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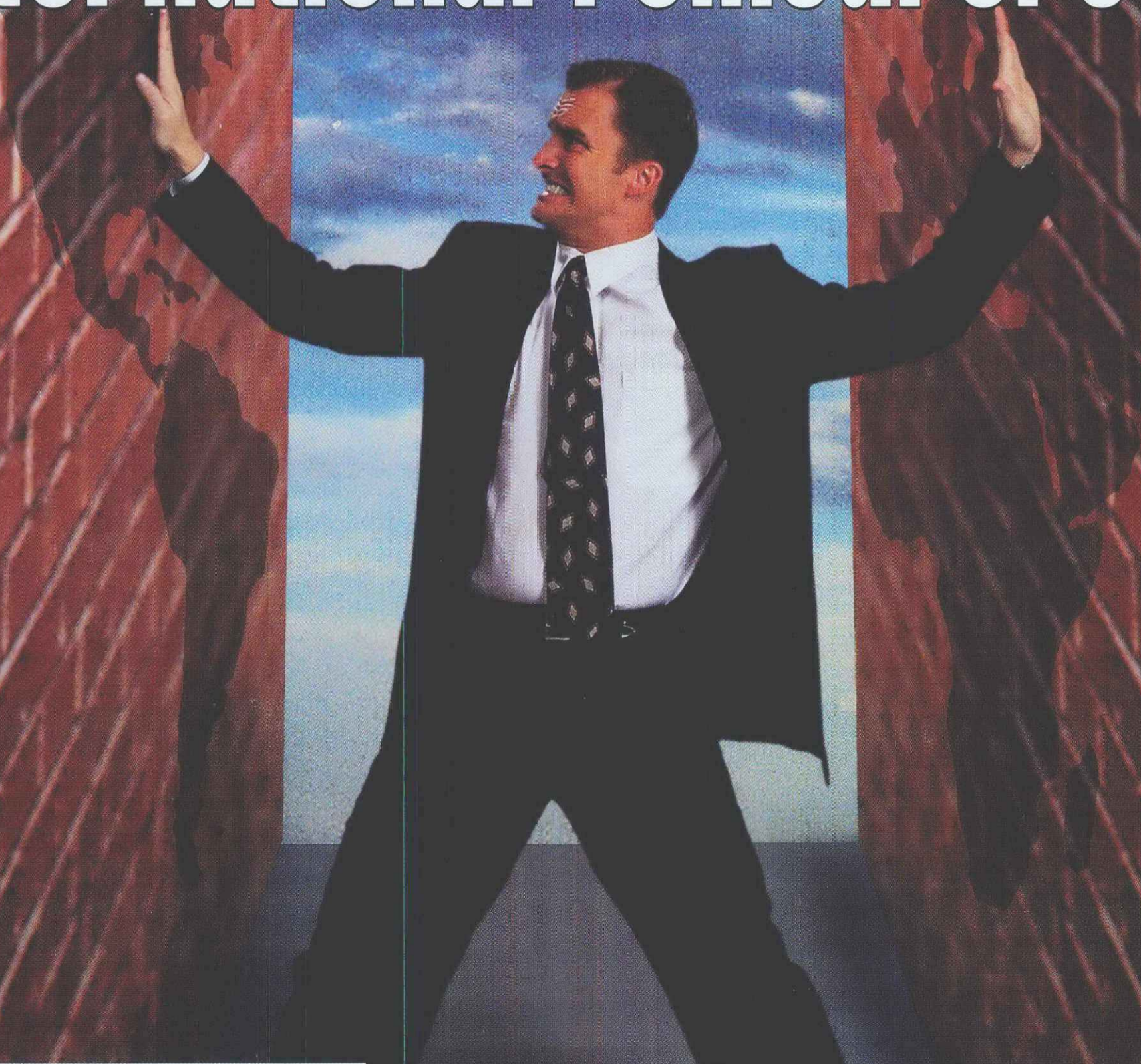
# Business Insurance

World's  
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Reinsurers  
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Reporting Weekly on Corporate Risk, Employee Benefit and Managed Health Care News / \$4

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AHEAD...**





# Business Insurance

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

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## General Re unit seeks arbitration to leave comp reinsurance pool

PHILADELPHIA—A General Reinsurance Corp. unit has launched an arbitration battle to void its participation in a workers compensation reinsurance pool after failing to win a temporary restraining order against the pool's manager.

General & Cologne Life Re of America, formerly known as Cologne Life Re, is one of eight reinsurer members of the Associated Accident & Health Reinsurance Underwriters pool managed by IOA Re, a Plymouth Meeting, Pa., underwriting manager. The

*See Updates on next page*

# GOP care bill could expand liability

By MARK A. HOFMANN

WASHINGTON—While the specifics of an unfinished House Republican managed care reform bill remain hazy, this much is clear: Employers will almost certainly face expanded liability for coverage decisions if the bill becomes law.

The question is: How much new liability?

Finishing touches are still being put on the Health Quality and Choice Act, sponsored by Reps. Tom Coburn, R-Okla., and John Shadegg, R-Ariz. House Speaker

J. Dennis Hastert, R-Ill., wants to bring a managed care reform bill to the House floor by the end of next month. Although the speaker earlier this month endorsed the principles underlying the Coburn/Shadegg measure, he hasn't embraced the current proposal (*BI*, Aug. 16).

"We haven't endorsed it officially, but we are working with the Shadegg and Coburn people to move the process forward," a spokesman for the speaker said.

While final legislative language may not be ready until early next month, the measure's sponsors re-

leased a detailed summary of its provisions last week.

The summary makes clear that the measure would apply to insured and self-insured health plans alike. By contrast, many provisions in a Senate-passed patient protection bill would apply only to self-funded plans (*BI*, July 19).

By far the most contentious provision in the measure is one that would expand liability in situations where health care plan enrollees say they were improperly denied care. The Senate bill contains no such provision.

According to the summary, "patients who have suffered physical injury or death due to a plan's negligence" can file suit in federal court. While the summary doesn't indicate what kinds of damages such patients could seek, it does specify that a health plan that followed the recommendations of an external appeals panel would be protected from punitive damages.

The summary holds that an employer would not face any liability if it is not exercising "discretionary authority" to make a decision on a claim for benefits. The bill would establish "several safe

harbors for employers to specify actions that do not constitute discretionary authority." These general safe harbors include the decision to include or exclude any specific benefit from the plan or to provide additional benefits beyond those specified in the plan. They also include any decision by an employer, agent or broker to intervene or not intervene on behalf of an employee.

A plan or insurer can also protect itself from liability by paying to have an alleged injury certified by some external appeals body.

*See Liability on page 63*

## Captive filing could be test case

# DOL permission sought

By JERRY GEISEL

WASHINGTON—In what could become a test case, a major natural gas company is asking the U.S. Department of Labor for approval to use a captive to reinsure its long-term disability benefits program.

Herndon, Va.-based Columbia Energy Group wants to use its new Vermont branch of its Bermuda-domiciled insurance subsidiary, Columbia Insurance Corp. Ltd., to reinsure LTD policies written by Liberty Mutual Insurance Co. unit Employers Insurance of Wausau.

If the Labor Department approves the application, a wave of employers could follow Columbia Energy's lead. Employers have long wanted to expand their captives to fund benefits to

broaden their captives' premium base and, most recently, to reap tax breaks. That approach has so far been hindered by federal regulatory obstacles, though these may now be easing.

"If this gets DOL approval, we expect a long queue," said Brady Young, president of Alternative Risk Solutions in Waltham, Mass.

**Union Carbide gets tentative OK for captive reinsurance program**  
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In addition, DOL approval of Columbia Energy's application could be a boon to Vermont, the nation's largest captive domicile. The state enacted legislation earlier this year—in anticipation of situations like Columbia Energy's—so that employers with offshore captives can set up "branches" or subsidiaries in Vermont to fund employee benefit risks. Offshore captives, under federal rules, are barred from funding employee benefits.

This branch approach spares employers the expense of re-domesticating offshore captives, which they still would use to fund their property/casualty risks. Legally, though, companies would have only one captive, a structure that could help ensure tax

*See Columbia on page 61*



Citigroup Inc. co-CEOs John Reed (left) and Sanford Weill were the first- and third-highest-paid CEOs, respectively, in the insurance industry in 1998. Insurer salaries are starting to catch up with those in other financial sectors, experts say.

# Pay for CEOs of insurers catching up

By AMANDA MILLIGAN

When news about the formation of financial services conglomerate Citigroup Inc. hit the insurance industry, many opined about what the future would hold for the traditional insurance professional.

Now, almost a year after the deal was completed, one trend has begun to emerge: The compensation of insurance industry executives will increase to keep pace with that of the chief executive officers in other financial services sectors. Those CEOs are quickly becoming the peer group for insurer and reinsurer CEOs, compensation consultants say.

Citing as an example Citigroup's co-CEOs John S. Reed and Sanford I. Weill, Alan Johnson, managing director of the consulting firm Johnson Associates, said it will be more difficult to make simple compensation comparisons between industry categories as more of these partnerships are created.

In the past, Mr. Johnson noted, insurance industry executives have been paid poorly. But he sees this trend turning around at "an increasing clip."

"For people who are used to seeing low compensation levels for senior executives in insurers and reinsurers, they're going to be shocked," said Mr. Johnson.

*See CEOs on page 41*

# Space rates head skyward

## Best risks likely immune

By DAVE LENCKUS

Heavy commercial and military space satellite losses are forcing down space insurance capacity, boosting ground-level insurance rates and fueling space insurers' move to restrict coverage.

The best space risks, though, likely will not bear the brunt of any market restriction, market executives say.

Meanwhile, new U.S. government regulations that have dramatically slowed the process of providing non-U.S. underwriters with satellite technology information for underwriting and loss adjusting purposes also have created some underwriting

problems.

A string of losses over the past 18 months seem to be driving down capacity and pushing up rates, according to many space insurance market executives. The executives add, however, that estimating usable capacity and even rates is difficult because so few risks seek all of the market's available capacity.

In addition, they point out, few risks have been placed in the market since two major satellite losses in the spring.

Space Imaging's IKONOS Earth imagery satellite was destroyed April 27 during a failed launch on a Lockheed Martin Corp. Athena II rocket. Loral Space & Communi-

*See Satellite on page 62*



ARTIST RENDERING. COURTESY OF LOCKHEED MARTIN MISSILES & SPACE  
Coverage for the planned launch of Space Imaging's IKONOS 2 orbiter is now being placed.

**Updates**

**General Re seeks to exit pool**

*Continued from previous page*

pool assumes retrocessions of workers comp carve-out business fronted by Continental Casualty Co.; it provides limits of up to \$3 million per person and \$41 million per known accumulation excess of a minimum \$500,000 insurer retention. The pool has assumed an average of \$30 million per year in premiums on this business, though 1999 volume will be lower, IOA Re says.

Carve-out business—in which life insurers assume accident and health portion of worker comp risks—has become controversial since the unraveling of the Unicover Managers Inc. pool earlier this year (BI, March 15). General & Cologne Life also participated in the Unicover pool, which—unlike the AAHRU facility—reinsured low-level workers comp risks.

The General Re unit earlier this year told IOA Re that it was terminating its 12.2% participation in the AAHRU pool as of Feb. 25. It argued that bulletins issued by the Connecticut Insurance Department in the wake of the Unicover controversy forbid life insurers in the state from reinsuring any part of workers comp risks after that date.

In addition to demanding arbitration, General & Cologne Life sued IOA Re in federal court in Philadelphia for an order barring the manager from writing any new or renewal risks in the pool after Feb. 25.

IOA Re countered that, because the pool was in place before Feb. 25, the Connecticut department bulletins allow it to continue assuming business. The bulletins require only that insurers make a good-faith effort to withdraw from the pool under pool termination provisions or not renew membership on expiration. IOA Re maintains that General & Cologne Life is bound to comply with the contract, which requires 120 days notice of termination and expires Dec. 31.

A federal judge last month refused to grant a restraining order, ruling that IOA Re “has offered a highly persuasive reading of both the contract . . . and the Connecticut Insurance Department’s bulletin.”

The dispute now will be arbitrated, though General & Cologne Life recently has run an advertisement asserting that it is not liable for any risks written by IOA Re after Feb. 25.

The AAHRU pool includes one other Connecticut-domiciled member, Hartford Life & Accident Insurance Co. Hartford has notified IOA Re that it will not renew its pool participation and has asked to be replaced before year-end, but the insurer has not sought immediate termination as General & Cologne Life has, IOA Re representatives say.

**Manufacturer settles asbestos case**

TALLAHASSEE, Fla.—Owens Corning won’t pay the full \$31 million awarded to the estate of a man who died of asbestos-related lung cancer.

The punitive damages award was upheld by the Florida Supreme Court last week. It was originally awarded by a state court jury in 1997 and is in addition to \$1.8 million in compensatory damages the jury ordered be paid to Deward Ballard of Aberdeen, Miss.

Mr. Ballard, who died after the lower court award, claimed in a suit against Owens-Corning Fiberglas Corp. that his condition was caused by asbestos-contaminated insulation the company manufactured.

In a deal worked out before the Florida Supreme Court’s decision, Owens Corning will pay an amount less than the \$31 million award, according to a spokeswoman for the Toledo, Ohio-based company.

Owens Corning had settled the case before the Florida Supreme Court reached its decision, the spokeswoman said. A deal was worked out so that the appeal could continue but that the plaintiff would be paid an amount within a pre-specified range based on the ruling’s outcome.

The final settlement amount was not disclosed. The spokeswoman said it will be paid as part of the company’s national settlement program set up to handle asbestos-related claims.

Owens Corning has \$378 million in unexhausted insurance coverage to help pay asbestos-related claims.

**Settlement reached in accident**

CHICAGO—Transamerica Leasing Corp. will pay \$60 million of the \$100 million out-of-court settlement reached late last week with a Chicago couple who lost six children in a 1994 traffic accident.

The tragedy occurred when a mud flap-tailight assembly fell off a tractor-trailer in front of the Plymouth Grand Voyager minivan carrying the Rev. Duane Scott Willis, his wife Janet, and six of their children. The 50-pound piece of steel that the minivan ran over shot through the the gas tank, puncturing the floor board and igniting the car.

In addition to Transamerica Leasing, which owned the chassis, Allied Products Corp.’s Load Craft division, which manufactured the “slider kit” retrofitted to extend the chassis, will pay \$14.5 million of the settlement. Load Craft’s attorney, Norman J. Barry Jr. of Donohue, Brown, Mathewson & Smyth in Chicago, said a substantial portion of their share of the settlement will be covered by Chicago-based Allied’s excess insurer, which he declined to name. Load Craft went out of business in 1992.

Burlington Northern Railroad Co. also will pay \$14.5 million of the settlement. The equipment in question was originally picked up in the Burlington Northern rail yard.

DaimlerChrysler Corp., which manufactures the Plymouth Grand Voyager, agreed to pay \$10 million of the settlement. A spokesman said the Auburn Hills, Mich., company is self-insured for its share.

*See Updates on page 62*

**Errors & omissions**

• Due to a production error, the last two lines of the story “Cruise, Cargo Ships Collide in Channel” on page 53 of this week’s issue were deleted. The last paragraph should read: Because the incident occurred in international waters, the major investigations will be undertaken by officials in the two countries where the vessels are registered.

• In an Aug. 16 article, “High Technology Brings New Tools to Loss Control,” the second and subsequent references to the employer of an executive with HSB Industrial Risk Insurers were incorrect and should have identified him as working for HSB IRI.

**Am Re, United National see new growth options**

By GAVIN SOUTER

BALA CYNWYD, Pa.—American Re Corp.’s planned purchase of United National Group will give both companies a better platform for growth, executives at the companies and analysts say.

American Re will benefit by having a well-established, in-house primary insurer to handle a growing book of program insurance business the reinsurer is underwriting, while United National will benefit from the increased amount of business American Re will steer to it.

The only possible downside would be the chance that other reinsurers that use United National to write the primary coverage for certain programs might be reluctant to place business with an insurer owned by a rival reinsurer, said Elizabeth Farrell, assistant vp at A.M. Best & Co. in Oldwick, N.J.

Most reinsurers, though, would likely stay with United National because of the expertise the company provides in writing surplus lines business, Ms. Farrell said.

Many other reinsurers already have their own excess and surplus lines units, noted Donald Watson, a director at Standard & Poor’s

Corp. in New York.

American Re, which is owned by Munich Reinsurance Co. of Munich, Germany, will be buying American Insurance Service Inc., the holding company for all of the United National units. The price was not disclosed. United

*See Deal on page 60*

**Creating a formidable team**

	American Re Corp.	United National Group	Combined
Gross revenues	\$2.96 billion	\$296.4 million	\$3.26 billion
Shareholders equity	\$2.85 billion	\$278.8 million	\$3.13 billion
Net income	\$226 million	\$24.6 million	\$250.6 million

Source: American Re Corp. and United National Group.

**Second quarter dampens optimism in P/C market**

By JUDY GREENWALD

The bloom of optimism that briefly flowered after commercial property/casualty insurers turned in first-quarter results is now wilting for many companies.

Signs earlier this year of a possible market turn now appear premature. Although the soft pricing cycle may be bottoming out, most insurers have attained only modest price increases, if any, so far in 1999, analysts say.

“I think many quarters had raised expectations somewhat that pricing was beginning to stabilize, and some went as far as to say it was moving up, but I think that those expectations were certainly diminished in the second quarter,” said Weston M. Hicks, a managing director at J.P. Morgan Inc. in New York.

“I think the message is: This is the beginning of the end of the down cycle but is not the start of the up cycle, and the industry seems to move glacially,” he said.

Insurer, as well as investor, confidence started to rise coming out of the first quarter, when a few companies began to report a “bottoming-out process” in rates, said Michael Smith, an analyst with Bear, Stearns & Co. in New York.

But “that bottoming process really was a slowing down of the rate of decrease, not an increase as such, so companies even in the second quarter reported small increases,” Mr. Smith said.

“One, two, three percent rate increases do very little when the same companies report embedded price deficiencies across their book of business of

*See Results on page 59*



**Other brokers get a chance to shine**

**Mergers create opportunity**

By RODD ZOLKOS

BURLINGTON, Vt.—Even as consolidation in the insurance industry reduces the obvious range of choice available to risk managers, it provides new opportunities for those who know where to look.

**Vermont CAPTIVE INSURANCE ASSOCIATION**

More conference coverage begins on page 46.

In the wake of the major mergers among insurance brokers in recent years, there appears to be “less choice out there,” allowed Sheila Small, executive director of risk management at Bell Atlantic Corp. in New York.

But, Ms. Small said, “I think for

*See Mergers on page 42*

**Inside**

• It makes sense for the U.S. Department of Labor to allow employers to fund employee benefit programs through their captive insurance subsidiaries, this week’s editorial says. **PAGE 8**

• International investigations are under way after the collision of a luxury cruise liner and a container ship—both with state-of-the-art navigation equipment—in the English Channel last week. **PAGE 53**

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# Reinsurance: International Markets

## Soft market only one of the challenges in Europe

By DOUGLAS McLEOD

European reinsurance companies may be familiar with the strains of the soft market—who isn't by now?—but they also are facing less-familiar pressures that have accompanied the industry's consolidation and globalization.

As all reinsurers vie for business and capital globally, many European companies are now adopting revised accounting standards that provide considerably less flexibility in masking poor results.

The push for greater financial "transparency" is expected to make a company's performance more plain to rating agencies, stock market analysts and the company's shareholders, rein-

insurance market observers say.

This, in turn, will force reinsurance managers to focus on current financial results to a greater extent than they have in the past. The accounting change is also fueling further consolidation in the market, as weaker players sell out or withdraw, observers say.

While reinsurers in the United States are accustomed to this sort of financial scrutiny, European reinsurers are less so, and their managers may also find themselves held more accountable for lagging returns than they have historically, some market observers predict.

"I see a lot more stress in the European market. That's why we have seen the number of divestitures we've seen," said Donald Watson, a director

with Standard & Poor's Corp. in New York.

The financial reporting changes, meanwhile, are accompanied by the introduction of the euro, which will make comparisons among companies simpler and will also make it easier for reinsurers to manage their own balance sheets, reinsurance observers say.

Along with these changes, European reinsurers see a number of other challenges that are more familiar to U.S. companies, including convergence between reinsurers and other financial institutions; increasingly sophisticated demands from ceding insurer clients; and the development of new distribution systems, including Internet sales.

See Market on next page

## Eager to tap U.S. capital markets, European reinsurers using GAAP

By GAVIN SOUTER

The lure of the huge U.S. capital markets is one of the main reasons more and more European reinsurers are publishing statements that comply with U.S. generally accepted accounting principles.

In other cases, the expansion of U.S. reinsurers into Europe through mergers and acquisitions is leading to more European reinsurance results being published to comply with U.S. GAAP

figures.

Regardless of the reason behind the change, one of its principal results is that it makes European reinsurers appear to be much bigger entities, as they are revealing for the first time the extent of their sometimes very large catastrophe reserves and publishing them as shareholder equity.

While most reinsurers who make the switch to GAAP say it does not necessitate a shift in strategy, some observers say that increased investor pressure could lead to such changes as special dividends in order to decrease

equity and thus relieve the pressure to meet return-on-equity expectations.

Another consequence is a laborious and time-consuming effort to reconcile very different sets of accounts, they say. That, however, may change in a few years, as implementation of new international accounting standards could make the changeover unnecessary.

The primary reason non-U.S. companies publish their accounts according to U.S. GAAP standards is to comply with Securities and Exchange

See GAAP on page 22

## Reinsurers still entering London despite poor results outlook

By SARAH GODDARD

Gloomy forecasts have not diminished reinsurers' appetites for London market business.

If anything, recent months have shown a net influx of capital as international reinsurers have strengthened their position in one of the world's major reinsurance markets.

Several new entrants have started up operations in London, including through Lloyd's of London; at the same time, others have decided that conditions are too poor to remain in the marketplace.

At the beginning of the year, Liberty Re Ltd. pulled the plug on its fledgling reinsurance operation in

London, citing the low return on investment as a major factor in its decision to cease fewer than 15 months after it had opened its doors with £250 million (\$400.4 million when converted at a current exchange rate) in capacity.

The reinsurer had not generated the business that parent Liberty Mutual Insurance Co. was hoping for, and Liberty Mutual decided it could use the capacity more effectively elsewhere in the group. This appears to have paid dividends already; U.K. regulators recently permitted Liberty Re to loan £150 million (\$240.2 million) of its capital to its parent company.

Although Liberty Re's decision caused a flutter around the London market, at a time of soft rating condi-

tions and bountiful capacity, the withdrawal was not expected to have many repercussions.

Just days after the Liberty Re operation closed, Danish Reinsurance Co. Ltd., advised by Marsh & McLennan Capital Inc., announced it was starting a new Lloyd's of London agency and syndicate with \$250 million in capacity.

Danish Re's syndicate 1400, headed by former Copenhagen Reinsurance Co. (U.K.) Ltd. underwriter Matthew Petzold, will start writing new business before the end of this year, and it will be backed with £150 million capacity for the 2000 year of account.

Unlike other reinsurance syndicates at Lloyd's, up to two-thirds of Danish

See London on page 26

### World's largest reinsurers

Rank	Company	1998 net premiums written
1	Munich Re Group	\$12,539,124,480
2	Swiss Re Group	\$11,273,910,000
3	Berkshire Hathaway/General Re Group	\$7,069,000,000
4	Employers Reinsurance Group	\$5,984,000,000
5	Assicurazioni Generali S.p.A.	\$4,298,515,200
6	Hannover Re Group	\$3,926,482,050
7	Lloyd's of London	\$3,553,094,000
8	Gerling Global Reinsurance Group	\$3,036,933,210
9	SCOR	\$2,418,795,000
10	Hannover Re	\$2,116,362,120
11	Zurich Re	\$1,902,006,000
12	London Reinsurance Group	\$1,778,112,000
13	Lincoln Re	\$1,761,800,000
14	Transatlantic Reinsurance Co.	\$1,390,944,665
15	AXA Re	\$1,158,477,920
16	St. Paul Re	\$1,056,229,000
17	Everest Re	\$1,017,766,000
18	Reinsurance Group of America Inc.	\$1,016,400,000
19	XL Capital Reinsurance Group	\$1,016,226,000
20	Overseas Partners Ltd.	\$908,995,000
	<b>Total</b>	<b>\$69,223,172,645</b>

1. \$/estimate of combined Berkshire Hathaway Reinsurance Group and General Re/Cologne Re. 2. \$/estimate of combined Zurich Re with Centre Solutions. 3. \$/estimate of combined XL MidOcean Reinsurance Ltd. with NAC Reinsurance Corp. Source: \$/survey

## Few contracts written in euros

By CAROLYN ALDRED

Almost nine months after the euro became the official currency for 11 members of the European Union, only a minority of reinsurance or insurance policies have been written the new currency, companies say.

Reinsurance giant Swiss Reinsurance Co. estimates that only about 10% to 15% of its cedents have converted to euros, and these are mainly "big cedent companies," said a Swiss Re spokesman.

A spokesman for Zurich Financial Services Group said: "The percentage of our clients choosing euro policies is insignificant. It is too small to give a percentage."

"Most of our insurance clients are not using the euro yet" for their reinsurance policies, said a spokesman for Cologne, Germany-based Cologne Reinsurance Co.

However, many reinsurers welcome the introduction of a common currency in Europe and are encouraging their cedents to adopt it as a trading currency.

"Munich Re joins the entire European insurance industry in welcoming the launch of the euro. This common currency will mark a major step forward for economic and, ultimately, political unity in Europe," the German reinsurance company announced in a publication titled "The Euro and Reinsurance Business."

"The conversion from the German mark to the euro

See Euro on page 25

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Private companies writing political risk coverage ..... Page 10

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New regulations may bring growth in Saudi Arabia, Egypt .....Page 18

Electronic networks cooperate to promote e-commerce .....page 25

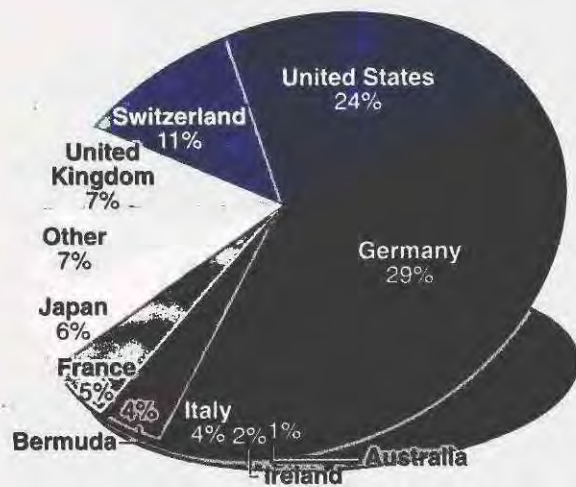
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Spotlight Editor: Douglas McLeod

## Global share of reinsurance

Net premiums written by home country of reinsurer



Source: Standard & Poor's Corp.

GRAPHIC BY ADAM DOI

## Market

*Continued from previous page*

One burden European and U.S. insurers have shared, though, is the soft market.

Several reinsurance officials say they see some signs of tightening, with most citing the retrocessional market as the clearest indicator.

"There is definitely hardening in the retro market," said Bernhard Fink, chief executive officer of ERC International Re Holding GmbH and chairman of ERC's Frankona Re and Aachen Re units. "At that end, we see clear signs that something is happening. How fast that translates to a general effect on the market, it's hard to say."

So far, tightening in the underlying reinsurance market has been spotty, reinsurers and brokers suggest.

The market for catastrophe coverage is firming somewhat, with reinsurers declining to reduce rates any further, said Michael Handler, managing director and head of the European practice of Guy Carpenter & Co. in Zurich.

Aviation reinsurance, Mr. Fink added, is seeing an unusual split in the market, with lead reinsurers winning much better terms than following facultative reinsurers.

"The same risk is priced differently," he observed. "It may be an indication that we are more and more finding a market where people are prepared to pay more for lead capacity, for the service of the leader."

For most commercial property and casualty reinsurance, though, little change in market conditions is visible, market sources agree.

"The big industrial business in Europe is back to where it was in the

early part of this decade," Mr. Fink said.

Rates on this business may be hitting bottom, but a ceding company's own loss experience will dictate whether it faces a tougher-than-average renewal, Mr. Handler suggested.

Some reinsurers, including ERC/Frankona, Swiss Reinsurance Co. and Gerling Global Reinsurance Group, have announced repricing efforts, hoping to shed their most-underpriced business.

ERC, for example, while not fixing the volume of business to be cut, is ready to lose "a substantial dollar amount if we do not find a way to get the price we desire," Mr. Fink said.

"We are prepared to give up business that does not allow a profit," said Norbert Strohschen, chairman of Gerling Global in Cologne, Germany.

"I think that reinsurers are now putting down their foot and not accepting reductions as in previous years" for business such as cat covers and excess of loss treaties, Mr. Strohschen said. "I think the turn has to come at the forthcoming renewal."

Others are pessimistic about any change in the market's direction, though.

Any tightening so far has been only in "isolated situations," such as Canadian property risks hit by ice storm losses, where rates have risen as much as 60%, said Wilhelm Zeller, chairman of Hannover Re in Hannover, Germany.

But for most of the market, it is "business as usual," he said.

"That is pretty much the situation all over the world. The market continues to be overpopulated," Mr. Zeller observed. "There is much more supply than demand."

Hannover Re underwriters have been told to assume the market will stay soft for a few more years to prevent them from making "concessions to the wrong parties" in hopes of future improvement, he said.

"If we assume it's going to continue for another two to three years, we will assess the situation more objectively," he explained.

Not surprisingly, these market conditions have not produced good results for reinsurers. "There is no doubt whatsoever that 1998 has been worse than (when) reinsurers looked at it six months ago," Mr. Fink said, noting that losses from last year's Hurricane Georges were underestimated and that the last round of renewals failed to bring price increases.

"The financial results are deteriorating, definitely," Mr. Zeller agreed.

Deteriorating results, especially in longer-tail lines of business, will also be increasingly difficult for reinsurers to conceal as more European reinsurers adopt new International Accounting Standards or U.S. generally accepted accounting principles, observers say (see story, page 3).

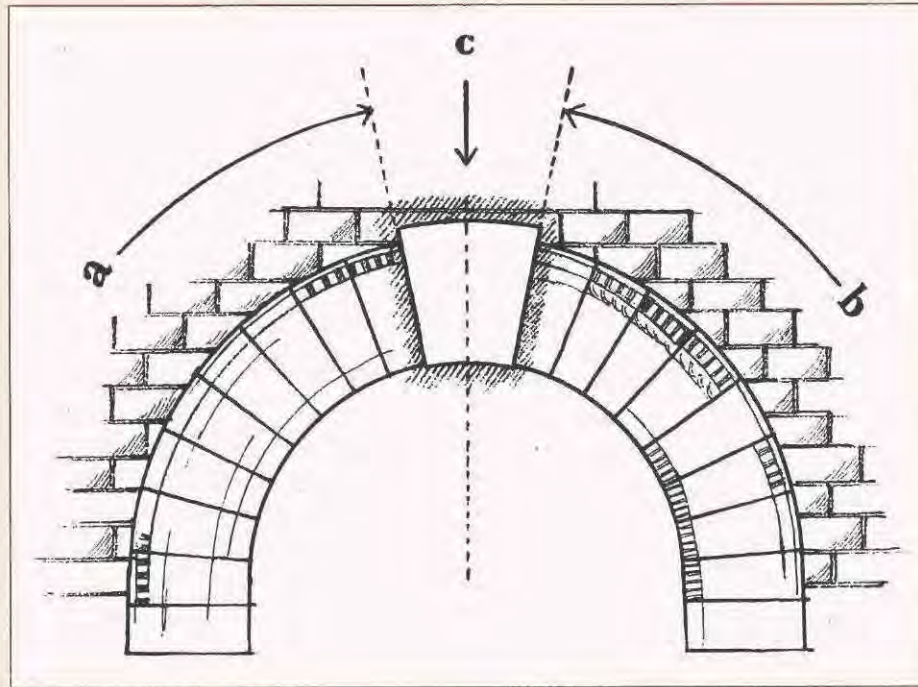
European reinsurers, particularly German and Swiss companies, have long been cushioned by redundant, or "silent," catastrophe reserves. These reinsurers' accounting systems have been governed by the concept of "prudent reserves," a more conservative reserving approach than the "best estimate" reserving of U.S. GAAP, Mr. Zeller observed.

Investors, however, have increasingly expected greater transparency in European reinsurers' financial reporting, Mr. Zeller said. "They don't want prudent reserves; they want best estimates," he noted.

"The more companies report their results using IAS or U.S. GAAP, the more difficult it will be to carry forward these prudent reserves, reserve redundancies," Mr. Zeller said.

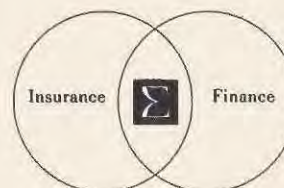
"Companies will increasingly not be able to set aside reserves in good

See Market on page 6



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# Market

Continued from page 4

years and take reserves down in bad years," S&P's Mr. Watson agreed.

The increased transparency will also bring new pressure from shareholders to improve financial performance, he said.

The changes "will make it easier for investors to say, 'I'm getting a raw deal here,'" Mr. Watson noted.

"For those companies that are public and actively traded, there is definitely increased pressure on them and their managements to improve their key ratios, including their return on equity," said Dirk Lohmann, CEO of Zurich Re, a unit of Zurich Financial Services Group.

While insisting that reinsurers will still have opportunities to build "silent" reserves, Guy Carpenter's Mr.

Handler acknowledged that reinsurers are increasingly focused on pleasing rating agencies and stock analysts.

This is a big change for Europe, he noted, where longstanding relationships with ceding insurer clients have historically carried the most weight.

In the past, buyers felt that "as long as you knew the company, you couldn't care less what the rating was," Mr. Handler said.

"I think it actually offers a lot of opportunity for reinsurers," Mr. Lohmann said. "The transparency that is imposed on companies adopting such a regime requires them to more proactively manage their balance sheet and their exposure to catastrophe losses."

It also means that reinsurer managements will be held more accountable for their companies' performance. Poor performance may force changes in top management, a situa-

tion that rarely existed among European companies in the past, Mr. Handler said.

Another change that could make reinsurers easier to analyze is the advent of Europe's common currency, the euro, some market observers say.

"The euro is creating a situation where you can more easily compare companies' performance," S&P's Mr. Watson said, noting that investors may then press reinsurers to improve performance or sell out and invest in other companies.

The euro will also serve as a "handy tool in making price comparisons" among reinsurance products and will aid reinsurers in monitoring their exposures in various regions of Europe, Mr. Handler said.

Mr. Lohmann concurred: "It reduces, to a certain extent, the complexity of the balance sheet management process," including reducing the

effort and risk of managing funds in a variety of currencies.

Overall, the soft market and increasing transparency in financial reporting should fuel more consolidation, raising the pressure on smaller reinsurers to be acquired and forcing marginal operations out of the market, some observers say.

This consolidation is not likely among the largest players, where "most of the major deals have been done," Mr. Handler observed. Instead, it will be mid-sized and smaller companies that will be forced to merge into larger groups, become specialist markets or withdraw, observers say.

"The current pricing levels and (increasingly complex) requirements of clients do not encourage anymore the broad, general insurer or reinsurer," Mr. Handler said.

Mr. Zeller noted cases in which U.S. parent companies have divested rein-

surance operations because they did not fit the parent's core business or because the parent itself was experiencing financial troubles.

"It is such situations that prompt the sale of reinsurance entities, because shareholders have no interest in reinsurance activities anymore," he said.

The largest reinsurers, for the most part, have no need of further European reinsurance acquisitions, added Gerling's Mr. Strohschen. A ceding insurer client might place 20% or 30% of its business with a large reinsurer and then look elsewhere for additional capacity, regardless of the first reinsurer's size, he said.

"It does not add value, once you have reached a certain size, only to get bigger," he explained.

Whether large reinsurers will move beyond their own industry to make acquisitions of other financial services companies—as Swiss Re did earlier this year with its takeover of investment banker Fox-Pitt, Kelton Group—remains to be seen.

"There you see a reinsurer bringing in additional capabilities that are outside the scope of traditional reinsurance because of customer needs," Mr. Lohmann said of the Swiss Re/Fox-Pitt deal.

"We will see that, to a certain extent, among the top echelon (of reinsurers), who have the resources and scope to bring that capability to a broader cross-section of their customer base," he predicted.

But such deals may prove unique to a large company such as Swiss Re, Gerling's Mr. Strohschen said: "I can't see a trend there with reinsurers combining with financial institutions."

Meanwhile, convergence between direct insurers and other financial institutions and the growth of new technology could bring changes in European reinsurers' client base and distribution systems, some reinsurers say.

Insurance companies are themselves exploring new methods of distributing products, including direct selling, Internet sales, "counter sales at supermarkets and God knows what," Mr. Lohmann observed.

This, in turn, could bring about a shift in reinsurers' target market: "Is it Sainsbury's or an Internet company no one has heard of?" he wondered, half-jokingly.

Reinsurers themselves are also increasingly doing business electronically, ERC's Mr. Fink said.

"It's astonishing how quickly that has developed," he said, adding that the development has not been confined to direct insurance of personal lines risks.

ERC/Frankona has already had success taking applications for facultative reinsurance placements electronically, and credit and bond reinsurance are likewise prime candidates for Internet transactions, he said.

Mr. Strohschen, meanwhile, sees the Internet adding to reinsurers' distribution channels but not taking over the bulk of transactions.

"I don't think it will replace traditional ways of trading," he said, explaining that it may grow to account for a small percentage of reinsurers' overall business.

Looking to the immediate future, some reinsurers also stressed the importance of continued diversification of their business.

Mr. Lohmann pointed to the privatization of various state health and disability insurance systems around the world as a growing diversification opportunity for reinsurers: "There's quite a bit of potential that reinsurers in the past have not focused on."

Speaking of diversification by Hannover Re, Mr. Zeller said, "It is only against this background that we are relatively relaxed in letting property/casualty (volume) go down as long as the market is the way it is." **BI**



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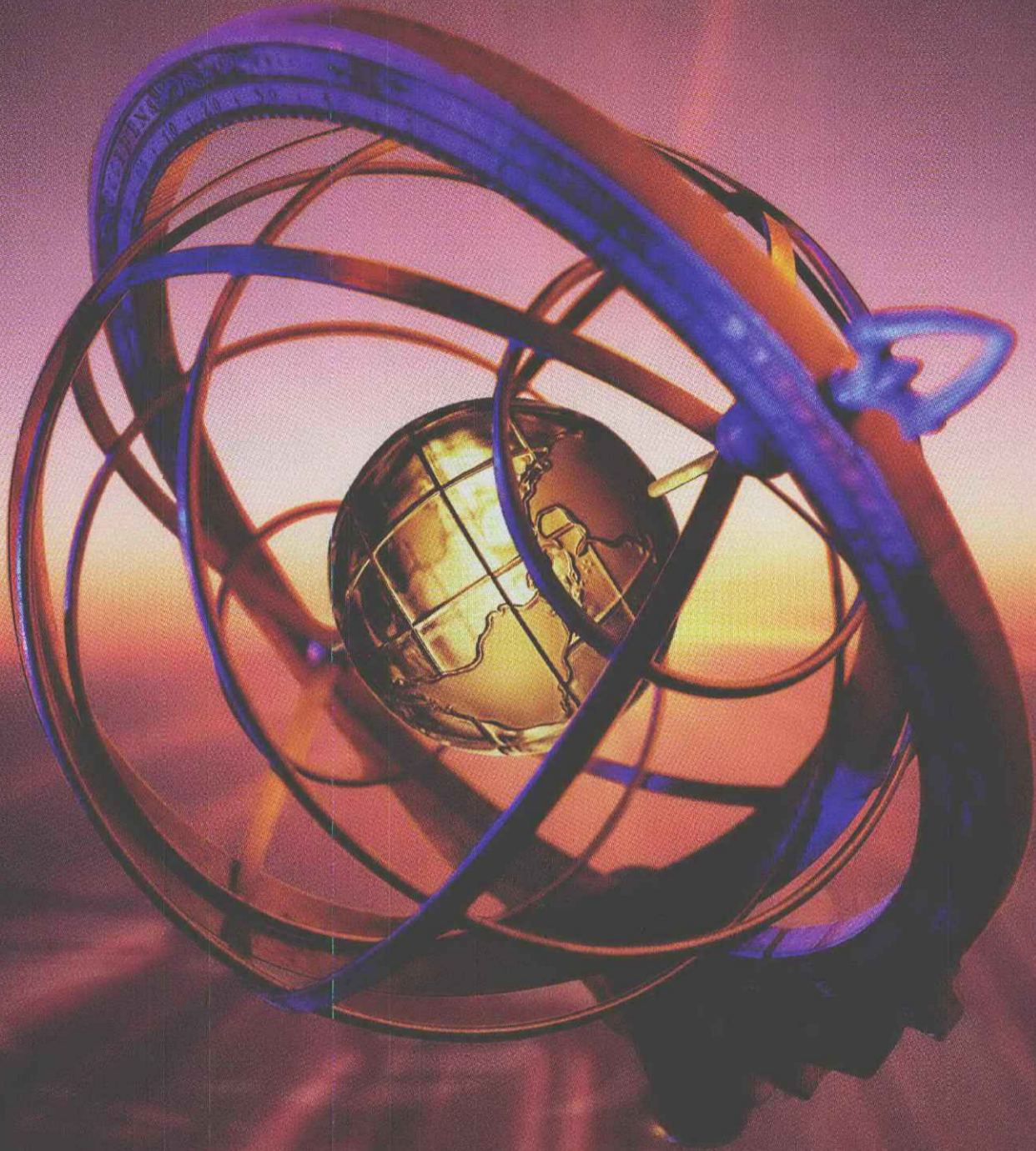
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## Opinions

## Actions will speak louder

**W**HY SHOULD MOST EMPLOYERS BE denied an opportunity to use their captive insurance subsidiaries to fund employee benefit programs?

