376,060,341	$322,470,720
Loss ratio	80.9%	83.9%
Expenses	$149,107,164	$126,460,448
Expense ratio	31.6%	31.7%
Combined ratio	112.5%	115.6%
Treaty	95.9%	95.3%
Facultative	4.1%	4.7%
Domestic	18.9%	25.1%
Foreign	81.1%	74.9%

Founded: 1976.
Subsidiaries: Abeille Re, U.S., Canada, Hong Kong.
Employees: 130.
Locations: One domestic, three foreign.
Officers: Michel Laparra, chairman/CEO; Jacqueline Simon, president/COO; Jorgen K. Jensen, Gerard Oberty, Francois Vilnet, managers.
Contact: Jorgen K. Jensen, president-Abeille Reassurances, New York, 212-809-7100.

American Re-Insurance Co.

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

	1993	1992
Premiums written	$1,370,999,578	$1,020,356,210
Premiums earned	$1,257,044,898	$964,103,570
Capital & surplus	$1,079,283,907	$875,768,854
Aftertax net	$120,593,059	$120,049,038
Losses	$813,688,930	$660,800,856
Loss ratio	64.7%	68.5%
Expenses	$475,787,989	$349,503,067
Expense ratio	34.7%	34.3%
Combined ratio	99.4%	102.8%
Treaty	72.0%	67.0%
Facultative	28.0%	33.0%
Domestic	83.3%	84.9%
Foreign	16.7%	15.1%

Founded: 1917.
Parent: American Re Corp.
Subsidiaries: American Re-Insurance Co. (Chile) S.A.
Employees: 1,186.
Locations: 13 domestic, 13 foreign.
Officers: Edward B. Jobe, chairman/CEO; Paul Inderbitzen, vice chairman/president; James R. Fisher, senior vp/CFO; Michael A. Jones, Edward J. Noonan, senior vps.
Contact: Victor M. Giuffre, vp.

Assicurazioni Generali S.p.A.

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

	1993	1992
Premiums written	$2,876,062,720	$3,191,535,270
Premiums earned	$2,846,945,920	$3,139,385,040
Capital & surplus*	$5,727,782,400	$7,153,220,160
Aftertax net	$390,492,800	$465,767,820
Losses	$2,041,726,080	$2,151,271,710
Loss ratio	71.7%	68.5%
Expenses	$728,905,600	$852,060,060
Expense ratio	25.3%	26.7%
Combined ratio	97.1%	95.2%
Treaty	96.9%	98.1%
Facultative	3.1%	1.9%
Domestic	17.6%	18.0%
Foreign	82.4%	82.0%

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

Founded: 1831.
Subsidiaries: Business Men's Assurance Co. of America, Kansas City, Mo.; EA-Generali, Vienna, Austria; Generali Ruckversicherung, Vienna, Austria; La Concorde, Paris; Union Suisse, Geneva.
Employees: 34,300.
Locations: 14 domestic, 71 foreign.
Officers: Eugenio Coppola di Canzano, chairman; Gianfranco Gutty, managing director; Umberto Della Casa, Camillo Giussani, Amato Luigi Molinari, general managers.
Contact: Riccardo Nicolini, COO, 212-602-7600.

AXA Re

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

	1993	1992
Premiums written	$999,162,038	$695,941,092
Premiums earned	$789,735,509	$658,545,741
Capital & surplus	$497,497,022	$289,878,939
Aftertax net	$31,346,835	$13,900,194
Losses	$667,081,099	$569,039,121
Loss ratio	84.5%	86.4%
Expenses	$174,145,845	$152,204,157
Expense ratio	17.4%	21.9%
Combined ratio	101.9%	108.3%
Treaty	89.9%	90.5%
Facultative	10.1%	9.5%
Domestic	3.0%	3.0%
Foreign	97.0%	97.0%

Founded: 1937.
Parent: AXA Group.
Subsidiaries: AXA Re Asia, AXA Re USA, AXA Re U.K. P.L.C., C.G.R.M.
Employees: 330.
Locations: 11 domestic, eight foreign.
Officers: C. Excoffier, CEO; J.M. Nessi, COO; J.P. Benoit, senior executive officer; R. Lippincott, CEO-USA; K. Haddon, CEO-U.K.
Contact: Thomas Pucci, 212-493-9300.

Bavarian Re

Sederanger 4-8, 80538 Munich, Germany; 49-89-3844-0; fax: 49-89-3844-279

	1992*	1991*
Premiums written	$913,662,309	$743,623,090
Premiums earned	$893,397,675	$739,555,478
Capital & surplus	$240,759,574	$215,740,391
Losses	$704,993,759	$513,113,950
Loss ratio	78.9%	69.4%
Expenses	$255,690,347	$200,951,563
Expense ratio	28.0%	27.0%
Combined ratio	106.9%	96.4%

** Fiscal years ending 12/31/92 and 12/31/91.*

Founded: 1911.
Parent: Swiss Reinsurance Co.
Employees:** 352.
Officers: Stefan Lippe, Erich Herrgen, Inge Mahlstedt, Stefan Schroder, Anton Wittl, board members.
Contact: Erich Herrgen, 49-89-3844-211.

*** At fiscal year-end 12/31/92.*
Information for Bavarian Re is included in the consolidated Swiss Re Group listing.

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E ❑ Educational Inst J ❑ Attorney N ❑ Other ____

2. **Number of employees:**
1 ❑ 150 or less 2 ❑ 151 - 499 3 ❑ 500 - 999
4 ❑ 1,000 - 4,999 5 ❑ 5,000 or more 6 ❑ Unknown

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Continued from previous page

Berkshire Hathaway Reinsurance Division

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

	1993	1992
Premiums written	$534,312,000	$607,152,000
Premiums earned	$447,975,000	$511,520,000
Capital & surplus*	NA	NA
Losses	$356,286,000	$589,658,000
Loss ratio	79.5%	115.3%
Expenses	$74,387,000	$38,804,000
Expense ratio	16.6%	7.6%
Combined ratio	96.1%	122.9%
Treaty	99.0%	99.0%
Facultative	1.0%	1.0%
Domestic	75.0%	75.0%
Foreign	25.0%	25.0%

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

Founded: 1969.
Parent: Berkshire Hathaway Inc.
Employees: 12.
Locations: One domestic.
Specialties: Property catastrophe, finite risk, marine and aviation excess of loss, limited prorata.
Officers: Ajit Jain, president; Scott Doerr, vp; Scott Stirling, Brian Garrison, Brian Snover, assistant vps.
Contact: Scott Doerr, 203-363-5207.

Caisse Centrale de Reassurance

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

	1993	1992
Premiums written	$534,021,005	$523,148,976
Premiums earned	$547,776,410	$455,039,424
Capital & surplus	$479,018,631	$472,919,958
After-tax net	$51,451,527	$46,304,055
Losses	$409,987,682	$355,594,995
Loss ratio	74.9%	78.2%
Expenses	$164,779,865	$126,936,558
Expense ratio	30.9%	24.3%
Combined ratio	105.7%	102.4%
Treaty	94.7%	95.5%
Facultative	5.3%	4.5%
Domestic	78.3%	76.2%
Foreign	21.7%	23.8%

Founded: 1946.
Officers: Alexis Ruset, chairman/CEO; Claude Thevenot, deputy general manager; Rene Vandamme, manager-underwriting division; Gerard Boulier, assistant manager-financial/real estate/legal division; Michel Simonnet, assistant manager-EDPS division; Herve Labory, company secretary-public funds division; Viviane Zischek, company secretary-accounts division; Jean-Marc Letailleur, assistant company secretary-human resources division; Pascale Jez, communication.

Centre Reinsurance

Cumberland House, 1 Victoria St., P.O. Box HM 1788, Hamilton HM HX, Bermuda; 809-295-8501; fax: 809-295-3705

	1993	1992
Premiums written	$566,308,000	$522,237,000
Premiums earned	$564,997,000	$478,621,000
Capital & surplus	$855,884,000	$680,819,000
After-tax net	$187,064,000	$65,868,000
Losses	$624,229,000	$472,655,000
Loss ratio	110.5%	98.7%
Expenses	$158,280,000	$105,830,000
Expense ratio	27.9%	20.3%
Combined ratio	138.4%	119.0%
Treaty	100.0%	100.0%
Domestic	5.0%	5.0%
Foreign	95.0%	95.0%

Founded: 1988.
Parent: Centre Reinsurance Holdings Ltd.
Subsidiaries: Centre Reinsurance Ltd., Centre Reinsurance International Co., Centre Reinsurance Co. of New York, Zurich Reinsurance Centre.
Employees: 128.
Locations: One domestic, three foreign.
Specialties: Finite risk.
Officers: Steven M. Gluckstern, chairman; Michael D. Palm, president/CEO; Laurence W. Cheng, executive vp/CFO; Bruce A. Bunner, director-external affairs; Carol A. Rennie, president-Constellation Reinsurance Co.; David L. Wasserman, president/CEO-Centre Reinsurance Co. of New York; Michael D. Hamer, chairman-Centre Reinsurance Representatives Ltd.
Contact: Centre Reinsurance Co. of New York, 212-898-5300.

The Chiyoda Fire & Marine Insurance Co. Ltd.

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

	1994*	1993*
Premiums written	$506,804,061	$487,888,121
Capital & surplus	$1,228,089,600	$1,041,653,640
Losses	$386,348,004	$363,747,800
Expenses	$84,809,477	$80,084,309
Expense ratio	16.7%	16.4%
Treaty	99.0%	99.0%
Facultative	1.0%	1.0%
Domestic	60.0%	60.0%
Foreign	40.0%	40.0%

** Fiscal years ending 3/31/94 and 3/31/93.*

Founded: 1897.
Subsidiaries: Chiyoda Europe. Figures from this subsidiary are *not* included in the figures above.
Employees: 40.
Locations: 30 domestic, 10 foreign.
Officers: Hideo Kamio, chairman; Takashi Toyabe, president/executive director; Koji Fukuda, senior vp/executive director; Yoshimi Takaoka, Yutaka Okada, senior managing directors.
Contact: Yoshio Ohyama, chief representative, 212-839-6927.

CIGNA Reinsurance Property & Casualty

2 Liberty Place-TLP 45, 1601 Chestnut St., P.O. Box 41567 Philadelphia, Pa. 19101; 215-761-3545; fax: 215-761-5573

	1993	1992
Premiums written	$506,513,000	$582,203,000
Premiums earned	$537,163,000	$600,485,000
Capital & surplus	$271,304,000	$277,783,000
After-tax net	($60,774,000)	($206,761,000)
Losses	$569,585,000	$920,228,000
Loss ratio	106.0%	153.2%
Expenses	$166,937,000	$179,904,000
Expense ratio	32.9%	30.9%
Combined ratio	138.9%	184.1%
Treaty	90.0%	91.0%
Facultative	10.0%	9.0%
Domestic	49.0%	47.0%
Foreign	51.0%	53.0%

Founded: 1947.
Parent: CIGNA Corp.
Subsidiaries: CIGNA International Reinsurance Co. Ltd. (Bermuda), CIGNA Reaseguros S.A., CIGNA Reinsurance Co., CIGNA Reinsurance Co. S.A./N.V.
Employees: 333.
Locations: Two domestic, four foreign.
Specialties: Property-treaty and facultative, treaty casualty, marine-treaty and facultative, agriculture, bonding/credit, financial reinsurance/finite risk.
Officers: Thomas C. Jones, president-P&C Reinsurance Division; Harry J. Larzelere, president-North American Reinsurance; Thomas J. Mahoney, general manager-CIGNA Reinsurance Co. S.A./N.V.-Belgium; Michael W. Fedyna, vp/CFO; John P. Gumbrecht, vp/chief underwriting officer.
Contact: Michael W. Fedyna, 215-761-3544.

The Cologne Re

Theodor-Heuss-Ring 11, D-50668 Cologne, Germany; 49-221-97-38-0; fax: 49-221-97-38-494

	1993	1992
Premiums written	$2,655,848,447	$2,435,525,676
Premiums earned	$2,615,374,667	$2,373,469,913
Capital & surplus	NA	$320,115,483
After-tax net	NA	$59,228,816
Losses	NA	$1,886,177,126
Loss ratio	NA	79.5%
Expenses	NA	$624,214,593

Continued on next page

Guide to the directory of the world's largest reinsurers

The sixth annual directory of the world's largest reinsurance companies lists reinsurers that responded to a *Business Insurance* questionnaire.

The listings are published free of charge as an editorial service. The directory includes companies writing primarily property/casualty reinsurance and their major reinsurance subsidiaries.

Financial information was gathered from the responses to the *BI* questionnaire, annual statements/reports and telephone interviews. Figures are reported in U.S. dollars, using average fiscal exchange rates corresponding with each companies' balance sheet fiscal year, which is the same as the calendar year unless otherwise noted.

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

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

The **year founded, parent company** name (if any) and **major reinsurance subsidiaries** follow the financial information. If the companies' financial information is not consolidated or only partly consolidated, that is noted here. Also included is the number of **employees**, in full-time equivalent for year-end 1993 and number of domestic and foreign **locations**. (The term domestic refers to the country in which the company is based.) Names and titles of **principal officers**, as well as a **contact person** complete the listings.

Although *BI* makes every effort to publish complete and accurate listings, we are not able to verify all information provided by the reinsurers.

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GLOBAL FOCUS

Global Focus will appear for the first time as a regular section in 1994. Published quarterly, this section will be distributed exclusively to non-U.S. subscribers.

PUBLISHING DATES	AD CLOSING DATES
February 14	February 2
June 13	June 1
August 22	August 10
November 14	November 2

Contact: Martin J. Ross, Advertising Sales Director, 220 E. 42nd Street, New York, NY 10017 • Phone: 212-210-0228 • Fax: 212-210-0704

Continued from previous page

	1993	1992
Expense ratio	NA	25.6%
Combined ratio	NA	105.1%
Treaty	NA	90.2%
Facultative	NA	9.8%
Domestic	NA	36.0%
Foreign	NA	64.0%

Founded: 1846.
Parent: Colonia Holding AG.
Subsidiaries: Cologne Life Re of Australia, Sydney; Cologne Life Re Stamford, Stamford, Conn.; Cologne Re of America, Stamford, Conn.; The Cologne Re Dublin; Cologne Re Hamilton; The Cologne Re London; Cologne Re South Africa Kapstadt; Europa Ruck AG.
Employees*: 887.
Locations: Two domestic, 29 foreign.
Officers: Peter Lutke-Bornefeld, chairman; Hans-Peter-Gerhardt, Gerd Hofmann, Rainer Isringhaus, Georg Lorenz, Lothar Meyer, Egbert Willam, Wilhelm Zeller, board members.
** At fiscal year-end 12/31/92.*

Constitution Reinsurance Corp.

110 William St., New York, N.Y. 10038; 212-225-1100; fax: 212-385-4511

	1993	1992
Premiums written	$453,888,825	$396,531,636
Premiums earned	$445,479,433	$335,096,968
Capital & surplus	$286,328,258	$271,748,903
Aftertax net	$31,441,837	$2,865,777
Losses	$311,210,126	$264,755,503
Loss ratio	69.9%	79.0%
Expenses	$146,896,422	$126,617,094
Expense ratio*	32.4%	31.9%
Combined ratio	102.3%	110.9%
Treaty	95.7%	95.7%
Facultative	4.3%	4.3%
Domestic	100.0%	100.0%

** 1992 expense ratio excludes aggregate write-ins for miscellaneous losses.*

Founded: 1940.
Parent: Talegen Holdings Inc.
Employees: 195.
Locations: Four domestic.
Specialties: Non-standard auto.
Officers: Bard E. Bunaes, CEO; Francis D. Ruyak, president; William K. Lowry, CFO; James J. Powers, general counsel; Roger M. Hughes, senior vp.
Contact: William K. Lowry.

Copenhagen Re

4, Lyngby Hovedgade, P.O. Box 325, 2800 Lyngby, Denmark; 45-45-96-75-75; fax: 45-45-96-72-72

	1993	1992
Premiums written	$300,923,073	$225,774,589
Premiums earned	$271,506,252	$218,947,782
Capital & surplus	$119,923,790	$131,221,485
Aftertax net	$18,165,910	($36,300,833)
Losses	$225,736,966	$211,757,887
Loss ratio	83.1%	96.7%
Expenses	$73,649,886	$71,613,004
Expense ratio	24.5%	32.4%
Combined ratio	107.6%	129.1%
Treaty	91.0%	95.0%
Facultative	9.0%	5.0%
Domestic	10.0%	13.0%
Foreign	90.0%	87.0%

Founded: 1915.
Parent: Almindelig Brand A/S.
Subsidiaries: The Copenhagen Reinsurance Co. (Australia) Ltd.; The Copenhagen Reinsurance Co. (Far East) Pte. Ltd., Singapore; The Copenhagen Reinsurance Co. (U.K.) Ltd.
Employees: 168.
Locations: One domestic, five foreign.
Officers: Bent Knie-Andersen, chairman; Leif Corinth-Hansen, president; Alain Debbas, Henrik Bay, Steen Rydeng, vps.

E

Eisen & Stahl Re

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

	1993	1992
Premiums written	$858,504,079	$764,104,243
Premiums earned	$854,318,951	$752,743,301
Capital & surplus	$296,813,972	$208,796,947
Aftertax net	$53,799,554	$13,344,416
Losses	$676,118,094	$606,402,397
Loss ratio	79.1%	80.6%
Expenses	$201,533,811	$183,102,734
Expense ratio	23.5%	24.0%
Combined ratio	102.6%	104.6%
Treaty	99.0%	99.0%
Facultative	1.0%	1.0%
Domestic	68.0%	73.0%
Foreign	32.0%	27.0%

Founded: 1923.
Parent: HDI Haftpflichtverband der Deutschen Industrie V.a.G.
Subsidiaries: Eisen & Stahl Reinsurance (Ireland) Ltd. Figures from this subsidiary are *not* included in the figures above.
Employees: 171.
Locations: One domestic, 10 foreign.
Specialties: Professional liability, surety, fidelity, aviation, marine, credit, life, health.
Officers: Michael Reischel, chairman; Udo Schubach, Wolf Becke, Jurgen Brenzel, Andreas-Peter Hecker, Winfried Kruger, board members; Herbert K. Haas, Dirk Lohmann, deputy board members.
Contact: John McLain, vp-U.S. representative office, 708-705-2100.
Information for Eisen & Stahl Re and its subsidiaries is included in the consolidated Hannover Re/Eisen & Stahl Re Group listing.

Employers Reinsurance Group

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

	1993	1992
Premiums written	$3,336,857,000	$3,101,080,000
Premiums earned	$3,210,162,000	$3,036,537,000
Capital & surplus	$2,336,945,000	$2,067,524,000
Aftertax net	$376,480,000	$442,321,000
Losses	$2,994,427,000	$2,574,702,000
Loss ratio*	81.3%	78.4%
Expenses	$656,470,000	$789,300,000
Expense ratio*	23.9%	27.1%
Combined ratio*	105.2%	105.5%
Treaty	70.9%	68.9%
Facultative	29.1%	31.1%
Domestic	77.7%	76.3%
Foreign	22.3%	23.7%

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

Founded: 1914.
Parent: General Electric Capital Services.
Subsidiaries: Employers Reassurance, Employers Reinsurance, Employers Reinsurance Ltd., First Excess & Reinsurance, First Specialty Insurance Co., Nordisk Reinsurance A/S, Westport Insurance.
Employees: 1,005.
Locations: 17 domestic, nine foreign.
Officers: Kaj Ahlmann, chairman/president/CEO; Hoyt H. Wood Jr., senior vp-underwriting/claims; C. Alan Mauch, senior vp-marketing/administration; James F. Dore, vp/CFO; John Connelly, general counsel/secretary.
Contact: Kaj Ahlmann.

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F

F&G Re Inc.

P.O. Box 1958, 55 Macison Ave., Morristown, N.J. 07962; 201-898-9393; fax: 201-326-9453

	1993	1992
Premiums written	$398,032,531	$243,210,963
Premiums earned	$380,082,354	$254,090,392
Capital & surplus*	NA	NA
Losses	$256,125,412	$195,353,433
Loss ratio	67.4%	76.9%
Expenses	$98,351,707	$41,241,604
Expense ratio	24.7%	16.9%
Combined ratio	92.1%	93.8%
Treaty	100.0%	100.0%
Domestic	67.5%	74.2%
Foreign	32.5%	25.8%

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

Founded: 1983.
Parent: United States Fidelity & Guaranty Co.
Employees: 49.
Locations: One domestic.
Officers: Paul B. Ingrey, president; John R. Berger, executive vp; Roland W. Jackson, senior vp/comptroller; Dwight R. Evans, Wayne C. Paglieri, senior vps.
Contact: Roland W. Jackson.

Frankona Group

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

	1994*	1993*
Premiums written	$1,825,087,079	$1,723,652,599
Premiums earned	$1,781,055,833	$1,662,850,000
Capital & surplus	$229,715,307	$235,442,694
Aftertax net	$15,567,990	$10,254,300
Losses	$1,298,547,775	$1,175,844,650
Loss ratio	72.9%	70.7%
Expenses	$464,735,028	$436,144,448
Expense ratio	25.5%	25.3%
Combined ratio	98.4%	96.0%
Treaty**	86.6%	90.4%
Facultative**	13.4%	9.6%
Domestic	34.7%	62.3%
Foreign	65.3%	37.7%

** Fiscal years ending 6/30/94 and 6/30/93. 1994 figures represent company estimates.*
*** Figures reflect Frankona AG only.*

Founded: 1886.
Parent: Gerling-Konzern Versicherungs-Beteiligungs-AG.
Subsidiaries: Frankona America Life Reassurance Co., Kansas City, Mo.; Frankona America Reinsurance Co., Kansas City, Mo.; Frankona Reinsurance Co. (U.K.) Ltd., London.
Employees: 470.
Locations: One domestic, five foreign.
Officers: Achim Kann, chairman/CEO; Reinhard Hinne, Dieter W. Luer, Karl Mayr, Michael von Ludinghausen, board members.
Contact: Karl Mayr, 49-89-922-8700.

G

General Re Corp.

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

	1993	1992
Premiums written	$2,524,000.000	$2,349,000,000
Premiums earned	$2,446,000.000	$2,319,000,000
Capital & surplus*	$3,836,000.000	$3,452,000,000
Aftertax net*	$604,000,000	$465,000,000
Losses	$1,723,000.000	$1,829,000,000
Loss ratio	70.6%	78.8%
Expenses	$760,000,000	$697,000,000
Expense ratio	30.9%	29.6%
Combined ratio	101.5%	108.4%
Domestic	90.1%	92.7%
Foreign	9.9%	7.3%

** Capital & surplus related to domestic business only. Aftertax net figures reflect aftertax operating income.*

Founded: 1921.
Subsidiaries: General Reinsurance Corp. (Europe), General Reinsurance Ltd., General Reinsurance Australasia, General Re Compania de Reaseguros.
Employees: 2,000.
Officers: Ronald E. Ferguson, chairman; John C. Etling, vice chairman; Tom N. Kellogg, James E. Gustafson, executive vps.
Contact: Allen W. Rork, vp, 203-328-5770.

Gerling Global Reinsurance Group

Gereonshof, 50597 Cologne, Germany; 49-221-144-1; fax: 49-221-144-46-65

	1993*	1992*
Premiums written	$1,756,479,139	$1,477,918,237
Premiums earned	$1,708,390,267	$1,444,159,209
Capital & surplus	$321,856,317	$321,423,581
Aftertax net	$8,148,665	$7,105,761
Losses	$1,250,915,237	$1,120,195,173
Loss ratio	73.2%	77.6%
Expenses	$502,059,031	$445,195,777
Expense ratio	28.6%	30.1%
Combined ratio	101.8%	107.7%
Domestic	65.7%	67.0%
Foreign	34.3%	33.0%

** Fiscal years ending 6/30/93 and 6/30/92.*

Founded: 1954.
Parent: Gerling-Konzern Versicherungs-Beteiligungs-AG.
Subsidiaries: Gerling Global General & Reinsurance, London; Gerling Global Life, Toronto; Gerling Global Reinsurance, Toronto; Gerling Global Reinsurance, Johannesburg, South Africa; Gerling Globale, Zug, Switzerland.
Employees: 404.
Locations: One domestic, 18 foreign.
Officers: Norbert Strohschen, chairman; Klaus Bultmann, Uwe Eymer, Gerhard Niebuhr, executive board members.
Contact: Gerhard Niebuhr, 212-752-8900.

H

Hannover Re

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

	1993	1992
Premiums written	$1,612,517,813	$1,323,935,678
Premiums earned	$1,569,996,518	$1,293,638,551
Capital & surplus	$600,188,938	$394,829,099
Aftertax net	$139,526,664	$53,817,014
Losses	$1,160,340,689	$967,944,108
Loss ratio	73.9%	74.8%
Expenses	$403,466,120	$371,425,135
Expense ratio	25.0%	28.1%
Combined ratio	98.9%	102.9%
Treaty	97.0%	96.0%
Facultative	3.0%	4.0%
Domestic	40.0%	41.0%
Foreign	60.0%	59.0%

Founded: 1966.
Parent: HDI Haftpflichtverband der Deutschen Industrie V.a.G.
Subsidiaries: Hannover Reinsurance (Ireland) Ltd.; Hollandia Reinsurance Group, South Africa; Insurance Corp. of Hannover, U.S.; International Insurance Co. of Hannover Ltd., U.K.; Reassurance Co. of Hannover, U.S. Figures from these subsidiaries are *not* included above.
Employees: 348.
Locations: One domestic, 13 foreign.
Specialties: Professional liability, surety, fidelity, aviation, marine, credit, life, health.
Officers: Michael Reischel, chairman; Andreas-Peter Hecker, Wolf Becke, Jurgen Brenzel, Winfried Kruger, Udo Schubach, board members; Herbert K. Hass, Dirk Lohmann, deputy board members.
Contact: John McLain, vp-U.S. representative office, 708-705-2100.
Information for Hannover Re and its subsidiaries is included in the consolidated Hannover Re/Eisen & Stahl Re Group listing.

Hannover Re/Eisen & Stahl Re Group

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

	1993	1992
Premiums written	$2,804,519,989	$2,273,684,601
Premiums earned	$2,746,174,905	$2,227,870,651
Capital & surplus	$908,491,000	$620,698,522
Aftertax net	$184,255,718	$63,575,550
Losses	$2,079,799,133	$1,721,958,061
Loss ratio	75.7%	77.3%
Expenses	$687,035,952	$623,303,232
Expense ratio	24.5%	27.4%
Combined ratio	100.2%	104.7%

Parent: HDI Haftpflichtverband der Deutschen Industrie V.a.G.
Subsidiaries: Eisen & Stahl Reinsurance (Ireland) Ltd.; Hannover Reinsurance (Ireland) Ltd.; Hollandia Reinsurance Group, South Africa; Insurance Corp. of Hannover, U.S.; International Insurance Co. of Hannover Ltd., U.K.; Reassurance Co. of Hannover, U.S.
Employees*: 519.

Continued on next page

Continued from previous page

Locations: One domestic, 13 foreign.
Specialties: Professional liability, surety, fidelity, aviation, marine, credit, life, health.
Officers: Michael Reischel, chairman; Andreas-Peter Hecker, Wolf Becke, Jurgen Brenzel, Winfried Kruger, Udo Schubach, board members; Herbert K. Haas, Dirk Lohmann, deputy board members.
Contact: John McLain, vp-U.S. representative office, 708-705-2100.

