NEWSPAPER

MARCH 30, 1992

Business Insurance®

Reporting weekly for corporate risk, employee benefit and financial executives / $2.00 a copy; $80 a year

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Risk Management Honor Roll

Marc Darby
Bombardier Inc.

Jerry Newsom
Georgia Department of Administrative Services

Judith M. Tornese
Transamerica Corp.

Millicent W. Workman
Belz Enterprises

Photo by Michael A. Marcotte

Risk Manager of the Year

Probe Beyond the Obvious

As the saying goes, things aren't always what they seem. Take reinsurance, for instance.

It's tempting to think that there's little difference between one reinsurer and another. After all, who among us doesn't talk in superlatives about first-rate service, security and technical expertise?

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Photo by Tsunehisa Kimura

To See the Moon in a Grain of Sand

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Update

Owner of Southern American agrees to liquidation order

SALT LAKE CITY—A Utah judge has signed a voluntary liquidation order against Southern American Insurance Co., a property/casualty insurer acquired by Utah entrepreneur Victor Borcherds from a Sedgwick James Inc. unit in 1988.

Mr. Borcherds said he agreed to the liquidation last week after Southern American was unable to comply with a Utah Insurance Department order that it dispose of several million dollars in mortgage loans to Provo resort developments Mr. Borcherds

Continued on next page

Spotlight on Captives
Page 3

Directory of Captive Managers
Page 109

Reliance seeks to shed Hall

Insurer says time is right to divest restructured brokerage

By LORI BLOCK

NEW YORK—Reliance Group Holdings Inc. is putting a for sale sign on Frank B. Hall & Co. Inc.

Reliance says it is an opportune time—before the property/casualty insurance market hardens—to sell its long-time investment in the world's sixth-largest broker.

Analysts say several companies may be interested in buying Hall.

Hall could sell for as high as $595 million, some analysts say. Others more critical of Hall dispute that.

No one as yet has publicly stepped forward to make a deal for the New York-based broker. Reliance won't say how much it wants for its stake in Hall.

Top Hall management say a management buyout is not likely, though it is not being ruled out.

Reliance announced that Hall is up for sale in its 1991 financial statements released earlier this month.

Reliance has consolidated Hall's 1991 financial results with its own, instead of recording Hall as an investment as it has in previous years. However, Reliance is treating Hall as a discontinued operation.

By treating Hall as a discontinued operation, Reliance posted $10.6 million in income from continuing operations in the fourth quarter, while it posted a $9.9 million net loss.

For the year, Reliance reported a net loss of $145.6 million, including a $29.9 million loss from its "discontinued insurance brokerage operations." Reliance reported a net gain of $104.45 million in 1990.

Reliance said it consolidated Hall's results with its own "at the request of the accounting staff of the Securities and Exchange Commission."

Generally accepted accounting principles typically require that a company owning a majority of another company's stock consolidate the subsidiary's financial statements with its own.

Reliance, however, said that it and its independent auditors be-

Continued on page 166

Recession restrains risk managers' raises

By JOANNE WOJCIK

While the recession continued to stymie salary increases for most corporate risk managers, the ship has apparently come in for those at many large companies, a new survey shows.

Total compensation—salary and bonuses—surged in 1991 for risk managers at U.S. companies with annual sales of $2 billion to $7 billion, the survey by Logic Associates Inc. shows.

Total compensation for risk managers at companies with sales between $4 billion and $7 billion broke the $100,000 mark last year, averaging $102,644, up 8.5% from $94,577 in 1990.

And for risk managers at companies with sales of $2 billion to $4 billion, average total compensation jumped 10.7% to $93,113 from $84,149 in 1990.

But while compensation for some rose sizably in 1991, generous pay increases were the exception rather than the rule, according to Bill Perry, president of Logic Associates, a New York-based recruiting firm specializing in risk management.

The highest-paid risk managers, those at companies with more than $7 billion in sales, landed an average 2.6% increase in total pay.

The average compensation for risk managers at companies with annual sales of less than $200 million fell 3.6% in 1991 compared with 1990, the survey found.

However, companies with sales volumes between $2 billion and $7 billion are "finally waking up and following the lead" of companies with more than $7 billion in sales, explained Barry Citron, vp of Logic Associates.

"Those companies, in the late 1980s and now into the '90s, are getting a true appreciation of what a risk manager can do in terms of developing, negotiating and running their property/casualty programs," he said.

In addition, many of these

Continued on page 168

Workers comp concerns

Workers compensation issues, particularly issues involving soaring medical costs, dominate the priorities of surveyed risk managers.

Source: Alexander & Alexander Services Inc.

GRAPHIC BY JOHN HALL

Work comp problems, health care costs worry risk managers

By STACY GORDON

WASHINGTON—The many problems plaguing the workers compensation system remain a top concern for corporate risk managers, a new survey reveals.

In fact, more than half of the 15 legislative and regulatory issues cited by risk managers in a recent survey as key concerns relate to workers comp problems and skyrocketing health care costs.

However, tort reform is still as important as ever to risk managers.

For the second consecutive year, caps on punitive damages and/or non-economic damages was the single most important issue to corporate risk managers polled by Alexander & Alexander Services Inc.

Other tort reforms like modification of joint and several liability and abolition of attorneys' contingency fees also reappear on the list of top issues.

Continued on page 161

Employers choose to 'play'

Under 'play-or-pay' system, most firms say they would not drop health benefits

By CHRISTINE WOOLSEY

Employers generally say they would not drop their health care plans under a national play-or-pay health care system and instead pay a payroll tax to support a public plan for the uninsured.

A study commissioned by the Bush administration concluded many employers would terminate their plans if given a choice between offering a medical plan or paying a payroll tax to support a public fund for the uninsured.

However, employers contacted by *Business Insurance* say they would not drop their health care plans, even if it made economic sense.

Benefit managers cite employee relations problems and uncertainty about the adequacy of public coverage as reasons employers would continue providing health benefits.

And, unionized workers would likely balk at losing health care coverage, employers say.

But smaller employers may face unrelenting economic pressure to drop their plans and pay the payroll tax if health care costs continue to spiral unabated, benefits consultants say.

"Employers don't want to turn their plans over to the government," said Carson Beadle, a managing director with benefit consultant William M. Mercer Inc. in New York.

"They don't want to create employee relations problems, and they view providing benefits as part of their corporate culture," he said.

"The only thing that will make employers terminate their plans is desperation. Confronted with annual health care cost increases of 15% to 20%, some employers will have to decide on the pay approach," Mr. Beadle said.

A national play-or-pay plan was first suggested by the Pepper Commission (*BI*, March 12, 1990). Since then, several bills that call for creating a national play-or-pay health care system have been introduced in the House and the Senate.

Continued on page 163

Update

Southern American liquidation

Continued from previous page
owns with his wife.

Utah regulators concluded in a 1990 exam that the loans were "not consistent" with prudent investment policies and gave the insurer until the end of 1991 to replace them (*BI*, April 15, 1991).

"The department wanted us to do it, and we were not able to do it," Mr. Borcherds said. It was impossible to sell or refinance the properties because of the depressed real estate and banking industries, he explained.

The mortgage assets represented the bulk of Southern American's $5.8 million in year-end surplus, Mr. Borcherds said. Surplus had fallen from $10.3 million at year-end 1990.

The liquidation filing does not include any information on Southern American's financial condition.

Southern American wrote surety and general liability lines. It was licensed in Utah, Tennessee and Louisiana and operated as a surplus lines insurer in many other states.

Insurers' net income up 36%

NEW YORK—U.S. property/casualty insurers reported $14.7 billion in net income in 1991, up 36.1% from $10.8 billion in 1990, reports the Insurance Services Office Inc. and the National Assn. of Independent Insurers.

The industry's combined ratio improved in 1991 to 108.8% from 109.6% in 1990.

Net written premiums increased 2.4% to $223.3 billion from $218.1 billion in 1990, while underwriting losses declined by 7.1% to $19.7 billion from $21.2 billion.

Pretax investment income, excluding realized capital gains, increased 6.3% to $34.96 billion from $32.9 billion.

Policyholder surplus increased 16.7% to $161.5 billion from $138.4 billion at year-end 1990.

The figures are based on data from insurers that account for 96% of the nation's property/casualty insurance business.

Sixth suit over ELIC annuities

ST. PAUL, Minn.—A Minneapolis manufacturer is the sixth employer sued by the U.S. Labor Department under the Employee Retirement Income Security Act of 1974 for selecting annuities written by Executive Life Insurance Co. to fund pension benefits.

The suit seeks to force BMC Industries Inc. to guarantee the annuities at its expense through another insurer.

BMC terminated the pension plan at subsidiary Camelot Industries Corp. in March 1986. It used $2.5 million in plan assets to buy Executive Life annuities for 94 plan participants and beneficiaries even though a consultant believed Executive Life was unstable, alleged the lawsuit filed in U.S. District Court in St. Paul, Minn.

"Management believes that we performed all of our obligations under ERISA," said Michael Hawks, BMC's controller.

Hatch offers health care plan

WASHINGTON—Sen. Orrin Hatch, R-Utah, plans to introduce a bill that would promote market-based health care reform.

Sen. Hatch announced his proposal, which could be introduced as early as next month, during a meeting of the American Benefits Conference in New York last week. Sen. Hatch, the ranking Republican on the Labor and Human Resources Committee, rejected both a Canadian-style system and so-called "play-or-pay" plans under which employers must provide health care or pay a payroll tax.

Instead, Sen. Hatch said he wanted to expand on President Bush's market-oriented health care proposal (*BI*, Feb. 10). Sen. Hatch said his plan would address: greater access; cost reduction; improved long-term care; and maintenance of quality.

The Hatch plan will call for tax credits to "enable every family to purchase a health insurance plan that met their needs." The plan would require all citizens to buy a basic package of benefits, as yet undefined, and private insurers would have to "insure individuals who have thus far been shut out of the insurance market."

He also called for medical malpractice reform and changes in antitrust law "to permit agreements among providers for more efficient facilities procurement and utilization," among other things.

Florida passes health reforms

TALLAHASSEE, Fla.—A bill signed into law by Gov. Lawton Chiles last week aims to reform the Florida health insurance market for small employers and sets a general goal of providing access to health care for all Floridians by 1995.

Among other things, the law prevents insurers that write policies for employers with between three and 25 employees from denying

Continued on page 168

Errors & omissions

• The Health Equity and Access Reform Today bill introduced by Rep. Nancy Johnson, R-Conn., would pre-empt state laws that restrict reimbursement negotiation, selective contracting and place limits on financial disincentives to use non-network providers. An incorrect interpretation of the bill was attributed to Richard H. Hinden, an attorney with Altheimer & Gray in Chicago, in the March 23 issue.

• Healthcare Knowledge Resources' 1990 "Psychiatric Length of Stay by Diagnosis" series costs $65 for each of the five volumes or $300 for the set. The price was incorrectly reported in the March 23 issue.

USAir is fully insured for La Guardia crash

By STACY SHAPIRO and MICHAEL SCHACHNER

LONDON—USAir Group Inc. is fully insured for last week's crash at New York's La Guardia Airport, unlike a year ago when the airline was underinsured for the loss of a hull in a Los Angeles disaster.

USAir changed brokers and lead underwriters when it renewed its hull and liability insurance on Feb. 1. At renewal its total aviation premiums rose 57.5%, partly due to the airline's decision to raise the insured value of its fleet to $10.3 billion from $9.1 billion. It maintained its $850 million liability insurance limit.

Twenty-seven people were killed and 24 injured March 22 when USAir Flight 405 swerved left during an abortive takeoff attempt during a snowstorm and plunged in flames into Flushing Bay. The jetliner manufactured by Fokker N.V. of the Netherlands may have exploded before it hit the water.

Various models of the twin-engine Fokker F-28 have crashed in icy conditions, suggesting that the aircraft's wing configuration may not be conducive to takeoff during icy weather. The National Transportation Safety Board is investigating the cause of the crash.

Details of the Dutch firm's product liability insurance are not known, though many aircraft manufacturers carry limits of more than $1 billion. Willis Corroon P.L.C. of London places Fokker's insurance.

Continued on page 165

Large firms report managed care success

Health cost hikes checked

By LOUISE KERTESZ

Aggressive managed care programs are cutting large employers' health care cost increases by one-third, according to a new survey.

Eighty-one Fortune 500 firms with comprehensive network-based managed care programs saw health care cost increases drop to 12% on average after implementing these programs, much lower than the 18% hikes prior to implementation, the survey finds.

And nearly three quarters of the respondents say they "realized cost savings while maintaining or even increasing employees' satisfaction with their health benefits," according to "Network-based Managed Care: The Employer View," a survey by the TPF&C unit of Towers, Perrin, Forster & Crosby Inc.