Such an approach to financing benefits can expand a captive's premium base, spread out costs, create tax advantages and possibly allow an employer to offer less costly benefit programs to employees.

Unfortunately, federal regulators have been unyielding when it comes to requests to relax strict regulations that block most employers from taking advantage of this approach. Recently, however, an official with the U.S. Department of Labor signaled that stance may be changing.

We are extremely hopeful that the DOL will back up those words with action. The first test of this willingness to be more flexible in approving requests for funding benefits via captives will come via a request currently before the federal agency.

Such a change is long overdue.

More than 25 years ago, when congressional committee staffers were drafting the Employee Retirement Income Security Act, the staffers were concerned about the potential for self-dealing and abuse in captive-parent benefit arrangements.

One such concern, for example, was that employers would use a captive to provide group term life insurance coverages to employees at inflated premiums. That would earn a hefty profit for the captive—and its parent—but would not exactly be in the best interests of participants.

To prevent such abuses, ERISA's drafters initially would have barred employers from using their insurance subsidiaries to provide employee benefit coverages to employees. At the 11th hour, however, ERISA was modified and the absolute ban slightly lifted, so that if 95% of a captive insurance company subsidiary's business was unrelated, it would be allowed to fund benefit coverages for its parent.

This modification was widely thought to have been the result of lobbying efforts by Sears Roebuck & Co. to continue to use its then-subsubsidiary Allstate Insurance Co. to write benefit coverages for employees of Sears. As a huge national insurer, more than 95% of Allstate's business was unrelated to Sears.

But few other employers had insurance subsidiaries that would pass the 95% test. Almost as soon as the law was put in place, therefore, other employers began to lobby for a liberalization of the test.

In 1979, the U.S. Department of Labor responded and issued a regulation—known as a class exemption—that said that as long as certain conditions were met, the parent could use the captive to fund benefits for employees. Those conditions were chiefly that the captive insurer be licensed in a domestic state and that 50% of the captive's business was not related to the parent. The DOL also said approval of situations in which captives were used to reinsure commercial insurers for benefit risks would be decided on a case-by-case basis.



The 50% standard has stood ever since. For nearly all employers with domestic captives, it has been an impenetrable obstacle to using their captives to fund benefit coverages. Few employers would want their captives to take on so much third-party business.

But now, as noted, a key Labor Department official says that no longer will the 50% test be the sole determinant of whether an arrangement passes regulatory muster.

Rather, regulators also will look to see if the proposed funding arrangement is beneficial to participants, such as by lowering insurance premiums or improving benefits, and that the security of participants' benefits are protected, such as by issuing the coverage through top-rated primary insurers.

As we report on page one, one of the first tests of this new flexibility will come with review of a pending application by Columbia Energy Group to use a Vermont branch of its Bermuda captive to fund long-term disability benefits.

These types of funding arrangements should be encouraged, not discouraged, by the federal agency, especially if using captives can cut benefit costs for employees, while assuring their benefits are safe by issuing coverage fronted by highly rated insurers.

For employers, such arrangements can broaden their captives' premium base, spread out fixed captive expenses over a broader book of business and—based on earlier appellate court decisions and an Internal Revenue Service ruling—possibly increase the likelihood the parent can deduct property/casualty premiums paid to their captive insurers.

Funding benefits through captives, therefore, could be a winning approach for employers and employees alike. We hope the Labor Department agrees. Its actions will speak louder than its words.

## Letters

## Formaldehyde not present in carpets

To the editor: James F. Dorion's March 8 Perspective, "Sick Buildings Spell Ills for Risk Managers," discusses a list of chemical contaminants that provide possible exposures in the indoor environment. This list contains an inaccuracy.

The listing for formaldehyde content includes carpets, which is incorrect. Formaldehyde is not used in the carpet manufacturing process in the United States. Over 20 years ago, it was used in minute quantities in the finishing process, but this is no longer true.

Mr. Dorion's article is correct in acknowledging that buildings that are not

providing acceptable indoor air quality can be a problem. It is essential that all buildings be properly maintained, routinely cleaned, and contaminants be kept out.

The carpet industry has been very proactive in researching its products and the interaction of carpet products in the indoor environment.

In cooperation with the Environmental Protection Agency, the carpet industry was engaged in a dialogue that resulted in research by the industry. This has been done in an effort to continue to provide environmentally friendly products with little impact on the indoor air.

Please note that a testing program by the Carpet and Rug Institute includes a test for formaldehyde in order to show that it is not present in new carpet.

Since the beginning of our research in late 1988, carpet has been a focus of attention by the insurance industry and the legal profession. In all of the lawsuits, no one has been able to establish any link of maladies caused by carpet; and plaintiffs have not received favorable decisions.

**Kathryn Sellers**  
Director of Communications  
Carpet & Rug Institute  
Dalton, Ga.

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# More political risk opportunities seen for reinsurers

By EDWIN UNSWORTH

**W**hen Lloyd's of London begins underwriting political risk insurance for companies trading in Bosnia and Herzegovina, it's pretty clear that perceptions about using this form of insurance to grease the wheels of world commerce are changing.

In recent years, more private insurers and reinsurers have begun cooperating with state political risk facilities to provide expanded political risk capacity that can help underpin trade and foreign investment.

It is the changing global market-

place that is creating an expanded role for private political risk insurers and reinsurers, according to Louis Habib-Deloncle, chairman and chief executive officer of a leading political risk insurer, Paris-based Unistrat Assurances.

Mr. Habib-Deloncle said multinational companies today are less worried about the possibility of nationalization of their assets than about the possibility that government authorities will undermine the viability of their projects by canceling a concession or breaking a supply contract.

This means buyers are also less interested in traditional types of products, such as confiscation coverage and instead want to protect

their revenues with the best possible coverage and at the right price.

The arrival of more reinsurers in this market bears witness to the

**The arrival of reinsurers bears witness to the buoyancy of the political risk market, says Louis Habib-Deloncle.**

buoyancy of the political risk market, he said. He welcomes this arrival, because demand for capacity from the private sector is growing

both as a result of increasing international trade and investment and because of a reduction in political risk capacity from traditional government sources, particularly European export credit agencies, due to regulations restricting state subsidies.

In addition, the size of many risks is growing, creating need for more capacity. Some risks today, such as major infrastructure projects, are too heavy for an individual insurer to bear, "and from that standpoint, it's better for the insurer to dilute the risk, thanks to reinsurance techniques," he added.

Mr. Habib-Deloncle also points out that political risk insurance now is an industry in itself and not

just some coverage that should be tacked onto other policies. "You definitely need an expertise and a know-how to select your risk," he said.

Even countries as politically volatile as some in Eastern Europe now are seen by insurers and reinsurers as potential markets for writing this line of coverage, despite—and sometimes because of—the current soft pricing conditions in other parts of the property/casualty market.

There is a general consensus, however, that the private political risk market may have reached a critical phase, with rising capacity coinciding with increasing claims. Some reinsurers, as a result, are showing signs of reducing their underwriting in this area, while others are no longer as keen to enter this market.

The new Lloyd's coverage for Bosnia and Herzegovina, unveiled in July, is written in conjunction with a state trade guarantee agency, an arrangement similar to other ventures involving private underwriters. Lloyd's is partnering with the Bosnian government's trade and investment insurer, the Investment Guarantee Agency (IGA, July 5). The arrangement initially will double to 80 million deutsche marks (\$48.4 million)—and later may triple—the IGA's capacity to provide political risk insurance to businesses trading in those countries.

It was London-based trade credit and political risk broker Berry Palmer & Lyle Ltd. that had won IGA's search for a broker that could devise a plan to increase its capacity.

Berry Palmer & Lyle had in October 1998 appointed a director, Edward Watson, to head a new reinsurance team to specialize in political risk reinsurance brokering.

Mr. Watson said his appointment was a strategic move to create new business opportunities in the political risk reinsurance markets in which Berry Palmer & Lyle already operated.

He adds that there are a number of areas seen as providing political risk reinsurance opportunities, mainly because, for some years, the political risk market has utilized the soft reinsurance market, "putting political risks into general reinsurance programs, which, quite frankly, don't match terribly accurately the requirements of the original business."

He said the main advantage of this increase in dedicated reinsurance capacity is that it means political risk packages are put together by specialists who understand the risks and can put together coverage tailor-made for the policyholder's needs, "as opposed to generalist reinsurers applying generalist rules to a highly specialist class." There are also opportunities for reinsurers to write short-term trade credit risks, he said.

The private insurance sector is expanding into the short-term trade credit sector, which is usually defined as coverage terms of up to two years. An example is the privatization in 1991 of the short-term business of Britain's Export Credit Guarantee Department.

Such changes are "going to bring a lot of political risk business into the private sector," according to Mr. Watson.

In Germany, insurers, helped by the backing of reinsurers, also are breaking the export credit insurance monopoly traditionally held

See Risk on page 12

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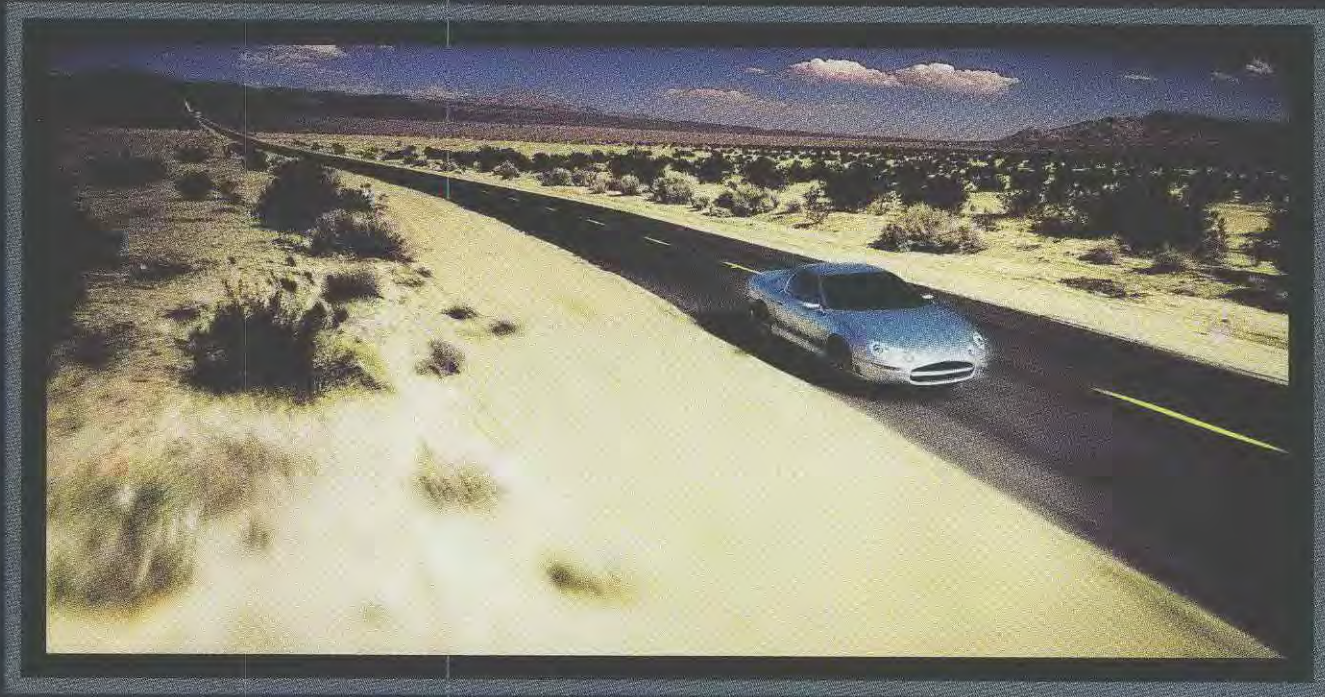
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# Risk

Continued from page 10

by Hermes Kreditversicherungs A.G., a subsidiary of Allianz A.G. Holding. Hermes for the past half century has been the sole administrator of government guarantees for German exports.

At the start of 1999, Gerling-Konzern Speziale Kreditversicherung A.G., the credit insurance unit of Cologne, Germany-based Gerling A.G., began insuring exporters' political risk in addition to its existing export credit guarantee business.

In general, political risk policies cover the financial consequences of direct and indirect foreign government actions, such as seizing property; imposing confiscatory taxes or levies; denying licenses, permits or

visas; establishing excessive tariffs or monetary control; and denying access to essential products, raw materials or energy sources. Governments have traditionally provided this coverage and credit insurance, which protects exporters from payment default by customers.

GKS management board member Volker Weisbrodt said the insurers felt able to challenge Hermes' monopoly position because, for the first time, reinsurance capacity was available to support the company's move into writing political risk coverage.

He attributes this rise in reinsurance capacity to a general move by insurers and reinsurers into new areas as they seek new areas for premium growth against a backdrop of low rates and high capacity.

Mr. Watson at Berry Palmer & Lyle said, however, that there may

be signs this interest in the political risk market may be cooling.

"Things will get tougher," but there still will be a need for specialist reinsurance programs in this area, he said.

Mr. Watson added that the speed and rate of change will depend on a combination of the degree of losses in reinsurance programs and the general state of the reinsurance market, bearing in mind that political risk is a relatively peripheral area for reinsurers.

What Mr. Watson said he finds interesting is that the private sector is moving much more broadly into all areas of political risk and into risks in most countries of the world, which is one of the reasons Barry Palmer & Lyle has entered this field. "We've seen political risk grow in volume, in spread, in scope, with the opportunities for both the

insurance and reinsurance markets growing considerably," he said.

Private insurers also are introducing more political risk programs that increase the opportunities for reinsurance involvement.

CNA International recently introduced its WORLDPASS program, which provides multiline insurance protection, including political risk coverage, for companies doing business worldwide (BI, July 5).

Also this summer, AIG Europe (U.K.) Ltd. launched WORLDRISK, a sort of all-risks insurance product for companies involved in international trade that also offers political risk insurance (BI, June 14).

Peter Jenkins, political risk underwriter at AIG Europe, explained the rationale behind such comprehensive programs. He said WORLDRISK encompasses all risks and is mainly a means of

streamlining coverage for commercial policyholders so that, instead of dealing with half a dozen or so different underwriters at AIG, they can wrap up insurance coverage in one process.

Bernie de Haldevang, political and war risk underwriter at London's Wellington Underwriting P.L.C., which leads Lloyd's coverage for Bosnia and Herzegovina, said there has been growing interest among major European reinsurers in writing political risk coverage.

He is not convinced that such interest is fueling overcapacity, partly because at least some of the growth in European capacity is being offset by North America mergers, which he thinks are reducing capacity.

The main interest in this market still is from the direct writers rather than reinsurers, said Mr. de Haldevang. He breaks these down between:

- The "genuine ones," which have either underwritten political risk before and want to expand because it's a profitable line with historically good rates and could complement their core businesses.

- And "the others," which are showing interest simply because their premium volume on their core businesses is so low due to lower rates.

In the short term, this situation is probably good for buyers, though in the long term it will depend on whether it's also good for insurers themselves, said Mr. de Haldevang.

Underwriting political risk requires some expertise, and, when writing a five-year policy, it could take two to three years to find out whether the policy will be profitable.

Investors in foreign countries often enjoy start-up incentives such as tax breaks for the first few years, and so it may not be until year four or five "that you know if it's a good risk and that you've underwritten it properly," he said.

Mr. de Haldevang said it is difficult to generalize about rates because so many factors affect them, in particular the circumstances of individual countries. Some rates went up in the past nine months because of the Far East's economic crisis, while in other countries rates have halved in the past year, he said.

Mr. Watson of Berry Palmer & Lyle pointed out that the important point about political risk capacity "is not so much who's going to come in, but that we bring good quality reinsurers in who develop a commitment to the class."

Mr. Habib-Deloncle said he thinks some insurers and reinsurers, particularly those who have "leapt opportunistically" into political risk, may be undermining their capital base and thus may be more susceptible to negative results in traditional reinsurance lines.

"Because of that, I believe some people who came into the niche will no longer have the financial strength and capacity to carry the risks. Political risk is no longer isolated from the rest of insurance and reinsurance activity," he said.

Mr. Habib-Deloncle adds another word of caution. Some underwriters have pure risk capacity representing two or three times their annual volume in political risk. "I'm not calling it a dangerous situation yet, but it's a real matter of concern," he said. He stresses that both direct insurers and reinsurers of political risk need to make sure they strike a proper balance in their portfolios.

He adds: "As direct market players, it would not be in anyone's interest. The market would suffer and confidence would be lost." **BI**

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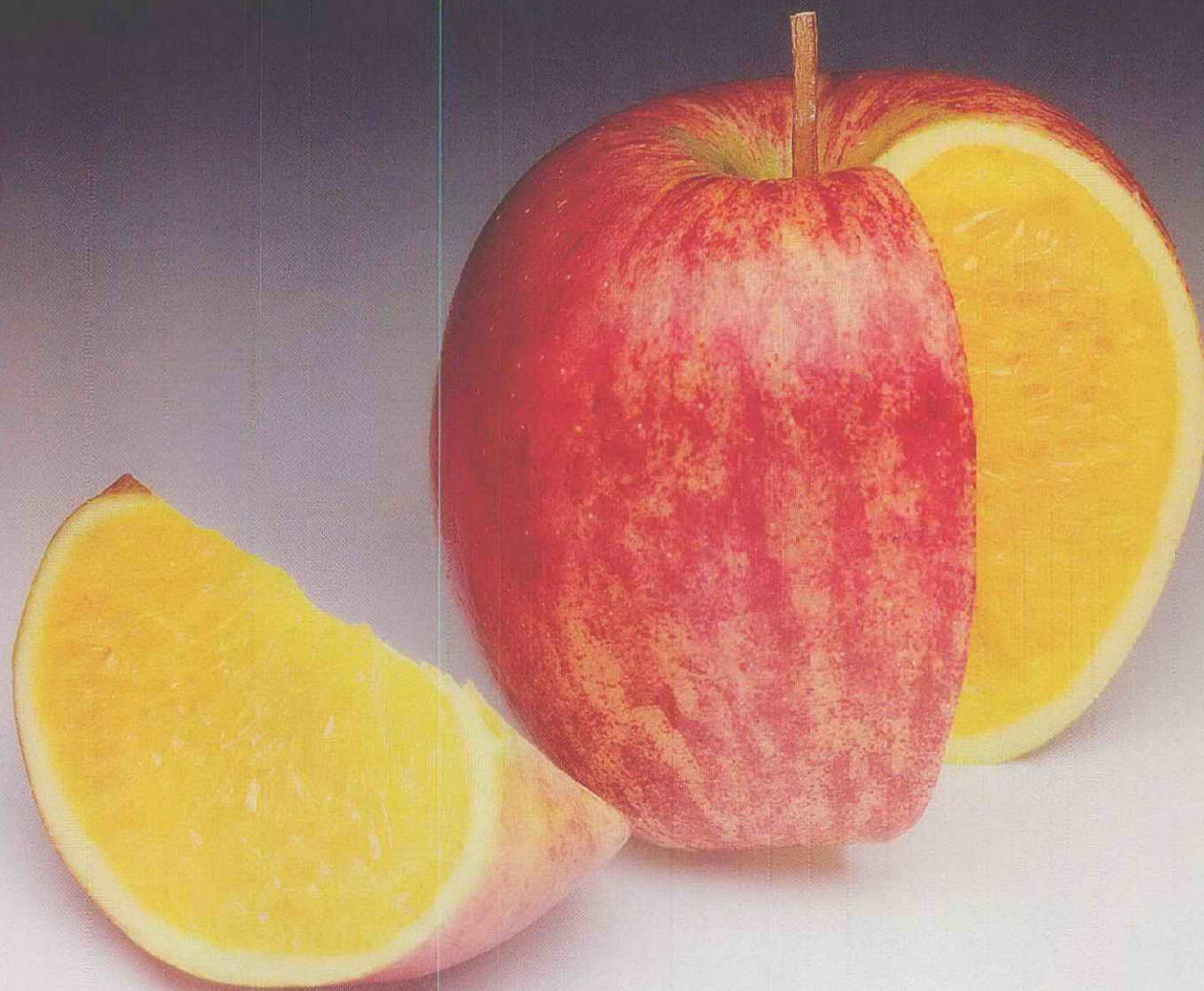
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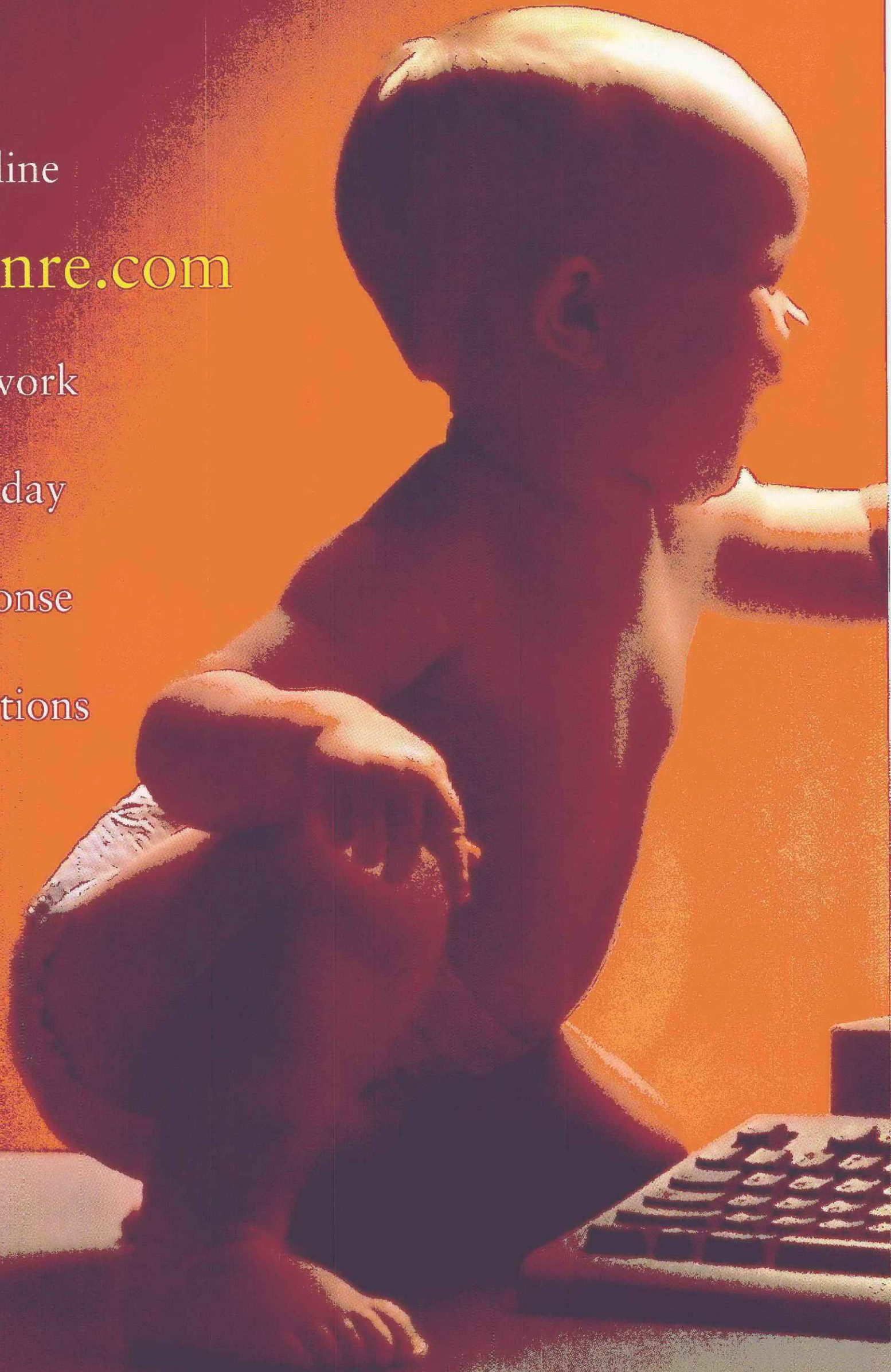
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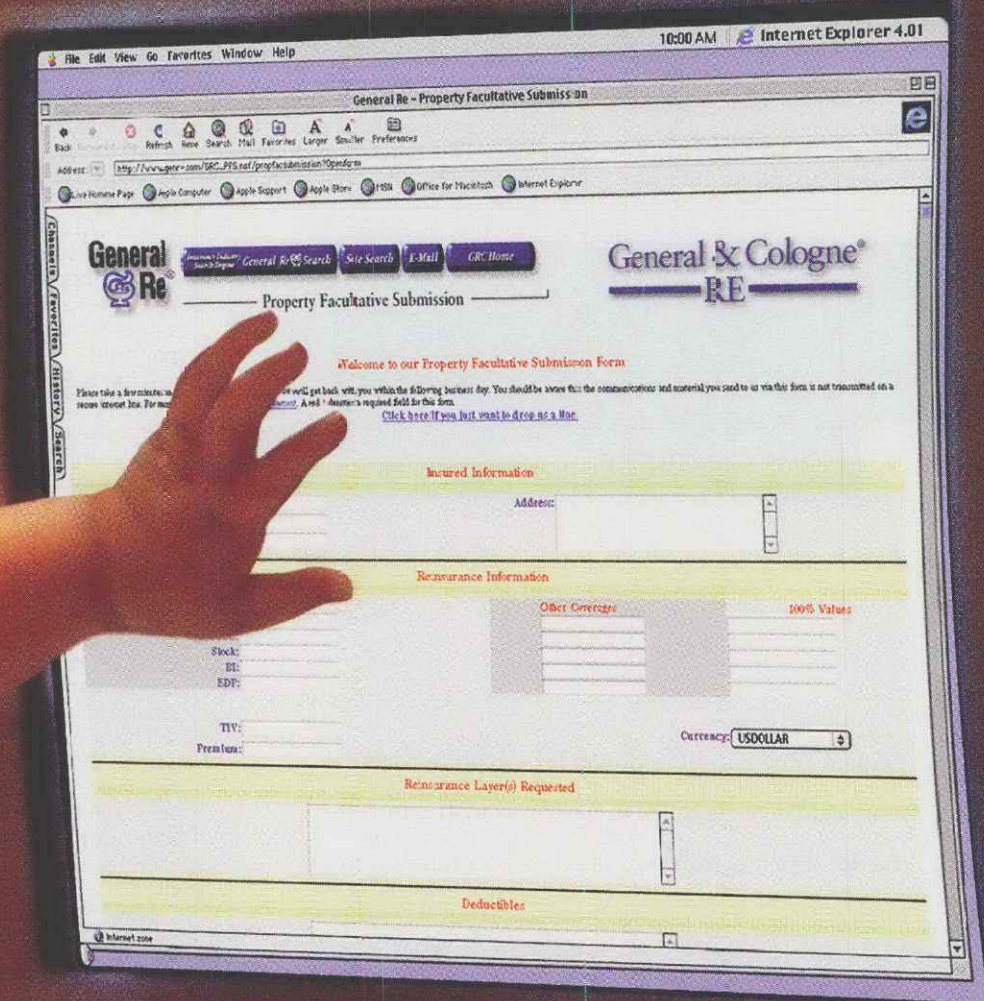
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# Australian reinsurance market in turmoil

By MATTHEW MacDERMOTT

The Australian reinsurance industry is at the crossroads: Its players must decide whether they want to participate meaningfully in international markets or take a niche role.

That's the view of Ian Thompson, a director of Standard & Poor's Insurance Rating Service in Melbourne, Australia. Such an opinion can be traced to the collapse of New Cap Reinsurance Corp. Ltd. and the precarious position of Reinsurance Australia Corp. Ltd., Australia's only two specialist reinsurers.

But the problems in Australia's

reinsurance industry have not been confined to New Cap Re and ReAC, established in 1996 and 1993, respectively.

Earlier this month, Australian non-life insurer GIO Australia Holdings Ltd. of Sydney announced that its reinsurance division, GIO Re, will be sold or run off after incurring losses of \$759 million Australian (\$493.3 million) for the 1998-99 fiscal year.

GIO Re, established in 1986, was Australia's largest reinsurer, with gross annual written premiums of more than \$900 million Australian (\$584.9 million).

After GIO's announcement, Standard & Poor's placed GIO Australia Holdings on CreditWatch

with negative implications.

Mr. Thompson said the events surrounding New Cap Re, ReAC and GIO in 1999 have put a "dent" in the international credibility of Australia's reinsurance industry.

He said the reinsurers' large losses have issued a big challenge to the Australian reinsurance market.

"The challenge is now there (for Australian reinsurers) to sustain their business by choosing which role they want to play," Mr. Thompson said.

Meanwhile, non-life insurer QBE Insurance Group Ltd. has managed to keep its reinsurance business profitable.

New Cap Re, ReAC and GIO Re dominate the Australian interna-

tional reinsurance business. While New Cap Re and GIO Re are unlikely to survive, ReAC appears to have taken up Mr. Thompson's challenge by implementing senior management changes and an extensive review of its reinsurance portfolio.

Mr. Thompson said the troubles surrounding New Cap Re and ReAC are particularly significant for the Australian reinsurance industry, as they are the only two specialist reinsurance companies listed on the Australian Stock Exchange.

Both companies established overseas underwriting operations that actively competed for international business, and their develop-

ment represented a new stage in Australia's emergence as a significant player in the international reinsurance market.

But things have turned sour for the two Australian reinsurers, with New Cap Re placed into voluntary administration and headed for liquidation, and ReAC reporting a 1998 loss of \$42.8 million Australian (\$27.8 million) and boosting its unreported claims reserves by a further \$60 million Australian (\$39 million) in anticipation of a fresh onslaught of 1998 claims.

Both companies have blamed their woes on 1998's well-publicized string of disasters, including hurricanes Mitch and Georges and several satellite failures, but Standard & Poor's Mr. Thompson said the reinsurers' problems may lie more with their eagerness to establish a presence on the international reinsurance stage.

He said New Cap Re and ReAC have had to participate in "less-attractive business" to build a market presence, and the result, when disasters have struck, has been disappointing.

After a first-year loss of \$1.2 million for the year ended Dec. 31, 1997, New Cap Re, which has underwriting operations in Sydney and Hamilton, Bermuda, still is unsure of the full extent of its 1998 losses.

After forecasting estimated 1998 losses of more than \$140 million in April, New Cap Re's Bermuda underwriting operation was placed in provisional liquidation, and an administrator was appointed to its Australian underwriting business.

The administrator, John Gibbons of the Sydney accounting firm of Ernst & Young, estimates New Cap Re's 1998 losses are now closer to \$200 million, and he has recommended liquidation of the company.

New Cap Re's creditors, mainly overseas insurers, met in Sydney on Aug. 5 and have delayed until Sept. 5 a decision on whether to liquidate the reinsurer.

New Cap Re's Bermuda business already is being liquidated by the Bermuda Registrar of Companies.

While New Cap Re's fate is in the hands of its creditors, ReAC management is working to turn around the fortunes of the struggling reinsurer.

ReAC's 1998 loss was effectively a \$110.8 million Australian (\$72 million) decline from its 1997 profit of \$68 million Australian (\$44.2 million).

After announcing in May that 1998 losses were expected to get even worse and that the company was increasing its unreported claims reserves by \$60 million Australian, ReAC split its formerly combined roles of chief underwriter and chief executive officer. Mike Kelly, who previously held both roles, remained as chief underwriter, while Nick Steffey, former CEO of GIO, was appointed ReAC CEO.

Since his appointment, Mr. Steffey has been conducting an extensive review of ReAC's reinsurance portfolio. He plans to make results of that review public in September.

ReAC is scheduled to release its results for the first six months of 1999 at the end of August.

Mr. Steffey also has been meeting institutional investors worldwide in an attempt to boost the reinsurer's lagging capital and stock market performance, which has fueled ongoing takeover speculation.

In July, U.S. funds manager SAC International Equities of Connecticut bought a 6% stake in ReAC, making SAC the reinsurer's third-largest shareholder.

See Australia on page 18

## ON BEING THERE.



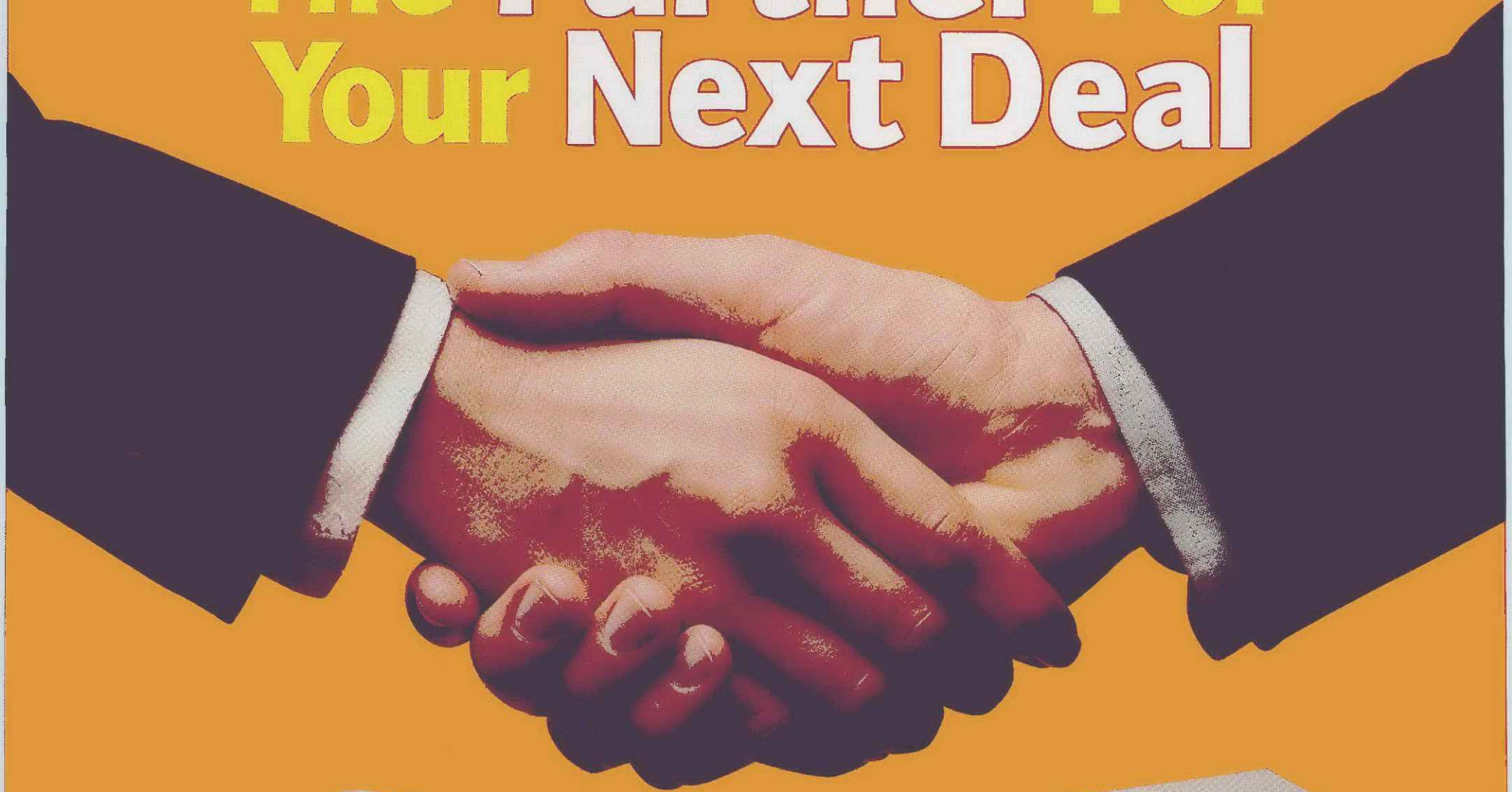
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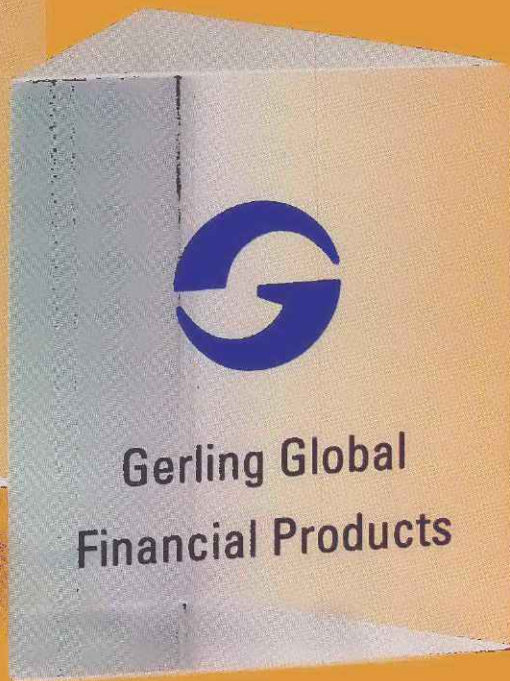
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## Australia

Continued from page 16

A ReAC spokesman dismissed speculation that SAC may be positioning for a takeover. He said SAC was just one of many potential U.S. investors Mr. Steffey approached.

While ReAC has responded to its poor results by reviewing its underwriting portfolio and strategy, GIO has decided to exit reinsurance.

CEO Peter Corrigan said GIO has suspended its reinsurance underwriting while it tries to sell GIO Re. If GIO can't sell it, GIO Re will be run off, Mr. Corrigan said.

GIO Re recorded a \$189 million Australian (\$122.8 million) loss for the 1997-98 fiscal year and a \$19.6 million Australian (\$12.7 million) loss for the six months to Dec. 31, 1998. In May, after an independent actuarial review

by Ernst & Young, GIO forecast a reinsurance loss of \$300 million Australian (\$195 million) for the 1998-99 financial year. Most of the forecasted loss was attributed to increased provisioning for past-year claims.

After the forecast was announced, Tim Fox, GIO Re's executive director since taking the role in November 1998, left the company.

At the time of the forecast, Mr. Corrigan said GIO Re's results were disappointing but that the business remained "sound."

After confirming that losses had escalated to \$759 million Australian, however, Mr. Corrigan said GIO Re's exposures were "out of line with reasonable risk tolerances."

"This situation reflects a business where the management processes and disciplines were historically poor," he said.

Mr. Corrigan said the \$759 million

Australian loss more than offsets GIO Re's total profits since its establishment in 1986 and that the GIO Re business now provided "no strategic relevance" to the GIO group.

Mr. Corrigan, formerly head of the general insurance arm of Australian composite insurer AMP Ltd., became CEO of GIO in January after AMP gained 57% control of GIO.

He said GIO and AMP are considering legal action against former GIO directors, including ReAC's Mr. Steffey.

At the time of the AMP takeover, GIO directors said GIO Re's results were expected to improve significantly from 1998.

QBE is one Australian company that has managed to keep its reinsurance business in the black.

Overall, QBE's reinsurance operations, which include Sydney-based Sydney Reinsurance Corp. Ltd., Lcn-

don-based QBE Re (U.K.) Ltd., and Dublin-based QBE Insurance & Reinsurance (Europe) Ltd., have produced five consecutive years of profit, with an average combined operating ratio of 95.5%.

For the six months to Dec. 31, 1998, QBE's reinsurance business recorded a combined operating ratio of 99.9%. The company's full year 1998-99 results are not yet publicly available.

Frank O'Halloran, QBE managing director, said the Dec. 31 result was "satisfactory," considering the frequency of large losses in 1998.

He said QBE will continue its policy of conservative reinsurance underwriting and claims provisioning and its emphasis on excess-of-loss and specialty products.

Mr. O'Halloran said QBE also is interested in pursuing reinsurance acquisitions in Europe, the United States and Latin America. **EI**

## New laws may bring growth in Egypt, Saudi Arabia

By MARIA KIELMAS

**T**he reinsurance markets of Saudi Arabia and Egypt are poised for growth after recent legislative changes in those countries.

The greatest expansion in this market is expected in Saudi Arabia, where the Saudi government in August approved a new compulsory health insurance program for the kingdom's estimated 6.5 million foreign workers.

Health insurance premiums account for about \$170 million, or 22%, of the country's total premium of about \$760 million, but significant increases in health premiums are expected once the new law on health insurance is implemented. Though no date has been set for the law to take effect, it will apply to all foreign workers. The issuance of a work permit in Saudi Arabia could be contingent upon the worker obtaining the private health coverage.

Currently, foreign workers who do not have private health insurance receive free medical care from government hospitals. But years of low oil export revenues in the Middle East have led to cutbacks in government spending, and some countries no longer can afford to provide generous cradle-to-grave social benefits.

The Saudi Cabinet also has set up a committee to study the extension of this program to Saudi nationals.

In addition to creating opportunities for direct health insurers and consequently reinsurers, a dramatic expansion of the Saudi market will bring to the fore the issue of insurance regulation.

