

AUGUST 31, 1992

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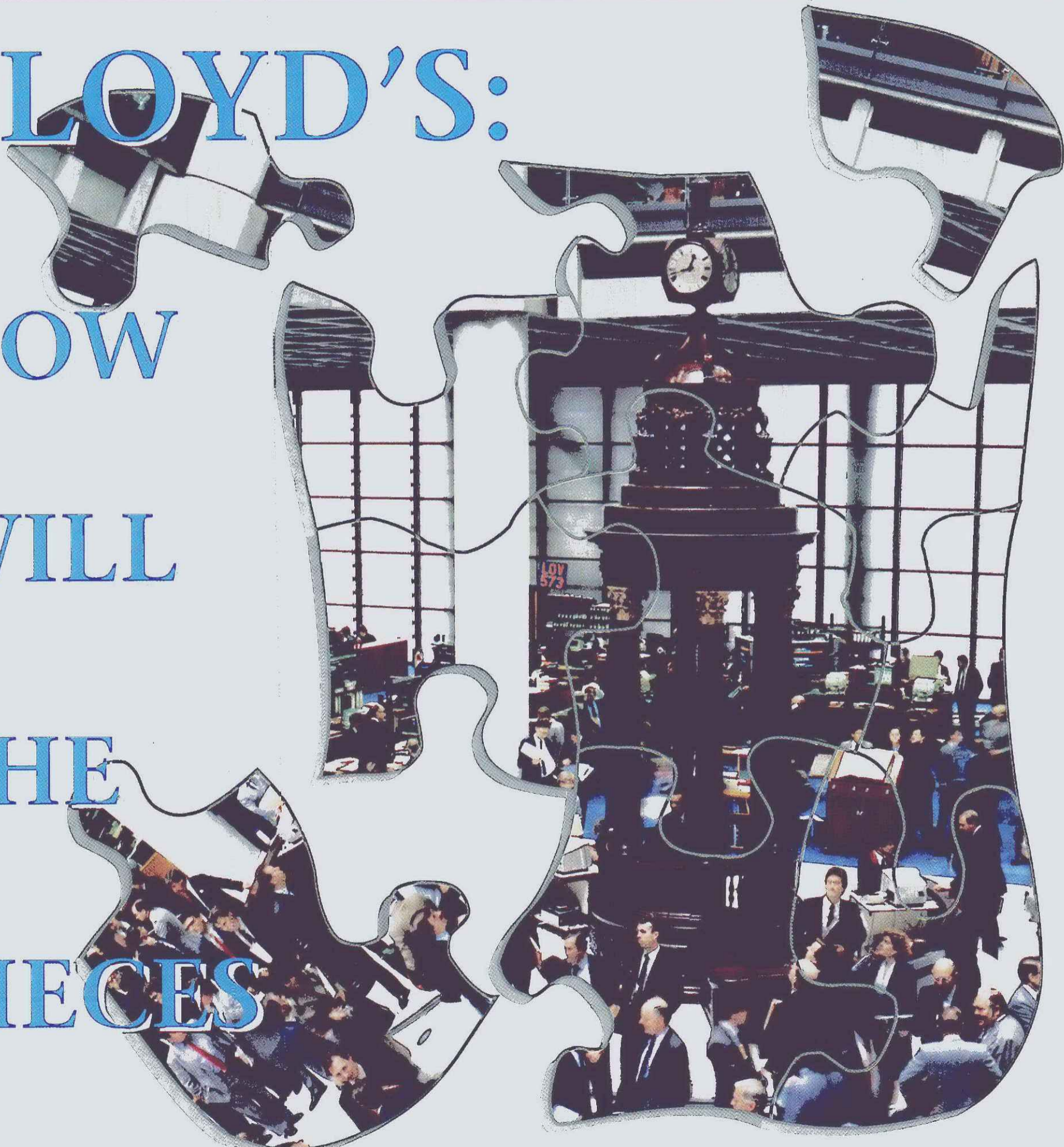
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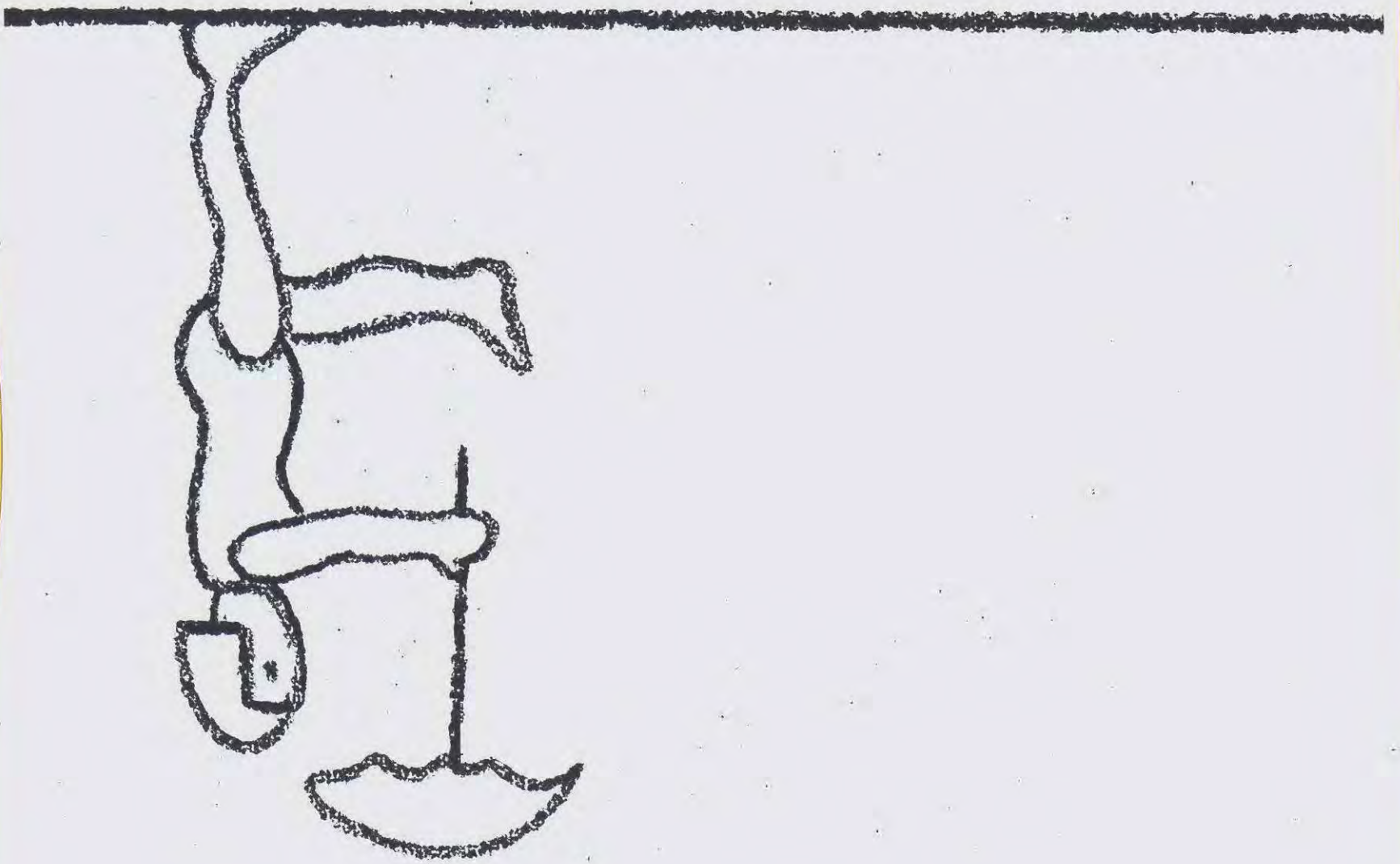
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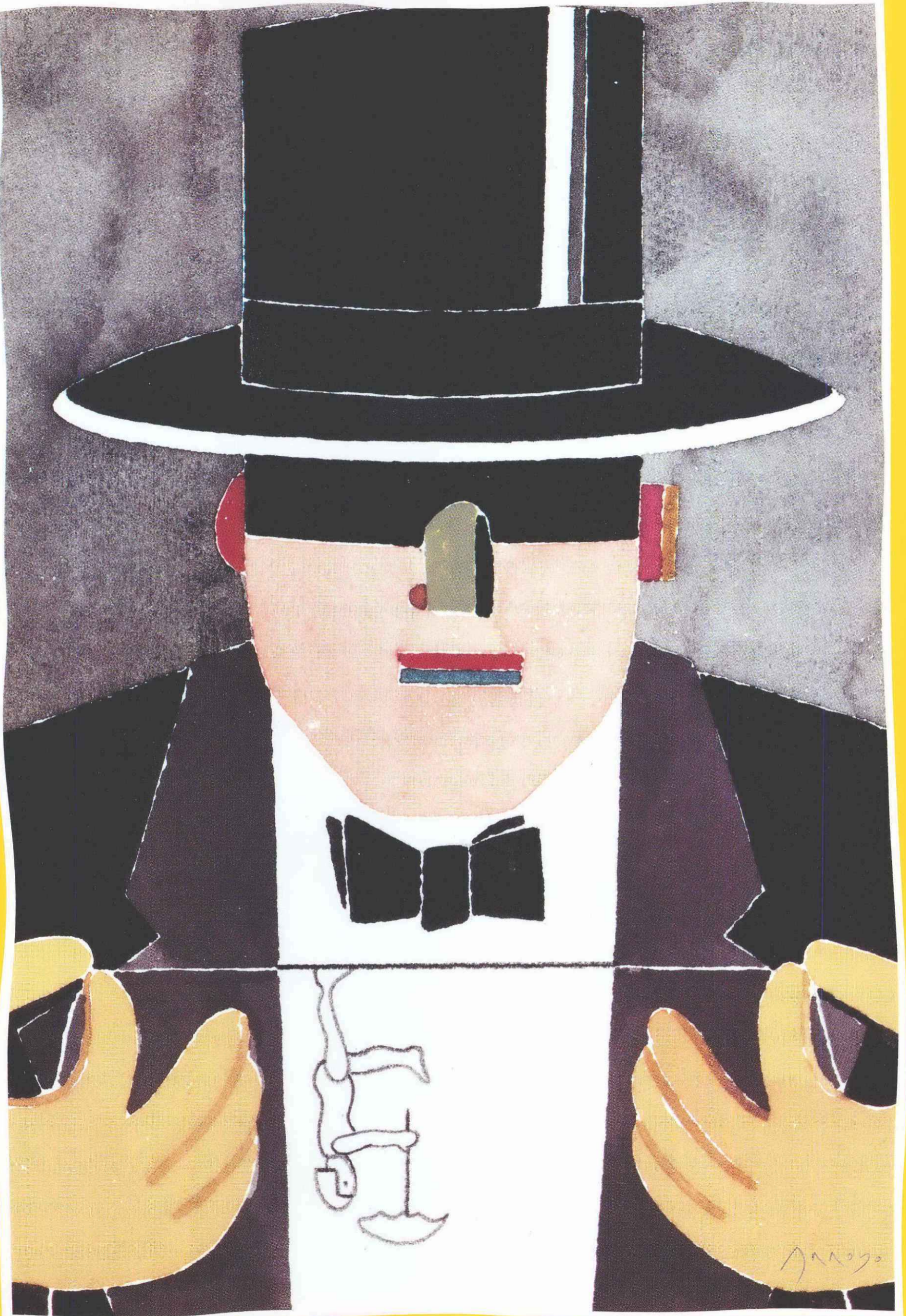
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# PUTTING PERILS IN PERSPECTIVE...





# Business Insurance

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## Insurers defeat treasure hunters, salvage claim to fortune in gold

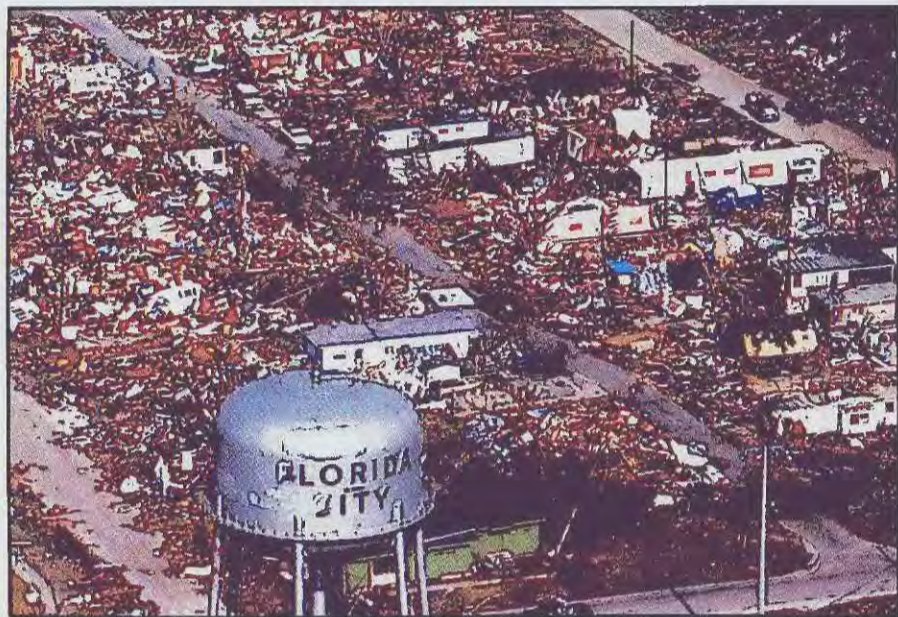
RICHMOND, Va.—Much of a \$1 billion fortune in gold recovered from a sunken 19th century ship should go to U.S. and London insurers, not the salvage company that recovered it, a federal appeals court has ruled.

Overturing a lower court decision, the 4th U.S. Circuit Court of Appeals ruled 2-1 last Thursday that the insurers, which paid more than \$1 million in claims on the loss 135 years ago, had not intentionally abandoned their rights to the treasure. Some

*Continued on next page*

# Andrew destruction to cost billions

## Hurricane could be costliest storm ever



AP/Wide World Photo

A water tower remains standing over the ruins of a section of Florida City, Fla.

Hurricane Andrew, which cut a 30-mile wide swath of death and destruction across southern Florida before ramming Louisiana's southwest coast last week, could rank as the most expensive storm ever.

While residents of southern Florida and the Louisiana Gulf Coast picked through the devastation wrought by the season's first hurricane, insurers and reinsurers were just beginning to tally their losses late last week.

Estimates of insured losses varied widely. But, nearly all placed the amount at no lower than \$4 billion, and estimates ranged as high as \$20 billion.

The most expensive storm ever, Hurricane Hugo, caused \$4.2 billion of insured losses in South Carolina and the Caribbean in 1989 (*BI*, Oct. 2, 1989; Sept. 25, 1989).

The greatest estimate of insured damages was made by Dade County Emergency Manager Kate Hale. She said the county alone suffered \$15 billion to \$20 billion of insured damage. And, that estimate is conservative, she said.

Some reinsurers estimated that losses from Hurricane Andrew could reach \$10 billion to \$12 billion (see story, *Continued on page 69*)



AP/Wide World Photo

The storm blows out a Miami Beach storefront's windows.

# Soft P/C market expected to endure storm

By DOUGLAS McLEOD

Hurricane Andrew is unlikely to blow U.S. property/casualty insurers far enough off their competitive course to bring about a turn in the market, several insurers and industry analysts say.

Even though the Los Angeles riots and other catastrophes produced the worst first half on record for such claims, they say Andrew's estimated \$4 billion to

\$10 billion in insured losses probably can be absorbed by an overcapitalized property/casualty industry without triggering a market turn.

If this proves to be the case, the financial outlook for the industry remains gloomy despite the surprisingly positive results many insurers posted for the first six months of 1992.

Losses from Andrew may cost the industry between 1% and 3% of its capital, and much of the

loss is in personal lines, even though commercial losses are sizable, said Gloria Vogel, first vp with Lehman Bros. in New York.

The hurricane "in and of itself is not enough to turn things around for the (commercial) property/casualty industry," she said.

"Hugo didn't do it. All those losses after Hugo didn't do it. Granted, these things are cumulative, but it just seems the bot-

tom line for this industry is not hurting that badly," Ms. Vogel observed.

1989's Hurricane Hugo is the worst catastrophe on record, producing \$4.2 billion in insured damages (*BI*, Oct. 2, 1989; Sept. 25, 1989).

"The industry is in a position to absorb these losses, and I don't think they will be enough to produce any change in rating," agreed Michael A. Lewis, senior vp with Dean Witter

Reynolds in New York. "It will take capital out of the industry, but nowhere near enough to bring a turn in rates."

A sustained hardening of the market would require economic changes more fundamental than a string of catastrophe losses, according to Barbara Stewart, a principal with Stewart Economics in Atlanta.

Skyrocketing inflation triggered the tight market of the *Continued on page 69*

## Health insurers post strong results but won't cut rates

By MICHAEL SCHACHNER

Despite generally strong first-half underwriting results for group life and health insurers, the pace of premium increases is expected to slow only slightly.

Through the first half of 1992, all major group life and health insurers benefited from actual experience that was better than the trend factors they used at the start of the year to set rates. Most also enjoyed strong returns from their managed care operations.

For some insurers, though, factors unrelated to health care—like slumping investments and reorganizational expenses—dragged down profits.

Overall health care inflation has stabilized as a result of the recession and the growth of managed care. But insurers say that high expenses and cost-shifting have not dropped enough to allow them to freeze rates.

"All the major companies are (successfully) marketing their *Continued on page 67*

# Market cools CEO pay

## Salary increases are now merely keeping up with rate of inflation

By SALLY ROBERTS

The soft property/casualty insurance market continues to hold down pay hikes for major insurer and reinsurer chief executives despite an improved industry profit picture.

The average cash compensation—salaries and cash bonuses—of 31 commercial insurer and reinsurer CEOs rose 4% in 1991 to \$1,112,457 from \$1,069,457 in 1990, according to a *Business Insurance* study of company proxy statements.

That increase is the lowest percentage increase since the survey started in 1986.

And, unlike a year ago, the increase was greatly outpaced by the 13.4% average increase in the surveyed companies' aggregate net income, which rebounded from a 20.9% decline in 1990.

In some cases, though, the cash compensation of CEOs and their company's net income headed in opposite directions.

Despite improved net income over the past year, the average 1991 net income of \$236.5 million for the surveyed insurers and reinsurers is still about 10% lower than their 1989 average net income of \$263.6 million. This puts pressure on compensation committees to hold down CEOs' pay hikes, according to John M. Linton, principal at Towers Perrin in Chicago.

For the past several years, salary increases have slowed so the increases now just about keep pace with inflation. The small increase in CEOs'

cash compensation "doesn't represent an increase in real money terms," said Robert Salwen, a principal at William M. Mercer Inc. in New York. "Inflation is running at about that rate for highly paid CEOs."

Indeed, "on a broad trend basis, CEO pay has been essentially flat since 1989," Mr. Linton said.

In addition, the *BI* survey found that 21 CEOs received pay raises in 1991; cash compensation for seven others was cut; and for one, pay was unchanged. The remaining two did not hold their current positions in 1990.

In 1990, 25 CEOs received pay raises, while pay was cut for only one CEO. For the remainder, there was no change from 1989, or the executives did not hold those positions a year earlier (*BI* Sept. 2, 1991).

Saul P. Steinberg, of Reliance *Continued on page 65*

## Update

## Insurers keep, finders weep

Continued from previous page

insurers could present only sketchy documentation of their ownership interest in the three tons of gold bullion and coins that Columbus America Discovery Group Inc. salvaged from an 1857 wreck off the coast of South Carolina (BI, Aug. 20, 1990).

The decision "preserves the traditional law of salvage," said insurer attorney Douglas A. Jacobsen of Bigham Englar Jones & Houston in New York. Columbus America is reviewing the decision.

The lower court must now set a salvage fee and determine ownership of other items, including drowned passengers' gold, valued at hundreds of thousands of dollars in the 19th century.

Insurers involved in the dispute are: Alliance Assurance Co. Ltd.; Atlantic Mutual Insurance Co.; Insurance Co. of North America; Indemnity Marine Assurance Co. Ltd.; The London Assurance; Marine Insurance Co. Ltd.; Royal Exchange Assurance; and underwriters at Lloyd's. Several defunct New York insurers are being represented by the state insurance superintendent.

## Auditor not liable to third party

SAN FRANCISCO—Limiting auditors' liability, the California Supreme Court has ruled that only clients of firms—not investors or lenders—can sue accountants for negligence in auditing the firms' financial statements.

The decision reverses an appeals court decision that upheld a 1987 Santa Clara County jury award of \$4.3 million against Arthur Young & Co., a predecessor of accounting firm Ernst & Young.

Investors of Osborne Computer Corp. filed two suits against the accounting firm, alleging it failed to follow generally accepted accounting standards in auditing Osborne's books in 1981 and 1982. Osborne filed for bankruptcy in 1983.

California Chief Justice Malcolm Lucas said that accountants are only "watchdogs" and should not face unlimited liability under the theory that third parties can be reasonably expected to rely on audited financial statements.

## PBGC, Continental accord set

WASHINGTON—The Pension Benefit Guaranty Corp. and Continental Airlines Holdings Inc. last week reached a tentative agreement to settle a longstanding dispute involving seven massively underfunded terminated pension plans sponsored by former Continental unit Eastern Air Lines Inc.

The Eastern plans were underfunded by nearly \$700 million. Under the agreement, Continental will pay the agency \$20 million to \$24 million in cash, provide a secured note of about \$75 million that is to be paid off through a special trust over 15 years, and provide stock in the reorganized airline. The PBGC estimates the value of the package at \$115 million to \$130 million.

The agreement is subject to bankruptcy court approval and is contingent on confirmation of a reorganization plan for Continental.

The two parties also settled a separate dispute over Continental's pension plans, which have not been terminated. The airline is to contribute to the plans a stock package that is guaranteed not to fall below \$10 million in value over the next five years.

## Oregon hopeful after HHS talks

SALEM, Ore.—After meeting with representatives of the U.S. Health and Human Services Department last week, Oregon officials expect fewer obstacles in obtaining federal approval of a health care rationing plan.

The HHS earlier this month denied Oregon a Medicaid waiver it would need to implement its universal health care plan, which hinges on rationing medical services (BI, Aug. 10). The agency said the state plan would violate the Americans with Disabilities Act.

The agency wants the Oregon Health Services Commission to show that the results of its telephone poll of state residents regarding general health care issues did not influence the commission's list of prioritized health care services, said OHSC Executive Director Paige Sipes-Metzler. Oregon maintains it did not use the polling data in deciding which services to cover, as federal officials contend.

Ultimately, the list of covered services "may not be different" from the current list, "but we have to prove that each item was independent of any quality-of-life decision," Ms. Sipes-Metzler said.

Federal health officials "offered to provide assistance or immediate review as we go about the process," which could take "several months, depending on what kind of advice they give us," she said.

## Workers comp fund questioned

AUGUSTA, Maine—Maine's workers compensation woes deepened last week as questions arose about the residual market's ability to pay servicing carriers' current bills for claims handling and an insurer doubled its earlier estimate of the market's deficit.

A unit of the National Council on Compensation Insurance that manages the Maine Workers Compensation Residual Market Pool refused an order from the pool's Board of Governors to use reserves set aside for 1989-1991 claims to pay servicing carriers' current bills for handling 1988 claims.

The Insurance Department is exploring its options with the state

Continued on page 70

## Errors & omissions

• Health Providers Insurance Co. of Vermont is a subsidiary of Health Providers Insurance Co. The name of the company was incorrectly reported in the Aug. 17 issue and in an Aug. 24 correction.

# GM shifts health costs to non-union workers

By EILEEN GUNN

DETROIT—General Motors Corp. is shifting more health care costs to white-collar employees through new monthly premiums and increased copayments and deductibles.

Under a plan announced last week, active and retired salaried and non-union hourly employees would contribute toward their health care premiums for the first time since the 1960s.

GM's current flexible benefits plan allows employees and retirees to choose between health

maintenance organizations, preferred provider organizations and "traditional" health care, which is a self-insured comprehensive plan administered by various Blue Cross & Blue Shield plans across the nation.

Employees and retirees currently pay varying copayments and deductibles; under some options, there is no deductible or copayment.

The company has not released an effective date or detailed information on the new costs.

For employees and retirees the biggest change will be a new

monthly premium based on the health care option chosen and the number of people in that plan.

The flex plan provides routine and preventive care as well as vision, dental and life insurance options. It will now offer more choices of PPOs and HMOs, and will still include "something similar to traditional care," according to a GM spokesman.

Even after the changes—which will affect 100,000 active salaried employees, 90,000 retired salaried employees and 300,000

Continued on page 66

# E&S shakeup at CIGNA

## Surplus lines operations to become more selective of risks

By MICHAEL SCHACHNER

PHILADELPHIA—CIGNA Corp. no longer intends to write property risks on a surplus lines basis, and will only write surplus liability risks for specific industries or clients.

Citing an overall corporate move away from writing "undifferentiated" business generated by agents and brokers, CIGNA said that effective immediately, its surplus lines operations will focus only on certain areas of ex-

pertise.

And, beginning Oct. 1, its Los Angeles-based wholesale subsidiaries, CIGNA Excess & Surplus Insurance Services Inc. and Montgomery & Collins Inc., will not renew general surplus lines business generated by agents and brokers.

Instead, CIGNA is seeking "customer-specific" lines of non-admitted liability business from its brokers and wholesalers, including liability insurance for railroads and financial institu-

tions, as well as primary general liability and product liability for heavy manufacturers, chemical companies and pharmaceutical makers.

"We are closing our CIGNA E&S unit, which dealt almost entirely with general business brought to us by general brokers and wholesalers," said Michael Rogers, president of California Union Insurance Co., the group's largest excess/surplus insurer, and CIGNA E&S, which writes

Continued on page 66

## Alternative risk financing to be theme of May meeting

# Bermuda Insurance Symposium

HAMILTON, Bermuda—The Bermuda insurance industry, in conjunction with the Bermuda government, will sponsor the "Bermuda Insurance Symposium" May 25-28, 1993.

Thirty-two speakers already are confirmed to address the insurance symposium here, the theme of which is "Bermuda-The Alternative Risk Transfer Capital of the World."

Among the topics to be addressed are insuring catastrophic losses, how the alternative risk transfer market will respond to the problems of the 21st century, financing the working layer, captive innovations, fronting insurance programs, rent-a-captive programs, alternative dispute resolution mechanisms and financial reinsurance.

*Business Insurance* is the official publication of the Bermuda Insurance Symposium.

"As the publication that has re-

ported extensively on the development of the insurance business in Bermuda, we are delighted to be the official publication of the Bermuda Insurance Symposium," said *Business Insurance* Publisher and Editorial Director Kathryn J. McIntyre.

Ms. McIntyre will moderate a panel of four *Business Insurance* Risk Managers of the Year discussing "Financing the Working Layer."

The panelists are Arnold L. Davenport, vp of risk management at Marriott Corp.; William L. Mather, administrator of risk management at The Gillette Co.; Stephen M. Wilder, assistant treasurer-risk management for The Walt Disney Co.; and Millicent W. Workman, director-corporate risk management at Belz Enterprises.

The symposium, which includes a trade show, social events and an optional accompanying-persons program, will be held at the Mar-

riott Castle Harbour Resort in Tucker's Town. The registration fee is \$895.

The committee organizing the symposium is chaired by Robin Spencer-Arscott, chairman and chief executive officer of Rollins Burdick Hunter (Bermuda) Ltd. The symposium organizing committee's members are Jonathan Crawley, president of Sphere Drake Underwriting Management (Bermuda) Ltd.; Arthur Price, deputy manager-international for the Bank of Butterfield; William J. Loschert, executive vp-underwriting for A.C.E. Insurance Co. Ltd.; and Robert J. Rosser, vp of Skandia International Risk Management Ltd.

For more information on the symposium, contact Suzie McKeegan, Project Coordinator, Bermuda Insurance Symposium, 73 Front St., Penthouse, P.O. Box HM 1366, Hamilton HM FX, Bermuda; 809-292-6386 or fax 809-292-6990. ■

## Inside

➤ The future of Lloyd's of London depends on the strength of the market's resolve to change, this week's editorial says. **PAGE 8**

➤ Today's harsh realities may be better than future challenges at Lloyd's, a member says. **PAGE 39**

➤ UNI Storebrand A/S goes bust in the aftermath of the Skandia takeover attempt. **PAGE 63**

➤ London insurers tally their losses after the sinking of the cruise liner Royal Pacific. **PAGE 63**

➤ The largest U.S. maker of hydraulic cranes agrees to pay \$2 million to settle a suit by the family of a worker killed in a 1987 crane accident. **PAGE 66**

➤ Oklahoma's state fund will raise workers comp rates 17.6% this week. **PAGE 68**

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Spotlight report

# Lloyd's maps new course for future of market



Photo by Paul Grover

Lloyd's of London Chairman David Coleridge meets the press on the steps of Lloyd's, after concluding a grueling annual general meeting at which he fielded questions about the state of the market from angry members.

Many hope widespread changes in 1993 will bring a return of profits and morale

By STACY SHAPIRO

**A**mid the darkest hours in the long history of Lloyd's of London comes the dawning of radical changes in an attempt to ensure the market's survival. Burdened with as much as 4.5 billion pounds (\$8.6 billion) in expected losses from the 1988 through 1991 underwriting years, Lloyd's is implementing significant changes to restore the confidence of its members.

Lloyd's hopes to halt the slide in the market's capacity to 10.05 billion pounds (\$18.79 billion at appropriate exchange rate) this year, from 11.06 billion pounds (\$21.35 billion) in 1991. Capacity is expected to tumble to between 8.5 billion and 9 billion pounds next year (\$16.49 billion to \$17.46 billion).

Lloyd's will reach a crisis point if the market's capacity falls below 7 billion pounds (\$13.58 billion), observers say, because the members remaining in the market—and the profits the market could produce—would not be great enough to sustain past-year losses.

At the same time members are being asked to pay massive losses, Lloyd's has imposed a

special levy on its entire membership to pump up the Central Fund to pass a government-required solvency test next month.

Significant changes—and hopefully morale boosters—that take effect in 1993 have been recommended by three major reports on Lloyd's that have been published since January: the massive report by a task force headed by David Rowland; a report on the so-called LMX spiral by a committee chaired by Sir David Walker; and a study on Lloyd's governing structure by a panel chaired by Sir Jeremy Morse.

"I believe the whole of Lloyd's future has been mapped out," summed up Lloyd's Chairman David Coleridge. "It's done."

The changes that will be made Jan. 1 include:

- A new triumvirate of committees that will govern Lloyd's (*BI*, July 6).
- The three committees include the Council of Lloyd's, which by 1995 will be reduced to 16 members from its current size of 28. In addition to the council, which will continue to be Lloyd's top governing body, there will be a Market Board, which will oversee business development, and a Regulatory Board, which will enforce Lloyd's system of self-regulation.

A new chief executive will sit on the Market Board.

The Regulatory Board will be chaired by a nominated non-Lloyd's Council member and will include a Head of Regulation. Both the chief executive and the Head of Regulation will be a member of the the council.

- A full-time, handsomely paid Lloyd's chairman to head the council and the Market Board. This new post is expected to be filled by Mr. Rowland, currently chairman of Sedgwick Group P.L.C.
- New regulations to better govern underwriting practices.

These measures should also reduce the amount of inter-syndicate reinsurance and force syndicates to calculate a risk/reward ratio for the business they write. That will help members better choose which syndicates to join.

- New measures by all underwriting agents to cut costs and enact a list of members' rights, including holding annual general syndicate meetings open to members.
- An attempt to close the 97 underwriting years left open by 52 syndicates for 1988 and prior years through Lloyd's-owned insurance company CentreWrite Ltd.

*Continued on next page*

## Munich Re retains No. 1 spot

But Swiss Re's gains narrow the gap with German reinsurer

Munich Reinsurance Co. again tops the fourth annual *Business Insurance* ranking of the world's largest reinsurance companies with \$6.72 billion in net reinsurance premiums written.

But second-ranked Swiss Re Group closed the gap somewhat, reporting net reinsurance premiums of \$5.75 billion.

In 1991, Munich, Germany-based Munich Re reported \$7.34 billion in net reinsurance premiums written, while Swiss Re of Zurich, Switzerland, wrote \$4.82 billion.

More than \$3 billion separates Swiss Re and third-ranked Employers Reinsurance Group. The Overland Park, Kan.-based reinsurer wrote \$2.61 billion in net premiums in 1991.

Together, the three companies account for 41.2% of the \$36.6 billion in net reinsurance premiums written by the 20 largest reinsurers.

U.S. and German reinsurance companies continue to dominate the rankings. Combined, the five German and five U.S. companies wrote net reinsurance premiums of \$19.73 billion, accounting for 53.9% of the Top 20's total volume. The three Japanese companies in the ranking together wrote \$2.23 billion, or 6.1% of the total.

*Business Insurance* does not include Lloyd's of London in its ranking of the world's largest reinsurers. However, Lloyd's would rank among the top reinsurers based on \$9.93 billion in gross rein-

insurance premiums written in 1990, including reinsurance premiums paid by Lloyd's syndicates to other syndicates. Lloyd's could not provide net premium figures.

Even if inter-syndicate reinsurance is excluded, Lloyd's \$7.29 billion in gross reinsurance volume would rank it among the largest reinsurers.

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

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

More detailed financial information on these reinsurers, comments from their key executives on the state of the global market and an explanation of how the companies were ranked begins on page 53.

And, a profile of the world's oldest operating reinsurance company, Germany's Cologne Reinsurance Co., appears on page 55.

The fourth annual *Business Insurance* directory of the leading reinsurers worldwide begins on page 57.

### World's largest reinsurers

All amounts in thousand of dollars

Reinsurers	Net reinsurance premiums written 1991
Munich Reinsurance Co.	\$6,722,322
Swiss Re Group	5,746,410
Employers Reinsurance Group	2,619,086
Assicurazioni Generali S.p.A.	2,488,913
General Reinsurance Co.	2,249,100
Cologne Reinsurance Co.	1,966,439
Hannover/Eisen & Stahl Reinsurance Co.	1,771,929
SCOR S.A.	1,595,944
Mercantile & General Reinsurance Co. P.L.C.	1,578,933
Skandia Group	1,363,357
Gerling Global Reinsurance Group	1,134,835
Netherlands Reinsurance Group	998,278
Tokio Marine & Fire Insurance Co. Ltd.	943,011
Frankona Reinsurance Co.	924,970
American Re-Insurance Co.	901,743
Winterthur Swiss Insurance Co.	869,896
Prudential Reinsurance Co.	776,109
Berkshire Hathaway Reinsurance Division	667,035
The Toa Fire & Marine Reinsurance Co. Ltd.	651,446
The Yasuda Fire & Marine Insurance Co. Ltd.	634,164
<b>TOTAL</b>	<b>\$36,603,920</b>

Source: *BI* survey

## Lloyd's changes

*Continued from previous page*

Someday, CentreWrite may run off all of the "old" Lloyd's business, including all of the 162 underwriting years currently still open (see story, page 43).

At the start of the new year, Lloyd's also will put into effect a new high-level stop-loss scheme, designed to cap members' future losses at 80% of their combined allocated capacity in any one underwriting year over a four-year period.

However, each Lloyd's member will continue to have unlimited liability for losses should the stop-loss fund be depleted.

Lloyd's is also working on other projects to secure the market's future, including the introduction of:

- Corporate capital into the market to increase Lloyd's flagging cap-

ital base (see story, page 16).

- The Members Agency Pooling Arrangement, which resembles a mutual fund, whereby individual members can participate in the results of a pool of syndicates. This arrangement would guarantee that each member is placed on an equitable spread of syndicates.

- An arbitration system to tackle the slew of litigation between members and members agents (see story, page 49).

Implementing the changes "will take time, take hard work, take discussion on some parts. But mainly the whole scene has been set," Mr. Coleridge said.

This has been "a tough, miserable year," with Lloyd's reporting a record loss of 2.06 billion pounds (\$3.85 billion at applicable exchange rates) for 1989 and some members facing bankruptcy, Mr. Coleridge observed. The 1989 loss, announced

this year under Lloyd's three-year accounting system, came on top of a 509.7 million pound (\$983.7 million) loss in 1988.

And, Lloyd's next year will report a loss for the 1990 underwriting year, "which I expect will cause more misery," he said. Observers expect the 1990 losses to reach 1.1 billion pounds (\$2.12 billion), while a 750 million pound (\$1.4 billion) loss has been predicted for 1991.

Lloyd's officials have said they believe the market will be back in the black in 1992, but those forecasts were made before Hurricane Andrew devastated Florida and the Gulf Coast last week.

"The actual future of Lloyd's has been decided—in policy, governance and changes in the way we conduct business," said Mr. Coleridge earlier this month. "And there's no doubt that the underwriting results will improve, because the whole of the

insurance market is making major efforts to do better."

Rate increases will accelerate in 1993 and beyond, Mr. Coleridge predicts. "That coupled with the changes we're making in our whole structure—and other things—all are going to produce a better picture, a far-better picture."

Most Lloyd's executives feel that the main ingredient to guarantee Lloyd's future is a return to profitability, which will restore the confidence of its beleaguered members.

"If we get through the wind season between now and Christmas without any significant catastrophes, then I think 1992 is going to look like a good year," Malcolm Mackenzie, chairman of Lloyd's Underwriting Agents Assn., said before Hurricane Andrew hit Florida.

Some contend that Lloyd's future could be in "the red zone" if members continue to withdraw and ca-

capacity falls below 7 billion pounds (\$13.58 billion).

"I don't know whether that's right or not," said Mr. Mackenzie, managing director of D.P. Mann Underwriting Agency Ltd. "If we're left with 30 strong syndicates with 7 billion pounds in capacity, the market can probably be sustained at that level. On the other hand, if you have the same number of syndicates as you have now—279—then maybe you'd have a problem."

"Personally I don't believe it will go that low," said Mr. Mackenzie, who has made a bet that Lloyd's 1993 capacity will be closer to 9 billion pounds (\$17.46 billion). "If that's the case, I think we'll be OK."

"What's important is Lloyd's making profits," added Sir Peter Miller, a former Lloyd's chairman.

"We can not afford another loss period the likes of which we had in 1988, 1989 and 1990," said John Westcott, chairman of Lloyd's Aviation Underwriting Assn. "If we do, we will lose the support of too many names."

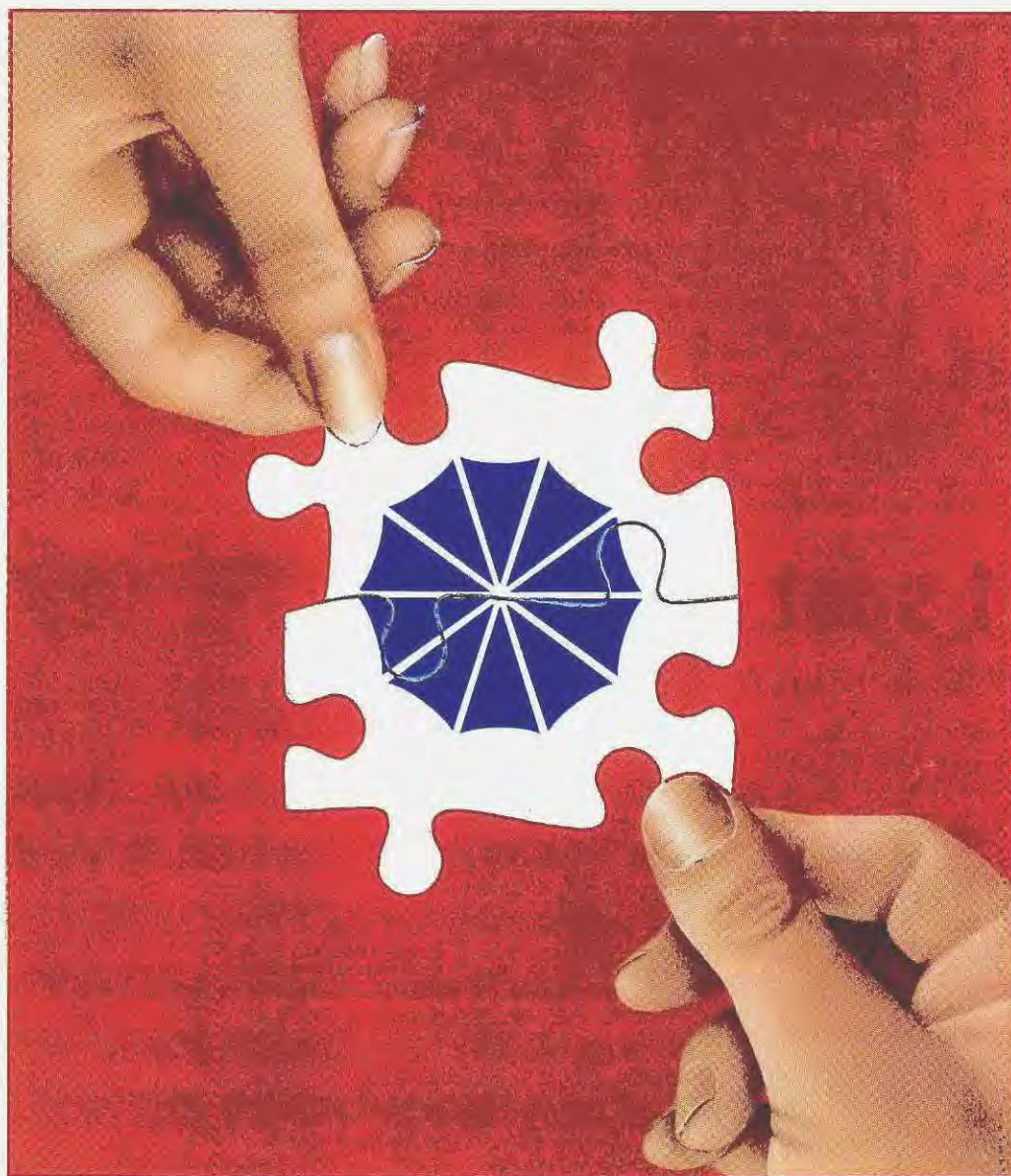
"There is no doubt that we must have a more profitable insurance market," added Alan Colls, chairman of the Lloyd's Insurance Bro-

*Continued on page 6*



# Skandia America Group

## SOLVING THE PUZZLE WITH TEAMWORK



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## How to convert Lloyd's results into U.S. dollars

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

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

To convert its results, Lloyd's uses the exchange rate at the end of the year in which the underwriting year actually closes. For example, since the 1989 underwriting year closed on Dec. 31, 1991, Lloyd's uses the year-end 1991 exchange rate of \$1.87 to convert its 1989 results from pounds to dollars.

For underwriting years that have not yet closed, Lloyd's uses the exchange rate at the end of the underwriting year itself. For example, to convert results from the not-yet-closed 1990 underwriting year, Lloyd's uses the year-end 1990 exchange rate of \$1.93.

When the 1990 underwriting year closes at the end of this year, Lloyd's will then use the year-end 1992 exchange rate to convert its 1990 results.

To determine the annual gross allocated capacity in terms of dollars, Lloyd's uses the exchange rate at the end of the preceding year, which is when the capacity is actually set. For example, to calculate syndicates' 1992 capacity, Lloyd's uses the year-end 1991 exchange rate of \$1.87 to convert pounds into dollars. Under this formula, 1992 gross capacity of 10.05 billion pounds is \$18.79 billion.

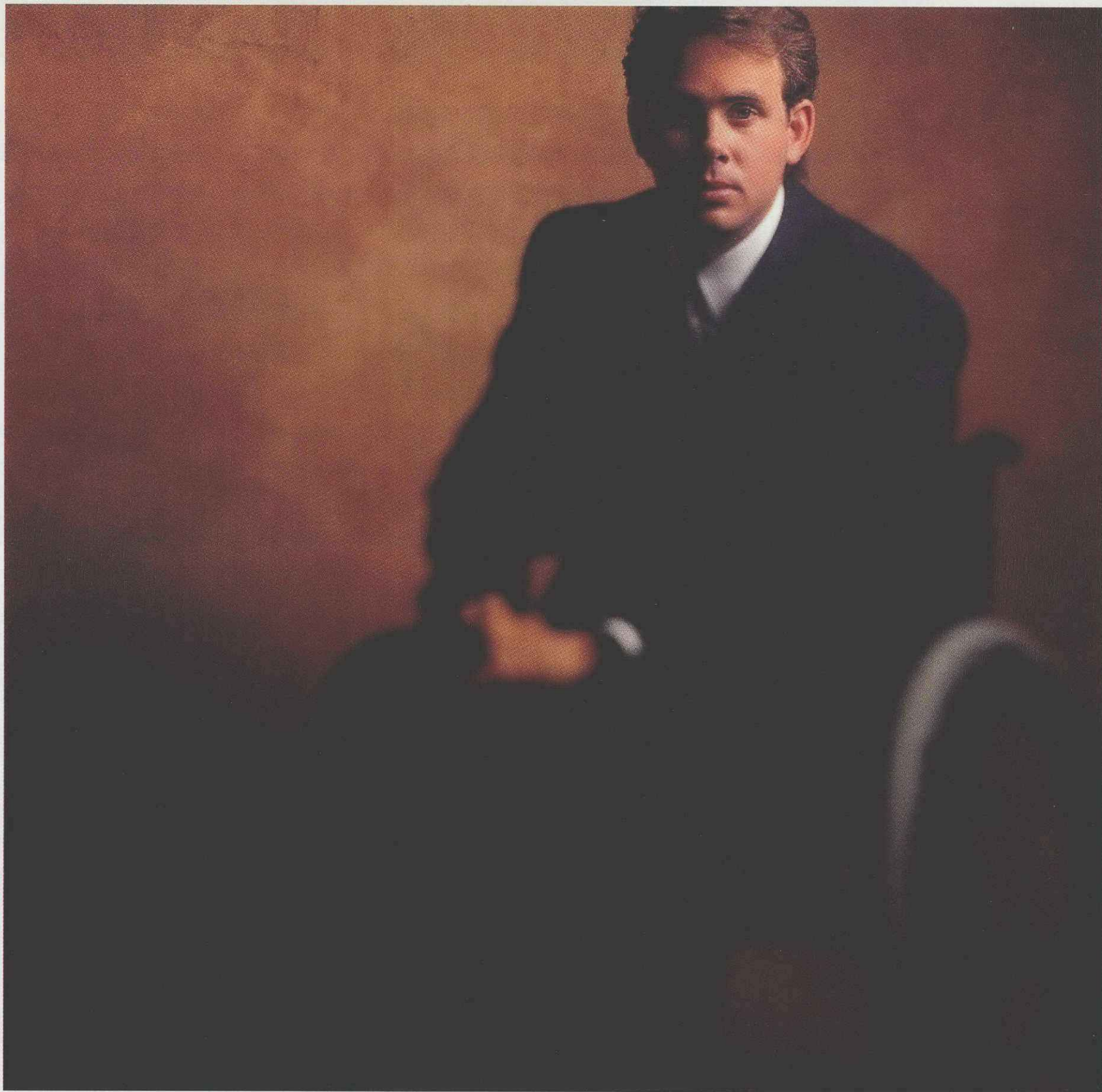
Throughout this special report on Lloyd's of London, *Business Insurance* follows Lloyd's currency exchange practices.

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## Lloyd's future

Continued from page 4  
 kers Committee. "Although our duty is to get the best terms for our clients, we must also ensure that we are placing their business in a secure market."

One way to improve profitability is to reduce the costs of placing business in Lloyd's, said Mr. Colls, chairman of Lloyd's broker Nicholson Chamberlain Colls Ltd. For that reason, the LIBC has hired consultant Booz Allen & Hamilton to review the cost to brokers of operating in the Lloyd's market.

"When they complete their review, we will be able to quantify the actual cost of doing business and then work from there to reduce our costs," he said. "If we combine our own research with that of the underwriters, we will be able to arrive at a blueprint of how all of the London market should look in 10 years' time."

One way to cut costs would be for Lloyd's, the London Underwriting Centre and the Institute of London Underwriters to operate in one building rather than in three, according to Mr. Colls. "We simply can't afford to have three operating buildings."

Bringing all three markets into one building could help attract corporate capital into the Lloyd's market. "After all, what is Lloyd's? It's a building. If you bring insurance companies into Lloyd's, you have corporate capital. . . it is the capacity of the whole London market that is important," said Mr. Colls.

The current crisis at Lloyd's began in June 1991 when it announced a then-record global loss of 509.7 million pounds (\$983.7 million) for 1988. That compared with profits of 509.2 million pounds (\$819.8 million) in 1987.

At the time, Lloyd's also predicted that the 1989 global loss would be 1 billion pounds (\$1.87 billion), or only half of the 2.06 billion pound

(\$3.85 billion) loss that Lloyd's actually reported.

Most of the losses Lloyd's sustained in 1988, 1989 and 1990—whose results will be reported next year—stem from now-defunct syndicates specializing in London market excess-of-loss reinsurance. They were battered by an unprecedented series of man-made and natural catastrophes totaling \$44.8 billion in insured damage between 1989 and 1991, according to Swiss Reinsurance Co. (*BI*, Aug. 3; Sept. 23, 1991; Sept. 2, 1991).

Last week, nervous Lloyd's underwriters predicted the market would fare better in the wake of Hurricane Andrew than it had after

Hurricane Hugo in 1989 or the European windstorms in 1990. While the insured damaged incurred by Andrew will be larger than claims spawned by either of those two catastrophes, U.S. property catastrophe reinsurance premiums have jumped 100% since 1989 and losses will be spread over a wider area of the market because of the demise of the LMX spiral.

In particular, five defunct LMX syndicates accounted for one-third of Lloyd's total losses in 1989, according to the Assn. of Lloyd's Members. This means most of the losses are hitting a "sizable minority of names," said the ALM.

The hard-hit LMX syndicates are:

## Largest Lloyd's syndicates

Based on 1992 gross allocated capacity in millions of pounds

Syndicate	Managing agency	Underwriter	1992 Capacity		1989 Profit	
Marine 488	Charman Underwriting Agencies Ltd.	J.R. Charman	£207.9	\$388.8	£7.8	\$14.6
Marine 418	Merrett Underwriting Agency Management Ltd.	S.R. Merrett	193.1	361.1	1.1	2.0
Non-marine 362	Murray Lawrence & Partners Ltd.	R.J.R. Keeling	174.3	325.9	12.5	23.4
Marine 79	Janson Green Ltd.	J.R.L. Youell	150.1	280.7	(1.2)	(2.2)
Marine 861	Alston Brockbank Agencies Ltd.	M.E. Brockbank	144.5	270.2	2.1	3.9
Marine 406	Wellington Underwriting Agencies Ltd.	I.C. Agnew	144.4	270.0	(30.4)	(56.9)
Non-marine 210	Sturge Non-marine Syndicate Management Ltd.	A.J. Lee	142.1	265.7	(13.0)	(24.3)
Non-marine 510	R.J. Kiln & Co. Ltd.	G.D. Gilchrist	139.2	260.3	5.3	9.9
Marine 282	M.J. Marchant Underwriting Ltd.	M.J. Marchant	131.9	246.7	(3.8)	(7.1)
Non-marine 33	Hiscox Syndicates Ltd.	I.N. Thompson	129.5	242.1	9.7	18.1
Marine 483	Methuen (Lloyd's Underwriting Agents) Ltd.	P.R. Chandler	127.3	238.0	(10.0)	(18.7)
Motor 979	Cuthbert Heath Underwriting Ltd.	D.A. Wiley	125.1	233.9	8.6	16.1
Marine 40	Murray Lawrence & Partners Ltd.	A.P. Bartiaet	109.0	203.8	4.1	7.7
Motor 330	Sturge Motor Personal Risks Ltd.	D.M.W. Farley	103.7	143.9	0.6	1.1
Non-marine 386	Janson Green Ltd.	R.J. Wallace	109.0	203.8	18.0	33.7
Non-marine 190 <sup>1</sup>	Cater Allen Syndicate Management Ltd.	R.D. Hazell	101.9	190.6	(21.7)	(40.6)
Aviation 960	Sturge Aviation Syndicate Management Ltd.	B.E. Beagley	100.0	187.0	13.2	24.9
Marine 735	Wren Underwriting Agencies Ltd.	A.P. Jackson	98.6	184.4	(1.7)	(3.2)
Motor 218	Christopherson Heath Ltd.	D.R. Heath	97.4	182.1	10.0	18.7
Non-marine 1007	Spreckley Villers Hunt & Co. Ltd.	C.W. Spreckley	85.0	158.9	4.6	8.6

<sup>1</sup> Mr. Hazell was succeeded by John Wetherell on July 1, 1989; account remains open

Source: Lloyd's of London

GRAPHIC BY/KIMBERLY MART

these long-tail liability losses; 577.7 million pounds (\$1.05 billion) was added to reserves for 1988.

The ALM notes that the worst of the pollution losses for Lloyd's syndicates may not be over. The Tillinghast division of Towers, Perrin pointed out that in December 1990, the worldwide insurance industry's exposure to U.S. pollution losses ranged from a low of \$41 billion to a high of \$1.07 trillion.

"We don't know what the ultimate cost of pollution is, and there is a limit for how much you can set aside in reserves for certainty," pointed out Stephen Merrett, chairman of the Lloyd's Underwriters' Assn. It will be "easier to cope" with worse than projected pollution claims development if Lloyd's capacity increases, he admitted.

"One of the biggest, darkest clouds (over Lloyd's future) is the way in which pollution will unfold," added Andrew Duguid, head of market services at Lloyd's. That holds true for the U.S. insurance industry as well as for Lloyd's, he noted.

The combination of LMX losses and reserve increases for long-tail liability losses has led to a major contraction in Lloyd's capacity and a loss of confidence by many of the members who have remained in the market.