Another recent survey found that large employers' health care cost increases generally have moderated. A. Foster Higgins & Co. Inc. found that total health care costs—including indemnity plans, HMOs and dental and vision plans—in 1991 climbed 11.2% on average for companies with 20,000 to 39,999 employees, down from a 24.3% increase in 1990 (*BI*, Jan. 27).

The employers that have achieved the most significant cost reductions have not simply

Continued on page 167

Pension reforms snuffed

But revival is likely in future legislation

By JERRY GEISEL

WASHINGTON—An array of pension simplification provisions included in tax legislation that was approved by Congress but vetoed by President Bush this month may resurface.

The tax bill shows that a congressional consensus has emerged on provisions that should be part of a pension simplification package, which significantly increases the chance that the provisions will be part of a future tax bill or other legislation.

On the other hand, the final bill did not include a package of limited health care reforms that had been part of the Senate's tax bill, indicating that the current stalemate in Congress on the health care reform issue is likely to continue.

"Even piecemeal health care reform is proving to be a lot more controversial than any of the pension changes," observed Henry Saveth, a principal with A. Foster Higgins & Co. Inc. in New York.

Among the pension simplification provisions in the final tax bill were measures designed to:

• Make it easier for employers to run the IRS non-discrimination tests for 401(k) plans.

Employers could run the basic non-discrimination test—known as the actual deferral percentage test—using last year's average salary deferral for lower-paid employees to determine how much higher-paid employees could defer in the current year.

• Simplify the definition of who is a highly compensated em-

Continued on page 166

Inside

• ON THE COVER: Millicent W. Workman, director of corporate risk management for Belz Enterprises in Memphis, Tenn., is the 1992 *Business Insurance* Risk Manager of the Year. **PAGE 128**

• Marc Darby, director of risk management and insurance for Montreal-based Bombardier Inc., is named to the *Business Insurance* Risk Management Honor Roll, representing companies with annual revenues exceeding $300 million. **PAGE 145**

• Jerry Newsom, risk management administrator for the state of Georgia in Atlanta, is named to the 1992 Risk Management Honor Roll, representing government entities. **PAGE 149**

• Judith Tornese, vp-risk management for San Francisco-based Transamerica Corp., is named to the 1992 Risk Management Honor Roll, representing financial institutions. **PAGE 153**

Captive guide

Australia 96
Bahamas 83
Barbados 79
Bermuda 3
British Columbia 108
Cape Verde 96
Cayman Islands 72
Colorado 104
Delaware 106
Directory of captive managers 109
Dublin 92
Georgia 106
Guernsey 87
Hawaii 102
Illinois 106
Isle of Man 90
Labuan 96
Luxembourg 94
Singapore 96
Tennessee 106
Turks & Caicos 81
U.S. Virgin Islands 86
Vermont 98
Virginia 106

Departments

Advertiser index 148
Classifieds 162
Insurance services guide 163
International 159
Letters 8
London 159
Opinions 8

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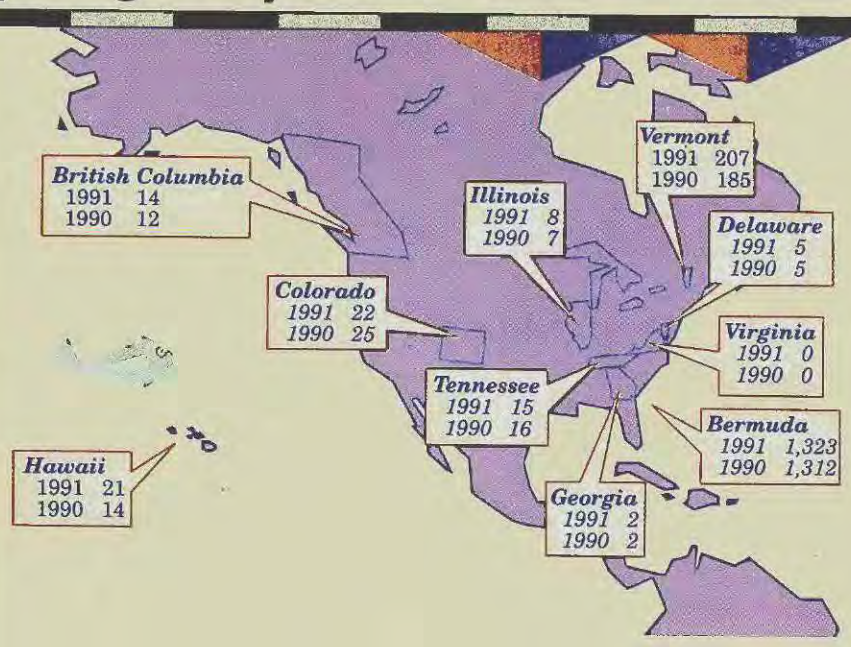

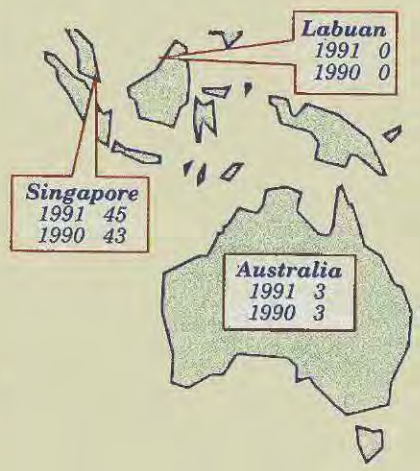

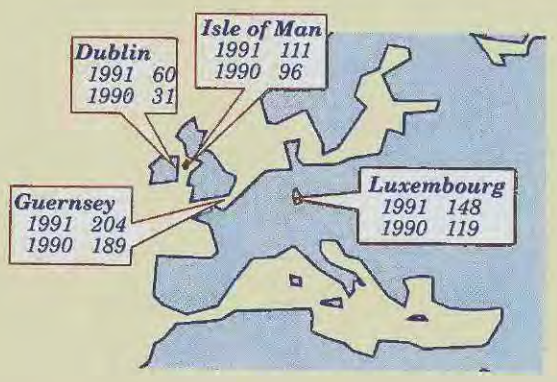

Captives map out growth strategy

Bermuda posts first gain in captives since 1988

Domicile touts its one-stop shopping for alternative risk financing services

By MICHAEL BRADFORD

HAMILTON, Bermuda—The world's largest captive insurer domicile isn't content with that banner alone.

Instead, Bermuda captive managers increasingly are touting the domicile's evolution into a complete insurance and financial center, where captives and their owners can find an impressive array of new products and the world's foremost expertise in alternative risk financing.

Held together by a solid infrastructure of accounting, banking and regulatory professionals, Bermuda has become fertile ground for the development of products and services that captives need to thrive.

With the arrival and innovative development of policyholder-initiated facilities like ACE Ltd. and X.L. Insurance Co. Ltd., numerous commercial reinsurers and a growing financial reinsurance marketplace, Bermuda has grown into a supermarket of cutting-edge insurance and risk management products.

"Bermuda is a more rounded domicile than some of our competitors," said Alan C. Cossar, executive director of Alexander Insurance Managers Ltd. "The concept of one-stop shopping is very true."

"Those facilities have been a real boon to Bermuda" and are responsible for much of the domicile's growth, said Stuart Grayston, president and chief executive officer of Frank B. Hall & Co. Inc.'s Alternative Market Division.

The range of facilities "has complemented the captive industry and allows clients to do two or three things in the couple of days they visit the island," said Andrew Carr, president of Marsh & McLennan (Bermuda) Ltd. That "is good for business in general."

Comparisons of Bermuda with other captive domiciles have subsided as the island has stepped out front with innovative products and services, observed David Ezekiel, president of International Advisory Services Ltd.

"Vermont will be successful," he conceded. "And Hawaii seems to be doing pretty well for itself." But, while those domiciles will continue to grow, so will Bermuda, he maintained.

"With the excess facilities here and the financial reinsurance people, there are so many good reasons to domicile here," Mr. Ezekiel added.

"Overall, Bermuda as a domicile had an excellent year in '91," said M&M (Bermuda)'s Mr. Carr.

The island's managers incorporated 64 new captives last year, while 53 were taken off the Bermuda rolls primarily due to mergers or liquidations.

The net gain of 11 left Bermuda with 1,323 international insurers and reinsurers, making it easily the largest domicile, leaving No. 2 Cayman far behind with 367.

The increase in captives was the first in Bermuda in four years.

As of year end, 46% of all captives were domiciled in Bermuda, according to figures compiled by *Business Insurance*.

There were 2,845 captives in 23 dom-

Continued on page 12

Fronting capacity plentiful

Business is booming, say fronting insurers, despite apprehension about NAIC stance

By DOUGLAS McLEOD

NEW YORK—Companies with captive insurers and other self-insured programs looking for fronting services are finding plenty of capacity at competitive rates.

While the soft market for policy-issuing and related services has changed little in the last couple of years, fronting arrangements themselves are markedly different from some of the programs of the early 1980s in which fronting insurers retained little risk and exerted little authority over the programs they wrote for captives and more importantly for other offshore reinsurers.

The fronting market today covers a broad array of programs, with insurers issuing policies and providing other services to owners of single-parent captives, companies participating in association captive or rent-a-captive facilities and those with large self-insured retention or deductible programs.

The bulk of fronted programs cover workers compensation, general liability and automobile liability risks. Many insurers not only issue policies but also provide claims handling and other services and write excess insurance or reinsurance above clients' retentions.

The availability and cost of policy issuing and related services varies by insurer and type of program. For example, the price can vary widely between a relatively simple single-parent captive program where claims management and other services aren't required and a large association workers compensation program that requires intensive servicing.

Some insurers quote a single price for all services and excess coverage while others break out fees for the various services required separate from an excess insurance premium.

Regardless of how the insurers price their services, insurers and brokers agree that the prices are highly competitive.

"It's extremely competitive," said Bill Watson, senior vp with Reliance National Insurance Co.'s risk management division in New York.

And, the market is even attracting new players: Prudential Reinsurance Co. has formed a new subsidiary to provide fronting and other services to captives and other alternative facilities (see story, page 6).

As insurers compete for the business of U.S. companies, several see a source of potential growth in global fronting programs. In these programs, insurers would provide worldwide policy issuing and related services to multinational corporations with captives.

Meanwhile, insurers are nervously watching the progress of a proposed model law on fronting being developed by the National Assn. of Insurance Commissioners (*BI*, March 16).

Although recent drafts of the model bill are much more favorable for captive owners than earlier versions, the proposed model law—which could be considered at this week's

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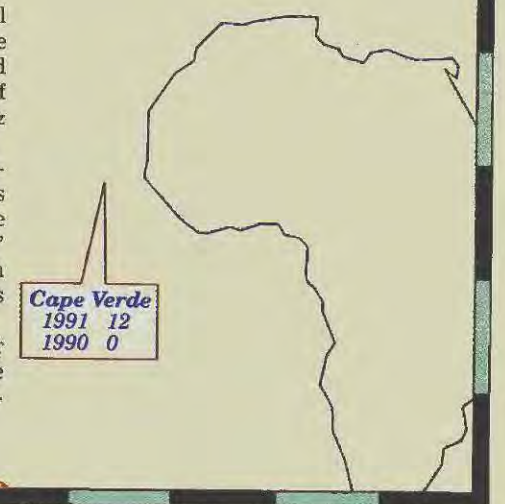

[1] Estimate

Source: *BI* survey

GRAPHIC BY KIMBERLY MART

Fronting programs

Continued from previous page

NAIC meeting—could make fronted arrangements more expensive for many companies and unworkable for others.

"Captives are having a very difficult time surviving right now with the other competition out there," Mr. Watson said.

"Just the additional expense (imposed by the model act) could slow things down," he pointed out.

The fronting market has changed dramatically since the late 1970s and early 1980s, when several now-insolvent insurers engaged in the disastrous "pure" fronting arrangements that helped spur the NAIC to draft a model law.

Under these arrangements, insurers collected a fee for the use of their policies but retained little or no risk, ceding 90% or more of the business to reinsurers that frequently were based in offshore domiciles. These were not often captive reinsurers but instead were thinly capitalized companies writing unrelated risks.

The fronting insurers often maintained little control over underwriting, claims handling or reinsurance placements, delegating this authority to managing general agents whose compensation was based on the business they produced, rather than the profitability of the business they placed.

rather than profitability.

The hugely unprofitable business that resulted contributed to some of the biggest insurer failures of the '80s, including Ideal Mutual Insurance Co., Transit Casualty Co. and Mission Insurance Co.

Most fronting programs today are written only for alternative risk financing programs.

