NEWSPAPER

AUGUST 30, 1993

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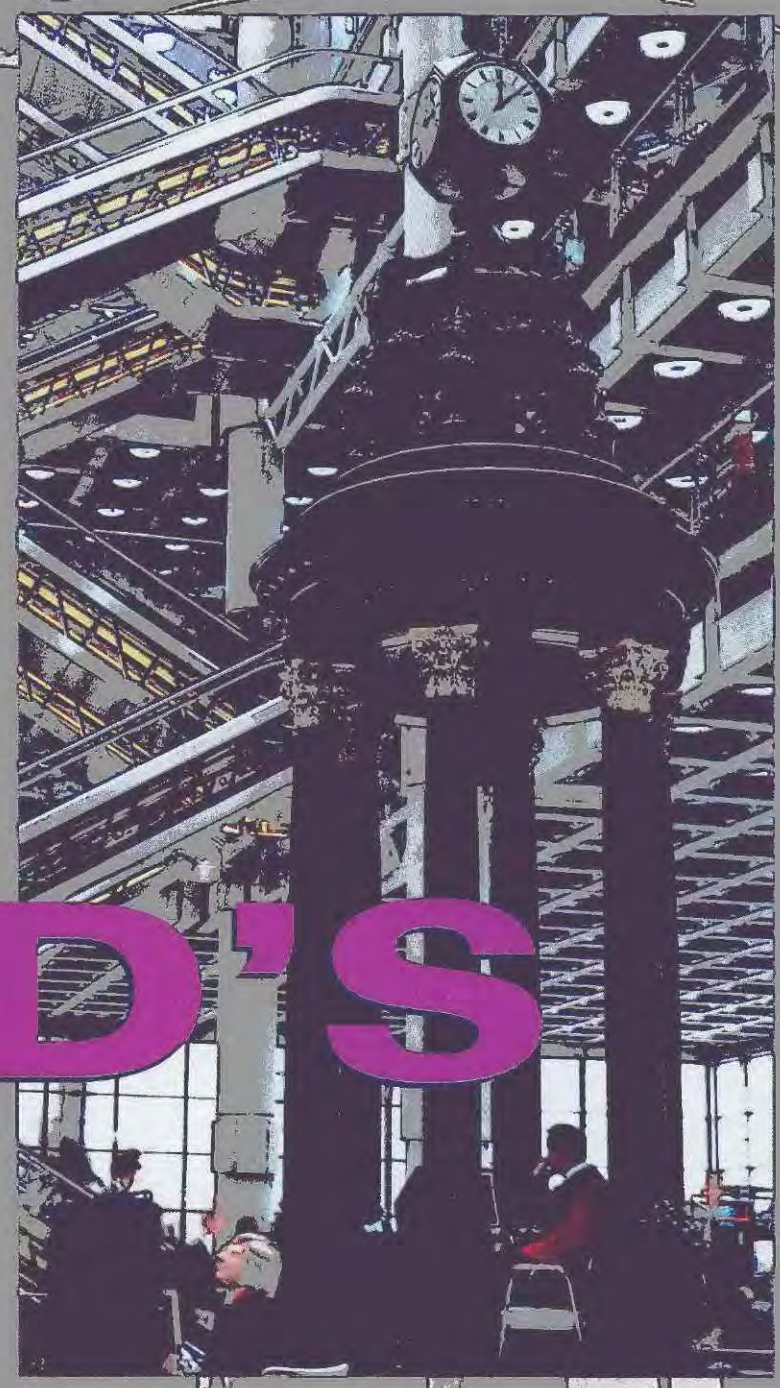
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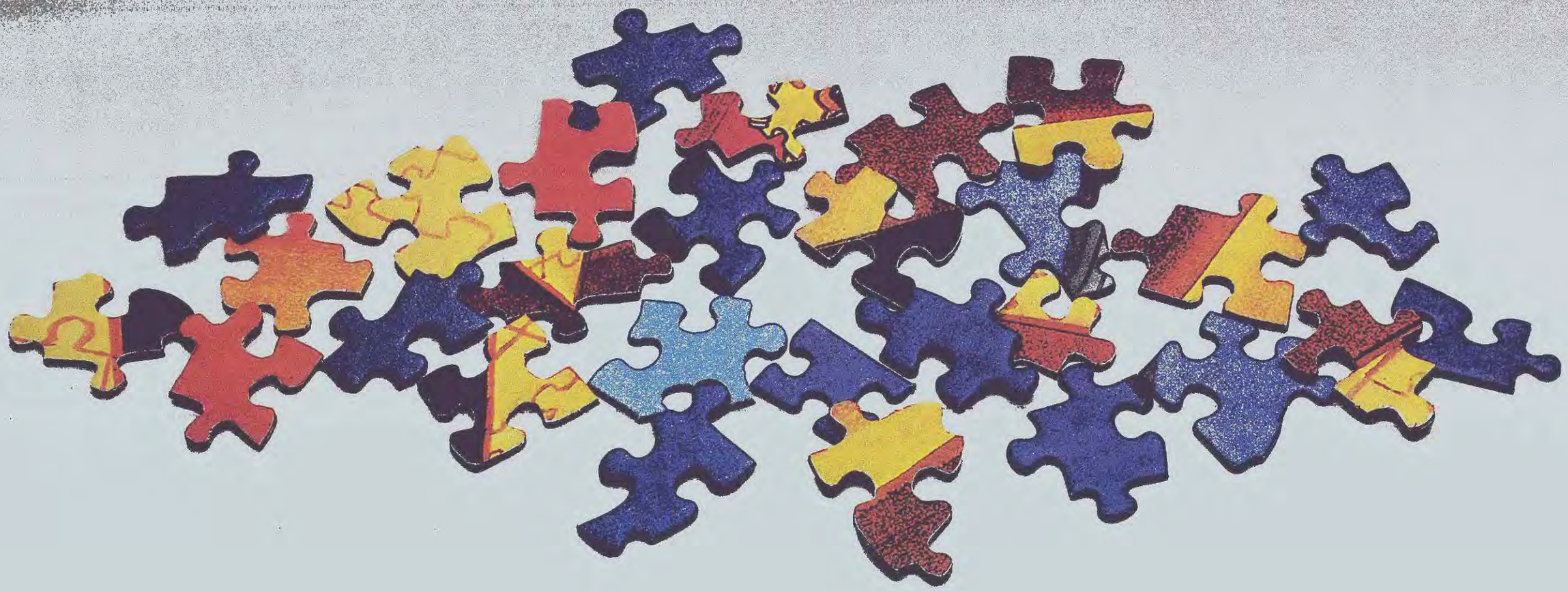
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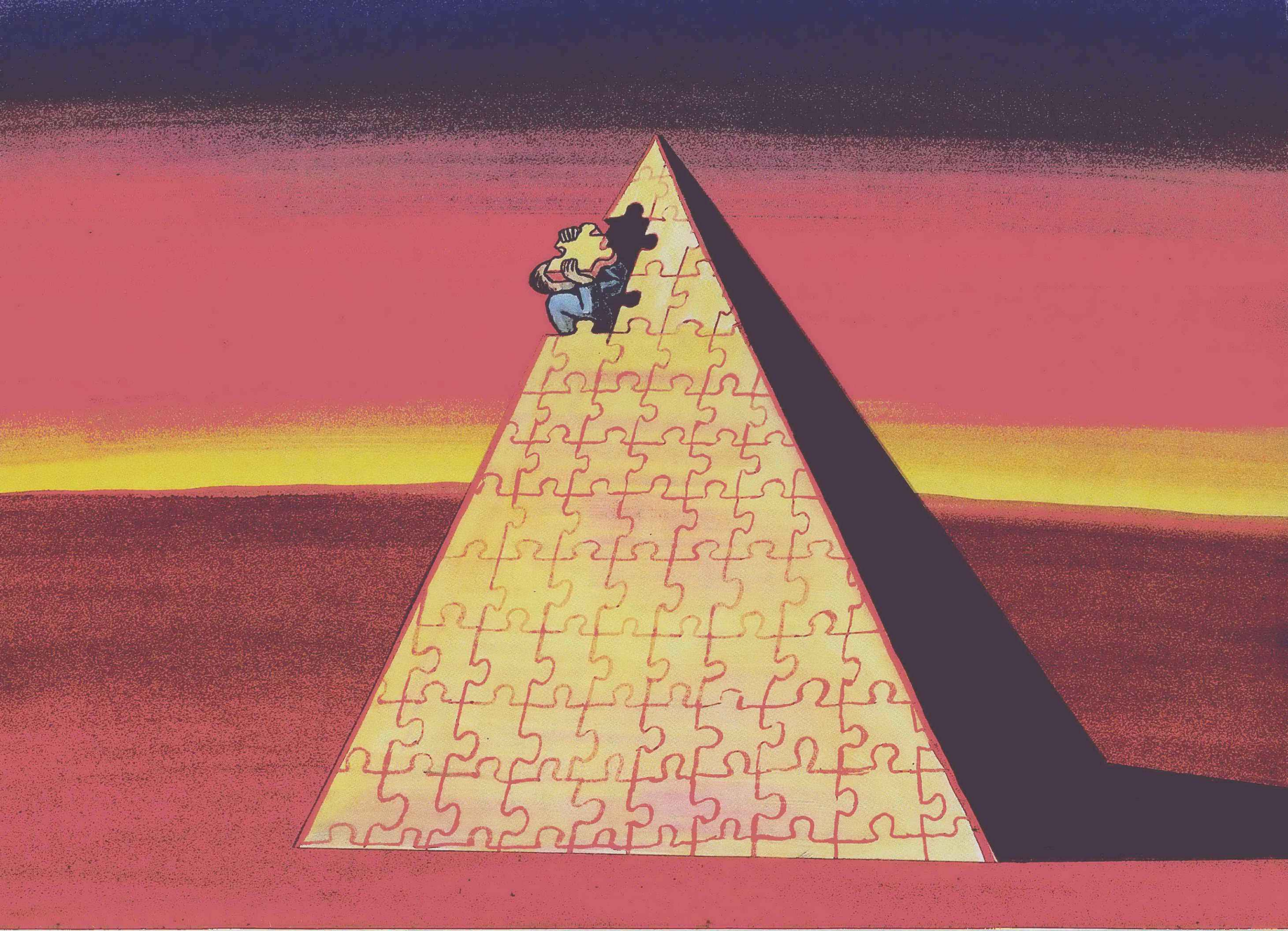
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You See a Puzzle





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Update

3 more catastrophe reinsurers to be formed in Bermuda

HAMILTON, Bermuda—Three new Bermuda property catastrophe reinsurance facilities are preparing to join a growing crowd of new players in the cat market.

One facility, dubbed Partner Re, is being formed by New York-based Head Insurance Partners L.P. and Swiss Reinsurance Co., industry sources say. Partner Re is aiming to raise between $300 million and $500 million in initial capital, with Head Insurance Partners contributing about $25 million and Swiss Re more than $100 million.

Continued on next page

Acordia to buy ABI, join Top 10

By SALLY ROBERTS

INDIANAPOLIS—Acordia Inc., which broke into the ranks of the world's 20 largest brokers less than two years ago, will jump into the Top 10 by acquiring nearly all of American Business Insurance Inc.'s operations.

The deal also will substantially strengthen Acordia's property/casualty brokerage business, while giving it a nationwide spread of offices.

The acquisition, announced Thursday, follows months of widespread rumors that Great American Insurance Group Inc., ABI's parent, had put its brokerage unit on the block (*BI*, May 17).

The acquisition would create the world's ninth-largest insurance brokerage with combined 1992 revenues of $323 million.

Under the agreement, Acordia will acquire ABI operations that generated $116 million in 1992 revenues for a total of $130 million in cash, common stock and warrants. The deal is expected to close on Oct. 1.

Currently, Acordia ranks as the world's 13th-largest broker based on $207.2 million in 1992 revenues, while ABI ranks 17th based on $126.5 million in 1992 revenues (*BI*, July 5).

The acquisition is "a good transaction for both sides," contends John L. Ward, chief executive officer of Ward Financial Group, an investment banking and management consulting firm in Cincinnati.

"Because there is a fair amount of Acordia stock involved, American Financial must think there is an upside potential over the long term of the relationship," he said, referring to American Financial Corp., Great American's parent.

The acquisition "makes an awful lot of sense," said Stephen Leaman, ABI's president and chief executive officer, noting that Acordia primarily is a health insurance broker while ABI primarily is a property/casualty broker. "It's an excellent fit."

Acordia and ABI both have small corporate staffs, with most

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Pollution ruling benefits insurers and policyholders

By MICHAEL SCHACHNER

PHILADELPHIA—Polluters and their liability insurers stand to save hundreds of millions of dollars under a recent federal appellate court ruling that says the federal government cannot bill private companies for the cost of overseeing private pollution cleanups.

The ruling by the 3rd U.S. Circuit Court of Appeals marked the first time a federal appeals court has ruled on whether the Superfund law entitles the Environmental Protection Agency to be reimbursed for overseeing private pollution cleanups.

Oversight accounts for an estimated 10% to 25% of all cleanup costs.

At stake in *U.S. vs. Rohm & Haas Co.* was at least $401,000 the EPA had spent overseeing the cleanup of a Pennsylvania dump site under the federal Resource Conservation and Recovery Act of 1976, or RCRA.

The government had argued that the Superfund law—formally known as the Comprehensive Environmental Response, Compensation and Liability Act—authorizes the EPA to be reimbursed for all its past and future costs connected with toxic waste removal, even projects done under the RCRA.

Rejecting that argument, the 3rd Circuit held in its Aug. 12 ruling that Congress intended to permit the government to recover costs when the EPA is directly involved in the "removal or remediation" of waste. Investigation, evaluation, monitoring of waste release and actual waste removal would be compensable.

But when the EPA is not directly involved in the actual cleanup or in monitoring the release of a contaminant, it cannot recover oversight costs like consulting fees and administrative costs, the court ruled.

In the Rohm & Haas case, the agency merely monitored private-party cleanup efforts.

"Given the context in which CERCLA was enacted, we find it highly significant that Congress omitted any mention of oversight," Judge Walter K. Stapleton wrote for the three-judge

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Targeting health risks

Employers help workers break their bad habits

By DAVE LENCKUS



John Bubba, a 47-year-old distribution dispatcher with Florida Power & Light Co., lowered his blood pressure, lost 40 pounds and takes three-mile walks four times a week.

He has missed fewer workdays due to colds and flu in the past year, and he feels more energetic.

Roz Lurie, a 53-year-old computer systems analyst in the utility's nuclear division, lowered her blood pressure and reduced her dress size to an 8 from a 12 this year.

Now able to tolerate a workout in the hot Florida sun, she is playing tennis regularly again.

A male employee at Graham Energy Services Inc. of Covington, La., has substantially reduced his blood pressure since being hospitalized for hypertension, which was first detected during a worksite checkup.

A nurse told Graham's benefit manager that she had seen other patients die because of blood pressure levels lower than the employee had.

All of these workers have changed their lifestyles—and improved their health—after participating in employer-sponsored programs designed to identify and reduce serious health risks.

These so-called individual intervention programs, which more employers are adopting, are

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Poor profits, shareholder scrutiny limit CEO raises

By SALLY ROBERTS

The dismal profits reported by commercial insurers and reinsurers in 1992 coupled with greater scrutiny of executives' paychecks is holding down raises for many insurance industry chief executive officers.

The average cash compensation—base salary and bonus—of commercial insurer and reinsurer CEOs rose 5.7% in 1992 to $1,012,935 from $958,162 in 1991, according to a *Business Insurance* survey of proxy statements.

New Securities and Exchange Commission proxy rules, which increased disclosure of executive pay but changed how some companies report compensation to shareholders, make comparisons with previous years' rankings difficult.

The slow growth in executive pay can be attributed to heightened awareness by shareholders, the SEC and the general public of the size of executives' paychecks, consultants say. As a result, insurers' compensation committees more than ever are attempting to base raises on corporate performance.

"Compensation boards are becoming more sensitized to the idea that they are not to be a rubber stamp to corporate demands," said A.C. Zucaro, CEO of Chicago-based Old Republic International Corp. They are taking a "cold, hard look into (executives') contributions" to the company when considering pay raises, he said.

And, since "the insurance industry has not done very well in the last couple of years, (CEOs) don't deserve any more than they got," he added.

Mr. Zucaro's raise, however, was much better than the aver age insurer CEO's: He received a $428,367 base salary and a $350,000 bonus in 1992 for a total cash compensation of $778,367, a 22.2% increase from 1991.

Old Republic's net income rose 33.4% last year, which also was out of the ordinary: Net income among the 34 surveyed insurers fell 33.1% to $153 million from

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Update

New catastrophe facilities

Continued from previous page

A John Head & Partners official declined to comment. Herbert Haag, a Swiss Re official said to be involved in the formation, could not be reached in Zurich.

In addition:

• SCOR S.A. of Paris is working with French investment bank Banque Paribas to raise between $200 million and $350 million to capitalize Compass Re, another new cat facility.

SCOR President Jacques Blondeau said Compass Re should be underwriting by Jan. 1 and SCOR will contribute $30 million to $35 million, for about a 10% to 15% stake.

Francois Bertrand, a former vp-reinsurance at Manufacturers Life Insurance Co. in Toronto, is a candidate to head Compass Re.

• Reinsurance Australia Corp. Ltd. is being sponsored by Barclays De Zoete Wedd Australia Ltd. and is seeking capital of $200 million Australian to $300 million Australian ($133.8 million to $200.1 million). The company, which will write property and other excess-of-loss business, expects to begin underwriting in time for year-end renewals. Mike Kelly, formerly of Kemper Reinsurance London Ltd., will be managing director and senior underwriter.

Meanwhile, CentreCat, a Bermuda company formed earlier this year by Centre Reinsurance Holdings Ltd., is looking to raise at least $300 million in initial capital (*BI*, June 21).

Court rejects Texas TPA law

NEW ORLEANS—A Texas law regulating third-party administrators cannot be enforced against firms handling claims for ERISA plans, the 5th U.S. Circuit Court of Appeals has ruled.

Masco Industries Inc., a Taylor, Mich., manufacturer, and NGS American Inc., a Michigan TPA that administers Masco's health plan in Texas, sued to bar enforcement of the Texas law requiring TPAs to be licensed, pay a special tax and follow detailed administrative procedures.

Affirming a lower federal court, the Aug. 20 ruling rejected the state's argument that the TPA law was a valid regulation of insurance.

"(The Texas law) imposes significant burdens on administrators of ERISA-governed employee benefit plans," said the three-judge panel. "It is these burdens of complying with conflicting state regulations that Congress sought to eliminate by enacting" the Employee Retirement Income Security Act.

The 5th Circuit said its ruling does not preclude regulators from enforcing the law against TPAs handling claims under any non-ERISA plan.

Reinsurers' combined ratios up

WASHINGTON—U.S. reinsurers' combined ratios deteriorated by a percentage point during the first six months of 1993 compared with the same period a year earlier, according to a survey by the Reinsurance Assn. of America.

According to the RAA, the combined ratio for a group of more than 50 reinsurers stood at 107.3% during the first half of 1993, compared with 106.3% for a similar group of reinsurers during the first half of 1992. According to Ronald Bornhuetter, chairman and chief executive officer of NAC Re Corp. and the RAA's chairman, the "unsatisfactory combined ratio results continue to reflect both the high level of catastrophic events in the period as well as soft market conditions."

The reinsurers wrote net premiums of $6.4 billion during the first half, up 11.7% compared with the first half of 1992.

St. Paul to appeal big verdict

ST. PAUL, Minn.—St. Paul Fire & Marine Insurance Co. says it will appeal a jury verdict ordering it to pay up to $124 million—including $100 million in punitive damages—for reneging on a deal to provide bonds to Arntz Contracting Co.

The award by the Contra Costa County, Calif., jury also includes $16.5 million in compensatory damages, which may be expanded to include $7.5 million in interest and court costs.

St. Paul agreed in 1980 to provide Novato, Calif.-based Arntz bid and performance bonds for public works projects, including a Richmond Housing Authority project in 1982.

The housing authority terminated Arntz's contract in 1985, saying its work was unacceptable. St. Paul took over the $4.7 million contract after Arntz agreed to post $1 million in collateral to cover the insurer's costs for taking over the project. In return, St. Paul agreed to write bonds for other Arntz projects.

But St. Paul kept the collateral payment and refused to write additional bonds, said Stephen Miller, a Kansas City, Mo., attorney representing Arntz. In addition, the insurer sued Arntz in 1986 for the cost of tearing down the contractor's work on the housing project.

Arntz countersued, charging breach of contract and claiming it could not get further public works business because St. Paul's actions discouraged other insurers from writing bonds for the firm.

Updates continued on page 70

Errors and Omissions

At least one alternative workers compensation product being sold in Louisiana may meet statutory requirements, subject to limitations set forth in the policies. A state regulator previously said that all such policies contained caps on benefits. Policies with caps would not meet statutory requirements (*BI*, Aug. 2).

Profits for health insurers may lead to rate relief

By NANCY P. JOHNSON

Group life/health insurers' good first-half underwriting results may have an effect—albeit a modest one—on the pace of health insurance premium increases.



Despite good claims experience and declining medical inflation, insurers remain nervous about what form national health reform will take, though they may be growing less cautious about pricing.

Because of moderating utilization, enrollment moving from indemnity plans to managed care plans and cooling medical inflation, insurers "have done well, and they are being a little less conservative in their trend factors, knocking one to two points off when setting 1994 rates," said Harvey Sobel, a principal and actuary with William M. Mercer Inc. in New York.

Most insurers posted improved earnings from life/health operations compared with last year, attributing those results to aggressive cost controls and better underwriting.

Slower health care inflation has also played a role. For the first six months of 1993, the Bureau of Labor Statistics reports that the medical care component of the Consumer Price Index rose 6.3% on an annualized basis, compared with a 7.8% increase for the same period last year. Meanwhile, the overall CPI rose

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Reform law not a panacea

Not all California comp problems solved

By LOUISE KERTESZ

LOS ANGELES—California's new workers compensation law falls far short of being a total cure for the state's ailing $11 billion-a-year system, experts say.

Many business and labor groups cheered last month when Gov. Pete Wilson signed the law, which couples higher benefits for injured workers with cost-cutting restrictions on stress claims, vocational rehabilitation and medical-legal reports.

But the law is "not a complete step" toward correcting a system plagued by fraud and abuse, said Insurance Commissioner John Garamendi.

Critics are pointing out what they see as the law's weaknesses.

"I think it's important that employers—despite the hoopla that might be coming out of Sacramento—be realistic and keep in mind what was not accomplished despite the reforms," David Faustman, a lawyer who specializes in labor and employee benefits issues, said at a panel discussion that broker Johnson & Higgins sponsored last week for employers.

"The savings are somewhat speculative while the benefit in-

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States tighten regulations

Work comp stress claims decline

By MEG FLETCHER

Relax: Mental stress claims peaked six years ago and have since been declining as a percentage of overall workers compensation claims.

After increasing in both frequency and cost from 1979 to the mid-1980s, mental stress claims have tailed off significantly in recent years, reports the National Council on Compensation Insurance in a claims study.

"This new study should explode the myth that workers compensation is being overwhelmed by claims for job-related stress," said William D. Hager, president of the insurer-supported group based in Boca Raton, Fla.

Stress claims rose from two claims per 1,000 workers comp claims in 1979-1981 to a peak of 3.5 in 1986-1987, before dropping to 1.4 in 1990, the NCCI reported. More recent numbers were unavailable.

Total loss costs for mental stress claims in the 10 states studied peaked at $14.6 million in 1987, falling over the next three years to $3.7 million in 1990.

Notably missing from the study is California, where until recently mental stress claims surged under liberal workers comp laws (see story, page 69).

Psychiatric disabilities that

Continued on page 69

Captive premium deductions denied

By JERRY GEISEL

WASHINGTON—Premiums paid to an offshore group captive that maintained separate policyholder accounts essentially controlled by the policyholders are not deductible as business expenses, the U.S. Tax Court has ruled.

Premiums paid to such a captive create a distinct asset—the policyholder account—and thus are non-deductible capital expenditures, the court said.

In the case before the Tax Court, a full deduction would not have been permitted even if the parent-captive transaction was an insurance arrangement. That's because the court ruled that premiums paid to the captive did not relate to the risks faced by the company in the year the premiums were paid.

In view of the facts of the case, the ruling is not surprising, said Robert Dumont, a lawyer with Baker & McKenzie in New York who specializes in captive taxation.

The Aug. 3 decision—especially the finding that the policyholder account was a distinct asset of the policyholder—could lead to more Internal Revenue Service challenges of premium deductibility if captives main-

Continued on page 70

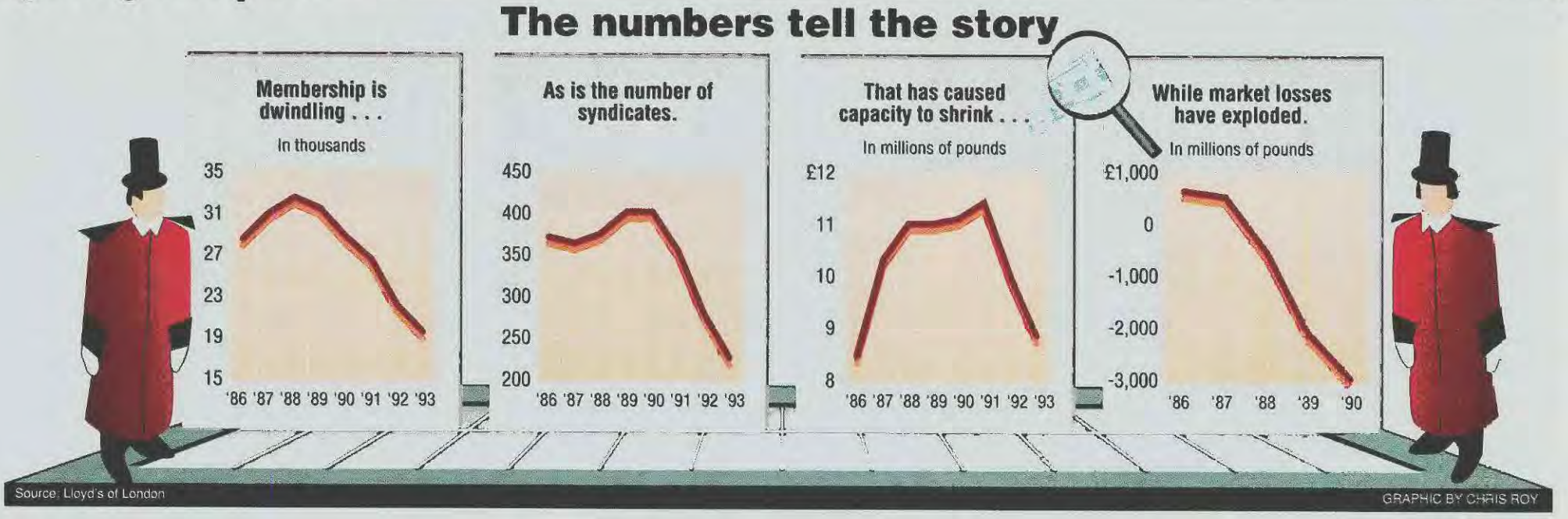
Inside

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- James N. Chett gives tips for selecting a claims administrator in Perspective. **PAGE 40**
- Short-term prospects are not bright for global reinsurers, a Standard & Poor's study says. **PAGE 57**
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- Political risk and export credit insurers aren't alarmed about Saudi Arabia's financial condition. **PAGE 65**
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Is time running out for Lloyd's?

Leaders hope new strategies will reverse slide

By STACY SHAPIRO

It's crunch time at Lloyd's of London as the market copes with the devastating problems of its past and braces itself to meet an uncertain future.

Executives are scurrying to implement radical changes to the 305-year-old marketplace to ensure its survival. These ideas, proposed earlier this year as part of Lloyd's first-ever business plan, include:

- The introduction of limited-liability corporate capital next year in response to the flight of capital from individual members with unlimited liability (see story, page 21).
- The segregation, or "ringfencing" as it is called at Lloyd's, of all pre-1986 syndicate accounts that remain open into a new market-owned reinsurer, dubbed NewCo., by 1995 (see story, page 18).
- The extensive use of mutual fund-like vehicles—Members Agency Pooling Agreements, or MAPAs—that automatically spread participating members' investments among a cross-section of syndicates, thereby spreading their risk. MAPAs could account for as much as three-quarters of Lloyd's 1994 capacity (see story, page 53).

However, at the same time as they are implementing these steps, Lloyd's officials must cope with the consequences of gargantuan past losses. The market lost as much as 6.5 billion pounds ($9.85 billion) between 1988 and 1991, according to Lloyd's.

These losses, coupled with the uncertainty of the future, have led 198 syndicates to keep open 319 years of account. The total capacity in runoff, 7.9 billion pounds ($11.9 billion at current exchange rates), now comes close to equaling this year's underwriting capacity of 8.88 billion pounds ($13.45 billion).

The huge losses faced by these and other syndicates have led as many as 20,000 members organized into 30 action groups to sue members agents and managing agencies and to blame Lloyd's for mismanagement.

Two Lloyd's panels now are studying whether a global settlement of this litigation is feasible. A plan could be released this autumn (see story, page 10).

In the meantime, however, some members are threatening not to pay cash calls due in September for their portion of the record 2.92 billion pounds ($4.42 billion) in losses incurred in the 1990 underwriting year, the most recent to close under Lloyd's three-year accounting system. If they refuse or are unable to pay, many syndicates could face a liquidity crisis later this year.

The balancing act between the dismal past and hopes of a bright future rests on the shoulders of Lloyd's first paid, full-time chairman, David Rowland, and the market's chief executive, Peter Middleton.

Mr. Rowland, who assumed the top spot at Lloyd's at the beginning of this year, is blunt about Lloyd's problems and the market's chances for survival.

"It's ridiculous to say that Lloyd's has an absolute certainty to go forward from strength in the future," he said. "I have an absolute belief that it will, but goodness knows, look at the problems we are facing. People give us more respect, more credibility to our cause if we are realistic about the dangers and the risks."

Still, "I think some people have trust and faith and believe our plans are sensible, and we will get to the other side," he says.

Messrs. Rowland and Middleton were given a mandate to continue on their current course when members voted 2-to-1 in favor of the business plan in resolutions debated at an extraordinary general meeting last month (*BI*, July 12).

Most people in the market—even the critics—think Lloyd's will survive, though not in the same form as in the past.

"It's going to be very different," summed up Robin A.G. Jackson, a respected and now-retired Lloyd's underwriter who is chairman of CentreWrite Ltd., a runoff reinsurer established by Lloyd's.

For starters, the market will be smaller, Mr. Jackson

Continued on next page

World's largest reinsurers

Munich Re still atop multinational group

For the fifth consecutive year, Munich Reinsurance Co. tops *Business Insurance's* ranking of the world's largest reinsurers, based on $8.33 billion in net reinsurance premiums written.

Second-ranked Swiss Re Group tallied $6.12 billion in net reinsurance premiums written.

Together, Munich, Germany-based Munich Re and Zurich, Switzerland-based Swiss Re account for more than one-third of the $42.33 billion in net reinsurance premiums written by the world's 20 largest reinsurers. That total was up 17.2% from $36.13 billion written by the same 20 companies the previous year.

Third-ranked Assicurazioni Generali S.p.A. tallied $3.2 billion in premiums written. The Trieste, Italy-based company ranked No. 4 last year.

For the first time in the five years that *Business Insurance* has ranked international reinsurers, no U.S.-based company ranks among the top three.

Eight countries are represented in the Top 20, with Germany and the United States each being home to five of the leading reinsurers. Three companies are based in Japan, two each in France and Switzerland, and one each in Italy, Sweden and the United Kingdom.

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 $9.96 billion in gross reinsurance premiums written in 1990, the last year closed under Lloyd's three-year accounting system. That total includes reinsurance premiums paid by Lloyd's syndicates to other syndicates.

Lloyd's could not provide net reinsurance volume. Even excluding inter-syndicate reinsurance, Lloyd's $7.69 billion in gross reinsurance volume still would place it among the largest reinsurers.

Financial reinsurer Centre Reinsurance Co. of Bermuda also is not included in the ranking because it accounts for premiums paid for reinsurance to cover prior underwriting years on its balance sheet and not as premiums written.

Business Insurance ranks 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 responded 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 55.

The fifth annual *Business Insurance* directory of international reinsurers begins on page 58.

World's largest reinsurers

All amounts in thousand of dollars

Reinsurers	Net reinsurance premiums written 1992
Munich Reinsurance Co.	$8,327,143
Swiss Re Group	6,124,950
Assicurazioni Generali S.p.A.	3,199,416
Employers Reinsurance Group	3,101,080
Cologne Reinsurance Co.	2,433,814
General Reinsurance Co.	2,348,800
Hannover Eisen & Stahl Reinsurance Co.	2,086,573
The Mercantile & General Group Ltd.	1,804,183
Frankona Reinsurance Co.	1,700,494
SCOR S.A.	1,596,861
Gerling Global Reinsurance Group	1,492,847
Skandia Insurance Co. Ltd.	1,399,736
American Re-Insurance Co.	1,020,356
The Tokio Marine & Fire Insurance Co. Ltd.	984,634
Winterthur Swiss Insurance Co.	973,760
AXA Reassurance	945,172
Prudential Reinsurance Co.	808,917
The Toa Fire & Marine Reinsurance Co. Ltd.	733,024
The Yasuda Fire & Marine Insurance Co. Ltd.	642,546
Berkshire Hathaway Insurance Group	607,152
TOTAL	$42,331,457

Source: *BI* survey

GRAPHIC BY JOHN HALL

Lloyd's plan

Continued from previous page
pointed out.

Indeed, the total number of syndicates dropped 18.3% to 228 this year from 279 last year (see chart, page 3). Next year, that number is expected to plunge to 150, a Lloyd's spokesman said.

The total number of active members in the market fell by 12.2% to 19,537 this year from 22,259 in 1992 and by 39.8% from the record of 32,433 in 1989.

Capacity also declined 11.6% this year to 8.88 billion pounds ($13.4 billion) from 10.05 billion pounds ($18.79 billion) a year ago.

Capacity is expected to total about 8.5 billion pounds ($12.89 billion) next year, Mr. Middleton said.

But, a smaller market may not necessarily be a weaker market.

"I happen to think that 100-plus syndicates makes much more sense than 400-plus syndicates," said Mr. Jackson. "I don't think there are 400 people capable of running a syndicate and therefore I've always been in favor of rationalization," he said.

The future of Lloyd's depends on three factors, he said:

- Whether Lloyd's can successfully "ringfence" liabilities from past years into NewCo.
- A settlement of most of the members' litigation "as soon as possible."
- And, last but not least, "underwriters have got to make money."

"If underwriters can't make money in 1992, 1993 and 1994," a period of rising rates at Lloyd's, "then they should be fired—the whole lot of them," he said.

'If underwriters can't make money in 1992, 1993 and 1994,' a period of rising rates at Lloyd's, 'then they should be fired—the whole lot of them,' says Robin A.G. Jackson, chairman of Lloyd's runoff reinsurer, CentreWrite Ltd.

The chances of Lloyd's failure increase if the market takes only one of these steps, he added.

"I think that Lloyd's will survive in some form," said Kenneth Randall, chairman of Randall Insurance Services Ltd., which is managing the runoff of loss-riddled syndicates formerly managed by Gooda Walker Ltd. However, "I would be very surprised if there were significant amounts of corporate capital in the near term. In the near term, Lloyd's will depend on existing members (for capacity)."

In the future, Lloyd's will find a way to bring corporate capital into the market, "which would be a jolly good thing," Mr. Randall said. But since Lloyd's must depend on its existing membership for its capital at the moment, it should "stop treating them like the enemy."

Some disgruntled members who are facing personal bankruptcy would rather see Lloyd's liquidate than work through its problems (*BI*, May 31).

Many members also believe that they are being shunted aside and forced to suffer seemingly endless losses so the market can be sold cheaply to corporate investors whose liability will be limited, Mr. Randall said.

"A name who is potentially bankrupt would be much less concerned about the ongoing reputation and trading of Lloyd's than the (Lloyd's) Council is," he said. "And I think that's a big problem for Lloyd's as it heads on with the business plan because of this lack of community of interest."

Mr. Randall said many members "distrust" the Lloyd's business plan because it addresses Lloyd's future but does not specifically address members' existing problems.

"I believe Lloyd's has to survive," he said. "That is in the in-

Continued on page 6



Making sense of Lloyd's currency conversion

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 1990 underwriting year closed on Dec. 31, 1992, Lloyd's uses the year-end 1992 exchange rate of $1.515 to convert its 1990 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 1991 underwriting year, Lloyd's uses the year-end 1991 exchange rate of $1.87.

When the 1991 underwriting year closes at the end of this year, Lloyd's will then use the year-end 1993 exchange rate to convert its 1991 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 the capacity is actually set. For example, to calculate syndicates' 1993 capacity, Lloyd's uses the year-end 1992 exchange rate of $1.515 to convert pounds into dollars. Under this formula, 1993 gross capacity of 8.88 billion pounds totals $13.45 billion.

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Lloyd's plan

Continued from page 4

terests of the existing members in ameliorating the cost base; of keeping the good people around to manage (the members) through this difficult period; and so people can trade through. That's a wholly sensible objective. But it should be done with the view of doing it (for the benefit) of the existing membership and not because it's in the interests of the brokers and/or the managers of the marketplace."

"I don't believe anybody's interests are served other than by having a prosperous future," agreed Mr. Rowland, who was chairman of Sedgwick Group P.L.C., the world's third-largest insurance broker, before becoming Lloyd's chairman. "Everybody is better off if we can get prosperity for Lloyd's in the future. So we must devote tremendous energy to make the market efficient, to see that it is properly regulated and we get the right competitive edge and deliver the products our clients want with a promise to pay that they believe in."

"We will only get the confidence of the names of Lloyd's when we put the losses behind us and start earning profits," added Mr. Middleton.

As for the charge that Lloyd's is being sold off cheaply, "I'd willingly sell Lloyd's for the best price I could get for it to any new capital coming in from any point," Mr. Rowland said. "But it ain't like that. We're a business that needs to be fed new capital in the future, just like any other, and the price is dictated by the conditions of the market and the people who come into Lloyd's and see it as an attractive investment. If we push the entry price too high, they won't come in."

Largest Lloyd's syndicates

Based on 1993 gross allocated capacity in millions of pounds

Syndicate	Managing agency	Underwriter	1993 capacity		1990 profit	
Marine 488	Charman Underwriting Agencies Ltd.	J.R. Charman	£200.0	$301.5	£15.4	$23.3
Non-Marine 362	Murray Lawrence & Partners Ltd.	R.J. Keeling	192.2	291.1	6.6	10.0
Motor 979	Cuthbert Heath Underwriting Ltd.	D.A. Wiley	190.6	288.7	3.7	5.6
Marine 861	Brockbank Syndicate Management Ltd.	M.E. Brockbank	189.7	287.5	3.3	5.0
Non-Marine 33	Hiscox Syndicates Ltd.	I.N. Thomson	175.4	265.7	8.8	13.3
Marine 406[1]	Wellington Underwriting Agencies Ltd.	I.C. Agnew	160.7	243.4	(40.8)	(61.8)
Non-Marine 510	R.J. Kiln & Co. Ltd.	G.D. Gilchrist	157.9	239.2	5.7	8.6
Motor 218	Christopherson Heath Co.	D.R. Heath	153.6	232.8	11.3	17.1
Marine 418[2]	Merrett Underwriting Agency Management Ltd.	S.R. Merrett	150.9	228.7	(66.9)	(101.4)
Marine 79	Janson Green Ltd.	J.R. Youell	150.7	228.2	(2.5)	(3.8)

[1]1990 account remains open [2]1985 and 1990 accounts remain open
Source: Lloyd's of London

GRAPHIC BY JERRY PARKS

Already, since January, Lloyd's has become a different animal: For the first time, Lloyd's is being governed by a triumvirate of committees.

The Council of Lloyd's, which by 1995 will be reduced to 16 members from 20 this year and from 26 last year, is still the market's top governing body. However, under the council are two new, powerful boards: the Market Board, which oversees business development, and the Regulatory Board, which enforces Lloyd's system of self-regulation.

The Regulatory Board, headed by Brian Garroway, is the quietest of the three, but it is charged with examining important issues, like the use of financial reinsurance within the market. This study was prompted by an investigation by the Serious Fraud Office and Lloyd's on the use of time-and-distance policies by the defunct Gooda Walker syndicates.

The Market Board has worked at a fast and furious pace to implement the business plan released in late April. One of the plan's key features that already is being felt is a strong central management of the market. Never in the past dozen years have so many major decisions been made in such a short period and by so few people. Issues that used to take years to agree on are now almost decided upon immediately, said Mr. Rowland, who chairs both the council and the Market Board.

Also sitting on the Market Board is Mr. Middleton, former chief executive of travel agent Thomas Cook Group, who joined Lloyd's as chief executive last September. Highly respected by the Lloyd's membership, Mr. Middleton has worked long and hard to mend fences between members with big losses and the rest of the market.

At the moment, Lloyd's is working on several important tasks, all to be completed—or be at an advanced stage—by later this year to attract corporate capital to the market next year.

One of these tasks is the formation of NewCo. to run off the pre-1986 liabilities still plaguing the market and the use of CentreWrite to write runoff reinsurance for syndicates' 1986 and subsequent underwriting years. This step is important because corporations interested in investing at Lloyd's do not want to pay past losses.

The formation of NewCo. also would release members who now are unable to resign from Lloyd's because their syndicates have not closed their accounts, Mr. Rowland noted. "It's a huge project. . .and has many complications, (but in the long run) we think we can pull it off."

"We've made it clear that members from 1994 onward won't have to pay for losses of

Continued on page 10

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Opinions

A time to heal at Lloyd's

THE "DASH FOR CASH" is in full swing at Lloyd's of London.

Lloyd's rejuvenated leadership is busy implementing market reforms to clear the way for the introduction of corporate capital to bolster the market's sagging capacity. Lloyd's top officials, interviewed as part of our special report on the market in this week's issue (see stories beginning on page 3), make no bones about Lloyd's uncertain future without an influx of new capital.

We praise their honesty, energy and farsightedness. There is no single correct path for Lloyd's to follow to escape its massive problems, but the trail being blazed by Chairman David Rowland, Chief Executive Peter Middleton and the rest of their team probably is the best course. While it is easy to be consumed by past mistakes and misfortune, they have the correct idea: Concentrate on the future to make Lloyd's as strong as possible while still trying to solve past problems.

No one can say for sure whether Lloyd's will be in business a decade from now, but we believe that the current management offers Lloyd's the best chance of overcoming its problems.

Many of those problems are being caused by litigious members facing huge losses who are embarking on their own "dash for cash." These members want to collect as soon as possible from errors and omissions insurers for members agents that placed the names on loss-riddled syndicates. Some members' suits have been pending for several years, but they have taken on a new urgency: If the first syndicate members to go to trial win—something we're still not persuaded is going to happen—they could exhaust the E&O coverage before other members ever plead their cases.

The obvious answer—and the correct one—is for the litigious members to work out a settlement with members agents and Lloyd's. Two committees formed by Lloyd's are working on an agreement, which should be released by this fall. However, while a global settlement is the sensible course of action, we're afraid these disputes will be settled in the courtroom rather than around the bargaining table. Some members seem to be so bitter



"I'M NOT WORRIED...I HAVE THIS SAFETY NET!"

over their losses that they are seeking not only reimbursement but the destruction of Lloyd's.

We have constantly taken a hard line against Lloyd's members in their efforts to be made whole for their losses. Most Lloyd's members were wealthy, intelligent individuals who invested hundreds of thousands—and sometimes millions—of dollars at Lloyd's. They should have known the risks involved.

Still, we again applaud Lloyd's efforts to settle the litigation and encourage members to look carefully at any offer drafted by Lloyd's. While Lloyd's and its agents may prove victorious in the courtroom, the legal battle could tear apart the foundations of the 305-year-old society. A reasonable settlement with the members will be well worth the cost if it helps Lloyd's survive into the 21st century. That will benefit everyone: Lloyd's, its agents, the members and, most importantly, the policyholders that seek the capacity and creativity that Lloyd's offers.

Letters

Get Goepfert out of our faces and off page one

To the editor: You do the industry a great service by publishing specialized issues. Highlighting surplus lines and wholesaler activities (*BI*, Aug. 16) is appropriate since it is a growing segment of the property/casualty business.

However, why did you choose to feature the story about Jack Goepfert on the front page of the annual surplus lines issue? News it may be, but why in this issue and on the front page? This man does not deserve further publicity and clearly not in an issue that seeks to report the legitimate and responsible participants in surplus lines distribution and underwriting.

Considering how many years legitimate practitioners in the excess/surplus lines business waited for regulators and prosecutors to "take Goepfert out," featuring him in this issue is annoying. He does not need to be exhumed in our faces. It is unfortunate that the insurance industry provides an atmosphere in which a convicted felon can rise again.

It is not fair to your loyal excess/surplus lines subscribers, participants in your directories and your advertisers to feature this convicted criminal in a lead story. Give us a break.

James H. Bryson
President
Bryson Associates Inc.
Jenkintown, Pa.

Either the NCCI doesn't understand or doesn't care

To the editor: The response by the National Council on Compensation Insurance to the letter by Jesse Pagonis (*BI*, July 26) is a classic case of insurers' refusal to provide needed changes in policies.

Mr. Pagonis raised a reasonable question about a shortfall in employers liability coverage for corporate officers and other employees.

The NCCI response merely regurgitated current policy provisions in a manner that showed that either they don't understand the question or, worse, they don't care about the problem.

I agree with Mr. Pagonis' assertion that the reasonable expectation of corporate officers and managers is that they should be defended against claims arising from injuries that occur to an employee as a result of his or her employment.

The NCCI, on the other hand, argues that the reasonable expectations of officers and employees should be based on their insurance policies.

In other words, if the lack of insurance causes officers and employees to spend their own money to defend claims, then that's just their tough luck.

We have attempted to extend employers liability coverage for our consulting firm's corporate clients to their officers, directors or stockholders by means of a manuscript endorsement. This appears to be the only approach available in light of the NCCI's position for those companies not large enough to either self-insure or have their insurance written by a captive that takes a broader view of the policyholder's business needs.

Harry Cylinder
Assistant Vp
First Risk Management Co.
Jenkintown, Pa.

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Spotlight report

Lloyd's plan

Continued from page 6

the past," said Mr. Middleton. If NewCo. isn't up and running by the time 1993 closes at the end of 1995, then Lloyd's will keep all 1993 underwriting accounts open, he said, adding that such a scenario likely will not be necessary.

Another major project is settling the litigation filed by members against members agents and underwriting agents, which also may deter corporations contemplating investment at Lloyd's.

While the litigation was not addressed in the business plan, Mr. Middleton announced at a members meeting in May that Lloyd's would explore a settlement.

"I'm very pleased the process has survived," Mr. Middleton said recently.

Two panels have been formed by Lloyd's in this effort—a legal panel that is assessing the members' arguments and a financial panel that is investigating sources of funds. The two panels "have brought opposing interests—namely disgruntled members, members agents and the agents' errors and omissions underwriters—around the same table, which is admirable," he said.

Mr. Middleton isn't certain that the two panels will find an equitable solution to the problems. But, the parties are making a "serious effort" to solve their differences, he said, adding that the panels should issue a proposal this autumn.

In the meantime, most members agencies are setting up MAPAs to entice existing members to remain in the market next year. MAPAs will account for 75% to 80% of the capacity some agencies offer, Mr. Middleton estimated.

The concept of MAPAs—which was vetoed several years ago by former Chief Executive Alan Lord—resembles that of a mutual fund. A members agency will establish a standard portfolio of syndicates that members can join. A member joining a MAPA will have a smaller piece of a larger variety of syndicates, thereby better spreading investment risk.

Anton Members Agency Ltd., for example, will offer its members a MAPA after 90% expressed support for the idea, said Managing Director John Robson. The Anton pool will have capacity of about 250 million pounds ($379 million) spread across 78 to 80 syndicates.

Mr. Robson predicts that MAPAs could supply 65% to 75% of Lloyd's capacity next year. The percentage will be higher at Anton because all of the agency's executive directors and their spouses will join the MAPA.

Despite all these reforms and efforts, one problem is facing Lloyd's immediately: a cash crisis.

While most members were required to pay their cash calls by July 31, the deadline has been extended to September for many and to year end for others.

Last year, members paid between 80% and 86% of their cash calls, but only half the members may pay up this year, estimated Alan Pollard, managing director of Lloyd's runoff manager, Syndicate Underwriting Management Ltd.

If the substantial calls aren't paid, Lloyd's could: draw down on members' deposits, which equal a third of their capacity; sue the members; and/or earmark money from the Central Fund to cover the shortfall.

"There is a strong move afoot, I don't know how serious, that names won't pay their cash calls this year until they know whether there is a resolution" to the litigation, said Mr. Pollard. "If that happens, it will be very expensive for syndicates indeed and presumably affect the solvency position of Lloyd's."

At the moment, individual syndicates are "short of the cash we need to trade on," he said. If names don't pay cash calls, syndicates can borrow money from banks to pay claims, though banks recently have frowned on loans to syndicates, Mr. Pollard said.

"I think, despite what Lloyd's says, there's a liquidity problem," added Mr. Randall, pointing to a number of syndicates that are slow to pay claims.

Mr. Randall is now working on a plan to ease this cash crunch. Under the plan, bonds would be issued to pay members' losses, rather than forcing members to liquidate assets like their homes, he explained.

The bonds, which would be repaid in seven to 10 years, "would help them get through to better times."

Messrs. Rowland and Middleton insist that the Lloyd's market as a whole is solvent and that enough money is in the Central Fund to meet any shortfall this year without calling for another special levy on Lloyd's members.

Lloyd's will pass its government-mandated solvency test in autumn, Mr. Rowland vowed.

One way to ease Lloyd's problems, though, is for members agents to think long and hard before pulling capacity from syndicates, thus forcing them to close, according to SUM's Mr. Pollard.

Members agents have withdrawn support from many major syndicates in the past year, leading to their closure. These include Lloyd's oldest syndicate, 367, managed by F.L.P. Secretan & Co. Ltd., even though its losses weren't horrendous, Mr. Pollard said.

The result of the closures is that the amount of syndicate capacity being run off totals 7.9 billion pounds ($11.78 billion) and could by next year equal Lloyd's expected capacity of 8.5 billion pounds ($12.84 billion), Mr. Pollard said.

Thus, it will cost as much to run off open syndicate years as it will to manage ongoing syndicates, he said.

"There's a lot of blame being thrown around the market that it was disgraceful that, (with) a syndicate like 367, agents withdrew capacity and down it went," Mr. Pollard said. "You look at the big syndicates that were around four or five years ago (that have since closed) and it looks as though members agents have panicked in many cases." BI

Members' litigation poses peril to Lloyd's recovery

'Dash for cash' may complicate settlement plans

By ADRIAN LADBURY

How a gargantuan legal battle unfolds over the next three months could well decide the future of Lloyd's of London's recovery plans.

In late November, a Lloyd's panel will tell members who are suing members agents and managing agents how much money they can reasonably expect in an out-of-court settlement with the agents' errors and omissions underwriters.