Seventy-nine syndicates stopped underwriting as of Jan. 1, 1992, including some of the market's major players, like syndicate 367, managed by FLP Secretan & Co. Ltd., which was Lloyd's 19th largest in terms of capacity in 1991. As a result, the number of syndicates dropped to 279 from 354 last year.

Only 200 syndicates likely will remain in 1993, providing an estimated capacity of between 8.5 billion and 9 billion pounds—"a good cull" Mr. Coleridge predicts.

The total number of active members has plummeted to 22,259 this year from a high of 32,433 in 1989. There are an additional 10,543 members who are not underwriting but cannot leave Lloyd's because they are on open syndicates.

There are now 83 members agents, of which 13 control 48%, or 4.72 billion pounds (\$8.83 billion), of the 9.83 billion pounds (\$18.38 billion) in capacity that has been allocated to various syndicates this year.

There are 114 managing agents  
*Continued on page 10*

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# Opinions

## Change is Lloyd's life force

CHANGE IS IN THE wind at Lloyd's of London. But whether this change can withstand the hurricane that demolished portions of Florida and Louisiana last week—as well as scores of other challenges—remains to be seen.

The prospect that Lloyd's, the world's oldest and most hallowed insurance market, could be driven out of business is virtually incomprehensible on the surface. We're talking about the Lloyd's that insured Betty Grable's legs and Jim McMahon's arm, the Lloyd's that insures luxury liners, jumbo jets and turbo trains.

However, the threat is real: Lloyd's could indeed fail. If its members continue to defect and capacity drops precipitously, there is no way that the members who want to stick it out can cover the market's operating costs and pay the billions of dollars that Lloyd's owes for past claims.

Lloyd's problems are many. Members facing huge losses point their fingers at the LMX spiral, the greed of some underwriters and the incompetency of others, a paucity of government regulation, Lloyd's singular system of unlimited liability, etc. And while all of these factors, and many more, can be singled out as contributing to the crisis at Lloyd's, its fundamental problem is little different from that facing any other insurer: Lloyd's must find a way to ensure a profit to those who furnish its capital, whether they be individuals or, as could be the case in several years, corporations.

To do this, Lloyd's must look ahead, not behind. The market's 300 years of tradition are not worth a penny if it continues to generate billions of dollars in losses each year.

While Lloyd's has done a commendable job of plotting its future course this year, it hasn't been easy because Lloyd's is constantly being reminded of the troubled past. Dissident members continue to deny responsibility for their losses—losses they agreed to pay when they joined Lloyd's—in the courts, in Parliament and in the media. Their battle to avoid their liability may benefit them in the short run, but the effort could be the final nail in Lloyd's coffin. Lloyd's has first and foremost promised its policyholders uncontested security, although no one could blame a risk manager for no longer taking that promise seriously.

It's hard to say whether the program of reforms approved by the current Lloyd's council can save Lloyd's from destroying itself. That's because all of the changes that Lloyd's has adopted will not mean



a thing if underwriters, brokers and others in the market lack the resolve to go back to Lloyd's basics: offering innovative ways to finance policyholders' risks at a fair—but adequate—premium.

We believe two of the changes that Lloyd's has adopted will help it return to its roots. The appointment of a full-time, adequately compensated chairman of Lloyd's is long overdue. And, the establishment of a Market Board to oversee the development of Lloyd's business makes good sense. The current Council of Lloyd's has a myriad of responsibilities; we wonder if business development is often at the top of its agenda.

And paying attention to business has never been so important. Lloyd's officials have been promising that the market would reverse four years of red ink with a profit in 1992. That profit could have been blown out the window by Hurricane Andrew, and with it could follow thousands of Lloyd's members who so far have remained faithful to the market but who may no longer be able to afford to wait for Lloyd's fortunes to turn around.

We sincerely hope that will not happen. Despite the magnitude of its problems, Lloyd's still fills a singular role in the worldwide insurance market. To continue to hold this position, Lloyd's must ride the winds of change and not look back.

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# Letters

## Employers must create flexibility for families

To the editor: I read with interest the letter concerning "Fairness vs. Family Benefits" in the July 20 issue. I must agree with a portion of Carol L. Lloyd's letter. However, as a human resources professional and the mother of three, my perspective is a bit different.

I agree it is not my employer's responsibility to raise my children. And it is certainly not the responsibility of the federal, state or local governments to take care of my children. I am hesitant to support parental benefits legislation that would increase tax burdens and open another can of worms about parental responsibility

and choice.

It is, however, the responsibility of my employer to make it possible for me to take care of my children by designing benefit plans that are flexible enough to meet the changing needs of all employees. Fortunately, I have a position in which I have been able to influence the time-off benefits offered by the university at which I am employed. Our plan provides the same time-off benefits to all employees based on

their employment category, but with the individual flexibility—and responsibility—of using those benefits to meet their family, personal or professional needs.

I challenge other employers to think creatively about their benefit plan packages.

**Denise A.T. Kriebel**

Director of Human Resources Services  
Anderson University  
Anderson, Ind.

## Join the 'club' for workers comp reform

To the editor: You're never too old to join the Mickey Mouse Club!

Thank you for highlighting the efforts taken by The Walt Disney Co. to reform the California workers compensation system (BI, July 20). You said it best in your editorial: "Any company with employees in California that doesn't join this effort has no right to complain about rising workers compensation costs in California."

Everyone complains about the workers compensation mess, but how many have actually written letters to their elected rep-

resentatives? Workers compensation is our livelihood, and we sit and watch the fraud, abuse, doctors, lawyers and legislators turn our workers compensation system into a "Looney Tune."

Our system is understood best by those of us who work with it every day. Legislators only know what they are told. Join the Mickey Mouse Club and help save our businesses, our economy and our jobs.

**Anthony J. D'Asaro**

Andreini & Co.  
Orange, Calif.

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## Lloyd's future

Continued from page 6  
at Lloyd's this year.

Exacerbating the concerns about the drop in capacity, distraught Lloyd's members have spent the year attacking the Lloyd's chairman and the Council of Lloyd's. They also have been trying—so far unsuccessfully—to convince courts to bar Lloyd's from drawing down on their membership deposits to pay losses.

The council has also been attacked by working members in the market for bungling reform of the governing structure earlier this year. The council quickly rejected recommendations by Mr. Rowland's task force that Lloyd's governing structure be altered. This rejection created so much uproar among members that the council established a reform committee under Sir Jeremy Morse, whose recommenda-

tions were later approved.

This criticism gave rise to a marathon six-hour annual general meeting in June led by Mr. Coleridge. Disgruntled members then called for a four-hour extraordinary general meeting, held in late July, which led to a vote of confidence in the council among all members. Ballots were being counted late last week.

A silent majority of members who either made a profit or suffered only a small loss in 1989 continue to support the market, Mr. Coleridge believes. "But the silent majority are so silent they just sit there."

While the Assn. of Lloyd's Members has expressed its confidence in the council, ALM Chairman Neil Shaw believes every council member should submit a letter of resignation, so Mr. Rowland can decide which of the current members he wants to retain if he becomes chairman, as expected, next year.

Mr. Shaw also would like to see the Lloyd's hierarchy exert more control over the business written in the Lloyd's market. "Lloyd's takes the view that they have no responsibility for (regulating) the businesses in Lloyd's. I disagree," said Mr. Shaw, chairman of conglomerate Tate & Lyle P.L.C.

Underwriters use the name "Lloyd's" on their policies, Mr. Shaw said, and "in the end it is Lloyd's who guarantees the financial performance of those policies." If the underwriters don't like Lloyd's rules, "they can go somewhere else," he said.

Meanwhile, Mr. Coleridge has no regrets for being at Lloyd's helm when it suffered its two worst years in its 305-year history—despite the personal attacks, the 100 letters per day he's signed and the dramatic events he has had to announce.

Mr. Coleridge tried to devise a

central bailout plan for all members facing losses earlier this year. However, the 1989 losses were so great that a special levy of 5% of members' premium income for the 1990 to 1992 underwriting years had to be called by July 31 just to boost the Central Fund by 500 million pounds (\$970 million) to 1 billion pounds (\$1.94 billion) in order for Lloyd's to pass its solvency test.

"There was a chance" for a bailout plan, he said. "But once the size of the 1989 losses was known, we had to make sure that Lloyd's was solvent. We can't ask for an additional 350 million pounds (\$679 million) if we've asked for 500 million pounds already. It wasn't commercially sensible or possible."

Mr. Coleridge intends to return to Sturge Holdings P.L.C. as its chairman when he retires as Lloyd's chairman at year end. "I will relish the free time," he said. ■

# A polished insider willing to take a shot

## Trials, dissension await Rowland

By STACY SHAPIRO

LONDON—David Rowland's appointment as the next chairman of Lloyd's of London has been a contentious issue in the market.

Many people praise the current Council of Lloyd's for choosing Mr. Rowland, who is chairman of Sedgwick Group P.L.C. and headed an important task force that studied reform of the marketplace (*BI*, Jan. 20).

Supporters believe his communication and leadership skills will be an advantage to the market as he serves as the first full-time, paid chairman of Lloyd's.

Many others, however, want a chairman who has no affiliation with the Lloyd's, either as a broker or an underwriter.

One of Mr. Rowland's admirers, Andrew Duguid, head of market services at Lloyd's and a member of the task force, points out that Mr. Rowland "has enormous experience in the insurance industry."

As head of the task force, he was "a very good chairman of a group of people whose views were not the same," Mr. Duguid added.

"I'm sure he'll do a first-class job," said Lloyd's current chairman, David Coleridge, who added that it was difficult to find anyone who wanted the job. "He's very good with the press, and the job is very political at the moment. I think that he's an excellent person to do it, and I think he'll get good support. Some people don't want him, but some people don't want anyone."

To others in the market, Mr. Rowland is a poor choice.

"We believe that Mr. Rowland is unsuitable (as chairman) because he is an insider," said Tom Benyon, chief executive of the Society of Names, referring to Mr. Rowland's past membership on the council. The Society of Names does not have an alternative candidate, because it believes that it should be up to the Bank of England or the president of the Board of Trade, Michael Heseltine, to make that appointment, said Mr. Benyon.

The new chairman should "be untainted with the problems of the past," he added.

Ideally, the chairman should also be an "independent": someone who doesn't work at Lloyd's or for a Lloyd's broker, or someone who is not a Lloyd's member, according to Mr. Benyon.

One executive in the Lloyd's market said, "David Rowland is a true insider choice, though he is not an insider in that he's not an underwriter. He may not be the best manager, but we're hiring him as a P.R. man."

Anyway, the executive pointed out that there is a "dearth of people" to take the job. "Anybody sane wouldn't want the job," he said.

Answering his critics, Mr. Rowland says that he didn't ask for the job of Lloyd's chairman. "I'm very proud to have been asked by so

Continued on page 12



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## Rowland

Continued from page 10

many people to do it," he said.

He says he has accepted the role because he is "intensely proud of what Lloyd's and the London market has stood for" during his life. "I think it would be tragic to end my career being offered a chance to make a contribution to that and not to have a (stab) at it.

"Of course there will be critics. I can give you a whole list of personal criticisms which is probably twice as long as anybody else's," he added. "So it would be extraordinarily surprising if other people didn't feel that I had shortcomings."

Mr. Rowland realizes that some underwriters might feel that "the life of a broker" is not the proper background for the new chairman. "Others may feel the other way around," he said. "One of the good

things about Lloyd's is that there should be so many diverse views."

Both the task force he headed and a committee headed by Sir Jeremy Morse (*BI*, July 6; Jan. 27; Jan. 20)—of which Mr. Rowland was a member—call for a full-time, remunerated chairman who is a "senior figure" in the market and would hold the post for several years.

The new chairman will head the Council of Lloyd's and also will oversee a new Market Board, which will be in charge of running the business of Lloyd's.

The 1982 Lloyd's Act restricts the position, however, to working members of Lloyd's, which means independent chairmen can't be selected until Parliament amends the law.

"I would like Lloyd's in the future to have a leader chosen just to be the best leader for the time—be he an insider, worker or outsider. But

we're limited by the act," said Mr. Rowland. "Secondly, I believe that it is an underwriting market, and I think underwriting markets ideally should be led by underwriters (with good experience and knowledge about the market."

There may be times in the future when a broker is the best candidate for the post. "Or it may just be the luck and chance of the person at the time who appears to have the right characteristics," he said.

The new chairman, "whether he is a broker, underwriter or bus conductor. . . must do everything he can to lead the society in its best interests."

Mr. Rowland, 59, studied medicine at Cambridge University in the 1950s until he realized that he wasn't very interested in studying sciences—"and what's more I was bad at it."

In 1956, following a brief period

in the service, Mr. Rowland began his professional career at Lloyd's broker Matthew Wrightson as a "trainee" broker in its marine division.

As a trainee, he did "menial tasks" that involved a lot of walking back and forth to Lloyd's underwriting room. During these trips, it was "essential" to stop for coffee in the morning, eat "cheap" lunches "because we didn't have any money" and have afternoon tea on the way back to the office—occasionally stopping at a friend's car to listen to cricket, he recalled.

One day—four or five years later when he was in the non-marine division—Mr. Rowland was invited to play golf at the exclusive Wentworth golf course with Stanley Phillips, who eventually became chairman of one of the U.K.'s major credit insurance companies, Trade Indemnity P.L.C. Knowing nothing

about credit insurance, Mr. Rowland spent the whole day asking Mr. Phillips about it. When he returned to the office, Mr. Rowland asked his bosses whether the company placed credit insurance.

He was told that it was handled for the clients of Matthew Wrightson by the Credit Insurance Assn., a subsidiary of what is now Hogg Group P.L.C. "I went to see my boss. . . and said, 'This is silly. This is very good business and we ought to be doing it. Can I be our credit insurance expert?' To his great credit, he said 'Yes,'" Mr. Rowland said.

As the credit expert, Mr. Rowland eventually took back the credit business of Matthew Wrightson—which was a "vast portfolio of business"—from the Credit Insurance Assn. Together with Hugh Mile, who was his assistant, "We formed this unbelievable combination." One of his accounts led to the company becoming the main broker for much of the insurance of Unilever P.L.C.

Mr. Rowland says credit insurance is a good introduction to insurance and business in general "because it's all about money, trading (and) risk. You learn a great deal about how trade is conducted. . . I learned more from that about running businesses than from being a broker at the room at Lloyd's."

He became a board director in 1964 and a protege of the new managing director, Gordon Henry, who had been hired by the Wrightson family to improve company profits.

He became managing director in 1972 and threw himself into building the company via mergers and acquisitions. As a result, the 2,700-person firm became Stewart Wrightson Holdings P.L.C.

The biggest upheaval of his career occurred in 1987, when Mr. Rowland agreed to sell Stewart Wrightson to Willis Faber P.L.C. Hundreds of Stewart Wrightson employees left the company and in 1988, so did Mr. Rowland, who had been expected to succeed David Palmer as chairman of Willis Faber.

To this day, Mr. Rowland defends his decision to accept Willis Faber's offer, saying that the price was excellent because it was at the height of the stock market boom. The sale "was the best thing for the shareholders" of Stewart Wrightson, Mr. Rowland said.

He contends that he has a good relationship now with the executives at Willis Corroon P.L.C., Willis Faber's successor company, including Chairman Roger Elliott. Mr. Rowland still holds nearly 28,000 shares of Willis Corroon stock, though he sold about 40,000 shares in connection with a divorce.

As Sedgwick's chairman for four years, Mr. Rowland attempted to achieve what he did in Stewart Wrightson: convince people to work together, talk with each other and grow as one business. A great believer in communication, Mr. Rowland conducts executive and employee meetings and seminars and tries to be available to answer reporters' questions.

He is also very open about himself. Even before members started insisting on a register of interests of council members, Mr. Rowland published his in the back of the task force report. He also admits he lost 76,000 pounds this year (\$147,440 at current exchange rates), mainly from two open syndicates managed by Pubbrook Underwriting Management Ltd., which was once a subsidiary of Stewart Wrightson.

He married his second wife, New Zealander Diana Matthews, last year while he was on the task force. Mr. Rowland has two children, three grandchildren and three stepchildren.

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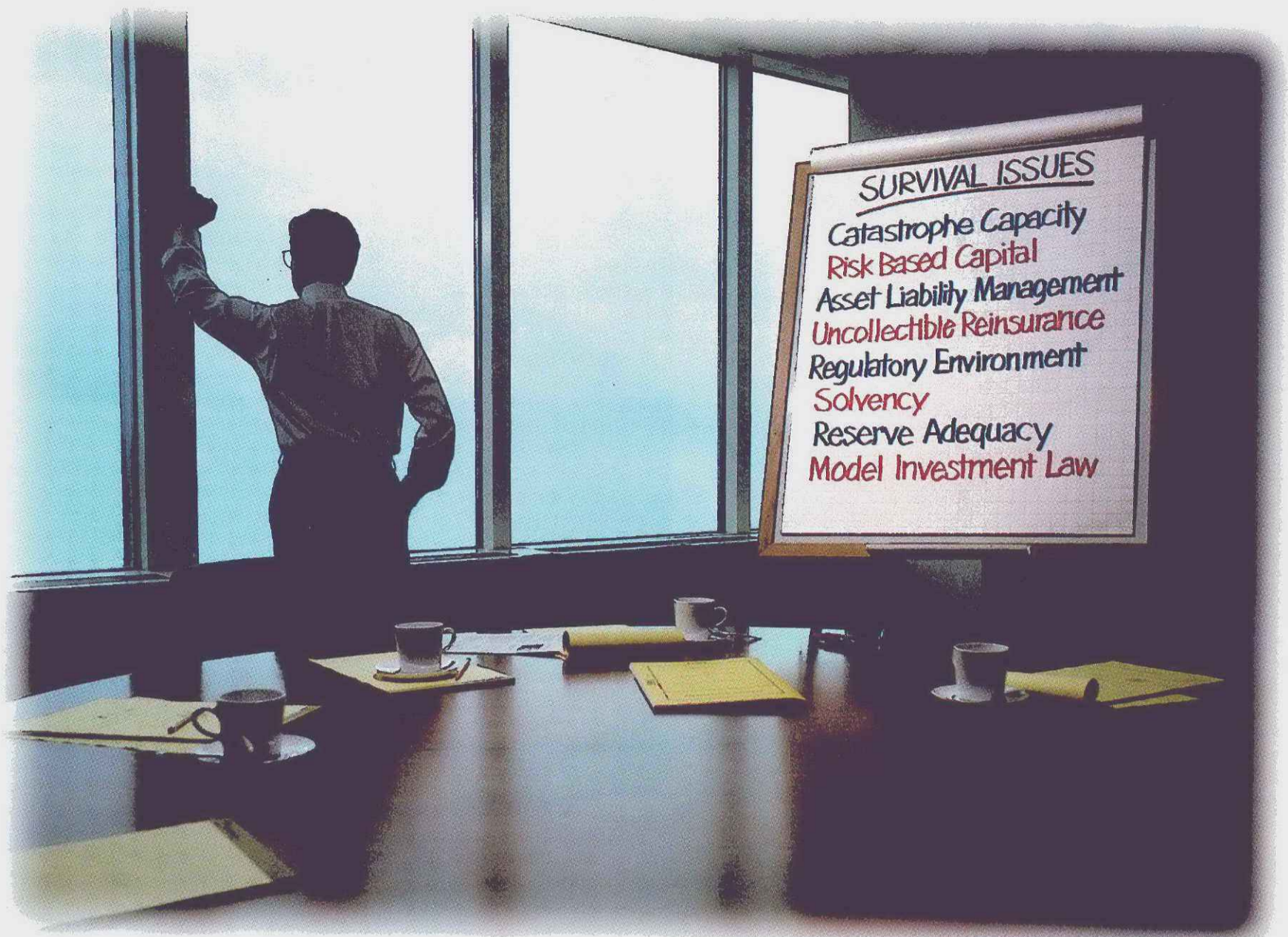
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# Capital new idea challenges old order

*Would corporate members threaten Lloyd's or save it?*

By **STACY SHAPIRO**

LONDON—Many at Lloyd's of London see corporate capital as the best thing since sliced bread. To others, though, it would be a recipe for disaster.

Supporters of allowing corporations to invest at Lloyd's believe it would help boost the market's flagging capital base—which next year could deteriorate to 8.5 billion to 9 billion pounds (\$16.49 billion to \$17.46 billion) from just more than 11 billion pounds (\$20.57 billion) in 1992.

"Corporate capital in some form is going to be inevitable, whether we like it or not," said Malcolm Mackenzie, junior deputy chairman of the Lloyd's Underwriting Agencies Assn.

"Corporate capital is and will be essential to Lloyd's future," said Brian Kellett, chairman of underwriting agency Kellett (Holdings) Ltd. and a member of a Lloyd's committee that is examining the use of corporate capital. The committee itself has reached few conclusions, he added, "and we still have open views."

Some market observers, though, counter that opening the market to

corporate capital will change the face of Lloyd's forever—and not necessarily for the better.

It is naive to see corporate capital as a panacea, warned Chris Hitchings, stock analyst for Hoare Govett Investment Research Ltd.

"If you go that route, you will change Lloyd's irreversibly and out of all recognition. Some of those changes will be positive, but others will be negative," said Mr. Hitchings.

Corporate capital has become the latest watchword in Lloyd's. Earlier this year, a task force suggested that "limited liability capital be introduced into the market" to allow Lloyd's capacity to grow to between 13 billion pounds and 17 billion pounds (\$25.22 billion and \$32.98 billion) by 1997 (*BI*, Jan. 20).

"The market has to be able to grow if it is to trade through the overhang of old years' claims arising from asbestos and potential pollution problems," according to one of the conclusions of the task force, which was chaired by David Rowland, who has been tabbed as the next chairman of Lloyd's (*BI*, Aug. 3).

Capital from individuals alone

might not be able to support long-term growth, the task force concluded. "It is therefore necessary to begin now to develop the mechanisms for the introduction of limited liability capital."

One method of increasing capacity suggested by the task force has already been implemented: Syndicates are now allowed to increase their capacity by 25% by buying quota-share reinsurance. This gives a syndicate its normal allocated premium capacity from its members, plus another 25% credit for quota-share reinsurance treaties with approved reinsurers.

The task force also recommended allowing limited liability corporate membership over time, which it concluded would require an act of Parliament. Lloyd's has since received a legal opinion that a new Lloyd's Act would not be required.

The task force recommended that corporate members be limited to insurance companies authorized with the British Department of Trade and Industry; have limited liability; offer fully-paid up capital; and contribute to the Central Fund and a high level stop-loss scheme at the same level as indi-

vidual members, who would retain unlimited liability.

While acknowledging the problems with these recommendations, many at Lloyd's favor corporate capital in principle.

U.S. regulators must be satisfied that Lloyd's isn't changing its sole trader status under U.S. securities laws, and corporate investors must have an exit route, admitted Mr. Mackenzie of the LUAA. "It's a tough nut to crack, but it will be cracked."

"It's desirable over time that we use corporate membership and it is in the interest of our names that we should do so," added Stephen Merrett, chairman of both the Lloyd's Underwriters Assn. and Merrett Holdings P.L.C., who served on the task force.

"The amount of returns required to attract corporate capital would also be satisfactory to traditional names. So it's not a soft option," said Mr. Merrett. "I'm sure Lloyd's will, if necessary, survive without it. However, Lloyd's wouldn't offer such a substantial market without it."

Several firms have devised scenarios for how corporate capital could work.

London law firm Davies Arnold Cooper suggests "Syndicate 2000

Ltd." as a single corporate member, for example, offering 67 million pounds (\$130 million) of a syndicate's capacity of 100 million pounds (\$194 million). The rest would come from 30 working members and 30 "super" names writing more than 1 million pounds in capacity (\$1.9 million).

Syndicate 2000 Ltd. would be capitalized at 25 million pounds (\$48.5 million), which would come from 50 "shareholder names." Each share would be equal to a Lloyd's member's current minimum deposit of 250,000 pounds (\$485,000).

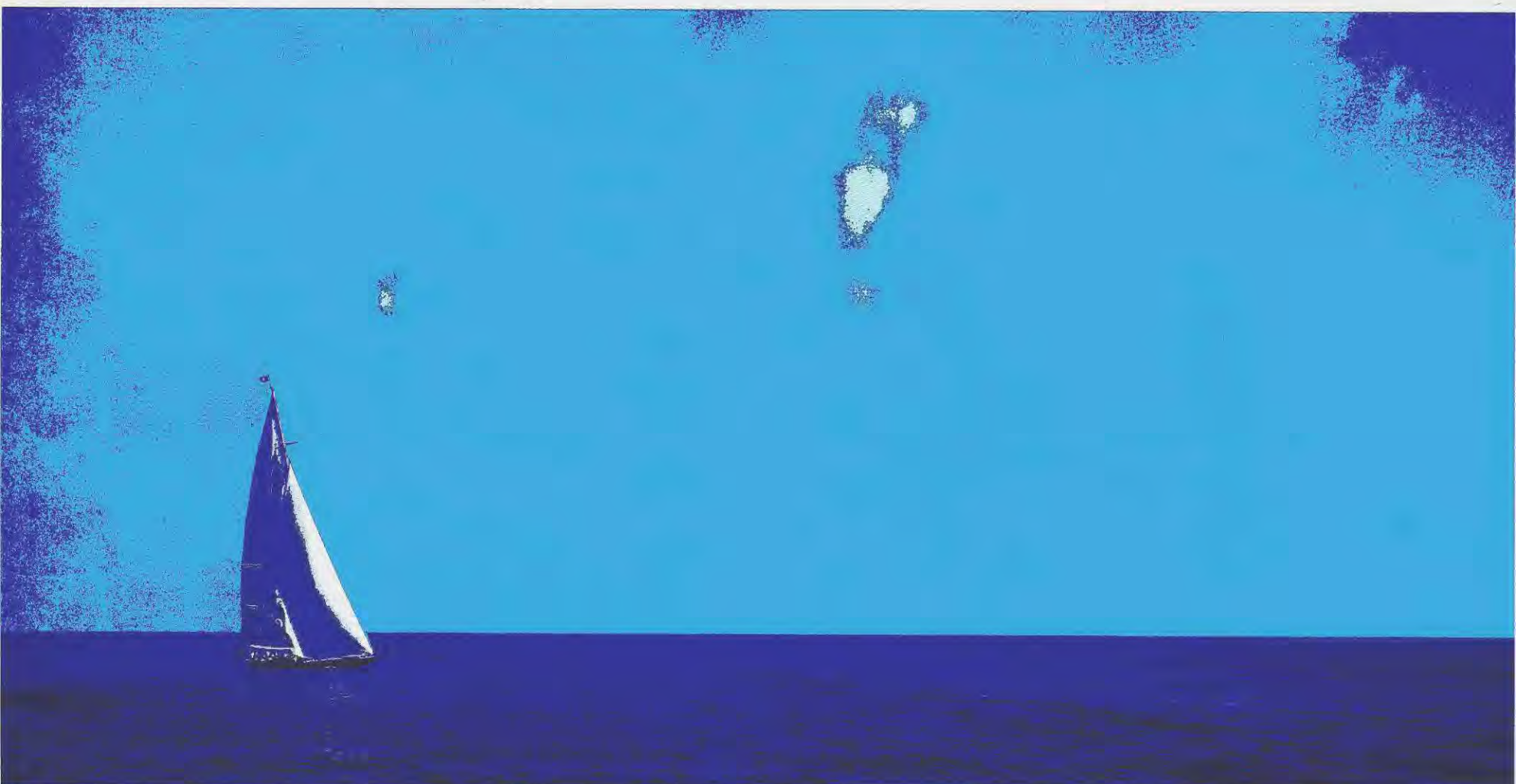
Oliver Laughton Scott, director of consulting firm De Lisle Jessup Scott, favors what he calls "guaranteed participation," in which investors wouldn't have to contribute fully paid capital but would guarantee the capital required.

These ideas would allow corporate investors to "use" a portion of their capital twice, just as individual members can do now, says Mr. Laughton Scott.

But this sort of scenario does little to assuage the misgivings of Mr. Hitchings of Hoare Govett. "There is, I believe, a touching naivete in Lloyd's about what corporate capital means," he said.

To begin with, insurance "offers little prospect of reliably attractive returns" to corporate investors, the

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## Corporate capital

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analyst said.

Over the last 30 years, U.K. insurance stocks have underperformed the rest of the London stock market by 70%, he said.

The story is similar for companies at Lloyd's. The stock of the two managing agencies traded publicly in London—Sturge Holdings P.L.C. and A.J. Archer Holdings P.L.C.—already has declined in value by more than 70% since the beginning of 1990.

"And they are presently valued at just twice their net earnings for the last year in which Lloyd's made a profit," said Mr. Hitchings. "Either these are the cheapest shares in the universe, or the stock market is correct in giving little value to the prospects of profit in Lloyd's."

True, Lloyd's has outperformed the rest of the U.K. and U.S. insurance industry in 35 out of the last 40 years, with 1965 and 1989 being the major blips. And it could offer "superior returns," said Mr. Hitchings.

But introducing corporate capital would change Lloyd's forever, he maintains. It will turn Lloyd's into a structure similar to the three U.S. insurance exchanges formed in the 1980s, only one of which still is open, implied Mr. Hitchings.

Corporate capital could make Lloyd's underwriting agencies into something like London company underwriting agencies.

"Fifteen years ago, the company underwriting agency was a substantial and thriving part of the London insurance market," said Mr. Hitchings. "Now, there are probably only a handful of them. H.S. Weavers (Underwriting) Agencies Ltd. was probably the most spectacular collapse, but both Sedgwick and Willis closed theirs down with ignominious losses and withdrawals of capacity."

No one should think that corporate investors will somehow "behave more sensibly than names," Mr. Hitchings added. "If 1989 happens again—and it will—corporate names will walk away from the Gooda Walkers of that year. And it would be very naive of you to imagine that sensible corporate members will pick only the good syndicates."

Opening Lloyd's to corporate capital will also open Lloyd's to scrutiny by rating agencies, according to Mr. Hitchings.

Unlimited member liability means that "Lloyd's capital is not unlimited, but unknown," he said. It's impossible to analyze the capital adequacy of Lloyd's because its total assets are unquantifiable at the moment, he said.

In the meantime, Lloyd's current members are of two minds about the introduction of corporate capital.

"In a company, when you issue new shares, the existing shareholders don't like it because they think you are dirtying the capital base," said Neil Shaw, chairman of the Assn. of Lloyd's Members. "But if you increase... profits following the new share offer, they're happy."

"What we don't know is the financial condition of Lloyd's in the future, with all the open years, the reduction of the number of names, the reduction in capacity," said Mr. Shaw, chairman of Tate & Lyle P.L.C. "Does it in fact need capital to keep business growing?" he asked. "If it doesn't need capital, I'm not for corporate capital."

But if there is any question that Lloyd's will not survive without new capital, "then I'd support it," said Mr. Shaw. ■

## From the backroom to the boardroom

## Interim chiefs to get higher profile

By STACY SHAPIRO

LONDON—The three executives who have been in charge of the backroom activities of Lloyd's of London since its chief executive retired in June will have important roles to play when the market's new governing structure is implemented next year.

The executives' positions as head of market services, head of regulatory services and head of finance at the Corporation of Lloyd's should be enhanced by the new governing structure.

It is likely that the market services director and finance director will sit on the new Market Board

to be introduced in January to oversee Lloyd's business development; neither will have a seat on the Council of Lloyd's.

And the head of regulatory services will sit on the new 14-person Regulatory Board, in addition to having a seat on the new council. He will report to the chairman of the Regulatory Board, who will be a non-Lloyd's member and will hold the rank of deputy chairman of Lloyd's.

The three executives are:

- Andrew Duguid, currently the head of market services at Lloyd's.

Mr. Duguid, 48, left his childhood home of Canada to study at the London School of Economics.

He received a master's degree in marketing at the University of Lancaster.

After school, he spent several years with advertising agency S.H. Benson. Then, in 1973, Mr. Duguid joined the Department of Trade and Industry, eventually becoming undersecretary. He was released from his regular DTI duties for three years to serve in Prime Minister Margaret Thatcher's cabinet office.

Eventually lured away from the DTI, he became head of regulatory services at Lloyd's in 1987. That year, his "main priority" was to implement 69 recommendations made by a quasi-government committee chaired by Sir Patrick Neill. The British government "ap-

plauded" Lloyd's for its quick action, he noted.

In November 1988, Mr. Duguid was appointed head of market services, which included responsibility for the public affairs and the international department. He also is responsible for employees at the Lloyd's Policy Signing Office and the Unified Claims Office.

Though public affairs now reports to its head, Brian Nicholson, Mr. Duguid still supervises about 850 people.

As head of market services, Mr. Duguid has overseen the unification of the four markets' claims offices. He also helped to implement the new claims agreement system, whereby one leading un-

Continued on next page



Continued from previous page  
 derwriter agrees to a claim on behalf of the rest of the Lloyd's underwriters on most policies; three underwriters fill that role for liability policies.

Under his command, the LPSO is also trying to become more efficient by producing its own Lloyd's policies instead of waiting for brokers to issue them.

Mr. Duguid is particularly proud of introducing a central marketing department, headed by Marketing Manager Beverly Landais, who was hired late last year.

Some of the department's early efforts—such as running ads in daily newspapers—were criticized in the market. Admitting that the ads were not useful, Mr. Duguid said, "We're still learning."

Its latest effort is a package of

information on Lloyd's security to calm policyholders' fears about the security behind Lloyd's policies. More than 12,000 have been distributed, said Ms. Landais.

"One of our strong points is selling our security," said Mr. Duguid. Confidence in Lloyd's security has been undermined by media reports of record losses, he said. "There were no grounds for doubt. . . (but) we didn't want to leave this to chance."

Mr. Duguid was the only "civil servant" of Lloyd's to sit on the task force that earlier this year recommended major market reforms (*BI*, Jan. 27; Jan. 20).

Ask him his thoughts on Lloyd's future and he answers, "I turn to the task force report for my views of the future."

The task force recommendations and those of a committee

headed by Sir Jeremy Morse have led to plans to adopt the new governing structure in January.

One of the new bodies that will report to a smaller Council of Lloyd's is the Market Board, which will oversee Lloyd's business development and will be headed by the chairman of Lloyd's and a Market Board chief executive.

Rumor had it that Mr. Duguid was up for the chief executive's post, but it appears that post will be filled by Peter Middleton, chief executive of travel agency Thomas Cook Ltd. However, the 15-member Market Board is expected to include the head of market services.

• Bob Hewes, director of regulatory services.

Now in his late 40s, Mr. Hewes also worked at the DTI for 14 years before coming to Lloyd's in

1988. Both he and Mr. Duguid worked at the DTI when Alan Lord—who retired in June as chief executive of Lloyd's—was deputy secretary.

Although he graduated with a law degree from Leeds University, Mr. Hewes said he wanted "to get into something between law and accountancy."

After eight years as a tax inspector, he moved to the DTI where he first studied the industrial implications of tax policy. Mr. Hewes later was involved in plans to make the civil service more efficient. He briefly was released from that post to serve the cabinet office handling organizational issues before becoming director of the DTI's enterprise and deregulation unit.

When he replaced Mr. Duguid as head of regulatory services in 1988, most of the Neill recom-

mendations were in place—so much so, in fact, that the market was complaining about the cost of complying with the new rules.

A new committee, which included Mr. Hewes, reviewed the cost of regulation, concluding that "what was bugging the market was the cost of change, not the cost of regulation. . . and having to continually cope with disruption," he said. "The cost of not regulating (the market) is greater."

Recently, the task force report, the Morse report and Sir David Walker's report on the LMX spiral have all meant regulatory changes for Mr. Hewes and his staff of around 330.

Changes proposed by the task force and the Morse reports will give the new Regulatory Board an "independence" that it needs, said Mr. Hewes. The board's chairman, who will be nominated by the Bank of England, must not "bend his conscience at the behest of the Lloyd's market," he said. And the members must have integrity "that is not questionable."

Meanwhile, much time will be spent implementing the recommendations of the Walker report, which offers "a shift in the approach of regulation," he said.

In the past, Lloyd's regulators have aimed to make sure that directors of underwriting agencies were "fit and proper," said Mr. Hewes. What the regulators avoided "consciously" was regulation of "underwriting decisions."

The Walker report—which criticized regulators for not curbing the shoddy practices of LMX underwriters—concludes that "a little bit more" underwriting regulation is needed, said Mr. Hewes.

It is a challenge to Lloyd's executives to regulate underwriting "without taking away underwriters' entrepreneurial ability," he said. Peer review committees likely will help weed out those with poor skills, he said.

Lloyd's regulators will have to be "streetwise," he said. Members must realize, though, that not every malfeasance will be caught before it's too late, he added.

Some have called for British government oversight of Lloyd's, but Mr. Hewes is a believer in self-regulation. Besides, he added, Lloyd's has more people regulating the market than the entire insurance division of the DTI.

• John Gaynor, Lloyd's head of finance.

Until a new chief executive is appointed, Mr. Gaynor, 57, is temporarily housed in Mr. Lord's plush 12th-floor office.

Mr. Gaynor, former group financial controller at Imperial Group P.L.C., joined Lloyd's in 1986 as head of finance and marketing.

Soon the two roles were separated, however. As head of both areas, he was on 14 separate committees and seemed "to always be taking my papers from one meeting to another," Mr. Gaynor recalled.

With a staff of about 200, the finance department deals with tax authorities both in the United Kingdom and overseas; maintains the corporation's books and records; and controls 2 billion pounds (\$3.88 billion) in funds, including the 1 billion pound (\$1.94 billion) Central Fund.

If Lloyd's needed a short-term loan from the Bank of England to pay claims, Mr. Gaynor would probably do the negotiating. But this, he insists, has never been contemplated by Lloyd's.

"It's exciting to see Lloyd's changing again," said Mr. Gaynor. "But we're in the early days of evolution." ■



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# Getting back on solid ground

Unless underwriting improves, aviation profits to dive

By GAVIN SOUTER

LONDON—Aviation insurance rates may have lifted off in the past year, but they will need to climb further if aviation underwriters are to avoid a crash landing, says John Westcott, chairman of Lloyd's Aviation Underwriters Assn.

Underwriters must abandon financial arbitrage and again make their money from technical underwriting, he said.

The consequences could be dire if they do not aim to make an underwriting profit because the reinsurers they rely on may themselves be financially unsound, he warned.

Low rates and poor underwriting are not the only problems facing Lloyd's aviation underwriters. Costs are too high all round, and if Lloyd's underwriters are to compete effectively, the number of individual syndicates will have to fall drastically, Mr. Westcott said.

Aviation rates have increased during the past year, but the poor state of the sector demands more substantial price increases, he said.

"There are a tremendous amount of losses still to be paid in the aviation marketplace. We still have to pay a large number of the 1985 losses, which was the worst year ever for aviation insurers," he said.

And lengthy litigation of claims in the United States is holding up the settlement of many claims from back years, Mr. Westcott said.

But it is not just losses from former years that are troubling underwriters. Although there were fewer losses in the first six months of 1992 than in the first half of 1991, a series of crashes in July set the market on course for another underwriting loss, he said.

Current rates do not reflect the losses paid, Mr. Westcott said.

"It is the job of the aviation underwriter to take out the peaks and troughs of losses for airlines, and if he is doing his job properly, he does that for the right premium," he said. "And at the moment, the market is not doing that."

Currently, the average premium in the aviation market is about half what it should be to pay losses and expenses and give the underwriters an adequate underwriting profit, Mr. Westcott said.

The increases demanded by underwriters during the renewal season last fall were insufficient because the rates being charged

before were so low, he said.

In some cases the rates charged before the moderate increases were 10% of what they needed to be to produce an underwriting profit, Mr. Westcott said.

But too many underwriters are now satisfied with the increases they obtained last year, so there is little hope of substantial increases this fall, he said.

Some signs point to increases, but "there are also signs that some managements are going to be satisfied with a partial correction rather than the restoration of gross trading profits," Mr. Westcott said.

Instead, many underwriters throughout the world are content to "launder premiums" and survive on investment income and



Even though first-half losses declined from their 1991 levels, a series of crashes in July set the aviation market on course for another underwriting loss, says John Westcott.

reinsurance coverage, he said.

"That is not a professional way of trading and it does nobody any good," Mr. Westcott said.

Instead, the technical intricacies of the aviation industry itself should be reflected in the technical insurance expertise of the underwriters, he said.

Underwriters and their support staff should have sound knowledge of the aviation industry and its needs rather than treat insurance as a simple money market mechanism, he asserted.

"I would like to think that no Lloyd's underwriters treat insurance like a money market," Mr. Westcott said, "but there are clearly insurance entities which do, and a lot of them have representation in London."

Underwriters that continue to charge low rates when the major airlines renew coverage this fall and rely on cheap reinsurance to cover their losses may be caught when they try to buy reinsurance at the end of the year, he said.

"The soft reinsurance market that was available in the past is now contracting in leaps and bounds," Mr. Westcott said.

Reinsurers are pushing up prices and imposing more stringent conditions irrespective of the rates that direct insurers are charging airlines, he said.

And reinsurance capacity is contracting drastically as well, Mr. Westcott said.

"So if direct underwriters do not get their prices right at this renewal, they could be left with little or no reinsurance after Jan. 1, 1993," he said.

Also, some direct insurers may already be relying on reinsurers that are in perilous condition, Mr. Westcott said.

"Reinsurers are facing tough times themselves, and if you rely on one that then goes out of business, you have to face the gross claims yourself," he said.

Aviation underwriters are increasingly facing this problem.

"But that is the price of the bad underwriting decisions of the last three or four years," he said.

Higher rates could also have a downside for insurers. They could encourage airlines to set up their own captives.

"I am very worried when I see airlines tempted to set up captives," he said. Airlines lack the insurance expertise to cope with the long-tail claims which they will inevitably face, he added.

"It is the risks that no money was taken for that are problems for underwriters, and you need to be in the business for many years to be able to cope with them," he said.

Airlines should not take on problems that they do not have the expertise or funds to deal with, Mr. Westcott said.

The number of insurers that airlines can turn to for coverage is continually declining, he said.

Although the capacity of the market remains largely unchanged, the number of insurers is decreasing as they seek to reduce costs, Mr. Westcott said.

At Lloyd's, the number of syndicates underwriting aviation business is bound to follow that trend as syndicates close or merge in an effort to reduce costs, he said.

"The direct aviation market in Lloyd's will not be able to afford the luxury of more than 30 syndicates in the future," Mr. Westcott said, and could fall below 10.

The Lloyd's Aviation Underwriters Assn. currently has 39 member syndicates.

The remaining aviation syndicates should remain separate from other markets rather than become part of composite syndicates, he said.

"We need to put the maximum capacity through a relatively small number of syndicates which have the technical knowledge to give quality service, and a composite syndicate does not have the ability to do that," Mr. Westcott said.

## Largest Lloyd's aviation syndicates

Based on 1992 gross allocated capacity in millions of pounds

Syndicate	Managing agency	Underwriter	1992 Capacity		1989 Profit	
960	Sturge Aviation Syndicate Management Ltd.	B.E. Beagley	£100.0	\$187.0	£13.2	\$24.9
48	Methuen (Lloyd's Underwriting Agents) Ltd.	T.P. Salmon	74.3	138.9	4.5	8.4
800	Wren Underwriting Agencies Ltd.	J.A. Westcott	64.8	121.2	3.2	6.0
545	F.L.P. Secretan & Co. Ltd.	T.O. Pitron	58.9	110.1	5.7	10.7
270	A.J. Archer & Co. Ltd.	R.J. Maylam	57.1	106.8	2.8	5.2
53	G.P. Eliot & Co. Ltd.	R.F.E. Eliot	53.7	100.4	3.1	5.8
340	Gravett & Tilling (Underwriting Agencies) Ltd.	J.P. Tilling	52.6	98.4	4.3	8.0
97	Wellington Underwriting Agencies Ltd.	R.J. Morse	50.6	94.6	5.5	10.3
824	Murray Lawrence & Partners Ltd.	B. Coleman <sup>1</sup>	32.7	61.2	2.8	5.2
925	Sturge Aviation Syndicate Management Ltd.	L.A. Hudson	30.0	56.1	4.8	9.0

<sup>1</sup>Syndicates whose largest proportion of business is aviation <sup>1</sup>To be underwritten by A.J. Medniuk in a consortium of four syndicates beginning 1/1/93  
Source: Lloyd's of London

1992

1993

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# Marine business anchors Miller's trade

## Broker traces roots to P&I club 90 years ago

By **STACY SHAPIRO**

LONDON—Miller Insurance Group Ltd. has come a long way since its origins 90 years ago as the "insurance department" of a protection and indemnity club manager.

Today, as an independent

Lloyd's brokerage headed by Sir Peter Miller, senior partner and former chairman of Lloyd's, it has more than 400 employees placing all types of insurance and reinsurance coverage for everything from oil rigs to oil paintings.

Its gross revenues, estimated at

34 million to 35 million pounds (\$59.2 million to \$60.9 million) for the year ended April 30, put it among the larger brokers in London.

Some things don't change, though.

Still a private partnership, the firm cannot be sold without the

permission of its four "partners," one of which is an employee trust. Miller's is one of the few major Lloyd's brokers to remain in private hands.

The "grandfather" of the brokerage is marine business, which remains the cornerstone of Miller's trade, said Peter Stone, managing director of Miller Marine Ltd. In particular, Miller's is the sole broker for the Interna-

tional Group of P&I Club's reinsurance program, which includes most of the third-party liability coverage of 90% of the world's shipping fleets.

It all started in 1902 when Sir Peter's great grandfather, Thomas Robson Miller, decided to form "an insurance department" for his P&I club management firm, still known as Thos. R. Miller & Son.

The department "became a Lloyd's broker, which was apparently an easy thing to do in those days," Sir Peter said. The brokerage was allowed "to get on by itself, which it did in a spectacularly inactive fashion for 50 years."

When Sir Peter and current partner Roy Tiley joined in the 1950s as young trainee brokers, there were 11 people in the brokerage unit, including partners Herbert Tiley and Sir Peter's uncle Dawson Miller.

"We were young, eager and damned hungry blood," Sir Peter recalled. "God, we were poor. Have you ever tried to live on 5 pounds a week? Three pounds for lodging, one pound for food, 10 bob (50 pence) for entertaining girlfriends and 10 bob to get home by bus to mummy to get the washing done."

Sir Peter, who had studied law like his father, Cyril, realized when he started work that the brokerage "department" was operating illegally with the same name as the P&I club manager. As a result, in 1957 the Lloyd's broker's name was changed to Thos. R. Miller & Son (Insurance) Ltd. Ten years later, it officially separated from its parent and became a separate entity, Thos. R. Miller & Son (Holdings) Ltd.

From the time Sir Peter joined, Miller's started to expand. "We were enormously lucky in that we came at a time when the P&I clubs—with which we had close connections through the family and elsewhere—(realized they) needed to have reinsurance in the market. We were well-placed to service their needs as brokers," said Sir Peter.

In the 1950s and 1960s, the firm also specialized in other marine-related coverages like hull and cargo insurance, he said.

To this day, Miller's remains the "official and only" broker for the International Group of P&I Clubs' reinsurance program, which this year offers \$1.05 billion in coverage for all risks except pollution, for which limits of \$500 million per accident apply.

Another \$200 million of reinsurance coverage is obtainable in the open market, said Iain Webb-Wilson, director of Miller Marine Ltd.

The reinsurance coverage, traditionally renewed on Feb. 26, is placed excess of a \$15 million retention by the clubs, said Mr. Webb-Wilson. Rates for the reinsurance rose a little this year, in part because reinsurers paid \$400 million to pay for the cleanup of the 1989 Exxon Valdez oil spill off the coast of Alaska.


In 1971, Sir Peter became the senior partner of the brokerage. It was a time when "the first flood of brokers were being bought and sold, and a lot of people were unhappy about it," he said.

Several asked to come and work for Miller's, and the buds of several subsidiaries were formed, namely in reinsurance.

Continued on page 28

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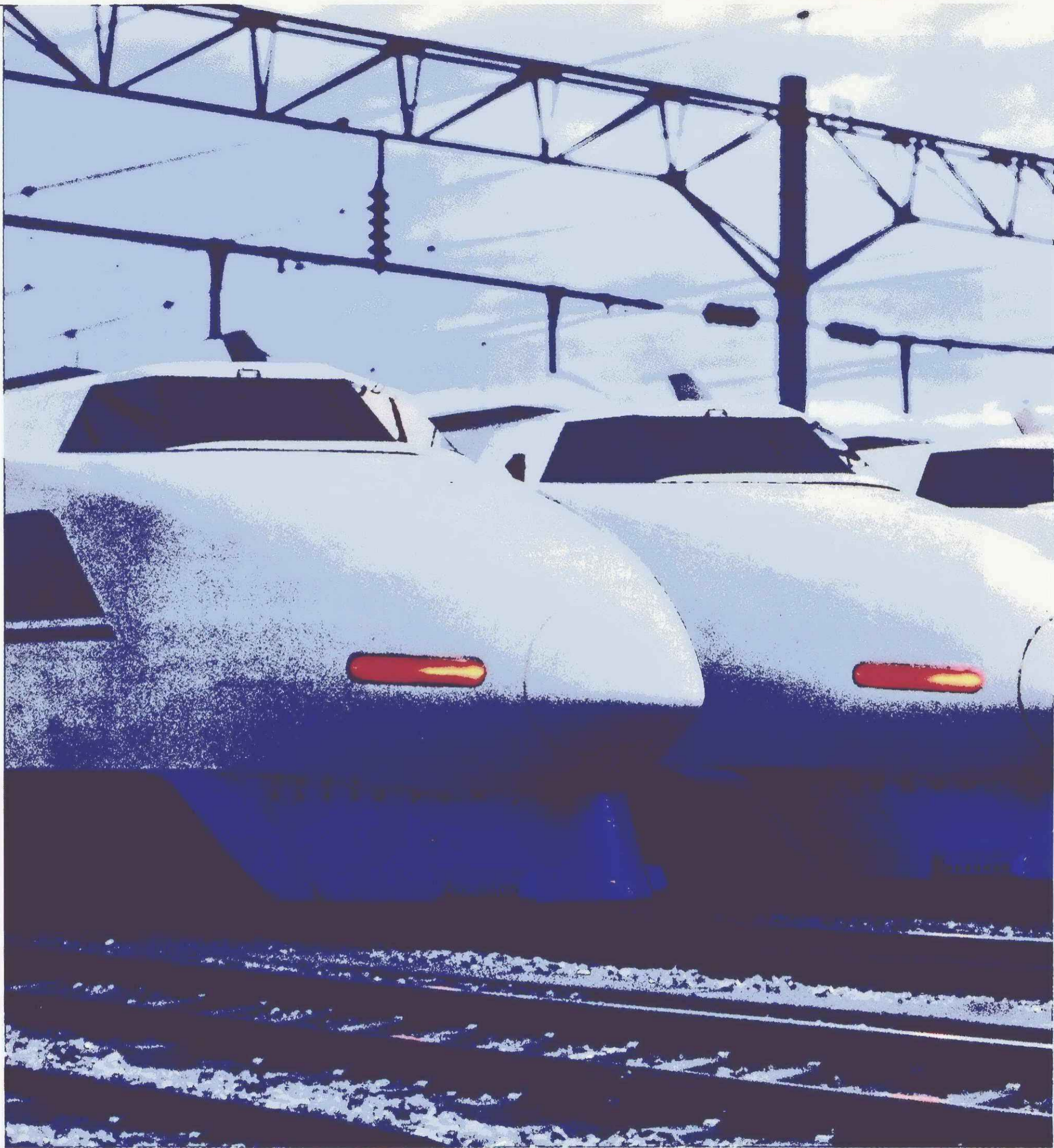


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# Miller

*Continued from page 24*

non-marine insurance and financial services. An aviation division was also formed, but it was shut down after 15 years because "I don't think you can ever make money in aviation," said Sir Peter.

"We began to develop in the way we have gone on developing," he said. Often, the company's management asks: "Do we want to remain independent or do we want to join a mammoth (brokerage)—we've had plenty of offers, God knows," he said. "And our answer so far has been, 'We wish to remain independent and paddle our own canoe.'"

The firm has become "a valuable thing, but we feel it is best owned by the people who make it valuable, which is the people who work here," added Sir Peter. So in 1984 Sir Peter drew up a trust deed to form the company's current partnership.

No sale can take place or dividend be declared without the agreement of all four partners, said Sir Peter. The partners are Sir Peter, Messrs. Stone and Tiley, and an employee trust called E.T. Ltd. "after the film," said Sir Peter. "The authorities didn't see the joke, but we did."

The employee trust is owned by the directors of Miller's subsidiaries and its vote is equal to the other partners'. The trust also receives a portion of the partnership profits each year.

This structure may be one of the reasons why executives remain loyal to Miller's.

"I came here from school and I've been here ever since, which is a pretty normal way for people to join Miller's because there's such a degree of loyalty and longevity with the staff," said Robert Stewart, director-marine of Miller Reinsurance Brokers Ltd., who joined the company in 1978. "They're a very good firm to work for. Very few people at a senior level tend to move."

Miller's has a "remarkably low percentage of fallout of staff," added Peter Flight, director (non-marine) of Miller's. "Somehow we manage to give enough room to all the individuals to fulfill their own career objectives and achieve their own satisfaction while joining a team effort."

Last year, the Lloyd's broker changed its names to the Miller Insurance Group Ltd. and changed the names of all of its subsidiaries. They include:

- Miller Non-Marine Ltd., headed by managing director Albert Bridge. This division includes subsidiaries Miller North America Ltd., whose managing director is Christopher Eliot; Miller International Ltd., whose managing director is Michael Baggs; and Miller Professional Liabilities, whose directors are Roger Flaxman, David Blackburn and J.R. Hill.