Insurers now providing policy issuing services are typically involved in underwriting and claims handling and generally bear risk by providing excess insurance or reinsurance for a policyholder's captive.

"We look at it as a cooperative effort" with the policyholder, said Frank Neuhauser, senior vp with AIG Risk Management, an American International Group Inc. unit in New York. "We are not simply handing out our paper."

AIG works with roughly 220 single-parent captives and 45 association captives generating about $1.4 billion in gross written premiums a year, Mr. Neuhauser reported.

Typically, AIG issues policies through a subsidiary and cedes the lower-layer risk to the captive, retaining the excess layer itself, Mr. Neuhauser explained.

AIG works with captive officials on underwriting guidelines and arranges for claims administration, either through an AIG unit or another vendor, he said.

Property and inland marine risks account for between 15% and 20% of AIG's fronting business.

On the casualty side, about 60% of the business written for single-parent captives is workers comp, with the remainder split between general liability and auto liability risks, Mr. Neuhauser said.

Association captive business is evenly split among workers comp, general and auto liability lines, he said.

AIG provides statutory workers comp limits and general and auto liability policy limits ranging from $1 million to $5 million per occurrence, including the captive's retention.

Captive retentions can range from $100,000 to $5 million per occurrence, with the typical retention between $250,000 and $500,000.

The hard property/casualty insurance market of the mid-1980s drove up captive retentions, and "the soft market has not driven those retentions down," Mr. Neuhauser said.

AIG also provides fronting services to several multinational corporate clients, with U.S. and overseas AIG units issuing policies and ceding business to the multinationals' captives, Mr. Neuhauser said, noting that most of the U.S. business is casualty while the non-U.S. business is property.

While global programs are much discussed, Mr. Neuhauser observed that multinational risks are often divided into property vs. casualty or domestic vs. foreign, rather than being integrated.

"There's a lot more talk" than action in developing truly global programs, he said.

Along with AIG, Old Republic Insurance Co. of Chicago is one of the longest-established markets for fronting programs.

Old Republic usually provides a package of services to clients that can include policy issuance, excess coverages, claims handling and other services for workers comp, general liability and auto liability lines, said A.C. Zucaro, president.

He emphasized, however, that flexibility is a key to the programs.

"Everything in our shop is tailored to the customer's needs," Mr. Zucaro said. "This is not a cookie cutter kind of insurance business."

Gross premiums written though Old Republic fronted programs can range from a minimum of $250,000 a year to $25 million, with the average between $2 million and $4 million, he said.

"Our focus is on the Fortune 2000, if there is such a list," he said, adding that Old Republic also focuses on single-parent rather than association captive business.

"It's got to be a partnership, and you cannot be a partner with an association," he said.

The exceptions to this, he said, are municipal pools or other government entity groups, which have the taxing authority to support a group self-insurance arrangement.

Old Republic has not added many new fronting clients in the soft market, but has retained its existing accounts, Mr. Zucaro said.

"We are where we were two or three years ago," he said.

Reliance National fronts for about 25 single-parent captives writing about $200 million in gross premiums annually, Mr. Watson said. About 80% of this business is workers comp and 20% is general liability and auto liability.

Reliance National provides statutory workers comp limits and limits of $1 million to $2 million on general and auto liability. The average retention ceded to the captive is $500,000.

Separately, Reliance National also provides fronting services to five group and association captives generating between $20 million and $30 million in annual gross premiums, said Thomas Luckstone, executive vp with the specialty lines and programs unit.

About 40% of the association business is workers comp, while another 40% is general liability and 20% is auto liability, he said.

The insurer writes policy limits of $1 million to $5 million on the association business, ceding layers of $250,000 to $1 million to the captives, he said.

Several other insurers provide fronting and other services for companies with captives or large self-insured retention or deductible

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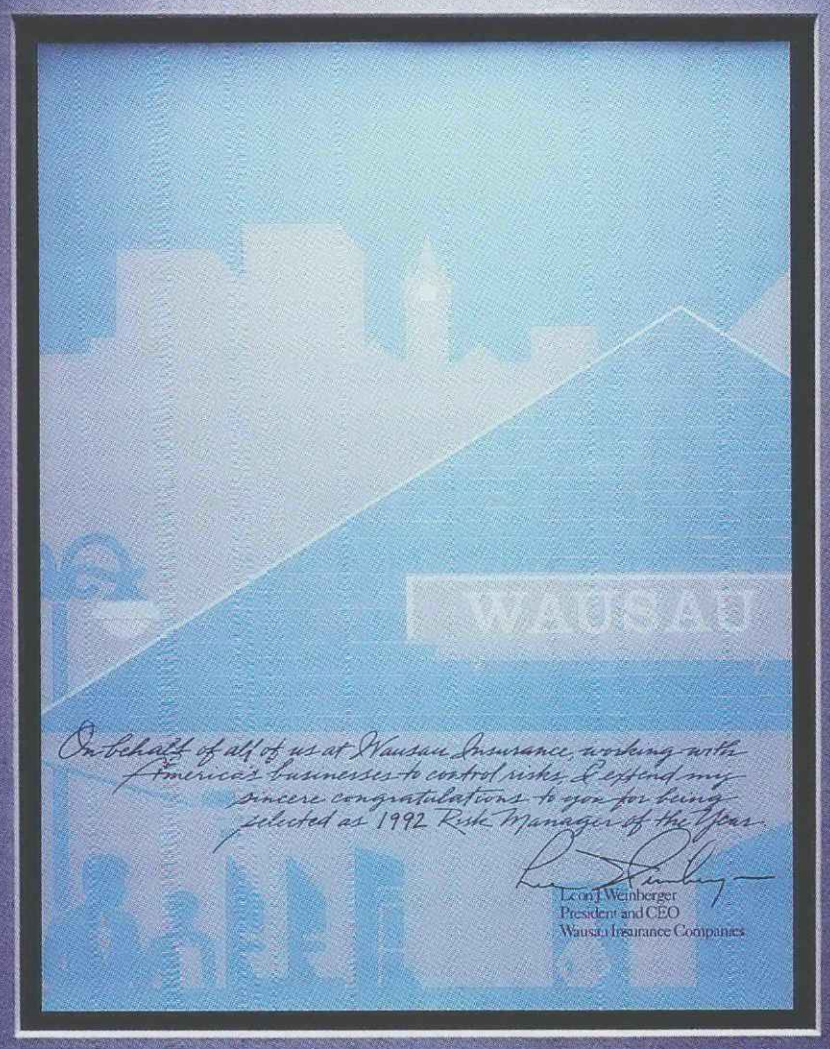

From one group of business insurance experts to another.

Congratulations to the 1992 Risk Manager honorees.

At Wausau, we stress the importance of managing risks and reducing losses. That's why we're saluting this year's Risk Manager of the Year and those named to the Risk Manager Honor Roll. Their performances exemplify the risk management profession at its finest, and demonstrate the importance the position holds in business today.

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Fronting programs

Continued from page 4

programs. These include:

• Legion Insurance Co., a unit of Bermuda-based Mutual Risk Management Ltd., which provides fronting services for clients of affiliate Mutual Indemnity Ltd.'s rent-a-captive program, and for other captive owners.

Most of Legion's business is workers comp, with roughly 80% representing rent-a-captive business through the company's Insurance Profit Center program; 10% to 14% representing business ceded to an American Psychiatric Assn. captive; and the balance representing other captive and retrospectively rated programs, said Legion President John Kessock Jr.

Legion also maintains treaties with several large U.S. reinsurers to provide specific and aggregate stop-loss coverage excess of client retentions, he said.

Nearly all of Legion's individual accounts generate between $750,000 and $2 million in annual premiums, with some of the association programs much larger.

• Genesis Underwriting Management Co., a unit of General Re Group in Stamford, Conn.

Genesis issues policies and provides excess and umbrella coverages for general liability and auto lines through affiliates Genesis Insurance Co. and Genesis Indemnity Insurance Co. The company does not front workers comp programs but can provide direct excess workers comp over qualified self-insurance programs, said G. Roger Greiner, Genesis president. Most of its general and auto liability fronting business involves SIR or deductible programs and relatively little involves captives, he said.

Retentions of $100,000 to $250,000 are typical for middle-market companies just getting into self-insurance, Mr. Greiner said. Genesis can provide excess general and auto liability limits of up to $10 million. It does not provide primary level claims administration or loss control services.

• Wausau Insurance Co., which provides fronting, claims handling and loss control services and excess coverages for workers comp and general and auto liability lines, said Scott Isaacson, senior vp-marketing.

The bulk of Wausau's fronting business involves SIR or deductible programs, with a smaller volume of captive-related programs, he said.

Captive retentions and SIRs can range from $250,000 to $1 million, with Wausau providing statutory limits for workers comp and excess general and auto liability limits of $5 million to $10 million, and possibly up to $25 million.

• Fireman's Fund Insurance Co., which provides fronting and a variety of other services to seven active association captives writing a variety of property/casualty lines, said Vp John Shea.

The insurer does not front for single-parent captives, largely because the market is too competitive to make it attractive, Mr. Shea said.

Fireman's Fund generally provides a $1 million policy limit for general and auto liability, ceding the business to the captive, which typically retains between $100,000 and $500,000.

Fireman's Fund then reinsures the captive for the balance of the limit, and may provide umbrella limits of $2 million to $5 million, Mr. Shea said.

• Transamerica Insurance Group, which last year formed a department to handle alternative market and cash-flow insurance programs, according to Philip Pierson, vp and director of risk management services.

Transamerica provides policy issuing and other services and excess and umbrella coverages above captive retentions for workers comp, general and auto liability.

The insurer generally expects captive retentions of $250,000 or more and will typically provide statutory limits for workers comp and $1 million total policy limits for general and auto liability.

Transamerica has four captive clients, all writing workers comp for total annual gross premiums of more than $40 million.

Meanwhile, fronting insurers are watching the progress of the NAIC's proposed model bill that would restrict fronting activities.

"Those who would be affected by the present structure of the bill are very concerned," said Peter Densen, managing director of Anistics, the risk management consulting unit of Alexander & Alexander Services Inc.

While the NAIC has good reasons to regulate unsound fronting arrangement, "to the extent they overregulate and make it expensive, people will find other ways to make it less expensive," Mr. Densen said.

"I'm concerned it is one more disadvantage that U.S. corporations have in trying to compete in a global marketplace." ■

Fronting services offered by new unit of Prudential Re

NEWARK, N.J.—A new Prudential Reinsurance Co. subsidiary is providing fronting services to alternative risk financing mechanisms like captives, risk retention groups and pools.

Prudential National Insurance Co., now licensed in 27 states and the District of Columbia, aims to be licensed in 40 to 45 states, said Bonnie Boccitto, president.

The insurer, which is capitalized at $14.8 million, will provide policy issuing services to alternative markets. Prudential Re will reinsure the captive or risk retention group.

Prudential Re typically will assume more than 50% of the risk.

Although Prudential National will charge a fee to cover its policy issuing costs, "the true reason for establishing Prudential National is to bring new business to Prudential Re," Ms. Boccitto commented.

"We are looking to make our living on the reinsurance. We are not looking to make our living on policy issuance fees."

Prudential National will work with an alternative market's underwriters to develop rating and underwriting guidelines and will offer claims management services.

One potential source of business, she noted, is agency captives, where an insurance agency uses a captive to retain a portion of the profitable business it writes but needs a licensed insurer to issue policies.

Prudential National now has three clients: one agency captive, one association captive and one partnership trust arrangement.

This business had previously been handled by Pru-LMI Commercial Insurance Co. of Mansfield, Ohio. However, Pru-LMI is being sold and the fronting business was transferred to Prudential National.