If an all-out legal war is to be avoided and the path smoothly laid for the arrival of corporate capital, Lloyd's must:

- Persuade a very reluctant group of underwriters and reinsurers to pay as much as they can to the disgruntled members.

Continued on next page

STRENGTH

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Continued from previous page

• Then persuade a large, angry and disunited group of members to accept what probably will be a fraction of what they believe they are entitled to receive.

Compounding the difficulties is another deadline. Justice Mark Saville, the commercial court judge responsible for most of the Lloyd's cases, has moved up—to next April—the biggest trial of all: litigation filed by members of syndicates managed by Gooda Walker Ltd.

With that trial date approaching, many names' action groups seem more willing to try their luck in court than to accept a deal from Lloyd's. Moreover, setting the Gooda Walker trial date has galvanized many action groups that fear that Gooda Walker members and others with earlier trial dates may dry up the limited pool of funds.

The fundamental question facing the members is whether they would get more money in the courts or at the negotiating table.

In May, an E&O panel commissioned by Lloyd's reported that most members' claims—in monetary terms—would stem from their participation on LMX syndicates in the 1989 and 1990 underwriting years.

The panel estimated that between 690 million pounds and 940 million pounds ($1.05 billion and $1.43 billion) in E&O coverage would be available to pay these claims, but the total amount of claims would reach 1.83 billion pounds ($2.77 billion). This could leave a coverage gap of between 890 million pounds and 1.14 billion pounds ($1.35 billion and $1.73 billion).

That alone is no small problem, but there's more. In the annual report for syndicate 702, Reg Brown, its underwriter and chairman of the Lloyd's Non-Marine Assn., listed other potential problems from an underwriter's perspective, including:

• Since the claims against several agents far exceed the limits of their E&O coverage, court victories by the members would force the agencies into insolvency and some of the awards would not be paid.

• The total limits of the defendants' E&O coverage is less than many members realize and will be reduced by defense costs.

Lloyd's stated in the business plan it released in April that it is prepared to contribute to a settlement. "If a central contribution were the key to securing a resolution which would be to the net benefit of the society, then we would regard that as an appropriate step to take."

Yet Lloyd's also made clear that it is not prepared to jeopardize the security of its Central Fund "in the interests of policyholders." Lloyd's is unlikely to take up to 1.14 billion pounds from the Central Fund to make up the shortfall in E&O coverage, and Lloyd's has said it will not take out a loan to do so.

The Central Fund currently contains only 1.15 billion pounds ($1.74 billion).

For Lloyd's, the stakes are so high that many believe it simply cannot afford to fail to forge a settlement.

In the short term, it is very much in Lloyd's interest to negotiate a settlement because it is believed that much—if not all—of the settlement funds would be placed directly into members' premium trust fund accounts.

If a settlement is reached before year end, a portion of that money can be used to enable members to remain in the market and to bolster next year's capacity.

'We are far from convinced that a settlement is possible,' says Michael Deeny.

In the longer term, if the members think they can do better in the courts, Lloyd's will face a nasty, drawn-out and highly public series of legal battles. Because of the sheer size of the E&O coverage shortfall, victories by members would force the agents into liquidation.

If members agencies' E&O coverage is bled dry, action groups would be forced to turn to other potentially culpable parties, like auditors, brokers, and, of course, Lloyd's itself (*BI*, Aug. 2).

Earlier this month, Lloyd's Chief Executive Peter Middleton sounded quietly confident about the state of settlement negotiations.

"Some progress has been made in recent weeks," he said. "This stems from the readiness of all parties to exercise goodwill towards the process. . . .There is still a long way to go, and participants still have reservations about one or other aspects of what is being attempted. We shall all continue as before to take the work of the panels one step at a time. It is still too early to forecast what the chances of success might be."

Most in the market consider the impending prospect of a trial as the biggest threat to a settlement.

Others point out that the "dash for cash" theory, in which all of the action groups want to collect as soon as possible because there is only one pot of gold to pay their claims, is seriously flawed.

"That is misleading. There is no single pool. There are lots of small and different pools being chased by names with different agents and with different notified years," said David Tiplady, an attorney with the London firm D.J. Freeman.

Still, there is still only a finite amount of money available to the names, and there will be a race to collect if settlement talks fail.

The very idea of a race seems to lessen the chances of settlement diplomacy as the first court dates near.

The response of Michael Deeny, chairman of the Gooda Walker Action Group, on hearing that his group had been granted an expedited trial date of April did not bode well for the diplomats at Lloyd's.

"Many other action groups have decided not to press on with their litigation in a vigorous fashion in the hope of negotiating a settlement with Lloyd's and to save legal fees. We believe this is a false economy. Those names with large losses need the earliest possible compensation," Mr. Deeny said.

"We are far from convinced that a settlement is possible, but there is nothing more conducive to a settlement than the knowledge that a trial is to begin on an early date. But we have received no serious offer at present and in the meantime we await the verdict of the High Court," he said.

As the chairman of the biggest action group—which represents about 3,000 names seeking up to 1 billion pounds ($1.52 billion)—Mr. Deeny clearly feels capable of holding his own with the E&O underwriters and their reinsurers, be it at the negotiating table or in the witness box.

He and the chairman of the second-largest action group—Colin Hook of the Feltrim Names Assn., whose case goes to trial in October 1994—alternately sit on one of the Lloyd's panels discussing a settlement and are fundamental to any solution. If a settlement package is not generous enough, they both say they'd be happy to try the courts.

Neil Shaw, chairman of the Assn. of Lloyd's Members and a member of both panels, believes the fighting words by the action group chairmen should be taken in context.

"I do not accept the idea that the chances of a settlement are fast receding just because court dates have been set. If the cases are resolved in the courts over

Continued on next page

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Members' litigation

Continued from previous page
the next five or six years, I don't care what percentage is settled. . . .They will get virtually nothing because it will get eaten up in legal fees. So who does that leave? The names who simply want to burn the house down," he said.

Christopher Stockwell, chairman of the Lloyd's Names Assn. Working Party, wholeheartedly disagrees with Mr. Shaw.

"That argument is total nonsense. The legal costs are minuscule compared to what is being claimed. They are substantial, of course, but you are talking millions, not billions," said Mr. Stockwell.

"Despite all the swiping, that simply is not correct. Look at the big action groups. They levy fees for legal action in proportion to the size of the line written by the name. There is no flat fee," said Mark Connoley, partner with law firm Richards Butler. The firm represents the Rose Thomson Young Action Group and the Devonshire Names Assn., the two other major losers on the LMX spiral apart from the Gooda Walker and Feltrim members.

"You could say that the average cost to the names is about 4,000 or 5,000 pounds compared with losses of anywhere between 100,000 pounds and half a million pounds. Even with a modest recovery in court, it has to be a very good investment," Mr. Connoley said.

Mr. Stockwell is one of the seemingly growing band who is skeptical about the chances of a negotiated solution.

"It is very likely that a settlement will be offered, but I am more skeptical as to whether the groups will accept it," he said. "The main problem is that Feltrim and Gooda Walker are so far down the line now that they feel they will scoop the pot and will only settle if they can get a better deal. And the other groups will not settle for less than them."

The disparity among the action groups is a major problem plaguing the negotiating process.

"Lloyd's must have regard to the interests of all members, not seeking to advantage one group over another," the business plan states. "This means taking into account the fact that many of these claims are competing for the same finite amount of E&O cover, since most of the claims fall on the 1990 and, to a lesser extent, the 1989 E&O policies. It also means taking into account the interests of names who are on loss-making syndicates but are not members of the action groups."

Some groups have committed huge sums to the litigation. The Gooda Walker group, for example, claims to have a fighting fund of about 5 million pounds ($7.6 million) and would be very angry if groups that have been unable or unwilling to become involved are given equal treatment in a settlement.

Tom Benyon, chairman of the Society of Names, a members' organization, described the smaller action groups in his last issue of the society's newsletter as "Third World groups" and expressed his fear that the larger groups would simply brush them aside.

But the day after Gooda Walker was assigned its April trial date last month, Mr. Benyon, speaking as a Gooda Walker action group board member, said: "The most important thing is that Gooda Walker is now in front of the queue. It's desperately unfair for the others, but they'd all do the same."

Thus, if Lloyd's were able to draft what could be considered a settlement that is equitable for all litigating members, the big action groups may reject it on the grounds that they have done all the work.

Justice Saville could play a key role: He reportedly favors a settlement.

If an equitable settlement is reached, the bigger groups may have to think twice about going to trial because their bargaining position would be seriously altered.

Justice Saville said during late June meetings with action groups and interested lawyers "that he didn't want to grant preferential treatment to one group over another. He doesn't want a scooping of the pot and is all in favor of a negotiated settlement largely because of the inordinate amount of time (trials) would take," said Ken Grant, chairman of the Rose Thomson Young Action Group.

The group has not yet been assigned a trial date.

"The cases going to trial are only to determine liability and not quantum. We hope that this means that the courts will hold the decision on quantum until all cases have been heard," said Ian Chalk, secretary of the RTY group.

"I do not think there is a precedent, but there is undoubtedly a desire at the commercial court to achieve equality of service for all the groups, especially with Mark Saville in charge. He is very concerned about the need for a fair service and does not want any group to dominate the court's time," said Mr. Connoley, the RTY group's attorney.

However, hearings by Justice Saville scheduled for next month on preliminary issues in three groups' cases may mark his last involvement in the members' litigation.

Justice Saville's tenure at the commercial court has already been extended once. His proposed replacement in the Lloyd's litigation disqualified himself last month because of "connections with Lloyd's."

With so many complex and conflicting influences, individuals are becoming increasingly important in the litigation. Many people both within and outside Lloyd's are amazed that the action group leaders and the E&O underwriters are able to sit at a table together at all, let alone discuss issues constructively.

For example, the action groups accuse the E&O underwriters and their reinsurers of obstinacy, while many say the action group leaders' current and future livelihoods depend on protracted and expensive litigation and that they care about nothing but the destruction of Lloyd's.

Wild allegations aside, the role of individuals was clearly noted by Justice Saville at the June meeting.

"Saville said that he detected some distrust of the panel in that it was felt that it might have a hidden agenda. However, Saville said it is his view that such distrust was misplaced," the minutes of the meeting stated. BI

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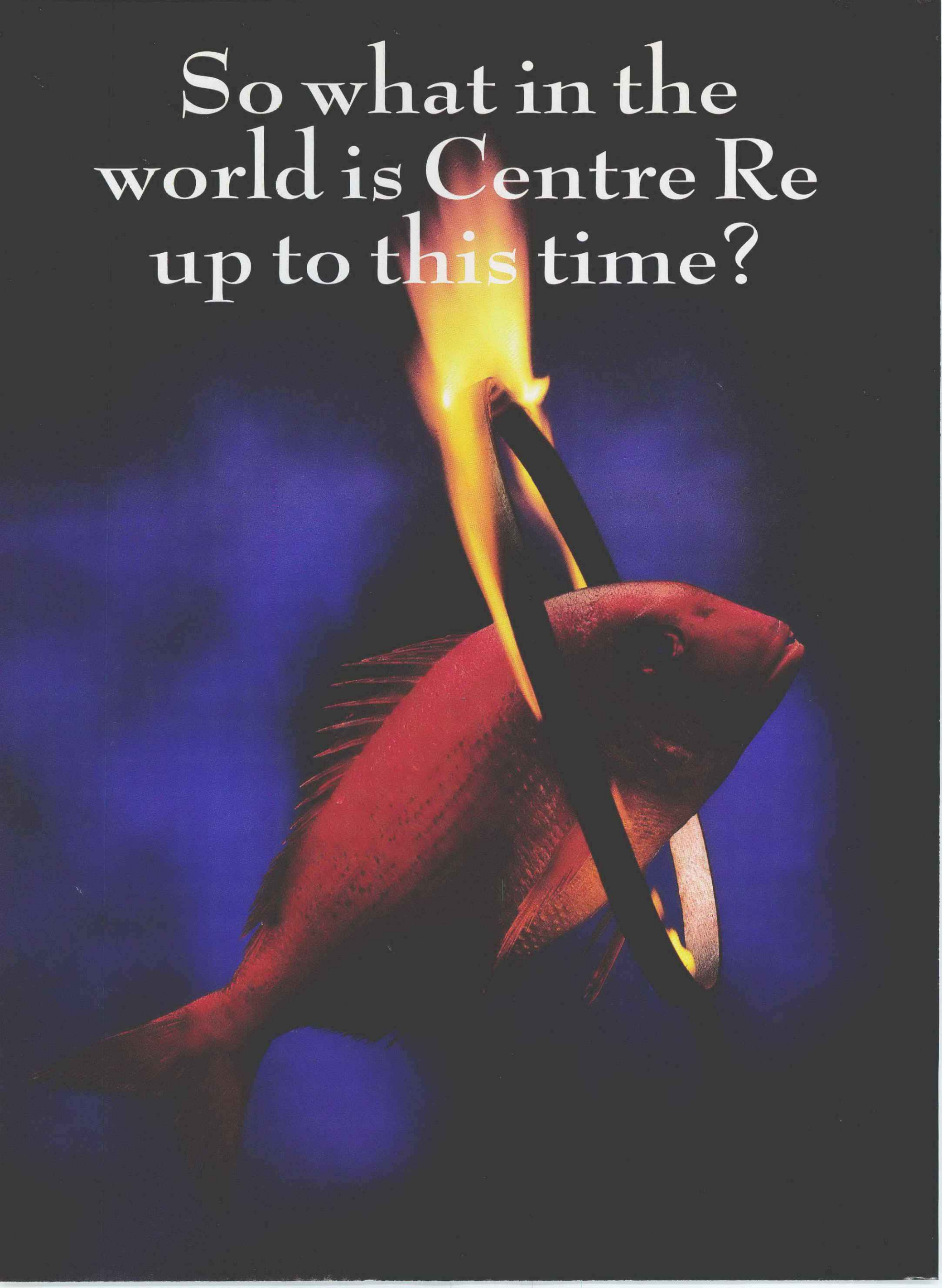
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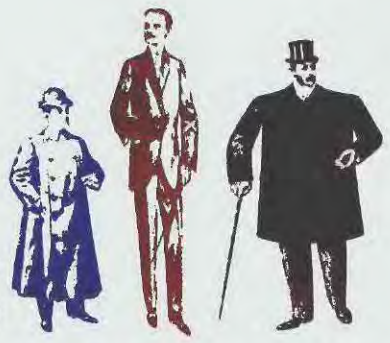
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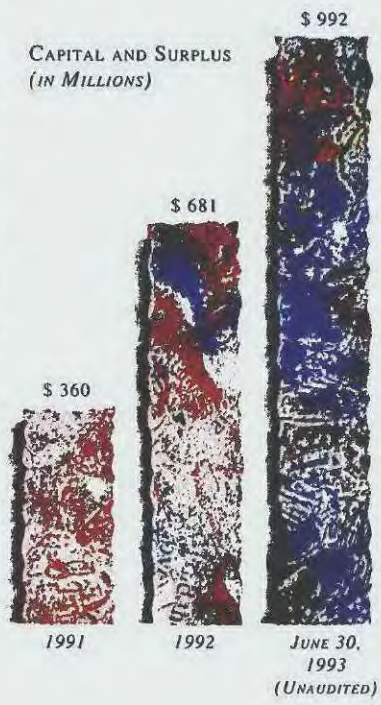
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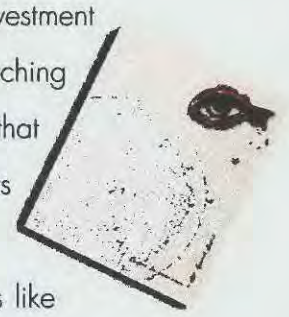
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Returning the luster to Lloyd's

Duguid charged with repairing image

By ALINE SULLIVAN

Lloyd's of London began building an unrivaled reputation in the United States in 1906 when leading underwriter Cuthbert Heath ordered his agent in California to settle claims from the San Francisco earthquake, regardless of precise policy terms.

Today, the market's reputation on both sides of the Atlantic is tarnished by heavy losses and a morass of litigation. Restoring its cachet will not be easy.

That formidable task falls to Andrew Duguid, director of the Lloyd's marketing services group.

Many policyholders still want to do business with Lloyd's, said Mr. Duguid. "Those who have already done business with us are aware of our better features. They are more informed than the average reader of a newspaper. But they are still concerned."

There is plenty to be concerned about. Losses at Lloyd's have totalled more than 5.5 billion pounds ($7 billion) in the past three years, while capacity has dropped to 8.88 billion pounds ($13.45 billion) from 11.1 billion ($16.69 billion) in 1990. About 17,000 names are pursuing or considering legal action. Much of Lloyd's is now engaged in attracting corporate capital while assuring existing members that their interests are not being overlooked.

Even the market's own officials worry that the negative publicity is obscuring the normal business that is still going on.

"I am so close to the market that I see all the trouble," said Robert Hiscox, deputy chairman of Lloyd's. "I am always pleasantly surprised when I see decent people buying decent policies."

The main thrust of Lloyd's new marketing strategy is to assure brokers and potential policyholders that their business is safe with Lloyd's. Mr. Duguid spends much of his time telling them that Lloyd's policies remain secure and that capacity will remain adequate.

"We want to be not just defensive about Lloyd's but also project a more positive message about our products and the services that go with them," Mr. Duguid said.

That is proving difficult. There is no shortage of ideas in the Lloyd's market on how to improve services, but tough times have meant that most brokers and underwriters are concerned primarily with restructuring and consolidation.

"We are more defensive than I would like us to be at this time, but these are not the conditions in which we can go forward," said Mr. Duguid. "People are not able to pursue things as much as they would like to now, but they are laying the foundations for the future."

Lloyd's has directed most of its marketing efforts this year to improving, or salvaging, its image in Britain. Extensive media coverage of Lloyd's losses and related litigation has damaged Lloyd's standing at home more than elsewhere.

Lloyd's officials are conducting a series of seminars throughout Britain this year, inviting underwriters interested in regional business and local brokers. About 40 Lloyd's syndicates regularly set up informational stalls at these seminars. Brokers are given a directory of syndicates participating in each sector of the market.

The next target for the marketing team is the United States, where problems at Lloyd's have also been widely publicized. As elsewhere, Lloyd's does not plan to advertise this year. Instead, it has hired a New York public relations firm, Citigate Inc., to help boost its image in the United States.

"We are targeting key brokers in the United States," said John McRoskie, publicity coordinator at the Lloyd's marketing office in London. "We will be holding briefings in their offices, focusing not just on Lloyd's security but on the wider picture." Lloyd's officials plan to visit Chicago, Houston, Los Angeles and New York this fall.

Lloyd's is also concentrating on other English-speaking markets where it is already well-established. Chief Executive Peter Middleton will visit brokers in Australia later this year, while other officials will head to Canada and South Africa.

Efforts in continental Europe and Asia are mostly being reserved for next year, after Lloyd's has concentrated on the English-speaking markets.

The Lloyd's business plan released in April resolved to find profitable opportunities in continental Europe. Options being considered include boosting the funds or personnel available to its general representatives in Europe.

Mr. Duguid has met with local brokers in Frankfurt, Germany; Milan, Italy; Paris; and Zurich, Switzerland, over the past few years. He said more research will be needed by the Corporation of Lloyd's and individual brokers and syndicates on how to improve the market's image in continental Europe.

"We hope to do the same thing in the continental market that we are doing in the U.K. and the U.S.: introducing Lloyd's to local brokers," said Mr. Duguid. "But we don't want to do everything at once." BI

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Spotlight report

Lloyd's hoping NewCo. will take care of old woes

Officials forge ahead with proposal despite opposition

By STACY SHAPIRO

Lloyd's of London is going ahead with its plan to transfer the market's pre-1986 liabilities to a new reinsurance company, despite opposition from some members and market executives.

The concept hinges on the formation of a licensed British reinsurance company by the end of 1995 that will pool all outstanding liabilities from 1985 and prior underwriting years. Syndicates would pay a one-time "reinsurance-to-close" premium to transfer these liabilities to the reinsurer, NewCo., according to Lloyd's business plan.

The strategy is to segregate the pre-1986 liabilities of numerous syndicates that have still-open underwriting accounts so that Lloyd's new corporate investors are not saddled with this burden (see story, page 21).

Also under the proposal, any syndicates with open acconts from 1986 onward would have the option of closing their accounts into Lloyd's existing runoff reinsurer, CentreWrite Ltd. While it will be mandatory for Lloyd's syndicates to fold their still-open pre-1986 accounts into NewCo., transferring liabilities from subsequent years to CentreWrite will be voluntary.

Overall, a total of 198 syndicates have left open 319 years of account, according to Lloyd's.

Lloyd's has set up a four-person committee to develop NewCo. The committee, chaired by Lloyd's Chief Executive Peter Middleton, includes: Lloyd's Deputy Chairman Stephen Merrett; Lloyd's Council member Richard Keeling; and Rhydion Williams, an executive of Lloyd's runoff agency Syndicate Underwriting Management Ltd. Lloyd's now is searching for a managing director for NewCo.

The committee is analyzing how to determine the reinsurance premium syndicates will pay to NewCo. The committee must decide whether each syndicate's current reserves will be an adequate base on which to determine the premium or whether some formula should be developed that would uniformly be applied to each syndicate's liabilities, said Mr. Middleton.

If the committee adopts an "equalization" formula, some syndicates may have to make additional cash calls on members, while others may be able to issue refunds.

The committee must also decide whether NewCo. will only reinsure 1985 and prior years or whether it will add new underwriting years each year so that Lloyd's syndicates only keep 10 years of business in their accounts, Mr. Middleton said. For example, in 1996, Lloyd's could transfer all outstanding 1986 liabilities to NewCo.

Another decision facing the committee is whether NewCo., which would be one of the largest insurers or reinsurers in the United Kingdom, should be allowed to write new business, he added. Lloyd's has projected that NewCo. will be capitalized at about 5 billion pounds ($7.58 billion) after syndicates pay the reinsurance-to-close premium to cover the liabilities transferred.

Whatever Lloyd's decides must be approved by the British Department of Trade and Industry, which will license NewCo.

However, since the NewCo. proposal was put forward in April, existing members and market executives have voiced several concerns about the plan. And some have drafted alternative plans for pooling past liabilities.

"Many names are due to pay unquantifiable amounts for the privilege of being ringfenced into NewCo. in respect of their 1985 and prior open years," complained David Springbett, former executive of Lloyd's broker PWS Holdings P.L.C., who has proposed an alternative to NewCo. (*BI,* July 5).

These massive additional cash calls are "sufficient to flaw the whole (NewCo.) plan," he said.

Mr. Springbett contends that Lloyd's losses between the 1989 and 1991 underwriting years will be closer to 12 billion pounds ($18.19 billion) than the nearly 6 billion pounds ($9.1 billion) estimated by Lloyd's.

As a result, he said, "Thousands of names are already ravaged and cannot, or will not, pay further money of this magnitude to the community of council members, managers, agents and underwriters who are perceived to have misled them too often in the past."

Instead of segregating old liabilities in NewCo., Mr. Springbett proposes that Lloyd's be split into two companies. The "old" Lloyd's would transfer all liabilities as of Dec. 31, 1993, to an insurance company owned by the existing membership, which he named Lysold Holdings P.L.C. Reserves pertaining to these pre-1994 liabilities would also be transferred.

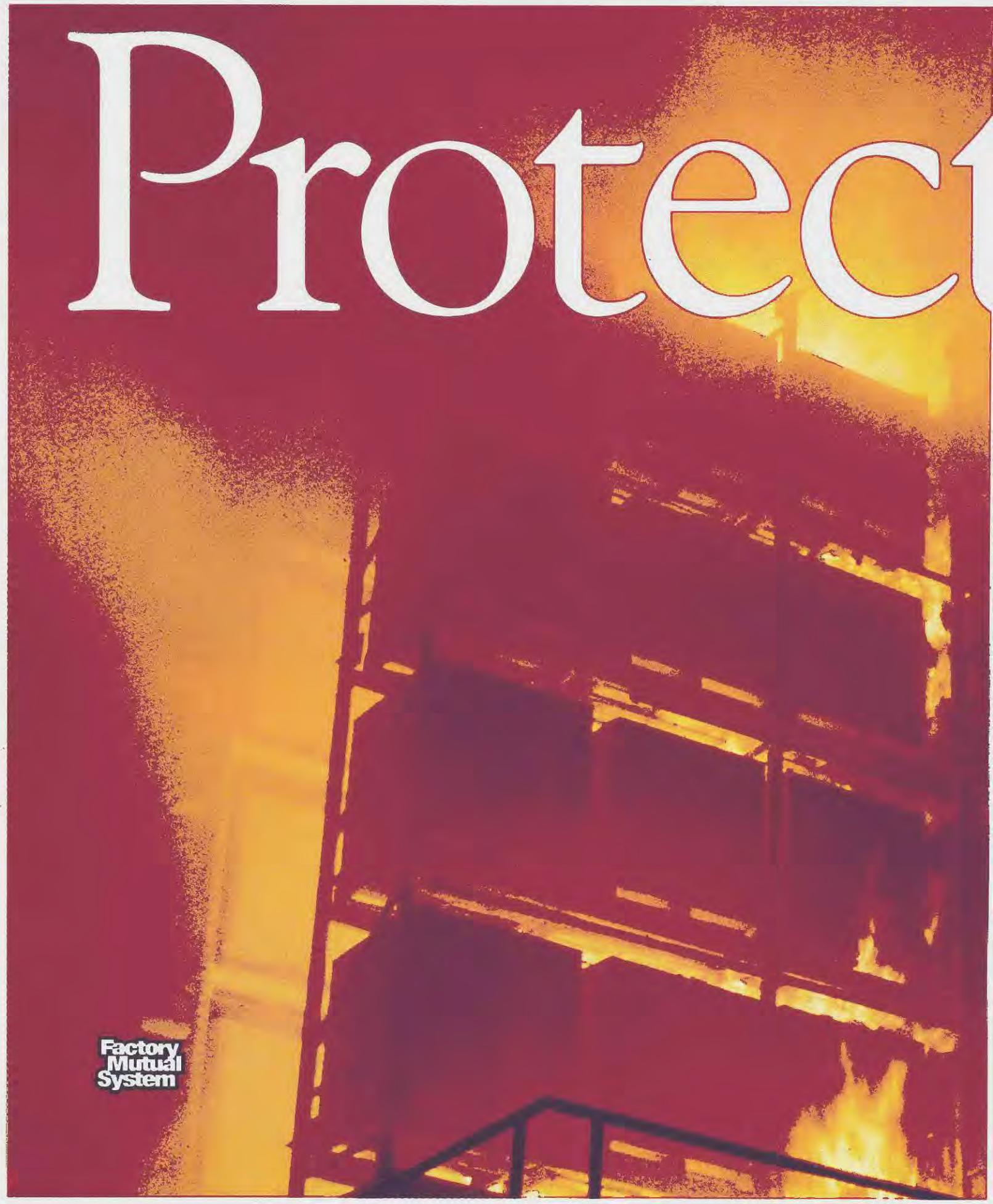
The company would also take over all Lloyd's underwriting reserves and trust funds; the Central Fund; and other Lloyd's runoff entities, such as Lioncover Insurance Co. Ltd., CentreWrite Ltd. and Syndicate Underwriting Management Ltd.

These additional funds could produce a surplus of 1 billion pounds ($1.52 billion), Mr. Springbett said.

Because Lysold would be owned by the membership, it would inherit the legal actions of more than 30 action groups, and settle these claims internally, according to Mr. Springbett's plan.

One of the keys of his plan is that Lysold—an anagram of "Lloyd's"—would be set up as a U.K.-licensed insurer, which would have less onerous rules on reserving than Lloyd's. This means as much as 3 billion pounds ($4.51 billion) currently

Continued on next page



Continued from previous page
reserved by Lloyd's syndicates could be transferred as surplus on Lysold's balance sheet, he said. With this additional surplus, Lysold could contribute up to 25% of Lloyd's capacity as a corporate member in 1994, when corporate capital is allowed at Lloyd's.

In the meantime, the continuing Lloyd's—with its corporate capital—would be required to pay an annual "royalty" to Lysold of 2.5% of Lloyd's total gross premium capacity, up to 500 million pounds ($752 million) per year over the next 25 years, Mr. Springbett proposes.

Lloyd's, though, has already dismissed the Lysold plan, which was thrust into the limelight when it was distributed as part of rebel members' attempt to thwart the business plan at an extraordinary general meeting this summer (*BI*, July 12).

"No investor from 1994 onwards is going to commit to giving away 50% of their profits to solve a problem that they had nothing to do with," Mr. Middleton said. "And, equally, no regulator anywhere in the world would allow Lloyd's to trade in 1994 with 8 billion pounds ($12.13 billion) in capacity and no reserves because they'd all have gone to Lysold."

Mr. Middleton also said "it's too big a project" to reinsure all pre-1994 accounts into NewCo. rather than only pre-1986 accounts. "Managing 1985 and prior is a feasible project. I don't know what we'll decide to do about 1986 through 1993, but that's a separate issue we may now have to address with the number of open years that there are."

Of the market's more than 300 open accounts, CentreWrite is expected to offer quotes to reinsure about 150 open accounts from 1986 onward, according to Robin Jackson, CentreWrite's chairman. This would include many of the major London market excess-of-loss reinsurance syndicates that have cost members billions of dollars.

'I certainly think the Lysold alternative business plan has got some fairly big flaws in it, purely and simply because (some points) haven't been properly researched,' says Kenneth Randall, chairman of Randall Insurance Services Ltd.

Mr. Jackson foresees every syndicate receiving quotations from NewCo. or CentreWrite by the end of 1995 to write off past liabilities.

NewCo. and CentreWrite will be working together, because many syndicates have both pre-1986 and 1986-1994 accounts open, said Mr. Jackson. Eventually, the two companies might be able to merge, he speculated.

Mr. Jackson agreed with Mr. Middleton that bringing another 10 years of runoff from 1986-1996 into NewCo. now would be difficult. In particular, NewCo.'s capitalization requirements would have to increase "significantly" because the amount of business reinsured would be increased dramatically, he explained.

Nevertheless, some members and executives think some of the Lysold proposal should be considered and the NewCo. proposal revamped accordingly.

"I certainly think the Lysold alternative business plan has got some fairly big flaws in it, purely and simply because (some points) haven't been properly researched," said Kenneth Randall, a director of G.W. Run-Off Ltd. and chairman of Randall Insurance Services Ltd.

But, he added, "I do think there are aspects of that plan which warrant further investigation and support. I think it's been dismissed rather too easily."

In particular, Mr. Randall agrees with Mr. Springbett that Lloyd's should seek to reinsure all open underwriting years through 1993.

There are potential profits in some of the later years, "and I think those profits should be fed in as part of a cushion for potential deterioration on those old years," said Mr. Randall.

In addition, he believes some aspects of the NewCo. idea are "ill-conceived." He's particularly worried because NewCo. is patterned too closely after CentreWrite, which has moved slowly in quoting reinsurance-to-close premiums for syndicates.

CentreWrite's Mr. Jackson confirmed that, as of June this year, the company had only quoted runoff reinsurance premiums for closing a total of 11 underwriting years of four syndicates.

Another problem with the CentreWrite model is that it has been supported by additional levies by Lloyd's Central Fund, which serves as the company's capital, Mr. Randall said. "That cannot and will not happen with the case of NewCo."

Lloyd's most recent global results show that two bonds for CentreWrite and Lioncover Insurance Co. Ltd., backed by the Central Fund, will draw a total of 51 million pounds ($77.3 million) this year from the fund.

Indeed, Lioncover, set up by Lloyd's to reinsure syndicates formerly managed by PCW Underwriting Agencies Ltd., has called a total of 201 million pounds ($304.7 million) from the Central Fund since its inception in 1985, according to Syndicate Underwriting Management, which manages Lioncover.

The Central Fund was boosted last year by a special levy on members and now stands at 1.15 billion pounds ($1.74 billion). However, Lloyd's recently announced no new special levies would be imposed on the membership without a vote.

When the pre-1986 liabilities are reinsured into NewCo., Lloyd's will want a "significant margin" and will have to charge "a substantial sum of money up front" to avoid a further drain on the Central Fund, Mr. Randall predicted. However, he added, "I can't see how you can let (NewCo.) go bankrupt if that's not enough. It seems to me there would have to be another levy."

Whether NewCo. makes future

Continued on next page

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Syndicates are running up runoff costs

Lloyd's members worried about mounting expenses

By STACY SHAPIRO

Running off Lloyd's of London syndicates is big business these days.

Marketwide, syndicates with 7.9 billion pounds ($11.98 billion) in capacity are in runoff—a figure that is nearing the active market's 1993 capacity of 8.88 billion pounds ($13.45 billion).

Many independent consultants, managing agents and even the Corporation of Lloyd's are competing for the business. But members worry about the expense that is being added to their underwriting bills by these runoff firms.

Runoff expenses can be as high as 5% of each syndicate's capacity in the first year and about 1.5% per year after that, said Alan Pollard, managing director of Syndicate Underwriting Management Ltd., a non-profit runoff subsidiary of Lloyd's. Over time, runoff expenses could consume as much as 25% of a syndicate's capacity, he said.

Lloyd's is working on qualifications to license syndicate runoff companies, said Peter Middleton, Lloyd's chief executive. But so far there are no requirements for companies that manage the runoff of Lloyd's syndicates.

As a result, some managing agencies are running off their own syndicates. These include Rose Thomson Young (Underwriting) Ltd., Knightstone Syndicate Management Ltd. and Langton Syndicate Management Ltd., among others.

Others—including Octavian Group and Merrett Holdings P.L.C.—are setting up runoff units. And, earlier this month, managing agency KSR Services Ltd. announced it would change its name to Quay Run-Off Services Ltd. after a management buyout and will manage the runoff of nine syndicates.

The single largest runoff in the market is probably that of seven defunct syndicates formerly managed by Gooda Walker Ltd. These syndicates alone face about 2.3 billion pounds ($3.5 billion) in gross claims and have already cost members about 900 million pounds ($1.36 billion) in cash calls.

The Gooda Walker syndicates are managed by G.W. Run-Off Ltd. The administration of claims, reinsurance and accounting has been subcontracted to City Run-Off Ltd., a unit of Bankside Underwriting Agencies Ltd.

Another firm, Randall Insurance Services Ltd., manages the runoff of the Gooda Walker syndicates on a daily basis and provides investigative support. For instance, RISL investigated the use of time-and-distance reinsurance policies by some Gooda Walker syndicates and sent its report to the Serious Fraud Office, which itself is now investigating the agency's former managers (*BI*, April 26).

RISL also is investigating "a large number" of intersyndicate quota-share reinsurance policies among five Gooda Walker syndicates from 1974 to 1982, according to syndicate accounts.

Ninety people are involved in running off Gooda Walker syndicates, said Kenneth Randall, chairman of RISL and a director of G.W. Run-Off. Between October 1991 and Dec. 31, 1992, the cost of running off the syndicates totaled 1.1 million pounds ($1.7 million at the year-end 1992 exchange rate), including 439,815 pounds ($666,320) paid to RISL and 621,600 pounds ($941,724) to City Run-Off. But Mr. Randall expects costs to be 20% to 25% less in 1994.

According to Mr. Randall, there is much more flexibility running off an insurance company than in running off a Lloyd's syndicate. "In the case of a company runoff, one's only concerned about the position of the shareholders and/or the policyholders," he said.

"With the case of a Lloyd's syndicate, you have the added complications of the reputation of the Lloyd's policy. So you have the interests of the policyholders to bear in mind, the interests of the names to bear in mind, and then inevitably you get the aspect of Lloyd's (reputation) and there's no doubt that the views of certain (members) are not entirely consistent with the views of the Council of Lloyd's."

Another major player in the syndicate runoff field is Market Syndicate Management Ltd., which is expected to take over the runoff of 12 syndicates that were formerly managed by Sturge Holdings P.L.C., subject to Lloyd's approval. The 12 syndicates include two that were once among Lloyd's largest: nonmarine syndicate 210 and marine syndicate 206. Together, the two syndicates wrote more than 1 billion pounds ($1.51 billion) in premium volume last year, but their capacity plummeted in 1993, making it difficult to keep the syndicates alive.

MSM also manages the runoff of six other syndicates, including: the 1990 account of syndicate 1139, managed by Hiscox Syndicates Ltd.; the 1981 account of syndicate 275, managed by J.H. Chappell (Underwriting Agencies) Ltd.; and the 1980-1982 accounts of the defunct "Spicer & White" syndicate, 895 (*BI*, July 15, 1985).

MSM was set up last year as a sister company to Market Run-Off Services Ltd., which handles the runoff of more than 60 London-based insurance companies with total losses in excess of 2 billion pounds ($3.03 billion).

Tim Oliver, managing director of MSM, said the key to a successful runoff is to collect reinsurance and maintain low overhead. Although 200 people initially will be employed to run off the Sturge syndicates, the numbers could eventually be reduced to the scale of 68 people employed by Market Run-Off, he noted.

One factor that leads to low overhead is the firm's computer systems, which include an automated syndicate collection system and data on more than 4,000 reinsurers.

Most syndicates "have no clue" who owes them money because they are dependent on brokers for that information, said Mr. Oliver. For example, Market Run-Off is handling the runoff of insurance companies that reinsure a total of 174 syndicates, but only three syndicates so far have made contact with the agency, he said.

MSM charges runoff fees equal to 2% of gross claims.

Lloyd's internal non-profit runoff firm, Syndicate Underwriting Management Ltd., is also competing for runoff business.

Mr. Pollard, managing director of SUM, said he would like Lloyd's to require every syndicate to seek a quote from SUM for runoff services. And he would like SUM to be named manager of NewCo., which is expected to reinsure pre-1986 accounts of all Lloyd's syndicates. However, Lloyd's Mr. Middleton has ruled this out.

SUM, formerly known as Additional Underwriting Agency (No.4) Ltd., was set up in 1987 to manage Lioncover Insurance Co. Ltd., which reinsured the liabilities of 33 open years of syndicates formerly managed by PCW Underwriting Agencies Ltd. and WMD Underwriting Agencies Ltd.

In 1985, when they were shut down due to alleged fraud by underwriters Peter Cameron-Webb and Peter Dixon, the syndicates had total capacity of 308 million pounds ($357.3 million). To end litigation filed by syndicate members, Lloyd's negotiated a 103 million pound ($154.9 million at the current exchange rate) settlement, under which PCW and WMD liabilities were ceded to Lioncover (*BI*, April 13, 1987).

At the end of 1982, however, Lioncover's gross outstanding claims and incurred-but-not-reported losses totaled 944.6 million pounds ($1.43 billion at the current exchange rate). A Lloyd's task force in 1991 estimated Lioncover faced 17% of the market's total pollution losses and 25% of its total asbestos losses, Mr. Pollard said.

Net liabilities have been reduced by 344.2 million pounds ($521.8 million) through reinsurance recoveries and by 178.3 million pounds ($270.3 million) by discounting reserves, so reserves now total 422.2 million pounds ($640.1 million).

But auditors Ernst & Young qualified last year's accounts because intermediaries owe the syndicates 91 million pounds ($137.9 million), and questions arose about reinsurance recoveries.

Lioncover to date has asked for 201 million pounds ($304.7 million) from Lloyd's Central Fund to cover its losses.

SUM also manages the runoff of nine other syndicates, including: syndicates 640 and 707, formerly managed by H.G. Chester & Co. Ltd.; and four syndicates formerly managed by FLP Secretan & Co. Ltd., including one of the oldest syndicates at Lloyd's, syndicate 367. BI

NewCo.

Continued from previous page

cash calls "will depend" on whether additional syndicate reserves are needed, said Mr. Middleton. "We will have to discuss with the membership what the options are (when the time comes). . . .There's got to be a debate, but we're not ready for that yet because there's work still to be done."

NewCo. also doesn't relieve Lloyd's members of their liability for long-tail claims because NewCo. will not be contractually liable to policyholders.

"The members are the ones with the contracts with the policyholders, not NewCo.," Mr. Randall explained.

"I wouldn't have introduced NewCo. I don't see what it achieves," he said. If it's merely to give security to corporate members so that they won't be stuck with the liabilities of the past, Mr. Randall said, "You can do that by leaving all the syndicate accounts open."

Mr. Jackson disagreed, arguing that NewCo. will be more cost-effective than keeping all the individual accounts open. With about 5 billion pounds ($7.58 billion) in one company, "you can maximize returns," he said. "I fully support the NewCo. plan."

Other members and executives in the market support NewCo., but some of them are calling for major changes in Lloyd's thinking to pull off such a project.

"The NewCo. idea falls short of what is needed, but provides us with a basis upon which an effective resolution of the problems of our past can be built," said Ralph B. Bunje Jr., regional organizer of the Northern California Assn. of Lloyd's Members, in San Francisco. Mr. Bunje also submitted to Lloyd's a proposed alternative to NewCo.

"This is a once-in-300-year problem, so let's have a once-in-300-year solution," Mr. Bunje said.

He strongly believes NewCo. should be 100% owned by the membership and that all open underwriting years up to and including 1992 should be reinsured by NewCo.

Mr. Bunje's proposal, which he has discussed with Mr. Middleton and Lloyd's Chairman David Rowland, also calls for:

- Funding NewCo. by transferring to it 80% to 100% of Lloyd's premium trust funds, up to and including the 1992 year of account. According to Lloyd's, the funds total 16.7 billion pounds ($25.3 billion).

Half of the Central Fund also would be transferred to NewCo.

- Members to receive shares in NewCo. corresponding to the size of their contribution.
- Limiting cash calls on members.

The plan is similar in some respects to Mr. Springbett's Lysold proposal, "but I'm working mine through the Lloyd's organization and he's on the outside looking in," said Mr. Bunje. "I think (Lloyd's) will cannibalize my ideas and Lysold. . .and make (NewCo.) a live company and not a 'DeadCo.' " BI

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Corporate capital faces final vote

Lloyd's moves to button down support for radical change

By ALINE SULLIVAN

Of the many criticisms that disgruntled members have made against Lloyd's of London, one thing is for sure: They can't say they weren't consulted about the introduction of corporate capital.

On Oct. 20, members will have their second opportunity in four months to express their views on the proposal. Lloyd's Chairman David Rowland has scheduled an extraordinary general meeting to allow all 31,000 names to vote—once and for all—on the market's plans to admit corporate capital beginning in 1994 (*BI*, Aug. 16).

Names were first consulted about the planned changes last month at an EGM called by a group of rebellious members who argued that corporate names should "compensate" the existing membership for Lloyd's "regulatory failures." The motion, one of three debated at the meeting, was defeated by a 2-to-1 margin in a postal ballot (*BI*, Aug. 16; July 12).

But Mr. Rowland wants an even clearer endorsement of his strategy. He and other leaders say Lloyd's needs corporate capital to halt further erosion of its capital base. The market's overall capacity has dropped to 8.88 billion pounds this year from a high of 11.4 billion pounds in 1991.

Converted at appropriate exchange rates, capacity has fallen to $13.45 billion from $21.81 billion.

The decision to call the October vote was prompted by Lloyd's management's concerns that rebel names would try to disrupt the schedule for admitting corporate capital by calling an EGM in December, one month before the year-end deadline by which corporate names must be registered for 1994. These members want corporate investors to pay a higher fee to join the market or to contribute part of their future profits to members now saddled with heavy losses.

In calling for the October meeting, Mr. Rowland said that a final "rule book" outlining the terms for the introduction of corporate capital would be presented to the Lloyd's Council by Sept. 8. Copies will then be sent to all names, along with proxy voting forms. Votes will be tallied at the EGM.

Expectations in the Lloyd's market and among potential corporate investors is that members will overwhelmingly approve the plan to introduce corporate capital. The alternative, they say, is the disintegration of Lloyd's.

However, corporate capital may bring its own problems, some say.

Christopher Hitchings, stock market analyst at UBS Phillips & Drew in London, warned that the introduction of corporate capital may eventually destabilize Lloyd's capital base. Corporate investors will be more risk-averse than individual names, which could cause capacity to contract during soft markets, he said.

"We won't see the effect until the next big downturn in about 20 years," predicted Mr. Hitchings. "But history may write that the demise of Lloyd's 50 years from now can be traced back to the introduction of corporate capital."

As gloomy as that sounds, Mr. Hitchings and other analysts agree that Lloyd's has no other option. Year-end losses at Lloyd's for the 1988-1990 accounting years total more than 5.5 billion pounds ($8.33 billion), which has forced more than 13,000 names to resign or cease underwriting. And members who have been able to continue writing are growing older, with the average age of the market's current membership over 55. Clearly, some new source of capital is needed, analysts say.

Critics of the introduction of corporate capital, which was outlined in Lloyd's business plan published in April (*BI*, May 3), say that corporate investors will be discouraged by the mass of litigation at Lloyd's. More than 17,000 members currently are pursuing or considering legal action over losses.

But analysts say corporate investors are accustomed to litigation and won't be put off.

"If one attends some of the public meetings in Lloyd's, one gets very nervous about the degree of anger and venom that is released by individuals who obviously are in very dire straits," said Richard Johnson, managing director of J.P. Morgan & Co. Inc. in London. "It will be settled, and it will be settled in a way that doesn't affect the corporate capital people coming in. It is not going to stop people from making a reasonably intelligent judgment about investing."

There appears to be plenty of interest so far. A London conference hosted by Lloyd's last month attracted more than 120 people, including investment analysts and lawyers from Europe and the United States. Mr. Hitchings, who spoke at the conference, said later that he knows of at least 10 initiatives being investigated by potential corporate names.

These initiatives include plans announced recently by U.S. broker Marsh & McLennan Cos. Inc. and J.P. Morgan to launch a $1 billion investment vehicle, Caymans Islands-based Trident Investments, which will invest some of its capital in the Lloyd's market (*BI*, June 28).

Separately, M&M and J.P. Morgan are developing a Bermuda-based company with assets of $70 million to provide quota-share reinsurance to underwriting syndicates managed by Merrett Underwriting Agencies Management Ltd.

Another investment company Corporate Lloyd's Membership P.L.C. has been formed by broker Sedgwick Group P.L.C. and British investment bank Barclays de Zoete Wedd. CLM, which will have initial capital of about 300 million pounds ($454.8 million), will be listed on the London Stock Exchange and will invest in Lloyd's syndicates.

Other initiatives in the works have paired U.S. investment bank Salomon Brothers with broker Johnson & Higgins, as well as Phoenix Securities with Lloyd's managing agency Anton Underwriting Agency Ltd.

Lloyd's officials took a long time to decide whether insurance companies should be permitted to join as corporate names. Eventually it was decided to allow them, but senior Lloyd's officials acknowledge that very few insurance or reinsurance companies have expressed an interest.

Another source of corporate capital may come from existing names who choose to incorporate themselves or pool their resources with other names by creating a corporation. Corporate investors will have limited liability, unlike individual names, and will be protected from losses in excess of their authorized capital at Lloyd's.

However, Lloyd's membership will remain appealing to individuals eager to leverage their investment to the greatest possible degree. Individual members must deposit with Lloyd's only between 20% and 30% of the amount they have committed to write—called stamp capacity—in contrast to the 50% deposit that will be required of corporate names.

The attractions for most corporate investors appear obvious. In its business plan, Lloyd's forecasts average returns on stamp capacity of 10% per year. Because corporate names must deposit only half of their stamp capacity with Lloyd's, actual underwriting returns on capital employed could be as high as 20%. Add about 7% or so from investment income, and corporate names could earn a pretax return of 27% on their investment at Lloyd's.

Of course, some say such a forecast may be overly optimistic, particularly given Lloyd's abysmal recent history of forecasting its profits and losses. Also, investing in Lloyd's won't be cheap. Corporate investors, which must have net assets of at least 1.5 million pounds ($2.3 million), will be required to pay a levy of 1.5% of their stamp capacity in 1994 and pay subsequent annual fees equal to 0.5% of their stamp capacity. This is in addition to the 50% of stamp capacity that must placed on deposit with Lloyd's.

Lloyd's Deputy Chairman Robert Hiscox agreed that the market's forecasts had been received by potential investors with some cynicism, perhaps for good reason. Syndicates will "aim for 10%, hope for 7.5% and be satisfied with 5%," he said. "It's a business plan, not a prospectus. Every business plan starts off with targets."

Investors are making their own estimations based on their perceptions of Lloyd's opportunities in the world insurance market, said Mr. Hiscox.

"Corporate investors would not be interested if they didn't know we are at the bottom of the cycle," he said. "I am confident from my own personal experience that there will be decent top-quality investors and some useful money which should give confidence to existing names."

A boost in confidence is desperately needed at Lloyd's, where fewer than 20,000 names are actively underwriting. Analysts and market authorities agree that the interest shown by potential corporate investors should help convince individual members that it is worth sticking around.

"It is the best thing that ever happened to Lloyd's," said Mr. Hiscox of corporate capital. "We have had a very undemanding capital base so far, but now every major stockbroker knows about Lloyd's. Their analytical skills are such that we are doing an enormous housekeeping exercise at individual syndicates."

One of the biggest challenges facing Lloyd's management is convincing corporate investors that they will not have to assume responsibility for past underwriting losses. Many analysts agree those concerns should be allayed by Lloyd's plan to pool all liabilities from pre-1986 accounts within a new reinsurance company, dubbed NewCo., and by Lloyd's management's assurances that these losses will be segregated from new members, or "ringfenced" as the market says (see story, page 18).

"NewCo.'s assumption of 1985 and prior liabilities," combined with caps on the amount that Lloyd's Central Fund can levy from members, "should provide new investors with a fresh start relatively unburdened by the past," said Mr. Johnson of J.P. Morgan. "Although some investors are concerned with ringfence leakage, the empirical evidence would suggest that Lloyd's is well-reserved, perhaps even better than its counterparts."

Mr. Rowland said in his August letter to members that Lloyd's has determined a procedure it will follow if the Central Fund needs to levy additional funds from names. Any special levy will require a vote by all members, with members' voting rights proportionate to their stamp capacity, which would give large corporate investors more say at Lloyd's, he said.

"The other big problem with corporate capital is security," said Mr. Hitchings. "Everyone assessing the financial security of Lloyd's has found it impossible to determine its net assets. That has been good for Lloyd's because investors look instead to whether it has been able to pay its claims. That is changing now."

Mr. Rowland said he had been surprised to discover in the Cromer report, published in the late 1960s after heavy claims from Hurricane Betsy, a well-reasoned argument in favor of abandoning unlimited liability.

"Even at that stage, (brokers) were perceiving that the illusion about the security of Lloyd's—this wonderful magical cloud that we had over Lloyd's that nobody actually penetrated to look behind, but everybody knew that claims would be paid—was perhaps more illusion than reality, and we might be very well advised for the future to move toward a system where we had greater resources actually in the Society," said Mr. Rowland.

The introduction of corporate membership will certainly boost Lloyd's resources in the next few years. It remains to be seen what effect corporate capital will have on individual names and how steady a source of funds it will prove when the insurance cycle next deteriorates.

In the short term, Lloyd's officials are satisfied with the enormous shift in the market's workings caused by corporate capital.

"I am extremely satisfied with the interest and amount of money that should come in if our house is in order," said Mr. Hiscox.