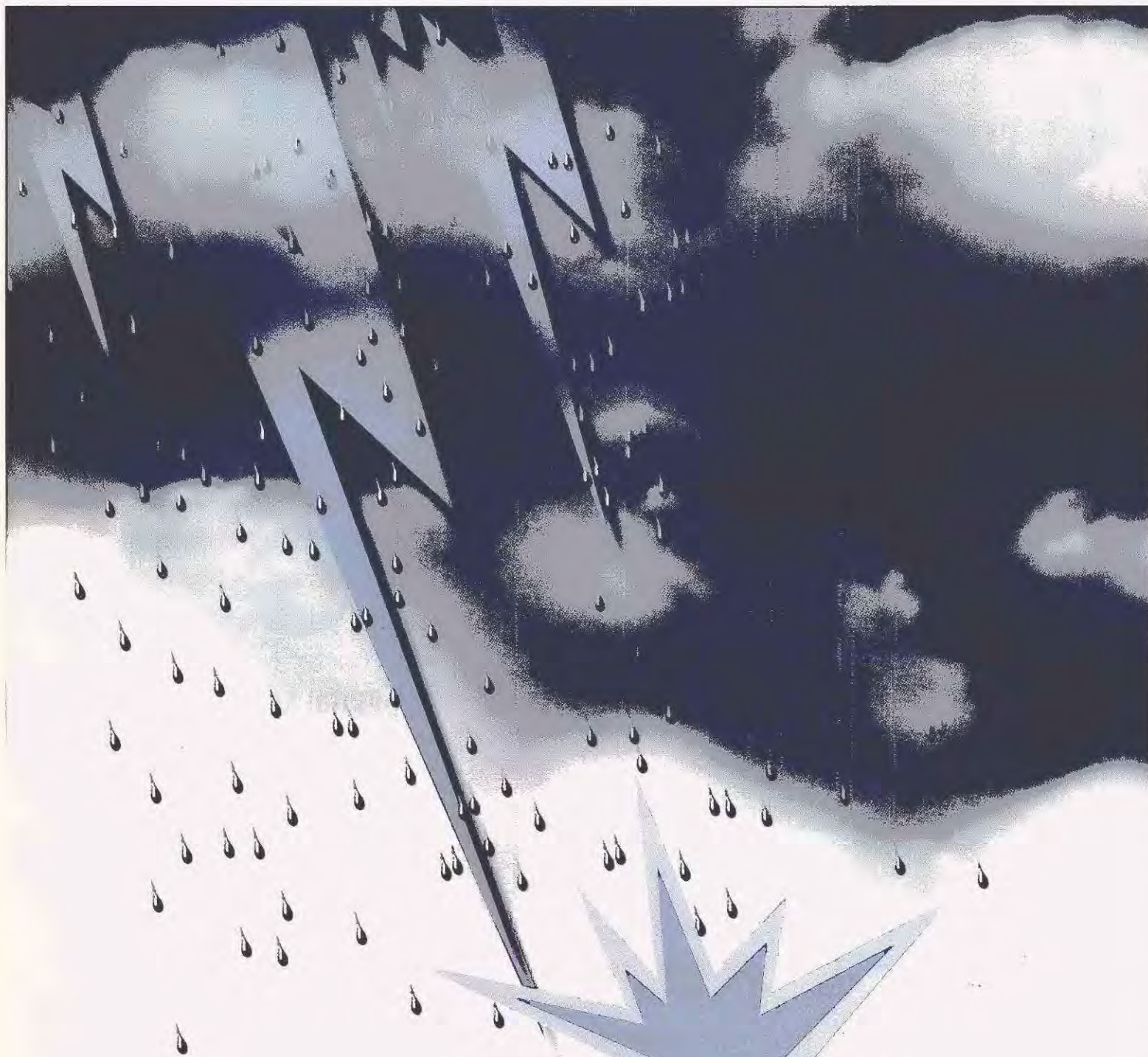
Saudi Arabia has no insurance laws and no insurance industry regulator. There is only one admitted insurance company, the Riyadh-based and state-owned National Company for Co-operative Insurance, which is structured according to Islamic principles.

"It's a hybrid between a Western-style mutual and a joint stock company. Our shareholders are government agencies," said Ali Subaihin, assistant general manager of sales and marketing at NCCI.

All of the major international insurance and reinsurance companies, as well as a growing number of national companies, operate in Saudi Arabia on a non-admitted basis by registering elsewhere—usually in Bahrain or the United Arab Emirates—and running branch offices in Saudi Arabia.

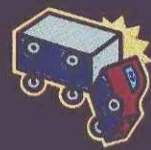
NCCI writes about 25% of the gross premium volume in the Saudi market of about \$760 million. The company has conventional reinsurance arrangements internationally, Mr. Subaihin said.

In recent years, there has been speculation within the insurance sector that NCCI itself could become the insurance regulator. Mr. Subaihin, however, dismissed



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## Middle East

Continued from page 18

such ideas. "We welcome the development of similar (insurance) companies," he remarked, adding, "We don't want to be a regulator. We believe there should be an insurance law, and we think that the Saudi Arabian Monetary Agency can fulfill that." SAMA acts as both the Saudi central bank and the banking industry regulator.

One of the first companies to offer health insurance in the Saudi market was the Islamic Arab Insurance Co., part of the Jiddah-based Dallah Al Baraka group of companies. IAIC, like other insurers operating in the area, is registered in Bahrain but operates in

Saudi Arabia and other Islamic countries.

But the results for the business have never been good, said Hassan Mujtaba, IAIC's assistant director general. A lot of major reinsurers, such as Hannover Reinsurance Co. and the Bahrain-based Arab Insurance Group, or ARIG, have withdrawn from the Saudi market for this reason, though ARIG is thought to be trying to

return, Mr. Mujtaba said.

"Every effort of rate stabilization is foiled by the entry of some new cowboy into the market, who withdraws after burning their fingers, leaving space for another

**ARIG was created in 1981 as the Arab world's first international reinsurer, with shares owned equally by the governments of Kuwait, United Arab Emirates and Libya.**

new entry," Mr. Mujtaba observed. "There is a chronic oversupply, and we still see a downward pressure on rates," said Tony Long, vp of broker Al Salamah Arabian

Agencies Co. Ltd. in Al Khobar. Al Salamah is a correspondent for Aon Corp. in Saudi Arabia, though Aon does not hold any equity in its Saudi partner.

Even under these conditions, though, "there is almost a never-ending queue of organizations wanting to open up in the region," Mr. Long said.

Despite its problems in Saudi Arabia, insurance industry executives say ARIG likely will become one of the major players in the new Saudi health insurance market.

ARIG was created in 1981 as the Arab world's first international reinsurer, with shares owned equally by the governments of Kuwait, United Arab Emirates and Libya. In 1994, ARIG restructured into two main units: ARIG Re and ARIG Insurance Invest-

ments. In 1997, the company was converted into a publicly held company through an initial public offering.

"Reinsurance is still the core business, but we wanted to enter into direct insurance in the Arab market," said a company spokesman in Bahrain. ARIG has expanded into the Moroccan, Tunisian, Egyptian and Lebanese direct insurance markets.

On the medical insurance side, ARIG has a dedicated subsidiary, Bahrain-based Arab Health & General Insurance Co., which provides group and individual coverage, as well as clinics run by its subsidiary, ARIG Care.

ARIG's 1998 profits fell to \$1.6 million, down 96% from 1997, due to a soft global reinsurance market, high aviation reinsurance losses and bad results in its direct insurance writing.

Outside of the Gulf countries, hopes for a revival of Middle Eastern market growth have rested with Egypt.

Led by Economy Minister Youssef Boutros Ghali, the Egyptian government last year passed a law that permits 100% foreign ownership of insurance companies in Egypt. The law aimed to provide the impetus for growth in what, in terms of population, should be the most important Middle East market.

National gross premium income for the year ended in June 1997, the latest time period for which a figure is available, was \$440 million, or about 0.5% of gross domestic product, according to the economy ministry. But for all of the government's hopes, the market has not moved forward.

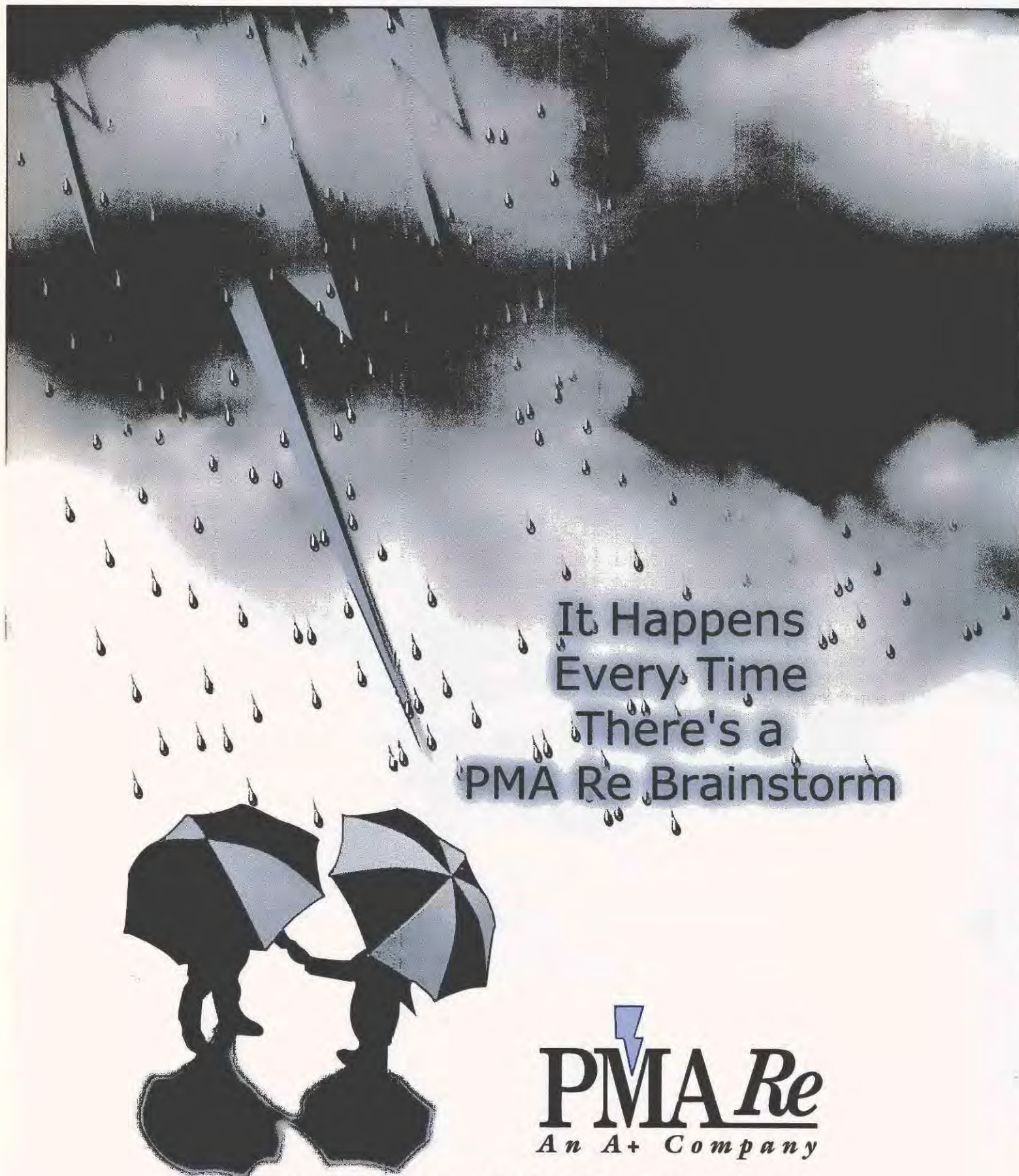
"The legislation is available but has not been implemented because of political and social reasons," said Roger Powell, assistant manager at the Cairo office of broker Marsh Inc.

The hurdles are Egypt's rigid labor laws, under which employees in the over-staffed state insurers, like employees in other state-owned companies, regard themselves as having jobs for life. Foreign insurers are interested in buying into these companies but will not be able to increase profitability if they cannot slim down staff levels, Mr. Powell said. This is hampering the government's plans to privatize the four state-owned companies that control the Egyptian market: Misr Insurance Co., Al Chark Insurance Co., National Insurance Co. and Egyptian Reinsurance Co. Combined, Misr and Al Chark control 80% of the Egyptian market.

Despite the new law, the Egyptian market remains heavily regulated. Removal of tariff controls began in 1996, but the government, under pressure from the domestic market, excluded property and motor coverage from the liberalization.

As a result, existing foreign ventures in the Egyptian market are in the life sector. American International Group Inc. is a 49% partner with local company Pharaonic Insurance Co. in a life insurance company called Alico Inc. Bahrain-based ARIG holds 54% of life insurer Allied Investors Insurance Co., and U.K.-based Legal & General Insurance Co. has started a life insurance venture with Egypt's Commercial International Bank.

Foreign companies are not permitted to work as retail brokers in the Egyptian market and must restrict their activities to servicing their multinational clients, Mr. Powell said. **BI**



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## Spotlight report

## GAAP

Continued from page 3

Commission requirements when seeking a listing on a U.S. stock exchange said David Greenfield, a partner at KPMG L.L.P. in New York.

"And the reason they want a listing is that they want access to the U.S. capital markets," he said.

The consolidation of the insurance and reinsurance industry also has led to an increase in European insurers and reinsurers having stock market listings in the United States, Mr. Greenfield said.

When a foreign company wants to acquire a U.S. company, the sellers, for tax reasons, may want to receive their payment in U.S. shares rather than cash or foreign shares, he said.

Also, management executives at foreign insurers and reinsurers may

want to publish U.S.-style accounts so they can more easily benchmark their companies' performance against U.S. peers, Mr. Greenfield said.

All these are reasons why more and more European companies are publishing U.S. GAAP accounts, he said.

In addition, European insurers and reinsurers need to have significant U.S. operations if they want to be considered truly global companies, said Rafael Villarreal, an analyst at Moody's Investors Service Ltd. in London.

And more frequently, as foreign insurers and reinsurers file U.S. GAAP accounts for their U.S. operations, they become more familiar with the accounting system and are more willing to apply U.S. GAAP principles to their other operations and seek a listing in the United States, he said.

As the insurance and reinsurance markets become more integrated,

with more U.S. companies owning foreign reinsurers and more foreign reinsurers seeking to be listed in the United States, there is a trend toward more foreign reinsurers publishing accounts that comply with U.S. GAAP requirements, agreed William J. Adamson, chief executive officer of CNA Re, a Chicago unit of CNA Financial Corp.

As a result, reinsurance buyers can more easily compare reinsurers, he said.

"It makes it easier for them to understand what's happening at a number of companies that are in very different jurisdictions," he said.

And because U.S. GAAP requirements demand more disclosure of financial information, buyers are able to get a more detailed picture of reinsurers' financial strength, Mr. Adamson said.

Size might be an important part of

that picture.

One of the main differences between U.S. GAAP accounting standards and most European accounting standards involves the allowance of special reserves.

Undeclared equalization, or catastrophe, reserves are not permitted under U.S. GAAP rules, whereas several European companies, most notably Germany, allow insurers and reinsurers to amass enormous tax-free reserves to use when they have large catastrophe claims.

When European insurers and reinsurers publish U.S. GAAP figures, those reserves are counted as equity. Thus, the European companies often appear to be much larger companies under U.S. accounting standards.

The possible future sale of shares in Hannover Reinsurance A.G. to U.S. investors was one of the reasons why the German reinsurer decided to pub-

lish U.S. GAAP accounts as well as German accounts earlier this month, said Herbert Haas, a member of the executive board in Hannover, Germany.

Hannover Re's major shareholder, HDI Group in Hannover, has said it would be prepared to sell up to 25% of its 75% shareholding in the reinsurer for the right price, he said.

Because stock analysts in the United States and the United Kingdom are the ones most familiar with the reinsurance markets, the U.S. market would likely be the best place to seek future investors, Mr. Haas said.

"If you say that you want to sell in a market that understands the industry, you have to do it in the U.S., and to do that you have to have a listing in the U.S.," he said.

Complying with U.S. GAAP requirements makes a huge difference to Hannover Re's published accounts.

For 1998, Hannover Re's net income was 103.2 million deutsche marks (\$62.4 million) under German accounts but 378.4 million deutsche marks (\$228.7 million) under U.S. GAAP. Stockholders' equity increased from 678.1 million deutsche marks (\$409.9 million) under German accounts to 2.73 billion deutsche marks (\$1.65 billion) under U.S. GAAP, Mr. Haas said.

Both figures are affected by the catastrophe reserves that Hannover Re is allowed to leave off its statements under German accounting but not under U.S. GAAP. The reserves remain in place to pay catastrophe-related claims, but they are counted as shareholder equity under GAAP.

Despite the increased equity, Hannover Re is not overcapitalized compared with other German and Swiss reinsurers, Mr. Haas said.

While the reinsurer has to concentrate on its return on equity, it also has to maintain adequate capital and maintain its ratings from rating agencies, he said.

Prior to publishing GAAP figures, Hannover Re already had managed its capital carefully, Mr. Haas said. Over the past two years it has distributed all of its profits to shareholders, and it has financed acquisitions through debt rather than rights issues, he said.

SCOR S.A. in Paris began publishing its accounts complying with both U.S. GAAP and French accounting standards in October 1996 after it listed its shares on the New York Stock Exchange.

Compliance with U.S. GAAP requirements led to several differences in the financial picture the reinsurer presented of itself, said Maurice Toledano, chief accounting officer at SCOR in Paris.

Most notably, the conversion to U.S. GAAP accounting led to an increase in equity: For 1998, equity under GAAP was \$275 million euros (\$289 million) more than it was under the French accounts, he said.

Another issue affecting SCOR is the different treatment of financial reinsurance under U.S. GAAP, Mr. Toledano said.

In some contracts where there is little insurance risk, the premiums for the coverage are logged as premium income in French accounts but as a deposit, or asset, in the U.S. GAAP accounts, he said.

"This does not make a difference in terms of net income, but in terms of the presentation of premiums and losses and assets, it does make a difference," Mr. Toledano said.

The difference in accounts does not make SCOR's strategy different, he said.

Other European insurers and reinsurers will likely feel more pressure from shareholders and analysts if they follow the trend of publishing U.S. GAAP accounts, said Donald Watson, a director of Standard & Poor's Corp.

See GAAP on page 24

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# GAAP

Continued from page 22 in New York.

While European companies will enjoy the ability to raise funds in the world's largest capital market after they are listed in the United States, they also will face the greater disclosure requirements of U.S. accounting standards, he said.

"It's like going naked at a party," Mr. Watson quipped.

In addition, to generate returns to match the higher equity under U.S. GAAP, European insurers and reinsurers may have to increase rates, he said.

"They may be forced to price their coverages more realistically," Mr. Watson said.

U.S. GAAP does provide accounts that more accurately reflect the true

economic strength of a company, and that may lead to pressure from investors, agreed Mr. Villarreal of Moody's.

In addition to recording catastrophe reserves as equity, European companies may also appear to have much larger assets under U.S. GAAP accounting, he said.

Several European countries require that assets of insurers and reinsurers are valued at cost—the price at which an asset was bought, excluding any unrealized increase in value. In the United States, assets are recorded at market value, including unrealized gains.

"It doesn't mean that they have to unwind everything that they have done in the past, but in some cases shareholders may say that a company is grossly overcapitalized and there should be a special dividend," he said.

But the pressure to release catastrophe reserves once they are published under U.S. GAAP may not be as intense as it would have been prior to the chain of losses that hit international insurers and reinsurers in

## To generate returns to match the higher equity under U.S. GAAP, European insurers may have to raise rates, says Donald Watson.

the late 1980s and 1990s, said Jeremy Dickson, a partner at PricewaterhouseCoopers in London.

"A fairly substantial proportion of the reserves diminished as they have had to pay losses," he said.

Also, many shareholders in German insurers and reinsurers are German institutional investors. These investors also may have conservative balance sheets and are, therefore, less likely to put pressure on insurers and reinsurers to reduce their capital, Mr. Dickson said.

Insurers and reinsurers may eventually have another accounting option.

In the future, European insurers and reinsurers may be more inclined to publish accounts in accordance with a developing International Accounting Standard for insurance and reinsurance, Mr. Dickson said.

The IAS has been developing standards for insurance and reinsurance for nearly two years and is expected in the fall to publish a position paper seeking comment, Mr. Dickson said.

The standards, which will be crafted to ensure SEC acceptance, should

be completed in 2002 or 2003, he said.

These standards likely will lead to more transparent, internationally accepted accounting standards, and European insurers and reinsurers will feel more comfortable complying with those than with U.S. GAAP, Mr. Dickson said.

The actual process of moving to U.S. accounting standards can be difficult, said Mr. Greenfield of KPMG.

Typically, GAAP disclosure requirements are more extensive than those in Europe. For example, in addition to requiring that reserve levels be declared, U.S. accounting standards require that investment portfolios be disclosed more fully, he said.

Also, converting to U.S. accounting standards often requires that European insurers and reinsurers go back several years to account for previous acquisitions, Mr. Greenfield said. Unlike many European accounting standards, U.S. GAAP principles require that the goodwill in purchases be amortized over several years.

"So they have to go back and figure out what the goodwill would have been and then amortize that," Mr. Greenfield said. Often it is time-consuming and difficult just to locate the old records, he said.

And U.S. regulators require timely accounts every six months from foreign companies, whereas the authorities in their home countries often require only annual accounts and permit a significant time lag between the end of the financial period and the filing of the accounts, he said.

When Employers Reinsurance Corp. bought Aachen Reinsurance Co. and Frankona Reinsurance Co. in 1995, for example, it had to go through the onerous task of incorporating figures for the two German reinsurers into its own GAAP accounts, said Ron Peters, controller for Employers Re in Overland Park, Kan.

Employers Re also has had to incorporate operations in the United Kingdom and Denmark into its U.S. accounts, but the German accounting system was the most dissimilar to U.S. GAAP, he said.

"It is very time-consuming and difficult to do because of the differences in all the jurisdictions," Mr. Peters said.

For example, timeliness of reporting requirements are very different, he said.

In the United Kingdom, more companies are reporting quarterly, but quarterly reporting is seldom seen in continental Europe, he said.

And European companies suffer a "cultural shock" when they are asked to report quarterly accounts, Mr. Peters said.

"They are not staffed to do that, and they don't have the mentality to do that," he said.

Accounting principles themselves are also very different, with each country using different approaches for calculating items such as earnings and reserves, Mr. Peters said.

Also, many European countries publish accounts based on underwriting years, or when the premiums are booked. To comply with U.S. GAAP, however, those accounts have to be based on accident years, or when the losses are paid and the premiums earned.

"That can be a huge challenge," he said.

And under U.S. GAAP, losses from catastrophes under multiyear contracts must be booked in the year of the loss, and underwriters are not allowed to include for that year future premium adjustments under the contract; underwriters in Europe often include those expected adjustments in future years in their statements for the year of the loss, Mr. Peters said. **BI**



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www.pxre.com

# Euro

*Continued from page 3*  
is a great political and economic challenge. The Hannover Re group is fully aware of its possible effects and is treating them with significant importance," Sven Martens, a member of Hannover Re's euro team, told *Business Insurance*. The euro team was established at the end of 1997 to set up and coordinate all the group's activities to ensure euro compliance.

The euro became the official currency on Jan. 1 in Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain. Local currencies will continue to be used in these countries through Dec. 31, 2001, then euro notes and coins will be circulated and the euro will become the sole currency. No euro notes are circulating yet.

A second wave of European countries, including the countries of the United Kingdom, Denmark, Greece and Sweden, is expected to adopt the euro in the near future.

Most reinsurers gave clients the option of using the euro from the beginning of this year, and many reinsurers already have converted their own internal accounting systems.

But despite reinsurers' efforts, adoption of the euro has been slow. Serge Osouf, president and chief operating officer of French reinsurer SCOR Group, recently made an announcement on SCOR's World

Wide Web site encouraging cedents to adopt the euro.

SCOR "decided to convert its entire accounting system and asset management to euros with effect from the 1st of January 1999. Our computer system has been adapted accordingly and will allow us, if necessary, to ensure dual currency presentation," wrote Mr. Osouf, adding that "SCOR accounts for the 1998 year will also be presented in (French) francs and euros."

While cedents will have the option during the transition period to transmit all information—including accounts, statistics, payments, proposals and contracts—either in their traditional national currency or in euros, "our clients should encourage the changeover of all their reinsurance affairs to the euro by a fixed date, preferably Jan. 1, 2000 or 2001, giving us several months' advance notice," Mr. Osouf stated.

Even though companies are not required to use the euro during the transition period, "it is nevertheless strongly recommended that international companies accelerate their conversion to the euro," wrote Mr. Osouf. He added that "it needs to be borne in mind that, as from Jan. 1, 2002, only the euro will be the legal tender in the countries of the euro zone."

Swiss Re expects some 50% of its European business to have converted to the euro by their next renewal, with the majority of conversions taking place on Jan. 1, 2001, a company spokesman said.

Meanwhile, many reinsurers al-

ready are fully prepared to use the euro.

Hannover, Germany-based Hannover Reinsurance Group has been euro-compliant since the beginning of the year.

"All necessary measures, including organizational and personnel, have been taken to ensure that the daily business at the head office in Hannover and in all subsidiaries of the Hannover Re group fulfill all requirements for the introduction of the euro," said Hannover's Mr. Martens, who is based in Hannover.

The group's results in its latest annual report were published in euros, and the conversion of share capital to euros was completed Jan. 1. In addition, the effect of the euro on the group's capital investment management is undergoing analysis, he said.

Meanwhile, "cedents and retrocessionaires have been and will continue to be informed about and prepared for the euro. We are inquiring as to their conversion planning, and a certificate of euro compliance is being obtained for every product," said Mr. Martens.

By the beginning of August, the group had signed 96 euro-based reinsurance contracts, Mr. Martens said.

Fellow German reinsurer Cologne Re also is fully compliant, but thus far it is writing little business in the new currency. Achieving compliance "was not a big deal, as we're already trading in 50 currencies," a spokesman said.

Although most of Cologne Re's in-

vestment and banking dealings already are being transacted in euros, "our core insurance companies are not using the euro," the spokesman said.

"Our systems are prepared, but the choice is our clients', and the majority of clients are not conducting business in the euro," he noted.

The Zurich, Switzerland-based Zurich Group also is offering clients the choice of using the euro or their local currency; so far, most are continuing to use their old currencies.

"This is understandable, as we are still in a transition period and most insurance payments still are being made in local currencies," the Zurich spokesman pointed out.

Meanwhile, the group publishes its annual account in U.S. dollars, as almost half of its premiums now are written in dollars.

Zurich estimates that the cost for the group to become euro-compliant was between 100 million and 120 million Swiss francs (\$66.1 million and \$79.3 million), according to the spokesman.

Hannover Re expects the push for euro insurance policies will come from its large, multinational industrial companies.

One company that already is switching its policy documentation into euros is the Anglo-Dutch group Unilever. All renewals written this year for the group's operations in the euro zone will be in euros, said Albert van Blitterswijk, corporate risk and insurance manager. He is based in Rotterdam, the Netherlands.

Nevertheless, the Zurich spokesman noted that, so far, insignificant number of pan-European multinationals are using euro insurance policies.

Munich Re operates accounts about 200 currencies; it began work on implementing the euro in 1997 and has developed a detailed, three-step plan for the euro introduction.

• Step one: The 1999 annual report results will be published in euros, and individual share certificates will be converted to euros. Monetary transactions, accounts investments and information technology service programs also will be made available in either deutsche marks or euros during the first year.

• Step two: The euro will be used as the only reporting currency from the beginning of 2001 for, among other things: annual planning, forecasts, cost accounting, statistics and catastrophe budgets. Employee salaries will be paid in euros from this date.

• Step three: Completion of the conversion will begin in January 2002. From that time forward, all euro zone policies will be written in euros; reserves will be in euros; and even office vending machines will take and dispense euros.

In an explanatory brochure, Munich Re offers to conclude reinsurance treaties in local euro zone currencies as well as in euros during the entire transition period to December 2001. However, it urges clients to convert to euros all new financial reinsurance treaties that run beyond January 2002. **BI**

# Three networks create new electronic commerce group

By CAROLYN ALDRED

**A**s the 20th century draws to a close, electronic commerce has yet to revolutionize how business is transacted between reinsurers and ceding companies.

But the creation this summer of a new organization comprising three existing electronic networks could accelerate the industry's move into the 21st century.

In June, members of three leading electronic networks, which include brokers, insurers and reinsurers in the United States, London and Continental Europe, decided to work more closely and jointly created WISE. WISE—which stands for world-wide insurance e-commerce—is designed to facilitate e-commerce throughout the insurance and reinsurance industry and to create internationally recognized standards.

"With the launch of WISE, leading participants in the world reinsurance and insurance market have taken a major step forward to removing uncertainty surrounding network integration, eliminating duplication of effort and cost, and removing international barriers to electronic trading," according to a WISE spokesman.

WISE will combine the activities of the London Insurance Network, or LIMNET; the Brussels-based Reinsurance & Insurance Network, or RINET; and the World Insurance Network, or WIN, set up by the world's leading brokers.

Through its founding members, the organization already represents all the major brokers and underwriters in the world of insurance and reinsurance, said a spokesman. But WISE also hopes to attract captive managers; risk managers; and others involved in the industry, such as lawyers, loss adjusters and consultants.

"If barriers to e-commerce are to be removed, then it is vitally important that the new organization should be

open to all participants," according to a WISE statement issued at its launch.

Combining the three existing networks is necessary for the critical mass of participants needed to get e-commerce off the ground in the insurance industry, according to WISE Chief Executive Officer Kevin Ashby, formerly the CEO of LIMNET.

Rob White-Cooper is chairman of the WISE executive board. He is the London-based chairman and CEO of Marsh Inc.'s operations in Europe, Africa, the Middle East, Japan, South



*'Progress has been limited ... and getting enough members involved in a common implementation program is essential.'*

— Kevin Ashby

Korea and the rest of the Asia-Pacific region.

WISE also is in discussion with Greenwich, Conn.-based IVANS Inc. to ensure a common approach to international e-commerce standards, said a WISE spokesman. IVANS provides electronic communication and networking services, among other things, to insurers in the United States and Canada.

"Other global business, such as banking, has demonstrated clearly the economic advantages of creating a common e-commerce framework and set of guidelines to increase efficiency and drive down the frictional costs associated with a variety of transactions. To date, the world insurance industry has been unable to create a similar platform and, hence, the critical mass required for success and the net result has been fragmentation and duplication of effort," according to a WISE briefing paper.

Because WISE is focused on delivering benefits to the entire industry, it

has been formed as a non-profit cooperative with offices in Brussels, Chicago and London. An advisory council, made up of 30 industry representatives, will oversee and manage the operation, together with an executive board, consisting of 16 directorships equally distributed between brokers and underwriters, and an operations council, comprised of the e-commerce managers of the executive board companies.

Existing e-business products and services provided by LIMNET,

able starting September 1999, "will significantly reduce the financial barriers to entry and accelerate take-up of EDI for administrative transactions," according to WISE.

• WISE Trusted Trading will focus on providing a secure and legally regulated framework within which companies can conduct business electronically.

Participants will be "safe in the knowledge that information cannot be seen by those unauthorized to view it, that procedures are in place to avoid disagreement over whether information was actually sent or received, and that individuals transmitting information are who they say they are," said a WISE statement.

WISE recognizes that there is a need for reinsurers and insurers "to differentiate, but that should be in content and relationship, not in security and interchange framework," said Mr. Ashby.

"What we have developed is WISE Trusted Trading, a common framework to allow organizations to develop their own application," he said.

"If you send someone a transaction, you want to have an independent record of that transaction—the full date and time," said Mr. Ashby, pointing out that Trusted Trading provides:

• A secure audit mechanism, which provides an audit trail recording all messages and attachments sent via the Web, including who sent and received the message and at what time.

• A legal interchange agreement, which governs electronic transactions within the WISE community. Members who sign the agreement "abide by a common set of rules for secure trading," according to a WISE spokeswoman.

• Secure digital signing, so that the sender of a document can safely be recognized.

• A global business directory, which currently has 35,000 individual entries.

"I believe the scene is now set for us

RINET and WIN will be supported and promoted by WISE, while additional services will be developed.

According to Mr. Ashby, the two main thrusts of WISE in its initial stages will be data exchange and secure trading, which will be handled as follows:

• WISE Data Exchange will focus on facilitating the electronic exchange of information for administrative transactions.

"While London has made significant progress in (electronic data interchange), progress has been limited in the rest of the world, and getting enough members involved in a common implementation program is essential," said Mr. Ashby.

Despite the benefits that standardized EDI offers, the complexity of the technology, the lack of critical mass and the relatively high investment required have "historically combined to curtail the widespread use of EDI," according to WISE.

A new WISE Business Centre, avail-

Light report

London

Continued from page 3
business will be written in international offices acting under a binding authority from the syndicate. This move makes Danish Re a viable proposition, as it is accessing business through those offices that is not permitted to the London market at a time when the general consensus is that the London market is tough, according to Danish Re Managing Director Robin Gilkes. "We have got to assume that the market is going to continue in its current conditions," Mr. Gilkes said. Not everybody takes that view, however. Rob Jones, an analyst in London with rating agency Standard & Poor's, sees "a lot of confidence in Lloyd's at the moment," evidenced not only by Danish Re's startup but also by the amount of interest in

Lloyd's from overseas investors.

Most recently, Australian insurance and reinsurance group QBE Insurance Group Ltd. tried to buy Limit P.L.C., one of the largest operators in the Lloyd's market. Despite the fact that Limit held off QBE's move, QBE Chairman Frank O'Halloran said at the time that he remains interested in buying Lloyd's businesses to complement the two syndicates the company already manages.

That, said Mr. Jones, is indicative of the international interest in Lloyd's. "There's still more to come" on the acquisition front, he predicted.

Mark Hewlett, managing director of Moody's Investors Service Ltd. in London, agreed that merger activity will continue in London, especially at Lloyd's. "We will continue to see consolidation driven by a number of different things," in particular, he said, by the ever-present drive toward

global operations.

Lloyd's syndicates immediately have access to a network of almost 70 licenses to write business around the world, and any new operation automatically benefits from Lloyd's A rating from A.M. Best and A+ rating from Standard & Poor's.

Furthermore, Lloyd's gets to see business that other parts of the London market do not. U.K. multiline insurer CGU P.L.C. pulled its marine reinsurance business out of the London company market and set up a new syndicate in Lloyd's, under former Hiscox P.L.C. underwriter Tim Humm, precisely because it thought it wasn't getting to see enough good business outside of Lloyd's.

Marine business also proved an attractive lure for Swiss Reinsurance Co. U.K. Ltd., which in June announced it was setting up a new syndicate for the 2000 year of account in

conjunction with mutual insurance company manager Thomas Miller & Co. Ltd. and Chartwell Managing Agents Ltd.

But size counts. "We are definitely in a phase where big is beautiful," said Mr. Hewlett. Many in the market see this as being the trigger for merger activity, and, earlier this month, CLM Insurance Fund Ltd., a Lloyd's insurance group, announced it was in advanced talks with SVB Holdings P.L.C. The merger would create an operation with £250 million capacity and five syndicates—one of the largest within Lloyd's.

Some companies, however, have decided Lloyd's is not for them and are exiting. Earlier this year, U.S. insurer UNUM Corp. decided to pull out of the reinsurance business, including its Duncanson & Holt Europe Ltd. reinsurance operations, which takes in a Lloyd's managing agency.

At the time, UNUM Chairman and Chief Executive Officer James F. Orr III said, "After some considerable experience in the reinsurance market, we have determined that reinsurance is not a business that capitalized on UNUM's core skills." Duncanson & Holt Syndicate Management Ltd. still is looking for a buyer for its five syndicates, which have a total capacity of £147.8 million (\$248.7 million) for the 1999 year of account.

Poor market conditions were cited as the reason behind American International Group Inc.'s decision in May to stop writing certain lines of property reinsurance within the London company market. Facultative reinsurer AIU Re closed its doors, while Lexington Insurance Co. pulled out of international property business in the London market. Meanwhile, AIG's energy division stopped writing high-hazard primary business.

Soon after, Odyssey Re (London) Ltd. ceased writing new business, as Canadian parent Fairfax Financial Holdings Ltd. restructured its London operations after Fairfax acquired TIG Reinsurance Co.

Odyssey Re is embroiled in the financially troubled reinsurance pool operated by Unicover Managers Inc., and earlier this year it filed a lawsuit against broker Stirling Cooke Brown Holdings Ltd. (BI, April 5). The suit alleges that Stirling Cooke used Odyssey Re as a dustbin for underpriced coverages that have resulted in losses of more than \$35 million for Odyssey Re. Fairfax has moved the former reinsurer's North American casualty business into TIG Re's Lloyd's operation.

Neither AIG's nor Odyssey Re's departure from the London market is a major problem, according to Moody's Mr. Hewlett. "I don't think they are doing the London market any damage," he said. "There is still an enormous surplus of capacity here."

David Spiller, managing director of London-based broker Benfield Greig Group P.L.C., maintains that Odyssey Re's closure in London could have an effect on the retrocessional market, but the international nature of retrocessional business means that other changes internationally will have just as much impact on London market conditions as domestic changes, he said. In particular, Australian reinsurer GIO Re's withdrawal from the business as the result of worse-than-expected results will pull a tranche of capacity out of the retrocessional markets at a time when clients are becoming increasingly aware of their catastrophe exposures.

"People are now wary of probable maximum losses, and there are more catastrophes. . . It is more difficult to get retrocessional capacity, and prices will harden" in future renewals, he predicted.

A hardening of retrocessional rates most likely will have a carry-over effect on reinsurance rates, but Mr. Spiller pointed out that many contracts negotiated at the beginning of this year were placed on a two-year basis, so these will not be renewed until the beginning of 2001.

In general, London has been able to avoid the worst of the recent losses that have caused competitors such as failed Australian reinsurer New Cap Reinsurance Corp. Ltd. so much pain. The retrocessional market is "exciting and dynamic," according to Mr. Spiller, particularly compared with a decade ago, when it was suffering the worst effects of the London market excess-of-loss spiral. Since then, however, retrocessional business has taken much more of a back seat as a class of business, he said.

With the reduction in retrocessional players in other markets, "the view is that there are opportunities coming" for London-based businesses, said Mr. Spiller.

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# Annual BI directory of worldwide reinsurers

## A

### American Re-Insurance Co.

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

	1998	1997
Premium written	\$2,276,152,791	\$2,491,723,371
Premium earned	\$2,288,532,352	\$2,488,891,900
Capital/surplus	\$2,607,839,481	\$2,301,404,018
Net income	\$319,361,211	\$196,336,496
Losses	\$1,561,460,146	\$1,712,952,630
Loss ratio	68.2%	68.8%
Expenses	\$812,163,398	\$878,296,642
Expense ratio	35.5%	35.3%
Combined ratio	103.7%	104.1%
Treaty	66%	72%
Facultative	34%	28%
Domestic	81%	82.6%
Foreign	19%	17.4%

Non-life 100% 100%

Founded: 1917.

Parent: Munich Reinsurance Co.

Subsidiaries: American Re-Insurance Co.

(Chile) S.A.

Employees: 1,532.

Locations: 13 domestic, 14 foreign.

Officers: Edward Joseph Noonan, president/CEO; Robert Kyle Burgess, executive vp/general counsel/secretary; George Thomas O' Shaughnessy Jr., executive vp/CFO.

Contact: Tom Walker, senior vp; 609-243-4679.

Information for American Re-Insurance Co. is included in the consolidated Munich Re Group listing.

### AXA Re

39 rue du Colisee,  
Paris 75008, France;  
33-1-56-43-8832;  
fax: 33-1-56-43-8623  
www.axa.com

	1998	1997
Premium written	\$1,158,477,920	\$1,230,678,792
Premium earned	\$1,088,710,260	\$1,236,081,195
Capital/surplus	\$1,290,587,130	\$1,282,531,464
Net income	\$139,072,240	\$136,325,475
Losses	\$911,736,350	\$907,581,132
Loss ratio	83.7%	73.4%
Expenses	\$334,021,100	\$429,846,633
Expense ratio	30.6%	34.8%
Combined ratio	114.3%	108.2%
Treaty	89.6%	NA
Facultative	10.4%	NA
Domestic	2.8%	2%
Foreign	97.2%	98%
Life	9.3%	86%
Non-life	90.7%	14%

Founded: 1976.

Parent: AXA Group.

Subsidiaries: AXA Re Canada; AXA Re Holding Co. Ltd.; AXA America Inc.; SPS Re; AXA Re Finance; AXA Re Asia; C.G.R.M.; FALIVAL; AXA Re U.K. P.L.C.; AXA Re U.S. Life; AXA Re

U.S.; AXA Space.

Employees: 766.

Locations: 1 domestic, 7 foreign.

Specialities: property/property catastrophe, auto liability, marine, aviation, financial guarantee, life.

Officers: Jean-Marie Nessi, chairman/CEO; Jean-Pierre Benoit, COO; Eric Paire, CEO-AXA Re Finance/Parisian operations.

Contact: Robert Lippincott III, president/CEO/chairman-AXA Re U.S.; 212-493-3300.

## B

### Bavarian Re

Sederanger 4-6, 80538 Munich,  
Munich 80526, Germany;  
49-89-3844-0;  
fax: 49-89-3844-2279  
www.bayerischerueck.com

	1997*	1996*
Premium written	\$1,408,232,500	\$1,598,660,000
Premium earned	\$1,406,162,500	\$1,607,105,500
Capital/surplus	\$948,290,000	\$922,421,500
Net income	\$80,500,000	\$53,200,000
Losses	\$938,802,500	\$1,032,346,000
Loss ratio	66.8%	64.2%
Expenses	\$5,412,720	\$457,985,500
Expense ratio	3.8%	28.5%
Combined ratio	70.6%	92.7%

\*Fiscal years ending 12/31/97 and 12/31/96.

Founded: 1911.

Parent: Swiss Reinsurance Co.

Employees\*\*: 439.

Officers: Stefan Lippe, chairman; Udo Matinsohn, Anton Wittl, board members.

Contact: Erich Merrgen, board member.

\*\*Employee number reflects year-end 1997.

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

### Berkshire Hathaway Reinsurance Group

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

	1998	1997
Premium written	\$986,000,000	\$955,000,000
Premium earned	\$939,000,000	\$967,000,000
Capital/surplus*	\$39,600,000,000	\$37,200,000,000
Losses	\$765,000,000	\$676,000,000
Loss ratio	81.4%	69.9%
Expenses	\$195,000,000	\$163,000,000
Expense ratio	20.7%	16.9%
Combined ratio	102.1%	86.8%
Treaty	97%	97%
Facultative	3%	3%
Domestic	75%	75%
Foreign	25%	25%
Non-life	100%	100%

\*Capital and surplus figures reported on a statutory basis and represent the consolidated Berkshire Hathaway Insurance Group, excluding General Reinsurance Corp. and its affiliates; all other figures are GAAP.