Miller Non-Marine, which was founded in 1974, now has 130 employees and plans to continue to expand, said Mr. Baggs.

Miller North America is primarily involved in wholesale binding authority business from agents in the United States and some retail business in Canada, said Mr. Eliot. There are no plans to become involved in U.S. retail business, he said.

Miller Professional Liabilities is a leading broker for insurance brokers error and omissions insurance, said Mr. Flaxman, who recently joined the firm from C.T. Bowring & Co. Ltd. Mr.

Flaxman joined Miller's to specialize in directors and officers liability coverage and professional liability insurance for architects, engineers, surveyors and accountants.

The division, however, offers retail brokerage services for U.K. clients, particularly for arts and antiques clients, said Mr. Bridge. It also acts as a wholesale broker in continental Europe.

- Miller Marine Ltd., which has more than 60 employees and is headed by a Managing Director Peter Stone.

Miller Marine, the division on which the company was founded, boasts it is the largest marine liability broker in London. It also is a major marine war risk insurance broker.

- Miller Energy Ltd., formed in 1979 and which now employs 48 people headed by Managing



The firm has become 'a valuable thing, but we feel it is best owned by the people who make it valuable, which is the people who work here,' says Sir Peter Miller.

Director Graham Clarke.

This division places insurance programs primarily for the second-tier oil and gas companies worldwide, said Mr. Clarke, though recently Miller Energy won the contract to place insurance for a \$500 million construction site in Malaysia being built by Shell Oil Corp., he said.

The energy division owns two U.S. wholesale brokers: Burnett & Co. in New Orleans and Wetzel Co. in Houston.

- Miller Reinsurance Brokers Ltd., formed in 1974 and which now has 49 employees jointly headed by Managing Directors Simon Fradd and Michael Colbert.

While the division places excess-of-loss reinsurance in London, it does not place the retrocessional LMX business that triggered massive losses at Lloyd's.

There still is a "healthy" excess-of-loss reinsurance market in London for insurance companies, said Mr. Stewart. Reinsurers, though, "will find it difficult" to find retrocessional LMX coverage, he said.

- Miller Financial & Pensions Services Ltd., which employs 20 people headed by Managing Director Gary Cooper.

Established in 1971, this international financial adviser offers

personal and corporate pension consulting services; health care, disability and life insurance benefits planning; and pension fund investment management. Its services include the development of structured settlements for personal injury settlements in marine accidents, Mr. Cooper said.

Sir Peter still sits at Miller's helm as senior partner, returning to the brokerage in 1987 after four years as Lloyd's chairman.

"I'm certainly not bored," says Sir Peter in his plush office decorated with mementos of his chairmanship, like photos of him with President Reagan and of Queen Elizabeth, the Queen Mother.

However, Sir Peter, who is proud of his 2½-year-old son, said he has cut back to a four-day week to devote more time to his family. ■

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# In London, J&H comes in from the cold

*Two years after Willis defects, broker proclaims 'unmitigated success'*

By GAVIN SOUTER

LONDON—The last two years have been hectic times for the British operations of broker Johnson & Higgins.

After being left out in the cold and without a British partner in its UNISON network in 1990 when long-time partner Willis Faber P.L.C. merged with U.S. rival Corroon & Black Corp., J&H has built a British retail operation from scratch and expanded its existing U.K. wholesale operations.

The result has been a complete success with the company holding on to most of its existing

business and winning some prestigious new accounts, said Charles Carter, chairman of Johnson & Higgins Ltd.

"Building up the U.K. operation has been an unmitigated success so far, and we have had a wonderful response from the market," said Mr. Carter, who was the co-founder of the broker that J&H bought when it entered the London market.

Mr. Carter and Nuno de Brito e Cunha left Willis Faber to found Carter Brito e Cunha Ltd. in 1979. When they sold out to J&H eight years later, the name was changed to Johnson & Higgins Ltd.

The company specialized in wholesale and reinsurance business, with J&H placing much of its business in Britain through Willis Faber.

In June 1990, Willis Faber broke off its relationship with J&H when it announced it would merge with Corroon & Black to form Willis Corroon P.L.C.

"After the Willis merger our immediate brief from New York was to staff up in all disciplines on the wholesale side," Mr. Carter said.

And to the chagrin of other London brokers, J&H went on a hiring spree.

The first broker to feel the ef-

fect was Alexander Howden Group Ltd., which lost its financial institution team to J&H.

In November 1991 J&H put together a marine and energy team with individuals formerly employed by several brokers.

"We tried to take the pick of the bunch from all of the other brokers in the market," Mr. Carter said.

Then J&H took on a team of aviation brokers from C.T. Bowring & Co. Ltd. in December 1991.

Meanwhile, J&H in New York also had to consider how it would handle retail business in Britain without Willis Faber.

J&H first sought to find a new British brokerage partner and held discussions with several companies, including Bain Clarkson Ltd. and C.E. Heath P.L.C.

"We couldn't find a company that was primarily involved in U.K. retail and would fit into UNISON in the way we would want it to, so in June 1991 we decided to set up our own U.K. retail operation," Mr. Carter said.

J&H then hired Patrick Franklin-Adams from Sedgwick Group P.L.C. to be chief executive officer of J&H U.K., the retail brokerage

J&H U.K. now has 117 staff in offices in Birmingham, Dublin, Glasgow, London, Newcastle and Reading.

J&H's total staff in Britain is now 375 and should rise to 400 by the end of the year, Mr. Carter said. Although the company now has staff in all of the business areas it has targeted, it still needs extra support staff, he said.

Next year, the London staff will move into larger offices. "We've just grown too big for our existing office space," Mr. Carter said.

In the process of building up the wholesale side, J&H has transferred most of the J&H business that was formerly handled by Willis Faber to its British offices, Mr. Carter said.

And, on the retail side, J&H has retained 70% of the business that was formerly placed through Willis, he said.

Although he would not give precise figures, he said that since the merger of Willis Corroon, revenues at J&H operations in Britain have grown seven-fold.

Much of the success is due to the new nature of the company, Mr. Carter said. "We have had the advantage of being a start-up operation with a clean deck and no skeletons in the cupboard so no management time is wasted on sorting out old year losses," he said.

Furthermore, clients have been won through the J&H name, Mr. Carter said.

"They are coming to us because of the J&H reputation worldwide and our ability to come up with new and innovative ideas," he said.

Underwriters are also pleased to see J&H operating in London, Mr. Carter said. "They are delighted because while other brokers are shrinking, we are expanding."

As well as retaining existing UNISON business, the company has won several new accounts, Mr. Carter said. New clients taken on since the Willis Corroon merger include: French-owned paper manufacturer Arjo Wiggins Appleton; Grand Metropolitan P.L.C., an international food and drinks company; Swedish manufacturer Procordia; and Hoechst A.G., the German manufacturer.

"The wide variety of clients just shows how well our European network works," Mr. Carter said.

The company now has four companies in Britain and Ireland: Johnson & Higgins Holdings, the overall holding company; Johnson & Higgins Ltd., the wholesale and Lloyd's broker; Johnson & Higgins U.K. Ltd., the retail arm; and Johnson & Higgins Ireland Ltd.

As well as brokerage operations, J&H has a global risk management unit in London.

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## Syndicate's new underwriter will target 'old' business

LONDON—One of Lloyd's of London's most established non-marine syndicates is committed to continue providing property/casualty coverage to large policyholders.

First, though, syndicate 190 must assure Lloyd's members of a new underwriter's skills and its ability to control liability losses that caused the syndicate to keep its 1989 account open.

Only then will the syndicate attract the capacity it needs to meet its plan.

The syndicate's capacity plummeted in 1992 to 101.9 million pounds (\$190.6 million) from 175.0 million pounds (\$337.8

million) the previous year.

Syndicate 190, managed by Cater Allen Management Ltd., in June appointed John Wetherell as its new underwriter, following the retirement of long-time underwriter Richard Hazell, who currently is a deputy chairman of Lloyd's.

Mr. Wetherell formerly was underwriter for syndicate 1145, managed by Janson Green Ltd., and a past chairman of the Lloyd's Underwriters Non-Marine Assn. (*BI*, Sept. 2, 1991).

Since the transition, Mr. Wetherell has held a series of meetings with external and working members to explain syndicate 190's past and future. The meeting allowed members to "get to know the new man," he said.

During these meetings, he explained why syndicate 190 kept open its 1989 account, which included a loss of 21.7 million pounds (\$35 million).

After Mr. Wetherell accepted his new post last December, he was told that Tillinghast, a unit of Towers, Perrin Co., had analyzed syndicate 190's accounts back to 1967.

As a result, the syndicate boosted reserves for incurred-but-not-reported losses to \$178.4 million, which was near the average of Tillinghast's estimated range for reserves.

Tillinghast estimated a range of reserves for asbestosis claims of as low as \$35 million to as high as \$66 million, with an average of \$47 million. Syndicate 190 reserved nearly \$49 million for asbestosis claims.

However, the primary reason the syndicate was kept open was because of uncertainty over pollution claims, said Mr. Wetherell. However, claims will not be as large as anticipated if insurers continue to win coverage disputes in U.S. courts, he noted.

Tillinghast estimated pollution reserves could be as low as \$50 million and as high as \$125 million, with an average of \$75 million. Syndicate 190 reserved \$70 million for pollution-related losses.

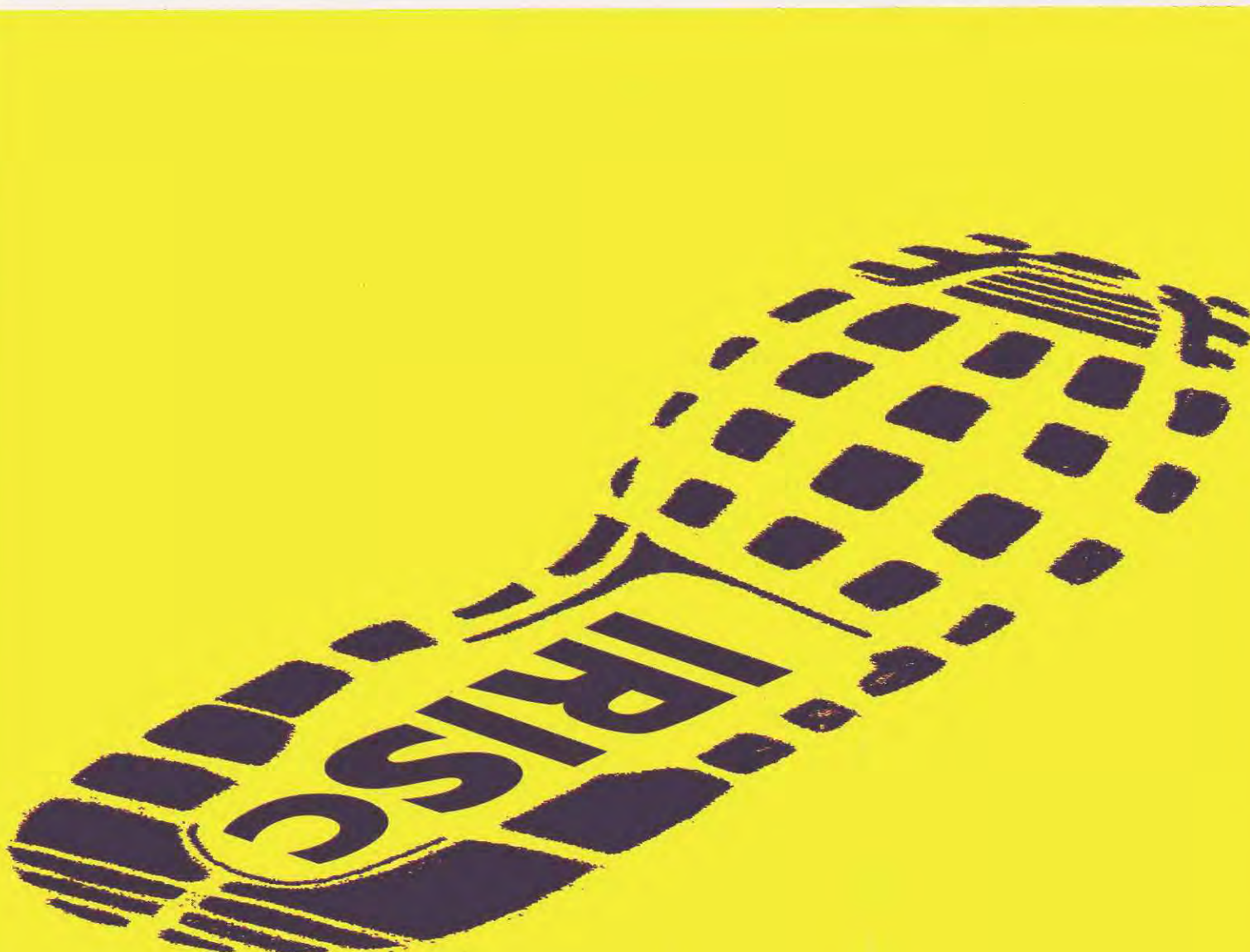
The syndicate also purchased an aggregate excess-of-loss reinsurance policy for a limit of \$203.8 million in excess of \$218.1 million for a premium of \$100 million, said Mr. Wetherell.

The runoff reinsurance policy, which covers 1989 and prior underwriting years, is structured like a time-and-distance contract because its first payment won't be before 1996 and its last payment is in 2005. The policy is written by CentreLine Reinsurance Ltd., a subsidiary of Centre Reinsurance Holdings Ltd. in Bermuda.

While the 1989 account remains open, syndicate 190 intends to continue writing coverage "for big business," which is "a secret of our success," according to Mr. Wetherell. "We won't change that. It is the *raison d'etre* of our syndicate."

The syndicate plans to continue its long-term relationship with several large policyholders, including: Anheuser-Busch Cos. Inc.; Bavarian Motor Works A.G.; The Boeing Co.; British Telecom P.L.C.; Chevron Corp.; Occidental Petroleum Corp.; Petrofina S.A.; and Texaco Corp.

—By Stacy Shapiro



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# The long shadow of 1989

## Record losses casting pall over non-marine market

By CAROLYN ALDRED

LONDON—1989 underwriting results are now hitting Lloyd's of London's non-marine market as hard as Hurricane Hugo, which belted the Caribbean and South-eastern United States that year.

Huge 1989 losses, which were reported just this year under Lloyd's three-year accounting system, have sent many members scurrying from the market and have forced dozens of syndicates to reorganize and to adjust their underwriting.

Besides the catastrophes in 1989 and succeeding years, many underwriters are still coping with long-tail liability losses.

Non-marine underwriters expect at least two more years of grim results before moving back into the black.

A review of the non-marine syndicates' 1989 results, released this summer, makes for depressing reading.

Non-marine syndicates in 1989 were hit with a string of catastrophes including Hurricane Hugo; the Phillips Petroleum Co. plant explosion in Pasadena, Texas; and earthquakes in San Francisco and Newcastle, Australia.

"It is a matter of record now that 1989 was the worst year in history for catastrophe losses," writes underwriter M.A. Gravett in the annual report for non-marine syndicate 227, managed by Gravett & Tilling (Underwriting Agencies) Ltd.

Syndicate 227 posted a 1989 loss of 4 million pounds (\$7.8 million at current exchange rates), after being forced to reserve an additional \$3 million to cover losses from Hurricane Hugo that exceeded the syndicate's reinsurance program.

Results for 1989 "suffered from a sequence of catastrophe losses of a quantum much higher than the 20-year average," said David Spyer, underwriter for syndicate 1139, managed by Hiscox Syndicates Ltd., which reported a 1989 loss of 3.6 million pounds (\$7 million).

Many syndicates expect further large losses in 1990.

"In terms of frequency, severity and insured cost, the 1990 calendar year was as bad, if not worse, than 1989. . .for natural catastrophe losses" including the devastating European storms in early 1990, Australian and Canadian hailstorms and bush fires in California, said M.N.B. Lambert, underwriter for syndicate 694, managed by R.W. Sturge & Co. Ltd.

Syndicate 694 reported a 4.8 million pound (\$9.3 million) loss for 1989 and expects to post a loss of about 3.5 million pounds (\$6.8 million) for 1990. Syndicate 503 merged with syndicate 694 for 1992.

To underwriters' further horror, heavy catastrophes losses continued in 1991 with a major hailstorm in Calgary; the Oakland, Calif., brushfire; and Typhoon Mireille in Japan, among other disasters.

"It may come as a surprise to learn that 1991 was the second worst year on record for natural catastrophe losses," writes J.D. Plant, underwriter for syndicate 506, managed by Claremount Underwriting Agencies.

However, 1992 underwriting results should show a return to profitability when they are published in 1995, predicted George Lloyd-Roberts, chairman of the Lloyd's Underwriters Non-Marine Assn.

He made that prediction, however, before Hurricane Andrew slammed into United States last week.

Non-marine rates in all markets outside of North America have improved significantly over the past year, Mr. Lloyd-Roberts said.

"In the United Kingdom, for example, employers liability and personal lines risks in particular have increased, and this has been true to

a lesser extent throughout most of the world. The only great disappointment is North America, where we have so much of our business," he said.

In North America, only catastrophe reinsurance rates have risen significantly—from 40% to 100%—in the past year, Mr. Lloyd-Roberts said.

But despite low rates in the

United States, the Lloyd's non-marine market is on course to make a profit for 1992, he said earlier this month.

"If the year continues as it is with the pattern of catastrophes which we would expect, then 1992 should be profitable," Mr. Lloyd-Roberts said.

However, he added at the time, underwriters were keeping their fingers crossed that losses will be slight during the traditional hurricane season in the United States and Japan between September and December, a hope that was dashed by Andrew. And, underwriters now

are beginning to think in terms of a European windstorm season from October to February.

Meanwhile, it is not just the catastrophe losses that are causing underwriters concern.

Syndicates also are contending with losses on recession-related claims and long-tail liability claims, lower capacity as anxious members leave the market and uncertainty about reinsurance.

"The economic recession, especially in the U.S.A., U.K. and Australia, has resulted in an environment in which fraud and

*Continued on page 34*

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## Non-marine

Continued from page 31

negligence thrive; these circumstances have caused a marked increase in claims incidence in our financial institutions account," writes R.A. Field, underwriter for syndicate 204, managed by Sturge.

In addition, liability losses dating back decades still plague many older non-marine syndicates.

Recently, syndicates have had to leave accounts open due to uncertainty surrounding potential asbestos- and pollution-related claims, particularly from U.S. policyholders.

Moreover, some syndicates have been forced to reduce their capacity or close as anxious members withdraw capacity.

For example, syndicate 509, managed by Claremount, closed down this year as members with-

drew from the syndicate.

"The account has been running since the turn of the century and it appears that the primary reason for withdrawal of capacity is due to uncertainties relating to liabilities from underwriting in past years," writes underwriter N.J. Newman-Young.

That uncertainty has caused several syndicates to keep their 1989 accounts open.

One of the market's leading syndicates, syndicate 190 managed by Cater Allen Syndicate Management Ltd., has been forced to leave open its 1989 account due to uncertainties over pollution claims and a reduction in capacity for 1992 (see story, page 30).

To provide protection for potential pollution losses and other claims, syndicate 190 has purchased an aggregate excess-of-loss reinsurance policy from Centre-

Largest Lloyd's non-marine syndicates*						
Based on 1992 gross allocated capacity in millions of pounds						
Syndicate	Managing agency	Underwriter	1992 Capacity		1989 Profit	
362	Murray Lawrence & Partners Ltd.	R.J.R. Keeling	£174.3	\$325.9	£12.5	\$23.4
210	Sturge Non-Marine Syndicate Management Ltd	A.G. Lee	142.1	265.7	(13.0)	(24.3)
510	R.J. Kiln & Co. Ltd.	G.D. Gilchrist	139.2	260.3	5.3	9.9
33	Hiscox Syndicate Ltd.	I.N. Thomson	129.5	242.1	9.7	18.1
386	Janson Green Ltd.	R.J. Wallace	109.0	203.8	18.0	33.7
190	Cater Allen Syndicate Management Ltd. <sup>1</sup>	R.D. Hazell	101.9	190.6	(21.7)	(40.6)
1007	Spreckley Villers Hunt & Co. Ltd.	C.W. Spreckley	85.0	158.9	4.6	8.6
435	D.P. Mann Underwriting Agency Ltd.	D.P. Mann	83.0	155.2	4.5	8.4
490	R.G.B. Underwriting Agencies Ltd.	P.M. Brotherton	82.1	153.5	1.2	2.2
947	A.J. Archer & Co. Ltd.	M.R. Harris	76.7	143.4	0.8	1.5

\*Syndicates whose largest proportion of business is non-marine. <sup>1</sup>Mr. Hazell was succeeded by John Wetherell on July 1; 1989 account remains open.  
Source: Lloyd's of London

Line Reinsurance Ltd. with an indemnity value of \$203.8 million for a \$100 million premium.

Syndicate 235/237, managed by

Edward Williams Coultts & Partners Ltd., also has been forced to keep open its 1989 account. The syndicate's underwriting capacity

slumped to 20 million pounds (\$37.4 million at appropriate exchange rate) in 1992 from 38 million pounds (\$73.3 million at appropriate exchange rate) in 1991, and it faces continued uncertainty over potentially huge pollution claims.

Deteriorating claims from prior years have forced syndicate 404, managed by Cuthbert Heath Underwriting Ltd., to leave 1989 open and members likely will be hit with a big loss.

The loss on 404's 1989 account is 58.1 million pounds (\$112.7 million), of which about two-thirds is due to deterioration in old years.

Casualty underwriters are unlikely to make the underwriting mistakes that were made in the 1940s and 1950s, when broad coverage produced large liability losses that are still affecting the many syndicates' results, Mr. Lloyd-Roberts said.

Some syndicates, in fact, have been able to reduce reserves for prior years, which boosted their 1989 results.

Encouraged by the performance of reserves to meet liabilities for 1988 and prior years, syndicate 780, managed by B.F. Caudle Agencies Ltd., released 3.6 million pounds (\$7 million at current exchange rate) from reserves.

The closing of pre-1989 accounts previously left open is proving to be slow work due to continuing uncertainties.

Reinsurance disputes also are causing some syndicates to keep their 1989 accounts open.

Both syndicates 727, managed by S.A. Meacock & Co., and 640, formerly managed by H.G. Chester (Holdings) Ltd. and now managed by London Wall Managing Agencies Ltd., have been forced to keep open their 1989 accounts due to reinsurance disputes with Eagle Star Insurance Co. Ltd. of London.

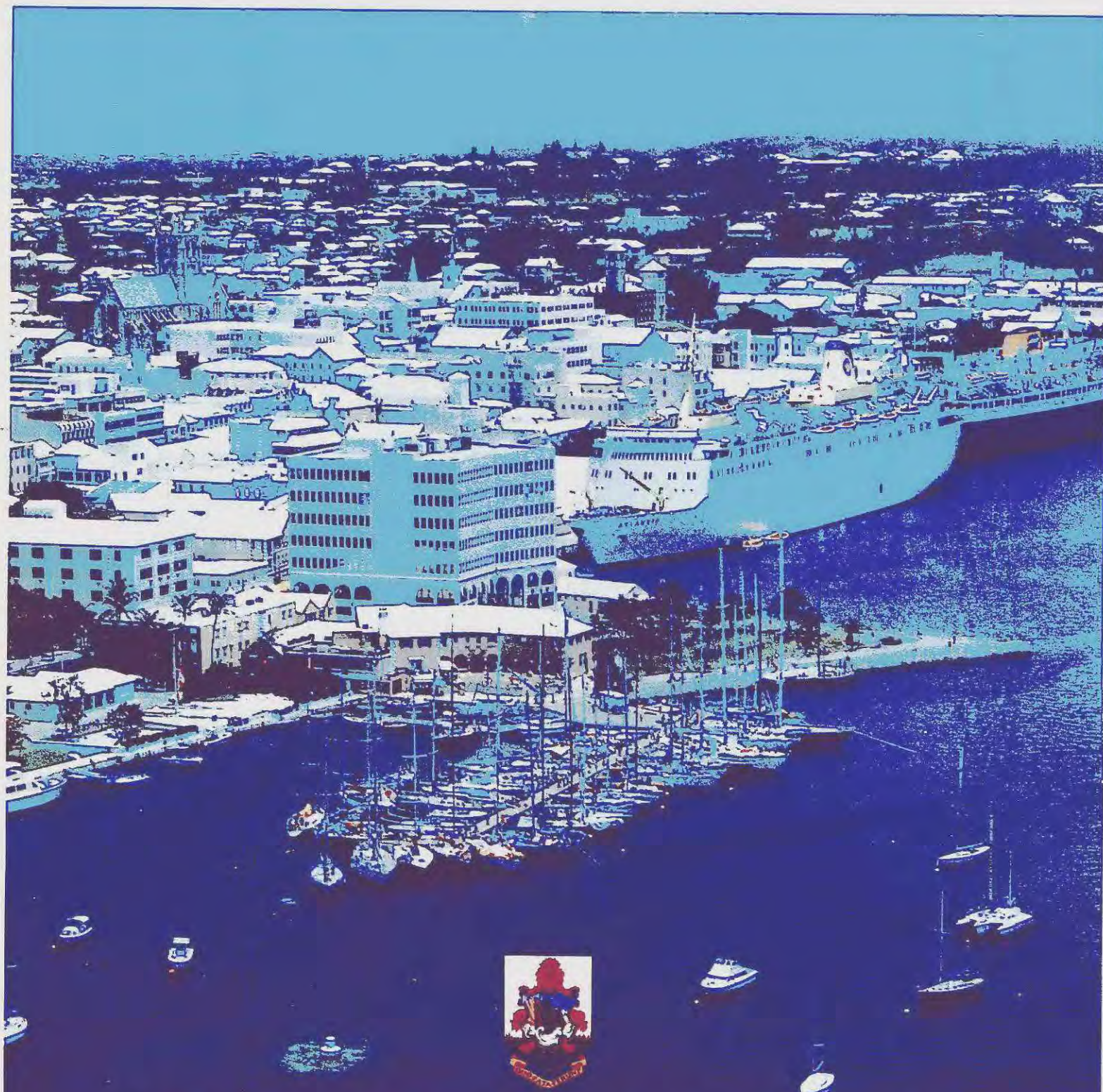
In both cases, Eagle Star is disputing payments under runoff reinsurance policies written for the syndicates' prior underwriting accounts.

Syndicate 640, which ceased underwriting this year, is making a cash call on members of 2.2 million pounds (\$4.3 million), or 30% of 1989 stamp capacity, solely to cover losses Eagle Star is refusing to reinsure.

The threat of reinsurer insolvency is causing many syndicates to boost their reserves.

"Since the profitability of the syndicate can be adversely affected by failures of reinsurance security, particularly in a year such as 1989, we have made provision for actual and possible future reinsurance security failures," notes underwriter J.R. Cackett in the annual report for syndicate 1001, managed by Wendover Underwriting Agency Ltd.

Associate Editor Gavin Souter in London contributed to this report.



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# Living with low property rates

*Lee prefers to lead when underwriting while others follow*

By GAVIN SOUTER

LONDON—"We lead, others follow" is the slogan Alan Lee uses to market his syndicate to members agents.

Like other Lloyd's of London non-marine underwriters, Mr. Lee has had to live with low rates for North American property risks for several years. But as a leading underwriter he can chase more profitable business rather than wait for someone else to bring it to him.

Mr. Lee started with broker Price Forbes Ltd. on leaving school in 1955. In 1959, he switched to underwriting and joined non-marine syndicate 210. There he rose through the ranks until he was made active underwriter in 1988, replacing Ralph Rokeby-Johnson who retired.

The syndicate, managed by Sturge Non-Marine Syndicate Management Ltd., currently leads 80% of the business it writes, Mr. Lee said.

In his first year as underwriter, Mr. Lee earned 14.7 million pounds (\$28.4 million) in profit for syndicate 210, but like many non-marine underwriters he watched the red ink rise in 1989. The syndicate reported a 13 million pound (\$24.3 million) loss in 1989, and it will report a loss for 1990 when those results are out next year, he said.

"Our 1989 result was badly affected by the poor results of the whole market because we wrote members' stop-loss business and errors and omissions coverage for managing agents, members agents and brokers," he said.

Provisions for these losses amount to 8.5% of the syndicate's capacity, Mr. Lee said.

Although it is too early to predict results for 1991, they also are being battered by the worldwide recession, a rise in the crime rate and continued low rates.

Prospects for 1992 are looking better, with rates rising in most areas outside of North America, Mr. Lee said.

Capacity has plunged along with syndicate profits. After rising to 224 million pounds (\$432.2 million) in 1991 from 185 million pounds (\$297.7 million) in 1990, capacity plummeted to 142 million pounds (\$265.5 million) this year. Still, 210 remains the second-largest syndicate specializing in non-marine.

Throughout the market, capacity fell in 1992, but syndicate 210 was hit particularly hard because it did not market itself to members agents with enough vigor, he said.

"We did not use all of our capacity in 1991 and we thought that general reduction in capacity at Lloyd's would mean that our 1992 capacity would fall back to our 1990 level. We would not have been unhappy with that," he said.

Many other syndicates tried to stem capacity cuts through aggressive marketing, Mr. Lee said. "We were not quick enough out of the blocks and we did not get out to the members agents soon enough."

He projects that capacity next year will remain steady.

Mr. Lee is keen for the syndicate to increase its capacity to 200 million pounds someday, and he is prepared to take on corporate capital—when that is allowed—to hit that goal.

Since 1988, the syndicate has

concentrated more on property than liability business and has aimed to balance its account equally between North American and other risks, Mr. Lee said.

"We are finding that rates in Australia and Europe are beginning to change quite dramatically so we are focusing our attention on those areas a little more," he said.

Although North American rates haven't budged, the syndicate still will try to obtain about half of its

business from North America, he said.

"The U.S. market irrespective of its courts and its jurisdiction problems holds out the best opportunities for Lloyd's underwriters," Mr. Lee said. With U.S. policyholders more likely than others to consider a wide variety of packages, Lloyd's underwriters have a chance to use their entrepreneurial skills.

Mr. Lee would like to write more general U.S. property business

rather than the catastrophe and surplus lines business brokers tend to bring to Lloyd's.

"General business means large volumes and you have to spend money attracting it and servicing it, but we are very keen to look into this and focus on the agents who want to join us," he said.

He is particularly interested in business in Illinois and Kentucky, where Lloyd's is licensed.

Mr. Lee visited the United States six times last year, and his deputies cross the ocean even more frequently. "If an opportunity arises, I will send out one of my un-

derwriters. They will go within 48 hours if necessary," he said.

Syndicate 210 is split into five operating teams headed by senior deputy underwriters:

- The U.S. operating team, headed by Graham Taylor.
- The treaty operating team, headed by Nick Wooldridge.
- The international operating team, headed by Patrick Plaisted.
- The householders comprehensive operating team, headed by Ray Spicer.
- The financial institutions operating team, headed by Brian Everall.



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Underwriting member companies and surplus as of 9/91: The Aetna Casualty and Surety Company (\$2.4 billion); American Home Assurance Company (\$1.3 billion); Continental Casualty Company (\$3.5 billion); Federal Insurance Company (\$1.5 billion); The Continental Insurance Company (\$401 million); United States Fire Insurance Company (\$401 million); General Star National Insurance Company (\$54 million); The Home Insurance Company (\$768 million); Insurance Company of North America (\$687 million); Maryland Casualty Company (\$791 million); NAC Reinsurance Corporation (\$217 million); The Travelers Indemnity Company (\$2.1 billion); Zurich Insurance Company, U.S. Branch (\$505 million).



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# Staying alive amid resignations

## Syndicates reduce capacity, cut costs

By CAROLYN ALDRED

LONDON—As Lloyd's of London members resign in record numbers, taking their capital with them, many non-marine syndicates are being forced to reduce their volume and slash their costs.

"The 1992 underwriting year is a difficult year for Lloyd's and non-marine syndicates in general as capacity leaves the market, following the disastrous years of 1988, 1989 and seemingly 1990," wrote underwriter A.A. Williams in the annual report for syndicate 1002, managed by B.P.D. Kellett & Co. Ltd.

Syndicate 1002's capacity

slumped about 42% to 13.2 million pounds (\$24.7 million) in 1992 from 22.7 million pounds (\$43.8 million) in 1991.

"This was caused in part by names resigning and also by what I believe to be a 'knee-jerk' reaction to catastrophe syndicates, following the disastrous results of some of the larger catastrophe syndicates in the market that have subsequently gone into runoff," adds Mr. Williams.

As a result of the reduced capacity, the syndicate has reduced premium volume for less profitable areas of its account.

Indeed, similar action has been taken by many non-marine syn-

dicates due to reduced capacity.

At syndicate 210, managed by Sturge Non-marine Syndicate Management Ltd., capacity fell 36% to 142.7 million pounds (\$266.8 million) from 224.5 million pounds (\$433.3 million) in 1991. This decline has prompted it "to withdraw from a number of classes of business where the syndicate had only a supporting role, electing to maintain our participation in the business that the syndicate leads," said underwriter Alan Lee (see story, page 35).

In addition, "some unprofitable lines were discarded," he said.

Syndicate 1086, managed by Cuthbert Heath Underwriting Ltd., "in common with most syndicates in the non-marine market, has lost

capacity due mainly to member agents rationalizing their portfolio for 1992," writes underwriter K.E. Noden.

With its capacity off a quarter—to 6.6 million pounds (\$12.3 million) this year from 8.9 million pounds (\$17.2 million) in 1991—the syndicate has withdrawn from most of the catastrophe business it formerly wrote as well as reducing its Canadian and U.K. homeowners business.

Declining capacity—it was off 35% to 8.7 million pounds (\$16.3 million) from 13.4 million pounds (\$25.9 million)—has forced syndicate 1098, managed by Polwring Underwriting Agency Ltd., to cease writing personal stop-loss, personal accident, Lloyd's agents errors and omissions, and some political risk and directors and officers liability business.

Non-marine underwriters are

frustrated they are losing capacity at a time when the market is showing signs of tightening, and many syndicates are trying to increase capacity for 1993.

"It is frustrating to find ourselves with reduced capacity at the commencement of improved market conditions," notes underwriter T.W. Brien in the annual report for syndicate 15, managed by Stewart & Hughman Ltd.

As a result, Mr. Brien "will be seeking increased support for 1993."

"The very disappointing reduction in capacity" of syndicate 1066, managed by Merrett Underwriting Agency Management Ltd., "will no doubt mean the loss of some profitable business," writes underwriter Ken Barrett in the syndicate's report.

However, "We must maintain  
*Continued on next page*

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Continued from previous page  
our market position to be able to influence pricing in the direction it needs to go," said Mr. Barrett. So, they, too, are looking to increase capacity for the 1993 account.

Syndicate 1066's capacity dropped to 56.9 million pounds (\$106.4 million) this year from 86.4 million pounds (\$166.8 million) in 1991.

Underwriter J. Weedon writes that syndicate 1143, managed by Weedon Underwriting Agencies Ltd., has "suffered a frustrating reduction in capacity considering the opportunities now presenting themselves."

The syndicate's stamp capacity fell to 12.8 million pounds (\$23.9 million) from 16.4 million pounds (\$31.7 million) in 1991. Meanwhile, Mr. Weedon predicts that market capacity will continue to reduce in

1993 and 1994.

The reduction in capacity is stalling Lloyd's progress at a crucial time in its history, some underwriters point out.

Lloyd's had been beginning to attract more business in continental Europe, particularly in the light of the single European market and the aftermath of the European windstorms of 1990.

"We believe it is of vital importance that Lloyd's plays a leading role in Europe for the future. It is therefore most disappointing for us at this time that while rates are rising our capacity is reduced," argues J.D. Plant, underwriter for syndicate 506, managed by Claremount Underwriting Agency Ltd.

Capacity reductions also are forcing many Lloyd's syndicates to severely trim their costs.

Syndicate 235/237, managed by Edwards Williams Coutts & Part-

ners Ltd., has "been compelled to take drastic action over staffing levels, and approximately one-third of the staff of the syndicate have resigned, retired" or have been laid off, writes underwriter M.V. Williams in the syndicate's report.

Syndicate 235/237's capacity fell nearly 50% to 19.9 million pounds (\$37.2 million) in 1992 from 38.5 million pounds (\$74.3 million) in 1991.

R.A. Lissenden, underwriter for syndicate 404 managed by Cuthbert Heath Underwriting Ltd., notes he has "completely reviewed the underwriting, discontinued several classes of business, made staff reductions and reduced the underwriting box to less than half its former size."

Cost control was stressed by the Lloyd's task force report on market reforms earlier this year, and most

agencies appear to be taking the advice seriously (*BI*, Jan. 20).

"Expense control is a vital component of the overall return to names, and I endorse the commitment in the task force report to reduce costs in order to restore Lloyd's traditional competitive edge," writes underwriter Colin Spreckley in the annual report for syndicate 1001, managed by Spreckley Villers Hunt & Co. Ltd.

As a result, no Spreckley employees have received pay raises this year, and staff leaving the organization are not being replaced, he said.

Similarly, salaries of all senior underwriting staff at Hiscox Syndicates Ltd. were frozen last year, and senior officials took a pay cut, said Chairman Robert Hiscox.

The agency "also voluntarily reduced its fee income by scrapping minimum (management) fees for

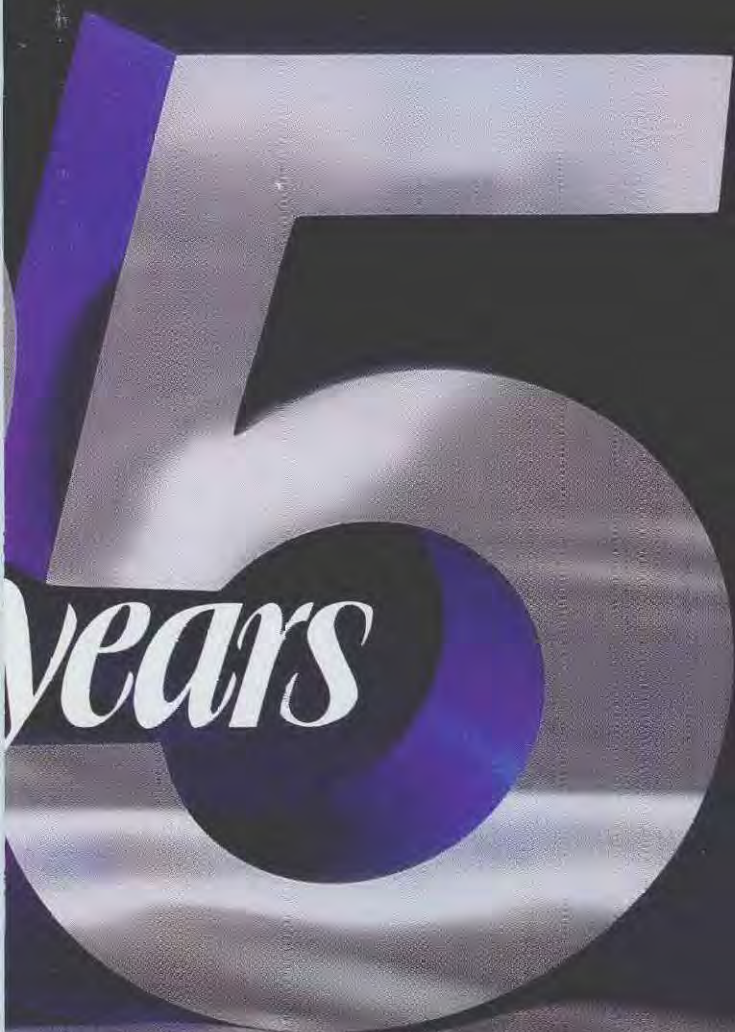
1992, and reduced its profit commission income retrospectively to the 1989 account," noted Mr. Hiscox.

Wendover Underwriting Agency Ltd. also abolished its minimum managing agency charge for 1992 and has appointed a panel of external members agents to review the expenses of each of its syndicates.

Some smaller agencies are combining administrative functions in an effort to reduce expenses.

For example, J.E. Mumford Underwriting Agencies Ltd. has formed an administration company with fellow agency Newman & Stuchberry Ltd. called Shared Syndicate Services Ltd. The for-profit company will perform joint administrative functions while allowing the two agencies to operate independently, explained underwriter J.E. Mumford. ■

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# Storms ahead at Lloyd's

By John Rew

AS A LONGTIME MEMBER of Lloyd's of London, I found the windstorm that struck Europe in October 1987 very significant. This 2 billion pound (\$3.88 billion) cost to the insurance industry was followed by an even more expensive encore in January 1990. In the meantime, we experienced the most costly man-made disaster in history: the Piper Alpha explosion in the North Sea in 1988.

As the 1987 hurricane was blowing itself out, I was ruminating ruefully over my 1984 accounts, which included the result for the dreaded non-marine 604 syndicate that I had joined in 1979. This syndicate was heavily involved in asbestos and pollution risks in North America in the 1950s and 1960s. The 1984 account had been left open because of the major losses that were in the pipeline, though only a loss of 4% of allocated capacity was declared that year.

By the following year—about the time that Piper Alpha was blowing in July—Syndicate 604 was producing a loss of 5.5 million pounds (\$10.7 million at current exchange rates), or 36% of the syndicate's capacity. I was told sometime later that this was the worst syndicate for asbestos and pollution claims and that to insure myself out of the open year would cost a premium of 1,500% of my allocated capacity.

Considering the spate of mega-disasters, I thought that insurance rates would harden. As we know now, there was far too much capacity in the market for this to happen. But as I had the opportunity of either buying myself out of the market at a cost of something like four times my Lloyd's deposit—which was more than twice what I possessed—or "trading out" of my losses by doubling my deposit, I chose the latter course and increased my underwriting for 1989.

I was very cautious at the time, and I also felt that taking very small shares on a lot of syndicates was probably the most cautious way forward.

How wrong I was. This approach was similar to marching a platoon of soldiers through a minefield, where if you spread them out, you are sure that you

## Refinancing plans will be borne by fewer members

will lose one or two men, but the bulk of the platoon will get through. However, if the field contains only one bomb—albeit a nuclear one—making your platoon spread out to go through the field increases your chance of losing them all.

That is how it has been with Lloyd's over the last three years. Unfortunately, the spate of losses in 1988 and 1989 means I will have lost my Lloyd's deposit many times over. (Each member must put up one-third of his allocated capacity into a Lloyd's deposit, which must consist of liquid assets).

However, not all has been unalloyed gloom, and our house has not been turned into Chateau Despair. At least the deposit that I lost is much less than the premium quote to close syndicate 604, so I am getting off at half the price on that score.

I will be able to walk away from all my Lloyd's problems with "a song in my heart and a smile on my lips," as P.G. Wodehouse would have said.

When contemplating my exit from Lloyd's, the alternatives are death or bankruptcy. As my premature demise will give far too much pleasure to my many detractors to make it an attractive proposition, the latter course appears infinitely more inviting.

The levy of 500 million pounds (\$970 million) to boost the Central Fund to 1 billion pounds (\$1.94 billion) in 1992 is a result of the likely insolvency of up to one-third of the membership this year. We at Chatset Ltd. estimated in the early spring that the levy would total 450 million pounds (\$873 million). At that time, we were looking at a smaller probable loss of 1.4 billion pounds (\$2.72 billion) instead of 2.06 billion pounds (\$3.99 billion) for 1989.

I feel uneasy because the levy, I believe, may be

insufficient to meet this year's solvency requirement.

Next year, we are looking at a loss for the 1990 account of 1.5 billion pounds (\$2.91 billion). But at least one-third of this will fall on members who no longer have funds available because they have been burnt from the 1989 loss.

That means next year's anticipated special levy will be a larger amount, spread among a smaller number of members—giving rise to a much greater levy. I estimate that the levy next year will equal 10% of members' premium income, rather than this year's 5% spread over three years.

In addition, next year's combined effect of additional levies and losses is likely to produce a further sizable reduction in the number of solvent members who are likely to continue underwriting in 1994. Next year, I assure you, there will be few happy faces.

By 1994, the market could be reduced to 6,000 members and capacity of 4 billion pounds (\$7.76 billion) once the remaining membership has coped with the combined effects of 1991 account losses of an estimated 750 million pounds (\$1.45 billion) plus levies.

We are facing a really grim future.

What Lloyd's is facing is a major refinancing requirement to cover between 4.5 billion and 5 billion pounds of losses (\$8.73 billion to \$9.7 billion) in the period of 1988 to 1991. This compares with the total wealth of nearly all of the 32,000 members of about 7.5 billion pounds (\$14.55 billion).

So, on average, between now and 1994 we shall effectively have lost two-thirds of everything we possess.

We hope that the 1989 year is the nadir of the market's misfortunes. But looking at the worldwide insurance industry, the recovery is fragile. Therefore, members who are coming to face the facts may find reality is better than the future. ■

*John Rew is a member of Lloyd's of London and chairman of the Society of Names. He also is a syndicate analyst for Chatset Ltd.*

# New books examine Lloyd's woes

By Stacy Shapiro

THE FINANCIAL crisis at Lloyd's of London has spurred several authors to rush into print with books on the market that deal with fact, opinion and fantasy.

The repeated allegations of secrecy and lack of information has also jolted the Corporation of Lloyd's to produce the most comprehensive list of syndicate results ever to be published. Sadly, this information is long overdue. Others, like Chatset Ltd. and the Assn. of Lloyd's Members, have offered similar information for years.

Three books were launched in the United Kingdom about the time Lloyd's announced its record 2.06 billion pound (\$3.99 billion) loss for its 1989 results (*BI*, June 29):

**"Nightmare on Lime Street"**  
By Cathy Gunn  
Published by Smith Gryphon Ltd., Swallow House, 11-21 Northdown St., London N1 9BN  
Price: 15.99 pounds

The first book about Lloyd's

## Books & Ideas

problems, "Nightmare on Lime Street" by financial journalist Cathy Gunn, offers a factual look at the events at Lloyd's in the 1980s right up to April of this year. It is a fine effort to wrap up the story so far, though a pile of press clippings from the past year would offer the same information.

Despite the title, the book is written with an objective flair, giving the positive views of the people working in the market balanced by the critical views of members who have incurred large losses. The writing is fresh and original, though it is alleged that the book was hastily researched and written.

Ms. Gunn rightly points out Lloyd's was "caught napping" in the 1980s, but it wasn't the only institution in London to face "embarrassing revelations." So, too, did London's Stock Exchange and personal investment managers, which led to the Financial Services Act of 1987.

Ms. Gunn also devotes a chapter to

unnamed members who have suffered losses. A member referred to as "Peter" offers good advice to those who might want to join Lloyd's. He says that an investor should not even consider joining Lloyd's unless he's worth 500,000 pounds (\$970,000), earns at least 60,000 pounds (\$116,400) per year and has some knowledge of the insurance market.

"Take an active interest, because it is a business you're in," Peter advises. "You've got to be young. . . Don't start when you're close to retirement age; go in while you're under 40 and come out at 60 with your profits."

"Nightmare on Lime Street" explains in detail the causes of Lloyd's massive losses in separate chapters on asbestos, pollution and the catastrophes of 1987 to 1990. It is evident in a chapter describing a day in the life at Lloyd's that the author sat at an underwriting box for a day in order to witness how the market actually works.

Ms. Gunn also touches on all the major events to hit Lloyd's in the past few years: the losses and subsequent

trials relating to several syndicates, including the syndicate underwritten by Richard Outhwaite, the members action groups that have sprung up; and the events leading to the appointment of a task force to recommend changes to the structure of Lloyd's.

The author concludes: "Lloyd's survival will be a close-run thing. If she sinks and goes down fast, the downdraft and the waves will rock other insurers, reinsurers, brokers and the holders of Lloyd's policies—from British car drivers to vast companies—all around the world, to say nothing of the disastrous impact it would also have on Britain's balance of payments, in the short-term at least. If she were to sink slowly, for lack of new names and new capital to underwrite new business, and a lack of good business on offer as brokers look to safer carriers for their clients' insurance, the companies already clustered close to the large insurance brokers in the City of London will just move steadily into the vacuum, glad of the extra business available in a hitherto

*Continued on next page*

## Lloyd's reading

Continued from previous page  
oversupplied insurance market.

"But would this be allowed to happen? Probably not."

### "For Whom the Bell Tolls"

By Jonathan Mantle

Published by Sinclair-Stevenson,  
7/8 Kendrick Mews, London  
SW7 3HG

Price: 18 pounds

The book that has caused the most dissent in the market—"For Whom the Bell Tolls" by professional author Jonathan Mantle—was released the day Lloyd's announced its global losses for 1989 in June.

Its title is not original and neither is the slanted opinion that Mr. Mantle offers in his 360-page book. He has very few favorable opinions of Lloyd's and a lot of criticism.

One can begin to understand his dark impression of Lloyd's by looking at his list of acknowledgments, which include underwriters and brokers ousted by the market; disgruntled members facing big losses, including politicians; and a former Lloyd's chief executive, Ian Hay Davison, who is now a major critic of Lloyd's.

Any journalist in London will tell you that he or she has heard many of Mr. Mantle's opinions before from angry members who call them in an effort to use the media to try to reclaim their losses. Only Mr. Mantle has had the courage—or naivete—to string all the allegations into one book.

"This is the story of how a world-famous financial institution tried to maintain a semblance of dignity while its morals, some said, descended to below those of a Lebanese casino," Mr. Mantle's treatise begins. "It is the story of how an exclusive club threw open its doors to new members for whom greed and gullibility were the sole entry

qualifications. Above all, it is the story of a man-made disaster that need never have happened. . ."

Those who have worked in the London market find that Mr. Mantle praises some people who are considered dubious at best and criticizes others who are considered honorable. He also inserts inaccuracies in history, which lead market observers to conclude that he doesn't know a thing about Lloyd's except what he has been told by biased sources.

For example, he mentions two settlements relating to PCW Underwriting Agencies Ltd. The first one was carried out by the company's predecessor, Richard Beckett Underwriting Agencies Ltd. The second was agreed to by Lloyd's (*BI*, April 13, 1987).

But Mr. Mantle claims that the first settlement was made by Lloyd's, too, which is incorrect.

Mr. Mantle's book also implies a massive conspiracy by Freemasons and the older guard at Lloyd's to destroy external members for their own gains. It is an interesting theory, but the market is too disjointed and disorganized to make such a conspiracy viable.

Nevertheless, Mr. Mantle strings the problems of Lloyd's and its members in the 1980s in a remarkable flowing fashion.

His work is the first to show how all the scandals, reports, losses and changes flow together. It is a fascinating read, albeit one-sided.

Unfortunately, both Ms. Gunn's and Mr. Mantle's books were on the shelves before Lloyd's closed the end of an era with its record losses for 1989; its reports on the London excess-of-loss market by Sir David Walker and on governance by Sir Jeremy Morse; and its appointment of David Rowland as the next chairman of Lloyd's. Perhaps both authors are considering a "Lloyd's Returns" sequel.

### "The Great Lloyd's Robbery"

By Sir Francis Dashwood

Published by Merlin Books Ltd.

Braunton, Devon

Price: 10.95 pounds

Anyone wanting to read real trash should pick up Sir Francis Dashwood's first attempt at fiction called "The Great Lloyd's Robbery." In 139 flimsy pages, Sir Francis attempts to tell the fictional story of an employee in the market named Archi who commits a theft to pay for his underwriting losses. He steals an item from the Nelson silver—a collection that once belonged to Admiral Nelson—which is on display in the Lloyd's building.

Sadly, his attempt makes Judith Krantz's novels look like Pulitzer Prize candidates. He says, for example, that with the exception of one chapter, characters portrayed in this book are "entirely imaginary." But he mentions some real-life players in the market in other parts of the book and devotes whole chapters to the real issues of asbestos and pollution claims.

The plot is so far-fetched and full of holes that it is laughable, especially to a generation raised on made-for-television movies. Archi and his girlfriend Luscious Lucia fly a hot-air balloon onto the top of the Lloyd's building at 7:30 on a workday morning. Archi rappels down the entire length of the atrium without anyone noticing him, lands in the middle of the Lloyd's market, gasses the security guards, creates smoke so the alarm bells ring, breaks into the cases containing the silver and walks out dressed as a fireman.

The reader may wonder why the hero doesn't just show his Lloyd's pass to the guards and walk in instead of rappelling from a great height.

Flying a hot-air balloon in the middle of London without being seen during the rush hour is also ludicrous, never mind impossible.

Sir Francis has been connected with Lloyd's for 37 years, and is also involved in land investment, farming and forestry in England, Wales, the United States and Australia. He set up his own publishing company to produce this work of fiction, but he really shouldn't give up his day job.

### "Limelight: Lloyd's Syndicates Results 1991"

By Lloyd's of London

Sold by Lloyd's of London Press Ltd.

Colchester, Essex, CO3 3LP

fax: 0206-772240

Price: \$70 including postage and handling

A book that should be on the shelf of everyone who has an interest in Lloyd's has recently been published by the Corporation of Lloyd's.

The 591-page paperback titled "Limelight" gives detailed financial information about every syndicate—both active and in runoff—at Lloyd's at year-end 1991. This includes each syndicate's complete 1987-1989 results, and the results so far for the not-yet-closed 1990 and 1991 underwriting year; the full names of each syndicate's managing agency, underwriter, the members' agent with the most capacity for 1992, auditor and principal investment manager; a breakdown of the categories of business of each syndicate in 1991; the number of external and working names and their capacity; the calendar year investment yield; and exceptional reinsurance arrangements.

Chatset Ltd. and the Assn. of Lloyd's Members have been offering booklets on syndicates' results for the past few years, filling a void left by Lloyd's, which wouldn't publish the information until now.