But he is likely to remain nervous until the year-end deadline arrives. "I have arranged the church but am waiting for the bride. Now we have to see if names pay their losses this summer, and the society is healthy by the end of the year." BI

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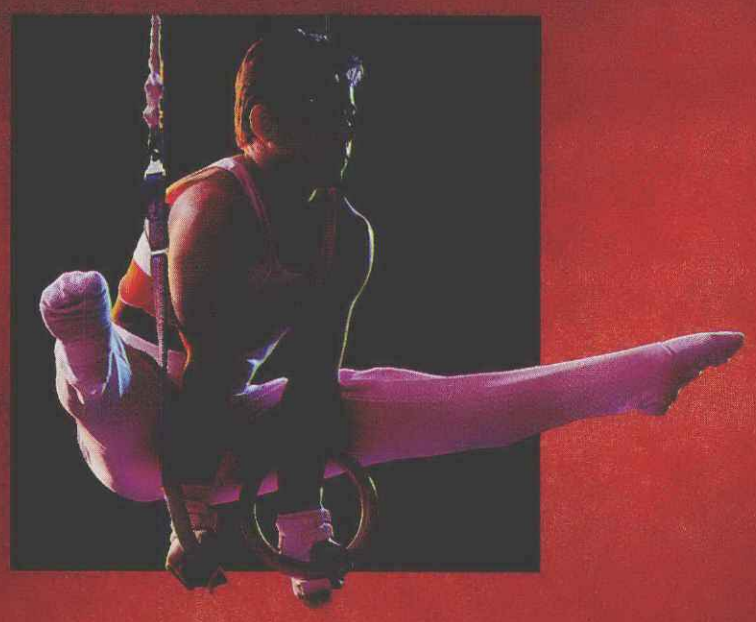
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'I find it enormously exciting to feel as stretched as I do.'

Odds look good for Lloyd's future: Rowland

After eight months, Lloyd's chairman cites few regrets

By STACY SHAPIRO

Lloyd's of London Chairman David Rowland doesn't regret "for one second" taking the top position in the market in January.

Despite the huge problems facing Lloyd's, the daily frustrations and, occasionally, personal attacks from angry members, Mr. Rowland has found his job "hugely stimulating."

"I would have felt dreadful if I had walked away from it," said Mr. Rowland, who was asked to become Lloyd's first full-time chairman last year while he was still chairman of broker Sedgwick Group P.L.C.

"I find it enormously exciting to feel as stretched as I do," he said in an interview late last month. "There's so much to do that you feel you achieve more than you would otherwise."

Mr. Rowland added that in addition to his satisfaction with his own job—"as difficult as it is"—he is very satisfied with his colleagues and with the progress being made on the task at hand, which is to change Lloyd's for its future survival. "We have a very good chance of pulling it off," he said.

Mr. Rowland said the toughest situations for him to face are those that prompt him to say, "If only we could have done it sooner."

That's no criticism of his predecessors: An institution like Lloyd's can only change "when it's right on the brink of disaster," said Mr. Rowland.

In some instances, he wishes he personally, not the market itself, had dealt with issues sooner. In particular, Mr. Rowland pointed to differences in the voting rights of individual members and corporate members once corporate capital begins to flow into the market. This issue currently is being examined, though Mr. Rowland is impatient for a report on this and other aspects of corporate capital, which isn't due until autumn.

Mr. Rowland and his management team have been working at lightning speed to change Lloyd's. "There's been such an amazing amount of things to do, and I wish we had more time to do it better. But we've just got to get it done."

The downside to holding the top post at Lloyd's has been "the personal abuse," which Mr. Rowland has found difficult to take. Members have called, sometimes with anger, for his resignation and the reduction of his 450,000 pound ($657,000) salary. But not once has Mr. Rowland publicly risen to the bait.

"I hope I am absolutely open in public about things which I think are wrong, things which we want to change. . . .I will take anything (regarding) my conduct, my colleagues' conduct in terms of judgment, anything like that," said Mr. Rowland. "But when comments move from that to abuse. . .I'm quite a passionate person underneath. . . .I get quite angry."

But if the steady flow of mail from members is a fair barometer, the worst attacks may be over. Although some members still are angry and critical, "the nature of many of the letters has changed" in the past few months, Mr. Rowland said.

The tone of the letters probably has changed because "the quality of the information that members have received is better," he surmised. "They've had the task force report, they have the business plan, they have a lot of material that—if they're interested—makes them think about the future of the business. And they write about it. There are many letters now you have to do a lot of 'thinkwork' on to answer.

"Many of them are quite lengthy," putting forward plans for Lloyd's to consider, Mr. Rowland noted. Others have "increasingly good questions" that Lloyd's executives examine.

Every letter is answered, either signed by Mr. Rowland or by Lloyd's Chief Executive Peter Middleton. While some are answered immediately, about 100 letters per week are referred to the chairman's business assistant for technical assistance before a reply is sent.

Mr. Rowland also keeps his finger on the pulse of the market by visiting Lloyd's canteen to meet and learn from underwriters, brokers and market executives that he wouldn't normally meet.

In keeping with these casual meetings, much of the pomp and circumstance of being the chairman of Lloyd's is gone now that Mr. Rowland is in charge. The change is most noticeable on Lloyd's 12th floor, where he and Mr. Middleton work.

The tan marble floor has been removed and put in storage, replaced by standard carpeting. The ornate cabinets containing some of Lord Nelson's silver are now housed on the 11th floor, where Lloyd's ceremonial offices are located. Some of the Lloyd's traditional "waiters" have been dismissed, and the few remaining now work on the 11th floor.

The 12th floor now is lined

Continued on next page

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By CAROLYN ALDRED

E&O uncertainties keep 1990 accounts open

Non-marine syndicates face potential losses from members' litigation

Many Lloyd's of London non-marine liability underwriters were forced to keep open their 1990 syndicate accounts this year because of uncertainties surrounding members agents' errors and omissions claims.

Others were able to close their 1990 accounts, but reserves for potential E&O claims hurt their results.

The potential losses arise from the nearly 20,000 Lloyd's members who are suing dozens of members agents for hundreds of millions of pounds of underwriting losses (see story, page 10).

According to some Lloyd's underwriters, members may lose more from the fallout from the litigation and the cost of paying claims owed by syndicates that wrote members agents' E&O coverage than they would gain from a settlement.

The members are targeting their lawsuits at members agents for two reasons: Until 1991, members had contractual arrangements only with members agents, not the managing agents that manage individual syndicates, and the members agents have deep pockets because of their E&O coverage.

Lloyd's says that 600 million pounds ($908.7 million at the appropriate exchange rate) of the market's overall 1990 loss of 2.92 billion pounds ($4.42 billion) is attributable to "double counting," which occurs when two different syndicates establish reserves for the same loss (*BI*, June 28).

For example, one syndicate may establish a reserve for a liability claim, while a syndicate that wrote E&O coverage for members agents may set up a reserve for a potential claim against the agents related to the same loss.

Many members of syndicate 702, which specialized in E&O and libel insurance, are members of one or more of the action groups that are suing members agents, noted underwriter Reg Brown, chairman of Lloyd's Non-Marine Underwriting Assn., in a report sent to members of the syndicate. Syndicate 702, managed by Octavian Syndicate Management Ltd. has kept its 1990 year of account open.

"In that case, you are effectively plaintiffs and defendants in the same disputes. It may be that some of you stand to lose more as members of the syndicates defending the actions than you stand to gain as members of action groups," he warned them. "Only the lawyers will gain in that event."

Although syndicate 55's 1990 account was closed, underwriter G.E. Lloyd-Roberts summed up his and other underwriters' exasperation over the need to establish reserves for E&O claims: "The irritation caused by having to set aside sizable reserves for Lloyd's agents professional indemnity, an insurance product never designed to cover bad underwriting, is hard to convey in a public document."

"The lawyers would be considerably poorer, and (syndicate 55's) 1990 year nearer to breakeven had the market been able to stop one group of names attempting to transfer an underwriting loss to another, often common group of names, via an inappropriate mechanism," Mr. Lloyd-Roberts wrote in the annual report for syndicate 55, managed by Lloyd-Roberts & Gilkes Ltd.

For syndicate 210, one of Lloyd's largest non-marine syndicates, the E&O problem has been the nail in the coffin.

"Considerable uncertainty over (syndicate) 210's involvement in the personal stop-loss and Lloyd's agents' errors and omissions issues, as well as the change in reserving methodology on pollution, means that the 1990 account must be left open to ensure equity between names," wrote Alan Lee, underwriter for syndicate 210, managed by Sturge Non-Marine Syndicate Management Ltd.

The syndicate reported a loss of 66.3 million pounds ($128 million), or 36% of its 184.2 million pound ($297.3 million) capacity for 1990, with half the loss attributable to Lloyd's agents' E&O and members' personal stop-loss policies.

The syndicate, which has suffered a dramatic fall in capacity in recent years, will officially close at the end of 1993, though staff members already have been laid off, including Mr. Lee (*BI*, May 10).

Other syndicates also have left open their 1990 accounts or announced significant losses resulting from members' litigation against members agents.

Syndicate 584, managed by

Continued on next page

Rowland

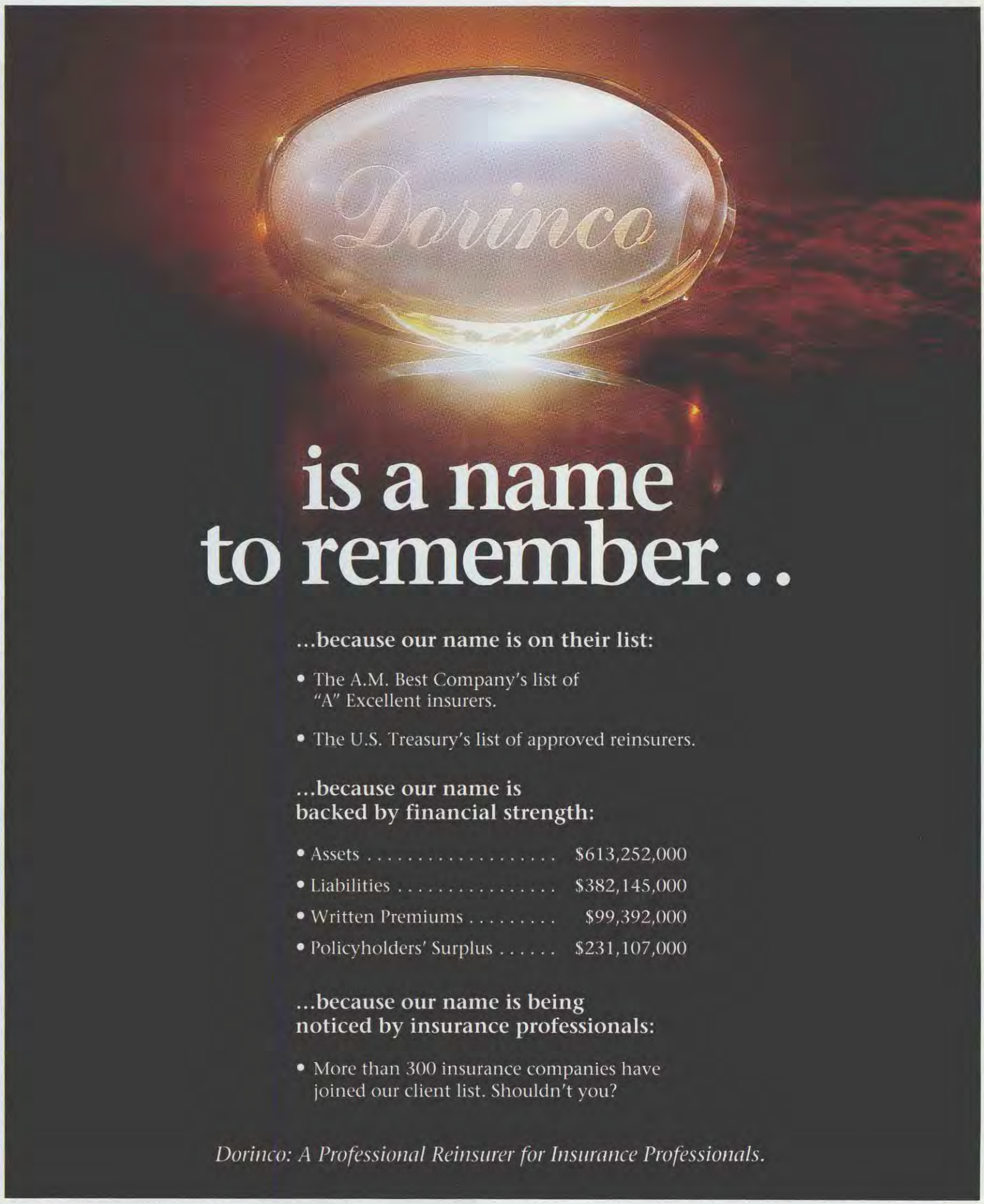
Continued from previous page

with the secretaries of key market executives, who now work on the same floor as Mr. Rowland.

Gone, too, is the sleek Italian furniture in what used to be conference rooms that now house offices. Only the chairman's office looks the same, with its grandfather clock, mahogany table, comfortable sofa suite, wood-paneled bookcase and huge desk.

Lloyd's Rolls Royce has been replaced by a blue Jaguar used by Messrs. Rowland and Middleton. Lloyd's previously had four drivers and four cars for executives' use; that's been cut to the Jaguar and one driver.

Generally, Mr. Rowland shies away from being the "ambassador of the London insurance market," a role his predecessors performed worldwide. While there's not as much grand entertaining at Lloyd's these days, "I see hundreds of people coming in here" from all over the world, said Mr. Rowland. "That's very important to our business." BI



Spotlight report

E&O claims

Continued from previous page

Bankside Syndicates Ltd., reported that half, or 1.3 million pounds ($2.5 million), of its total loss of 2.6 million pounds ($5 million) is attributable to the "Lloyd's agents errors and omissions issues."

The account was left open because "the possible outcomes of the actual and potential litigation" may become clearer in the future, underwriter C. Hankin wrote in the syndicate's annual report.

Syndicate 1069, managed by Cotesworth & Co. Ltd., also kept its 1990 account open due in part to uncertainty over reserving for agents' E&O claims, wrote underwriter M.E. Warrington in the syndicate's accounts.

The syndicate actually made a profit in 1990 of 4 million pounds ($7.72 million).

Nearly half the 14.1 million pound ($6.2 million) loss for the open 1990 account of syndicate 456 is also due to provisions for potential agents' E&O claims, reported P. Battle, underwriter for the syndicate managed by Bankside Syndicates Ltd.

Meanwhile, several syndicates have decided to keep open only the section of their accounts covering E&O, personal stop-loss and estate protection plans that cover the estates of deceased members. While the syndicates' accounts are still officially open for 1990, other portions of their accounts already have been carried forward into the 1991 accounts.

Syndicate 190, managed by Cater Allen Syndicate Management Ltd., which wrote a portion of three excess layers on the Lloyd's members agents' E&O line slip, kept a portion of its account open because of uncertainty over E&O claims.

According to the underwriter's report, syndicate 190 had an overall loss of 13.1 million pounds ($19.8 million). The syndicate's loss amounted to 4.5% of its 161.7 million pound ($261 million) capacity for the "main part of the account which has been closed into the 1991 account," plus "an additional 5.9% in respect of the errors and omissions part of the account which remains open.

"As it would patently be preposterous and unfair to ask names for a large amount of money for what are only potential claims, I and the Cater Allen Syndicate Management board have decided to leave open (the E&O) section only of the 1990 account," underwriter John Wetherell wrote in syndicate 190's annual report.

"Names are aware of the highly charged situation regarding these claims. I do not know whether the claims will be fought to the bitter end in the courts, which could take anything between three and five years, or whether compromises will be agreed. What I do know is that a call at this stage would be quite unwarranted and unnecessary," Mr. Wetherell added.

Syndicate 702 also told members that it only kept open the section of its 1990 account covering agents' E&O, personal stop-loss and estate protection plan. This part of the syndicate could not be closed because "it has been very difficult indeed to identify and quantify these claims," wrote the syndicate's underwriter, Mr. Brown. "Action groups abound—over 30 at the last count. Yet in very few cases have the groups served writs and lodged statements of claim."

In the meantime, some syndicates closed their 1990 accounts but were forced to establish substantial reserves for agents' E&O claims, which wrecked their 1990 results.

For example, syndicate 919 managed by Murray Lawrence & Partners Ltd., closed its 1990 account "after serious and deep thought" and a net provision of some 5 million pounds ($7.6 million) for possible agents' E&O exposures.

Syndicate 396, managed by MFK Underwriting Agency Ltd., closed its account and made a loss of 2.4 million pounds ($3.6 million) despite forecasts of a profit, due mainly to provisions for agents' E&O exposures.

Closed syndicate 780, managed by B.F. Caudle Agencies Ltd., reported an overall loss of 1.4 million pounds ($2.1 million), largely due to E&O reserves. "Provisions have been made for potential claims relative to names' litigation. Sadly, had it not been for this provision, an underwriting profit. . .would have been achieved," wrote underwriter B.F. Caudle. BI

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Non-marine tide turning too late

Deficits blow apart syndicates, but some predict calm after storm

By CAROLYN ALDRED

Lloyd's of London's non-marine underwriters are heralding a market upturn, claiming the next few years will see profits return to the stricken market.

Many of these underwriters also believe that Lloyd's business plan provides a blueprint for future success (see story, page 29).

But, for many underwriters, the tide is turning too late, with members—and capacity—fleeing their syndicates in droves.

Many non-marine syndicates have been blown apart by huge deficits in the 1990 underwriting year. Among the losses that battered 1990 accounts were the European windstorms that caused more than $8 billion in insured damage, errors and omissions claims anticipated against Lloyd's members agents and war risk claims from Kuwait.

And many Lloyd's of London non-marine syndicates could remain in the red for 1991 and 1992 because of catastrophes like Hurricane Andrew, continued asbestos and pollution claims, and the bolstering of reserves for uncollectible reinsurance.

As a result of these losses, the non-marine marketplace is contracting, which could lead to a capacity shortage just at the time when Lloyd's could benefit from an upswing in rates.

"The market is hardening rapidly, and it is a good time to be writing at Lloyd's," summed up Reg Brown, chairman of Lloyd's Non-Marine Underwriters Assn. "But when rates are hardening (as) capacity decreases slightly, the problem is how to cope with more business.

"There are mechanisms available to underwriters such as quota-share and consortium arrangements, and next year corporate capacity will help the market cope. . . .But the brokers can go elsewhere. We have no God-given right to the business. We have to earn it," he said.

The non-marine market posted an underwriting loss for the 1990 accounting year, the latest to close at Lloyd's, of 1.05 billion pounds ($1.59 billion), a slight improvement from the 1.15 billion pound ($2.15 billion) underwriting loss in 1989. The improvement was attributed to profits from accident and health insurance underwriting.

'The market is hardening rapidly, and it is a good time to be writing at Lloyd's,' says Reg Brown.

The non-marine market, however, only lost 935.9 million pounds ($1.42 billion) on business actually written in 1990. The remainder of the loss is attributed to additional reserves for business written in previous years whose accounts have not yet been closed.

The 1990 market loss reflects claims from the European windstorms coupled with inadequate rates worldwide and increased reserves for asbestos, pollution and agents' E&O claims (*BI*, June 28).

The 1990 underwriting year "will undoubtedly rank as the worst year in Lloyd's history," summed up R. Barry, underwriter for syndicate 342, managed by Bankside Syndicates Ltd, in his syndicate report.

"With the exception of our North American property catastrophe account, every major section of our account incurred a loss," he said. As a result, the syndicate, which will shut down at year-end 1993, reported a 1990 loss of 2.6 million pounds ($3.9 million) on capacity of 13.8 million pounds ($22.3 million). It had 513 names in 1990.

"Without doubt, 1990 has proved to be the syndicate's annus horribilis," wrote Alan Lee, underwriter for syndicate 210, one of Lloyd's largest syndicates, which will shut down at the end of the year. Mr. Lee was paraphrasing a quote from Queen Elizabeth II on her family's terrible year last year.

In 1990, syndicate 210 suffered: "intense competition throughout the majority of insurance classes; major storms inflicting substantial damage to the United Kingdom and large areas of Europe; recession throughout the world, with the inevitable increase in crime and arson losses; subsidence claims (caused by the) drought in the United Kingdom; and finally, (member) action groups' claims against members and managing agents requiring substantial provisions," Mr. Lee said (see story, page 25).

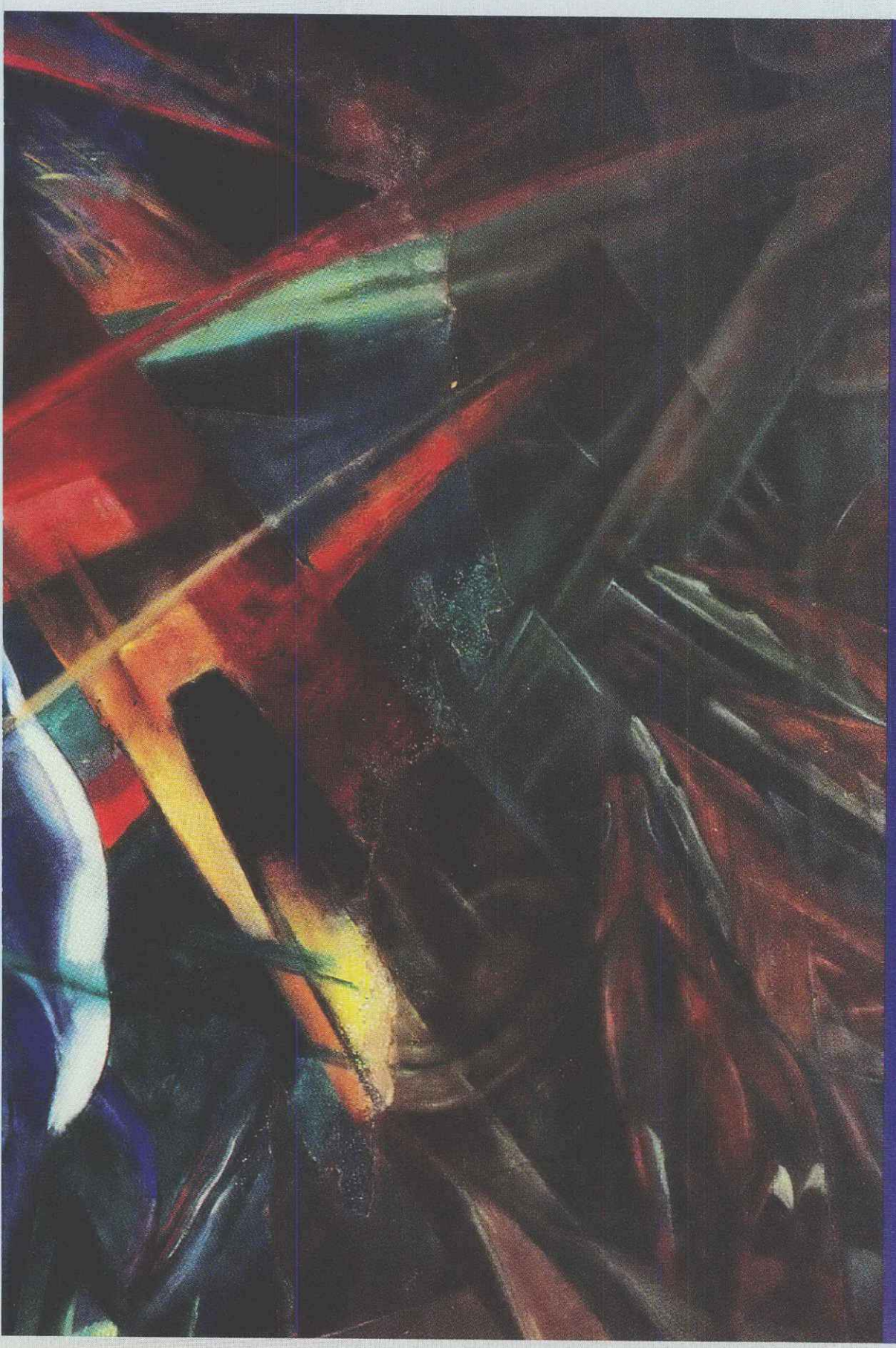
Mr. Lee's syndicate, with a 1990 capacity of 184.2 million pounds ($297.3 million), kept the year open and reported a loss of 60.6 million pounds ($117 million). The syndicate's capacity has been dropping since 1990, and for the 1993 underwriting year only reached 65 million pounds ($98.4 million).

G.F. Pipe, underwriter for syndicate 506, managed by Claremount Underwriting Agencies Ltd., also said 1990 "reflects all the bad news prevailing at the time."

Mr. Pipe's syndicate reported a 2.2 million pound ($4.25 million) loss on 40 million pounds ($64.6 million) in capacity in 1990, but he closed his account. He blamed a combination of overcapacity, recessionary pressures and major catastrophes for the 1990 loss.

"1990 was the year everything went wrong for us," summed up Mr. Brown, who is also underwriter for syndicate 702, managed by Octavian Syndicate Management Ltd. His syndicate, which kept its 1990 account open and lost 6.3 million pounds ($12.2 million), suffered from provisions for claims against Lloyd's members agents' errors and omissions policies, deterioration of prior-year business, contract frustration claims aris-

Continued on next page



Non-marine market

Continued from previous page

ing from the political climate in Russia, war risk claims from Kuwait, European storm losses and provisions for uncollectible reinsurance.

Catastrophe excess-of-loss syndicate 561, managed by Bankside Syndicates Ltd., closed its 1990 account but with a loss of 21.9 million pounds ($33.2 million) on capacity of 67.9 million pounds ($109.6 million). The loss was mainly due to European windstorms.

Meanwhile, further losses are predicted by many non-marine underwriters for 1991, which will be announced next year under Lloyd's three-year accounting system. The losses are due mainly to a continued weak market, the $5 billion Japanese Typhoon Mireille and the Oakland, Calif., brush fires.

1991 "was for the most part a rotten trading year—rates were low, competition was rife and there was a very damaging windstorm in Japan," underwriter John Wetherell wrote in the annual report for syndicate 190, managed by Cater Allen Syndicate Management Ltd. Still, he hopes to make a profit in 1991 after leaving his syndicate's 1990 year open with a 13.1 million pound loss ($25.3 million).

"Despite the catastrophe losses experienced by the market in 1989 and 1990, cutthroat competition continued unabated into 1991," added D.H. Melaniphy, underwriter for syndicate 322, also managed by Cater Allen. He expects a loss of 2.5 million pounds to 5 million pounds ($4.8 million to $9.7 million) for his syndicate, which had capacity of 49.6 million pounds ($95.7 million) in 1991.

"(1991) was a very difficult year in the non-marine market. The rates were inadequate in virtually all classes of business," wrote B. Dyer, underwriter for syndicate 484, managed by Methuen (Lloyd's Underwriting Agents) Ltd. He hopes his syndicate will turn a profit in 1991, however.

In the meantime, 1992—the year in which some non-marine rates began to rise but also the year Hurricane Andrew struck—is expected to produce mixed fortunes for the non-marine market.

"Trading conditions in most areas of the world other than the United States were much improved in 1992," said Mr. Melaniphy, adding that "the losses of previous years brought about a dramatic contraction in the market, and the impact of this lack of capacity began to create the underwriters' market we have long awaited."

But, he cautioned, "It is now clear that (1992) has become the worst on record for catastrophe losses."

The $15.5 billion Hurricane Andrew loss "to such a relatively small geographic area has given food for thought to many in both the insurance and reinsurance markets," added J. Woolridge, underwriter for syndicate 939, managed by Octavian Syndicate Management Ltd. Andrew-related claims contributed to an expected net loss for Mr. Woolridge's syndicate 939 of 3.8 million pounds ($7.3 million) on 1992 capacity of 25.1 million pounds ($40.5 million).

In 1992, "the North American catastrophe market was rocked . . .by hurricanes. . .serious rioting in Los Angeles and other cities in the U.S. following the first Rodney King verdict and three significant hailstorms—two in Texas and one in Kansas City. The year ended with severe winter storms in the Northeastern states," Mr. Woolridge said.

While catastrophe claims are nothing new for Lloyd's syndicates, the speed at which they are being paid is, Mr. Brown said. "Hurricane Andrew went through the market like a dose of salts," he noted.

"Hurricane Alicia (in 1983) took four to five years to be settled, but Andrew was settled in a matter of months. This was a testimony to Lloyd's claims-paying ability and systems, but was not so good for underwriters because it showed through in the results so much quicker," he said.

Mr. Brown sees the speedier Lloyd's claims-processing system as an improvement. "We are a service industry and part of that service is to give the client a piece of paper and make sure they know what they've got. Lloyd's has drastically improved its document processing and production and improved claims processing beyond measure."

Contraction in the London excess-of-loss reinsurance market means that Hurricane Andrew will cause much less devastation among syndicates than the much-smaller Hurricane Hugo caused in 1989, stressed Mr. Brown. He believes Andrew will cost the Lloyd's market only about $1 billion.

Lloyd's is determined to avoid a repetition of the LMX disaster, and Mr. Brown, as chairman of

Continued on next page

Largest Lloyd's non-marine syndicates

Based on 1993 gross allocated capacity in millions of pounds

Syndicate	Managing agency	Underwriter	1993 capacity		1990 profit	
362*	Murray Lawrence & Partners Ltd.	R.J. Keeling	£192.1	$291.1	£6.6	$10.0
33	Hiscox Syndicates Ltd.	I.N. Thomson	175.4	265.7	8.8	13.3
510	R.J. Kiln & Co. Ltd.	G.D. Gilchrest	157.9	239.2	5.7	8.6
386	Janson Green Ltd.	R.J. Wallace	121.4	183.9	26.4	40.0
435	D.P. Mann Underwriting Agencies Ltd.	D.P. Mann	103.3	156.5	6.1	9.2
490	R.G.B Underwriting Agencies Ltd.	P.M. Brotherton	88.6	134.2	2.0	3.0
1007	Spreckley Villers Hunt & Co. Ltd.	C.W. Spreckley	87.9	133.2	7.1	10.8
205	H.G. Jago Ltd.	C.G. Jago	72.1	109.2	5.1	7.7
51	Wellington Underwriting Agencies Ltd.	A. Taylor	67.4	102.2	1.9	2.9
623	Beazley Furlonge & Hiscox Ltd.	A.F. Beazley	63.4	96.1	1.4	2.1

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

GRAPHIC BY JERRY PARKS

HMO

Indemnity

Continued from previous page

the Lloyd's Non-Marine Underwriters Assn., is deeply involved in Lloyd's to come up with a "risk-profiling system."

The corporation began investigating possible methods of controlling aggregations of risk among syndicates after Sir David Walker published his study of the LMX spiral early last year (*BI*, July 6, 1992).

Sir David suggested that the market formulate a method of risk weighting that would award different classes of business with "danger values." These values would be linked to a syndicate's capacity to prevent it from writing too much super-risky business.

But Mr. Brown pointed out that this would not be an easy task and a lot more debate and deliberation is needed before the formula can be unveiled.

"It's very difficult to arrive at a realistic risk-weighting factor, because all business is risk business and there are so many factors to take into account," he said. "A lot must be decided before we can arrive at the inherent riskiness of a business class."

Meanwhile, the capacity that evaporated with the demise of the LMX spiral has hurt the non-marine insurance community in London and caused a reinsurance shortage for syndicates.

"Over the last 12 months, there have been deaths of so many apparently solid reinsurers that the continued existence of the dwindling band that remains has been called into serious doubt," wrote Nicholas Thomson, underwriter for syndicate 33, managed by Hiscox Syndicates Ltd.

"Countless reinsurance companies have ceased trading and many more face a desperate battle for survival," agreed Mr. Woolridge of syndicate 939. "This in turn has impacted on Lloyd's syndicates, and 939 has had to strengthen its bad debt provision" by more than 3.5 million pounds ($6.8 million), he added.

Many other non-marine syndicates also have been forced to increase provisions for uncollectible reinsurance. "Several recent substantial insurance company failures, closures and liquidations have inevitably impacted our available reinsurance cover which protects against the attritional losses in the closed years, and the final reserves established at this year end create a worsening on the closed years, largely due to the provisions we have put in place to deal with bad and doubtful debt," noted Peter Grove of syndicate 561.

•

Adrian Ladbury contributed to this report.

Underwriters hope changes at Lloyd's will spark profits

Look to hardening rates and terms

By CAROLYN ALDRED

Underwriters at Lloyd's of London are pinning their hopes on the radical business strategies being implemented by Lloyd's new management team.

While the market has reported record losses in the 1990 underwriting year, underwriters for the 107 non-marine syndicates operating at Lloyd's this year are optimistic about the future.

The Lloyd's business plan, announced by Lloyd's Chairman David Rowland and Chief Executive Peter Middleton in April, offers the best chance for Lloyd's survival, argue the underwriters.

Among other proposals, the plan proposes a means of running off past-year liabilities and will introduce corporate capital into the market (see stories, pages 18 and 20).

Underwriters point out that non-marine insurance rates and terms are hardening in almost all lines, greatly increasing chances for future profitability.

Eager to capitalize on a market turn and rebuild Lloyd's as a premier insurer, underwriters are urging names to remain members of their syndicates.

"It has been a painful process for all, with market forces reasserting themselves, but Lloyd's is now leaner and fitter and there is a single-minded determination throughout Lloyd's to succeed," wrote underwriter J. Colyear in the annual report for syndicate 1087, managed by Castle Underwriting Agencies Ltd.

"With the firm prospect of returning to a period of sustained profitability, I do not believe, in the last 25 years, there has been a better time to be a Lloyd's name," he told members of his syndicate, adding that he is increasing his own participation for 1994.

However, "Lloyd's is still feeling the effects of the past few disastrous years. The number of syndicates actively trading is still falling," wrote R. Wasey, underwriter for syndicate 1047, managed by Barder & Marsh Ltd.

"The figure will fall further for 1994, but with the problems of asbestosis and pollution for 1985 and prior effectively being ring-fenced and with the advent of corporate capital, the future of Lloyd's looks far healthier than it has for some time," he added positively.

Other underwriters acknowledge that many names have suffered under the massive losses of recent years, but stress that their support for the plan is now vital to Lloyd's future.

"Circumstances during the past two years for Lloyd's have been the most difficult I have ever experienced," commented underwriter Michael Manning, who is now in his 27th year with syndicate 56, managed by London Wall Managing Agencies Ltd.

"And the resilience of the majority of names throughout these difficult times has been remarkable," he wrote in the syndicate's annual report.

The Council of Lloyd's "has produced what I would term as the final draft of the blueprint for all our tomorrows," wrote Anthony Cassidy, underwriter

Continued on next page

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Non-marine outlook

Continued from previous page
for Syndicate 582, managed by Cassidy Davis Underwriting Ltd.

"It has also fired a perfectly justified shot across our bows—time is so against us that if Lloyd's existing membership rejects the plan, so that the level of litigation continues to spiral, than anyone in Lloyd's under the age of 50 had better begin planning a new career," Mr. Cassidy warns.

"Furthermore, every one of us who is a name at Lloyd's should recognize the awfulness of the bottom line. Each of us inescapably stands behind every Lloyd's policy ever written," he added.

The Lloyd's business plan "changes totally the Lloyd's of 300 years," commented Michael Cockell, chairman of underwriting agency M.H. Cockell & Partners

The need for this fundamental change in the market has been brought about by the "totally irresponsible and incompetent underwriting" of a few market operators, according to Mr. Cockell.

"Sadly something dramatic had to be done, and with great courage it has been," he noted, adding that the business plan is "a vital plan for the future of the market and in general deserves support."

Underwriters generally welcome the plan and believe it will be accepted by the majority of Lloyd's members.

In fact, members expressed overwhelming support for the business plan in recent balloting over special resolutions related to the plan (*BI*, Aug. 16).

'The undeniable truth is that the old saying that it is always blackest before the dawn is true of present Lloyd's,' remarks N.C. Marsh, underwriter for syndicate 570. 'The corner has been turned. We, as a market, will make money in the future.'

"I am certain that this bold, radical and progressive plan will be the foundation of Lloyd's for the 21st century," wrote John Wetherell, underwriter of syndicate 190, managed by Cater Allen Syndicate Management Ltd.

"It hands down no easy solutions, but unless we put aside introspective and selfish excuses as to why some of the apparently harsh and unfair conclusions should apply to others and not to ourselves, the plan will be delayed and stunted," warned Mr. Wetherell, adding that "that must not be allowed to happen and I have little doubt that this document will have the support of the vast majority of members."

"I believe that this document will gain broad acceptance and co-operation from within the market, and with improved trading conditions the prospects for the future are indeed very exciting," wrote D.H. Melaniphy, underwriter for syndicate 322, managed by Cater Allen Syndicate Management Ltd.

"The undeniable truth is that the old saying that it is always blackest before the dawn is true of present Lloyd's," remarked N.C. Marsh, underwriter for syndicate 570, managed by M.H. Cockell & Partners.

"The corner has been turned. We, as a market, will make money in the future, for the industry worldwide has taken a fearful battering. Those surviving and continuing should reap the rewards," he wrote.

The importance of Messrs. Rowland and Middleton's plan was stressed by many underwriters.

"I can only hope they can 'pull the rabbit out of the hat' and deliver a solution to the serious problems affecting Lloyd's," wrote underwriter Alan Lee, whose syndicate 210, managed by Sturge Non-Marine Syndicate Management Ltd., is closing at the end of this year. Mr. Lee, in fact, already has been laid off.

"Help has to be found somehow for the aggrieved names, so that as a society we stop trying to kill ourselves," Mr. Lee added in the report to members.

"But there is light at the end of the tunnel," according to Reg Brown, underwriter for syndicate 702, managed by Octavian Syndicate Management Ltd. "There is a determination in the market" that the new management will succeed," Mr. Brown added.

Meanwhile, the state of the insurance market worldwide will help Lloyd's struggle back to profitability, he noted.

"The appalling results of the worldwide insurance industry over the last few years have led to a massive reduction in capacity. Demand for the insurance produce remains high while supply is shrinking" leading to increased rates and tighter terms, noted Mr. Brown.

It is a view echoed throughout the non-marine market.

"Laudamus! Premiums are up, policy limits and aggregates are down, our competitors are on the ropes or out of business, and sanity is returning to our market," exclaimed Mr. Wetherell.

"I do not recall a more favorable underwriting climate since the late 1960s," wrote M.J. Meacock, underwriter for syndicate 727, managed by S.A. Meacock & Co.

"Capacity will continue to be in short supply, and as a consequence rates will turn to the soft market conditions of recent years. Expect the prospect for profit to continue to improve," he predicted.

"Change and a more ruthless era now exist. Brokers have a market much reduced in capacity and remaining insurers are demanding substantial increases in premiums," wrote J.R. Clare, underwriter for syndicate 732, managed by C.I. de Rougemont & Co. Ltd.

"Worldwide rates are very definitely on the move upwards. There have been many well-publicized company failures which are exerting ever-growing pressure on reinsurance capacity and a harsh supply and demand marketplace prevails," commented R. Finn, underwriter for syndicate 219, managed by Sturge. BI

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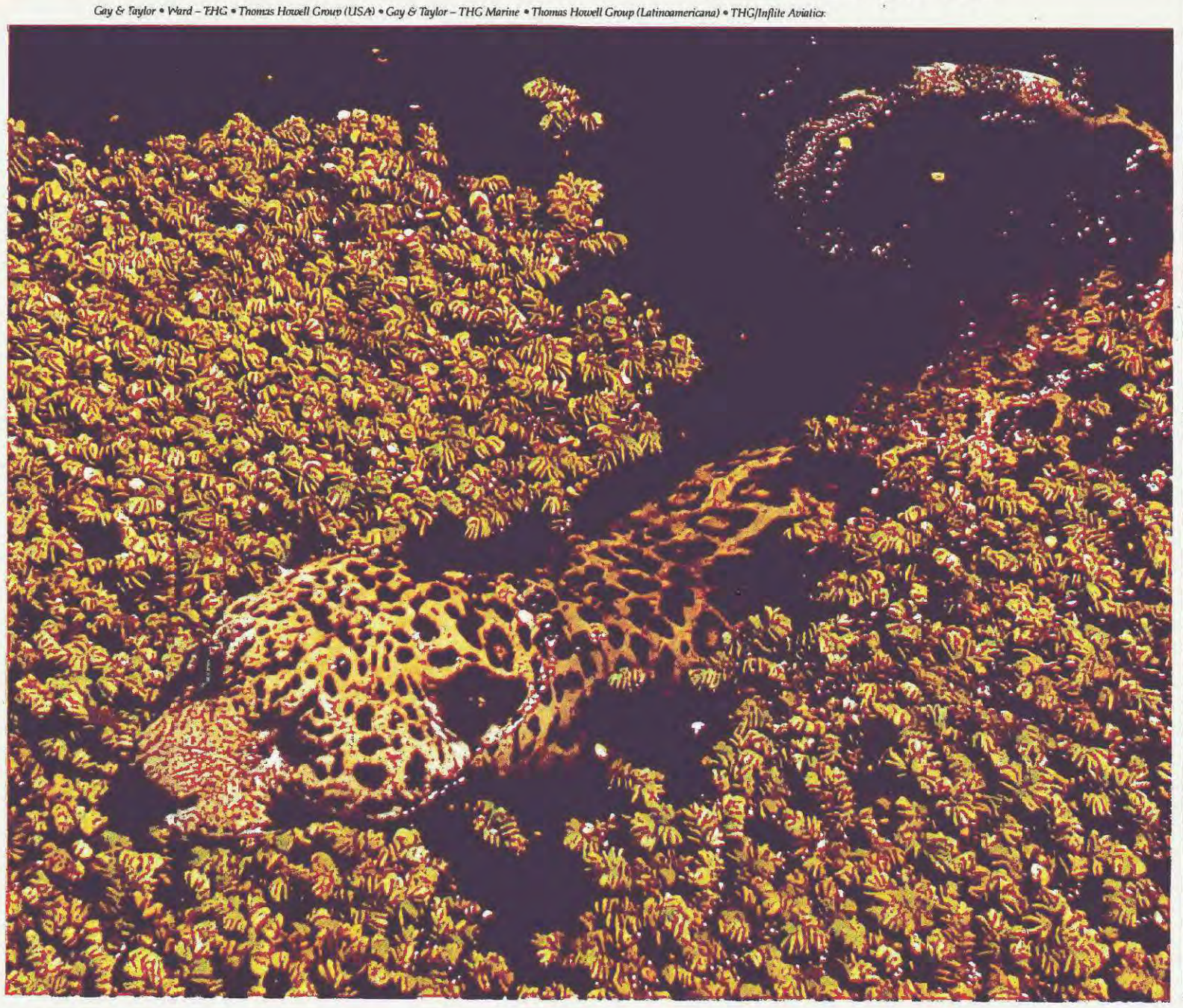
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Not the biggest, but it was the best

Surprising syndicate 952 thrives on catastrophe

By ADRIAN LADBURY

The best-performing Lloyd's of London syndicate during loss-plagued 1990 was not one of the biggest. In fact, it's one of the smallest.

Mike Harris' non-marine syndicate 952, managed by A.J. Archer & Co. Ltd., had capacity of 480,000 pounds ($774,000) and only 45 members in 1990.

In contrast, the syndicate was dwarfed by its bigger brother, non-marine syndicate 947, also headed by Mr. Harris. Syndicate 947, with 2,092 members in 1990, had a capacity of 60.2 million pounds ($97.2 million). And another syndicate in Mr. Harris' collection, non-marine syndicate 923, had 1,090 members and a capacity of 15.2 million pounds ($24.5 million) in 1990.

But, despite its size, syndicate 952 outperformed all others in return on capital during 1990.

Syndicate 952's winning performance surprised many people for another reason besides its size: The syndicate specializes in high-level catastrophe excess-of-loss reinsurance.

Yet, for each 10,000 pounds ($15,150 at the appropriate exchange rate) invested by members, the syndicate made a handsome profit of 5,854 pounds ($8,866). The tiny syndicate closed the year with a profit of 281,000 pounds ($425,575).

By comparison, the entire Lloyd's non-marine market posted an average loss of just more than 2,000 pounds ($3,029) per 10,000 invested.

The worst-performing syndicate in 1990 was syndicate 1035, managed by Octavian Syndicate Management Ltd., which posted a loss of 7,448 pounds ($11,280) per 10,000 pounds invested. The syndicate, whose 1990 account remains open, reported a total loss of 17.9 million pounds ($27.1 million).

Syndicate 923, one of 952's brethren that also specializes in excess-of-loss reinsurance, also fared well compared with the rest of the market, with a profit of 1,038 pounds ($1,572) per 10,000 pounds of capital and a total profit of 1.5 million pounds ($2.3 million). Meanwhile, syndicate 947 lost 400 pounds ($606) per 10,000 pounds of capital and produced an overall loss of 2.4 million pounds ($3.6 million).

Syndicate 952 typically reinsures earthquake coverage in Japan and the United States' West Coast, windstorm coverage in France and winter weather coverage in the United Kingdom —the types of catastrophe business that have wreaked havoc with Lloyd's results over the past few years.

But the bumper year came as no shock to Mr. Harris. His explanation is simple: "We buy no (traditional) reinsurance, so we have to be bloody careful."

But, as Mr. Harris is very quick to point out, it also comes as no shock to him—or his members, he hopes—that syndicate 952 will post losses in both 1991 and 1992. Because of the structure of its book of business, tight underwriting controls and its unique reinsurance program, the syndicate either will produce exceptional profits or horrible losses, he explained.

"This is not a syndicate for the fainthearted," he said.

Mr. Harris describes syndicate 952 as "the ultimate volatility syndicate," which writes "it-can't-possibly-happen business." Almost all of its business is from primary insurers, and it has no involvement in the LMX spiral. "I was thankfully trained as a non-LMX underwriter," he said.

The only reinsurance the syndicate buys is "unconventional backup cover," which is triggered only if there is a second catastrophic loss in any year. "We have not used it yet, so we are not wasting vast sums of money that way," Mr. Harris explained.

The minimal reinsurance expenditure combined with the quickly rising catastrophe reinsurance premiums it now collects means that the syndicate will produce a profit if only one major catastrophe occurs during a year.

Because of the structure of its book of business, tight underwriting controls and its unique reinsurance program, syndicate 952 either will produce exceptional profits or horrible losses, underwriter Mike Harris explained.

The philosophy that produced the profitable 1990 account continues and is explained in Mr. Harris' 1993 syndicate profile.

"For 1993, 952's portfolio of top catastrophe layers is experiencing the most dramatic rate increases of any sector in the non-marine market. Increases of 50% to 150% are routine, even for territories unaffected by recent losses," he reported.

"The premium increases generated by these rate increases have allowed a substantial reduction in aggregate exposures, fundamentally reducing the vulnerability of the syndicate to one single loss."

In the 1990 year of account, the syndicate suffered no significant losses. Net claims of only 43,000 pounds ($65,123) were reported against net premiums of 309,000 pounds ($468,000), hence the excellent result.

But, for 1991, the syndicate faces large Japanese windstorm losses. Net claims jumped to 569,000 pounds ($1.1 million at the appropriate exchange rate),

Continued on next page

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Our bottom line.

Continued from previous page
compared with net premiums of 420,000 pounds ($785,400).

And, in 1992, hurricanes Andrew and Iniki ravaged the syndicate's results. Net claims currently stand at 614,000 pounds ($930,000), compared with net premiums of 519,000 pounds ($786,000).

When syndicate 952's lofty 1990 performance was first announced earlier this year, some questioned the makeup of the syndicate's members. Forty-seven percent of its members in 1990 were working names, compared with a market average of only 18%.

But Mr. Harris was quick to explain that this proportion should also come as no surprise. "There is a high proportion of working names on the syndicate because they understand it. The external names (on the syndicate) are very rich names who really understand the business," he explained.

'Because of the nature of the business, you know your losses straight away,' says Mike Harris.

All of syndicate 952's members must sign a document declaring they understand the inherent volatility of the syndicate, Mr. Harris noted, so no one can whine if they lose.

"Another great thing about 952 is that you can close the syndicate within 18 months. Because of the nature of the business, you know your losses straight away. It cuts out all the uncertainty," he said.

Mr. Harris believes that all underwriters can run a small catastrophe syndicate similar to syndicate 952, as long as they make the right calculations and have the conviction not to buy traditional types of reinsurance.

One major cause of the capacity crunch in the catastrophe reinsurance market is overreliance on reinsurers' own retrocessional programs. Mr. Harris believes that underwriting high-risk business without the safety net provides the steepest learning curve any underwriter can obtain. "I have learned more about basic underwriting during the last five years on 952 than I did in the last 30, simply because I did not buy any reinsurance," he said. BI

Syndicates finding profits hard won beyond Lime Street

But many see potential for success

By CAROLYN ALDRED

Initiatives by Lloyd's of London underwriters to bypass Lloyd's brokers and underwriters outside of Lime Street are meeting with mixed success.

Several syndicates have abandoned their experiments, while others say they are attracting valuable new business through non-London-based underwriting offices. Some of these syndicates plan to expand their operations.

Since the late 1980s, a growing number of managing agencies have formed service companies to enable their syndicates to write business placed by non-Lloyd's brokers both in the United Kingdom and overseas (*BI,* Sept. 2, 1991).

While these ventures were formed to bring new business to Lloyd's, some syndicates found they could not attract enough premium through their service companies to justify the additional costs. In addition, some say the margins on the business produced outside the market are not high enough.

Additionally, decreased capacity in the Lloyd's market has dampened syndicates' desire to reach out for new business.

Wellington Underwriting Agencies Ltd. has closed its Italian underwriting company, Wellington Italia, because selective underwriting meant the agency was "precluding growth in premium income to a viable level," according to A. Taylor, underwriter for syndicate 51.

Non-marine syndicate 561, managed by Bankside Syndicates Ltd., is closing its U.S.-based service company after being inundated with Hurricane Andrew claims. "The service company wrote pro rata and risk excess business in the U.S.A., including some exposures in Florida," underwriter Peter Grove wrote in the syndicate's annual report.

"Direct insurers carry significant exposures which are shared by pro rata and risk excess treaty writers. In normal circumstances, the spread of risks written would reduce the impact of any loss to an acceptable level," he said, adding that in the case of Hurricane Andrew, however, "the sheer scale of the event has worked against this normal mitigating factor."

Moreover, in hindsight, it is clear that "building codes were not enforced properly or were inadequate from the start for such a unique loss," he added.

As a result of the losses, Mr. Grove has "withdrawn from all such business, reluctantly closing the service company as a consequence."

Meanwhile, some syndicates that limited their "out-of-town" underwriting to the U.K. domestic market also are finding the going tough.

"The underwriting results achieved in our dealings with 'High Street' brokers through Stewart Insurance Services Ltd. have been disappointing, and therefore, I have curtailed growth in this area," wrote T.W. Brien, underwriter for syndicate 15, managed by Stewart & Hughman Ltd.

However, Mr. Brien has not given up hope entirely, adding that he intends to "rekindle this production in due course."