—By Douglas McLeod

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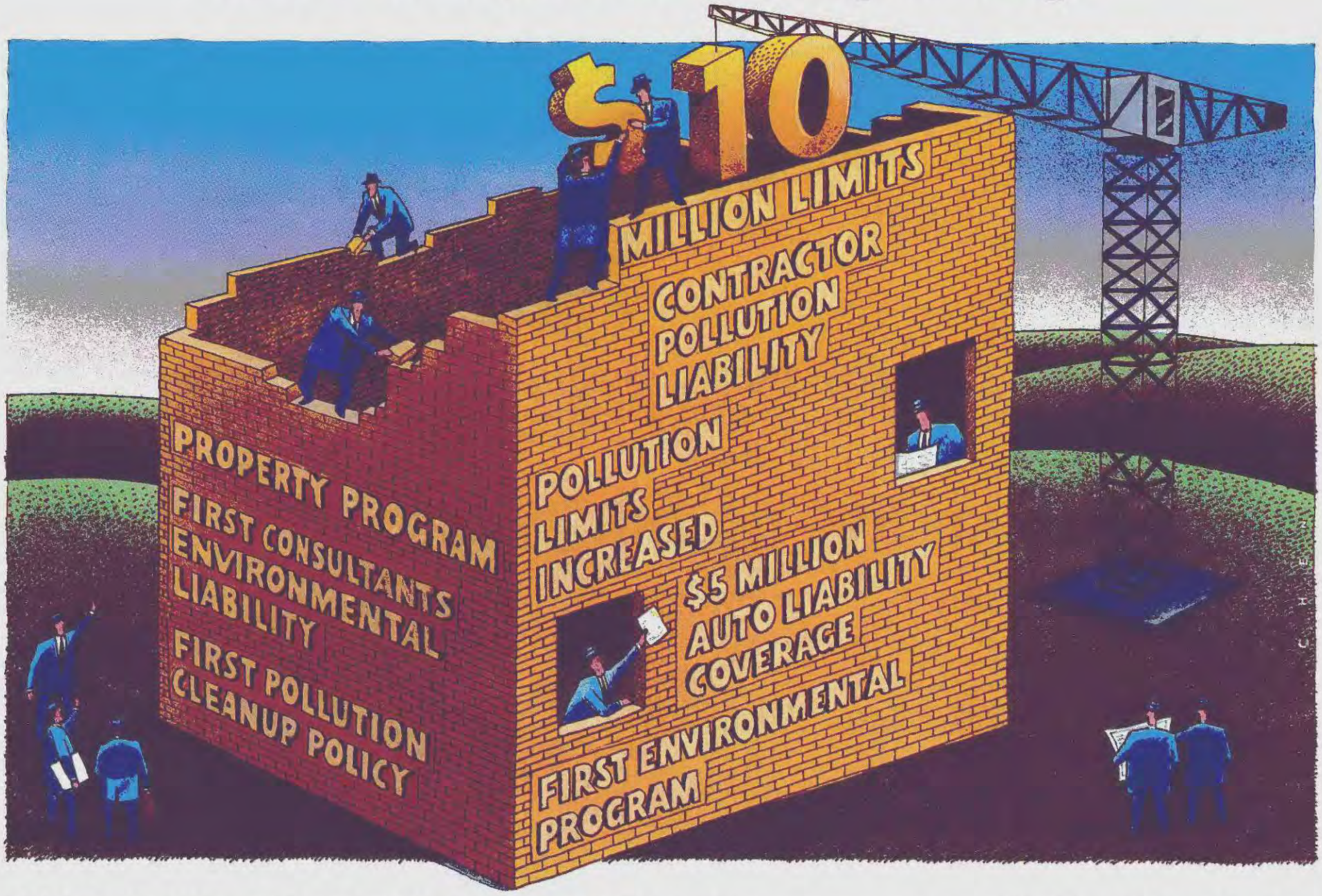

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1989 — First to introduce First Party Pollution Cleanup Policy to the marketplace.

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Opinions

•DUCKS IN A ROW•

Innovation knows no boundary

RISK MANAGEMENT is alive and well—at companies of all sizes.

When examining exemplary risk management programs, too often we look at the Fortune 500 companies, money center banks and similar giants of industry. These organizations have the resources and the personnel to blaze new paths in risk management. And, they have been duly recognized for their contributions over the years.

But the quality of risk management does not have to decrease with a company's size. Millie Workman proves that point.

Ms. Workman, the 1992 *Business Insurance* Risk Manager of the Year, has not allowed the relatively modest size of family-owned Belz Enterprises—2,500 employees and an estimated $200 million in annual revenues—to pose an obstacle to the enlightened practice of risk management. Although she is the Memphis, Tenn.-based company's only risk management professional, she has been able to tame a monstrous workers compensation cost problem, install innovative risk financing and claims management programs, and preach the gospel of loss control so that safety has become second nature to Belz employees.

And, in her role as benefit manager, she has made changes to the company's benefit plan that reduced health care costs by about 15% last year.

It is fitting that Ms. Workman is the first Risk Manager of the Year in the 15-year history of the award to represent a "small" company—one with less than $300 million in annual revenues. However, that is not to say that other small company risk managers are not applying risk management innovations to protect their organizations. Risk managers at companies of all sizes are embarking on new programs, as this week's special section on captives and other risk financing alternatives shows.

For those small companies that have not seen the need for a risk management professional, Ms. Workman has some advice: Join the movement. Ms. Workman says she hopes her selection as Risk Manager of the Year will cause management at some small companies to say: "I didn't think having a risk manager could have such an impact."

Three other organizations know the impact that risk management can make as demonstrated by the accomplishments of the three risk managers named to this year's Risk Management Honor Roll.

When Montreal-based Bombardier Inc. embarked on an aggressive acquisition strategy, Marc Darby tailored his risk management program to respond quickly to new exposures in the highly technical aviation and transportation industry.

The state of Georgia has benefited from Jerry Newsom's attention to loss control and from his risk financing innovations, including the establishment of a self-insured fund to cover liability risks for state authorities that operate facilities used by the public.

And, top managers at Transamerica Corp. in San Francisco carefully listen to Judith Tornese's risk management recommendations before embarking on new business ventures.

Risk management truly is an integral part of today's business environment. Executives who haven't realized that now have another four excellent role models to study.

Letters

Insurers responsible for clear policy language

To the editor: The "leapfrog logic award" of the century goes to the 4th U.S. Circuit Court of Appeals (*BI*, March 16).

Does waste storage, a responsible corporate act, equate legally with intentional pollution, or categorize the "offender" as an active polluter?

In 1981, the insurance industry published reports, of which I personally have copies, that manifested its intent to:

- Insure environmental releases, whether sudden or gradual.
- Provide separate liability coverage for known polluters.
- Interpret the "occurrence" language as a substitute for the sudden and accidental phraseology that would be removed from the standard pollution exclusion in liability insurance contracts.

Our legal system continues to ignore the following fundamental legal facts:

- It is the proximate cause that fixes liability under an insurance contract.
- Insurers have a duty to reduce the insurance contract to "unambiguous terms," especially with regard to exclusionary clauses.

American insurers were given the opportunity to follow the lead of Lloyd's of London, which introduced a completely unambiguous pollution exclusion into their liability coverage. Since they did not, they should live with their failure.

- The entire insurance contract must be reviewed with regard to coverage issues and with the purpose of trying to afford coverage in accord with the insurance buyer's intentions to insure.

Richard K. Fox
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Noblesville, Ind.

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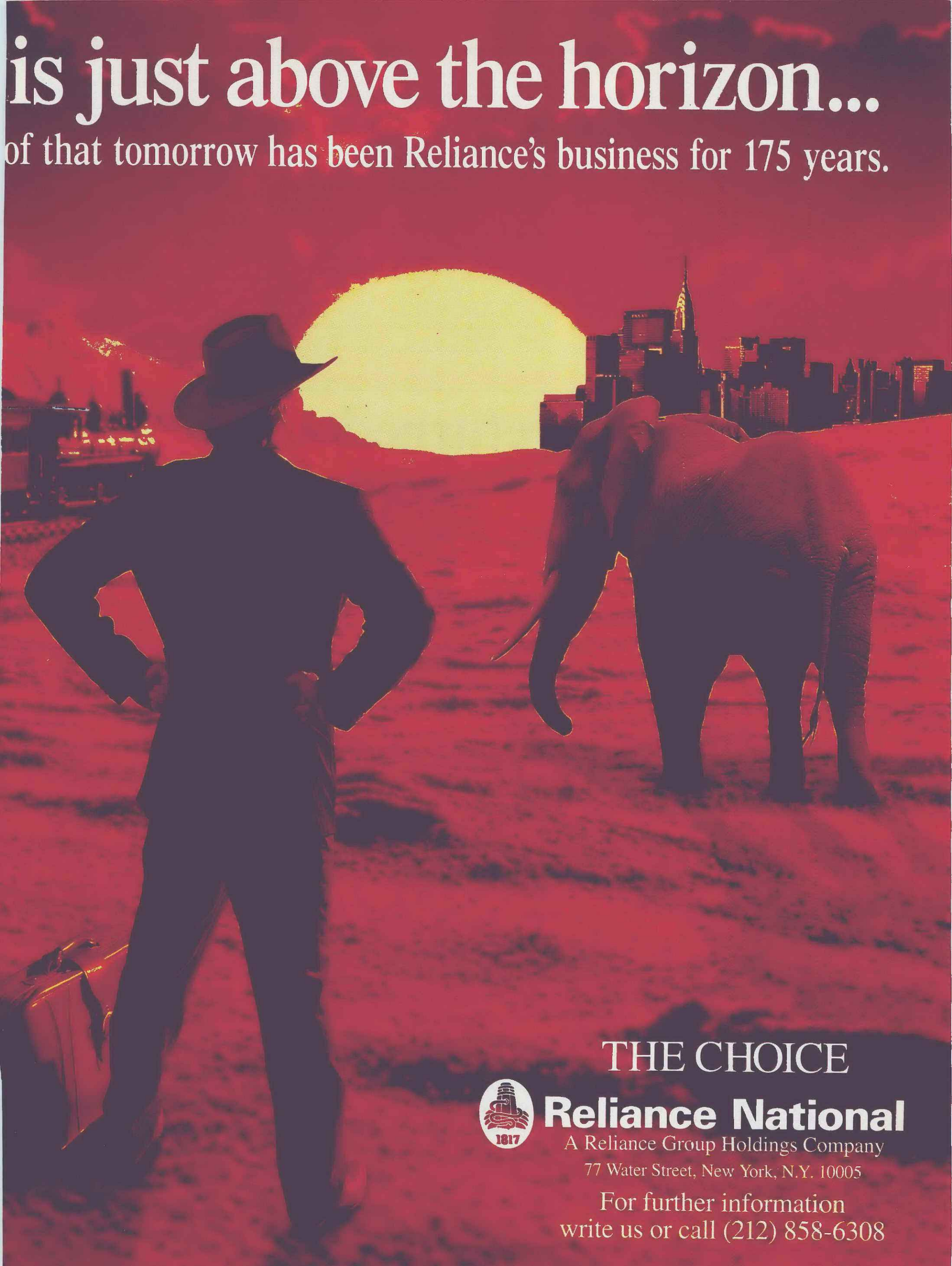

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Bermuda managers

Continued from page 3

iciles around the world at the end of 1991, according to the *BI* survey, up 6.5% from 2,676 a year earlier.

Along with the increase in the number of captives, premium volume in Bermuda also is growing. According to the latest figures available, gross written premiums by international insurers and reinsurers in Bermuda in 1990 totaled $13 billion, up 8.7% from $11.96 billion written in 1989. Net premiums rose 7.4% to $10.1 billion from $9.4 billion in 1989.

Most formations were single-parent captives owned by U.S. firms. Of the 64 captives formed in Bermuda last year, 51 are U.S.-owned.

Most write a mix of property/casualty business, according to Malcolm Butterfield, Bermuda's registrar of companies. But a number of captives were formed to cover just workers compensation or professional liability exposures like medical malpractice, he said.

Growth is continuing into 1992: Nine new captives were incorporated in Bermuda in January and February.

"I expect for us to hold our own with respect to new formations in 1992," Mr. Butterfield said.

Mr. Butterfield and captive managers are quick to point out all of Bermuda's advantages, though they are keeping an eye on threats from a couple of fronts that could affect the way business is conducted in Bermuda.

The Bermuda captive community is concerned about the proposed model law from the National Assn. of Insurance Commissioners that would limit fronting activities, though Mr. Butterfield and Bermuda managers aren't panicking (see story, page 3).

"While it creates additional restrictions, it wouldn't cause problems for any of our clients" if passed in its most recent form, said Nicholas S. Dove, president of Skandia International Risk Management Ltd. The restrictions in that draft did not appear to be "particularly onerous."

Clients of Rollins Burdick Hunter (Bermuda) Ltd. aren't expressing a lot of concern regarding the model fronting act, said President Robin Spencer-Arscott, who added he is watching development connected with the proposal with "guarded optimism."

Just the fact that such an effort is being made by the NAIC indicates that increasing scrutiny regulation is receiving on a worldwide basis, said Mr. Butterfield.

The regulator noted that he attends NAIC meetings and stays in touch with commissioners working on the proposal. "There are certainly technical issues which have to be resolved in the existing draft, but I'm quite optimistic that it's going to work out in our favor."

Mr. Butterfield and some managers also contend that the benefits of doing business in Bermuda outweigh the costs, but others say rising costs in the domicile could dampen activity.

A plan being developed by Bermuda's Insurance Advisory Committee to exploit the domicile's strengths and repair its weaknesses as an international business center has revealed that the cost of doing business in Bermuda is no greater than in other domiciles, said committee Chairman Brian R. Hall, who also is president of Johnson & Higgins (Bermuda) Ltd.