** Employee figures represent Hannover, Germany offices only.*

HartRe

55 Farmington Ave., Suite 88,
Hartford, Conn. 06115; 203-520-2700;
fax: 203-547-2726

	1993	1992
Premiums written	$375,400,000	NA
Premiums earned	$370,200,000	NA
Capital & surplus*	NA	NA
Losses	$274,700,000	NA
Loss ratio	74.2%	NA
Expenses	$90,300,000	NA
Expense ratio	24.1%	NA
Combined ratio	98.3%	NA
Treaty	97.0%	NA
Facultative	3.0%	NA
Domestic	62.0%	NA
Foreign	38.0%	NA

** Parent company does not allocate specific capital to reinsurance underwriting. Consolidated figures not available prior to 1993.*

Founded: 1993.
Parent: ITT Hartford Fire Insurance Co.
Employees: 142.
Locations: One domestic, five foreign.
Officers: Dennis Zettervall, CEO; John Sullivan, COO; Dan Eudy, executive vp; John Daly, president-HartRe Europe.
Contact: Dan Eudy, 203-520-2808.

Kemper Reinsurance Co.

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

	1993	1992*
Premiums written	$428,136,000	$544,518,000
Premiums earned	$437,059,000	$545,040,000
Capital & surplus	$403,472,000	$338,761,000
After-tax net	$2,850,000	($23,350,000)
Losses	$426,811,000	$515,645,000
Loss ratio	97.7%	94.6%
Expenses	$124,769,000	$130,596,000
Expense ratio	29.1%	24.0%
Combined ratio	126.8%	118.6%
Treaty	98.0%	98.0%
Facultative	2.0%	2.0%
Domestic	62.0%	57.0%
Foreign	38.0%	43.0%

** 1992 figures have been restated.*

Founded: 1969.
Parent: Lumbermens Mutual Casualty Co.
Subsidiaries: Kemper Europe Reassurances S.A., Kemper Reinsurance (Bermuda) Ltd., Kemper Reinsurance London Ltd.
Employees: 250.
Locations: One domestic, five foreign.
Officers: Michael R. Pinter, chairman/CEO; George L. Messenger, president/COO; Michel Y. Beyens, executive vp; F. Paul D'Amore, William E. Flaherty, James R. Miller, senior vps.
Contact: James R. Miller.

Mercantile & General Reinsurance

Moorfields House, Moorfields, London,
EC2Y 9AL, England; 44-71-628-7070;
fax: 44-71-588-4629

	1993	1992
Premiums written	$1,647,844,200	$1,804,183,000
Capital & surplus	$431,674,800	$363,943,000
After-tax net	$116,254,800	($33,711,500)
Losses	$1,458,141,600	$1,870,370,500
Loss ratio	88.5%	103.7%
Expenses	$444,592,000	$523,322,500
Expense ratio	27.0%	29.0%
Combined ratio	115.5%	132.7%
Domestic	18.6%	19.0%
Foreign	81.4%	81.0%

Founded: 1907.
Parent: Prudential Corp.
Employees: 1,231.
Locations: Four domestic, 20 foreign.
Officers: John Engestrom, CEO; Richard Brewster, director-group finance; Hans-Erik Andersson, director-general business; Roger Sansom, Peter Patterson, directors-long term business.
Contact: William Munson, president/COO-Mercantile & General Reinsurance Co. of America, 201-898-9495.

Mid Ocean Reinsurance Co. Ltd.

Richmond House, 12 Par-La-Ville
Road, P.O. Box HM 1066, Hamilton
HM EX, Bermuda; 809-292-1358;
fax: 809-292-0876

	1993*	1992
Premiums written	$246,755,000	NA
Premiums earned	$138,155,000	NA
Capital & surplus	$769,433,000	NA
After-tax net	$67,678,000	NA
Losses	$74,685,000	NA
Loss ratio	54.1%	NA
Expenses	$30,960,000	NA
Expense ratio**	22.4%	NA
Combined ratio**	76.5%	NA
Treaty	100.0%	NA
Foreign	100.0%	NA

** Fiscal year ended 10/31/93.*
*** Expense ratio reflects premiums earned.*

Founded: 1992.
Employees: 28.
Locations: One domestic, one foreign.
Specialties: Property/casualty.
Officers: Robert J. Newhouse, chairman; Michael A. Butt, president/CEO; Charles F. Hays, senior vp/CFO; Henry C.V. Keeling, senior vp/underwriter.

Munich Reinsurance Co.

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

	1993	1992
Premiums written	$9,212,873,250	$7,672,973,700
Premiums earned	$9,066,850,650	$7,519,887,900
Capital & surplus*	$2,995,384,650	$2,669,961,000
After-tax net	$18,573,050	$44,599,800
Losses	$6,613,927,150	$5,467,694,400
Loss ratio	72.9%	72.7%
Expenses	$2,743,047,350	$2,414,416,200
Expense ratio	29.8%	31.5%
Combined ratio	102.7%	104.2%
Domestic	47.1%	49.7%
Foreign	52.9%	50.3%

** Capital & surplus figures include direct insurance business.*

Founded: 1880.
Subsidiaries: The Great Lakes Reinsurance Co., Toronto; Great Lakes Reinsurance (U.K.) P.L.C., London; Munchener Ruck Italia S.p.A., Milan, Italy; Munich American Reassurance Co., Atlanta; Munich American Reinsurance Co., New York; Munich Reinsurance Co. of Australia Ltd., Sydney, Australia; Munich Reinsurance Co. of Canada, Toronto; Munich Reinsurance Co. of South Africa Ltd., Johannesburg, South Africa; New Reinsurance Co., Geneva.
Employees: 3,120.
Locations: 1,897 domestic, 1,223 foreign.
Officers: Hans-Jurgen Schinzler, chairman; Wolf Otto Bauer, Klaus Conrad, Rudolf Ficker, Dieter Gobel, Claus Helbig, Fedor Nierhaus, Dieter Nonhoff, Hans Raffler, Hans Rathnow, Ralph Roth, Detlef Schneidawind, Hans-Dieter Sellschopp, Hans-Wilmar von Stockhausen, board members; Heiner Hasford, deputy board member.
Contact: John N. Lombardo, president/CEO-Munich American Reinsurance Co., 212-310-1600.

NAC Reinsurance Corp.

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

	1993	1992
Premiums written	$336,940,538	$268,022,566
Premiums earned	$306,379,211	$250,532,095
Capital & surplus	$406,163,376	$384,031,442
After-tax net	$30,360,778	($1,128,177)
Losses	$214,221,691	$217,293,556
Loss ratio	69.9%	86.7%
Expenses	$138,230,218	$107,552,420
Expense ratio	41.0%	40.2%
Combined ratio	110.9%	126.9%
Treaty	90.0%	91.8%
Facultative	10.0%	8.2%
Domestic	100.0%	100.0%

Founded: 1985.
Parent: NAC Re Corp.
Subsidiaries: Greenwich Insurance Co., Indian Harbor Insurance Co., NAC Re International Holdings Ltd.
Employees: 217.
Locations: Four domestic, one foreign.
Specialties: Property/casualty.
Officers: Ronald L. Bornhuetter, president/CEO; Martha G. Bannerman, executive vp/general counsel/secretary; Stanley J. Kott, Carl F. Madsen, executive vps; Paul J. Malvasio, senior vp/CFO/treasurer.
Contact: Paul J. Malvasio, 203-622-5226.

Continued on next page

Directory terms and methodology explained on page 69.

SUMMARY OF THE FINANCIAL YEAR 1993

GENERALI

THE INSURER WITHOUT FRONTIERS.

The Generali Group has further strengthened its position in the markets where it operates by moving along three directives: to reorganize companies operating in those countries where the Group has a long-standing tradition; to begin operations in those markets that offer interesting prospects; to pursue those policies that aim at boosting insurance business through the signing of wide-reaching agreements with important international groups, supported by the acquisition of significant minority shareholdings. In this context, important moves have been carried out: agreements with the Madrid-based Banco Central Hispano and with the FIAT Group; acquisition of a 3% stake in Banca Commerciale Italiana; concentration in the subsidiary Alleanza Assicurazioni of the shares held in Banco Ambrosiano Veneto.

As far as the initiatives aiming at improving structures in various countries are concerned, recent initiatives include the re-organization of the Group in Germany, Belgium and Argentina, and the establishment of new companies in Portugal, Guernsey and Rumania and a Branch Office in the Czech Republic.
Operations have also been boosted in Latin America, where the Group acquired a controlling stake in an insurance company in Ecuador, strengthened its presence in Peru by establishing a new subsidiary that ranks second in the Peruvian insurance market, acquired an important insurance company in Colombia, and established a company that will manage the activity in the Argentinian pension funds sector.

1993 CONSOLIDATED STATEMENT

ASSETS (000 US$)*	1993	1992
Real estate and agricultural companies	6,130.329	5,780,690
Fixed-interest securities	28,335,031	22,083,577
Shares and equity participations	6,197,034	5,233,754
Loans	2,623,776	2,237,854
Deposits with Ceding Companies	417,357	444,277
Bank deposits	2,397,668	2,200,763
Accounts receivable and other assets	5,408,391	4,869,069
Total	**51,509,586**	**42,849,984**
LIABILITIES (000 US$)*		
Provisions for insurance liabilities	40,109,763	33,107,982
Reinsurance deposits	479,962	419,884
Other liabilities	4,272,616	2,837,111
Minority shareholders' interest	1,395,005	1,302,324
Shareholders' surplus	4,894,168	4,845,223
Profit for the year	**358,072**	**337,460**
Total	**51,509,586**	**42,849,984**

* All figures have been converted at the rate of exchange of Lire 1,703.97 to the US$

■ The profit for 1993 amounted to US$ 402.7 m., compared to US$ 396.6 m. in the previous year. Some modifications carried out in the accounting criteria affected the result by US$ 88.8 m. as did a two-fold increase in taxation. The Parent Company's share of the profit amounted to US$ 358 m.

■ Consolidated premiums amounted to US$ 14,597.2 m. (+10.9%): 76.9% from EU member countries (Italy 30%); 16.1% from other European countries, and 7% from non-European countries. Premiums collected in life business increased 9% to US$ 5,860.3 m., and 12.3% to US$ 8,736.9 m. in non-life business.

■ Claims paid amounted to US$ 7,593.3 m.

■ Provisions for insurance liabilities increased by US$ 5,088 m.

■ Underwriting and administrative costs amounted to US$ 3,525 m. Cost ratio at 27.3% followed last year's trend.

■ Investments rose to US$ 46,101.2 m. (+21.4%), against which provisions for insurance liabilities amounted to US$ 40,109.8 m.

■ Investment income reached US$ 3,711 m. compared to US$ 3,128 m. in 1992 (+ 18.6%).

■ This statement consolidates 86 insurance companies operating in some 40 markets, 28 holding companies, 21 real estate companies and 3 agricultural companies.

■ The Group's overall stockholders' surplus amounted to US$ 6,244.5 m., the share of the Parent Company is 78.4%.

Central Head Office in Trieste (Italy)

The Generali Group operates in the United States through: Assicurazioni Generali U.S. Branch, BMA-Business Men's Assurance and Generali Underwriters Inc.

THE INSURER WITHOUT FRONTIERS.

Continued from previous page

National Reinsurance Corp.

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

	1993	1992
Premiums written	**$332,560,360**	$252,303,199
Premiums earned	**$299,945,398**	$250,356,401
Capital & surplus	**$355,742,986**	$321,209,474
After-tax net	**$54,514,517**	$52,479,007
Losses	**$191,270,666**	$180,227,531
Loss ratio	**63.8%**	72.0%
Expenses	**$119,866,324**	$79,111,088
Expense ratio	**36.0%**	31.3%
Combined ratio	**99.8%**	103.3%
Treaty	**82.0%**	82.0%
Facultative	**18.0%**	18.0%
Domestic	**100.0%**	100.0%

Founded: 1963.
Parent: National Re Corp.
Employees: 241.
Locations: Eight domestic.
Officers: William D. Warren, chairman/CEO/president; Peter A. Cheney, executive vp/CFO; Robert W. Eager Jr., executive vp-reinsurance operations; Timothy T. McCaffrey, executive vp-legal/corporate affairs.
Contact: William D. Warren.

North American Reinsurance Group

237 Park Ave., New York, N.Y. 10017; 212-907-8000; fax: 212-907-8728

	1993	1992
Premiums written	**$776,409,004**	$680,542,461
Premiums earned	**$725,955,696**	$726,169,417
Capital & surplus	**$655,415,145**	$619,309,450
After-tax net	**$31,780,816**	($34,418,379)
Losses	**$532,063,339**	$708,270,821
Loss ratio	**73.3%**	97.5%
Expenses	**$294,167,933**	$260,858,660
Expense ratio	**37.9%**	38.3%
Combined ratio	**111.2%**	135.8%
Treaty	**77.0%**	81.7%
Facultative	**23.0%**	18.3%
Domestic	**100.0%**	100.0%

Founded: 1863.
Parent: Swiss Reinsurance Co.
Subsidiaries: Western Atlantic Reinsurance Corp.
Employees: 510.
Locations: Nine domestic.
Officers: N. David Thompson, president/CEO; William E. Thiele, president/COO; Darrius G. Baker, executive vp-facultative; Charles E. Mabli, executive vp-finance; James P. Quinn, executive vp-special lines; William H. Stempson, executive vp-strategic planning.
Contact: Paul A. LiCausi, senior vp/controller, 212-907-8292.
Information for North American Reinsurance Group and its subsidiaries is included in the consolidated Swiss Re Group listing.

The world's top 20 reinsurers, ranked by 1993 net reinsurance premiums written, appear on page 66.

P

Prudential Reinsurance Co.

3 Gateway Center, Newark, N.J. 07102-4082; 201-802-8888; fax: 201-802-4793

	1993	1992
Premiums written	**$892,310,000**	$767,786,000
Premiums earned	**$883,219,000**	$753,201,000
Capital & surplus	**$607,688,000**	$519,028,000
After-tax net	**$111,006,000**	($52,478,000)
Losses	**$687,389,000**	$853,094,000
Loss ratio	**77.8%**	113.3%
Expenses	**$253,540,000**	$259,882,000
Expense ratio	**28.4%**	33.9%
Combined ratio	**106.2%**	147.1%
Treaty	**91.2%**	91.8%
Facultative	**8.8%**	8.2%
Domestic	**75.6%**	78.4%
Foreign	**24.4%**	21.6%

Founded: 1973.
Parent: The Prudential Insurance Co. of America.
Subsidiaries: Le Rocher Reinsurance Ltd.
Employees: 688.
Locations: Eight domestic, four foreign.
Officers: James E. Dwane, president; Robert Jacobson, CFO; Thomas J. Gallagher, Arthur J. Powell, senior vps; Janet Melchione, senior vp/general counsel.
Contact: Robert G. Murray, vp-public relations, 201-802-2083.

R

Re Capital Reinsurance Corp.

2050 Center Ave., Fort Lee, N.J. 07024; 203-977-6100; fax: 203-325-8968

	1993	1992
Premiums written	**$115,813,631**	$121,316,779
Premiums earned	**$112,680,825**	$118,443,460
Capital & surplus	**$155,529,536**	$102,088,217
After-tax net	**$7,988,468**	($204,172)
Losses	**$84,136,507**	$92,110,005
Loss ratio	**74.7%**	77.8%
Expenses	**$37,378,878**	$42,931,933
Expense ratio	**32.2%**	35.4%
Combined ratio	**106.9%**	113.2%
Treaty	**100.0%**	100.0%
Domestic	**100.0%**	100.0%

Founded: 1986.
Parent: Re Capital Corp.
Employees: 41.
Locations: One domestic.
Officers: James E. Roberts, president/CEO; Molly P. Sanders, David C. Smith, Stephen B. Slade, senior vps; R. Richard Mueller, vp/treasurer.
Contact: R. Richard Mueller, 203-977-6131.

S

St. Paul Re

195 Broadway, New York, N.Y. 10007; 212-238-9200; fax: 212-238-9202

	1993	1992
Premiums written	**$431,242,000**	$343,045,000
Premiums earned	**$395,008,000**	$361,093,000
Capital & surplus*	**NA**	NA
Losses	**$327,698,000**	$558,305,000
Loss ratio	**83.0%**	154.6%
Expenses	**$116,190,000**	$111,552,000
Expense ratio	**26.9%**	32.5%
Combined ratio	**109.9%**	187.1%
Treaty	**87.2%**	86.5%
Facultative	**12.8%**	13.5%
Domestic	**68.6%**	76.1%
Foreign	**31.4%**	23.9%

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

Founded: 1983.
Parent: St. Paul Fire & Marine Insurance Co.
Subsidiaries: St. Paul Re, New York, London, Tokyo.
Employees: 315.
Locations: One domestic, two foreign.
Officers: James F. Duffy, president/CEO; David Grefe, CFO/senior vp; Michael Wacek, general manager-St. Paul Re, London; Michael Schell, senior vp/manager-domestic, N.Y.; Peter Aubrey-Smith, senior vp/manager-international, N.Y.
Contact: James F. Duffy.

SCOR S.A.

Immeuble SCOR 1, Avenue du President Wilson, Cedex 39, 92074 Paris La Defense, France; 331-46-98-7000; fax: 331-47-67-0409

	1993	1992
Premiums written	**$1,742,314,860**	$1,596,861,000
Premiums earned	**$1,551,961,620**	$1,569,834,000
Capital & surplus	**$956,887,020**	$897,939,000
After-tax net	**$31,254,660**	($23,625,000)
Losses	**$1,285,678,980**	$1,374,597,000
Loss ratio	**82.8%**	87.5%
Expenses	**$502,723,260**	$490,077,000
Expense ratio	**28.9%**	30.7%
Combined ratio	**111.7%**	118.2%
Treaty	**86.0%**	89.0%
Facultative	**14.0%**	11.0%
Domestic	**25.0%**	28.0%
Foreign	**75.0%**	72.0%

Founded: 1970.
Subsidiaries: Konti Ruck, La Victoria Riassi, SCOR Fin, SCOR Pacific, SCOR Re Australia Ltd., SCOR Reassurance, SCOR U.K., SCOR U.S. Corp., SCOR Vie.
Employees: 1,087.
Locations: One domestic.
Officers: Patrick Peugeot, chairman/CEO; Jacques Blondeau, president/COO; Serge Osouf, president-reinsurance operations.
Contact: Jerome Karter, executive vp, SCOR U.S. Corp., 212-978-8215.

SCOR U.S. Group

110 William St., Suite 1800, New York, N.Y. 10038; 212-978-8200; fax: 212-406-9296

	1993	1992
Premiums written	**$236,866,483**	$205,544,011
Premiums earned	**$227,505,659**	$192,049,933
Capital & surplus	**$271,895,437**	$210,854,740
After-tax net	**$34,735,387**	$5,163,891
Losses	**$161,843,343**	$163,235,330
Loss ratio	**71.1%**	85.0%
Expenses	**$77,201,107**	$78,925,152
Expense ratio	**32.6%**	38.4%
Combined ratio	**103.7%**	123.4%
Treaty	**85.0%**	82.0%
Facultative	**15.0%**	18.0%
Domestic	**100.0%**	100.0%

Founded: 1981.
Parent: SCOR S.A.
Subsidiaries: California Reinsurance Management Corp., General Security Assurance Corp. of New York, Scor Reinsurance Co., The Unity Fire & General Insurance Co.
Employees: 198.
Locations: Five domestic, one foreign.
Officers: Patrick Peugeot, director/chairman; Jacques P. Blondeau, vice chairman/president/CEO; Jerome Karter, director/executive vp/COO-SCOR U.S. Group and president/CEO-SCOR Re; Jeffrey Dale Cropsey, senior vp/CFO; John T. Andrews Jr., senior vp/general counsel/corporate secretary.
Contact: Jerome Karter, 212-978-8215.

Sirius International Insurance Corp.

S-113 96 Stockholm, Sweden; 46-8-458-55-00; fax: 46-8-458-55-99

	1993	1992
Premiums written	**$180,583,562**	$200,923,944
Premiums earned	**$178,728,792**	$157,566,695
Capital & surplus	**$585,209,940**	$494,206,740
After-tax net	**$5,842,211**	$8,302,193
Losses	**$122,825,511**	$141,327,518
Loss ratio	**68.7%**	89.7%
Expenses	**$59,657,896**	$44,760,618
Expense ratio	**33.0%**	22.3%
Combined ratio	**101.7%**	112.0%
Treaty	**72.0%**	75.0%
Facultative	**3.0%**	5.0%
Other*	**25%**	20%
Domestic	**12.0%**	18.0%
Foreign	**88.0%**	82.0%

** Other represents financial reinsurance.*

Founded: 1945.
Parent: ABB Financial Services AB.
Subsidiaries: Scandinavian Reinsurance Co. Ltd., Hamilton, Bermuda; Sirius (U.K.) Insurance P.L.C., London. Figures from these subsidiaries are *not* included in the figures above.
Employees: 120.
Contact: Monica Cramer-Manhem, vp.

Skandia America Reinsurance Corp.

1 Liberty Plaza, New York, N.Y. 10006; 212-978-2823; fax: 212-385-2469

	1993	1992
Premiums written	**$176,665,000**	$371,717,000
Premiums earned	**$247,133,000**	$403,441,000
Capital & surplus	**$325,519,000**	$293,361,000
After-tax net	**$46,228,000**	($25,502,000)
Losses	**$224,317,000**	$389,041,000
Loss ratio	**90.8%**	96.5%
Expenses	**$65,949,000**	$138,803,000
Expense ratio	**37.3%**	37.3%
Combined ratio	**128.1%**	133.8%
Treaty	**77.0%**	NA
Facultative	**23.0%**	NA
Domestic	**100.0%**	100.0%

Founded: 1900.
Parent: Skandia Insurance Co. Ltd.
Employees: 200.
Locations: Six domestic.
Officers: Johannes Norrby, chairman/CEO; Donald R. Alexander, president/COO; Thomas M. Tobin, senior vp/general counsel; Anthony J. Narciso Jr., senior vp/controller; G. William Davis Jr., senior vp/director-facultative; Patrick E. Gentile, S. Lance Andrew, senior vps/treaty account executives.
Contact: Susan D. Young, CFO/senior vp.
Information for Skandia America Reinsurance Corp. is included in the consolidated Skandia Insurance Co. Ltd. listing.

Skandia Insurance Co. Ltd.

Sveavagen 44, S-103 50 Stockholm, Sweden; 46-8-788-1000; fax: 46-8-788-3080

	1993	1992
Premiums written	**$591,245,680**	$1,523,446,740
Premiums earned	**$710,933,120**	$1,461,177,720
Capital & surplus*	**NA**	NA
Losses	**$581,871,020**	$1,235,602,620
Loss ratio	**81.8%**	84.6%
Expenses	**$312,574,280**	$571,056,660
Expense ratio	**52.9%**	37.5%
Combined ratio	**134.7%**	122.1%

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

Founded: 1855.
Subsidiaries: Hudson Reinsurance Co. Ltd., Skandia America Reinsurance Corp., Skandia Canada Reinsurance Co., Skandia (U.K.) Insurance Ltd., Skandia International Insurance Corp., Skandia Reassurance (U.K.) Ltd.
Employees: 619.
Locations: One domestic, 21 foreign.
Officers: Bjorn Wolrath, president/CEO; Marie-Louise Wenander, president-Skandia International; Johannes Norrby, chairman/CEO-Skandia America Reinsurance Corp.; Donald R. Alexander, president-Skandia America Reinsurance Corp.
Contact: Donald R. Alexander, 212-978-4700.

Societe Anonyme Francaise de Reassurances

153, rue de Courcelles, 75817 Paris Cedex 17, France; 331-44-01-17-17; fax: 331-44-01-17-80

	1993	1992
Premiums written	**$598,577,947**	$587,884,689
Premiums earned	**$573,709,833**	$578,168,955
Capital & surplus	**$396,913,699**	$389,592,126
After-tax net	**$32,796,733**	$23,141,727
Losses	**$464,330,883**	$499,601,844
Loss ratio	**80.9%**	86.4%
Expenses	**$196,205,278**	$188,793,045
Expense ratio	**32.8%**	32.1%
Combined ratio	**113.7%**	118.5%
Treaty	**94.0%**	98.0%
Facultative	**6.0%**	2.0%
Domestic	**31.0%**	28.0%
Foreign	**69.0%**	72.0%

Founded: 1884.
Parent: AGF Group, Athena Group, CCF, Swiss Re Group.
Subsidiaries: SAFR Reinsurance Corp. of the U.S., New York.
Employees: 262.
Locations: One domestic, three foreign.
Officers: Herve Cachin, chairman/president/CEO; Jean-Luc Barbe, Philippe Coignard, Jean-Noel Schoutteten, executive vps.
Contact: Jean-Pierre Fillebeen, vice chairman/CEO-SAFR Reinsurance Corp. of the U.S., 212-422-0380.

SOREMA International

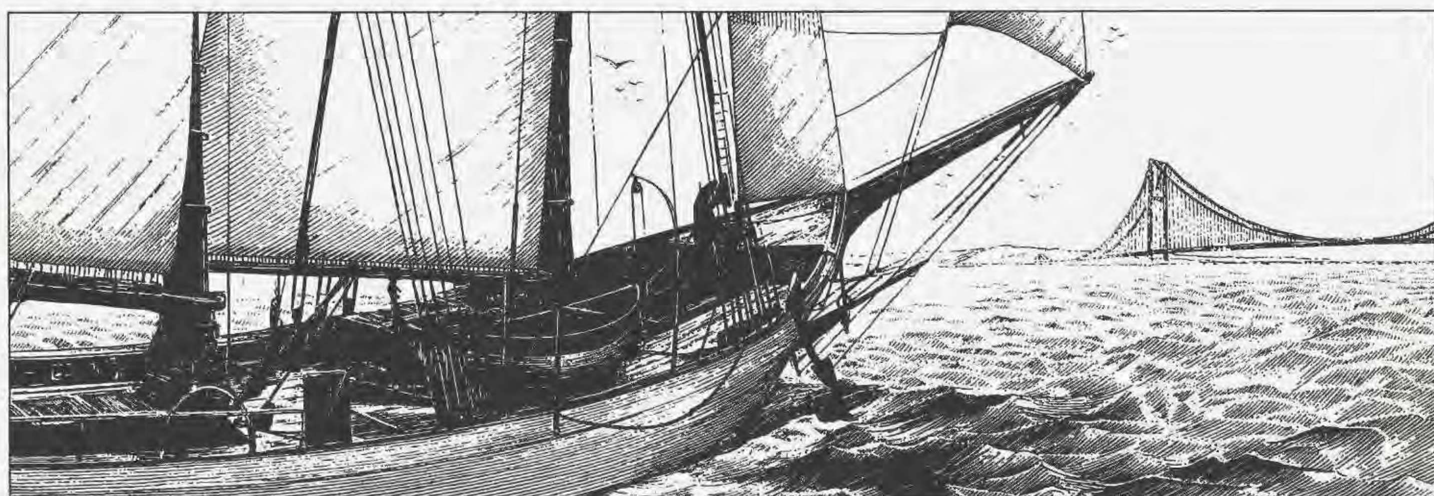
Atrium Building, 7th Floor, Strawinskylaan 3115, Amsterdam 1077ZX, Netherlands; 31-20-5-481-481

	1993	1992
Premiums written	**$493,021,404**	$397,799,637
Premiums earned	**$469,516,567**	$352,970,470
Capital & surplus	**$317,847,317**	$275,435,351
After-tax net	**$27,071,240**	($5,815,847)
Losses	**$347,408,855**	$283,090,016
Loss ratio	**74.0%**	80.2%
Expenses	**$141,023,079**	$125,689,343
Expense ratio	**28.6%**	31.6%
Combined ratio	**102.6%**	111.8%
Treaty	**85.0%**	80.6%
Facultative	**15.0%**	19.4%
Domestic	**0.3%**	0.3%
Foreign	**99.7%**	99.7%

Founded: 1993.
Parent: GROUPAMA Reassurance S.A.
Subsidiaries: SOREMA North America Reinsurance Co.; Societe de Reassurance des Assurances Mutuelles Agricoles (SOREMA Paris); SOREMA (U.K.) Reinsurance Co. Ltd.
Employees: 332.