Syndicate 122, managed by Sturge Reinsurance Syndicate Management Ltd., meanwhile,

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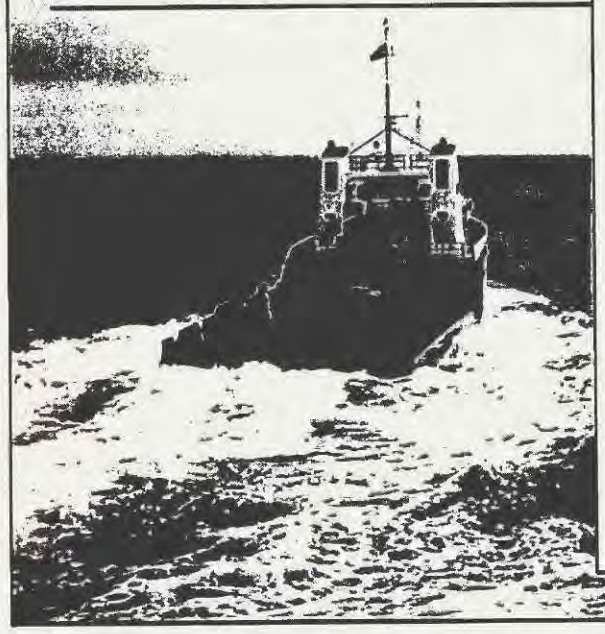
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Service companies

Continued from previous page

has sold its direct-marketing branch for U.K. homeowners insurance due to lack of capacity.

"Our U.K. household branch was established using market rates which have since proved to be inadequate. It is regrettable that we do not have the capacity to continue with this branch at a time when household rates in the U.K. are so much firmer," underwriter R.J. Hunter wrote in the syndicate's annual report.

"However, the terms on which the branch has been taken over by an insurance company are potentially favorable to the syndicate. The insurance company will manage the runoff of the existing portfolio without charge, the syndicate will receive a profit commission on business written during the years 1993 to 1995, and the syndicate also has a three-year option to write quota-share reinsurance of the ongoing account," added Mr. Hunter.

Most syndicates, however, are persevering with their ventures, though many agree that business is slow.

Syndicate 1143, managed by Weedon Underwriting Agency Ltd., has a minor shareholding interest in ENAM Management Co. Inc., a Chicago-based company established "to enhance the flow of business to the Lloyd's market," underwriter J. Weedon wrote in the syndicate's annual report.

"Although business production has been relatively modest, we remain optimistic for the future," he added.

U.K. homeowners business written through Maidstone, Kent-based Link Insurance Services "is still not producing the margins necessary for us to continue without taking further action," noted G.D. Gilchrist, underwriter for syndicate 510/511, managed by R.J. Kiln & Co. Ltd.

"To that end we are continuing the rate review process and have decided severely to restrict the number of High Street agents that sell our products in order that we can provide a capital base and service to those who have supported us so well through the difficult times," he wrote in the syndicate's annual report.

The premium volume generated by the service company is expected to rise to between 10.5 million pounds and 11.5 million pounds ($15.9 million to $17.4 million) for 1993, up from 7.5 million pounds ($11.4 million) in 1992.

Other syndicates already are seeing satisfactory returns and plan to expand the amount of business they write through non-traditional routes.

Syndicate 1156's Bristol, England-based service company, Bankside Services Ltd., "continues to develop valuable business, which has not traditionally been offered to the Lloyd's market," underwriter John Murphy wrote in the syndicate's annual report.

The syndicate, managed by Bankside Syndicates Ltd., specializes in writing U.K. liability business.

Syndicate 962, managed by Holman Managed Syndicates Ltd., seeks to expand its employers liability and general liability business by increasing "the volume of business, which it already writes, to provincial U.K. brokers through its service company, Charrington (962) Ltd.," according to underwriter A. Vine.

"The company has gained a reputation, since its formation in 1991, for service, reliability and speed of quotation. I intend to build on these foundations and, coupled with rates currently rising towards our own rating levels, reasonable growth should be achieved," he wrote in the syndicate's report. "Business received from this source has proved to be of a better standard, premium settlement is faster, commission levels are lower and, above all, allows the underwriter to retain greater control of the account," he wrote.

Syndicate 657, managed by Castle Underwriting Agency Ltd., also plans to increase its premium volume principally through development of its service company.

"Our emphasis is upon the continued development of United Kingdom business through our regional offices in Chelmsford, Leeds, Bristol and Glasgow," wrote underwriter David Lowe in the syndicate's annual report.

"We have recently introduced new underwriting guidelines and rating directives implementing increases of 50% on the employers and public liability account and 20% on the professional indemnity portfolio, together with tightened policy terms and conditions," Mr. Lowe wrote.

"We have also concentrated on reducing expenses and we have decided to establish the syndicate service company as a self-financed and distinct operation, thereby removing an expense burden from the syndicate," he added.

Hiscox Underwriting Ltd., the service company set up by Hiscox Syndicates Ltd., "continues to thrive impressively," according to Nicholas Thomson, underwriter for syndicate 33.

"The account has grown considerably and continues to produce for syndicate 33 satisfactory levels of profit after all expenses," wrote Mr. Thomson in the syndicate's annual report.

"We are now considering geographical expansion outside the the United Kingdom as well as new products," he added.

All employers liability and general liability business written by syndicate 349 is now written through Cygnet Underwriting Services, the service company established by Crowe Underwriting Agency Ltd.

Syndicate 1048, also managed by Crowe, has set up a service company, R.J. English Underwriting Services Ltd., for consortium underwriting. "The profits from this service company directly benefit the names supporting the syndicate through a reduction in syndicate expenses," explained underwriter R. English.

Under consortium underwriting, one or a group of Lloyd's underwriters will write business on behalf of a number of Lloyd's syndicates and other insurance companies.

Eagle Star Insurance Co. Ltd. joined the syndicate's consortium this spring, and negotiations are under way with other insurance and reinsurance companies interested in joining consortia.

"It is envisaged that the premium income capacity provided by consortium agreements will be equal at least to the 1993 gross capacity of the syndicate," wrote Mr. English, adding that "this type of arrangement is now viewed as forming an integral part of the syndicate."

Syndicate 820, managed by Murray Lawrence & Partners, meanwhile, has set up a service company, Drysdale Administration & Claims Services Ltd., to provide claims adjusting and administration services to both the syndicate and other insurers. BI



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For steel deck roofs, examine the underside of the steel deck. A greater number of fasteners should penetrate the deck in the 8- to 10-foot strip closest to each wall. If the roof lacks additional fasteners, focus repair efforts on the 100 square foot corner areas of the roof covering for each building. Providing additional fasteners and patching the penetrations will cost less than $500 per corner. Average exposures with this type of deficiency typically range from $500,000 to $1.5 million.

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An uncertain future

The toughest risks to manage are those not yet known

By Barbara D. Stewart

THE RISK MANAGEMENT MOVEMENT has a fine record of achievement. It has sharpened the tools of loss control, risk retention, risk analysis and financing and has used them to secure more effective and economical protection for business.

But many of the most thoughtful practitioners of risk management are uneasy. Their accomplishments have not shielded them from corporate cost cutting and downsizing. Senior management no longer seems to appreciate their contribution. When something of value appears to be losing its value, it may be useful to think about why it was so valued in the first place.

In risk management, a good way to start is by distinguishing between risk and uncertainty. Although we often use the words together and interchangeably, in economics they have been seen by some to mean different things.

Risk and uncertainty belong in the general world of probability. Risk is probability that is measurable, and uncertainty is probability that is not measurable. The difference is significant.

Risk is measured with historical data, by statistical inference and with judgment drawn from technical or professional expertise; that is, risk is quantifiable. Probabilities of particular outcomes are known, or can be estimated. Risk is bounded—it is defined by parameters and limits.

Uncertainty, on the other hand, is not quantifiable. It is about unknown, unique situations. Past or present experience cannot guide. There is no scientific basis on which to calculate probabilities. As Keynes once put it, "We simply do not know." Unlike risk, uncertainty has no limits.

The traditional role of insurance has been to convert uncertainty into manageable risk. In the most abstract sense, the insurance company takes on the uncertainty—the fire, the lawsuit—of the individual entity and converts it to risk for the insurance entity by pooling it with many other uncertain events. The technique requires a sufficiently large number of independent events so that individual extreme outcomes offset one another. As the number of observations increase, the more stable the average outcome and the greater the confidence in figuring the ultimate cost of the pool. But for the insurance function to succeed, it requires information, for example, about the likely event and how it might affect different persons, firms, places or products.

Thus the distinction between risk and uncertainty depends on how much is known about a situation and on what is done about it. But as a practical matter, the distinction is not so simple. Risk and uncertainty fall along a continuum. At any given time there is no precise boundary between them and, because we keep learning, the point where the two meet along the continuum keeps shifting.

A simple analogy might be the American Western frontier, which in the 18th and 19th centuries kept migrating west as people settled farther west. That frontier was never marked by a barbed wire fence or a state line. But settlers knew whether they were behind the frontier or ahead of it, if only because they were being harassed by bankers on one side and by Indians on the other.

Risk management and insurance people also have a good idea of whether they are dealing with bankers or Indians. Workers compensation and third-party automobile claims are well within the world of risk. Enough information is available to estimate such claims with confidence. But the damage from a catastrophic natural disaster, such as a major earthquake, is in the realm of uncertainty. We simply do not know when it might occur or how bad it might be.

Settlement pushed our country's frontier westward. The analogy holds in risk management and insurance. Knowledge has continually pushed the frontier between risk and uncertainty. The future of risk management might be seen in terms of that shifting frontier and in how risk management is presently engaged on each side of it.

First, consider the settled side, where exposures are defined and quantifiable. Here risk management first encroached on the world of insurance.

The history of insurance has been that as more became known about insured perils, the more they were pulled into the realm of manageable risk and the more stable insurance results became. That stability in turn let insurers expand by reaching out for new kinds of uncertainty.

But as the customers of the insurance business became larger and could pool within their own organizations more and more risks, the more predictable insured events became for them, and the less willing they were to pay high rates to subsidize the claims of others and to cover the overhead of the insurance business itself.

Risk management started with insurance customers seeking to reduce costs by carving out their own experience. As its techniques and information were refined, more risk was brought in-house. The risk management movement then reached down to organizations of smaller size, singly and in associations.

Today conventional insurance is widely considered the technique of choice only for uncertainty. The general rule is that if it is risk, retain it in your own organization, and if it is uncertainty, buy insurance from someone else.

What that has meant for the insurance industry is all too clear for those organizations that are struggling to maintain premium volume. What it means for risk management is that the cost pressure it once applied to the conventional insurance business is now being applied to it.

Today, risk management techniques are routine for much of corporate and institutional America. But risk management techniques are producing diminishing returns. Unlike the early days, when their adoption brought big savings, the only savings left now may be in doing the same things more efficiently. With risk management expertise spread everywhere, there are plenty of offers to help. It is no surprise that competition is beating down insurer profits, broker commissions, consultant fees and risk management overheads.

If we define routine risk management as having fairly stable cash flows, then its transaction costs might reasonably be expected to be pushed closer to those in managing relatively stable cash flows elsewhere in finance. For example, in most of commercial banking, and especially where banks are trying to hold their own against the incursion of trading markets, the margins are very thin indeed.

The pressure on risk management overheads may reflect a similar development in the rest of the economy. Computer technology has made us increasingly sophisticated in gathering and handling information. Not only have we become very efficient at storage and retrieval of huge amounts of data, but we also now employ analytical techniques and processes that would have been impossible without computers, making armies of middle managers redundant.

Similarly, in risk management the growing sophistication in the collection and use of information may mean that fewer human resources are needed there. But that does not necessarily imply a dead end for the risk management movement. The future of risk management is also wrapped up with uncertainty, as defined here. Risk management is no longer just focused on managing routine exposures. It is well across the frontier into the territory of uncertainty.

Look at the customer-sponsored insurers that have been formed specifically to take on uncertainty that the conventional market would not—the medical malpractice companies and other professional malpractice insurers such as Attorneys Liability Assurance Society, directors and officers liability insurers such as Bermuda's Corporate Officers & Directors Assurance Ltd., and high excess general liability insurers such as Bermuda's ACE Ltd. and X.L. Insurance Co. Ltd.

This movement is being driven not by costs but by the need to stabilize arrangements. The old arrangements appear less and less reliable. For years, risk management doctrine has justified insurance for catastrophic protection, that is, real uncertainty. The burning question today is whether insurance can deliver on uncertainty. The conventional market has lost to risk management the stable ballast of premiums for predictable losses that it once relied upon to absorb surprises. It is now practically all uncertainty. That has not been true since the early days of fire insurance.

The instability now inherent in the conventional insurance market may be a major reason why, instead of taking on uncertainty, it is creating more, with a combination of constantly changing policy terms and increasingly restrictive coverage positions. And the record of insurer insolvencies in recent years must make risk managers question whether their insurers will even be around to respond to claims at all.

New insuring entities are a logical result. The commercial insurance market is likely to restructure around new arrangements of the sort recently created by insurance buyers and their advisers. The restructuring would not be new—it occurred with fire mutuals in the 19th century and with workers compensation mutuals in the early 20th century.

But before risk managers begin picturing balmy workdays in Bermuda, they might note that ACE, X.L. and the others did not just slip over the frontier but staked their flag deep into Indian territory. As General Custer found out, it is dangerous there.

These new insuring entities are at the far end of the uncertainty continuum, where outcomes are largely unknown and pricing doesn't have much basis. They got there easily because they were formed at a time when the conventional market offered no resistance. Insurers believed they could not provide the coverage; insurance buyers believed they just had to have it.

But the nature of uncertainty is that there will be unpleasant surprises. The question for risk managers is whether over the long term these new insuring entities and others that follow them will be able to stabilize their results without beginning to act like the conventional insurers they are now replacing.

Looking ahead at the challenges for risk management, it seems that there are two. One is to recognize the inevitable grinding down of costs in the world of managing routine risk. The other is to know that risk management is now squarely in the world of uncertainty, and that is where all the trouble is. BI



Barbara D. Stewart is president of Stewart Economics Inc. in Atlanta.

Choosing a claims handler

By James N. Chett

The right company gives better service while saving money

IT HAS BEEN SAID THAT a well-handled claim may not save one cent, but a poorly handled claim will certainly cost thousands.

Yet risk managers and business owners often settle for insurers and third-party administrators whose claims handling is, at best, mediocre. Just as risk managers identify loss exposures and select risk management techniques when evaluating loss exposures, they should apply the same practices to identifying and selecting the organization which will handle claims. This is important because many insurance policies are "loss-sensitive," and poor loss experience will increase insurance costs and limit availability. In workers compensation, where experience modifications are based upon claims payments and reserves, it is especially critical. The selection process should focus on a number of considerations.

The risk manager or business owner should visit the offices of the claims organization being evaluated. Prospective agents or brokers should go along.

The inspection should focus on office organization, personnel morale, the quality of automation, and the interest displayed by management and supervisors. Beware of the organization that has files stacked everywhere, telephones ringing and harried personnel. Observe carefully the relationship which the agent or broker seems to have with management. Those with good relationships can often exert influence when needed.

Inquire about personnel turnover because reassignment of claims adversely affects investigation, evaluation, reserving and disposition. Turnover is costly.

Satisfy yourself there is experience at all claims department levels. Talk to the personnel who may be servicing your claims. They should exhibit technical knowledge, pride in their organization and a commitment to achieving their clients' expectations.

Insurers or third-party administrators should identify current and former clients. Check with these clients to ascertain their satisfaction levels. Other reliable sources of references include state insurance departments, self-insured plan administrators, the Risk & Insurance Management Society Inc., brokers and agents, and their trade groups.

State insurance departments and insurance company home office management routinely conduct claims-handling audits. Some firms may share this information with you. If so, review these reports because they will reveal the quality of claims handling and recommendations for improvement.

A quality claims operation should have written performance standards available for your review. These standards will identify time lines and quality guidelines that claims handlers are required to follow and against which their performance is measured. Claims handlers should have received training in these standards and are probably the best persons to query. This can be done during the inspection visit.

Claims personnel should have had some legal and medical backgrounding, as well as training in client relations and claims processing. Training in negotiations techniques can often reduce claims costs and bring claims to prompt conclusions. Follow-up training and professional development should be mandatory. The claims organization should have a training coordinator who establishes and monitors educational objectives for the claims department as well as for individual claims personnel.

While the organizational design will vary, an effective organization will have specialists to complement its regular claims handlers. Typically, these specialists will include nurse consultants, special arson/fraud investigators, workers compensation hearing representatives, vocational rehabilitation coordinators, staff or house attorneys, customer-service representatives and highly trained experienced consultants who handle complex large-value claims. Having such specialists in house avoids added expenses.

Case loads should be manageable. Management should have reports identifying the number of cases assigned to claims handlers and the performance standards should identify new and outstanding claims guidelines.

A quality operation will have bilingual claims handlers and supervisors as well as arrangements with managed care facilities to provide high-quality, low-cost medical services for employees of workers compensation clients.

Should your business have a substantial number of claims, the insurer or third-party administrator should be willing to dedicate one or more claims handlers to your claims exclusively. The advantages of such an arrangement are obvious: Claims handlers will know your business and your people; you will have one contact person and undivided accountability; and your staff and the claims handlers will develop close ties.

On a regular basis, probably quarterly for most businesses, outstanding claims should be reviewed for quality of investigation, propriety of reserving, disposition strategies and trends or patterns. Participating in this review generally should be the risk manager or business owner, agent or broker, claims handler, claims supervisor and, from time to time, a member of management. Claims service providers should be eager to conduct these reviews.

Litigation expense is considerable, and for many types of claims is charged against the loss experience of the business. For products and general liability claims, it is not unusual to see litigation expenses representing 40% or 50% of total claims costs. The insurer or claims administrator should have controls, including an audit process, to ensure that only necessary legal work is performed and that it is performed by an individual with an appropriate level of legal experience. The claims organization should provide its defense counsel with written guidelines addressing case management, fees, assignment of firm personnel, conflict of interest policy and defense strategy. You should review this document. Defense counsel performance should be evaluated at least annually.

Most insurers employ staff attorneys or house counsel who provide quality legal services for less than the cost of outside defense counsel. Some businesses prefer to select defense counsel, though hourly rates may be higher than counsel employed by insurers. Often insurers will permit such arrangements. Certain insurers have fee arrangements with defense counsel which may be based upon the value of legal service rather than typical hourly rates. While new, this type of billing offers incentives to resolve claims promptly within certain parameters and will usually reduce defense costs.

A risk manager or business owner must be satisfied that local claims management is involved in the day-to-day operations of the claims department. The claims manager should meet with you during your initial inspection visit and should check with you on an ongoing basis to determine whether you are pleased with the quality of service. Management should always be available and should exhibit an interest and commitment to you, the client. A claims information report system should be available to track statistical information and current status in any format you desire.

In purchasing commodities, we frequently shop for the best value. While the selection of services should be no different, it is since the cost and quality of service is not as tangible as the price of a commodity. Managing risk goes beyond identifying and selecting the best risk management technique. It dictates that we also select the firm best able to implement that technique. BI



James N. Chett is manager of industry affairs for Aetna Casualty & Surety Co. in Walnut Creek, Calif.

Excess insurer not required to drop down after insolvency

Legal Briefs

An umbrella insurer was not obligated to pay a claim on a covered loss that was less than the limit of the underlying policy, even though the underlying insurer had become insolvent, according to the Supreme Court of Oregon.

Hoffman Construction Co. of Alaska was covered under an umbrella insurance policy issued by Century Insurance Co. that provided that Century would pay the excess of the amount of losses over the "amount recoverable" under certain underlying insurance policies.

There were two underlying policies: the bottom layer, a $50,000 policy with Seaboard Surety Co.; and the second layer, a $450,000 policy with Holland-America Insurance Co. Hoffman suffered a covered loss in the amount of $375,000. Seaboard paid the first $50,000 of the loss.

Holland became insolvent and did not pay any of the loss. Hoffman then made a demand on Century for the $325,000 that could not be recovered from Holland. Century denied liability. Hoffman sued but the trial court ruled for Century.

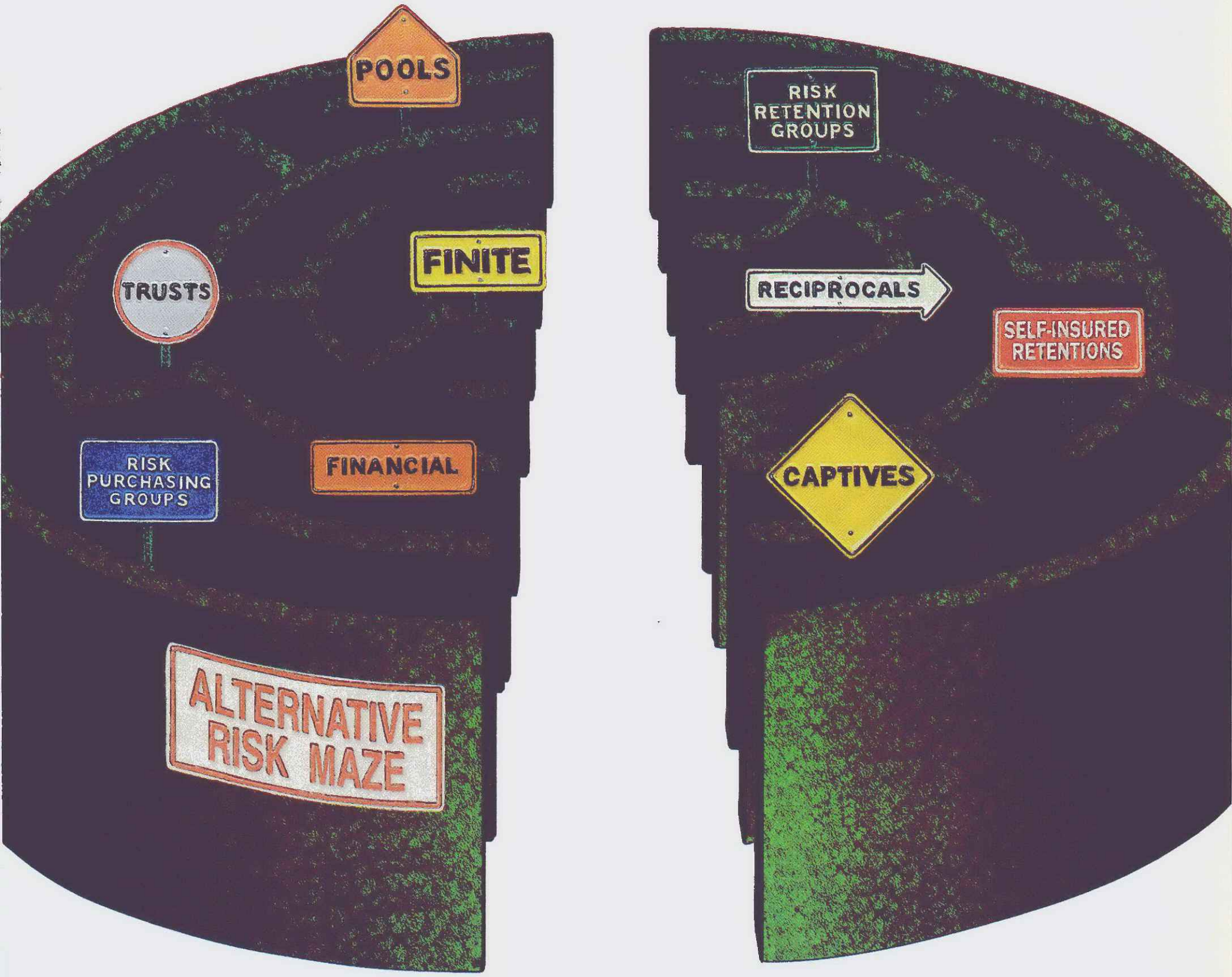
On appeal, Hoffman argued that the phrase "amount recoverable under the underlying insurances" meant that Century was required to pay for amounts that an insured was not able to recover from an underlying insurer like Holland. Century, however, maintained that the phrase meant that Holland was entitled to recover only for any portion of the net loss that exceeds the limits of the underlying insurer.

The court concluded that Holland's interpretation, while plausible in isolation, was not reasonable either when scrutinized in content or in the light of the policy as a whole. According to the court, the phrase had only one reasonable interpretation: It referred to the amount that could be recovered under the underlying primary insurance policies as those polices were written. The trial court decision was affirmed.

Hoffman Construction Co. vs. Fred S. James & Co., Supreme Court of Oregon, July 9, 1992 (*BI*/05/Ju.-$10).

These abstracts were prepared by Mayo H. Stiegler. Copies of these decisions are available by sending a $10 check payable to Mayo H. Stiegler, to Business Insurance, *740 N. Rush St., Chicago, Ill. 60611-2590. List the number for each opinion.*

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Spotlight report

Marine syndicates look to regain market

But number of survivors, now at 64, continues to dwindle

By STACY SHAPIRO

Lloyd's of London's marine market will emerge from its devastating shakeout to become London's biggest market for marine risks, underwriter John Charman believes.

And the syndicates that survive will have a chance to make money as the marine market continues to harden, according to Peter Chandler, chairman of Lloyd's Underwriters Assn., which represents the marine syndicates.

The London marine market, which includes insurance companies and Lloyd's syndicates, wrote an average of 31% of the world's marine premium between 1984 and 1989, Mr. Charman, underwriter for syndicate 488, wrote in the syndicate's annual report. Managed by Charman Underwriting Agencies Ltd., it is the largest Lloyd's syndicate.

However, substantial underwriting losses have taken their toll on Lloyd's and London company marine underwriters.

As a result, the number of Lloyd's marine syndicates has been cut by more than half since 1989, Mr. Charman noted. In 1989, 134 syndicates wrote 1.33 billion pounds ($2.49 billion at applicable exchange rate) in net premium. Although net premium figures are unavailable for 1993, 64 syndicates have written an estimated 2 billion pounds ($3.03 billion) in gross written premium.

Indeed, some of the well-known syndicates in the market will cease underwriting for 1994 or are in serious trouble, Lloyd's statistics show.

But Mr. Charman, whose syndicate is one of the most successful at Lloyd's, notes that the Institute of London Underwriters—primarily a marine market—has done little better than the Lloyd's marine market. The number of ILU companies dropped to 90 as of January 1993 from 114 in 1989, he said.

Furthermore, "there are probably fewer than 10 mainstream insurance companies within the ILU writing a significant marine account," Mr. Charman said.

Between 1990 and 1992, the ILU reported total underwriting losses of 5.4 billion pounds ($8.15 at applicable exchange rate). The total includes last year's loss of 2.5 billion pounds ($3.79 billion at applicable exchange rate).

Lloyd's and the ILU currently hold an equal share of London marine business, but if Lloyd's capital base grows, it will take some 80% to 90% of the business by 1995, Mr. Charman predicted. Together Lloyd's and the ILU will be able to write 40% to 45% of the world's marine premium volume by 1995, he said.

Mr. Charman predicts that Lloyd's marine written premium volume will grow from 1.54 billion pounds ($2.33 billion) in 1990 to 2 billion pounds ($3.02 billion) this year; then to 3.4 billion pounds ($5.15 billion) in 1994 and 4.3 billion pounds ($6.52 billion) in 1995.

He also believes that his own syndicate, 488, will be able to account for 7.6% of the marine market's capacity in the years to come, as it does this year.

"It is obvious from our projected Lloyd's marine market premium income figures that we must be able to access additional capacity to continue to provide acceptable and ever improving returns."

Lloyd's marine market would benefit from the continued hardening of rates, according to Mr. Chandler, chairman of Lloyd's Underwriters Assn. and underwriter for syndicate 483 managed by Methuen (Lloyd's Underwriting Agents) Ltd. "In the last 2½ years, it's hardened remarkably, and underwriters are in more control of their business."

True, the marine market suffered from major losses in 1990, mainly from excess-of-loss reinsurance written primarily by marine underwriters, he said. This was exacerbated by the January/February windstorms in Europe, which caused worldwide insured losses of nearly $10 billion.

But 1991 rates improved over 1990, and rates hardened further in 1992, said Mr. Chandler. Rates and deductibles still are increasing, he said.

Hull deductibles, for example, have increased from 100% to a thousandfold over the past policy period. Hull premiums have increased from 15% to 100% "depending on the loss record," he said.

The energy market also is tightening, according to Lloyd's underwriters.

Although Mr. Chandler said an oil company could probably find $700 million to $800 million in capacity in London, other Lloyd's underwriters disagree. They say that while an oil company could find $750 million to $1 billion in capacity a year or two ago, today it could probably find only half of that. The oil company also would pay 20% to 100% more in premiums than a year ago (*BI*, July 19).

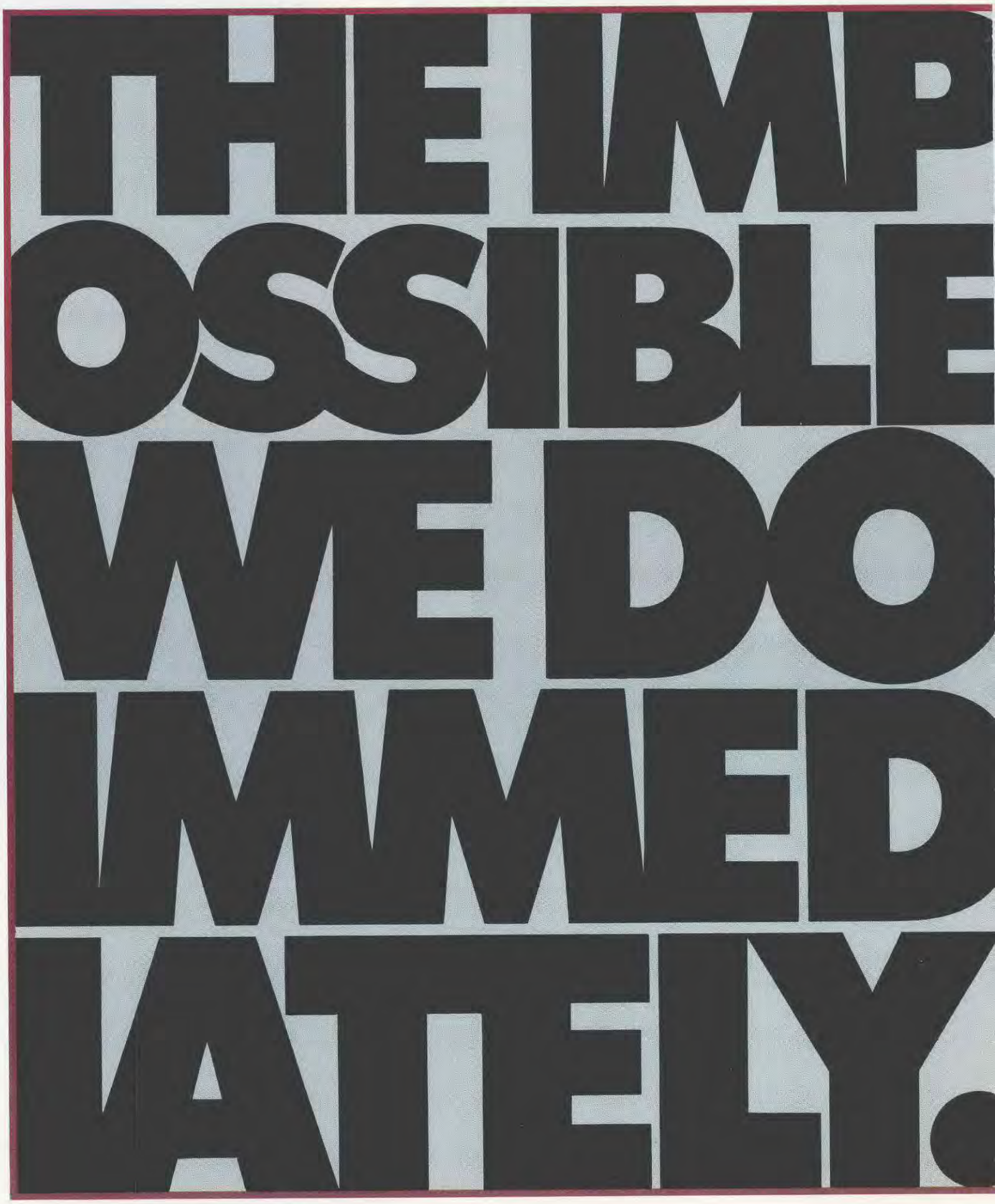
Even cargo coverage, traditionally a competitive but profitable business, is beginning to see premium increases, said Mr. Chandler.

Still, Lloyd's marine market has a long way to go before it makes a global profit, statistics show.

Lloyd's marine syndicates produced the worst results in the market's worst year, with a total global marine market loss of 1.44 billion pounds ($2.18 billion) in 1990. This compared with another dire loss of 875.1 million pounds ($1.64 billion at applicable exchange rates) in 1989.

The marine market in 1990 wrote net premiums of 1.7 billion pounds ($2.58 billion), compared with 1.33 billion pounds ($2.49 billion) in 1989; and produced an underwriting loss of 1.33 billion pounds ($2.01 billion), compared

Continued on next page



Largest Lloyd's marine syndicates*

Based on 1993 gross allocated capacity in millions of pounds

Syndicate	Managing agency	Underwriter	1993 capacity		1990 profit	
488	Charman Underwriting Agencies Ltd.	J.R. Charman	£200.0	$301.5	£15.4	$23.3
861	Brockbank Syndicate Management Ltd.	M.E. Brockbank	189.7	287.5	3.3	5.0
406[1]	Wellington Underwriting Agencies Ltd.	I.C. Agnew	160.7	243.4	(40.8)	(61.8)
418[2]	Merrett Underwriting Agency Management Ltd.	S.R. Merrett	150.9	228.7	(66.9)	(101.4)
79	Janson Green Ltd.	J.R.L. Youell	150.7	228.2	(2.5)	(3.8)
1028	Wellington Underwriting Agencies Ltd.	H.R. Dumas	136.7	207.0	3.6	5.5
40	Murray Lawrence & Partners Ltd.	A.P. Bartleet	135.8	205.8	0.3	0.4
1003	S.J.O. Catlin Underwriting Agencies Ltd.	S.J. Catlin	118.3	179.2	2.6	3.9
483	Methuen (Lloyd's Underwriting Agents) Ltd.	P.R. Chandler	116.4	176.3	4.6	7.0
625	Hiscox Syndicates Ltd.	T.M. Humm	110.2	167.0	(3.0)	(4.5)

*Syndicates whose largest proportion of business is marine [1]1990 account remains open [2]1985 and 1990 accounts remain open
Source: Lloyd's of London

GRAPHIC BY JERRY PARKS

Continued from previous page
with 820.6 million pounds ($1.53 billion) in 1989.

The 1990 losses, announced in June, were blamed on weak market conditions as well as the emergence of additional severe losses on marine reinsurance contracts.

Sixty-four marine syndicates belong to Lloyd's Underwriters Assn. this year, compared with 80 last year.

But the marine market still accounts for about a third of Lloyd's total capacity, according to the association. This year the marine market's capacity totaled 3.25 billion pounds ($4.93 billion at current exchange rate), or 37% of Lloyd's total capacity of 8.78 billion pounds ($13.31 billion). This is 8% less than 1992's marine market capacity of 3.54 billion pounds ($6.62 billion), or 36% of the market's total capacity of 9.85 billion pounds ($18.42 billion).

Mr. Chandler believes capacity next year will be similar to this year's.

But some of Lloyd's once-largest marine syndicates have already announced they will be shutting down next year, while others await members agents' decisions on whether to support them.

Gone, for example, are four marine syndicates managed by Sturge Marine Syndicate Management Ltd., which will shut down at year end after consecutive losses in 1989 and 1990 and dwindling support from members agents.

Syndicate 206, the best known of these syndicates, was once Lloyd's largest syndicate. Now underwritten by Brian Adams, it saw its capacity peak in 1987 at 250.3 million pounds ($404 million). However, its 1993 capacity was less than a fifth of that, totaling only 41 million pounds ($62.1 million).

Only the 10th-largest marine syndicate last year, it reported overall losses totaling 54.3 million pounds ($82.3 million) in 1990 and 38.3 million pounds ($71.6 million) in 1989, the last two years reported under Lloyd's three-year accounting system.

Syndicate 206 had a significant exposure to members' personal stop-loss claims and managing agents errors and omissions insurance, which gave rise to reserves of 19.1 million pounds ($28.9 million) attributed to the 1990 account.

There also was uncertainty surrounding the final cost of pollution claims owed by the syndicate, which was created in 1925.

Meanwhile, syndicate 206 continued to be a significant player in London excess-of-loss reinsurance until this year, when capacity wasn't sufficient to write much LMX business. Mr. Adams reported that last year 40% of the syndicate's premium volume, or 26 million pounds ($39.4 million), was LMX business; this year LMX business only comprised 10% of volume, or 4 million pounds ($6.1 million).

"I am bitterly disappointed at my inability to persuade a greater number of names and supporting members agents that this is a syndicate worthy of their continued support," Mr. Adams wrote in his syndicate's accounts.

Lloyd's fourth-largest marine syndicate this year, syndicate 418 managed by Merrett Underwriting Agency Management Ltd., also is facing hard times as members agents decide whether to support it. Stephen Merrett has announced that he will step down as chairman of the syndicate's managing agency, Merrett Underwriting Agency Management Ltd., but only if members agents support the agency's syndicates next year (*BI*, Aug. 23).

Syndicate 418 lost 66.9 million pounds ($129.1 million) in 1990, and its accounts have been kept open. One of the major factors in this loss is the deterioration of professional liability claims.

The professional liability losses include syndicate 418's portion of the $400 million settlement Ernst & Young agreed to pay the U.S. government in connection with savings and loan failures, as well as errors and omissions coverage the syndicate wrote for members agents and managing agents at Lloyd's (*BI*, Nov. 30, 1992).

Syndicate 418, with 6,332 members in 1990, had an allocated capacity of 195.4 million pounds ($315.4 million).

Syndicate 418 also kept its 1985 accounts open with a loss of 136.1 million pounds ($197.3 million), primarily from 11 runoff reinsurance contracts. More than 2,000 of its 1985 members are suing Merrett and members agencies, claiming that the syndicate's accounts should have been kept open in 1982 rather than in 1985.

Capacity this year for syndicate 418 dropped to 151 million pounds ($228.8 million).

But uncertainty about the syndicate's future led underwriter Mr. Merrett, who is a deputy chairman of Lloyd's, to announce that he would step down as the syndicate's underwriter at year end. BI

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Reinsurance Underwriting Managers

The Lockwood Companies

Making a profit in tough times

Underwriters say sound management averts poor results

By STACY SHAPIRO

Two of the most successful marine syndicates at Lloyd's of London share several similarities:

- The current underwriters joined the syndicates in the mid-1980s.
- Both underwriters believe in strong management.
- Both underwriters expect their underwriting—rather than their reinsurance arrangement—to produce profits.
- Both syndicates posted profits in 1989 and 1990, the two worst years in Lloyd's history. As a result, both syndicates are strongly supported by Lloyd's members agencies.

One of the major differences, though, is that one underwriter will talk to the press about his syndicate. The other won't.

Lloyd's largest syndicate, 488/532, is underwritten by John Charman, who refused to speak to *Business Insurance*. The syndicate is managed by Charman Underwriting Agencies Ltd.

The syndicate was formed in 1982 as a mirror to syndicate 700, underwritten by Mark Denby, though M.R. Baxter replaced Mr. Denby a year later. Mr. Charman became underwriter in 1986, and deputy underwriter R.D.H. Brindle joined in 1989.

The syndicate's capacity has grown more than 250% between 1987 and 1993, rising to 199 million pounds ($301.4 million at appropriate exchange rate) supplied by 3,981 members this year, from 74.3 million pounds ($138.9 million) supplied by 1,418 members. Its 1993 capacity is only slightly less than its all-time high of 207.1 million pounds ($313.7 million) in 1992, though the number of members increased this year from 3,614 last year.

However, syndicate 488 consistently has had a significant surplus of capacity compared with gross premium volume. In 1987, for example, the syndicate's volume was equal to only half its capacity, or 36.8 million pounds ($55.8 million). This year, Mr. Charman estimates in the syndicate's report that premiums equaling 60% of capacity, or 125 million pounds ($189.3 million), will be written.

Still, the syndicate has consistently earned a profit for its members.

In particular, at a time when the rest of the market was on its knees, syndicate 488 earned a profit of 7.8 million pounds ($12.6 million) in 1989 and nearly doubled that to 15.4 million pounds ($29.7 million) in 1990, according to Lloyd's statistics. Mr. Charman also predicts in his report a profit in 1991 similar to 1990 earnings.

In the report, Mr. Charman explained some of the reasons for the syndicate's success.

Syndicate 488 is considered a market leader in sectors that have produced serious losses. This includes: energy business, which accounts for 25% of the syndicate's total premiums; marine and aviation war risks, which account for 18%; and shipowners liability, which accounts for 16%.

But, "strict underwriting control is maintained within this portfolio," wrote Mr. Charman. "We hold daily underwriting meetings at 8:15 a.m. where all risks written and any significant endorsements agreed from the previous trading day are discussed. . . .Every Friday a formal meeting is held and minutes are taken. At this meeting, in addition to the normal underwriter report, the claims department provides a full update on individual claims and reinsurance credit control."

Syndicate 488 also always obtains "high-quality reinsurance protection," he says in the report.

However, while placing importance on reinsurance, the syndicate underwrites "for a gross profit" before reinsurance recoveries, Mr. Charman wrote. "We use reinsurance to enhance our underwriting profit or reduce losses during catastrophe years."

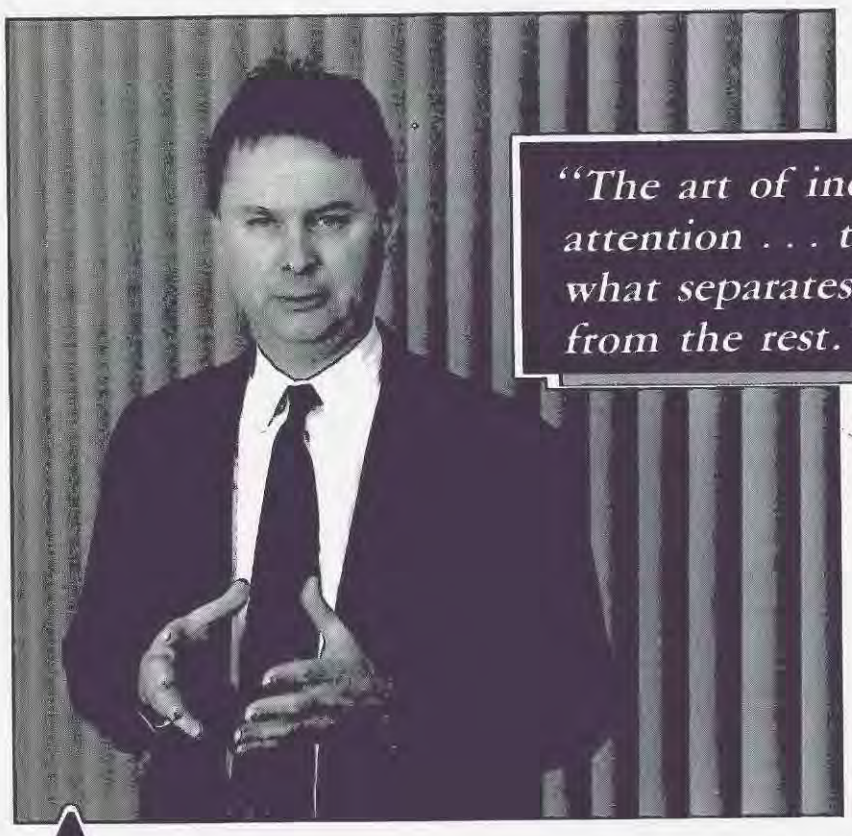
Syndicate 488's reinsurance program helped the syndicate survive two major losses to the market. While the syndicate incurred a gross loss of 6.6 million pounds ($12.7 million) from the 1990 European windstorms, its reinsurance provided 46.5 million pounds ($89.7 million) in recoveries for any one loss. The syndicate also incurred a $31.3 million gross loss ($58.5 million) from Iraq's $328 million seizure and destruction of Kuwaiti and British aircraft in Kuwait in 1991, but reinsurance totaled $93 million for any one loss.

"I find it difficult to envisage a scenario that would produce a loss in excess of 20% (of capacity) to the names on syndicate 488," Mr. Charman said in his report.

Another successful marine syndicate is syndicate 1003, managed by S.J.O. Catlin Underwriting Agencies Ltd. and underwritten by Stephen Catlin.

Syndicate 1003 was started by

Continued on page 46



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Making a profit

Continued from page 44

Mr. Catlin in 1985 after he left a job as deputy underwriter for syndicate 264, managed by Anton Underwriting Agencies Ltd., to start his own agency (*BI*, Aug. 29, 1988).

The syndicate, whose initial capacity was 6 million pounds ($7.0 million), has grown in a calculated manner, depending on the state of the marine insurance market, Mr. Catlin said.

Thus, the syndicate's premium volume has paralleled its capacity. In 1990, for example, premiums totaled 26.2 million pounds ($39.7 million) while capacity totaled 25.7 million pounds ($41.5 million).

Capacity remained static between 1988 and 1990 at between 21.5 million pounds and 25.7 million pounds ($31.9 million and $41.5 million) intentionally, he said. This bucked a trend in the market when "a lot of syndicates continued to grow instead of realizing they were in a soft market and exchange rates were against them," Mr. Catlin said.

The syndicate spent 1989 and 1990 "trying not to make a loss" because rates were so poor and the syndicate was so new, he said. Aside from keeping capacity down, the syndicate also bought "extensive and expensive" reinsurance. As a result, the syndicate produced profits in 1989 and 1990, maintaining its streak of always turning a profit. Syndicate 1003's profit totaled 2.6 million pounds ($3.9 million) in 1990, more than double its profit of 1.1 million pounds ($2.1 million) in 1989.

At the end of 1990, "We started to realize that the market was turning" because the reinsurance market was imploding and decided to increase the syndicate's capacity to 40.5 million pounds ($78.2 million) in 1991 and 79.5 million pounds ($148.7 million) in 1992, said Mr. Catlin.

This year, syndicate 1003 merged with the agency's non-marine syndicate 1113, boosting capacity to 118.4 million pounds ($179.4 million). The two syndicates merged because the non-marine syndicate wasn't going to achieve substantial size, he said. But syndicate 1113's underwriter, Ian Smith, still writes non-marine lines of business for syndicate 1003.

Next year, the syndicate's capacity is expected to top 150 million pounds ($227.4 million at the current exchange rate), which will make it one of the largest syndicates in the market.

Syndicate 1003's mix of business has stayed about the same throughout its existence, said Mr. Catlin. It is a leader in the energy market, specializing in "big-target risks" where capacity is scarce rather than low-volume business like shallow wells that are "still grossly underpriced."

This year, 24% of the syndicate's gross premiums are from offshore energy property coverage, 6% from onshore property and 6% from energy liability coverages.

The syndicate's other main area of expertise is catastrophe reinsurance, which accounts for 20% of gross premiums this year. However, the syndicate only reinsures very specific types of risks so it can more easily track its losses. For example, a cover written by the syndicate might only insure windstorm or earthquake risks.

"We won't write catastrophe reinsurance where on one policy any single loss scenario you can think of will respond. We want to limit the coverage we're giving on individual policies," he said.

The Catlin agency also is a great believer in good management practices, said Mr. Catlin.

"Good management can spot bad underwriting much more quickly," he said. "We put a lot of weight on management and control (in every aspect) of the business and that includes me."

It is also "in the names' best interest" to have a team of underwriters and strict underwriting guidelines that can only be broken after discussion with the agency's board. The team includes deputy underwriter Paul Brand and Mr. Smith.

"I'm not a god. I'm a human being and I can make mistakes just like everybody else. And I want, if they are made, for someone to tell me so we can do something about it. We work as a team (and) it's the way we control," Mr. Catlin said. BI

Wanted: New ways to build capacity

Quota-share reinsurance option gaining popularity

By CAROLYN ALDRED

Lloyd's of London syndicates are turning to insurance and reinsurance companies worldwide to boost their underwriting capacity in preparation for a market turn.

With thousands of members resigning in the wake of huge losses, underwriters are looking at alternative means of increasing their syndicate capacity, including quota-share reinsurance, corporate capital and consortium underwriting.

As is typical in the insurance cycle, Lloyd's dramatic fall in capacity is taking place just as rates are rising, causing frustration in the market.

"The non-marine market, in particular, has lost a disproportionate amount of capacity for 1993. I must confess I find this puzzling and ironic, as terms and conditions are hardening appreciably in our sector," said John Wetherell, underwriter for syndicate 190, managed by Cater Allen Syndicate Management Ltd.

However, under Lloyd's rules, syndicates are permitted to underwrite in excess of allocated capacity, provided that the excess business written is covered by a quota-share reinsurance contract that reinsures the syndicate's entire account.

A survey of Lloyd's non-marine syndicates shows many underwriters are exercising this option.

"This year, for the 1993 account, I have been greatly encouraged by the degree of support shown by reinsurers who have subscribed to our quota-share reinsurance placements," wrote underwriter P. Battle in the annual report of syndicate 456, managed by Bankside Syndicates Ltd.

Mr. Battle named Mid Ocean

Continued on next page

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CONFERENCE AGENDA

SUNDAY, OCTOBER 17

6:00 – 7:30 p.m. EARLY REGISTRATION & WELCOME RECEPTION
Hosted by Commonwealth Risk Services, Inc. and General Rehabilitation Services, Inc.

MONDAY, OCTOBER 18

7:45 a.m. *Registration & Continental Breakfast*

9:00 a.m. OPENING REMARKS FROM THE CHAIR
Kathryn J. McIntyre
Vice President, Publisher & Editorial Director
Business Insurance

9:15 a.m. SHOULD THE WORKERS COMPENSATION AND GROUP HEALTH CARE SYSTEMS BE COMBINED?
Panel Moderator:
James M. Burcke, Editor
Business Insurance

Keith T. Bateman, Vice President
Policy & Development
Workers Compensation
& Commercial Lines Division
Alliance of American Insurers

Harry Neer, President & Chief Operating Officer
USA Health Network Company, Inc.

Thomas E. Rankin, Director of Research
California Labor Federation, AFL-CIO

10:15 a.m. *Mid-Morning Refreshments & Table-Top Exhibits*

10:45 a.m. ESTABLISHING AND IMPLEMENTING A SUCCESSFUL ERGONOMICS PROGRAM
Michelle Robertson, Ph.D.
Assistant Professor of Human Factors
Institute of Safety and Systems Management
University of Southern California

Marie Robinson, M.S.
Corporate Ergonomist, Safety Staff
Pacific Bell

Neal Taslitz, JD, President
The Backcare Corporation

Steven C. Turner, Safety Consultant
Marsh & McLennan, Inc.

12:15 p.m. LUNCHEON FOR SPEAKERS AND ATTENDEES
Hosted by William M. Mercer, Inc. and Marsh & McLennan, Inc.

1:15 p.m. KEYNOTE LUNCHEON SPEAKER
Brent A. Winans, Vice President, Risk Management
Concord Services, Inc.

Continued from previous page
Reinsurance Co. Ltd. of Bermuda, Munich Reinsurance Co. and Sun Life Assurance Co. of Canada among the reinsurers taking part in quota-share agreements with the syndicate.

Syndicate 51, managed by Taylor Clayton (Underwriting Agencies) Ltd., also has placed a quota-share reinsurance treaty with Mid Ocean Re, which pays an overriding commission plus profit commission, underwriter A. Taylor said.

"I must stress that the purpose of this treaty is to allow us to accept the vastly increased premiums being earned on existing business and not to take on additional exposures in peak catastrophe areas," Mr. Taylor advised his members.

Underwriters point out the need to find quality reinsurers to participate in any quota-share arrangement.

"Since income written under such facilities introduces gearing for our names, it is essential that our reinsurers offer first-class security," said Tony Cassidy, underwriter for syndicate 582, managed by Cassidy Davis Underwriting Ltd.