However, Lloyd's statistics in "Limelight" are the most complete because they come from the horse's mouth, albeit a late-running horse. Get this book now. ■

# Cover denied to worker disabled after leaving

The onset date of disability, as opposed to the date of injury, is the controlling factor in assessing eligibility for benefits under a group disability insurance policy, according to a Tennessee appellate court.

June Demontbreun started work for Ingram & Associates in July 1982 doing telephone collection work. On March 18, 1985, she injured her back at work in trying to move a tub of files. She notified her supervisor but continued to work despite pain because she could not afford to lose her commissions.

Eleven days later, the employee quit her job following a dispute with another worker over Ingram's smoking policy. It was not until May 1985 that the employee sought medical attention for her back. In June 1985, she underwent surgery for a ruptured disc.

The employer was covered under a group disability policy issued by CNA Insurance Cos. that covered "active, full-time employees," defined as "a permanent employee who works at least 30 hours per week."

Ms. Demontbreun filed a claim for benefits with the insurer, which was denied. She sued and won in trial court.

On appeal, CNA argued that the employee was not entitled to group disability benefits because she was not disabled while employed at Ingram. The appellate court reviewed the policy and concluded that "while the policy covers eligible employees who are injured on the job notwithstanding their later termination, it does not cover persons who become partially or totally disabled after they cease to be an 'active, full-time

## Legal Briefs

employee' of Ingram."

The trial court decision was reversed.

*Demontbreun vs. CNA Insurance Cos.*, Court of Appeals of Tennessee, Aug. 19, 1991. *Permission to appeal denied by Supreme Court of Tennessee*, Dec. 30, 1991 (*BI/03/Sept.*-510).

### Workers comp 'accident'

A physician's startling of a service engineer as he was repairing medical equipment was an "accident" under workers compensation law, according to the Court of Appeal of Louisiana.

Donald Ward Jr. was employed as a field engineer with Marquette Electronics. Mr. Ward's duties included the maintenance and repair of complicated, computerized medical equipment valued in the hundreds of thousands of dollars. Any mistake in the maintenance or repair of the equipment could endanger the life of a patient.

In October 1986, Mr. Ward's area of service was increased considerably because of the resignation of one engineer. This required him to put in long hours and service equipment with which he was not fully familiar, nor for which he had been trained. In February 1987, during a particularly heavy-duty day, Mr. Ward was working on a electrocardiogram machine when a doctor

walked up behind him and tapped him on the shoulder.

Mr. Ward was so startled he jumped into the EKG machine, cut his hand and arm and was otherwise unnerved. He finished the job, called his employer, said he could not work anymore and went home.

His wife found him distraught and speaking with a stutter, which he had never done before. Thereafter, Mr. Ward underwent medical treatment for a mental condition. He filed for and was awarded workers compensation benefits for a mental condition. The employer's insurer appealed.

On appeal, the insurer argued that Mr. Ward had failed to prove that his disability resulted from an accident so as to be compensable under the workers compensation law. They asserted his injury occurred as a result of the buildup of stress over a period of several months.

However, the court said that the evidence supported a conclusion that the disability was triggered by the incident when he was startled by the doctor, qualifying him for compensation benefits.

*Ward vs. Commercial Union Insurance Co.*, Court of Appeal of Louisiana, Dec. 18, 1991 (*BI/04/Aug.*-510). ■

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

# Fresh capital needed to ensure Lloyd's long-term security

*Profitability vital to draw investors*

By GAVIN SOUTER

LONDON—Lloyd's of London provides policyholders with adequate security, but it must work hard to maintain its capital base and return to the black if it wants to maintain that security, a rating agency executive says.

In the long term, Lloyd's security depends on whether efforts to attract sound capital to the market are successful, he said.

Meanwhile, Lloyd's of London may soon allow syndicates to discount reserves for long-tail liability losses if proposed changes to accounting rules for financial reinsurance are approved, a Lloyd's official says.

In the short term, Lloyd's policies are secure despite large losses and falling capacity, says John Gardner, managing director of Insurance Solvency International, a unit of Standard & Poor's Corp. But for those policies to remain secure, Lloyd's must ensure that its capital base is secure, he said.

There is little concern about the claims-paying ability of Lloyd's syndicates in the short term, but if there is a prolonged downturn in the insurance market, you have to ask if there will be a long-term supply of capital to the market, Mr. Gardner said.

Right now, it is impossible to accurately rate the security of Lloyd's syndicates, he said. Last year ISI began reviewing the available information on syndicates, but the company does not have access to enough information to assign the equivalent of an S&P security rating, Mr. Gardner said.

To provide an S&P rating, the company would have to be invited by Lloyd's to review and discuss all of the financial information available on the market, he said.

He would not say whether any syndicate managers had retained the rating agency.

Lloyd's own public defenses of the security of Lloyd's policies are not always convincing, Mr. Gardner said. The oft-stated assertion that it has always paid valid claims is of little significance, he said.

"I have always thought that this was rather a peculiar thing to say, because every insurance company that is still in existence has paid all its valid claims," Mr. Gardner said.

Another tenet of Lloyd's defense of its security is equally bogus, he said. "Lloyd's says that there is 18 billion pounds (\$34.92 billion) behind the Lloyd's policy. Well, yes there is—but not behind one policy," he said.

A solid capital base for the future is what is needed, Mr. Gardner said.

Lloyd's will be able to rely on individual members as its principal source of capital, he said.

"Although there are members leaving the market and there are members who are facing large losses, there doesn't appear to be that many of them at the moment," Mr. Gardner said.

Of the 6,000 members reputed to be on the 18 syndicates with large losses, 3,800 belonged to three or fewer, he said. Only two

members were on all 18 of these syndicates, Mr. Gardner said.

"Many of the names on those syndicates may be able to survive, and I'm sure that their accountants will be telling them to sit it out if they can for the tax advantages in the future when profits return."

Also, many members will be unable to leave Lloyd's because they

*Continued on next page*



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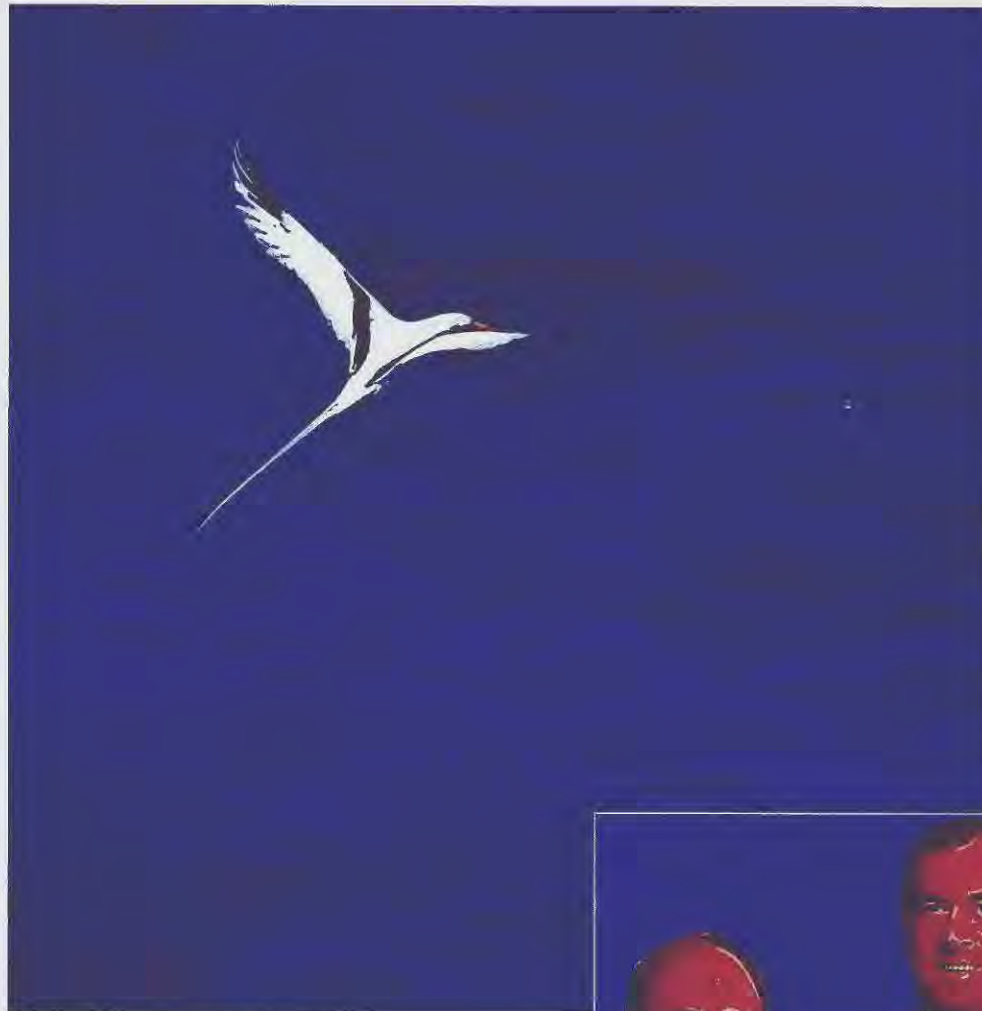
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# Fresh capital

Continued from previous page  
are on open syndicates, Mr. Gardner said.

Within two years, the capital supplied by members could fall to 7.5 billion pounds (\$14.55 billion). Lloyd's will need to increase its capital to improve the capital-to-cost ratio of its syndicates, he said.

"Lloyd's must regain the cost advantage which it used to have over companies," Mr. Gardner said.

Corporate capital may help to boost the capacity of Lloyd's. But because no mechanism for introducing it has been agreed upon, syndicates should find other ways to increase their capacity, he said.

"The greatest accumulation of skilled underwriters in London is in Lloyd's, so I can see why companies would want to access that, and a good way of doing that is through a quota-share reinsurance arrangement," Mr. Gardner said.

By selling quota-share reinsurance contracts to Lloyd's syndicates, outside insurance companies could free up the syndicates to write other business. In this way, insurance companies could access the skills of Lloyd's underwriters without going to the expense of joining Lloyd's when corporate capital is introduced, he said.

All the ways of securing capital in the future depend on Lloyd's returning to profitability, said Mr. Gardner. "Lloyd's will survive, but it will have to make itself more attractive to investors by bringing down its costs and returning to profitable underwriting."

Meanwhile, new accounting procedures for Lloyd's syndicates could soon lead to discounting of reserves to meet future liability claims.

Currently, syndicates use "time and distance" policies as a method to reserve for future liability claims. But under new accounting standards proposed by the Institute of Chartered Accountants, many time and distance policies would not qualify as reinsurance for accounting purposes.

In response, Lloyd's would introduce discounting processes similar to those already used by insurance companies in Britain, said Graham King, general manager of Lloyd's Regulatory Services Group.

Historically, Lloyd's has not allowed syndicates to discount their reserves. Discounting lets insurers reduce current reserves by the expected amount of investment income. For instance, an insurer that will need, say, \$10 million to pay long-tail liability claims 10 years from now, reserves \$7 million now in the hopes that in 10 years investment income will increase that sum to \$10 million.

Lloyd's syndicates achieve similar results by time and distance policies. Syndicates pay premiums, usually to offshore reinsurers which are expected to repay the amount plus interest at a set date in the future.

After the time and distance policies failed to pay on time for some syndicates, notably Richard Outhwaite's and Gooda Walker Ltd.'s, a Lloyd's task force earlier this year recommended that Lloyd's allow discounting.

In the meantime, changes to accounting for all financial reinsurance products were proposed last December by the Institute of Chartered Accountants.

"In substance, financial reinsurance contracts are often agreements whereby the ceding company is effectively placing a time deposit with the reinsurer as an in-

vestment or is borrowing funds from the reinsurer to finance the payment of claims which loan is required to be repaid. . . This type of agreement should not be accounted for as a contract of reinsurance but should be treated as a financing arrangement," the institute said in a discussion paper.

To qualify as reinsurance, the contracts should include an underwriting risk and a timing risk, the paper said.

The institute currently is reviewing responses to the discussion paper and expects to introduce accounting standards next year.

Many of the time and distance policies Lloyd's syndicates buy would not qualify as reinsurance under these terms, said Christopher Stooke, a partner at Price Waterhouse in London.

"With many time and distance policies, the syndicates pay a premium which is returned in a specific number of years with interest, and the interest is usually quite generous because the financial reinsurers are offshore," he said.

Often, though, the policies carry no underwriting or timing risk because the money is paid to the syndicates at a specific time, Mr.

Stooke pointed out.

Lloyd's syndicates will have to be allowed to discount their reserves if the proposals become accounting standards without any changes, said Mr. King of Lloyd's.

"If the proposals are applied in the extreme, then we would probably allow syndicates to discount their reserves and thereby come up with the same result (achieved by time and distance policies)," he said.

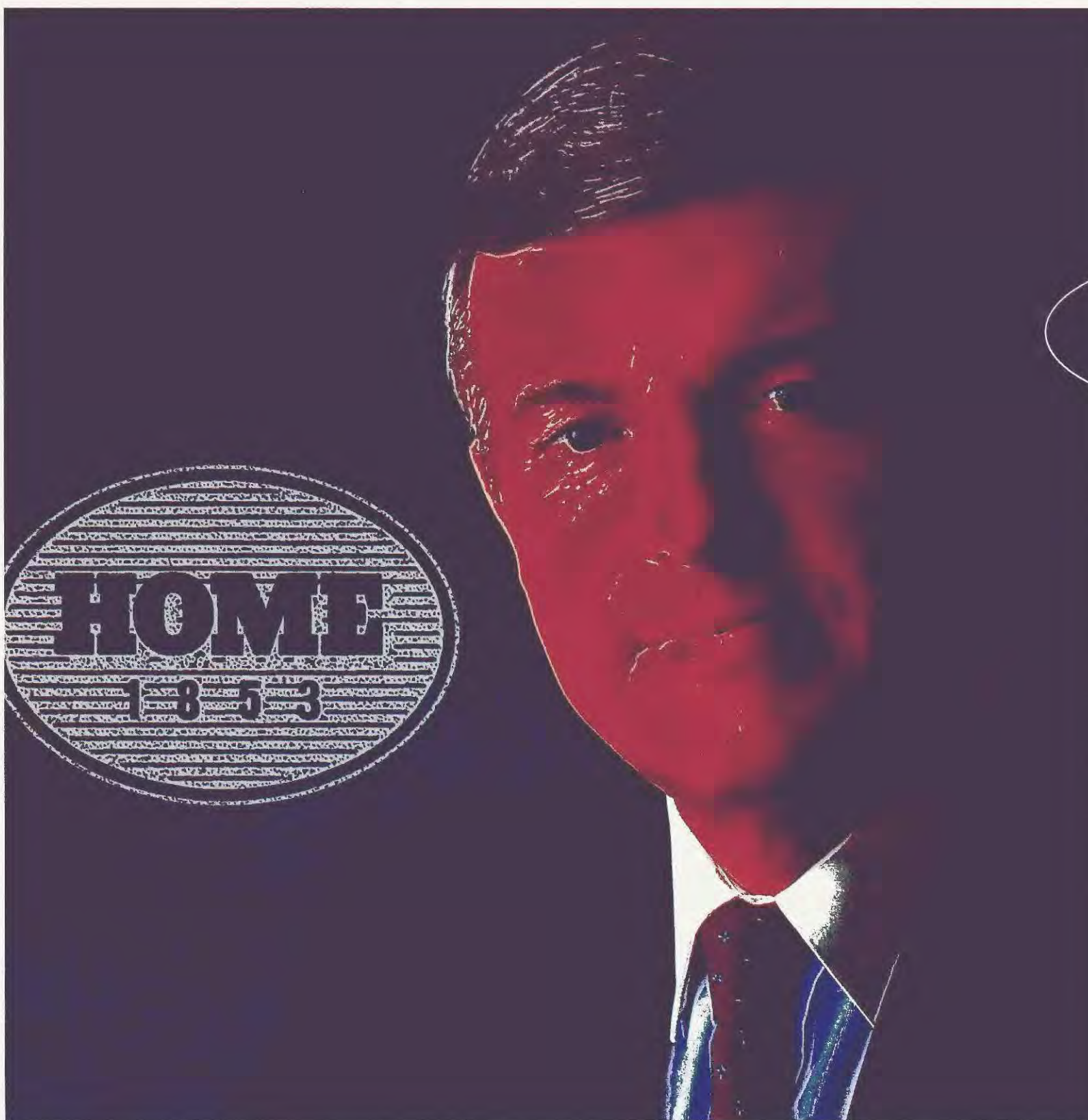
Under present rules, Lloyd's could introduce discounting for accounting purposes, but it would need the permission of the Depart-

ment of Trade and Industry to introduce it for solvency requirements, Mr. King said. Lloyd's would seek to have parity between accounting and solvency requirements, he added.

Since insurers are already allowed to discount their reserves, the Department of Trade and Industry would probably not object to discounting for Lloyd's syndicates, Mr. King said.

Discounting would help reduce costs for syndicates, because they would no longer have to pay brokers a commission to place time and distance policies, he added. ■

# T H E H O M E



# O L D P R O S O N

# Reinsurer offers a fresh start

CentreWrite may erase ghosts of underwriting years past

By STACY SHAPIRO

LONDON—By the turn of the century, business written by the "old" Lloyd's of London may have been run off by CentreWrite Ltd., leaving members with a fresh new market and no long-tail liability problems from past underwriting years.

While CentreWrite Chairman

Robin A.G. Jackson won't say whether this actually will happen, he will confirm that CentreWrite, the reinsurer formed by Lloyd's to run off open syndicates, is committed to offering runoff reinsurance within three years to members of 52 syndicates that collectively have left 97 years of accounts open.

These syndicate years have a

total of 1 billion pounds (\$1.94 billion) in capacity. Total liabilities are still unknown.

CentreWrite will offer quotes to members of two syndicates with six open underwriting years in the next few weeks, and quotes will be offered to others by Christmas, said Mr. Jackson.

CentreWrite by 1995 could reinsure all of these syndicates'

open accounting years up through 1988 if members accept the quotes.

Within two to three years, CentreWrite also will consider writing run-off reinsurance for 48 syndicates that kept a total of 65 underwriting years open when Lloyd's 1989 results were announced this June, Mr. Jackson said.

In seven years' time, "CentreWrite will have a significant percentage of all business written in Lloyd's prior to 1985 (if we have 100 syndicates with 162 years (reinsured) into Cen-

treWrite," he said.

After that, CentreWrite could consider offering runoff coverage to syndicates that have closed their accounts. For example, CentreWrite could offer runoff reinsurance to all closed syndicates for their 1980 and prior years, said Mr. Jackson.

Since receiving its insurance company license from the British Department of Trade and Industry last year to write runoff reinsurance for Lloyd's syndicates with open accounts, CentreWrite has issued only one premium quote: for the runoff of the open 1984 year of defunct syndicate 12, managed by Langton Syndicate Management Ltd.

Langton hired its own independent actuary, who considered CentreWrite's premium quote "on the high side," Mr. Jackson said. While the Langton agency rejected the quote, individual members could consider it.

By April 15, when the offer closed, only 15% of Langton's membership accepted CentreWrite's offer, said Mr. Jackson. But, this doesn't mean that the quote was necessarily too high, he said.

"Some of them couldn't afford it this year," he said. "One chap said to me, 'Look, I don't know whether it's a good price or a bad price. I will eventually pay that price, but I'd rather do it in a couple of years rather than this year.'"

"Another name said, 'I'm on three open syndicates and I'm not resigning from Lloyd's. Do I have to rush on this?' and I said, 'Of course not.'"

CentreWrite will be offering "renewal" quotes to these members next year and in the future, just as it will members of other syndicates, said Mr. Jackson.

The formation of CentreWrite was considered by the Council of Lloyd's after the number of open syndicate accounts zoomed in the late 1980s, said Bob Hewes, Lloyd's head of regulation. "It was the major problem."

Under Lloyd's accounting system, the account for each underwriting year is closed after three years. Normally, funds to pay outstanding and incurred-but-not-reported claims are transferred into the next accounting year as a "reinsurance-to-close" premium. Thus, liabilities from past years are rolled into the current accounting year.

The reinsurance-to-close premium must reflect the total liabilities of the underwriting year being closed. However, the increased number of asbestos-related losses, pollution claims and other long-tail claims have made it impossible for many syndicates to close their accounts without buying runoff reinsurance to cap their liabilities.

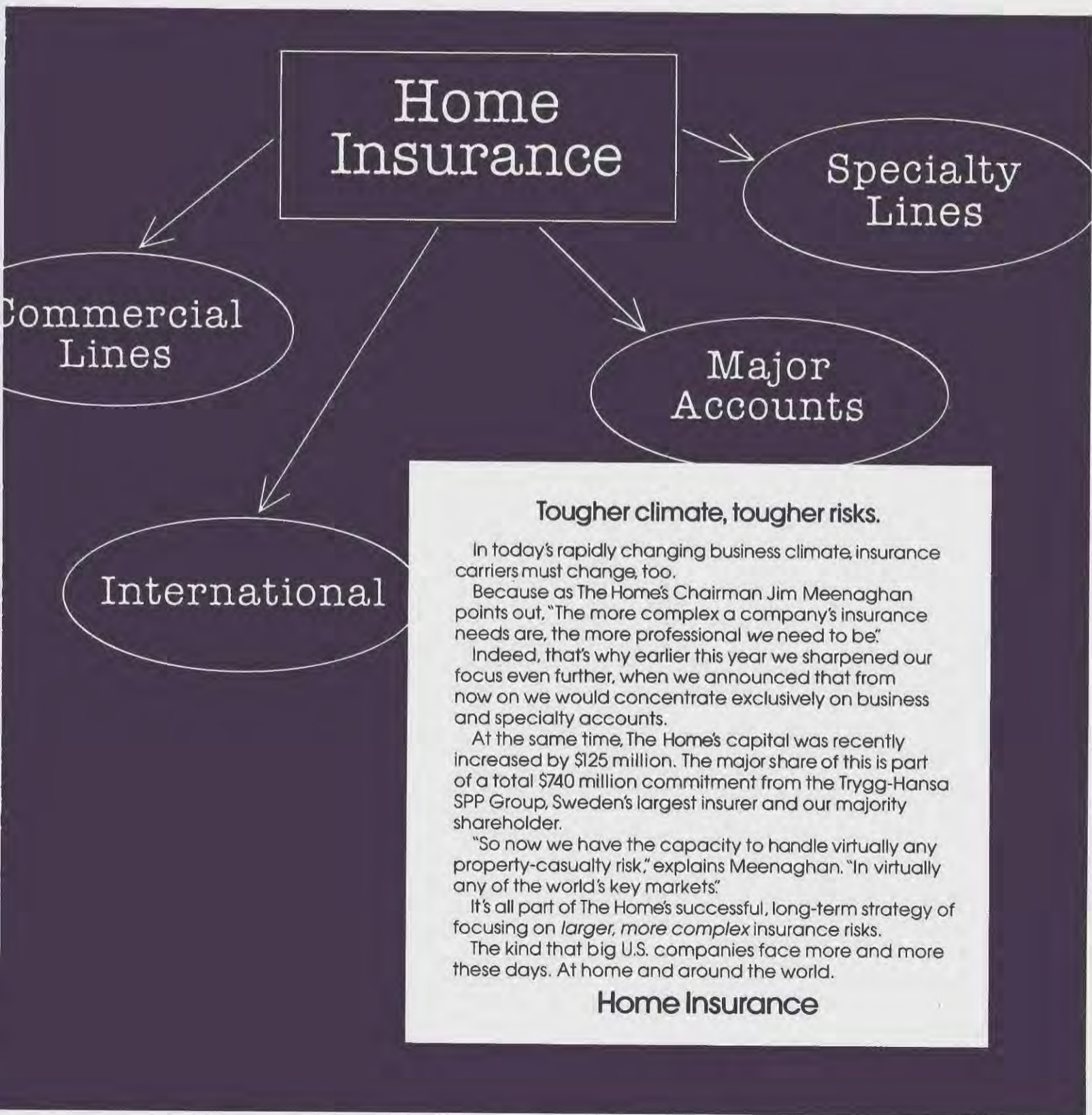
The commercial market for runoff coverage collapsed when runoff policies written by Lloyd's underwriter Richard Outhwaite produced huge losses. While runoff coverage still is available in the commercial market, capacity is low and prices are high.

As the runoff coverage market contracted, the number of syndicate accounts left open because liabilities could not be quantified skyrocketed to 97 years left open by 52 syndicates by the end of 1990, up from a total of only 32 open years a decade earlier.

As of January this year, approximately 17,500 Lloyd's members were on at least one open year of account, with some

Continued on next page

# E T O D A Y



# A N E W T E A M

# CentreWrite

Continued from previous page on three or four open years.

The Lloyd's task force reported a total underwriting loss for open years of 1.6 billion pounds (\$3.1 billion at current exchange rates) from 1985 through 1988, documents show.

In 1990, the Council of Lloyd's decided to tackle the "open year" problem by forming a reinsurer to offer reinsurance-to-close premiums to syndicates with open years.

The Council that same year passed a bylaw to make it more difficult to leave an account open, said Mr. Hewes.

Mr. Jackson—who "retired" as an active Lloyd's underwriter several years ago—was asked by the Council to become CentreWrite's chairman, particularly because of his expertise writing U.S. long-tail

liability coverage and his involvement on London asbestos and pollution claims committees.

CentreWrite's original plan was "to slowly but surely work our way through" the 52 syndicates with open years, "quoting them in their entirety," said Mr. Jackson. This meant looking at the syndicate and giving a quote to the managing agent. CentreWrite would then assume the syndicate's liabilities "and the names would be off the hook," he said.

The CentreWrite management, however, wanted to get to basics first, such as hiring General Manager Andrew Banks.

"We'd only been going a few months when the Rowland report came out... which quite rightly anticipated that there would be a number more syndicates left open," said Mr. Jackson, referring to the report of the task force chaired by

David Rowland, chairman of Sedgwick Group P.L.C. and likely to be Lloyd's next chairman (*BI*, Jan. 20). The report said "the problems of the members in open syndicates were only going to get worse and names really want a price to exit out of Lloyd's," he said.

"Because of the rise in open years and the limited impact of current initiatives to reverse it, many names have ceased underwriting at Lloyd's and wish to resign, but cannot" because of open underwriting years, the report said. "There is little prospect of a change in their position in the foreseeable future."

The task force recommended that CentreWrite:

- "Refocus" its operations to offer quotes to individual members rather than seeking to close entire syndicate accounts.

- Be a method, along with new legal mechanisms, to enable members to resign from Lloyd's.

- Attempt to provide quotes within three years to members wishing to close open years up to and including 1988.

- Increase its capacity to more than its original 50 million pounds (\$97 million) in premium, a level that would only release about 500 members per year from their obligations.

The task force report also recommended that syndicates be allowed to keep their syndicates open if liabilities could not be calculated properly and called for a repeal of the bylaw on open accounting years.

The Council has not revoked the bylaw, but the number of open years nearly doubled following the task force report. Following the announcement of Lloyd's 1989 re-

sults in June, the number of open years had risen to 162 from 100 syndicates, including some of the oldest and largest at Lloyd's.

The task force also recommended that there be an "old years' claims center of excellence" to provide claims adjusting services to Lloyd's syndicates with long-tail liability problems.

A London-wide working party headed by Stephen Merrett, chairman of Merrett Holdings P.L.C. and Mr. Jackson's former boss, is considering such a claims center for the entire London market, not just Lloyd's, a Lloyd's spokesman said.

Following the publication of the task force recommendations, Lloyd's Chairman David Coleridge "wrote to us and said, 'What do you think of them?'" Mr. Jackson recalled.

CentreWrite's board "debated this long and hard. We saw problems trying to do 52 of these things in three years. It doesn't sound a lot, but it is a lot... when you consider that the stamp capacity of those syndicates was about 1 billion pounds," he said. "And we're talking about a lot of syndicates with tough business or they wouldn't have been kept open."

Writing a runoff contract takes time, too. A team of underwriting experts and actuaries must help the syndicate find information that CentreWrite needs to formulate a quote.

The quote is then reviewed by a team of three underwriters, before it is passed on to the CentreWrite board for approval.

Despite reservations, the board of CentreWrite believed that "a real head of steam" had built up among members for Lloyd's to provide a way for them to exit the market, "and we decided to provide it," said Mr. Jackson.

As a result, the board of CentreWrite "went to the Council in June this year and said: 'All right, give us the backing—both moral and financial—and we will attempt to carry out the Rowland recommendation,'" Mr. Jackson said.

The board is attempting to offer quotes within three years to all members with open accounts before 1988.

CentreWrite has asked Lloyd's to finance the cost to accomplish this goal. "We're only talking hundreds of thousands of pounds, not a big financial commitment."

There is a "proviso," however, to this decision; CentreWrite must receive permission from the Department of Trade and Industry to alter the company's mission, said Mr. Jackson.

CentreWrite's capital consists of an unlimited bond placed on the assets of the Corporation of Lloyd's, particularly on the Central Fund. However, the company doesn't need much capital yet because "we haven't written many premiums yet," said Mr. Jackson.

At some future date, CentreWrite might also consider buying financial reinsurance, he said.


Members have cried out at various meetings that CentreWrite should do more, however, including reducing its "exit" price that they think will be too high.

However, Mr. Jackson is adamant that CentreWrite was not formed "to be a social security arm," but to be a professional reinsurance company offering professional coverage and services.

"This is not to be a heavily discounted, cheap deal to bail Names out. That's not what CentreWrite is. The DTI wouldn't approve of it if it was. Our duty is to the shareholders of CentreWrite, and they are all the members of Lloyd's." ■

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# Hardship committee helps lift down-and-out members

## Proposals would expand assistance

By STACY SHAPIRO

LONDON—London is abuzz with horror stories of Lloyd's of London members who have been hit hard by the market's losses in 1988 and 1989.

The stories often involve secretaries and part-time workers who are now destitute because they invested their entire savings or an inheritance in Lloyd's.

A couple in their 80s are concerned that if one dies, the other will be turned out of the house they have lived in for decades.

Widows are having to pay for losses out of the estates of their husbands, who died while being members of Lloyd's.

Farmers are losing their farms and middle-class couples are losing their homes.

So far, there are no documented suicides. However, many of these people are "highly stressed," said Mary Archer, chairman of Lloyd's Members Hardship Committee. "We are considering offering stress counseling."

The hardship committee was established in 1990 to give financial assistance from Lloyd's Central Fund to hard-hit members who agree to certain conditions of repayment (*BI*, Feb. 25, 1991).

Some of these people say "life's not worth living," added Gillian Wilson, the "agony aunt" who answers all calls on Lloyd's Helpline, a phone line set up to offer information and a sympathetic ear. "Certainly this is having a detrimental effect on people's health."

So far, 1,300 people have inquired about obtaining hardship relief from the committee, and 450 have submitted a detailed application form. Of these, about 150 have been considered, while others need to give more information.

The hardship committee has accepted about 120 of the applications; only 10 of these applicants have rejected the conditions of the offer.

Neither Dr. Archer nor Ms. Wilson will comment on individual cases of members who are in financial trouble as a result of their participation in Lloyd's.

However, both of them say that distressed members usually are older and have other financial problems, like loss of a business or a job or a contested divorce. In some cases, more than one member of the family is a Lloyd's name, compounding the problem.

Lloyd's statistics show that of its 22,162 members this year, more than 12,400 are over the age of 53 and more than 6,000 are older than 62.

Generally, the people in trouble also wrote small amounts of premium at Lloyd's, were members of loss-making London market excess-of-loss reinsurance syndicates and are of "relatively modest means," said Dr. Archer.

Many of these seriously distressed members joined Lloyd's in the mid-1980s when the only requirement was to show proof of assets of at least 100,000 pounds (\$194,000). Many of them met Lloyd's financial means test by securing a bank guarantee, which is like a personal letter of credit, using their primary residence as collateral.

Like all Lloyd's members, they face unlimited liability, and technically are responsible to Lloyd's for their losses "down to their last shirt button."

Today, a Lloyd's member must show that he or she is worth more than 250,000 pounds (\$485,000), though a person's home can still be used to meet this means test.

When losses from Lloyd's are so high there's seemingly nowhere to turn, distressed members often call the Helpline.

Since the annual general meeting in June, at which the market's disastrous 1989 account was discussed, Ms. Wilson has received about 500 calls, 60% from "distressed" names.

The Helpline was established last year by the Assn. of Lloyd's Members. Valerie Robinson, a

Lloyd's member who does not work in the market, initially answered the calls.

Ms. Robinson is now a member of the Council of Lloyd's which has taken over paying the running costs of the Helpline.

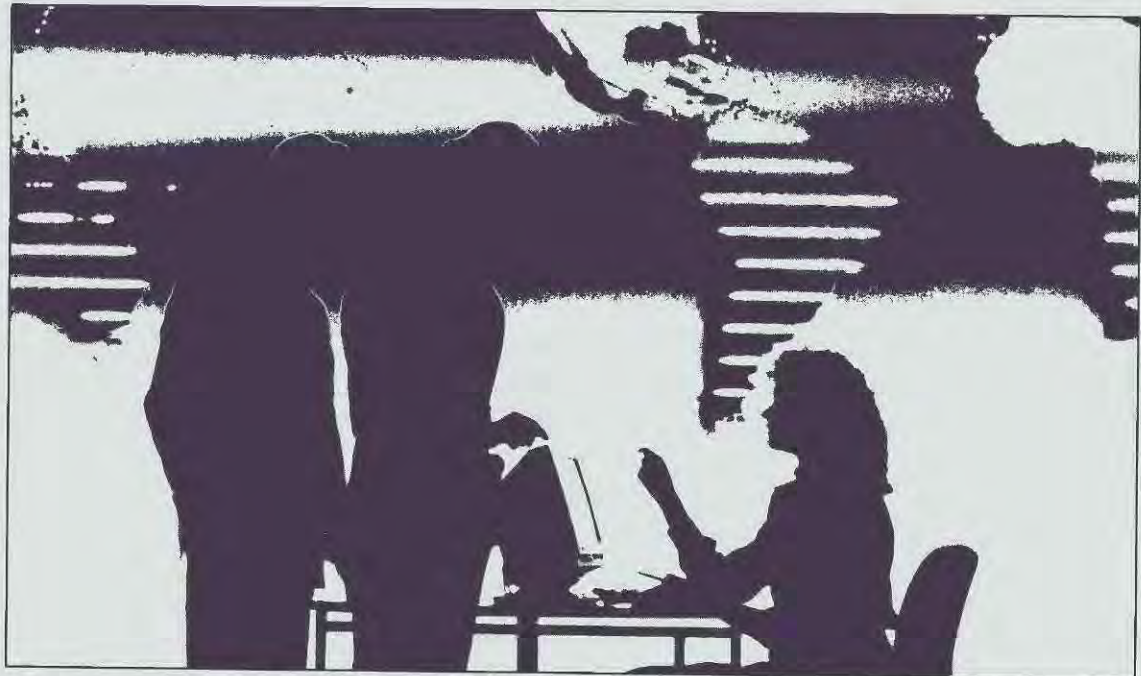
Ms. Wilson, who succeeded Ms. Robinson, stresses that she is independent, not an employee of Lloyd's, and only offers "a general report" on the status of the Helpline every three months to

the council. She says she often acts as a liaison between the distressed members and the members agent "where communications have broken down. A number of agents can't give the time required."

Many calls are from people asking how to get in touch with the hardship committee, she says. Others are looking for a sympathetic ear. "I've had calls

*Continued on next page*

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Spotlight report

# Hardship committee

*Continued from previous page*  
that are three or four hours long (when) tea and sympathy isn't always there from others," she said.

Ms. Wilson also gets phone calls from people who are just looking for information about Lloyd's. And recently she has received one or two calls from people who would like to become members of Lloyd's but don't know who to talk to.

Her advice to distressed members is to not "sit there and do nothing." She suggests that they seek professional advice to sort out problems, and will send lists of insolvency practitioners, lawyers and accountants, though she won't recommend any.

She has suggested "in certain instances" for disgruntled members to join members action groups, particularly after 987 members negotiated a 113 million pound (\$219.2 million) settlement with underwriter Richard Outhwaite and 81 members agencies (BI, March 9).

If members have resigned from Lloyd's and are in serious financial straits, they contact the Members Hardship Committee.

The committee, which has been in existence in some form since 1989, is headed by Dr. Archer, who herself has known hardship. She willingly admits that her husband—the author and politician Jeffrey Archer, now Lord Archer—many years ago lost his fortune on a bad financial investment. He had to give up his seat as a member of Parliament because MPs can't serve if they are bankrupt.

They moved to Cambridge to allow Dr. Archer to take up a post as a professor, and Lord Archer wrote his first novel, "Kane and Abel," which became an unexpected success, according to his wife.

The Archers' combined loss from being members of Lloyd's now reaches into the six figures, said Dr. Archer during lunch at her home. She reckons she has made an overall net loss since becoming a member of Lloyd's in 1977.

She will continue to be a member of Lloyd's for the next few years, though she will retire as a member of the Council of Lloyd's at the end of the year because she has served her four-year term.

Then, she says she will review her situation. "No one should die a Lloyd's member," and most members should resign when they retire from active employment, she warned.

Dr. Archer does, however, have hopes and plans for the hardship committee.

The committee has been criticized for being slow in responding to applications, but Dr. Archer admits that throughout the year "we proceeded on the assumption that there would be a market rescue."

Many members had hoped that Lloyd's would consider a way to cap all members' losses up to 80% of their allocated capacity.

When this market rescue plan failed to materialize because the losses were too great, "we felt exposed," said Dr. Archer.

As a result, the hardship committee recently proposed to the council a series of changes to be considered in September.

These suggestions take into account a 50 million pound (\$97 million) fund set up by companies in the Lloyd's market to help hardship victims.

In particular, Dr. Archer would like to make sure that there is "a finality" to the debt that these distressed members are incurring. The committee is recommending that a member should only be responsible for paying losses for a fixed term, say five years. After that, the member's losses would be considered an uncollectible debt to Lloyd's.

Dr. Archer would like the hardship committee to offer more financial assistance to members in distress, other than the current "subsistent level" of assistance.

Currently, the hardship committee offers members between 9,000 pounds and 14,000 pounds (\$17,460 to \$27,160) per year to live, sources say.

Dr. Archer would also like to see hardship fund recipients re-

ceive additional money for children's education, and help pay for professional services in cases of business failure or divorce.

The hardship committee's rules are tough for those who are falling from a great height. For example, the committee currently pays off a bank guarantee on a member's house and takes over the ownership of the property. The member can live in it if the house is "modest" until his or her death. If the house is more than "modest," the member must move to more suitable accommodations and Lloyd's will sell the home.

The committee also expects members it assists to hand over any settlements they receive from litigation against their members agents or managing agents. Some of the names on the syndicates managed by

R.H.M. Outhwaite (Underwriting Agencies) Ltd., for example, must turn over their portion of a settlement with the Outhwaite members agency to the hardship committee.

Both Ms. Wilson and Dr. Archer have several suggestions as a result of their experience.

Dr. Archer suggests that Lloyd's devise a more sophisticated method of calculating people's assets before they become members and not depend solely on bank guarantees.

People shouldn't be allowed to just depend on their family home as an asset to become a member, she added.

A person's income should also be considered when becoming a member, she said, since that indicates personal wealth.

"I'd like to see members that are younger, successful in busi-

ness in their own right and streetwise," said Ms. Wilson. These new members "should take an active interest in the business at Lloyd's."

Ms. Wilson expects Lloyd's will eventually increase the financial means test minimum for prospective members, and she also hopes the market will stop allowing members to use their homes as guarantees.

The new members, meanwhile, "should be cautious, sensible, practical people. . . They should join with the view of staying 20 or 30 years," she said.

New members should interview at least three respected members agencies and learn about the market, the agencies and the underwriters from other sources before committing funds.

"Do your homework," said Ms. Wilson. ■



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# Castle acquisitions pay off

## Buyouts make managing agency one of Lloyd's largest

By STACY SHAPIRO

LONDON—Castle Underwriting Holdings Ltd. is one of the fastest-growing managing agencies specializing in non-marine business at Lloyd's of London.

Since 1985, when Chairman Alec Sharp was given permission by Lloyd's to open his own managing agency with two syndicates, Castle has grown to manage 11 syndicates with total capacity of 280 million pounds (\$523.6 million at appropriate exchange rate).

More than a dozen syndicates have been purchased in the last 18 months, as well as several members agencies and two managing

agencies.

Castle now employs more than 400 people. The acquisitions also have given a boost to affiliate Castle Members Agents Ltd., which now manages 230 million pounds (\$430.1 million) in members' allocated capacity.

These acquisitions "put us in the top 10 (among managing agents) and are of a size which is manageable. . . . It's agencies like ours which will shape the future of Lloyd's," according to Mr. Sharp. "A lot of these small businesses had some very worthwhile parts which in themselves were not big enough to continue. We've taken the opportunity to acquire those

parts that we wanted to produce a substantial Castle group."

But the acquisitions have also brought a few headaches, notably the purchase of two loss-ridden syndicates managed by Devonshire Underwriting Agencies Ltd., an agency that Castle acquired last year. Both syndicates have ceased underwriting and were the subject of Lloyd's loss review committees before the acquisition.

Devonshire's defunct syndicate 833 has left its 1989 account open with a total loss of 21.3 million pounds (\$34.4 million at appropriate exchange rate), or more than 100% of its allocated capacity in 1989 of 21.1 million pounds (\$39.8

million). Defunct syndicate 216 also left its 1989 account open, with losses totaling 56.4 million pounds (\$91 million), more than double allocated capacity of 20.6 million pounds (\$38.9 million).

Nevertheless, Mr. Sharp describes the purchase of Devonshire as "excellent."

As part of the deal, Castle also acquired three syndicates "which we very much wanted to acquire," said Mr. Sharp. They are non-marine general liability syndicate 657, underwritten by Roger Lister; the "Shead" motor syndicate, underwritten by Peter Routledge; and marine syndicate 836, underwritten by Vince Emms.

Both Mr. Lister's syndicate and the Shead motor syndicate deal directly with the public and non-Lloyd's brokers and have offices across the country (BI, Sept. 2, 1991).

Mr. Sharp admits that there were parts of the acquired agencies and syndicates that "we didn't really want," though "to date there haven't been any surprises."

Castle subsequently decided that Devonshire Underwriting Agencies would be dedicated to handling syndicate runoffs for the two Devonshire syndicates on a non-profit basis.

"We believe that you've got to be prepared to look after the syndicates in runoff and look after the names who cease to be names. Consequently, we have dedicated a company within the group to do just that," said Mr. Sharp.

In addition to Devonshire, Castle's acquisitions in the past 18 months have included:

- Members agencies Chiltern Underwriting Agents Ltd., which managed 60 million pounds (\$96.8 million) of capacity in 1990, and H.G. Chester & Co. Ltd.

- The members and managing agencies of Edwards Williams Coutts & Partners Ltd., which includes non-marine syndicate 235 and life syndicate 44.

- Management of five syndicates formerly managed by J.H. Davies Underwriting Agency Ltd.

These syndicates, now managed by Castle Syndicate Management Ltd., are life syndicate 240; non-marine syndicates 242 and 794; and aviation syndicate 256. Marine syndicate 1021 ceased trading at the end of last year and its runoff is being managed by Devonshire.

- Management of syndicate 710 managed by Laurence Phillipps (Agencies) Ltd. and the purchase of the firm's members agency.

- Management of syndicate 1154, formerly managed by Ernest Blackmore & Son Ltd.

Castle's flagship syndicate is non-marine syndicate 839, underwritten by Mr. Sharp, which he started in 1979 for Fenchurch Underwriting Agencies Ltd.

Fenchurch sold its right to manage 839 to Posgate & Denby Underwriting Agencies Ltd. late in 1983 to comply with provision of the 1982 Lloyd's Act that brokers could not manage syndicates. However, Fenchurch continues to be the largest members agency dealing with syndicate 839, accounting for more than 23% of the syndicate's total capacity this year.

Syndicate 839 subsequently merged with Posgate & Denby's syndicate 489, but the short-lived arrangement with the agency was "disastrous," said Mr. Sharp, because Posgate & Denby was "falling apart."

Therefore, Mr. Sharp sought and received permission in 1985 for the syndicate to be managed by its own agency, and Castle was formed.

Syndicate 839 has produced a profit for its members every year for the last 10 years, including 1989, when the syndicate reported a profit of 9.2 million pounds (\$17.2 million). The 1990 account will not fare so well, but it still will produce a small profit, Mr. Sharp predicts.

The syndicate's total capacity dropped significantly this year to 76.5 million pounds (\$143.1 million) from 103.3 million pounds (\$199.4 million) in 1991, which caused it to slip out of the ranks of Lloyd's 20 largest syndicates this year.

Mr. Sharp says the lower capacity is due to members' concerns about the impact of losses from Hurricane Hugo and other 1989 catastrophes.

To allay members' fears, the syndicate has decided to focus on its core business, which is professional

Continued on next page



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## Castle Underwriting

Continued from previous page  
liability risks, bankers blanket bond coverage, and directors and officers liability coverage.

Syndicate 839 leads 80% of the business it writes, including:

- Lloyd's underwriting agency errors and omissions insurance, where it leads a 3 million pounds excess of 2 million pounds layer (\$5.8 million excess of \$3.9 million).

- 10% of the 218 million pounds (\$422.9 million) in bankers blanket bond premiums written by Lloyd's.

- Syndicate 839 has a computer system that provides the underwriter with financial data on 7,200 financial institutions in 42 countries. Financial institution coverage is underwritten mainly by Simon Allport.

- About 12 million pounds (\$23.3 million) in premiums for directors and officers liability coverage, underwritten by Lance Dalzell-Piper. The syndicate has led a \$5 million layer since H.S. Weavers (Underwriting) Agencies Ltd. shut down in 1990.

- About 21 million pounds (\$40.7 million) in premiums for other professional liability business, underwritten by deputy underwriter David Marshall.

Meanwhile, Castle is often mistakenly identified as the company managing the runoff of loss-riddled syndicates formerly managed by Gooda Walker Ltd.

Ralph Sharp, managing director of Castle, also is the chairman of G.W. Runoff Ltd., which manages the runoff of the Gooda Walker syndicates. But G.W. Runoff is separate from Castle's operations and Mr. Sharp works at G.W. on his own time, usually after 5 p.m.

"It can't impinge on Castle," said Mr. Sharp, who is no relation to his employer, Castle Chairman Alec Sharp.

This arms-length approach is important, especially since syndicate 839, Castle's largest non-marine syndicate, writes the professional liability insurance for the Gooda Walker underwriting agency.

"So the two things have to be separate," says Alec Sharp. ■

# Wendover welcomes many (not all) changes

## Bucking consolidation trend, it sees a role for small, specialty syndicates

By GAVIN SOUTER

LONDON—Sweeping reforms at Lloyd's of London demand changes among all parts of the market, say executives at Wendover Underwriting Agency Ltd.

Wendover already is implementing reform recommendations by a Lloyd's task force (*BI*, Jan. 20), and it is changing its mix of business to reflect the upheavals at Lloyd's.

But not all of the current changes at Lloyd's—like consolidation among many smaller syndicates that are trying to reduce expenses—will be for the good of the market, the executives say.

They contend that there is still a place for small specialist syndicates, including Wendover's bloodstock syndicate, which writes the coverage for the winner of the Belmont Stakes.

One of the most promising changes currently being seen at Lloyd's is the greater openness of information, said Angus Sladen, managing director of Wendover.

"I like the greater transparency that is coming into the market. Names must have a clear view of what is happening in the market," he said.

Wendover claims to be the first Lloyd's agency to implement some of the key "transparency" features recommended by a panel headed by David Rowland.

In line with the recommendations, Wendover has nominated three members agencies that support each of its four syndicates to review the syndicates' expenses.

Also in line with the recommendations, the agency is holding annual general meetings for all of its syndicates. Supporting members agents and members of the syndicates are invited.

Not all the changes sweeping Lloyd's have the support of Mr. Sladen.

Some of the things suggested in Sir David Walker's report on the London market excess-of-loss reinsurance market could be detri-

mental to Lloyd's, he argues. "Supplying names with an assessment of the risk of a syndicate will be difficult to achieve and I think that that recommendation may have to be amended."

Sir David recommended that the "riskiness" of syndicates be monitored by Lloyd's regulators. But the complex nature of the syndicates makes it difficult to give each one a "riskiness factor," Mr. Sladen said.

Wendover was established in 1986 through the amalgamation of four agencies: managing agents Butcher & Hall Ltd., Crump & Johnson Underwriting Agencies Ltd. and Crump & Cackett Agencies Ltd. and members agent Hyne & Butcher Ltd.

The combined agency at the time managed four syndicates.

Wendover in 1989 launched catastrophe non-marine syndicate 1129, with Robert Ikin as the underwriter and capacity of 2.4 million pounds (\$3.9 million at applicable exchange rates).

The timing proved inauspicious. Hit by the string of large catastrophes in 1989, syndicate 1129 produced a loss equaling 57% of its capacity and was closed in 1990.

"When we were looking at setting up the syndicate in early 1988, the market conditions looked favorable," Mr. Sladen said. In 1990, following the large losses, the syndicate's own reinsurance costs soared, sealing its fate, he said.

"Mr. Ikin is now working for Royal Re and there is no criticism of him. It was just the market conditions at the time," Mr. Sladen said.

Wendover's largest syndicate is marine syndicate 744/746, underwritten by Trevor Johnson. The syndicate, which specializes in excess-of-loss reinsurance, was established in 1980 and has a 1992 capacity of 41.5 million pounds (\$77.6 million).

The syndicate produced a loss of 9.7 million pounds (\$18.1 million) in 1988, which was attrib-

utable to an error in assessing the syndicate's reinsurance requirements, Mr. Sladen said. "We misjudged the level of reinsurance protection we required so we had to pay large losses as a result of Piper Alpha," he said, referring to the \$1.4 billion explosion of the North Sea oil rig in 1988.

Learning from its mistake, the syndicate bought sufficient reinsurance for 1989, Mr. Sladen said. Consequently, the syndicate made a profit of 4.2 million pounds (\$7.9 million) in 1989, a year when many other syndicates reported losses.

The syndicate should make a profit of between 2.5% and 5% of its capacity in 1990 and a profit of between 5% and 7.5% of capacity in 1991, he said.

But despite the anticipated profits, the capacity of the syndicate fell this year after steady increases.

Capacity rose from 42.2 million pounds (\$79.6 million) in 1988 to 52.5 million pounds (\$95 million) in 1989, 62 million pounds (\$100.1 million) in 1990 and 65 million pounds (\$125.5 million) in 1991. However, capacity plummeted to 41.5 million pounds (\$77.6 million) in 1992.

Mr. Johnson attributes that precipitous drop to many members agents and members withdrawing from all excess-of-loss syndicates.

"Frankly, a number of members agents became frightened of all excess-of-loss business because they did not really understand it, so they took the easy option," he said.

Excess-of-loss business is not inherently dangerous as long as aggregates are calculated accurately and sufficient reinsurance protection is purchased, Mr. Johnson asserted.

The syndicate has changed to adapt to the changing demands of members and members agents, he said. After 1989, it dropped stop-loss reinsurance. Losses from stop-loss business held back the syndicate's 1989 profits by an amount equal to 10% of capacity, he estimated.

And in 1991, the syndicate refused to accept any more non-marine and aviation risks on its main excess-of-loss account, he said.

The syndicate's account is now made up of 76% marine excess-of-loss business; 13% marine direct insurance; 9% "net account business," which includes aviation and non-marine business; and 2% miscellaneous business.

The net account aggregates are calculated so that the syndicate will not suffer a major loss even if it is hit by several catastrophes in one year, Mr. Johnson said.

"We took the view that after the losses of 1989, names would be more comfortable knowing that if there was a massive marine loss, it would be paid by marine syndicates and non-marine losses by non-marine syndicates. Separating the business gives them a clearer view," he said.

Cutting out non-marine business was not painless, though. It presented underwriting problems for energy accounts that have marine and non-marine elements. During renewals right after the decision was made last year, Mr. Johnson recalled, the syndicate only accepted three of the 70 energy risks presented to it because most contained non-marine exposures.

However, brokers have now accepted the changing market and of the last 70 energy risks presented, the syndicate has accepted 20, Mr.

Johnson said.

"Brokers have awakened to what is going on and they are telling their clients that they just cannot get that kind of coverage anymore," he said.

Changes are afoot at other Wendover syndicates as well.

Next year, the agency plans to merge aviation syndicate 957 and non-marine syndicate 1001. More than half the capacity of both syndicates is dedicated to excess-of-loss reinsurance.

The underwriter for both syndicates is John Cackett.

Syndicate 957 had 1992 capacity of 16.3 million pounds (\$30.5 million) and syndicate 1001 has a capacity of 8.7 million pounds (\$16.3 million).

"Both syndicates are highly successful," said Mr. Sladen. Syndicate 957 produced a 5.1 million pound (\$9.5 million) profit in 1989 and syndicate 1001 earned 1.6 million pounds (\$3 million) in profits that year.

"Both were trading in a weak market but we bought sufficient reinsurance to protect them from major losses," Mr. Sladen said.

Both syndicates are forecast to produce profits again in 1990, he said.

"We hope that as a result of the success of the syndicates, their combined capacity will be 30 million pounds (\$58.2 million) in 1993," Mr. Sladen said.

The syndicates are being merged because they already share a significant number of risks, said Mr. Sladen.

And, because Lloyd's syndicates are no longer restricted in the classes of business they are allowed to accept, it made economic sense to reduce costs by merging the syndicates, he said.

The combined syndicate will accept principally aviation excess-of-loss reinsurance and personal accident risks. These areas are more profitable than non-marine excess-of-loss reinsurance, Mr. Sladen said.

Wendover has no plans to merge its bloodstock syndicate 1109/627 with any of its other syndicates.