Founded: 1969.

Parent: Berkshire Hathaway Inc.

Subsidiaries: Columbia Insurance Co.; National Indemnity Co.; National Fire & Marine Insurance Co.

Employees: 15.

Locations: 1 domestic, 1 foreign.

Specialities: property catastrophe, run-off coverage, finite risk, marine, aviation, excess of loss, pro rata, property facultative.

Officers: Ajit Jain, president; Scott Doerr, senior vp; Thomas Bolt, European operations.

Contact: Scott R. Doerr, 203-363-5207.

Berkshire Hathaway acquired General Reinsurance Corp. in December 1998.

Continued on page 30

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## Exchange rates used in directory

All figures appearing in the directory are listed in U.S. dollars. The year-end average exchange rates used for specified fiscal year ends are: Australian dollar=\$.680 (6/30/98), \$.782 (6/30/97); Brazilian real=\$.861 (12/31/98), \$.926 (12/31/97); British pound=\$1.658 (12/31/98), \$1.638 (12/31/97); Canadian dollar=\$0.672 (12/31/98), \$0.720 (12/31/97); Danish krone=\$0.149 (12/31/98), \$0.151 (12/31/97); French franc=\$0.170 (12/31/98), \$0.171 (12/31/97); German mark=\$0.570 (12/31/98), \$0.556 (6/30/98), \$0.625 (6/30/97), \$0.575 (12/31/97), \$0.665 (12/31/96); Italian lira=\$0.0006 (12/31/98), \$0.00057 (12/31/97); Japanese yen=\$0.008 (3/31/99), \$0.008 (3/31/98); Swedish krona=\$0.126 (12/31/98), \$0.130 (12/31/97); Swiss franc=\$0.690 (12/31/98); \$0.689 (12/31/97).

## Standard & Poor's Top 25

Chart of S&P's 25 largest reinsurance groups by net premiums written in 1998 appears on page 35

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## Explanation of directory terms used in the worldwide reinsurer listings

The 11th annual directory of international reinsurance companies lists organizations with 1998 worldwide net reinsurance premium volume that exceeds \$100 million U.S. dollars. The listings are published free of charge as an editorial service.

All figures are reported in U.S. dollars using average currency exchange rates for each company's balance sheet fiscal year; a list of the rates used appears on page 35. Fiscal years that differ from the calendar year are noted.

Each listing begins with the company's home office address, telephone and fax numbers and World Wide Web site address. Financial information is provided for 1998 and 1997 and is based on the company's worldwide consolidated (unless otherwise noted) reinsurance operations.

**Net premiums written, net premiums earned, total capital and surplus, net income, loss and loss adjustment expenses and underwriting expenses** are given. In addition, **loss ratios, expense ratios and combined ratios** for 1998 and 1997 are listed. The loss ratio is loss and loss adjustment expenses divided by premiums earned. The expense ratio is underwriting expenses divided by premiums earned, except where noted. Combined ratio is the sum of the loss and expense ratios.

The percentage of business written on a **treaty** basis is provided, along with the percentage written on a **facultative** basis. In addition, business is broken out by percentage written in **domestic** vs. **foreign** markets and percentage written for **life** vs. **non-life** lines.

The **year founded, parent company and major reinsurance subsidiaries** are listed after the financial information. If a company did not include results from subsidiaries in its financial information, a note to that effect follows the list of subsidiaries. The number of **employees** (in full-time equivalent for year-end 1998) and the number of domestic and foreign **locations** are also included. The term domestic refers to the country in which the company is based. A list of the risks in which a company specializes is provided under **specialties**. Names and titles of principal **officers**, as well as a **contact** person complete the each listing.

Although *BI* makes every effort to publish complete and accurate information, we are not able to verify all information provided.

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Continued from page 28



### CCR

31 Rue de Courcelles,  
Paris 75008, France;  
33-1-44-35-3100;  
fax: 33-1-44-35-3131

	1998	1997
Premium written	\$610,687,600	\$641,760,948
Premium earned	\$708,141,800	\$613,110,069
Capital/surplus	\$646,139,230	\$612,886,059
Net income	\$46,061,840	\$48,834,180
Losses	\$570,959,280	\$475,348,194
Loss ratio	80.6%	77.9%
Expenses	\$172,559,350	\$133,701,651
Expense ratio	24.4%	21.8%
Combined ratio	105%	99.7%
Treaty	94.3%	94.2%
Facultative	5.7%	5.8%
Domestic	74%	73.5%
Foreign	26%	26.5%
Life	26.1%	22.8%
Non-life	73.9%	77.2%

**Founded:** 1946.

**Employees:** 174.

**Locations:** 1 domestic, 1 foreign.

**Contact:** Isabelle Delval, 33-1-44-35-3701;  
idelval@ccr.fr.

### CNA Re

200 S. Wacker Drive,  
Chicago, Ill. 60606;  
312-876-5055; fax: 312-876-5152  
www.cnare.com

	1998	1997
Premium written	\$895,231,000	\$976,291,000
Premium earned	\$943,500,000	\$861,207,000
Net income	\$95,000,000	\$85,300,000
Losses	\$706,400,000	\$600,400,000
Loss ratio	74.9%	69.7%
Expenses	\$305,200,000	\$305,368,000
Expense ratio	32.3%	35.5%
Combined ratio	107.2%	105.2%
Treaty	95%	97.5%
Facultative	5%	2.5%
Domestic	63%	64%
Foreign	37%	36%
Non-life	100%	100%

**Founded:** 1954.

**Parent:** CNA Financial Corp.

**Subsidiaries:** CNA Reinsurance Co. Ltd., London.

**Employees:** 395.

**Locations:** 7 domestic, 6 foreign.

**Officers:** William J. Adamson, CEO; Randy Brown, Tim Madden, executive vps; Debra L. McClenahan, executive vp/senior financial officer.

**Contact:** Richard Mueller, vp, 312-876-5228.

### Centre Solutions (Bermuda) Ltd. & Subsidiaries

The Zurich Centre, 90 Pitts Bay Road, P.O. Box HM 1788, Pembroke HM HX, Bermuda; 441-295-8501; fax: 441-292-0951  
www.centresolutions.com

	1998	1997*
Premium written	\$338,466,000	\$332,703,000
Premium earned	\$272,216,000	\$321,333,000
Capital/surplus	\$1,196,842,000	\$1,074,108,000
Net income	\$177,337,000	\$191,414,000

Losses	\$328,656,000	\$346,868,000
Loss ratio	120.7%	108%
Expenses	\$76,420,000	\$75,373,000
Expense ratio	28%	23.5%
Combined ratio	148.7%	131.5%
Non-life	100%	100%

\*1997 numbers have been restated to reflect the 1998 reorganization of Centre Solutions' reinsurance business by parent Zurich Financial Services Group.

**Founded:** 1988.

**Parent:** Zurich Financial Services Group.

**Subsidiaries:** Centre International Insurance Co., Dublin, Ireland; Centre Reinsurance International Co., Dublin, Ireland; Centre Reinsurance Co., Hamilton, Bermuda; ZC Specialty Insurance Co., Austin, Texas.

**Locations:** 2 domestic, 6 foreign.

**Specialties:** finite risk (structured) insurance; finite risk (structured) reinsurance; residual value (asset) insurance; structured finance; new ventures; programs; catastrophe & securitization; life & health; real estate residual value insurance & tax credits.

**Officers:** David Wasserman, CEO; Tom Dickson, chief underwriting officer; Tara Leonard, chief accounting officer; Frank Pierson, chief technical officer.

**Contact:** David Wasserman, 212-898-5300.

### The Chiyoda Fire & Marine Insurance Co. Ltd.

No. 28-1, Ebisu 1-chome, Shibuya-ku, Tokyo 150-8488, Japan; 81-3-5424-9141; fax: 81-3-5424-9381

www.chiyoda-fire.co.jp

	1998	1997
Premium written	\$391,336,415	\$396,540,387
Capital/surplus	\$1,231,384,000	\$1,131,816,000
Losses	\$321,291,233	\$314,749,398
Loss ratio *	82.1%	79.4%
Expenses	\$81,849,330	\$76,256,490
Expense ratio *	20.9%	19.2%
Combined ratio *	103%	98.6%
Treaty	99%	99%
Facultative	1%	1%
Domestic	52%	54.6%
Foreign	48%	45.4%
Non-life	100%	100%

Fiscal years ending 3/31/99 and 3/31/98.

\*Ratios calculated using premiums written, premiums earned figures are not available.

**Founded:** 1897.

**Subsidiaries:** Chiyoda Fire & Marine Insurance Co. of America; Chiyoda Fire & Marine Insurance Co. (Europe) Ltd.

**Employees:** 40.

**Locations:** 1 domestic, 2 foreign.

**Specialties:** property.

**Officers:** Kanji Kurioka, chairman; Takashi Toyabe, deputy chairman/executive director; Koji Fukuda, president/executive director.

**Contact:** James J. Morris, assistant secretary, Chiyoda Fire & Marine Insurance Co. of America.

### Chubb Re

4 Essex Ave., Suite 300, Bernardville, N.J. 07924; 908-630-2700; fax: 908-630-2701

	1998	1997
Capital/surplus *	\$2,788,218,452	\$2,555,115,891

\*Capital and surplus figures are those of Federal Insurance Co.

**Founded:** 1998.

**Parent:** Chubb Corp.

**Employees:** 15.

**Locations:** 1 domestic.

**Officers:** John Berger, president; Wayne Paglieri, Brian Hegarty, managing directors.

**Contact:** Brian Hegarty, 908-630-2785, brian.hegarty@chubbre.com.

Chubb Re is a management company formed in August 1998 writing on behalf of Federal Insurance Co.

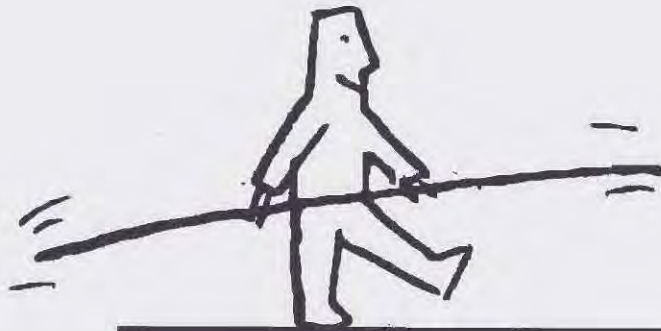
### CIGNA Reinsurance Division

900 Cottage Grove Road, R-26, Hartford, Conn. 06152-4026; 860-726-6000; fax: 860-726-3153  
www.cigna.com/reinsurance

	1998	1997
Premium written	\$434,000,000	\$349,000,000
Premium earned	\$419,000,000	\$347,000,000
Capital/surplus	\$324,000,000	\$254,000,000
Net income	\$15,000,000	\$41,000,000
Losses	\$314,000,000	\$238,000,000
Loss ratio	74.9%	68.5%
Expenses	\$127,000,000	\$80,000,000
Expense ratio	30.3%	23%
Combined ratio	105.2%	91.5%
Treaty	94%	92%
Facultative	6%	8%
Domestic	75%	83%
Foreign	25%	17%
Life	36%	28%

**Founded:** 1919.

Continued on page 32



## The nature of balance.

Many corporate leaders have to weigh the pros and cons of retaining or transferring risk. The balancing act of potential rewards and liabilities is what keeps business up and running.

Risk lurks everywhere: fires, machinery breakdowns, computer failures, earthquakes, product liability. But also confiscation of assets, strikes, fluctuating foreign exchange rates, surges in commodity prices, and in other areas.

Some of these risks can be transferred. But others cannot – at least not within the traditional insurance market. Retaining such risks means exposing capital, unbalancing the balance

sheet, and – in the worst case – jeopardizing the company.

This is where Swiss Re New Markets enters the ring. Our Risk Adjusted Capital concept enables companies to determine how much capital they have to set aside to cover retained risks and how that balances with the costs and benefits of risk transfer. We offer an integral perspective on the entire risk portfolio and help companies to optimize their risk-financing strategy.

To find out how Swiss Re New Markets is poised to answer the crucial question of balance, just fax us at + 41 1 285 60 45, e-mail [SRNM@swissre.com](mailto:SRNM@swissre.com) or visit us at [www.swissre.com/newmarkets](http://www.swissre.com/newmarkets)

**Swiss Re New Markets**



Continued from page 30

**Parent:** CIGNA Corp.  
**Subsidiaries:** Blodgett & Hazard; CIGNA Re Corp.  
**Employees:** 135.  
**Locations:** 6 domestic, 3 foreign.  
**Specialities:** life, accident & health.  
**Officers:** Francine M. Newman, president; John Wilkinson, CFO; George E. Hartz III, senior vp.  
**Contact:** Rick Drake, vp-market development.

**Cologne Re**  
 Theodor-Heuss-Ring 11,  
 Cologne, 50668 Germany;  
 49-221-9738-0;  
 fax: 49-221-9738-494  
 www.colognere.com

	1998	1997
Premium written*	\$3,266,670,000	\$3,165,950,000
Premium earned*	\$3,273,510,000	\$3,070,500,000
Capital/surplus*	\$1,219,800,000	\$1,292,025,000
Net income*	(\$34,200,000)	\$147,775,000
Losses*	\$2,851,140,000	\$2,293,675,000
Loss ratio*	87%	74.7%
Expenses	\$977,550,000	\$911,950,000
Expense ratio	29.8%	29.7%
Combined ratio	116.8%	104.4%
Treaty	95%	94%

	5%	6%
Facultative	5%	6%
Domestic	26%	33%
Foreign	74%	67%
Life	43%	39%
Non-life	57%	61%

\* Estimate.  
**Founded:** 1846.  
**Parent:** Berkshire Hathaway Corp.  
**Subsidiaries:** Cologne Holding Co. of America Inc., Stamford, Conn.; Cologne Life Re Ltd., Bridgetown Barbados; Cologne Life Reinsurance Co., Stamford, Conn.; The Cologne Reinsurance Co. Ltd., London; Cologne Reinsurance Co. of America, Stamford, Conn.; Cologne Reinsurance Co. of South Africa Ltd., Kapstadt, South Africa; Cologne Reinsurance Ltd., Bridgetown, Barbados; Europa Re International Ltd., Dublin, Ireland; Europa Ruckversicherung Aktiengesellschaft, Koln, Germany; General & Cologne Life Re U.K. Ltd., London; General & Cologne Re Ltd., Hamilton, Bermuda; General & Cologne Re Australasia Ltd., Sydney, Australia; Gothaer Ruckversicherung A.G., Koln Germany; Idealife Insurance Co. of Wilmington, Wilmington, Conn.; Kolnische Ruck Wien Ruckversicherungs-Aktiengesellschaft, Vienna, Austria.  
**Employees:** 1,252.

**Locations:** 2 domestic, 36 foreign.  
**Officers:** Peter Lütke-Borenfeld, chairman; Hans-Peter Gerhardt; Richard H. Hinchcliff Jr., executive directors.

**Copenhagen Re**  
 7 Mictermolen, P.O. Box 325,  
 Copenhagen O, 2100 Denmark;  
 45-35-47-4545; fax: 45-35-47-7272  
 www.copre.com

	1998	1997
Premium written	\$265,008,420	\$235,196,694
Premium earned	\$259,602,700	\$233,973,443
Capital/surplus	\$273,059,337	\$231,161,975
Net income	\$3,902,608	\$31,087,276
Losses	\$228,104,100	\$150,387,997
Loss ratio	87.9%	83.2%
Expenses	\$92,812,994	\$77,402,902
Expense ratio	35.8%	38.9%
Combined ratio	123.7%	122.1%
Treaty	71%	69%
Facultative	29%	31%
Domestic	9.1%	9.3%
Foreign	90.9%	90.7%
Life	3%	3%
Non-life	97%	97%

**Founded:** 1915.  
**Parent:** Alm Brand A/S.

**Subsidiaries:** The Copenhagen Re Co. Ltd. U.K., London.  
**Employees:** 150.  
**Locations:** 1 domestic, 6 foreign.  
**Specialities:** engineering, financial institutions/banks.  
**Officers:** Jan Hornsberg, CEO; Robert Johnston, managing director-London; Cheok Chin Hock, managing director-Singapore.  
**Contact:** Peter Koefod, regional general manager, 45-35-47-7202; peter.koefod.petersen@copre.com.



**E&S Reinsurance (Ireland) Ltd.**  
 2 Custom House Plaza, IFSC,  
 Dublin 1, Ireland;  
 353-1-612-5716;  
 fax: 353-1-829-1400

	1998	1997
Premium written	\$171,996,930	\$137,761,950
Premium earned	\$168,469,200	\$137,445,700
Capital/surplus	\$172,203,270	\$123,338,075
Net income	\$15,737,700	\$12,596,525

	1998	1997
Losses	\$228,988,950	\$137,520,450
Loss ratio	135.9%	100.5%
Expenses	\$42,889,650	\$14,951,725
Expense ratio	(25.4%)	10.9%
Combined ratio	110.5%	111.4%
Treaty	100%	100%
Foreign	100%	100%
Non-life	100%	100%

**Founded:** 1992.  
**Parent:** E&S Ruckversicherungs A.G.  
**Employees:** 9.  
**Locations:** 1 domestic.  
**Specialities:** financial reinsurance.  
**Officers:** Reinhard Elers, managing director; Tom Doran, senior underwriter.

**E&S Rueck**  
 Karl-Wiechert-Allee 50,  
 Hannover, 30625 Germany;  
 49-511-5604-0;  
 fax: 49-511-5604-188  
 www.es-rueck.de

	1998	1997
Premium written	\$830,037,990	\$850,535,975
Premium earned	\$824,291,250	\$851,856,750
Capital/surplus*	\$465,382,770	\$431,262,650
Net income	NA	\$9,487,500
Losses	\$582,785,670	\$612,907,450
Loss ratio	70.7%	71.9%
Expenses	\$248,973,150	\$252,331,850
Expense ratio	30.2%	29.6%
Combined ratio	100.9%	101.5%
Treaty	98%	99%
Facultative	2%	1%
Domestic	98%	94%
Foreign	2%	6%
Life	19%	20%
Non-life	81%	80%

\* Includes shared capital subscription receivable and surplus debenture.  
**Founded:** 1923.  
**Parent:** Hannover Re.  
**Subsidiaries:** E&S Reinsurance (Ireland) Ltd., Ireland; Hannover Life Re of Australasia Ltd., Australia.  
**Employees:** 201.  
**Locations:** 1 domestic, 2 foreign.  
**Specialities:** motor business; commercial liability business; surety & fidelity; credit business; aviation & marine; life & health business; financial reinsurance.  
**Officers:** Wilhelm Zeller, chairman; Udo Schubach, deputy chairman.  
 Information for E&S Rueck and its subsidiaries is included in the consolidated Hannover Re Group listing.

**Employers Reinsurance Group**  
 5200 Metcalf, P.O. Box 2991,  
 Overland Park, Kan. 66201;  
 913-676-5200; fax: 913-676-5380  
 www.erc.com

	1998	1997
Premium written	\$5,984,000,000	\$4,545,000,000
Premium earned	\$5,635,000,000	\$4,467,000,000
Capital/surplus	\$6,020,000,000	\$5,374,000,000
Net income	\$779,000,000	\$648,000,000
Losses	\$4,103,000,000	\$3,260,000,000
Loss ratio*	69.7%	70.4%
Expenses	\$1,801,000,000	\$1,439,000,000
Expense ratio*	32.2%	33.2%
Combined ratio*	101.9%	103.6%
Domestic	55.9%	64%
Foreign	44.1%	36%
Life	27.1%	49.9%
Non-life	72.9%	50.1%

\* Non-life.  
**Founded:** 1914.  
**Parent:** General Electric Capital Services Inc.  
**Subsidiaries:** Employers Reinsurance Corp.  
**Employees:** 4,200.  
**Locations:** 19 domestic, 23 foreign.  
**Specialities:** traditional property/casualty; health care; life; financial.  
**Officers:** Dave Calhoun, CEO; Robert Dellinger, global CFO; John M. Connelly, senior vp, global chief legal officer.  
**Contact:** Dean Davison, public relations/communications, dean.davison@ercgroup.com.  
 \* Net premiums written on a statutory basis were \$8.23 billion for 1998 and \$7.87 billion for 1997.

**Everest Re**  
 477 Martinsville Road,  
 P.O. Box 830  
 Liberty Corner, N.J. 07938-0830;  
 908-604-3000; fax: 908-604-3322

	1998	1997
Premium written	\$1,017,766,000	\$1,020,097,000
Premium earned	\$1,075,000,000	\$1,039,975,000
Capital/surplus	\$1,059,429,000	\$908,764,000
Net income	\$176,672,000	\$193,057,000
Losses	\$776,362,000	\$733,385,000
Loss ratio	72.2%	70.5%
Expenses	\$317,017,000	\$328,566,000
Expense ratio	29.4%	31.6%
Combined ratio	101.6%	102.1%
Treaty	89%	89%
Facultative	11%	11%

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 Michelangelo  
 would have painted  
 the Sistine floor."**

Neil Simon  
 American playwright

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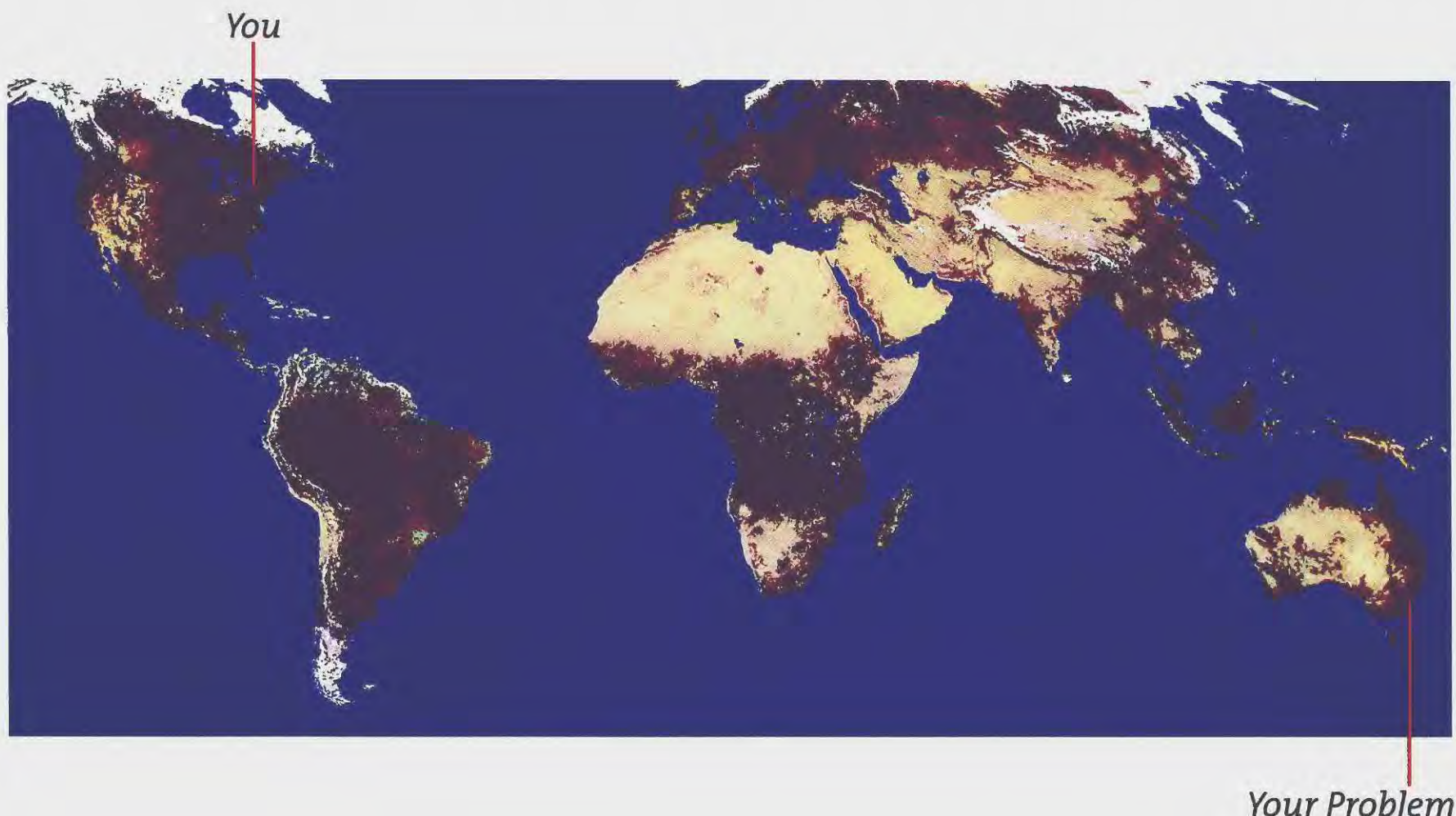
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Continued from page 32

Table with 3 columns: Category (Domestic, Foreign, Non-life), 1998, 1997. Values: Domestic 70%, Foreign 30%, Non-life 100%.

Founded: 1973. Parent: Everest Reinsurance Holdings Inc. Subsidiaries: Everest National Insurance Co., Liberty Corner, N.J., Everest Indemnity Insurance Co., Liberty Center, N.J., Everest Insurance Co. of Canada, Toronto, Ontario, Canada.



Folksamerica Reinsurance Co. One Liberty Plaza 19th Floor, New York, N.Y. 10006-1404; 212-312-2500; fax: 212-385-2279

Table with 3 columns: Category (Premium written, Premium earned, Capital/surplus, Net income, Losses, Loss ratio, Expenses, Expense ratio, Combined ratio, Treaty, Facultative, Domestic, Foreign, Non-life), 1998, 1997.

Founded: 1979. Parent: White Mountains Insurance Group. Employees: 125. Locations: 3 domestic, 1 foreign. Officers: Steven E. Fass, CEO/president; Michael E. Tyburski, CFO/executive vp; Robert F. McGoldrick, chief underwriter/executive vp.



General Re/Cologne Re Group 695 East Main St., Financial Centre, Stamford, Conn. 06904-6423; 203-328-5601; fax: 203-328-5061 www.genre.com

Table with 3 columns: Category (Premium written, Premium earned, Capital/surplus, Net income, Losses, Loss ratio, Expenses, Expense ratio, Combined ratio, Domestic, Foreign, Life, Non-life), 1998, 1997.

Founded: 1921. Parent: Berkshire Hathaway Reinsurance Group. Subsidiaries: General Reinsurance Corp.; Cologne Reinsurance Co.; General Star National; General Star Indemnity; Genesis Insurance; Genesis Indemnity Insurance; National Reinsurance Corp.

ident/CFO; Tom N. Kellogg, executive vp. \*\*Acquired by Berkshire Hathaway Reinsurance Group in December 1998.

Assicurazioni Generali S.p.A. Piazza Duca degli Abruzzi 2, Trieste, Italy; 39-040-67-1111; fax: 39-040-67-1600 www.generali.com

Table with 3 columns: Category (Premium written, Premium earned, Capital/surplus, Net income, Losses, Loss ratio, Expenses, Expense ratio, Combined ratio, Treaty, Facultative, Domestic, Foreign, Life, Non-life), 1998, 1997.

Founded: 1831. Contact: Peter B. Bhoem, consolidated accounts department, 39-040-67-1241.

Gerling Global Reinsurance Group D-50670 Cologne, Gereonshof, Cologne, Germany; 49-221-144-1; fax: 49-221-144-66162 www.gerling-konzern.de

Table with 3 columns: Category (Premium written, Premium earned, Capital/surplus, Net income, Losses, Loss ratio), 1998, 1997.

Table with 3 columns: Category (Expenses, Expense ratio, Combined ratio, Domestic, Foreign, Life, Non-life), 1998, 1997.

Founded: 1954. Parent: Gerling-Konzern Versicherungs-Beteiligungs A.G.

Subsidiaries: Gerling-Konzern Globale Rückversicherungs-A.G., Köln; Gerling Global General and Reinsurance Co. Ltd., London; Gerling Global Sweden Reinsurance Co. Ltd., Stockholm, Sweden; Gerling Global Life Reinsurance Co., Los Angeles; Constitution Reinsurance Corp., New York; Gerling Global Life Insurance Co., Toronto; Gerling Global Life Reinsurance International Co. Ltd., Bridgetown, Barbados; Gerling Global Reinsurance Co. of Australia Pty. Ltd., Sydney, Australia; Gerling Global Life Reinsurance Co. of Australia Pty. Ltd., Sydney, Australia; Gerling Global Financial Products Inc., New York; Gerling Global Life Reassurance Co. (UK) Ltd., London; Gerling Globale Rückversicherung AG, Zug; Gerling Global Reinsurance Corp. of America, New York; Gerling Global Reinsurance Co., Toronto; Gerling Global International Reinsurance Co. Ltd., Bridgetown, Barbados; Rex Re Insurance Ltd., Hamilton, Bermuda; Gerling Global Reinsurance Co. of South Africa Ltd., Johannesburg, South Africa; Gerling Security Rückversicherungs-Gesellschaft S.A., Luxembourg.

Employees: 950. Locations: 1 domestic, 30 foreign. Specialties: property; liability; business; financial reinsurance.

Officers: Norbert Strohschen, chairman, Klaus Boltmann, Uwe Eymmer, members of the board. Contact: Charles D. Troiano, president - Gerling Global Reinsurance Corp. of America, 212-754-7500.



HDI Reinsurance (Ireland) Ltd. 2 Custom House Plaza, IFSC, Dublin 1, Ireland; 353-1-612-5717; fax: 353-1-829-1400

Table with 3 columns: Category (Premium written, Premium earned, Capital/surplus, Net income, Losses, Loss ratio, Expenses, Expense ratio, Combined ratio, Treaty, Foreign, Life, Non-life), 1998, 1997.

Founded: 1992. Parent: HDI Haftpflichtverband der Deutschen Industrie V.a.G.

Employees: 9. Locations: 1 domestic. Specialties: financial reinsurance. Officers: Reinhard Elers, managing director; Tom Doran, senior underwriter.

Hannover Re Karl-Wiechert-Allee 50, Hannover, 30625 Germany; 49-511-5604-0; fax: 49-511-5604-188 www.hannover-re.com

Table with 3 columns: Category (Premium written), 1998, 1997.

Continued on next page

# Standard & Poor's Top 25 international reinsurer groups

Rankings based on 1998 net reinsurance premiums written. All figures in thousands of U.S. dollars.

Large table with 17 columns: Company, Rating, Net reinsurance premiums written (1998, 1997, Change), Adjusted shareholders funds (1998, 1997, Change), Loss ratio (1998, 1997), Expense ratio (1998, 1997), Pretax operating income (1998, 1997, change), Return on revenue (1998, 1997). Lists companies like Munich Re Group, Swiss Re Group, Berkshire Hathaway Reinsurance Group, etc.

1 Standard & Poor's has estimated some of the 1998 figures. 2. Includes Berkshire Hathaway Reinsurance Operations and General & Cologne Re combined. O Denotes a Standard & Poor's Security Circle company, which is one that voluntarily has undergone S&P's most comprehensive review and has achieved one of S&P's top four rating categories; "pl" denotes a rating that is based upon public information; "NA" denotes not available.

Note: In two instances, figures supplied for the Business Insurance directory of worldwide reinsurers differ from the figures obtained by Standard & Poor's Corp. for its ranking of the Top 25 reinsurance groups. Those differences in the figures supplied to Business Insurance are explained by the companies as follows: QBE Insurance Group's figures supplied to BI are for reinsurance business only; Zurich Re's figures supplied to BI reflect the reorganization of the reinsurer by parent Zurich Financial Services Group.

## Continued from previous page

Premium earned	\$2,068,932,420	\$2,130,747,025
Capital/surplus *	\$1,227,246,480	\$1,121,038,400
Net income	\$53,295,000	\$48,012,500
Losses	\$1,354,954,980	\$1,353,958,250
Loss ratio	65.4%	63.5%
Expenses	\$644,123,370	\$703,189,350
Expense ratio	31.1%	33%
Combined ratio	96.5%	96.5%
Treaty	95%	95%
Facultative	5%	5%
Domestic	21%	23%
Foreign	79%	77%
Life	35%	32%
Non-life	65%	68%

\*Includes share capital subscription receivables and surplus debenture.

**Founded:** 1966.  
**Parent:** HDI Haftpflichtverband der Deutschen Industrie V.a.G., Germany.  
**Subsidiaries:** E&S Rückversicherungs-A.G., Germany; Hannover Reinsurance (Ireland) Ltd., Ireland; Hannover Life Re of Australasia Ltd., Australia; Hannover Life Reassurance (UK) Ltd., United Kingdom; Hollandia Reinsurance Group (Pty) Ltd., South Africa; Hannover Re Sweden Insurance Co. Ltd., Sweden; Insurance Corp. of Hannover, United States; International Insurance Co. of Hannover Ltd., United Kingdom; Reassurance Co. of Hannover, United States.

**Employees:** 464.  
**Locations:** 1 domestic, 18 foreign.  
**Specialties:** property super cat XL layers; professional liability; surety and fidelity; aviation and marine; credit business; life and health business; financial reinsurance; alternative risk financing; securitization.

**Officers:** Wilhelm Zeller, chairman; Andreas-Peter Hecker, deputy chairman.  
**Contact:** Denis M. Burk, vp-U.S. representative office, 847-310-3852.

The results of the subsidiaries are not included in the above-mentioned Hannover Re figures, but they are consolidated within the Hannover Re Group figures.

## Hannover Re Group

Karl-Wiechert-Allee 50,  
Hannover, 30625 Germany;  
49-511-5604-0;  
fax: 49-511-5604-188  
www.hannover-re.com

	1998	1997
Premium written	\$3,926,482,050	\$3,733,809,650
Premium earned	\$3,835,385,790	\$3,753,459,125
Capital/surplus	\$1,589,815,500	\$1,485,065,725
Net income	\$58,823,430	\$55,052,800
Losses	\$2,646,097,320	\$2,525,478,775
Loss ratio	68.9%	67.3%
Expenses	\$1,071,543,570	\$1,152,175,225
Expense ratio	27.9%	30.7%
Combined ratio	96.8%	98%
Treaty	95%	95%
Facultative	5%	5%
Domestic	26%	31%
Foreign	74%	69%
Life	32%	25%
Non-life	68%	75%

**Parent:** HDI Haftpflichtverband der Deutschen Industrie V.a.G., Germany.

**Subsidiaries:** E&S Rückversicherungs-A.G., Germany; Hannover Reinsurance (Ireland) Ltd, Ireland; Hannover Life Re of Australasia Ltd., Australia; Hannover Life Reassurance (UK) Ltd., United Kingdom; Hollandia Reinsurance Group (Pty) Ltd., South Africa; Hannover Re Sweden Insurance Co. Ltd., Sweden; Insurance Corp. of Hannover, United States; International Insurance Co. of Hannover Ltd., United Kingdom; Reassurance Co. of Hannover, United States.

**Employees:** 1,081.  
**Locations:** 1 domestic, 18 foreign.  
**Specialties:** property super cat XL layers; professional liability; surety and fidelity; aviation and marine; credit business; life and health business; financial reinsurance; alternative risk financing; securitization.

**Officers:** Wilhelm Zeller, chairman; Andreas-Peter Hecker, deputy chairman.  
**Contact:** Denis M. Burk, vp-U.S. representative office, 847-310-3852.

## Hannover Reinsurance (Ireland) Ltd.

2 Custom House Plaza, IFSC,  
Dublin 1, Ireland;  
353-1-612-5715;  
fax: 353-1-829-1400

	1998	1997
Premium written	\$236,666,850	\$173,328,000
Premium earned	\$223,180,080	\$165,294,100
Capital/surplus	\$205,558,530	\$150,049,700
Net income	\$28,883,610	\$25,399,475
Losses	\$182,959,170	\$133,803,650
Loss ratio	82%	80.9%
Expenses	\$61,693,380	\$49,123,400
Expense ratio	27.6%	29.7%

Combined ratio	109.6%	110.6%
Treaty	100%	100%
Foreign	100%	100%
Non-life	100%	100%

**Founded:** 1992.  
**Parent:** Hannover Rückversicherungs-A.G.  
**Employees:** 9.  
**Locations:** 1 domestic.  
**Specialties:** financial reinsurance.  
**Officers:** Reinhard Elers, managing director; Tom Doran, senior underwriter.

## HartRe Co. L.L.C.

55 Farmington Ave., Suite 800,  
Hartford, Conn. 06105;  
860-520-2700; fax: 860-520-2726

	1998	1997
Premium written	\$710,577,000	\$687,877,000
Premium earned	\$715,721,000	\$645,460,000
Losses	\$559,319,000	\$473,248,000
Loss ratio	78.1%	73.3%
Expenses	\$196,101,000	\$201,464,000
Expense ratio	27.3%	31.2%
Combined ratio	105.4%	104.5%
Treaty	98%	98.2%
Facultative	2%	1.8%
Domestic	69.3%	81%
Foreign	30.7%	19%
Non-life	100%	100%

**Founded:** 1982.  
**Parent:** The Hartford Financial Services Group Inc.

**Employees:** 175.  
**Locations:** 5 domestic, 7 foreign.  
**Specialties:** alternative risk transfer; professional liability; non-standard auto.  
**Officers:** David Robb, chairman; Dennis Zettervall, CEO; John Sullivan, president/COO-North America.  
**Contact:** Dennis Zettervall.

## IPCRe Ltd.

American International Building,  
29 Richmond Road,  
Pembroke, HM 08 Bermuda;  
441-298-5100; fax: 441-292-8085  
www.ipcre.bm

	1998	1997
Premium written	\$111,265,000	\$117,050,000
Premium earned	\$120,125,000	\$112,486,000
Capital/surplus	\$565,952,000	\$529,163,000
Net income	\$67,714,000	\$101,743,000
Losses	\$61,459,000	\$14,768,000
Loss ratio	51.1%	13.1%
Expenses	\$27,648,000	\$20,759,000
Expense ratio	23%	18.5%
Combined ratio	74.1%	31.6%
Treaty	100%	100%
Foreign	100%	100%
Non-life	100%	100%

**Founded:** 1993.  
**Parent:** IPC Holdings Ltd.  
**Subsidiaries:** IPCRe Europe Ltd., Dublin, Ireland.

**Employees:** 17.  
**Locations:** 3 foreign.  
**Specialties:** property catastrophe reinsurance; marine/aviation; property-per-risk excess; excess of loss.

**Officers:** John P. Dowling, president/CEO; James P. Bryce, senior vp/chief underwriting officer; John R. Weale, vp/CFO.

## IRB-Brasil Re

Av. Marechal Camara,  
171 - Castelo,  
Rio de Janeiro,  
R.J. 20023-900 Brazil;  
55-21-272-0200;  
fax: 55-21-240-8775  
www.irb.gov.br

	1998	1997
Premium written	\$576,897,552	\$557,039,930
Premium earned	\$561,060,318	\$560,291,116
Capital/surplus	\$553,980,315	\$473,300,824
Net income	\$146,675,655	\$47,863,088
Losses	\$400,169,553	\$438,073,006
Loss ratio	71.3%	78.2%
Expenses	\$191,295,258	\$158,087,646
Expense ratio	34.1%	28.2%
Combined ratio	105.4%	106.4%
Treaty	75%	75%
Facultative	25%	25%
Domestic	99.73%	99.27%
Foreign	2.27%	7.3%
Life	8.01%	7.62%
Non-life	91.99%	92.38%

**Founded:** 1939.

**Employees:** 540.  
**Locations:** 4 domestic, 1 foreign.  
**Specialties:** property; marine hull; aviation; cargo; oil; sureties; engineering; liability; group life.  
**Officers:** Demosthenes Madureira de Pinho Filho, president; Paulo Oscar Franca, executive vp; Francisco Aldenor A. Andrade, commercial director.  
**Contact:** Joao Carlos Gahya Rodrigues, president-United States Insurance Co., 212-486-0700.

## LaSalle Re Holdings Ltd.

25 Church St.,  
Hamilton, HM12 Bermuda;  
441-292-3339; fax: 441-292-2656  
www.lasallere.com

	1998	1997
Premium written	\$155,316,000	\$171,386,000
Premium earned	\$154,620,000	\$163,933,000
Capital/surplus	\$506,028,000	\$490,165,000
Net income	\$51,806,000	\$97,077,000
Losses	\$95,539,000	\$31,199,000
Loss ratio	61.8%	19%
Expenses	\$22,661,000	\$26,018,000
Expense ratio	14.7%	15.9%
Combined ratio	76.5%	34.9%
Treaty	100%	100%
Non-life	100%	100%

Fiscal years ending 9/30/98 and 9/30/97.

**Founded:** 1993.  
**Employees:** 31.  
**Locations:** 1 domestic, 1 foreign.  
**Specialties:** Property catastrophe; casualty; marine and aviation.  
**Officers:** Guy D. Hengesbaug, president/CEO; Mark C. Stockton, senior vp/chief underwriting officer.

## Lincoln Re

1 Reinsurance Place,  
1700 Magnavox Way,  
Fort Wayne, Ind. 46804;  
219-455-3211; fax: 219-455-9032  
www.lnrc.com

	1998	1997
Premium written	\$1,761,800,000	\$1,335,300,000
Premium earned	\$1,724,000,000	\$1,371,100,000
Capital/surplus	\$737,300,000	\$795,900,000
Net income	(\$51,100,000)	(\$74,500,000)
Domestic	88.1%	67.6%
Foreign	11.9%	32.4%
Life	100%	100%

**Founded:** 1912.  
**Parent:** Lincoln National Corp.  
**Subsidiaries:** The Lincoln National Life Insurance Co.; Lincoln National Reinsurance Co.; Lincoln National Health and Casualty Co.; Lincoln National Reinsurance Co. (Barbados); Lincoln National Reinsurance Co. (Bermuda); Old Fort Bermuda.

**Employees:** 840.  
**Locations:** 6 domestic, 11 foreign.  
**Specialties:** life and health; life reinsurance; financial reinsurance; group life/health reinsurance.