Among syndicate 582's quota-share reinsurers are: Assurances Generales de France, CNA International Reinsurance Co. Ltd., Frankona Reinsurance Co. (U.K.) Ltd., Frankona Ruckversicherungs A.G., SCOR Re and Zurich Insurance Co.

Syndicate 1096, managed by Newman & Stuchberry Ltd., is negotiating a 10% whole-account quota-share arrangement with QBE Insurance & Reinsurance (Europe) Ltd., a subsidiary of Australian insurer QBE Insurance Group Ltd., to help it restore some of its lost capacity.

"QBE will also pay a (commission) to the syndicate and will contribute to syndicate expenses," underwriter D.J. Newman wrote in the syndicate's annual report.

Other syndicates also are turning to professional reinsurers in continental Europe to boost their capacity.

"The commission earnings from this arrangement should provide a useful contribution toward our operating expenses, and the premium ceded increases the syndicate's effective capacity by 25%," said Jonathan Barnes, discussing a whole-account treaty with a major European reinsurer in his report on syndicate 636, managed by Barder & Marsh Ltd.

T.W. Brien, underwriter for syndicate 15, managed by Stewart & Hughman Ltd., confirmed that the syndicate also has placed a whole-account treaty with a major European reinsurer.

Syndicate 544, managed by A.J. Archer & Co. Ltd., has placed a quota share covering 25% of its 1993 capacity, which "incorporates a 4.5% overrider and 30% profit commission," according to underwriter A. Pitt.

The lure of the hardening market plus a lack of members willing to increase, or even maintain, their current capacity in Lloyd's is forcing some syndicates to look at several options to increase their underwriting.

For 1994, syndicate 10, managed by Langton Syndicate Management Ltd., is "exploring the inclusion of corporate capital into the syndicate's composition, the use of quota-share reinsurance to expand our capital and a consortium underwriting arrangement, if the right partners can be found," said underwriter A.E. Clare.

Under consortium underwriting, one or a group of Lloyd's underwriters will write business on behalf of a number of Lloyd's syndicates and other insurance companies.

Consortium underwriting offers several benefits, according to R.J. English, underwriter for syndicate 1048, managed by Crowe Underwriting Agency Ltd. "In a good market, such as the one which we are currently experiencing, the potential earnings from consortium and other arrangements could be equal to the syndicate expenses. Long-term agreements with consortium partners help to stabilize the planning of staff and other general overhead requirements," he wrote in the syndicate's annual report.

Eagle Star Insurance Co. Ltd. joined an engineering risk consortium that includes syndicate 1048 earlier this year, according to Mr. English.

"Preliminary discussions have been held with a view to establishing further consortia relationships from Jan. 1, 1994, as this type of arrangement is now viewed as forming an integral part of the syndicate," Mr. English said.

"The syndicate is today and will be in the future a hybrid, underwriting both for names and consortium partners, for the considerable benefit of both," he added.

"With quota-share and consortium arrangements, it is currently envisaged that (an optimum 40 million pound capacity, or $58.5 million) will be achieved," he predicted.

The inclusion of corporate capital at Lloyd's, meanwhile, is drawing mixed reactions in the market.

Some underwriters point out that many individual members will be wary of the move.

N. Marsh, underwriter for syndicate 570, managed by M.H. Cockell & Partners, notes that while many of the proposals in Lloyd's recently published business plan will be popular with members, "corporate capital may not be."

And, while syndicate 435, managed by D.P. Mann Underwriting Agency Ltd., intends to invite corporate capital, "We will remain mindful that any corporate participation must be of a fair balance of interests which does not disadvantage the existing membership or increase their leverage to the risks," said underwriter D.P. Mann.

Reg Brown, chairman of Lloyd's of London's Non-Marine Assn. and underwriter for syndicate 702, argues that corporate membership will be beneficial for individual names.

"I do not share the fear that some individual names have that they might be overshadowed by corporate names. I believe the advantages far outweigh the disadvantages. There are enough protective measures in the plan to safeguard individual names' interests and, above all, I believe that corporate capital will bring with it a degree of business efficiency and discipline which will benefit us all," Mr. Brown wrote in the annual report for syndicate 702, which is managed by Octavian Syndicate Management Ltd.

BI

1:45 p.m. *Break*

2:15 p.m. **HOW TO INTEGRATE CASE MANAGEMENT INTO A WORKERS COMPENSATION PROGRAM**

Peter C. Madeja, Vice President
General Rehabilitation Services, Inc.

3:30 p.m. *Mid-Afternoon Refreshments & Table-Top Exhibits*

4:00 p.m. **MINIMIZING FRAUD AND ABUSE IN THE WORKERS COMPENSATION SYSTEM**

Panel Moderator:
Joanne Wojcik, Los Angeles Bureau Chief
Business Insurance

Gregory L. Johnson, Principal
William M. Mercer, Inc.

Hank Krizl, Vice President – Claims
Fremont Compensation Insurance Group

J. William Strickland
Manager - Special Investigations Unit
Liberty Mutual Insurance Group

5:15 p.m. **COCKTAIL RECEPTION**
Hosted by USA Workers' Insurance Network

TUESDAY, OCTOBER 19

7:45 a.m. *Continental Breakfast & Table-Top Exhibits*

9:00 a.m. **OPENING REMARKS FROM THE CHAIR**

9:15 a.m. **INNOVATIVE STRATEGIES TO CUT WORKERS COMPENSATION COSTS**

Case Study #1
BECHTEL CORPORATION

Lucy Gallagher, Risk Management Representative for Bechtel Corporation
Alexander & Alexander

Thomas W. Manley, Labor Relations Supervisor
Bechtel Corporation

Case Study #2
WALT DISNEY COMPANY

Stephen M. Wilder, Assistant Treasurer
Risk Management
Walt Disney Company

Case Study #3
MERVYN'S

Michelle Patton, Director – Risk Management
MERVYN'S

10:30 a.m. *Mid-Morning Refreshments & Table-Top Exhibits*

MID-MORNING CONCURRENT SESSIONS

11:00 a.m. ***Concurrent Session A:***
HOW TO EVALUATE AND SELECT A THIRD-PARTY ADMINISTRATOR

Carl Shogren, ARM
Vice President, Risk Management Services
Crawford & Company

Susan M. Werner, ARM
Director of Risk Management
Hardee's Food Systems Inc.

11:00 a.m. ***Concurrent Session B:***
HOW TO SELF-ADMINISTER YOUR CLAIMS

Arnold Davenport, Vice President, Risk Management
Marriott Corporation

12:00 p.m. **LUNCHEON FOR SPEAKERS AND ATTENDEES**
Hosted by Liberty Mutual Insurance Group

1:00 p.m. **KEYNOTE LUNCHEON SPEAKER**

Bill Kizorek, President
InPhoto Surveillance

1:30 p.m. *Break*

2:00 p.m. **FINANCING ALTERNATIVES FOR WORKERS COMPENSATION**

Panel Moderator:
Kathryn J. McIntyre, Vice President, Publisher & Editorial Director
Business Insurance

Arnold Davenport, Vice President
Risk Management
Marriott Corporation

John Kessock, Jr., Chairman
Commonwealth Risk Services, Inc.

Vince Sanguinet, Executive Director
Inland Empire Schools Insurance Authority

Millicent W. Workman, Director of
Corporate Risk Management
Belz Enterprises

3:30 p.m. **CONFERENCE ADJOURNS**

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Lloyd's aviation rates may finally lift off

Consolidated market expects more profits

By ALINE SULLIVAN

After seven lean years, the Lloyd's aviation market is taking a turn for the better.

Whether this heralds seven prosperous years remains to be seen, but brokers and underwriters expect at least two years of steady rate increases and improved conditions across most lines of business.

Prior to this turn, market consolidation and restructuring has forced Lloyd's to relinquish about half its share of worldwide aviation premium, down to about 25% of the total market this year from 50% a year ago, brokers said.

Within Lloyd's, differences between the syndicates are marked. More than half the 44 specialist aviation syndicates operating in 1990 generated profits, reaching a combined total of 60 million pounds ($90.9 million at applicable exchange rate) that year.

But their contribution was more than offset by the remaining syndicates. The Lloyd's aviation market as a whole recorded an underwriting loss of 47.5 million pounds ($72 million), compared with a profit of 15.7 million ($29.4 million) a year earlier.

But the profitable syndicates should have a heightened presence in coming years, if only because the market is consolidating. Increasingly, the stronger syndicates are taking over the weaker, and the result is more specialized groups.

Since barriers between the four main Lloyd's markets—marine, non-marine, aviation and motor—were removed in early 1992, Lloyd's has not maintained figures on the number of specialty syndicates. By then, however, the number of aviation syndicates had dropped to 41, and there have since been further reductions.

Tony Medniuk, lead underwriter at aviation syndicate A.J. Medniuk & Others, thinks there may soon be as few as 10 aviation syndicates at Lloyd's (see story page 49).

"I think the period of market consolidation and restructuring is not yet over," Mr. Medniuk said. "There will be fewer, larger units going forward."

Steve Anderson, an aviation brokerage director at Sedgwick Group P.L.C., believes the ultimate number of syndicates may be even smaller.

"It is only logical," Mr. Anderson said. "In Paris, there are only three big aviation underwriters, and there are only three or four in the U.S. Lloyd's has to consolidate into three or four major players."

Further consolidation in the Lloyd's aviation market is unlikely to have a negative effect on capacity for high-quality business, brokers and underwriters agree. Many say that the market remains too crowded, and sufficiently high rates will only come when the number of players contracts further.

There are some concerns that a reduction in the number of syndicates will make more problematic business difficult to place.

"Capacity varies tremendously," said Peter Armstrong, chairman of Alexander Howden Aviation's direct division. "If you are broking an international airline with a good reputation, then there is plenty of capacity worldwide. But for less sophisticated clients, there may be some big problems."

Other brokers are more optimistic. "The one great thing about Lloyd's is that you can still discuss (coverages) out of the ordinary," said Mr. Anderson. "Once the market settles down, there shouldn't be any capacity problems."

Much of the competition in recent years has been caused by marine syndicates at Lloyd's entering the aviation market in the belief that profits could be made by applying the marine underwriting principles to aviation risks. Many of these underwriters had their fingers badly burned and have since left the aviation market.

The marine underwriters "who have been writing other classes of business will probably stick to marine business now, because marine rates are going up," said Richard Maylam, lead underwriter at syndicate 270, managed by A.J. Archer &

Continued on page 49

Largest Lloyd's aviation syndicates*

Based on 1993 gross allocated capacity in millions of pounds

Syndicate	Managing agency	Underwriter	1993 capacity		1990 profit	
960	Sturge Aviation Syndicate Management Ltd.	B.E. Beagley	£98.8	$149.6	£10.2	$15.5
800	Wren Underwriting Agencies Ltd.	J.A. Westcott	54.6	82.8	0.4	0.6
48	Methuen (Lloyd's Underwriting Agents) Ltd.	T.P. Salmon	54.6	82.7	4.0	6.1
340	Gravett & Tilling (Underwriting Agencies) Ltd.	J.P. Tilling	50.4	76.3	4.4	6.7
545	Sturge Aviation Syndicate Management Ltd.	B.E. Beagley	49.1	74.4	7.1	10.8
824	Murray Lawrence & Partners Ltd.	A.J. Medniuk	44.9	68.1	(0.8)	(1.2)
53	G.P. Eliot & Co. Ltd.	R.F. Eliot	38.7	58.7	(1.6)	(2.4)
270	A.J. Archer & Co. Ltd.	R.J. Maylam	36.2	54.8	0.9	1.4
97	Wellington Underwriting Agencies Ltd.[1]	R.J. Morse	34.8	52.7	(1.2)	(1.8)
925	Sturge Aviation Syndicate Management Ltd.	L.A. Hudson	30.0	45.5	3.1	4.7

* Syndicates whose largest proportion of business is aviation [1] 1990 account not closed.

Source: Lloyd's of London

GRAPHIC BY JOHN HALL

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Continued from previous page

Co. Ltd.

But competition problems have not been confined to Lloyd's. Many underwriters at Lloyd's blame the overcapacity in the aviation insurance market on the willingness of insurance company underwriters to cut rates to win market share. This threat also is declining.

"Over the past year, the number of units operating in the London aviation market has contracted sharply," said Lloyd's Chairman David Rowland. "This is a direct consequence of poor underwriting in the past, and we are now witnessing the withdrawal of aviation capacity outside London as managements perceive the full extent of past losses."

Aviation brokers also expect a consolidation in their ranks. In recent months, two Rollins Hudig Hall Group Inc. units.—Nicholson, Chamberlain & Colls Ltd. and Leslie & Godwin Ltd.—merged their aviation departments to form Nicholson Leslie Aviation, while Gibbs Hartley Cooper Ltd. purchased Richards Longstaff Ltd. (*BI*, March 8).

Many aviation brokers have adopted a hiring freeze, while others are said to be considering reducing their staff.

"All the big guys are still very much in the game," said Mr. Anderson. "But consolidation will happen unless 1993 and 1994 are a lot better than recent years."

When Lloyd's released its 1990 results in June, Mr. Rowland said aviation premium volume for 1991 and 1992 is likely to reflect an improvement in rates, though results will remain mixed, depending on the extent of an individual syndicate's commitment to the unprofitable airline sector.

"Gross underwriting profits are now the essential prerequisite (to aviation market recovery), and if the (strengthened) resolve of underwriters to achieve this goal is maintained, the aviation market's prospects for the first time in seven years look to be much brighter for 1993 and beyond," Mr. Rowland said.

The underwriters' determination to charge higher rates looks solid so far this year, particularly for airline business. Also, underwriters have become more selective about the type of business they will accept.

"We have been through a difficult period and are now seeing a much more profitable period beginning with substantial premium rate increases across the board," said Mr. Maylam.

The biggest increases are for airline business, which underwriters had the most problems with in recent years, he said. "Before, underwriters were allowing it to be subsidized by other types of business and by reinsurance," he added.

At the same time, there is more business about. Mr. Armstrong expects premium volume for world airline business to rise to $1.35 billion in 1993 from $900 million last year. Most of that gain will be due to rate increases and only a small part to increased fleet values, he said.

According to Mr. Anderson, premiums for airline business have been rising at between 35% to more than 100% this year, depending on the quality of the risk. The average 1993 hike is about 60%.

Mr. Armstrong at Sedgwick sees average gains in premium rates so far this year of between 40% and 50%.

"You must remember that these are increases on top of increases, while claims to date this year are only about $300 million," said Mr. Armstrong.

"Rates last year rose by an average of between 40% and 80%. At the moment, the figures look super for 1993."

Rates for aircraft manufacturers' product liability insurance have risen between 10% and 25%, while airport policies are up to 25% more expensive than this time last year, said Mr. Anderson.

Rates for satellite insurance are not rising as fast, partly because they have always been high and partly because there has been less demand, brokers and underwriters said. Thirty-one satellite launches are scheduled for this year, down from 33 in 1992. BI

Syndicate is reflection of times

824's diverse makeup helps it survive

By ALINE SULLIVAN

Tony Medniuk, syndicate 824's lead underwriter and head of a consortium of Lloyd's aviation syndicates, sees his position as a sign of the times at Lloyd's.

The composition of his group reflects the consolidation that is taking place among aviation syndicates, while his underwriting outlook has made him ideally placed to take advantage of hardening rates.

A.J. Medniuk & Others bills itself as one of the stronger more technically able and commercially sensitive teams in the London market.

Backed by powerful Lloyd's underwriting agency Murray Lawrence & Partners Ltd., Mr. Medniuk underwrites all classes of aviation business, including manufacturers product liability, war risks, personal accident and satellite coverages.

Many Lloyd's aviation syndicates have been writing very low volumes of business because aviation premium rates are so low. For instance, syndicate 172/

Continued on next page

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Aviation consortium

Continued from previous page

173's premium volume was only 20% of its available capacity in 1990. But, with this strategy, Medniuk, the syndicate's underwriter, avoided the heavy losses that clobbered some less cautious Lloyd's and company-market aviation underwriters at the trough of the cycle.

Syndicate 824 is now part of a underwriting consortium that includes aviation syndicates 172/173, 635 and 648. They still report to different managing agencies: 172/173 is managed by Stewart & Hughman Ltd.; 635 is managed by Barder & Marsh; 648 is managed by Wellington Underwriting Agencies Ltd.; and 824 is managed by Murray Lawrence & Partners.

Syndicate 824 was added to the existing consortium earlier this year when Mr. Medniuk took over as lead underwriter after Barry Coleman retired. Other Lloyd's underwriters expect further consolidation in the future.

The consortium has a combined stamp capacity of 70 million pounds ($106.1 million) in 1993, making it one of the largest aviation ventures at Lloyd's.

This consolidation reflects similar changes in the Lloyd's market as a whole. Since 1990, the number of specialist aviation syndicates has dropped to 27 from 44. While underwriters say capacity remains high, they add they are firmly resolved to secure premium increases of 50% to 60% on airline business this year. Rates are rising for all other major lines of business.

Policy conditions—like the scope of coverage, deductible levels and terms of premium payment—also are being tightened as underwriters take a more disciplined approach.

Airline business will represent 27% of syndicate 824's business in 1993, according to the syndicate's reports and accounts, followed by aviation manufacturers product liability at 26% and general aviation business at 17%. War risks will account for 3.5%, and satellite premiums only 1.5%. The other 25% consisted of smaller lines of business.

Mr. Medniuk has eliminated from the syndicate's book its unprofitable excess-of-loss reinsurance business.

In recent years, Mr. Medniuk's airline account has shrunk because rates were too low for profitability. Airline business will probably continue to play a smaller role even as prices recover in 1993.

Mr. Medniuk, 45, has worked in the Lloyd's market for 23 years. He moved to underwriting seven years ago after working as an aviation broker at London brokerage Tyser & Co.

"My record fits well with the belief that we need fewer underwriters in the market and to trade without need for low-lying reinsurance," Mr. Medniuk said. He describes the operating philosophy of his syndicate as "the belief that specialization combined with relevant expertise holds the key to success."

The syndicate's four deputy underwriters—John Butler, Ernie Crouch, Michael Noble and Roger Parrish—each have more than 25 years' experience in aviation insurance. Mr. Parrish was recruited last year from Orion Insurance Co. P.L.C. BI

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Lloyd's targeting brokers for help

Allies sought to help bring in more business

By ADRIAN LADBURY

Lloyd's of London is facing yet another challenge: How to get brokers to place more business in the market.

Lloyd's planning department reports that while the 10 largest brokers at Lloyd's accounted for slightly more than half of the market's 1992 premiums, these brokers only place between 5% and 20% of their total business with Lloyd's.

Lloyd's is determined to win a bigger piece of the pie from these brokers.

"To do that, you have got to create more wealth at Lloyd's, and that is what this is all about," said Sax Riley, chairman of Sedgwick Group P.L.C.

For the moment, Lloyd's must concentrate on making itself more attractive to brokers—and this means cutting costs. If it's successful, Lloyd's will maintain its current position. Improving that position can be achieved once new capital is firmly in place.

The Council of Lloyd's is tackling costs head-on, and its commitment to making Lloyd's a cheaper place to do business is not in question, much to the brokers' delight.

The main questions concern the practicality of the deadlines the council has set for itself and whether the brokers will pass on the savings to clients in the form of lower commissions. Lloyd's has suggested they should, but not all of the brokers agree.

The main goal right now has to be containing costs and streamlining Lloyd's operations, according to Anthony Pinsent, chairman of the Lloyd's Insurance Brokers Committee and chairman of Leslie & Godwin Insurance Brokers Ltd.

"The business plan is a blueprint for efficiency. It is critical because it is a focus on reducing costs and increasing efficiency," he said.

The market is focusing on four key areas: "First, an acceleration of the market's move to full electronic placing; second, improvements to our policy preparation and documentation processes; third, a major redesign of our claims process; and fourth, better central provision of management information. The combined impact of these changes will, we believe, produce marketwide cost savings of around 20 million pounds ($30.3 million) per annum," the business plan stated.

"We have already improved the flow of premiums, issue of policies and collection of claims. The market board is working very hard on the implementation of the business plan, and the LIBC is supporting it wholeheartedly," said Mr. Pinsent.

Nevertheless, most of the brokers consider progress on the electronic processing front paramount.

Lloyd's has set a timetable for this: All syndicates must be con-

Continued on next page

Continued from previous page

nected to the "room support system," a central data base, by Dec. 1; all brokers and syndicates affected must use a new outward reinsurance system, which links syndicates with London market companies, by Dec. 1; all business placed at Lloyd's is to be supported by a full electronic version of the contract by Jan. 1, 1996; and, all brokers are required to adopt electronic closing by Jan. 1, 1996.

Lloyd's Policy Signing Office expects to be able to accept electronic closings by Jan. 1, 1995.

"Progress has been slow so far, but the business plan will certainly speed it up," said Mr. Pinsent.

He was backed up by Max Taylor, chairman and managing director of Willis Faber & Dumas Ltd. and chairman of LIMNET, the London market electronic placing and processing initiative. LIMNET embraces the Institute of London Underwriters and the London Insurance & Reinsurance Market Assn. "We are committed to the deadlines. It is impossible to say whether we will make them with any certainty, but we are dedicated to doing so. Both Lloyd's and the broking community are making sure that we are aware of the implications," said Mr. Taylor.

But, Mr. Taylor's note of caution is a great understatement, some brokers say. "Lloyd's invited most of the big brokers to a meeting recently to discuss the timetable, and the brokers unanimously agreed that there isn't a cat in hell's chance of making these deadlines," said one broker who was at the meeting.

Another potential wrench in the works is the tentative suggestion in both reports that brokers reduce the commissions they charge.

"We fully expect that the cost savings to brokers (because of reduced workloads) will be reflected in reductions in intermediary costs," the Lloyd's business plan released earlier this year stated.

Whether Lloyd's will actually impose mandatory reductions in broker commissions is doubtful considering past experiences.

The business plan called for a mandatory reduction in (managing) agents' fees, but after a number of major underwriters threatened to leave the market, Lloyd's officials backed down and began looking at alternative routes to savings.

Many brokers believe that Lloyd's would not dare to make reductions mandatory and that market forces will result in lower commissions anyway. Mr. Pinsent was reluctant to comment on commission levels beyond agreeing that market forces could create a situation in which commission rates may decline.

Others were less restrained.

"I have no fear about relating lower costs to lower commissions. I have always said that if it's cheaper to do business at Lloyd's, then it would be unreasonable to expect to be the sole beneficiaries. You have got to remember that the cuts have to be passed on to the clients," said Alan Colls, group chairman of Nicholson Chamberlain Colls Ltd. and a broker representative on the Lloyd's market board.

"If the underwriters are going to take on those functions and more work, then that will have to be reflected in the commissions. It is not available now, but clearly it will happen," echoed Anthony Howland Jackson, chairman and chief executive of Hogg Insurance Brokers Ltd.

Others are not so sure.

"If the market is made more competitive, then we must hope that this is reflected in the price charged and paid by the buyers. Brokerage is simply a product of supply and demand. It is not up to Lloyd's central or any representative of the broking community to impose any changes in rates charged by the brokers. If LIMNET and the other initiatives bring significant reductions, then competitive pressures will take over," said Mr. Taylor.

Sedgwick's Mr. Filey was more blunt when asked if he thought commissions would fall because of reduced costs: "I doubt it. We don't get enough commission as it is.

"Commission levels have never been outrageous, except perhaps in the LMX market, but market forces have already sorted that out."

"It is very unlikely that commissions will fall along with the amount of work," said one leading Lloyd's broker, noting that a "cartel" of underwriters recently forced London-market reinsurance brokers to cut commissions.

"Reductions in commissions are

Continued on page 53

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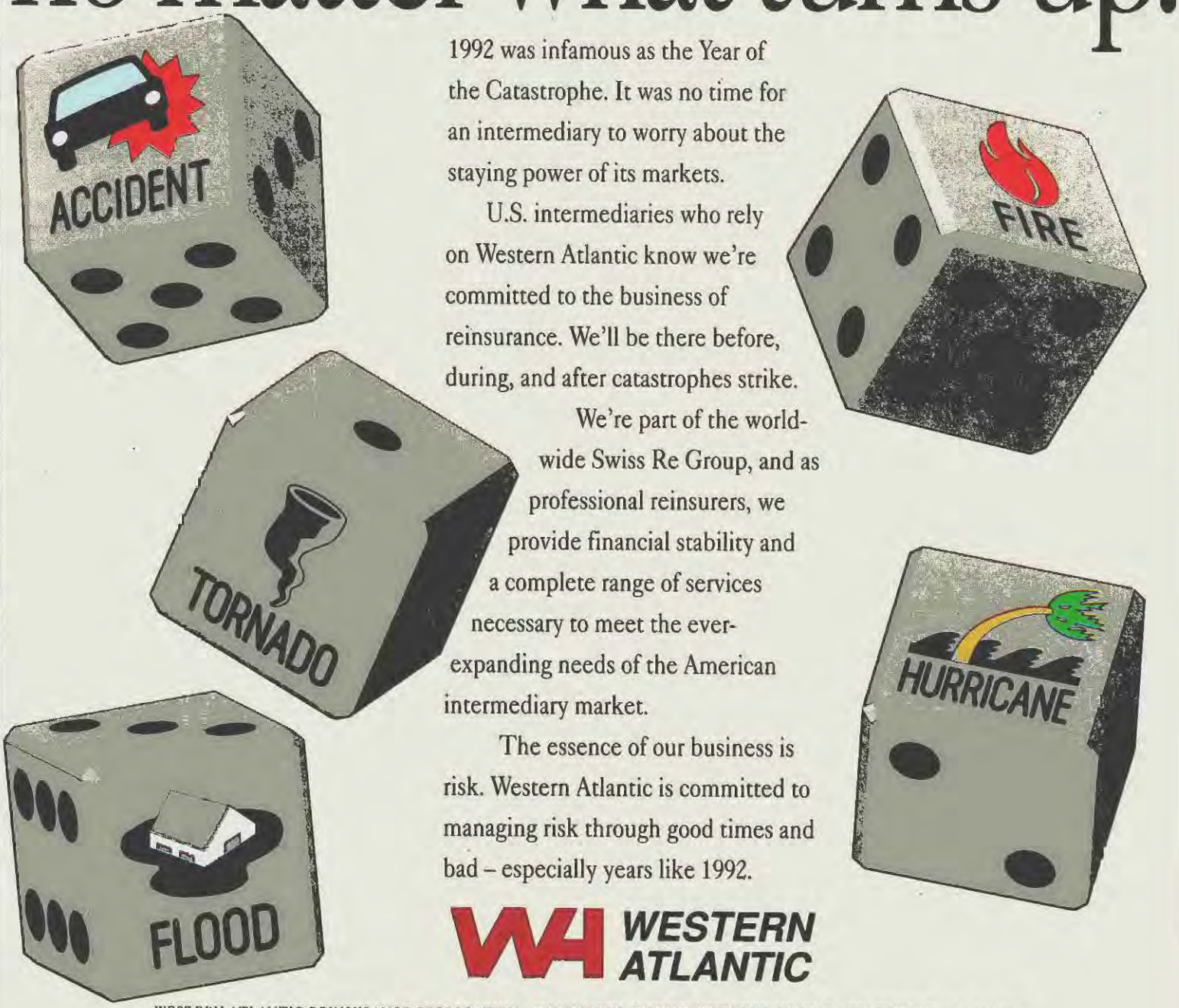
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Wave of consolidation hitting Lloyd's

But the trend isn't necessarily good, underwriters say

By ADRIAN LADBURY

Managing and members agents at Lloyd's of London are changing—and fast.

So far two clear trends have emerged.

First, the introduction of Members Agents Pooling Arrangements threatens to prompt a rapid consolidation of syndicates. MAPAs are pooled investment vehicles, similar to a mutual fund, in which a members' capacity will be placed with a marketbasket of different syndicates.

Second, demands from existing members and potential corporate members for more stringent syndicate monitoring and analysis already has fueled consolidation among members agencies. Future investors at Lloyd's will be advised by fewer, bigger and—members hope—more capable agencies.

Of the two trends, the introduction of MAPAs on Jan. 1, 1994, is currently the hottest potato.

Under the new system, members can invest all or some of their capital into their members agent's MAPAs, which will be made up of a set group of syndicates selected by each agent. The agent is supposed to choose what it believes will be a balanced mix of syndicates to provide the members with a wide range of syndicate types and risk categories.

Early indications are that agents will select 30 to 100 syndicates per MAPA, with an average of about 50.

MAPAs are supposed to be more cost-effective for members and agents.

For example, independent members agency Stace Barr Underwriting Agencies Ltd., which plans to launch two MAPAs next year, calculates that members with a premium income limit of less than 300,000 pounds ($454,200) now must deposit 40% of this amount at Lloyd's, with the requirement dropping to 30% for members investing between 300,000 and 850,000 pounds ($1.3 million). However, a name who signs up for a MAPA need only deposit 25%, regardless of his or her premium-income limit.

But syndicate managers fear that members agents, through the formation of MAPAs, will force a dramatic market consolidation. They believe that members agents will concentrate capacity into the 50 "safe bet" syndicates, needlessly forcing out specialist syndicates and those that have less predictable returns.

The argument rose to a head at a meeting of members agents and managing agents organized by the Lloyd's Non-Marine Assn. last month.

"Certain (bigger members agents) at the meeting said that they would go for 40 to 50 key syndicates in a MAPA," said Mike Harris, underwriter of syndicates 952, 947 and 923, managed by A.J. Archer & Co. Ltd. "But 40 to 50 syndicates doesn't make a market. It would be a sterile market. What's the point in having three lead underwriters with no one to follow?" he said.

"Lloyd's would cease to be a real marketplace at less than 100 syndicates. Brokers would lose interest and find us very resistible," said Reg Brown, underwriter of syndicate 702 managed by Octavian Syndicate Management Ltd. and chairman of the Non-Marine Assn.

Most members agents say that they do not want to force consolidation, but it seems that market forces may be too strong to resist.

Managing agents, vexed at the prospect of having to close what they see as marginal but potentially healthy syndicates, say it's up to the members agents to maintain a healthy, balanced market.

"I am very anxious that we have a sensible number of good syndicates going forward. Members and managing agents must listen to each other. There is currently a conflict of perception between the two," said Brian Kellett, who now is executive chairman of A.J. Archer Holdings and a board member of Castle Underwriting Agents Ltd. after their merger last month.

"Efficient syndicates become inefficient in a vibrant market and they go, but the rate of change will be too much to cope with," he noted.

Rather than force the closure of a syndicate, it would be more positive for members agents to "get rid of the underwriter" or "shift managing agents," he argued.

"Members agents must be more responsible with the allocation of capacity and capacity flow between the syndicates. There are fewer of us (members agents) now, and any one of us can push a syndicate over. So we must work together to make sure that does not happen," said John Stace, managing director of Stace Barr and deputy chairman of the Lloyd's Underwriting Agents Assn.

"Certain members agents are very worried and believe it's very important for Lloyd's to monitor the competition very carefully, assessing the spread and trying to ensure capital does not build up in one place. We as members agents must try to ensure that inexperienced underwriters do not get too much capacity that they cannot handle," he added.

But Mr. Stace also was keen to point out that the tough new market would be good for the managing agents. "Managing agents will no longer be able to rely on groups of names year in and year out. They will be totally reliant on their skill as underwriters and ability to cut expenses," he said.

Lord Strathalmond, chairman of R.W. Sturge Ltd.'s members agency, was equally pragmatic.

"MAPAs are a defensive mechanism on the road to recovery, and no members agent of repute would put second-grade syndicates into its MAPA," he said. "But if it does polarize, you could get a market of less than 100 syndicates. And, that is not a market, because you do not get the diversity of products, and it will be even harder to attract the brokers to Lloyd's than it is now."

Like Mr. Stace, Lord Strathalmond believes the syndicates' fate rests with the members agents.

"It is a question of timing," he said. "To only write motor business because it made profits last year is to ignore the cyclical nature of the market. U.S. property,

Continued on next page

Lloyd's brokers

Continued from page 51

not driven by the amount of work a broker does. That is a bureaucrat's view of how things work," noted another broker. "In the real world, you get commission for being the only distribution channel. Lloyd's core business is corporate business, and brokers are still the key outlet for that.

"Also, I think worldwide the brokers' position in the distribution chain for our sort of business is strengthening, not weakening. So who is talking about commission rates?" he asked.

All brokers, whether or not they believe commissions will fall, recognize that the dominant force will be competition. To the brokers, new competition is clearly one way in which Lloyd's can both increase its business and exert pressure on the brokers without direct action.

Intentional or not, this is gradually being accomplished through relaxation of rules that regulate brokers' access to Lloyd's.

In the task force report, Lloyd's announced its intention to "accredit" some European brokers, thus removing the need for them to gain Lloyd's broker status in the traditional way.

The business plan suggested that Lloyd's syndicates can increase their share of U.S. business by "strengthening their relationships with the broking community through setting up a help line for coverholders and by encouraging product development partnerships involving underwriters, Lloyd's brokers and local U.S. brokers."

Most Lloyd's brokers say they support these measures—albeit as long as they are controlled—and see no threat to their cherished status or way of doing business.

"There would be a problem if Lloyd's opened its doors willy-nilly. We are concerned that there is (only) a level playing field as long as we are regulated by Lloyd's," said Mr. Taylor. "But we don't want to restrict Lloyd's opportunities to enhance business. The majority of major non-U.K. brokers have some form of representation here anyway."

"There is no threat to Lloyd's. We are working in a competitive environment. All the major U.S. brokers have London links, if they are not already here. Also, wholesalers have very strong links with London groups and this is no concern. Unless they have an enormous staff in London, they cannot keep up-to-date," said a spokesman for Alexander & Alexander Services Inc. in London.

"There is no doubt that Lloyd's misses certain continental business, partly because not all brokers have done as well setting up European distribution networks as they have U.S. links," another broker said. "Therefore, many European brokers do not give as much business to Lloyd's as they could. But most of this would be new business and not competition. The area that could come under attack would be the wholesale brokers."

The majority of Lloyd's brokers are not overly worried about any new competition, if indeed it does arrive. In fact, the big international brokers do not seem worried about Lloyd's at all. If Lloyd's fails, they will simply have to seek capacity elsewhere.

Lloyd's, on the other hand, must worry about the brokers. If it cannot provide the right level of capacity, a variety of coverage and a cost-effective environment, there is plenty of alternative capacity already in place in Europe and the United States with new capacity waiting in the wings in places like in Bermuda.

"The boot is not exactly on the other foot—it isn't on anyone's foot. It's a partnership, at the moment," said one modest global broker. BI

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Reinsurers

Continued from previous page
ternative solutions to reduce the risks."

"Negative results and uncertainty about the development of climatic conditions" have created a "seller's market," said Willi E. Schurpf, general manager of the reinsurance department and international division of Winterthur Swiss Insurance Co. in Winterthur, Switzerland.

With few exceptions, such as certain risks in the United Kingdom and Germany, "primary insurance markets have really not faced up to the seriousness of the situation," Mr. Schurpf said.

Terms and conditions, as well as rates, for property reinsurance are improving for reinsurers worldwide, executives agree.

"Many reinsurers are now adopting a tougher attitude in their underwriting and pricing, which has led to improved rates in some areas," said Marie-Louise Wenander, president of Skandia International Insurance Corp. in Stockholm, Sweden. The crucial issue now is whether this trend will prevail long enough for the reinsurance industry to recoup past losses and to return to an acceptable level of profitability.

Some reinsurers that did not suffer directly from recent catastrophes "took advantage of hardening rates and terms," said Tatsuhiko Tsukuda, associate director and general manager of the international operations department of The Yasuda Fire & Marine Insurance Co. Ltd. in Tokyo.

"I can't find any strong reasons that the reinsurance market will soften and capacity will increase easily in the near future," Mr. Tsukuda said.

'Having beat a hasty retreat from property reinsurance, reinsurers continue to embrace casualty business, save some non-U.S. markets (that) remain skeptical of its long-term health,' says Donald R. Alexander.

In 1994, "the reinsurance market will be tight as in 1993," Chiyoda Fire & Marine's Mr. Matsuzawa said.

However, while rates for property reinsurance have risen, some executives fear that the spate of natural disasters will increase competition for casualty business.

"Having beat a hasty retreat from property reinsurance, reinsurers continue to embrace casualty business, save some non-U.S. markets (that) remain skeptical of its long-term health," Skandia America's Mr. Alexander said.

Rushing into the casualty market is a bad strategy for reinsurers, said Mr. Lohmann of Hannover/Eisen & Stahl Re. "Many players rationalize this expansion into an already soft field as an exercise in positioning themselves for the upcoming turn in the casualty market," he said.

"We believe that the only thing they are positioning themselves for is further losses since, although casualty business may not prove to have the same accumulation problems as property business, writing more of such business at inadequate rates is still not the way to restore underwriting profitability," he said.

However, competition for casualty business may end soon, Mr. Alexander said. During 1994, he expects "some pricing recognition that all is not well with casualty reinsurance, especially as the impact of diminishing investment yields becomes more apparent."

Mark H. Hinkley, executive vp of Transamerica Reinsurance Co. in Stamford, Conn., is more unsure of a quick turn in the casualty reinsurance market.

"Consolidation of corporate entities in the U.S. has not resulted in diminished capacity for casualty business," Mr. Hinkley said. "This will have to happen to provide a market turn," which won't begin until 1995.

"Casualty pricing will remain soft with existing reinsurers choosing to diversify their exposures," added F&G Re's Mr. Evans.

And while the overall reinsurance market may tighten, don't expect big changes, said Michael W. Fedyna, vp and chief financial officer of CIGNA Corp.'s property/casualty reinsurance operations in Philadelphia.

"We see some evidence that reinsurers intend to take tough stances for the 1994 renewals," he said. "Despite that evidence, however, there is still too much capacity in the reinsurance marketplace, and primary rates for many lines of business are inadequate.

"Consequently, we don't see any hardening along the lines of that experienced in 1986-87 occurring in 1994. Any improvement will be modest and gradual at best," Mr. Fedyna said.

While 1992 witnessed the worst catastrophe in history, in terms of insured damage, the aggregate loss ratio among the Top 20 reinsurers surprisingly fell by 4.5 percentage points to 78.7% in 1992 from 83.2% in 1991, while the aggregate combined ratio improved by a whopping 7.4 percentage points to 103.5% last year from 110.9% in 1991.

The improved underwriting result can be attributed to the big rate hikes for catastrophe and other lines of reinsurance in 1992.

However, the numbers don't necessarily tell the whole story.

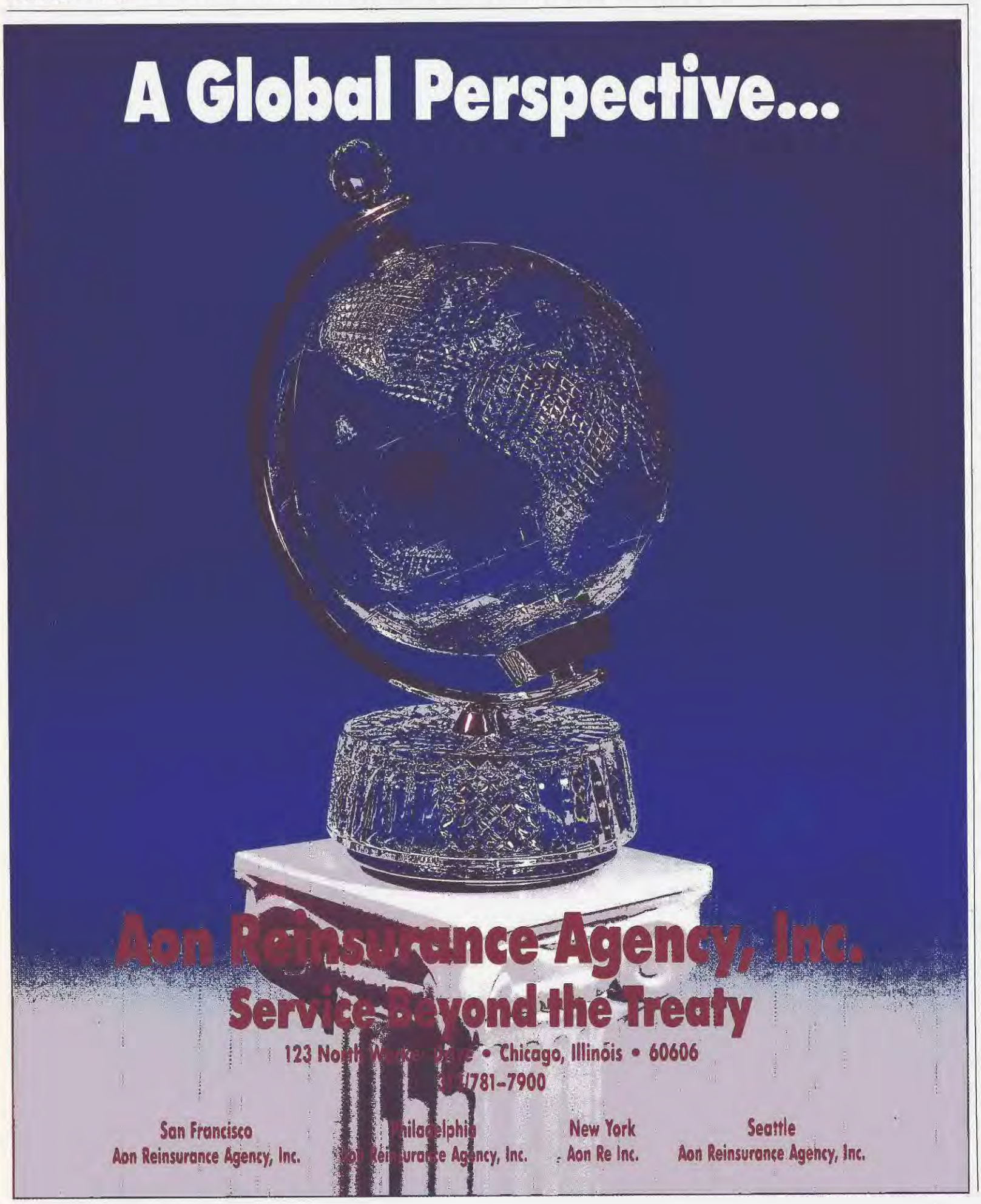
For example, the most recent results reported by Munich Reinsurance Co. and Swiss Re Group —which together account for more than one-third of the total premiums written by the Top 20—are from fiscal years that ended before Hurricane Andrew ripped through South Florida on Aug. 24, 1992.

In addition, many of the insured losses created by Andrew never made it to the reinsurance market. For example, State Farm Group, which suffered more than $2 billion in losses from Hurricane Andrew, does not buy any reinsurance.

Furthermore, some European and Japanese insurers had relatively light Florida windstorm exposures, while others may not have reported their Andrew losses in their 1992 accounts.

"European (reinsurers) suffered severe losses from Hurricane Andrew, just like the rest of

Continued on next page



Continued from previous page
us," said Bard E. Bunaes, chairman and chief executive officer of Constitution Reinsurance Corp. in New York, suggesting that differing standards in Europe may have allowed some companies to delay reporting their Andrew claims.

One thing is clear: The North American subsidiaries of foreign reinsurers and some U.S.-based reinsurance companies saw their 1992 loss and combined ratios skyrocket because of Hurricane Andrew and other catastrophe losses.

Indeed, the U.S. reinsurance industry's combined ratio climbed almost 12 points in 1992, to 119% from 107.1% in 1991, according to the 1992 year-end survey of 59 reinsurers by the Reinsurance Assn. of America (*BI*, March 29).

Swiss Re's North American Reinsurance Corp., which unlike its parent company reported figures for the fiscal year ending Dec. 31, 1992, saw its combined ratio rise 29.9 points to 135.8% last year from 105.9% in 1991.

Skandia America Reinsurance Corp.'s combined ratio increased 22.9 points to 133.7% from 110.8%; SCOR U.S. Corp.'s combined ratio rose 21.1 points to 123.4% from 102.3%; and Winterthur Reinsurance Corp. of America's combined ratio increased 13.9 points to 121.5% from 107.6%.

Prudential Reinsurance Co. reported a 141.1% combined ratio in 1992—the highest combined ratio of the 20 leading reinsurers and a 29.2-percentage-point increase over 1991.

General Reinsurance Corp.'s combined ratio for domestic business increased 6.2 percentage points to 108.4% last year, while Berkshire Hathaway's combined ratio increased 3.4 percentage points to 121.7% and American Re-Insurance Co. crept up 0.1 percentage points to 102.8%.

The combined ratio of one U.S. company actually dropped: Employers Reinsurance Group reported a 105.5% combined ratio last year, down from 108.3% in 1991. BI

Ranking reinsurers not a simple process

For the first time, *Business Insurance* is using 12-month average exchange rates, instead of a simple fiscal year-end rate, to convert foreign reinsurers' results into dollars.

All 1991 results have been recalculated to reflect the change, so most non-U.S. companies' 1991 numbers have been restated from the Top 20 ranking a year ago (*BI*, Aug. 31, 1992).

This move is intended to mitigate the distortion caused by fluctuations in exchange rates.

However, ranking the world's largest reinsurers remains a problematic task.

Although *BI* requested financial information on the reinsurers' consolidated worldwide underwriting, not all companies report such information. For example, Hannover Reinsurance Co. and Eisen & Stahl Reinsurance Co. are included in the listing for Hannover/Eisen & Stahl Reinsurance Co., but their subsidiaries are not. Frankona Reinsurance Co. and the three Japanese companies in the Top 20 also did not provide consolidated information.

While *BI* sought the most recent data, figures for Swiss Re Group and subsidiary Bavarian Re are from calendar-year 1991. Companies also used various fiscal years: U.S. and some European companies use calendar years, while some German companies close their accounts on June 30, and the Japanese on March 31.

The world's largest reinsurers 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, while all of the Skandia Group figures represent 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 at the balance sheet date, thus creating hidden reserves. The Tokio Marine & Fire Insurance Co. reports the capital and surplus of its parent company, while Berkshire Hathaway Inc. reported capital and surplus, and net income, for its entire insurance group, not reinsurance alone.

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. BI

Prospects still not rosy for global reinsurers: S&P

By DOUGLAS McLEOD

The global reinsurance market will continue contracting and results will continue to deteriorate, though the largest reinsurers will fare better than their smaller competitors, a survey by Standard & Poor's Corp. concludes.

The S&P survey of 69 professional reinsurers, based on 1991 results, found the largest companies are outperforming small and medium-size reinsurers, though the market as a whole is suffering the effects of unprecedented catastrophe claims, reserve adjustments and the prospect of continued long-tail casualty losses.

Consolidation and withdrawal of some reinsurers from the market will add to the existing capacity crunch, but tighter market conditions and higher prices will have to last a while before the financial outlook improves for many reinsurers, S&P suggests.

"It is apparent that many reinsurers need more than just a quick fix; they need a sustained market recovery to build a solid foundation," the survey says.

S&P reviewed the financial results of 69 reinsurers from 16 countries, dividing them into top-tier companies with more than $500 million in adjusted capital and surplus, second-tier companies with between $200 million and $499 million and third-tier with $100 million to $199 million.

Germany accounted for the lion's share of global premiums in 1991, with seven German reinsurers commanding 35% of the market, S&P found. The United States was second, with 31 companies commanding a 22% market share, and Switzerland was third, with three companies holding an 11% share.

"This is a profound shift from the days when the London market was the reinsurance capital of the world," the survey says, noting that the United Kingdom had a 1.9% market share. The survey did not include Lloyd's syndicates.

Premium volume growth has been strong: Net written premiums for the surveyed companies jumped 18.2% to $42.2 billion in 1991 from $35.7 billion in 1990. Volume in 1990 was up 15.9% over 1989, reversing a 4.4% decline the group reported from 1988 to 1989.

Life reinsurance produced much of the growth for non-U.S. reinsurers, and the reunification of Germany also produced some of the increases, the survey says.

Top-tier reinsurers wrote 55% of total 1991 premiums, with the second-tier producing 35% and the third-tier 10%.

Volume growth in 1992 will probably surpass 10% and then slow down or remain flat in 1993, the survey predicted. While volume expands, underwriting results have deteriorated under the weight of catastrophe losses, credit reinsurance losses, and U.S. pollution and asbestos claims.

Global reinsurers' average combined ratio hit 111.3% in 1991, up from 110.4% in 1990 and almost seven percentage points higher than the 104.6% recorded in 1987.

Top-tier reinsurers had the best results: They posted an average weighted combined ratio of 106.4% in 1991, compared with 110.3% for second-tier reinsurers and 110.4% for third-tier companies.

Aggregate surplus for the surveyed companies grew to $26.7 billion at year-end 1991 from $23.5 billion at year-end 1990. The 10 reinsurers in the top tier accounted for 54% of the 1991 total, while the 31 second-tier companies accounted for 32% and the 28 third-tier companies accounted for 14%.

Overall, S&P expects surplus to grow less rapidly than premium volume, meaning that capital adequacy will continue to deteriorate.

S&P also noted an "alarming trend" among third-tier reinsurers: The survey found bottom-tier companies reporting a reserve-to-surplus ratio of 2.3-to-1, well below the industry average of 3.6-to-1.

This may be attributable partly to the predominance in the third tier of U.S. reinsurers, which—unlike their non-U.S. competitors—are barred by U.S. tax law from establishing certain tax-free reserves. However, "reinsurers in the third tier may be sacrificing reserves to maintain capital above ceding company guidelines," the survey concludes.

Investment income growth, meanwhile, was strongest among the largest reinsurers. Overall investment income expanded 13% in 1991 to $7.2 billion. Reinsurers in the top tier saw investment income increase 23%, though, while second-tier companies saw it actually decline by 2%, and third-tier reinsurers reported an 11% increase.

Profitability has declined steadily for the entire global reinsurance industry over the past five years, the survey notes.

Overall return on revenue has fallen 5.2 percentage points since 1988 to a five-year low of 3.7% in 1991, according to the survey.

Included in this drop is a 44% decline in pretax operating income to $1.7 billion in 1991 from $3.1 billion in 1988.

Top-tier reinsurers outperformed their smaller competitors over this period, with second-tier companies showing the worst results: Return on revenue for second-tier reinsurers dropped 6.6 percentage points between 1988 and 1991, compared with a drop of just under 1% for third-tier companies.

Second-tier reinsurers have struggled harder to compete with the largest companies, while the performance of third-tier reinsurers may be inflated by the "income statement orientation" of U.S. companies, S&P explained.

The survey doesn't forecast dramatic improvement soon. "S&P believes profitability will deteriorate further. . . .In the longer term . . .both environmental and asbestos-related claims will continue to pressure performance." BI

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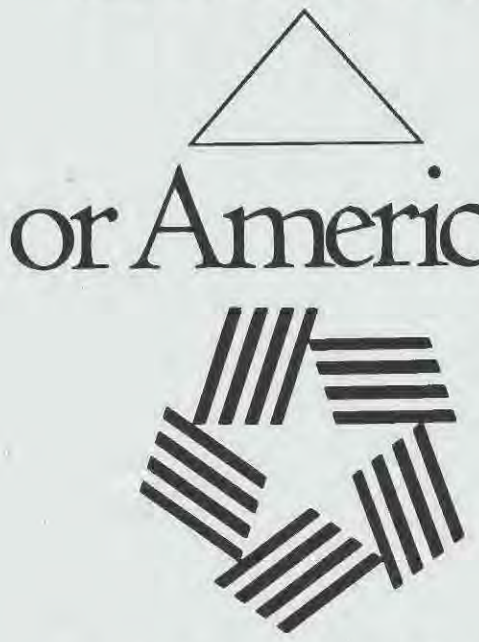
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BI's directory of largest international reinsurers

A

Aachen Re Group

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

	1991*	1990*
Premiums written	$496,570,500	$474,381,900
Capital & surplus	$91,595,700	$95,944,500

* Fiscal years ending 12/31/91 and 12/31/90.