The costs are not high, "particularly in light of all the infrastructure that we have here and in light of the maturity" of the domicile, he said. "This study indicates that we're not out of line with other domiciles."

"We do a lot of feasibility studies," adds Roger C. Gillett, senior vp in the J&H (Bermuda) office. The cost of setting up a captive "is just not an issue."

Others acknowledge that the cost of operating in Bermuda can be high but do not think it deters captive formations.

"It's more expensive (in Bermuda)," said Mr. Cossar of Alexander Insurance Managers, but "I really think that the cost issue among the domiciles is a non-issue. It's been a bit of a red herring.

"There are other factors which are far more important than cost factors," he said.

Nonetheless, Bermuda managers are conscious of the need to keep costs down to remain competitive, Mr. Cossar added.

"I think there is a definite recognition by government and the community that we need to do what we can to keep costs down," agreed Robert C. Hug, president of Sedgwick James (Bermuda) Ltd.

While Bermuda's captive incorporation costs may compare favorably with other domiciles', managers' own costs have risen recently.

"Government keeps increasing the cost of doing business here, and it's difficult to pass all those costs on" to clients, said Mr. Grayston of Frank B. Hall.

Managers are left with the burden of becoming more efficient and keeping their own costs low to absorb expenses like increased payroll taxes, he said.

Bermuda's fragile economy is at a crossroads, Mr. Grayston pointed out, noting that the local economy has been hit hard by the recession and by slumping tourism of late.

To make up for lost tourism revenue, the government has turned to international firms, like captive managers. "But how much can you take out of the international business community" before those businesses themselves are hurt? he asked.

Business, government and tourism need to work together, said Mr. Grayston. "We better start thinking about putting effort in to help the tourist guys rebuild the business. It's as important to us as anybody else."

While some companies probably have shelved plans for captives because of the recession, the downturn hasn't had a big impact on captive formation, managers say.

It's logical that "when times get tough for corporations and money gets tighter, it's probably more difficult for some companies to make the decision to capitalize an insurance company," said Mr. Hug of Sedgwick James (Bermuda). "While I haven't seen any direct evidence of that, common sense would tell you it's so."

Mr. Carr of M&M (Bermuda) said he hasn't heard of any company calling off plans to form a captive as a result of the recession. "Not once has someone said they can't put up the capital because times are too tight."

If the recession hasn't had much of an effect on the Bermuda captive scene, neither have U.S. court decisions on the deductibility of premiums paid to captives.

The most recent decision is a U.S. Court of Claims ruling issued

Continued on page 14

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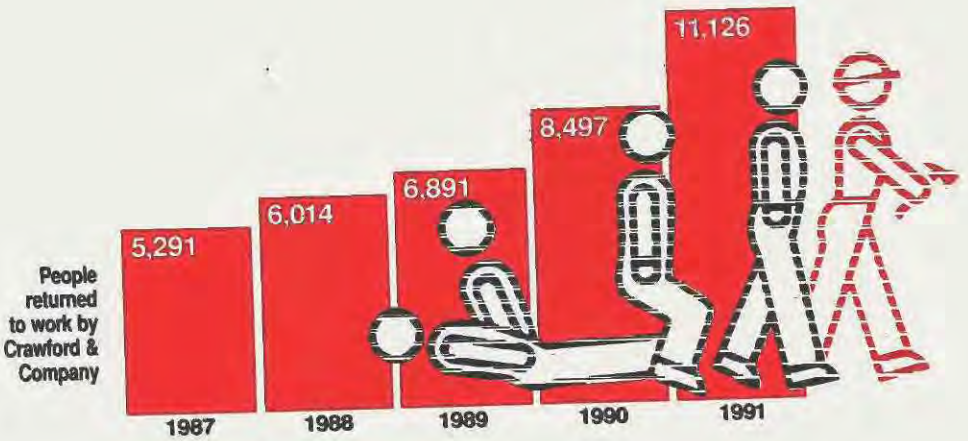

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Bermuda managers

Continued from page 12

late last year that allows Ocean Drilling & Exploration Co. to take deductions for premiums it paid to Mentor Insurance Ltd. of Bermuda in the mid-1970s (*BI,* Jan. 6).

Mentor wrote large amounts of unrelated business, losses from which led to the liquidation of the insurer (*BI,* June 17, 1985).

Besides the claims court ruling, three U.S. Tax Court decisions last year stated that corporations that pay premiums to wholly owned captives can deduct the premiums if the insurers write "relatively large" amounts of third-party business (*BI,* Feb. 4, 1991).

However, the four decisions are not causing a movement among Bermuda captives toward writing third-party business.

"We haven't seen people move into non-related business" that weren't already writing it, said Mr. Gillett of J&H (Bermuda).

Mr. Carr said he's surprised there hasn't been more talk from captives about non-related business because of the tax rulings "or more people saying 'why don't we pool risks somehow and get controlled non-related or third-party business.' But it hasn't been on the minds of many of our clients."

And, keeping in mind the losses captives tallied in the 1970s and early '80s from unrelated business, M&M (Bermuda) and other managers aren't pushing the idea.

"Our approach would be conservative in that area anyway," said Mr. Carr. "If the client isn't asking for it, it's not something we would be upfront pushing."

Deductibility of premiums is low on the list of considerations when risk managers are thinking of forming captives, according to Mr. Butterfield.

"People are mindful of what happens in those court decisions," he said, "but with respect to whether one is going to form a captive insurance company or not, we are still seeing people going to risk management reasons."

All but two of the largest Bermuda captive managers reported increases in premium volume written by captives they managed in 1991. Most also increased the number of captives managed.

Following are profiles of the largest Bermuda captive managers:

Johnson & Higgins (Bermuda) Ltd.

The soft market hasn't slowed the pace of growth at Johnson & Higgins (Bermuda) Ltd.

Bermuda's largest captive manager added 16 companies to its management roster in 1991, bringing its total to 178. These captives wrote $1.16 billion in premiums last year, up from just more than $1 billion written by J&H (Bermuda)-managed captives in 1990.

Despite the gain of 16 companies, the year-end total is up only one from the 177 reported at the end of 1990. Six clients changed managers, two captives were liquidated and one captive moved to another domicile. In addition, J&H (Bermuda) no longer counts six clients enrolled in rent-a-captives, as it has done in previous years, Mr. Gillett said.

The 16 captives added in 1991 included three that were previously managed by other Bermuda companies. Most of the 16 are single-parent captives.

"There were a number of incorporations out of Atlanta," said Mr. Gillett. "It was just a coincidence," partly attributable to work done by the J&H office in Atlanta.

The 1992 pace hasn't slowed for J&H (Bermuda).

In the first three months of this year, the manager has added six more captives, including two association captives.

"Almost all are primary casualty" captives, said Mr. Gillett.

J&H (Bermuda) has beefed up its staff to handle the increased business. It ended the year with 153 staffers, compared with 150 at the end of 1990.

And, additional staff increases are planned to handle an expected increase in business, according to Mr. Hall.

Parent companies are looking to form captives to fund international employee benefit programs, a relatively new trend, according to Mr. Gillett. "It is an area that captive owners are turning their attention to" as they look beyond property/casualty risks for ways to further control costs, he said.

Parent companies also are showing interest in using captives to fund pollution liability exposures, particularly in Europe where there is a "strong, heightened sensitivity to that whole problem," said Mr. Gillett.

While J&H (Bermuda) continues to sign up new captives, its premium volume under management may not rise much this year, according to Vp Shaun A. Reape.

While some of the new captives could write a substantial amount of premiums, "I don't think it will change that much," he said, because of the manager's already large premium base. "Historically, we're just showing steady growth."

International Risk Management (Bermuda) Ltd.

International Risk Management (Bermuda) Ltd. lost a few captives to Vermont last year but still sits solidly in the No. 2 position among Bermuda's captive managers, with 75 captives generating $625 million in annual premiums.

"Our growth is mostly in Europe," said Arthur H. Deters, president and chief executive officer of parent company International Risk Management Group. "Bermuda is slightly less this year over last year" because some clients have moved onshore or are now sending business to an already established captive in Vermont, he explained.

In 1990, IRM (Bermuda) managed 80 captives with premium volume of $700 million.

Growth was recorded by Englewood Reinsurance Co. Ltd., "one of the jewels in our crown," Mr. Deters said. The reinsurer writes financial reinsurance for captives managed by IRM (Bermuda).

"It's chugging along and continues to do very well," he noted.

In 1991, Englewood wrote premiums of $34.1 million and recorded earned premiums of $32.4 million, up from about $15 million in previous years.

Englewood last year recorded net income of $3.5 million, he pointed out.

A facility formed to write property insurance continues to operate, though slowly, while the commercial market remains soft.

Property Insurance Facility Ltd. provides coverage for clients too small to justify forming a captive.

"It's still in existence," Mr. Deters said of the property insurer. "Unfortunately, it's a space vehicle that hasn't gotten off the launch pad," he said.

"During the past year or so we've talked to a half-dozen prospective clients," but those clients' existing insurers have seen fit "to

Continued on next page

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Continued from previous page
do even sillier things than they did the year before and nothing happens. As long as the prices stay so low on this business, it's not something that's really attractive to the client or the Property Insurance Facility," he said.

Parker Risk Management (Bermuda) Ltd.

Parker Risk Management (Bermuda) Ltd. added three new captives in 1991 and increased the premiums under management for the third consecutive year.

The management company, a Frank B. Hall & Co. Inc. unit, lost one captive in the year, ending 1991 with 48 under management, up from 46 in 1990. Premiums generated by captives increased 3.1% to $435 million from $422 million in 1990.

Two of the new captives are single-parent companies and one is a group captive. Two write professional liability coverages, while one writes workers compensation risks. All are "fairly small," according to Mr. Grayston.

"This year we're starting off quite well," he said, with two new captives already on board and another waiting in the wings.

"I think we will have a much better year than last year. We've got quite a few interesting ones in the fire," he said.

Still, Mr. Grayston conceded that "it's very difficult to see what will happen later in the year. So much depends on the world economy and the U.S. economy."

The recession hasn't had a major impact on the captive industry, he said, but there is always the worry that companies that could form offshore insurers may not make it through hard times. "The problem is which companies are going to survive and which aren't?"

As an example of how the economy has battered some parent companies, he pointed out that one of the first Bermuda captives was formed by Pan American World Airways Inc., which was grounded for good last year.

Parker Risk Management (Bermuda) is now running off the Pan Am captive's business, Mr. Grayston noted.

The recession has dulled some companies' long-term thinking, which could include plans to form captives, he said. "When companies are in better shape, they can plan better over the long term."

International Advisory Services Ltd.

Bermuda's largest independent captive management company hung on to all its clients in 1991 and added a couple of new ones.

International Advisory Services Ltd. finished the year with 61 captives generating $410 million in premiums. That's an increase from 59 captives writing $350 million in 1990 premiums.

Last year's growth in premiums was fueled by the addition of a medical malpractice captive and a commercial reinsurer.

The reinsurer is Bristol Reinsurance Ltd., a 3-year-old company owned by the Niarchos Group that writes property and marine reinsurance (see story, page 38). IAS assumed management of the company in the last half of 1991.

"It's taken a lot of effort" to bring Bristol into IAS' ranks, said Mr. Ezekiel. "We've added four staff just for that."

Overall, IAS added six staffers in 1991 and another three this year.

Mr. Ezekiel also attributes last year's increase in premium volume to additional business written by a captive owned by a London protection and indemnity club.

In addition, premium volume has risen because medical malpractice captives are increasing their retentions, Mr. Ezekiel noted.

Other sectors of its business are flat, he conceded.

"Our association captives have followed the rest of the market," he said, referring to the soft commercial marketplace.

Still, Mr. Ezekiel stressed, "while it's tough to attract new people into an association captive, we've had a remarkable record—industrywide, not just us—in hanging on to all our current insureds and shareholders. There's a tremendous loyalty; almost no shopping in the commercial market."

IAS includes in its totals $50 million in premiums written by Accord Re Ltd., a financial reinsurer for which it provides backup management services (see story, page 60).

Marsh & McLennan (Bermuda) Ltd.

M&M (Bermuda) is seeing interest in captive formations from a couple of new fronts.

While captives often have been lost in the past because of mergers and acquisitions, "we've actually seen a couple of parent companies divest divisions that have then turned around and formed another captive," Mr. Carr said.

"In other areas we've seen some very old and long-standing captives add significant new lines of business—bring in a whole new worldwide program—which is great. That's not a new captive but it's twice the business of a new company, for instance."

M&M (Bermuda) increased both the number of captives under management in 1991 and the premium volume its clients write.