**Officers:** Lawrence Thomas Rowland, president; William King Tyler, senior vp/CFO; Kenneth James Clark, senior vp-financial reinsurance.  
**Contact:** James C. Weide, assistant vp-strategic planning/knowledge management, 219-455-3186.

## Lloyd's of London

1 Lime St.,  
London, EC3M 7HA England;  
171-327-1000; fax: 171-626-2389  
www.lloyds.com

	1998	1997
Premium written	\$3,553,094,000	\$3,562,080,000
Premium earned	\$3,553,094,000	\$3,562,080,000
Capital/surplus	\$10,420,530,000	\$11,111,000,000
Treaty	64%	60%
Facultative	36%	40%
Non-life	100%	100%

**Founded:** 1688.  
**Officers:** Max Taylor, chairman; Nick Prettejohn, CEO.  
**Contact:** Maria Allen, project manager-marketing and communications, 212-382-4088.

## London Reinsurance Group

1 London Place,  
255 Queens Ave., Suite 303,  
London, Ontario N6A 5R8 Canada;  
519-432-5281; fax: 519-432-6883  
www.lrg.com

	1998	1997
Premium written	\$1,778,112,000	\$1,305,360,000
Premium earned	\$1,775,424,000	\$1,289,520,000
Capital/surplus	\$477,792,000	\$450,807,840
Net income	\$47,712,000	\$44,292,960
Foreign	100%	100%
Life	73%	69%
Non-life	27%	31%

**Founded:** 1991.  
**Parent:** Great-West Lifeco Inc.  
**Subsidiaries:** London Life & Casualty Reinsurance Corp., Wilsey, Barbados; London Life & General Reinsurance Co. Ltd., Dublin, Ireland; London Life Reinsurance Co., Philadelphia; London Life International Reinsurance Corp., Wilsey, Barbados; Shippan International Insurance Co. Ltd., Wilsey, Barbados; Trabaja Reinsurance Co., Cayman Island.  
**Employees:** 67.  
**Locations:** 1 domestic, 3 foreign.  
**Specialties:** life; property/casualty; accident/health; annuity.  
**Officers:** R. Thomas M. Allen, chairman/CEO-London Reinsurance Group Inc.; Paul A. Brisson, vp/chief actuary; Glenn A. Hickling, vp/CFO.  
**Contact:** Monica Hainer, president-London Life Reinsurance Co., 212-542-7200.

## Munich Re Group

Koniginstrasse 107,  
Munich, 80802 Germany;  
49-89-3891-0; fax: 49-89-399056  
www.munichre.com

	1998	1997*
Premium written	\$12,539,124,480	\$12,073,334,280
Premium earned	\$12,527,463,990	\$12,086,824,508
Capital/surplus	\$6,989,572,560	\$5,538,809,728
Net income	\$682,156,050	NA
Losses	\$8,966,231,670	\$8,013,855,960
Loss ratio	72.9%	67.8%
Expenses	\$3,818,516,640	\$3,147,962,125
Expense ratio	30.1%	32.2%
Combined ratio	103%	100%
Treaty	92.4%	92.3%
Facultative	7.6%	7.7%
Domestic	31%	34%
Foreign	69%	66%
Life	18%	16.3%
Non-life	82%	83.7%

\*Fiscal year ending 6/30/98.  
**Founded:** 1880.

**Subsidiaries:** American Re Corp., Princeton, N.J.; American Re-Insurance Co., Princeton, N.J.; Great Lakes Reinsurance (UK) P.L.C., London; Munich American Reassurance Co., Atlanta; Munich Reinsurance Co. of Canada, Toronto; Munich Reinsurance Co. of Africa Ltd., Johannesburg, South Africa; Munich Mauritius Reinsurance Co. Ltd., Port Louis, Mauritius; Munich Reinsurance Co. of Australasia Ltd., Sydney, Australia; Munchener Ruck Italia S.p.A., Milan, Italy; Torino Riassicurazioni S.p.A., Turin, Italy; New Reinsurance Co., Geneva, Switzerland.

**Employees:** 27,435.  
**Locations:** 1 domestic, 60 foreign.  
**Officers:** Hans-Jürgen Schinler.

## NAC Reinsurance Corp.

1 Greenwich Plaza,  
Greenwich, Conn. 06836;  
203-622-5200; fax: 203-622-0723  
www.nacore.com

	1998	1997
Premium written	\$553,666,000	\$593,656,000
Premium earned	\$532,846,000	\$574,647,000
Capital/surplus	\$737,113,000	\$702,222,000
Net income	\$112,143,000	\$79,570,000
Losses	\$353,635,000	\$380,255,000
Loss ratio	66.4%	66.2%
Expenses	\$209,509,000	\$221,570,000
Expense ratio	39.3%	38.6%
Combined ratio	105.7%	104.8%
Treaty	NA	75.9%
Facultative	NA	24.1%
Domestic	91.3%	91.2%
Foreign	8.7%	8.8%
Non-life	100%	100%

**Founded:** 1985.  
**Parent:** NAC Reinsurance Corp.  
**Subsidiaries:** NAC Reinsurance Corp., Greenwich Insurance Co.; Indian Harbor Insurance Co.; NAC Re International Holdings Ltd.  
**Locations:** 10 domestic, 3 foreign.  
**Specialties:** property/casualty reinsurance.  
**Officers:** Nicholas M. Brown Jr., president/CEO; Martha G. Bannerman, executive vp/general counsel/secretary; Richard H. Miller, senior vp/CFO.  
**Contact:** Richard H. Miller.

## Odyssey Reinsurance Group Ltd.

1 Liberty Plaza,  
New York, N.Y. 10006;  
212-978-4700

	1998	1997
Premium written	\$665,123,000	\$374,767,000
Premium earned	\$654,958,000	\$420,520,000
Capital/surplus	\$1,033,688	\$890,858,000
Net income	\$142,830,000	\$106,206,000
Losses	\$531,044,000	\$301,216,000
Loss ratio	81.1%	71.9%
Expenses	\$224,919,000	\$141,354,000
Expense ratio	34.3%	35.3%
Combined ratio	115.4%	107.2%
Treaty	NA	80%
Facultative	NA	20%
Domestic	53%	52%
Foreign	47%	48%
Life	2%	5%
Non-life	98%	95%

**Parent:** Fairfax Financial Holdings Ltd.  
**Subsidiaries:** Odyssey Re Corp., New York; Compagnie Transcontinentale de Reassurance, Paris; ORC Re Ltd., Dublin, Ireland; Odyssey Re London, London; Odyssey Re Bermuda, Hamilton, Bermuda; Odyssey Re Stockholm, Stockholm, Sweden.

**Employees:** 728.  
**Locations:** 6 domestic, 10 foreign.  
**Officers:** Andrew A. Barnard, president/CEO; James F. Dowd, chairman; Roland W. Jackson, CFO.  
**Contact:** Roland W. Jackson, 203-977-8006.

## Overseas Partners Ltd.

Mintflower Place, 8 Par-la-ville,  
Hamilton, HM GX Bermuda;  
441-295-0788; fax: 441-292-9142  
www.overseaspartners.com

	1998	1997
Premium written	\$908,995,000	\$720,084,000
Premium earned	\$746,918,000	\$639,071,000
Capital/surplus	\$2,524,669,000	\$2,227,162,000
Net income	\$488,297,000	\$477,115,000
Losses	\$404,328,000	\$331,879,000
Loss ratio	54.1%	51.9%
Expenses	\$108,944,000	\$80,435,000
Expense ratio	14.6%	12.6%
Combined ratio	68.7%	64.5%
Treaty	100%	100%
Non-life	100%	100%

**Founded:** 1983.  
**Subsidiaries:** Overseas Partners Re Ltd.  
**Employees:** 35.  
**Officers:** D. Scott Davis, president; Thomas E. Butler, Mark R. Bridges, vps.

## PartnerRe

PartnerRe Building,  
106 Pitts Bay Road,  
Pembroke, HM 08 Bermuda;  
441-292-0888; fax: 441-292-7010  
www.partnerre.com

	1998	1997
Premium written	\$687,000,000	\$427,800,000
Premium earned	\$685,600,000	\$476,200,000
Capital/surplus	\$2,113,400,000	\$1,

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Standard & Poor's "A+" (Strong Financial Security)



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[www.soremana.com](http://www.soremana.com)

Continued from page 36



**QBE Insurance Group Ltd. (Reinsurance Division)**  
82 Pitt St., Sydney, N.S.W. 2000, Australia; 61-2-9375-4444; fax: 61-2-9375-4834  
www.qbe.com.au

	1998	1997
Premium written	\$540,260,000	\$506,501,400
Premium earned	\$484,840,000	\$420,245,800
Capital/surplus	\$367,676,000	\$350,727,000
Net income	\$46,920,000	\$84,925,200
Losses	\$315,860,000	\$289,340,000
Loss ratio	65.1%	68.9%
Expenses	\$142,324,000	\$113,155,400
Expense ratio	29.3%	26.9%
Combined ratio	94.4%	95.8%
Treaty	52.6%	69.2%
Facultative	37.4%	30.8%
Domestic	7.6%	6%
Foreign	92.4%	94%
Non-life	100%	100%

Fiscal years ending 6/30/98 and 6/30/97.

**Founder:** 1886.  
**Parent:** QBE Insurance Group Ltd.  
**Subsidiaries:** Sydney Reinsurance Co., Sydney and Singapore; QBE International Insurance Ltd., London; QBE Corp. Ltd., London; QBE Reinsurance (U.K.) Ltd., London; QBE Insurance & Reinsurance (Europe) Ltd., Dublin, Ireland; Sydney Reinsurance Corp., New York.

**Employees:** 385.  
**Locations:** 1 domestic, 12 foreign.  
**Specialties:** bloodstock, professional indemnity; marine; accident/health; property proportional/excess of loss/facultative; motor/motor casualty; catastrophe; casualty.  
**Officers:** Frank O'Helloran, managing director/CEO; Neil Drabsch, CFO; Brian Cotterill, group manager-reinsurance portfolios.  
**Contact:** Timothy Kearny, senior vp/CFO-Sydney Reinsurance Corp.; 212-894-7543.

**Standard & Poor's Top 25**  
Chart of S&P's 25 largest reinsurance groups by net premiums written in 1998 appears on page 35



**Reinsurance Group of America Inc.**  
137C Timberlake Manor Parkway, Chesterfield, Mo. 63017-6039  
636-736-7000; fax: 636-736-7100  
www.rgare.com

	1998	1997
Premium written	\$1,016,400,000	\$744,800,000
Premium earned	\$1,016,400,000	\$744,800,000
Capital/surplus	\$748,500,000	\$499,300,000
Net income	\$89,700,000	\$72,600,000
Losses	\$797,900,000	\$559,100,000
Loss ratio	78.5%	76.4%
Expenses	\$188,500,000	\$48,100,000
Expense ratio	18.5%	19.9%
Combined ratio	97%	96.3%
Treaty	65%	60%
Facultative	35%	40%
Domestic	70%	74%
Foreign	30%	26%
Life	100%	100%

**Founder:** 1973.

**Parent:** GenAmerica Corp.  
**Subsidiaries:** RGA Reinsurance Co., St. Louis; RGA Life Reinsurance Co. of Canada, Montreal; RGA Reinsurance Co. of Australia Ltd., Sydney, Australia.  
**Employees:** 421.  
**Locations:** 1 domestic, 12 foreign.  
**Specialties:** life reinsurance; financial reinsurance.  
**Officers:** A. Greig Woodring, president/CEO; David B. Atkinson, executive vp/COO; Jack B. Lay, executive vp/CFO.  
**Contact:** David B. Atkinson, 636-736-7308.

**RenaissanceRe Holdings Ltd.**  
Renaissance House,  
8-12 E. Broadway,  
Hamilton HM 19, Bermuda;  
441-295-4513; fax: 441-296-5037  
www.renre.com

	1998	1997
Premium written	\$195,019,000	\$195,752,000
Premium earned	\$204,947,000	\$211,490,000
Capital/surplus	\$612,232,000	\$598,703,000
Net income	\$74,577,000	\$139,249,000
Losses	\$112,752,000	\$50,015,000
Loss ratio	55%	23.6%

	1998	1997
Expenses	\$61,031,000	\$50,358,000
Expense ratio	29.8%	23.8%
Combined ratio	84.8%	47.4%
Treaty	100%	100%
Foreign	100%	100%
Non-life	100%	100%

**Founded:** 1993.  
**Subsidiaries:** Renaissance Reinsurance Ltd., Bermuda.  
**Employees:** 40.  
**Locations:** 1 domestic, 3 foreign.  
**Specialties:** property/catastrophe excess of loss; retrocessional reinsurance; marine and aviation.  
**Officers:** James N. Stanard, CEO/chairman; William I. Riker, COO/executive vp; David A. Eklund, chief underwriting officer/executive vp.  
**Contact:** John M. Lummis, senior vp/CFO.



**St. Paul Re**  
195 Broadway, 28th Floor,  
New York, N.Y. 10007-3181;  
212-238-9200; fax: 212-238-9493  
www.stpaulre.com

	1998*	1997*
Premium written	\$1,056,229,000	\$1,200,245,000
Premium earned	\$1,038,687,000	\$1,226,913,000
Losses	\$684,450,000	\$839,412,000
Loss ratio	65.9%	68.4%
Expenses	\$346,168,000	\$367,246,000
Expense ratio	33.3%	29.9%
Combined ratio	99.2%	98.3%
Treaty	94%	96%
Facultative	6%	4%
Domestic	55%	55%
Foreign	45%	45%
Non-life	100%	100%

\*Figures are pro forma and reflect The St. Paul Cos. Inc.'s acquisition of USF&G Corp.

**Founded:** 1983.  
**Parent:** The St. Paul Cos. Inc.  
**Subsidiaries:** St. Paul Reinsurance Co. Ltd., London; Discover Re, Farmington, Conn.  
**Employees:** 560.  
**Locations:** 12 domestic, 7 foreign.  
**Specialties:** property; casualty; marine; specialty lines; financial reinsurance.  
**Officers:** James F. Duffy, president; Michael Schell, president-international; David Grefe, executive vp/chief accounting officer.  
**Contact:** Peter Aubrey-Smith, executive vp-international treaty & business development; 212-238-9275.

**SCOR**  
1 Ave. du President Wilson,  
Paris la Defense 92074,  
France; 33-1-46-98-7225;  
fax: 33-1-46-98-7742  
www.scor.com

	1998	1997
Premium written	\$2,418,795,000	\$2,348,172,000
Premium earned	\$2,386,647,000	\$2,294,820,000
Capital/surplus	\$1,689,822,000	\$1,689,822,000
Net income	\$162,792,000	\$161,082,000
Losses	\$1,834,317,000	\$1,658,700,000
Loss ratio	76.9%	72.2%
Expenses	\$790,362,000	\$724,185,000
Expense ratio	33.1%	31.6%
Combined ratio	110%	103.8%
Treaty	76%	76%
Facultative	24%	24%
Domestic	15%	18%
Foreign	85%	82%
Life	13%	12%
Non-life	87%	88%

**Founded:** 1970.  
**Subsidiaries:** SCOR Italia; SCOR Deutschland; SCOR U.K.; SCOR U.S.; SCOR Canada; Commercial Risk Partners, Bermuda; SCOR Asia Pacific, Singapore.  
**Employees:** 1,176.  
**Locations:** 1 domestic, 29 foreign.  
**Specialties:** life reinsurance; motor excess in Europe; facultatives; alternative risk transfer.  
**Officers:** Jacques Blondeau, chairman/CEO; Serge Osouf, president/COO; Pierre-Denis Champvillard, group senior vp.  
**Contact:** Jerome Karter, president/COO-SCOR U.S.

**Sirius International Insurance Corp.**  
Stockholm S-113 96, Sweden;  
46-8-458-5500; fax: 46-8-458-5599  
1998 1997  
Premium written \$347,626,314 \$343,985,590

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For more information, contact [Probinson@odysseyre.com](mailto:Probinson@odysseyre.com)



OdysseyRe



Continued from page 38

Premium earned	\$353,169,054	\$337,429,170
Capital/surplus	\$1,035,040,230	\$963,170,000
Net income	\$73,566,738	\$74,705,150
Losses	(\$221,617,998)	(\$201,315,530)
Loss ratio	(62.8%)	(59.7%)
Expenses	(\$125,711,964)	(\$135,001,490)
Expense ratio	(35.6%)	(40%)
Combined ratio	(98.4%)	(99.7%)
Domestic	20%	18%
Foreign	80%	82%

**Founded:** 1945.  
**Parent:** Sirius International Insurance (publ).  
**Employees:** 117.  
**Locations:** 1 domestic, 1 foreign.  
**Officers:** Göran Thorstensson, president/CEO.

**SOREMA**

20 Rue Washington,  
 Paris, 75008 France;  
 33-1-40-74-66-00;  
 fax: 33-1-45-63-25-47  
 www.soremana.com

Premium written	\$426,097,350	\$513,638,172
Premium earned	\$425,102,340	\$503,995,995
Capital/surplus	\$526,837,650	\$525,178,278
Net income	\$11,184,980	\$28,067,769
Losses	\$329,615,380	\$354,479,580
Loss ratio	77.5%	70.3%
Expenses	\$166,156,810	\$183,495,141
Expense ratio	39.1%	36.4%
Combined ratio	116.6%	106.7%
Treaty	18.9%	71.3%
Facultative	81.1%	28.7%
Domestic	10.5%	11.2%
Foreign	89.5%	88.8%
Life	3.2%	3.8%
Non-life	96.8%	96.2%

**Founded:** 1978.  
**Parent:** GROUPAMA.  
**Subsidiaries:** SOREMA N.A., New York.  
**Employees:** 388.  
**Locations:** 1 domestic, 11 foreign.  
**Specialities:** property/casualty; life business.  
**Officers:** Alexis Ruset, chairman/CEO; Anders Grabo, executive vp-Paris head office; Francois M. Chavel, president/CEO-SOREMA N.A.;  
**Contact:** Deborah L. Brady, senior vp-SOREMA N.A. Group, 212-480-1900, dbrady@soremagr.com.

**Swiss Re Group**

Mythenquai 50/60, P.O. Box CH-8022, Zurich, Switzerland;  
 41-1-285-2481; fax: 41-1-285-2038  
 www.swissre.com

Premium written	\$11,273,910,000	\$11,114,948,000
Premium earned	\$11,406,390,000	\$11,213,475,000
Capital/surplus	\$8,976,900,000	\$9,781,733,000
Net income	\$1,725,000,000	\$1,457,924,000
Losses	\$9,258,420,000	\$9,017,632,000
Loss ratio*	81.2%	80.4%
Expenses	\$3,806,040,000	\$3,360,942,000
Expense ratio*	33.4%	33%
Combined ratio*	114.6%	110.4%
Domestic	3.7%	3.9%
Foreign	96.3%	96.1%
Life	20.4%	18.9%
Non-life	79.6%	81.1%

\*Non-life only.  
**Founded:** 1863.  
**Subsidiaries:** European Reinsurance Co. of Zurich, Switzerland; Bavarian Reinsurance Co. Ltd., Germany; Swiss Reinsurance Co. U.K. Ltd., United Kingdom; Bavarian Reinsurance Ireland Ltd., Ireland; Algemene Levensherverzekering Maatschappij nv; Reassurantie Maatschappij

Nederland nv, Netherlands; Atlantic International Reinsurance Co. Ltd.; European International Reinsurance Co. Ltd.; Barbados; Swiss Reinsurance Co. Canada; Swiss Re Life & Health Canada, Canada; European Reinsurance Corp. of America; Swiss Reinsurance American Corp.; Swiss Re America Holding Corp., U.S.A.; Swiss Re Australia Ltd., Australia; Swiss Re Southern Africa Ltd., South Africa.

**Employees:** 8,770.  
**Officers:** Walter B. Kielholz, CEO; Rudolf Kellenberger, executive board member/head-European division; John H. Fitzpatrick, CFO.  
**Contact:** Heidi Hutter, CEO/chairman, Swiss Re America.

**T**

**Tempest Reinsurance Co. Ltd.**

Wessex House, Third Floor, 45 Reid St., Hamilton, HM KX Bermuda;  
 441-292-2603; fax: 441-292-2790  
 www.ace.bm

Premium written	\$89,583,000	\$111,420,000
Premium earned	\$150,871,000	\$118,601,000
Capital/surplus*	\$1,056,233	\$590,000
Net income	(\$135,966,000)	\$120,687,000
Losses	\$34,142,000	\$10,437,000
Loss ratio	22.6%	8.8%
Expenses*	\$27,383,000	\$20,589,000
Expense ratio	18.1%	17.4%
Combined ratio	40.7%	26.2%
Treaty	100%	100%
Foreign	100%	100%
Non-life	100%	100%

Fiscal years ending 9/30/98 and 9/30/97.  
 \*Excluding goodwill.  
**Founded:** 1993.  
**Parent:** ACE Limited.  
**Employees:** 27.  
**Specialities:** property catastrophe reinsurance.  
**Officers:** John Engstrom, president/CEO; George Rivaz, COO; Elizabeth Murphy, CFO.

**Terra Nova (Bermuda) Holdings Ltd.**

Richmond House,  
 12 Par-La-Vie Road,  
 Hamilton, HM 08 Bermuda;  
 441-292-7731; fax: 441-292-7572  
 www.terra-nova.com

Premium written	\$546,197,000	\$483,545,000
Premium earned	\$546,908,000	\$419,069,000
Capital/surplus	\$570,862,000	\$481,888,000
Net income	\$72,399,000	\$73,416,000
Losses	\$359,567,000	\$282,480,000
Loss ratio	65.7%	67.4%
Expenses	\$180,702,000	\$129,133,000
Expense ratio	33%	30.8%
Combined ratio	98.7%	98.2%
Non-life	100%	100%

**Founded:** 1994.  
**Subsidiaries:** Terra Nova Insurance Co. Ltd., London, U.K.; Terra Nova (Bermuda) Insurance Co. Ltd., Hamilton, Bermuda; Compagnie De Reassurance D'ile De France ("Curifrance"), Paris, France.  
**Employees:** 691.  
**Locations:** 1 domestic, 6 foreign.  
**Officers:** John J. Dwyer, chairman; Nigel H. J. Rogers, president/CEO; William J. Wedlake, CFO.

**The Toa Reinsurance Co. Ltd.**

6, Kanda - Surugadai 3 - chome,  
 Chiyoda - ku, Tokyo,  
 101-8703 Japan;  
 81-3-3253-3171;  
 fax: 81-3-3253-1208

Premium written	\$877,592,000	\$889,240,000
Capital/surplus	\$261,064,000	\$248,016,000
Net income	\$17,928,000	\$17,184,000
Losses	\$578,256,000	\$531,008,000
Loss ratio*	65.9%	59.7%
Expenses	\$346,248,000	\$341,488,000
Expense ratio*	39.5%	38.4%
Combined ratio*	105.4%	98.1%
Domestic	86.4%	86.1%
Foreign	13.6%	13.9%
Life	7.5%	1.6%
Non-life	92.5%	98.4%

Fiscal years ending 3/31/99 and 3/31/98.  
 \*Ratios calculated using premiums written, premiums earned figures are not available.

**Founded:** 1940.  
**Subsidiaries:** The Toa Reinsurance Co. of America.  
**Locations:** 1 domestic, 5 foreign.  
**Officers:** Hiroshi Ohashi, president/CEO; Koichiro Abe, senior managing director; Yoshio Shimizu, managing director.

**The Toa Reinsurance Co. of America**

177 Madison Ave., P.O. Box 1930,  
 Morristown, N.J. 07962-1930;  
 973-898-9480; fax: 973-898-9495  
 www.toare.com

Premium written	\$100,454,000	\$88,804,000
Premium earned	\$95,559,000	\$93,021,000
Capital/surplus	\$296,342,000	\$261,044,000
Net income	\$22,423,000	\$49,417,000
Losses	\$67,408,000	\$65,969,000
Loss ratio*	70.5%	70.9%
Expenses	\$29,444,000	\$30,579,000
Expense ratio	30.8%	32.9%
Combined ratio	101.3%	103.8%
Treaty	88.5%	90.5%
Facultative	11.5%	9.6%
Domestic	100%	100%
Non-life	100%	100%

**Founded:** 1922.  
**Parent:** The Toa Reinsurance Co. Ltd.  
**Employees:** 40.  
**Locations:** 1 domestic.  
**Officers:** William L. Munson, chairman/CEO; John J. Hayden, senior vp/secretary/general counsel; Thomas M. Sheehy, senior vp/CFO.  
**Contact:** Thomas M. Sheehy, 973-898-9489, tsheehy@toare.com.

**The Tokio Marine & Fire Insurance Co. Ltd.**

2-1, Manunouchi, 1-chome,  
 Chiyoda-ku,  
 Tokyo, 100-8050 Japan;  
 81-3-5223-3158;  
 fax: 81-3-3285-0132

Premium written	\$728,880,000	\$873,504,000
Capital/surplus	NA	\$18,896,360,000
Domestic	72.5%	71.7%
Foreign	27.5%	28.3%

Fiscal years ending 3/31/99 and 3/31/98.

**Transatlantic Reinsurance Co.**

80 Pine St.,  
 New York, N.Y. 10005;  
 212-770-2000; fax: 212-248-0965  
 www.transre.com

Premium written	\$1,390,944,665	\$1,291,655,248
Premium earned	\$1,380,589,563	\$1,259,250,536
Capital/surplus	\$1,343,658,809	\$1,163,855,714
Net income	\$226,053,752	\$170,301,367
Losses	\$1,020,887,840	\$933,014,917

Loss ratio	73.9%	74.1%
Expenses	\$383,398,103	\$337,160,934
Expense ratio	27.8%	26.8%
Combined ratio	101.7%	100.9%
Treaty	95%	94%
Facultative	5%	6%
Domestic	51%	52%
Foreign	49%	48%
Non-life	100%	100%

**Founded:** 1952.  
**Parent:** Transatlantic Holdings Inc.  
**Employees:** 370.  
**Locations:** 2 domestic, 11 foreign.  
**Specialities:** Transatlantic Reinsurance Co., Putnam Reinsurance Co and Trans Re Zurich, offer reinsurance capacity on both a treaty and facultative basis structuring traditional and non-traditional programs for a full range of property and casualty products.  
**Officers:** Robert F. Orlich, president/CEO; Paul A. Bonny, executive vp/president-international operations; Steven S. Skalicky, executive vp/CFO.  
**Contact:** Seymour H. Katz, skatz@transre.com.

**Trenwick Group Inc.**

1 Canterbury Green,  
 Stamford, Conn. 06901-6876;  
 203-353-5500; fax: 203-353-5536

Premium written	\$250,219,445*	\$195,230,378
Premium earned	\$245,560,396*	\$190,156,361
Capital/surplus	\$462,426,375*	\$322,849,603
Net income	\$47,567,055*	\$42,797,060
Losses	\$153,134,149*	\$109,554,174
Loss ratio	62.4%*	57.6%
Expenses	\$99,394,954*	\$74,680,492
Expense ratio	40.5%*	39.3%
Combined ratio	102.9%*	96.8%
Treaty	70%	98%
Facultative	30%	2%
Domestic	68%	100%
Foreign	32%*	NA
Non-life	100%	100%

\*Includes direct business (approximately 18% of net reinsurance premiums written).

**Founded:** 1984.  
**Parent:** Trenwick Group Inc.  
**Subsidiaries:** Trenwick International, London.  
**Employees:** 147.  
**Locations:** 1 domestic, 1 foreign.  
**Specialities:** specialty property/casualty.  
**Officers:** James F. Billet Jr., chairman/president/CEO; Pierre Croizat, chairman-Trenwick International; James E. Roberts, vice chairman.  
**Contact:** Alan Hunte, executive vp/CFO/treasurer, 203-353-5545.

**U**

**Underwriters Reinsurance Group**

26050 Mureau Road,  
 Calabasas, Calif. 91302;  
 818-878-9500; fax: 818-878-9535

Premium written	\$438,162,000	\$414,191,000
Premium earned	\$420,809,000	\$376,672,000
Capital/surplus	\$636,147,000	\$579,503,000
Net income	\$39,636,000	\$33,393,000
Losses	\$288,259,000	\$261,828,000
Loss ratio	68.5%	69.5%
Expenses	\$136,487,000	\$115,797,000
Expense ratio	32.4%	30.7%
Combined ratio	100.9%	100.2%
Treaty	98%	95%
Facultative	2%	5%
Domestic	75%	85%
Foreign	25%	15%
Non-life	100%	100%

\*1997 results have been restated to reflect the consolidated company.

**Founded:** 1977.  
**Parent:** Alleghany Corp.  
**Subsidiaries:** Commercial Underwriters Insurance, Culver City, Calif.; Newmarket Underwriters Insurance, Culver City, Calif.; Underwriters Insurance Co., Culver City, Calif.  
**Employees:** 367.  
**Locations:** 5 domestic, 4 foreign.  
**Officers:** Steven H. Newman, president/CEO; Russell T. John, COO; Stephen C. Kolskowski, CFO/treasurer.  
**Contact:** Stephen C. Kolskowski.

**X**

**XL MidOcean Reinsurance Ltd.**

P.O. Box HM 1066,  
 Hamilton, HM EX Bermuda;  
 441-292-1358; fax: 441-296-0167

Premium written	\$462,560,000	NA
Premium earned	\$454,377,000	NA

Capital/surplus	\$2,011,236,000	NA
Net income	\$299,862,000	NA
Losses	\$206,454,000	NA
Loss ratio	45.4%	NA
Expenses	\$79,532,000	NA
Expense ratio	17.5%	NA
Combined ratio	62.9%	NA
Treaty	100%	NA
Domestic	2%	NA
Foreign	98%	NA
Non-life	100%	NA

Fiscal years ending 11/30/98

**Founded:** 1998.  
**Parent:** XL Capital Ltd.  
**Subsidiaries:** Latin American Reinsurance, Hamilton, Bermuda.  
**Employees:** 76.  
**Locations:** 2 domestic, 4 foreign.  
**Specialities:** low/high frequency, severity risks including property catastrophe, other property lines, marine, energy, aviation/space.  
**Officers:** Henry C. V. Keeling, president/CEO; James H. Veghte, executive vp/underwriter; Robert L. Nason, executive vp/underwriter.

**Y**

**The Yasuda Fire & Marine Insurance Co. Ltd.**

26-1, Nishi-Shinjuku, 1-chome,  
 Shinjuku-ku, Tokyo, Japan;  
 81-3-3349-3970;  
 fax: 81-3-5322-6013  
 www.yasuda.co.jp

Premium written	\$562,261,935	\$628,298,396
Capital/surplus	\$2,128,248,000	\$2,082,104,000
Net income	\$96,280,000	\$105,896,000
Domestic	81.7%	82.24%
Foreign	18.3%	17.76%
Non-life	100%	100%

Fiscal years ending 3/31/99 and 3/31/98.

**Founded:** 1888.  
**Subsidiaries:** Yasuda Re (Hong Kong).  
**Employees:** 80.  
**Locations:** 1 domestic, 3 foreign.  
**Officers:** Yosuo Goto, chairman emeritus; Koichi Ariyoshi, chairman; Hiroshi Hirano, president.

**Z**

**Zurich Re**

General Guisan-Quai 26,  
 Zurich, 8022 Switzerland;  
 41-1-639-9393; fax: 41-1-639-9090  
 www.zurichre.com

Premium written	\$1,563,540,000	\$1,778,309,000
Premium earned	\$1,655,310,000	\$1,883,726,000
Net income	\$175,950,000	\$277,667,000
Losses	\$1,279,950,000	\$1,546,805,000
Loss ratio	67.9%	82.1%
Expenses	\$439,530,000	\$388,596,000
Expense ratio	23.3%	20.6%
Combined ratio	91.2%	102.7%
Treaty	91.7%	94.4%
Facultative	8.3%	5.6%
Life	3.5%	3%
Non-life	96.5%	97%

**Founded:** 1873.  
**Parent:** Zurich Financial Services Group.  
**Subsidiaries:** Zurich Re, Cologne; Zurich Re (North America) Inc., New York.  
**Employees:** 570.  
**Locations:** 1 domestic, 13 foreign.  
**Specialities:** life; non-life; traditional; non-traditional (structured finite solutions); facultative.  
**Officers:** Dirk Lohmann, CEO-Zurich Re; Richard E. Smith, CEO-Zurich Re (North America); Martin Kaver, CFO-Zurich Re.  
**Contact:** Richard E. Smith.

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# CEOs

Continued from page 1

Johnson, who is based in New York.

Jim Sillery, a senior consultant at Watson Wyatt Worldwide who specializes in executive compensation, said the insurance industry is following a pattern similar to that of the banking industry.

After "the banking industry went through deregulation, compensation is now equal to or greater than what you find in the general (financial services) industry," said Mr. Sillery, who is based in Chicago. As the banking and insurance industries blend, he said, customers are the first to experience the synergies. After a while, there is also cross-influence between the labor markets.

"To a customer, banks and insurers look more similar than ever before," he said. "The market is reflecting a premium that's going to be placed on the type of leader that will make these companies successful through transition."

For the past few years, insurer and reinsurer CEOs have enjoyed sharp increases in their total compensation.

On average in 1998, CEOs of

commercial insurers and reinsurers earned about \$2.17 million in total cash compensation—a 23.8% increase from 1997, when a ranking of similar company CEOs found that pay increased by 14.5% from the prior year. Based on figures published in 1998 company proxy statements, the average CEO pay for 1997 was \$1.75 million.

This year's robust 23.8% increase, however, can be attributed, in part, to a windfall for two CEOs, Citigroup Inc.'s co-CEO Mr. Reed and Lincoln Financial Group's Jon A. Boscia.

Mr. Boscia experienced a jump in total compensation of 885.9% to \$4,279,769 in 1998 from \$434,094 in 1997. This dramatic increase, according to the company proxy, reflects both his appointment in mid-1998 to CEO after Ian M. Rolland's retirement and his success in leading the company effectively.

Mr. Reed's total cash compensation increased 138% in 1998 to more than \$9.5 million, up from \$4.0 million in 1997.

The *Business Insurance* survey results are derived from company annual reports and proxy statements for 1998 as filed to the U.S. Securities and Exchange Commis-

sion. Thirty-four reinsurers and insurers were examined for this annual analysis of CEO compensation.

Of the 35 CEOs surveyed, 23 experienced an increase in total cash compensation, which is made up of salary and bonus. Ten CEOs saw cash compensation decline, and two experienced no change

track perfectly with stock price and net income in the short term.

"The individuals were being rewarded more for minimizing the dropoff in net income and maybe also are being rewarded for not taking business that would amount to losses in the future," said Mr. Chamberlin, who is based in the recruiting firm's New York

\$7,858,333 in 1998. In 1997, his salary was \$1,500,000, and his bonus was \$2,500,000.

As of Aug. 20, the 168,963 shares that Mr. Reed beneficially owned had a market value of \$7,836,503.94, or \$46.38 per share.

Mr. Weill, 65, is the third-highest-compensated CEO among reinsurers and insurers in 1998. His total cash compensation was \$7,192,816, made up of \$1,025,000 in salary and a bonus of \$6,167,816. His total compensation went down slightly in 1998—only 0.003% from 1997, when his total cash compensation was \$7,193,034.

The Aug. 20 market value of Mr. Weill's 9,540,180 beneficially owned shares—also at \$46.38 each—was \$442,473,548.40.

Mr. Chamberlin classifies Citigroup's Messrs. Weill and Reed in a league of their own when examining insurer and reinsurer compensation, because their salaries and bonuses are linked to banking, brokerage operations and insurance profits.

"CEO compensation in the insurance industry has moved up in recent years, but, in my view, it is still somewhat below other large comparable financial service

See CEOs on next page

**On average, CEOs of commercial insurers and reinsurers earned about \$2.17 million in cash compensation in 1998, a 23.8% increase from 1997, when the average was \$1.75 million.**

from year to year.

Twenty-nine of the insurers and reinsurers showed gains in total revenue in 1998. When examining net income, however, just 17 of the 34 companies examined saw an increase, while an equal number saw net income decline from 1997.

Brooks Chamberlin, managing director and head of the global insurance recruiting practice Korn/Ferry International, said he thinks cash compensation doesn't have to

office.

And some CEOs are being rewarded handsomely.

Citigroup's Mr. Reed, for example, not only is one of the CEOs seeing the greatest increase in cash compensation but he also is the highest-compensated insurer CEO. Also ranking among the four most highly paid CEOs in 1998 is Mr. Weill, with whom Mr. Reed shares the title of Citigroup CEO.

Mr. Reed, 60, earned a salary of \$1,666,667 and a bonus of

## The highest-paid CEOs among leading commercial insurers/reinsurers

Rev. Rank	Rank	CEO/Age	Company	1998 cash compensation	1997 cash compensation	% change from 1997	Market value of shares beneficially held <sup>1</sup>	Total 1998 revenues	% change from 1997	1998 total net income	% change from 1997
1	1	John S. Reed, 60	Citigroup Inc.	\$9,525,000	\$4,000,000	138.0%	\$7,836,503.94	\$76,431,000,000	5.7%	5,807,000,000	-13.4%
2	15	Saul P. Steinberg, 59	Reliance Group Holdings Inc.	8,450,000	5,300,000	59.4	172,779,415	3,369,120,000	-2.1	326,449,000	42.3
3	1	Sanford I. Weill, 65	Citigroup Inc.	7,192,816	7,193,034	-0.003	442,473,548.40	76,431,000,000	5.7	5,807,000,000	-13.4
4	3	Maurice R. Greenberg, 73	American International Group Inc.	6,000,000	4,650,000	29.0	1,507,516,734.38	33,296,000,000	8.8	3,766,000,000	13.0
5	5	Wilson H. Taylor, 55	CIGNA Corp.	4,869,000	3,270,200	48.9	18,150,920.18	21,437,000,000	7.0	1,292,000,000	19.0
6	14	Jon A. Boscia, 46	Lincoln Financial Group	4,279,769	\$434,094	885.9	3,378,057.50	6,087,100,000	24.3	509,800,000	-45.4
7	10	Robert M. Devlin, 58	American General Corp.	3,201,346	2,566,154	24.8	13,310,184.00 <sup>2</sup>	10,251,000,000	14.8	764,000,000	41.0
8	4	Jerry D. Choate, 61	The Allstate Corp.	2,993,000	2,719,167	10.1	3,750,485.06	25,879,000,000	3.7	3,294,000,000	6.1
9	21	Brian Duperreault, 51	ACE Ltd.	2,062,500	1,731,258	19.1	6,384,119.42	1,406,942,000	18.6	560,151,000	11.4
10	23	Brian M. O'Hara, 50	XL Capital Ltd.	1,900,000	1,300,000	46.2	15,298,624.11	1,217,648,000	5.1	587,663,000	-13.2
11	7	Ramani Ayer, 51	The Hartford Financial Services Group Inc.	1,781,000	1,198,917	48.6	8,031,621.00	15,022,000,000	11.6	1,015,000,000	-23.8
12	13	Dean R. O'Hare, 56	The Chubb Corp.	1,775,424	2,424,401	-26.8	7,655,953.52	6,349,800,000	-4.7	707,000,000	-8.1
13	24	James A. McIntyre, 66	Fremont General Corp.	1,739,000	1,567,100	11.0	134,537,139.63	1,037,597,000	6.5	132,964,000	22.8
14	22	Joseph V. Taranto, 50	Everest Reinsurance Holdings Inc.	1,691,086	1,604,532	5.4	12,021,262.02	1,315,200,000	1.2	165,200,000	6.6
15	9	Jay S. Fishman, 46	Travelers Property Casualty Corp.	1,635,021	1,403,762	16.5	1,389,208.75	10,451,000,000	5.4	1,343,000,000	8.7
16	16	A.C. Zucaro, 59	Old Republic International Corp.	1,545,768	1,202,825	28.5	2,452,225.86	2,171,700,000	10.6	323,700,000	8.6
17	17	Robert B. Morgan, 64	The Cincinnati Financial Corp.	1,358,360	1,256,646	8.1	49,137,881.37	2,054,289,000	5.8	241,567,000	-19.3
18	25	Herbert N. Haag, 52	PartnerRe Ltd.	1,225,000	1,150,000	6.5	18,596,887.52	879,600,000	42.9	266,300,000	-1.8
19	33	Gerald D. Stephens, 66	RLI Corp.	1,206,724	1,478,587	-18.3	17,093,733.50	168,114,000	-0.77	28,239,000	-6.4
20	30	Robert A. Mulderig, 46	Mutual Risk Management Ltd.	1,114,485	939,192	18.67	13,133,999.85	279,396,000	24.8	63,632,000	30.4
21	19	William R. Berkley, 53	W.R. Berkley Corp.	980,000	3,889,000	-74.8	88,956,665.00	1,582,517,000	13.0	58,760,000	-41.0
22	6	Dennis H. Chookaszian, 55	CNA Insurance Cos.	950,000	950,000	0.0	15,151,162.50	17,074,000,000	0.01	282,000,000	-70.8
23	12	Roger H. Eigsti, 56	SAFECO Corp.	882,136	901,830	-2.2	4,155,418.74	6,452,100,000	37.0	351,900,000	-18.2
24	11	Douglas W. Leatherdale, 62	The St. Paul Cos. Inc.	855,769	1,317,500	35.0	11,028,884.64	9,108,401,000	-5.3	89,348,000	-90.4
25	29	Stephen L. Way, 50	HCC Insurance Holdings Inc.	850,000	800,000	6.3	57,290,964.64	308,034,000	9.9	72,278,000	45.3
26	18	W. Marston Becker, 46	Orion Capital Corp.	834,277	901,180	-7.4	2,826,909.96	1,716,700,000	7.9	102,800,000	-11.2
27	32	Victor H. Blake, 63	LaSalle Re Holdings Ltd.	800,000	1,156,877	-30.8	1,059,068.96	194,546,000	-1.6	51,806,000	-46.6
28	28	B. Frederick Becker, 52	MMI Cos. Inc.	704,000	794,000	-11.3	4,393,993.50	474,893,000	13.9	11,364,000	-66.9
29	35	Alan I. Kirshner, 63	Markel Corp.	654,770	676,038	-3.1	24,371,782.75	52,523,000	25.1	57,293,000	13.6
30	27	Harry W. Rhulen, 35	Frontier Insurance Group Inc.	609,000	338,000	80.2	2,336,221.62	573,992,000	34.4	150,042,000	-2.6
31	31	Charles E. Rinsch, 66	Argonaut Group Inc.	565,000	550,000	2.7	6,254,348.94	267,100,000	4.1	62,700,000	29.3
32	20	Lauren N. Patch, 48	Ohio Casualty Corp.	562,124	530,000	6.1	710,819.52	1,452,259,000	1.03	84,927,000	-38.9
33	26	Walter R. Bateman, 51	Harleysville Group Inc.	538,348	486,028	10.8	1,154,868.00	779,311,000	7.6	63,413,000	17.3
34	34	Merton J. Segal, 70	Meadowbrook Insurance Group Inc.	475,533	509,850	-6.7	59,036.71	134,114,000	32.6	5,870,000	-55.0
35	8	Warren E. Buffett, 68	Berkshire Hathaway Inc.	100,000	100,000	0.0	30,162,373,000.00	13,832,000,000	32.6	2,830,000,000	48.9

1. Market value calculated based on Aug. 20, 1999 share price. 2. Includes shares held in the company's thrift plan.

# CEOs

Continued from previous page organizations," he noted.