Founded: 1853.
Parent: Aachener & Munchener Beteiligungs Gesellschaft A.G.
Subsidiaries: Aachen Reinsurance Co.; Irish European Reinsurance Co., Dublin, Ireland; Lureco S.A., Luxemburg.
Employees: 190.
Locations: One domestic, 10 foreign.
Officers: A. Morenz, chairman; H. Hauptmann, F. Schmitz, J.H. Von Treskow, board members.
Contact: W. Hoffmann (life), 49-241-9369-284; W. Copping, 49-241-9369-160; M. Kraus (non-life), 49-241-9369-215.

Aachen Reinsurance Co.

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

	1991*	1990*
Premiums written	$452,707,074	$436,902,687
Premiums earned	$437,921,514	$409,298,616
Capital & surplus	$77,685,093	$83,444,391
After-tax net	$6,030,000	$6,220,557
Losses	$312,314,202	$304,861,941
Loss ratio	71.3%	74.5%
Expenses	$146,967,381	$136,020,735
Expense ratio	33.5%	33.1%
Combined ratio	104.8%	107.6%
Treaty	94.0%	94.1%
Facultative	6.0%	5.9%
Domestic	59.4%	58.5%
Foreign	40.6%	41.5%

* Fiscal years ending 12/31/91 and 12/31/90.

Founded: 1853.
Parent: Aachener & Munchener Beteiligungs Gesellschaft A.G.
Employees: 180.
Locations: One domestic, 10 foreign.
Officers: A. Morenz, chairman; H. Hauptmann, F. Schmitz, Dr. J.H. Von Treskow, board members.
Contact: W. Hoffmann (life), 49-241-9369-284; W. Copping, 49-241-9369-160; M. Kraus (non-life), 49-241-9369-215.

Abeille Re

11 Rue de La Rochefoucauld,
75009 Paris, France;
331-42-80-7575;
fax: 331-48-78-5342

	1992	1991
Premiums written	$398,955,874	$345,557,636
Premiums earned	$384,394,303	$326,426,671
Capital & surplus	$248,808,976	$217,996,174
After-tax net	$9,351,876	$12,421,041
Losses	$322,470,720	$267,382,704
Loss ratio	83.9%	81.9%
Expenses	$126,460,448	$109,078,772
Expense ratio	31.7%	31.6%
Combined ratio	115.6%	113.5%
Treaty	95.3%	96.4%
Facultative	4.7%	3.6%
Domestic	25.1%	30.6%
Foreign	74.9%	69.4%

Founded: 1976.
Parent: Compagnie Financiere Du Groupe Victoire/Abeille Assurances.
Employees: 124.
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), 212-809-7100.

American Re-Insurance Co.

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

	1992	1991
Premiums written	$1,020,356,210	$901,743,162
Premiums earned	$964,103,570	$929,809,913
Capital & surplus	$875,768,854	$735,707,997
After-tax net	$120,049,038	$157,763,307
Losses	$660,800,856	$679,167,612
Loss ratio	68.5%	73.0%
Expenses	$349,503,067	$267,346,937
Expense ratio	34.3%	29.7%
Combined ratio	102.8%	102.7%
Treaty	68.0%	70.0%
Facultative	32.0%	30.0%
Domestic	84.9%	87.3%
Foreign	15.1%	12.7%

Founded: 1917.
Parent: American Re Corp.
Subsidiaries: American Re-Insurance Co. (Chile) S.A.
Employees: 1,184.
Locations: 12 domestic, 13 foreign.
Officers: Edward B. Jobe, chairman/CEO; Paul H. Inderbitzin, president; James R. Fisher, senior vp/CFO; Michael A. Jones, Edward J. Noonan, senior vps.
Contact: Victor M. Giuffre, vp, 609-243-4280.

Assicurazioni Generali S.p.A.

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

	1992	1991
Premiums written	$3,199,415,604	$2,269,278,169
Premiums earned	$3,147,136,608	$2,242,846,521
Capital & surplus	$7,170,882,432	$6,789,006,650
After-tax net	$466,917,864	$456,200,763
Losses	$2,156,583,492	$1,558,875,853
Loss ratio	68.5%	69.5%
Expenses	$854,163,912	$617,087,402
Expense ratio	26.7%	27.2%
Combined ratio	95.2%	96.7%
Treaty	98.1%	98.2%
Facultative	1.9%	1.8%
Domestic	18.0%	22.3%
Foreign	82.0%	77.7%

Founded: 1831.
Subsidiaries: Business Men's Assurance Co. of America, Kansas City; EA-Generali, Wien, Germany; Generali Ruckversicherung, Wien, Germany; La Concorde, Paris; Union Suisse, Geneva.
Employees: 33,300.
Locations: 11 domestic, 62 foreign.
Officers: Eugenio Coppola Di Canzano, chairman; Cianfranco Gutty, managing director; Umberto Della Casa, Camillo Giussani, Amato Luigi Molinari, general managers.
Contact: Giorgio Balzer, U.S. representative, 212-602-7600.

AXA Reassurance Co.

40 Rue du Colisee, Paris, France;
331-40-75-5500;
fax: 331-40-75-5632

	1992	1991
Premiums written	$945,171,612	$672,220,512
Premiums earned	$658,545,741	$392,111,640
Capital & surplus	$289,878,939	$258,102,108
After-tax net	$13,900,194	$17,542,824
Losses	$569,039,310	$342,385,083
Loss ratio	86.4%	87.3%
Expenses	$152,204,157	$106,820,562
Expense ratio	16.1%	15.9%
Combined ratio	102.5%	103.2%
Treaty	91.3%	91.8%
Facultative	8.7%	8.2%
Domestic	2.0%	2.0%
Foreign	98.0%	98.0%

Founded: 1937.
Parent: AXA Group.
Subsidiaries: AXA Re Asia, AXA Re U.K. P.L.C., AXA Re U.S., C.G.R.M.
Employees: 285.
Locations: One domestic, four foreign.
Officers: Christian Excoffier, chairman; Jean-Marie Nessi, president-AXA Re Paris; Robert Lippincott, president-AXA Re U.S.; Christopher Ho, managing director-AXA Re Asia; Kenneth Haddon, CEO-AXA Re U.K. P.L.C.
Contact: Thomas C. Pucci, senior vp/CFO, 212-493-9339.

B

Bavarian Re

Sederanger 4-6, 80538 Munich,
Germany; 49-89-3844-0;
fax: 49-89-3844-279

	1991*	1990*
Premiums written	$743,999,239	$668,170,103
Premiums earned	$739,924,599	$658,847,360
Capital & surplus	$215,847,778	$185,713,474
Losses	$513,369,358	$589,128,516
Loss ratio	69.4%	89.4%
Expenses	$201,051,588	$172,417,403
Expense ratio	27.0%	25.8%
Combined ratio	96.4%	115.2%

Fiscal years ending 12/31/91 and 12/31/90.
Founded: 1911.
Parent: Swiss Reinsurance Co.

Continued on next page

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Securities Corporation

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Deutsche Bank Aktiengesellschaft — Nomura International plc — Swiss Bank Corporation
S.G. Warburg & Co. Inc.

Continued from previous page

Employees: 345.

Officers: Stefan Lippe, Erich Herrgen, Inge Mahlstedt, Stefan Schroder, Anton Wittl, board members.

Contact: Dr. Erich Herrgen, 49-89-3844-326.

Berkshire Hathaway Insurance Group

100 First Stamford Place, Stamford, Conn. 06902; 203-363-5207; fax: 203-363-5221

	1992	1991
Premiums written	$607,152,000	$667,035,000
Premiums earned	$511,520,000	$635,398,000
Losses	$589,658,000	$731,917,000
Loss ratio	115.3%	115.2%
Expenses	$38,804,000	$20,577,000
Expense ratio	6.4%	3.1%
Combined ratio	121.7%	118.3%
Treaty	100.0%	100.0%

Employees: 12.

Locations: One domestic.

Specialties: Property catastrophe excess of loss, per risk excess of loss, specialty large risk.

Officers: Ajit Jain, president; Scott Doerr, vp; Scott Stirling, Brian Garrison, assistant vps; Kevin Conlon, claims manager.

Contact: Scott Doerr.

C

Caisse Centrale de Reassurance

31 Rue De Courcelles, 75008 Paris, France; 331-44-35-3100; fax: 331-44-35-3131

	1992	1991
Premiums written	$523,148,976	$496,611,732
Premiums earned	$455,039,424	$465,643,945
Capital & surplus	$472,919,958	$413,996,628
After-tax net	$46,304,055	$50,227,113
Losses	$355,594,995	$366,079,719
Loss ratio	78.2%	78.6%
Expenses	$126,936,558	$126,415,524
Expense ratio	24.3%	25.5%
Combined ratio	102.4%	104.1%
Treaty	95.5%	95.0%
Facultative	4.5%	5.0%
Domestic	76.8%	78.4%
Foreign	23.2%	21.6%

Founded: 1946.

Officers: Alexis Ruset, chairman/CEO; Claude Thevenot, deputy general manager; Max Dessagnat, advisor to the chairman; Rene Vandamme, sales division manager; Gerard Boulier, assistant director-financial/property/legal division; Michel Simonnet, deputy director-information systems division.

Centre Reinsurance (Bermuda) Ltd.

Cumberland House, 1 Victoria St., P.O. Box HM 1788, Hamilton, Bermuda HM HX; 809-295-8501; fax: 809-295-3705

	1992	1991
Premiums written	$523,913,000	$527,621,000
Premiums earned	$478,621,000	$502,668,000
Capital & surplus	$630,819,000	$360,319,000
After-tax net	$65,868,000	$48,199,000
Losses	$472,655,000	$513,330,000
Loss ratio	98.8%	102.1%
Expenses	$105,830,000	$73,861,000
Expense ratio	20.2%	14.0%
Combined ratio	119.0%	116.1%
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 Co. of New York, Centre Reinsurance International Co.

Employees: 104.

Locations: One domestic, three foreign.

Specialties: Finite risk reinsurance.

Officers: Rolf Huppi, chairman; Steven M. Gluckstern, president/CEO; Michael D. Palm, executive vp; Laurence W Cheng, executive vp/CFO.

The Chiyoda Fire & Marine Insurance Co. Ltd.

Kyobashi Chiyoda Building, 1-9 Kyobashi 2-Chome, Chuo-ku, Tokyo 104, Japan; 81-3-3281-3311

	1993*	1992*
Premiums written	$492,146,496	$485,695,867
Capital & surplus	$1,050,745,380	$954,481,060
Losses	$366,922,657	$357,154,809
Expenses	$80,783,300	$71,245,796
Expense ratio	16.4%	14.7%
Treaty	99.0%	99.0%
Facultative	1.0%	1.0%
Domestic	60.0%	65.0%
Foreign	40.0%	35.0%

* Fiscal years ending 3/31/93 and 3/31/92.

Founded: 1897.

Locations: 230 domestic, 17 foreign.

Officers: Hideo Kamio, chairman; Takashi Toyabe, president/executive director; Osamm Sato, Koji Fukuda, senior vps/executive directors; Yoshimi Takaoka, Junzo Nishino, Yutaka Okada, senior managing directors.

Contact: Takeshi Sugisawa, 212-839-6927.

CIGNA Property & Casualty Reinsurance Operations

2 Liberty Place-TLP 45, 1601 Chestnut St., P.O. Box 41567, Philadelphia, Pa. 19101; 215-761-3545; fax: 215-761-5573

	1992	1991
Premiums written	$582,203,000	$622,341,000
Premiums earned	$600,485,000	$615,627,000
Capital & surplus	$277,783,000	$273,000,000
Treaty	91.0%	90.0%
Facultative	9.0%	10.0%
Domestic	47.0%	45.0%
Foreign	53.0%	55.0%

Founded: 1947.

Parent: CIGNA Corp.

Subsidiaries: CIGNA International Reinsurance Co. Ltd. (Bermuda); CIGNA Reinsurance Co., CIGNA Reinsurance Co. S.A./N.V., CIGNA Reaseguros S.A.

Employees: 413.

Locations: Two domestic, four foreign.

Specialties: Property-treaty and facultative, treaty casualty, marine-treaty and facultative, agriculture, bonding/credit, financial reinsurance/finite risk.

Officers: Norman M. Wayne, president-property/casualty reinsurance div.; Harry J. Larzelere, president-North American reinsurance operations; Thomas J. Mahoney, general manager-CIGNA Reinsurance Co. S.A./N.V.; Michael W. Fedyna, vp/CFO; John P. Gumbrecht, vp/chief underwriting officer.

Contact: Michael W. Fedyna, 215-761-3544.

Cologne Re

Theodor-Heuss-Ring 11, D-50668, Cologne, Germany; 49-221-9738-0; fax: 49-221-9738-494

	1992	1991
Premiums written	$2,433,814,374	$1,768,498,371
Premiums earned	$2,371,209,805	$1,743,369,066
Capital & surplus	NA	$260,659,383
After-tax net	NA	$24,781,244
Losses	NA	$1,434,588,257
Loss ratio	NA	82.3%
Expenses	NA	$454,293,346
Expense ratio	NA	25.7%
Combined ratio	NA	108.0%
Treaty	NA	90.3%
Facultative	NA	9.7%
Domestic	NA	40.0%
Foreign	NA	60.0%

Founded: 1846.

Parent: Colonia Holding AG.

Subsidiaries: Cologne Re (Barbados) Ltd., Cologne Re Co. (Bermuda) Ltd., Cologne Re Co. (Dublin) Ltd., Cologne Re of America, Cologne Life Re, Cologne Life Re of Australia, The Cologne Re Co. of South Africa Ltd., Europa Ruckversicherung A.G.

Locations: Two domestic, 27 foreign.

Officers: Dr. Peter Lutke-Bornefeld, chairman; Hans-Peter Gerhardt; Dr. Gerd Hofmann; Rainer Isringhaus; Georg Lorenz; Dr. Lothar Meyer; Dr. Egbert William; Wilhelm Zeller.

Constitution Reinsurance Corp.

110 William St., New York, N.Y. 10038; 212-602-8500; fax: 212-619-3179

	1992	1991
Premiums written	$382,531,636	$256,832,189
Premiums earned	$321,096,968	$247,246,727
Capital & surplus	$271,748,903	$246,643,662
After-tax net	$2,865,777	$32,239,572
Losses	$264,755,503	$183,929,703
Loss ratio	82.5%	74.4%
Expenses	$126,617,094	$83,734,208
Expense ratio	33.1%	32.6%
Combined ratio	109.9%	107.0%
Treaty	96.0%	94.0%
Facultative	4.0%	6.0%
Domestic	100.0%	100.0%

Founded: 1940.

Parent: Crum & Forster Inc.

Employees: 199.

Locations: Four domestic.

Specialties: Non-standard automobile.

Officers: Bard E. Bunaes, chairman/CEO; Francis D. Ruyak, president; William K. Lowry Jr., senior vp/CFO; Burton I. Henry, senior vp/treasurer; Roger M. Hughes, senior vp.

Contact: William K. Lowry Jr., 212-605-8588.

E

Eisen & Stahl Re

Karl Wiechert Allee 50, D-30625 Hannover, Germany; 49-511-56-04-0; fax: 49-511-56-04-188

	1992	1991
Premiums written	$763,567,489	$592,476,677
Premiums earned	$752,214,598	$585,678,688
Capital & surplus	$208,650,379	$175,786,137
After-tax net	$13,335,040	$15,545 225
Losses	$605,976,612	$467,790 448
Loss ratio	80.6%	79.9%
Expenses	$182,973,583	$147,809 214
Expense ratio	24.0%	24.9%
Combined ratio	104.6%	104.8%
Treaty	99.0%	99.0%
Facultative	1.0%	1.0%
Domestic	73.0%	77.0%
Foreign	27.0%	23 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 above.

Employees: 159.

Locations: One domestic, four foreign.

Specialties: Financial risk and alternative market concepts, professional liability, aviation, political risks, life, accident and health.

Officers: Michael Reischel, chairman; Udo Schubach, Jurgen Brenzel, Andreas-Peter Hecker, Winfried Kruger, board members; Wolf Becke, deputy board member.

Contact: John McLain, 708-705-2100.

Employers Reinsurance Group

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

	1992	1991
Premiums written	$3,101,080,000	$2,619,086,000
Premiums earned	$3,036,537,000	$2,564,934,000
Capital & surplus	$2,067,524,000	$1,872,559,000
After-tax net	$442,321,000	$340,483,000
Losses	$2,574,702,000	$1,857,452,000
Loss ratio*	78.4%	79.3%
Expenses	$789,300,000	$1,190,106,000
Expense ratio*	27.1%	29.0%
Combined ratio*	105.5%	108.3%
Treaty	68.9%	64.3%
Facultative	31.1%	35.7%
Domestic	76.3%	81.5%
Foreign	23.7%	18.5%

* Ratios apply to property & casualty business only.

Founded: 1914.

Parent: General Electric Financial Services.

Subsidiaries: Employers Reassurance, Employers Reinsurance, Employers Reinsurance Ltd., First Excess Reinsurance, First Specialty Insurance Co., Nordisk Reinsurance A/S, Westport Insurance.

Employees: 962.

Locations: 17 domestic, nine foreign.

Officers: Thomas S. Case, chairman/president/CEO; Hoyt H. Wood Jr., senior vp-underwriting/claims; C. Alan Mauch, senior vp-marketing/administration; James F. Dore, vp/CFO; Kaj Ahlmann, senior executive-ERI Europe.

Contact: Thomas S. Case.

F

F&G Re Inc.

55 Madison Ave., P.O. Box 1958, Morristown, N.J. 07962-1958; 201-898-9393; fax: 201-326-9453

	1992	1991
Premiums written	$243,210,963	$211,138,050
Premiums earned	$254,090,392	$219,148,745
Losses	$195,353,433	$124,713,901
Loss ratio	76.9%	56.9%
Expenses	$41,241,604	$64,436,208
Expense ratio	16.9%	30.5%
Combined ratio	93.8%	87.4%
Treaty	100.0%	100.0%
Domestic	74.2%	74.1%
Foreign	25.8%	25.9%

Founded: 1983.

Parent: USF&G.

Employees: 45.

Locations: One domestic.

Officers: Paul B. Ingrey, president; John R. Berger, executive vp; Dwight R. Evans, Wayne C. Paglier, senior vps; Roland W. Jackson, senior vp/comptroller.

Contact: Roland W. Jackson.

Frankona Reinsurance Co.

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

	1993*	1992*
Premiums written	$1,700,494,157	$1,257,183,180
Premiums earned	$1,671,457,498	$1,198,048,382
Capital & surplus	$237,321,935	$155,938,841
After-tax net	$11,802,454	$9,465,264
Losses	$1,076,726,957	$777,703,115
Loss ratio	64.4%	64.9%
Expenses	$423,490,024	$374,907,614
Expense ratio	24.9%	29.8%
Combined ratio	89.3%	94.7%
Treaty	92.8%	92.5%
Facultative	7.2%	7.5%
Domestic	44.1%	52.5%
Foreign	55.9%	47.5%

* Fiscal years ending 6/30/93 and 6/30/92.

Founded: 1886.

Parent: Gerling-Konzern Versicherungs-Beteiligungs-Aktiengesellschaft.

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

Employees: 631.

Locations: One domestic, six foreign.

Officers: Achim Kann, chairman/CEO; Reinhard Hinne, Dieter W. Luer, board members; Karl J. Mayr, Michael von Ludinghausen, deputy board members.

Contact: Dr. Karl J. Mayr, 49-89-9228-700.

G

General Re

695 E. Main St., Stamford, Conn. 06904; 203-328-5000; fax: 203-328-6423

	1992	1991
Premiums written	$2,348,800,000	$2,249,100,000
Premiums earned	$2,318,700,000	$2,241,300,000
Capital & surplus	$4,226,500,000	$3,911,200,000
After-tax net	$657,400,000	$656,700,000
Losses	$1,828,600,000	$1,618,000,000
Loss ratio *	78.8%	72.5%
Expenses	$697,600,000	$664,800,000
Expense ratio *	29.6%	29.7%
Combined ratio *	108.4%	102.2%
Treaty	60.0%	56.0%
Facultative	40.0%	44.0

Continued on next page

Guide to the reinsurance directory

The fifth 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 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, 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 domestic and foreign markets.

The company's year **founded** follows the financial information. The **parent company** (if any) is listed, followed by major reinsurance **subsidiaries**. If the companies' financial information is not consolidated or only partly consolidated, that is noted here. **Employees** at year-end 1992 and number of worldwide **locations** are included. Names and titles of **principal officers**, as well as a **U.S. contact** 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.

Get out of the London fog.

American Excess Insurance Association

Phone: (203) 528-2155 Fax: (203) 282-9393

Continued from previous page

Domestic	92.7%	94.4%
Foreign	7.3%	5.6%

* Ratios related to domestic business only.

Founded: 1921.

Officers: R.E. Ferguson, chairman/CEO; J.C. Etling, vice chairman; E.C. Frohboese, J.C. Brandon, vps; E.F. Rondepierre, vp/general counsel/secretary.

Contact: Joseph Conetta, assistant vp, 203-328-5605.

Gerling Global Reinsurance Group

Gereonshof, 50597 Cologne, Germany; 49-221-144-1; fax: 49-221-144-46-65

	1992*	1991*
Premiums written	$1,492,846,704	$1,302,405,432
Premiums earned	$1,458,746,676	$1,282,136,104
Capital & surplus	$324,670,284	$301,156,772
After-tax net	$7,177,536	$(5,178,488)
Losses	$1,131,510,276	$964,365,592
Loss ratio	77.6%	75.2%
Expenses	$449,692,704	$408,390,284
Expense ratio	30.1%	31.4%
Combined ratio	107.7%	106.6%
Domestic	67.0%	66.8%
Foreign	33.0%	33.2%

* Fiscal years ending 6/30/92 and 6/30/91.

Founded: 1954.

Parent: Gerling-Konzern Versicherungs-Beteiligungs-A.G.

Subsidiaries: Gerling Global General & Reinsurance, London; Gerling Global Life, Toronto; Gerling Global Reinsurance, Johannesburg, South Africa; Gerling Global Reinsurance, Toronto; Gerling Globale, Zug, Switzerland.

Employees: 421.

Locations: One domestic, 23 foreign.

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

Contact: Gerhard Niebuhr, 212-752-8900.

H

Hannover Reinsurance Co.

Karl Wiechert Allee 50, D-30625 Hannover, Germany; 49-511-56-04-0; fax: 49-511-56-04-188

	1992	1991
Premiums written	$1,323,005,299	$1,026,176,649
Premiums earned	$1,292,729,731	$1,009,526,773
Capital & surplus	$394,551,490	$323,579,760
After-tax net	$53,779,318	$25,181,280
Losses	$967,264,036	$817,665,615
Loss ratio	74.8%	81.0%
Expenses	$371,163,985	$284,742,698
Expense ratio	28.1%	27.7%
Combined ratio	102.9%	108.7%
Treaty	96.0%	96.0%
Facultative	4.0%	4.0%
Domestic	42.0%	44.0%
Foreign	58.0%	56.0%

Founded: 1966.

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

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

Employees: 334.

Locations: One domestic, 13 foreign.

Specialties: Financial risk and alternative market concepts, professional liability, aviation, political risks, life, accident and health.

Officers: Michael Reischel, chairman; Udo Schubach, Jurgen Brenzel, Andreas-Peter Hecker, Winfried Kruger, board members; Wolf Becke, deputy board member.

Contact: John McLain, 708-705-2100.

Hannover Reinsurance Co./ Eisen & Stahl Reinsurance Co.

Karl Wiechert Allee 50, D-30625 Hannover, Germany; 49-511-56-04-0; fax: 49-511-56-04-188

	1992	1991
Premiums written	$2,086,572,768	$1,618,653,326
Premiums earned	$2,044,944,330	$1,595,205,461
Capital & surplus	$603,201,869	$499,365,898
After-tax net	$64,936,386	$36,721,494
Losses	$1,573,240,648	$1,285,456,062
Loss ratio	76.9%	80.6%
Expenses	$554,137,568	$432,551,911
Expense ratio	26.6%	26.7%
Combined ratio	103.5%	107.3%
Treaty	97.0%	97.0%
Facultative	3.0%	3.0%
Domestic	51.0%	55.0%
Foreign	49.0%	45.0%

Employees: 493.

Locations: One domestic, 17 foreign.

Specialties: Financial risk and alternative market concepts, professional liability, aviation, political risks, life, accident and health.

Officers: Michael Reischel, chairman; Udo Schubach, Jurgen Brenzel, Andreas-Peter Hecker, Winfried Kruger, board members; Wolf Becke, deputy board member.

Contact: John McLain, 708-705-2100.

K

Kemper Reinsurance Co.

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

	1992	1991
Premiums written	$558,811,000	$526,035,000
Premiums earned	$541,739,000	$505,892,000
Capital & surplus	$338,761,000	$336,889,000
After-tax net	$(20,871,000)	$64,044,000
Losses	$514,008,000	$426,080,000
Loss ratio	94.9%	84.2%
Expenses	$128,685,000	$112,314,000
Expense ratio	23.0%	21.4%
Combined ratio	117.9%	105.6%
Treaty	98.0%	98.0%
Facultative	2.0%	2.0%
Domestic	57.0%	64.0%
Foreign	43.0%	36.0%

Founded: 1969.

Parent: Kemper Corp.

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.

M

The Mercantile & General Group Ltd.

Moorfields House, London, England EC2Y 9AL; 44-71-628-7070; fax: 44-71-588-4629

	1992	1991
Premiums written	$1,804,183,000	$1,447,218,900
Capital & surplus	$363,943,000	$431,636,000
After-tax net	$(33,787,900)	$30,005,000
Losses	$1,870,370,500	$1,347,624,200
Loss ratio	103.7%	93.1%
Expenses	$523,322,500	$435,174,000
Expense ratio	29.0%	30.1%
Combined ratio	132.7%	123.2%
Domestic	19.0%	26.5%
Foreign	81.0%	73.5%

Founded: 1907.

Parent: Prudential Corp.

Locations: Four domestic, 20 foreign.

Officers: John Engestrom, CEO; Richard Brenster, group finance director; Roger Sansom, Peter Patterson, directors-long term business; Hans-Erik Andersson, director-general business.

Contact: William Munson, president/COO, 201-898-9480.

Munich Reinsurance Co.

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

	1992*	1991*
Premiums written	$8,327,143,003	$7,628,950,902
Premiums earned	$8,165,976,899	$7,679,874,212
Capital & surplus	$2,107,543,417	$2,037,896,541
After-tax net	$107,089,407	$65,171,150
Losses	$6,351,958,943	$6,134,164,544
Loss ratio	77.8%	79.9%
Expenses	$2,620,131,681	$2,410,174,576
Expense ratio	31.5%	31.6%
Combined ratio	109.3%	111.5%
Domestic	58.0%	55.0%
Foreign	42.0%	45.0%

* Fiscal years ending 6/30/92 and 6/30/91.

Founded: 1880.

Subsidiaries: Great Lakes, Toronto; Muenchener Rueck Italia S.p.A., Milan, Italy; Munich American Reassurance Co., Atlanta; Munich American Reinsurance Co., New York; Munich Re of Canada, Toronto; Munich Reinsurance Co. of Australia, Sydney; Munich Reinsurance Co. of South Africa, Johannesburg; New Re, Geneva, Switzerland.

Employees: 3,589.

Locations: One domestic, 70 foreign.

Officers: Hans-Juergen 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.

N

National Reinsurance Corp.

777 Long Ridge Road, P.O. Box 10167, Stamford, Conn. 06904-2167; 203-329-7700; fax: 203-329-9027

	1992	1991
Premiums written	$252,303,199	$259,529,617
Premiums earned	$250,356,401	$269,574,971
Capital & surplus	$321,209,474	$253,656,619
After-tax net	$52,479,007	$55,149,522
Losses	$180,227,531	$194,741,365
Loss ratio	72.0%	72.2%
Expenses	$79,111,088	$78,986,071
Expense ratio	31.3%	30.4%
Combined ratio	103.3%	102.6%
Treaty	82.0%	80.0%
Facultative	18.0%	20.0%
Domestic	100.0%	100.0%

Founded: 1963.

Parent: National Re Corp.

Employees: 234.

Locations: Eight domestic.

Officers: William D. Warren, chairman/CEO/president; Peter A. Cheney, executive vp/CFO; Robert W. Eager Jr., executive vp-insurance operations; Timothy T. McCaffrey, executive vp-legal/corporate affairs.

Contact: William D. Warren.

North American Reinsurance Corp.

237 Park Ave., New York, N.Y. 10017; 212-907-8000; fax: 212-907-8728

	1992	1991
Premiums written	$680,542,461	$798,676,632
Premiums earned	$726,169,417	$729,596,915
Capital & surplus	$619,309,450	$723,560,675
After-tax net	$(34,418,379)	$59,897,516
Losses	$708,270,821	$508,696,397
Loss ratio	97.5%	69.7%
Expenses	$260,858,660	$289,222,295
Expense ratio	38.3%	36.2%
Combined ratio	135.8%	105.9%
Treaty	81.7%	88.4%
Facultative	18.3%	11.6%
Domestic	100.0%	100.0%

Founded: 1863.

Parent: Swiss Reinsurance Co.

Subsidiaries: Western Atlantic Reinsurance Corp.

Employees: 500.

Locations: 10 domestic.

Officers: N.D. Thompson, chairman/CEO; W.E. Thiele, president/COO; D.G. Baker, executive vp-facultative; C.E. Mabli, executive vp-finance; J.P. Quinn, executive vp-special lines; W.H. Stempson, executive vp-treaty.

Contact: Paul A. LiCausi, vp/controller.

P

Prudential Reinsurance Co.

3 Gateway Center, Newark, N.J. 07102-4077; 201-802-8888; fax: 201-802-4793

	1992	1991
Premiums written	$808,917,000	$776,109,000
Premiums earned	$793,625,000	$764,947,000
Capital & surplus	$519,028,000	$590,284,000
After-tax net	$(53,035,000)	$97,417,000
Losses	$862,038,000	$600,287,000
Loss ratio	108.6%	78.5%
Expenses	$263,235,000	$259,022,000
Expense ratio	32.5%	33.4%
Combined ratio	141.1%	111.9%
Treaty	91.8%	91.3%
Facultative	8.2%	8.7%
Domestic	78.4%	77.5%
Foreign	21.6%	22.5%

Founded: 1973.

Parent: The Prudential Insurance Co. of America.

Subsidiaries: Le Rocher Reinsurance Ltd.

Employees: 709.

Locations: Eight domestic, four foreign.

Officers: James E. Dwane, president; Dewey P. Clark, Thomas J. Gallagher, Jean F. Webb, senior vps; Craig Eisenacher, senior vp/comptroller.

Contact: Robert G. Murray, vp-public relations, 201-802-2083.

R

Reinsurance Institute of Brazil

Ave. Marechal Camara 171, Rio de Janeiro 20023-900, Brazil; 55-21-297-1212; fax: 55-21-240-3923

	1992	1991
Premiums written	$505,937,000	$346,326,000
Premiums earned	$514,813,000	$355,740,000

Continued on next page

This announcement is neither an offer to sell nor a solicitation of an offer to buy these securities.
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August 17, 1993

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Capital & surplus.	$351,683,000	$380,440,000
After-tax net	$2,954,000	$58,768,000
Losses	$165,661,000	$169,704,000
Loss ratio	36.1%	47.7%
Expenses	$254,357,000	$243,192,000
Expense ratio	50.3%	70.2%
Combined ratio	86.3%	117.9%
Domestic	98.3%	96.9%
Foreign	1.7%	3.1%

Founded: 1939.
Parent: Instituto Nacional de Seguridade Social and Insurance Cos. of Brazil.
Subsidiaries: United Americas Insurance Co.; figures from this subsidiary are *not* included above.
Employees: 1,379.
Locations: Six domestic, one foreign.
Officers: Roberto Barbosa Lima, president; Jose Mauricio Rodrigues de Melo, director-national operations; Demosthenes Madureira de Pinbo Filbo, director-international operations; Ivan Motta Lagrotta, finance director; Carlos Alberto Lenz Cesar Protasio, director-administration.
Contact: Roberto Chiavegatto, president-United Americas Insurance Co., 212-514-7400.

S

St. Paul Re

195 Broadway, New York, N.Y. 10007; 212-230-9200; fax: 212-238-9202

	1992	1991
Premiums written	$343,045,000	$363,995,000
Premiums earned	$361,093,000	$375,400,000
Losses	$558,305,000	$386,300,000
Loss ratio	154.6%	102.9%
Expenses	$111,552,000	$112,100,000
Expense ratio	32.5%	30.8%
Combined ratio	187.1%	133.7%
Treaty	86.5%	NA
Facultative	13.5%	NA
Domestic	76.1%	NA
Foreign	23.9%	NA

Founded: 1983.
Parent: St. Paul Fire & Marine Insurance Co.
Subsidiaries: St. Paul Reinsurance Co. Ltd.
Employees: 300.
Locations: One domestic, one foreign.
Specialties: International casualty excess of loss.
Officers: James P. White, CEO; Michael J. Schell, senior vp-domestic (N.Y.); Peter Aubrey-Smith, senior vp-international (N.Y.); Michael G. Wacek, general manager-London.
Contact: James P. White, 212-238-9205.

SCOR S.A.

Immeuble Scor 1, Avenue du President Wilson, 92074 Paris la Defense, France; 331-46-98-7000; fax: 331-47-67-0409

	1992	1991
Premiums written	$1,596,861,000	$1,463,259,000
Premiums earned	$1,569,834,000	$1,390,512,000
Capital & surplus.	$897,939,000	$789,951,000
After-tax net	($23,625,000)	$25,488,000
Losses	$1,374,597,000	$1,157,049,000
Loss ratio	87.6%	83.2%
Expenses	$490,077,000	$469,581,000
Expense ratio	30.7%	32.1%
Combined ratio	118.3%	115.3%
Treaty	89.0%	NA
Facultative	11.0%	NA
Domestic	28.0%	26.0%
Foreign	72.0%	74.0%

Founded: 1970.
Subsidiaries: Deutsche Kontinentale, La Vittoria Riazzicurazioni Milan, SCOR Pacific, SCOR Re Australia, SCOR RE CY of Canada, SCOR Reassurance, SCOR U.K. Re, SCOR U.S., SCOR Vie.
Employees: 1,074.
Locations: One domestic, 24 foreign.
Officers: P. Peugeot, chairman/CEO; J. Blondeau, president/COO; S. Osouf, president-reinsurance operations.
Contact: J. Karter, executive vp (SCOR U.S.), 212-513-1777.

SCOR U.S. Corp.

110 William St., Suite 1800, New York, N.Y. 10038; 212-978-8200; fax: 212-406-9296

	1992	1991
Premiums written	$205,544,011	$172,710,208
Premiums earned	$192,049,933	$172,818,208
Capital & surplus.	$210,854,740	$224,327,126
After-tax net	$5,163,891	$30,718,681
Losses	$163,235,330	$113,183,689
Loss ratio	85.0%	65.5%
Expenses	$78,925,152	$63,640,530
Expense ratio	38.4%	36.8%
Combined ratio	123.4%	102.3%
Treaty	82.0%	78.0%
Facultative	18.0%	22.0%
Domestic	100.0%	100.0%

Founded: 1984.
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: 197.
Locations: Five domestic, one foreign.
Officers: Patrick Peugeot, director/chairman/CEO; Jacques P. Blondeau, director/vice chairman/president/COO; Francois Negrier, director/vice chairman; Jerome Karter, director/executive vp/president and CEO-SCOR Re; William K. Lowry, senior vp/CFO.
Contact: Jerome Karter, 212-978-8215.

Sirius International Insurance Corp.

P.O. Box 1662, S-111 96 Stockholm, Sweden; 468-723-4400; fax: 468-611-6293

	1992	1991
Premiums written	$201,462,740	$93,461,216
Premiums earned	$157,989,224	$96,066,416
Capital & surplus.	$495,532,000	$244,604,900
After-tax net	$8,324,456	$48,430
Losses	$141,706,500	$105,114,309
Loss ratio	89.7%	109.4%
Expenses	$41,440,648	$33,421,543
Expense ratio	20.5%	35.8%
Combined ratio	110.2%	145.2%
Treaty	95.0%	92.0%
Facultative	5.0%	8.0%
Domestic	18.0%	20.0%
Foreign	82.0%	80.0%

Founded: 1945.
Parent: ABB Financial Services AB.
Subsidiaries: Scandinavian Reinsurance Co. Ltd., Bermuda; Sirius (U.K.) Insurance P.L.C.; figures from these subsidiaries are *not* included above.
Employees: 121.
Locations: One domestic, four foreign.
Specialties: Excess of loss underwriting, financial risks.
Officers: Goran Thorstensson, CEO/president; Jan G. Holmstrom, Lars Ek, executive vps; Goran Carlsson, Lars Erik Akerberg, senior vps.

Skandia America Reinsurance Corp.

1 Liberty Plaza, New York, N.Y. 10006; 212-978-4700; fax: 212-385-2124

	1992	1991
Premiums written	$371,717,000	$404,383,000
Premiums earned	$403,441,000	$396,896,000
Capital & surplus.	$293,361,000	$353,011,000
After-tax net	($25,502,000)	$27,534,000
Losses	$389,041,000	$304,926,000
Loss ratio	96.4%	76.8%
Expenses	$138,803,000	$137,365,000
Expense ratio	37.3%	34.0%
Combined ratio	133.7%	110.8%
Treaty	NA	81.0%
Facultative	NA	19.0%

Founded: 1900.
Parent: Skandia Group Insurance Co. Inc.
Subsidiaries: Skandia International Insurance Corp; figures for this subsidiary are *not* included above.
Officers: Johannes Norrby, chairman; Donald R. Alexander, president/COO.
Contact: Donald R. Alexander, 212-978-2715 or 212-978-2750.

Skandia Insurance Co. Ltd.

S-103 50 Stockholm, Sweden; 46-8-788-1000; fax: 46-8-788-3080

	1992	1991
Premiums written	$1,399,736,000	$1,110,717,000
Premiums earned	$1,393,716,000	NA
Capital & surplus.	$697,116,000	NA
After-tax net	($165,780,000)	NA
Losses*	$1,007,920,000	NA
Loss ratio	89.4%	93.6%
Expense ratio	31.9%	33.5%
Combined ratio	122.1%	125.9%

* Includes loss adjustment expenses.
Founded: 1855.
Parent: Skandia Insurance Co. Ltd.
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: 861.
Locations: One domestic, 20 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; 331-44-01-1717; fax: 331-44-01-1780

	1992	1991
Premiums written	$587,884,689	$546,917,610
Premiums earned	$578,168,955	$537,911,496
Capital & surplus.	$389,592,126	$346,662,111
After-tax net	$23,141,727	$23,258,154
Losses	$499,601,844	$451,281,324
Loss ratio	86.4%	83.9%
Expenses	$188,793,045	$181,805,196
Expense ratio	32.1%	33.2%
Combined ratio	118.5%	117.1%
Treaty	98.0%	98.6%
Facultative	2.0%	1.4%
Domestic	28.0%	38.4%
Foreign	72.0%	61.6%

Founded: 1884.
Parent: AGF Group, Swiss Re Group, Athena Group.
Subsidiaries: SAFR Reinsurance Corp. of the U.S.
Employees: 259.
Locations: One domestic, three foreign.
Officers: Jacques Bourthoumieux, chairman/CEO; Herve Cachin, president; Jean-Luc Barbe, Philippe Coignard, Daniel Herouard, executive vps.
Contact: Jean-Pierre Fillebeen, vice chairman/CEO-SAFR Reinsurance Corp. of the U.S., 212-422-0380.

The Sumitomo Marine & Fire Insurance Co. Ltd.

27-2 Shinkawa 2-Chome, Chuo-ku, Tokyo 104, Japan; 81-3-3297-6673; fax: 81-3-3297-6895

	1992*	1991*
Premiums written	$478,450,700	$469,309,770
Capital & surplus.	$1,665,510,600	$1,504,177,380
Losses	$393,897,140	$349,449,390

* Fiscal years ending 3/31/92 and 3/31/91.
Founded: 1893.
Subsidiaries: Sumitomo Marine Re Management Inc.
Locations: Three foreign.
Officers: Sumao Tokumasu, chairman; Takashi Onoda, president; Toshio Aoyama, Atsushi Sasaki, executive vps.
Contact: Atsushi Gamo, general manager-U.S. reinsurance operations, 212-488-0630.

Swiss Re Group

Mythenquai 50/60, P.O. Box CH-8022, Zurich, Switzerland; 411-285-21-21; fax: 411-285-29-99

	1991*	1990*
Premiums written	$6,124,950,000	$5,324,548,000
Premiums earned	$6,067,714,000	$5,302,011,000
Capital & surplus.	$2,197,304,000	$2,043,597,000
After-tax net	$185,668,000	$157,032,000
Losses	$4,758,266,000	$4,284,211,000
Expenses	$1,480,458,000	$1,269,342,000
Domestic	5.9%	6.8%
Foreign	94.1%	93.2%

*Fiscal years ending 12/31/91 and 12/31/90.
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 International Reinsurance Co. Ltd., North American Reassurance Co., North American Reinsurance Corp., Swiss-Am Reassurance Co., Swiss Reinsurance Co., Swiss Reinsurance Co. (U.K.) Ltd., Swiss-South African Reinsurance Co. Ltd., Union Reinsurance Co., Western Atlantic Reinsurance Corp.
Employees: 3,273.
Officers: A.W. Saxer, CEO; C. Dorschel, CFO; P. Frey, U. Winter, co-heads of reinsurance.
Contact: N. David Thompson, president/CEO-North American Reinsurance Corp., 212-907-8040.

Sydney Reinsurance Group Ltd.

Level 7, 345 George St., Sydney NSW, Australia 2000; 612-247-7671; fax: 612-247-6049

	1992*	1991*
Premiums written	$104,964,223	$72,724,151
Premiums earned	$93,626,172	$71,799,696
Capital & surplus.	$108,931,215	$101,505,953
After-tax net	$4,915,263	$5,921,294
Losses	$77,954,158	$58,586,340
Loss ratio	83.3%	81.6%
Expenses	$29,036,343	$25,132,329
Expense ratio	27.7%	34.6%
Combined ratio	111.0%	116.2%
Treaty	96.8%	95.8%
Facultative	3.2%	4.2%
Domestic	23.3%	14.5%
Foreign	76.7%	85.5%

* Fiscal years ending 6/30/92 and 6/30/91.
Founded: 1991.
Parent: QBE Insurance Group Ltd.
Subsidiaries: QBE Insurance & Reinsurance Europe Ltd., QBE International Insurance Ltd., Sydney Reinsurance Co. Ltd., Equator Reinsurance Ltd., The Victory Reinsurance Co. of America Inc.
Locations: One domestic, four foreign.
Officers: Martin Jackson, group general manager; Abe Altman, general manager-QBE Insurance & Reinsurance (Europe) Ltd.'s North American reinsurance operations/president-The Victory Reinsurance Co. of America Inc.; Gordon Brown, chief general manager-QBE International Insurance Ltd.; Robert Grant, general manager of underwriting-QBE International Insurance Ltd.; Paul Allison, general manager.
Contact: Abe Altman, 212-509-5880.

T

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

	1992*	1991*
Premiums written	$733,023,720	$647,258,850
Capital & surplus.	$171,286,180	$156,569,310
After-tax net	$7,381,660	$17,974,080
Losses	$684,383,180	$431,335,260
Loss ratio	93.4%	66.6%
Expenses	$260,160,160	$231,743,340
Expense ratio	35.5%	35.8%
Combined ratio	128.9%	102.4%

* Fiscal years ending 3/31/92 and 3/31/91.
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 above.
Locations: One domestic, three foreign.
Officers: S. Kusakabe, president; T. Nakatsukasa, K. Furuta, senior managing directors.

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Continued from previous page

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

	1993*	1992*
Premiums written	**$984,633,900**	$943,887,360
Capital & surplus	**$15.1 billion**	$13.85 billion
Domestic	**69.6%**	70.4%
Foreign	**30.4%**	29.6%

* Fiscal years ending 3/31/93 and 3/31/92.

Founded: 1879.
Subsidiaries: Tokio Reinsurance Co. Ltd. (Zurich); figures from this subsidiary are *not* included above.
Officers: S. Kono, president; H. Ohashi, S. Horiuchi, N. Araki, executive vps.
Contact: Masayoshi Saito, 212-422-8400.

Transamerica Reinsurance Co.

300 First Stamford Place, Stamford, Conn. 06902; 203-977-8000; fax: 203-358-9854

	1992	1991
Premiums written	**$354,283,445**	$346,024,208
Premiums earned	**$353,547,515**	$353,634,130
Capital & surplus	**$270,454,721**	$229,645,387
After-tax net	**$40,527,472**	$37,720,994
Losses	**$292,188,715**	$271,735,974
Loss ratio	**82.6%**	76.8%
Expenses	**$97,666,344**	$97,334,803
Expense ratio	**27.6%**	28.2%
Combined ratio	**110.2%**	105.0%
Treaty	**100%**	100%
Domestic	**100%**	100%

Founded: 1987.
Parent: TIG Holdings Inc.
Employees: 78.
Locations: One domestic.
Specialties: Casualty & property treaty reinsurance.
Officers: William G. Clark, chairman/CEO; Edwin M. Millette, president/COO; Stephen G. Franks, executive vp/CFO; Mark W. Hinkley, Lydia B. Kam Lyew, executive vps.
Contact: Stephen G. Franks.

Transatlantic Holdings Inc.

80 Pine St., 7th Floor, New York, N.Y. 10005; 212-770-2000; fax: 212-785-7230

	1992	1991
Premiums written	**$481,867,591**	$483,859,451
Premiums earned	**$477,841,309**	$497,420,708
Capital & surplus	**$463,872,977**	$414,968,909
After-tax net	**$62,079,378**	$64,803,739
Losses	**$410,922,650**	$404,764,136
Loss ratio	**86.0%**	81.4%
Expenses	**$122,398,009**	$125,817,172
Expense ratio	**25.4%**	26.0%
Combined ratio	**111.4%**	107.4%
Treaty	**81.0%**	75.0%
Facultative	**19.0%**	25.0%
Domestic	**87.0%**	89.0%
Foreign	**13.0%**	11.0%

Founded: 1986.
Parent: American International Group Inc.
Subsidiaries: Putnam Reinsurance Co., Transatlantic Reinsurance Co.
Employees: 240.
Locations: Five domestic, four foreign.
Specialties: Property and casualty risks, including professional liability, environmental impairment liability, medical malpractice, directors and officers liability, non-standard auto, aviation and marine lines, finite risk.
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; James D. Yulga, senior vp.
Contact: David W. Smith, 212-770-2162.

U

Union Reinsurance Co.

Genferstrasse 27, CH-8027 Zurich, Switzerland; 411-209-91-11; fax: 411-201-18-95

	1991*	1990*
Premiums written	**$426,966,600**	$342,853,200
Premiums earned	**$391,089,400**	$348,451,100
Capital & surplus	**$96,324,000**	$99,017,400
After-tax net	**$2,512,800**	$2,326,400
Losses	**$307,678,400**	$293,635,300
Loss ratio	**78.7%**	84.3%
Expenses	**$141,694,000**	$118,573,700
Expense ratio	**33.2%**	34.6%
Combined ratio	**111.9%**	118.9%
Treaty	**95.6%**	95.5%
Facultative	**4.4%**	4.5%
Domestic	**11.0%**	12.0%
Foreign	**89.0%**	88.0%

*Fiscal years ending 12/31/91 and 12/31/90.

Founded: 1923.
Parent: Swiss Reinsurance Co.
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.

W

Winterthur Reinsurance Corp. of America

2 World Financial Center, 225 Liberty St., New York, N.Y. 10281-1076; 212-416-5700; fax: 212-524-6839

	1992	1991
Premiums written	**$217,821,560**	$205,420,117
Premiums earned	**$213,166,849**	$193,422,931
Capital & surplus	**$167,505,631**	$178,208,326
After-tax net	**$5,609,064**	$14,902,633
Losses	**$187,894,896**	$144,924,856
Loss ratio	**88.1%**	74.9%
Expenses	**$72,669,243**	$67,211,397
Expense ratio	**33.4%**	32.7%
Combined ratio	**121.5%**	107.6%
Treaty	**97.0%**	97.0%
Facultative	**3.0%**	3.0%
Domestic	**94.0%**	93.0%
Foreign	**6.0%**	7.0%

Founded: 1936.
Parent: Winterthur U.S. Holdings.
Employees: 79.
Locations: One domestic, one foreign.
Officers: John G. Bidwell, president/CEO; Robert C. Wood, senior vp/COO; Vincent T. Assennato, senior vp/CFO; James H. Veghte, senior vp; Michael C. Skay, senior vp/secretary.
Contact: Denis O'Connor, vp/treasurer, 212-416-5818.

Winterthur Swiss Insurance Co.

40 General Guisan-Strasse, CH-8401 Winterthur, Switzerland; 41-52-261-11-11; fax: 41-52-261-58-15

	1992	1991
Premiums written	**$973,760,000**	$823,640,000
Premiums earned	**$746,143,600**	$685,645,400
Capital & surplus	**$2,985,433,600**	$2,952,889,000

Founded: 1875.
Subsidiaries: Winterthur Life Re Insurance, Dallas; Winterthur Reinsurance Corp. of America, New York.
Employees: 336.
Locations: One domestic, three foreign.
Specialties: Aviation, surety, financial guarantee, engineering and agricultural reinsurance.
Officers: Willi E. Schurpf, general manager-reinsurance/international; Andreas Iselin, manager-group risk management; Bruno Meyenhofer, manager-non-life reinsurance; Ulrich Thalmann, manager-reinsurance services; John Bidwell, president/CEO-Winterthur Re, N.Y.
Contact: John Bidwell, 212-416-5710.

Y

The Yasuda Fire & Marine Insurance Co. Ltd.