Business Insurance estimates M&M (Bermuda) managed 87 captives at year-end 1991, up two over the previous year. Captives managed by the firm wrote an estimated $350 million in premiums last year, up from $340 million.

Mr. Carr said most of the interest in new formations is coming from "single-parent organizations."

"Most of our business is still U.S.-based, although not long ago we formed a captive in Bermuda for a large European corporation, which sort of surprised us" because the parent chose Bermuda over Luxembourg, Dublin and other European domiciles, he said.

The domicile chosen by a parent "really comes down to where clients are comfortable, what type of service they want, the convenience of access," he noted.

Sedgwick James (Bermuda) Ltd.

Premium volume written by captives managed by Sedgwick James (Bermuda) Ltd. rose by nearly 40% last year to $349 million from $250 million in 1990.

Although Sedgwick James (Bermuda) took on the management of three new captives, it was an increase in business written by existing captives that caused the surge in premium volume.

However, the company lost several captives to liquidation last year, bringing its 1991 captive count to 69, down one from 1990.

Mr. Hug pointed out that not only have existing captives substantially increased their volume, "a number of U.K.-parent captives have moved their U.S. workers

Continued on next page

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Spotlight report

Bermuda managers

Continued from prev:ous page

comp and/or liability covers into their captives "

As British companies become more comfortable with the nature of the U S market and learn to more accurately project U S claims, they are wribng cover- age for U S hability nsks through their cal)tives

So far this year, Sedgwick James (Bermuda) is studying four propos- als for new captives and gathering information for three others, Mr Hug noted "We are also having discussions on three existing cap- tlves about the possibility of mov- ing the management to us "

Sedgwick James (Bermuda) is generating Interest m captives with a series of Internal seminars at its 13 largest U S offices A shorter version of the seminar slated for other offices is "a httle less techm- cal," said Mr Hug

Major account executives and marketmg personnel attend the se- minars to learn how captives work, he explained, adding that the meetings have led to several in- quines from potential clients

Rollins Burdick Hunter (Bermuda) Ltd.

A quick start for Rollins Bur- click Hunter (Bermuda) Ltd has ing closely with Mr Cossar, the of- managing 45 captives, up from 41 at the end of the 1991

RBH (Bermuda) finished last year with $225 milhon m premi- ums under management, a slight increase from $222 million pro- duced by 39 cal,tives in 1990

"In the last three months, we've seen a lot of activity," said Tracy Keill, vp Apart from the new for- mations, several feasibility studies are under way for potential chents, she noted

The two new incorporations in milhon in premiums m 1991 com- 1991 were smgle-parent companies forrned to write workers compen- sation business In addition, RBH (Bermuda) took over the manage- ment of a group captive formed by automobile dealerships

However, the manager lost one captive last year

RBH (Bermuda) has carved a niche in managing captives owned by auto dealers But while the management company does spe- ciallze in it, "it's not the malonty of our busmess," said Ms Keill

Nine auto dealership captives 1 Manager

1 Parent

Ms Keill said RBH (Bermuda) offers captive clients a unique i is part of a large organization with a network of U S offices, the Ber- muda operation is "small enough 1 International Advisory Services Ltd. to give personal service I can't thlnk of any chent that's not been happy with our service "

RBH Bermuda reported 16 staffers at year-end 1991, up one from the previous year

Alexander Insurance Managers Ltd.

Alexander Insurance Managers Ltd is heading into 1992 with a i change in its managerial lineup and a renewed focus on its par- ent's capability as a global cap- tive manager

Former AIM Managing Director Geoffrey Hunt has left the Ber- muda office to Join parent Alex- ander & Alexander Sennces Inc 's captive management subsidiary m the Isle of Man

Andrew McComb, senior vp m the Bermuda office, unll be work- ing closely with Mr Cossar, the of- ment operations

AIM finished strong in Mr Hunt's last full year as managing director AIM incorporated eight nation of effort and exchange of new captives in 1991 and took over mformation" about potential eli- management of two others from ents among all A&A offices, Mr Cossar said

"In the last three months, we've other managers are under way for potential chents, other management companies she noted

AIM's 89 captives wrote $221 data processing capabilities 1991 were smgle-parent companies forrned to write workers compen- sation business In addition, RBH (Bermuda) took over the manage- ment of a group captive formed by automobile dealerships

However, the manager lost one captive last year

RBH (Bermuda) has carved a niche in managing captives owned

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	Premium volume 1991	Premium volume 1990	Capt,ves 1991	Capt,ves 1990	Staff 1991	Staff 1990
Johnson & Higgins (Bermuda) Ltd. Johnson & Higgins	$1,160	$1,000	178	177	153	150
International Risk Management (Bermuda) Ltd. IRM Group/Swiss Reinsurance Co	625	700	75	80	55	61
Parker Risk Management (Bermuda) Ltd. Frank B Hall & Co. Inc	435	422	48	46	16	18
International Advisory Services Ltd.	410	350	61	59	33	27
Marsh & McLennan (Bermu(la) Ltd. Marsh & McLennan Cos Inc	350'	340	87'	85'	501	491
Sedgwick James (Bermuda) Ltd. Sedgwick Group PLC	349	250	69	70	32	34
Rollins Burdick Hunter (Bermuda) Ltd. Aon Corp.	225	222	41	39	16	15
Alexander Insurance Managers Ltd. Alexander & Alexander Services Inc	221	197	89	84	64	65
Skandia International Risk Mangement Ltd. Skandia America Group	200	215	82	87	24	26
Pinehurst Management Co. Ltd. Jardine Matheson Holding Inc	150	150	43	46	16	17
Atlantic Security Ltd.	150	150	27	28	10	10

' Does not include wo captives managed in Bermuda but domiciled elsewhere ' Restated

Source 8/survey

GRAPHIC BY JOHN J BOHORQUEZ

Skandia International Risk Management Ltd.

Skandia International Risk Man- agement Ltd ended 1991 with a slight dip in premiums under man_ writes fldellty coverage for the in- house managers of the umon pen- mon funds

In the workers comp area, Mr Dove said a lot of interest is com- ing from smaller companies now turning to self-insurance because they are so disillusioned with the U S workers comp market

Jardine Pinehurst Management Co. Ltd.

The departure of a half-dozen captive managers from Jardine Pin- ehurst Management Co Ltd in 1991 isn't enough to dampen the spirits of the management com- pany's new president

Signs of a commercial market hardening, Bermuda's strength as a domicile and changes affecting interest in captives, Mr Jardme Plnehurst's owner said, notmg that Atlantic Security me to the conclusion that 1992 and beyond wtll be very good years," said Carl J P Daly, president of the Bermuda operation

sean, senior vp m the office of the Aon Corp subsidiary now hee's executive director, to handle ize and coordinate your efforts "

Mr Wiseman's role is to make sure that there 15 "proper coordi- nation" among all A&A offices, Mr Cossar said

Standardized software, deve- loped in Bermuda, is "giving a global standard to our captive management service," Mr Cossar shown "considerable interest" in sional hability and workers comp

The agement after losmg several cap- tives, despite the addition of flve captives under management at The six captwes that left Jar- dine Pinehurst were already "in the mothball state," said Mr Daly

Two of three new captives are owned by U S parents, the third is owned by a European multina- tional

The parent company of Jardine Pinehurst, known last year as Pm- ehurst Management Co Ltd, also is owned by JIB Group PLC, for- merly Jardine Insurance Broking Group Ltd Jardine Matheson Holdings Ltd of Hong Kong last November sold 323% of the bro- ker's stock on the London Stock Exchange to finance the broker's expansion

Mr Daly said the sale puts JIB Group "on the map as an inde- pendent, multinational insurance broker "

Atlantic Security Ltd.

Last year was a near repeat per- formance of 1990 for Atlantic Se- curity Ltd

The management company, tied for the 10th spot among the largest managers m Bermuda, wound up 1991 with 26 captives generating $150 million in premiums The year before, 28 captives wrote the same amount of premiums

"It was a very dull year" for captive formations, said Colin C James, senior vp "We lost a couple of cal*wes it manages, despite re- cent decllnes

Mr Daly was formerly a director with Jardine Insurance Brokers in London

Jardine Pinehurst manages 43 captives from its Bermuda office, down from 46 at year-end 1990 sal Re will write premiums 01 ums of $150 milhon m 1991, about this year

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CAPTIVE INSURANCE MANAGEMENT

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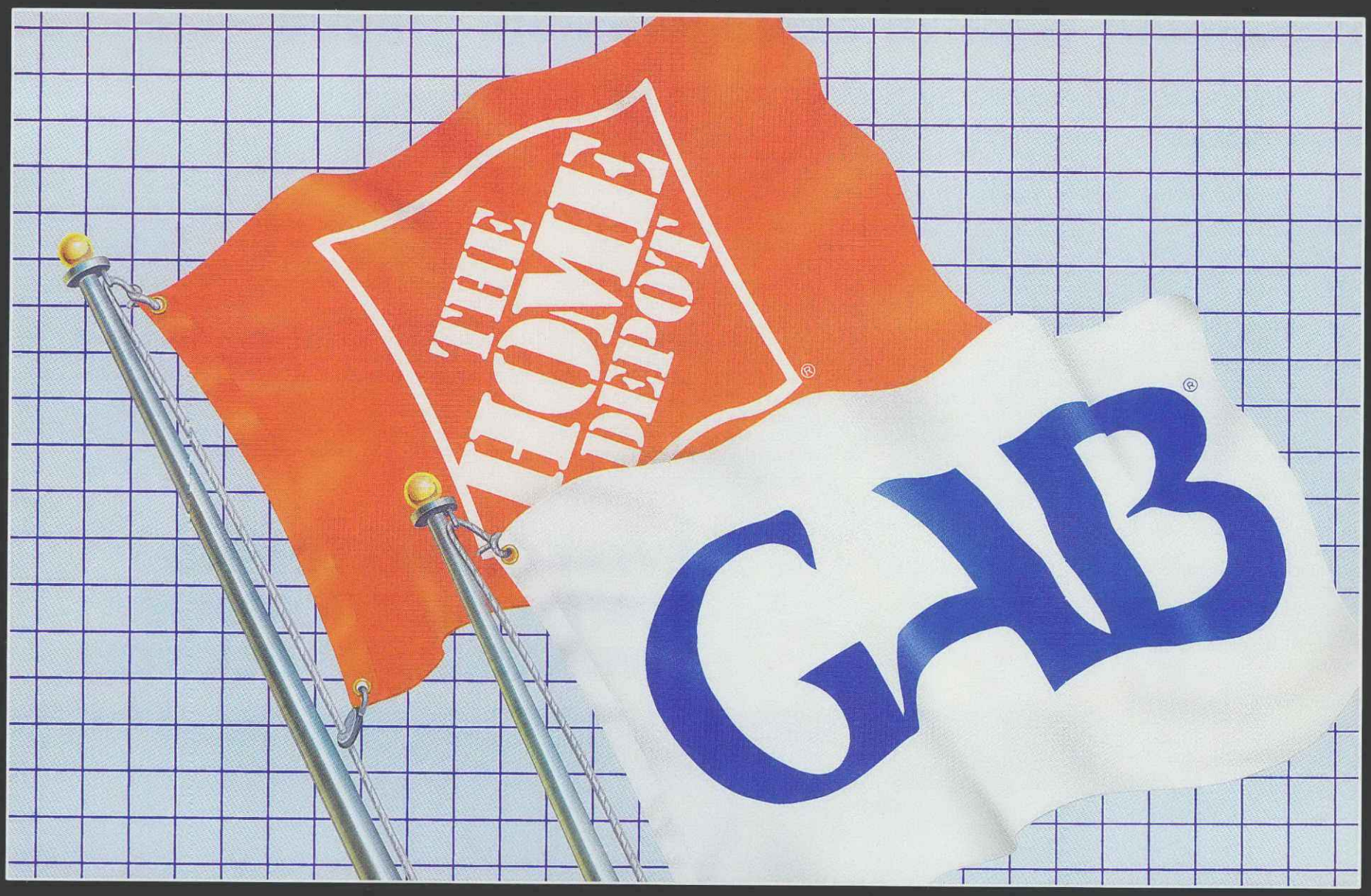
semi-retired Robert C Whiting a pnvately held rent-a-captive fa- said he beheves the company wtll begm to see growth m the number nty (see story, page 19)

The rent-a-captive's 1991 premi- ums reached about $12 million, with Jardine Pinehurst manages 43 captives from its Bermuda office, down from 46 at year-end 1990 sal Re will write premiums 01 ums of $150 milhon m 1991, about this year