Citigroup Inc. of New York saw 1998 revenues increase to \$76.4 billion, up 5.7% from \$72.3 billion in 1997. Net income, however, declined by 12.4% to \$5.8 billion in 1998, down from \$6.7 billion in the prior year.

With a salary of \$2,150,000 and a bonus of \$6,300,000, Saul P. Steinberg, 59, of Reliance Group Holdings Inc. is the second-highest-paid CEO among reinsurers and insurers. His \$8,450,000 1998 total cash compensation is up 59.4% from 1997's figure of \$5,300,000.

Mr. Steinberg beneficially owns 34,555,833 shares. At an Aug. 20 value of \$5.00 per share, Mr. Steinberg's holdings had a market value of \$172,779,415.00.

In 1998, Reliance saw total revenues slide by 2.1% to \$3.37 billion from \$3.44 billion in 1997. Company net income, however, soared to \$326.4 million from \$229.4 million in 1997—an in-

crease of 42.3%. This increase was due to the sale of the company's title insurance operations, according to Reliance's annual report.

of Aug. 20, is \$1,507,516,734.38, or \$94.81 per share.

New York-based AIG's total revenues increased 8.8% to \$33.29

in combined salary and bonus for several consecutive years, Warren E. Buffett's stock holdings are tremendous. At \$63,500 per share on Aug. 20, Mr. Buffett's 474,998 shares are worth a whopping \$30,162,373,000. He owns 35.6% of the stock in the company.

"The chief executive officers today make the majority of their compensation over the appreciation of the stock and the stock price," Korn/Ferry's Mr. Chamberlin noted.

In addition to Mr. Buffett, chief executive officers that own more than 5% of company stock of the 34 companies studied are: Merton J. Segal of Meadowbrook Insurance Group Inc., 35.7%; Reliance's Mr. Steinberg, 31.0%; AIG's Mr. Greenberg, 24.4%; William R. Berkley of W.R. Berkley Corp., 15.0%; James A. McIntyre of Fremont General Corp., 12.0%; Stephen L. Way of HCC Insurance Holdings Inc., 9.6%; and Gerald D. Stephens of RLI Corp., 8.3%.

Fremont General Corp. experienced a two-for-one stock split on Dec. 10, 1998.

There have been several changes at the helm of many of the surveyed reinsurers and insurers. In addition to Lincoln Financial Group, which appointed Mr. Boscia, four other companies ex-

perienced a change in leadership.

Jay S. Fishman, 46, was named CEO and president of Hartford, Conn.-based Travelers Property Casualty Corp. on Oct. 8, 1998, succeeding Robert I. Lipp.

Edward M. Liddy, 53, was named to the position of chairman, president and CEO of Allstate Corp. of Northbrook, Ill., in 1998 following the announcement that Chairman and CEO Jerry D. Choate would be retiring. Mr. Liddy did not take over until Jan. 1.

Also announced in 1998 was the retirement of Dennis Chookaszian, CNA Financial Corp.'s chairman and CEO. Mr. Chookaszian, who retired from the Chicago-based insurer effective Feb. 9, was succeeded by Bernard L. Hengesbaugh.

And in 1998, Robert B. Morgan, president and CEO of Cincinnati Financial Corp., announced his April 1 retirement. John J. Schiff Jr., 55, former president and chief operating officer, succeeded him.

Watson Wyatt's Mr. Sillery sees more transformation on the horizon for insurers and reinsurers. In the "foreseeable future, the main constant for the industry is going to be change."

Elizabeth Lindsey contributed to this report.

## 'The chief executive officers today make the majority of their compensation over the appreciation of the stock and the stock price,' says Brooks Chamberlin.

Although he saw his salary and bonus grow 29% in 1998, Maurice R. Greenberg, chairman and CEO of American International Group Inc., was bumped to the fourth-highest-paid CEO position in the BI 1998 ranking after holding the third position in the prior year. Mr. Greenberg, 73, earned cash compensation totaling \$6.0 million in 1998, up from \$4.55 million in 1997.

The market value of Mr. Greenberg's 15,900,398 beneficially owned company shares of stock, as

billion in 1998 from \$30.60 billion in 1997. Company net income grew to almost \$3.77 billion in 1998, up 13% from \$3.32 billion in the previous year. Calling 1998 a "very challenging year" in the AIG annual report letter to shareholders, the company states that it endured and prospered through both global economic crisis and the soft property/casualty market.

On the opposite end of the compensation spectrum, the CEOs of Berkshire Hathaway Inc., Meadowbrook Insurance Group and Harleysville Group Inc. are among the lowest earners of total cash compensation among insurer and reinsurer CEOs.

Despite receiving just \$100,000

## Mergers

Continued from page 2

a lot of us it gives us the opportunity to look for new vendors."

Speaking as part of a panel examining the impact of insurance industry mergers earlier this month at the Vermont Captive Insurance Assn.'s annual conference in Burlington, Vt., Ms. Small said one real benefit of broker consolidation for her company is that Bell Atlantic now is talking directly to some insurers it would not have approached directly in the past.

"Also, there's a lot of smaller brokers out there who do a good job, and I think this is a good time

to search those people out," the risk manager said.

"Don't get yourself thinking that there's only two brokers out

## 'You don't want an underwriter who's unfamiliar with your account writing the business,' says Mark Boll.

there," said another panelist, Henry L. Good, director of insurance at Rohm & Haas Co. in Philadelphia.

"The issue here isn't bigness, it's

value," Mr. Good said.

"I really truly believe there are a lot of channels of information out there," added Ms. Small. "It's not just the two big brokers."

Although the mergers do present new opportunities, they bring both positives and negatives, the panelists said.

Ms. Small noted that in her broker relationships, there sometimes were "weak links" in the form of coverage areas or particular exposures where some brokers were stronger than others.

"I think that we all agree that when some of the companies merged there were enhanced capabilities," Ms. Small said.

"In the mergers of some of the brokers, some of my weak links were really strengthened," she said.

On the negative side, "There was some disruption of team members," Ms. Small said. "Another nuisance element was people changing addresses and phone numbers."

Consolidation among insurance companies raises its own group of issues.

While saying the merger phenomenon hasn't had a great impact on his company so far, Mark M. Boll, director of risk management at Apogee Enterprises Inc. in Minneapolis, agreed that they have their downsides.

"One of the liabilities associated with a merger is a loss of a relationship," Mr. Boll told the audience. "Many of you are very complex companies, and you've spent years grooming your underwriters to understand your risk. And if that underwriter is consolidated out, that's going to cost you money."

At Apogee, "We were fortunate that our underwriter survived a merger," the risk manager said.

"Relationships are critical," Mr. Boll said, adding, "You don't want an underwriter who's unfamiliar with your account writing the business."

Relying on an underwriter unfamiliar with the customer company's business could result in gaps in coverage or misunderstandings when claims are made, he said.

Mr. Good told the audience that in evaluating options in the cur-

See Mergers on page 44



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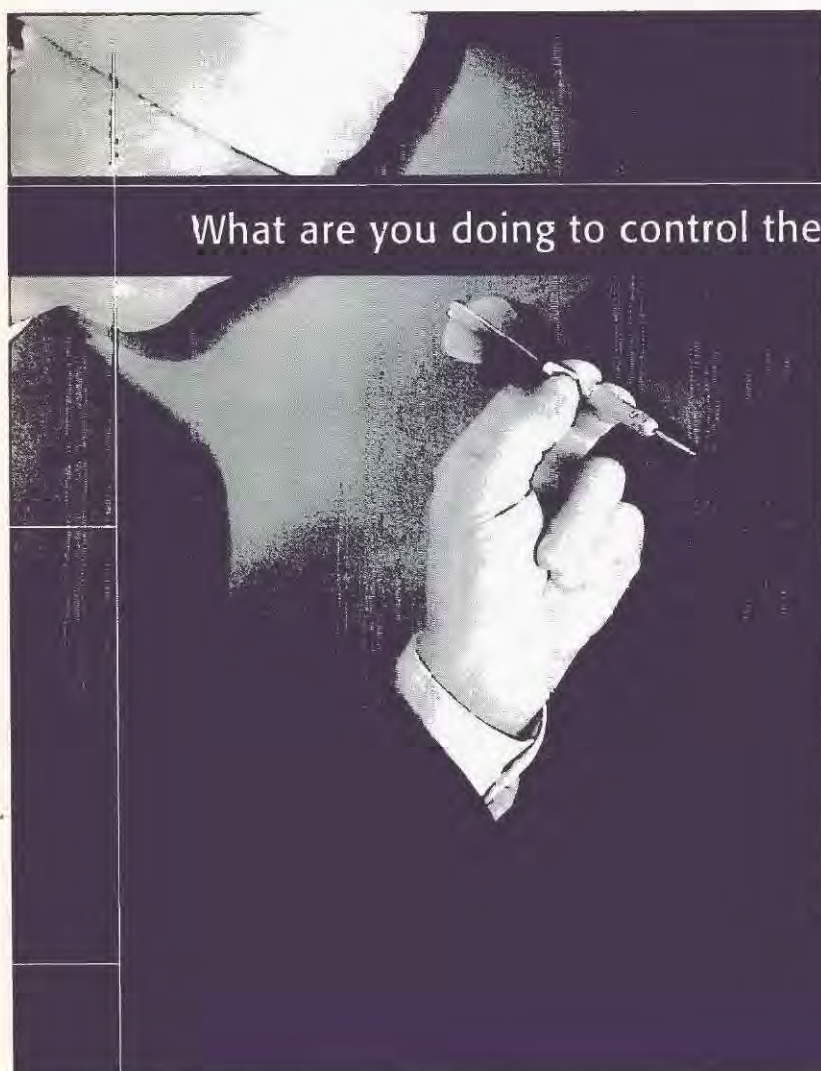
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# Risks

Continued from page 44

minimize the volatility of retained losses and the potential for future surprises, can result in diversification of the company's risk portfolio and could form the foundation of a captive program, he remarked.

According to Ms. Helbling, the objectives of risk landscaping include:

- Articulating the company's risk appetite in a framework that can be applied across all its operations.
- Developing a catalog of critical risks to the company and ensuring that appropriate processes are in place to manage them.
- Developing a dynamic financial model of the firm that incorporates all major risks that affect earnings.

In terms of the process itself, the five steps to risk landscaping are measurement, classification, identification, assessment and analysis, she said.

Among the initial aspects of risk landscaping are obtaining external advice, discussing severity parameters, profiling possible causes of losses and creating "risk baskets," said Mr. Falloon.

In this latter step, it's important not to be confused with what the insurance markets will assume to be the risks before the company, Mr. Falloon said. "There are many things that can bring a business down that need to be looked at," he said.

One example of such a "basket" could include such risks as financial, political/social, organizational, customer, employee, production, operation, physical and the "Great Unknown," Mr. Falloon said.

Using an outside consultant in this process can be useful, according to Ms. Helbling, in breaking down barriers to the process within the company and in providing an objective view of the risks be-

**'There are many things that can bring a business down that need to be looked at,' says Mark Falloon.**

fore the company.

"The consultant must be able to see all sides of the process," agreed Mike Lusk, a senior vp at IRMG in Iselin, N.J. "Sometimes the corporation doesn't want to hear that it has all this risk."

The first thing the consultant

has to do is make sure the corporation understands its real cost of risk, Mr. Lusk said.

And, in assessing a company's risk tolerance, he noted the critical issues are emotional factors—"the point at which the risk manager or the CFO can sleep at night," financial considerations as to how much risk the company actually can absorb, and the capital markets' views, according to Mr. Lusk.

"You don't want to absorb so much risk that if you have a loss the capital market is going to downgrade your stock," Mr. Lusk said.

The consultant also can play a key role in making the case to the insurance and reinsurance markets to whom the company hopes to transfer the baskets of risk it has identified.

For all its benefits, Ms. Helbling noted that it is possible to go too

far with the risk landscaping process.

For example, it's important "to understand when it makes sense to hedge a risk and avoid over-hedging," Ms. Helbling said.

It's also important to remember that when risks are identified, there might be disclosure issues involved. The question then becomes, "can you handle the truth?" she said.

"If you identify it, you have to disclose it," Mr. Lusk said. "You have to identify what you really want to know."

It's also important to avoid "analysis paralysis," he emphasized.

"You're never going to get to 100%," Mr. Lusk said. "You have to decide you're not going to get into this analysis paralysis where you just crunch numbers and crunch numbers and crunch numbers." **B**

## Call for Nominations

### Risk Manager of the Year Risk Management Honor Roll

Nominations for the 2000 *Business Insurance* Risk Manager of the Year and Risk Management Honor Roll are now being accepted.

The Risk Manager of the Year Award was created in 1977 by *Business Insurance* to increase recognition of the risk management profession and to recognize outstanding performance in the practice of risk management.

Anyone involved in risk management for a corporation, not-for-profit institution or government entity can be nominated.

The nominations will be judged by a panel of professionals representing all aspects of risk management and the commercial insurance industry.

The honorees will be announced in the May 1, 2000 issue of *Business Insurance* which will be distributed at the Risk & Insurance Management Society Inc. Conference.

For nominating forms and instructions, call 312-649-5319 or e-mail: ktucker@crain.com

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## Third-party risks can add value to captive: Panel

By RODD ZOLKOS

BURLINGTON, Vt.—Writing controlled third-party business through a captive can increase the captive's efficiency while also providing additional benefits for the captive parent, say experts who've worked with such programs.

Michelle M. Scott, assistant vp of risk management at Service Merchandise Co. Inc. in Brentwood, Tenn., noted that third-

party business can create additional profit opportunities for a company, converting the risk management department from a cost center to a profit center.

And because of the portfolio effect, increasing the diversity of business in the captive can bring with it the ability to better predict overall losses, Ms. Scott said.

By writing a more diverse portfolio of risks, the captive parent can take advantage of the probability that while some individual losses might be higher or lower than predicted, the captive's overall performance will more closely track projections.

Also, in the United States, a further benefit is the possibility of improving the parent company's tax position, she added.

Those pluses must be weighed against potential negatives, though, according to Ms. Scott.

For one thing, accepting third-party business can increase the captive's capital requirements.

"Sometimes it's the financial constraints," she said. "How much business you're running through your captive relates to how much cash you need to capitalize your captive."

"Also, when you start running third-party business through your captive, sometimes you can get out of your core competency," Ms. Scott continued.

The risk appetite of the company can be a deterrent to writing third-party business through the captive. "Sometimes your company may be very conservative and they just might have a risk aversion problem," she said.

Potential sources of third-party business could include personal lines coverages for employees; extended warranty, credit life/disability or travel accident coverage for customers; or property

and casualty coverages for suppliers or vendors.

In addition to the possibility of generating profits, third-party business can allow the captive's parent company to provide value-added benefits to its business partners, said Anthony Rodolakis, vp-risk management at Starwood Hotels & Resorts Worldwide Inc. in Phoenix.

"We are encouraged by our organization to be as creative as we can to serve our customers and find ways to make profits for the company," Mr. Rodolakis said.

To that end, Starwood has been using its Vermont-domiciled Westel Insurance Co. captive to write controlled third-party workers compensation and general liability coverages.

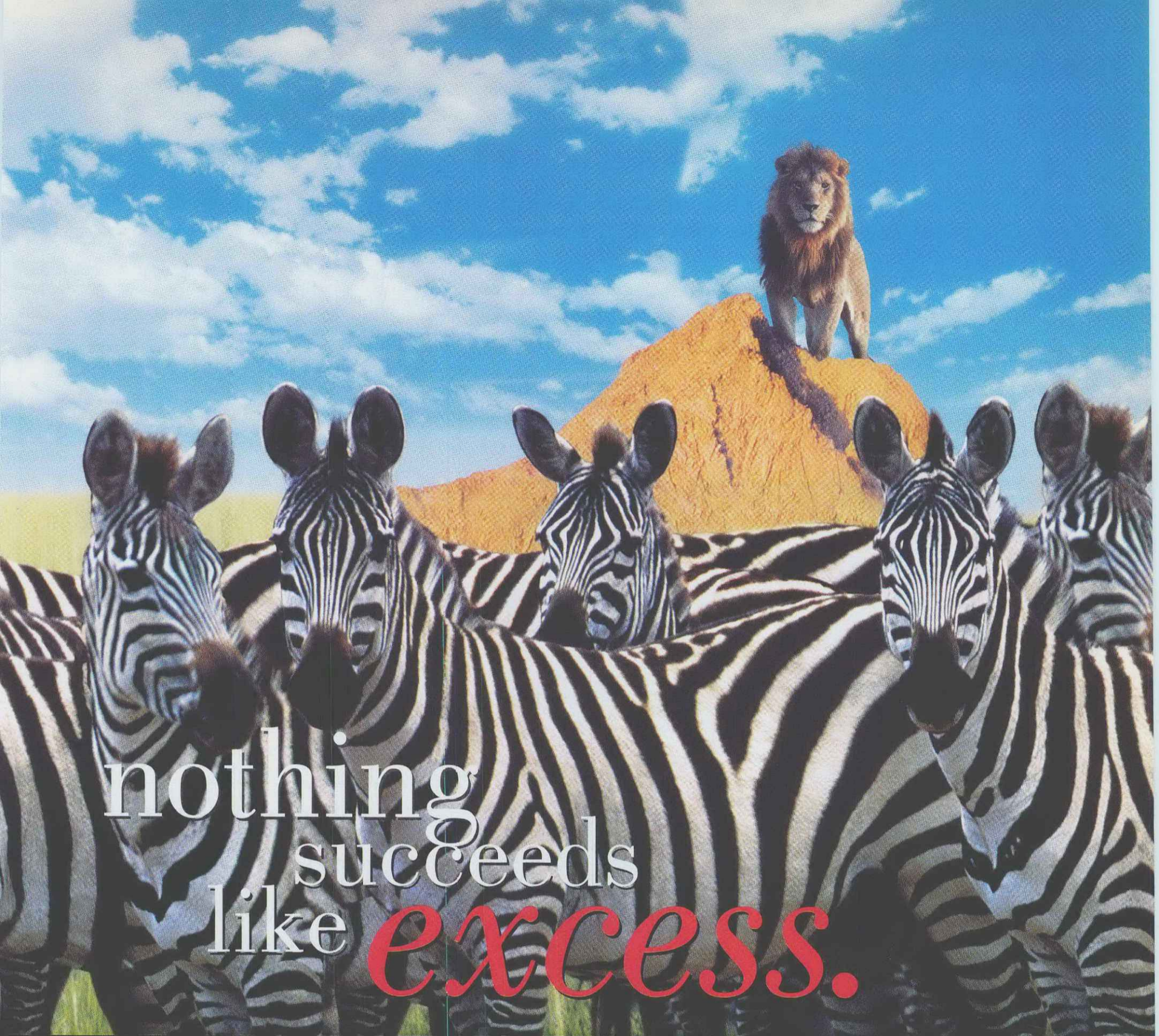
Current participants in the third-party programs written through Starwood's captive include third-party Starwood hotel owners and joint-venture partners.

Future participants could include franchisees, suppliers, competitors or employees, Mr. Rodolakis said. "If you're not a participant, you're a prospect," he said.

Racine, Wis.-based Case Corp. and its Case Credit Corp. subsidiary have taken a similar approach, using the company's Bermuda-domiciled Eagle Global Insurance Co. Ltd. as a

See Third party on page 48





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## Third party

Continued from page 46

way to provide added value to Case dealers, according to Tom Fitzgerald, director of the strategic account management practice of Aon Insurance Managers in Chicago.

Case Credit seeks to be the sole financial service provider for Case's dealers and customers, and Case Credit Insurance Agency provides insurance products that fit into that strategy, Mr. Fitzgerald said.

As part of that effort, an obvious product to provide was dealer package insurance, Mr. Fitzgerald noted, and the captive began underwriting that coverage in April 1998.

Case Credit outsources operation of its insurance agency to Mr. Fitzgerald and his team, who are responsible for program development and delivery.

"The dealers look to us to provide them value," Mr. Fitzgerald said. "And we sure offer them alternatives."

For all their potential benefits, Mr. Rodolakis suggested there are

Another issue is the conflict between making a profit and providing a value-added service to participants, the Starwood risk manager said.

"We're a little concerned that

**'We're a little concerned that we're pricing ourselves out of the business. What it really comes down to is we have big-time conflicting objectives,' says Anthony Rodolakis.**

several issues for captive owners to contend with in writing third-party business, including dealing with management's profit expectations.

"I find that I spend a lot of my time managing expectations of the organization," he said.

we're pricing ourselves out of the business," he said. "What it really comes down to is we have big-time conflicting objectives."

In determining whether to write controlled third-party business through a captive, research is criti-

cal, according to Ms. Scott.

A company needs to identify possible sources of third-party business that make sense, she said. During this process, the risk manager should invite input from others in the company who might be affected by the move, such as human resources, sales or vendor relations.

The company also must determine whether there are any commitments to other business partners that might present contractual constraints to any third-party business plan.

The next step, Ms. Scott said, is to conduct a thorough analysis of the loss history of all third-party business being considered.

"You want to understand where the losses come from in this third-party business; what, if anything, you can do to affect them," Ms. Scott said.

The company also must determine what impact the third-party business might have on its current obligations.

But exploring new business opportunities, both third-party and otherwise, will lead to the most effective use of a captive, Ms. Scott said, and she suggested risk managers should challenge their brokers or captive management companies to present new business ideas.

B1

## More than 800 attend

BURLINGTON, Vt.—The 14th annual conference of the Vermont Captive Insurance Assn. drew 807 attendees to Burlington, Vt., Aug. 17-20.

Those attending this year's gathering came from 38 states and eight countries and included 140 first-time attendees.

The conference included the presentation of two annual awards.

The VCIA's Captive Crusader Award, awarded by the VCIA staff for exceptional service to the association, was presented to Richard McCarthy, director of research at

the American Land Trust Assn., parent of Title Industry Assurance Co.-RRG.

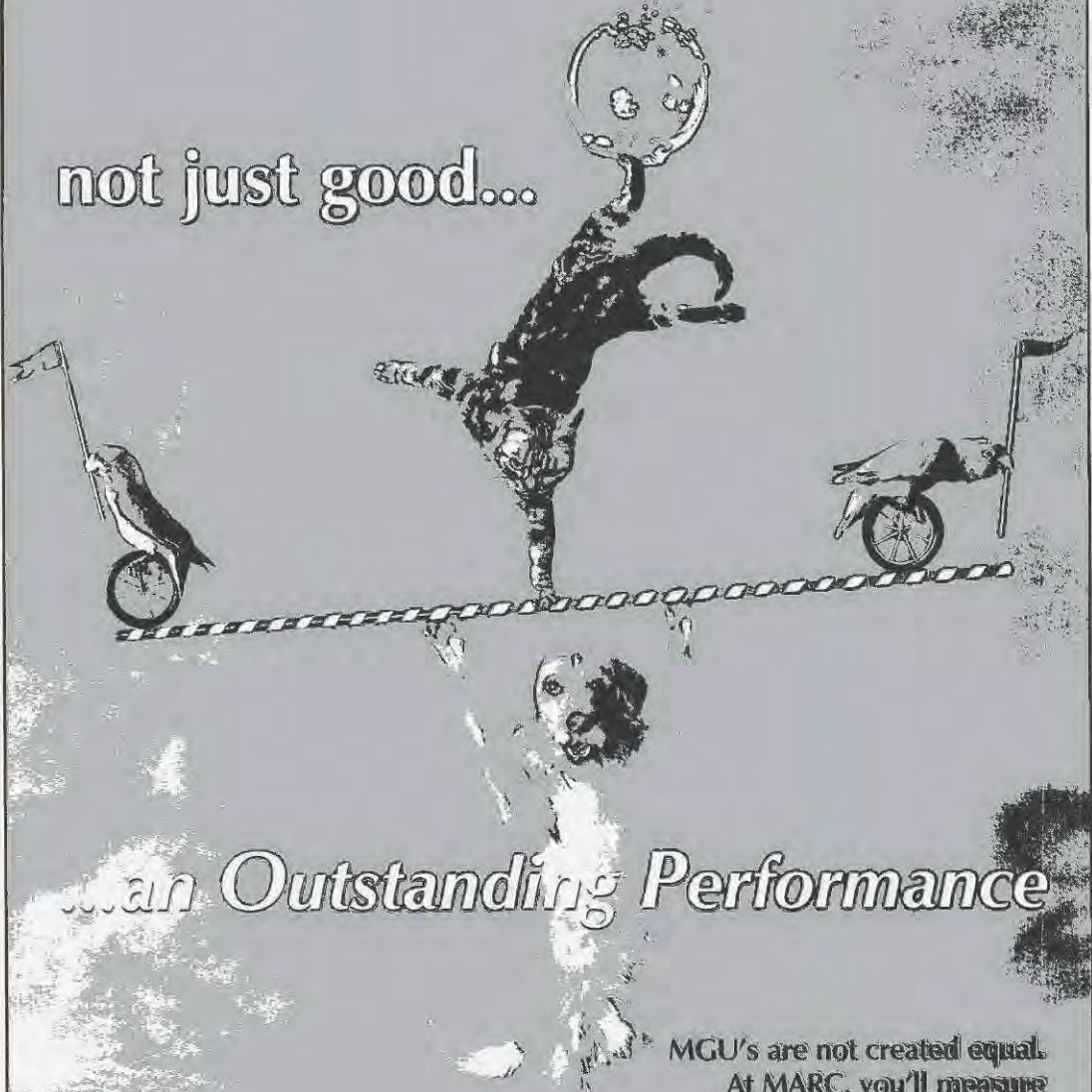
And the VCIA's Industry Service Award, honoring contributions to the Vermont cap-



tive industry, was presented to Richard C. Heydinger, director of risk management services at Kansas City, Mo.-based Hallmark Cards Inc., parent of HC Insurance Co.

The VCIA's 15th annual conference is scheduled for Aug. 8-11, 2000, in Burlington. For more information, contact the VCIA at 802-658-8242.

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# Datebook

## SEPTEMBER

**SEPT. 13-14. Casualty Loss Reserve** seminar in Scottsdale, Ariz., sponsored by the Casualty Actuarial Society; \$550 for members and students and \$650 for non-members. Casualty Actuarial Society, 1100 N. Glebe Road, Suite 600, Arlington, Va. 22201; 703-276-3100.

**SEPT. 13-17. Fundamentals of Global Benefits Management** conference in San Francisco, sponsored by the International Foundation of Employee Benefit Plans; \$1,475 for members and \$1,725 for non-members. IFEBP, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

**SEPT. 16. Emerging Business Insurance Issues for the New Millennium-Y2K** seminar in Rosemont, Ill., sponsored by Lorman Education Services; \$199. Lorman Education Services, P.O. Box 509, Eau Claire, Wis. 54702-0509; 715-833-3959.

**SEPT. 16-18. Assn. for Worksite Health Promotion International Conference** in Nashville, Tenn., sponsored by AWHP and other industry leaders; \$420 for members and \$570 for non-members. AWHP 1999 Annual International Conference, 60 Revere Drive, Suite 500, Northbrook, Ill. 60062; 847-480-9574.

**SEPT. 19-21. Houston Marine Insurance Seminar** in Houston, sponsored by Marine Insurance Seminars Inc; \$300. Houston Marine Insurance Seminar, c/o Michael K. Bell, Bell, Ryniker & Letourneau P.C., 5 Post Oak Park, 4400 Post Oak Parkway, Suite 1300, Houston, Texas 77027; 713-430-6124.

**SEPT. 19-22. National African American Insurance Assn.** annual conference in New Orleans, sponsored by the NAAIA; \$185 for members and \$195 for non-members. NAAIA, 4010 Executive Park, Suite

406, Cincinnati, Ohio 45241; 513-733-8732.

**SEPT. 19-22. National Assn. of Mutual Insurance Companies** annual convention in San Antonio, sponsored by NAMIC; \$380 for members, \$500 for non-members. NAMIC, Judi Sanders, P.O. Box 68700, Indianapolis, Ind. 46268; 317-875-5250.

**SEPT. 21-24. Mergers and Acquisitions in the Insurance and Financial Services Industry** conference in Southampton, Bermuda, sponsored by Strategic Research Institute; \$1595. Strategic Research Institute, 333 Seventh Ave., Ninth Floor, New York, N.Y. 10001-5004; 800-599-4950.

**SEPT. 22-24. National Assn. of Dental Plans** annual conference in Palm Springs, Calif., sponsored by NADP; \$1,600 for members and \$1,850 for non-members. Amy B. Shaw, NADP, 5001 LBJ Freeway, Suite 375, Dallas, Texas 75244-6160; 972-458-6998, ext. 106.

**SEPT. 22-23. National Employee Benefits Institute Foundation Fall Legislative Conference** in Washington, sponsored by NEBI. Free for members and \$450 for non-members. NEBI, 1350 Connecticut Ave. N.W., Suite 600, Washington 20036; 888-822-1344.

**SEPT. 23-24. Environmental Liability Management** conference in Dallas, sponsored by The Institute for International Research; \$1,395 for main conference only. IIR, P.O. Box 102914, Atlanta, Ga. 30368-2914; 888-670-8200.

**SEPT. 27-OCT. 1. Independent Insurance Agents of America Annual Convention and Trade Show** in Las Vegas, sponsored by IIAA; \$469 for members and \$545 for non-members. IIAA, 127 S. Peyton St., Alexandria, Va. 22314; 800-221-7917.

## OCTOBER

**OCT. 2-6. National Assn. of Insurance Commissioners Fall National Conference**

in Atlanta, sponsored by the NAIC; \$425. NAIC Meetings Department, P.O. Box 87-5410, Kansas City, Mo. 64187-0335; 816-889-4400.

**OCT. 3-5. 1999 Managed Care Institute** in Palm Beach Gardens, Fla., sponsored by the Healthcare Financial Management Assn.; \$795 for members and \$895 for non-members. HFMA, Terry Arya, 2 Westbrook Corporate Center, Suite 700, Westchester, Ill. 60154; 800-252-4362, ext. 362.

**OCT. 3-6. American Society for Healthcare Risk Management** annual conference in Chicago, sponsored by ASHRM; \$475 for members and \$575 for non-members. American Society for Healthcare Risk Management, 1 N. Franklin St., Chicago, Ill. 60606; 312-422-3980.

**OCT. 3-6. International Society of Certified Employee Benefit Specialists Symposium** in Orlando, Fla., sponsored by ISCEBS; \$650 for members and \$750 for non-members. Edey Biber, ISCEBS, P.O. Box 209, Brookfield, Wis. 53008-0209; 414-786-8771.

**OCT. 12-16. Self-Insurance Institute of America Inc. National Educational Conference and Expo** in Washington, sponsored by SIIA; \$795 for members and \$1,195 for non-members. P.O. Box 15466, Santa Ana, Calif. 92735; 800-851-7789.

**OCT. 14-15. Critical Illness Insurance Products and Services** seminar in Las Vegas, sponsored by the Mass Marketing Insurance Institute; \$295 for members and \$390 for non-members. Mass Marketing Insurance Institute, 2841 Ma'n, Kansas City, Mo. 64103; 816-221-7575.

**OCT. 17-19. Chartered Property & Casualty Underwriters Annual Meeting** and seminars in Boston, sponsored by the CPCU Society; \$425 for members and \$475 for non-members. CPCU Society, P.O. Box 3009, Malvern, Pa. 19355-0709, 800-932-2728, ext. 2769.

**OCT. 18-19. Risk Management and Employee Benefits Conference and Exhibition** in Chicago, sponsored by the Chicago and Wisconsin Chapters of the Risk and Insurance Management Society Inc. \$275. REBEX '99, 60 Revere Drive, Suite 500, Northbrook, Ill. 60062; 847-480-9712.

**OCT. 18-20. Business Insurance Seventh Annual Workers Compensation and Disability Management Conference** in Marina del Rey, Calif., sponsored by Business Insurance in conjunction with International Business Forum; \$695 for risk managers, \$995 for all others. International Business Forum, 100 Merrick Road, Suite 500, West Building, Rockville Centre, N.Y. 11570; 516-594-3000.

**OCT. 19-20. PricewaterhouseCoopers Annual Executive Conference for the Life Insurance Industry** in New York, sponsored by PricewaterhouseCoopers; \$1295; 704-541-2800.

**OCT. 20-22. Offshore Life and Annuities Forum** in Nassau, Bahamas, sponsored by International Business Communications; \$1,599. IBC USA Conferences Inc., 225 Turnpike Road, Southborough, Mass. 01772-1749; 508-481-6400.

**OCT. 21-22. Florida Reinsurance Forum** in Orlando, Fla., sponsored by Reinsurance Directions Inc.; \$795. Paul Walther, Reinsurance Directions Inc., 120 International Parkway, Suite 220, Heathrow, Fla. 32746; 407-333-1600.

**OCT. 27-29. Annual National Disability Management Conference & Exhibition** in Washington, sponsored by UNUM Life Insurance Co. of America; \$1,025 for members and \$1,145 for non-members. Ann Makowski, Washington Business Group on Health, 777 N. Capitol St. N.E., Suite 800, Washington 20002; 202-408-9320.

**OCT. 29-NOV. 3. Annual Employee Benefits Conference** in Orlando, Fla., sponsored by the International Foundation of Employee Benefit Plans; \$750. IFEBP, 18700

W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

**OCT. 31-NOV. 3. National Assn. of Independent Insurers** annual meeting in San Diego, sponsored by the NAI. \$400 for members and \$500 for non-members. NAI, P.O. Box 78070, Milwaukee, Wis. 53278-0070; 847-550-9353.

## NOVEMBER

**NOV. 4-5. Health Technology Assessment Information Service Conference** in Philadelphia, sponsored by ECRI. \$295 for members and \$595 for non-members. Michele Patterson, ECRI, 5200 Butler Pike, Plymouth Meeting, Pa. 19462-1298; 610-825-6000, ext. 5519.

**NOV. 10-12. Professional Liability Underwriting Society** annual conference in New York, sponsored by PLUS. \$720 for members and \$900 for non-members. PLUS office, 4248 Park Glen Road, Minneapolis, Minn. 55416; 800-845-0778.

**NOV. 14-17. Ninth World Captive and Alternative Risk Financing Forum** in Miami, sponsored by *Business Insurance*, Skandia/Sinser and Tillinghast-Towers Perrin; \$975 for risk managers, \$1,250 for all others. Tina Gassman, World Captive Forum, 4248 Park Glen Road, Minneapolis, Minn. 55416; 612-928-4659.

*The Datebook is compiled from notices sent to Business Insurance. Notices should be sent at least eight weeks in advance to Datebook, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590. Please include the cost, if any, to attend the meeting and information on registration for interested readers. Business Insurance reserves the right to select meetings of most interest to its readers and cannot guarantee that notices will be printed. Datebook listings also are available on the World Wide Web at <http://www.businessinsurance.com>.*

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## INTERNATIONAL

## Global Briefs

Aon Corp. and ACE Insurance Ltd. have developed a protection and indemnity coverage vehicle for oil tankers intended to rival coverage provided by established P&I clubs. Jim Pierce, managing director of Aon Natural Resources' North American operations, which co-developed the coverage with ACE, said the plan "increases pollution coverage limits available to ship owners, improves insuring conditions and does so via an extremely attractive fixed-cost plan." ACE will underwrite the first \$500 million of liability coverage for risks emanating from tanker operations . . . **HCC Insurance Holdings Inc.** is buying London-based underwriting agency Feasey Slot Management Ltd. FSM was formed in 1998 to specialize in accident and health reinsurance, and it currently underwrites on behalf of HCC's subsidiaries Houston Casualty Co., as well as a consortium of Lloyd's of London syndicates. . . . The **Paris High Court** has postponed until Aug. 31 its hearing into whether London-based insurer CGU P.L.C. should be allowed to keep some 3.6 million shares it bought in French bank Societe Generale during a recent French banking merger battle. The case was brought after the Commission des Operations de Bourse filed a legal action aimed at annulling the share purchase on the grounds it broke stock market regulations that forbid off-market share purchases during a public offering. CGU said it bought the shares to protect a commercial partnership it has with Societe Generale. . . . Lloyd's insurance group **SVB Holdings P.L.C.** has transferred to Swiss Reinsurance Co. its economic interest and exposures for the 1997 and 1998 years of account for the spread portfolio of syndicates held by former Lloyd's corporate spread investor Syndicate Capital Trust P.L.C. SVB will keep the first £1.5 million (\$2.4 million) in profit from the Syndicate Capital Trust participations, though its involvement in SVB syndicate 1007 has been excluded from the deal. The announcement comes days after Lloyd's insurance group CLM Insurance Fund P.L.C. revealed it is in merger talks with SVB . . . **Fortis Group**, the Brussels-based international financial services group, has merged American Bankers Insurance Group Inc., of Miami—which Fortis bought earlier this month—with American Security Group of Atlanta. The new entity is called Assurant Group. Fortis said the merger will create the United States' biggest credit-related insurer, with annual gross premiums of more than \$3.6 billion. . . . Deloitte & Touche has hired **Justin Balcombe** to work in its business insurance consulting service in London. Mr. Balcombe was previously with Marsh Insurance Brokers, where he provided risk management solutions to the utility industry. . . . Lloyd's insurance group **Amlin P.L.C.** acquired £11.1 million (\$17.6 million) of capacity on its managed syndicates at Lloyd's latest auctions. This takes Amlin's capacity acquired so far in 1999 to £56.6 million (\$8.9 million), and the group indicated it intends to purchase more capacity in this year's remaining four auctions. . . . Willis Corroon Group Ltd. has published a **guide to jurisdictions and legislation affecting directors and officers** in over 20 countries. The guide, "Directors' and Officers' Liability—A Worldwide Perspective," is available for £200 (\$317) from Oliver Brew, Global & Executive Risks Practice, Willis Corroon, 1 Camomile St., London EC3A 7LA.

## China Airlines insured for crash

## Third crash in five years for airline

By EDWIN UNSWORTH and DAVE LENCKUS

LONDON—China Airlines Ltd. has \$80 million of hull coverage and \$1.5 billion of liability insurance for a passenger jet destroyed in a crash landing last week at Hong Kong's Chek Lap Kok airport.

Aon Corp. in London brokered the coverage, which is led in the London market by AIG Europe (UK) Ltd.

While the Boeing MD-11 aircraft was a total loss, liability claims should be relatively low, as only two of the 315

passengers and crew were killed. Some 213 passengers were injured, however, in the incident. The plane scraped a wing on the runway while trying to land, caught fire and flipped over.

In the past five years, China Airlines has had a comparatively poor safety record and, as a result, the cost of its insurance coverage has increased considerably. In 1994 and 1998 it had crashes in Japan and Taiwan, respectively, which killed a total of 466 people.

According to an aviation See Crash on next page



PHOTO: AFP  
The China Airlines MD-11 flipped over after landing at Hong Kong's Chek Lap Kok airport last week.

## Cruise, cargo ships collide in Channel

By EDWIN UNSWORTH

LONDON—International investigations are under way after the collision of a luxury cruise liner and a container ship—both with state-of-the-art navigation equipment—in the English Channel in the early hours of Aug. 24.

Insurers are still awaiting assessments of the damage.

While the passenger ship, the *Norwegian Dream*, suffered damage to her bow, she was able to make it to her destination, the Port of Dover in England. Only 21 of the 2,400 passengers and crew on board were hurt—all with minor injuries.

But it took more than 36 hours to bring under control a fire fueled by cargo on board the 52,000-metric ton *Ever Decent*, which was carrying about 3,000 cargo containers. The ship's mixed cargo included paints and chemicals.

Damage to the *Norwegian Dream*, owned by NCL Holding ASA of Oslo and registered in the Bahamas, was still being assessed last week, but was not extensive. The cruise ship's hull is insured for \$208 million. Unitas Gjensidig Assuransforening of Oslo, Norway, confirmed that it leads the coverage but was not willing

to comment further. About 11% is placed in the London market, though London's exposure is likely to increase through reinsurance.

The *Norwegian Dream* also had indemnity cover with Assuransforeningen Skuld, a Norwegian protection and indemnity club.

The vessel was on the final leg of a 12-day Scandinavian cruise when the collision occurred. Norwegian Cruise Line has canceled the next cruise and has promised to refund those customers their fares and provide compensation for their lost vacations.

The *Ever Decent*, which is registered in Panama and owned by Taiwan-based Evergreen Marine, one of the world's largest shipping companies, has hull and machinery coverage for \$52 million, placed in London. Its collision liability cover is with Assuransforeningen Gard, a P&I mutual based in Arendal, Norway.

A spokesman for Gard said damage assessment could not be made until the vessel had been towed to port and a thorough survey undertaken.