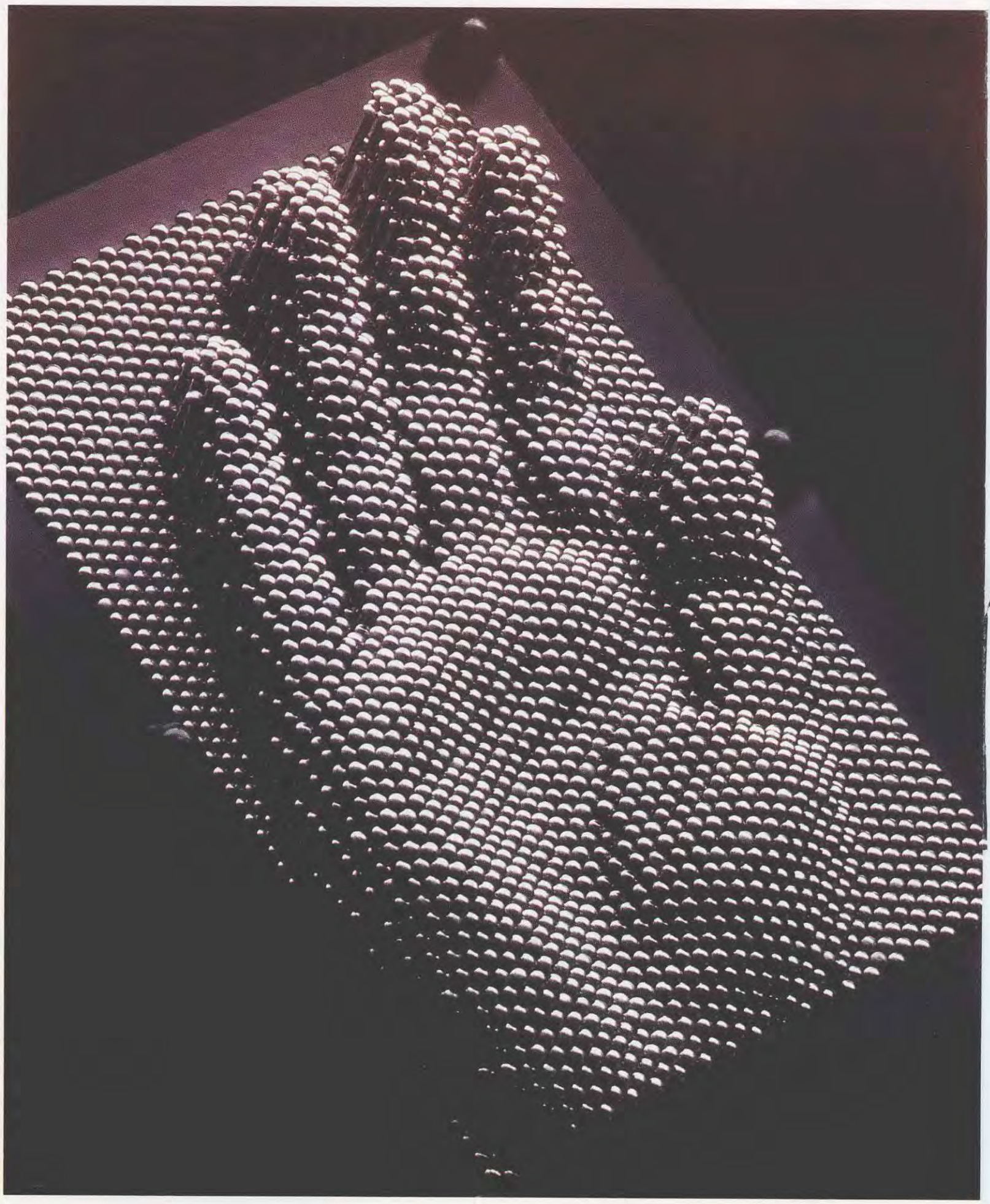
26-1, Nishi-Shinjuku 1-Chome, Shinjuku-ku, Tokyo 160, Japan; 81-3-3349-3111; fax: 81-3-3348-6228

	1993*	1992*
Premiums written	**$642,545,751**	$634,753,384
Capital & surplus	**$1,884,117,631**	$1,697,198,272

* Fiscal years ending 3/31/93 and 3/31/92.

Founded: 1887.
Subsidiaries: The Yasuda Reinsurance Co. Ltd., Hong Kong; figures from this subsidiary are *not* included above.
Employees: 11,176.
Locations: 475 domestic, 34 foreign.
Officers: Yasuo Goto, chairman; Koichi Ariyoshi, president; Seiichiro Sugizaki, vice chairman; Kunihiko Sasamoto, Takuma Yamasaki, directors/deputy presidents.
Contact: Shinya Shimohira, general manager-North America dept./president-Yasuda America, 212-416-1200.

Continued on next page



This company was received too late to be included in the alphabetical listing.

National Reinsurance Corp.

777 Long Ridge Road, Stamford, Conn. 06904; 203-329-7700; fax: 203-329-5220

	1992	1991
Premiums written	$252,303,000	$259,530,000
Premiums earned	$250,356,000	$269,575,000
Capital & surplus	$321,209,000	$253,657,000
After-tax net	$14,100,000	$16,450,000
Losses	$180,227,000	$194,740,000
Loss ratio	72.0%	72.2%
Expenses	$78,877,000	$81,327,000
Expense ratio	31.3%	30.5%
Combined ratio	103.3%	102.7%
Treaty	82.0%	79.0%
Facultative	18.0%	21.0%
Domestic	100.0%	100.0%

Founded: 1806.
Parent: National Re Corp.
Employees: 90.
Locations: Seven domestic.
Officers: William Warren, CEO/president; Robert Eager Jr., executive vp/COO; Peter Cheney, executive vp/CFO; Timothy McCaffrey, executive vp.
Contact: Anne Quinn, vp/secretary. BI

Wellness

Continued from page 1

the next generation of wellness programs.

They follow widespread health promotion efforts and financial incentives to healthy employees who pass health risk appraisal questionnaires or assessments by medical professionals.

They also are the next step after employers' health care cost management and case management efforts, said Jack Forstadt, a partner with Coopers & Lybrand's Human Resource Advisory Group in Chicago.

"Now, we're starting to focus on health management," he observed.

Among the employers that use individual intervention programs or plan to soon are:

- Florida Power & Light of Juno Beach, Fla., which implemented its program last year.
- Graham Energy Services, which introduced its program this year.
- FirsTier Financial Inc. of Omaha, Neb., which began offering its program last year.
- Memorial Healthcare System of Houston, which introduced its program this year.
- Blue Cross & Blue Shield of Virginia in Richmond, which will introduce its program in January.

In addition, Minnesota Mining & Manufacturing Co. of St. Paul is considering including an individual intervention program as part of a wellness program that it expects to introduce in January.

Under individual intervention programs, employers typically offer workers an incentive to voluntarily submit to a health risk screening administered by a third party, like a local hospital. Among other things, the screenings usually check for blood pressure and cholesterol levels and weight or body fat content. Employees also are often queried about smoking and seatbelt habits.

Many employers have offered these screenings for years and some reduce health care contributions for "healthy" workers (*BI*, Feb. 17, 1992).

But, until recently, employers "were just hoping" that employees with health risks would change their lifestyles on their own, said Lynda C. Powell, regional director of Johnson & Johnson Health Management Inc. in Colorado Springs, Colo.

Now, some employees whose health risk screenings show they are at risk are being given incentives by employers to allow a health professional to contact them and guide them through a company-paid or subsidized program to reduce their health risks.

The employer knows only who has successfully completed a program, not which health risks the employee was trying to reduce.

The theory behind these programs is that the best way to control health care costs is to prevent them, whenever possible.

While many employer efforts—like managed care and wellness programs—designed to control health care costs have succeeded to some degree, "health care costs are still rising faster than companies can afford in this business climate," Ms. Powell said.

"I think employers are realizing that managed care is not a panacea to control health care costs," said Juliet Hawley, a Kansas City, Mo.-based wellness consultant for William M. Mercer Inc. "The only way is to prevent them," she said, noting that 65% of all lifestyle-related health care claims are preventable.

Employers cannot prevent every health risk, like hereditary heart disease, from resulting in an expensive claim. But, in an individual intervention program, "the focus is on helping individuals reform their lifestyle to a degree within their control," Ms. Powell said.

That could add up to some huge health care cost savings, employers and consultants believe.

Consider these American Heart Assn. statistics:

- About 434,000 adults age 35 and older die annually from smoking-related illnesses. Each worker who smokes costs business $634 to $4,500 annually.
- More than 104 million American adults, about 58% of the adult population, have blood cholesterol levels of 200 or higher. Cholesterol levels of 200 to 239 are considered borderline high-risk.
- More than 63 million Americans age 6 and older have high blood pressure, which costs industry $8 billion annually—half in health care costs and half in lost productivity. Only a fraction of these people have their blood pressure under control, and almost half do not know they have high blood pressure.

While employers and consultants say individual intervention work, they also are not cheap.

Cost estimates for individual intervention programs—including employer-paid health risk appraisals or assessments, lifestyle modification programs and incentives—run as high as $500 for each employee who enters such a program and reduces his or her health risks.

Employers also have to consider the programs' administrative burdens, pointed out Deborah Lewis, a consultant with Kwasha Lipton in Fort Lee, N.J. "Do you have the time or the resources to administer it?"

But, employers that have implemented individual intervention programs and consultants believe the programs will pay for themselves in a short time.

That belief is based in part on intuition.

Some companies "are doing it on faith," said John Hickey, a partner with Kwasha Lipton. "It's not unlike many business decisions that top management has to make. It instinctively makes sense that if you improve the health of your employees, you will save some money."

Management at a company with a large number of workers should be able to determine the potential cost impact of an individual intervention program based on the workforce's health risk profile, said David P. Morgan, managing consultant with A. Foster Higgins & Co. Inc. in Richmond, Va.

Many consultants and employers say their individual intervention programs already are effective, because of the lifestyle changes many employees have made to reduce their health risks.

"You can definitely see the re-

Continued on next page

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Wellness

Continued from previous page

sults in behavior changes and biometric measures," like blood pressure and cholesterol levels, J&J's Ms. Powell said.

Others also cite examples of individual intervention programs detecting and swiftly reducing serious health risks in many individuals before their conditions deteriorated, necessitating expensive health care.

"I thought we would see results after three or four years," said Al C. Ryan, manager of human resources at Graham Energy Services, which manages onshore oil and gas fields in 13 states. "But we saw results immediately."

Graham's individual intervention program, implemented earlier this year, likely helped prevent a stroke by detecting an employee's high blood pressure and helping him make lifestyle changes after he was hospitalized and treated, Mr. Ryan said. If it did not save a life, it at least saved $75,000 in health care costs, he said.

The program may not survive past this fall, though, because another company is buying the properties Graham manages. While many Graham employees will move to the acquiring company, Graham will no longer exist.

A key element of an individual intervention program is offering incentives to encourage employees with health risks to participate.

But, while these programs' impact on health care costs will depend on employee participation levels, employers do not necessarily have to reach all of the 10% to 20% of employees that typically accounts for 70% to 80% of health care costs, consultants say.

Those individuals already have filed claims, Foster Higgins' Mr. Morgan said. Individual intervention "is lifestyle case management before they turn into big claims," he said.

In addition, the small group of employees who run up an employer's health costs does not comprise the same individuals year to year, Coopers & Lybrand's Mr. Forstadt pointed out. Thus, an individual intervention program can help employers reach employees who may not have filed any claims so far but whose lifestyles pose future health problems, he said.

Employers with such programs typically offer one or more incentives. Most tie participation to: lower monthly health care coverage contributions; points that employees can earn to purchase additional benefits, vacation days or merchandise; or a combination of the two.

Many employers offer incentives to those employees who submit to health risk screenings even if they do not enroll in programs to mitigate their health risks.

The reasoning, in part, is that the screenings will at least heighten those employees' awareness of their potential health risks.

In addition, consultants say this approach could prevent litigation by employees who fail screenings and then charge the employer with violations of the Americans with Disabilities Act.

Consultants advise employers to survey employees to determine what would motivate them to participate, like BC/BS of Virginia did.

Under the individual intervention program the organization plans to introduce in January, healthy employees and spouses who pass a health risk assessment or those who complete an individual intervention program will pay $15 less each month toward the cost of their health care coverage. The Blues plan also decided, based on an employee focus group recommendation, to provide a $6 monthly financial incentive to those who pass most of the assessment. "People who get a partial credit would have more incentive to get a full credit," said Daniel L. Austin, director of compensation and benefits.

Other employers offer various incentives to encourage employees to participate:

- FP&L offers $270 to those who participate and have controlled their health risks for 12 months.
- FirsTier Financial awards points that employees can use to purchase, among other things, sports merchandise, time off and movie tickets. It also is considering lowering monthly health care coverage contributions.
- Memorial Healthcare System awards flexible benefits credits.

The major obstacle that employers may face in drumming up employee participation—regardless of incentives—is employee suspicion that management will try to weed out workers who have health risks.

For that reason, Coopers & Lybrand advises all employers, including those that have in-house medical departments, to use a third party to conduct health risk assessments and follow-ups with employees who have several health risk factors.

Employers also should keep employees' medical records in files that are separate from human resources files to ensure confidentiality, Mercer's Ms. Hawley advises.

Employee suspicion also may be reduced by offering the same incentive to all who participate in the screening—regardless of their health risk values.

For companies where employees do not consider management paternalistic, "it's a communication issue more than a design issue," Kwasha Lipton's Mr. Hickey observed.

Management should show labor its health care costs and the types of claims that are driving up those costs, Mercer's Ms. Hawley said. Management then should correlate those costs to pay raises and bonuses. "If management stays somewhat evasive about why they're doing it, I can see why employees would question why they're doing it," she said.

Consultants also advise employers to delay introducing an individual intervention program if they are expecting to cut staff.

However, while FP&L recently announced that it will cut back its workforce, Ms. Lurie, the computer systems analyst, said she is not suspicious of the motives behind the utility's individual intervention program. Instead, she called the program "a great benefit" that she is thankful for—regardless of her future with FP&L. BI

Group motivation and managed care suffice for some

Some employers that already offer incentive programs designed to encourage employees to lead healthier lifestyles have not adopted individual intervention programs—nor do they plan to.

However, that doesn't mean these employers don't think the programs could work.

For example, Hershey Foods Corp.'s managed care program eliminates the need for individual intervention programs, said Richard C. Dreyfuss, director of executive compensation and employee benefits. The Hershey, Pa.-based company links employees' health care coverage contributions to their health status. Reduction of health risks should be addressed by primary care physicians during annual physicals under the managed care plan, Mr. Dreyfuss said. Hershey also offers a conventional wellness plan.

However, Juliet Hawley, a Kansas City, Mo.-based wellness consultant for William M. Mercer Inc., says relying on doctors to spot health risks may be asking too much. "More times than not it doesn't happen," she said. "Most physicians are not trained in wellness."

Exacerbating the problem is the fact that many individuals do not receive annual physicals and do not have a family physician.

"That is an issue," Mr. Dreyfuss acknowledged.

Dominion Resources Inc., an electrical utility holding company in Richmond, Va., also gives employees a financial incentive to lead healthy lifestyles but does not have an individual intervention program.

Dominion's incentive program is the simplest and most cost-effective program for the company, said Vp J. Kennerly Davis Jr.

"The best way for us is to underline information that people really know about" and let employees consult with their doctors on how they should reduce their health risks, he said.

"We can put up a signpost to the road to salvation, but they've got to travel it themselves."

—By Dave Lenckus

Worker can choose COBRA or Medicare

By SALLY ROBERTS

PIERRE, S.D.—Employees eligible for Medicare disability benefits before termination of employment still have the right to COBRA coverage if there is a gap between the two coverages, the South Dakota Supreme Court has ruled.

Employers can cut off COBRA benefits once an employee chooses —or "elects"—to take Medicare benefits. But in this case, Ron King, who was diagnosed with multiple sclerosis nearly 10 years ago, never elected to take Medicare benefits, even though he was eligible for them.

Benefit consultants said the ruling is surprising but of only limited practical importance. They point out that the ruling comes from a little-noticed state court and that very few employees are both disabled enough to be eligible for Medicare and healthy enough to continue working.

Shortly after retiring from his state job in 1988, Mr. King received hyperbaric oxygen treatment for his multiple sclerosis. Medicare considers the treatment experimental and would not pay, but John Hancock Mutual Insurance Co. initially approved coverage for the $3,000 claim.

Hancock had extended COBRA coverage to Mr. King for 11 months, but upon receiving the claim refused to pay. The insurer argued that his Medicare eligibility made Mr. King ineligible for coverage under the Consolidated Omnibus Budget Reconciliation Act of 1986.

Mr. King sued and ultimately won. "Continuation coverage cannot be refused simply because the ex-employee was entitled to Medicare coverage during his employment," the South Dakota high court ruled.

COBRA coverage must be extended at least from the date of the "qualifying event"—like termination of employment—until a worker applies for coverage under Medicare.

"King made no election," the court wrote. "His Medicare eligibility occurred long before the qualifying event of termination. Medicare eligibility prior to the qualifying event does not bar an employee from COBRA coverage, nor does it relieve Hancock of its obligation to provide COBRA coverage to the insured. Denying coverage in this setting would serve to frustrate, rather than foster, Congress' clear intentions."

On July 1, 1988, Mr. King was declared totally disabled and eligible for Medicare benefits. Those benefits and his group health benefits overlapped until he resigned on July 29.

Mr. King also filed a bad-faith claim against Hancock, which the South Dakota court held was preempted by the Employee Retirement Income Security Act. BI

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INTERNATIONAL

New work comp plan in New Zealand raises value of loss control

By KATE McILWAINE

QUEENSTOWN, New Zealand—Some New Zealand employers are paying sharply higher premiums under the experience-rating system adopted this year as part of reforms to the country's Accident Compensation Scheme.

The country's previous rating system offered employers no incentive to implement workplace safety programs, according to Jim McLay, a former New Zealand deputy prime minister and now a consultant to C.E. Heath Casualty & General Insurance Ltd. in Australia and New Zealand.

The accident compensation program has four parts: Employers pay premium for employees work-related accidents; individuals pay to cover domestic/sport injuries; the government pays for automobile-accident injuries, through a gasoline tax; and the government pays for care of those with no income.

The original rating system had to be replaced because it was "often discriminatory and unfair" to employers with good safety records, Mr. McLay told brokers at the Corporation of Insurance Brokers of New Zealand's 1993 conference last month. In addition, the Accident Compensation Scheme faced an inability to meet claims because its reserves were close to being exhausted, he said.

While experience rating means higher premiums for employers with bad loss records, those with good claims history pay less.

However, Mr. McLay warned that employers that already have received refunds "shouldn't be lulled into a false sense of security."

Premiums are assessed based on a five-year average of an employer's claims history. "Consequently bad risk management will be with the employer for a long time," he said.

Mr. McLay said it was "astonishing" that there has been some resistance to experience rating by New Zealand businesses. "For the first time, employers are exposed to the consequences of a bad accident record and to the advantages of reducing the incidence and cost of such claims," he said.

In the past, safety programs and rehabilitation efforts made no difference to the workers comp premium a company paid.

As of April, employers' average premium rate for the 1993/1994 year was $1.85 New Zealand ($1.10) for every $100 New Zealand ($54.88) of payroll. Employers can get a 15% discount for having no claims in their first year under the program. Other discounts and rebates have been established but not yet released.

There is no more powerful incentive to reducing injury claims than experience rating, Mr. McLay noted. He urged employers to develop risk management programs and predicts outside consultants with risk management experience will be used by many employers. The new plan presents an opportunity for brokers, he added.

Other reforms to the Accident Compensation Scheme will give employers the opportunity to self-insure some of their workplace accident risks by gaining an exemption from the compulsory insurance program. Overseas experience has showed that self-insured employers are more likely to reduce the incidence of accidents at their workplaces and to manage claims so that employees return to work as early as possible after injury or illness, Mr. McLay said. "There's a direct advantage for them to do so."

Experience in Australia and the United States shows that self-insured employers are more likely to offer an employee light duty, he added. They also are more likely to identify potential safety problems earlier.

Under the reforms, self-insurers would be responsible for the first 12 months of earnings-related compensation, but not medical costs nor long-tail liabilities, which would be retained by the Accident Compensation Scheme.

Continued on next page

Insurers see no threat yet from Saudi Arabia's woes

By MARIA KIELMAS

LONDON—Saudi Arabia's burgeoning economic problems apparently are not causing serious concern to the political risk insurance market.

The economic and political crisis that has been evolving in the Middle East country since the Gulf War has been the subject of analysis by both political and military experts, as well as institutions such as the International Monetary Fund.

Much of the attention has focused on dwindling Saudi financial reserves, mounting budget deficits and other signs of economic decline.

But political risk insurers remain optimistic. "If you ask an underwriter whether he would prefer to write a risk in Venezuela, in Russia or in Saudi Arabia, he will pick Saudi Arabia," says Dennis Parker, director at London brokerage Hogg Group P.L.C.

"No one seems to be particularly worried at the moment," said David Wright, director at London broker Willis Faber Political & Financial Risks Ltd., a division of Willis Corroon Group P.L.C.

Both government-run and private-sector political risk insurers report that no unexpected losses have been received on Saudi business.

In fact, many political and financial risk insurers interviewed by *Business Insurance* earlier this month were unaware of the Saudis' financial problems and the extent to which the country's foreign assets are tied up in existing Saudi government liabilities, which could mean that

Continued on page 67

Covering high technology

Munich Re looks for familiar links to judge new risks

By DON LEWIS KIRK

MUNICH, Germany—New technologies are often incalculable risks that pose a gamble for both insurers and business, warns Munich Reinsurance Co.

"From a traditional standpoint, new technologies are not insurable," said Klaus Conrad, a member of Munich Re's board of management and director of the engineering insurance division. "It's reckless to accept risks without the necessary statistics. But (policyholders) need this kind of insurance more than ever."


Mr. Conrad

The dilemma has become acute as companies increasingly focus on new technologies, Mr. Conrad said. "Worldwide experience of the insurance industry has been more negative than positive. Insurers and reinsurers have suffered unexpectedly high claims in recent years, and insurance capacity has shrunk. These underwriting losses are a warning signal," he said.

Munich Re's own losses have been considerable, said Mr. Conrad. "Two years ago, a seemingly minor fire at the London Underwriting Centre cost 110 million pounds ($164 million at the current exchange rate) (*BI*, Aug. 12, 1991). A new technology was used to hang the facade, and the cost of rebuilding amounted to 75% of the total value. We learned the hard way," he said.

As a result, Munich Re says it has refocused its evaluation of new technologies and calculates what it calls "unique risks" on the basis of general information about the most

Continued on next page

Dalkon trust to pay more Canadian claims

By MICHAEL SCHACHNER

QUEBEC—A Quebec Superior Court judge has approved a proposal under which hundreds of Quebec women with personal injury claims pending against the maker of the Dalkon Shield intrauterine device will have their cases settled in the United States.

Lawyers for the Dalkon Shield Trust Fund and a class of about 300 Quebec women earlier this month presented Judge Rene Letarte with a plan that would transfer all unsettled claims to the United States so they can be processed and paid by the 5-year-old trust fund.

Lawyers representing the Richmond, Va.-based trust said Judge Letarte's approval will allow unsettled claims to be paid out of the trust fund individually at $125 to $1 million, depending on the circumstances of the case.

The trust, created in 1988 after Dalkon Shield manufacturer A.H. Robins Inc. filed for bankruptcy in 1985, still has about $1.8 billion of its initial $2.3 billion. To date, the trust has paid about 150,000 claimants worldwide nearly $900 million. Interest has made up for the difference between payments and the fund's balance.

"We feel this is the best way to proceed in settling these claims," said Michael Sheppard, the trust's director. "Had the cases gone to court in Canada, nobody had any idea who would have paid. We have the money here in a structured fund. That's why we exist."

Mr. Sheppard said the trust fund has paid about 2,000 Canadian claimants during the past five years. He said about 2,000 claims are still pending throughout Canada, including the Quebec claims.

"We have wanted to settle with these claimants for a long time, but were prevented from doing so because they had cases pending in court," he said.

The Dalkon Shield Trust Fund is a free-standing entity separate from A.H. Robins, which was purchased in 1988 by American Home Products Corp. (*BI*, March 21, 1988). The fund still faces about 25,000 claims. BI

Members lose bid to sue Lloyd's in U.S. courts

By ADRIAN LADBURY

LONDON—Lloyd's of London won another legal battle with overseas members after a court ruled earlier this month that they could not bring a lawsuit against Lloyd's outside the United Kingdom.

The 7th U.S. Circuit Court of Appeals upheld a lower court's March decision that ordered three U.S. members with losses to take their claims against Lloyd's and their members and managing agents to Britain. Earlier this year, an Australian court ruled that a Lloyd's member must take his suit against Lloyd's to a British court (*BI*, March 8).

LONDON

In *Bonny et al. vs. Lloyd's et al.*, U.S. Circuit Judge Charles Norgle decided that the members, whose allegations included breaches of U.S. securities laws (*BI*, Sept. 16, 1991), must take their case to a British court because of the "forum selection clause" they signed with their members agents when they joined Lloyd's.

"Nothing excuses the plaintiffs from not being aware of the substantive provisions of English law that the forum selection clause incorporates into their agreements," the appeals court ruled.

A Lloyd's statement issued after the decision stated that this is the third case in which U.S. appeals courts have upheld federal district court decisions that Lloyd's or agents cannot be sued in the United States on the question of securities laws.

U.K. claims reserves

The Assn. of British Insurers has welcomed the U.K. Treasury Department's position paper on the establishment of tax-deductible claims reserves for U.K. insurers' non-life business.

U.K. insurers have long campaigned for the right to set up tax-deductible reserves for catastrophic claims so that profits from good years can be used to smooth the impact of bad years. Most other European countries allow tax-deductible or tax-free catastrophe reserves.

The government first indicated its approval of the insurers' demands during ex-Chancellor of the Exchequer Norman Lamont's budget speech last fall. The position paper calls for industry response by Oct. 29.

The Treasury has made clear in the document, however, that if it decides to grant the tax break, it will have to offset it in some way. "We would need to consider carefully whether the introduction of a regulatory requirement, accompanied by tax relief, should be financed by compensating changes elsewhere," Stephen Dorrell, a member of Parliament and financial secretary to the treasury, said in response to a question in the House of Commons last month.

"We are pleased that the government has recognized the argument in favor of allowing companies to build up equalization reserves so that they can compete more effectively internationally," said Mike Jones, outgoing chief executive of the ABI.

Mr. Jones also said he hopes that legislation will be included in this fall's finance bill. BI

INTERNATIONAL

Munich Re

Continued from previous page

similar risks and risk scenarios. "When used correctly, this collective can make up for the lack of statistics, as long as the complexity of the risk doesn't run away from the know-how of the underwriter."

However, "runaways" are common, Mr. Conrad said. "In Southern California, insurers and reinsurers were surprised by damage to windmill farms. High wind gusts caused excessive and unexpected accumulated damage. Many manufacturers were amazed by the effect," he said.

Munich Re estimates that of its 1992 premium volume of 16 billion deutsche marks ($9.88 billion at the applicable exchange rate), 300 million deutsche marks ($185.3 million) was generated from reinsurance of new technologies.

"Few consider how insurers and reinsurers handle technological innovation," he said. "We base our calculations largely on secure data from past experience. What it comes down to is a bet between the insurer and the insured. Of course we want to win. That's why we evaluate the situation as well as possible."

To help categorize "unique risks," Munich Re differentiates between a new danger, like warming climates, and new objects, like condeeps, which are large drilling platforms weighing 700,000 tons.

While new dangers require adjustment of existing risks, insurers must decide if they want to insure new objects, Mr. Conrad said.

One example is the Channel Tunnel Rail Link, or Chunnel, which will connect London and Paris. Twenty-five percent of the Chunnel's property reinsurance is ceded to Munich Re, which constitutes the reinsurer's largest single risk. The insured value of the project currently is estimated at 5 billion pounds ($7.49 billion).

"With no other means of assessment, a company like ours looks at all past tunnel projects and considers its experience. . . .By comparison, with a current project, we can approach an adequate premium for the required insurance coverage. The trick is to find similarities and determine what is really new about the risk," Mr. Conrad said. BI

New Zealand

Continued from previous page

"A nice capped liability," Mr. McLay said.

The range of benefits that can be self-insured would be progressively increased, he explained.

A full self-insurance option will be implemented in New Zealand pending the outcome of a one-year pilot program that will determine the best way to phase in the option, according to Mr. McLay.

But the response by employers to the Accident Compensation Commission's request for participants for the pilot program was minimal. That was "regrettable but understandable," Mr. McLay said.

There are no financial incentives for participants in the pilot program because they would be required to pay the same premiums as if they were fully insured, though that will change when the full self-insurance program is formally implemented, said Mr. McLay.

"Only about 20 employers in the whole country have indicated a willingness to participate (in the pilot program), and less than five have signed contracts," he said.

Despite the lack of response by employers, a full-scale program for self-insurance will be developed, he vowed. BI

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Saudi Arabia

Continued from page 65

bills for imports may go unpaid.

Bankers, however, are taking a much more cautious view. An official from the Basel, Switzerland-based Bank for International Settlements, the organization to which the central banks of 10 nations—including the United States—report, said: "The assets of Saudi Arabia have been falling while (its) liabilities have been going up."

Saudi Arabia imports an average of $5 billion in U.S. goods annually, making it the region's biggest market for U.S. exporters. It is also the United States' main foreign supplier of oil.

Worldwide, Saudi Arabia is the 10th-largest importer.

At the end of the Gulf War in 1991, the nation had a cumulative war debt of $65 billion to the Western allies, mostly to the United States. Only an estimated 20% has been repaid, and military analysts fear the rundown on the country's reserves and foreign assets will make Saudi Arabia unable to pay much more.

In its latest quarterly report, the BIS estimated that Saudi banks, private entities and state-owned companies have $16.39 billion in debts to central banks in the BIS countries vs. $64.59 billion in assets in those banks. Bankers believe most of these assets are "flight capital" and are not accessible to the Saudi government.

In April of this year, the IMF projected that the country's deficit in current accounts, which is the difference between savings and investments, would rise to $19 billion by 1997, or 13% of the country's gross domestic product, from $11 billion, or 9.3% of GDP, in 1993. The IMF projected that the Saudi budget deficit would rise to 8% of GDP in 1997 from 5.1% in 1993.

In addition to the Gulf War debt and the IMF's estimate of $7.5 billion in balance of payments debts, the country's internal debt is estimated by a variety of sources at $40 billion. Additional borrowing by state-owned companies is unclear.

The IMF estimated that Saudi Arabia has total foreign assets of about $72 billion, but two-thirds of this amount constitute reserves to guarantee the value of currency and letters of credit.

Analysts believe that the remaining $24 billion or so is canceled out by non-performing loans to developing countries, of which Iraq is thought to account for about $28 billion.

In April, Sir Alan Walters, chairman of London-based Midland Bank P.L.C., estimated that up to $50 billion of Saudi Arabia's assets are illiquid loans to Iraq and Egypt.

Saudi authorities have never made full disclosures about their financial situation, and internal political dissent is squelched. Thus, unless insurers have contacts at the highest political levels, they may be unaware how severe the nation's problems are.

"Everything is shrouded in great secrecy, but it is obvious that reserves are considerably below that which is admitted," said Said Aburish, a London-based independent Middle East political analyst. Mr. Aburish believes that there is merit in the view that Saudi Arabia's total reserves are only the liquid reserves of the Saudi Arabian Monetary Agency, the equivalent of a central bank.

"Suspicion lurks that Saudi reserves are down to $5 billion to $6 billion," says Mr. Aburish.

Concern about the course of the Saudi economy increased with the news that a little-known U.S. government panel, the Interagency Country Exposure Review Committee, had met to reassess its view of the future of the Saudi economy and the nation's political scene. The committee includes representatives from the Federal Reserve Board and the Federal Deposit Insurance Corp.

A spokesman for the Federal Reserve Board in Washington confirmed the existence of the committee but would not say whether it had reviewed Saudi Arabia.

Political risk and export credit insurers hold mixed views about the future of the Saudi market, but remain confident for the short term. A spokeswoman for the U.S. Export-Import Bank in Washington said Saudi businesses had not delayed any payments and Saudi risk was not being reassessed.

The same view was expressed by a spokeswoman at the French Ministry of Finance, which controls the French export credit insurer, Paris-based Coface.

Dennis Kennedy, Middle East underwriter at Cardiff, Wales-based NCM Credit Insurance Co., said his company had a few payment delays from Saudi Arabia, but they were "scattered through the ordinary buyer in the private sector." There were no significant losses originating from payment delays by public sector buyers in Saudi Arabia, he said.

A spokesman for the U.K. Export Credit Guarantee Department, which writes medium- and long-term coverage for U.K. exporters, said that his organization's exposure to Saudi Arabia is limited and that the country is "very much a submarket." However, last year the ECGD backed a $2.5 billion balance-of-payments loan to Saudi Arabia which was arranged by British banks.

A spokesman for the Hamburg-based Hermes Kreditversicherungs, the company that acts as an agent for German government-backed political risk insurance, said, "There might have been some delays in the payments situation with individual Saudi buyers and delays of some weeks or some months with public-sector buyers. It is normal in a way. I don't get the impression that the situation in Saudi Arabia is serious."

But Italian state political risk insurer SACE is reassessing its view of Saudi Arabian risk. "There are generally no delays in payments, but we are trying to reassess our attitude," said a spokesman in Rome. "They have spent a bit of money to finance the war, but they still have huge foreign assets."

The SACE official said he was unaware that independent estimates indicate that Saudi foreign assets were tied up. SACE has an exposure to Saudi Arabia of between $6 billion and $7 billion, he said.

Akira Iwasaki, the Paris-based head of Middle East operations for the Export Import Bank of Japan, said developments in Saudi Arabia "are difficult to foresee, but we do not think that there will be a great change even if there is a difficult financial situation, because (Saudi) assets are always bigger than the money they owe." He said he was unaware of any different views on the matter. "They have liquidity difficulties, but no fundamental problems."

Mr. Iwasaki added that he views the growing unemployment of college graduates in Saudi Arabia, now at about 24%, as a potentially destabilizing factor, especially, since the country's high labor and other fixed costs make it unattractive to potential foreign investors.

However, his organization will continue to cover business to Saudi Arabia as long as the individual Saudi buyer's credit rating remains good.

Hogg's Mr. Parker says that the political risk insurance market's assessment of Saudi Arabia will remain optimistic "until rather more is understood."

But in any case, he believes that from the private-sector political risk insurance market's view, Saudi-related business will continue because the country must import everything but oil. If financial problems mount, then Saudi Arabian imports of consumer goods will just have to take a lower priority to necessities such as oil industry equipment and medicines, said Mr. Parker. BI

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Life/health results

Continued from page 2

3.1% during the first half of the year.

One factor contributing to healthy bottom lines is strict attention to cost-cutting.

"All the insurers are very expense-conscious, very concerned about staffing," said Joe Glinbizzi, a consultant at Kwasha Lipton in Fort Lee, N.J.

"We are dead serious about cost reduction—in medical and administrative costs," said R. Chris Doerr, senior vp and chief financial officer at CIGNA Corp.'s employee benefits division in Hartford, Conn.

Operating income for CIGNA's group life and health business soared 83.3% to $176 million from a restated $96 million last year. Part of that is attributable to a 1992 restructuring that trimmed about 1,000 positions from combined indemnity and managed care operations. Other cost savings were due to medical management and smaller increases in medical inflation, said Mr. Doerr.

Growth of about 15% in health maintenance organization membership also contributed to the earnings gain.

Aetna Life & Casualty Co. also has tightened its belt. By trimming about 5,000 positions in the last 18 months, the insurer has kept expenses at the same level while processing more business, said Charles T. Bell, senior vp in Hartford.

Aetna's net first-half income rose 57% to $132.8 million from $84.6 million a year ago—a 57% increase. However, the 1992 figure reflects a reorganization charge of about $30 million.

Travelers Corp.'s group life and health operations rebounded this year, with net income jumping 41.2% to $48 million from a restated $34 million in the first six months of 1992. Travelers credits expense cuts, better underwriting and a more focused sales force for the improvement.

Higher sales and lowered costs mark the midyear results for Provident Life & Accident Insurance Co. of America, said Tom White, director-investor relations in Chattanooga, Tenn.

First-half life and health operations earnings were flat—$30.7 million, compared with $30.2 million a year ago.

But these results reflect a $10.1 million charge Provident took this year after it settled a 1989 federal government lawsuit over Medicare payments, Mr. White explained (*BI*, May 31). The suit was "eating up between $10 million and $12 million annually on legal and accounting fees."

At Metropolitan Life Insurance Co., first-half group life and health operations earnings were flat at $105 million. Group life plans earned $68 million, while group health plans earned $37 million, said James P. Galasso, vp and actuary in the group department in New York.

Earnings continue to slide at Des Moines, Iowa-based Principal Financial Group. First-half 1993 estimated statutory earnings fell 16.7% to $55 million from $66 million last year.

But, the company is on track to report slightly stronger earnings for the year—estimated at $110 million, compared to $98.5 million in 1992—said Richard H. Neil, senior vp.

Insurers report good news about claims experience.

"Claims experience was lower than expected this year, which ties back to cost control through managed care," said David M. Murdoch, senior vp-licensing, finance and operations at Blue Cross & Blue Shield Assn. in Chicago.

At BC/BS, first-half combined earnings for the non-profit group's 69 plans were $36 billion, up 2% from $35.3 billion in 1992.

First-half claims experience at MetLife has "actually been very good," said Mr. Galasso. "Even indemnity trends are dropping somewhat, defying our expectations." He attributed this to providers' possible reluctance to raise prices in the current glare of publicity over health care costs.

Continued low interest rates dampened first-half results for some insurers, though some have developed alternative investment strategies.

"Our life operations earnings have improved in the lower investment return environment," Mr. Galasso said of MetLife. "We tend to invest in three- to four-year securities, but our liabilities are short-term—only about a year."

Some BC/BS plans are coping with lower yields by investing in equities and securities, while others are "modestly" extending maturities on fixed-income investments, said Mr. Murdoch.

"It's a tough environment for reinvesting," said Provident's Mr. White. "But, we have done a good job of cash-flow management" by investing at lower rates while paying lower rates on guaranteed investment contracts.

The tough investment environment is at least equaled by the level of competition among insurers, especially for managed care business.

Insurers "are aggressively trying to fill up networks and make them more viable," said Mark Wagoner, a managing consultant at A. Foster Higgins & Co. Inc. in San Francisco. "They are recognizing that 'He who has the most bodies wins.' "

Price competition will be even more dramatic next year, when large employers and coalitions will exert more pressure on vendors to keep their prices down, said Joe Maginnis, vp-underwriting at The Prudential Insurance Co. in Roseland, N.J.

Although the company doesn't release midyear results, group life operations were slightly less profitable than last year, group indemnity operations were about the same and HMOs were more profitable, he said.

Meanwhile, the specter of health reform keeps insurers conservative in their actions, consultants say.

Some issue multiple-year contracts with "blanket caveats" allowing them to renegotiate if the health care environment changes, said Mr.

Continued on next page

The IRI Difference:

IRI Ambassadors of Loss Prevention Bring the Classroom to the Customer

IRI's Outreach '93: Register Now to Get the Seminar You Want

HARTFORD, CT—In response to customer requests, Industrial Risk Insurers has created Outreach '93, a two-day program of four seminars, which will be introduced in Phoenix, Arizona, preceding the November 14-17, 1993 NFPA (National Fire Protection Association) Fall Meeting.

IRI's two-day traveling program, scheduled for November 12 and 13, has been designed to address the needs of risk and insurance managers, plant managers, plant engineers, managers of safety and security, plant fire chiefs and others responsible for implementing or overseeing industrial fire protection.

Registrants may select from three one-day seminars or choose the two-day seminar. Registration is free for IRI insureds with a materials fee per seminar of $75. Others will be charged $150, which includes the materials.

The two-day "Industrial Fire Control Concepts" seminar, held on November 12 and 13, will explore all aspects of the industrial fire problem with special emphasis on how to manage it.

On Friday, November 12, other registrants will examine "OVERVIEW: A Strategy to Manage Loss Prevention and Control". This seminar will help IRI customers apply modern management techniques to the protection of property, production and profits.

The two other sessions on Saturday, November 13 will include a seminar on "Developing Fire Brigade Training Programs" and one on the "Industrial Application of NFPA 72-1993, National Fire Alarm Code®." The fire brigade session offers proven methods that form the framework for a successful training program. The other seminar helps registrants develop a property protection surveillance plan.

Registration deadline for all seminars is October 29, 1993.

Outreach '93 is taught by Dean Wilson, Director-Loss Prevention Training, at left, and Senior Loss Prevention Training Consultants Larry Davis, bottom left, and Larry Wenzel, bottom right.



To register, telephone (203) 520-6027. For a brochure concerning Outreach '93, contact your servicing IRI office or call (203) 520-6027.

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Continued from previous page
Glinbizzi. "They don't want to be boxed into something they can't deliver."

Another consultant sees clouds on the cost horizon due to two recent laws: The Americans with Disabilities Act and the Family and Medical Leave Act. "As more disabled persons go into the workforce, we will see the medical experience going up. They are potential big claimants," observed Mercer's Mr. Sobel.

"And under the Family and Medical Leave Act, people can rack up medical expenses while on leave, then quit and go on COBRA," he added.

Still more cost-shifting will come from recent cutbacks in funding to Medicare and Medicaid, said Foster Higgins' Mr. Wagoner.

Some "$56 billion in cuts to those programs over the next five years is expected to force insurers to add as much as 4% to their trend numbers," Mr. Wagoner said.

Meanwhile, the Clinton administration's health care reform outline released earlier this month brought little cheer to insurers (*BI*, Aug. 16).

"It looks as if the health reform plan will still be based on managed competition, but the question is, how much competition and how much regulation?" questioned MetLife's Mr. Galasso.

The outline of the Clinton proposal "goes too far," said Brian Quigley, vp-health policy at Travelers in Hartford.

The health alliances proposed in the outline are taking on an aspect that is "too regulatory," Mr. Quigley said.

Some insurers are bristling at the language used in the outline, which said, for example, that health alliances would provide consumers protection "so that if the insurance company tries to rob you of your benefits, you won't be alone."

"If you read the administration's materials, we are the bogeyman to be attacked," said Travelers' Mr. Quigley.

But Mr. Maginnis of Prudential is more philosophical about the tone of the outline. "That's politics," he said. BI

Stress claims

Continued from page 2
are considered occupational illnesses greatly concern employers, even though they account for only a small fraction of workers comp claims in most states.

"(There) has always been a tension between the mandate to cover all work-related illnesses and the vague nature of so many claims of emotional stress," says the study prepared by N. Mike Helvacian, an NCCI research economist.

The types of stress-related claims that are compensable vary widely by state.

"The earliest cases in which stress was accepted as compensable reflected the workers compensation system's roots in the traumatic injury traceable to a specific event or set of events," Mr. Helvacian said.

Cases in which mental stress was the result of a physical injury or event became known as "physical-mental" claims.

Subsequently, adjudicators recognized that mental stress at work could cause physical injury, like a heart attack, resulting in "mental-physical" claims that some states consider compensable.

"Through the 1980s, most states retained the traditional definition of compensable workplace injury that did not allow stress claims," the study said.

Some states, though, followed California's lead. They broadened the definition of compensable injury to include mental disabilities caused wholly or partly by work-related mental stress, the study said. Those claims came to be known as "mental-mental" claims.

The NCCI study is based on a sample of more than 700,000 indemnity claims from Florida, Georgia, Hawaii, Kentucky, Louisiana, Massachusetts, Michigan, Minnesota, Oregon and Pennsylvania.

Those states vary significantly in what types—if any—of mental stress claims are compensable. Florida, for instance, has always been conservative; Oregon, at least until 1987, was considered very liberal.

In fact, the lion's share—43%—of stress claims identified in the study came from Oregon. In 1983, 4.9 stress claims were filed by Oregon workers per 1,000 workers comp claims, compared with only 2.2 per 1,000 in all 10 states studied.

Stress claims in Oregon peaked at 12.4 per 1,000 in 1987, nearly four times the overall rate.

In recent years, rising workers compensation costs and stagnant employment growth have spurred legislators in Oregon and elsewhere to tighten the definition of compensability, and toughen the requirements for mental stress claims.

States did this in a variety of ways.

Oregon, for instance, "limited the compensability for mental stress claims to those with 'clear and convincing evidence' that the disorder arose 'out of and in the course of employment,' " said the study. "(It) also required that compensable injury be established by medical evidence supported by objective findings."

Massachusetts, meanwhile, disallowed certain stress claims related to layoffs, transfers or other bona fide personnel actions.

People filing stress claims typically differ from those who file other workers comp claims, the NCCI reported. Stress claimants were more likely to be unemployed, female and older.

Only 2.9% of claimants with physical injuries were unemployed at the time of claim filing. By contrast, about 25% of stress claims were filed by people who had lost their jobs.

Women accounted for 50% of the stress claims, but only 24% of injury claims.

More than 33% of the mental stress claimants were between the ages of 30 and 40. By contrast, injury claimants were more likely to be 20 to 30 years old; only 26% were between 30 and 40.

Stress claim costs were, on average, 52% higher than costs from a traumatic injury claim, but not as high as occupational disease claim costs.

Several claim-related factors contributed to the higher cost of stress claims:

- Longer duration. Stress claims lasted an average of 39 weeks, compared with 36 weeks for occupational disease and 24 weeks for traumatic injury claims.
- Higher wages. The pre-injury wage of stress claimants was higher than the average for all claimants.
- Greater attorney involvement. Attorneys were involved on behalf of claimants in 53% of stress claims, compared with 36% of occupational disease claims and 8% of injury claims.

Also, insurers contested two-thirds of stress claims as opposed to only 7% of injury claims.

The study's findings could contribute to employers' and insurers' understanding of the role stress claims play in state workers compensation systems.

"Employers are suspicious of such claims," and view them primarily as vehicles for claimants' attorneys to increase awards and fees, said Robin Obetz, an attorney with Vorys Sater Seymour & Pease in Columbus, Ohio. He chairs the U.S. Chamber of Commerce' Workers Compensation Committee.

In Ohio, the Supreme Court prohibited "mental-mental" claims last year, he noted.

One insurer trade group official worried the NCCI data could be misused.

"What I'm very concerned about is that people will misuse the information in the study to de-emphasize the need for a balanced standard for 'mental-mental' claims," said Eric J. Oxfeld, assistant general counsel with the American Insurance Assn.

"The challenge is to find a medical standard—that is legally enforceable—to distinguish legitimate claims from claims where work is, at best, a minor cause or no cause of a (mental stress) disability," he said.

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The NCCI study is available for $25 per copy by contacting the NCCI's Order Processing Department, 750 Park of Commerce Drive, Boca Raton, Fla. 33487; 407-997-4607.

Stress still a worry in California

SAN FRANCISCO—The jury is out on whether the new California workers compensation law will significantly limit mental stress claims.

Mental stress claims in California have not followed the pattern observed in other states. Rather than peaking around 1987, stress claims frequency kept rising through the rest of the 1980s.

"Certainly the new language will get rid of some of the truly frivolous cases," said William P. Molmen, general counsel of the California Workers' Compensation Institute. The San Francisco-based trade group represents major workers comp insurers.

Under a reform law effective July 16 (*BI*, July 26), legislators intended to limit compensation for mental stress claims where work-related stress causes more than 50% of a disability, said Mr. Molmen. The threshold had been 10% (see story, page 2).

But the law is unclear and lawmakers are expected to correct it before adjourning Sept. 10, he said.

The law also restricts mental stress claims filed by new hires and by the unemployed.

"In the context of 'dueling docs,' the degree of impact of the changes remains to be seen," Mr. Molmen said. Claims are still subjective, he said, and physicians still have an incentive to exaggerate the facts to support the side that is paying them.

Businesses and insurers still object to two California rules on mental stress claims.

First, California is one of six states that allows compensation for a claim based on "normal, day-to-day stresses, rather than a sudden or extraordinary event," said Mr. Molmen. The others are Hawaii, Kentucky, Michigan, New Jersey and West Virginia.

Second, California is the only state that requires an employer to pay for both sides' expert medical testimony, regardless of a claim's validity.

California employers also face problems in understanding statistics about claims frequency, because the numbers vary with the source, and stress claims have been "grossly underreported" in the past, said Mr. Molmen.

—By Meg Fletcher

Acordia

Continued from page 1
operating decisions made by the chief executives of individual units. Since both brokers are decentralized, "the integration process will be easier," said L. Ben Lytle, Acordia's chairman, president and chief executive officer, referring to Acordia's "complicated and difficult" 1991 acquisition of "a more centralized" Robinson-Conner Inc. (*BI*, April 22, 1991).

"Acordia's philosophy of autonomous operations and being close to the client fits what we're about," Mr. Leaman said.

Acordia was formed in 1989 by Associated Insurance Cos. Inc., an Indianapolis-based holding company that operates the Indiana Blue Cross & Blue Shield plan and other insurers. Associated, which now holds more than 63% of Acordia's stock, began selling Acordia shares to the public last year.

While Acordia still is primarily a life/health insurance broker, the acquisition of ABI will boost property/casualty brokerage to 38% of its revenues, bringing the broker closer to its goal of an even distribution of revenues from life, health and property/casualty insurance.

In 1992, 14.9% of Acordia's revenues were derived from property/casualty insurance, 7.8% from life insurance and 77.3% from health insurance, including employee benefit services like claims adjusting.

On the other hand, 68% of ABI's revenues were derived from property/casualty insurance in 1992, while 32% was produced by other business, including life/health insurance brokerage and claims administration.

ABI, which recently moved its headquarters to Cincinnati from San Francisco, was founded in 1984 by longtime brokerage executive Bernard H. Mizel and has grown rapidly through acquisition. Mr. Mizel left in 1992 after American Financial, controlled by financier Carl Lindner, put the brakes on ABI's acquisition activity (*BI*, June 29, 1992).

Both brokers target midsize clients in midsize cities.

The expanded geographic presence that ABI will bring to Acordia was a major attraction, Mr. Lytle noted.

Acordia currently has 75 offices in 19 states, primarily in the Midwest and South. Conversely, the 45 ABI offices are located in 15 states, primarily in the Mid-Atlantic and the West.

ABI and Acordia's offices overlap in: Atlanta; Cincinnati; Cleveland; Encino and San Francisco, Calif.; Houston and San Antonio, Texas; and Tampa and West Palm Beach, Fla.

While it is still "early in terms of specific decisions," Acordia most likely will retain separate ABI and Acordia offices in these cities, said Frank C. Witthun, an Acordia executive vp.

Any "downsizing" that occurs most likely will be through attrition rather than layoffs, said Patrick M. Sheridan, Acordia's executive vp and chief financial officer.

The ABI acquisition brings increased property/casualty business and new geographical presence and will let Acordia enter two new areas of business: surplus lines insurance and association programs, Mr. Lytle noted.

Along with ABI, Acordia will acquire American E&S, a New York-based managing general agent that reported $71.5 million in premium volume in 1992 (*BI*, Aug. 16). In addition, Acordia will acquire ABI's San Francisco-based L.K. Lloyds Agency, which brokers insurance programs for association members.

The ABI acquisition will add about 1,600 employees to Acordia's existing workforce of 2,308.

However, Mr. Leaman, ABI's chief executive, will not join Acordia. "It is yet to be determined where I'll be after the deal closes in October," said Mr. Leaman, who joined ABI last year from Great American.

Great American will retain several ABI operations following the acquisition, including ABI Special Risk Inc., an exclusive agency for Great American-owned insurers. In addition, Great American will retain Albuquerque, N.M.-based Talbot Agency, an annuity brokerage that would have brought "an inordinate amount of risk," Mr. Sheridan said.

The ABI units that Acordia is acquiring will join the 22 existing "Acordia companies," semi-autonomous business units that target a specific geographic, demographic or business niche. The 45 ABI offices being acquired by Acordia eventually will either become stand-alone Acordia companies or be folded into existing units, Mr. Sheridan said. However, this process will not "be a '93 event," he said.