Continued on next page

Quality



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Capital Re Corporation
1325 Avenue of the Americas
New York, New York 10019
Telephone: 212 974 0100
Fax: 212 581 3268

Continued from previous page

Locations: One domestic, eight foreign.

Officers: Pierre Croizat, managing director/CEO; Francois Chavel, Jean-Paul Lasserre, general managers; Peter A. Jones, deputy general manager/CFO; Daniel E. Schmidt IV, deputy general manager/general counsel/corporate secretary.

Contact: Daniel E. Schmidt IV, 212-480-1900.

Swiss Re Group

Mythenquai 50/60, P.O. Box CH-8022, Zurich, Switzerland; 411-285-21-21; fax: 411-285-46-59

	1992*	1991*
Premiums written	$7,577,726,280	$6,119,685,000
Premiums earned	$7,320,203,100	$6,062,498,200
Capital & surplus**	$2,806,433,550	$2,195,415,200
After-tax net**	$199,900,590	$185,508,400
Losses	$6,063,176,970	$4,754,175,800
Expenses	$1,651,847,580	$1,479,185,400
Domestic	5.7%	5.9%
Foreign	94.3%	94.1%

** Fiscal years ended 12/31/92 and 12/31/91.*
*** Capital & surplus and income are consolidated figures relating to all insurance services.*

Founded: 1863.

Subsidiaries: Atlantic International Reinsurance Co. Ltd., Australian Reinsurance Co. Ltd., Bavarian Reinsurance Co. Ltd., Canadian Reassurance Co., Canadian Reinsurance Co., Englewood Reinsurance Co. Ltd., European General Reinsurance Co. of Zurich, European International Reinsurance Co. Ltd., North American Reassurance Co., North American Reinsurance Corp., Swiss-Am Reassurance Co., Swiss Reinsurance Co. (U.K.) Ltd., Swiss-South African Reinsurance Co. Ltd., Union Reinsurance Co., Western Atlantic Reinsurance Corp.

Employees*:** 3,318.

Officers: L. Muhlemann, CEO; Ch. Dorschel, CFO; P. Frey, U. Winter, coheads, reinsurance; W. Gemund, head-direct insurance.

Contact: N. David Thompson, president/CEO-North American Reinsurance Corp., New York, 212-907-8040.

**** Fiscal year ended 12/31/92.*

Sydney Reinsurance Group Ltd.

Level 7, 345 George St., Sydney, New South Wales 2000, Australia; 61-2-375-4000; fax: 61-2-375-4050

	1993*	1992*
Premiums written	$189,626,005	$104,986,062
Premiums earned	$154,493,781	$93,645,652
Capital & surplus	$119,332,792	$108,953,880
After-tax net	$17,052,864	$4,916,285
Losses	$110,357,526	$77,970,377
Loss ratio	71.4%	83.3%
Expenses	$47,641,733	$29,042,384
Expense ratio	25.1%	27.7%
Combined ratio	96.5%	111.0%
Treaty	95.6%	96.8%
Facultative	4.4%	3.2%
Domestic	17.8%	23.3%
Foreign	82.2%	76.7%

** Fiscal years ended 6/30/93 and 6/30/92.*

Founded: 1991.

Parent: QBE Insurance Group Ltd.

Subsidiaries: Equator Reinsurance Ltd., QBE International Insurance Ltd., Sydney Insurance & Reinsurance Ltd., Sydney Reinsurance Co. Ltd., Sydney Reinsurance Corp. (acquired 8/12/93, *not* included in figures above).

Employees: 178.

Locations: One domestic, four foreign.

Officers: Martin Jackson, group general manager; Abe Altman, president-Sydney Reinsurance Corp.; Robert Grant, general manager-QBE International Insurance Ltd.; Greg O'Neill, general manager-Sydney Reinsurance Co. Ltd.; Hans Goemans, general manager-underwriting, Sydney Insurance & Reinsurance Ltd.

Contact: Abe Altman, New York, 212-225-7560.

T

TIG Reinsurance Co.

300 First Stamford Place, 7th Floor, Stamford, Conn. 06902; 203-977-8000; fax: 203-358-9854

	1993	1992
Premiums written	$346,108,772	$354,283,445
Premiums earned	$331,254,270	$353,547,515
Capital & surplus	$329,616,112	$270,454,721
After-tax net	$59,030,071	$40,527,472
Losses	$259,931,321	$292,188,715
Loss ratio	78.5%	82.6%
Expenses	$107,950,532	$97,666,344
Expense ratio	31.2%	27.6%
Combined ratio	109.7%	110.2%
Treaty	100.0%	100.0%
Domestic	100.0%	100.0%

Founded: 1987.

Parent: TIG Insurance Co.

Employees: 82.

Locations: Two domestic, one foreign.

Officers: William G. Clark, chairman/CEO; Edwin M. Millette, president/COO; Stephen G. Franks, executive vp/treasurer; Mark W. Hinkley, Lydia B. Kam, executive vps.

Contact: Stephen G. Franks.

The Toa Fire & Marine Reinsurance Co. Ltd.

6, Kanda-Surugadai 3-chome, Chiyoda-ku, Tokyo 101, Japan; 81-3-3253-3171; fax: 81-3-3257-1448

	1994*	1993*
Premiums written	$985,818,150	$779,985,100
Capital & surplus	$220,199,580	$186,922,140
After-tax net	$6,470,460	$6,736,800
Losses**	$652,997,340	$583,005,880
Loss ratio**	66.2%	74.7%
Expenses	$338,911,200	$285,503,980
Expense ratio	34.4%	36.6%
Combined ratio	100.6%	111.3%

** Fiscal years ended 3/31/94 and 3/31/93.*
*** Losses reflect paid losses only. Loss ratio reflects paid losses to premiums written.*

Founded: 1940.

Subsidiaries: The Toa-Re Insurance Co. of America, The Toa-Re Insurance Co. (U.K.) Ltd., The Toa-Re Management Co. Ltd. (Hong Kong). Figures from these subsidiaries are *not* included in the figures above.

Officers: Hiroshi Ohashi, president/director; Kohji Furuta, senior managing director; Koichiro Abe, Katsunori Mori, Mutsuo Fujita, managing directors.

The Tokio Marine & Fire Insurance Co. Ltd.

2-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100, Japan; 81-3-3212-6211; fax: 81-3-3214-3944

	1994*	1993*
Premiums written	$987,523,830	$976,114,200
Capital & surplus	$20,126,189,700	$14,946,521,120
Domestic	72.9%	69.6%
Foreign	27.1%	30.4%

** Fiscal years ended 3/31/94 and 3/31/93.*

Founded: 1879.

Officers: S. Kono, president; S. Horichi, N. Araki, executive vps.

Contact: Masayoshi Saito, Tokio Re Corp., New York, 212-267-3300.

Transatlantic Holdings Inc.

80 Pine St., 7th Floor, New York, N.Y. 10005; 212-770-2000; fax: 212-248-0965

	1993	1992
Premiums written	$631,692,871	$481,867,591
Premiums earned	$581,056,178	$477,841,309
Capital & surplus	$533,252,641	$463,872,977
After-tax net	$62,488,174	$62,079,378
Losses	$465,395,983	$410,922,650
Loss ratio	80.1%	86.0%
Expenses	$171,280,981	$122,398,009
Expense ratio	27.1%	25.4%
Combined ratio	107.2%	111.4%
Treaty	83.0%	81.0%
Facultative	17.0%	19.0%
Domestic	80.0%	87.0%
Foreign	20.0%	13.0%

Founded: 1952.

Parent: American International Group Inc.

Subsidiaries: Putnam Reinsurance Co., Transatlantic Reinsurance Co.

Employees: 260.

Locations: Three domestic, four foreign.

Specialties: Property/casualty, including professional liability, environmental impairment liability, medical malpractice, D&O liability, non-standard auto, aviation and marine.

Officers: M.R. Greenberg, chairman; Joseph V. Taranto, president; Andrew A. Barnard, Robert F. Orlich, executive vps; Richard M. Green, senior vp/controller; Robert V. Mucci, senior vp/actuary; David W. Smith, senior vp/general counsel.

Contact: David W. Smith, 212-770-2162.

U

Union Re

Genferstrasse 27, CH-8027 Zurich, Switzerland; 411-209-91-11; fax: 411-201-18-95

	1992*	1991*
Premiums written	$501,245,394	$426,599,580
Premiums earned	$495,411,996	$390,753,220
Capital & surplus	$115,174,041	$96,241,200
After-tax net	$5,619,981	$2,510,640
Losses	$391,975,890	$307,413,920
Loss ratio	79.1%	78.7%
Expenses	$164,757,924	$141,572,200
Expense ratio	32.9%	33.2%
Combined ratio	112.0%	111.9%
Treaty	97.3%	95.6%
Facultative	2.7%	4.4%
Domestic	8.4%	11.0%
Foreign	91.6%	89.0%

** Fiscal years ended 12/31/92 and 12/31/91.*

Founded: 1923.

Parent: Swiss Reinsurance Co. Zurich.

Employees: 190.

Locations: One domestic, one foreign.

Officers: Rene Theler, chairman; Arnold W. Saxer, vice chairman; Peter C. Colombo, president; Hans Hasler, Mario Kochli, Fulco Lock, Walter J. Wickli, executive vps.

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

W

Winterthur Reinsurance Corp. of America

2 World Financial Center, 225 Liberty St., 42nd Floor, New York, N.Y. 10281-1076; 212-416-5700; fax: 212-524-6839

	1993	1992
Premiums written	$218,947,838	$217,821,560
Premiums earned	$217,922,090	$213,166,849
Capital & surplus	$210,764,600	$167,505,631
After-tax net	$40,191,430	$5,609,064
Losses	$159,773,717	$187,894,896
Loss ratio	73.3%	88.1%
Expenses	$71,604,994	$72,669,243
Expense ratio	32.7%	33.4%
Combined ratio	106.0%	121.5%
Treaty	97.1%	97.0%
Facultative	2.9%	3.0%
Domestic	92.0%	94.0%
Foreign	8.0%	6.0%

Founded: 1936.

Parent: Winterthur Swiss Insurance Co.

Employees: 78.

Locations: 69 domestic, nine foreign.

Specialties: Property/casualty, surety.

Officers: John G. Bidwell, president/CEO; Robert C. Wood, senior vp/COO; Vincent T. Assennato, senior vp/CFO; Michael C. Skay, senior vp/secretary; Reto Koller, vp.

Contact: Denis O'Connor, vp/treasurer.

Information for Winterthur Reinsurance Corp. of America is included in the consolidated Winterthur Swiss Insurance Co. listing.

Winterthur Swiss Insurance Co.

40 General Guisan-Strasse, CH-8401 Winterthur, Switzerland; 41-52-261-1111; fax: 41-52-261-5815

	1993	1992
Premiums written	$879,423,000	$851,889,525
Premiums earned	$675,307,500	$646,368,954
Capital & surplus	$3,562,441,700	$2,966,211,744
After-tax net	$219,618,800	$175,713,330
Losses	$587,162,100	$614,214,126
Loss ratio	86.9%	95.0%
Expenses*	$201,610,600	$182,898,369
Expense ratio	22.9%	21.5%
Combined ratio	109.8%	116.5%

** Underwriting expenses reflects only commission expenses.*

Founded: 1875.

Subsidiaries: Winterthur Life Re Insurance, Dallas; Winterthur Reinsurance Corp. of America, N.Y.

Employees: 321.

Locations: One domestic, two foreign.

Specialties: Property/casualty, aviation, surety, financial guarantee, engineering & agricultural.

Officers: Willi E. Schurpf, general manager-reinsurance & international; Bruno Meyenhofer, manager-non-life reinsurance; Kurt Roth, manager-life reinsurance; John Bidwell, CEO-Winterthur Re, N.Y.; Ulrich Thalmann, manager-group risk management.

Contact: John Bidwell, 212-416-5710.

Y

The Yasuda Fire & Marine Insurance Co. Ltd.

26-1, Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo 160, Japan; 81-3-3349-3111; fax: 81-3-3348-6228 or 81-3-3348-6229

	1994*	1993*
Premiums written	$688,113,447	$636,986,022
Capital & surplus	$2,213,483,296	$1,867,815,006
After-tax net	$113,155,640	$113,283,216

** Fiscal years ended 3/31/94 and 3/31/93.*

Founded: 1887.

Subsidiaries: The Yasuda Reinsurance Co. Ltd. (U.K.). Figures from this subsidiary are *not* included in the figures above.

Employees: 12,544.

Locations: 539 domestic, 36 foreign.

Officers: Yasuo Goto, chairman; Koichi Ariyoshi, president; Kunihiko Sasamoto, Takuma Yamazaki, Katsutoshi Tsuchiya, directors/deputy presidents.

Contact: K. Nomura, general manager-North America/president-Yasuda America, New York, 212-416-1200.

Z

ZRC

1 Chase Manhattan Plaza, 43rd Floor, New York, N.Y. 10005; 212-898-5000; fax: 212-898-5005

	1993	1992
Premiums written	$101,624,000	$53,600,000
Premiums earned	$86,294,000	$46,218,000
Capital & surplus	$614,650,000	$104,059,000
After-tax net	$17,508,000	($6,019,000)
Losses	$70,147,000	$47,869,000
Loss ratio	83.9%	94.1%
Expenses	$38,417,000	$19,470,000
Expense ratio	42.2%	35.2%
Combined ratio	126.1%	129.3%
Treaty	89.5%	88.6%
Facultative	10.5%	11.4%
Domestic	100.0%	100.0%

Founded: 1980.

Parent: Zurich Reinsurance Centre Holdings Inc.

Employees: 129.

Locations: Five domestic.

Specialties: Property, standard casualty, specialty casualty, professional liability, casualty facultative.

Officers: Steven M. Gluckstern, president/chairman/CEO; Richard E. Smith, director/executive vp/COO; Isaac Mashitz, senior vp/chief actuary; Mark D. Mosca, senior vp/chief underwriting officer; Peter R. Porrino, senior vp/CFO/treasurer; John D. Shuck, senior vp/chief administrative officer.

Contact: Elizabeth A. Ventura, vp-investor relations/corporate communications, 212-898-5050. BI

All figures appearing in the directory are listed in U.S. dollars. The yearly average exchange rate used for the specified fiscal year end is as follows: **Australian Dollar**=$0.70295 (6/30/93), $0.76916 (6/30/92); **British Pound**=$1.502 (12/31/93), 1.765 (12/31/92); **Danish Krone**=$0.15427 (12/31/93), $0.16519 (12/31/92); **Deutsche Mark**=$0.6047 (12/31/93), $0.64045 (12/31/92), $0.6027 (12/31/91), $0.59351 (6/30/94), $0.63841 (6/30/93), $0.60588 (6/30/92); **Dutch Guilder**=$0.53842 (12/31/93), $0.659 (12/31/92); **French Francs**=$0.17658 (12/31/93), $0.189 (12/31/92); **Italian Lira**=$0.00084 (12/31/93), $0.00081 (12/31/92); **Japanese Yen**=$0.00927 (3/31/94), $0.00802 (3/31/93), $0.00751 (3/31/92); **Swedish Krona**=$0.12842 (12/31/93), $0.17154 (12/31/92); **Swiss Franc**=$0.677 (12/31/93), $0.71139 (12/31/92), $0.69740 (12/31/91).

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The highest-paid CEOs among leading commercial insurers/reinsurers

Rank	Rev. Rank	CEO/Age	Company	1993 cash compensation	1992 cash compensation	% change from 1992	Market value[1] of shares held	1993 total revenues (in millions)	% change from 1992	1993 net income (in millions)	% change from 1992
1	17	Saul P. Steinberg, 54	Reliance Group Holdings Inc.	$5,400,000	$5,835,000	(7.5)%	$232,509,284	$2,962.8	7.5%	$73.5	NM%
2	6	Sanford I. Weill, 60 [2]	Travelers Inc.	4,049,063	2,561,058	58.1	128,546,112	6,797.0	32.6	916.0	25.8
3	16	Maurice R. Greenberg, 68	American International Group Inc.	2,331,731	2,247,115	3.8	647,635,330	20,135.0	9.5	1,939.0	17.0
4	1	Harold S. Hook, 62	American General Corp.	1,764,000	1,715,000	2.9	8,809,748	4,829.0	4.9	204.0	(61.7)
5	9	Norman P. Blake Jr., 52	USF&G Corp.	1,658,475	1,593,463	4.1	642,813	3,249.0	(11.2)	165.0	489.3
6	4	Dennis H. Chookaszian, 50	CNA Insurance Cos.	1,482,716	808,333	83.4	61,250	11,010.8	2.0	267.5	NM
7	7	Dean R. O'Hare, 51	Chubb Corp.	1,396,545	1,377,995	1.3	4,742,864	5,499.7	11.3	324.2	(47.5)
8	13	Ronald E. Ferguson, 52	General Reinsurance Corp.	1,378,750	1,077,500	28.0	6,680,304	3,560.0	5.1	711.0	8.2
9	3	Ronald E. Compton, 61	Aetna Life & Casualty Co.	1,325,000	775,961	70.8	938,075	17,118.0	(2.2)	(366.0)	NM
10	22	Michael J. Kevany, 68	EXEL Ltd.	1,298,215	842,603	54.1	4,801,610	799.7	20.0	379.2	32.5
11	26	William R. Berkley, 48	W.R. Berkley Corp.	1,250,700	991,000	26.2	94,169,929	581.8	2.6	51.6	(1.5)
12	24	James A. McIntyre, 61	Fremont General Corp.	1,211,177	1,016,639	19.1	23,617,266	651.4	8.8	42.7	(45.7)
13	10	Douglas W. Leatherdale, 57	The St. Paul Cos. Inc.	1,167,870	628,310	85.9	1,831,086	4,460.2	(0.9)	427.6	NM
14	11	Patrick G. Ryan, 56	Aon Corp.	1,123,462	1,003,154	12.0	302,893,425	3,844.8	15.2	323.8	155.8
15	15	James F. Orr III, 51 [2]	UNUM Corp.	1,060,754	1,146,562	(7.5)	6,183,408	3,397.0	11.4	299.9	3.0
16	8	John P. Mascotte, 54 [2]	Continental Corp.	1,029,038	675,000	52.5	318,440	5,173.7	7.9	206.8	NM
17	21	Edward B. Jobe, 64 [3]	American Reinsurance Corp.	982,385	917,615	7.1	7,078,320	1,444.4	26.2	98.4	28.1
18	5	Ian M. Rolland, 60	Lincoln National Corp.	896,494	820,769	9.2	3,742,308	8,289.8	3.2	318.9	(11.2)
19	19	A.C. Zucaro, 54	Old Republic International Corp.	854,850	778,367	9.8	3,886,388	1,736.3	7.4	175.1	0.2
20	23	Alan R. Gruber, 66	Orion Capital Corp.	836,794	770,548	8.6	3,856,681	720.2	11.2	68.8	60.5
21	2	Wilson H. Taylor, 50	CIGNA Corp.	790,000	1,039,400	(24.0)	5,008,720	18,402.0	(1.0)	234.0	(24.8)
22	27	Walter A. Scott, 56	ACE Ltd.	772,139	706,573	9.3	346,950	537.9	3.5	223.5	2,039.2
23	31	William D. Warren, 57	National Reinsurance Corp.	710,817	592,578	20.0	5,396,600	401.3	16.6	58.7	316.3
24	34	Walter A. Rhulen, 62	Frontier Insurance Group Inc.	700,000	580,000	20.7	24,767,856	139.2	9.8	23.9	25.9
25	30	Ronald L. Bornhuetter, 61	NAC Reinsurance Corp.	691,250	674,083	2.5	3,295,890	402.1	23.6	42.4	88.7
26	36	James F. Billett Jr., 49	Trenwick Group Inc.	635,250	614,017	3.5	3,684,113	130.0	14.9	23.7	28.0
27	37	Robert A. Mulderig, 41	Mutual Risk Management Ltd.	623,776	548,568	13.7	13,326,590	106.1	16.2	20.7	34.2
28	20	Joseph L. Marcum, 70	Ohio Casualty Corp.	615,260	508,871	20.9	8,510,272	1,669.8	(7.9)	87.0	(11.7)
29	35	Steven M. Gluckstern, 42 [4]	Zurich Reinsurance Centre Holdings Inc.	607,380	NA	NA	2,067,062	137.9	124.7	17.5	NM
30	14	Roger H. Eigsti, 51	SAFECO Corp.	568,334	495,000	14.8	1,878,500	3,537.8	3.4	428.8	37.7
31	33	Michael Butt, 51 [5]	Mid Ocean Ltd.	567,600	NA	NA	229,775	173.3	NA	67.7	NA
32	18	Jon W. Rotenstreich, 50 [6]	TIG Holdings Inc.	559,091	NA	NA	4,541,722	1,881.0	(6.4)	(128.0)	NM
33	29	Charles E. Rinsch, 61	Argonaut Group Inc.	558,750	519,617	7.5	10,499,717	438.9	(6.5)	89.1	(39.8)
34	28	Bradford W. Mitchell, 66	Harleysville Group Inc.	551,124	430,131	28.1	719,455	456.4	6.8	31.9	18.6
35	25	Wilson Wilde, 66 [2]	Hartford Steam Boiler Inspection & Insurance Co.	500,000	610,577	(18.1)	2,358,696	636.1	(0.1)	9.5	(76.9)
36	32	Patrick Peugeot, 56 [2,7]	SCOR U.S. Corp.	205,000	205,846	(0.4)	180,942	291.0	16.4	25.3	249.4
37	12	Warren E. Buffett, 63	Berkshire Hathaway Inc.	100,000	100,000	0.0	9,024,962,000	3,653.5	20.6	688.1	68.9
		TOTALS [8]		$40,519,719	$35,207,253	15.1%	$10,594,719,501	$139,254.9		$8,570.8	

[1] Stock values as of Aug. 12, 1994. Stock values do not include stock options. [2] Restated 1992 figures. [3] 1992 figures are on a pro forma basis due to acquisition of American Re-Insurance Co. [4] 1992 figures represent Zurich Reinsurance Co. of America, which ZRC purchased and recapitalized in 1993. Mr. Gluckstern's base salary reflects his work from March 1993. His base salary is $750,000. [5] Amount shown represents Mr. Butt's compensation from the period May 1, 1993 to fiscal year end Oct. 31, 1993. [6] Mr. Rotenstreich's salary reflects a $600,000 base salary, prorated from his start date in April 1993 through December 1993. [7] Mr. Peugeot does not participate in the company's annual incentive plan due to his participation in an equivalent plan at SCOR S.A., the parent company. [8] Excludes compensation of new CEOs. NA—Not applicable NM—Not meaningful

Source: Company proxy statements and annual reports Research by Sally Roberts.

GRAPHIC BY KIM RONE

CEO pay

Continued from page 1

and Exchange Commission and the general public.

Salaries increased at a "snail's pace" in 1993, said Matt Ward of The Wyatt Co. in San Francisco. He attributes the pace to general shareholder concern over the high CEO salaries and new SEC disclosure requirements.

"All the forces converged and made companies wake up and realize that fixed costs are a no-no and variable programs are the way to go," Mr. Ward said.

"My guess is that base salary did not change much and that the increase came about in bonus," said Geoff Wiegman, director of compensation consulting in the Stamford, Conn., office of Buck Consultants.

Offsetting the slow salary growth are the "incentive elements that are contingent on performance, which is linked to shareholder returns," said Scott Morrison, a consultant with Towers Perrin in New York.

Bonuses reflect the fact that insurers are "coming off of a relatively good year," added Mr. Ward.

At The St. Paul Cos. Inc., for instance, a $156 million loss in 1992 gave way to a $427.6 million profit in 1993, a turnaround that was reflected in the paycheck of Douglas W. Leatherdale, chairman, president and CEO.

A $556,420 bonus helped bump his cash compensation up 85.9%, the largest increase among the 37 CEOs surveyed. His 1993 total of $1,167,870 landed him at 13th place on the list, up nine spots from where he was a year earlier when he received no raise or bonus due to the company's poor results.

Even when company performance lagged, though, some CEOs made out well.

Aetna Life & Casualty Co. lost $366.6 million in 1993, yet Ronald E. Compton's cash compensation jumped 70.8% to $1,325,000.

Mr. Compton received no bonus in 1992 but got a $550,000 bonus in 1993 due to "his strong leadership in formulating new long-term strategic and business initiatives," the company said in its proxy.

These long-term business decisions—including expense reductions and the discontinuation of pension products—were the catalysts behind the insurer's loss for the year. Mr. Compton's salary remained essentially flat during the year at $775,000.

On average, the CEOs of insurers and reinsurers make about the same as their counterparts in other industries.

BI found an average insurer salary of $1.2 million, excluding CEOs new to the list, compared with the $1.3 million average that William M. Mercer Inc. found in a study of general industry CEOs at companies with more than $3 billion in annual revenues.

Offsetting slow salary growth are 'incentive elements' that rely on performance, says Scott Morrison.

Of the 37 CEOs on this year's list, 16 made more than $1 million in base salary and bonus—a claim only nine of the 34 executives on last year's list could make.

New to *BI*'s million-dollar club are: Mr. Weill of Travelers; Dennis H. Chookaszian of CNA Insurance Cos.; Mr. Compton of Aetna; Michael J. Kevany of EXEL Ltd.; William R. Berkley of W.R. Berkley Corp.; Mr. Leatherdale of St. Paul; and John P. Mascotte of Continental Corp.

Under a section of the Omnibus Budget Reconciliation Act of 1993, as of the beginning of this year companies that pay their executives more than $1 million in base salary may no longer deduct any amount in excess as operating expenses.

But compensation consultants say companies can get around Section 162(m) if they shift part of the executive's base salary over to the bonus column and make it performance-based.

Five insurers in the *BI* study paid their CEOs more than $1 million in base salary in 1993: Reliance, Travelers, American International Group Inc., USF&G Corp. and CNA. In 1992, only Reliance, AIG and USF&G did.

Insurers may decide that anything they pay their CEOs in excess of $1 million is inconsequential when compared with their overall taxes, said Wyatt's Mr. Ward.

Nonetheless, 28 of the CEOs surveyed received raises in 1993, five took pay cuts and one, Berkshire's Mr. Buffett, left his cash compensation at $100,000. The other three were CEOs of private companies in 1992.

A year ago, when 34 CEOs were surveyed, 21 received raises, eight took cuts and Mr. Buffett's compensation was unchanged. The remaining CEOs had not held the top offices in 1991.

Reliance's Mr. Steinberg once again tops the chart. His $5.4 million cash compensation—half salary, half bonus—was down 7.5% from the $5.8 million he earned in 1992.

Still, his salary plus stock gains and other compensation put him at No. 66 among the 800 highest-paid CEOs, according to Forbes.

Reliance reported a $73.5 million profit in 1993 compared to a $35.7 million loss in 1992.

According to the company's proxy, Mr. Steinberg's base salary

Continued on next page

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Continued from previous page
was reduced even further in the beginning of 1994. His base salary dropped $950,000, or 35.2%, to $1.75 million this year from $2.7 million in 1993.

Mr. Steinberg's 1994 bonus will be paid in accordance with the terms of the company's bonus plan which provides for a maximum bonus equal to 115% of annual base salary if certain objective performance goals are achieved.