Because the incident occurred in international waters, the major investigations will be undertaken by officials in



PHOTO: AFP  
The container ship *Ever Decent* burns off the coast of England after colliding with the cruise line *Norwegian Dream*.

## S&amp;P affirms Lloyd's rating

By SARAH GODDARD

LONDON—In spite of increasingly shaky conditions for some Lloyd's of London syndicates, the market overall remains generally stable, according to rating agency Standard & Poor's.

## LLOYD'S

S&P last week affirmed its A+ insurer strength rating for the Lloyd's market collectively in its Lloyd's Market rating publication, just days after it had issued a report warning of a general deterioration of results at the syndicate level.

Although the two reports are separate—and S&P is keen to emphasize that—there are in-

dications in both that Lloyd's faces rocky times ahead.

In particular, the report affirming the market's insurer strength rating acknowledges that Lloyd's may be more susceptible than its competitors to the vagaries of the insurance cycle, meaning that its market results show greater volatility than those of its competitors.

"Lloyd's earnings are strong over the course of insurance cycles, though they are more volatile than many other rated companies," stated S&P. "Post (reconstruction and renewal) closed-year earnings have been extremely strong, although they are now declining significantly," the report added.

S&P expects the market to show "satisfactory profitability" when it reports its 1997

See Lloyd's on page 16

Insured quake loss could hit \$2 billion  
Lloyd's agency offers estimate

By MARIA KIELMAS

Insured losses from the earthquake in Turkey earlier this month could total \$2 billion and may be significantly greater, according to estimates by Wellington Underwriting P.L.C.

Wellington, an underwriting agency at Lloyd's of London, based its loss estimate on assumptions of property catastrophe reinsurance coverage, proportional reinsurance treaties and direct insurance both within and outside Turkey, according to underwriter Terry Taylor.

Total damage to the Tupras oil refinery in Izmit, the largest single economic loss in the vicinity of the earthquake, has been estimated at \$200 million, according to London brokerage Willis Corroon Group Ltd.

Willis placed the \$1.2 billion property insurance program for the refinery, which is believed to be the largest commercial loss from the quake (*BI*, Aug. 23).

According to a Willis spokesman, the extent of the damage at the refinery will not be known until the broker's loss adjuster reports. He said one of the chimneys on the crude unit at the refinery had collapsed and damaged a furnace. There has also been some damage to naphtha tanks. Production is suspended at the refinery, though Willis did not say if Tupras is insured for business interruption losses as part of its coverage.

Munich Reinsurance Co., the largest reinsurer of Turkish risks, did not participate in the facultative reinsurance See Quake on next page

# Crash

Continued from previous page  
market source, on the renewal of its fleet coverage in October 1998, China Airlines paid a total premium of more than \$49.5 million for hull and liability coverage, 52% more than the near \$32.5 million it paid a year earlier. The increase resulted from a 50% liability rate increase and a 35% hull rate increase. The hull premium increase was driven in part by a 21% rise in the airline's fleet value.

The airline is not a member of

the International Air Transport Assn. and so, for liability purposes, is likely to be bound by the Warsaw Convention. The convention limits an airline's liability on international flights to between \$10,000 and \$145,000 per passenger, depending on the region, unless willful misconduct can be proved.

The global regime for aviation liability claims has been changing markedly over the past few years in favor of passengers.

The change was led by a number of IATA members who were signatories to the 1997 Intercarrier Agreement, under which they in-

creased their liability from Warsaw Convention levels to 100,000 Special Drawing Rights (\$136,330). An SDR is a instrument that consists of a basket of currencies.

In May, the International Civil Aviation Organization launched the 1999 Montreal Convention, which will impose strict liability of 100,000 SDRs on airlines for passengers' deaths and injuries and will allow passengers and their families to sue international airlines in passengers' local courts (BI, June 7).

However, the convention is not expected to come into force for at

least a year, as it must be ratified by 30 ICAO members.

A team of U.S. aviation officials has traveled to Hong Kong to investigate the China Airlines crash. The plane landed in bad weather, as Typhoon Sam lashed Hong Kong with winds of up to 76 mph.

Wind shear, a radical change in wind direction, is being suggested as one of the possible causes of the crash. Cathay Pacific Airways Ltd. already had diverted two flights bound for Hong Kong because of the weather conditions.

Two days after the China Airlines incident, another Taiwanese plane, an MD-90 of UNI Airlines, made an emergency landing following a suspected on-board fire or explosion during a domestic flight from Taipei to Hualien. All 90 passengers and crew were evacuated, though about 25 individuals on board were reported to have

been injured before the plane was engulfed in flames.

The UNI plane, which was destroyed by the fire, was insured for \$30 million, though details of where the coverage was placed were not available.

Insured aviation claims in the first six months of 1999 totalled \$590.2 million, consisting of \$485.69 million of hull claims and \$104.5 million of liability claims, according to aviation market sources. Overall, passenger fatalities totalled 126. In 1998, hull and liability claims were \$1.66 billion, consisting of \$933.15 million of hull claims and \$739.55 million of liability claims. However, last year's figures were heavily affected by the Swissair crash in September, which resulted in a hull loss of \$126.5 million and a liability reserve of \$548.5 million, according to market sources. **BI**

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PHOTO: AP/WIDE WORLD

Willis Corroon estimates that the quake damaged more than 115,000 commercial and residential buildings in the earthquake zone.

## Quake

Continued from previous page  
program for the oil refinery, even though it was offered participation on the renewal of its coverage this year. The risk was turned down because the construction quality of the refinery did not meet the standards required by Munich Re for reinsurer, according to the reinsurer.

Even though Munich Re is the largest reinsurer of Turkish business,

the company's losses from the disaster are expected to be small. Most of the residential buildings that sustained the greatest damage were not insured, as there is little personal lines insurance in Turkey.

Although commercial and industrial buildings in the earthquake zone were more likely to carry property insurance, most have been constructed well and did not suffer extensive damage.

Munich Re expects losses to be very low in relation to the company's overall earthquake loss reserves. This reserve was \$1.7 billion as of year-end 1998, the Munich Re spokesman said.

Meanwhile, state-owned petrochemicals company Petkim sustained damage to warehouses in the Izmit industrial area totaling \$10 million. The company is not insured for business interruption.

Of other industrial facilities, a tire factory in the Izmit area, owned by Milan, Italy-based Pirelli S.p.A., suffered damages of \$80 million. The company has business interruption insurance for six months, Willis reported.

Local food and confectionery producer Uzay Gida, also in the Izmit industrial area, suffered damage totaling \$60 million. The company has business interruption insurance for 12 months, according to Willis.

The broker also said that, in the Adapazari and Izmit areas, up to 75% of residential buildings are reported to have been affected.

Within the entire earthquake zone, more than 115,000 commercial and residential buildings have been damaged. Of these, 14,000 have been damaged irreparably, according to Willis. Relatively new multistory apartment blocks built from reinforced concrete appear to have been particularly vulnerable, the broker reported. **BI**

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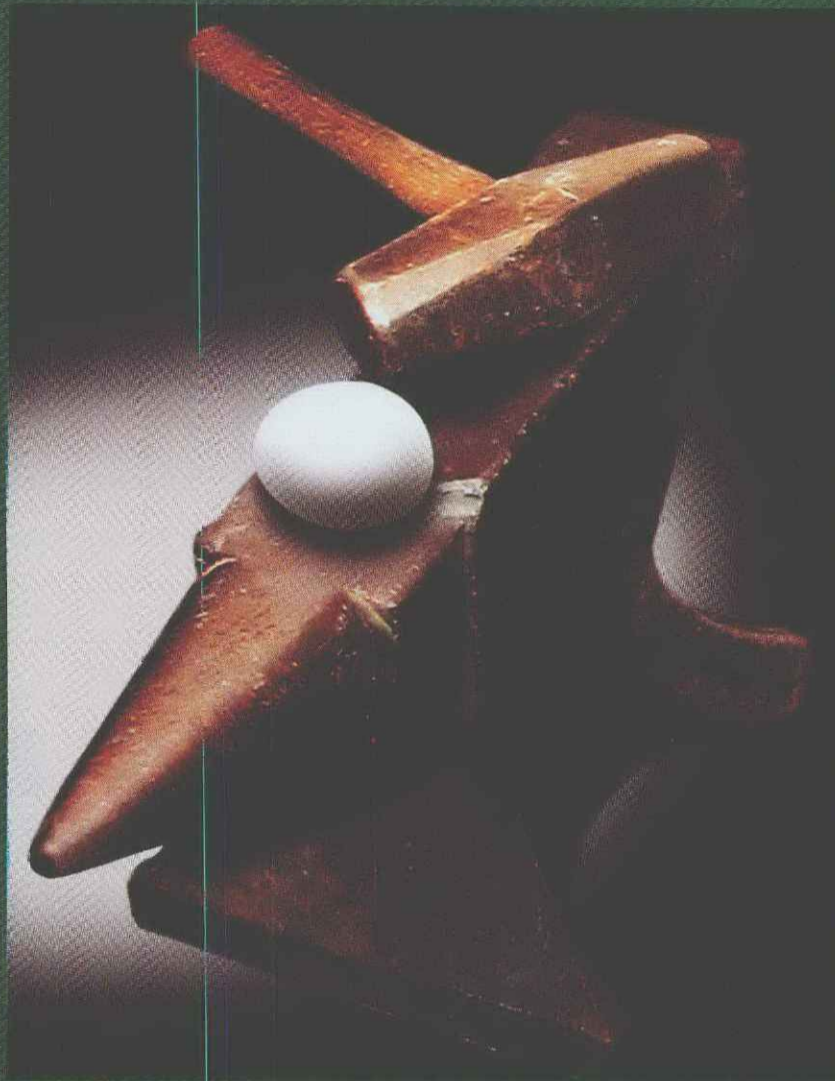
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## INTERNATIONAL

## Lloyd's

Continued from page 53

results next year under its three-year accounting system, but the 1998 year of account will likely show losses of about £250 million (\$420.8 million) compared with Lloyd's own estimate of a £60 million (\$101 million) loss, said the rating agency.

"Profitability will be lower again for 1999 and 2000, partly because of the influence of Year 2000-related costs and potential claims," stated the report. Year 2000 claims could well have a "significant impact on the global insurance market, both in terms of the amount of claims and the issue's capacity to create a complex web of litigation far exceeding that of asbestos- or pollution-related claims," according to the report. Nevertheless, Lloyd's preparations "are among the strongest observed globally, and (S&P) does

not believe that Lloyd's is unduly exposed on a relative basis."

Post-year 2000 results promise to be brighter, and S&P "expects Lloyd's long-term earning capacity to be high relative to leading insurance companies," it said.

This tendency to outperform the

than many companies because of the risk profile of the business Lloyd's syndicates write," said the report.

But falling profits may threaten Lloyd's marketwide rating. Lloyd's is experiencing intense competition, and it is continuing

**'Within three years, the current annual joint venture form of syndicate capital will be completely replaced by continuous capital,' the Standard & Poor's report predicts.**

rest of the insurance market over the course of the insurance cycle is one of the main attractions for global insurance groups, which continue to invest in Lloyd's, according to S&P. "This compensates for an expected level of earnings volatility that is higher

to pay off the costs of its reconstruction and renewal program, resulting in "weakening profitability," stated the report.

"Maintenance of the rating at its current level depends, among other things, on Lloyd's ability to produce attractive returns for its

capital providers over the long term," the report said.

At the same time, S&P expects capacity for 2000 to fall away slightly from its current level of £9.9 billion to £9.5 billion (\$16.7 billion to \$16 billion). Simultaneously, S&P anticipates that corporate investors are set to provide up to 85% of Lloyd's capacity for next year, up from 73% this year and increasing until corporate investment forms the sole capital base of the market in 2002.

"Within three years, the current annual joint venture form of syndicate capital will be completely replaced by continuous capital, largely in the form of insurance industry-backed integrated Lloyd's vehicles," predicted the report.

In S&P's Lloyd's Syndicate Performance Measures, a ranking of syndicates' relative market performance, all the syndicates rated in the highest category currently have mixed capital, provided by both individual and corporate investors.

This year, in response to customer demand, the LSPM has been changed from the three-bell rating system started last year to a five-bell system, ranging from one bell—"significantly below market-level performance"—to five bells—"significantly above market-level performance." S&P has re-rated last year's table, and the results indicate a shift toward the lower rankings. Under the new system, 30% of ranked syndicates would have received four or five bells in 1998, while only 28% did

for this year.

"As the market moves into a period when syndicate results are expected to deteriorate in comparison with the strong levels of profitability advised for the 1993 to 1996 underwriting years, this differentiation in performance, and possible continuity of service, becomes increasingly important to policyholders," said Kevin Willis, director of Standard & Poor's Insurance Ratings in London.

Although the larger syndicates tend to achieve better performance levels, the capacity backing the 11 five-bell syndicates ranges from £11.6 million (\$19.5 million) for syndicate 1176, which specializes in nuclear risks, to £400 million (\$673.2 million) for composite syndicate 2020.

In general, term life and motor syndicates are showing the greatest signs of weakness, explained Mr. Willis. Composite syndicates, representing 24% of the market's capacity this year, and marine syndicates, with 20% of market capacity, are the strongest sectors, he said. But marine and aviation have suffered swinging rate cuts over the past two years, and prospects for the 1997 and 1998 underwriting returns look less attractive, he said.

Copies of Standard & Poor's Lloyd's Syndicate Performance Measures are available by writing to S&P, 18 Finsbury Circus, London EC2M 7NR, or by telephoning 44-207-826-3654. The cost is £1,950 (\$3,090) per copy.

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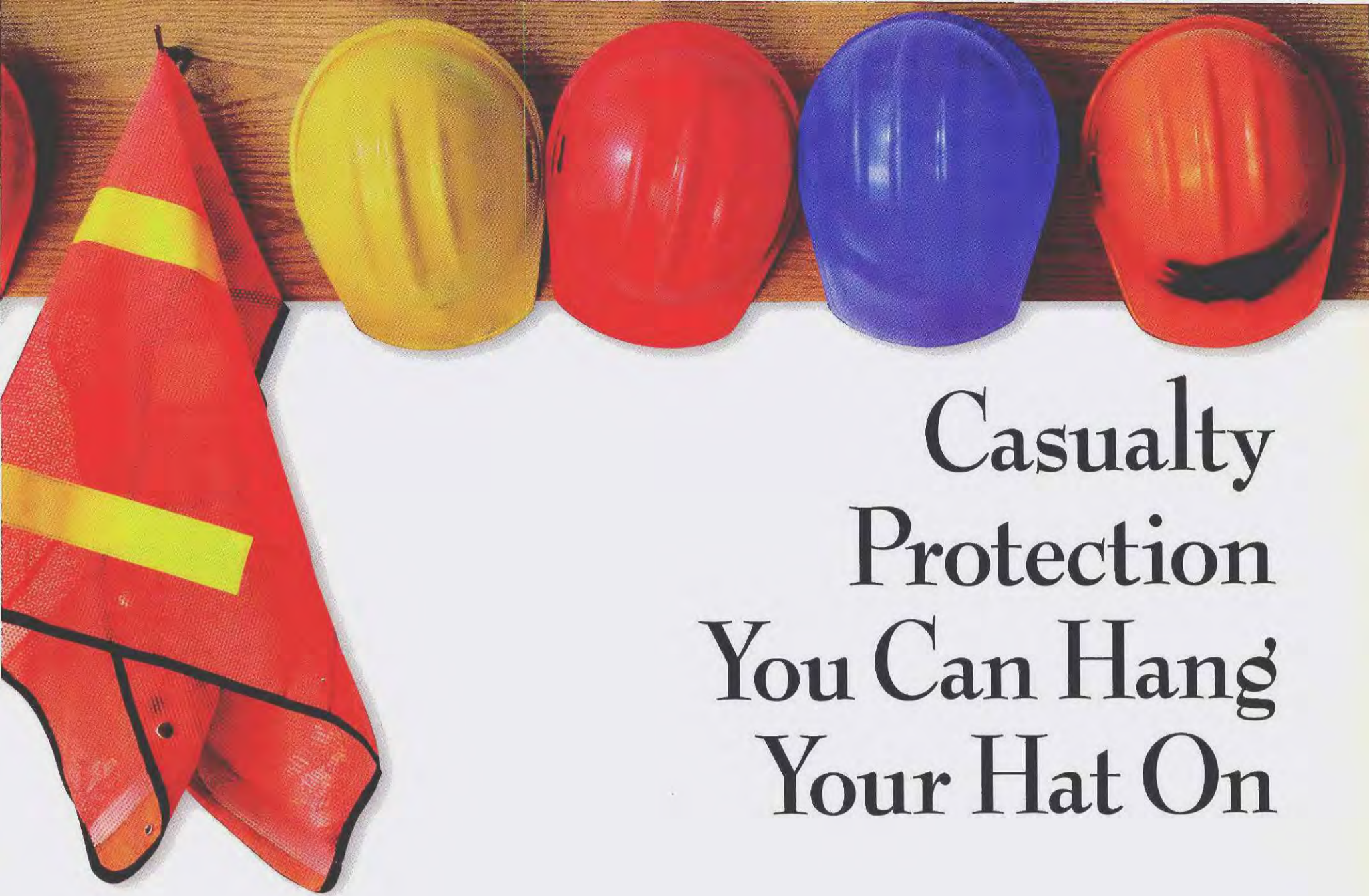
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For information, contact John Dawson, president-RiskAttack; 847-605-3356 or john.dawson@zurichus.com.

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ford Financial Services Group Inc. is combining several property coverages for mid-sized businesses into Property Choice.

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# Results

Continued from page 2  
25% to 30%," he added.

Michael Lewis, an analyst with Warburg Dillon Read in New York, said, "First-half results, by and large, were disappointing, with a number of significant negative surprises, which raised questions regarding the timing of the long-awaited industry underwriting recovery."

"At this point in time, it's still difficult to say" whether the market has turned, said Mr. Lewis. He added, however, that "I believe you'll see additional firming at a somewhat faster pace as we work our way to the year 2000."

It is premature to say the cycle has turned, said David McDonald, senior vp and chief underwriting officer at Royal & SunAlliance USA in Charlotte, N.C.

"Certainly, the signs that we're seeing are encouraging," he said. "Companies are once again looking at underwriting losses that they have incurred and would appear to be taking measures to slow down or stop the blood flow."

But while many of the larger insurers have said they will write business at the price the market requires, there are still others willing to write at lower prices, said Matt Mosher, assistant vp and actuary at Oldwick, N.J.-based A.M. Best Co.

"The competition, while it's probably slowed somewhat, is still there," Mr. Mosher said. "We haven't seen much in the way of improvement in those price levels."

But John L. Ward, chairman of the Cincinnati-based Ward Financial Group, said more commercial insurers are taking the position they will walk away from business if they do not see reasonable pricing levels. "I think that's a positive sign, and one that will make the industry stronger in the long term," he said.

Mr. Ward questioned, however, whether this trend really will turn the pricing cycle around.

"There remains an incredible amount of excess capacity in the industry, and so what you'll likely see is wider variation in results of individual groups of companies, but probably not a big change in the industry results on average," he said.

Furthermore, Mr. Ward said, to get the full benefit of rate increases, insurers must also introduce discipline "on the expense side of the house."

No longer participating in the *Business Insurance* survey are Philadelphia-based CIGNA Corp., whose property/casualty operations have been acquired by Bermuda-based ACE Ltd., nor Farmington, Conn.-based Orion Capital Corp., whose acquisition by Royal is expected to be completed in the fourth quarter. ACE reports its financials on a fiscal year ending Sept. 30.

Added to the *BI* survey this quarter is Cincinnati-based American Financial Group Inc.

Among the financial results reported for the first half by *BI*'s survey of 19 property/casualty companies were:

- Net premiums written increased 5.6% to \$40.74 billion compared with the year-earlier period. This compares with a 4% increase in the first quarter for a comparable group of insurers and a 2.4% increase for all of 1998.
- Underwriting losses deepened by 11.7% to \$2.65 billion. This compares with a 49.4% increase in the first quarter.
- Net income decreased 2.3% to \$5.1 billion, compared with a 30.8% decrease in the first quarter.
- The insurers posted a 105.2% combined ratio vs. a 104.4% ratio for the comparable period a year ago. A comparable group reported a 104.8% ratio for the first quarter.
- Investment income increased 2.8% to \$6.47 billion, compared with a 2.1% increase in the first quarter.

- Policyholder surplus increased 4.1% to \$59.03 billion, compared with a 5% increase in the first quarter for the comparable group.

Results were disappointing "from a combination of factors, some having to do with weather, some having to do with the fact that, while a number of commercial lines companies have taken action to improve the results in their middle-market business, it's become apparent these actions will take longer than originally assumed before they have a meaningful impact on

"We had some catastrophes this year," he said, "but the reality is that the biggest catastrophe that the industry is coming to grips with right now is its own underwriting results."

Meanwhile, results have affected the property/casualty insurers' stock market performance. As of Aug. 20, insurer and reinsurer stocks included in the *BI* Industry Stock Report were down 10.7% year to date.

The combination of disappointing earnings and the slow timing of the underwriting recovery has led to a

**'The reality is that the biggest catastrophe that the industry is coming to grips with right now is its own underwriting results,' says Michael Smith of Bear, Stearns & Co.**

bottom-line results," said Mr. Lewis.

"First-half results were weak," said Morgan's Mr. Hicks. "I guess the key point I would make on commercial lines for the first half is, despite lower catastrophe losses compared to a year ago, most companies struggled to meet expectations and many didn't meet expectations."

Mr. Hicks said this is a reflection of prior-year pricing as well as diminishing reserve redundancies. "Once that happens, you're essentially left with the current year's results in all their splendor," said Mr. Hicks.

Mr. Smith said, "There's no place to hide the bad news on the balance sheet, so the ugliness comes through very quickly to the income statement."

"On balance, earnings were below expectation," with few surprises, said Mr. Smith. "We've ever had a few instances of down earnings, which is rather remarkable considering last year's second quarter was hit pretty hard by catastrophes."

sell-off of the insurer stocks, said Mr. Lewis.

"The stocks have definitely been weak performers," with many trading at or near asset value, said Mr. Hicks. "From a stock market performance point of view, it would seem that the market has pretty much captured the downside. The question is whether there's a lot more downside if things don't get better."

Last week, Santa Monica, Calif.-based Fremont General Corp. announced a third-quarter aftertax reserve strengthening charge of \$75 million, including \$50 million that is related to adverse development within its workers compensation line of business and \$25 million for discontinued operations related to asbestos and environmental claims.

Several analysts anticipate more reserve additions. Mr. Smith referred to New York-based Reliance Group Holdings Inc.'s \$227.2 million addition to loss reserves, for which it took a charge of \$147.7 million in the sec-

ond-quarter (*BI*, Aug. 16).

"I expect we'll see more reserve actions, especially toward the end of the year, similar to that which Reliance Group Holdings took, where there was a recognition of the fundamental weakness in pricing on the book of business that finally has to be addressed with, I guess, higher loss ratio assumptions," Mr. Smith said.

Matthew Coyle, a director at the rating agency Standard & Poor's Corp. in New York, said, "I think we're going to see, going forward, more companies taking reserve charges to address deficiencies," primarily in workers comp, commercial auto and commercial package business. Mr. Coyle estimates the industry's overall reserve deficiency is 7% to 10%.

"We would expect results to continue to reflect the tough market conditions, with expectations that the commercial lines industry will produce combined ratios of somewhere around 109% for the year," he said.

"I think the outlook continues to be challenging," said Mr. Hicks. Things are unlikely to improve "until there is significant stress in the industry." Right now, he said, "it's just uncomfortable; it's not painful."

But some analysts disagreed. "I would say the outlook's more positive, and that's helped by companies realizing the extent of the underpricing," said Mr. Lewis.

As the more-aggressive insurers start facing reserve deficiencies, "that can help bring about a movement toward more adequate pricing of coverages," he predicted.

Another issue insurers face is Y2K exposures, said Mr. Lewis. "Is it real, is it going to be a significant factor as far as impacting industry results, as some people believe, or is it going to prove to be heavily litigated but not nearly as costly?" he asked. This is "certainly going to be on everybody's minds as we close out the millennium." **BI**

## Major property/casualty insurers' first-half 1999 results

Ranked by change in net income. All amounts in thousands of dollars.

Rank 1998	Corporate			Property/casualty operations										
	Net income 1999	Percent increase (decrease) 1998-1999	Consolidated revenues 1999	Combined <sup>1</sup> ratio 1999	Combined <sup>1</sup> ratio 1998	Net premiums written 1999	Percent increase (decrease) 1998-1999	Pretax underwriting income (loss) 1999	Percent increase (decrease) 1998-1999	Pretax investment income 1999	Percent increase (decrease) 1998-1999	Policyholders' surplus 1999	Percent increase (decrease) 1998-1999	
1	The St. Paul Cos. Inc.	\$368,672	565.9%	\$3,972,217	107.6% <sup>2</sup>	118.0% <sup>2</sup>	\$2,851,585	0.3%	(\$211,145)	54.7%	\$642,577	(3.1%)	\$5,019,900	9.8%
2	Ohio Casualty Corp.	108,034	160.1	1,009,919	111.2 <sup>2</sup>	108.3 <sup>2</sup>	800,821 <sup>2</sup>	24.9	(93,652)	(105.0)	84,730	1.8	954,281	(18.4)
3	American International Group	2,475,786	18.7	20,020,216	94.9	95.9	8,244,587	17.8	417,868	48.8	1,237,190	23.4	N/A	N/A
4	RLI Corp.	15,597	6.8	108,147	90.8	86.1	120,107	74.8	8,573	(11.8)	12,428	6.3	304,839	3.7
5	Fremont General Corp.	58,773	6.4	447,747	96.0	96.6	402,548	48.3	14,887	61.2	79,257	(6.5)	657,609	9.4
6	SAFECO Corp.	191,600	6.0	3,427,200	105.3	103.6	2,243,300	4.5	(113,300)	(50.5)	230,000	(4.4)	3,127,400	(0.4)
7	Chubb Corp.	380,200	1.1	3,316,200	99.7	98.2	2,839,700	2.5	(4,700)	(117.8)	388,400	4.9	2,867,500	6.6
8	Cincinnati Financial Corp.	101,355	(1.0)	942,136	99.8	102.1	809,452	6.1	(2,936)	15.8	103,056	0.7	3,104,124	7.4
9	Hartford Financial Services Group	453,000	(9.4)	6,648,000	102.5 <sup>2</sup>	104.3 <sup>2</sup>	3,352,000	(12.7)	(66,000)	60.0	443,000	(7.7)	8,135,000	(6.5)
10	American Financial Group	96,600	(9.5)	1,645,100	100.4	104.7	1,077,100	(22.0)	(4,500)	93.1	169,500	(10.8)	1,873,700	(2.0)
11	Old Republic Int'l	137,698	(15.0)	1,068,740	106.2 <sup>2</sup>	99.0 <sup>2</sup>	422,344 <sup>2</sup>	(2.1)	(37,024) <sup>2</sup>	(714.7)	91,636	(5.3)	1,415,396	(4.5)
12	Travelers P/C Corp.	554,800	(15.9)	5,207,400	100.3 <sup>2</sup>	102.0 <sup>2</sup>	4,143,000	3.3	(59,400) <sup>2</sup>	56.8	1,012,300	(1.4)	7,493,100	12.8
13	Royal & SunAlliance USA <sup>1</sup>	121,721	(24.7)	1,033,553	107.9	105.9	810,350	11.7	(563,013)	(9.7)	169,051	(2.6)	3,105,913	7.9
14	Hartford Steam Boiler	43,800	(53.3)	295,200	88.5	89.3	174,200	(5.2)	21,900	8.4	32,300	3.9	525,200	(20.6)
15	Argonaut Insurance Co.	19,845	(64.1)	75,897	124.1	111.4	41,966	(35.3)	(8,620)	20.8	31,667	(12.9)	668,593	7.5
16	CNA Financial Corp.	149,000	(66.4)	8,756,000	113.3 <sup>2</sup>	109.6 <sup>2</sup>	5,582,000 <sup>2</sup>	(2.3)	(794,000) <sup>2</sup>	(15.6)	785,000	(7.1)	8,757,000	24.7
17	Reliance Ins. Co. and subs.	(172,440)	(164.9)	1,486,035	134.9	100.9	1,358,755	12.3	(415,429)	(3,372.9)	144,458	-	1,307,373	(23.4)
	— Kemper Insurance Cos.	N/A	N/A	1,654,367	110.7 <sup>2</sup>	107.4 <sup>2</sup>	1,206,026 <sup>2</sup>	(17.5)	(129,993) <sup>2</sup>	(6.3)	164,374	(3.7)	2,605,703	4.1
	— Liberty Mutual Ins. Co. <sup>2</sup>	N/A	N/A	N/A	114.3	113.1	4,260,830	40.5	(613,881)	(54.0)	649,357	20.7	7,104,625	(1.9)
	<b>Cumulative</b>	<b>\$5,104,041</b>	<b>(2.3%)</b>	<b>\$61,114,074</b>	<b>105.2%</b>	<b>104.4%</b>	<b>\$40,740,671</b>	<b>5.6%</b>	<b>(\$2,654,365)</b>	<b>(11.7%)</b>	<b>\$6,470,281</b>	<b>2.8%</b>	<b>\$59,027,256</b>	<b>4.1%</b>

1. After dividends 2. Statutory 3. Before dividends N/A: Company did not provide data

# Deal

Continued from page 2

National Group has \$278.8 million in shareholders' equity.

The companies that comprise the group are: United National Insurance Co., which is the main excess and surplus lines unit; Diamond State Insurance Co. and Hallmark Insurance Co. Inc., which both are admitted insurers; Loyalty Insurance Co. Inc., an inactive offshore insurer in Barbados; American Insurance Adjustment Agency, an in-house claims adjuster; and managing general agencies J.H. Ferguson & Associates, International Underwriters Inc. and Unity Risk Partners Insurance Services Inc.

The main operating unit is United National Insurance Co., which writes on a non-admitted basis in all states except Pennsylvania, where it is admitted. Hallmark

writes surplus lines business in Pennsylvania for the group.

United National writes a broad book of business derived from brokers and MGAs, but it specializes in program business. It writes 88 specialty programs, ranging from property coverage of low-value dwellings to complex programs for archdioceses in major U.S. cities.

In 1998 United National Insurance Co. wrote \$200.1 million in non-admitted business and had a net income of \$29 million. It has been consistently profitable over several years and in 1998 had a combined ratio of 85.5%.

The company is ultimately owned by trusts controlled by the Ball family in Philadelphia.

"Strategically, United National is a terrific fit for us. It gives us a much better platform to grow our business in the near and long term," Edward J. Noonan, president and chief executive officer of American

Re in Princeton, N.J., said in a statement.

By owning a primary writer of program business, American Re will more easily be able to put together program deals, a spokesman for the

## American Re is 'locking up another source of business,' S&P's Donald Watson says of the United National purchase.

reinsurer said.

MGAs that administer program business for reinsurers often also need access to primary paper and policy forms, he said. As a result, reinsurers that can supply those primary services are better able to compete for that business, he said.

Additionally, the skills necessary to successfully underwrite surplus lines business are not readily available at non-specialist insurers, the spokesman added.

American Re already is a substantial reinsurer of United National's book, and while it will be the reinsurer for any new program business the specialist insurer brings in, it will not disrupt United National's existing reinsurance arrangements, the spokesman said.

American Re is the largest reinsurer of program business for United National, said Seth Freudberg, president and CEO of United National.

"They had a need to enhance their capabilities to deal with business that they were producing through their own efforts from all of their strategic business units," he said.

One of the risks of the deal is that other reinsurers that bring business to United National may be deterred by the prospect of providing business to a company owned by a competing reinsurer, said Ms. Farrell of Best.

"But the other reinsurers are looking for expertise to write the business, and that is not leaving," she said.

Other United National reinsurers often already have their own surplus lines units, Mr. Freudberg said.

"Many of the traditional Chinese walls in the business have come down. For example, we do business with reinsurers that own ceding companies that compete with us, and we trust them to keep information confidential, and we trust that

the reinsurers will have the same view of us," he said.

Generally, the combination of American Re and United National should improve the growth prospects for both companies, said Ms. Farrell of Best.

American Re is obtaining a profitable and well-run company and an additional distribution unit. United National will be part of an extremely strong international group that is focused on insurance and reinsurance, she said.

While American Re says it does not plan to jeopardize United National's other reinsurance arrangements, as the surplus lines insurer grows, American Re will be able to reinsure more of the business, said Mr. Watson of S&P.

"They are locking up another source of business," he said.

The management team of United National will remain in place, and few, if any, jobs are expected to be lost.

The transaction is expected to be completed in the fourth quarter of 1999 and is subject to regulatory approval.

American Re has no immediate plans to purchase other primary insurers, but in the future it may decide to enter primary markets where United National does not write business, the American Re spokesman said. For example, United National does not write workers compensation business, he said.

"United National gives us a fleet of three primary insurers, and that may be adequate, but we may have a need to add more down the road," the spokesman said. **BI**

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Commentary

# 'It's in my genes' is no excuse

Efforts under way in the scientific community to unlock the secrets of the human genome—the complex set of chromosomes that make us who we are, rather than, say, lemurs or mollusks—promise to provide important clues about health and illness.

By mapping the tens of thousands of genes in human DNA and the billions of chemical sequences that reside in all human cells, hair follicles and the like, researchers hope to be able to better identify genetic markers for a variety of biological conditions and diseases, some of which may be treatable, some of which are not. With this road map, doctors will be able to screen patients for a genetic predisposition to a wide variety of illnesses.

By some estimates, this enormous research task will be completed within the next five years.

The idea, of course, is not to simply use this newfound map to deliver bad news years before such genetic maladies manifest themselves. That would cause people not only to become uninsurable, but also very likely to spend their lives in a state of nervous anxiety.

Rather, the point of identifying all the parts of the human genome is to ultimately try and better understand what makes us tick on an elemental level. Once we can identify the bits of DNA protein that tend to go awry, we can perhaps fix them and improve the quality of life for some, while prolonging it for others.

I don't profess to understanding all the science involved, having skipped chemistry and all but the bare minimum of biology in school.

I like to think of it as like when I was a kid trying to determine the murky ingredients in a bowl of school cafeteria stew. If I could find and remove the chunks of mystery meat and lima beans before actually diving in, the odds of being sick in front of my classmates were greatly diminished and life was good (at least until the stew came back on the menu).

Poking around the human soup to try and find the odd bits of errant double-helix, of course, raises all sorts of ethical, religious, social and legal questions that I am not prepared—or too chicken—to address in this space. Suffice it to say that it will profoundly alter the health care and insurance industries of the future.

So, given all that's at stake, I would expect that researchers are especially hard at work finding the genetic causes and potential cures for the really serious diseases that plague humans. Cancer. AIDS. Heart disease. Diabetes.

No doubt many—perhaps even most—are focused on such crucial research. But not all of them are.

I learned last week that some researchers are noodling around on the fringes, looking for overlooked genetic links that could benefit from this research.

The London Daily Telegraph reported recently that a group of Scottish scientists reportedly may be on the verge of discovering a possible genetic link for a widespread human condition: laziness.

These scientists suspect that laziness is not just a deadly sin and may instead be caused by our internal roadmap! They reportedly are planning a study of sluggish children to see if there is a genetic reason for the fact that they don't exercise as much as other kids. I presume they already have ruled out the television-watching and junk food genes.

I am very excited to learn of this important study because I, on occasion, suffer from this genetic flaw myself. Imagine how much more productive and valuable to society, my employer and family I could be if one day I could replace my laziness gene with the work ethic gene of, say, the common bumblebee.

When the researchers finish with that undertaking, I've got a laundry list of other human conditions that I think must also be genetic disorders in search of a cure: Chronic bad breath; an inability to carry a tune; forgetting the punchlines of jokes; an inability to match colored socks; flatulence; an inability to sink a putt; two left feet; a tendency to oversalt food; love handles; driving too slow; driving too fast; making mountains out of molehills; talking back to the radio/television; listening to Barry Manilow; laughing at politically incorrect humor; an inability to give directions; abusing e-mail policy; cowlicks; a refusal to eat broccoli; beer bellies; a refusal to try oysters; being allergic to cats; an inability to read music; smoking cigars; being stingy with tips; forgetting names at parties; never liking Oprah's taste in books; failing to floss; a craving for chocolate; and hangovers, among others.

Those solutions, however, are no doubt a long, long way off—let alone funding for them. So for now, researchers can get off the couch, quit being so lazy and get out there and solve some real problems—like determining just exactly what the genetic origin of that mystery meat really was.

Editor Paul D. Winston's Commentary appears fortnightly. He can be reached at [pwinston@crain.com](mailto:pwinston@crain.com)



Paul D. Winston

# Columbia

Continued from page 1  
deductions for all premiums paid to the captive.

Once one employer gets federal approval to fund benefits through its domestic captive, "it could open the floodgates. The interest is there," said Derick White, Vermont's assistant director of captive insurance in Montpelier, Vt.

Tax considerations, though, are not the principal driver behind Columbia Energy's proposal to fund benefits through its captive, said Nicholas Parillo, Columbia Energy's vp-risk management.

Mr. Parillo said funding LTD benefits is "ideally suited" for a captive, noting that the risks are long-term and predictable.

At the same time, funding LTD benefits through the captive, which Columbia Energy now uses for general liability and property risks, will ensure a better spread of risk for the insurance subsidiary, Mr. Parillo said.

Eventually, Columbia plans to expand its captive, which takes in more than \$5 million annually in premiums, to cover workers compensation and short-term disability exposures.

"We would achieve centralization of funding requirements for disability," regardless if incurred on or off the job, he said.

But because the captive is a "party in interest" to the LTD plan, Labor Department approval of the transaction is required.

The proposed transaction does not qualify under a 1979 Labor Department class exemption in which the department said a domestic captive could be used to fund parents' employee benefit plans if at least 50% of the captive's business was not related to its parent. Virtually all the risks funded through Columbia's captive relate to Columbia Energy and affiliated companies.

Recently, however, a key Labor Department official has said the department will be more flexible in how it reviews employer requests to fund employee benefit coverages through their domestic captives. Meeting the 50% test no longer will be an absolute

prerequisite to win departmental approval.

Among other things, the department will consider the quality of the primary insurers used by a captive and whether plan participants will benefit from the arrangement (BI, Aug. 23).

The Columbia Energy filing details exactly how employees would benefit through the captive funding arrangement.

In anticipation of using the captive to reinsure the LTD program, benefits were sweetened, effective Jan. 1, so that disabled employees receive 60% of their salary. Previously, the plan offered a LTD benefit of 30% of salary up to the Social Security wage base and 60% of salary over the wage base. In 1999, the wage base is \$72,600. Other changes include a more liberal definition of liability.

Benefit and captive experts say Columbia Energy's application could be a test case to see whether the DOL carries out its new flexibility.

"Others will be watching closely to see how DOL rules. Others could certainly imitate what is going on here," said Henry Saveth, an attorney with William M. Mercer Inc. in New York.

In fact, funding benefits through captive insurers has been discussed for years in risk management circles as a means of broadening captives' risks, cutting costs, and most recently as a potential way for a parent company to deduct property/casualty premiums paid to its captive.

Discussion of the tax advantage was triggered by court decisions and an Internal Revenue Service ruling. Several appellate courts ruled that a parent can deduct premiums paid to its captives so long as the captive writes a significant amount of unrelated business.

Those court rulings preceded an IRS ruling that said employers can deduct group term life insurance premiums paid to the captives because the premiums represent unrelated business.

So, according to the reasoning, if the parent funds enough employee benefit business through the captive, the captive could be considered as writing a significant amount of outside business. That would also in-

crease the likelihood the parent would be able to deduct property/casualty premiums paid to the captive.

A 1993 filing with the Labor Department by transportation giant CSX Corp. requesting permission to reinsure its group term life insurance benefits through its Vermont captive was widely thought to have been tax-motivated.

But whatever the motivation, the Labor Department rejected the CSX application because too much business—about 90%—was related to CSX itself.

In 1994, the department also said CSX failed to adequately demonstrate that any cost savings it would achieve through the arrangement would "inure to the benefit of the (life insurance) plans as a result of the proposed transaction."

It isn't known how quickly the Labor Department will rule on Columbia Energy's application, though it could be a while.

"The DOL has been known to sit on difficult cases for an extended period of time, and this might be such a case," Mr. Saveth said.

And the outcome, Mr. Saveth noted, is by no means certain as the department weighs key issues.

"For many years, the DOL has been especially troubled with the concept of captive reinsurance" in benefit arrangements, Mr. Saveth said.

In such arrangements, the DOL still may view adherence to the 50% test as more important than the potential benefits captive funding arrangements could provide employees, he said.

In what could have been an earlier test case, Caldor Corp. last year proposed using its Hawaii captive to reinsure LTD risks. Like Columbia Energy, Caldor's captive did not meet the DOL's 50% test. But Caldor said the cost savings it would achieve through funding the LTD program through its captive would be passed onto employees in the form of lower LTD premiums.

Earlier this year, however, Caldor withdrew its application at the DOL after the company—under court order—began to wind down its operations. Caldor had been in bankruptcy since 1995.

# Captive plan gets tentative OK

By JERRY GEISEL

WASHINGTON—Union Carbide Corp. has won tentative authorization from the U.S. Department of Labor to use its "offshore" captive to reinsure a supplemental life insurance program.

The authorization is conditioned on Stamford, Conn.-based Union Carbide notifying plan participants of the proposed transaction and giving them an opportunity to comment to the DOL. The department will make a final decision after reviewing any comments it receives.

"We are very pleased to have received this approval," said Union Carbide Assistant Treasurer Richard In-serra. He earlier said the arrangement is being driven by a desire to broaden the captive's risks, keep down policy costs and share in the policy profits with the primary insurer writing the policies (BI, Aug. 2).

The DOL's action is believed to be the first time the agency has authorized, albeit tentatively, an employer to use an "offshore" captive to reinsure employee benefit risks.