"I am very keen for it to remain a specialist syndicate despite the rise in the number of composite syndicates writing bloodstock business," said underwriter John Bovington.

By maintaining its independence, a profitable bloodstock syndicate can supply members with much-needed profits even if the overall Lloyd's market produces a loss, he said.

Syndicate 1109/627 has a 1992 capacity of 2.2 million pounds (\$4.1 million). The syndicate produced a profit of 51,000 pounds (\$95,370) in 1989.

Ninety percent of the syndicate's business is bloodstock risks, while 10% is livestock risks.

Among the thoroughbreds the syndicate has insured are A.P. Indy, the winner of the 1992 Belmont Stakes, and Doctor Devious, the winner of the English Derby.

Wendover also acts as a members agent for 120 members with a total capacity of 52 million pounds (\$97.2 million).

Each member's capacity is well-spread, Mr. Sladen said. The agency has a policy of not placing more than 10% of a member's capacity on any one syndicate and not more than 25% with syndicates managed by any one managing agent, including Wendover. ■

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# Disgruntled Lloyd's members shake market with protests

By STACY SHAPIRO  
and GAVIN SOUTER

LONDON—Infighting among members of Lloyd's of London is almost as complicated to explain as the war in what was known as Yugoslavia.

For instance, one conflict pits the Assn. of Lloyd's Members, which supports the nomination of David Rowland as Lloyd's next chairman, vs. the Society of Names, an alternative members group that opposes it.

Meanwhile, 15 "action groups" are independently seeking to avoid paying huge losses that syndicate members are being asked to pay. To coordinate these efforts, a "Super Action Group" was supposed to be created that would represent the concerns of all disgruntled members, but it hasn't yet emerged. To date, only a few action groups have banded together.

More Lloyd's members flocked to join the action groups in the wake of a 116 million pound (\$206.5 million) settlement reached earlier this year between 987 members of underwriter Richard Outhwaite's syndicate and 81 members agencies (BI, Feb. 17).

Also, in the past year, members of Parliament who are Lloyd's members have used their Parliamentary privilege to launch allegations against Lloyd's underwriters.

In addition, Lloyd's member Claud Gurney organized the "EGM Initiative," which resulted in last month's extraordinary general meeting of Lloyd's members and subsequent balloting on a vote of no confidence in the Council of Lloyd's.

The no-confidence resolutions were opposed by the ALM, though ALM Chairman Neil Shaw now says the entire Council should resign—even if the no-confidence vote fails—to allow Mr. Rowland to appoint his own Council.

And, while many of the protests have been made by members who do not work in the market, a few working members have openly criticized Lloyd's.

To paraphrase Mr. Shaw, who is also chairman of conglomerate Tate & Lyle P.L.C., emotion takes over when money is involved.

Amid all of these public actions and reactions by Lloyd's members, many say a "silent majority" supports the changes that the Council now is implementing.

There are 22,259 members underwriting at Lloyd's this year, while another 10,543 are not underwriting but cannot resign, largely because they are members of syndicates that have not closed their accounts.

In 1989, the year just closed under Lloyd's three-year accounting system, there were 31,329 members who suffered an overall loss of 2.06 billion pounds (\$3.85 billion). However, "a sizable minority" of the 1989 members were on five London market excess-of-loss reinsurance syndicates that accounted for 30%, or 607.9 million pounds (\$1.14 billion), of the 1989 loss.

Sir David Walker's report on the LMX spiral also shows that 75.2% of the members with the largest losses from 1985 to 1989 were non-working members.

Dissident members contend that between 5,000 and 6,000 members

will be hit with more than 200,000 pounds (\$388,000) of losses in the 1988 and 1989 underwriting years.

However, Val Powell, chief executive of the Assn. of Lloyd's Members, believes the number of members affected will be closer to 2,500 to 3,000 people.

"I don't believe there are as many Lloyd's names suffering as the (dissidents) would make you think," said Mr. Powell. "The silent majority are OK and will stick with (Lloyd's)."

Throughout the year, the heads of some of the action groups and Tom Benyon, chief executive of the Society of Names, have lobbied members of Parliament, written letters and talked to the media. They also spoke vociferously at the marathon six-hour long Lloyd's annual general meeting in June (BI, June 29).

They have sought a central solution to their losses, contending that they were the victims of a fraudulent LMX market and that Lloyd's "insiders" benefited more from the market than "outsiders."

Meanwhile, Mr. Gurney called the extraordinary general meeting on July 27 to seek a vote on four resolutions whose preambles expressed "no confidence" in the council. The resolutions, among other things, called for rescinding a special levy on members designed to boost the Central Fund to 1 billion pounds (\$1.94 billion).

While ALM leaders wish the current Council would resign, they opposed rescinding the levy, which was equal to 5% of each member's premium income from 1990-1992. Therefore, the ALM offered its own resolution stating that it had faith in the Council and the levy, provided that reforms were implemented as soon as possible.

The ALM's resolution infuriated some of the group's 8,500 members. More than 100 letters were written to the ALM in protest, which is a sizeable number, according to Mr. Powell.

"The way we phrased the resolution was to ensure change," said Mr. Powell. A vote of no confidence for the Council "would have sent out the most terrible signals."

The levy also "is absolutely essential," he added. Members would have to pay more than that if Lloyd's eventually became insolvent, he noted.

However, the current Council's members should resign even if it wins the confidence vote, which was to be tallied late last week, Messrs. Shaw and Powell agree.

"We want to see the Council go, but not to be booted into oblivion without some kind of handover," said Mr. Powell, who believes that at the very least the members of the Lloyd's Committee—consisting of the working members on the council—should resign.

Mr. Shaw said, "Every member of the Council, regardless of category or qualification, should submit a letter of resignation to the new incoming chairman." Mr. Rowland could then reject the resignations of anyone he believes should remain. Mr. Shaw's view is supported by some executives of the Lloyd's Underwriting Agencies Assn. (see story, page 3).

Mr. Shaw's made his comments before five working members and two external members of the Council announced they would resign by year-end (BI, Aug. 24).

The Society of Names' new chairman, John Rew, however, feels that the ALM only represents the interests of the members who wish to continue writing at Lloyd's.

This number will decrease to between 6,000 and 8,000 in 1994, Mr. Rew said recently. The Society of Names is an alternative to the ALM, designed to help those members who are being strung along by Lloyd's until they are wiped out entirely, he said.

Some Society of Names members believe if they keep up the pressure, government officials, Parliament or Lloyd's will help bail them out.

Mr. Gurney is calling for a new act of Parliament because "Lloyd's continues to fail to protect Lloyd's names," he said.

However, many recommendations in the Lloyd's task force report on reform, Sir Jeremy Morse's report on governance and the Walker report on the LMX market are aimed at improving Lloyd's member relations. The worry is that these recommendations won't be implemented fast enough, said Mr. Shaw.

Aside from the major changes in governance and the introduction of a high-level stop-loss scheme to cap members' losses, these recommendations include:

- A list of "names' rights," including the right of members to veto syndicate transactions.
- Opening annual general meetings to all members on a syndicate. Some syndicates already have such open meetings.
- The appointment of an outside underwriter to a managing agency's board to provide peer review of underwriting-policy statements. Recently, Stephen Burnhope, underwriter for a syndicate managed by Merrett Underwriting Agency Management Ltd., joined the board of Spreckley Villers Hunt & Co. Ltd.

• The commissioning of a "volatility analysis and risk assessment" so members know what businesses are more risky to underwrite.

• Mandating that members agents offer the same syndicates and capacity to each member, whether or not he or she works in the market.

In the meantime, many Lloyd's members are seeking legal advice to avoid paying losses. Many of these disputes, particularly regarding LMX syndicate losses, could go through Lloyd's special arbitration process rather than through the courts.

However, all of the major members action groups say they are prepared to litigate if settlements are not reached.

"We have an open-and-shut case so there should not be any need to go to court, but we have to proceed as if we will go," said Alfred Doll-Steinberg, chairman of the Gooda Walker Action Group. "He who desires peace must be prepared for war."

The 2,350 members of the action group are preparing a negligence action against Gooda Walker Ltd. in an attempt to recover their huge losses.

So far, Gooda Walker members have had to meet cash calls totaling 682.2 million pounds (\$1.32 billion) for business—mainly LMX coverage—written between 1983 and 1990.

Further calls on members are likely, with the total loss expected at between 1 billion and 1.2 billion pounds (\$1.94 billion and \$2.33 billion), according to Mr. Doll-Steinberg.

The Walker report on the LMX market clearly indicates that some underwriters were negligent, he said.

A Lloyd's loss review committee report into Gooda Walker is due in September. After reviewing the report, the action group will file suit alleging negligent underwriting, he said.

Further litigation is threatened by 1,500 members of syndicates formerly managed by Feltrim Underwriting Agencies Ltd.

Members of syndicates 540/542 and 847 managed by Feltrim could face losses of 686.4 million pounds

(\$1.33 billion), says a recent report by Tony Berry, underwriter for Additional Underwriting Agencies No. 7 that took over management of the Feltrim syndicates. Cash calls totaling 225 million pounds (\$436.5 million) already have been made.

The losses stem from LMX claims on the syndicates' still-open 1987 through 1990 underwriting years.

Members of the Feltrim Names Assn. affected by the 1987 losses filed suit in May to prevent statutes of limitation from expiring, but the writ has not yet been served, said Chairman Colin Hook. The writ probably will be served after the Feltrim loss review committee report is published. The report is due in September.

The writ alleges negligence and/or fraudulent underwriting by five parties: the underwriter and managing agency, 59 members agents, the syndicates' auditors Arthur Andersen & Co., brokers involved in placing LMX business and the corporation of Lloyd's.

"We are looking very carefully at whether Lloyd's is immune to litigation," Mr. Hook said.

All members of loss-riddled LMX syndicates should be successful if they take their case to court, he said. "The only question will be how much the courts will award."

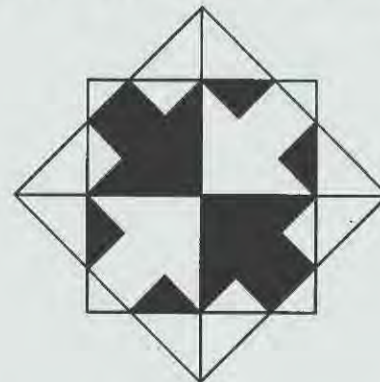
Yet more litigation from members suffering from LMX losses is threatened by the Rose Thomson Young Syndicate 255 Names Action Group.

The 600 members of the action group are seeking to avoid paying syndicate losses from 1988. Further members are expected to join when the association in October also accepts members affected by the 1989 underwriting year, said Sir David Berriman, the group's chairman.

The syndicate had 1,000 members in 1988 and 1,300 members in 1989. The syndicate lost 64 million pounds (\$123.5 million) in 1988 and 70.2 million pounds (\$131.2 million) in 1989, Sir David said.

A loss review committee report is expected to be published in September. ■

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TAILORED AWARDS

# Bad news at Lloyd's is big news

*Only the royals make better copy*

By STACY SHAPIRO

LONDON—Lloyd's of London has never received so much bad publicity.

And, some at Lloyd's blame its executives for the media coverage of market's problems.

Officials at Lloyd's counter that they have done more in the past year to improve media relations than ever before. It's tough to present a good image, though, when members plant detrimental stories, executives add.

"I don't blame the press. I understand them," said Chairman David Coleridge. "Their editors tell me that (Lloyd's) is good

hack journalism."

British editors have told Mr. Coleridge "that after the royal family, Lloyd's is the most interesting news item they've ever had," the chairman said at the annual general meeting in June.

Reporting on Lloyd's is far more interesting than reporting insurance company results, he said. "People scream and say they've been turned out of their house that's been in the family for 30 years or 350 years."

By airing their grievances in the media, "Lloyd's members have done more damage to the society than any journalist has," Mr. Coleridge said recently.

"They just shoot themselves in the foot the whole time because they can't accept (their losses). And I understand that. You've been living a certain standard of living, and when you find instead of 250,000 pounds or 680,000 pounds in your house you have very little left, you just become like an animal. You can't accept it. I understand that."

Some people in the market, though, call on Lloyd's to do more to curb negative coverage.

During the annual general meeting, a Lloyd's member summed up this frustration by asking the chairman: "In these days of unbalanced reporting, what initiatives—in addition to a return to profitability—could

you take to improve Lloyd's public and commercial image?"

He replied: "I spend all my time trying to do it. I'm probably the most overexposed man in this country. I'm not asking for publicity. I do whatever I can."

Each morning he and the deputy chairmen meet with Lloyd's public affairs staff and a representative of its public relations firm Citigate Communications Ltd. "We dissect every single newspaper article and magazine article, here and overseas," Mr. Coleridge added.

And last year a communications policy committee, chaired by Mr. Coleridge, was formed to cope with increasing coverage. It meets six times a year and includes representatives of the market and the council, as well as the heads of the public affairs and marketing departments.

"We are inundated with requests for interviews" from TV and radio, added Mr. Coleridge.

Three press conferences—held on one July day to announce major reports on the market by Sir David Walker and Sir Jeremy Morse—drew nine TV crews, four radio crews and 52 print journalists, said Nick Doak, Lloyd's media manager.

The story was given four hours, 20 minutes and 35 seconds of air time on TV stations worldwide, according to Peter Hill, head of the public affairs department.

Never before has the public affairs department been so stretched, Mr. Doak pointed out. It all started on April 24, 1991, the day underwriter Ian Agnew announced major losses on a syndicate he had just taken (see story, page 51).

A year ago, there were only a few members action groups. But when the then-record 1988 global loss was announced in June 1991, "all of the sudden there were a number of actions groups with leaders who were highly articulate, intelligent people," said Mr. Doak. "The rich man made poor' story came out."

Before last year, only a handful of daily papers and trade magazines took a regular interest in Lloyd's. Since then, he adds, "We've even turned up in homes and gardens magazines."

Lloyd's has some unique public relations problems. A corporation can restrict comment to a few official spokesmen, but Lloyd's could not possibly stop members, underwriters and brokers from talking, he said. "All you can do is educate people."

Lloyd's has learned that the more information you offer, the better the chance for accurate articles.

I've always subscribed to former Lloyd's Chief Executive Ian Hay Davison's philosophy "that sunshine dries away the mist," said Mr. Hill. As a result, Lloyd's Chief Executive Alan Lord held a press conference after each monthly meeting of the Council of Lloyd's—78 in all—until he retired in June.

"Openness and disclosure should be encouraged, not discouraged," said Mr. Hill.

Recently Lloyd's opened both an annual general meeting and an extraordinary general meeting to reporters. Previously reporters who weren't members were not allowed in general meetings.

"It was better to allow the press in than for journalists to have second- or third-hand partial reports," said Mr. Hill. It was decided that reporters should "see the meetings with their own eyes."

In the past year, Lloyd's also hired Citigate and its New York affiliate, Edward Aycoth Worldwide. It was the first time Lloyd's hired U.S. publicists. More may be hired elsewhere to monitor media coverage.

Some doors are still closed, though. Council meetings, for instance, remain off limits to reporters.

"We are doing a significant amount in comparison with what we used to do," Mr. Hill said. "But we are a long way from where we want to be."

Mr. Coleridge concluded at the annual general meeting that "maybe when we're back in profit again, it will be easier. In the meantime, I try my best, as we all do, to have damage limited."

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# Rolling the dice, but cautiously

## Agnew overhauls losing syndicates

By GAVIN SOUTER

LONDON—Lloyd's of London underwriter Ian Agnew hopes to pull off quite a feat in 1994.

He plans to report a profit for the 1991 account of a syndicate that lost 65 million pounds (\$117 million at appropriate exchange rates), or 58% of its capacity, in 1988.

If Mr. Agnew succeeds, it will not be through the preservation of the status quo. Since he took over as underwriter of syndicate 406 in 1991, he has merged it with a profitable syndicate, sparked a controversy among some members by closing the 1988 account and overhauled its book of business.

And, by imposing a new underwriting philosophy at 406, he hopes to take full advantage of those rates that are rising.

Mr. Agnew began his career at Lloyd's 30 years ago on the Gardner Mountain marine syndicate. After disastrous results in 1964, 1965 and 1966, the agency took on infamous Lloyd's underwriter Peter Cameron-Webb, whose own agency, PCW Underwriting Agencies, eventually took over Gardner Mountain.

In 1977, Mr. Agnew set up syndicate 970 within PCW. He ran it for nearly six years.

Then in 1982, 10 months before PCW was engulfed in a scandal involving large losses by syndicates it managed, he resigned and set up his own agency, I.C. Agnew Underwriting Ltd., to manage syndicate 672, which has yet to post a loss.

After the 1991 takeover of Mr. Agnew's agency by Wellington Underwriting Agencies Ltd., he succeeded Seamus Cowley as underwriter for syndicate 406 and merged it with 672.

Syndicate 406 was substantially larger with a 1990 capacity of 100.7 million pounds (\$190.3 million), more than 2½ times the capacity of 672. Together, their capacity grew to 132 million pounds (\$246.8 million) in 1991 and 145 million pounds (\$281.3 million) in 1992.

Although both 406 and 672 are marine syndicates writing similar business, their results have differed the past few years.

At 406, the losses kept mounting. First 65.1 million pounds (\$125.6 million) in 1988, then 30.4 million pounds (\$56.1 million) in 1989. And 1990 losses are projected to be 30 million pounds (\$56.7 million), Mr. Agnew said.

Syndicate 672, however, has bucked the market. It turned profits of 3.3 million pounds (\$6.4 million) in 1988 and 6.7 million pounds (\$12.9 million) in 1989, and is forecast to make a profit of at least 3.7 million (\$6.9 million) in 1990, Mr. Agnew said.

Although it is too early to make a prediction for 1991, Mr. Agnew said the merged syndicate 406 should make a profit.

For all his optimism, Mr. Agnew is not without detractors.

His problems began with 1988. Old pollution and asbestos claims had deteriorated substantially since the syndicate closed its 1987 year, he said.

"We had to take full account of that when we were closing 1988," Mr. Agnew said. That entailed calling "a lot of money" and buying "substantial" time-and-distance policies, he said.

Most problems from the past have been cleared up, Mr. Agnew said. "Seventy-five percent of the 1988 loss was for back year problems. . . for the 1989 year only 8% of the loss related to back years," he said.

Even though much of the loss in 1988 was from prior years, little could have been done earlier because of insufficient information, Mr. Agnew said.

Some members from 1988 don't believe that. About 500 have formed an action group that may sue Wellington, according to the group's chairman, Alfred Doll-Steinberg. "We have a statistician looking at the figures,

and it is clear that the large loss for 1988 is either due to underreserving in the past or overreserving for the future," he said.

Mr. Agnew implemented other changes at syndicate 406.

The newly merged syndicate now largely takes a cautious approach to underwriting, similar to syndicate 672, he said.

Syndicate 406 was dogged by the poor terms and conditions in the marine market in 1988, 1989 and 1990. While syndicate 672 saw much of the same business, it turned a lot more of it away and bought substantial reinsurance protection, Mr. Agnew said.

"We were fully aware of the inherent dangers of that marketplace at that time," so the 672

staff looked into every risk in detail whether they were leading the risk or not, Mr. Agnew said.

"We had six underwriting staff on 672, which was quite a lot for a stamp capacity of 40 million pounds (\$74.8 million). But our selective approach to underwriting kept us free of queues."

The merged syndicate has an underwriting staff of 10.

The new 406 has also abandoned the old syndicate's stop-loss account. In 1989, 406 earned a premium of 125,000 pounds (\$241,250) from stop-loss business but paid losses of 2.4 million pounds (\$4.6 million).

Management keeps things in check by holding staff meetings every morning to discuss the risks underwritten the previous day, Mr. Agnew said.

Marine risks have made up a larger share of business over the

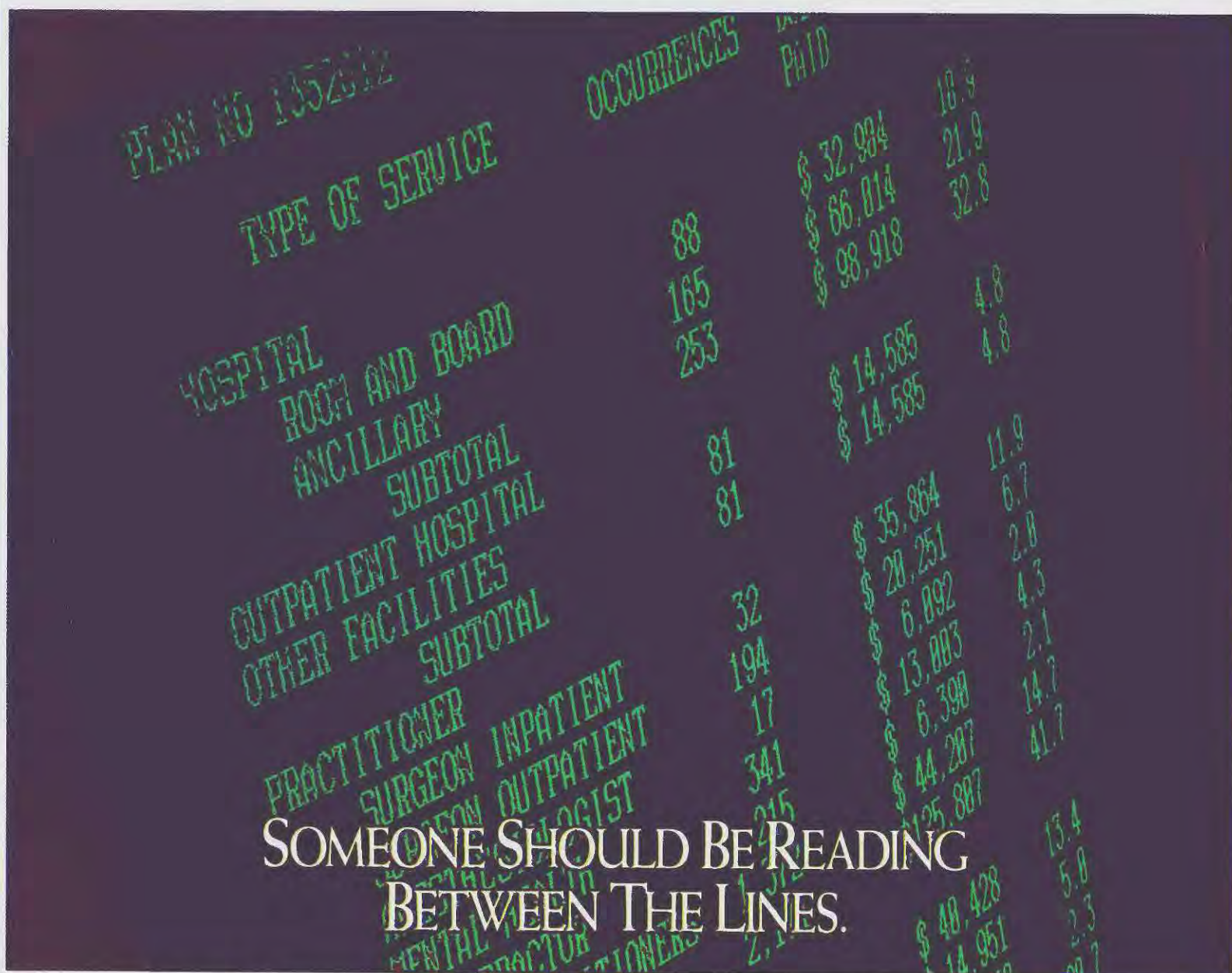
last two years than in the previous five years. About 70% of its total income is now marine.

Marine rates have risen substantially in the past year, but "There are very few classes of business where I am satisfied with the rates," Mr. Agnew said.

"The hull account is still light on deductibles, and the cargo account is still in the doldrums."

However, energy rates and liability rates are rising, and the mood of the market is for all rates to increase, he said.

Marine liability risks account for 33% of the syndicate's business, and energy risks account for 19%. The remainder is made up of: 11% hull, 10% excess of loss, 6% cargo, 6% non-marine liability, 4% war risk, 4% other marine property, 3% non-marine short tail, 2% aviation and 2% other coverages.



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# Marine market looking up

## Underwriters digging out as rates rise, capacity tightens

By STACY SHAPIRO

LONDON—Things are looking better for Lloyd's of London marine underwriters, but then they couldn't look much worse.

Hull insurance rates are rising for the first time in many years, said Iain Webb-Wilson, director of Lloyd's broker Miller Marine Ltd.

Marine liability reinsurance capacity has tightened and rates have pushed up a little, said Peter Stone, managing director of Miller Marine. The Oil Pollution Act in the United States has spurred rates upward, moreso than the estimated \$1.5 billion insured loss caused by the Exxon Valdez oil spill, Mr. Stone added.

There also is less capacity for energy risks though "apparently there is still enough" and prices "have improved significantly," added Stephen Merrett, chairman of Lloyd's Underwriters Assn., which represents marine underwriters.

"Lloyd's has always been a critical part of the (capacity) for energy business," said Graham Clarke, managing director of Miller Energy Ltd. "But now Lloyd's is back in the driver's seat of the market."

Before it could take advantage of these opportunities, though, the Lloyd's marine market has had to pull itself out of a deep trough.

In 1989—the last year to close underwriting under Lloyd's three-year accounting system—the marine market felt an overall loss of 875.1 million pounds (\$1.64 billion at applicable exchange rates), significantly worse than the 551.3 million pound (\$1.06 billion) 1988 loss.

Hurricane Hugo and the Exxon Valdez oil spill near the Alaskan coast are just two of the major 1989 catastrophes "to produce one of the worst years on record for marine insurers," said Mr. Merrett.

In 1989, there were 134 marine syndicates in the market that wrote net premiums of 1.33 billion pounds (\$2.49 billion at applicable exchange rate), compared with a gross allocated capacity of 4.5 billion pounds (\$8.42 billion).

The 1990 marine market results, due out next year, are expected also to be poor, though they should be an improvement over 1989, said Mr. Merrett.

"The 1991 year of account is expected to show some improvement," said Mr. Merrett, and some syndicates are forecasting profits. "It's too early to say" what 1992 results will show, but

the signs are that there is "further improvement," he said before Hurricane Andrew slammed into Florida last week.

The disastrous years of 1989 and 1990, however, have forced many so-called marine syndicates to shut down or merge with newer syndicates. As a result, this year just more than 80 syndicates consider themselves "marine" syndicates and belong to the Lloyd's Underwriters Assn.

Lloyd's no longer classifies syndicates by class of business.

Three of the marine syndicates that have shut down are among the five syndicates that caused more than one-third of the losses in 1989 attributable London market excess-of-loss reinsurance. They are:



**'It's too early to say' what 1992 results will show, but the signs are that there is 'further improvement,' says Stephen Merrett.**

- Syndicate 255 managed by Rose Thomson Young (Underwriting Agencies) Ltd.

- Syndicate 298 managed by Gooda & Partners Ltd.

- Syndicate 540 managed by Feltrim Underwriting Agencies Ltd.

Statistics from the Assn. of Lloyd's Members show that excess-of-loss marine reinsurance accounted for 9.7% of the gross allocated capacity of the entire Lloyd's market in 1989, the largest percentage of any of the 46 categories written by the market. This was reduced to 5.6% in 1992, the ALM says.

Mr. Merrett points out that the "retrocession" market—meaning the LMX market—has shrunk "significantly" since 1989 and there are now "tighter controls on aggregates." Marine underwriters continue to write excess-of-loss reinsurance, but this is to support cedants who are writing insurance—rather than reinsurance—coverages, he said.

Also gone from the marine market are some of Lloyd's oldest and largest syndicates, largely because of the uncertainty of long-tail asbestos and pollution claims.

This includes last year's 10th-largest marine syndicate—syndicate 367 managed by F.L.P. Secretan & Co. Ltd. It ceased trading last October, leaving open its 1989 account with a loss of 40.9 million pounds (\$66.0 million at

applicable exchange rate).

Last year's seventh-largest marine syndicate 932, managed by Janson Green Ltd., is also gone, though it has merged its capacity with syndicate 79, one of this year's largest syndicates. Syndicate 932 has also kept its 1989 account open, with losses totaling 16 million pounds (\$25.8 million).

Last year's sixth-largest syndicate, 448, managed by Wellington Underwriting Agencies Ltd., is also out of the ranking this year. Its capacity fell to only 77 million pounds (\$144.0 million at applicable exchange rate) from 115.6 million pounds (\$223.1 million) in 1991. Syndicate 448's 1989 account has been left open with losses totaling 48.3 million pounds (\$78 million).

Some of Lloyd's largest syndicates also have slashed their capacity. In particular, last year's second-largest marine syndicate, 206, managed by Sturge Marine Syndicate Management Ltd., cut its capacity in half to 84.8 million pounds (\$158.6 million) from 165.8 million pounds (\$320 million) last year. Its 1989 total losses hit 38.3 million pounds (\$71.6 million).

"It is ironic that in the midst of the gloom generated by these results (in 1989), there are now real grounds for optimism for the future in the Lloyd's marine market," Mr. Merrett said in a statement accompanying Lloyd's 1989 results. "The adverse effects of abundant levels of capacity for reinsurance, particularly retrocessional business, are well known. The dramatic contraction in that market will reinforce the resolve of many underwriters to return to profit."

In the meantime, the Lloyd's Underwriters Assn.—in a show of support for the changes in Lloyd's governance proposed by Sir Jeremy Morse's committee—resigned en masse on July 16 and put themselves up for re-election. A letter from the LUA said the 15 committee members felt that they needed to confirm their level of support from Lloyd's marine underwriters in light of the report's recommendations.

Only one of the committee members, Colin Mander, was not re-elected on July 22 to serve the marine market until the end of the year. Mark Denby was elected in his place. Mr. Merrett was also re-elected as LUA chairman.

No other formal association of Lloyd's, including the Council of Lloyd's, has resigned and sought re-election in light of the Morse report (see story, page 3). ■

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### Largest Lloyd's marine syndicates\*

Based on 1992 gross allocated capacity in millions of pounds

Syndicate	Managing agency	Underwriter	1992 Capacity		1989 Profit	
488	Charman Underwriting Agencies Ltd.	J.R. Charman	£207.9	\$388.8	£7.8	\$14.6
418	Merrett Underwriting Agency Management Ltd.	S.R. Merrett	193.1	361.1	1.1	2.0
79	Janson Green Ltd.	J.R.L. Youell	150.1	280.7	(1.2)	(2.2)
861	Alston Brockbank Agencies Ltd.	M.E. Brockbank	144.5	270.2	2.1	3.9
406	Wellington Underwriting Agencies Ltd.	I.C. Agnew	144.4	270.0	(30.4)	(56.9)
282	M.J. Marchant Underwriting Ltd.	M.J. Marchant	131.9	246.7	(3.8)	(7.1)
483	Methuen (Lloyd's Underwriting Agents) Ltd.	P.R. Chandler	127.3	238.0	(10.0)	(18.7)
40	Murray Lawrence & Partners Ltd.	A.P. Bartleet	125.1	233.9	4.1	7.7
735	Wren Syndicates Management Ltd.	A.P. Jackson	96.6	184.4	(1.7)	(3.2)
206	Sturge Marine Syndicate Management Ltd.	B.G. Adams	84.8	158.6	(38.3)	(71.6)

\*Syndicates whose largest proportion of business is marine. †Syndicate created by merger of syndicates 932/989, 436/279 and 79/650

Source: Lloyd's of London

GRAPHIC BY KIMBERLY MART

**Business Insurance**

# Reinsurer executives calm before the storm

By SARA MARLEY

1992 was shaping up to be another dull year for global reinsurers—at least until Hurricane Andrew clobbered Florida and Louisiana last week.

Speaking earlier this month, before the storm caused billions of dollars of insured damage, leading reinsurance executives said they expect the market to harden gradually. However, most expect reinsurers to continue to post poor results for 1992, even before the losses caused by Andrew are tallied.

Continued competition and a lack of retrocessional capacity have put a squeeze on reinsurers' profits, they complain.

Many observers do not see the hurricane triggering a sudden turn in the overall insurance and reinsurance markets, though the huge losses will cause further contraction in the already-tight property catastrophe reinsurance and retrocessional markets (see story, page 1).

The global reinsurance marketplace in 1992 is "still largely unprofitable, (but) changing to the better," said Karl Wittman, executive manager of Munich Reinsurance Co., headquartered in Munich, Germany.

Mr. Wittman predicts a "continuation of a hardening reinsurance market globally" for 1993.

Munich Re again held onto the top spot in the *Business Insurance* ranking of the world's largest reinsurers with \$6.72 billion in net reinsurance premiums written.

"Continued price weakness

## Capacity and competition remain high for most lines of reinsurance, officials say

and overcapacity" will mark both 1992 and 1993, said Scott R. Doerr, vp of Berkshire Hathaway Inc.'s reinsurance division in Stamford, Conn.

Berkshire Hathaway joins the *Business Insurance* Top 20 for the first time, ranking 18th with \$667 million in net reinsurance premiums written in 1991.

"In general, 1992 looks like another tough year for many reinsurers," said Willem K. Dikland, chief executive officer of Netherlands Reinsurance Group in Amsterdam.

Netherlands Re, with \$998.3 million in net written reinsurance premiums, moved up seven slots to No. 12 in this year's ranking, reflecting its 1990 acquisition of Victory Insurance Holdings Inc. of London (*BI*, July 30, 1990).

Reinsurers "are faced with strong competition and inadequate rates in a number of important primary markets," Mr. Dikland said, while also observing that "retrocessional capacity has all but dried up."

Some reinsurers were even less optimistic.

"We anticipate a continued erosion of underwriting results and lower or stable investment earnings leading to poorer overall results than in 1991," said Dirk Lohmann, senior vp of Hannover Reinsurance Co./Eisen & Stahl Reinsurance Co.

Hannover/Eisen & Stahl again ranked No. 7, with net written reinsurance premiums of \$1.77 billion.

"Conditions in the global reinsurance marketplace remain very competitive, with excess capacity for many classes of business," said Michael W. Fedyna, vp and division financial officer for Philadelphia-based CIGNA Corp.'s property and casualty reinsurance operations.

Exceptions are some marine classes, aviation and property catastrophe and retrocessional business, he added.

CIGNA's reinsurance operations fell just short of the Top 20 this year with \$622 million in 1991 net property/casualty reinsurance premiums after placing 16th a year ago.

On the other hand, "capacity in the global reinsurance marketplace has become scarcer, perhaps even more so than expected," said Erich Herrgen, member of the board of Bavarian Reinsurance Co., a Munich-based subsidiary of Swiss Reinsurance Group.

"The reason is the continuing unsatisfactory conditions in bread-and-butter business, which have given many reinsurers 1991 balance sheets that are reminiscent of the windstorm year 1990," Mr. Herrgen said, referring to the European windstorms of early 1990.

Some reinsurers are suffering catastrophic losses "without catastrophic events," he noted.

"In the European market, any catastrophe risk premium that is not swallowed up by the Japanese typhoon is being nibbled away by routine business, with nothing left to build up reserves for future catastrophes," Mr. Herrgen said, referring to Typhoon Mireille, which caused \$5.2 billion in insured damage. "It will be even more difficult in 1992 to ignore the everyday catastrophe."

Swiss Re again was the world's second-largest reinsurer with \$5.75 billion in net written reinsurance premium.

Jean-Pierre Fillebeen, vice chairman and CEO of SAFR Reinsurance Corp. of the United States, describes the current reinsurance market as a "a very difficult marketplace worldwide squeezed between a primary market with companies unable to write at adequate rates and a vanishing retro market."

With \$596.5 million in net written reinsurance premiums, Paris-based SAFR fell just short of the Top 20.

Market conditions are "generally weak with only a few optimistic signs in the marine and aviation business," said James F. Dowd, chairman and CEO of Skandia America Group in New York, a unit of Skandia Group.

Skandia Group continued to rank as the 10th largest reinsurer with \$1.36 billion in net written premiums.

"The reinsurance markets are still marked by keen competition," agreed Achim Kann, chairman of Frankona Reinsurance Co. in Munich. "Individual companies are being squeezed out."

Frankona dropped a notch to No. 14 with \$925 million in net premiums written.

"The industry has been in a downward cycle for longer than expected, and there are no clear signs that it will come to an end in 1992 or 1993," said Ernesto Jutzi, general manager of Swiss Re in Zurich.

The global reinsurance market in 1992 "continues to be highly competitive with rate insufficiency in view of catastrophe potential," said N. David Thompson, president and chairman of North American Reinsurance Corp., the U.S. affiliate of Swiss Re.

"Barring major catastrophe losses and/or a downward move in stock and bond values, the probabilities are that present trends will continue into 1993," Mr. Thompson said before Hurricane Andrew struck.

"The market is so far uneventful and it looks essentially like 1991," said Tatsuhiro Tsukuda, associate director and general manager of Yasuda Fire & Marine Insurance Co. Ltd.'s international operations department.

Yasuda, headquartered in Tokyo, dropped three places to

Continued on next page

## World's largest reinsurers

All amounts in thousands of dollars. Ranked by net reinsurance premiums written.

Rank	Company	Net reinsurance premiums written 1991	Net reinsurance premiums written 1990	Net reinsurance premiums earned 1991	Aftertax net income 1991	Policyholders' surplus (reinsurers only) 1991	Losses & loss adjustment expenses 1991	Loss ratio 1991	Underwriting expenses 1991	Expense ratio 1991	Combined ratio 1991	Combined ratio 1990
1	Munich Reinsurance Co. <sup>1</sup>	\$6,722,322	\$7,206,740	\$6,767,194	\$57,426	\$1,795,712	\$5,405,177	79.9%	\$2,123,748	31.6%	111.5%	108.5%
2	Swiss Re Group <sup>2</sup>	5,746,410	4,823,543	5,722,088	169,475	2,205,511	4,623,648	NA	1,369,912	NA	NA	NA
	North American Reinsurance Corp.	798,677	676,082	729,597	59,898	723,561	508,696	69.7	289,222	36.2	105.9	108.7
	Bavarian Reinsurance Co. <sup>2</sup>	719,924	593,882	709,879	7,102	200,098	634,760	89.4	185,772	25.8	115.2	97.3
	European General Reinsurance Co. <sup>2</sup>	606,733	560,858	595,973	1,950	71,367	539,340	NA	142,423	NA	NA	NA
	Union Reinsurance Co.	450,945	370,017	413,053	2,654	101,734	324,958	78.7	149,652	33.2	111.9	118.9
3	Employers Reinsurance Group	2,619,086	2,638,823	2,564,934	340,483	1,872,559	1,857,452	79.3 <sup>3</sup>	1,190,106	29.0 <sup>3</sup>	108.3 <sup>3</sup>	106.5 <sup>3</sup>
4	Assicurazioni Generali S.p.A.	2,488,913	2,185,249	2,459,923	500,355	7,446,089	1,709,753	69.5	676,813	27.2	96.7	95.1
5	General Reinsurance Co.	2,249,100	2,149,600	2,241,300	656,700	3,911,200	1,618,000	72.5 <sup>4</sup>	664,800	29.7 <sup>4</sup>	102.2 <sup>4</sup>	99.0 <sup>4</sup>
6	Cologne Reinsurance Co.	1,966,439	1,873,594	1,941,021	27,044	289,731	1,555,710	80.1	518,253	26.4	106.5	108.1
7	Hannover/Eisen & Stahl Reinsurance Co.	1,771,929	1,546,553	1,746,261	40,199	546,652	1,407,180	80.6	473,512	26.7	107.3	103.2
	Hannover Reinsurance Co. <sup>5</sup>	1,123,349	959,347	1,105,122	27,566	354,221	895,093	81.0	311,706	27.7	108.7	101.7
	Eisen & Stahl Reinsurance Co.	648,580	587,205	641,138	17,017	192,432	512,087	79.9	161,806	24.9	104.8	105.6
8	SCOR S.A.	1,595,944	1,642,209	1,516,601	27,799	861,582	1,261,968	83.2	508,687	31.9	115.1	110.2
	SCOR U.S. Corp.	172,586	179,409	172,697	30,691	224,327	113,137	65.5	63,930	37.0	102.5	102.5
9	Mercantile & General Reinsurance Co. P.L.C.	1,578,933	1,333,140	NA	32,810	470,920	1,446,342	91.6	487,132	30.9	122.5	125.8
10	Skandia Group <sup>6</sup>	1,363,357	1,349,973	1,312,269	NA	1,118,839	1,135,589	86.5	484,403	35.5	122.0	114.5
	Skandia American Reinsurance Corp.	404,383	414,126	396,890	27,534	353,011	304,926	76.8	137,365	34.0	110.8	110.1
11	Gerling Global Reinsurance Group <sup>7</sup>	1,134,835	1,177,834	1,117,173	(4,512)	262,409	840,288	75.2	355,846	31.4	106.6	98.1
12	Netherlands Reinsurance Group <sup>1</sup>	998,278	576,366	994,716	24,500	201,631	919,272	92.4	236,115	23.7	116.1	117.8
13	Tokio Marine & Fire Insurance Co. Ltd. <sup>8,7</sup>	943,011	936,284	NA	NA	13,832,983 <sup>8</sup>	NA	NA	NA	NA	NA	NA
14	Frankona Reinsurance Co. <sup>1,5</sup>	924,970	909,652	889,294	6,323	165,889	683,224	76.8	282,104	30.5	107.3	103.5
15	American Re-Insurance Co.	901,743	921,474	929,810	157,763	735,708	679,168	73.0	267,347	29.7	102.7	104.6
16	Winterthur Swiss Insurance Co.	869,896	854,429	724,152	NA	3,118,725	NA	NA	NA	NA	NA	NA
	Winterthur Reinsurance Corp. of America	205,420	172,727	193,423	14,903	178,208	144,925	74.9	67,211	32.7	107.6	105.4
17	Prudential Reinsurance Co.	776,109	600,184	764,947	97,417	590,284	600,287	78.5	259,022	33.4	111.9	125.9
18	Berkshire Hathaway Reinsurance Division	667,035	435,205	635,398	62,572 <sup>9</sup>	8,693,991 <sup>9</sup>	731,917	115.2	20,577	3.1	118.3	106.3
19	The Toa Fire & Marine Reinsurance Co. Ltd. <sup>5,10</sup>	651,446	515,730	NA	18,090	157,582	434,126 <sup>11</sup>	66.5 <sup>12</sup>	233,243	35.8	102.4	97.1
20	The Yasuda Fire & Marine Insurance Co. Ltd. <sup>5,7</sup>	634,164	651,392	NA	NA	1,695,623	NA	NA	NA	NA	NA	NA
<b>Totals</b>		<b>\$36,603,920</b>	<b>\$34,327,975</b>	<b>\$32,327,080</b>	<b>\$2,214,444</b>	<b>\$49,973,620</b>	<b>\$26,909,101</b>	<b>83.2%</b>	<b>\$10,151,620</b>	<b>27.7%</b>	<b>110.9%</b>	<b>110.1%</b>

All figures converted to U.S. dollars at fiscal year-end exchange rates. Unless otherwise noted, fiscal years ending Dec. 31, 1991; Dec. 31, 1990.

<sup>1</sup> Fiscal years ending June 30, 1991; June 30, 1990 <sup>2</sup> Fiscal years ending Dec. 31, 1990; Dec. 31, 1989 <sup>3</sup> Ratios related to property/casualty business only <sup>4</sup> Ratios related to domestic business only <sup>5</sup> Not consolidated <sup>6</sup> Property/casualty business only <sup>7</sup> Fiscal years ending March 31, 1992; March 31, 1991 <sup>8</sup> Parent company capital and surplus <sup>9</sup> For Berkshire Hathaway Insurance Group <sup>10</sup> Fiscal year March 31, 1991; March 31, 1990 <sup>11</sup> Net claims paid <sup>12</sup> Losses incurred to premiums written

Source: BI survey

## Reinsurers

Continued from previous page  
No. 20 with \$634.2 million in net written reinsurance premiums.

While primary insurers generally have not cut their retentions, few insurers are increasing the amount of risk they retain because of the continued soft primary insurance market, said Robert C. Wood, senior vp and chief operating officer of Winterthur Reinsurance Corp. of America in New York, a unit of Winterthur Swiss Insurance Co.

"Primary companies are becoming more concerned about the poor underwriting results that are bound to follow such soft pricing," Mr. Wood said. "Therefore, they do not wish to increase their existing retentions and, in fact, there are early signs in the property facultative market that companies are interested in increasing facultative purchases to protect these high retentions. This emerging trend may also be driven by the shortage and increased rates of property catastrophe protection."

Winterthur Swiss slipped one place to No. 16 in this year's ranking based on \$869.9 million in net written premiums.

"Terms and conditions have

improved," though it may not show yet in reinsurers' results, said Juergen Zech, chairman of the board of executive directors of Cologne Reinsurance Co. in Cologne, Germany.

Ranking No. 6, Cologne Re wrote net reinsurance premiums totaling \$1.97 billion in 1991.

Due to rapidly shrinking catastrophe reinsurance capacity, "rates for this line are rising exponentially," said Mahmoud M. Abdallah, senior vp of American Re-Insurance Co. of Princeton, N.J.

American Re ranked No. 15, one notch below its 1991 ranking, based on net written reinsurance premiums of \$901.7 million.

"Reinsurance and retrocessional programs are replete with shortfalls and abandoned layers," Mr. Abdallah said. "Finite risk programs are being utilized in some instances to bridge the gaps, but there still is some reluctance to pursue this course by some traditionalists and regulatory questions still cloud the issue."

"Finite reinsurance will be more prominent and more widely used to protect catastrophe programs and other classes of insurance and reinsurance," he con-

tinued. "It will, however, be more closely scrutinized by regulators and auditors for appropriate risk transfer elements."

"The current hard market for traditional property catastrophe excess-of-loss reinsurance has resulted in increased demand for financial reinsurance alternatives. We anticipate that this demand, which will come from international and U.S. companies, will remain strong throughout 1993," CIGNA's Mr. Fedyna said.

Record losses at Lloyd's of London will aggravate the retrocessional capacity crunch and will continue to cause reinsurers to look elsewhere for retrocessional coverage, executives point out (see stories, beginning on page 3).

Lloyd's reported an overall loss of 2.06 billion pounds (\$3.85 billion at applicable exchange rates) for the 1989 underwriting year (*BI*, June 8).

"We are already seeing a tightening in the European market" as a result of the problems at Lloyd's, said Tom Case, president and chief operating officer of Employers Reinsurance Group in Overland Park, Kan. He foresees less tightening in the Far East, but reliance there on the

European market will probably cause some reduced capacity.

"There is a definite restriction in the European market, which increases prices," Mr. Case said.

Employers Re again ranked No. 3 with \$2.62 billion in net reinsurance premiums.

"We can anticipate further reductions in property catastrophe and retrocessional capacity through the remainder of 1992 and into 1993 in the London market," Mr. Wood of Winterthur America said.

The problems in London are "affecting both marine and non-marine" business, said Marie-Louise Wenander, chief operating officer-reinsurance at Skandia Group in Stockholm, Sweden. "Capacity of last resort reinsurance is reducing quickly. Further withdrawals in the company market and further mergers are expected."

"Large segments of the U.S. and Japanese markets that historically used Lloyd's as their 'lead' are looking to other markets, particularly in the U.S.," agreed Mr. Abdallah of American Re. "Loss of substantial retrocession market (capacity) further constrains reinsurers' ability to serve their clients."

The losses at Lloyd's, among other factors, have prompted ceding companies to take a closer look at their reinsurers' security.

"Companies are looking for security and solvency," Mr. Case said. "Most buyers want to deal with markets that will be around to pay a loss when the loss comes. In most cases, ceding companies are reducing the number of reinsurers on their programs," Mr. Case said.

More and more large insurers are choosing their reinsurers from an approved list, he added.

"Buyers might look at their reinsurers more closely, but I don't see any fallout (from Lloyd's) to other quality reinsurers," said Dewey P. Clark Sr., senior vp of Prudential Reinsurance Co. in Newark, N.J. "Lloyd's problem is unique to Lloyd's."

Newark, N.J.-based Prudential Re climbed a notch to No. 17 with net written reinsurance premiums of \$776.1 million.

"Business will continue to gravitate to the strongest reinsurers," said Mr. Fedyna of CIGNA.

"Only the fittest and most committed will survive," agreed Mr. Fillebeen of SAFR.

"Lloyd's leadership position in worldwide reinsurance (will) be further diminished," American Re's Mr. Abdallah said. "The U.S. market will play a more prominent role in international reinsurance as a result."

"Risk spreading by way of retrocession is becoming less prominent," Mr. Dikland of Netherlands Re said. "This causes the exit of many, often smaller players while the large, strong reinsurers stand to gain from this development."

"The heavy losses of the recent years and the mergers and acquisitions in the reinsurance world are producing a reduction in capacity and in the number of recognized leaders and good securities," said Livio Steindler, director of reinsurance for Assicurazioni Generali S.p.A.

The Trieste, Italy-based com-

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## Complexities abound in ranking reinsurers

Ranking the world's largest reinsurers is no garden party, and *Business Insurance* couldn't please everyone.

*BI* converted foreign currencies to U.S. dollars using the rates prevailing as of the balance sheet dates for each of the reinsurers. Using, for example, exchange rates from the same day for all the reinsurers would alter the rankings somewhat.

The weakness of the dollar is reflected in reinsurers' converted results. For example, top-ranked Munich Reinsurance Co. realized a 2.7% increase to 12.28 billion deutsche marks from 11.97 billion deutsche marks in net premiums from 1990 to 1991. Converted at applicable exchange rates, however, this appears as a 6.7% decline to \$6.72 billion from \$7.21 billion.

Although *BI* requested financial information on consolidated worldwide reinsurance underwriting, not all companies report such information. For example, Hannover Reinsurance Co., Frankona Reinsurance Co. and the three Japanese companies did not provide such information.

While *BI* sought the most recent financial information, some data dates back to 1989. Those were the most recent figures available from the Swiss Re Group and subsidiaries Bavarian Reinsurance Co. and European General Reinsurance Co.

Companies also used various fiscal years: U.S. and several European reinsurers use calendar years, while some German reinsurers use June 30 and the Japanese use March 31.

The world's largest reinsurers are ranked based on net reinsurance premiums written, both in property/casualty and life/health.

Swiss Re and European General requested that no ratios be published because their figures include life/health. Employers Reinsurance Corp. provided ratios for property/casualty only, while all of the Skandia Group figures represent the group's property/casualty business only.

Finally, reinsurers around the world value their assets differently, so a comparison of reported policyholder surplus among the reinsurers is deceiving. The Germans, for example, value their assets at the lower of cost or market value at the balance sheet date, thus creating hidden reserves. Tokio Marine & Fire Insurance Co. Ltd. reports the capital and surplus of its parent company, while Berkshire Hathaway Inc. reported both capital and surplus and net income for the entire insurance group, not the reinsurance division only.

Acknowledging the inherent distortions in comparing companies from around the world, *Business Insurance* presents its ranking of the world's 20 largest reinsurers as the most comprehensive effort to date.

# Profitable European business eludes reinsurers

*Cologne Re exec blames competition among cedants*

By WILLIAM PITT

COLOGNE, Germany—As reinsurers gather in Monte Carlo next week, Juergen Zech, chairman of Cologne Reinsurance Co., will add his voice to those raising the question: Why is the reinsurance business in Europe so unprofitable?

That question, Mr. Zech explained, will be posed by Paul Coombes, a management consultant with McKinsey & Co. who has been asked to give the keynote speech at the Rendez-Vous de Septembre in Monte Carlo. It then will be debated by Mr. Zech and other continental European reinsurance executives at the annual reinsurance gathering.

Cologne Re—which is the world's oldest reinsurer—itsself has suffered from a shortage of profitable European business in recent years, and Mr. Zech can give plenty of reasons why.

In 1991, the reinsurer posted an underwriting loss of 162.9 million deutsche marks (\$109 million) on net written premiums of 2.98 billion deutsche marks (\$1.99 billion). That is slightly better than a 1990 underwriting loss of 187.7 million deutsche marks (\$123.9 million) on net written premiums of 2.8 billion deutsche marks (\$1.85 billion).

Net after-tax income jumped 55.3% to 41 million deutsche marks (\$27.1 million) in 1991 from 26.4 million deutsche marks (\$17.7 million) in 1990. But this

was not as high as the company had anticipated earlier in the year. 1990 results had been down sharply from 54.4 million deutsche marks (\$32.2 million) in 1989.

However, the outlook for 1992 is better, Mr. Zech said.

The executive blamed cutthroat competition among insurance companies for much of the recent deterioration in rein-

Germany has been compounded by the tendency of major insurers to subsidize their unprofitable commercial lines business with profits from personal lines insurance, he claimed.

"It's terrible for us because the industrial lines business is heavily reinsured. And the private lines business is normally not reinsured—only the catastrophe part of it is. This has been our big problem in 1991," Mr. Zech explained.

A major part of Cologne Re's strategy in the past few years has been trying to dodge the "really very bad deals" that insurers have been offering, Mr. Zech said.

As an example, he cites environmental impairment liability coverages. A new EIL policy now being drafted by German insurers and their major industrial clients threatens to hit reinsurers with long-tail gradual pollution liabilities that could prove "very difficult...to handle" (BI, Aug. 17).

Cologne Re draws some satisfaction from having steered clear of pollution risks in the United States.

"We don't write this very difficult line of business because we have the experts" to analyze the risk, said Mr. Zech. "We know what the problems are so we stay away from it."

Given this, it is perhaps not surprising that Cologne Re is re-

*Continued on next page*



Juergen Zech

## Reinsurers

*Continued from previous page*  
pany again ranked No. 4 with net written reinsurance premiums of \$2.49 billion.

"A number of reinsurers will disappear through mergers or consolidations. The market will show signs of hardening late in the year, but it will not apply universally to all classes of business," Mr. Dowd of Skandia America said.