Also of note, Mr. Steinberg's personal use of the corporate aircraft and club membership dues resulted in an additional $85,000 in other compensation for 1993, which is not included in his cash compensation figure.

Making a run at Mr. Steinberg's top spot is Mr. Weill of Travelers, who debuts in the rankings at No. 2, with a paycheck of just over $4 million. Upon the completion of Primerica Corp.'s purchase of Travelers late last year, Mr. Weill, Primerica's CEO, replaced Edward H. Budd, who was No. 15 among the insurance CEOs, based on his 1992 earnings with Travelers.

Mr. Weill's compensation increased 58.1% over his $957,308 base salary and his $1,603,750 bonus in 1992. After what Traveler's compensation committee said was "an extraordinary year," Mr. Weill received a $1,018,750 base salary and a $3,030,313 bonus in 1993.

Travelers reported a 25.8% increase in net income in 1993 to $916 million from $728 million in 1992.

Maurice R. Greenberg of American International Group Inc. dropped one spot to No. 3. His bonus remained at $1.1 million and an increase in base salary—to $1,231,731 from $1,147,115 in 1992—boosted his total cash compensation to $2,331,731.

AIG's net income increased 17% to $1.9 billion in 1993 from $1.7 billion in 1992.

Mr. Greenberg ranked 84th on the Forbes CEO pay list.

Falling one spot to No. 4 on the *BI* list was Harold S. Hook of American General Corp.

Mr. Hook—who was No. 98 on Forbes' list—took home a $1,764,000 paycheck in 1993, a 2.9% increase over $1,715,000 in 1992. Mr. Hook's base salary remained at $980,000 while his bonus increased to $784,000 from $735,000 in 1992.

American General's net income on the other hand, was 61.7% lower at $204 million, compared with $533 million in 1992.

According to the company's annual report, the insurer's 1993 profit was reduced by a $300 million write-down of goodwill, a $30 million charge due to tax law changes and a $46 million net charge due to the adoption of three new accounting standards.

Rounding out the top five was Norman P. Blake Jr. of USF&G, who fell a notch and took home a $1,658,475 paycheck in 1993. That represents a 4.1% increase over his $1,593,463 cash compensation in 1992. He ranked No. 94 on the Forbes list.

USF&G's net income rose 489.3% in 1993 to $165 million from $28 million in 1992.

According to USF&G's proxy, Mr. Blake received an additional $713,283 under the company's long-term cash incentive plan, which provides cash payments at the end of successive three-year cycles.

In November, USF&G extended Mr. Blake's terms of employment for three years beyond the two years remaining on his employment contract. As a result, Mr. Blake agreed to waive a portion of his base salary and received stock options for 300,000 shares and a $1,950,000 deferred cash award. Mr. Blake's base salary in 1993 was $1,007,675, down slightly from $1,018,463 in 1992.

Three new CEOs made the rankings after their companies recently went public:

- Steven M. Gluckstern, chairman, president and CEO of Zurich Reinsurance Centre Holdings Inc., debuts at No. 29 with a prorated $607,380 base salary for his work, which began in March 1993.

New York-based ZRC previously operated as Zurich Reinsurance Co. of America, which was purchased and recapitalized in May 1993 through private sales and an initial international public offering.

> **Bonuses reflect the fact that insurers are 'coming off of a relatively good year,' says Matt Ward.**

According to the company's proxy, Mr. Gluckstern's base salary of $750,000 was determined prior to the committee's organization and therefore he received no bonus. The committee expects that Mr. Gluckstern will receive incentive compensation awards in 1994.

- Michael A. Butt, CEO of Bermuda-based Mid Ocean Ltd., enters at No. 31 with cash compensation of $567,600—including a $150,000 base salary, $375,000 bonus and $42,600 in housing and travel allowances.

Mid Ocean, which raised $359 million in a 1992 IPO, brought in Mr. Butt in May 1993 to succeed Ian Heap, who stepped down for medical reasons, the company says in its proxy. Mr. Butt is a former vice chairman of Sedgwick Group P.L.C. and was most recently director of Phoenix Securities Ltd., a private investment banking firm in London.

According to the company's proxy, upon Mr. Butt's appointment to chief executive officer in May 1993, his base salary was fixed at $300,000, equal to the salary of Mr. Heap.

- Jon W. Rotenstreich, who became chairman and CEO of TIG Holdings Inc. after completion of the company's 1993 IPO, was No. 32.

As chairman and CEO of the New York-based insurer, he succeeds Frank C. Herringer, who resigned.

Mr. Rotenstreich took home a $559,091 paycheck for his work from April through December 1993. According to the company's proxy, Mr. Rotenstreich's base salary of $409,091 reflects a prorated base salary of $600,000 for 1993.

While Berkshire's Mr. Buffett once again trailed the list of chief executives with a $100,000 compensation package, he ranks No. 1 in Forbes' annual survey of the 400 richest people in America.

That is because, as of April 25, 1994, Mr. Buffett beneficially owned 474,998, or 40.3%, of Berkshire Hathaway's outstanding shares. On Aug. 12, those shares were trading at $19,000 apiece, making Mr. Buffett's stake worth $9.02 billion.

Seven other CEOs also own more than 5% of their companies' stock:

- Mr. Steinberg owned 39.5% of Reliance stock as of April 15. Excluding shares for which he disclaims beneficial ownership, he owned 43.2 million shares worth $232.5 million on Aug. 12.
- Mr. Berkley owned 2.5 million shares, or 14.6%, of W.R. Berkley Corp. stock on May 23. On Aug. 12, those shares were worth $94.2 million.

Coming in at No. 11, Mr. Berkley took home a $1,250,000 paycheck in 1993, up 26.2% from $991,000 he received in 1992. W.R. Berkley's profits dipped 1.5% to $51.6 million from $52.4 million in 1992.

- Mr. Ryan owned 13.3% of Aon Corp.'s stock. His nearly 9 million shares were worth $302.9 million on Aug. 12.

Coming in at No. 14, Mr. Ryan took home a $1,123,462 paycheck in 1993, up 12% from $1,003,154 in 1992. Aon's net income catapulted 155.8% in 1993 to $323.8 million from $126.6 million in 1992.

- Walter A. Rhulen owned 736,481 shares, or 8.5%, of Frontier Insurance Group Inc.'s stock on May 19. Those shares were worth $24.8 million on Aug. 12. Mr. Rhulen's $700,000 cash compensation in 1993 placed him at the No. 24 spot in the *BI* rankings. His base salary and bonus increased 20.7% as Frontier's net income increased 25.9% to $23.9 million from $19.0 million in 1992.
- James A. McIntyre owns 8.1% of Fremont General Corp.'s stock. Excluding shares subject to exercisable stock options, his 954,233 shares were worth $23.6 million on Aug. 12.

Mr. McIntyre was the 12th highest-paid CEO, according to the *BI* rankings, based on his $1,211,177 cash compensation in 1993. While Mr. McIntyre's salary was up 19.1% from the $1,016,639 he earned in 1992, Fremont's net income tumbled 45.7% to $42.7 million from $78.7 million in 1992.

- Joseph L. Marcum owned 5.6% of Ohio Casualty Corp.'s stock on April 20. Excluding shares in which he disclaims beneficial ownership, Mr. Marcum's 265,946 shares were worth $8.5 million on Aug. 12.

He placed 28th on the *BI* list with cash compensation of $615,260, a rise of 20.9% from $508,871 in 1992.

Mr. Marcum retired in December 1993 but remains chairman of the board. Lauren N. Patch, 43, succeeded Mr. Marcum as CEO in January. Mr. Patch has served as president of the company since 1991 and will continue in that role. Mr. Patch received $324,808 in base salary, including an annual director's fee in 1993.

Ohio Casualty reported an 11.7% drop in profits in 1993 to $87 million from $98.5 million in 1992.

- James F. Billett Jr. owned 5% of Trenwick Group Inc.'s stock on April 1. Excluding shares subject to exercisable stock options, his 334,135 shares were worth $3.7 million on Aug. 12.

Coming in at No. 26, Mr. Billett received $635,250 in cash compensation for 1993, up 3.5% from $614,017 in 1992.

Trenwick's net income was up 28% to $23.7 million from $18.5 million in 1992. BI

Willis Corroon shares steady despite slight revenue decline

By STACY SHAPIRO

LONDON—Willis Corroon Group P.L.C.'s stock price held steady last week after it reported a drop in first-half gross revenues and pretax profits.

The results were in line with analysts' predictions, leaving the stock price at 153 pence ($2.38) per share last Thursday, down only one pence from trading earlier in the week.

In May, the broker's stock fell 22% in one day after it announced a surprise 10% drop in first-quarter profits (*BI*, July 18; May 23). Willis Corroon's stock price has fallen to a low of 133 pence ($2.07) from a high of 235 pence ($3.65) this year.

The broker later blamed those results on the loss of 60 members in one of its two construction teams to Rollins Hudig Hall Group Inc. Willis Corroon is now suing RHH for $25 million in compensatory and punitive damages for loss of current and future revenue as well as more than 175 clients (*BI*, June 27).

The broker in June also announced a major executive shakeup, including the retirement at year end of CEO Richard Miller.

Last week, Willis Corroon announced that its six-month results showed a 4% drop in revenues to 382.7 million pounds from 398.3 million pounds (to $595.2 million from $589.5 million) in 1993.

Pretax profits dropped 14% to 54.1 million pounds from 63.1 million pounds (to $84.1 million from $93.4 million).

Part of the fall was due to an increase in expenses, mainly from rebuilding its construction team, said Chief Operating Officer J. Max P. Taylor.

Willis Corroon Americas' first-half performance improved from the first quarter, however. First-half brokerage revenue dropped only 2% to $166.6 million from $168.8 million (to $259.1 million from $262.5 million) compared with a 7% drop in first quarter revenues, the company said.

"We believe we have taken remedial action in the U.S.A. to resolve what gave rise to much of the disappointment" in first-quarter results, Willis Corroon Chairman Roger Elliott said last week.

"It does not mean a recovery in our profits this year, but it means we know what went wrong and we expect to see positive returns in the future." BI

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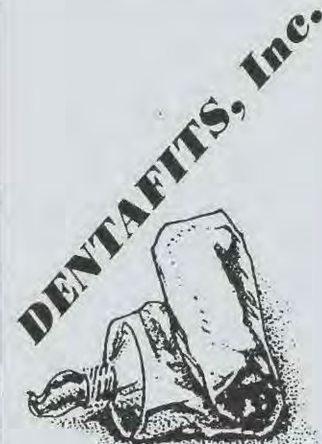

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Expert advises benchmarking benefits

By JOANNE WOJCIK

SAN FRANCISCO—In this cost-cutting era, employers must maintain the employee benefits that contribute to the company's success and measure the quality of those programs, a quality expert says.

With the total quality management movement maturing, the focus is shifting from the process to the outcome, according to Kathleen H. Goeppinger, director of the Center for Organization Development at Loyola University's Institute of Human Resources and Industrial Relations in Chicago.

"Today there is a new effort that's called 'return on quality,'" she explained. "The concept is that you have to be able to measure it if you are to manage it. Well-designed human resources policies improve TQM initiatives."

For example, "loyal employees constitute the greatest asset any company can have," and companies should realize that having an attractive benefit program will ensure such loyalty, she said.

"I had somebody recently tell me that they really wanted to drop all pension benefits because then they wouldn't have to worry about funding, and after all, maybe people shouldn't be around that long anyway," Ms. Goeppinger said.

"That's the most short-sighted thing I've ever heard," she said, pointing out that such a move effectively tells employees to leave as soon as they are trained.

"We've got to look long-term at what we are really trying to do with our organizations."

Unfortunately, because of rising benefit costs, organizations want to have fewer employees.

"We need to motivate and innovate the survivors," she said.

Some companies, like Quaker Oats, have gone so far as to assemble employee teams to redesign their own benefit programs, according to Ms. Goeppinger.

"Now that could be a very risky thing," she said. But the employee teams found they actually wanted fewer benefits than management was willing to offer.

Ms. Goeppinger suggested several methods for employee benefit managers to measure the quality of the benefit programs and services their departments provide:

- Employee assessment surveys. These are good if they are tailored to the organization and if everyone is polled.

"You don't want to be the person left out, and you don't want to be the person asked if you know others have been left out."

- Focus groups, which are used to test proposed benefit changes.

But these should be conducted by outsiders, since employees generally are distrustful of management.

- Cost/benefit ratios.
- Employee customer service cards, completed by the employee "customers" of the human resources or benefit departments.

"Allstate Insurance has a card for every employee who comes in contact with human resources," she said. "They fill it out just like they would fill out the card that asks 'How was your hotel stay?'"

- Measurement of turnover, especially if the organization is located in a region with low unemployment.

"Turnover costs you money," Ms. Goeppinger explained.

Unfortunately, human resources services are often hard to quantify.

"To define what is a unit of service to your employee is really tough," she said, because "some of our services are abstract."

For example, "an employee calls you and they have a serious personal problem at home, and they need information about the health care plan. At the same time, you send them to the EAP. At the same time, you give them consultation on how to talk to their supervisor. And then, when you're all done, somebody says to you: Go ahead and measure. How do I measure something like that? Is there a return?"

"The worst part is that we bundle all of our services together," she said, because "human resources people work in teams."

Furthermore, external benchmarks aren't always available.

"You may find out what health care costs in one community, but it may not be applicable to the whole company," she explained.

And human resources training does not provide the background necessary to measure the value of three health care plans vs. six, according to Ms. Goeppinger.

"The other thing is, we don't often have an immediate return on our product," she said. "If you're the human resources director of a manufacturing plant, you're really not sure how many widgets are carried out the door because of you."

Complicating the picture is the fact that measurements of the quality of health care are changing as more information is gathered, Ms. Goeppinger said.

In the past, most employers measured the value of health care services based on their cost, while employees measured them based on the number of options available and whether they were pleased with the service.

But today, "many organizations are starting to measure the effectiveness of preventive health care."

For example, one organization with which Ms. Goeppinger has worked brought a portable mammogram machine to the worksite to detect breast cancer early.

"They felt that if they found one early cancer, they paid for the cost of the equipment," she said.

Another new measurement tool is determining the level of employee and family understanding of the benefit plan.

"We're starting to measure how well the family understands your benefit package," she said. "Finally, instead of just looking at the cost of health care, we're starting to look at the impact of cost-sharing." BI

IFEBP honors creativity in benefits

SAN FRANCISCO—A Mexican health maintenance organization and pension plan-funded mortgages were among the innovative employee benefit programs that received the Creative Excellence in Benefits Award at this year's International Foundation of Employee Benefit Plans Corporate Conference.

The conference, held Aug. 15-16 in San Francisco, drew 110 employee benefit and human resources managers.

The awards program was launched in 1992 to recognize significant contributions to the employee benefits field. Entries are judged by members of the IFEBP's corporate board based on their importance, broad application, newness and whether the program or concept demonstrated "creativity" and "excellence."

Thirty-six benefit programs were entered in the 1994 competition.

This year's award recipients are:

- The Hotel del Coronado in San Diego, which established the first HMO in Mexico for its foreign employees living just south of the California border in Tijuana.

Jerry Ramsdale, the hotel's senior vp and director of human resources, worked with Servicios Medicos Internacionales, a Mexican medical institute, and Hospital del Rio, a new Tijuana medical facility, to establish the capitated program, which will be marketed to other U.S. corporations.

- The Barrington, Ill., Police Pension Fund, which created discounted home mortgages with pension fund investments for participants and beneficiaries through AmeriFed Federal Savings Bank.
- The American Business Collaboration for Quality Dependent Care, launched in September 1992 as a joint effort by 146 businesses and private/public sector organizations that agreed to commit $26.4 million to finance a broad range of child and elder care programs in 25 states and the District of Columbia.
- The United Food & Commercial Workers' Delaware Valley Health & Welfare Fund Local 1776, which negotiated an unrestricted broad-based educational benefit that encourages members to take courses for the sake of learning and personal growth, not just for job advancement.

The deadline for entries to the 1995 Creative Excellence Awards is Feb. 1, 1995.

Next year's IFEBP Corporate Conference will be held Sept. 11-12 in Atlanta.

For more information about the awards or the conference, contact Terry Bannon, Associate Director of Public Relations, IFEBP, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

—By Joanne Wojcik

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

No. 004419 of 1994

MR REGISTRAR BUCKLEY

IN THE MATTER OF
HALVANON INSURANCE COMPANY LIMITED
- and -
IN THE MATTER OF THE COMPANIES ACT 1985

ADVERTISEMENT

NOTICE IS HEREBY GIVEN that by an Order dated 19th July 1994 the Court has directed a Meeting of the Creditors whose claims arise from transactions entered into with the London Office of the above-named Company (as defined in the Scheme of Arrangement hereinafter mentioned) to be convened for the purpose of considering and if thought fit approving (with or without modification) a Scheme of Arrangement proposed to be made between the said Company and such creditors and that such Meeting will be held at the Chartered Insurance Institute, 20 Aldermanbury, London EC2V 7HY, England on 19 October 1994 at 10.30 o'Clock in the forenoon at which place and time all the aforesaid creditors are requested to attend.

Any person entitled to attend the said Meeting can obtain copies of the said Scheme of Arrangement, Form of Proxy and copies of the Statement required to be furnished pursuant to Section 426 of the above-mentioned Act at the UK Registered Office of the Company situate at St Andrew's House, 20 St Andrew Street, London EC4A 3AY and at the office of the under-mentioned Solicitors at the address mentioned below during usual business hours on any day (other than a Saturday, Sunday or bank holiday) prior to the day appointed for the said Meeting.

The said creditors may vote in person at the said Meeting or they may appoint another person, whether a creditor or not, as their proxy to attend and vote in their stead.

It is requested that forms appointing Proxies be lodged with the Company's English Joint Liquidators at their office situate at St Andrew's House, 20 St Andrew Street, London EC4A 3AY, England, Ref: PD/SA 5.12 not less than 48 hours before the time appointed for the said Meeting, but if forms are not so lodged they may be handed to the Chairman at the said Meeting.

By the said Order, the Court has appointed Malcolm John London or failing him Gerhard Adolf Weiss, or failing both of them, Philip John Singer (all of the aforesaid St Andrew's House) to act as Chairman of the said Meeting and has directed the Chairman to report the results thereof to the Court.

The said Scheme of Arrangement will be subject to the subsequent approval of the Court.

Dated this 29th day of August 1994.

D J Freeman
43 Fetter Lane
London
EC4A 1NA

Solicitors for the above-mentioned Company

To cut health costs, it pays to be blunt

Give employees responsibility: Expert

By JOANNE WOJCIK

SAN FRANCISCO—In this era of health care reform, employers must be blunt in communicating to employees the need for cost containment, a health care communications expert believes.

A direct approach may make employees more aware of how their poor health habits have contributed to the nation's health care crisis and eventually could lead to change, suggested Olga Padilla, director of medical management for Chicago HMO, a unit of United HealthCare of Illinois Inc.

"Over the past decade, employers have attempted to manage rising health care costs through a variety of approaches, most of which have had only limited success," she said.

For example, employers have increased deductibles and copayments, limited benefits and monitored utilization of health care services.

But, such cost containment efforts mostly have been directed *at* employees and have transferred little, if any, true responsibility *to* employees, Ms. Padilla pointed out.

"Personal responsibility and patient education are the hallmarks of health reform," she said.

And both of these elements already are included in the managed care plans many employers now offer but have been slow to explain to their employees.

As a result, the health care reform proposals discussed so far have raised "the level of employees' concern regarding employer-provided benefits and skepticism regarding government intervention."

But employees need to understand the changing health care environment, especially the reasons for rising health care costs, Ms. Padilla asserted during a session on "The Role of Employee Communication in a Changing Health Care Environment" at the International Foundation of Employee Benefit Plans Corporate Conference, held Aug. 11-12 in San Francisco.

Above all, employees must realize that they will be taking more responsibility for their health care, she said.

"Employers can no longer afford to assume more than their share of the responsibility and costs of providing health care coverage," Ms. Padilla said. "As health care costs continue to rise and impending health care reform stresses accountability, it is becoming quite clear that it is in everyone's interest for all parties to assume their fair share of responsibility."

That's why "communication is critical," she said. "If employees understand changes, they are more likely to support them, especially as changes affect costs and benefits."

For example, employees may want to know if their plan will be

Continued on next page

Continued from previous page
pared down if it exceeds the standard benefit package contained in the health care reform legislation that eventually is passed, she explained.

And they must be taught to be better health care consumers, she added.

"Efforts in the battle against rising health care costs should focus on changing the old attitudes and behaviors that have contributed to the many problems of our health care system," Ms. Padilla explained.

"Lack of understanding leads to inappropriate plan use," but this "can be effectively addressed through employee preventive health education and. . .communication," she said.

"When employees are knowledgeable and involved in decision-making, they will act in their own best medical and financial interest."

Working together, benefit communication and health education efforts can help employees:

- Become more responsible for maintaining their own health.
- Seek out quality, cost-effective health care services.
- Follow medical directives and comply with plan requirements.
- Minimize their own health care expenditures as well as those of their employer.

To ensure that all employees understand the implications of health care reform, employers should use a variety of media to communicate the proposed changes, including brochures, videos and meetings, Ms. Padilla suggested.

"Some learn better by reading, while others do not," she said. "You need to reach everyone." BI

No-fault

Continued from page 2
with premium dollars. Compensation would include lost wages and medical expenses not already covered by other insurance.

In Utah, meanwhile, insurance and hospital associations have formed a consortium called The Alliance. The group is developing plans for a pilot program of "liability enterprises"—hospitals that would simply and quickly compensate malpractice victims, in return for the patients giving up their right to sue the hospitals.

A similar-sounding idea was actually part of President Clinton's original health reform proposal. The president proposed funding trial programs in "enterprise liability," where health plans, rather than individual doctors, would be held liable for medical malpractice (*BI*, Sept. 20, 1993).

Like the Clinton plan, the Utah pilot program would try to discourage doctors from practicing defensive medicine, which adds billions to the nation's health costs. But unlike the Clinton plan, the Utah program would eliminate the traditional fault-based liability system.

Lawyers who represent malpractice victims view defensive medicine—the practice of ordering numerous tests in an effort to prevent malpractice suits—as something conjured up to blame rising medical costs on their clients. Doctors and hospitals profit from ordering tests, they say, and litigation simply offers a just means of compensating the injured.

Insurers and health care interests are pushing the no-fault idea even though Colorado and Utah already limit malpractice litigation. Colorado and Utah both have $250,000 caps on non-economic damages such as pain and suffering.

Fewer than 10 medical malpractice suits actually make it to trial in Utah each year, in part because of the cap and other malpractice laws, including one requiring malpractice litigants to face an independent review board before taking their case to court.

Utah's political climate may make the state a good testing ground for no-fault systems, even though lawsuits there are so scarce they cannot be blamed for the cost of health care, said Ralph Dewsnup, a director of the Utah Trial Lawyers Assn.

However, he opposes the no-fault concept.

"If it were not for lawsuits, we would have things like (Ford) Pintos that explode," he said. "The medical profession wants immunity and in exchange for that they say they will be fair and judge themselves. You are dealing with an arena where people are going to make a mistake and why shouldn't they be held accountable?"

Implementation of statewide no-fault systems is years away in Colorado and Utah, but groups in both states said they expect to receive money from the Robert Wood Johnson Foundation to replicate a 1991 Harvard Medical Practice Study.

That study reviewed 31,000 medical files of patients released from New York state hospitals during 1984, comparing injuries to malpractice claims. Researchers then projected their conclusions nationwide and found that as many as 300,000 bad outcomes occur annually due to physician error, including 80,000 deaths.

But, more important to the Colorado and Utah efforts, the New York study also found that few people who sue actually suffer injuries, while only one in eight victims of medical negligence ever files a lawsuit.

The Colorado and Utah organizations, with the help of Harvard researchers, expect to find similar results in their states. It's the data they need to convince their legislators, they said.

'If it were not for lawsuits, we would have things like (Ford) Pintos that explode,' says Ralph Dewsnup.

Neither state effort is expected to reduce premiums for medical malpractice insurance. But reform could ensure that fewer dollars go to attorneys fees and other administrative expenses and more to victims who currently do not seek remedies because suing is too difficult.

"Instead of having a five-year court battle to assess fault and determine damages, we would like to see the payout in six months or less," said Val Bateman, director of governmental relations for the Utah Medical Assn.

"Attorney organizations are going to come unglued because it's going to take a segment of that profession and say we're going to handle this administratively now," he said.

Representatives for the Robert Wood Johnson Foundation declined to discuss the chances of funding the Colorado and Utah programs except to say they were among the earliest entries for a malpractice grant program.

Dr. Troyen Brennan, an attorney who conducted Harvard's New York hospital study, also refused to discuss the projects. But talk of the states' plans is getting around.

"They are getting some attention in the academic and grant circles," said Martin Hattie, director of the American Medical Assn.'s department of professional liability. "I don't know of any other states or groups that are pursuing this. It's a big leap."

Already in Utah the Robert Wood Johnson Foundation is funding researchers with a hospital group named Intermountain Health Care. The researchers are studying medical treatment guidelines and hope the development of specific care standards will deter malpractice suits.

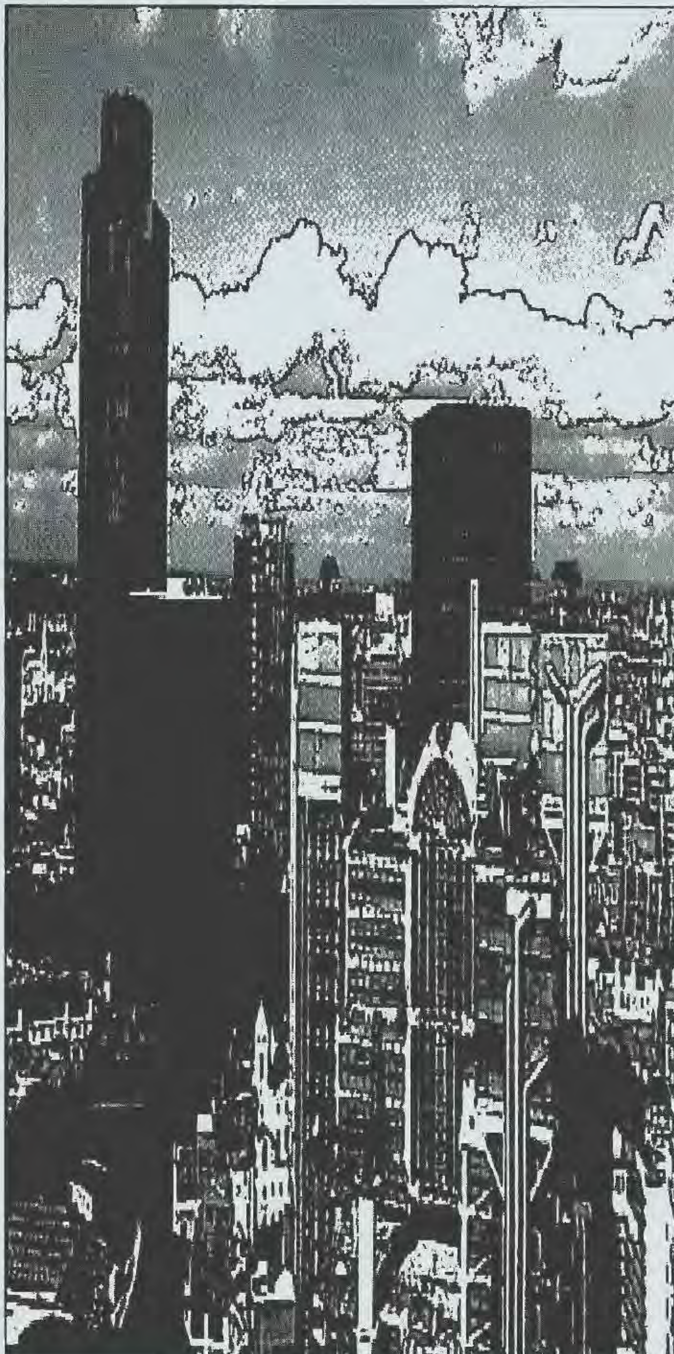
The conflicting testimony of expert witnesses during trials would become unnecessary if treatment standards are adopted.