Mr James said he hopes Univer-



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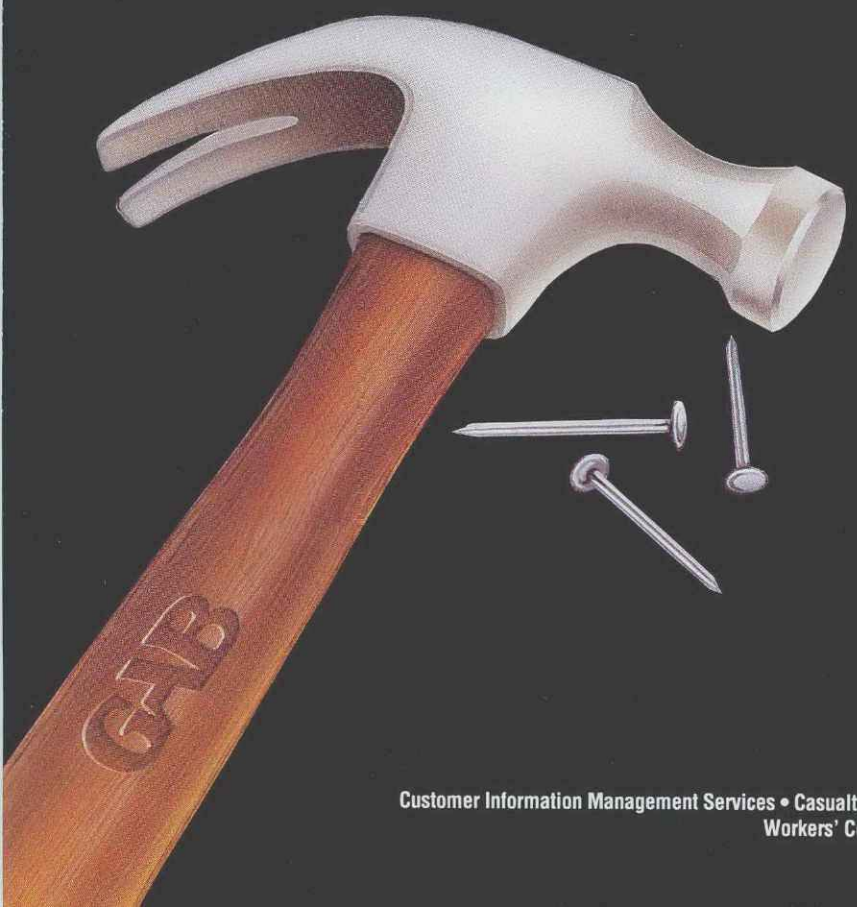

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Spotlight report

Independent captive managers hold ground

Firms tout flexibility compared with brokerage units

By MICHAEL BRADFORD

HAMILTON, Bermuda—Independent captive managers in Bermuda are finding growth opportunities, even though the insurance industry climate isn't encouraging a rush to form offshore insurers.

The soft commercial insurance market has slowed the formation of captives in recent years for all managers. Neither independents nor broker-owned captive managers are seeing the kind of activity that marked the hard market of the mid-1980s, when managers had their hands full to complete a deluge of incorporations.

However, among the largest Bermuda captive managers are a couple of independently owned firms that are competing toe to toe with managers owned by the large alphabet house insurance brokerages.

The domicile's fourth-largest captive manager, International Advisory Services Ltd., is an independent that has shown steady growth since its formation in 1981. IAS ended 1991 with 61 captives under management writing $410 million in premiums.

Atlantic Security Ltd., another independent, is tied for the 10th spot among the island's largest captive managers.

Formed in 1974, Atlantic Security has grown to manage 27 captives that write $150 million in annual premiums.

Several smaller independently owned companies also manage captives in Bermuda.

One with its sights on joining the top 10 largest management companies is Independent Management Group Ltd. The eight-year-old firm ended 1991 with 22 captives writing gross premiums of $83 million.

Although Independent Management lost several clients when former Vp John G. Neal left last year to form Symphony Management Ltd., it made up part of the loss by signing up three new clients in 1991.

"I thought we did well last year," said Independent Management President Peter J.N. Strong. And with around five other potential captive clients in the wings, 1992 is shaping up nicely, he said.

One of the captives Independent Management incorporated last year is owned by a non-profit hospital and writes medical malpractice coverage. Independent Management has concentrated on captives owned by hospitals since 1987 and expects to sign up others in the coming year, Mr. Strong noted.

Another captive formed last year writes property/casualty coverages for a lumberman association and another, which was taken over from a different Bermuda manager, is a group captive formed by automobile dealers in Canada.

Mr. Strong believes now is the time to form a captive, before the property/casualty insurance market begins to harden. In a hard market, it's difficult for new captives "to even get an interview with a reinsurer," he said.

Another independent holding its ground in Bermuda is Stockholm Management Ltd.

Though it's a unit of Stockholm Reinsurance Co. Ltd. of Sweden, Stockholm Management considers itself an independent because it is not linked to a large brokerage operation. Stockholm Management has five captive clients.

Even though the market remains soft, queries are picking up at Stockholm Management, said Vp Beryl Pearson.

"We seem to have had more inquiries in the last six weeks than all of last year," she said. "I know that the market is still soft," she added, but "I think people are just looking for alternatives" before the market changes.

Ms. Pearson sees Stockholm Management's independence as an advantage for captive clients.

"We can tailor-make accounts a little easier than the alphabet houses," she explained. "Our pricing is quite competitive. Some alphabet houses have a minimum cost, which is perhaps higher than some of the small captives are prepared to pay."

Mr. Strong also believes a captive manager's independence can be a plus for clients. "We're not limited to the deals we can make," he said. "By owning our own companies, we can make decisions without having the head office approve it."

The independent managers agree that their marketing is a little different from the broker-owned management companies that have networks of offices in the United States.

A heavy travel schedule in the United States and "a bit of advertising" helps Stockholm Re get the message out, said Alain F.A. Wattiez, president of the Bermuda operation.

"When we get a query, we try to find out how they got our name," he said, whether it was from a lawyer, accountant, broker or other source. "It looks like it's word of mouth, really," he said.

Mr. Strong of Independent Management said word of mouth also makes up a big part of his marketing. After 22 years in the Bermuda market, he has built up a long list of contacts in the United States who have helped by recommending his firm. "I make a lot of trips to the States," he said. "That's very important."

Other independent management firms in Bermuda include:

- Caledonian Management (Bermuda) Ltd., with 10 captives writing $23 million in 1991 premiums.
- Kast Financial Management Ltd., with six captives writing $8 million in 1991 premiums.
- Risk Financing Services Ltd. Eight captives under management wrote $2.2 million last year.
- Griffiths & Wanklyn Management Ltd., which managed six captives in 1991.
- CFM Insurance Managers Ltd., which managed five captives in 1991. ■

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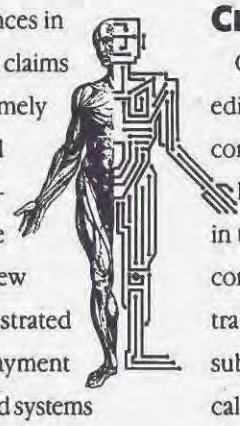

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Rent-a-captive programs grow

Employers seek funding alternative for workers comp

By MICHAEL BRADFORD

HAMILTON, Bermuda—For most of Bermuda's rent-a-captive operations, 1991 was another year of growth.

The Insurance Profit Center, a Bermuda-based rent-a-captive, recorded increases in participants and net premiums and opened its fourth affiliate, located in Dublin, Ireland.

But its gross premiums fell 16% with the cancellation of a large program.

Universal Re-Insurance Co. Ltd., a privately held rent-a-captive managed by Atlantic Security Ltd., saw a healthy jump in premiums and is off to a fast start in 1992.

"Universal Re is doing swimmingly," said Colin C. James, vp of Atlantic Security.

Another Bermuda rent-a-captive showed improvement from 1990, but one other is winding up its operations.

Rent-a-captives are used by a company or group of companies to finance risks without setting up their own captive. The user of a rent-a-captive essentially is responsible for any losses on its business and receives any profits as if it owned the captive.

A fully funded rent-a-captive program operates without reinsurance and requires policyholders to fund their aggregate limits with cash and letters of credit.

A "traditional" program is written through a fronting company or directly by the rent-a-captive, depending on the coverage. The premium is calculated for the risk, and reinsurance protects the program against catastrophic losses.

"It was another exceptional year" for the Insurance Profit Center, said Paul D. Watson, executive vp and controller at affiliate Mutual Indemnity Ltd.

The affiliates of IPC are Mutual Indemnity Ltd., Mutual Indemnity (Barbados) Ltd., Mutual Indemnity (U.S.) Ltd. and Mutual Indemnity (Dublin) Ltd.

The Dublin affiliate was capitalized late last year at $20 million and will operate like its sister affiliates. "We hope (Europe is) going to be a big expansion area for us," Mr. Watson.

IPC's gross premiums fell 16.2% to $124 million in 1991 from $148 million in 1990, while net premiums grew 23% to $123 million in 1991 from $100 million in 1990.

Mr. Watson attributed the decline in gross writings to a large program written by Mutual Indemnity (U.S.) that did not renew last year. The non-renewal hardly showed in net premiums because it was 99% reinsured.

The program, he added, was not even expected to renew in 1990. "We were able to retain (it) for a couple of years."

Mutual Indemnity (U.S.) was incorporated in 1989 in Bermuda but elected to be taxed as a U.S. corporation. This relieves participants of paying federal excise taxes on premiums paid to the company.

Participation in IPC grew, though more slowly than in past years. Some 47 new programs in 1991, along with 35 cancellations, left a total of 221 programs.

Of the new programs, 39 were traditional programs and eight were fully funded. Of those canceled, 19 were fully funded and 16 were traditional.

A "fairly hard" workers compensation market continued to fuel IPC's growth, Mr. Watson said.

The rent-a-captive was given a shot of publicity with last year's public sale of parent Mutual Risk Management Ltd., he said.

IPC's combined ratio rose to 105.9% in 1991 from 97.4% the year before due to an increase in the loss ratio to 72.7% from 64.3%. The expense ratio nudged up to 33.2% in 1991 from 1990's 33.1%.

What lies behind the rising loss ratio has not been pinpointed. But Mr. Watson said he believes it is related to workers comp accounts in Texas.

The Texas work comp system is driving up losses for many commercial insurers.

IPC continues to rely heavily on Legion Insurance Co. in Philadelphia for fronting. The insurer, which is owned by Mutual Risk Management, provides most fronting services for IPC clients.

Universal Re also saw a surge in workers comp business.

In March, the rent-a-captive had already matched its $12 million in gross premiums written for all of 1991. Last year's premium was up 41.2% from $8.5 million in 1990.

"Universal Re is doing very, very well indeed," said Mr. James. He expects premiums to reach about $25 million this year.

The rent-a-captive is concentrating on accounts in California and the Midwest and has developed some "excellent relationships with A+-rated insurers" that supply fronting services, Mr. James explained.

Transamerica Insurance Co. and Fremont Indemnity Co. are two of the insurers issuing policies for clients of Universal Re.

"In the last six months, we've written six or seven substantial accounts," he noted, bringing total clients to 32. About 18 of those generate most of its premium volume.

At Hurst Holme Insurance Co. Ltd., a rent-a-captive facility managed by International Advisory Services Ltd., premium volume jumped 29.2% to $8.4 million in 1991 from $6.5 million in 1990.

The facility gained four new clients and lost two last year, bringing its total to 20. Most use the facility for liability risks.

But Alexander Insurance Managers Ltd., a unit of Alexander & Alexander Services Inc., is basically running down its rent-a-captive activities.

The company is concentrating on its core business of brokerage and risk management consulting, which includes captive management, according to Alan C. Cossar, executive director at AIM.

Its facility, Hemisphere Marine & General Assurance (Bermuda) Ltd., no longer writes new programs, said Mr. Cossar.

Hudson Reinsurance Co. Ltd. also offers a rent-a-captive program (see story, page 30). ■

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Risk Exchange volume up in '92

Group considers forming similar program in U.S.

By MICHAEL BRADFORD

HAMILTON, Bermuda—The Risk Exchange Assn. is entering 1992 with premium volume up 45% in the first two months, thanks mostly to a new member.

And, anticipating higher insurance rates in the commercial market, the Risk Exchange is considering cloning itself in the United States.

The facility, formed in 1984, is more valuable in a hard commercial market. It is during that part of the cycle that policyholders increasingly turn to the Risk Exchange for coverage.

Gross written premiums reached just more than $1 million after the first two months of 1992, compared with $690,000 for the same period a year ago.

In addition to a new member—Central Petroleum and its captive, Tiara Insurance Co.—premiums are up due to a premium increase on one account, said Robert J. Rosser, vp of marketing at Skandia International Risk Management Ltd., which manages the Risk Exchange.