Risk-based capital requirements, expected by many to be finished by year-end and implemented by U.S. insurance regulators in 1994, are also expected to lead to fewer reinsurers.

"Enough will be known about (risk-based capital) in 1993 to accelerate the sale, consolidation and mergers of reinsurance markets during the year," said Mr. Wood of Winterthur of America. "More parent companies will decide to divest themselves of reinsurance subsidiaries similar to decisions already made in 1992," he said referring to the pending sale of American Re by Aetna Life & Casualty Co. and Transamerica Reinsurance Co. by Transamerica Corp.

To generate higher returns and to avoid additional contributions to surplus that may be required by the implementation of risk-based capital standards, "more shareholder parent companies will seek to retreat to core businesses. Further sales, consolidations and mergers due to the implementation of the new capital requirements will continue to make the 'flight to security' a major issue for the reinsurance marketplace in 1993," Mr. Wood said.

Mr. Wood said the market would harden in 1993, but the changes will be gradual.

"While there will be no dramatic changes in either the reinsurance or primary markets in 1992, there is a consensus that the eventual turnaround in the market may be getting closer," he said, with some improvement in mid- to late 1993.

Next year will bring a "growing capacity squeeze for catastrophe-exposed business due to lack of retrocession (capacity) and Lloyd's problems," said Willi E. Schuerpf, general manager-reinsurance department for Winterthur Swiss Insurance Co. He also predicts a gradual recovery in rates of other types of property reinsurance.

"In light of the continuing poor results situation, the reinsurance market is going to become more cautious," predicted Mr. Herrgen of Bavarian Re. "In 1993, the reinsurers will attempt to cast off the persistently poor-performing bulk business."

"As the countdown to the single European market passes zero, a sobering-up effect is likely to spread among the proud owners of recently purchased European subsidiaries. Returns from the high-cost acquisitions are frequently disappointingly low," Mr. Herrgen said.

"We anticipate some continued tightening in specialty areas with no real improvement in the so-called 'bread-and-butter' lines of property and casualty business until the end of 1993 at the earliest," said Mr. Lohmann of Hannover/Eisen & Stahl. "In view of the continuing soft market, our effort have been focused primarily on improving service capacities and strengthening existing relationships, rather than on increasing market share."

The U.S. reinsurance market

will remain soft in 1993, "based on still-profitable published results in 1992," said Francois Negrier, president of Societe Commerciale de Reassurance S.A. Paris-based SCOR again ranked No. 8 with \$1.6 billion in net written reinsurance premiums.

"Western European reinsurers will show substantial losses in commercial property and will certainly fight hard for improved conditions," he added. "The pressure on ceding companies to increase property rates will become even stronger but with no improvement in booked results before 1994 or 1995."

Due to "further hardening of rates in commercial and industrial lines, reinsurers will start to show better results," predicted Mr. Zech of Cologne Re. ■

**A major part of Cologne Re's strategy in the past few years has been trying to dodge the 'really very bad deals' that insurers have been offering.**

surers' European results.

In particular, German commercial property rates have been "lowered...beyond belief" because the large commercial insurers have been "fighting over market share," he said.

The same story is repeated "all over Europe," said Mr. Zech, although he noted that results from the Netherlands and Switzerland in 1991 were "not too bad."

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## Cologne Re

Continued from previous page  
luctant to offer reinsurance for gradual pollution coverage to ceding companies in Europe.

The company does, however, gain daily experience with U.S. pollution claims through its participation in "IntAP," the International Alliance of Asbestos & Pollution Reinsurers. The non-profit body, which Cologne Re founded in June 1991, negotiates latent liability claims payments with the London market on behalf of more than 40 mainly non-professional reinsurers (BI, July 15, 1991).

So what sort of business is Cologne Re prepared to write almost a century and a half after it was founded?

"We try to find niches where we can still see some profit," said

Mr. Zech. He cited the life and liability insurance markets as offering a "lot of areas where we can be innovative and differentiate ourselves."

Life reinsurance accounted for more than 23% of Cologne Re's gross premiums in 1990.

Cologne Re has worked hard to move beyond the traditional life reinsurer's role as an underwriter of substandard risks, according to Mr. Zech. It now offers consulting services to newly formed life insurance companies, including a specially developed computer-assisted underwriting system designed to save staff time in handling standard risks.

In liability reinsurance, Cologne Re has moved away from proportional business in favor of more technically challenging facultative and non-proportional

**There is little reinsurers can do to deter German ceding companies that 'want to buy market share' and are willing to 'accept losses knowingly,' Mr. Zech says. The competitive pressure is increased by foreign insurers that target the German market, he adds.**

risks, Mr. Zech said. The company is a major reinsurer of product liability risks in Europe, and most of its rapid growth in liability reinsurance derives from business written outside Germany.

At home, Cologne Re's market remains difficult. Mr. Zech sees an upswing under way in 1992, but one of only modest dimensions.

There is little reinsurers can do to deter German ceding com-

panies that "want to buy market share" and are therefore willing to "accept losses knowingly," he said.

The competitive pressure is increased by foreign insurers that target the German market—Europe's biggest—and by the efforts of domestic insurance companies to defend their home turf.

In addition, acquisitions of German insurers by foreign companies can compound the problems.

A common result of foreign ownership is a loss of business among domestic reinsurers, as foreign buyers place the reinsurance programs of their newly acquired subsidiaries with their own reinsurers.

"We are losing 10 million to 20 million deutsche marks (\$6.8 million to \$13.6 million) of premiums every year because people are either reinsuring with their (new) parent companies or they are discontinuing a proportional treaty and replacing it with a non-proportional (one) and so on."

However, he said, this trend does not alarm him because Cologne Re's German business continues to grow "at a very fast rate." This growth has been boosted in part by the integration of the provinces of the former East Germany, where Mr. Zech paid tribute to the "tremendous job" some German insurance companies have done in developing business.

For its part, Cologne Re has taken a cautious approach to business prospects in the new German provinces to the east.

"We didn't go directly into that market," said Mr. Zech. "So we depend on our cedants. And we have warned them not to be too blue-eyed in terms of what the costs and the risks involved are."

So it could better respond to attractive new opportunities wherever they arise, Cologne Re raised its share capital at the beginning of this year by 25% to 62 million deutsche marks (\$40.9 million) by converting reserves.

Cologne Re is happy to point to its membership of "one of the strongest European insurance groups" as evidence of the strength of its financial backing.

Cologne Re is owned by the French financial and industrial conglomerate Compagnie de Suez, owner of major French insurer Groupe Victoire.

But Mr. Zech is at least equally eager to stress the company's management independence and German identity.

Cologne Re is enmeshed in a fiendishly complicated shareholding web. Its immediate majority shareholder is the direct German insurer Colonia Versicherung A.G. Colonia, in turn, is controlled by Vinci, a holding company whose majority owner is Groupe Victoire.

Cologne Re has what Mr. Zech calls a "non-interference contract" with Colonia that is binding upon Vinci, Victoire and Suez. The contract stipulates that Colonia must give Cologne Re five years' notice before making any management changes at the reinsurer.

The contract would also be binding upon any other company that acquired Colonia. This is significant because Union des Assurances de Paris, France's biggest state-owned insurer, has precisely that ambition.

UAP Chairman Jean Peyrelevade has been negotiating with Suez to exchange UAP's current 34% stake in Groupe Victoire for a 50% stake in Colonia. And, he has talked freely of "management changes" at Colonia.

However, Mr. Zech said he draws reassurance from his understanding that UAP "is looking for a direct insurer (in Germany), not a reinsurer."

Also, he added, Suez and Victoire "have repeatedly stated that Cologne Re will under all circumstances stay with them, and not go to UAP." ■

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# BI's international directory of the largest reinsurers

## A

### Abeille Reassurances

11 rue de La Rochefoucauld, 75442  
Paris Cedex, France;  
331-42-80-7575;  
fax: 331-48-78-5342

	1991	1990
Premiums written	\$376,892,099	\$363,750,985
Premiums earned	\$356,026,378	\$343,503,665
Capital & surplus	\$237,763,624	\$211,676,852
After-tax net	\$13,547,355	\$11,961,797
Losses	\$291,628,424	\$263,515,620
Loss ratio	81.9%	76.7%
Expenses	\$118,969,813	\$123,237,037
Expense ratio	31.6%	33.9%
Combined ratio	113.5%	110.6%
Treaty	96.4%	96.9%
Facultative	3.6%	3.1%
Domestic	30.6%	35.5%
Foreign	69.4%	64.5%

**Founded:** 1976.

**Parent company:** Compagnie Financiere du Groupe Victoire and Abeille Assurances.

**Employees:** 118.

**Locations:** 1 domestic, 3 foreign.

**Principal officers:** Michel Lapparra, Gerard Oberty, Francois Vilnet, Claude Porret, Jacques Dard.

**Contact:** Jorgen K. Jensen, director, 212-809-7100.

### American Re-Insurance Co.

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

	1991	1990
Premiums written	\$901,743,162	\$921,474,231
Premiums earned	\$929,809,913	\$871,008,161
Capital & surplus	\$735,707,997	\$691,280,353
After-tax net	\$157,763,307	\$106,233,041
Losses	\$679,167,612	\$621,244,465
Loss ratio	73.0%	71.3%
Expenses	\$267,346,937	\$307,064,920
Expense ratio	29.7%	33.3%
Combined ratio	102.7%	104.6%
Treaty	70.0%	61.0%
Facultative	30.0%	39.0%
Domestic	87.3%	85.3%
Foreign	12.7%	14.7%

**Founded:** 1917.

**Parent company:** Aetna Life & Casualty Co.

**Subsidiaries:** American Re-Insurance Co. (Chile) S.A.

**Employees:** 1,211.

**Locations:** 12 domestic, 14 foreign.

**Principal officers:** Edward B. Jobe, president/chief executive; Paul H. Inderbitzin, executive vp; James R. Fisher, senior vp/comptroller; Michael A. Jones, Edward J. Noonan, senior vps.

**Contact:** Victor M. Giuffre, vp, 609-243-4280.

### Assicurazioni Generali S.P.A.

Piazza Duca Degli Abruzzi 2-34132  
Trieste, Italy; 39-40-67111;  
fax: 39-40-671600

	1991	1990
Premiums written	\$2.49 billion	\$2.19 billion
Premiums earned	\$2.46 billion	\$2.17 billion
Capital & surplus	\$7.45 billion	\$5.42 billion
After-tax net	\$500,355,681	\$407,669,527
Losses	\$1.71 billion	\$1.46 billion
Loss ratio	69.5%	67.4%
Expenses	\$676,812,919	\$604,439,283
Expense ratio	27.2%	27.7%
Combined ratio	96.7%	95.1%
Treaty	98.2%	98.3%
Facultative	1.8%	1.7%
Domestic	22.3%	22.1%
Foreign	77.7%	77.9%

**Founded:** 1831.

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

**Employees:** 29,700.

**Locations:** 11 domestic, 55 foreign.

**Principal officers:** Eugenio Coppola di Canzano, chairman; Fabio Fegitz, Gianfranco Gutty, managing directors; Umberto Della Casa, Camillo Giussani, Amato Luigi Molinari, general managers.

**Contact:** Dr. Giorgio Balzer, U.S. representative, 212-602-7600.

## B

### Bavarian Re

Sederanger 4-6, 8000 Munich 22,  
Germany; 49-89-3844-0;  
fax: 49-89-3844-279

*Continued on next page*

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# A Global Perspective...



## Aon Reinsurance Agency, Inc. Service Beyond the Treaty

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312/761-7900

San Francisco  
Aon Reinsurance Agency, Inc.  
415/546-3180

New York  
Aon Re Inc.  
212/587-3323

Seattle  
Aon Reinsurance Agency, Inc.  
206/343-5541

Continued from previous page

	1990	1989
Premiums written	\$719,923,697	\$593,882,275
Premiums earned	\$709,878,854	\$585,822,688
Capital & surplus	\$200,098,044	\$201,644,910
Losses	\$634,759,887	\$404,237,053
Loss ratio	89.4%	69.0%
Expenses	\$185,772,116	\$168,242,734
Expense ratio	25.8%	28.3%
Combined ratio	115.2%	97.3%

**Founded:** 1911.  
**Parent company:** Swiss Reinsurance Co.  
**Employees:** 320.  
**Principal officers:** Dr. Peter Frey, Dr. Erich Herrgen, Dr. Stefan Lippe, Inge Mahlstedt, Stefan Schroder, Anton Witzl, board members.  
**Contact:** Dr. Erich Herrgen, 49-89-3844-211.

**Berkshire Hathaway Reinsurance Division**

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

	1991	1990
Premiums written	\$667,035,000	\$435,205,000
Premiums earned	\$635,398,000	\$437,525,000
Capital & surplus	\$731,917,000	\$432,228,000
Losses	\$115,200,000	\$98,800,000
Loss ratio	115.2%	98.8%
Expenses	\$20,577,000	\$32,490,000
Expense ratio	3.1%	7.5%
Combined ratio	118.3%	106.3%
Treaty	100.0%	100.0%
Domestic	40.0%	40.0%
Foreign	60.0%	60.0%

**Employees:** 20.  
**Specialties:** One domestic.  
**Principal officers:** Ajit Jain, president; Scott Doerr, vp; Brian Garrison, assistant vp.

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

**Caisse Centrale de Reassurance**

31, rue de Courcelles, 75008 Paris, France; 44-35-3100; fax: 44-35-3131 or 44-35-3188

	1991	1990
Premiums written	\$541,643,474	\$477,776,655
Premiums earned	\$507,873,044	\$403,975,983
Capital & surplus	\$451,537,386	\$418,158,430
Losses	\$399,278,944	\$302,794,368
Loss ratio	78.6%	75.0%
Expenses	\$138,264,727	\$114,925,367
Expense ratio	25.5%	24.1%
Combined ratio	104.1%	99.1%
Treaty	95.0%	97.0%
Facultative	5.0%	3.0%

**Founded:** 1946.

**Centre Reinsurance (Bermuda) Ltd.**

1 Victoria St., P.O. Box HM1788, Hamilton HMHX, Bermuda; 809-295-8501; fax: 809-295-3705

	1991	1990
Premium volume*	\$464,000,000	\$182,000,000
Premiums earned	\$502,668,000	\$168,166,000
Capital & surplus	\$360,319,000	\$291,776,000
After-tax net	\$48,199,000	\$41,766,000
Losses	\$513,330,000	\$149,891,000
Loss ratio	102.1%	90.2%
Expenses	\$73,861,000	\$26,909,000
Expense ratio**	15.2%	14.8%
Combined ratio	117.3%	105.0%
Treaty	100.0%	100.0%
Domestic	5.0%	5.0%
Foreign	95.0%	95.0%

\* Based on net written and premiums recorded on the balance sheet.  
\*\* Ratio of underwriting expenses to prospective written premiums only.

**Founded:** 1988.  
**Parent company:** Centre Reinsurance (Holdings) Ltd.  
**Subsidiaries:** Centre Reinsurance Ltd., Centre Reinsurance International Co., Centre Reinsurance Co. of New York.

**Employees:** 70.  
**Locations:** One domestic, three foreign.  
**Specialties:** Finite risk.  
**Principal officers:** Steven M. Gluckstern, president/chief executive officer; Michael D. Palm, executive vp; Laurence Cheng, executive vp/chief financial officer.  
**Contact:** Ted Pritchard, vp, 809-295-8501.

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

Kyobashi Chiyoda Building 1-9 Kyobashi 2 Chome, Chuo-ku, Tokyo 104, Japan; 81-3-3281-3311; fax: 81-3-3272-4987

	1992*	1991*
Premiums written	\$485,244,955	\$438,515,779
Capital & surplus	\$953,594,937	\$877,540,280
Losses	\$356,823,233	\$317,039,963
Expenses	\$71,179,653	\$57,702,021
Expense ratio	14.7%	13.2%
Treaty	99.0%	99.0%
Facultative	1.0%	1.0%
Domestic	64.0%	65.0%
Foreign	36.0%	35.0%

\* Fiscal years ended March 31, 1992; March 31, 1991.  
**Founded:** 1897.  
**Locations:** 230 domestic, 17 foreign.  
**Principal officers:** Hideo Kamio, chairman; Takashi Toyabe, presi-

dent/executive director; Osamu Sato, Koji Fukuda, senior vp/executive directors; Yoshimi Takaoka, Junzo Nishimo, Yutaka Okada, senior managing directors.

**Contact:** Tokeshi Sugisawa, chief representative for U.S. operations, 212-839-6927.

**CIGNA Property & Casualty Reinsurance Operations**

P.O. Box 41567, 2 Liberty Place-TLP 45, 1601 Chestnut St., Philadelphia, Pa. 19101; 215-761-3545; fax: 215-761-5573

	1991	1990
Premiums written	\$622,341,000	\$660,596,000
Premiums earned	\$615,627,000	\$653,500,000
Capital & surplus	\$273,000,000	\$279,000,000
After-tax net	\$2,400,000	(\$29,400,000)
Losses	\$527,592,000	\$596,646,000
Loss ratio	85.7%	91.3%
Expenses	\$190,845,000	\$207,160,000
Expense ratio	30.7%	31.4%
Combined ratio	116.4%	122.7%
Treaty	90.0%	91.0%
Facultative	10.0%	9.0%
Domestic	45.0%	40.0%
Foreign	55.0%	60.0%

**Founded:** 1947.  
**Parent company:** CIGNA Corp.  
**Subsidiaries:** CIGNA Reinsurance Co., CIGNA International Reinsurance Co. Ltd. (Bermuda), CIGNA Reinsurance Co. S.A./N.V., CIGNA Reaseguros S.A.  
**Employees:** 462.

**Locations:** Three domestic, eight foreign.  
**Specialties:** Property, accident, treaty casualty, aviation, marine, bonding/credit, agriculture, financial reinsurance/finite risk, engineering.  
**Principal officers:** Norman M. Wayne, president-property and casualty reinsurance division; Harry J. Larzelere, president-North American reinsurance operations; Thomas J. Mahoney, general manager-CIGNA Reinsurance Co. S.A./N.V., Belgium; Michael W. Fedyna, vp/chief financial officer; John P. Gumbrecht, vp/chief underwriting officer.  
**Contact:** Norman M. Wayne, 215-761-3555.

**Cologne Re**

Theodor-Heuss-Ring 11, D-5000 Koln 1, Germany; 49-221-9738-0; fax: 49-221-9738-494

	1991	1990
Premiums written	\$1.97 billion	\$1.87 billion
Premiums earned	\$1.94 billion	\$1.84 billion
Capital & surplus	\$289,730,884	\$262,922,826
After-tax net	\$27,044,108	\$17,679,061
Losses	\$1.56 billion	\$1.52 billion
Loss ratio	80.1%	82.6%
Expenses	\$518,252,562	\$477,137,936
Expense ratio	26.4%	25.5%
Combined ratio	106.5%	108.1%
Treaty	90.3%	90.6%
Facultative	9.7%	9.4%
Domestic	40.0%	40.0%
Foreign	60.0%	60.0%

**Founded:** 1846.  
**Parent company:** Colonia Versicherung AG.  
**Subsidiaries:** Cologne Life Reinsurance Co., Cologne Re of America, Cologne Re Co. (Bermuda) Ltd., Cologne Re. Ltd., Cologne Re Co. (Dublin) Ltd., The Cologne Re of South Africa Ltd., Cologne Life Re Co. of Australia, Europa Ruckversicherung AG.  
**Employees:** 849.  
**Locations:** Two domestic, 23 foreign.  
**Principal officers:** Dr. Jurgen Zech, chairman; Dr. Gerd Hofmann, Rainer Isringhaus, Georg Lorenz, Dr. Peter Lutke-Bornefeld, Dr. Lothar Meyer, Dr. Egbert P. Willam, Wilhelm Zeller.

**Continental Reinsurance Group**

180 Maiden Lane, New York, N.Y. 10038; 212-440-7800; fax: 212-440-3445

	1991	1990
Premiums written	\$349,556,000	\$408,864,000
Premiums earned	\$347,472,000	\$435,689,000
Capital & surplus	\$390,524,000	\$367,113,000
After-tax net	\$45,600,000	NA
Losses	\$300,398,000	\$429,290,000
Loss ratio	86.5%	98.5%
Expenses	\$119,871,000	\$142,416,000
Expense ratio	34.3%	34.9%
Combined ratio	120.7%	133.4%
Treaty	96.2%	97.7%
Facultative	3.8%	2.3%
Domestic	96.0%	94.1%
Foreign	4.0%	5.9%

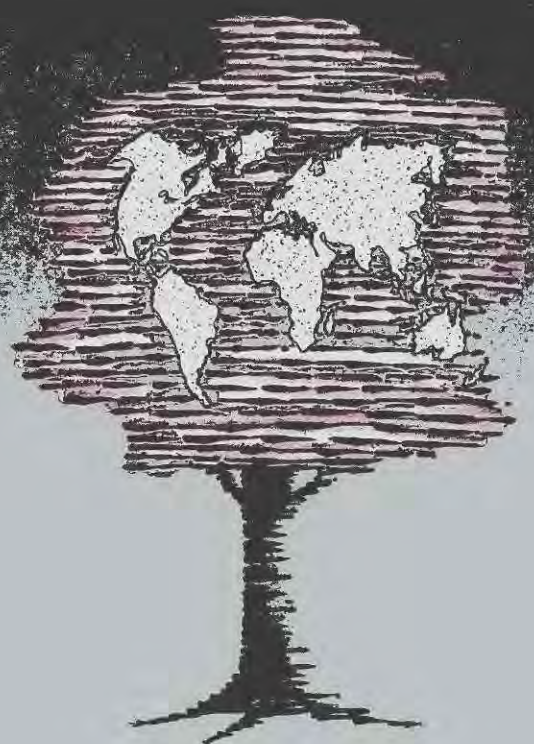
**Founded:** 1942.  
**Parent company:** Continental Corp.  
**Subsidiaries:** Continental Reinsurance Corp., Continental Reinsurance Corp. International Ltd., Continental Reinsurance Corp. (U.K.) Ltd., UnicoAmerica Insurance Co. Ltd.  
**Principal officers:** Philip Marcell, chairman-Continental Reinsurance Group; Winifred Baker, president-Continental Reinsurance Corp.; Ian Sinclair, managing director-underwriting-Continental Re London; Gary French, executive vp-Continental Reinsurance Corp.; Constance Curnow, senior vp-Continental Reinsurance Corp.  
**Contact:** Winifred Baker, 212-440-7877.

**E**

**Eisen & Stahl Re**

Karl-Wiechert-Allee 50, D-3000 Hannover 61, Germany; 49-511-5604-0; fax: 49-511-5604-188

Continued on next page



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**Guide to reinsurance directory**

The fourth annual directory of the world's largest reinsurance companies lists reinsurers that responded to a *Business Insurance* questionnaire.

The listings are published free of charge as an editorial service; however, only reinsurers writing primarily property/casualty reinsurance of at least \$300 million in net reinsurance premiums are included. Major reinsurance subsidiaries of the reinsurers ranked among the 20 largest in the world are also included in the directory.

Financial information was gathered from the responses to the *BI* questionnaire, annual reports and telephone interviews. Figures are reported in U.S. dollars, using fiscal exchange rates corresponding with each companies' balance sheet fiscal year, which is the same as the calendar year unless otherwise noted.

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

Net premiums written, net premiums earned, total capital and surplus, after-tax net income, loss and loss adjustment expenses and underwriting expenses are given, followed by the loss ratios, expense ratios and combined ratios. The percent of business written as treaty and as facultative reinsurance are included, as well as the percent of reinsurance written in domestic and foreign markets.

The company's year **founded** follows the financial information. The **parent company** (if any) is listed, followed by major reinsurance **subsidiaries**. If the companies' financial information is not consolidated or only partly consolidated, that is noted here. **Employees** at year-end 1991 and number of worldwide **locations** are included. Names and titles of **principal officers**, as well as a **U.S. contact** complete the listings.

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

Continued from previous page

	1991	1990
Premiums written	\$648,580,190	\$587,205,291
Premiums earned	\$641,138,478	\$578,513,502
Capital & surplus	\$192,431,889	\$179,504,469
After-tax net	\$17,017,252	\$10,396,476
Losses	\$512,087,023	\$471,331,990
Loss ratio	79.9%	81.5%
Expenses	\$161,805,741	\$141,635,429
Expense ratio	24.9%	24.1%
Combined ratio	104.8%	105.6%
Treaty	99.0%	99.0%
Facultative	1.0%	1.0%
Domestic	77.0%	79.0%
Foreign	23.0%	21.0%

Founded: 1923.

Parent company: Haftpflichtverband der Deutschen Industrie VaG., Germany (HDI).

Employees: 161.

Locations: One domestic, four foreign.

Specialties: Financial risk and alternative market concepts, professional liability, aviation, political risks, accident and health, life.

Principal officers: Dr. Michael Reischel, chairman; Dieter Pfaffen-zeller, Udo Schubach, Dr. Jurgen Brenzel, Dr. Andreas-Peter Hecker, Winfried Kruger, Dr. Wolf Becke, board of management; Dirk Lohmann, Reinhard Elers, Jurgen Lang, Dr. Helmuth Reich, Hans-Dieter Rohlf, underwriting officers.

Contact: Dirk Lohmann, Reinhard Elers, Jurgen Lang, Hans-Dieter Rohlf, Dr. Helmuth Reich (life), Mr. Ritschel (health), 49-511-5604-330; Mr. McLain, representative office USA, 708-705-2100.

**Employers****Reinsurance Group**

P.O. Box 2991, 5200 Metcalf, Overland Park, Kan. 66201; 913-676-5200; fax: 913-676-5221

	1991	1990
Premiums written	\$2.62 billion	\$2.64 billion
Premiums earned	\$2.56 billion	\$2.64 billion
Capital & surplus	\$1.87 billion	\$1.65 billion
After-tax net	\$340,483,000	\$265,537,000
Losses	\$1.86 billion	\$1.71 billion
Loss ratio*	79.3%	80.7%
Expenses	\$1.19 billion	\$1.40 billion
Expense ratio*	29.0%	25.8%
Combined ratio*	108.3%	106.5%
Treaty	64.3%	62.6%
Facultative	35.7%	37.4%
Domestic	81.5%	82.0%
Foreign	18.5%	18.0%

\* Ratios computed from property and casualty business only.

Founded: 1914.

Parent company: General Electric Financial Services Inc.

Subsidiaries: Employers Reinsurance, Nordisk Reinsurance A/S, Employers Reinsurance Ltd., First Excess Reinsurance, First Specialty Insurance Co., Employers Reassurance.

Employees: 914.

Locations: 17 domestic, nine foreign.

Principal officers: Michael G. Fitt, chairman/chief executive officer; Thomas S. Case, president/chief operating officer; Hoyt H. Wood, senior vp-underwriting; C. Alan Mauch, vp-marketing; Kaj Ahlmann, senior executive-ERI Europe.

Contact: Thomas S. Case.

**European General Reinsurance Co.**

Mythenquai 50/60, 8022 Zurich, Switzerland; 41-1-285-2121; fax: 41-1-285-29-99

	1990	1989
Premiums written	\$606,732,749	\$560,858,468
Premiums earned	\$595,972,745	\$553,096,371
Capital & surplus	\$71,367,216	\$57,376,038
After-tax net	\$1,949,731	\$1,531,109
Losses	\$539,339,532	\$450,144,602
Expenses	\$142,422,946	\$162,002,434

\* Fiscal years ended Dec. 31, 1990; Dec. 31, 1989.

Founded: 1918.

Parent company: Swiss Reinsurance Group.

Specialties: Reinsurance in non-life and life branches.

Principal officers: Theo Obrist, chairman; A.W. Saxes, H.R. Kaufmann, directors.

**F****F&G Re Inc.**

P.O. Box 1958, 55 Madison Ave., Morristown, N.J. 07962-1958; 201-898-9393; fax: 201-326-9453

	1991	1990
Premiums written	\$211,138,050	\$460,299,028
Premiums earned	\$219,148,745	\$484,847,886
Losses	\$124,713,901	\$300,380,635
Loss ratio	56.9%	61.9%
Expenses	\$64,436,208	\$156,066,015
Expense ratio	30.5%	33.9%
Combined ratio	87.4%	95.8%
Treaty	100.0%	100.0%
Domestic	74.1%	69.5%
Foreign	25.9%	30.5%

Parent company: USF&amp;G Corp.

Employees: 42.

Locations: One domestic.

Principal officers: Paul B. Ingrey, president; John R. Berger, executive vp; Dwight R. Evans, Charles A. Hachemeister, Alan M. Willemsen, senior vps; Roland W. Jackson, senior vp/comptroller.

Contact: Roland W. Jackson.

**Frankona Reinsurance Co.**

Maria-Theresia-Strasse 35, 8000 Munich 80, Germany; 49-89-9228-438; fax: 49-89-9228-609

	1991	1990
Premiums written	\$924,969,501	\$909,652,276
Premiums earned	\$889,294,181	\$888,365,599
Capital & surplus	\$165,889,079	\$148,156,790
After-tax net	\$6,322,944	\$6,641,664
Losses	\$683,223,736	\$666,900,624
Loss ratio	76.8%	75.1%
Expenses	\$282,103,684	\$258,248,892
Expense ratio	30.5%	28.4%
Combined ratio	107.3%	103.5%
Treaty	92.9%	93.7%
Facultative	7.1%	6.3%
Domestic	57.0%	61.2%
Foreign	43.0%	38.8%

Founded: 1886.

Parent company: Gerling-Konzern Versicherungs-Beteiligungs-A.G.

Subsidiaries: Frankona Reinsurance Co., Frankona America Life Reassurance Co.

Employees: 530.

Locations: One domestic, two foreign.

Principal officers: Dr. Achim Kann, president/chief executive officer; Dr. Reinhard Hinne, Dr. Gunter Jacobs, Dr. Karl Mayr, Dieter Luer, board members.

Contact: Judy Sims, 816-471-2200.

**G****Gerling Global Reinsurance Group**

Gereonshof, 5000 Koln 1, Germany; 49-221-144-1; fax: 49-221-144-3718

	1991*	1990*
Premiums written	\$1.13 billion	\$1.18 billion
Premiums earned	\$1.12 billion	\$1.15 billion
Capital & surplus	\$262,409,213	\$316,017,698
After-tax net	\$4,512,211	\$15,768,607
Losses	\$840,287,981	\$772,268,981
Loss ratio	75.2%	67.0%
Expenses	\$355,845,802	\$366,506,144

Continued on next page

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Spotlight report

Continued from previous page

Expense ratio	31.4%	31.1%
Combined ratio	106.6%	98.1%
Domestic	66.8%	61.1%
Foreign	33.2%	38.9%

\* Fiscal years ended June 30, 1991 and June 30, 1990.

**Founded:** 1954.  
**Parent company:** Gerling-Konzern Versicherungs-Beteiligungs-AG.  
**Subsidiaries:** Gerling Global Life, Toronto; Gerling Global Reinsurance, Toronto; Gerling Global General & Reinsurance, London; Gerling Global Reinsurance, Johannesburg, South Africa; Gerling Globale, Zug, Switzerland.

**Employees:** 420.  
**Locations:** One domestic, 23 foreign.

**Specialties:** All classes of risks.  
**Principal officers:** Dr. Richard Woltereck, Klaus Bultmann, Uwe Eymmer, Gerhard Niebuhr, Norbert Strohschen, Dr. Paul-Robert Wagner, Anton Weiler, executive board members.

**Contact:** Gerhard Niebuhr, 212-752-8900.

**General Reinsurance Corp.**

P.O. Box 10350, Financial Center, Stamford, Conn. 06904-2350; 203-328-5000

	1991	1990
Premiums written	\$2.25 billion	\$2.15 billion
Premiums earned	\$2.24 billion	\$2.10 billion
Capital & surplus	\$3.91 billion	\$3.27 billion
After-tax net	\$656,700,000	\$613,700,000
Losses	\$1.62 billion	\$1.45 billion
Loss ratio	72.5%	68.2%
Expenses	\$664,800,000	\$665,700,000
Expense ratio	29.7%	30.8%
Combined ratio	102.2%	99.0%
Domestic	94.4%	94.9%
Foreign	5.6%	5.1%

\* Ratios computed from domestic reinsurance only.

**Employees:** 2,513.  
**Locations:** 14 domestic, 8 foreign.  
**Principal officers:** Ronald E. Ferguson, chairman/president/chief executive officer; John C. Etling, vice chairman; Edmond F. Rondepierre, vp/general counsel/secretary; Joseph P. Brandon, Ernest C. Frohboese, vps.  
**Contact:** Edmond F. Rondepierre, 203-328-5845.

**H**

**Hannover Reinsurance**

Karl-Wiechert-Allee 50, D-3000 Hannover 61, Germany; 49-511-5604-0; fax: 49-511-5604-188

	1991	1990
Premiums written	\$1.12 billion	\$959,347,384
Premiums earned	\$1.11 billion	\$936,891,882
Capital & surplus	\$354,220,564	\$373,763,602
After-tax net	\$27,565,776	\$34,709,848
Losses	\$895,092,989	\$683,406,599
Loss ratio	81.0%	72.9%
Expenses	\$311,705,895	\$276,337,702
Expense ratio	27.7%	28.8%
Combined ratio	108.7%	101.7%
Treaty	96.0%	96.0%
Facultative	4.0%	4.0%
Domestic	44.0%	43.0%
Foreign	56.0%	57.0%

**Founded:** 1966.  
**Parent company:** Haftpflichtverband der Deutschen Industrie VaG., Germany (HDI).

**Subsidiaries:** Insurance Corp. of Hannover (U.S.); International Insurance Co. of Hannover Ltd. (U.K.);

Reassurance Co. of Hannover (U.S.); Hollandia Reinsurance Group, South Africa. Figures for these subsidiaries are not included above.

**Employees:** 300.  
**Locations:** One domestic, 12 foreign.  
**Specialties:** Financial risk and alternative market concepts, professional liability, aviation, political risks, accident and health, life.

**Principal officers:** Dr. Michael Reischel, chairman; Dieter Pfaffen-zeller, Udo Schubach, Dr. Jurgen Brenzel, Dr. Andreas-Peter Hecker, Winfried Kruger, Dr. Wolf Becke, board of management; Dirk Lohmann, Reinhard Elers, Jurgen Lang, Dr. Helmuth Reich, Hans-Dieter Rohlf, underwriting officers.

**Contact:** Dirk Lohmann, Reinhard Elers, Jurgen Lang, Hans-Dieter Rohlf, Dr. Helmuth Reich (life), Mr. Ritschel (health), 49-511-5604-330; Mr. McLain, representative office USA 708-705-2100

**Hannover Re/ Eisen & Stahl Re**

Karl-Wiechert-Allee 50, D-3000 Hannover 61, Germany; 49-511-5640-0; fax: 49-511-5604-188

	1991	1990
Premiums written	\$1.77 billion	\$1.55 billion
Premiums earned	\$1.75 billion	\$1.52 billion
Capital & surplus	\$546,652,453	\$553,268,070
After-tax net	\$40,198,770	\$38,397,357
Losses	\$1.41 billion	\$1.15 billion
Loss ratio	80.6%	76.2%
Expenses	\$473,511,636	\$417,614,001
Expense ratio	26.7%	27.0%
Combined ratio	107.3%	103.2%
Treaty	97.0%	97.0%
Facultative	3.0%	3.0%
Domestic	55.0%	55.0%
Foreign	45.0%	45.0%

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

**Employees:** 461.  
**Locations:** One domestic, 16 foreign.

**Specialties:** Financial risk and alternative market concepts, professional liability, aviation, political risks, accident and health, life.

**Principal officers:** Dr. Michael Reischel, chairman; Dieter Pfaffen-zeller, Udo Schubach, Dr. Jurgen Brenzel, Dr. Andreas-Peter Hecker, Winfried Kruger, Dr. Wolf Becke, board of management; Dirk Lohmann, Reinhard Elers, Jurgen Lang, Dr. Helmuth Reich, Hans-Dieter Rohlf, underwriting officers.

**Contact:** Dirk Lohmann, Reinhard Elers, Jurgen Lang, Hans-Dieter Rohlf, Dr. Helmuth Reich (life), Mr.

Ritschel (health), 49-511-5604-330; Mr. McLain, representative office USA, 708-705-2100.

**K**

**Kemper Reinsurance Co.**

1 Kemper Drive, Long Grove, Ill. 60049; 708-540-2600; fax: 708-540-2014

	1991	1990
Premiums written	\$526,035,000	\$355,640,000
Premiums earned	\$505,892,000	\$346,764,000
Capital & surplus	\$336,889,000	\$362,715,000
After-tax net	\$64,044,000	\$30,158,000
Losses	\$426,080,000	\$307,188,000
Loss ratio	84.2%	88.6%
Expenses	\$112,314,000	\$87,502,000
Expense ratio	21.4%	24.6%
Combined ratio	105.6%	113.2%
Treaty	98.0%	98.0%
Facultative	2.0%	2.0%

**Founded:** 1969.  
**Parent company:** Kemper Corp.

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

**Employees:** 240.  
**Locations:** One domestic, five foreign.

**Principal officers:** Michael R. Pinter, chairman/chief executive officer; Donald R. Smith, president/ chief operating officer; George L. Messinger, Michel Y. Beyens, executive vps; F. Paul D'Amore, senior vp/ chief financial officer.

**Contact:** James R. Miller, senior VP.

**N**

**Netherlands Reinsurance Group**

Prof. J.H. Bavincklaan 3, 1183 AT, Amstelveen, Netherlands; 31-20-643-4545; fax: 31-20-643-8318

	1991**	1990*
Premiums written	\$998,277,980	\$576,366,342
Premiums earned	\$994,715,680	\$562,649,696
Capital & surplus	\$201,631,080	\$223,939,046
After-tax net	\$24,500,490	\$14,742,394
Losses	\$919,272,340	\$501,156,390
Loss ratio	92.4%	89.1%
Expenses	\$236,114,830	\$165,619,130
Expense ratio	23.7%	28.7%
Combined ratio	116.1%	117.8%
Domestic	13.0%	20.0%
Foreign	87.0%	80.0%

\* Fiscal year ended June 30, 1990.  
\*\* Fiscal year ended June 30, 1991. Includes figures for Victory Reinsurance Group acquired in fiscal 1991.

**Founded:** 1968.  
**Parent company:** Nationale-Nederlanden N.V.

**Subsidiaries:** NGR America Life Reassurance Corp., NRG Antillean Reinsurance Co. Ltd., Algemeen Levensherverszekering Maatschappij N.V., Vereenigde Assurantiebedrijven Nederland N.V., NRG Victory Reinsurance Ltd., NRG Victory Management Ltd., NRG America Management Corp., NRG Victory Australia Ltd., NRG Victory International Ltd. (Bermuda).

**Employees:** 1,000.  
**Locations:** One domestic, nine foreign.

**Principal officers:** W.K. Dikland, chairman; P. Zandhuis, vice chairman; J.W. Beumer, C. Waterhout, corporate board members.

**Contact:** Otto de Bont, president- NRG America Management Corp., 215-567-7011.

**North American Reinsurance Corp.**

237 Park Ave., New York, N.Y. 10017; 212-907-8040; fax: 212-907-8728

	1991	1990
Premiums written	\$798,676,632	\$678,082,012
Premiums earned	\$729,596,915	\$682,157,493
Capital & surplus	\$723,560,675	\$568,027,782
After-tax net	\$59,897,516	\$14,556,571
Losses	\$508,696,397	\$504,980,080
Loss ratio	69.7%	74.0%
Expenses	\$289,222,295	\$234,747,020
Expense ratio	36.2%	34.7%
Combined ratio	105.9%	108.7%
Treaty	88.4%	89.9%
Facultative	11.6%	10.1%
Domestic	100.0%	100.0%

**Founded:** 1910.  
**Parent company:** Swiss Reinsurance Co.

**Subsidiaries:** Western Atlantic Reinsurance Corp.

**Employees:** 502.  
**Locations:** 10 domestic.  
**Principal officers:** N. David Thompson, president/chairman; Darius G. Baker, executive vp-facultative; Charles E. Mabli, executive vp-finance; James P. Quinn, executive vp-special lines; John D. Shuck, executive vp-corporate planning; William H. Stempson, executive vp-treaty.

**Contact:** James P. Slattery, senior vp/controller-North American Reinsurance Corp., 212-907-8283.

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**M**

**Mercantile & General Reinsurance Co. P.L.C.**

Moorfields House, Moorfields, London, England; 44-71-628-7070; fax: 44-71-588-4629

	1991	1990
Premiums written	\$1.58 billion	\$1.33 billion
Capital & surplus	\$470,920,000	\$309,589,200
After-tax net	\$32,810,000	\$31,033,700
Losses	\$1.45 billion	\$1.26 billion
Loss ratio	91.6%	94.9%
Expenses	\$487,132,000	\$412,224,750
Expense ratio	30.9%	30.9%
Combined ratio	122.5%	125.8%
Domestic	26.5%	29.5%
Foreign	73.5%	70.5%

**Founded:** 1907.  
**Parent company:** Prudential Corp. P.L.C.

**Subsidiaries:** The Mercantile & General Reinsurance Co. of America, The Mercantile & General Life Reinsurance Co. of America, The Mercantile & General Reinsurance Co. of Canada, The Mercantile & General Reinsurance Co. of South Africa Ltd., The Mercantile & General Reinsurance Co. of Australia Ltd., The Mercantile & General Life Reassurance Co. of Australia Ltd.

**Employees:** 1493.  
**Locations:** Four domestic, 23 foreign.

**Principal officers:** John Engestrom, managing director; John Austin, director-general business; Roger Sansom, director-long-term business; Richard Brewster, group finance director.

**Contact:** Paul Hawksworth, president/ chief executive officer-The Mercantile & General Reinsurance Co. of America, 201-898-9480.

**Munich Reinsurance Co.**

P.O. 40-30-20, Koniginstrasse 107, D-8000 Munich 40, Germany; 49-89-3891-0; fax: 49-89-3990-56

	1991*	1990*
Premiums written	\$6.72 billion	\$7.21 billion
Premiums earned	\$6.77 billion	\$7.14 billion
Capital & surplus	\$1.80 billion	\$2.01 billion
After-tax net	\$57,426,173	\$106,321,479
Losses	\$5.41 billion	\$5.52 billion
Loss ratio	79.9%	77.3%
Expenses	\$2.12 billion	\$2.25 billion
Expense ratio	31.6%	31.3%
Combined ratio	111.5%	108.6%
Domestic	55.0%	55.0%
Foreign	45.0%	45.0%

\* Fiscal years ended June 30, 1991; June 30, 1990.  
**Founded:** 1880.

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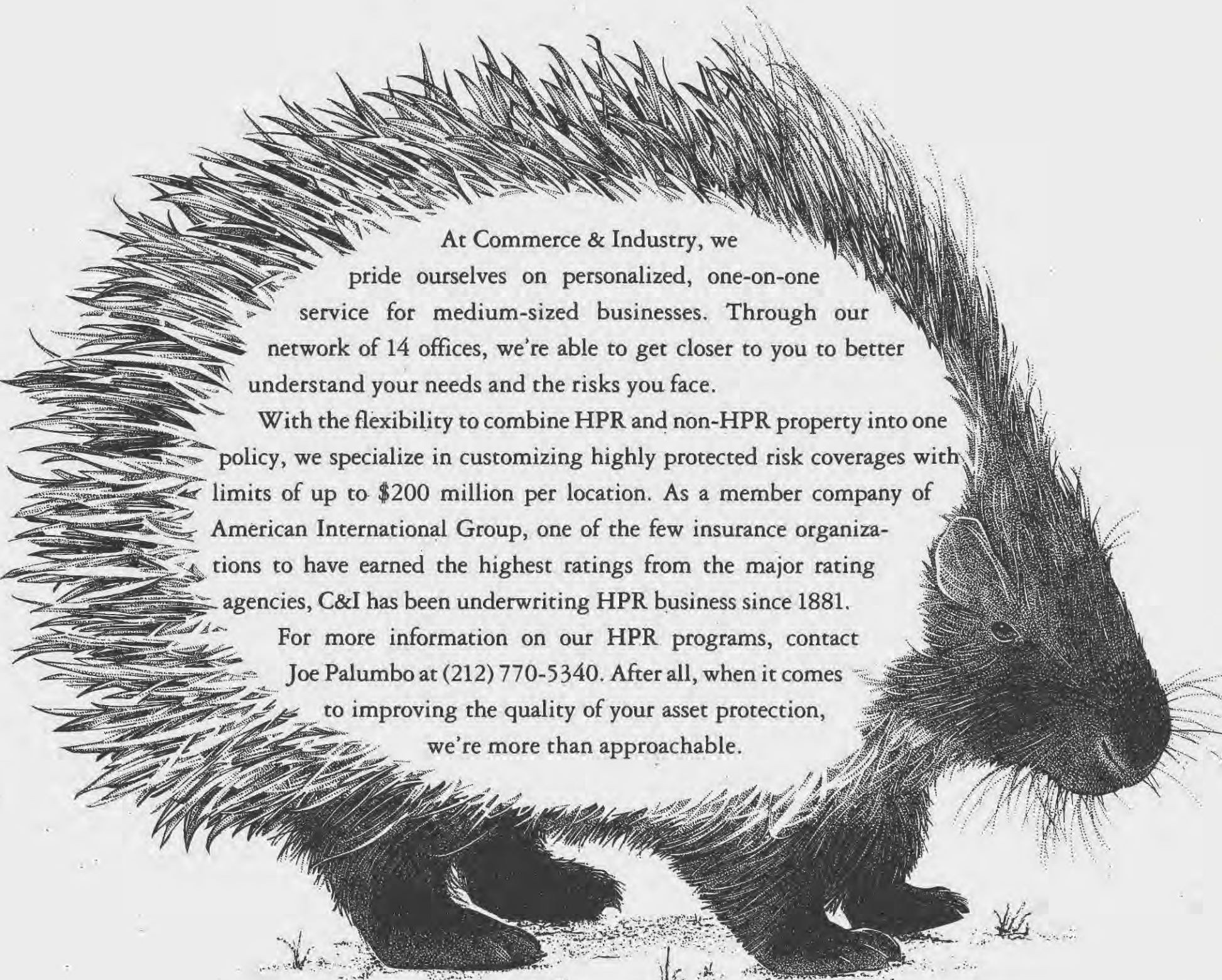
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Spotlight report

Continued from page 60

**P**  
**Prudential Reinsurance Co.**

3 Gateway Center, Newark, N.J.  
07102-4077; 201-802-8888;  
fax: 201-802-4793

	1991	1990
Premiums written	\$776,109,000	\$600,814,000
Premiums earned	\$764,947,000	\$572,292,000
Capital & surplus	\$590,284,000	\$508,956,000
After-tax net	\$97,417,000	\$25,897,000
Losses	\$600,287,000	\$512,022,000
Loss ratio	78.5%	89.5%
Expenses	\$259,022,000	\$218,497,000
Expense ratio	33.4%	36.4%
Combined ratio	111.9%	125.9%
Treaty	91.3%	86.8%
Facultative	8.7%	13.3%
Domestic	77.5%	77.8%
Foreign	22.5%	22.2%

**Founded:** 1973.  
**Parent company:** The Prudential Insurance Co. of America.  
**Subsidiaries:** La Rocher Reinsurance Ltd.

**Locations:** Eight domestic, four foreign.

**Principal officers:** James E. Dwane, president; Dewey P. Clark, Thomas J. Gallagher, Jean F. Webb, senior vps; Craig Eisenacher, senior vp/comptroller.

**Contact:** Robert G. Murray, vp-public relations, 201-802-2083.

**R**  
**Reinsurance Institute of Brazil**

Av. Marechal Camara, 171, Rio de Janeiro/RJ/Brazil-20.023.900;  
55-21-297-1212;  
fax: 55-21-240-3923

	1991	1990
Premiums written	\$306,901,000	\$358,592,000
Capital & surplus	\$358,688,000	\$246,320,000
After-tax net	\$431,618,000	\$527,430,000
Losses	\$132,750,000	\$150,829,000
Loss ratio	43.0%	42.0%
Expenses	\$186,986,000	\$390,381,000
Expense ratio	61.0%	109.0%
Combined ratio	104.0%	151.0%
Domestic	95.0%	95.0%
Foreign	5.0%	5.0%

**Founded:** 1939.  
**Parent company:** Instituto Nacional de Seguridade Social (50%) and Insurance Cos., Brazil (50%).

**Subsidiaries:** United Americas Insurance Co.; figures from this subsidiary are not included above.

**Employees:** 1,450.

**Locations:** Six domestic, one foreign.

**Principal officers:** Jose Americo Peon de Sa, president; Ivan Mota Dantas, director-operations; Gerardo Cavalcanti Prata, director-administration and finances; Carlos Eduardo F. Veloso and Maria de Lourdes R. Lourenco, superintendents.

**Contact:** Roberto Chiavegatto, president-United Americas Insurance Co., 212-514-7400.

**S**  
**St. Paul Re**

195 Broadway, New York, N.Y.  
10007; 212-238-9200;  
fax: 212-619-4092

	1991	1990
Premiums written	\$446,600,000	\$404,900,000
Premiums earned	\$440,800,000	\$389,600,000
Capital & surplus	\$442,400,000	\$381,800,000
Losses	\$100.4%	98.0%
Expenses	\$137,400,000	\$132,800,000
Expense ratio	30.8%	32.8%
Combined ratio	131.2%	130.8%
Treaty	86.4%	82.5%
Facultative	13.6%	17.5%
Domestic	58.6%	59.3%
Foreign	41.4%	40.7%

**Founded:** 1934.  
**Parent company:** St. Paul Cos. Inc.  
**Employees:** 333.

**Locations:** Two domestic, one foreign.

**Specialties:** Domestic and international, treaty and facultative, property, casualty, ocean marine, accident and health treaty.

**Principal officers:** James P. White, president/chief executive officer; Vartkis Boghos, chief executive officer-St. Paul Re U.K.

**Contact:** James P. White, 212-238-9205.

**SCOR S.A.**

Immeuble SCOR, Cedex 39 - 92074 Paris la Defense, France;  
331-46-98-7000;  
fax: 331-47-67-0449

	1991	1990
Premiums written	\$1.60 billion	\$1.64 billion
Premiums earned	\$1.52 billion	\$1.58 billion
Capital & surplus	\$861,582,150	\$867,370,900
After-tax net	\$27,799,200	\$40,863,680
Losses	\$1.26 billion	\$1.23 billion
Loss ratio	83.2%	77.9%
Expenses	\$508,686,750	\$529,852,620
Expense ratio	31.9%	32.3%
Combined ratio	115.1%	110.2%
Domestic	26.0%	27.8%
Foreign	74.0%	72.2%

**Founded:** 1970.  
**Subsidiaries:** SCOR U.S., Deutsche Kontinentale, SCOR U.K. Re., SCOR Pacific, SCOR Re Cy of Canada, SCOR Re Australia, SCOR Reassurance, SCOR Vie, La Vittoria Riassicazioni Milan.

**Employees:** 1,076.

**Locations:** One domestic, seven foreign.

**Principal officers:** Patrick Peugeot, F. Negrier, J. Blondeau.

**Contact:** Jerome Karter, executive vp-SCOR U.S., 212-513-1777.

**SCOR U.S. Corp.**

110 William St., 18th Floor, New York, N.Y. 10038; 212-978-8200;  
fax: 212-406-9296

	1991	1990
Premiums written	\$172,586,000	\$179,409,000
Premiums earned	\$172,697,000	\$176,640,000
Capital & surplus	\$224,327,000	\$207,598,000
After-tax net	\$30,691,000	\$26,885,000
Losses	\$113,137,000	\$116,551,000
Loss ratio	65.5%	66.0%
Expenses	\$63,930,000	\$65,549,000
Expense ratio	37.0%	36.5%
Combined ratio	102.5%	102.5%
Treaty	77.4%	75.7%
Facultative	22.6%	24.3%
Domestic	100.0%	100.0%

**Founded:** 1974.  
**Parent company:** SCOR S.A.

**Subsidiaries:** SCOR Reinsurance Co., The Unity Fire and General Insurance Co., General Security Assurance Corp. of New York, California Reinsurance Management Corp.

**Employees:** 193.

**Locations:** Five domestic, one foreign.

**Principal officers:** Patrick Peugeot, director/chairman/chief executive officer; Jacques P. Blondeau, director/vice chairman/president/chief operating officer; Francois Negrier, director/vice chairman; Jerome Karter, director/executive vp; William K. Lowry, senior vp/chief financial officer.

**Contact:** Jerome Karter, 212-978-8215.

**Skandia America Reinsurance Corp.**

1 Liberty Plaza, New York, N.Y.  
10006; 212-978-4700;  
fax: 212-385-2124

	1991	1990
Premiums written	\$404,383,000	\$414,126,000
Premiums earned	\$396,890,000	\$391,205,000
Capital & surplus	\$353,011,000	\$311,610,000
After-tax net	\$27,534,000	\$5,980,000
Losses	\$304,926,000	\$314,169,000
Loss ratio	76.8%	80.3%
Expenses	\$137,365,000	\$123,601,000
Expense ratio	34.0%	29.8%
Combined ratio	110.8%	110.1%
Treaty	81.0%	79.0%
Facultative	19.0%	21.0%

**Founded:** 1900.

**Parent company:** Skandia Group Insurance Co. Ltd.

**Subsidiaries:** Skandia International Insurance Corp.; figures for this subsidiary are not included above.

**Employees:** 414.

**Specialties:** All non-life reinsurance.

**Principal officers:** James F. Dowd, chairman/chief executive officer; Steven J. Bensinger, president/chief operating officer.