"We hope to use (the medical protocol studies) for both a shield and a sword," said Susan Horn, senior scientist for Intermountain Health Care.

Ms. Horn and other no-fault proponents in Colorado and Utah said all their studies could complement each other and collaboration is likely.

"It gives you the opportunity to collect local data and build risk management using that data," COPIC's Dr. Howard said.

"You are basically finding out: Are there patient injuries happening and are there patterns in there?" BI



Insurance solvency and insolvency

A focus on the London Market

23 September 1994
Grand Hyatt, New York

The status and future of the London insurance market is of increasing concern for North American policyholders, insurance companies and their representatives.

Clear advice is needed on how to manage current exposure to the London market and on future participation.

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To obtain further information or reserve your place at this conference, for which there is no charge, please contact:
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...and then the spaceship destroyed the whole city!

Things happen. We are there when you need us.

HANNOVER RE
EISEN UND STAHL RE

U.K. insurers post improved first-half results

By ADRIAN LADBURY

LONDON—Four of the United Kingdom's five largest multiline insurers are reporting big gains in profits and much improved underwriting results in the first six months of 1994.

Their core U.K. non-life operations benefited from firm rates, good weather and much lower claims levels across the board.

Continental European results also improved, though not as dramatically, and Canadian business, which is important to all the companies, made steady progress despite bad weather claims.

U.S. results were the grimmest for the British insurers, with only Perth, Scotland-based General Accident P.L.C. able to report an improved underwriting result in the U.S. market.

All four, though, reported sizable U.S. catastrophe losses in the first half. The Los Angeles earthquake, in particular, depressed the companies' U.S. results.

GA reported record first-half pretax profits of 203.2 million pounds ($312.9 million), up 63% from profits of 124.7 million pounds ($185.8 million) a year earlier. It wrote 2.14 billion pounds ($3.3 billion) in net premiums in the first half, up from 2.1 billion pounds ($3.1 billion).

Its first-half underwriting loss decreased 64% to 44.9 million pounds ($69.1 million) from 125 million pounds ($186.3 million) last year.

The Scottish insurer said that improved U.K. results were the biggest contributor to its record profits. On U.K. business alone, GA posted first-half underwriting profits of 93.5 million pounds ($144 million) compared with only 3.5 million pounds ($5.2 million) last year.

London-based Royal Insurance Holdings P.L.C. had the second-largest profits in the first half, reporting pretax profits of 191 million pounds ($294.1 million), 2½ times larger than profits of 52 million pounds ($77.5 million) in the first six months of 1993.

It wrote net premiums of 2.39 billion pounds ($3.7 billion) in the half, down from 2.52 billion pounds ($3.8 billion) a year earlier.

Royal's worldwide first-half underwriting result was much improved, with a loss of 62 million pounds ($95.5 million) this year compared with 204 million pounds ($304 million) a year ago.

Its U.S. operations, however, were "severely impacted by the exceptionally high level of weather claims and catastrophe losses from the Los Angeles earthquake," mainly in the first quarter, the company said.

Royal's U.S. underwriting re-

Continued on next page

Aviation reform Down Under

Proposal would raise liability limits

By KATE TILLEY

CANBERRA, Australia—Aviation underwriters say proposed liberalization of Australian aviation liability laws could lead to significant rate increases for commercial airlines in Australia.

Australia's federal government proposes increasing the statutory minimum per passenger liability coverage limits to $500,000 Australian from $180,000 Australian ($370,000 from $133,200) for commercial airlines flying within Australia.

The government also is considering a requirement that liability insurers immediately pay all crash claims, without regard to fault, though their subrogation rights would be left intact.

Federal Transport Minister Laurie Brereton made these recommendations as part of a program to improve air safety in Australia. The changes would require amending Australia's Civil Aviation (Carriers) Liability Act, which was last amended in 1991 when the passenger and cargo liability limits on international flights were set in accordance with the Warsaw Convention.

Mr. Brereton's proposals, which now go to Parliament, follow the publication last month of a Bureau of Air Safety Investigation report on a June 1993 crash in which seven people were killed.

A Monarch Air Services Pty. Ltd. aircraft, en route to Young, New South Wales, from Sydney, crashed on landing at the Young airport on June 11, 1993. The pilot, co-pilot and five passengers in the Piper Navajo Chieftain aircraft were killed.

The Bureau report criticized the federal Civil Aviation Authority, which oversees the aviation industry in Australia, for failing to enforce compliance with safety regulations. The report also found that non-functioning equipment in the aircraft, pilot error and bad weather contributed to the crash. The report also was critical of Monarch Air management.

The airline may have had coverage with Sydney-based insurer Rural & General Insurance Ltd., a small, niche underwriter specializing in aviation and marine covers.

Charles Pratten, managing director of the insurer, said no claims had been received as of this month and he was uncertain

Continued on next page

GLOBAL BRIEFS

Trygg-Hansa chief quits

STOCKHOLM, Sweden—Bjorn Spraengare will resign as president and chief executive of Trygg-Hansa, staying on only until a successor is appointed.

In a statement issued last week by Trygg-Hansa, Mr. Spraengare cited a lack of public confidence in company management.

"Trygg-Hansa's success is strongly linked to public confidence in the management. Trygg-Hansa's president must be able to lead the group while taking account of all the various interests involved in an insurance company," said Mr. Spraengare.

"The criticism expressed in the media during the spring and early summer indicates that I do not enjoy full public confidence, which I would need in order to exercise my management responsibility vigorously," he said. "This criticism also has an indirect impact on our staff, whose foremost task is to have a trustful relationship with our clients. I have therefore decided to leave Trygg-Hansa."

A company spokesman in Stockholm said Mr. Spraengare was referring to: criticism over the company's cooperation agreement with life insurer and financial services company SPP; the financial problems associated with the acquisition of the Gota Bank, which later collapsed, causing over 5 billion kronor ($658.5 million) in losses; and the collapse of credit insurer Svenska Kredit (*BI*, May 10, 1993; Sept. 7, 1992).

The agreement between SPP and Trygg-Hansa, which created the Trygg-Hansa SPP Holding A.B., was never a complete merger, the spokesman said. Trygg-Hansa was mainly a non-life insurer and SPP a life insurer and employees of each company continued to work as separate units, though under the aegis of the holding company. The agreement finally fell apart in March.

—By Maria Kielmas

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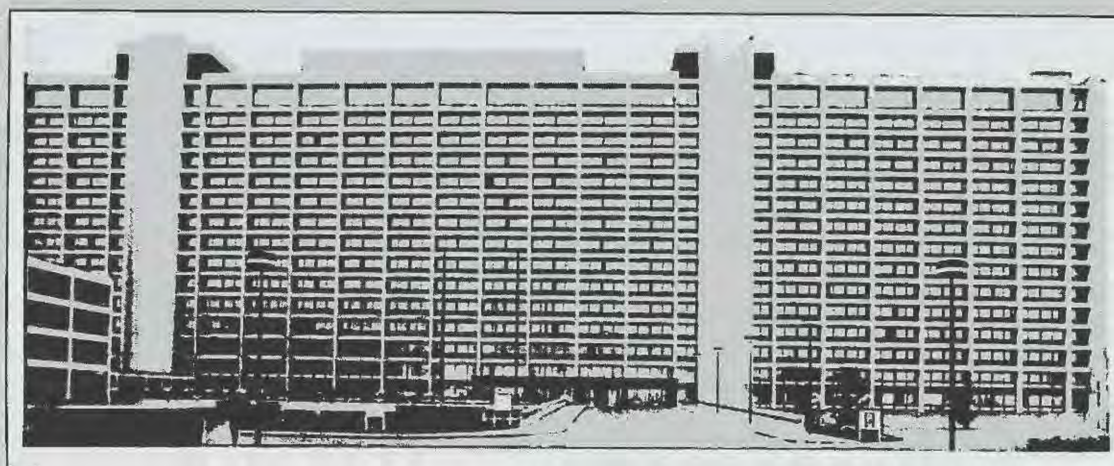

Photo courtesy of German Information Center

Germany's Bundesbank spent $32.5 million to remove the asbestos from its building.

Asbestos wakeup call

German companies learn abatement is not cheap

By DON LEWIS KIRK

FRANKFURT, Germany—Health concerns have unleashed a new wave of asbestos abatement efforts by companies in Germany.

These efforts are not driven by the threat of liability—since German law discourages employees from suing their employers—but by recent changes to safety regulations. Abatement is proving extremely costly for companies, but ignoring the problem could be even more costly depending on the outcome of a pending court case.

Strict federal regulations on removal of hazardous substances took effect last Nov. 1, creating an overnight boom in asbestos abatement, said Max Lopacki, a Birmingham, England-based environmental consultant who advises international companies with asbestos problems.

"Companies are really worried about meeting standards," he said.

Building inspections are based on federal asbestos regulations called Asbestrichtlinien, which determine the urgency of abatement.

The audits "are often an ordeal," Mr. Lopacki said.

"Should a company have high (asbestos) levels, the law requires abatement," said Stephan Dreller, administrator at the Assn. of Professional/Trade Co-operatives, which oversees and implements work safety controls in Germany.

A point system is used to determine if abatement is necessary. Points are given for different types of asbestos, its condition and what it is used for, explained Mr. Dreller. "A building with non-protected foam asbestos (and) which is open to the general public would be forced to abate."

"Thousands of tons of asbestos are removed from offices, schools, hospitals, hotels and universities each year," said Mr. Lopacki, who estimates total costs far exceed 300 million deutsche marks ($195.1 million) a year.

The Bundesbank, Germany's federal bank, recently joined the ranks of those burdened by mul-

Continued on next page

Profitability in sight for Lloyd's but old woes expected to linger

By ADRIAN LADBURY

LONDON—Lloyd's of London will report sharply reduced underwriting losses for the 1992 underwriting year and herald a return to profitability for the first time in six years when it announces the 1993 results, two new reports indicate.

Analyst Chatset Ltd. and the Assn. of Lloyd's Members both predict, however, that old-year deterioration will continue to plague the market.

The ALM, which does not forecast specifics of the deterioration, predicts a global loss of 1 billion pounds ($1.52 billion) for 1992 and a profit of 900 million pounds to 1.15 billion pounds ($1.33 billion to $1.7 billion) the following year.

Charles Sturge and John Rew, co-editors of the annual Chatset Lloyd's league tables, are less optimistic, predicting a loss of about 1 billion pounds for 1992 and a profit of only 300 million pounds ($444 million) for the 1993 year.

Without old-year deterioration, Chatset estimates, the 1992 account loss would be only 135 million pounds ($204.5 million) and the 1993 profit would be 800 million pounds ($1.18 billion).

Among the other factors hampering results in both the 1992 and 1993 years are rising bad debts and falling investment returns.

Syndicates for the 1991 accounting year have been forced to write off about 300 million pounds ($444 million), mainly because of reinsurer failures, Chatset calculates.

Chatset also projects that investment returns for the market this year will fall by 200 million pounds to 300 million pounds ($311.1 million to $466.6 million) from 720 million pounds ($1.07 billion) in 1993. Lloyd's rate of return in 1993 was 6%, and 1994 is looking worse. Returns on U.S. dollar investments were only 0.5% in the first half, while investments in British pounds actu-

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INTERNATIONAL

Insurers

Continued from previous page

sults worsened to a 124 million pound ($191 million) loss this year, compared with a 101 million pound ($150.5 million) loss in the first-half of 1993.

Commercial Union P.L.C. posted a 174% jump in first-half pretax profits to 181 million pounds ($278.7 million), compared with 66 million pounds ($98.3 million) a year earlier.

CU's premium income in the first six months was 3.08 billion pounds ($4.74 billion), barely changed from last year's 3.04 billion pounds ($4.53 billion).

Like its peers, CU reported much better U.K. underwriting results, which generated an underwriting loss of 75 million pounds ($115.5 million) in the first half, compared with a loss of 165 million pounds ($254.9 million) last year. U.K. business accounts for more than two-thirds of CU's premium volume.

CU's U.S. underwriting loss, by contrast, deteriorated to 60 million pounds ($92.4 million) from a loss of 46 million pounds ($68.5 million) a year ago.

Guardian Royal Exchange P.L.C. posted a pretax profit of 131 million pounds ($201.7 million) in the first half, roughly double 65 million pounds ($96.9 million) in profits a year ago.

GRE's net written premiums climbed to 2.02 billion pounds ($3.11 billion), up 14% from 1.77 billion pounds ($2.64 billion) in the first-half of 1993.

GRE's first-half underwriting loss was cut to 20 million pounds ($30.8 million) from last year's 85 million pound ($126.7 million) loss.

Guardian reported much better U.K. underwriting results, lackluster results from the United States and slightly improved Canadian figures.

In Germany, where operations now account for 18% of the group's worldwide premium volume, stiff rate increases and the weeding out of unprofitable commercial fire and liability accounts cut the underwriting loss to 15 million pounds ($22.4 million) so far this year from 28 million pounds ($43.1 million) a year ago.

The United Kingdom's fifth major multiline insurer, Sun Alliance & London Insurance P.L.C., will report on Sept. 8 or 9.

Asbestos

Continued from previous page

timillion dollar abatement projects. The German Fed spent more than 50 million deutsche marks ($32.5 million) to remove asbestos at its Frankfurt headquarters.

In some cases, companies are forced to abandon their buildings while abatement projects are taking place.

"Our headquarters needs a 200 million deutsche mark ($130 million) cleanup," said a spokesman for the Voice of Germany, an international radio and television broadcaster. "The enormous cost coupled with modernization plans has forced us to look elsewhere for a building."

Peter Koppich, a German corporate lawyer that represents international companies, said Germany is generally employer- and manufacturer-friendly when it comes to asbestos injury claims.

"Regulators have created a completely different basis for litigation in Germany than in the U.S.," he said. "In Germany, laws. . .deny employees the right to sue employers for accidents and job-related illness—unless gross negligence is involved."

Regulations are coupled with Germany's state-controlled workers accident insurance system, which guarantees generous employee pensions and rehabilitation.

"As a result, employees have no real interest in suing their employers," said Mr. Koppich.

In addition, a claim would require the plaintiff to prove gross negligence—something that is very difficult to do.

The fact that Germany's court system does not provide for jury trials is another deterrent to employee claims, Mr. Kloppich said. "We have professional judges that deal with such cases. We have no contingency fees, which means employees who become ill from asbestos exposure and go to trial have to carry all costs themselves."

The court system also does not recognize expert witnesses.

Instead it appoints a neutral examiner, who investigates the case and the cause of the illness. "In the end, the party who loses the trial has to pay for all the costs of the trial, including the court costs and lawyer costs."

Since employers had no knowledge of the danger of asbestos when buildings were constructed, they did not buy insurance that would have covered asbestos abatement.

"Insurers are happy to be left out of the fray," said a spokesman for Gerling Legal Insurance Co. "There is no comparison to the U.S. In Germany, third-party liability (for asbestos) is nearly non-existent. If someone were to use asbestos today, it would be another question. But who would?"

A landmark court ruling last February, though, could threaten Germany's otherwise employer-friendly approach to asbestos claims.

An appellate federal labor court ruled employees found at risk of injury from asbestos could refuse to work though still be paid. The case was sent back to a lower court, which must determine what constitutes dangerous levels of exposure.

The case was brought by 1,500 employees at the Voice of Germany. A liberal definition of "dangerous," would have serious consequences for the broadcaster, the company's spokesman said. "In effect it means the 1,500 employees who work here could walk out and get paid for it."

Other companies may soon find themselves in a similar dilemma, the spokesman said.

"The effect would be enormous. Practically every building built in the '50s and '60s has some form of asbestos."

GLOBAL BRIEFS

Continued from previous page

New HDI projects

HANNOVER, Germany—A wide-reaching new cooperation agreement between U.K. insurer Royal Insurance P.L.C. and Germany's Haftpflichtverband der Deutschen Industrie VaG creates a global network to serve both companies' industrial clients.

Separately, HDI may offer shares in its Hannover Re A.G. unit to the public.

Under the agreement with Royal, HDI will set up new offices in Germany, Austria, Switzerland, Brazil and eventually Eastern Europe.

In turn, Royal will establish a new company called Global Network Manager Ltd. that will oversee the two companies' network of offices, including Royal's existing 86 offices. HDI will acquire 15% of the new company.

Global Network will give HDI a coveted foothold in the international insurance market.

HDI Chief Executive Wolf-Dieter Baumgartl said, "Through the cooperation of Royal, HDI is in the position to offer its clients wide-reaching coverage in 80 countries. The agreement allows HDI to use Royal's worldwide network for a fee. HDI takes over the service function in Germany, Austria, Switzerland and Brazil.

"As a result, German industrial companies with foreign branches can negotiate policies in Germany," the spokesman said.

Royal's current cooperative agreement to do business in certain countries with Germany's Aachener & Munchener Group AMB will not be affected, according to a spokesman for Royal Globe.

Separately, HDI said it may publicly offer shares in its Hannover Re subsidiary after the company formally merges with Eisen & Stahl Reinsurance Co., another unit of HDI.

A public offering of a 25% stake in Hannover Re/Eisen & Stahl is planned on the Frankfurt stock exchange. The sale would raise an estimated 600 million deutsche marks ($390.2 million). Mr. Baumgartl said the listing could occur in 1994.

A public offering would be the final step in a process of formalizing the Hannover Re and Eisen & Stahl alliance.

An HDI spokesman said becoming a public company would aid Hannover Re/ Eisen & Stahl's efforts to gain new industrial reinsurance clients.

—By Don Lewis Kirk

Chatset

Continued from previous page

ally lost 2%.

Mr. Rew of Chatset says that the lack of big profits over the next two years and old-year losses for which cash calls have not been made, coupled with the increasing inability of members and reinsurers to pay their debts, will force Lloyd's to make tough decisions next year.

If Lloyd's does not tackle its bad debt problems head-on, it will fail next year's annual solvency test, Mr. Rew said (see story, page 24).

To avoid that, he offers two unpalatable alternatives: Impose a 5% marketwide levy, which could upset ongoing members, including corporate investors, and lessen confidence in the market; or abandon the historic commitment to pay all valid claims through the Central Fund if syndicates fail to pay up.

The second alternative would leave policyholders exposed to syndicate failures—just as they are when dealing with any other insurer.

Mr. Rew's chilling scenario for policyholders is based on Chatset's estimate that, apart from the called losses, Lloyd's syndicates have deferred 2.4 billion pounds ($3.73 billion) worth of cash calls for future losses on old policies over the last two years.

If that estimate and the prediction of a 1 billion pound deterioration on the 1992 underwriting year are correct, members will face outstanding losses of some 3.4 billion pounds ($5.29 billion) for old-year losses by this time next year.

Lloyd's has already asked members for about 1.7 billion pounds ($2.64 billion) to pay this year's losses. Mr. Rew and many others in the market believe Lloyd's will struggle to gather in all that cash and will probably barely pass this year's solvency test.

Australia

Continued from previous page

whether a policy it wrote for Monarch Air was even valid at the time of the crash.

"I think they were uninsured" at the time of the crash," he said, but would not comment specifically on the policies R&G had underwritten for Monarch Air.

R&G, which began underwriting aviation policies five years ago, decided two years ago to stop underwriting commercial airlines and to focus on private aircraft, he explained. Regardless, Mr. Pratten said his company had been "subjected to immense pressure" from politicians to pay claims against the airline, though no claims have been received.

"At this stage, we have denied liability for anything," he said, contending the airline was in breach of safety standards and the aircraft in the crash was "apparently not airworthy."

Monarch Airlines has not operated since the crash, so no representatives could be found to comment.

Spencer Ferrier, senior partner of Sydney law firm Ferrier & Associates, a pilot, and president of the New South Wales Royal Aero Club, is representing the families of two schoolgirls killed in the crash. Mr. Ferrier said, "We will certainly be making a claim."

While the probe of the Monarch Air crash may speed up Australian reforms, the Transport Department in 1992 circulated a paper on passenger compensation and sought submissions from the insurance and aviation industries on the need to increase the level of compensation.

International reinsurers may not provide adequate reinsurance cover for Australian aviation underwriters if they are required to pay all claims, regardless of fault, Mr. Pratten said. "I don't see how you can insure for illegal acts, and a breach of the Civil Aviation Authority Act is a criminal action," he said.

He also predicted that some airlines would be unable to afford aviation coverage when rates inevitably increase to reflect the increased risks.

Steve Showell, general manager of risk and insurance for Qantas Ltd., Australia's international carrier and one of two major domestic airlines, agreed the changes to the act would hurt smaller carriers the most.

He said Qantas has "the lowest aviation insurance rates in the world because of its excellent claims experience." But he expects aviation insurers would seek to hike Qantas' rates at renewals if the changes were adopted. Qantas renews its coverage in November.

He said Qantas's liability program, with limits of $1.25 billion, is currently led by French underwriter La Reunion Aerienne, with underwriters at Lloyd's of London and in the London market also on the risk.

Malcolm Baird, general manager of Melbourne-based Australian Aviation Underwriting Pool Pty. Ltd., which writes aviation coverage on behalf of 10 Australian insurers, said increasing the liability limit "makes a lot of sense."

Mr. Baird is among those who think the compensation for airline accidents is too low when compared to auto accidents and other injuries and deaths. He said people are dissatisfied, and believe that insurers are responsible for the low compensation.

Mr. Baird agreed rates would definitely rise if the changes were implemented, but "the extent is yet to be estimated."

If insurers were required to pay all claims, airlines' safety standards would be taken into greater account and reinsurers would require more information about policyholders' safety standards, he predicted.

Geoff Butler, director of Australian Aviation Insurance Group (Agency) Pty. Ltd., the Melbourne-based underwriting agency for the British Aviation Insurance Group, said increased aviation liability limits are "inevitable." He noted that the Australian government had, at one stage, considered an upper limit of $1 million Australian ($736,500) per passenger for domestic flights.

"It will cost commercial operators more," he added. Mr. Butler estimated airline owners flying 100% domestic charters, for example, would see liability rates increased to $300 Australian ($222) per seat from $180 Australian ($133.20) currently.

Mr. Butler said he was not too concerned about the compulsory nature of the coverage, noting that most aviation insurers do pay claims, regardless of fault, when people are killed in an aircraft accident and later subrogate against the negligent party.

But Mr. Ferrier, the plaintiffs' attorney in the Monarch Air case, said though most aviation insurers do pay claims in a crash, it usually is a lower amount than what is sought by the claimants. He said he had represented about 30 claimants in the past decade and that was the usual scenario, because they were generally widows and/or children who could not afford to pursue their claim in court.

John Lind, general manager of aviation for Sydney-based Aviation & General Underwriting Agency, a unit of Norwich Winterthur Australia Ltd., said the changes could create difficulties if insurers were expected to police aviation safety standards.

Kate Hannon, an adviser to the Transport Minister, said the proposed changes to the Civil Aviation Act would be put before Parliament soon, possibly at the next parliamentary sitting late this month, although no date had been set.

The Australian government also is considering setting the per passenger liability limits on international flights at $500,000 Australian ($370,000), from the current 100,000 Special Drawing Rights ($146,900) set by the Warsaw convention.

In addition, Mr. Brereton also has asked the government's House of Representatives Standing Committee on Transport to report to him on the adequacy of the current aviation safety regulations by Sept. 30, but Ms. Hannon said this would have no bearing on the current proposals to change the aviation statutes.

Summary of major property/casualty insurers' first-half results

Ranked by change in net income. All amounts in thousands of dollars.

	Corporate			Property/casualty operations										
Rank 1994	Consolidated revenues 1994	Net income 1994	Percent increase (decline) 1993-1994	Combined[1] ratio 1994	Combined[1] ratio 1993	Net premiums written 1994	Percent increase (decrease) 1993-1994	Pretax underwriting income (loss) 1994	Percent increase (decline) 1993-1994	Pretax investment income 1994	Percent increase (decrease) 1993-1994	Policyholders surplus 1994	Percent increase (decrease) 1993-1994
1 USF&G Corp.	1,551,000	96,000	111.6	110.2	110.4	1,119,000	(12.4)	(120,000)	7.7	211,000	(3.2)	1,554,000	1.2
2 TIG Holdings	893,342	20,224	111.2	114.7	141.7	816,231	7.0	(108,805)	66.8	125,279	9.0	852,109	7.2
3 Lincoln National Corp.	3,551,300	197,800	98.2	108.8	110.9	858,400	(6.0)	(70,400)	23.2	118,800	(7.2)	1,469,200	-
4 CIGNA Corp.	9,069,000	249,000	85.8	127.5	128.4	1,907,000	(9.2)	(550,000)	11.0	320,000	(2.4)	1,520,000	(12.1)
5 Fremont General Corp.	314,050	27,564	42.4	98.9	101.5	220,396	(7.0)	2,320	168.6	32,458	3.5	240,840	34.7
6 Hartford Steam Boiler	303,100	26,200	33.0	94.8	101.4	163,500	(4.7)	8,900	470.8	12,700	(17.0)	259,000	(19.3)
7 Berkshire Hathaway Group	583,813	164,058	25.6	105.6	116.4	620,488	65.7	(20,015)	47.7	223,830	21.3	N/A	N/A
8 ITT Hartford Group Inc.	5,294,000	261,000	13.5	103.6	105.8	3,308,000	3.1	(138,000)	34.6	341,000	1.2	3,184,000	5.9
9 Sentry Insurance Cos.[2]	727,707	42,827	11.4	104.3	104.7	574,923	(9.0)	(29,390)	19.1	88,677	(0.7)	993,397	12.2
10 American International Group	10,851,589	1,055,312	8.0	99.6[2]	99.6[2]	5,500,895	8.3	22,726	(9.8)	705,894	7.1	N/A	N/A
11 Ohio Casualty Corp.	779,061	50,005	(1.9)	107.9[2]	109.5[2]	656,686[2]	(0.9)	(50,296)	27.3	92,283	(5.5)	700,565	0.7
12 The St. Paul Cos. Inc.	2,328,924	192,199	(2.2)	105.2[2]	106.6[2]	1,725,690	13.5	(96,601)	5.2	328,986	1.1	1,801,276	(5.1)
13 Argonaut Insurance Co.	171,085	44,528	(5.8)	101.8[2]	99.6[2]	118,209[2]	(11.1)	(1,756)[2]	(162.0)	49,745	(0.8)	604,218	9.2
14 Old Republic Int'l	864,959	70,166	(15.7)	105.3	108.3	417,004[2]	6.4	(24,632)[2]	28.1	84,887[2]	0.1	1,189,894	5.1
15 Home Insurance Co.	1,122,000	10,000	(16.7)	111.4	111.1	845,000	(16.6)	(96,000)	5.9	115,000	(9.4)	881,000	(13.3)
16 General Re Corp.	1,919,700	274,900	(24.9)	106.2	103.3	1,484,700	19.1	(70,100)	(164.5)	367,800	(2.4)	3,638,000	2.9
17 Chubb Corp.	2,810,600	219,900	(25.3)	103.0	98.9	1,933,200	11.9	(70,100)	(1,308.6)	274,500	5.6	1,767,250	(6.9)
18 SAFECO Corp.	1,829,256	146,075	(28.7)	104.5	102.3	1,018,184	5.5	(44,582)	(106.1)	140,179	0.9	1,486,165	0.8
19 Aetna Life & Casualty Co.	8,718,600	178,100	(67.0)	125.2[2]	117.0[2]	2,155,800[2]	(6.9)	(530,700)	(43.4)	372,500	(11.7)	2,534,200	7.0
20 CNA Financial Corp.	5,340,000	114,300	(70.6)	117.5[2]	121.0[2]	3,440,000[2]	9.6	(615,700)[2]	8.0	576,000[2]	8.2	3,300,000	(8.3)
21 Royal Group (U.S. subs.)[2]	N/A	6,900	(75.1)	124.5	118.7	741,100	(12.9)	(178,700)	(6.7)	144,000	(6.7)	809,600	(4.0)
22 Reliance Ins. Co. and subs.	1,622,331	12,749	(78.0)	106.1	110.0	970,228	9.4	(61,013)	22.1	114,139	1.6	852,830	(4.8)
23 Continental Corp.	2,591,900	(84,000)	(187.5)	114.3[2]	108.7[2]	2,341,700[2]	5.9	(344,800)	(71.7)	244,100[2]	(2.8)	1,748,800	(11.1)
— The Travelers Insurance Cos.	1,690,600	N/A	N/A	112.1[2]	95.6[2]	1,256,700	837.1	(150,400)	(4,164.8)	246,200	1,410.4	N/A	N/A
— Nationwide Mutual Ins. Co.[2]	N/A	N/A	N/A	110.4	108.0	3,631,112	1.0	(390,349)	(29.4)	417,025	(4.7)	4,477,303	18.7
— Commercial Union Ins. (U.S.)	N/A	N/A	N/A	110.6[3]	107.8[3]	838,400	5.4	(92,800)	(31.1)	98,100	3.2	913,400	0.1
— Liberty Mutual Ins. Co.[2]	N/A	N/A	N/A	113.5	112.9	2,728,541	(14.4)	(337,401)	16.6	498,504	(2.6)	N/A	N/A
— Kemper National Ins. Cos.[2]	N/A	N/A	N/A	117.5	110.6	1,481,686	(8.8)	(261,601)	(41.8)	152,278	(12.8)	1,730,709	(5.7)
Cumulative	64,927,917	3,375,807	(13.9)	110.3	110.2	42,872,773	4.2	(4,420,195)	(4.7)	6,495,864	3.5	38,507,756	0.7

[1]After dividends [2]Statutory [3]Before dividends N/A-Company did not provide data

P/C results

Continued from page 1

turn," he added.