For instance, McDonough Caperton Insurance Group Inc., the brokerage and claims administrator that ABI acquired in 1991, could "become several Acordia companies," Mr. Sheridan said.

Charleston, W.Va.-based McDonough Caperton administered $474.5 million in claims from self-insured clients in 1992 (*BI*, Jan. 25).

Acordia also will assume the year-old reciprocal services agreement between ABI and London broker Bain Clarkson Ltd., under which the two brokerages refer business to one another, Mr. Witthun said.

Acordia's stock price closed unchanged Thursday, the day the acquisition was announced, at $24.875.

Acordia is being advised by Salomon Brothers, while First Boston Corp. is ABI's investment banker. BI

Cleanup ruling

Continued from page 1

panel.

"We think it far more likely that Congress viewed EPA's overseeing of a private party's removal activities as qualitatively different from EPA's actually performing removal activities, and intended for EPA to recover the costs of the latter but not the costs of the former."

The 3rd Circuit sent the case back to U.S. District Court to determine which elements of the government's claim qualify as "removal" expenses and which are non-recoverable oversight costs.

If other federal appeals courts follow the ruling, it could have an immense short- and long-term impact on industrial companies with environmental exposures and on the companies' insurers.

"There are probably 5,000 RCRA sites (nationwide), of which over half need some corrective action. There will also be nearly 2,300 potential Superfund sites by next year, some of which could cost in excess of $25 million each to clean up," said Jackie Sincore, counsel with the Chemical Manufacturers Assn., one of several trade groups that filed an amicus brief in the case.

"It's a major victory for us that oversight costs cannot be considered removal response costs," said Ms. Sincore.

"This case was not about $400,000 at one site. What was at issue here was millions of dollars in future oversight costs. At each and every RCRA or CERCLA site, there are literally millions of dollars in oversight costs at stake. We fully expect other courts to follow this decision," said Ellen Friedell, senior counsel with Philadelphia-based Rohm & Haas.

Ms. Friedell said the ruling will encourage companies to voluntarily clean up polluted sites by assuring them that they won't be held liable for millions of dollars in oversight costs.

"Companies desperately want to get cleanup projects done, but when the government can hire consultants to oversee consultants, with no responsibility to pay, what happens is the bulldozer stops and countless people ponder what should be done next," she said.

"I see this as a pro-environmental decision more than anything," added John Harkins of Harkins Cunningham in Philadelphia, which represented Rohm & Haas on appeal. "It should help ensure that there's efficiency on the part of the government, and it will entice responsible parties to voluntarily clean up polluted areas knowing they won't be hit with extra costs."

Insurer attorneys also endorsed the decision, but warned it will only benefit insurers that either voluntarily pay for the cleanup or are forced to pay by a court.

"This is a contingent victory for insurers because, by and large, they don't believe there is coverage for this type of cleanup," said Thomas Brunner of Wiley, Rein & Fielding in Washington. "But anything that reduces a responsible party's total costs is valuable, because it reduces the amount in dispute and the amount an insurer might have to pay if a court awards coverage."

Rohm & Haas is suing numerous liability insurers for coverage for the cleanup of the site at issue in the case, a polluted 120-acre landfill in Bristol, Pa., next to the Delaware River.

Rohm & Haas owned the entire site from 1917 to 1963, when it sold a small portion of it to Bristol Township. In 1968 and 1971, Rohm & Haas sold parts of the site, totaling about 11 acres, to Chemical Properties Inc.

In 1979, the EPA began monitoring the site—which contained at least 4,600 tons of toxic waste—for potential cleanup. In 1985, the EPA proposed listing the site on its Superfund National Priorities List.

Rohm & Haas balked, saying the site was inappropriate for CERCLA and offered to take corrective action. To promote cleanups, the EPA lets private companies try to save money by cleaning up sites on their own under the RCRA rather than paying the government to handle the work under CERCLA. In 1987, the EPA agreed to let Rohm & Haas do the work itself under the RCRA, with the government overseeing the project.

Three years later, the EPA sued Rohm & Haas, Chemical Properties and Bristol Township for $401,000 in oversight costs dating back to 1979. The claim was based on the belief that Section 107 of CERCLA overrides all rules, laws or provisions, including the RCRA.

The government had not made this claim before, experts say. Previously, responsible parties willingly paid reasonable oversight fees under CERCLA, while the government had never sought reimbursement for oversight fees under the RCRA.

"This was a blatant attempt by the EPA to get money under the RCRA by using language from CERCLA. I think they ended up getting a lot more than they bargained for," said Bernard Reilly, corporate counsel with E.I. Du Pont de Nemours & Co. Inc. in Wilmington, Del.

Environmental authorities recently have stepped up efforts to collect costs associated with private-party cleanup efforts, said John A. MacDonald, a former New Jersey deputy attorney general responsible for Superfund enforcement.

"The government perceives (this) as necessary, while I'm sure industry sees it as an extra burden," said Mr. McDonald, now an attorney with Anderson, Kill, Olick & Oshinsky in Newark. "I only question whether all this will hold up to Superfund or RCRA reauthorization. You can bet that this will become a leading issue on the EPA's plate."

"Unless this is overturned by the Supreme Court, I expect the EPA to lobby for a change in CERCLA language," agreed James Otto, an insurer attorney with Cummins & White in Los Angeles. "Until then, I imagine the EPA will be less willing to enter into cleanup arrangements where it functions solely as an overseer."

The U.S. Attorney's office in Philadelphia declined to comment on the case. It has until Sept. 24 to file for a rehearing or to request an appellate review before the U.S. Supreme Court.

EPA officials would not comment on the case.

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U.S. vs. Rohm & Haas Co., U.S. Court of Appeals for the 3rd Circuit; No. 92-1517.

Captive premium taxes

Continued from page 2

tain separate policyholder accounts, according to an analysis by Baker & McKenzie.

But the firm urged businesses to resist IRS challenges if premiums are "actuarially appropriate" and the "distribution of policyholder account is discretionary with the insurer's board of directors or. . .the payment is extended over a significant period of time during which such funds are available to pay the losses of other insureds."

The tax court ruling, written by Judge James Halpern, involves premiums paid to Security Offshore Insurance Ltd. for black lung coverage in 1983 and 1984 by Wyodak Resources Development Corp., a unit of Black Hills Corp. of Rapid City, S.D.

SOIL was established in Bermuda in 1982 by a group of surface coal mining firms, including Wyodak, which owned 9.5% of SOIL's common stock.

Under the SOIL program, reserve accounts were established for policyholders. These accounts, which were bookkeeping entries rather than segregated funds, included credits for premium payments and allocated portions of investment income.

A policyholder could obtain a full refund of its reserve account by canceling the policy, waiting two years and not purchasing a new policy from SOIL. The captive could withhold a portion of the reserve pending the outcome of existing claims against the policyholder.

The IRS argued that Wyodak could not take a full tax deduction for the premiums paid to SOIL because there was no insurance arrangement, due to the policyholder account over which Wyodak had control.

The IRS also said premiums should not be fully deductible because the premiums paid during a given year did not specifically match the risk the company faced in that year.

Judge Halpern largely agreed with the IRS.

Only "ordinary" expenses can be deducted immediately, he noted. Other expenses—known as capital expenditures—can, at most, be deducted over the life of an asset. By being able to receive a full refund of the account balance by canceling the policy, Wyodak created a distinct capital asset that is not "ordinary," the judge ruled.

In addition, the court agreed that SOIL designed its premium structure so that premiums were not related to risks in a policy year. Premiums were high during the years preceding a mine closing—a period during which black lung claims are low—while premium payments were lowered following a mine closing, a time when black lung claims increased.

"To reflect accurately the disparity of risk to SOIL between the mine-closing year and any earlier year, the insurance contract logically ought to provide for very small premiums for the pre-mine losing years and a very large premium in mine closing year. The actual premiums do not reflect that principle," Judge Halpern wrote.

"Instead, the premiums in pre-mine closing years are much higher than warranted by the low risk involved and thus, in large part, constitute prepayments of the premium for the year in which the mine ultimately closes," he wrote.

As a result, the court said, most, if not all, of the premiums at issue were prepayments relating to the year of a mine closing and were not tax-deductible. The court accepted the IRS finding that the company owes about $83,000.

Attorneys for Black Hills have asked the tax court to reconsider its opinion.

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Black Hills Corp. et. al v. Commissioner (101 T.C. No. 11).

Update

Shipowners covered for spill

TAMPA, Fla.—Two of three shipping firms involved in an Aug. 10 collision that spilled 328,000 gallons of oil into Tampa Bay expect to be fully insured for spill damage by the same insurer.

Bouchard Transportation Co. and Maritrans Operating Partners Ltd. both have $500 million in primary liability coverage written by West of England Protection & Indemnity Club of London, according to the insurer's U.S. attorney.

Tugboats and barges carrying fuel oil owned by the two companies collided with the 400-foot freighter Balsa 37, owned by Dowa Line Co. Ltd. of Tokyo.

Dowa's U.S. representatives would not comment.

Bouchard, of Hicksville, N.Y., said last week it has spent about $12 million on the cleanup, while Philadelphia-based Maritrans said its costs have exceeded $10 million. The U.S. Coast Guard, which is investigating the spill, has spent about $1.5 million.

Those estimates do not include third-party claims against the companies, reimbursement costs to the shipping companies' subcontractors or damage to the vessels. Local businesses and residents have filed a class-action suit against all three firms. A joint adjusting office set up by Bouchard and Maritrans has received about 600 claims for loss of business and property damage related to the spill.

In addition, Bouchard and Maritrans have filed separate federal maritime lawsuits against Dowa, alleging that the Balsa crew's negligence caused the accident.

BCC restructuring settlement

SACRAMENTO—Blue Cross of California will contribute $100 million to health care-related public service in California over the next 20 years in a settlement with state legislators over its controversial restructuring.

Blue Cross in January transferred 90% of its assets to Wellpoint Health Networks Inc.—a for-profit subsidiary (*BI,* June 14). BCC subsequently sold 19.5% of Wellpoint's stock, netting $517 million.

A loophole in a California law allegedly enabled non-profit BCC to avoid donating the value of its assets to charity when it completed the asset transfer because BCC defined the move as a restructuring rather than a conversion to a for-profit entity.

Legislators now are trying to plug the legal loophole concerning for-profit conversions. A.B. 1784, sponsored by Assemblyman Phil Isenberg, D-Sacramento, has passed the Assembly and is now before the Senate committee that negotiated the BCC settlement.

Firm seeks plan terminations

WASHINGTON—Sharon Steel Corp. wants to terminate five pension plans covering 6,900 participants, including 4,500 retirees, the firm has told the Pension Benefit Guaranty Corp.

According to 1991 PBGC data, the most recent available, Sharon—which filed for Chapter 11 bankruptcy protection in November—had $121 million in unfunded pension liabilities. That figure is believed to have increased substantially since then, a PBGC spokeswoman said.

Meanwhile, a PBGC task force established in March by Labor Secretary Robert Reich is completing its deliberations and the administration is expected to send Congress a comprehensive pension reform package in October.

Stronger pension funding rules are expected to be part of the proposal from the 30-member task force.

Briefly noted

The long wait is almost over: The White House confirmed that President Clinton will formally unveil his **health reform package** "around" Sept. 21. . . .A Dade County jury last week awarded $18 million to a man whose former wife knowingly infected him with the virus that causes AIDS. The case marks the first verdict against a defendant for knowingly infecting someone with the human immunodeficiency virus, and it is the **largest AIDS-related liability award ever**, said the man's lawyer. . . .The judge overseeing the first minitrial in the **Baltimore consolidated asbestos case** has overturned a jury verdict relieving asbestos supplier Porter Hayden Co. of liability and has granted two plaintiffs suffering from mesothelioma a new trial. The retrial is likely to hold up other minitrials. . . .Federal financial responsibility requirements for **offshore oil and gas facilities** will increase more than 300% to $150 million from $35 million if a rule proposed by the U.S. Department of the Interior's Minerals Management Service is approved. . . .The Labor Department is extending a no-action policy for employers that do not file financial **audits for flexible spending accounts** until it publishes final regulations on benefit trust and reporting requirements. A temporary FSA audit exemption the department had provided last year had been scheduled to expire at the end of this year. . . .DuPont Corp. is facing its second civil lawsuit over its **Benlate DF fungicide**, this time in state court in Fort Lauderdale, Fla. DuPont recently settled the first of hundreds of pending Benlate suits for $4.5 million (*BI,* Aug. 16). . . .A Texas judge has ordered **Contract Services Union Local 211**, an unlicensed group that allegedly collected health insurance premiums from 1,500 Texas residents, to halt operations in the state. State regulators say the group has not paid at least $132,000 in claims. . . .The Labor Department says it is considering extending the public comment period—due to expire this week—on its interim guidance on the **Family and Medical Leave Act**. . . .Federal agents seized records at the Santa Monica, Calif., headquarters of **National Medical Enterprises** and other NME offices across the country last week. The searches were in connection with an investigation of charges, including false billing and diagnoses by the psychiatric hospital chain. NME recently filed a new round of suits against insurers alleging conspiracy and defamation (*BI,* Aug. 23).

Workers comp reform

Continued from page 2

creases are in hard dollars. If we're lucky, it will be a wash," added Mr. Faustman, who is a partner at Latham & Watkins in Los Angeles.

Workers comp reform is "still an unfinished agenda," agreed Craig Clements, principal and senior vp at Johnson & Higgins of California. "Though some may think we hit a home run, I think it's a double."

"But we can take some pleasure in that it is highly unlikely that we will see the double-digit increases (in costs) from these reforms that we saw" after reforms were enacted in 1982 and 1989, said James E. Little, president and chief executive officer of Glendale, Calif.-based Fremont Compensation Insurance Co.

While the workers comp reform package increases benefits by $747 million, the law's supporters say its cost-saving features will cut employer and insurer costs by $1.5 billion annually (*BI*, July 26).

And the work is not yet over: The Legislature currently is debating legislation that would refine the reform measures.

Panelists especially praised the limits the new law placed on costly medical-legal reports. Mr. Little called those provisions "the shining gem of this reform package," and estimated that they would save companies $500 million or more annually.

But the experts criticized other aspects of the law, particularly measures to allow employers more control over the treatment of injured workers. The law allows employers to direct injured workers to certified "health care organizations," or "HCOs," which are workers comp HMOs. More of these specialized HMOs are expected to be formed.

However, "the medical treatment reforms are absolutely worthless" in holding down workers comp costs, asserted Fremont's Mr. Little. "(They) mean absolutely nothing for California employers and may actually drive up costs.

"In workers compensation, 'It's medical cost control, stupid,' " Mr. Little said, paraphrasing President Clinton's pointed campaign barb.

"That's one of the issues the Legislature just simply can't deal with. It's an issue that labor is prepared to fall on its sword over. Unless employers in this state can get more than 30 days' control over the medical care of injured workers, like we had prior to 1978, there is simply nothing that can be done to control the cost of workers comp in the medical arena," Mr. Little asserted.

"I'm afraid my remarks will echo the pessimism of Jim Little," Mr. Faustman said. "The managed care issue is a bit of a pipe dream if we think there's going to be significant savings out of that. The notion. . .that employers can control medical costs (through managed care) is a good one, but it has been convoluted to such a point that for a lot of employers it's not very useful."

Under the new law, employer control over an injured worker's treatment can in some cases expand from the current 30 days to 90, 180 or 365 days, depending on what type of health care options the employer offers.

For example, if employers want to control treatment for 90 days, they must offer injured employees their choice of at least two HCOs, one of which must accept payment on a fee-for-service basis, according to an analysis by the California Workers Compensation Institute in San Francisco. If one of the HCOs is controlled by or controls a workers comp insurer, at least three HCOs must be offered.

And, "if the employee receives or is eligible to receive employer-provided group health benefits and is treated by the HCO, the employer retains medical management for 180 days after injury is reported or until the time of the HCO's open enrollment or contract renewal, whichever occurs first," the CWCI explained.

Employers hope that the Legislature will simplify the managed care provisions.

Under the new law, it will be important for employers to monitor an injured worker's treating physician, because the law gives the greatest weight to medical-legal reports performed by the treating physician, Mr. Faustman said.

"Some of the crooks in the business" may try to have workers designate their treating physicians before any injury occurs, a practice that California law allows, he said.

Panelists also claimed that the new law insufficiently restricts work-related stress claims. The new law allows stress claims only when working conditions are the "predominant cause" of the stress. Previously, stress claims needed to be only 10% attributable to working conditions.

The new threshold is a "joke," contends Mr. Faustman. "The whole stress thing has got to go. We've got to get back to the notion that working by definition is stressful, otherwise we'd call it play."

Mr. Garamendi noted that the legislation as originally introduced was "much tougher" and that he had advocated eliminating coverage for post-termination stress claims.

"Predominant cause is a wonderful opportunity" for doctors and lawyers, he said, predicting the law as passed "will be unsuccessful in reducing stress claims." BI

HMO study finds enrollment up 4.4% in second-half 1992

By JERRY GEISEL

Enrollment in health maintenance organizations continues to increase, while the percentage of the population enrolled in HMOs also is increasing.

The nation's 550 HMOs reported enrollment of 40.6 million as of Jan. 1, 1993, up 4.4% from 38.9 million in July 1992, reports InterStudy, a managed care research firm in St. Paul.

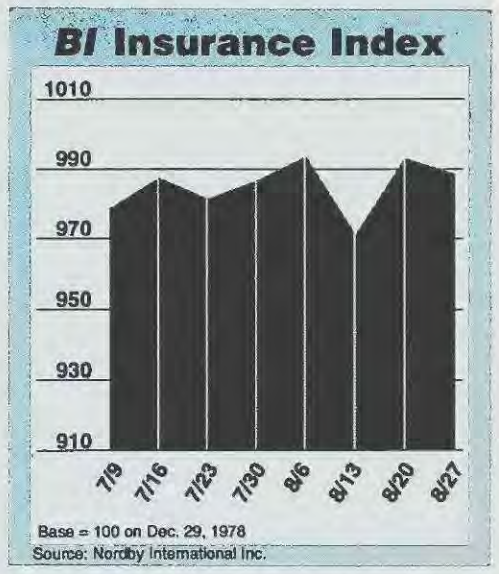
As of Jan. 1, 16.1% of the nation's population was enrolled in HMOs, including both traditional HMOs and open-ended HMOs, in which enrollees have a choice of receiving benefits within a network of providers or outside the network with higher cost-sharing requirements. In July 1992, 15.2% of the population was enrolled in HMOs.

Slightly more than 86% of HMOs said they earned a profit or, in the case of nonprofit HMOs, added to their surplus, during 1992. In 1991, 82.8% of HMOs were profitable or added to their surplus, whereas in 1988 only 36% of HMOs said they were profitable or were able to add to their surplus.

The average monthly premium charged by HMOs for individual coverage as of Jan. 1, 1993, was $140.13, up 7% from $131.21 a year earlier. Monthly premiums for family coverage averaged $405.75, up 4.9% from $360.18 on Jan. 1, 1992.

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Information on HMO enrollment and pricing trends are included in InterStudy's "Competitive Edge," Vol. 3, No. 1. The cost is $125, plus handling charges. For more information, contact InterStudy, P.O. Box 4366, St. Paul, Minn. 55104; 612-858-9291.



Insurance industry stocks declined last week, as the *Business Insurance* Index dropped 4.1 points to 989.1 Aug. 27 from 993.2 on Aug. 20. Advancing issues for the week were led by: Seibels Bruce Group, up 25.0%; Phoenix RE Corp., up 13.8%; and Harleysville Group, up 9.1%. Declining issue for the week followed: American Indemnity/Financial, down 12.9%; Gainsco Inc., down 10.1%; and Statesman Group Inc., down 9.4%. The most active issue was U.S. Healthcare, 4.5 million shares traded. The *BI* Index was down 0.4%; the NYSE Composite was up 0.9%; the Standard & Poor's 500 was up 1.0%; and the Dow Jones 30 Industrials rose 0.7%.

British Issues

Aug. 26 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Comml Union	612	N/M	32.5	5.3	621—	612
Genl Accident	690	N/M	35.7	5.2	690—	687
Gdn Royal Exch	213	N/M	9.3	4.4	214—	206
Royal	319	N/M	6.7	2.1	327—	319
Sun Alliance	386	N/M	19.0	4.9	388—	382
Brokers						
Bradstock	141	16.5	6.8	4.8	141—	141
CE Heath	406	19.4	20.5	5.1	406—	405
Hogg Group	223	19.7	10.9	4.9	223—	220
JIB Group	200	19.8	10.0	5.0	205—	200
Lloyd Thompson	335	26.9	7.5	2.2	338—	335
Lowndes Lmbrt	443	15.8	18.8	4.2	443—	429
PWS Holdings	71	10.7	5.3	7.5	71—	71
Sedgwick Grp	194	23.3	8.0	4.1	195—	194
Steel Brt Jones	252	14.7	17.7	7.0	252—	252
Willis Corroon	236	22.0	8.8	3.7	241—	236

Source: Philip Olsen, London

BI Industry Stock Report

AUGUST 23, 1993 THROUGH AUGUST 27, 1993

		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	25.00	0.00	16.28	25.38	15.13	62	0.44	1.76	15	7.01	3.57
Alexander & Alexander	NYS	25.00	0.00	-5.66	28.88	23.38	377	1.00	4.00	25	10.00	2.50
E.W. Blanch Holdings Inc.	NYS	21.25	3.03	N.A.	21.25	16.50	96	0.00	0.00	27	3.75	5.67
Gallagher Arthur J. & Co.	NYS	31.50	1.61	11.50	37.38	24.25	108	0.72	2.29	17	6.35	4.96
Hilb, Rogal & Hamilton	NYS	13.63	6.86	-12.80	16.88	11.63	161	0.44	3.23	20	3.11	4.38
Marsh & McLennan	NYS	89.75	-0.14	-1.78	97.63	82.00	237	2.68	2.99	21	14.40	6.23
Poe & Brown	OTC	18.50	0.00	10.45	21.25	11.25	3	0.40	2.16	33	2.64	7.01
BROKERS	AVERAGE		1.3	3.0					2.3	22		
INSURERS/REINSURERS												
ACE Ltd.	NYS	34.13	-5.21	N.A.	36.00	25.50	997	0.40	1.17	9	25.37	1.35
AEGON N.V.	NYS	48.75	1.30	17.12	49.38	38.63	62	2.90	5.95	9	34.06	1.43
Aetna Life & Casualty	NYS	59.13	1.07	27.15	60.50	38.00	1101	2.76	4.67	26	67.08	0.88
Allied Group Inc.	OTC	30.00	1.69	41.73	31.00	16.50	449	0.52	1.73	9	11.29	2.66
Allmerica Prop. & Casualty	NYS	57.75	0.00	14.36	62.50	39.50	141	0.44	0.76	5	40.44	1.43
Allstate Corp.	NYS	32.00	0.00	N.A.	32.13	27.13	1801	0.72	2.25	-56	-	-
American General	NYS	34.75	-0.36	21.93	35.00	23.63	1188	1.08	3.11	13	39.89	0.87
American Heritage Life Ins.	NYS	24.50	3.70	21.49	25.34	18.91	2	0.60	2.45	16	16.51	1.48
American Indemnity/Fin'l	OTC	13.50	-12.90	125.00	16.25	4.75	75	0.12	0.89	4	14.43	0.94
American International (s)	NYS	96.00	0.13	24.14	99.00	61.91	1495	0.40	0.42	17	54.21	1.77
American RE Corp.	NYS	35.75	-4.03	-3.38	41.75	31.38	309	0.00	0.00	37	N.A.	N.A.
Aon Corp.	NYS	54.38	-1.14	0.69	56.75	43.75	216	1.80	3.31	18	27.17	2.00
Argonaut Group	OTC	33.50	-2.19	9.84	35.25	27.00	63	1.00	2.99	11	21.70	1.54
AVEMCO Corp.	NYS	18.13	0.00	-22.46	27.00	16.75	23	0.44	2.43	20	7.33	2.47
Baldwin & Lyons Inc.	OTC	44.50	0.00	21.92	44.50	29.50	0	0.60	1.35	11	30.85	1.44
Berkley W.R. Corp.	OTC	44.75	8.16	4.07	50.50	34.50	159	0.40	0.89	18	23.51	1.90
Berkshire Hathaway Inc.	NYS	17300.0	-1.98	47.23	17800.00	9050.00	1	0.00	0.00	4377	6437.25	2.69
Chandler Insurance	OTC	4.63	-2.63	-2.63	5.25	3.50	13	0.00	0.00	18	8.63	0.54
Chubb Corp.	NYS	89.88	-0.69	1.13	96.38	74.25	965	1.72	1.91	13	40.67	2.21
CIGNA Corp.	NYS	64.38	5.32	9.81	68.00	47.13	1028	3.04	4.72	11	81.73	0.79
CNA Financial Corp.	NYS	87.25	2.65	-10.97	102.88	83.75	68	0.00	0.00	-10	80.24	1.09
Continental Corp.	NYS	31.63	-1.94	17.67	34.63	20.00	589	1.00	3.16	17	38.32	0.83
EXEL Ltd.	NYS	49.38	6.47	4.50	52.25	36.00	813	1.00	2.03	8	N.A.	N.A.
Fund American Corp.	NYS	89.13	-0.14	23.78	89.63	68.00	10	0.00	0.00	10	81.85	1.09
Fremont General Corp.	NYS	28.00	2.28	-18.84	28.75	16.00	123	0.72	2.57	9	25.62	1.09
Frontier Insurance Group	NYS	46.75	-0.53	7.47	47.63	29.31	24	0.60	1.28	16	13.97	3.35
Gainsco Inc.	ASE	11.13	-10.10	-21.24	16.56	9.41	184	0.04	0.36	14	2.65	4.20
General RE Corp.	NYS	130.75	2.45	12.96	131.63	90.00	367	1.88	1.44	18	46.07	2.84
Guaranty National Corp.	NYS	22.50	-1.64	13.92	24.00	16.25	18	0.48	2.13	16	9.12	2.47
Harleysville Group	OTC	28.63	9.05	1.33	32.75	20.00	116	0.64	2.24	17	16.77	1.71
Hartford Steam Boiler	NYS	49.38	-0.25	-14.50	59.88	48.50	75	2.12	4.29	24	19.74	2.50
HCC Insurance Holdings	OTC	28.00	1.82	38.27	28.00	12.25	7	0.00	0.00	25	10.12	2.77
ITT (Hartford Group)	NYS	93.88	0.40	30.38	94.75	62.75	1048	1.96	2.09	-171	68.23	1.38
Kemper Corp.	NYS	39.50	3.27	33.33	43.00	20.75	928	0.92	2.33	-8	37.66	1.05
Lawrence Insurance Group	ASE	6.38	-1.92	-26.09	9.25	5.50	1	0.32	5.02	-	4.66	1.37
Liberty Corp.	NYS	34.38	1.10	21.68	34.75	25.00	132	0.56	1.63	13	18.43	1.87
Lincoln National	NYS	45.88	0.27	-37.26	46.63	30.63	827	1.52	3.31	10	58.92	0.78
Markel Corp.	OTC	37.50	0.67	20.00	38.50	25.25	30	0.00	0.00	11	20.24	1.85
Mid Ocean Ltd.	OTC	32.50	6.12	N.A.	33.00	25.00	653	0.00	0.00	-	20.24	1.61
Mutual Risk Mgmt. Ltd.	NYS	41.38	-0.60	2.16	46.00	30.50	61	0.28	0.68	21	7.51	5.51
NAC Re Corp.	OTC	35.25	-0.70	-12.96	44.75	27.50	179	0.16	0.45	45	13.60	2.59
National Re Corp.	NYS	36.88	1.03	24.47	39.63	20.00	64	0.12	0.33	11	N.A.	N.A.
Navigators Group	OTC	30.00	-5.51	-7.69	35.25	28.50	90	0.00	0.00	21	15.69	1.91
Nobel Insurance LTD.	OTC	7.13	3.64	21.28	8.25	4.25	111	0.00	0.00	3	3.91	1.82
NWNL Companies	NYS	32.50	7.88	27.76	32.50	18.13	604	0.80	2.46	13	22.94	1.42
Ohio Casualty Corp.	OTC	65.00	-0.38	2.97	68.75	59.00	179	2.84	4.37	11	43.08	1.51
Old Republic Int'l	NYS	26.00	1.96	4.52	27.38	20.38	503	0.44	1.69	8	18.63	1.40
Orion Capital Corp.	NYS	46.38	3.63	31.10	46.38	28.81	114	0.80	1.73	10	28.62	1.62
Phoenix RE Corp.	OTC	35.00	13.82	122.22	35.00	9.00	624	0.20	0.57	-194	13.32	2.63
Provident Life	NYS	30.88	2.49	8.33	31.50	24.75	28	1.04	3.37	12	30.38	1.02
Re Capital Corp.	OTC	13.50	1.89	-18.18	16.63	12.25	95	0.28	2.07	20	16.75	0.81
Reliance Group Holdings	NYS	7.50	1.69	22.45	8.50	4.75	411	0.32	4.27	3	2.94	2.55
RLI Corp.	NYS	25.13	-0.50	1.52	28.63	18.75	21	0.56	2.23	11	17.92	1.40
St. Paul Companies	NYS	90.25	0.56	17.21	91.00	67.88	360	2.80	3.10	-13	59.79	1.51
SAFECO Corp.	OTC	64.75	1.97	14.10	66.75	48.75	505	1.80	2.78	12	35.37	1.83
SCOR U.S. Corp.	NYS	15.88	6.72	-9.29	20.75	13.13	120	0.32	2.02	397	14.39	1.10
Seibels Bruce Group	OTC	0.63	25.00	-66.67	3.25	0.38	297	0.00	0.00	0	6.22	0.10
Selective Ins. Group	OTC	27.00	-1.37	22.73	29.00	19.00	298	1.12	4.15	20	20.22	1.34
Statesman Group Inc.	OTC	13.25	-9.40	10.42	16.50	6.50	1672	0.20	1.51	6	6.71	1.97
TIG Holdings	NYS	25.63	0.49	N.A.	26.50	22.88	806	0.00	0.00	-8	-	-
Tokio Marine & Fire	OTC	63.75	0.20	32.81	67.00	43.25	5	0.00	0.00	-	70.93	0.90
Torchmark Corp.	NYS	57.63	0.00	1.54	64.75	46.63	258	1.12	1.94	15	14.87	3.88
Transatlantic Holdings	NYS	58.63	-3.10	4.45	61.00	35.63	183	0.28	0.48	19	21.85	2.68
Travelers Corp.	NYS	34.00	5.84	24.77	34.63	17.13	1813	1.60	4.71	-5	43.85	0.78
Trenwick Group Inc.	OTC	43.50	-0.29	6.75	49.75	29.00	99	0.88	2.02	16	23.87	1.82
United Fire & Casualty	OTC	37.75	-1.95	-9.04	43.00	34.75	2	1.00	2.65	88	28.47	1.33
Unitrin	OTC	44.00	3.83	2.92	46.75	35.00	1849	1.40	3.18	13	36.51	1.21
UNUM Corp.	NYS	58.00	-1.07	9.43	60.13	38.50	362	0.80	1.38	15	21.83	2.66
US Facilities Corp.	OTC	11.25	0.00	12.50	12.00	6.50	252	0.00	0.00	13	9.64	1.17
USF&G Corp.	NYS	18.50	1.37	49.49	19.63	9.88	1303	0.20	1.08	-	10.29	1.80
USLICO Corp.	NYS	18.50	4.96	2.78	20.00	15.00	95	0.24	1.30	-5	29.80	0.62
USLIFE Corp.	NYS	41.13	0.30	13.45	43.00	29.34	172	1.20	2.92	12	64.90	0.63
Washington National	NYS	23.88	1.60	3.80	28.00	20.25	261	1.08	4.52	11	30.27	0.79
Zenith National Ins.	NYS	27.38	-1.79	38.61	29.25	16.38	1012	1.00	3.65	17	14.81	1.85
Zurich Reinsurance Centr.	NYS	32.63	-2.61	N.A.	36.38	30.00	212	0.00	0.00	326	23.99	1.36
INSURERS/REINSURERS	AVERAGE		1.0	12.4					1.9	74.9		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	OTC	25.50	0.99	27.50	30.00	16.75	588	0.00	0.00	24	9.61	2.65
Pacificare Health Sys.	OTC	36.75	-1.34	-27.94	57.50	25.50	116	0.00	0.00	17	3.90	9.42
Safeguard Health Enter.	OTC	9.63	-1.28	-1.28	12.25	7.00	303	0.00	0.00	12	4.03	2.39
Sierra Health Services	ASE	16.50	-2.22	-23.70	22.00	11.50	188	0.00	0.00	13	2.01	8.21
TakeCare Inc.	OTC	38.88	-6.33	-12.64	50.25	25.75	369	0.00	0.00	14	2.01	19.34
United Healthcare Corp.	NYS	58.50	-2.70	2.86	68.00	40.00	1233	0.03	0.05	29	4.68	12.50
U.S. Healthcare	OTC	43.75	-5.91	-1.96	59.75	36.66	4491	0.64	1.46	20	3.60	12.15
Wellpoint Health Networks	NYS	28.25	2.26	N.A.	39.75	23.00	419	0.00	0.00	17	-	-
HMOs	AVERAGE		-2.1	-4.6					0.2	16		
ALL COMPANIES	AVERAGE		0.2	3.6					2.0	75		

System design: Nordby International Inc.

The highest-paid CEOs among leading commercial insurers/reinsurers

Rank	Rev. Rank	CEO/age	Company	1992 cash compensation	1991 cash compensation	% change from 1991	Market value[1] of shares held	1992 total revenues (in millions)	% change from 1991	1992 net income (in millions)	% change from 1991
1	16	Saul P. Steinberg, 53	Reliance Group Holdings Inc.	$5,835,000	$5,700,000	2.4%	$318,670,134	$2,757.3	8.1%[2]	($35.7)	75.5%
2	2	Maurice R. Greenberg, 67	American International Group Inc.	2,247,115	1,950,000	15.2	437,293,119	18,388.6	8.9	1,657.0	6.7
3	9	Harold S. Hook, 61	American General Corp.	1,715,000	1,568,447	9.3	10,436,706	4,602.0	4.7	533.0	11.0
4	11	Norman P. Blake Jr., 51	USF&G Corp.	1,593,463	1,242,455	28.3	798,750	3,660.0	(12.3)[2]	28.0	NM
5	7	Dean R. O'Hare, 50	The Chubb Corp.	1,226,923	1,251,193	(1.9)	4,560,619	4,940.8	7.9[2]	617.1	11.8
6	17	James F. Orr III, 50	UNUM Corp.	1,146,562	1,067,154	7.4	7,617,737	2,641.2	9.1	248.8	21.4
7	13	Ronald E. Ferguson, 51	General Re Corp.	1,077,500	1,045,000	3.1	4,149,313	3,386.8	5.6	657.4	0.2
8	1	Wilson H. Taylor, 49	CIGNA Corp.	1,039,400	1,208,500	(14.0)	3,348,334	18,582.0	(0.9)	311.0	(30.7)
9	14	Patrick G. Ryan, 55	Aon Corp.	1,003,154	892,500	12.4	488,087,309	3,336.5	13.8	126.6	(47.7)
10	24	James A. McIntyre, 60	Fremont General Corp.	990,139	928,562	6.6	7,109,120	598.7	3.0	78.7	152.2
11	25	William R. Berkley, 47	W.R. Berkley Corp.	990,000	851,600	16.3	103,303,067	567.2	4.8	52.4	12.4
12	20	Edward B. Jobe, 63	American Re-Insurance Corp.	917,615	615,000	49.2	4,203,500	1,172.8	1.0	97.2	(38.5)
13	6	Ian M. Rolland, 59	Lincoln National Corp.	820,769	905,866	(9.4)	2,361,946	8,034.1	(12.4)	362.9	74.1
14	4	Dennis H. Chookaszian, 49[3]	CNA Financial Corp.	808,333	NEW CEO	NA	90,000	10,793.4	(3.0)	(330.6)	(154.0)
15	5	Edward H. Budd, 59	Travelers Corp.	803,069	923,077	(13.0)	4,755,035	9,675.0	(15.0)	(658.0)	(306.9)
16	19	A.C. Zucaro, 53	Old Republic International Corp.	778,367	637,083	22.2	828,056	1,617.0	17.6	174.7	33.4
17	3	Ronald E. Compton, 60	Aetna Life & Casualty Co.	775,961	NEW CEO	NA	613,692	17,497.0	(3.0)[2]	56.0	(88.9)
18	23	Alan R. Gruber, 65	Orion Capital Corp.	770,548	666,700	15.6	3,860,753	647.7	(22.6)	42.9	(4.0)
19	22	Michael J. Kevany, 67	EXEL Ltd.	745,834	681,250	9.5	4,732,855	666.4	5.6	286.1	7.2
20	8	John P. Mascotte, 53	Continental Corp.	675,000	670,192	0.7	4,714,762	4,900.0	1.2[2]	(86.9)	(263.3)[2]
21	30	Ronald L. Bornhuetter, 60	NAC Re Corp.	674,083	734,608	(8.2)	4,693,122	325.2	10.8	22.4	(35.6)
22	10	Douglas W. Leatherdale, 56	The St. Paul Cos. Inc.	628,310	954,460	(34.2)	8,506,530	4,498.7	4.2	(156.0)	(138.5)
23	26	Walter A. Scott, 56	ACE Ltd.	618,503	NA	NA	0	519.8	25.9	10.5	(83.9)
24	33	James F. Billett Jr., 47	Trenwick Group Inc.	614,017	600,308	2.3	3,865,442	113.1	(4.0)	18.6	(0.5)
25	21	Wilson Wilde, 65	The Hartford Steam Boiler Inspection & Insurance Co.	610,577	680,096	(10.2)	3,558,755	682.1	8.2	41.2	(44.2)
26	29	William D. Warren, 56	National Re Holdings Corp.	592,578	483,800	22.5	7,469,762	344.1	(6.4)	14.1	(14.5)
27	32	Walter A. Rhulen, 61	Frontier Insurance Group Inc.	580,000	344,500	68.4	31,765,326	126.7	31.6	19.0	26.7
28	34	Robert A. Mulderig, 40	Mutual Risk Management Ltd.	548,568	450,000	21.9	15,280,434	91.4	67.1	15.4	48.1
29	27	Charles E. Rinsch, 60	Argonaut Group Inc.	519,617	514,023	1.1	1,374,913	469.6	(9.2)	148.1	75.5
30	18	Joseph L. Marcum, 69	Ohio Casualty Corp.	508,871	446,000	14.1	46,237,334	1,812.1	5.7	98.5	(8.7)
31	12	R.H. Eigsti, 50	SAFECO Corp.	495,000	NEW CEO	NA	314,110	3,420.2	2.1	311.3	19.9
32	28	Bradford W. Mitchell, 65	Harleysville Group Inc.	430,131	442,499	(2.8)	1,583,900	427.2	1.3	26.9	7.6
33	31	Patrick Peugeot, 55[4]	SCOR U.S. Corp.	205,846	190,000	8.3	454,755	250.0	12.5	7.2	(76.7)
34	15	Warren E. Buffett, 62	Berkshire Hathaway Inc.	100,000	100,000	0.0	7,835,606,700	3,029.3	(2.5)	407.3	(7.4)

[1] Stock values as of Aug. 13, 1993. Stock values do not include stock options. [2] Restated 1991 figure. [3] Mr. Chookaszian became CEO in October and under his employment agreement is provided a base salary of $1.1 million the first year.
[4] 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 company's principal stockholder. NA - Not available NM - Not meaningful
Source: Company proxy statements and annual reports Research by Sally Roberts.

GRAPHIC BY A.TRANCHITA

CEO pay

Continued from page 1

$228.8 million in 1991. However, some of the decline in profit is due to accounting changes.

"We're not seeing high increases in (executive) salaries right now" due to the industry's performance and increased scrutiny, said Craig Ulrich, a principal with William M. Mercer Inc. in New York.

Historically, CEOs' pay remained stable in years of poor earnings and "bumped up" in good years—and there was never a pay cut, Mr. Ulrich explained. However, some CEOs now are seeing smaller paychecks as more boards demand that their pay and performance correlate, he said.

Linking pay to performance is a growing trend, agreed Richard Furniss, a vp and head of the insurance compensation consulting practice for Towers Perrin in New York, noting that the new tax law reinforces this link.

Under the new tax law, non-performance-based compensation—including base salaries—that exceed $1 million are no longer tax-deductible operating expenses.

Companies may shift compensation from base salary to bonuses for tax reasons, said Matt Ward, a compensation consultant for The Wyatt Co. in San Francisco.

Only four insurers in the *BI* study paid their CEOs $1 million in base salary last year: American General Corp., American International Group Inc., Reliance Group Holdings Inc. and USF&G Corp.

A proposed Financial Accounting Standards Board rule on accounting for stock-based compensation also could affect compensation practices, Mr. Ulrich said. The ruling, which would be effective in 1997, would require companies to take a one-time charge against earnings for the projected value of stock options granted to executives.

If the ruling is approved by FASB, "companies will most likely be less generous in the amount of options they grant," he said.

Twenty-seven of the 34 companies studied by *BI* granted stock options to their CEOs in 1992, ranging from options for 1,750 shares granted to Joseph L. Marcum of Ohio Casualty Corp. to options for 155,000 shares granted to Norman P. Blake Jr. of USF&G.

The $1.01 million in average salary among the insurer/reinsurer CEOs surveyed by *BI*—not including salaries of CEOs who were new to the office in 1992—was in line with a Mercer study of the compensation of 350 chief executives. That study found an average salary and bonus of $1.3 million in 1992.

However, excluding the nearly $6 million in cash compensation collected last year by Saul P. Steinberg of Reliance Group Holdings Inc.—more than double the compensation of any other insurer CEO—the average insurer chief executive made just $825,783 in 1992. That was more in line with the median cash compensation among the surveyed executives of $773,000.

However, that still was much lower than the $1.06 million median compensation reported in a Towers Perrin survey of 350 chief executives from large industrial and financial services firms.

Nevertheless, 21 of the 34 insurer CEOs surveyed received a pay raise in 1992; eight saw their compensation cut; and one, Berkshire Hathaway Inc. CEO Warren E. Buffett, saw his cash compensation remain at $100,000. The remaining four CEOs did not hold the top office in 1991.

A year ago, when 31 CEOs were surveyed, 21 received pay raises; seven received pay cuts; Mr. Buffett's $100,000 salary was unchanged; and two CEOs were new to their jobs (*BI*, Aug. 31, 1992).

Mr. Steinberg topped the pay rankings for the seventh consecutive year with $5.8 million in cash compensation, consisting of a $2.7 million base salary and a $3.1 million bonus.

Mr. Steinberg's compensation increased 2.4% in 1992, while Reliance reported a $35.7 million loss, an improvement from a $145.6 million loss in 1991.

Mr. Steinberg's 1992 pay landed him the No. 57 spot in Forbes magazine's cash compensation survey of 800 CEOs from publicly held companies. He ranked 24th in the Forbes survey a year earlier.

Also making Forbes' list, at No. 90, was AIG's Maurice R. Greenberg. Mr. Greenberg placed second in the *BI* ranking for the second consecutive year with cash compensation of $2.2 million in 1992, consisting of a $1.1 million base salary and a $1.1 million bonus. Mr. Greenberg's 15.2% increase in cash compensation compared with a 6.7% increase in AIG's net income to $1.7 billion.

Harold S. Hook of American General again was the third-highest-paid insurer CEO with $1.7 million in cash compensation, up 9.3% from 1991. Mr. Hook's 1992 compensation consisted of a $980,000 base salary and a $735,000 bonus. American General's net income increased 11% to $533 million in 1992.

Jumping two notches to the No. 4 spot, Mr. Blake of USF&G received almost $1.6 million in cash compensation, consisting of a $1 million salary and a $575,000 bonus. Mr. Blake's pay increased 28.3%; USF&G reported $28 million in net income in 1992, compared with a $176 million loss the previous year.

The Chubb Corp.'s Dean R. O'Hare once again was the fifth-highest-paid CEO with cash compensation of $1.2 million, consisting of a $726,923 base salary and a $500,000 bonus. Mr. O'Hare's compensation fell 1.9%, even though Chubb's net income jumped 11.8% to $617.1 million.

Four other insurer CEOs collected more than $1 million in cash compensation in 1992:

- UNUM Corp.'s James F. Orr III received a $603,462 base salary and a $543,100 bonus in 1992 for a total of $1.1 million. That was a 7.4% increase, smaller than the 21.4% jump in net income to $248.8 million UNUM reported.
- Ronald E. Ferguson of General Re Corp. received a $740,000 base salary and a $337,500 bonus in 1992 for a total of $1.08 million. That was a 3.1% increase, which compares with General Re's 0.2% increase in net income to $657.4 million.
- Wilson H. Taylor of CIGNA Corp. received a $774,400 base salary and a $265,000 bonus for a total of $1.04 million. His compensation declined 14%, in line with a 30.7% drop in CIGNA's net income to $311 million.
- Joining the million-dollar club for the first time, Aon Corp.'s Patrick G. Ryan received a $788,654 base salary and a $214,500 bonus for a total of just more than $1 million. That was a 12.4% jump, though Aon's net income tumbled 47.7% to $126.6 million.

BI ranked four company CEOs for the first time this year in light of recent public offerings:

- Edward B. Jobe of American Re-Insurance Corp. earned $429,615 in base salary and $488,000 in bonus in 1992 for a total of $917,615, good enough for the No. 12 spot. His compensation increased 49.2% in 1992, while American Re's net income fell 38.5% to $97.2 million.
- EXEL Ltd.'s Michael J. Kevany filled the 19th spot with $745,834 in compensation, consisting of a $420,834 base salary and a $325,000 bonus. Mr. Kevany's compensation rose 9.5%, while EXEL reported a 7.2% increase in net earnings to $286.1 million.

Mr. Kevany has since stepped down as CEO, succeeded by Brian O'Hara, but remains chairman.

- ACE Ltd.'s Walter A. Scott reported $618,503 in compensation, consisting of a $343,503 salary and a $275,000 bonus, which put him in 23rd place. Mr. Scott's 1991 salary was not disclosed. ACE's profits fell 83.9% last year.
- Coming in 28th, Robert A. Mulderig of Mutual Risk Management Ltd. earned $548,568 in cash compensation, consisting of $275,000 in salary and $273,568 in bonus. That was a 21.9% increase, while Mutual Risk Management reported a 48.1% rise in net income to $15.4 million.

While Berkshire Hathaway's Mr. Buffett once again trailed the field with just $100,000 in cash compensation, he isn't hurting: Mr. Buffett owned 2.5 million shares, or 41.6%, of Berkshire stock as of April 2. That was worth $7.84 billion as of Aug. 13. His stock was worth only $4.55 billion a year earlier.

In addition to Mr. Buffett, five other CEOs own more than 5% of their company's stock:

- Mr. Steinberg owned 51.8% of Reliance's stock as of April 26. Excluding shares for which he disclaims beneficial ownership, he owned 43.2 million shares worth $318.7 million on Aug. 13.
- William R. Berkley owned 14% of W.R. Berkley Corp.'s stock on April 7. Those 2.5 million shares were worth $103.3 million on Aug. 13.

Mr. Berkley earned $990,000 in salary and bonus in 1992, up 16.3% from the previous year. W.R. Berkley's net income rose 12.4% in 1992 to $52.4 million.

- Mr. Ryan owned 13.5% of Aon's stock as of April 13. His 8.6 million shares were worth $467.2 million on Aug. 13.
- Walter A. Rhulen owned 10.3% of Frontier Insurance Group Inc.'s stock as of May 14. The 675,858 shares he beneficially owns were worth $31.8 million on Aug. 13.

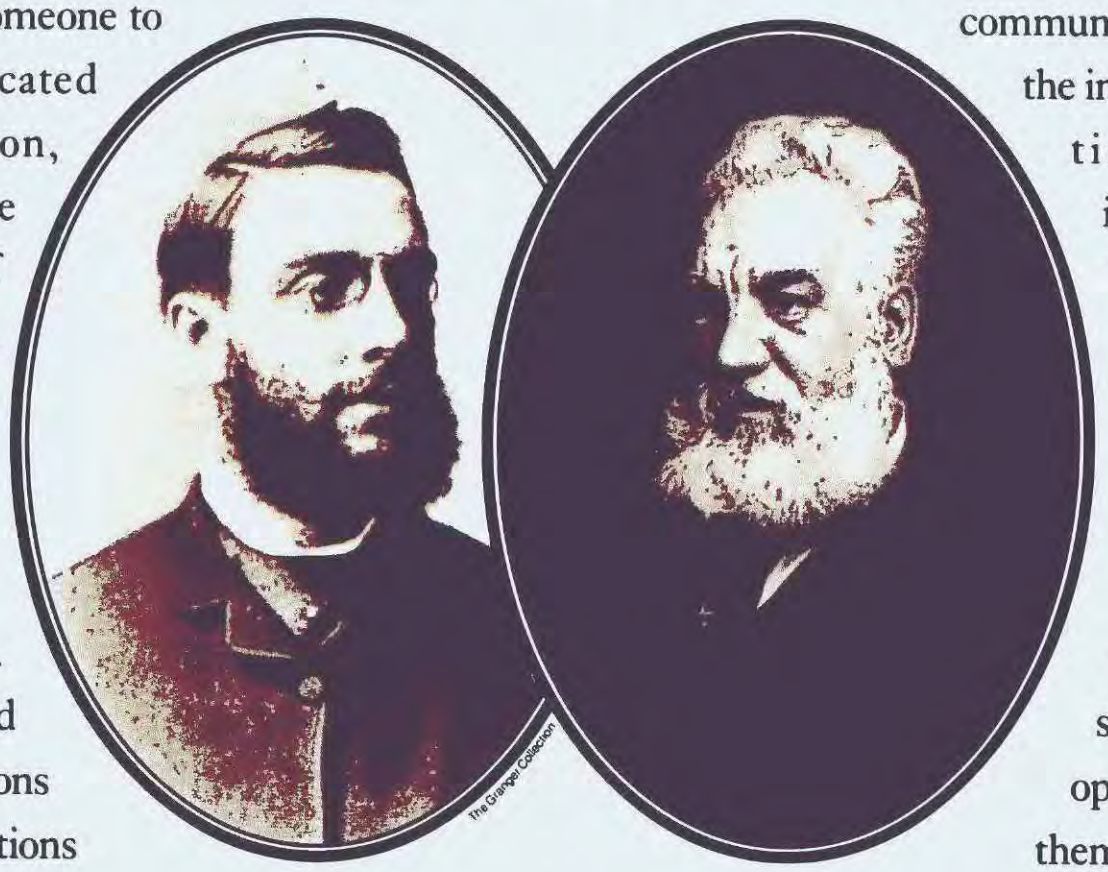
Mr. Rhulen earned $580,000 in salary and bonus in 1992, a 68.4% increase from 1991. Frontier reported a 26.7% increase in net income for 1992.

- Mr. Marcum owned 5.6% of Ohio Casualty's stock as of March 29. Excluding shares subject to exercisable stock options, the 687,544 he beneficially owns were worth $46.2 million on Aug. 13.

Mr. Marcum received $508,871 in compensation last year, a 14.1% raise. Ohio Casualty's profits dropped 8.7% to $98.5 million. BI

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