**Contact:** Steven J. Bensinger, 212-978-2715.

**Skandia Group**

P.O. Box 7693, S-103 95 Stockholm, Sweden;  
46-8-788-4500; fax: 46-8-21-9117

	1991*	1990*
Premiums written	\$1.36 billion	\$1.35 billion
Premiums earned	\$1.31 billion	\$1.20 billion
Capital & surplus	\$1.12 billion	\$1.18 billion
Losses	\$1.14 billion	\$977,072,519
Loss ratio	86.5%	81.2%
Expenses	\$484,402,851	\$449,016,653
Expense ratio	35.5%	33.3%
Combined ratio	122.0%	114.5%

\* Includes property and casualty only.

**Founded:** 1855.

**Parent company:** Skandia Group Insurance Co. Ltd.

**Subsidiaries:** Skandia America Reinsurance Corp., Skandia Canada Reinsurance Co., Skandia (U.K.) Insurance Ltd., Skandia Reassurance (U.K.) Ltd., Hudson Reinsurance Co. Ltd. (Bermuda).

**Employees:** 850.

**Locations:** One domestic, 20 foreign.

**Principal officers:** Hakan Lindkvist, president-Skandia International; James

F. Dowd, president-Skandia America Group; Marie-Louise Wenander, chief operating officer/reinsurance Europe and overseas.

**Contact:** J. Bensinger, president/chief operating officer-Skandia America Reinsurance Corp., 212-978-4700.

**Societe Anonyme Francaise de Reassurances**

1531 Rue de Courcelles, 75817 Paris Cedex 17, France;  
331-44-01-1717;  
fax: 331-44-01-1780

	1991	1990
Premiums written	\$596,510,987	\$306,328,487
Premiums earned	\$586,688,216	\$293,535,798
Capital & surplus	\$607,247,076	\$445,297,218
After-tax net	\$25,367,156	\$24,941,186
Losses	\$492,202,597	\$233,407,053
Loss ratio	83.9%	79.5%
Expenses	\$198,290,921	\$107,190,344
Expense ratio	33.2%	35.0%
Combined ratio	117.1%	114.5%
Treaty	98.6%	98.8%
Facultative	1.4%	1.2%
Domestic	38.4%	34.6%
Foreign	61.6%	65.4%

**Founded:** 1884.

**Parent company:** Assurances Generales de France Group, Swiss Re Group, Preservatrice-Fonciere Group.

**Subsidiaries:** S.A.F.R. Reinsurance of the U.S.

**Employees:** 219.

**Locations:** One domestic, two foreign.

**Principal officers:** Jacques Bourtroumieux, chairman/chief executive officer; Herve Cachin, general manager; Daniel Herouard, Jean-Luc Barbe and Philippe Coignard, deputy general managers.

**Contact:** Jean-Pierre Lillebeen, 212-422-0380.

**Swiss Re Group**

P.O. Box 1, Mythenquai 50/60, Zurich, Switzerland; 411-285-2121;  
fax: 411-285-2999

	1991	1990
Premiums written	\$5.75 billion	\$4.82 billion
Premiums earned	\$5.72 billion	\$4.76 billion
Capital & surplus	\$2.21 billion	\$1.81 billion
After-tax net	\$169,474,600	\$179,634,500
Losses	\$4.62 billion	\$3.57 billion
Expenses	\$1.37 billion	\$1.25 billion
Domestic	6.8%	6.2%
Foreign	93.2%	93.8%

**Founded:** 1863.

**Subsidiaries:** Swiss Reinsurance Co., Atlantic International Reinsurance Co. Ltd., Australian Reinsurance Co. Ltd., Bavarian Reinsurance Co. Ltd., Canadian Reinsurance Co., Canadian Reinsurance Co., Englewood Reinsurance Co. Ltd., European General Reinsurance Co. of Zurich, European International Reinsurance Co. Ltd., North American International Reinsurance Co. Ltd., North American Reassurance Co., North American Reinsurance Corp., Swiss-Am Reassurance Co., Swiss Reinsurance Co. (U.K.) Ltd., Swiss-South African Reinsurance Co. Ltd., Union Reinsurance Co., Western Atlantic Reinsurance Corp.

**Employees:** 3,273.

**Locations:** One domestic, all foreign countries.

**Specialties:** All non-life and life lines of business.

**Principal officers:** Arnold W. Saxer, chief executive officer; Ernesto Jutzi, Hans Rudolf Kaufmann, Theo Obrist, and Werner G. Seifert, general managers.

**Contact:** N. David Thompson, president/chief executive officer-North American Reinsurance Corp., 212-907-8040.

**T**  
**The Toa Fire & Marine Reinsurance Co. Ltd.**

6, Kanda-Surugadai 3-Chome, Chiyoda-ku, Tokyo 101, Japan;  
81-33-3253-3171;  
fax: 81-33-3257-1448

	1991*	1990*
Premiums written	\$651,446,460	\$515,730,390
Capital & surplus	\$157,582,276	\$124,871,355
After-tax net	\$18,090,368	\$9,032,709
Losses**	\$434,125,896	\$312,333,252
Loss ratio**	66.6%	60.6%
Expenses	\$233,242,664	\$188,087,676
Expense ratio	35.8%	36.5%
Combined ratio	102.4%	97.1%

\* Fiscal years ended March 31, 1992; March 31, 1991.

\*\* Losses and loss adjusting expenses are equivalent to net claims paid. Loss ratio is computed from premiums written.

**Founded:** 1940.

**Subsidiaries:** Toa-Re Insurance Co.

Ltd. (U.K.), Toa-Re Management Co. Ltd. (Hong Kong), Toa-Re Insurance Co. of America. Figures for these subsidiaries are not included above.

**Locations:** One domestic, three foreign.

**Principal officers:** S. Kusakabe, president; T. Nakatsukasa, K. Furuta, senior managing directors; K. Mori, H. Fujita, managing directors.

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

2-1, Marunouchi 1-Chome, Chiyoda-ku, Tokyo, 100 Japan;  
81-3-3212-6211;  
fax: 81-3-3214-3944 or 81-3-3214-3984

	1991*	1990*
Premiums written	\$943,011,072	\$936,283,884
Capital & surplus	\$13.8 billion	\$16.97 billion
Domestic	70.4%	72.4%
Foreign	29.6%	27.6%

\* Fiscal years ended March 31, 1992; March 31, 1991.

**Founded:** 1879.

**Subsidiaries:** Tokio Reinsurance Co. Ltd. (Zurich); figures for this subsidiary are not included above.

**Principal officers:** H. Takeda, chairman; S. Kono, president; H. Kubota, H. Ohashi, S. Horichi, executive vps.

**Contact:** Masayoshi Saito, Tokio Re Corp., 212-422-8400.

**Transatlantic Holdings Inc.**

80 Pine St., 7th Floor, New York, N.Y. 10005; 212-770-2000;  
fax: 212-742-9457 or 212-785-1749

	1991	1990
Premiums written	\$483,859,451	\$483,623,378
Premiums earned	\$497,420,708	\$471,935,993
Capital & surplus	\$414,462,909	\$339,690,965
After-tax net	\$64,803,739	\$59,651,923
Losses	\$404,764,136	\$376,597,757
Loss ratio	81.4%	79.8%
Expenses	\$125,817,172	\$124,876,826
Expense ratio	26.0%	25.8%
Combined ratio	107.4%	105.6%
Treaty	74.6%	74.3%
Facultative	25.4%	25.7%
Domestic	89.0%	89.0%
Foreign	11.0%	11.0%

**Founded:** 1952.

**Parent company:** American International Group Inc.

**Subsidiaries:** Transatlantic Reinsurance Co., Putnam Reinsurance Co.

## INTERNATIONAL

## Norway to administer UNI Storebrand

By MARIA KIELMAS

OSLO, Norway—The attempt by UNI Storebrand A/S to take over Sweden's Skandia Holding A.B. has finally bankrupted the Norwegian insurer and plunged the country's tottering financial sector further into crisis.

The Norwegian Finance Ministry took the holding company, UNI Storebrand A/S, under official administration Aug. 25 after the insurer notified the country's insurance regulator, Kredittsynet, that it would default on 659 million kroner (\$119 million) of outstanding loans.

A new holding company will be established, UNI Storebrand New A.S., which will encompass

three existing operational subsidiaries: UNI Storebrand Livsforsikring A.S., UNI Storebrand Skadeforsikring A.S. and UNI Storebrand International A/S. The new holding company will be 100% owned by the original holding company but will not inherit its liabilities to creditors.

Protracted talks with the Finance Ministry to avert the liquidity crisis came to naught after the Norwegian government refused to bail out the insurer.

UNI Storebrand's board of directors had earlier proposed that the crisis could be avoided if the holding company could raise cash by transferring some assets, including part of its 28.3% stake in Skandia, to its non-life and

international operating subsidiaries, UNI Storebrand Skadeforsikring A/S and UNI Storebrand International A/S.

According to the board, this asset disposition would generate about 1 billion Norwegian kroner (\$180 million), of which the Skandia stake would account for between 500 and 600 million kroner (\$90.3 million and \$108.3 million).

But such a transfer of assets between units of an insurance company is contrary to Norway's insurance regulations and was rejected Aug. 24 by regulators.

Insurance and stock market analysts have speculated that UNI Storebrand's attempt to transfer assets between the hold-

ing companies and subsidiaries—in contravention of the regulations—was part of a wider conflict between the company and the government over how the company should be bailed out.

Mike Wheelhouse, insurance analyst at London stock brokerage Hoare Govett Ltd., commented that UNI Storebrand's board may have proposed the asset disposal as a message to the government that it eventually would have to rescue the insurer.

Last year, the Norwegian government was forced to rescue several banks, largely using funds generated by the state oil company, Statoil. The banking collapse left UNI Storebrand as the largest financial institution

in Norway, the largest investor in the domestic stock market and the only independently operating Norwegian financial institution with a substantial international operation.

At the outset of the raid on Skandia in November 1991, a UNI Storebrand executive told *Business Insurance* that the insurer would have enough resources for the acquisition because, "We have oil."

Former UNI Storebrand President and Chief Executive Officer Erik Langanen, who resigned last month under pressure from shareholders, was also a chairman of Statoil (*BI*, Aug. 3).

But the Finance Ministry says *Continued on next page*

## Moves to unite ILU and LIRMA at a standstill

By GAVIN SOUTER

LONDON—Closer links between non-marine and marine insurers may one day lead to a unified company market in London—but not anytime soon, market chairmen agree.

And a single building for the entire London market, that would also include Lloyd's of London, also is some years down the line, they say.

Insurance company executives' views differ on the prospects for a single company market in London.

Philip Evans, chairman of the London Insurance & Reinsurance Market Assn., warns to the idea of having one building for marine and non-marine companies, but he is cooler to proposals to merge LIRMA with the Institute of London Underwriters.

"It would in many ways be a good thing if we had one building, because brokers would prefer it and it would reduce costs," Mr. Evans said.

Currently, the 99 marine insurance companies in the ILU are housed in their own building near Lloyd's in the London financial district.

And the 130 members of LIRMA are spread out in separate buildings throughout the financial district. However, many of them will move into the London Underwriting Center which is due to open in September 1993.

The LUC, which is also near Lloyd's, was slated to open last March before it was severely damaged by fire in August 1991 (*BI*, Aug. 12, 1991). When the LUC finally opens, there would be sufficient room to house both marine and non-marine underwriters, said Mr. Evans.

About 50 companies in London already are members of both the ILU and LIRMA, he estimated.

Still, traditionalists in the market want to preserve the status quo, Mr. Evans said. "People rightly take great pride in the tradition of the London market, but the way in which we do busi-

ness is changing," he said.

For example, many individual risks now are placed partially in the non-marine market and partially in the marine market. "Some people might say that this means we should integrate the markets more," he said.

The underwriting philosophy between the London company marine and non-marine markets is also similar, Mr. Evans said.

"The underwriting culture of LIRMA companies and the ILU comes from Lloyd's... we look hard for solutions to underwriting problems," he said.

ILU Chairman Peter Evans disagrees.

"In the ILU, our approach to underwriting is far more flexible," he said.

Non-marine company underwriters in London underwrite a large amount of direct and reinsurance coverage for British companies. Traditionally, this type of business rigidly adheres to established policy conditions, said Peter Evans.

Marine underwriters are more closely associated with Lloyd's where underwriters take a more flexible approach, he added.

One issue on which ILU and LIRMA have held talks for the past year is merging their policy signing and accounting bureaus. A joint committee of the two bodies has been set up to further investigate the proposal with consultants KPMG Peat Marwick.

"I think both sides agree that it could be achieved, and that there is a strong case for it," said LIRMA's Philip Evans.

However, there are no signs that the relationship between the ILU and LIRMA will get any closer than that, he said.

"Someday in the future it may be a good thing to merge the two bodies, and the need to reduce costs may encourage us to do that, but we are not even discussing it yet," Philip Evans said.

The differences between the two bodies would make a merger difficult, according to Peter *Continued on next page*



Survivors from the sunken ocean liner Royal Pacific disembark from one of several rescue vessels that brought them to Singapore. AP/Wide World Photo



GRAPHIC BY JOHN HALL

## Liner sinks off Malaysia

Trawler that hit ship lacks liability cover and has disappeared

By GAVIN SOUTER

PORT DICKSON, Malaysia—The sunken cruise liner Royal Pacific will cost London insurers \$51 million in hull and machinery claims plus still undetermined liability losses.

Mystery still surrounds the circumstances of the ship's sinking in the Strait of Malacca 12 miles from Port Dickson, Malaysia, because the Taiwanese fishing trawler that rammed into the Royal Pacific has high-tailed it out of Malaysian waters.

However, lawyers for the trawler's owners have stated that it does not have any liability insurance.

The Royal Pacific sank on Aug. 23 shortly after the fishing trawler Terfu 51 ran into its port side.

The 13,000-ton cruise liner was returning to Singapore after a two-day cruise with approximately 356 passengers and 179 crew on board, according to the liner's shipping agent in London.

Two people were killed and seven were still missing last week, the agent said late last week.

Cargo ships in the area picked up survivors and took them to shore.

Seventy people were injured, but all have been discharged from the hospital, said Charolambos Katsamas, a director of shipping agent Internav in London.

Most of the passengers were from Singapore, but Europeans, Americans and Japanese also were on board, Mr. Katsamas said.

The Royal Pacific is owned by Anchor of the Seas Ltd. in Athens but is registered in the Bahamas.

The Royal Pacific's hull and machinery as well as its liability coverage was placed in the London market by Sedgwick Group P.L.C.

The hull and machinery coverage is led in the Lloyd's market by Peter Christmas, underwriter for syndicate 17, which is managed by Stewart & Hughman Ltd. The coverage is led in the company market by Commercial Union Assurance Co. P.L.C.

The loss is not expected to have any affect on marine rates in the London market.

"It has not come at a very good time, with losses from Hurricane Andrew about to come in, but in itself the Royal Pacific won't have any real affect," said Christopher Knowles, underwriter for Indemnity Marine Insurance Co. Ltd., a unit of CU. Indemnity is the second company on the slip.

The Royal Pacific's liability coverage is written by The Steamship Mutual Underwriting Assn. Ltd., a protection and indemnity club in London.

The Terfu 51 was only insured for hull losses, not liability

losses, said Mr. Katsamas.

"The lawyers for the owners have told us that there was no coverage for liability losses," he said.

The trawler is owned by Yuan Wen Fishery Co. Ltd. in Kaohsiung, Taiwan.

The extent of liability losses—like the cause of the accident—is still unknown, Mr. Katsamas said.

"The Royal Pacific tried to contact the trawler by radio and flash lights before it hit, but it did not receive a response," he said.

The trawler may have had a broken rudder, Mr. Katsamas said. "Some of the passengers that were picked up by the trawler overheard some of its crew talking about the rudder being stuck," he said.

However, the trawler left Malaysian waters under the cover of night after it put the passengers onshore, so the Malaysian authorities have not been able to question the trawler's crew, Mr. Katsamas said.

The Terfu 51 was reported sighted in the South China Sea last week heading for Taiwan.

The location of the sunken liner also is unknown.

"The Indonesian and Malaysian authorities are looking for the wreck, and we have chartered an aircraft to look. But until we find it, we will not know whether we can salvage it," Mr. Katsamas said.

# INTERNATIONAL

## UNI Storebrand

*Continued from previous page*  
 that the crisis in UNI Storebrand differs from the Norwegian banking crisis of last year. Because UNI Storebrand's problems can be isolated in the old holding company and the operating subsidiaries are solid, there is no reason for the state to rescue the old holding company, the Finance Ministry says.

After the insurance group proposed the transfer of assets, the Finance Ministry issued a statement at midnight Aug. 24 stressing that UNI Storebrand's board knew that an asset disposal was contrary to insurance regulations.

The following morning, UNI Storebrand requested Norwegian stock market authorities to suspend dealing in its shares and bonds.

UNI Storebrand Chairman Anders Eckhoff, who was named to his post only earlier this

month (*BI*, Aug. 17), issued a statement saying that the operations of the company's life, non-life and international subsidiaries would not be affected by the holding company's financial situation.

The company then appealed to the Finance Ministry, which also rejected the proposal and placed UNI Storebrand under administration.

A Finance Ministry spokeswoman said that the creditors of the old insurance holding company will have to find a solution among themselves. The shareholders will receive the dividends from the new holding company, as long as the dividends do not hurt policyholders' interests, she said.

The problems in the old UNI Storebrand holding company are clearly connected with the fall in value of the Skandia shares it held, the Finance Ministry statement said.

The Skandia shares were trad-

**Life, non-life and international subsidiaries will not be affected, Mr. Eckhoff says.**

ing at 62 Swedish krona per share (\$12.10 at current exchange rates) on the day of Storebrand's share suspension, down from 220 Swedish krona per share (\$39.75 at appropriate exchange rate) at the time they were acquired in November 1991. That gives a total book loss to UNI Storebrand on its Skandia acquisition of about 3.6 billion Swedish krona (\$700 million), according to Mr. Wheelhouse.

The Norwegian Central Bank, Norges Bank, has agreed to make a line of credit available to UNI Storebrand when it is necessary.

The spokeswoman would not give an amount for the credit facility or comment on speculation circulating in the insurance and equity markets that it would be 1 billion Norwegian krone (\$180 million).

However, even this would be insufficient to rescue UNI Storebrand in the long term, according to Hoare Govett's Mr. Wheelhouse. He calculates that in order to survive, UNI Storebrand would need financing totaling 3 billion Norwegian krone (\$540 million) under most countries' solvency rules, and 4 billion krone (\$720 million) under Norwegian solvency rules.

Analysts are now suggesting that the holding company's subsidiaries could be sold.

But this could be a problem politically, because UNI Storebrand controls close to 50% of the Norwegian insurance market.

Meanwhile, Hafnia Holdings A/S—which was UNI Store-

brand's partner in the failed bid for Skandia—last week announced that it had trading in its stock was suspended. Hafnia's insurance units will continue to pay claims. However, the parent has stopped debt payments.

Standard & Poor's lowered Hafnia's claims-paying ability rating to BB from BBB (*BI*, Aug. 24).

In addition, Moody's Investors Service last week downgraded the short-term debt rating of UNI Storebrand A/S to Not Prime from A-3.

Insurance Solvency International, a subsidiary of Standard & Poor's, is standing by its "U" classification of UNI Storebrand International and UNI Storebrand Skadeforsikring A/S. That designation means that the agency believes that the events of the past year make it impossible to assign a claims-paying ability rating to the insurers. ■

## Merging London markets

*Continued from previous page*  
 Evans of the ILU.

"If we were to consider merging, I would have to consider the benefits of it, and I am hard pushed to see any," Peter Evans said.

Brokers would derive little benefit from a merger of the two underwriters because they already divide their personnel into marine and non-marine divisions, he added.

"If we merged, we might end up merging the individual disci-

plines as well, in a way that would be to the detriment of the whole market," the ILU executive said.

However, the ILU is investigating the feasibility of sharing the same building as the non-marine market.

"It would have to be shown to be cost-effective if we were going to do it," Peter Evans said.

"But I would not rule it out. And if it would help us reduce costs, that would help London reassert its authority on the

world," he said.

In the even longer term, all of the units of the London market might be housed in one building, he said.

"It won't happen soon, but in the long term, if it helps increase the influence of London, we may need to consider it," Peter Evans said.

However, Lloyd's of London needs to implement all of its proposed changes (see related story, page 3) before such a move could even be considered, the ILU

chairman added.

Meanwhile, the huge losses suffered by marine insurers in 1988, 1989 and 1990 have prompted the ILU to investigate establishing an underwriting qualification for company marine underwriters, Peter Evans said.

"It has become clear that a contributing factor to the losses was the inexperience of some underwriters," he said.

Once the qualification is established, a company employee

would have to pass an underwriting exam before he would be allowed to underwrite at the ILU, he said.

Current courses run by the Current Insurance Institute give a good theoretical background to marine underwriting but provide insufficient practical guidance, the ILU executive said.

Peter Evans said he aims to introduce the underwriting qualification before his term as chairman of the ILU ends in 1994. ■



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

Rank	Rev. Rank	CEO/age	Company	1991 cash compensation	1990 cash compensation	% change from 1990	Market value <sup>1</sup> of shares held	1991 total revenues (in millions)	% change from 1990	1991 net income (in millions)	% change from 1990
1	13	Saul P. Steinberg, 52	Reliance Group Holdings Inc.	\$6,035,000	\$6,314,000	(4.4)	\$201,885,215	\$3,391.9	(7.3)	(\$145.6)	NM
2	3	Maurice R. Greenberg, 66	American International Group Inc.	1,950,000	1,750,000	11.4	441,268,035	16,884.0	7.5	1,553.0	7.7
3	10	Harold S. Hook, 60	American General Corp.	1,766,347	1,335,840	32.2	8,629,290	4,395.0	(0.9)	480.0	(15.0)
4	5	Edward J. Noha, 64	CNA Financial Corp.	1,741,005	2,109,285	(17.5)	41,963	11,131.4	11.9	612.5	67.1
5	9	Dean R. O'Hare, 49	The Chubb Corp.	1,347,589	1,252,525	7.6	3,063,753	4,513.2	6.0	552.0	6.0
6	12	Norman P. Blake Jr., 50	USF&G Corp.	1,346,910	957,708	40.6	503,500	4,134.0	(8.6)	(176.0)	(69.0)
7	2	Wilson H. Taylor, 48	CIGNA Corp.	1,342,000	1,283,000	4.6	974,351	18,750.0	3.2	449.0	36.0
8	23	James A. McIntyre, 59	Fremont General Corp.	1,271,424	416,502	205.3	8,750,813 <sup>2</sup>	581.2	1.4	31.2	16.4
9	16	Ronald E. Ferguson, 50	General Re Corp.	1,257,266	1,253,100	0.3	2,229,141	3,206.6	8.5	656.7	7.0
10	11	Douglas W. Leatherdale, 55	The St. Paul Cos. Inc.	1,149,796	1,110,998	3.5	2,729,250	4,351.7	8.7	405.1	3.5
11	7	Frank C. Herringer, 49	Transamerica Corp.	1,100,115	New CEO	NA	1,051,788	6,815.3	2.0	50.1	(81.0)
12	1	James T. Lynn, 65 <sup>3</sup>	Aetna Life & Casualty Co.	1,086,538	1,066,539	1.9	NA	19,196.0	(2.8)	505.0	(17.8)
13	18	James F. Orr III, 49	UNUM Corp.	1,085,135	1,026,231	5.7	4,599,935	2,420.6	12.0	205.0	11.0
14	27	Ronald L. Bornhuetter, 59	NAC Re Corp.	1,050,488	925,459	13.5	2,448,354	293.6	10.4	34.8	39.5
15	6	Ian M. Rolland, 58	Lincoln National Corp.	1,024,996	1,391,388	(26.3)	1,587,656	9,169.0	8.0	208.4	9.0
16	4	Edward H. Budd, 58	Travelers Corp.	923,077	700,000	31.9	2,920,607	11,377.0	0.6	318.0	NM
17	22	Wilson Wilde, 64	The Hartford Steam Boiler Inspection and Insurance Co.	919,326	942,632	(2.5)	4,396,824	630.4	12.0	73.9	(6.2)
18	24	William R. Berkley, 46	W.R. Berkley Corp.	892,751	863,091	3.4	89,445,338	541.3	0.6	46.6	29.1
19	17	Patrick G. Ryan, 54	Aon Corp.	892,500	911,539	(2.1)	393,021,368	2,930.9	11.6	242.0	1.3
20	14	Bruce Maines, 65	SAFECO Corp.	770,201	572,551	34.5	2,919,780	3,349.2	5.4	259.6	(6.8)
21	21	Alan R. Gruber, 64	Orion Capital Corp.	712,581	646,003	10.3	2,417,682	837.3	6.8	44.7	75.3
22	8	John P. Mascotte, 52	Continental Corp.	680,725	911,539	(25.3)	4,264,821	5,425.4	(4.9)	56.4	(60.0)
23	26	Bradford W. Mitchell, 64	Harleysville Group Inc.	657,625	416,115	58.0	313,514	421.9	22.6	25.0	(3.5)
24	29	James F. Billett Jr., 47	Trenwick Group Inc.	650,237	582,817	11.6	2,791,064	117.8	(3.6)	18.6	8.1
25	25	Charles E. Rinsch, 59	Argonaut Group Inc.	515,101	480,914	7.1	1,237,024	517.3	(21.7)	84.7	(5.6)
26	20	A.C. Zucaro, 52	Old Republic International Corp.	512,083	537,436	(4.7)	3,461,285	1,374.5	10.6	131.0	25.2
27	27	William D. Warren, 55	National Re Holdings Corp.	483,800	442,683	9.3	1,461,410	367.7	13.3	16.5 <sup>5</sup>	NM
28	19	Joseph L. Marcum, 68	Ohio Casualty Corp.	448,250	447,946	0.1	15,018,773	1,714.2	4.7	107.9	28.3
29	28	Jerome Karter, 54 <sup>4</sup>	SCOR U.S. Corp.	411,796	NA	NA	3,200	222.3	(0.3)	30.9	24.0
30	30	Walter A. Rhulen, 60	Frontier Insurance Group Inc.	361,500	266,400	35.7	24,348,252	96.3	12	15.0	38.9
31	15	Warren E. Buffett, 61	Berkshire Hathaway Inc.	100,000	100,000	0.0	4,552,799,000	3,106.0	16.8	439.9	11.6

<sup>1</sup> Stock values as of Aug. 14 and do not include stock options <sup>2</sup> Market value of shares held includes stock options <sup>3</sup> James T. Lynn retired March 1, 1992 as chairman of the company <sup>4</sup> Jerome Karter is the executive vp of SCOR U.S. and president and chief executive officer of SCOR Re <sup>5</sup> 1990 operating results are presented on a pro forma basis as if the April 30, 1990 acquisition of National Re occurred on Jan. 1, 1990 NM—Not Meaningful  
Source: Company proxy statements and annual reports Research by Sally Roberts.

GRAPHIC BY A. TRANCHITA

## Compensation

Continued from page 1

Group Holdings Inc. in New York, topped the pay rankings for the sixth consecutive year in 1991 even though his salary fell 4.4% to slightly more than \$6 million from \$6.3 million.

Reliance reported a \$145.6 million loss last year, a stark reversal from \$133.4 million of net income in 1990. Reliance's 1990 net income had catapulted 514.7% from 1989 net income, but Mr. Steinberg's cash compensation increased only 0.8%.

Mr. Steinberg ranked 24th in a Forbes magazine survey of 1991 compensation for CEOs at 800 publicly held companies, up two notches from his 1990 rank.

Four other top Reliance executives also were paid more than \$1 million each in cash compensation in 1991.

According to the company's proxy statement, Mr. Steinberg's brother, President and Chief Operating Officer Robert M. Steinberg, received \$3.1 million for the year.

Were Robert Steinberg part of the BI compensation survey, he would have placed second.

Maurice R. Greenberg of American International Group Inc. moved up a notch to second on the strength of an 11.4% increase in cash compensation to \$1.95 million in 1991, from \$1.75 million a year earlier.

The New York-based company's net income rose 7.7%.

Harold S. Hook of American General Corp. was the third-highest paid CEO, moving up from No. 6 in 1990. Mr. Hook's compensation rose 32.2% to \$1.7 million from \$1.3 million in 1990, even though the Houston-based insurer's net income fell 15% in 1991.

Edward J. Noha of Chicago-based CNA Insurance Cos. ranked fourth, dropping from second place in 1990. Mr. Noha's cash compensation fell 17.5% in 1991 to \$1.7 million, from a \$2.1 million salary the year before. CNA's net income, though, shot

up 67.1% last year.

Ranking fifth was Chubb Corp.'s Dean R. O'Hare, who jumped from ninth place in 1990. Mr. O'Hare's cash compensation increased 7.6% to \$1.34 million from \$1.25 million. Warren, N.J.-based Chubb's net income rose 6% in 1991.

Fremont General Corp.'s James A. McIntyre made the biggest move on the compensation list, jumping to eighth place from 26th place in 1990. Mr. McIntyre's cash compensation rose 205.3% to \$1.27 million from \$416,502 in 1990.

But, according to Fremont's proxy statement, Mr. McIntyre deferred \$60,000 of his base salary and all of his \$335,000 bonus from 1990 until 1991, pursuant to his deferred compensation agreement with the company.

Santa Monica, Calif.-based Fremont General's aggregate net income rose 16.4% in 1991.

Mr. McIntyre was one of three CEOs to join the million-dollar club for the first time last year, increasing its ranks to 15. For the past two years, the club had 12 members. The other CEOs who joined the club are:

- Sixth-ranked Norman P. Blake Jr. of USF&G Corp., whose cash compensation soared 40.6% in 1991 to \$1.3 million from nearly \$957,708. However, net income for Baltimore-based USF&G dropped 69% last year.

- According to the company's proxy statement, Mr. Blake was paid a \$350,000 bonus at the end of 1991 in accordance with the terms of his employment contract.

- Ronald L. Bornhuetter of NAC Re Corp., whose cash compensation rose 13.5% to \$1.1 million from \$925,459, making him No. 14 on the list. Greenwich, Conn.-based NAC Re's net income rose 39.5% in 1991.

In addition, in his first year as CEO at Transamerica Corp., Frank C. Herringer, 49, joined the other CEOs who earn more than \$1 million in cash compensation, taking the place of James R. Harvey, who now is chairman.

Mr. Herringer ranked 11th on the list of CEOs with a \$1.1 million salary in 1991. Mr. Harvey made \$1.41 million in cash compensation in 1990.

San Francisco-based Transamerica Corp.'s net income fell 81% in 1991.

Meanwhile, Edward H. Budd of Travelers Corp. in Hartford, Conn., who was the only CEO whose compensation was cut in 1990, fared better in 1991. His salary jumped 31.9% to \$923,077, moving him up three notches to No. 16. Travelers reported \$318 million of net income in 1991, after suffering a \$178 million loss in 1990.

### An insurance company compensation committee 'is not about to dramatically increase cash compensation of CEOs when the industry is not doing well,' says Richard Furniss, a compensation consultant at Towers Perrin.

The large paychecks in the insurance business are consistent with the cash compensation paid CEOs in other industries.

According to a Towers Perrin study, the median cash compensation of approximately 350 chief executives from large industrial and financial service firms was \$1 million. The median cash compensation for the 31 insurer and reinsurer CEOs surveyed by *Business Insurance* was \$923,077.

Even though more CEOs passed the million-dollar mark last year, the 4.0% increase in average compensation was the lowest percentage increase in the survey's history.

"The economy has not been kind to the insurance companies," said Michael F. Yates, national practice director-compensation consulting for Alexander & Alexander Consulting Group Inc. in Lyndhurst, N.J. "The soft market is still with us."

The soft market and the re-

cession continue to flatten CEO compensation, agreed Richard Furniss, vp and director of insurance company compensation consulting at Towers Perrin.

An insurer compensation committee "is not about to dramatically increase cash compensation of CEOs when the industry is not doing well" in terms of underwriting losses, he explained.

Additionally, compensation committees are taking a much more active role in setting pay levels because of heightened scrutiny of executive pay by the media, Congress, securities regulators and institutional investors, Mr. Furniss said.

Small hikes in cash compensation are not necessarily a reflection of job performance, Mr. Yates said. Many executives work twice as hard in a soft market as they worked in a hard market, he observed.

In addition, "annual earnings don't mean everything" when considering a CEO's performance, Mr. Furniss said.

Compensation consultants agree, noting that many factors are considered in determining how CEOs are compensated.

An insurer's investment income or return on equity is a better benchmark in determining a CEO's total cash compensation, Mr. Furniss said.

Individual performance and longevity are factored into a CEO's base salary, while the company's performance for the year determines bonuses, said Geoff Wiegman, director of compensation consulting services for Buck Consultants Inc. in Stamford, Conn.

CEOs are not always the high-

est-paid executives at their companies. For example, Warren E. Buffet of Berkshire Hathaway Inc. of Omaha, Neb., who rounded out the list of the highest paid CEOs for the sixth consecutive year, received less cash compensation than two other executives.

For the third consecutive year, Mr. Buffet received \$100,000 of cash compensation. Topping that figure were Vp Michael A. Goldberg, with \$1.8 million, and Vp J. Verne McKenzie, at \$260,000.

Mr. Buffet, though, unlike most other insurer CEOs, owns a substantial portion of his company's stock. According to Berkshire's proxy statement, Mr. Buffet owned 42% of Berkshire Hathaway stock as of March 10, 1992. Those 479,242 shares were worth \$4.6 billion on Aug. 14.

In addition to Mr. Buffet, four other CEOs own more than 5% of the stock in their companies:

- Reliance's Mr. Steinberg owned 60.2%, or nearly 45 million shares, as of April 10, 1992. These shares were worth \$201.9 million on Aug. 14.

- Aon Corp.'s Patrick Ryan owned 13.7%, or 8.6 million shares, on Feb. 26, 1992. Those shares were worth \$393 million on Aug. 14.

- Mr. Ryan's cash compensation dropped 2.1% in 1991 to \$892,500 from \$911,539. Aon's aggregate net income however, rose 11.6%.

- William R. Berkley of W.R. Berkley Corp. owned 14.1%, or 2.5 million shares, as of March 27, 1992. These shares were worth \$89.4 million on Aug. 14.

- Mr. Berkley's cash compensation rose 3.4% last year to \$892,751 from \$863,091. The Greenwich, Conn.-based firm's net income increased 0.6%.

- Frontier Insurance Group Inc.'s Walter A. Rhulen owned 10.2%, or 628,342 shares, as of March 25, 1992. These shares were worth \$24.3 million as of Aug. 14.

He received \$361,500 in cash compensation last year, up 35.7% from \$266,400. Frontier's net income rose 12% in 1991.

# GM cost shifting

*Continued from page 2*  
States—GM intends its health coverage to remain competitive with other large U.S. companies, the spokesman said.

The cutbacks are part of a GM effort to turn around its money-losing North American divisions, according to the spokesman. Last year, the automaker spent \$3.4 billion on health care benefits, up from \$3.2 billion in 1990.

The company worked with employee focus groups to field opinions about current plans and po-

tential changes before it finalized the details, which have not yet been released to employees.

Shifting costs to salaried employees could serve as a prerequisite for attempts to scale back union benefits, according to the spokesman. GM has been discussing health care in general with its union representatives, he confirmed.

A spokesman for the United Auto Workers said the union was not concerned about the announced changes.

"It's something we'll worry about next year when it comes up," in contract negotiations, he said. ■

# CIGNA refocus

*Continued from page 2*  
on behalf of Cal Union.

In addition, Montgomery & Collins will drop the \$1.5 million in property coverage it wrote for Illinois Union Insurance Co., another of CIGNA's non-admitted insurers, he said.

Mr. Rogers said the property business written by Montgomery & Collins, as well as \$17 million in additional property business that CIGNA wrote last year on a surplus lines basis, will "either be written by other CIGNA operating units or it won't be written."

"We're by no means rejecting our distribution channel. We're just trying to provide guidelines for what we want to write on an E&S basis," said Mr. Rogers. "What was happening with E&S was that we were being too general. We had minimal customer focus and were more worried about responding to

our distribution chain of brokers and wholesalers.

"Consistent with CIGNA Corp.'s overall property/casualty focus, we now want to be active only where our expertise is greatest," said Mr. Rogers.

Cal Union and Illinois Union will continue to write surplus lines coverages, "but only the business we really want them to write," he said.

"Other business that had been written on an E&S basis may be picked up by another CIGNA company or it may even wind up being written by Cal Union or Illinois Union," Mr. Rogers said. However, "It simply won't be written. . . just because a broker brought it to us," he said.

Also included in CIGNA's excess/surplus reorganization is the transfer of all of the support services for CIGNA's excess/surplus lines business to CIGNA's corporate headquarters in Philadelphia.

All excess/surplus claims, legal work, accounting and computer systems will be integrated with corporate support systems.

"This should really improve efficiency. It will definitely create some economies, although they're still unquantifiable," a CIGNA spokesman said.

What will happen with the staff of CIGNA E&S is still under assessment, he said. The wholesaler had 87 staff members at year-end 1991 (BI, Aug. 17).

The E&S shakeup also will affect Cravens, Dargan & Co., another CIGNA-owned wholesaler. "Cravens will not continue in its current form, but at this point I can't elaborate," said Mr. Rogers.

Unlike Montgomery & Collins, which produces business for insurers other than CIGNA, Cravens derives the majority of its revenues from underwriting on behalf of CIGNA's Century Indemnity Co. unit. ■

# Magazine to appeal award to murdered man's family

ATLANTA—Soldier of Fortune Magazine Inc. will likely appeal a federal appellate court's decision to uphold a \$4.4 million award to the sons of a man killed in a contract murder arranged through a classified ad in the magazine.

The magazine lacks adequate insurance to cover the award, which the 11th U.S. Circuit Court of Appeals upheld earlier this month.

The case involved the 1985 murder of an Atlanta man by a hired gunman who advertised his services in Soldier of Fortune. An Alabama federal court jury in December 1990 awarded the plaintiffs \$12.4 million. But the presiding judge reduced the

award to \$4.4 million, including \$2 million of punitive damages.

In its 2-1 decision, the 11th Circuit said the magazine "negligently published a commercial advertisement" that posed "a substantial danger of harm to the public."

"There is partial insurance, but not near enough" to pay the award if it is ultimately upheld, said defense attorney E. Barrett Prettyman of Hogan & Hotson in Washington.

Another award—\$9.4 million to a woman whose husband was killed by a mercenary who ran ads in Soldier of Fortune—was overturned by the 5th Circuit in 1990.

—By Michael Bradford

# Grove Worldwide settles crane accident suit

DALLAS—The largest U.S. manufacturer of hydraulic cranes agreed this month to pay \$2 million to settle a suit by the family of a construction worker who was crushed to death by a crane in 1987 in Dallas.

Grove Worldwide Inc. also agreed to put more warning information and instructions on an "undetermined amount" of its

cranes and to modify them to reduce their speed, said Vp and General Counsel Keith Simmons. Costs have not yet been determined, he added.

Mr. Simmons would give no coverage details, saying only that the Shady Grove, Pa.-based company—a unit of British conglomerate Hanson P.L.C.—had "adequate business insurance

programs" to cover the settlement.

The construction worker, Tommy Beresford, was killed as he dismantled an 80-ton crane so it could be moved to another construction site, said Fred Misko Jr. of Misko, Howie & Sweeney, which represented Mr. Beresford's family.

—By Laura Mazzuca

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### IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS COUNTY DEPARTMENT, CHANCERY DIVISION IN THE MATTER OF THE LIQUIDATION OF UNITED DIVERSIFIED CORPORATION NO. 88 CH 6942 NOTICE

PLEASE TAKE NOTICE that on June 8, 1992 an Order of Liquidation With A Finding of Insolvency was entered against United Diversified Corporation by the Honorable Robert D. Ericsson, Judge of the Circuit Court of Cook County, Illinois. Stephen F. Selcke, Director of Insurance for the State of Illinois is the statutory and court appointed Liquidator of United Diversified Corporation.

TAKE FURTHER NOTICE that pursuant to the order of liquidation, all rights and liabilities of United Diversified Corporation and its creditors, policyholders, if any, and all other persons or entities who may have a claim against its assets are fixed as of June 8, 1992, unless otherwise provided by a subsequent order of the court.

TAKE FURTHER NOTICE that any and all persons, partnerships, corporations, associations, estates, trusts and governmental units having or claiming to have any accounts, debts, claims or demands against United Diversified Corporation or claiming any right, title or interest in or to any funds or property of United Diversified Corporation in the possession of the Liquidator are required to file a Proof of Claim with the Liquidator on or before 4:30 p.m. Chicago Time, December 1, 1992.

TAKE FURTHER NOTICE that the form of and required content of all proofs of claim are described in the Illinois Revised Statutes, 1991, Chapter 73, Paragraph 821. Proofs of claim, together with supporting documents, if any, are to be filed with and may be secured from the Special Deputy Liquidator of the United Diversified Corporation, 222 Merchandise Mart Plaza, Suite 1450, Chicago, Illinois 60654. Filing shall occur upon receipt of Proof of Claim by the Liquidator. The Liquidator further reserves all rights to any and all defenses of United Diversified Corporation concerning such claim. All Proofs of Claim must be duly sworn to before an officer authorized to take oaths.

THE LAST DATE FOR THE FILING OF CLAIMS WITH THE LIQUIDATOR AT THE ABOVE MENTIONED OFFICE OF HIS SPECIAL DEPUTY LIQUIDATOR IS DECEMBER 1, 1992 AT 4:30 P.M. CHICAGO TIME. NO PERSON HAVING OR CLAIMING TO HAVE ANY CLAIMS AGAINST UNITED DIVERSIFIED CORPORATION SHALL PARTICIPATE IN ANY DISTRIBUTION OF THE ASSETS OF THE COMPANY UNLESS THE CLAIMS ARE FILED WITH THE LIQUIDATOR ON OR BEFORE DECEMBER 1, 1992 AT 4:30 P.M.

James W. Schacht, Special Deputy Liquidator, Office of the Special Deputy Receiver, 222 Merchandise Mart Plaza, Suite 1450, Chicago, Illinois 60654, (312) 836-9500.

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## Health insurers

Continued from page 1

managed care products. Overall, it's lowering the rate of health care inflation. But it's still likely that prices will continue to be set on trends higher than experience," said Steve Richter, senior health care consultant in the Los Angeles office of The Wyatt Co.

"For the companies still pursuing group health business, the results seem very good. But the price competition that insurers talked about last year never really materialized," added Harvey Sobel, a principal and actuary with William M. Mercer Inc. in New York. "Companies are holding firm on rates. In fact, they're pricing indemnity plans in such a way that buyers almost have to look to managed care."

Increased managed care earnings were the primary reason that first-half profits rose for four of the seven major group health insurers contacted by *Business Insurance*.

Officials at these companies agree that because of managed care's ability to hold down costs, their most recent trend factors—which are used to project premium hikes and which include both anticipated health care inflation and increases in utilization—were slightly higher than true experience.

Among the three insurers reporting lower profits, two blamed investment losses or charges associated with reorganization and one said aggressive pricing caused earnings to plunge.

"Our overall claims trend continues to hold up quite nicely," said Fred Cue, senior vp-finance with the Blue Cross & Blue Shield Assn. in Chicago. "We have seen only 10% inflation on claims, and we were expecting 12% or 13%."

Mr. Cue pointed to the lower costs of managed care and a weak economy as two key reasons why health care inflation has stabilized.

For the first six months of 1992, the U.S. Department of Labor's Bureau of Labor Statistics reports that the medical care component of the Consumer Price Index rose 7.8% on an annualized basis, just slightly above the 7.5% rise for the same period last year. These increases compare with a 9.6% rise for the first six months of 1990.

Meanwhile, the overall CPI rose only 1.5% through July.

"Lower health care inflation is a trend insurers began noticing in 1991," said Thomas M. Burton, vp and actuary with Travelers Corp. in Hartford, Conn. "Because of this, our experience has been good. I hope it will continue and maybe allow us as an industry to cut our pricing trends for next year by one or two percentage points. But we're still concerned about a return of high inflation and cost-shifting."

Despite a good semester of group health and group life underwriting, Travelers was one of the three major insurers whose profits dipped compared with 1991.

Group health and group life operating income at Travelers slipped to \$36 million in the first six months of the year, compared with \$51.6 million during the comparable period of 1991.

The 30% drop in profits resulted not from health care losses, but from poorly performing real estate and commercial mortgage investments, which are included in operating income,

Mr. Burton said.

"As a corporation, we have been having asset problems. That's no secret," he said. "But our core health care business has been performing very well. Managed care continues to show more potential. Since the beginning of the year, our covered lives in managed care are up 55%."

CIGNA Corp., conversely, has not been bogged down by real estate holdings and was able to boost profits through the mid-year.

"Our underwriting results are where we want them. We're actually doing better than we had hoped," said Chris Doerr, senior vp and chief financial officer with CIGNA's employee benefits division in Hartford.

Operating income for CIGNA's group health and group life business rose 12.5% to \$108 million

in the first half, up from \$96 million for the same period last year.

Most of those earnings, \$78 million, were attributable to group indemnity and group life business, while \$30 million came from managed care operations, including health maintenance organizations and managed dental programs.

Despite the higher earnings, CIGNA will not significantly lower prices in the near future, especially on the indemnity side, said Mr. Doerr.

"There still isn't anything that would allow us to cut back on indemnity premiums. We're still seeing a fair amount of cost-shifting, both by physicians and by ourselves, in order to make up for the transition to managed care," he said.

Mr. Doerr did say, however, that CIGNA's early trends for

HMOs appear positive. "I think HMOs will require single-digit increases in some cases and rarely more than 12%."

Another company that enjoyed financial success in the first part of the year was Metropolitan Life Insurance Co. of New York. Its first-half earnings rose 19.3% to \$105 million from \$88 million a year ago.

For the second consecutive year, this increase was the largest among the group health and group life insurers examined.

Slightly less than a quarter of MetLife's earnings were group health-related and, of that, more than half was generated by managed care.

"This business just continues to grow and grow," said John Lynch, a MetLife actuary. "Traditional HMOs are producing the best results for us and our employer clients. Our folks believe

that managed care is the only future, and if it doesn't work, we'll all be replaced by nationalized health care."

Despite solid earnings for the industry, Mr. Lynch sees little relief for employers either this year or next. "There just isn't going to be a real abatement in rates. Only the largest employers that want managed care will see heavy price competition," he predicted.

Rates may rise more slowly, though. Improved insurer earnings and lower medical inflation should allow for some reductions in the rate of premium increases, said Mr. Cue of BC/BS.

"I think average rate hikes will be more along the lines of 10% to 15% as opposed to 12% to 18% like last year. Reserves are high and competition, although it's a secondary driving force for rates,

Continued on next page

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## Health insurers

Continued from previous page is always intense," he said.

At BC/BS, combined earnings for the non-profit group's 73 plans nationwide rose 10.6% to \$838 million through the first six months from \$758 million in the same period of 1991.

"Financially, this is great news. It's about 50% ahead of our forecast. We honestly expected a decline from 1991, but 66 of our 73 plans were profitable, and we haven't seen nearly as much cost-shifting from physicians (because of) the new

Medicare fee schedule" as anticipated, said Mr. Cue.

At Aetna Life & Casualty Co. of Hartford, Conn., six-month earnings plummeted 34.6% to \$92.9 million from \$142 million.

Fred Shugars, an assistant vp in the actuarial department, attributes the decline to a shift to lower-margin group health business combined with poorer-than-usual life insurance results and high reorganizational expenses.

"Inflation has been stable, but we're continuing to focus on lower-margin business," like administrative services only contracts and managed care, he said.

"Also, the transition to a managed care focus is going to take some time before the profits really show."

Aetna also took a one-time charge of \$29.7 million against group life and health earnings earlier this year for "reorganizational expenses," said Mr. Shugars. "And, we had some terrible luck in the first six months with our group life book. This was totally unexpected."

Still, Aetna views the future with optimism, according to Mr. Shugars. "Managed care is here to stay because employers want cost control. What we're trying

to do is focus on local competition, but this costs money to get yourself situated. You have to be willing to take a short-term hit to earnings in order to gain an advantage position for the future."

Also contributing to Aetna's reduced earnings is the fact that 70% of the company's premiums or premium equivalents stem from ASO arrangements. "It's good business, but the profit margin isn't very high," Mr. Shugars explained.

Aggressive pricing was blamed for the largest earnings drop among the major companies sur-

veyed.

At Principal Financial Group, six-month group health and group life earnings dropped by "about \$50 million" from \$116 million in the first six months of 1991, according to Richard H. Neil, senior vp.

Principal, a mutual based in Des Moines, Iowa, declined to release statutory earnings for the first half. But Mr. Neil said profits plunged "almost entirely" as a result of more aggressive pricing.

"Our average premium increases were down significantly. What we're trying to do now that reserves are healthy is to balance growth with profits," Mr. Neil said.

"Last year, our profits were probably too high and our sales figures were a little too low."

Despite the lower profits, Mr. Neil said Principal benefited from better than expected experience.

It set indemnity and preferred provider organization premiums based on trends of 19%. But experience has been about 17% cost increases, said Mr. Neil.

Provident Life & Accident Insurance Co. of Chattanooga, Tenn., reported a 12.5% increase in mid-year earnings to \$27 million, from \$24 million a year ago.

Jim Pesnell, vp and chief marketing officer, said the higher profits were mostly a result of the company spending more time controlling its internal expenses.

"We can't really raise rates at this point in time, so we have chosen to look at expenses. This business is a tough nut, but you can make money with the right people, expense management and a focus on managed care," he said.

Whether group health and life insurers are making money is not a question. But whether insurers' earnings are high enough is still questionable, according to Mercer's Mr. Sobel.

"Despite all we hear about managed care's success and stalled medical inflation, pricing is still conservative; there are fewer players in the market; and the staff at all these companies continues to shrink. This tells me that they're still not satisfied with their profits," the consultant surmised. ■

## Oklahoma fund raising comp rates 17.6% on Sept. 1

OKLAHOMA CITY—The commissioner of the State Insurance Fund of Oklahoma has approved a 17.6% increase in workers compensation rates, effective Sept. 1, after reporting first-half losses of \$7.7 million.

The fund, which specializes in writing workers compensation coverage for high-risk businesses like oil fields, reported a \$741,000 profit for the same period in 1991.

A 30.7% rate increase for private insurers went into effect July 1. The increase is expected to drive customers over to the state fund, which sought the new rates to make up for lower investment returns and losses stemming from an expanding customer list.

A fund spokesman noted that the National Council on Compensation Insurance has requested a 2.2% reduction in the private workers comp rates, which could prompt some risks to return to the private market.

—By Eileen P. Gunn

### The IRI Difference:

# Wherever Your Properties Are Located, We Can Be There Within 24 Hours

"We insure more than 50,000 properties in over 70 countries," said Ron Berler, IRI Vice President International. "And, should it be necessary, we can service these facilities in 24 hours from our offices in Europe, the Caribbean, the Pacific Basin and the United States.

"Multi-national corporations are building and maintaining manufacturing, assembly and distribution facilities all over the world," Berler said, "and it is IRI's intention to provide underwriting, claims settlement and loss prevention services whenever and wherever needed. That's an international perspective on The IRI Difference.

"Jet lag and culture shock are being talked about less and less, as more and more business people join the million-mile club," Ron said. "At the same time that the world is shrinking in terms of air miles, it is enlarging as more and more countries produce goods and services for international consumption. IRI provides insurance for well protected manufacturing and marketing prop-



Ron Berler, Industrial Risk Insurers

erties and services them with local people in local offices. Thus, new and established businesses insured by IRI are free to innovate and think boldly.

"The promise that we can deliver as part of The IRI Difference is this—we can provide assistance in helping to keep plants productive and people employed. We started out doing it in the United States over a century ago. Now, we do it around the world."

# IRI

can make a difference

# Summary of major property/casualty insurers' first-half results

Ranked by change in net income. All amounts in thousands of dollars.