"I think back to when after Andrew happened everyone thought that we would begin to see a turn in the market. It didn't occur," said David McDonald, senior vp and chief underwriting officer for the Royal Insurance Group in Charlotte, N.C.

Now, despite the $4.5 billion in insured damage from the Los Angeles earthquake, "there's no indication that even that has caused a general movement in the market. I would say things are kind of status quo," he said. "There are some pockets, perhaps, where rates may be moving upward but certainly not anything on an across-the-board basis."

James S. Kemper III, executive vp-commercial lines for Kemper National Insurance Cos. in Long Grove, Ill., said, "I don't think there is a turn. I think it will probably continue pretty much the way it is."

"I don't see a tremendous amount of catalyst for change out there," said Ron Frank, an analyst with Smith Barney Shearson in New York. "If anything, I'm hearing casualty is as competitive or more so than it's ever been."

One reason for the ongoing soft conditions is overcapacity in the market.

"There still is a fair amount of capacity out there to do business, and from what I've heard and seen a fair amount of willingness to do business. It doesn't seem to me we're going to see broad, powerful changes," said Mr. Frank.

"With this much capital out there and with so much supply and so little demand, how can we see a hardening of the market? Maybe in some individual lines we can see market hardening, but not for the property/casualty industry overall," said Joanne Morrissey, a principal with Firemark Consultants in Parsippany, N.J.

"As far out as I can see, it's a status quo situation," said Michael Lewis, first vp with Dean Witter Reynolds in New York. But, he added, "We are cognizant of the fact that the industry—at least with the run-up of interest rates and loss in bond values caused by that, and some catastrophe experience earlier in the year—is starting to take a little capital out of the business."

This may put pressure on the industry to be more aggressive on pricing down the road, but it is not happening now, Mr. Lewis said.

"I have not been aware of any change whatsoever in the market and, as always, there's really no reason to expect that there'll be a change. There's absolutely no indication of any company that has withdrawn capacity from the market," said Barbara Stewart, president of Stewart Economics in Atlanta.

"The only factor that might change the tenor of the market would be a surprise of large magnitude," such as a major insolvency or a "situation where buyers become extremely sensitive to quality," said Ms. Stewart, who cited as an example concerns with Lloyd's of London (see Spotlight report beginning on page 3).

"I think it's kind of telling that a company like Continental, which has now run out of financial window dressing, is still hanging in there," said Ms. Stewart, referring to Continental Corp.'s announcement earlier this month that it will no longer pay a dividend and that it is seeking to raise capital (*BI*, Aug. 22).

This cycle is unique, noted Gary Ransom, senior vp with Conning & Co. in New York. "This soft cycle, I think, is now longer than any other soft cycle in history. . .and it's still not all that bad for a lot of companies, so something is very different here."

The 28 major property/casualty insurers surveyed by *Business Insurance* reported a 110.3% combined ratio for the first half, which was essentially flat compared with the 110.2% combined ratio for the comparable period a year ago. It was a marked improvement from the first-quarter combined ratio of 114.4% (*BI*, May 23), due to relatively few catastrophes in the second quarter. Insurers reported a 111.8% combined ratio for all of 1993 (*BI*, March 28).

Among other first-half results:

- Net income fell 13.9% to $3.38 billion from $3.92 billion for the comparable period a year ago. Only 10 of the 23 insurers providing this information reported improved earnings.

This was better, though, than the first quarter's 39.5% decline in net income to $1.29 billion, which reflected record catastrophe losses.

By comparison, these companies reported a 71.3% increase in net income during all of 1993 to $5.82 billion.

- Net written premiums increased 4.2% to $42.87 billion from $41.16 billion. This is an improvement from a 2.7% increase in premiums to $22.04 billion in the first quarter.
- Underwriting losses increased 4.7% to $4.42 billion from $4.22 billion for the comparable period a year ago. This is a dramatic improvement, however, from the first quarter, when losses were up 20.4% to $2.87 billion.
- Investment income growth was relatively modest, rising 3.5% to $6.5 billion from $6.27 billion a year earlier. This is an improvement, however, from a 1.4% decline in investment income in the first quarter to $3.1 billion.
- Policyholder surplus increased a modest 0.7% to $38.51 billion from $38.24 billion. This compares with a 2.5% increase to $41.65 billion reported in the first quarter.

"The quarter was a fairly straightforward one," summed up Carol Manning, senior vp with Prudential Securities in New York. "You did get some of the larger insurers like Aetna that added to reserves for environmental liabilities, but otherwise the commercial results were pretty straightforward."

Aetna Life & Casualty Co. added $64 million to its environmental reserves in the second quarter, while CIGNA Corp. added $32 million (*BI*, Aug. 8).

Last week, Standard & Poor's Corp. lowered several ratings at Aetna, including the claims-paying ability of Aetna Casualty & Surety Co. Group to A+ from AA-.

David Seifer, vp with Donaldson Lufkin & Jenrette Securities Corp. in New York, characterized the quarter as "generally continued disappointment."

While first-half combined ratios were flat because of the absence of catastrophes and generally good experience in the second quarter, "still outstanding is the fact that the pricing and underwriting standards in commercial casualty business are extremely competitive and probably will re-

Continued on next page

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By RODD ZOLKOS

BURLINGTON, Vt.—With the average cost of cleaning up Superfund sites now exceeding $30 million, deciding how to deal with potential environmental impairment liabilities is a critical issue for many companies.

Vermont Captive Insurance Association

But calculating the extent of that potential liability, protecting an organization from those risks and determining how to reflect it on financial statements all are complicated undertakings.

A company's basic response should involve identifying its exposure, taking steps to control risk and determining whether any of that risk can be transferred, according to Leo Winstead, director of risk management services at Waste Management Inc. in Oak Brook, Ill.

"The premise is to protect your company by controlling environmental impairment liability," he said.

Mr. Winstead made his remarks earlier this month during a panel discussion at the Vermont Captive Insurance Assn.'s annual conference in Burlington.

The first step in controlling that liability is to do a thorough review of the organization, looking for potential sources of contamination. "You've got to know what's out there," Mr. Winstead said. "If you've got a problem or you think you're going to have a problem down the road, deal with it." As for transferring a company's liability risk for environmental cleanup, that can be difficult, Mr. Winstead said. "We talk to insurance companies by the score, and many of them won't even touch these kinds of coverages."

Historically, environmental cleanup situations have been subject to expensive and unpredictable litigation, and some insurance policies had no aggregate limits or limits on the number of occurrences, noted William G. Russell, director of environmental services at Coopers & Lybrand in New York.

Those factors have made insurers wary of taking on many environmental liability risks, and they've responded by limiting the risks they'll cover, Mr. Russell said. Current policies have high premiums and insurers are picky about customers, preferring proactive policyholders who have done due diligence concerning their possible liabilities.

That preference creates the possibility of lower premiums, though, for the more proactive companies, he added.

Mr. Russell also sees the potential for a move toward risk assessments based on "life cycle" analysis, in which companies develop methods to estimate the costs that could be associated with environmental liabilities over the life of a product or material. Such a move could create opportunities for new types of environmental insurance, he said.

When measuring a company's specific liability for a particular site, several elements contribute to its total liability exposure, Mr. Russell said. Among them are the nature and extent of the contamination and the remediation alternatives—whether the contamination can be treated onsite or will have to be moved offsite and how long the cleanup will take.

The changing regulatory context, which he likened to "moving targets," is an additional complication, he said. "What are the cleanup standards we're asked to clean up to?"

Other elements of risk include the economic capacity of other parties responsible for the site and the potential for third-party lawsuits.

Once the elements of risk have been determined, there are various ways of calculating the potential cost of the liability, Mr. Russell said. Among them are a unit-cost approach, which simply calculates the cost by multiplying the amount of waste by the cost of disposing of it; or a probabilistic cost model, which looks at various potential cleanup scenarios to determine the most likely one and its cost.

Other methods include basing the calculation on the average cost of cleaning up the same type of site, or previous experience for the cleanup of similar sites.

It's important to remember, however, that cost-estimating techniques aren't perfect, Mr. Russell said. It's critical to be aware of assumptions inherent in the estimating model and how complete the data is and where it came from.

Reflecting a company's environmental liability obligations in financial statements is another tricky issue. The basis for reporting these obligations is in accounting standards and recommendations from the mid-1970s, said Gerry Hickly, senior manager with Price Waterhouse in Pittsburgh.

Those guidelines basically specify that companies should report environmental liability obligations when it is reasonable to expect them to occur, said Mr. Hickly. If it's impossible to pinpoint an actual number, the company should look at the best estimate and report the lowest number of a reasonable range, he said.

In the late 1980s, with a growing recognition of the extent of these environmental problems and the cost of dealing with them, other standards and recommendations emerged to fine tune the process o[f] reporting environmental cleanup obligations.

The American Institute of Certified Public Accountants now has accounting and auditing task forces t[o] provide guidance on reporting environmental liabilities, Mr. Hickly said.

He also noted that while voluntary, environmental annual reporting has become popular with many companies. Such reports include information on a company's environmental management program, source control, waste management and cleanup-cost estimates. BI

P/C results

Continued from previous page

sult in large losses," he said.

"The primary companies continue to retain large exposures relative to the premiums they are receiving and they are not reserving against the potential liabilities," Mr. Seifer charged. "In addition, the cash flows continue to shrink. So, superficially, the numbers reported were better, but in terms of basic fundamentals, the industry in commercial casualty lines just continues on a train to large losses and unhappiness for investors."

"To talk about general market conditions these days you're wondering whether you're talking about anything of substance," said Michael Crall, president of Argonaut Insurance Co. in Menlo Park, Calif. "You've got kind of a fractured situation," he said. While some companies are doing quite well, others "are reporting pretty terrible numbers."

And while certain lines of business, including property in catastrophe-prone areas, are experiencing genuine capacity shortages, others are certainly not tightening, he said.

"The dichotomy between the best performers and the weak performers continues to be relatively wide," added Conning's Mr. Ransom.

While the property/casualty operations of American International Group Inc., The St. Paul Cos. Inc. and Chubb Corp. are performing very well, those of others, such as Continental Corp. and CIGNA Corp., are not, he said.

While CIGNA and Aetna's reserve additions are not seen as indicative of an imminent turn in the market, they may serve as a warning. "The significance is more intangible and related to perceptions than it is real," said Peter M. Mahon, senior insurance industry analyst with Piper Jaffray Inc. in Minneapolis.

"It serves to drive home the point that many in the industry are acutely aware of, namely, that we have a reckoning with under-reserving that has by and large not begun, and it serves to put a cloud over the quality of earnings that are being reported currently."

"To a certain extent, mayb[e] there's just a recognition that finally we've gotten to that poin[t] where we do have to recognize a[t] least some of the losses," sai[d] Michael Smith, an analyst wit[h] Lehman Bros. in New York.

Increasing loss reserves for environmental liabilities could lea[d] to higher rates, said Jay Cohen, a[n] analyst with Salomon Brothers i[n] New York. "Environmental liability will continue to impact th[e] balance sheets and will eventuall[y] reduce surplus, hopefully leadin[g] to more pricing flexibility o[r] higher premium rates." BI

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No winners in NAIC, Vermont fight

Dispute could open door to federal regulation, experts warn

By RODD ZOLKOS

BURLINGTON, Vt.—Vermont's ıccreditation battle with the Naional Assn. of Insurance Commissioners and prospects for federal insurance regulation are closely reated, say many attending this year's Vermont Captive Insurance Assn. conference.

Vermont Captive Insurance Association

Continued disputes between states like Vermont and the NAIC, hey reason, could add fuel to some federal officials' assertions hat the state-based system of egulating the insurance industry s unworkable, with federal reguation the only alternative.

That fear was at the heart of a panel discussion on the status of ederal legislative efforts during he conference, held here Aug. 16-19.

While state-based regulation has disadvantages—for example, he states' differing insurance regılations resemble "a Byzantine quilt"—its diversity is more appealing than the potential effects of federal regulation and the NAIC's accreditation efforts, conended Jon Harkavy, vp and general counsel of USA Risk Group in Arlington, Va.

"In a highly centralized federal system you would not have had he ability for states like Vermont, Colorado and Hawaii to develop captive regulatory niches," he said.

The "primary nightmare" with federal regulation is the prospect of a system focused almost solely on solvency that's motivated to naintain a system of just a few highly capitalized companies, Mr. Harkavy said.

Under the present system, each state is responsible for regulating nsurers within its own borders, noted Robert H. Myers Jr., an atorney with Neely & Player in Washington.

Since the states are interdependent, though, that interdependence has been addressed through he NAIC.

It's important to note, however, hat the NAIC is not a "freestanding, legislatively chartered entity" charged with regulating nsurers, Mr. Myers said.

"It seems that the NAIC apparatchiks have come up with the old party line. . .that the system is voluntary," Mr. Harkavy said. Yet he organization has become a de facto central regulatory authority, he said, made up largely of political appointees who are subject to urnover every few years.

But the NAIC emerging as a naional regulator of insurance aises questions of authority, Mr. Myers said. "Can a voluntary organization exercise the authority hat has not been delegated to it?"

What's more, he added, "the accreditation program has alienated some of the insurance industry," both in the manner in which the NAIC has adopted the program and the speed with which it has noved it forward.

Messrs. Harkavy and Myers both cited several aspects of the NAIC's rulemaking process that hey and others who attended the conference perceive as troubling, ncluding a tendency toward frequent closed-door meetings.

"This is ironic for a number of easons, among them that every state has an open meetings law," Mr. Myers said. But, because the NAIC is a voluntary organization, it is not subject to those laws.

"In all fairness, the NAIC has pledged to reverse this trend," but only after considerable pressure, he noted.

The NAIC recently said it may open more of its meetings to the public, following criticism of closed-door sessions at NAIC meetings (*BI*, Aug. 1).

Meanwhile, Mr. Harkavy said that while he hopes Vermont is accredited, "it is just as important to reform the system."

The real danger of the NAIC's accreditation process, Mr. Harkavy said, "is that we're going to turn the clock back to the days of interstate trade wars," which will make it more difficult for insurers to operate on a national basis.

For example, he noted that Texas has enacted legislation requiring its Insurance Department to refuse to recognize the financial examinations conducted by NAIC-accredited states if those states refuse to accept Texas Insurance Department exams on Texas-domiciled insurers. And the New York Senate has passed similar legislation (*BI*, Feb. 21).

"I think the NAIC has got to understand that the refusal to accept exams is not the backbone of the process but the seeds of its demise," Mr. Harkavy said.

The NAIC process of refusing examinations from unaccredited states may not be enforceable, panel members said. It hasn't yet been challenged and the NAIC has "judiciously" not tried to enforce it, they noted

While Mr. Harkavy suggested litigation as a possible approach to resolving the issue—a tactic many attending the conference seemed to favor even if Vermont regulators do not—Mr. Myers suggested that litigation could go so badly and the decision be so "bollixed" that federal officials would step in and say, "See, you need federal regulation."

Because Congress is consumed at present by the health care reform debate, Mr. Myers believes it's unlikely anything will happen on insurance regulation in Washington until next year.

Still, Rep. John D. Dingell, D-Mich., the prime proponent of insurance regulation in Congress, is said to be waiting to reintroduce a version of H.R. 1290, his Federal Insurance Solvency Act of 1993, that he has scaled down into a so-called "junior H.R. 1290."

Instead of exercising the federal option as a resolution to problems with the NAIC approach, Mr. Myers suggested the solution can be based on interstate compacts, or agreements between two or more states aimed at solving problems that go across their borders.

"Generally speaking, a compact's rules can be enforced in court," he said. "Compacts provide an opportunity for a state-based system to solve its problems."

However, another panelist, Debra J. Hall, vp and general counsel of the Reinsurance Assn. of America in Washington, said her organization generally doesn't favor the compact approach.

The biggest problem from the RAA's perspective is that it would give a group of regulators the power to make laws they would have to implement, violating the separation of powers spelled out in the U.S. Constitution. The RAA, in fact, supports H.R. 1290 provisions pertaining to federal regulation of reinsurers, she said.

"The business of reinsurance is an international business," Ms. Hall said, noting that in a world where there is free trade and a company can operate across Europe under a single law, a system of 50 state regulators seems outdated.

"We think there are good reasons why we could have federal regulation of reinsurance and that doesn't necessarily require regulation of the insurance industry," she said, adding that the RAA hasn't taken a position on the federal regulation of primary insurance.

But Mr. Harkavy said that the industry's existing problems with the state-based regulatory approach and the NAIC should not drive insurers to embrace federal regulation.

"It's incumbent on us not to take that great leap of faith without exploring every other option," he said. BI

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Prop. 103

Continued from page 2

margins for prior approval regulations. Although some insurers have sought approval from the department for rate hikes since Proposition 103 was passed, no specific regulations have been promulgated, said Mr. Aceituno.

Many industry observers are hoping that whomever replaces Mr. Garamendi as commissioner in January will take a softer approach to ratemaking.

"The impact of the decision depends on who's the next insurance commissioner, since prior approval will be implemented under their watch," said Steve Young, staff counsel for the Independent Insurance Agents & Brokers of California in San Francisco. "We're urging companies to be calm, not make any rash judgments until we see how the next commissioner regulates rates."

If the prior approval rules turn out to be as onerous as the rollback rules, "it will clearly make it much more difficult for insurers to participate in the California market," said Mr. Aceituno. "It will be the most Draconian rate regulation of any state."

"The court is a little shortsighted, or they don't understand how insurance companies work, or both," observed Michael Kelly, director of risk management for Secomerica Inc. in Newport Beach. "They do not understand the concept of surplus."

Implementation of Proposition 103 could be "an example of how regulators can put an insurance company out of business, rather than save consumers money," he predicted.

Municipalities, financial institutions and other businesses with operations solely in California may have trouble getting property and liability coverages in the future, even though Proposition 103 generally aimed to roll back rates for personal lines auto, he said.

"As long as a (policyholder) can diversify its risks, it will be OK," Mr. Kelly said. "But if all of its risks are in California, it will have trouble with availability."

Politics was behind the court's decision in *20th Century Insurance Co. vs. Garamendi*, say many."This court was inclined to grant the commissioner whatever powers he needed to do the job" to show that it was not biased toward insurers, said Mr. Young of the IIABC.

Mr. Young explained that in 1986, after three liberal justices were voted off the bench, the court sided with the insurance industry in a challenge to Proposition 51, a tort reform initiative that limited the application of joint and several liability.

"You've got to remember politics runs everything," said Mr. Kelly. "We like to think that the judiciary are not politically motivated, but they're all politicians."

Mr. Kelly added that Mr. Garamendi's determination to win the case even after losing his gubernatorial bid shows his political aspirations are alive and well.

Judith Mintel, associate general counsel for State Farm Insurance Co.—the insurer Mr. Garamendi targeted at last week's press conference announcing the decision—said the court is washing its hands of Proposition 103.

"The court is backing away," she said and putting the responsibility for the rollbacks and ratemaking on the executive branch of government.

"It's not going to provide checks and balances for insurance regulation. It will be up to the state of California to be reasonable if it wants to maintain a viable insurance industry," Ms. Mintel said.

Whatever the court's motives, most insurance industry observers were surprised and disappointed with the decision.

"The analysis is tortured," observed the IIABC's Mr. Young. "I think Judge Janavs hit the nail on the head."

Los Angeles Superior Court Judge Dzintra Janavs had found the rollback regulations invalid.

That decision was overturned on appeal, and the Supreme Court unanimously concurred with the intermediate court.

"The 20th Century ruling was inconsistent with the court's prior ruling in CalFarm," said David Snyder, assistant general counsel to the American Insurance Assn. in Washington, D.C.

In the 1989 decision in *CalFarm Insurance Co. vs. Deukmejian*, the California Supreme Court found that insurers should get some relief if the result of the rollback was confiscatory.

It also is out of step with the current trend in federal courts discouraging economic regulation of business, he said.

"When you look at Mosk's concurrence, California seems to have gone far beyond existing law" by stating that the Fifth Amendment to the U.S. Constitution "doesn't apply to any business that can leave the market voluntarily."

In his concurring opinion, Justice Stanley Mosk found that "neither Proposition 103's rate rollback requirement provision nor the rate regulations as to rollbacks are facially confiscatory under the Takings Clause of the Fifth Amendment to the United States Constitution."

"It is well established that the Takings Clause of the Fifth Amendment applies to so-called regulatory takings effected by government price regulation," he wrote. "It is equally well established that government price regulation does not constitute a taking of property where the regulated group is not required to participate in the regulated industry."

But Justice Mosk "conveniently ignores the response raised by attorneys in oral argument that for the rollback year, those who wanted to leave the state were precluded from doing so," asserted ACIC's Mr. Aceituno.

While some industry observers suggest Mr. Garamendi's Proposition 103 regulations treat insurers like utilities, Mr. Aceituno thinks "it's worse than utility regulation. It's utility-style regulation that doesn't even ensure you of a utility-style rate of return."

The political attractiveness of rate rollbacks must be balanced against the need to ensure long-term solvency of insurance companies, asserted Mr. Snyder.

"Increasingly, in some states the political desire to lower premiums creates long-term financial problems," he said, referring to New Jersey where a $1.3 billion deficit was created in the residual market for auto liability coverage when Gov. Florio chose to grant policyholders rebates.

But insurers rejected Gov. Florio's attempt to force them to make up the shortfall, and the state finally settled the case by issuing bonds for some $700 million and obtaining limited insurer contributions, Mr. Snyder recounted.

It's a lot like the expression often used by comic book character "Wimpy," who said "I will gladly pay you Tuesday for a hamburger today," he said. BI

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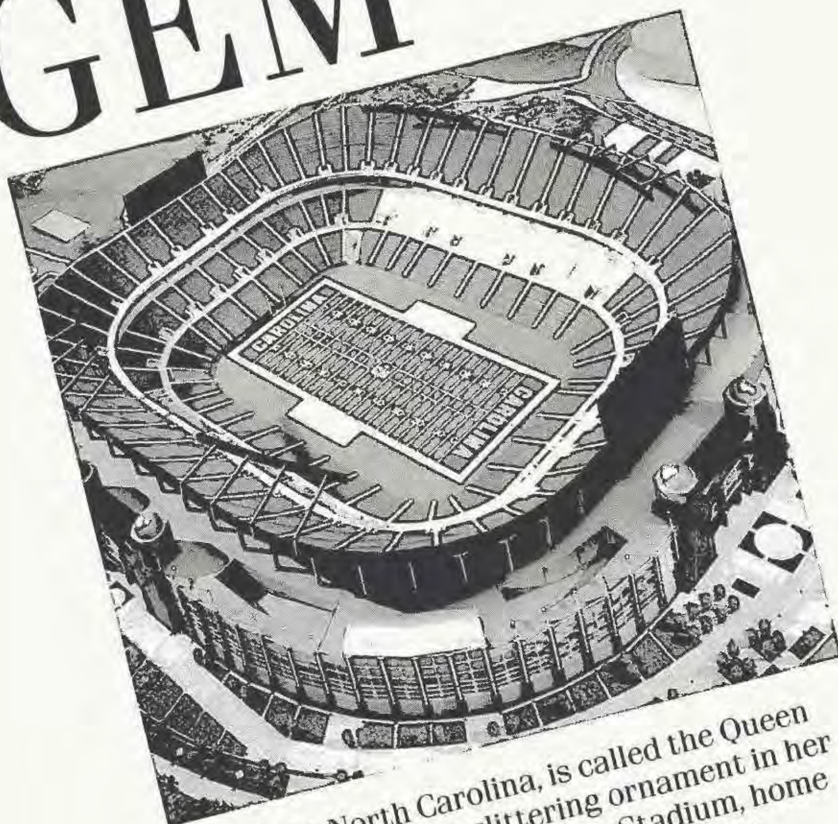

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PBGC

Continued from page 1

cast too wide a net and sweep in employers that have responsibly funded their pension plans. They say some employers with plans that are now considered fully funded or even overfunded will have to add millions of dollars to their plans.

Of four congressional panels with jurisdiction over the PBGC, just the two House panels have passed pension reform legislation along the lines of a measure proposed by the Clinton administration. No Senate panels have considered the measure, let alone the full House and Senate.

With those hurdles left to clear, PBGC legislation would likely die if it were not attached to the high-priority trade bill.

The legislation would require employers to use uniform interest rate and mortality assumptions when calculating pension plan liabilities.

Uniform assumptions would have to be used even if they had little correlation with a plan's actual investment returns or an employer's actual workforce.

Benefit consultants are criticizing the proposed rules as illogical and even dangerous.

When uniform assumptions are used, "you are moving away from the underlying reality of a plan and that of its population," said Chris Bone, chief actuary at Actuarial Sciences Associates Inc. in Somerset, N.J.

Overly conservative assumptions could force companies to divert money from other purposes into pension plans, a prospect that some lobbyists say would give companies yet another reason to drop their defined benefit plans.

"The legislation increases the cost of funding pension plans without regard to the true liabilities," said Mark Ugoretz, president of the ERISA Industry Committee, a Washington-based benefits lobbying group representing large employers.