Under a 1979 regulation, known as a class exemption, DOL approval of reinsurance arrangements involving the use of captives to fund benefits are decided on a case-by-case basis.

Union Carbide wants to use a new U.S. Virgin Islands branch of its Bermuda-domiciled insurance subsidiary, Westbridge Insurance Ltd., to reinsure a portion of life insurance policies written by Metropolitan Life

Insurance Co. MetLife has written the policies for about 10 years.

While the Virgin Islands is considered offshore in captive industry circles, the DOL in a 1983 ruling recognized that the Employee Retirement Income Security Act defined the Virgin Islands as a "state." One of the DOL's requirements for funding employee benefits through a captive is that the captive be licensed in at least one domestic state or territory.

The DOL's tentative approval of Union Carbide's proposal comes at a time of rising corporate interest in funding benefits through captives. In fact, a pending application by Columbia Energy Group to fund long-term disability risks through a Vermont branch of its Bermuda-domiciled captive could be a test case of whether the department will relax certain restrictions that have made it very difficult for most companies to use their captives to fund employee benefit risks (see story, page 1).

Under that test, at least 50% of a captive's premiums must be third-party business in order for the parent to fund employee benefit risks through the captive.

Westbridge, the Union Carbide captive, easily meets the 50% test, with more than 60% of its premiums unrelated to Union Carbide's risks.

Union Carbide was able to file its application with the DOL utilizing a special expedited review process in which the DOL must make a decision within 45 days. To qualify for this

fast-track procedure, an applicant has to cite two "substantially similar" exemptions approved by the DOL within the past five years.

The two cases Union Carbide cited in its application go back to 1996 and involve financial organizations with insurance subsidiaries that did little or no business with the parents.

In one of those cases, the DOL approved an arrangement in which Zions Bancorporation, a Salt Lake City-based bank holding company, proposed using Arizona-domiciled Zions Life Insurance Co., its mortgage life and credit life reinsurance subsidiary, to reinsure a portion of group life insurance policies written by American Bankers Insurance Co. One hundred percent of the insurance subsidiary's premium income was generated by non-Zions related business.

The other arrangement approved by DOL involved First Security Corp., also a Salt Lake City bank holding company. FSC proposed using a life insurance subsidiary, Arizona-domiciled First Security Life Insurance Co., to reinsure life insurance policies for FSC employees written by Minnesota Mutual Life Insurance Co. More than 80% of FSLIA's premiums were derived from business not related to FSC.

Coincidentally, Zions and FSC announced in June that the two companies would merge. Earlier this month, Union Carbide and Midland-Mich.-based Dow Chemical Co. also announced merger plans.

# Satellite

Continued from page 1

cations satellite was placed in a wrong orbit by a Boeing Co. Delta 3 rocket on May 4.

Market executives estimated that losses during 1998 and so far in 1999 exceed \$2.25 billion, far outstripping premium volume. According to one underwriter's figures for the period, satellite losses have totaled \$2.28 billion while the market has generated \$1.37 billion in premium, for a whopping 166% loss ratio.

The extraordinary amount of losses over the past two years is unusual for the space market. Indeed, from about 1991 through early 1998, space underwriters "made a fair amount of money" every year, even though there were one or two rough 12-month periods during that span, noted Jeff Cassidy, an executive vp in the aerospace division of ACE USA in Philadelphia.

The space market's good loss experience attracted a lot of new capacity, which drove down rates.

Recent military satellite losses also are playing a role in constricting the market. While those largely uninsured losses do not impact underwriters' "burning costs," they influence the technical failure rates that underwriters consider, noted Christian Riedl, a manager in the space department at Munich Reinsurance Co. of Munich, Germany. That is because often the same manufacturers—and in some cases the same hardware—is used in both the commercial and the military launches, he explained.

Several underwriters and brokers agreed that the space insurance market's maximum capacity—or what many called "theoretical capacity"—has not fluctuated lately by any noticeable degree from between \$1.2 billion and \$1.5 billion.

The market's usable capacity, or how much underwriters genuinely are prepared to commit to a risk, typically has been around half of maximum capacity.

That still has been more than ample for most satellite launches. Single launches typically have required \$175 million to \$250 million in coverage, though isolated launches have required \$400 million or more of coverage, market executives said.

Now, though, some risks may have a harder time finding as much usable capacity as they found in the past.

Some market executives, including Chris Kundstadt, manager of the space department at U.S. Aviation Underwriters, say that is because underwriters have reduced their usable capacity over the past several months.

Other executives, such as Brian Moore, chairman of the Marsh Space Projects division of Marsh Ltd. in London, say capacity has not shrunk. Instead, underwriters are not as willing to commit their maximum line to a risk.

"We are more careful now," said Mr. Riedl of Munich Re, which writes space insurance.

He said the insurer would make available its full capacity of \$55 million to a standard risk. It would restrict its capacity, however, for more difficult risks, Mr. Riedl said. For example, he said, Munich Re would not make available its full capacity for the planned fall launch of Space Imaging's replacement IKONOS satellite.

Market executives said coverage for the launch currently is being placed. Marsh Ltd. and the Marham Space Consortium at Lloyd's of London are involved in placing and covering the risk.

Whether capacity is shrinking or underwriters just are more cautious, several underwriters estimated us-

able marketwide capacity at \$400 million to \$600 million.

Space risks still will not run into capacity problems, according to Jean-Michel Eid and Ted Johnson, managing directors in Washington for Aon Space, a subsidiary of Aon Group Inc.

Marsh's Mr. Moore agreed that plenty of capacity still is available, though "you might have to spread the net a little bit wider" to line up enough markets to cover a risk.

That makes syndicating the risk "a bit more difficult," said Simon Clapham, underwriter for the Marham Space Consortium.

The result is higher rates, market executives said.

ACE USA's Mr. Cassidy said that "a fairly dramatic market correction" began in May, though he noted that only a few risks have been placed since then.

U.S. Aviation's Mr. Kundstadt said rates are "moving back to where rates should have been in order for the business to make sense."

Rates two years ago were 16% per \$100 of insured value, according to Mr. Clapham. In addition, underwriters were covering satellites during the launch plus a year in orbit, double the traditional in-orbit coverage the market had provided.

Last year, rates dropped to 11%, and in-orbit coverage shot up to five years, he said.

This year, the best risks negotiat-

**'Rates certainly have gone up in the last several months, no doubt about that,' says Ted Johnson.**

ed rates as low as 7%, market executives agreed. Those risks, though, did not necessarily obtain five years of in-orbit coverage, Mr. Clapham said.

Estimates of rate hikes since before the satellite losses last spring vary from 40% to 100%.

"Rates certainly have gone up in the last several months, no doubt about that," Aon's Mr. Johnson said. "The market is still finding itself. But it has fluctuated a bit of late."

Messrs. Johnson and Eid also noted that not all risks will face the same level of rate hikes.

Munich Re's Mr. Riedl said rates for a satellite risk will depend on the type of launch vehicle and satellite and on the satellite owner or operator.

Besides pushing up rates, restricted capacity could help underwriters in what one described as "a very strong movement" to cut back the duration of in-orbit coverage to three years from five.

Mr. Clapham noted there were more in-orbit problems than launch problems during 1998.

ACE USA's Mr. Cassidy said that for now, at least, the best risks still can negotiate long-term in-orbit coverage. Difficult risks will find the market is less flexible in its pricing and its terms and conditions.

Marsh's Mr. Moore said that while the market is trying to restrict the duration of in-orbit coverage, obtaining the coverage "tends to be a question of price more than anything else."

The near-term prospects for pricing and capacity do not get any better. Several executives said they expect that losses will dry up some of their reinsurance support.

If reinsurance support shrinks substantially, some space underwriters will find themselves in a bind, observed consultant Ric Parker, a Greenwich, Conn.-based reinsurance consultant for captives and

reinsurance brokers. That is because many underwriters are in the middle of multiyear satellite coverage programs without the means of adjusting rates to reflect their reduced reinsurance.

"A lot of people wouldn't call this sound business sense, but that's what's going on," said Mr. Parker, who specializes in alternative risk financing for aerospace and aviation risks.

Less desirable space risks, though, likely would face a "super proportional" amount of trouble lining up capacity and negotiating prices and terms and conditions if there is a reinsurance market correction, predicted ACE USA's Mr. Cassidy.

New U.S. government restrictions on sharing space technology information with non-U.S. underwriters also concern space insurance market executives. Those restrictions, which came about as a result of alleged Chinese efforts to steal U.S. nuclear, military and satellite technology, could prompt non-U.S. underwriters to boost rates even higher than they are now, market executives said.

U.S. government oversight of satellite launches and sales was moved to the U.S. State Department from the Commerce Department last March. The State Department, enforcing recent changes to the International Traffic in Arms Regulations, requires all parties that want to discuss satellite technology with non-U.S. parties to obtain Technical Assistance Agreements.

The TAA approval process generally has taken four to six months, market executives agree. And, the State Department sometimes does not allow non-U.S. underwriters to see all of the information they want to evaluate, executives said.

Some U.S. risks recently have not invited non-U.S. underwriters to their technical meetings because of the difficulty in obtaining timely TAA approvals, executives said.

Indeed, ACE USA in July moved part of its space insurance business to Philadelphia from Bermuda to avert those problems, Mr. Cassidy noted.

The market has made "some headway," however, in discussions with government officials on how to expedite the approval process, said space insurance attorney David Lihani, a partner with Pierson & Burnett L.L.P. in Washington. His partner, Dennis Burnett, has been the firm's lead negotiator but was unavailable.

Mr. Lihani said that while the government officials have not accepted any recommendations, they have been receptive to the market's ideas.

Several market executives in London said U.S. State Department officials are scheduled to visit them in late September to discuss the market's concerns about the regulations.

But a State Department official said the agency's approval process is laid out "by law" and cannot be modified in negotiations with the insurance market.

The agency, however, can and has expedited approvals in cases involving impending launches, the official said.

In addition, the agency has received a \$2 million budget increase so the agency can hire 23 additional staffers to work on those approvals, she said.

And, the agency is working on educating the industry on how to submit TAA applications to minimize rejections due to application errors.

The official could not confirm whether agency officials would be meeting with London market executives in September. She said, however, that the agency is "interested in ongoing discussions with the industry and is looking for the best avenues to pursue those efforts." ■

## Updates

### Settlement reached in accident

Continued from page 2

The company that hired the driver of the tractor trailer, Hammer Express Inc., and the driver, Ricardo Guzman, each will pay \$1 million.

Mr. Barry, Load Craft's attorney, said Allied Products and Chrysler are pursuing a contribution action against Illinois Auto Electric Co., which does business under the name M&S Transport Services. M&S, which was a defendant in the case but did not participate in the settlement, inspected the chassis eight days before the accident and certified that it was safe, according to Mr. Barry.

### MetLife to buy GenAmerica

NEW YORK—Metropolitan Life Insurance Co. will acquire St. Louis-based GenAmerica Corp., parent of General American Life Insurance Co., and its subsidiaries for approximately \$1.2 billion in cash.

The boards of both New York-based MetLife and General American have approved the transaction, which is subject to approval by the Missouri Department of Insurance.

The Missouri department placed General American Life under voluntary supervision earlier this month after General American officials told the department they were unable to liquidate assets quickly enough to meet the cash demands of institutional contract holders.

MetLife said it would implement a stabilization program to resolve General American's current financial problems and make good on the approximately \$6 billion owed institutional investors.

General American's headquarters will remain in St. Louis. The transaction is expected to take four to six months to complete.

### Hurricane Bret soaks Texas

CORPUS CHRISTI, Texas—Hurricane Bret's bark was worse than its bite, leaving south Texas mopping up from heavy rains, but causing far less damage than originally feared might occur.

The storm, with winds up to 140 mph, made landfall Aug. 22 in Kenedy County, one of the least-populated areas of Texas. Heavy winds and rain lashed Padre Island, Corpus Christi, Laredo and smaller communities along the coast. Four storm-related deaths were reported in the collision of a pickup truck and a tractor-trailer that lost control when it hit standing water in Laredo.

The Property Claims Services unit of Insurance Services Office Inc. in New York designated the storm a catastrophe, which means it expects insured losses to exceed \$25 million.

Damage in Corpus Christi could total as much as \$750,000, though not all of that is insured, said Juan Ortiz, assistant emergency management coordinator for the city, which self-insures its property risks.

Farmers Insurance Group last week reported 550 claims, mostly from homeowners with minor wind damage. Allstate Corp. reported 158 claims, mostly for minor wind damage, with three flood claims.

Meanwhile, storms began lining up in the Atlantic Ocean last week, with Hurricane Dennis threatening the Bahamas and projected to head toward the Carolinas on the East Coast of the United States. Forecasters also said Hurricane Cindy would continue on a northerly track far out in the Atlantic and miss the United States.

### Fremont to take charge

SANTA MONICA, Calif.—Fremont General Corp. will take a \$75 million aftertax charge related to its property/casualty operations.

The Santa Monica, Calif.-based insurer will take a \$50 million third-quarter charge related to workers compensation business and a \$25 million charge for asbestos and liability claims stemming from discontinued operations.

The charge for workers comp losses is needed because Fremont's reinsurance recoveries are lower than expected, the company said.

### Briefly noted

Although a Los Angeles Superior Court judge last week cut more than \$3.8 billion from a \$4.9 billion judgment handed down in July against General Motors Corp., the automaker still plans to appeal the verdict. The judge let stand \$107 million in compensatory damages that a jury awarded six people who were burned when the gas tank of their 1979 Chevrolet Malibu exploded in a 1993 collision, but he reduced the punitive damage award to \$1.09 billion from \$4.8 billion. GM contends the punitive damage amount still is excessive. . . . Standard & Poor's Corp. has withdrawn its AA pi (public information) ratings of Overseas Partners Ltd., a Bermuda reinsurer affiliated with United Parcel Service of America Inc. Overseas Partners will lose a large volume of UPS-related business in the wake of a recent U.S. Tax Court ruling (BI, Aug. 16). . . . Unistar Financial Service Corp., a Dallas-based auto insurance holding company, has been accused of fraud in several shareholder lawsuits that followed a mid-July drop in its stock price to \$27 from \$61.63. Trading on the American Stock Exchange was halted last month and has not resumed. . . . The Texas Workers' Compensation Fund is seeking approval from the Texas Department of Insurance to pay its first dividend: about \$25 million to about 24,000 policyholders. The fund also is refunding almost \$200 million to insurers that paid a maintenance tax surcharge from 1992 through 1997 to pay debt service on revenue bonds. Those refunds also will be passed along to policyholders. . . . A federal judge in Philadelphia has given class-action certification to suits against American Home Products Corp. seeking medical monitoring for people who took the company's diet drugs. The ruling excludes those people living in the six states where a state court class-action already has been certified. The federal class-action suit involves those people who took American Home's withdrawn diet drugs Pondimin or Redux for more than 30 days. . . . Legislation being drafted by Rep. Bernie Sanders, I-Vt., would slap a 50% federal excise tax on pension plan surpluses in situations where employers convert existing defined benefit plans to cash balance plans and do not give vested participants the opportunity to choose between the old and new plan.

# Liability

Continued from page 1

"The ruling of the external appeals entity that there was no injury would preclude all liability," according to the summary.

The promise of safe harbors and other liability limits, however, has not assuaged employer skepticism about the measure.

"Certainly, employer liability remains the key element in any proposals that are coming out now," said James A. Klein, president of the Assn. of Private Pension & Welfare Plans, a Washington-based employer group. "Obviously, we're all going to have to review the actual bill language with a fine-toothed comb because, in matters of this type, the devil is in the details. Beyond that, I'd just say there's been a lot of discussion that employers are only on the hook if they are making a medical decision," he said.

Mr. Klein added, however, that he has "several rejoinders" to that contention. "The first is, that's bad enough" because employers are often involved in making such decisions, he said.

"But equally important, this is an area that is going to be highly litigated before it is resolved. A lot of clever plaintiffs attorneys will claim that a lot of activity by the employer had a causal effect on the decision," he said.

"It's going to be a term that's going to be very broadly defined by those trying to ensnare employers in the net of liability," said Mr. Klein.

Mr. Klein added that, even if the liability is given "the best possible reading" in terms of employer exposure, there is nothing that will carve out lawsuits against a group health plan and

nothing that would prevent lawsuits against plan fiduciaries, meaning that the increased costs "will be funneled back" to employers.

"For a variety of reasons, employers aren't quite sure yet, but I think it's fair to say they are deeply suspicious" because of the use of the term "discretionary authority," said Henry Saveth, an attorney with William M. Mercer Inc. in New York who said he had discussed the measure with several employers.

According to Mr. Saveth, some of the questions raised by the summary include: "Will the actual text of the bill provide all of the protections that are promised? Secondly, will the courts find loopholes in that protection if the bill is finally passed?"

He noted that representatives of Congress have told the business community many times before that legislation "would be protective of employers, but almost uniformly, when you look at the legislative text, the protections are doubtful." He added that employers point out that this summary is "kind of a trial balloon for the opening bid in the negotiations," and could "even change a lot before the House comes back in session, and certainly a lot more thereafter."

"Employers will, of course, be concerned about any expansion of liability. However, the Coburn/Shadegg bill looks like a step toward genuine compromise for everyone. We'll know when we see the bill's details," said Tom Emerick, vp-benefits for Wal-Mart Stores Inc. in Bentonville, Ark.

"We haven't seen any firm language. The proof will be in the pudding. Basically, an employer will exercise fiduciary discretion, and under Coburn/Shadegg, I think there's concern

that they would still be exposed to liability. It's really unknown," said Mary Case, a principal at PricewaterhouseCoopers in New York.

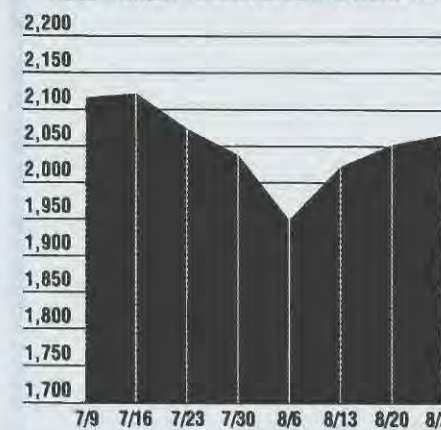
"We don't know what kind of protections the law could have that would make employers comfortable. There will be a lot of litigation activity even if employers ultimately are sheltered. If managed care plans are exposed to enormous liability, who's going to pay for that? Employers. So I think the employer community is pretty uncomfortable with any law that exposes health plans to litigation," she said.

Other provisions in the measure mandate that a utilization review must be administered by a physician or "appropriate specialist" and that plans must institute internal and external review procedures to review denial of coverage.

If the measure becomes law, it also would require improved access to specialty and emergency care and would allow easier access to obstetric/gynecological and pediatric care. Patients would be guaranteed access to specified plan information, such as dispute resolution procedures. States would be permitted to institute more stringent patient protections for insurers covered by state law, but they could not require a plan or insurer to "offer any specific benefits."

Meanwhile, the American Medical Assn. endorsed a more-comprehensive patient protection bill sponsored by Reps. Charles Norwood, R-Ga., and John Dingell, D-Mich. That measure, which has won the White House's blessing, is opposed by business and insurer groups. They say it would subject them to unwarranted new liability, swelling their costs and resulting in more employers dropping their health care plans.

## BI Insurance Index



Base=100 on Dec. 29, 1978  
Source: Nordby International Inc. (nordby.com) Boulder, Colo.

## PCS catastrophe options

As of Aug. 27	Call spread	Price bid/ask	Call spread	Price bid/ask
<b>National Annual 1999</b>				
40/60	15.0/19.5			
60/80	8.0/—			
80/100	3.0/—			
150C	4.0/6.0			
200/250	1.5/5.0			
<b>Western Annual 1999</b>				
80/100	—/1.9			
<b>Southeastern September 1999</b>				
40/60	0.8/—			
60/80	0.6/—			
<b>Eastern September 1999</b>				
60/80	0.8/—			
80/100	0.6/—			
<b>National Annual 2000</b>				
100/150	6.7/—			
150C	5.0/—			
190/195	0.3/0.5			
200/250	3.0/—			

Total volume: 0 Total open interest: 10,295

For information on PCS cat options, call the Chicago Board of Trade at 312-435-3674.

Source: Chicago Board of Trade

## British Issues

Companies	Price pence	P/E	Div. pence	Yield %	52-week high-low
Gdn Royal Exch	360	5.6	4.3	1.2	423-227
Legal & Gen	175	21.7	3.6	2.6	237-142
Royal & Sun	530	18.3	23.0	5.5	633-455

## Brokers

Brokers	Price	P/E	Div.	Yield	52-week high-low
Lmbt Fenchurch	86	8.3	4.2	6.2	94-58
JLT	268	12.2	12.0	5.6	272-166

Note: Prices are Aug. 27 closings; other numbers from Aug. 26.

Source: Nordby International Inc. (nordby.com) Boulder, Colo.

# Critical Y2K systems still need work: Study

By ELIZABETH LINDSEY

A survey of major U.S. companies and some federal, state and local government agencies shows that only 48% of those entities expect all of their critical systems to be Y2K-compliant by the year 2000.

The study, sponsored by Cap Gemini America of New York and conducted by Rubin Systems Inc. of Pound Ridge, N.Y., defined a critical system as one an organization needs to operate, such as billing or order-taking.

Responding to the survey were 144 mostly Fortune 500 U.S. companies and 17 government agencies.

Among respondents that don't expect to be fully compliant, 36% said about three-fourths to virtually all their critical systems will be tested and compliant by Dec. 31. But 18% foresee having 75% or fewer of their systems ready.

Though almost half expect critical systems to

be compliant by Dec. 31, 99% anticipate an increase in systems failures during the remainder of 1999 and in the future. Already 75% of the respondents have experienced Y2K-related errors.

Of those that have experienced failures, 92% said they involved financial miscalculations, some caught and some resulting in financial losses. Another 84% identified processing disruptions, 38% wrestled with customer service problems, and 34% juggled logistics or supply chain problems. In addition, 2% reported problems that caused business to stop for an extended period of time.

Currently, 81% of the respondents report missing Y2K deadlines. That is down from the 92% who reported missed deadlines last May and December.

These missed deadlines illustrate how important Y2K readiness is becoming as Dec. 31 comes closer, and managers are taking note. According to the survey, 96% of respondents will have a

crisis center solely for handling potential Y2K problems.

In addition to developing crisis centers to help solve their Y2K problems, businesses are investigating whether their suppliers are compliant. The percentage of respondents that listed themselves as potentially likely or very likely to stop dealing with non-Y2K-compliant suppliers of goods and services rose to 92% from 87% over the last quarter.

Eighty-nine percent of respondents now think independent verification is very important, compared with 52% in December.

Last December 65% of respondents said it was likely they would use Y2K compliance as part of their marketing messages, but now 89% say it is a good idea.

For a copy of the survey, contact Cap Gemini America at 212-481-7000 and ask for the Year 2000 Readiness Survey.

# BI Industry Stock Report AUG. 23, 1999, THROUGH AUG. 27, 1999

BROKERS						INSURERS/REINSURERS						HEALTH MAINTENANCE ORGANIZATIONS												
Price	Weekly % change	Year to date % change	High	Low	Vol.(000)	Price	Weekly % change	Year to date % change	High	Low	Vol.(000)	Price	Weekly % change	Year to date % change	High	Low	Vol.(000)							
Aon Corp.	NYS	35.50	-0.35	-5.02	46.69	32.19	1267	EMC Insurance Group Inc.	NDO	10.38	0.00	-18.63	13.38	9.00	7	Seibels Bruce Group	NDO	3.31	-1.85	-5.36	6.25	2.69	29	
Clark Cardes Holdings	NDO	22.50	-1.10	33.23	24.00	18.63	2	ESG Re Limited	NDO	13.44	-4.02	-32.18	22.25	12.38	266	Selective Ins. Group	NDO	18.00	-2.70	-11.11	23.00	16.69	448	
E.W. Blanch Holdings Inc.	NYS	67.81	-1.09	45.25	71.75	35.50	86	Enhance Finar cal Services	NYS	20.94	-1.18	-30.79	33.13	17.31	217	Terra Nova Ins Co. Ltd.	NYS	32.00	-0.78	31.28	32.63	21.25	503	
Gallagher Arthur J. & Co.	NYS	55.63	3.25	27.14	56.00	34.88	197	Everest Reinsurance	NYS	28.50	-2.77	-22.32	40.63	28.50	301	Tokio Marine & Fire	NDO	59.00	-2.78	0.21	64.63	39.00	98	
Hill, Rogal & Hamilton	NYS	24.38	0.52	30.87	24.50	15.56	56	Fremont General Corp.	NYS	10.44	-38.27	-56.74	25.69	8.50	12758	Torchmark Corp.	NYS	30.38	-3.38	-12.59	45.50	30.38	1380	
Kaye Group Inc.	NDO	8.25	-4.35	13.79	9.25	5.00	17	Frontier Insurance Group	NYS	11.38	-6.90	-9.00	18.75	10.88	283	Transatlantic Holdings	NYS	74.50	0.34	-1.49	85.94	72.50	68	
Marsh & McLennan	NYS	73.88	-2.64	24.95	81.50	43.38	2546	Gainco Inc.	NYS	6.13	0.00	-2.97	8.06	3.94	100	Travelers Property Casualty	NYS	36.44	0.52	18.98	41.88	24.13	849	
Brown & Brown	NYS	35.75	-3.38	2.33	39.44	29.31	12	Harleysville Group	NDO	19.53	0.16	-23.41	26.13	17.00	217	Trenwick Group Inc.	NDO	20.25	-5.81	-35.97	35.25	19.00	410	
<b>BROKERS AVERAGE</b>			-1.28	24.05				HSB Group Inc.	NYS	36.50	-3.47	-9.16	47.25	34.75	207	Unico American Corp.	NDO	9.19	0.00	-20.33	14.13	8.63	36	
<b>INSURERS/REINSURERS</b>								HCC Insurance Holdings	NYS	14.56	0.00	-14.02	25.13	13.88	815	United Fire & Casualty	NDO	24.13	-2.53	-27.51	38.50	22.25	129	
ACE Ltd.	NYS	22.31	-4.55	-31.74	35.81	21.00	3795	ING Groep N.V.	NYS	56.44	5.12	-7.48	77.00	36.06	180	Unitrin	NDO	36.44	1.39	2.82	42.38	27.88	360	
Accel International Corp.	NDO	1.19	-13.64	-60.42	3.38	0.75	50	IPC Holdings Ltd.	NDO	21.75	2.35	-4.40	27.00	17.38	293	UNUM Corp.	NYS	37.00	1.72	-38.27	62.50	33.50	3849	
Acceptance Insurance Cos.	NYS	13.50	-2.70	-32.08	22.50	12.06	111	Hartford Financial Services	NYS	48.88	-3.22	-12.43	66.44	37.63	2822	Vesta Insurance Co.	NYS	4.50	0.00	-21.74	10.50	3.38	291	
AEGON N.V.	NYS	88.69	0.64	-27.27	130.13	69.25	1240	Lincoln National	NYS	16.13	1.57	-21.82	30.13	11.63	86	XL Capital Ltd.	NYS	51.56	-2.94	-27.95	79.50	49.25	1216	
Aena Life & Casualty	NYS	80.94	3.60	1.41	99.88	80.19	2554	MAIC Holdings Inc.	NYS	26.50	2.17	-17.19	33.13	23.25	143	Zenith National Ins.	NYS	22.00	-1.68	-4.86	26.69	20.31	30	
AFLAC Inc.	NYS	46.63	4.34	5.97	56.75	25.13	3182	Market Corp.	NYS	176.50	-2.08	-2.08	193.00	132.00	41	<b>INSURERS/REINSURERS AVERAGE</b>			-0.93	-11.88				
Allmerica Financial Corp.	NYS	59.06	-0.63	4.30	71.13	38.38	509	MBA Insurance Group	NYS	53.13	0.24	-19.69	71.88	46.06	1594	<b>HEALTH MAINTENANCE ORGANIZATIONS</b>								
Allstate Corp.	NYS	35.50	-0.35	-7.79	48.38	34.00	9649	Meadowbrook Insur. Group	NYS	12.38	2.06	-24.14	26.75	11.06	18	Foundation Health Systems Inc.	NYS	13.31	-4.91	21.02	20.06	5.88	1056	
AMBAC Indemnity Corp.	NYS	54.63	-2.24	-8.86	62.38	40.88	848	MMI Cos. Inc.	NYS	13.38	-0.93	-19.85	19.06	13.25	24	Humana Inc.	NYS	9.88	-1.25	-47.85	22.13	9.44	1938	
American Financial Group	NYS	29.75	-2.86	-27.77	43.88	29.75	231	Mutual Risk Mgmt. Ltd.	NYS	28.50	0.66	-24.88	43.25	25.38	855	Oxford Health Plans	NDO	16.06	-4.81	14.73	24.25	5.94	2849	
American General	NYS	75.56	-0.25	-3.43	81.38	52.38	1775	Navigators Group	NDO	14.50	-0.43	-4.92	17.88	13.25	14	Pacificare Health Sys.	NDO	61.31	-3.92	-14.25	100.38	55.63	3173	
American Heritage Life Ins.	NYS	31.44	0.20	30.65	31.44	18.63	1483	NYMagic Inc.	NYS	13.63	-2.24	-34.73	26.63	12.00	12	Safeguard Health Enter.	NDO	3.88	0.00	8.77	5.81	2.34	81	
American Intl Group	NYS	97.00	2.31	24.52	107.19	51.98	12646	Ohio Casualty Corp.	NDO	16.25	-6.81	-20.97	21.69	15.81	849	Sierra Health Services	NYS	12.25	-1.51	-41.32	24.94	10.44	109	
American Safety Insurance	NYS	7.75	0.00	-18.42	10.75	6.63	34	Old Republic Int'l	NYS	15.13	-4.35	-29.45	25.00	15.13	1766	United HealthGroup	NYS	61.88	-1.00	38.85	70.00	33.38	2126	
Argonaut Group	NDO	25.13	4.96	4.69	28.38	21.25	714	Orion Capital Co. P.	NYS	48.31	-0.26	23.29	48.50	27.56	82	Wellpoint Health Networks	NYS	75.25	-3.45	-12.37	97.00	50.50	1503	
AXA-IJAP Group	NYS	64.25	3.94	-10.22	80.25	38.25	70	Partner Re Ltd.	NYS	37.00	0.34	-18.12	46.50	33.63	258	<b>HMOs AVERAGE</b>			-2.61	-4.05				
Baldwin & Lyons Inc.	NDO	21.00	-2.33	-10.16	26.00	18.50	25	Penn-America Group Inc.	NYS	9.50	1.33	2.70	11.88	8.13	6	<b>ALL COMPANIES AVERAGE</b>			-1.60	2.78				
Berkley W.R. Corp.	NDO	24.06	2.39	-28.70	36.50	22.63	880	PMA Capital Corporation	NDO	20.00	0.63	2.24	21.13	16.63	107									
Berkshire Hathaway Inc.	NYS	64000.00	0.79	-6.30	81100.00	57000.00	1	Philadelphia Cons. Holding	NDO	19.06	-3.17	-10.29	25.50	18.63	146									
Capital RE Corporation	NYS	12.81	-3.76	-34.50	31.75	11.84	167	Reliance Group Holdings	NYS	4.69	-6.25	-63.77	16.13	4.50	2433									
Capital Transamerica Corp.	NAS	14.00	-0.44	-20.85	20.25	12.50	167	ReliaStar Financial Corp.	NYS	44.25	0.00	-1.12	49.81	29.00	1552									
Centris Group Inc.	NYS	8.00	2.40	-14.67	14.06	7.63																		

# FTR FOR THE RECORD

## Ruling prohibits some bad-faith suits

SAN FRANCISCO—The California Supreme Court has prohibited bad-faith lawsuits against surety companies and overturned a punitive damage award by a Los Angeles jury.

California permits tort damages for breach of the covenant of good faith and fair dealing only in insurance policy cases, even though the covenant is implicit in all contracts. Surety contracts are listed as a class of insurance under the state insurance code. But surety contracts are different from insurance policies, a 4-3 majority of court justices held in *Cates Construction Inc. vs. Talbot Partners*.

The case stemmed from a complaint by developer Talbot Partners that the surety company, TIG Insurance Co., failed to pay when Cates Construction did not complete a condominium project. An appellate court reduced to \$15 million the jury's \$28 million punitive damage judgment against the surety company.

But the high court ruled that punitive damages should not be allowed and that a surety contract differs from an insurance contract in several ways. Parties to a surety are not seeking protection against a calamity; they are seeking protection against the danger of a construction contract not being completed, Justice Marvin Baxter wrote for the majority.

The minority argued that surety contracts are similar enough to insurance and that the value of performance bonds would be undermined by the disallowance of the punitive damages. But the majority said it is up to state lawmakers to determine whether tort damages would benefit the building developer industry.

## EEOC settles age-discrimination case

INDIANAPOLIS—The U.S. Equal Employment Opportunity Commission has settled with Thomson Consumer Electronics Inc. and two Indianapolis chapters of the International Brotherhood of Electrical Workers a class-action lawsuit involving allegations of age discrimination.

The suit, filed by the EEOC on June 15, alleged that, in 1998, when Thomson closed and downsized two Indiana factories, older workers were offered fewer benefits in their severance packages due to their age. Those employees' jobs were moved to Mexico.

More than 800 former employees age 55 and older who received no severance payments, along with others, will share the settlement, which was paid entirely by the Circleville, Ohio-based television parts manufacturer.

A company spokesman said Thomson is not insured for the amount of the settlement.

"Neither Thomson nor the IBEW ever, at any time, intended to discriminate against any employee," according to a Thomson statement. "On the contrary, our sole intent was to help employees with extended pay, extended benefits and retraining assistance. We steadfastly believe that no age discrimination occurred."

## Using best practices helps costs: Survey

Health care cost increases are much smaller for employers that do a good job in using several best practices to manage their health care vendors, according to a Watson Wyatt Worldwide survey.

Employers with health care cost trend increases of 5% or less performed an average of 3.5 best practices well, the survey found. Employers with cost trend increases of 9% or more performed an average of 2.7 best practices well, the survey found.

Employers that perform more best practices well also enjoy greater employee satisfaction, the survey found.

Watson Wyatt surveyed 181 employers on eight best practices. The survey respondents had, on average, 20,000 employees.

For the average-size employer surveyed, using several best practices well led to \$6 million in annual savings, according to Watson Wyatt.

"There was widespread agreement among human resources executives about best practices, but individual company performance fell short of those practice standards," said Rich Ostuw, global practice director of health care consulting.

The top-four best practices the survey respondents identified are:

• Defining desired outcomes from vendors—91% of respondents rated it a best practice, but only 37% reported that they performed it well.

• Developing meaningful purchasing criteria—88% said it was a best practice, and 59% judged that they performed it well.

• Performing routine vendor monitoring—88% said it was a best practice, and 51% said they performed it well.

• Having a formal strategy for managing vendors—87% said it was a best practice, and 45% reported they performed it well.

The other best practices are obtaining multiyear perfor-

mance improvement commitments from vendors; auditing vendors periodically and implementing improvement plans; comparing vendors annually to benchmarks; and sharing vendor performance information with employees.

The survey, "Best Practices in Health Care Vendor Management," is available for \$50 by calling Watson Wyatt Worldwide at 800-388-9868.

## Worker deaths down in 1998: BLS

WASHINGTON—A significant drop in job-related homicides is one of the main reasons 212 fewer workers died in 1998 compared with the previous year, according to the latest federal statistics.

The overall death tally of 6,026 last year was 3.4% less than the restated 6,238 in 1997, according to the U.S. Department of Labor's Bureau of Labor Statistics. In addition, last year's tally was the lowest number reported since the BLS began collecting that data in 1992.

BLS also reported that there were 709 job-related homicides last year, down 17.6% from 860 in 1997. There also were declines in the number of workers killed after being struck by falling objects or caught in running machinery.

"In contrast, worker deaths from highway crashes, from being struck by vehicles and from contacts with overhead power lines were at their highest levels during the seven-year period," according to the BLS report.

The federal agency also reported that the construction industry, which experienced 1,171 deaths in 1998, had the largest number of fatal work injuries in any industry, accounting for about 19% of 1998 fatalities.

## PBGC to take over three pension plans

WASHINGTON—The Pension Benefit Guaranty Corp. is taking over three massively underfunded pension plans sponsored by Allegheny Health, Education & Research Foundation, a Pittsburgh-based health care system that is liquidating.

The three plans, which have a total of about 10,000 participants, are underfunded by an estimated \$40 million, with estimated assets of \$127 million and liabilities of \$167 million.

The loss is the PBGC's biggest this year and the highest since the 1997 takeover of an Allis-Chalmers Corp. pension plan, which had a funding shortfall of \$63 million.

## Coors to appeal verdict in firing

DENVER—Coors Brewing Co. will appeal its portion of a \$1.4 million jury verdict handed down earlier this month in favor of a former Coors employee who alleged he was wrongfully terminated.

Homer James, a 24-year veteran, filed suit in 1997 against the Golden, Colo.-based brewery and Yvonne Mannon, a co-worker who accused him of sexual harassment, in U.S. District Court for the District of Colorado.

Mr. James was one of eight men Coors fired in 1996 as a result of an investigation into alleged sexual harassment and misconduct. Ms. Mannon specifically alleged that Mr. James accosted her on at least 400 separate occasions. Mr. James vehemently denied all the allegations.

After Coors' appeals board upheld Mr. James' termination, he sued Coors and Ms. Mannon, alleging, among other things, discrimination, breach of contract, negligence, defamation, intentional interference with a contractual relationship and intentional infliction of emotional distress.

A Denver-based jury this month threw out five of the eight claims, including claims of racial and gender discrimination. But it upheld claims against Coors for breach of contract, against Ms. Mannon for intentional interference with a contractual relationship, and against both parties for defamation.

Coors was ordered to pay \$730,300, which includes \$200,000 in punitive damages on the defamation claim.

Ms. Mannon was ordered to pay \$655,001, which includes \$325,000 in punitive damages on the defamation and intentional interference claims.

Coors settled Ms. Mannon's original sexual harassment suit for \$200,000, a spokeswoman said. The brewery declined to comment about its insurance.

## Regulators look at North Carolina TPA

RALEIGH, N.C.—North Carolina insurance regulators are investigating a third-party administrator in the collapse of a workers compensation self-insurance fund.

Regulators earlier this month began liquidating the National Workers Compensation Fund of North Carolina after it was discovered that \$750,000 belonging to the fund was missing. The money had been transferred to TPC Administrators Inc., a Monroe, N.C., TPA that handled claims filed by the fund's 2,200 employees.

The North Carolina Insurance Department also is looking into TPC's inappropriate use of a \$1 million certificate of deposit owned by the fund as collateral for a loan, according to Alex Spencer, special deputy commissioner at the department.

Employers' outstanding claims are being paid by the North Carolina Self-Insurance Guaranty Assn.

## PwC online financial education tool

BOSTON—PricewaterhouseCoopers recently launched a new Internet-based online education service for employers to make available to their employees.

Called the "Financial Planning Campus," the online tool contains personal finance information and interactive worksheets,

quizzes and audio that enable employers to provide financial education and planning services to employees. Courses currently provided are cash management, insurance planning, investment planning, tax planning, retirement planning, estate planning, and stock options.

The curriculum will be continually expanded and can be customized at the request of client companies. An employer, for example, can include a course called "Your Company Benefits," which would describe the company's specific benefit plans and can include personalized online benefit statements.

A demonstration of the Financial Planning Campus' capabilities can be found at [www.pwcfps.com](http://www.pwcfps.com).

## EEOC settles same-sex harassment suit

MINNEAPOLIS—The U.S. Equal Employment Opportunity Commission and Long Prairie Packing Co., a meat processing facility in Long Prairie, Minn., have reached a voluntary \$1.9 million settlement that resolves all claims in an EEOC lawsuit filed on behalf of a group of male employees who alleged they were sexually harassed at work.

The suit is the EEOC's first class action involving harassment by men against men and disability-based harassment. Part of the settlement includes LPP adopting a zero-tolerance harassment policy.

The settlement is not an admission of wrongdoing by Long Prairie Packing, nor does it involve any judicial findings of violation of law, the EEOC and LPP said.

"This case demonstrates that the EEOC will move quickly and aggressively to respond to problems of workplace harassment, whether brought by men or women," EEOC Chairwoman Ida Castro said in a statement.

The EEOC and LPP have agreed not to comment further on the settlement.

## Personalized communications key: Survey

CHICAGO—Employers overwhelmingly agree that personalized communication is important to their overall employee communication strategy, a survey shows.

The survey, released by Aon Consulting, also determined how employers achieve this goal, whether they rely on online communication, print or both, Aon said in a statement.

Aon Vp Robyn Costello said the survey was conducted in order to better understand how employers are providing personalized communication.

"We've gotten feedback that getting consistent information (to employees) is difficult to do," Ms. Costello said.

She emphasized that online personalized communication has three attractive factors: it is timely, cost-efficient and provides a consistent message.

The survey showed that, although the use of online personalized communication is becoming increasingly popular, print personalized communication is far from obsolete.

"Financial modeling tends to be an interactive process, so it's primarily an online tool. Retirement planning tends to be more print-oriented because organizations like to present employers with information which they can take to someone else. They like the printed format because it's more portable," Ms. Costello said.

According to Ms. Costello, results of the survey, conducted in June, were compiled from 205 responses from Aon Consulting clients, Fortune 1,000 companies and other local and regional companies. For a copy of the survey results, call 800-892-9892.

## NCQA releases accreditation guidelines

The National Committee for Quality Assurance has released its final accreditation guidelines. The NCQA will use the guidelines in evaluating managed care organizations for possible accreditation, starting in July 2000.

A draft of the guidelines was released in March (BI, March 22) Only minor changes were made to the draft guidelines as a result of public comment, an NCQA spokesman said.

The biggest change from the 1999 guidelines requires a health plan to have an external, independent review of treatment denials. BI





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