Rank 1992	Corporate			Property/casualty operations										
	Consolidated revenues 1992	Net income 1992	Percent increase (decline) 1991-1992	Combined <sup>1</sup> ratio 1992	Combined <sup>1</sup> ratio 1991	Net premiums written 1992	Percent increase (decrease) 1991-1992	Pretax underwriting income (loss) 1992	Percent increase (decline) 1991-1992	Pretax investment income 1992	Percent increase (decrease) 1991-1992	Policyholders surplus 1992	Percent increase (decrease) 1991-1992	
1	Reliance Ins. Co. & subs.	1,653,782	42,629	556.0	108.0	109.9	859,326	(1.7)	(54,400)	23.5	74,600	(21.1)	749,800	(3.8)
2	Royal Group (U.S. subs.) <sup>2</sup>	N/A	63,000	452.6	118.4 <sup>3</sup>	125.4 <sup>3</sup>	752,500	(3.1)	(140,200)	26.7	167,300	(0.5)	N/A	N/A
3	USF&G Corp.	1,841,000	10,000	109.0	113.7 <sup>2</sup>	117.4 <sup>2</sup>	1,335,000 <sup>2</sup>	(17.8)	(196,000)	30.7	250,000	5.9	1,482,000	1.9
4	Home Insurance Co.	1,211,000	99,000	98.0	106.6 <sup>2</sup>	110.2 <sup>2</sup>	896,000	(2.8)	(74,000)	33.3	140,000	(2.8)	951,000	25.0
5	The St. Paul Cos. Inc.	2,272,166	325,393	73.2	106.8 <sup>2</sup>	104.8 <sup>2</sup>	1,522,363	(1.6)	(98,995)	(24.9)	319,676	0.5	1,666,476	4.5
6	Continental Corp.	2,674,200	92,400	67.4	113.2 <sup>2</sup>	115.0 <sup>2</sup>	2,219,400 <sup>2</sup>	4.6	(298,900) <sup>2</sup>	11.0	341,100	(6.1)	1,905,000	(4.4)
7	Lincoln National Corp.	3,868,400	171,100	45.2	112.9 <sup>2</sup>	112.6 <sup>2</sup>	1,042,500	(10.4)	(145,000)	(6.6)	143,700	4.5	N/A	N/A
8	Old Republic Int'l	726,863	76,431	29.7	108.5 <sup>2</sup>	107.8 <sup>2</sup>	351,923 <sup>2</sup>	1.5	(34,477) <sup>2</sup>	(11.9)	88,937 <sup>2</sup>	6.8	956,924	17.7
9	Argonaut Insurance Co.	213,435	47,229	28.6	102.5 <sup>2</sup>	110.5 <sup>2</sup>	148,076 <sup>2</sup>	(22.2)	(3,857) <sup>2</sup>	82.4	57,308 <sup>2</sup>	(6.6)	500,984	13.3
10	SAFECO Corp.	1,743,936	127,175	19.4	108.6	111.2	892,799	12.8	(73,492)	20.0	139,559	(2.4)	1,202,834	7.6
11	General Re Corp.	1,678,900	366,300	17.8	104.8 <sup>2</sup>	101.7 <sup>2</sup>	1,169,200	5.9	(60,400)	(407.6)	375,400	0.5	3,256,300	7.7
12	Fremont General Corp.	287,656	16,593	17.1	104.6	105.6	203,517	(4.9)	(9,219)	21.8	30,908	(3.8)	N/A	N/A
13	Crum & Forster Inc.	1,758,800	91,500	12.1	119.9	115.8	1,103,100	(10.5)	(229,900)	(16.4)	295,800	(1.9)	1,548,200	9.6
14	Ohio Casualty Corp.	889,505	49,121	10.1	107.0 <sup>2</sup>	105.1 <sup>2</sup>	781,405 <sup>2</sup>	3.7	(56,799)	(41.1)	98,532	6.2	631,636	14.6
15	American International Group	8,893,773	839,482	8.1	100.4 <sup>2</sup>	99.3 <sup>2</sup>	4,627,420	0.2	(15,860)	(137.9)	615,698	8.6	N/A	N/A
16	Berkshire Hathaway Group	369,795	112,875	7.7	140.0	135.2	306,200	(0.9)	(73,233)	(9.6)	186,782	8.1	N/A	N/A
17	CIGNA Corp.	9,300,000	231,000	6.0	117.8	116.1	2,504,000	(3.8)	(469,000)	(5.6)	382,000	(11.0)	1,818,000	(9.7)
18	Chubb Corp.	2,319,200	273,500	4.7	98.9 <sup>2</sup>	98.6 <sup>2</sup>	1,614,100	3.3	9,200	(34.3)	239,100	2.8	1,692,600	11.9
19	Sentry Insurance Cos. <sup>2</sup>	829,206	24,812	1.7	106.5	106.6	698,238	12.5	(47,985)	(9.1)	87,286	10.4	795,770	12.9
20	CNA Financial Corp.	5,410,000	265,000	(2.5)	117.5 <sup>2</sup>	114.9 <sup>2</sup>	3,300,000 <sup>2</sup>	(4.9)	(586,400) <sup>2</sup>	(10.2)	617,300 <sup>2</sup>	0.1	3,930,000	12.3
21	Hartford Steam Boiler	334,636	36,650	(8.8)	92.8	90.4	170,401	4.6	12,356	(19.6)	18,782	(8.7)	396,848	3.0
22	Travelers Corp.	5,364,200	140,800	(23.4)	112.9	112.7	1,969,800	(10.5)	(256,600)	12.2	365,800	(3.7)	1,875,800	(3.8)
23	Aetna Life & Casualty Co.	8,780,700	187,100	(37.0)	118.9	116.3	2,508,100	(16.1)	(465,700)	1.4	443,100	(1.5)	N/A	N/A
24	Hartford Insurance Group	4,780,000	(212,000)	(195.9)	113.9	108.2	3,138,000	1.4	(421,000)	(52.0)	591,000	13.9	3,040,000	0.5
—	Nationwide Mutual Ins. Co. <sup>2</sup>	N/A	N/A	N/A	107.0	106.2	3,293,436	8.6	(241,222)	(26.2)	418,895	5.7	3,814,173	11.3
—	Commercial Union Ins. (U.S.)	N/A	N/A	N/A	108.7 <sup>3</sup>	113.3 <sup>3</sup>	755,900	8.6	(73,400)	23.1	91,700	7.4	731,500	20.9
—	Kemper National Ins. Cos. <sup>2</sup>	N/A	N/A	N/A	111.2	111.1	1,652,464	3.5	(193,601)	(3.8)	176,775	0.2	1,768,765	14.5
—	Liberty Mutual Ins. Co. <sup>2</sup>	N/A	N/A	N/A	115.8	117.3	3,236,614	(5.4)	(459,609)	14.4	549,779	(1.8)	2,798,926	9.5
	<b>Cumulative</b>	<b>67,201,153</b>	<b>3,477,090</b>	<b>3.7</b>	<b>111.1</b>	<b>110.6</b>	<b>43,051,782</b>	<b>(2.3)</b>	<b>(4,757,693)</b>	<b>(1.6)</b>	<b>7,306,817</b>	<b>1.0</b>	<b>37,513,536</b>	<b>11.2</b>

<sup>1</sup> After dividends

<sup>2</sup> Statutory

<sup>3</sup> Before dividends

N/A—Company did not provide data

## P/C insurers

Continued from page 1

mid-1970s, while major insurer and reinsurer insolvencies preceded the mid-1980s hard market, she said.

Commercial insurers remain over-capitalized despite unprecedented catastrophe losses, and "it takes a lot of time and pain to get rid of that capacity," said Ms. Stewart, who sees a prolonged soft market.

In addition, Hurricane Andrew may prompt some insurers to shift capacity from property to casualty risks, as many did following Hurricane Hugo, noted Paul R. Davies, chairman of Aon Reinsurance Agency Inc. in Chicago.

If this happens, "it means the casualty market will continue to get softer," he said.

Some observers, however, speculate that catastrophe losses could combine with other forces to set the stage for a tightening market.

"There is a lot better chance of the market turning now than after Hugo," said Dwight Evans, senior vp with F&G Re Inc., a Morristown, N.J.-based unit of USF&G Corp.

While being hit by \$3.7 billion in first-half catastrophe losses (BI, July 27), insurers already were bolstering their bottom lines by taking down redundant reserves and cashing in on capital gains, he noted. At the same time, insurers continue to face a steady decline in interest rates on new investments.

If Hurricane Andrew turns out to be as large a loss as estimated, "it adds to a lot of other factors that will ultimately help turn that cycle around," agreed George P. Yonker, assistant vp-finance for SAFECO Corp. in Seattle.

Any change would be welcome to the insurers, who continued to battle the soft market doldrums through the first six months of this year.

For the first half of 1992, 28 commercial property/casualty insurers surveyed by *Business Insurance* recorded a 111.1% combined ratio, a

slight deterioration from 110.6% for the first half of 1991 and 111.0% for the full year (BI, April 6).

Other first-half results posted by these insurers show that:

- Net written premiums dropped 2.3% to \$43.1 billion in the first half from \$42.1 billion in the same period of 1991. Net written premiums for all of 1991 fell 1.8% from 1990 levels to \$88.66 billion.

- Underwriting losses widened 1.6% to \$4.76 billion in the first half of 1992 from \$4.68 billion for the first six months of last year.

Underwriting losses had improved somewhat in the first quarter. But then \$3 billion in catastrophe losses came in the second quarter, including the L.A. riots; the Chicago flood; a California earthquake; and a series of severe wind, hail, tornado and flood losses in several other states.

For all of 1991, underwriting losses rose 4.7% to \$9.73 billion.

- A continuing slowdown in investment gains as cash flows and interest rates decline. Pretax investment income rose only 1% to \$7.31 billion in the first half of the year from \$7.23 billion in the same period last year.

For the full year, investment income had risen 3.9% to \$15.14 billion in 1991.

- Policyholders surplus for the 23 insurers reporting that data rose 11.2% to \$37.5 billion as of June 30 from \$33.3 billion at that point in 1991.

- Net income, bolstered in part by realized capital gains and other non-operating items, rose 3.7% to \$3.48 billion in the first half from \$3.35 billion for the same period a year ago.

This compares with a 30.3% increase in net income to \$6.79 billion reported for the full year.

Insurance analysts remain cautious about the industry's prospects despite the higher earnings.

"They were surprisingly good. Almost too good," Ms. Vogel said of

the six-month results.

Results could have been worse, she said, but many companies chose to cash in investments for hefty capital gains in the strong stock and bond markets.

Many insurers have also decided to take down loss reserves for prior years, citing lower inflation and declining expenses, she observed.

"It was the kind of quarter we were all expecting" in light of continued soft pricing and mounting catastrophe losses, Dean Witter's Mr. Lewis said.

Pleasant surprises, he said, included Chubb Corp., which posted "quite decent" underwriting results when catastrophe losses are excluded. Chubb reported \$9.2 million underwriting income for the half, which is down 34.3% from \$14 million in the same period of 1991.

And, he added, Continental Corp. performed above expectations as it concentrates on profitable commercial multiperil and specialty lines package business. Continental posted a 67.4% jump in net income to \$92.4 million in the six-month period, up from \$55.2 million.

General Re Corp. also performed above expectations after a first-quarter drop in operating income, Mr. Lewis said. The company made a 17.8% gain in net income to \$366.3 million from \$310.9 million.

On the negative side, The St. Paul Cos. Inc.'s underwriting results fared worse than expected because of unfavorable results in its non-medical malpractice business, said Mr. Lewis. St. Paul underwriting loss increased 24.9% to \$99 million from a 79.3 million loss in 1991's first half.

And, CIGNA Corp. reported that it has begun an "extensive review" of its exposure to property/casualty reinsurance losses assumed through its London reinsurance operation. The company said that it could not estimate the size of the losses but that they would not have a material adverse effect on CIGNA's fi-

ancial position. For the half, CIGNA's underwriting loss grew 5.6% to \$469 million from \$444 million.

CIGNA hopes to complete the review by Oct. 1.

Joanne Morrissey, a principal with Firemark Consultants Inc. in Morristown, N.J., observed that insurance stocks performed unusually well compared with the Dow Jones Industrial Average and other market indicators in recent months.

"The best companies during the quarter were the property/casualty companies," she said, explaining that insurance stocks have been so undervalued for so long that many investors may have decided that they now represent a good buy.

Ms. Morrissey also said she sees signs of some pricing improvement in selected insurance lines, though not in general commercial property/casualty risks.

She added that a traditional, broad turn in the property/casualty market may not be in the cards, and that the market is more likely to have "cycles within cycles," with only certain segments of the market

tightening at a given point.

Insurance stocks stood up fairly well to the wrath of Hurricane Andrew last week.

In the past week, nine stocks dropped between 12 cents per share and \$3.00, or between 0.27% and 12.4%—not a precipitous fall, according to analysts.

A dip in property/casualty stock prices is to be expected at the beginning of the U.S. hurricane season, said Ms. Vogel.

But the storm may have a positive impact on reinsurer shares, said Mr. Lewis. He cited General Re, which traded at \$86 on Aug. 21, rising to \$88.63 on Aug. 27.

Sears, Roebuck & Co., parent of Allstate Insurance Co., by Thursday had lost 12 cents from \$41.50 per share on Aug. 21. Allstate has 9.5% of the homeowners insurance market in Florida.

Kemper Corp. posted the biggest percentage loss—12.4%—when its shares dropped by \$3.00 to \$21.25 on Aug. 27 from \$24.25 on Aug. 21.

Copy Editor Nancy Johnson contributed to this article.

## Hurricane Andrew

Continued from page 1

page 71).

The St. Paul Cos. Inc. last week estimated the storm will cost the insurance industry between \$8 billion and \$10 billion.

Representatives of the Property Claims Services division of the American Insurance Services Group, who were on the scene in Florida, reported preliminary damage estimates there of \$4 billion to \$4.5 billion, according to the Florida Insurance News Service, an insurer-funded information organization. The AISG division expects to issue a firmer estimate this week.

"Working from initial estimates, if the total loss is between \$15 billion and \$20 billion, the loss to all insurers will be around \$4 billion

to \$5 billion," said Jonathan Marland, a director of broker Lloyd Thompson Group P.L.C.

"And, the loss to the London market will be around \$800 million to \$1 billion max," he said.

Most of the losses will fall on property insurers because the marine market escaped without significant losses to major oil installations or ships, Mr. Marland said.

Florida Insurance Commissioner Tom Gallagher, though, said early assessments indicated that "the amount of property damage caused by Hurricane Andrew is similar to that which Hugo caused when it struck the Carolinas in 1989. With Hurricane Hugo, approximately 450,000 consumers filed claims, with

Continued on next page

## Hurricane Andrew

*Continued from previous page*  
each averaging about \$6,000" for a total of \$2.7 billion.

Hurricane Hugo caused more than \$1 billion of insured damage in the Caribbean.

The amount of insured damages Hurricane Andrew caused in Louisiana is expected to be far less than in Florida, since New Orleans was spared much of the storm's wrath. The hurricane whipped a far less densely populated area to the southwest, where many residents are of modest means.

Unofficial estimates put the hurricane damage for all insurers operating in Louisiana at \$1.5 billion to \$2.5 billion, said an official of the Louisiana Joint Reinsurance Plan in Metairie, La.

Insurers also began reviewing their own reinsurance contracts, which have gathered no dust this year. Insurers already have paid a record \$3.7 billion in catastrophe claims during the first six months of 1992 (*BI*, July 21).

Despite this year's string of catastrophes, U.S. insurers report they are adequately reinsured for losses stemming from Andrew.

However, many U.S. insurers have been unable to purchase all of the property catastrophe reinsurance that they sought at renewals.

Lloyd Thompson's Mr. Marland estimated U.S. insurers' retentions for Andrew-related losses would be around \$500 million.

Insurers are uncertain but hopeful that the disaster will bring about a hardening of the commercial insurance market as surplus is soaked up by mounting claims. But, stock analysts do not think the catastrophe is enough to turn the market, even if there is \$10 billion of insured losses (see story, page 1).

On the Saffir-Simpson scale of hurricane intensity, with five being the most intense, Andrew ranked as a four, the same ranking Hurricane Hugo was given in 1989, according to the National Weather Service.

Wind speeds were measured at up to 160 mph when Andrew hit the Miami area early Monday. The storm moved across Florida and the Gulf of Mexico and hit Louisiana about 25 miles southwest of Morgan City early Wednesday with winds blowing at 145 mph.

In the United States, Andrew killed 22 people in Florida and two in Louisiana. Thirty-five hurricane-related injuries were reported in Louisiana, though authorities could not estimate injuries in Florida.

Before reaching Miami, Andrew raced across the island of Eleuthera in the Bahamas, leaving four dead and destroying dozens of

homes.

Damage to the tourist areas of New Providence and Grand Bahama was limited to downed trees and moderate structural damage to homes and businesses.

Damage estimates in the Bahamas were still unavailable late last week but will reach "into the millions," said Tommy Turnquest, chairman of the Hurricane Relief Committee, which is operating out of the prime minister's office in Nassau.

Local, U.S. and European insurers write coverage in the affected area, said Insurance Registrar Octavia Johnson.

In Florida, where the devastation was most widespread, it is evident that the bulk of claims will be filed by the owners of demolished or damaged homes and automobiles.

The hurricane also stacked yachts and pleasure boats like kindling alongside docks on Florida's coasts.

Hull & Co., a Fort Lauderdale-based wholesale broker and managing general agent, had received notice of 125 yacht and marine-related claims in the Homestead and South Kendall areas of Dade County as of late last week.

The claims averaged around \$60,000 each, according to Claims Manager Randy Savage.

But, some commercial property insurance buyers also suffered heavy losses.

"On the commercial side, we're seeing absolute devastation of marinas," Mr. Savage said.

He reported that a Biscayne Bay marina lost a storage facility holding 200 vessels. The marina's loss alone is estimated at \$940,000.

The loss of a Dinner Key marina that was reduced to "sticks and wood" is expected to exceed \$1 million, Mr. Savage said.

The broker also has received claims for two 22-ton boats run by diving operators. The boats are valued at \$200,000 each.

Burger King Corp. reports that its Miami-based headquarters and data center suffered undetermined but "massive damage" in the storm.

But, all computer data was saved and moved to a back-up facility, as the company implemented its disaster plan and set up temporary headquarters, a spokeswoman said.

"There was significant damage to quite a few hotels in the Miami Beach area," noted Dennis Smith, president of loss control firm and claims adjuster Crawford & Co. of Atlanta.

Holiday Inn Worldwide reported that three franchise properties—two in Florida and one in Louisiana—suffered structural damage in the storm. Franchisees arrange their own coverages.

John Beltran, managing vp of Alexander & Alexander Service

Inc.'s south Florida operations, believes that nearly every A&A client in Dade County sustained some damage, either physical damage or business interruption.

"I don't think anyone escaped Hurricane Andrew," he said.

That includes many brokers and insurers, which were trying to service policyholders while also dealing with damages to their own offices. Among those with damaged offices are A&A, Johnson & Higgins and Frank B. Hall & Co. Inc. and credit risk insurer American Bankers Insurance Group Inc.

As Andrew rolled out of Florida and steamed toward the Louisiana coast, it plowed through an area of the gulf dotted by oil rigs. Oil companies late last week were still assessing the extent of the damage to the rigs, as well as to land-based oil operations.

"We're just beginning to get crews out to assess the damage," said a spokesman for Shell Oil Co.

However, some reports of energy losses were being filed to the London market Friday.

For example, a Cliffs Drilling rig suffered around \$20 million in damage. The risk is led by Lloyd's of London syndicate 625, managed by Roberts & Hiscox Ltd.

Consolidated Natural Gas also sustained \$20 million in damages to a platform.

In Louisiana, commercial fishing operations and sugar cane fields flattened by the storm, will likely emerge as large claimants, said Joseph Rizzo, executive vp of claims adjuster GAB Business Services Inc. of Parsippany, N.J. But, few sugar cane fields are insured. And, any coverage in place is likely written by the federal crop insurance program.

Some commercial policyholders are tallying property losses caused not only by taking a direct hit from the hurricane but also as a result of the loss of electrical power. An example would be a grocery store whose perishable stock survived the storm but spoiled when power was lost to the store's freezers and refrigerated displays.

There is coverage for those losses "if a commercial enterprise bought time-element coverage," which is sold as an endorsement to property insurance, said George E. Carpenter, associate vp-corporate reinsurance with Nationwide Mutual Insurance Co. in Columbus, Ohio.

But, insurers are expecting few losses due to delays in cargo delivery. Most of those losses will be borne by ship operators, London underwriters say.

Insurers were trying to estimate their own losses as claims began to stream from the devastated areas.

St. Paul is estimating a pretax

*Continued on next page*

## Update

### Workers comp fund questioned

*Continued from page 2*

attorney general, said Insurance Superintendent Brian K. Atchinson.

Meanwhile, a spokesman for Commercial Union Insurance Co. in Boston estimated that Maine's residual market deficit since 1988 could top \$1 billion, up from the approximately \$500 million deficit the insurer estimated last month using NCCI figures (*BI*, July 20).

Mr. Atchinson declined to comment on CU's estimate, but in a related action, approved the insurer's request to withdraw from the Maine workers comp market effective Dec. 31.

### Reinsurers' first-half results

WASHINGTON—Premium volume for a group of 56 professional property/casualty reinsurers rose during the first six months of this year, while underwriting results remained virtually unchanged from the same period a year ago, reports the Reinsurance Assn. of America.

Net written premium volume expanded 6.7% to \$5.86 billion for 1992's first half from \$5.49 billion for the same period in 1991. The reinsurers' combined ratio rose to 106.3% in the half from the 106% reported by a similar group of reinsurers a year ago.

The reinsurers also reported investment income of \$1.37 billion, net income of \$941.5 million and policyholders surplus of \$14.03 billion as of June 30.

### Assumption of risk found valid

SAN FRANCISCO—Assumption of risk remains a valid defense in personal injury suits even 17 years after California adopted the comparative negligence system, the state's highest court has ruled.

In a pair of decisions, the California Supreme Court said the defense bars any recovery when an injured person assumed some risk. Assumption of risk provides a complete defense to tort suits and can be asserted early in litigation to prevent some cases from going to trial. Under comparative negligence, a defendant's liability is reduced by the percentage of fault shared by the plaintiff.

In *Knight vs. Jewett*, the court ruled that Kendra Knight could not sue Michael Jewett for crushing her finger during a 1987 game of touch football. And, in *Ford vs. Gouin*, the court ruled that motor boat driver Jack Gouin could not be held liable when water skier Larry Ford struck overhanging tree branches while skiing backward without skis in a narrow channel of the Sacramento River Delta in 1983.

### Briefly noted

**John H. McCaffrey** is leaving as vice chairman of Rollins Burdick Hunter Group Inc. to pursue other interests. RBH's parent, Aon Corp., agreed last month to buy Frank B. Hall & Co. Inc. (*BI*, July 27). Mr. McCaffrey was chairman of Hall until he left in 1987 to join RBH. Donald A. Bell, currently chairman and CEO of Hall, will become vice chairman of RBH and chairman of the RBH's operating committee. Arthur F. Quern and Richard A. Riley remain chairman and president of RBH Co., respectively. . . . **A vote of confidence** in the Council of Lloyd's of London has been overwhelmingly carried. Resolutions designed to radically change Lloyd's, all carrying a preamble expressing no confidence in the council, were defeated by much smaller margins (see related story, page 49). . . . **Blue Cross of California** plans to form a wholly-owned for-profit subsidiary to operate its commercial managed health care products. . . . **Almost \$160 million of satellite launch insurance** covers the destruction last week of an Atlas rocket that was carrying a satellite for several cable television channels. The coverage, purchased by Hughes Communications to launch its \$80 million satellite into orbit, was led by Lloyd's of London's Ariel syndicate. . . . **Allstate Insurance Co.** can deduct from its income taxes the reserves set up for losses by parent company Sears, Roebuck & Co. on the same terms as those set aside for unrelated policyholders, the 7th U.S. Circuit Court of Appeals has ruled. The decision affirms a 1991 U.S. Tax Court decision that allowed Sears to deduct premiums paid to Allstate (*BI*, Feb. 4, 1991; March 13, 1989). . . . **Recent brushfires in Northern California** have caused more than \$10 million of damage, the California Office of Emergency Services reports. So far, 82,000 acres have burned, destroying more than 450 homes, 267 other structures and at least five commercial buildings. . . . **Reliance Group Holdings Inc.** plans to sell mortgage insurance subsidiary **Commonwealth Mortgage Assurance Co.** through a public offering of 9.1 million shares. Reliance may retain up to a 12% interest in CMAC after the offering, which is valued at up to \$250 million. . . . **Western insurers** will not bear any losses as a result of an **Aeroflot aircrash** near Moscow last week that killed 70 people, confirms a spokesman for Russian insurer Ingoststrakh says. . . . **A U.S. District Court jury** decided Aug. 27 not to award damages for conscious pain and suffering to the family members of two victims of **Pan Am Flight 103**, which exploded in December 1988 over Lockerbie, Scotland. . . . **Mortgage delinquencies** and foreclosures on **loans held by life insurers** rose to 7.27% on average at mid-year from 6.23% at March 31, reports the American Council of Life Insurance. . . . **Standard & Poor's Corp.** lowered the financial-strength rating for **American Re-Insurance Co.** to A from AA+, reflecting the debt the company is expected to take on following its sale by Aetna Life & Casualty Co. (*BI*, Aug. 24). . . . **The Pennsylvania Supreme Court** has affirmed the Pennsylvania Insurance Department's rehabilitation plan for **Mutual Fire, Marine & Inland Insurance Co.** The ruling affirms a lower court's order dissolving a Mutual Fire policyholders' committee and affirms limitations on the ability of reinsurers to offset mutual debts and credits with the Mutual Fire estate (*BI*, Jan. 29, 1990). . . . **California Gov. Pete Wilson** denied Insurance Commissioner John Garamendi's third appeal to overturn the state Office of Administrative Law's rejection of rules implementing **Proposition 103 rollbacks** (*BI*, June 15).

## Far from landfall, Andrew blows a deal

FORT WAYNE, Ind.—Although Seibels Bruce Group is in Columbia, S.C., hundreds of miles from Hurricane Andrew's ferocious winds, the insurance holding company was blown away by news that Lincoln National Corp. had called off a planned merger because of the storm.

Fearing that Seibels Bruce would sustain heavy damages stemming from the hurricane, F. Cedric McCurley, president of Lincoln subsidiary American States Insurance Co. of Indianapolis, canceled the \$46.9 million merger announced in March (*BI*, March 23).

Mr. McCurley said in a statement that the merger agreement allowed either party to renege in light of "material adverse change in the

condition of the other party."

"It was obvious to us that they had exposure in the area, and for that reason we decided not to go forward" with the merger, a Lincoln spokesman said.

American States estimates its own aftershock losses in Florida will total \$13 million, he said. Estimates for its Louisiana exposure were not available late last week.

Seibels Chairman and Chief Executive Officer Sterling E. Beale told shareholders at a scheduled meeting last week that American States is not in a position "to assess the bottom-line impact of Andrew" on Seibels Bruce.

"Historically, (Seibels Bruce) has very carefully considered its reinsurance," Mr. Beale said. After Hurricane Hugo in 1989, "our catastrophe reinsurance program was adequate to keep our net losses to manageable

levels. In Florida, our writings are further protected by a 20% quota share treaty, with the result that policy losses sustained from Andrew could be even more severe than those suffered in Hugo without exhausting our reinsurance program."

Seibels Bruce has no firm damage estimate, but Mr. Beale said that the reinsurance could keep its losses below its \$10 million net loss from Hugo.

Despite American States' announcement, Seibels Bruce shareholders overwhelmingly approved the corporate merger at the Aug. 26 meeting.

Not proceeding with the vote "could have been viewed as an acknowledgment that Lincoln's precipitous action in attempting to cancel the agreement was valid," Mr. Beale said.

—By Sara Marley



# Hurricane Andrew

Continued from previous page  
loss of \$100 million to \$125 million. That is double its Hurricane Hugo losses. The estimate includes all St. Paul operations, including its reinsurance operations.

CIGNA Corp. stands a "reasonable chance" of suffering hurricane losses that will exceed its \$50 million retention, though it had no estimate last week of what its losses will be, a spokesman said.

CIGNA carries a net retention of \$50 million per event on catastrophe risks and retains 5% of the reinsurance layers above its retention, the spokesman said.

CIGNA late last week had received 2,000 to 2,500 claims from commercial policyholders in Florida and an "amazingly low" number of residential claims, the spokesman said.

The insurer wrote only \$117 million in homeowners' business last year nationwide.

Nationwide Mutual Insurance Co. estimated that between 13,000 and 20,000 policyholders in Florida would file claims for damages of \$40 million or more.

The largest claim filed with Nationwide late last week was \$400,000 for a destroyed dental office in Homestead, Fla.

Nationwide is the No. 3 insurer in Florida, with 3.6% of the market, according to A.M. Best Co. It covers about 3,600 commercial buildings and auto policyholders.

Nationwide unit Scottsdale Insurance Co. reported receiving 125 claims from policyholders in Florida late last week and projected its losses would total \$12 million.

Nationwide does not write coverage in Louisiana. Scottsdale does, but it could not estimate its losses in the state.

Lincoln National Corp. and American States

Insurance Co. each estimates \$13 million in aftertax losses stemming from the hurricane.

While other insurers are aware of their exposure in the stricken areas, many were unable to estimate their losses.

State Farm Group will be unable to avoid a big hit in southern Florida. The insurer is the No. 1 underwriter in the state with 16.2% of the market and does not purchase reinsurance.

State Farm also holds the largest market share—19.4%—in Louisiana.

Allstate is the second-largest insurer in both states, with 11.9% of the Florida market and 9.2% of Louisiana. The insurer had received around 13,500 claims from Florida by mid-week and expected thousands more. Estimates from Louisiana were unavailable.

Kemper National Insurance Cos. is expecting Florida claims to outpace those from Louisiana, where it has 12,000 policies in force.

Around 5,000 claims were handled by GEICO Corp. adjusters last week, with more expected from the approximate 100,000 policyholders in the area of Florida that Andrew hit. The insurer has around 32,000 policyholders in the hurricane-struck portions of Louisiana.

The Travelers Corp. had no firm numbers on claims, but a spokeswoman said the company insures "a significant number of policyholders" in the area of Florida devastated by the hurricane. Its exposure in Louisiana, though, is limited.

British multiline insurers also will be hit with storm losses, though significant losses are not expected.

"Our best guess so far is that we will suffer a loss of between \$10 million and \$20 million," said a spokesman for Royal Insurance Holdings P.L.C. Royal's reinsurance coverage kicks in at \$30 million, he added.

General Accident Fire & Life Assurance Corp. P.L.C.'s losses "might reach the level at which external catastrophe reinsurance covers would become exposed," said Chairman Lord Airlie. GA has catastrophe coverage for losses above \$40 million, he said.

Losses at Guardian Royal Exchange P.L.C. are not expected to exceed 6 million pounds (\$11.6 million at current exchange rates), though that estimate is preliminary, a spokesman said.

Despite the heavy losses caused by the hurricane, insurers are confident that their reinsurance limits are adequate.

Typically, insurers buy reinsurance with limits that are automatically reinstated if they are exhausted by catastrophe claims. After the reinstatement, insurers then decide whether to purchase additional limits or go bare for the remainder of the year.

But, losses from previous catastrophes this year, including the Los Angeles riot and the Chicago flood, have not exhausted insurers' reinsurance limits, they say.

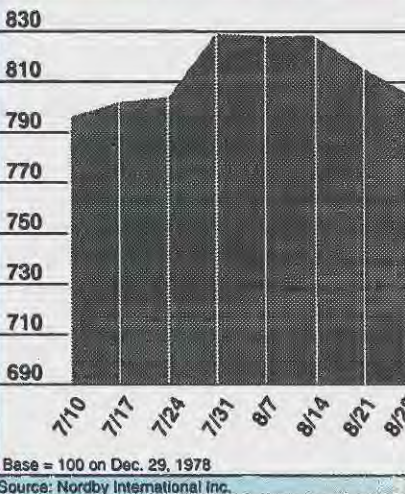
Mr. Carpenter of Nationwide said the insurer has not used a reinstatement of reinsurance limits this year.

The Travelers spokeswoman said the insurer feels its reinsurance limits are adequate. "We had limited exposure in the L.A. riots, earthquake (BI, July 20; July 6) and Chicago flood."

Travelers' catastrophe losses for the first six months of 1992 are comparable to those for the same period last year, the spokeswoman said.

This article was based on reports by Associate Editors Michael Bradford, Gavin Souter and Sara J. Harty; Senior Editor Douglas McLeod; International Editor Stacy Shapiro; and Staff Reporter Sara Marley. It was written by News Editor Dave Lenckus.

## BI Insurance Index



Insurance industry stocks slumped last week, as the *Business Insurance* Index fell 11 points to 805.0 on Aug. 28 from 816.1 on Aug. 21. Advancing issues for the week were led by Reliance Group Holdings, up 10.0%; Chandler Insurance, up 8.6%; and Frank B. Hall, up 8.3%. Declining issues for the week followed Seibels Bruce Group, down 62.5%; Kemper Corp., down 11.9%; and Liberty Corp., down 10.1%. The most active issue was U.S. Healthcare, with 3.2 million shares traded. The *Business Insurance* Index was down 1.4%; the NYSE Composite was down 0.1%; the Standard & Poor's 500 was unchanged, and the Dow Jones 30 Industrials rose 0.5%.

# Reinsurers braced for Andrew losses

By DOUGLAS MCLEOD and STACY SHAPIRO

Hurricane Andrew will hit the reinsurance market differently than Hurricane Hugo did in 1989, but one result will be the same: shrinking capacity and higher rates for next year's catastrophe renewals.

Reinsurance executives last week were esti-

mating insured losses from Andrew at \$4 billion to \$10 billion, probably making it worse than the \$4.2 billion loss from Hugo.

Andrew follows a record catastrophe toll in the first half of the year, including the Los Angeles riots and various weather-related and flood losses.

But reinsurers, particularly in London, may weather this storm better than they did Hugo, which triggered several insurer failures and shut down many Lloyd's of London syndicates.

Ceding insurers typically have higher retentions and lower catastrophe limits than they did at the time of Hugo because of widespread contraction in the catastrophe reinsurance market, U.S. and London reinsurance officials agree.

Reinsurers also have more premium to cover the losses because of the dramatic rise in catastrophe rates over the last two years: London underwriters report that U.S. property catastrophe reinsurance rates have jumped 100%

Continued on next page

## British Issues

Aug. 27 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High-Low pence
Comm Union	453	N/M	31.5	6.9	453-446
Genl Accident	405	N/M	35.7	8.8	417-405
Gdn Royal Exch	125	N/M	10.0	8.0	129-125
Royal	149	N/M	7.0	4.7	149-145
Sun Alliance	228	N/M	19.0	8.3	228-217
<b>Brokers</b>					
Bradstock	85	9.5	6.3	7.4	85-83
CE Heath	223	12.9	34.5	15.5	229-213
Hogg Group	109	6.6	10.9	10.0	111-109
JIB Group	103	7.6	10.0	9.7	104-103
Lloyd Thompson	170	17.0	6.0	3.5	171-170
Lowndes Lmbt	229	8.9	16.8	7.3	233-229
PWS Holdings	33	3.8	5.3	16.1	33-33
Sedgwick Grp	114	8.9	8.0	7.0	114-101
Steel Brl Jones	171	8.5	17.7	10.4	171-170
Will Corroon	156	9.8	17.6	11.3	156-144

Source: Philip Olsen, London \* Estimated

## BI Industry Stock Report

AUGUST 24, 1992 THROUGH AUGUST 26, 1992

BROKERS	Price	Weekly % change	Year to Date % change	Annual		Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value	Price	Weekly % change	Year to Date % change	Annual		Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value	
				High	Low										High	Low							
Alexander & Alexander	NYS	25.25	5.75	23.17	25.25	18.00	314	1.00	3.96	105	13.10	1.93	30.75	-4.28	-12.46	37.75	22.25	40	0.24	0.78	19		
Gallagher Arthur J. & Co.	NYS	26.00	4.00	16.20	26.00	19.00	63	0.64	2.46	19	5.88	4.42	30.50	5.17	-3.17	33.00	21.75	219	0.16	0.52	14	18.90	1.61
Frank B. Hall	NYS	3.25	8.33	-23.53	5.50	3.25	468	0.00	0.00	-3	1.95	1.67	20.25	-1.22	N/A	23.63	17.00	50	0.12	0.59	11	N/A	N/A
Hibb, Rogal & Hamilton	NYS	14.13	2.73	6.60	15.50	11.00	34	0.40	2.83	22	3.56	3.97	30.50	-7.58	-25.61	48.25	30.50	57	0.00	0.00	17	13.52	2.26
Marsh & McLennan	NYS	82.88	4.57	1.84	83.75	70.00	443	2.68	3.23	19	28.00	2.96	4.50	-2.70	12.50	6.00	3.50	109	0.00	0.00	3	7.76	0.58
Poe & Associates	OTC	11.50	0.00	-4.17	16.00	11.25	24	0.40	3.48	15	2.82	4.08	41.13	-0.60	32.13	43.75	22.13	37	1.48	3.60	12	62.65	0.66
BROKERS AVERAGE			4.2	3.4					2.3	25			63.25	0.40	27.78	63.25	43.50	106	2.68	4.24	10	18.00	3.51
CONGLOMERATES & HOLDING COMPANIES													20.63	2.48	16.20	22.50	15.00	219	0.40	1.94	8	33.09	0.62
Berkley W.R. Corp.	OTC	35.13	0.36	15.16	36.25	23.50	118	0.36	1.02	12	36.95	0.95	36.13	-6.47	14.23	39.50	27.38	13	0.92	2.55	6	43.50	0.83
Berkshire Hathaway Inc.	NYS	9175.00											10.75	-2.27	2.38	12.25	8.50	129	0.20	1.86	22	13.30	0.81
ITT (Hartford Group)	NYS	66.13	-0.75	14.50	70.63	50.00	1296	1.84	2.78	18	112.05	0.59	27.25	0.00	17.20	28.00	18.00	0	0.00	0.00		39.50	0.69
Sears (Allstate)	NYS	41.75	0.60	10.23	48.00	32.50	2486	2.00	4.79	11	34.50	1.21	12.50	-3.85	-13.04	16.38	12.50	30	0.24	1.92	15	16.07	0.78
CONGLOMERATES AVERAGE			-0.3	10.3					2.1	18			5.50	10.00	33.33	5.88	3.50	108	0.32	5.82	3	6.40	0.86
INSURERS/REINSURERS													20.75	-1.78	25.76	21.38	14.50	5	0.52	2.51	9	14.41	1.44
AEGON N.V.	NYS	38.63	3.34	10.36	38.63	28.69	12	1.14	2.95	7	N/A	N/A	72.63	-0.51	-0.34	80.75	57.13	423	2.72	3.75	7	86.60	0.84
Aetna Life & Casualty	NYS	38.88	-2.81	-11.65	47.00	31.88	1464	2.76	7.10	12	87.60	0.44	51.88	0.48	6.41	53.38	36.13	1548	1.64	3.16	14	51.65	1.00
Allied Group Inc.	OTC	25.25	-0.98	48.53	26.25	16.25	87	0.64	2.53	8	19.85	1.27	15.00	-5.51	-2.44	18.88	13.13	8	0.28	1.87	8	11.19	1.34
American General	NYS	48.50	-3.00	8.99	50.38	39.00	770	2.08	4.29	11	60.00	0.81	15.00	-5.51	-2.44	8.75	2.25	743	0.36	1.60	-1	10.60	0.21
American Heritage Life Ins.	NYS	31.25	-1.57	2.04	32.25	21.28	7	0.94	2.69	15	N/A	N/A	21.25	0.00	26.87	23.50	15.25	35	1.12	5.27	9	30.75	0.69
American Indemnity/Fin'l	OTC	5.75	0.00	21.05	9.25	4.50	25	0.08	1.39	8	12.93	0.44	6.75	-6.90	17.39	8.13	4.38	330	0.00	0.00	3	2.48	2.72
American International	NYS	96.00	1.86	-2.41	99.38	78.63	1639	0.56	0.58	13	99.30	0.97	49.88	5.84	-3.16	55.25	32.25	21	0.00	0.00		70.93	0.70
Aon Corp.	NYS	45.00	-3.23	13.56	49.75	34.75	184	1.68	3.73	11	39.70	1.13	46.50	-7.92	20.52	50.50	32.75	686	1.04	2.24	14	40.95	1.14
Argonaut Group	OTC	28.50	-0.87	20.00	30.25	21.75	14	0.84	2.95	8	20.96	1.36	42.25	-1.46	5.96	46.75	35.13	273	2.00	4.73	21	55.00	0.77
AVERMCO Corp.	NYS	23.38	-4.59	-6.50	28.00	21.50	12	0.40	1.71	22	9.55	2.45	35.75	-4.03	-5.04	39.63	29.00	223	0.24	0.67	11	18.38	1.95
Baldwin & Lyons Inc.	OTC	33.00	3.13	28.16	33.00	23.00	0	0.48	1.45	8	24.29	1.36	20.50	-2.96	-5.20	23.75	17.25	1106	1.60	7.80	9	59.00	0.35
Chandler Insurance	OTC	4.75	8.57	46.15	7.63	2.13	42	0.00	0.00	37	5.95	0.80	29.25	0.43	2.63	30.75	23.00	81	0.80	2.74	10	21.71	1.35
Chubb Corp.	NYS	76.75	2.50	-0.32	78.63	60.75	946	1.60	2.08	12	72.95	1.05	42.25	-6.51	31.67	42.25	28.34	8	1.00	2.53	8	35.39	1.12
CIGNA Corp.	NYS	50.88	-1.45	-16.77	61.75	41.75	554	3.04	5.98	11	117.15	0.43	35.75	-2.05	0.00	38.50	31.00	93	1.20	3.36	13	37.23	0.96
CNA Financial Corp.	NYS	88.75	-1.39	-9.44	104.50	78.50	84	0.00	0.00	9	70.23	1.26	43.25	-0.86	6.79	45.00	28.81	340	0.64	1.48	13	37.70	1.15
Continental Corp.	NYS	31.38	-5.99	13.57	34.75	23.25	725	2.60	8.29	21	40.00	0.78	9.50	-2.56	-36.13	19.00	8.25	29	0.00	0.00	7	9.58	0.99
EXEL Ltd.	NYS	36.00	-1.37	-4.00	40.25	29.75	549	0.92	2.56	8	N/A	N/A	11.63	-8.82	60.34	15.00	5.63	2767	0.20	1.72	-13	12.30	0.95
Fund American Corp.	NYS	68.00	-1.09	-2.68	70.50	62.50	52	0.68	1.00	18	36.11	1.88	17.63	-0.70	-4.73	20.38	17.00	16	1.00	5.67	-19	33.15	0.53
Fremont General Corp.	OTC	24.50	0.00	0.51	26.00	17.00	43	1.00	4.08	6	45.58	0.54	17.63	-0.76	2.09	52.50	38.50	76	1.88	3.44	10	84.55	0.58
Frontier Insurance Group	NYS	36.25	-1.02	34.26	40.50	21.91	27	0.60	1.66	13	26.65	1.36	21.88	-2.23	37.80	23.13	14.00	88	1.08	4.94	-55	33.50	0.65
Gainco Inc.	ASE	18.88	1.34	34.82	20.63	10.84	41	0.04	0.21	19	3.37	5.60	17.63	0.71	4.44	19.50	13.75	84	1.00	5.67	9	13.14	

## Reinsurers react

Continued from previous page since 1989.

In London, the virtual disappearance of the London market excess-of-loss reinsurance "spiral" that existed in 1989 also means that catastrophe losses should be better spread around the market, underwriters say.

Hurricane Andrew may also hit fewer ceding insurers than Hurricane Hugo did, further limiting losses to reinsurance companies, some observers add.

Personal lines losses will comprise a large part of Andrew's total claims, and two insurers—State Farm Mutual Automobile Insurance Co. and Allstate Insurance Co.—have large shares of the Florida market.

State Farm buys no catastrophe reinsurance, while Allstate has catastrophe limits of \$250 million excess of a \$150 million retention, several reinsurance brokerage sources say.

Florida also has a number of local insurers writing substandard auto business with little or no catastrophe reinsurance, according to several brokers.

Meanwhile, the damage in Florida and Louisiana will probably be considered one event under the 72-hour clause in most catastrophe programs.

This would mean that ceding insurers would pay out one retention and use their reinsurance programs only once, rather than absorbing two retentions and using their coverage twice as they did when Hugo swept through the Caribbean and then the United States.

Each U.S. ceding company buys property catastrophe reinsurance for one event plus a reinstatement in case another event occurs during the year.

Nearly all these reinsurance programs define all losses occurring within 72 hours as a single event.

Once a ceding insurer blows through its catastrophe limits on a single event, the insurer has to retain the remaining losses.

Most underwriters believe Hurricane Andrew will be measured from its landfall in Florida Monday to its landfall in Louisiana Wednesday and thus be considered one event, since most U.S. insurers aren't involved in underwriting in the Bahamas where Andrew first hit.

Though some reinsurers might prefer Andrew to be considered two events to make ceding companies absorb two retentions, "I really don't think this is a matter of choice or interpretation," said Mark Mosca, vp and manager of treaty reinsurance for NAC Reinsurance Corp. in Greenwich, Conn.

Some reinsurers will suffer serious losses from Andrew.

Berkshire Hathaway Inc.—a major player in the catastrophe retrocessional and reinsurance market since Hurricane Hugo—will suffer "a very substantial net loss," according to Ajit Jain, president of the reinsurance division.

Those losses could easily be many tens of millions of dollars. "We might be one of the biggest people writing net checks on this loss," he said. "It's going to be a big number."

Most of Berkshire Hathaway's catastrophe business is retrocessional coverage rather than reinsurance, though it plans to focus on reinsurance in the future, he added.

Other reinsurers, though—particularly those in London—may fare better than they did after Hugo.

The London market "is in far better condition than in 1989 because the (LMX) spiral is not as significant and retentions have gone up," said Jim Payne, chairman of London-

based reinsurance broker Sedgwick Payne Ltd. "I don't think it's a catastrophic loss from a London perspective."

Catastrophe aggregate reinsurance exposure in London has fallen by about one-third since 1989, said Philip Heitlinger, manager, non-marine for English & American Insurance Co. Ltd.

"The feeling is that much more of Andrew's losses will be retained by U.S. cedants," Mr. Heitlinger said. "London may be praying that's true."

If every Lloyd's property catastrophe policy—insurance or reinsurance—is hit by Hurricane Andrew, the total gross loss to the market is likely to be \$1.2 billion, said one Lloyd's property underwriter. Claims in the marine and aviation markets could add another \$400 million, he said.

Most syndicates have big reinsurance programs, though. His syndicate, for example, would only retain 12% to 15% of the worst-case scenario for Andrew. Very little Lloyd's syndicate reinsurance is placed with other syndicates.

"The gross loss to London will be a great deal less" than from Hugo, said Dennis Purkiss, chief executive of Lloyd's underwriting agency Merrett Holdings P.L.C. "The net loss will be higher, but there will be a better spread and there are higher retentions and deductibles."

Merrett's syndicates also will be better off now than in 1989 because premiums are higher, he added.

Meanwhile, U.S. ceding companies are starting to seek quotes for second reinsurance reinstatements to last them until renewals.

Few insurers have been hit badly enough by first-half catastrophes for Hurricane Andrew to exhaust their reinstatements and leave them bare, several sources agree. Most insurers will still have one reinstatement left after paying Andrew claims if the storm is considered a single event.

Nevertheless, with the U.S. hurricane season just beginning and months to go before renewals, some insurers may look into "third-event covers."

"When you get hit this hard at the letter A, you've got to wonder what's going to happen when you get to C," observed Edmond F. Rondepierre, senior vp and general counsel with General Reinsurance Corp. in Stamford, Conn.

These reinstatements, though, will be expensive, if they are available at all.

"My guess is it will be very hard to come by," Mr. Mosca said. "Those prices will be extremely high and capacity will be extremely short."

"I don't think the capacity's there to buy another reinstatement," added Mr. Purkiss of Merrett. "It may be, but at an exorbitant price."

Renewals will probably be unpleasant for ceding companies in the wake of Hurricane Andrew, reinsurers and brokers agree.

"Potentially, the retrocessional market could be completely dead at year-end," said Dwight Evans, senior vp with F&G Re Inc., a USF&G Corp. unit in Morristown, N.J.

Lost retrocessional protection and general tightening in the catastrophe reinsurance market could cut capacity by one-third for Jan. 1 renewals, Mr. Evans said.

"It's definitely going to further tighten the catastrophe market," agreed Paul R. Davies, chairman of Aon Reinsurance Agency Inc. in Chicago.

Reinsurers were hoping for "a nice quiet year, and it is not going to turn out that way, obviously," said Steven K. Bolland, senior vp with Gill & Roeser Inc. in New York.

"It's not a good start," he commented.

# Adjusters sent to storm area

A computerized hurricane's assault on southern Florida and Louisiana readied Continental Insurance Co. to respond to the devastation Andrew wreaked last week.



Two weeks before Hurricane Andrew battered the two states, Continental ironically tested its preparedness for just such an event as part of its catastrophe response program. The insurer used a computer program to direct a mock hurricane, Adam, along a path strikingly similar to the one Andrew would later take.

The drill turned out to be good practice for the real thing.

It pointed out measures the insurer should take, like testing backup computer systems in the areas that Andrew eventually tore through.

Also as part of the drill, Continental actually located office space in Florida where the insurer could base personnel sent to respond to a catastrophic hurricane.

"Andrew was so similar, we just went back and got the addresses" for offices that were identified during the drill and rented the space to handle claims stemming from Andrew, said Mike Riney, senior vp of claims in the insurer's Cranbury, N.J., office.

After Andrew stormed through Florida, Continental sent 100 adjusters to the state to join those already there.

It also chartered a plane to deliver computer equipment, phones, facsimile machines and office furniture for the Orlando office that Continental set up as a staging area for its activities in southern Florida.

Fifty more adjusters were on standby for duty in Louisiana or Texas.

Other insurers and loss control firms also sent armies of adjusters into Florida early last week and readied others for duty in Louisiana. More than 1,500 adjusters had arrived in southern Florida last week to join those permanently based there, according to the Insurance Information Institute.

State Farm Group sent 350 adjusters to join 200 permanent workers in the stricken Florida area. And 100 more adjusters were on call for assignment to Louisiana.

Nationwide Group sent 141 adjusters to Florida.

ITT/Hartford Group Inc. sent approximately 100 claims representatives to the state.

Aetna Life & Casualty Group, as well, dispatched 100 adjusters to Florida and the same number to Louisiana.

The Travelers Corp. sent 80 additional adjusters and claims personnel to southern Florida immediately after the storm.

Adjusters on the scene in Florida last week found they were among the few people allowed to enter the disaster area of southern Florida.

"Unless they can show they are affiliated with an insurance com-

pany, it has to be a life-threatening situation for anyone to be let in," a Travelers spokeswoman said.

But, once claims personnel reach the ravaged area, finding policyholders' property is not easy, she noted.

"We know where the properties are that we insure," she explained. But, "It's almost impossible to find the property" because street signs have been blown away.

But the difficulties did not prevent the adjusters from marching into the disaster area, ready to take charge of the claims process.

By midweek, Kemper National Insurance Cos. had sent 40 to Florida.

Allstate Insurance Co. deployed an advance team of 30 adjusters to Florida, while 100 others waited on standby. And, 125 more waited for calls to go to Louisiana.

Among the Allstate standbys are retired adjusters who have agreed to work if needed.

Crawford & Co. dispatched 250 adjusters to southern Florida and placed 70 other adjusters on standby for duty in Louisiana.

Among those were adjusters from its international operations. For example, approximately 30 adjusters from Crawford affiliate Graham Miller International were flown in from Ireland, the United Kingdom and other European countries, said Dennis Smith, president of both companies.

GAB Business Services Inc. sent 90 adjusters to Florida.

—By Michael Bradford

## For the Record

### Suit against Navistar protests benefit cuts

DAYTON, Ohio—A group of unions and retirees is suing to prevent Navistar International Corp. from cutting retiree health benefits.

The suit was filed Aug. 21 in federal court here and seeks class-action status. It asks the court to direct the Chicago-based truckmaker to continue providing the lifetime benefits required by the company retirement plan and various collective bargaining agreements.

Plaintiffs include the United Auto Workers and the International Assn. of Machinists.

Their suit comes less than a month after Navistar sought court permission to cut the benefits (BI, Aug. 3).

### Ad agency held liable for client's ad claims

NEW YORK—Wilkinson Sword Inc. and its advertising agency Friedman Benjamin Inc. will appeal a federal court decision awarding \$953,000 to the Gillette Co. for libel stemming from "willfully false advertising" claims about a Gillette razor.

This court decision marks the first time an advertising agency has been held jointly and severally liable with its client in this type of case.

The Aug. 18 decision in the U.S. District Court in New York initially came down in January 1991 against both companies, but damages were only awarded against Atlanta-based Wilkinson. But, after reconsideration, Judge Kimba M. Wood this month said the New York ad

agency was liable as well.

Although Friedman Benjamin is insured against libel by Seaboard Surety Co. of New York, Wilkinson Sword would be responsible for any damages because of a standard contractual agreement between the agency and its client, said Jeffrey Avison, vp of Wilkinson.

*Gillette Co. vs. Wilkinson Sword Inc. and Friedman Benjamin Inc., U.S. District Court for the Southern District of New York, 89 Civ. 3586*

### Texas regulators launch new computer system

AUSTIN, Texas—The Texas Insurance Department is one of the first states to begin using a new, computer-based approach for quicker identification of financially troubled insurers.

Regulators will use information from a computerized data base to help in early detection and correction of financially troubled insurers.

Insurance Commissioner Georgia Flint said she expects Texas' system to become a national model for effective insurance regulation.

### Medical care boosts workers comp costs

NEW YORK—Excessive medical care and more frequent injuries are two key reasons for rising workers comp costs, finds a new survey conducted by William M. Mercer Inc. for the American Management Assn.

More than half of the 177 managers polled, 57%, said their organization's workers comp costs increased 50% or less since 1987; 19% reported increases from 50%

to 100%, 19% reported increases of 100% to 300%; 5% did not know how much costs increased.

Asked the top reasons for the rising costs, managers said medical cost increases, more frequent injuries and excessive medical care.

The survey findings are reported in the July/August issue of "Compensation & Benefits Review," an AMA publication.

### Managed care found to lower drug costs

WASHINGTON—State laws regulating mail-order pharmacies and pharmacy preferred provider organizations will drive up prescription drug costs, according to a new study by The Wyatt Co. for the Health Insurance Assn. of America.

Big, centralized mail-order pharmacies, which buy huge quantities of drugs from manufacturers, on average fill prescriptions for about 13% less than the wholesale price, while retail druggists on average charge 8.25% more, said Dr. Roger Taylor, Wyatt's national health care practice leader.

In all, the study says, managed care programs can cut prescription drug costs 25%, or about \$125 per year on average for a retiree over 65.

State regulation can jeopardize such savings, according to Wyatt.

Some states require centralized mail-order firms to meet their licensing requirements or to open a pharmacy within their borders, according to the study. In addition, some states are considering rules like a requirement that a pharmacy PPO accept any retail druggist in the network that meets certain criteria.

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