"That makes it less likely that employers will continue to support their defined benefit plans. It is as if the PBGC is trying to fulfill its own death wish," he added.

PBGC officials contend that companies currently have so much flexibility, or "wiggle room," in their actuarial assumptions that they can underfund plans without ever breaking any rules.

"Experience has shown that companies will use the latitude that they have in current law to minimize contributions," PBGC Executive Director Martin Slate wrote in a letter to Senate Finance Committee Chairman Daniel P. Moynihan, D-N.Y.

Without stronger rules, chronic and persistent pension underfunding will continue, and even more far-reaching proposals, like higher premiums, will have to be considered, said Mr. Slate in an interview.

If Congress, for example, allows employers to continue to use their own mortality assumptions, the opportunity "to achieve real improvement in underfunding will be significantly curtailed," he said.

At the heart of the controversy over the PBGC measure are complex actuarial issues involving both interest rate and mortality assumptions.

One involves the "deficit reduction contribution," or DRC, an additional payment that employers can be required to make when a pension plan lacks the assets to pay "current liabilities," those that would be due if the plan were immediately terminated. Depending on a plan's funding level, these payments have to be made over five to 13 years, rather than over 30 years, like other contributions.

The Ways and Means Committee measure would require more companies to make DRCs.

To determine the size of current liabilities, employers are required to use an interest rate that is in the range of 90% to 110% of a four-year weighted average of the rate for 30-year Treasury bonds. At the start of the year, that rate was about 7.4%.

Employers need not make the extra contribution, though, if their pension plans are fully funded under another liability standard that takes a longer look in time.

Under this standard, employers measure not just employees' accrued benefits—benefits earned to date—but also how those benefits will increase because of future salary increases. Employers also factor in future contributions they will make to their plans.

In measuring the size of their so-called projected liability, employers can use any "reasonable" assumptions about the rates of return on plan assets. An internal Hewitt Associates survey found that more than 90% of employers assume a rate of return of at least 8%, and 22.5% of employers assume a rate of 9% or more.

Because different assumptions are used, an employer can be overfunded on a projected liability basis but underfunded on a current liability basis.

Under the Ways and Means Committee measure, employers would have to make a DRC contribution if their current liability was 90% or less and regardless of how well their plans were funded on a projected liability basis.

Another actuarial issue at the heart of the PBGC controversy involves interest rate assumptions.

The Ways and Means measure would reduce the maximum assumptions that companies could use. Companies would be restricted to using rates between 90% and 100%—rather than 90% to 110%—of the four-year weighted average of 30-year Treasury bonds.

Even slightly lower rate assumptions can dramatically increase plan liabilities. For example, a 0.75% decrease in an interest rate assumption can boost current liabilities by 10%, estimates Larry Sher, a partner with Kwasha Lipton in Fort Lee, N.J.

"A funded plan can become an underfunded plan and an underfunded plan can become even more underfunded," Mr. Sher said.

Benefit consultants fault standard, or "one-size-fits-all," assumptions for ignoring the different returns that different companies can earn.

The conservative standard may not come even close to what a company may earn on its assets, said Actuarial Sciences Associates' Mr. Bone.

And a more conservative standard will boost liabilities—for funding contributions—and force companies to put more into their pension plans than they need to, some say.

"Companies should not be forced into using artificial assumptions that are not reflective of their own investment results," said Lynn Dudley, director of retirement policy at the Assn. of Private Pension & Welfare Plans in Washington.

Benefit experts also object to a provision in the legislation that would require all employers to use a 1983 mortality table, developed by actuaries, in estimating life expectancies of plan participants.

This table or variations of it, which Hewitt Associates says is used by 22% of employers, assumes the longest life expectancies of plan participants of the three major mortality tables employers use.

For example, the 1983 table assumes a 65-year-old male will live another 16.7 years, while a 1984 table assumes a 65-year-old male will live 14.7 years.

By assuming people live longer and collect pension benefits over a longer period of time, a conservative mortality table has the effect of increasing plan liabilities.

Like uniform interest rate assumptions, uniform mortality tables ignore the different experiences—in this case life expectancy—at individual firms, consultants say.

"Not everyone's feet are size 10," said John McGrath, a consulting actuary with Buck Consultants in New York.

"There are real differences in mortality rates in different industries," said Michael Pikelny, corporate actuary and benefits consultant at apparel manufacturer Hartmarx Corp. in Chicago. While Hartmarx already uses the 1983 mortality table, it wouldn't be reasonable to require all employers to use that table, he said.

If there are abuses in mortality assumptions, as federal officials contend, suits should be filed against individual employers and their actuaries, rather than forcing all employers to use the same assumptions, said Michael Johnston, a consulting actuary with Hewitt in Lincolnshire, Ill.

But the PBGC's Mr. Slate says administratively it isn't possible to scrutinize every employer's mortality assumptions, adding that the 1983 mortality table is fairly conventional.

While controversy continues over the PBGC legislation, employers have their own suggestions to improve plan funding.

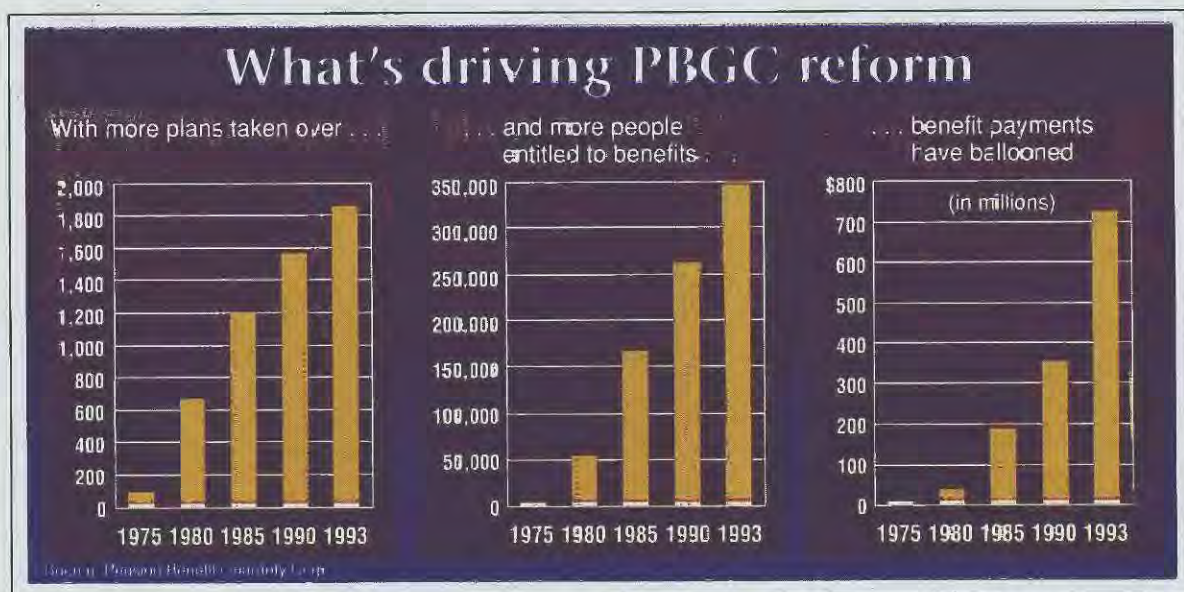
Dayton Hudson's Mr. Hamacher suggests cutting back on PBGC guarantees in situations where employers with already underfunded plans further increase benefits and add to liabilities.

Roger Kirkpatrick, president of Spaulding Composites Co., a Rochester, N.H., manufacturer of non-metallic components for automobiles, machinery and household items, advises linking the amount of PBGC premiums employers pay to both the amount of underfunding and the length of time their plans have been underfunded.

"A financial incentive should be created for management to deal with the (funding) problem," said Mr. Kirkpatrick. A Spaulding pension plan covering former workers and retirees at a now-shuttered Tonawanda, N.Y., plant was recently terminated by the PBGC after Spaulding filed for bankruptcy.

Spaulding's pension liabilities piled up after a negotiated benefit increase and actuarial assumptions were revised to reflect lower anticipated investment returns on plan assets. BI

> **'Experience has shown that companies will use the latitude that they have in current law to minimize contributions,' said Martin Slate, the executive director of the PBGC, in a letter to Sen. Daniel P. Moynihan.**



GRAPHIC BY MIKE GARVEY

PBGC reforms tapped for revenue provisions

WASHINGTON—Why are provisions involving pension funding rules and the Pension Benefit Guaranty Corp. being considered for inclusion in a broad trade package?

The answer to that may have at least as much to do with revenue-raising considerations as the merits of the PBGC-related provisions.

To be sure, the Clinton administration has pushed Congress for reforms of the PBGC to improve pension funding and reduce the agency's vulnerability to big losses when companies terminate their pension programs.

In fact, just weeks after President Clinton took office last year, the administration established a task force to study PBGC-related problems. That fall, the administration presented legislation to Congress to address those problems.

The legislative package was the result of a very "deliberate and inclusive process," said PBGC Executive Director Martin Slate.

At the same time, a number of legislators, most notably House Ways and Means Oversight Subcommittee Chairman J.J. Pickle, D-Texas, have long campaigned for PBGC reforms.

While administration and congressional interest in revamping the PBGC is real and long-standing, attaching the PBGC legislation to a measure to implement a trade agreement has a special logic: It raises revenue.

Congress must find billions of dollars in new revenues to offset losses that will result from the reduced tariffs on imported goods called for in the trade treaty, known as the General Agreement on Tariffs and Trade.

Provisions in PBGC legislation passed earlier by the Ways and Means Committee would raise at least a portion of the needed $12 billion in revenues to implement GATT.

One provision, which would have the effect of slightly reducing future pension benefits for higher-paid employees, alone will generate nearly $500 million over five years.

That provision significantly alters a current formula in which the maximum annual benefit employers can fund through defined benefit plans and the maximum annual contribution made to defined contribution plans automatically increases in tandem with the annual rise in the Consumer Price Index.

Instead of rising lock step with the CPI, maximum benefit and contribution limits would be increased in $5,000 increments, rounded down to the nearest $5,000.

For example, if inflation produced a $7,000 increase in the maximum benefit and contribution limits, with rounding the actual permitted increase only would be $5,000.

In the case of 401(k) plans, the annual maximum deferral limit would increase in $500 increments, rounded down to the nearest $500.

By reducing employer tax deductions for pension contributions and decreasing employees' pretax contributions to 401(k) plans, employers and employees would have higher incomes and thus pay higher taxes.

In all, the new rounding procedure would raise nearly $500 million over a five-year period.

That kind of revenue generation gives legislators a powerful financial incentive to pass the PBGC legislation.

"While there is no doubt that the administration badly wants the PBGC legislation, the real push behind it is the revenue," according to Gerald Uslander, a principal with William M. Mercer Inc. in Washington.

—By Jerry Geisel

Superfund

Continued from page 1

eral Agreement on Tariffs and Trade—let alone health care reform.

"From the administration's standpoint, as important as Superfund is to their domestic agenda, health care reform *is* their domestic agenda," said Julie A. Rochman, Superfund lobbyist for the Alliance of American Insurers in Washington.

"Time is short and health care is sure to account for much of the remaining congressional agenda," possibly shunting Superfund off the stage, said Francis D. Bouchard, federal affairs representative and lobbyist for the Reinsurance Assn. of America.

The most contentious issue remaining in the Superfund debate is the creation and funding of an Environmental Insurance Resolution Fund to pay for cleanups. Financed by taxes on insurers and reinsurers, the EIRF would be designed to pay part of policyholders' cleanup costs if the companies agreed to forgo suing their insurers.

The EIRF won the approval of the House Ways and Means Committee on Aug. 19 over the objections of several insurance industry groups (*BI*, Aug. 22). The EIRF mechanism now must clear the Senate Finance Committee.

Health reform legislation could either help or hurt the chances of a Superfund bill passing this term.

If members of the Senate Finance Committee have to revisit health care reform after Labor Day to try to craft a bill that can garner bipartisan support, it's going to heavily distract them from any effort to deal with Superfund, said Joel Wood, vp-government affairs for the Council of Insurance Agents & Brokers in Washington.

On the other hand, he added, "Congress is going to want to escape here in October having done a couple of things and Superfund is one of those achievable things. The more the prospects for health care reform fade, the more the prospects for Superfund may increase."

On that point, there is no argument from some supporters of the administration's bill.

The chances for enactment "are very good and improving daily," said Les Cheek, director-external domestic affairs for Xerox Corp. in Washington, the parent of insurer Talegen Holdings Inc. Talegen supports the EIRF.

Reauthorization of Superfund would give lawmakers an accomplishment to point to when they face the voters this fall, he said.

Another crucial factor in determining Superfund's fate is the legislative clock. The 103rd Congress will have to adjourn before the Nov. 8 elections. Members up for re-election are anxious to face the voters, particularly given that they lost most of their August recess to debate over health care reform and crime legislation, which passed only last week.

Many supporters of the bill, though glum, will not concede defeat for this session.

"The National Assn. of Manufacturers is still hopeful there could be legislation enacted this year, although we'd like to see some sections improved," said Theresa K. Larson, associate director-environmental quality for the NAM in Washington.

"We are surprised that it's come along as far, given its late start," added Ms. Larson.

"It's definitely possible. We have consistently been giving about a 50/50 chance," said Dell Perelman, senior assistant general counsel for the Chemical Manufacturers Assn. in Washington. In fact, that might now be a "conservative" assessment of the bill's chance for passage, he said.

"The trend is good but the time remaining is very limited," said Mike McGavick, director of the American Insurance Assn.'s Superfund Improvement Project. He called time the "most serious" obstacle facing reauthorization.

"It will take an absolutely focused and concentrated effort (to get the bill enacted)," he said, but added that it is "one of the few remaining substantive issues with a chance of becoming law."

Three factors are creating problems for reauthorization, said Mr. McGavick: a crowded Senate agenda, the complex nature of the issue and the feeling by some lawmakers that the bill has not been adequately explained.

That perception was evident less than two weeks ago when the House Ways and Means Committee took up the Superfund bill's tax provisions. Members of both parties complained that they had only an outline to work with, not a carefully worded piece of legislation. Although the measure passed on a voice vote, one observer said the action was less an endorsement than an act of weariness.

"The vote does not necessarily reflect support or understanding of the tax formula but probably more likely reflects some of the exhaustion that accompanies the end of a Congress. Most members frankly were just tired of dealing with the issue and took the course of least resistance," said Peter Lefkin, vp-federal affairs in Fireman's Fund Insurance Co.'s Washington office.

Some opponents of the measure fear that the House leadership will attempt to capitalize on that weariness and push the bill through with as little discussion as possible, particularly since some Republicans have indicated that they want to offer numerous amendments on the House floor.

"My best guess," said NAMIC's Ms. Allen, "is that the leadership will seek a closed rule," meaning the Superfund bill could not be amended on the House floor. If that happens, NAMIC will lobby hard against the bill in the Senate, she said.

Senate rules make it easier to block a bill there than in the House, which could magnify the importance of the shrinking calendar and cast doubt on the Superfund bill's passage, said Barbara Haugen, director-federal affairs for the National Assn. of Insurance Brokers in Washington.

Of course, few property/casualty executives would shed any tears for the demise of the administration's EIRF proposal. And their counterparts at reinsurance companies would dance on its grave.

Under the bill approved by the House Ways and Means committee, reinsurers would be responsible for paying about 25% of the $8.1 billion in taxes that would be raised during its 10-year life. Reinsurers wrote only an estimated 6.6% of the premiums during the period covered by the proposal.

Reinsurance Assn. of America representatives were pleading their case with administration officials last week. No agreement was announced and talks are expected to continue this week.

Some reinsurers thought that a last-minute amendment by Rep. Dan Rostenkowski, D-Ill., that was subsequently adopted by the Ways and Means Committee could offer them relief from the tax burden. Under that amendment, about one-half of the taxes to be raised from reinsurers in years five through 10 of the fund would come from a fee based on resolutions paid by the fund.

Now, though, the companies realize that the provision would not reduce the burden on the reinsurance industry as a whole but would instead redistribute the burden among companies.

The Rostenkowski amendment appears to be a sort of "placeholder," designed to permit further discussion and possible change to the reinsurance tax if the bill progressed.

"The insurers and reinsurers will ultimately make peace about how to finance the EIRF," predicted Xerox's Mr. Cheek. "Everybody now has so much invested in the EIRF that they cannot afford not to reach agreement." BI

Some groups remain neutral on EIRF

For all the acrimony the Environmental Insurance Resolution Fund has generated in the insurance industry and other quarters, it isn't causing much excitement among the potentially responsible parties it is supposed to aid.

The Risk & Insurance Management Society Inc. opposes the EIRF, but powerful business lobbying groups like the Chemical Manufacturers Assn., the National Assn. of Manufacturers and the American Petroleum Institute have taken no position on the proposal.

"We have no position on the EIRF; we have simply monitored it. We have so many other issues in this industry in Superfund that this one does not merit the same attention," said a spokesman for the American Petroleum Institute.

RIMS continues to oppose the EIRF concept, citing a variety of reasons.

The settlement mechanism contains an element of coercion by threatening policyholders that refuse EIRF settlements and consequently lose in court with paying a portion of their insurers' legal costs, said Dave Haight, vp-environmental.

What's more, insurers that are taxed to pay for cleanups will raise premiums, said Mr. Haight, risk manager for CF Industries, a fertilizer manufacturer in Long Grove, Ill. "It's going to end up trickling down to us anyway. Insurers long ago quit wearing red suits and whiskers."

Ultimately, the EIRF taxes could even compromise some insurers' solvency, he said.

WMX Technologies Inc., a Chicago-based provider of waste disposal and other environmental services, is one company that has enthusiastically endorsed the EIRF, saying it would refocus money on paying claims.

The EIRF is "an interesting structure" that provides "rough justice" by recognizing that courts in different states have responded differently in policyholder/underwriter disputes, said Sue Briggum, director-government affairs in the company's Washington office.

She also endorsed the prospective tax approach because it paralleled the prospective taxes levied on chemical manufacturers and others to pay for so-called "orphan shares" of cleanups under current Superfund law.

—By Mark Hofmann

Updates

Gallagher exec sentenced

Continued from page 2

lagher bill St. Tammany Parish more than $130,000 in consulting fees between 1988 and 1991. The money was then secretly funneled to Mr. Hart, a member of the parish governing authority responsible for securing insurance.

Messrs. Van der Voort and Walters also ordered Gallagher employees to make false entries in the broker's books to conceal the payments to Mr. Hart, prosecutors charged.

Mr. Van der Voort pleaded guilty to a single count of concealing a felony and was sentenced last week to probation, according to Fred P. Harper Jr., assistant U.S. attorney.

Messrs. Walters and Hart were convicted last month on various fraud, conspiracy and money laundering counts, Mr. Harper said. Mr. Walters faces a maximum of 45 years in prison and Mr. Hart a maximum of 60 years. Both are scheduled for sentencing Nov. 2.

Mr. Van der Voort is the brother of two other Gallagher executives: Warren Van der Voort Jr., vp-mergers/acquisitions; and Gary Van der Voort, president of the brokerage services division. Gallagher could not comment Friday whether Craig Van der Voort or Mr. Walters were still employed.

State moves against Pace unit

PHOENIX—The Arizona Insurance Department has placed American Bonding Co., a unit of struggling Pace American Group Inc., under state supervision.

In an order issued Thursday, Arizona regulators cited several problems at American Bonding and Pace American, which was taken over by a dissident shareholder group last month, including:

- The resignation of Coopers & Lybrand as Pace American's auditor and American Bonding's failure to file a 1993 financial statement.
- An Aug. 18 decision by NASDAQ to delist Pace American's stock for failure to timely file a 1993 10-K report with the SEC.
- Pace American's default on a $5 million bank note.
- American Bonding's failure to fall within the acceptable range on five IRIS operating ratios as of June 30.

Regulators also charge that Pace American's board—now dominated by the dissident group (*BI*, Aug. 1)—violated an agreement under which regulators had permitted the takeover without prior approval.

Among other things, the new board allegedly tried to pay themselves $300,000 in consulting fees from the bank account of an American Bonding subsidiary and tried to have American Bonding reimburse them for business and personal expenses.

The supervision order gives American Bonding 60 days to correct the Insurance Department's objections.

Meanwhile, a Mexican company controlled by one of the new board members, Mauricio Madero, says it plans to pay $24 million to acquire roughly 45% of Pace American in a private placement of stock.

The deal would require prior approval of Arizona regulators.

Air crash may be insured

LONDON—Insurance is led in London for the Royal Air Maroc turboprop ATR-42 that crashed into the Atlas mountains in Morocco under suspicious circumstances last week, killing 42 passengers, including one believed to be a member of the Kuwaiti royal family.

No cause for the crash has been found, said Lloyd's Aviation Ltd.

But investigators' analysis of the plane's flight recorder indicates the pilot may have deliberately downed the craft in an act of suicide, according to British press reports.

Coverage in Lloyd's is led by syndicate 824, managed by Murray Lawrence & Partners Ltd., and in the London market by British Aviation Insurance Group. Neither BAIG officials nor Tony Medniuk, syndicate 824's underwriter, could be reached for comment on how or if the liability coverage—the limits for which are unknown—would be affected if the crash were intentional.

The hull, which is a total loss, is valued at $10 million. No reserve has been set aside yet for the liability loss.

Briefly noted

Jacques Blondeau will be named chairman and chief executive officer of SCOR S.A. of Paris on Tuesday. He succeeds **Patrick Peugot**, who recommended his successor and will remain on the board of SCOR. . . .**Tropical Storm Beryl** caused $80 million in insured property damage in the Southeast earlier this month, reports the American Insurance Services Group Inc. . . .The first criminal charge related to money missing from **Chicago Housing Authority pension funds** has been filed against Joseph Polichemi. Mr. Polichemi is charged with federal wire fraud for allegedly defrauding the CHA of at least $10.5 million by encouraging John D. Lauer, the CHA's director of risk management and benefits, to invest agency money in securities that in fact did not exist (*BI*, June 27). . . .Zimmerman Reed, a Minneapolis law firm, is seeking class-action status for a suit filed Aug. 19 in federal court alleging that Blue Cross & Blue Shield of Minnesota has refused to pay for **removal of defective and harmful breast implants**. A BC/BS spokesman said the insurer used to require documentation of silicone leakage or other problems before it would cover implant removals but now pays for all removals. . . .A Tennessee court last week dismissed a lawsuit in which the Tennessee Medical Assn. alleged that **TennCare**, a state-run managed care system that replaces Medicaid, violated procedures during implementation and restricted access to care (*BI*, June 13). . . .U.S. District Judge Sam Pointer in Birmingham, Ala., delayed until Sept. 1 a final ruling on the **$4.25 billion global settlement** of silicone breast implant claims to consider arguments that the proposed deal is unfair to foreign plaintiffs. . . .**William H. Boornazian**, a former Aetna Life & Casualty Co. executive, has been named president of St. Paul Special Property, a unit of St. Paul Fire & Marine Insurance Co.

Employer ads

Continued from page 2

members of Congress directly, takes a rather alarmist view of the problems multistate companies would face if they were to lose control of their company-sponsored benefit plans.

The companies' position is outlined in a statement bearing the headline "Don't Let Them Do It."

The ad includes telephone numbers where employees can reach U.S. senators and representatives.

No single business group or lobbying organization would take credit for the ads, although several employers involved indicated that International Business Machines Corp. was one of the major backers of the campaign.

"It was a collaborative effort, but we were very much involved," an IBM spokesman said.

IBM approached several business groups, including the Business Round Table, the Corporate Health Care Coalition, the Assn. of Private Pension & Welfare Plans and the ERISA Industry Committee, to get participation from their multistate employer members, he said.

This is not the only step big companies have taken recently. IBM and several other employers, including General Mills Inc. and Eastman Kodak Co., have been urging their employees through internal communications to persuade Congress to defeat health care reform measures proposed by President Clinton and House and Senate majority leaders (*BI*, Aug. 22).

Taking their appeal to the newspapers, the employers claim in the ad that employees working for companies with operations in more than one state could lose their health care benefits under federal health care reform.

"If you work for a company with employees in more than one state, the House and Senate health care reform bills would allow your company health benefits to be taken away," the ad says.

Large employers have had some notable successes in recent years in controlling spiraling health care costs, and many worry their gains could be jeopardized under various federal health care reform proposals (*BI*, Feb. 21).

"The best strategy for health care reform now would be Congress going home," said Mark Ugoretz, president of ERISA Industry Committee in Washington, summing up most employers' feelings about impending reform.

But, more importantly, large multistate employers do not want Congress to alter the Employee Retirement Income Security Act. That landmark 1974 law essentially exempts self-insured corporations from state laws governing health insurance and other employee benefits.

That concern has been voiced repeatedly to policymakers in Washington by business lobbying groups, but the 60 employers sponsoring the ad, including Allied Signal Inc., American Express Co., Colgate-Palmolive Co., Hewlett-Packard Co. and Rockwell International Corp., say it has fallen on deaf ears.

> **'Our intent is to say this is an issue that affects average people. And, it's an issue that is not going well' on Capitol Hill, an IBM spokesman says.**

"Our intent is to say this is an issue that affects average people. And, it's an issue that is not going well" on Capitol Hill, the IBM spokesman said.

"When you advertise in something like this, it's to complement your lobbying efforts," said Stuart Brahs, vp of government relations for the Des Moines, Iowa-based Principal Financial Group, one of the 60 employers listed in the ad and one of only three insurer participants.

"It's a good idea because the people left out of the (health care reform) process are workers. They need to know what's at stake—and that's employers' ability to lower costs, develop innovative programs and (stay free) from discriminatory taxes on benefit plans," Mr. Ugoretz said.

"The objective (of the ads) is to try to point out serious flaws in the legislation. They are trying to point out the unintended consequences of the Mitchell and Gephardt approaches," Mr. Brahs said.

According to the ad, "As currently written, the Gephardt bill in the House and the Mitchell bill in the Senate would eliminate the national rules under which companies manage their health benefit plans across state borders. Without these national rules, called ERISA, multistate companies will pay additional taxes for state programs their employees don't need or use, or could be forced by the additional cost to eliminate benefits."

Furthermore, the ad warns, "States could also terminate company benefit programs, and you would be forced to join a state health care system."

Provisions in the Gephardt and Mitchell bills would allow states to set up their own single-payer health programs, covering all residents, including those who work for multistate corporations.

But, nothing in the proposals would bar employers from offering supplemental benefits in a state that established a single-payer program.

Mr. Brahs and other supporters of the ad campaign say workers need to be alerted to the potential problems that lurk in the fine print of the health care reform proposals in Congress.

"It's like peeling an onion and in one layer that's been peeled away you find the unintended consequences of changing ERISA," he said.

It's difficult to say whether employees will heed their employers' warnings and pick up the phone to tell their senators and representatives to preserve ERISA protection for multistate companies.

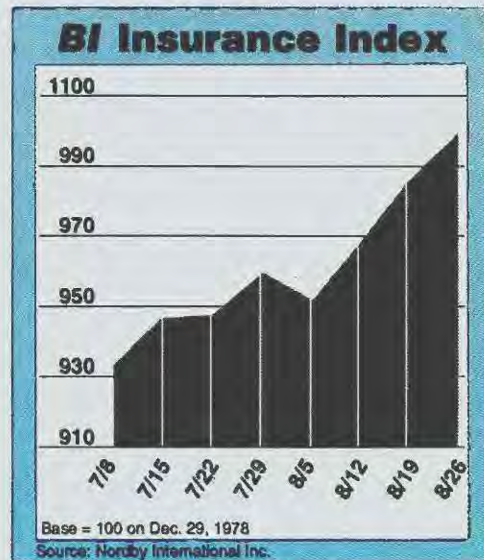
"I'm not sure the extent to which (the ads are) gauged at Joe and Jane Employee. It's more geared to Washington types. They want to get the attention of policymakers," Mr. Brahs said.

The IBM spokesman would not discuss how much the ads cost, noting that some employers offered to contribute, while others did not.

"We have yet to determine how the cost issue will be resolved," he said.

Full-page advertisements in the nation's major metropolitan newspapers don't come cheap, though. Such an ad would cost $54,432 in The New York Times; $43,470 in the Chicago Tribune; and $57,856 in the Los Angeles Times.

The ads ran in 16 newspapers on Aug. 23. The IBM spokesman said the group did not plan to re-run the ads. BI



Insurance stocks jumped last week, as the *Business Insurance* Index gained 14.3 points to 999.1 Aug. 26 from 984.8 on Aug. 19. Advancing issues for the week were led by: FHP International, up 11.3%; WellPoint Health Networks, up 8.6%; and Humana Inc., up 8.4%. Declining issues for the week followed: Penn-America Group Inc., down 6.3%; Continental Corp., down 5.2%; and SCOR U.S. Corp., down 4.1%. The most active issue was Unitrin, 8.2 million shares traded. The *BI* Index increased 1.5%; the Dow Jones 30 Industrials rose 3.4%; the NYSE Composite gained 2.0%; and the Standard & Poor's 500 rose 2.2%.

British Issues

Aug. 25 Companies	Price pence	P/E	Div. pence	Yield %	1 week high—low
Comml Union	551	17.5	31.0	5.6	554—540
Genl Accident	580	11.6	34.4	5.9	581—540
Gdn Royal Exch	184	11.9	9.5	5.2	186—182
Independent	258	8.4	10.4	4.0	258—253
Royal	293	12.8	9.4	3.2	293—284
Sun Alliance	338	15.2	18.4	5.4	338—325
Brokers					
Bradstock	96	10.8	6.9	7.2	97—96
Fenchurch	154	12.0	9.0	5.8	154—154
CE Heath	288	10.1	20.0	6.9	295—288
JIB Group	149	13.1	9.4	6.3	149—149
Lloyd Thmpson	'165	11.1	8.4	5.1	166—165
Lowndes Lmbrt	192*	12.1	9.4	4.9	195—192
Nelson Hurst	154	15.1	7.0	4.5	154—154
PWS Holdings	44	N/M	2.5	5.7	45—44
Sedgwick Grp	166	18.4	7.5	4.5	168—165
Steel Brl Jones	116	N/M	11.3	9.7	116—116
Willis Corroon	153	14.0	8.3	5.4	156—153

Source: Philip Olsen, London * 1 for 1 share issue

BI Industry Stock Report AUG. 22, 1994, THROUGH AUG. 26, 1994

		Price	Weekly % change	Year to date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt./Bk. value
BROKERS												
Acordia Inc.	NYS	26.50	1.92	7.61	28.75	21.00	60	0.60	2.26	13	10.22	2.59
Alexander & Alexander	NYS	20.50	1.23	3.14	25.00	14.00	542	0.10	0.49	-158	6.73	3.05
E.W. Blanch Holdings Inc.	NYS	22.50	7.14	29.50	23.50	15.75	60	0.32	1.42	20	4.10	5.49
Gallagher Arthur J. & Co.	NYS	33.38	3.09	-6.64	37.13	28.13	45	0.88	2.64	16	7.52	4.44
Hilb, Rogal & Hamilton	NYS	11.88	0.00	-9.52	15.13	11.13	55	0.48	4.04	16	4.51	2.63
Marsh & McLennan	NYS	85.13	0.15	4.61	91.88	77.00	366	2.90	3.41	17	16.76	5.08
Poe & Brown	NDQ	22.00	2.33	22.22	22.75	16.88	6	0.40	1.82	16	3.02	7.28
BROKERS	AVERAGE		2.3	7.3					2.3	-8		
INSURERS/REINSURERS												
ACE Ltd.	NYS	23.13	-1.60	-24.18	35.00	22.75	450	0.44	1.90	-31	28.74	0.30
Acceptance Insurance Cos.	NYS	14.13	-0.88	21.51	15.63	11.13	36	0.00	0.00	14	9.65	1.46
AEGON N.V.	NYS	59.25	3.95	8.22	59.25	46.00	5	2.95	4.97	11	34.71	1.71
Aetna Life & Casualty	NYS	51.50	3.78	-14.52	66.25	48.88	757	2.76	5.36	-8	71.84	0.72
Allied Group Inc.	NDQ	29.25	1.74	17.00	32.75	22.75	115	0.60	2.05	7	10.45	2.80
Allmerica Prop. & Casualty	NYS	16.50	7.32	-23.40	22.16	14.25	98	0.16	0.97	10	56.97	0.29
Allstate Corp.	NYS	26.63	7.58	-10.50	34.25	22.63	848	0.72	2.70	16	18.43	1.44
American General	NYS	29.88	4.37	4.82	36.50	24.88	1989	1.16	3.88	23	22.09	1.35
American Heritage Life Ins.	NYS	18.00	0.70	-3.36	24.63	16.50	31	0.66	3.67	11	12.42	1.45
American Indemnity/Fin'l	NDQ	11.00	2.33	-15.38	15.25	10.00	19	0.24	2.18	5	16.18	0.68
American International	NYS	95.88	4.07	8.79	100.25	81.75	1980	0.46	0.48	15	45.25	2.12
American Re Corp.	NYS	29.00	-2.11	2.65	36.25	23.50	241	0.00	0.00	15	14.80	1.96
Aon Corp.	NYS	34.75	1.09	8.03	39.00	30.00	699	1.28	3.68	12	33.10	1.05
Argonaut Group	NDQ	29.75	-0.83	-2.46	35.50	26.25	57	1.16	3.90	9	27.65	1.08
AVEMCO Corp.	NYS	15.25	0.83	-18.67	21.25	13.75	238	0.44	2.89	11	8.13	1.88
Baldwin & Lyons Inc.	NDQ	14.88	0.00	0.00	16.25	13.75	0	0.24	1.61	9	12.59	1.18
Berkley W.R. Corp.	NDQ	36.75	-0.34	12.21	48.00	32.00	180	0.44	1.20	17	28.12	1.31
Berkshire Hathaway Inc.	NYS	18500.00	-3.65	13.32	19850.00	15150.00	2	0.00	0.00	26	8115.28	2.28
Capital Re Corporation	NYS	22.25	0.00	-13.59	28.25	18.50	47	0.20	0.90	8	21.66	1.03
Capsure Holdings Corp.	NYS	13.00	0.00	-3.70	18.13	12.25	63	0.00	0.00	12	13.08	0.99
Chubb Corp.	NYS	73.00	0.34	-7.15	90.63	70.75	1181	1.84	2.52	26	46.59	1.57
CIGNA Corp.	NYS	67.38	3.65	6.52	74.00	57.00	718	3.04	4.51	14	78.23	0.86
CNA Financial Corp.	NYS	61.75	1.23	-21.59	89.50	60.00	1092	0.00	0.00	-16	77.92	0.79
Continental Corp.	NYS	16.00	-5.19	-42.08	33.00	14.13	1845	0.00	0.00	-70	38.99	0.41
EMC Insurance Group Inc.	NDQ	9.00	4.35	-5.26	10.25	8.50	8	0.52	5.78	10	N.A.	N.A.
Emphesys Financial Gr. Inc.	NYS	30.63	7.93	NA	33.13	21.25	304	0.60	1.96	8	N.A.	N.A.
EXEL Ltd.	NYS	41.00	2.18	-8.89	49.25	36.00	361	1.20	2.93	8	33.81	1.21
Fremont General Corp.	NYS	25.50	2.51	5.70	28.25	21.50	148	0.76	2.98	8	23.40	1.09
Frontier Insurance Group	NYS	33.38	-1.48	-23.93	37.50	25.41	41	0.48	1.44	16	16.33	2.04
Gainsco Inc.	ASE	9.13	1.39	1.39	12.16	7.84	53	0.04	0.44	13	3.49	2.61
General Re Corp.	NYS	112.88	2.96	6.24	133.38	101.75	1219	1.92	1.70	15	55.54	2.03
Guaranty National Corp.	NYS	17.38	-1.42	-0.71	24.75	13.75	15	0.50	2.88	11	11.81	1.47
Harleysville Group	NDQ	20.25	-1.22	-28.95	30.25	19.75	108	0.64	3.16	14	18.35	1.10
Hartford Steam Boiler	NYS	45.88	2.80	3.09	53.38	42.38	128	2.12	4.62	58	15.80	2.90
HCC Insurance Holdings	NDQ	20.75	-3.49	2.89	23.84	15.00	115	0.00	0.00	16	10.75	1.93
Home Holdings Inc.	NYS	9.38	-3.85	-45.65	18.50	9.38	179	0.00	0.00	-9	19.96	0.47
ITT (Hartford Group)	NYS	86.13	3.77	-6.13	95.97	78.63	1132	1.98	2.30	11	57.11	1.51
Kemper Corp.	NYS	61.63	1.44	71.78	65.00	33.13	679	0.92	1.49	147	38.98	1.58
Lawrence Insurance Group	ASE	2.50	0.00	-31.03	6.38	1.50	0	0.00	0.00	-6	4.26	0.59
Lincoln National	NYS	39.50	7.85	-8.14	48.25	35.50	1633	1.64	4.15	10	32.53	1.21
Markel Corp.	NDQ	41.75	-1.76	8.44	44.50	36.75	23	0.00	0.00	10	24.68	1.69
Mid Ocean Ltd.	NDQ	24.63	-2.48	-12.83	34.75	24.63	404	0.00	0.00	13	20.24	1.22
Mutual Risk Mgmt. Ltd.	NYS	25.75	-0.96	-14.17	32.75	21.13	131	0.28	1.09	15	5.71	4.51
NAC Re Corp.	NDQ	26.00	0.48	-10.73	37.00	24.00	298	0.16	0.62	14	19.24	1.35
National Re Corp.	NYS	23.63	-4.06	-22.86	37.13	23.63	211	0.16	0.68	9	17.51	1.35
Navigators Group	NDQ	17.63	-2.08	-49.64	39.00	16.00	118	0.00	0.00	-7	16.99	1.04
Nobel Insurance Ltd.	NDQ	8.13	0.00	6.56	8.63	6.63	29	0.20	2.46	4	6.84	1.19
NWNL Companies	NYS	31.38	-0.79	-3.46	38.75	27.00	321	0.90	2.87	11	23.97	1.31
Ohio Casualty Corp.	NDQ	31.50	0.80	-1.18	36.00	26.50	312	1.46	4.63	13	23.84	1.32
Old Republic Int'l	NYS	21.75	0.58	-3.33	27.63	21.25	179	0.48	2.21	8	23.57	0.92
Orion Capital Corp.	NYS	32.75	0.00	6.07	37.09	28.63	75	0.72	2.20	9	27.43	1.19
Partner Re Holdings Ltd.	NDQ	21.19	0.30	-2.59	23.50	18.50	899	0.40	1.89	18	N.A.	N.A.
Penn-America Group Inc.	NDQ	7.50	-6.25	-2.44	9.50	6.50	30	0.00	0.00	9	6.21	1.21
Phoenix Re Corp.	NDQ	25.75	3.00	-6.36	38.25	18.50	152	0.30	1.17	7	19.99	1.29
Provident Life	NYS	28.63	1.78	-9.49	31.88	24.38	47	1.04	3.63	-11	26.38	1.09
Re Capital Corp.	NDQ	12.75	0.49	-6.42	15.50	12.25	6	0.32	2.51	12	16.88	0.76
Reliance Group Holdings	NYS	5.88	2.17	-24.19	10.38	4.88	1277	0.32	5.45	10	4.22	1.39
RLI Corp.	NYS	22.63	-1.63	-15.42	27.75	20.63	8	0.60	2.65	-44	22.91	0.99
St. Paul Companies	NYS	43.63	0.00	-2.79	49.00	37.69	725	1.50	3.44	9	57.84	0.75
SAFECO Corp.	NDQ	54.63	0.69	0.00	65.75	48.50	776	1.96	3.59	10	41.59	1.31
SCOR U.S. Corp.	NYS	11.75	-4.08	-6.93	16.88	10.13	135	0.36	3.06	8	16.08	0.73
Seibels Bruce Group	NDQ	2.06	-2.94	17.86	2.19	0.31	182	0.00	0.00	-5	1.90	1.09
Selective Ins. Group	NDQ	28.00	-0.88	-7.44	31.00	23.00	56	1.12	4.00	11	23.11	1.21
Sphere Drake Holdings	NYS	15.50	-0.80	-6.06	21.63	14.63	20	0.12	0.77	7	12.17	1.27
Statesman Group Inc.	NYS	15.25	0.00	22.00	15.50	10.25	650	0.10	0.66	6	8.65	1.76
TIG Holdings	NYS	20.13	0.00	-11.05	28.00	17.25	611	0.20	0.99	18	18.49	1.09
Titan Holdings Inc.	NYS	8.50	-1.45	-21.84	13.38	7.75	38	0.28	3.29	7	8.93	0.95
Tokio Marine & Fire	NDQ	61.50	-2.38	13.89	66.00	49.25	2	0.41	0.66	-	57.72	1.07
Torchmark Corp.	NYS	42.63	4.92	-4.75	59.75	36.75	359	1.12	2.63	11	17.35	2.46
Transatlantic Holdings	NYS	55.00	-0.23	3.04	61.50	45.38	110	0.36	0.65	14	29.60	1.86
Transnational Re Corp.	NDQ	23.38	4.47	-13.43	27.00	0.13	369	0.00	0.00	19	N.A.	N.A.
Travelers Corp.	NYS	36.63	5.40	-5.79	49.50	31.00	3708	0.60	1.64	9	33.35	1.10
Trenwick Group Inc.	NDQ	39.00	1.96	0.65	47.75	33.25	17	1.00	2.56	14	26.00	1.50
United Fire & Casualty	NDQ	39.63	-2.16	10.07	44.00	36.00	0	1.08	2.73	9	28.96	1.37
Unitrin	NDQ	49.25	-1.99	15.88	51.50	38.50	8226	1.60	3.25	35	38.90	1.27
UNUM Corp.	NYS	48.00	0.52	-8.57	58.88	43.00	683	0.96	2.00	12	27.55	1.74
US Facilities Corp.	NDQ	12.38	-1.00	4.21	14.63	8.25	140	0.00	0.00	17	10.48	1.18
USF&G Corp.	NYS	13.75	5.77	-9.09	18.75	11.69	1265	0.20	1.45	9	10.60	1.30
USLICO Corp.	NYS	21.38	-1.16	29.55	21.75	15.75	72	0.24	1.12	8	25.22	0.85
USLIFE Corp.	NYS	35.88	1.77	-7.42	45.75	34.88	153	1.24	3.46	8	41.73	0.86
Washington National	NYS	21.25	0.00	-12.37	26.13	20.63	166	1.08	5.08	8	28.40	0.75
Zenith National Ins.	NYS	26.25	2.44	18.64	28.75	20.63	93	1.00	3.81	11	17.71	1.48
Zurich Reinsurance Centr.	NYS	27.38	0.00	-3.10	33.00	24.25	65	0.00	0.00	-57	24.41	1.12
INSURERS/REINSURERS	AVERAGE		0.7	-3.8					2.3	10.6		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	NDQ	27.00	11.34	3.85	29.75	18.25	1727	0.00	0.00	16	11.43	2.36
Humana Inc.	NYS	21.00	8.39	14.29	22.38	11.88	3830	0.00	0.00	24	5.71	3.68
Pacificare Health Sys.	NDQ	70.38	8.27	86.42	70.38	30.50	967	0.00	0.00	25	11.15	6.31
Safeguard Health Enter.	NDQ	11.25	4.65	-10.00	15.50	9.50	27	0.00	0.00	15	5.71	1.97
Sierra Health Services	NYS	26.00	-2.80	16.85	30.75	15.50	210	0.00	0.00	16	4.60	5.65
United Healthcare Corp.	NYS	51.13	3.02	36.79	51.13	27.19	2697	0.03	0.06	37	10.64	4.80
U.S. Healthcare	NDQ	42.31	0.74	10.38	47.50	26.66	7107	0.84	1.99	19	6.21	6.81
Wellpoint Health Networks	NYS	26.75	8.63	-13.36	37.00	24.25	886	0.00	0.00	13	10.94	2.45
HMOs	AVERAGE		5.3	18.2					0.2	18		
ALL COMPANIES	AVERAGE		2.7	7.2					2.4	11		

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Reform provisions have big cost impact

By JERRY GEISEL

WASHINGTON—The fine print in current health care reform bills may be more important to employers paying for health care plans than high-visibility issues like an employer mandate.

Couched in dense legislative language, provisions covering early retiree health care coverage, coverage for end-stage renal disease and flexible benefit programs have received little, if any, congressional or public attention.

But some of these provisions involve billions of dollars.

"The provisions may be buried in the fine print, but the cost implications for employers are huge," said Francesca Bruno, a managing consultant with A. Foster Higgins & Co. Inc. in Detroit.

Take, for instance, the early retiree health care provisions in the proposal by House Majority Leader Richard Gephardt, D-Mo.

Under one portion of the bill, employers that as of Jan. 1, 1994, provided and paid any portion of the premium for health insurance covering retirees under age 65 would have to pay 80% of the premium after reform. That obligation would continue until the retirees turned 65 and became eligible for Medicare, died or resumed working. This maintenance-of-effort provision would expire in 2004 when today's 55-year-old retired workers turn 65 and became eligible for Medicare.

This could be very costly for companies that have drastically cut back on what share of the premium they pay for early retiree coverage. For instance, a company that had halved its contribution to 50% last year would become liable for paying 80%.

Yet the Gephardt bill would also shift for a limited period of time a portion of early retiree obligations to the government.

Under a provision added at the behest of a group of legislators whose districts are home to the Big Three automakers, the federal government starting in 1997 would essentially reimburse employers for 40% of the premium that would be charged the retirees were they to enroll in Medicare Part C, the proposed expansion of the Medicare program.

The reimbursement only would apply to retired workers who were at least 55 years old on Jan. 1, 1994, and not yet eligible for Medicare.

This provision alone would transfer billions of dollars in early retiree health care obligations to the government from employers.

But it is a far cry from the giveaway President Clinton initially proposed.

He had proposed that the government indefinitely pay 80% of early retiree health care obligations. But that provision, seen as a reward for labor union support during the election campaign—as well as a bid to win employer backing for the administration's reform package—came under congressional criticism as unnecessary and too costly.

The Senate health care reform bill lacks comparable early retiree care provisions.

Other provisions in both bills address health care expenses for employees who develop end-stage renal disease, or ESRD, a kidney disorder that requires medical treatment costing about $3,000 to $5,000 a month.

'The (health care reform) provisions may be buried in the fine print, but the cost implications for employers are huge,' according to Francesca Bruno, a managing consultant with A. Foster Higgins & Co. Inc. in Detroit.

The Senate bill proposed by Majority Leader George Mitchell, D-Maine, would expand employer liability for these costs.

Under current law, employer health care plans are the primary payer of health care bills for employees with ESRD—for 18 months. After 18 months, Medicare becomes the primary payer.

Under the Senate bill, though, employer plans—starting in 1996—would remain the primary payer for 24 months before Medicare takes over.

On the other hand, the House bill—in certain situations—would reduce employer liabilities for individuals with ESRD.

Specifically, the House bill would clarify a provision in a 1993 budget law under which retirees who develop ESRD after they turned 65 would bounce back and forth between Medicare and employer-provided retiree health care plans for their primary coverage (*BI*, July 25; June 13).

Under the 1993 law, employer health care plans become the primary payer for workers who retired years ago, were covered under Medicare after turning 65 and later developed ESRD. After 18 months, Medicare once again resumes being the primary payer for the retirees.

To eliminate shifting responsibility between Medicare and employer health plans, the House bill makes clear that Medicare would continue to be the primary payer of health care bills for retirees who are already receiving Medicare.

"This very bizarre situation of bouncing from Medicare to an employer plan and then back to Medicare would be resolved," said Linda Laarman, a principal with William M. Mercer Inc. in Washington.

The Senate bill, though, lacks a comparable provision.

Both bills would eliminate funding medical expenses through all types of flexible benefit programs. This would apply to flexible spending accounts and full-fledged flex programs in which employees receive "flex dollars" or "flex credits" to purchase one of several health care plans. If employees don't use up all their credits, they can apply the credits toward other benefits, like extra life insurance.

The Senate bill would eliminate such arrangements beginning in 1997, while the House bill would ban flexible benefit plans from covering medical expenses starting on Jan. 1, 1995.

That early effective date would cause havoc for employers with flexible benefit plans operating on a calendar-year basis. Typically, employees choose the health plan they want and how much they want to allocate to FSAs during open-enrollment periods that employers offer sometime in the fall.

If Congress passes health care reform legislation and includes the House's Jan. 1 effective date to eliminate funding medical benefits through flexible benefit plans, that will give employers virtually no time to redesign their benefit programs and inform employees of the changes. BI

Congress

Continued from page 2

And last week, reversing an earlier pledge to keep the Senate in session until it passed reform legislation, Majority Leader George Mitchell, D-Maine, agreed to recess until after Labor Day.

Even when the Senate was meeting, it wasn't making any progress on a reform package developed by Sen. Mitchell. Two weeks of debate on the Senate floor produced dozens of often show-boating speeches and seemingly endless charts expressly prepared for the home audience watching the debate on C-SPAN.

But as for substantive progress on the Mitchell bill—there wasn't any. Only a handful of amendments passed before the Senate shifted its attention to crime legislation, which then consumed its time until recess.

With no more than six weeks to go before the 103rd congressional session comes to an end, it appears more and more likely that time will run out before Congress can come to an agreement on fashioning a health care reform bill.

"I think we are within a few days of putting the whole health care issue to bed for the year," said Sen. Bob Kerrey, D-Neb.

"Time is ticking away," said Senate Minority Leader Robert Dole, R-Kan.

There is no sign that an agreement on health care reform legislation is near. It is widely recognized that neither the Mitchell bill nor a proposal in the House by Majority Leader Richard Gephardt, D-Mo., have anywhere near enough votes to pass.

Still, even at this late date, it would be premature to totally rule out passage of health care reform legislation this year.

On many occasions, legislative proposals have been declared dead only to be suddenly rescued at the last moment. Tax reform legislation, for example, was pronounced dead more times than can be remembered. But, despite many brushes with death, it survived and was enacted into law in 1986.

Still, congressional leaders already are sending out signals that the most that may be passed this year is so-called incremental health care reform legislation.

This would include such measures as barring or restricting certain underwriting practices, like denying coverage for pre-existing medical conditions. Consideration of more substantive reforms, like ensuring that most of the population has health insurance, would be delayed until next year.

If a consensus can't be reached on a comprehensive health care reform bill, then the options facing Congress would be to agree on a package that takes an initial step toward universal coverage or start anew next year, said House Speaker Thomas Foley, D-Wash.

While the thought of another year of debate on health care reform legislation is probably too much to bear for some people who have grown weary of speeches, predictions, hearings, proposals, press conferences and often misleading advertisements, it wouldn't be surprising if Congress returned to health care reform next year.

More often than not, years of discussion and consideration take place before the enactment of far-reaching social legislation. For example, nine years passed between the presentation of a presidential report calling for the enactment of comprehensive pension reforms and the passage of the Employee Retirement Income Security Act of 1974.

Some senators, though, are making at least one more effort toward developing a consensus on a health care reform package that can pass this year.

The co-leaders of a bipartisan health care coalition—Sens. John Chafee, R-R.I., and John Breaux, D-La.—continue to refine a reform package.

Under their latest package, employers would be required to offer their employees a choice of three health plans, one of which would have to be either a traditional fee-for-service plan or a point-of-service plan.

That is in contrast with Sen. Mitchell's proposal, which would require employers to offer both of those plans plus a health maintenance organization option.

The still-evolving package by the so-called mainstream coalition also generally would limit employers' tax deduction for a federally defined standard health care package to no more than 110% of the average cost of plans in the area where the employer operates. In addition, starting in 2000, employers no longer could take a tax deduction for the cost of supplemental plans that cover certain deductibles and copayments. However, the employers' costs would be added to their employees' taxable income.

While senators say a cap on employer tax deductions for health care contributions would give companies incentives to look for ways to reduce the cost of health care, a major employer benefits lobbying organization labeled that assumption as absurd.

"The notion that tax deductibility makes employers insensitive to the rising cost of health care and removes any incentive they have to contain costs is patently absurd," said Mark Ugoretz, president of the ERISA Industry Committee in Washington.

"Employers would not have clamored for reform and demanded that its first objective be cost containment if they were insensitive to the crisis of runaway health inflation." BI

Confed

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renewal, he said.

Meanwhile, U.S. and Canadian regulators last week were working to sell—or otherwise decide how to handle—other blocks of Confed's business.

Several large Canadian insurers have submitted bids to take over Confed's Canadian group life/health business, including Great-West, Sun Life Assurance Co. of Canada and the Canadian operations of Metropolitan Life Insurance Co., sources familiar with the bidding say. A decision awarding the Canadian business is expected this week.

Sun Life has already acquired Confederation U.K. Holdings P.L.C., Confed's U.K. subsidiary.

In the United States, Confed's remaining business includes roughly $2.3 billion in guaranteed investment contracts, $1.5 billion in structured settlement annuities and $1.7 billion in corporate-owned life insurance.

No decisions regarding these blocks of business had been made last week, and observers said it may be weeks or months before questions regarding the GIC business in particular are worked out.

Canada's Superintendent of Financial Institutions took over Confed and a subsidiary, Confederation Trust Co., earlier this month amid concerns that losses in its real estate and mortgage portfolio had damaged Confed's liquidity (*BI*, Aug. 22).

The Insurance Department in Michigan, Confed's entrypoint in the U.S. market, also stepped in as rehabilitator of Confed's sizable U.S. operations, along with regulators in Georgia, where the insurer's Confederation Life Insurance & Annuity Co. unit is based.

Both U.S. and Canadian regulators expressed a desire to avoid the kind of run on the bank that characterized the 1991 failures of Mutual Benefit Life Insurance Co. and Executive Life Insurance Co.

A committee of Confed GIC holders, meanwhile, has been formed to follow the management of the U.S. GIC business by rehabilitators.

Confed GICs are widely held among GIC investors, but they make up only a small percentage of most diversified GIC funds, amounting to less than 10% of the funds of even the largest investors, noted Murray Becker, a principal of Becker & Rooney Inc., a GIC consultant and investment manager in Teaneck, N.J.

GIC investors could face reduced interest rates or extended maturity dates on their Confed contracts. However, several observers believe the GIC holders will emerge whole, or close to it.

Harry Gross, a partner with Kwasha Lipton in Fort Lee, N.J., said his clients are now trying to decide whether to indemnify employees for any eventual losses related to the Confed GICS.

The biggest argument against indemnification, though, is that it might set a precedent for future investment losses, he explained.

GIC managers with positions in Confed GICs include Fidelity Management Trust Co. of Boston. One Fidelity client, Coors Brewing Co. of Golden, Colo., confirmed that it has two Confed group annuity contracts representing 4.53% of the fixed fund offered its employees as a 401(k) investment option.

Coors has no idea yet whether it will actually lose money on its Confed contracts, a spokesman said.

Aluminum Co. of America is also a Fidelity client with Confed GICs. The GICs comprise 7.7% of its 401(k) plan's fixed-income fund option, a spokeswoman for the Pittsburgh company said. ALCOA has frozen the Confed portion of the fund in a separate account. BI

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