Membership in the exchange, however, totals 13, down from 14 last year, because two members left—one due to a merger and the other at the behest of a new risk manager.

Mr. Rosser said the exchange has a "core group of committed members" that remember the "vital role" the Risk Exchange played during the hard market of 1985-1986.

The exchange is a "long-range risk management tool," he said. "It's not something you hop into when the market is hard because you can't fill a piece of your umbrella and then disregard when the market is soft."

Skandia Risk Management also is considering the formation of a similar vehicle in the United States.

During last year's Vermont Captive Insurance Assn. conference, meetings were held with insurance and banking regulators about possibly "setting up a similar mechanism in Vermont for Vermont captives," said Mr. Rosser. Regulators were receptive to the idea, he added.

Because of the current soft market, a new facility in Vermont probably won't be put together soon, Mr. Rosser said. But when the market does harden, he said, "the preliminary groundwork will have been laid."

Apart from a hard market, the Risk Exchange also expects three 1991 U.S. Tax Court decisions to continue to stir interest in the facility. The rulings allow corporations to deduct premiums paid to wholly owned captives as a business expense if the captive underwrites "relatively large" amounts of insurance for unrelated entities.

The Risk Exchange is not a pool, Mr. Rosser stressed, because its founding members wanted more flexibility than is available in typical pooling arrangements.

Members of the Risk Exchange are able to select the classes of insurance they want to reinsure and can turn down individual risks that are presented to them, rather than pooling and reallocating all the business that flows to the facility.

But as the soft market lingered in 1991, premiums written by the exchange were nearly flat.

In recent years, the Risk Exchange has written less than $2 million in premiums, reaching $1.7 million in 1991. That's up from $1.6 million in 1990.

Casualty writings continue to make up the bulk of the exchange's business, with $1.5 million in premiums in 1991, up from $1.4 million in 1990. Property premiums climbed slightly in 1991 to $239,120 from $237,419 in 1990.

The exchange hasn't written marine business since 1988 when marine premiums were $149,000.

Capacity for casualty risks is now at $2.2 million, up from about $2 million a year ago.

The increase in casualty capacity is an indication of "the way the captive members are utilizing the exchange now and have been for some time to increase their gross retentions," said Mr. Rosser.

To ensure a vested interest in the exchange's profitability, Skandia America Reinsurance Corp. in New York, another Skandia America Group unit, always takes at least 10% of a member's risk and will accept as much as 25% up to a maximum of $750,000.

Skandia America Re replaces Hudson Reinsurance Co. Ltd., another Skandia affiliate, as the underwriter of that coverage. The switch was made because Skandia America Re is "an A-rated company with $340 million in capital and surplus," said Mr. Rosser.

Property capacity has fallen to $2.3 million from $2.6 million a year ago. Marine capacity now stands at $2.2 million, compared with $2.5 million at this time last year.

The exchange's loss ratio reached 120% in 1991, significantly higher than 87% in 1990.

Mr. Rosser said the 1991 ratio is high because the exchange "took a couple of knocks on the property program," and while there were no losses on the casualty side, that book of business is customarily reserved at a 100% loss ratio to account for losses incurred but not reported.

The expense ratio dropped to about 25% from 27% in 1990.

Since it began, the exchange's combined ratio is 100.8%. But, that is skewed by a large property claim that is still in Spanish courts, according to Mr. Rosser.

All reinsurers on the loss, which could exceed $100 million, have denied liability and there is a "50-50 chance this thing will be a wash and no payment will be made," Mr. Rosser said.

Still, the exchange is reserving for the loss and any interest penalties or bad faith penalties that could be assessed if reinsurers are found liable, he explained.

"If you took that out," Mr. Rosser said of the potential claim, "the loss ratio would be in the high 60s."

Members that join the Risk Exchange must have more than $1 million in capital and surplus and pay $15,000 in annual dues. ■

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OIL, OCIL seek new members

New flexibility in policy terms

By ROGER SCOTTON

HAMILTON, Bermuda—Property mutual Oil Insurance Ltd. and the affiliated liability insurer, Oil Casualty Insurance Ltd. are adopting what their president, K. Doyle Stephens, describes as a "new corporate culture."

Gone is the low-key, low-growth approach that characterized these oil and gas industry mutuals in recent years. Gone, too, are the conservative, low-budget annual reports, replaced this year with the glossiest financials the companies have yet produced.

OIL and OCIL are going for growth.

Change was first evident two years ago when the mutuals started offering unprecedented brokerage commissions of up to 10% for new business.

Last year, OIL—which writes up to $150 million in all-risk property damage coverage, well-control insurance and third-party pollution liability coverage—began offering replacement-cost coverage, and restoration and re-drilling coverages on an optional basis.

This year, OIL's 49 member companies—most of which are in the United States—can decline gradual pollution coverage. Previously, the coverage was standard in the OIL broad form pollution policy.

An endorsement now being offered for the first time allows policyholders to restrict coverage to sudden and accidental pollution only, at a premium saving.

Those opting for the endorsement will not be charged an incurred-but-not-reported loss surcharge. The saving will vary from member to member.

However, under the endorsement's terms, policyholders who decline the gradual pollution coverage give up any right to claims not only for future losses but also for prior losses that have not already been reported.

Explaining this move, Mr. Stephens says that some OIL policyholders are not as exposed to gradual pollution risks as others and, therefore, shouldn't be required to pay the same premiums.

OIL will compete for business on a rational basis and will not push anyone out of the market, says Mr. Stephens. "However, we do feel that the time has come for us to take our place in the market," he said.

"We have a combined membership of nearly 60 companies representing a significant portion of the world's oil industry, and it's incumbent on us to see if we can offer others the same quality service we offer these corporations."

In his president's report to shareholders, Mr. Stephens also noted that "as commercial markets continue to harden and capacity becomes more scarce, we expect OIL will enter a period of substantial growth."

Last year OCIL—which writes excess liability limits of $100 million per occurrence with a $100 million annual aggregate excess of an attachment of at least $20 million in underlying insurance or self-insurance—quietly raised its umbrella liability rates across the board.

"This was in recognition of losses and the need to generate additional premium income," said Mr. Stephens. He will not say how much rates were raised, but insists that business was not lost because of the increases.

In fact, far from losing business, OCIL just recently began winning new accounts.

At year end, the liability insurer, which—in addition to general excess liability—offers $50 million in directors and officers liability limits per occurrence, with a $50 million aggregate excess of at least $20 million, had a total of 40 members. Two months later, the total rose to 47.

"We've seen OCIL attracting more members following a significant reduction in general capacity in London, along with increased prices and a good deal of uncertainty," said Mr. Stephens.

To qualify for membership in either mutual, a company must either derive more than 50% of its gross annual revenue from petroleum operations or devote more than 50% of its gross assets to petroleum operations.

OIL's underwriting income fell nearly 50% in 1991, to $37.8 million from $73.8 million in 1990.

Mr. Stephens attributes the weaker result to the combined impact of three developments: lower gross premiums written—$212.5 million from $226.6 million in 1990; higher reinsurance costs—$55.6 million from $47.7 million in 1990; and higher losses—$119.1 million compared with $105.1 million.

Gross premiums fell, Mr. Stephens said, mostly because OIL last year reduced the limit of its "Excess OIL" policy to $50 million from $150 million last year (*BI*, April 29, 1991).

In 1991, OIL had four new losses for which the company put up $80.5 million of case reserves, $25 million of it for one event. Changes to prior years' losses accounted for an additional $15.7 million, while the company added almost $20 million to its IBNR fund last year.

Total loss reserves rose 22.9% to $255 million in 1991—$108 million for IBNR and $147 million for incurred losses payable.

Debt servicing costs of $43.5 million and general and administrative expenses of $3.2 million left OIL with a net operating loss of $8.8 million, compared to earnings of $27.5 million in 1990.

After $1.3 million in interest income and a $43 million dividend from its investment subsidiary, Oil Investment Co. Ltd., OIL had net income of $35.4 million, compared to $30.3 million in 1990.

OIL, which borrows against a bank line of credit to pay large losses instead of disrupting the investments of its investment subsidiary, reduced its debt obligation by $95 million last year. The balance sheet provision for loans payable fell to $505.5 million.

OCIL, by comparison, reported that its underwriting loss rose to $22.7 million for 1991 from $15.9 million in 1990.

Mr. Stephens attributes that partially to an increase of $6.5 million in OCIL's 1991 loss provision due to prior year's losses. These included two disasters for which loss reserves of $27.1 million were established in 1990. One involves claims from the 1988 explosion at a Shell Oil Co. refinery at Norco, La., (*BI*, May 9, 1988) and the other relates to the 1989 explosion at a Phillips Petroleum Co. plant in Pasadena, Texas (*BI*, Oct. 30, 1989).

Gross premiums written rose $2 million to top $18 million in 1991, nearly $13 million coming from umbrella liability business and the rest from D&O. Net premiums earned were flat at $11 million, while losses and loss expenses incurred rose 24% to $33.7 million from $27.1 million in 1990.

OCIL's net operating loss rose 37% to $26.7 million from $19.5 million in 1990.

Mr. Stephens points out that the OIL's and OCIL's investment subsidiaries are carried on the companies' balance sheets as investments in subsidiaries.

In OIL's case, the investment unit's assets increased to $1.4 billion from $1.2 billion.

For OCIL, whose balance sheet reflects the $237 million portfolio of its investment subsidiary, the gain was $29.6 million, more than offsetting the parent's net loss. ■

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Hopewell plans encore of banner-year results

By MICHAEL BRADFORD

HAMILTON Bermuda—Hopewell International Insurance Ltd. is hoping its 1991 performance is the start of a trend.

Hopewell's net profit for the year ended June 30, 1991, totaled $1 million, the first profit the pool has shown since 1987.

And, for the first time since 1987, Hopewell paid shareholder dividends. Shareholders received $15,000 each, for a total of $420,000 in dividends.

"The anticipation is that Hopewell will continue to pay a dividend in the following years," said Arthur H. Deters, president and chief executive officer of International Risk Management Group. "This year, so far, looks pretty good. It's in very good shape for the first six months."

Hopewell is managed by International Risk Management (Bermuda) Ltd., a part of the IRM Group. The reinsurance pool has provided IRM-managed captives with property reinsurance through a complex system of reinsurance treaties and facultative placements.

Last year, Hopewell's board agreed to open its doors to captives not managed by IRM.

"That practice is in (effect) right now," said Mr. Deters. "That's the good news side of it. The bad news is that we haven't actually put any non-managed captives on the Hopewell accounts yet. We are in fact working on a couple of them, but like most captive situations, it does take time."

Hopewell's profit comes after a net operating loss in fiscal 1990 of $3.1 million. It chalked up a $538,000 net loss in fiscal 1989 and a $4.4 million loss in fiscal 1988.

In 1987 Hopewell posted a $3.2 million profit and paid dividends totaling $833,000.

Mr. Deters said a charge imposed last year on non-shareholder members of Hopewell helped tip the pool into profitability. The charge generated "several hundred thousand dollars," he said.

The charge is similar to one that was in effect in earlier years and is levied against non-shareholders for use of the facility. The charge to an individual captive varies with the amount of premiums a captive cedes to Hopewell and the type of business.

Hopewell has 48 clients, 20 of which are non-shareholders.

Two additional non-shareholders are expected to be added to the Hopewell roster this summer, Mr. Deters said.

Hopewell was helped by a lack of catastrophes in 1991, Mr. Deters pointed out.

"Last year we were fortunate," he said. "We didn't have any large losses. None of the losses penetrated any of the excess treaties. All of the excess treaties and catastrophe treaties were totally profitable."

In fact, he adds, the largest loss faced by Hopewell last year was about $10 million to $11 million. That loss stemmed from a small fire in an office building in England. The blaze activated sprinklers, and much of the damage was caused by water and smoke.

Apart from the damage, business interruption costs mounted while the damage was being repaired, he added.

"It's not as spectacular as what you would normally expect to see on a portfolio of our type," Mr. Deters said of the loss. "We didn't have any spectacular explosions or complex fires. It was a lovely, rather dull year."

Overall, Hopewell paid $72.3 million in losses and loss expenses in 1991, down almost 43% from $126.5 million the year before. In 1989, losses and loss expenses totaled $141.9 million.

A more exciting—and costly—year for Hopewell was 1987, when its largest loss—and one of the largest property losses ever—occurred in Pampa, Texas. A vapor cloud exploded at a Hoechst Celanese Corp. plant (*BI*, April 18, 1988).

The loss has been estimated at around $359 million by independent loss adjusters and at $599 million by Hoechst Celanese.

Hopewell carries a $14.6 million gross reserve for the loss; Hopewell and Hoechst Celanese are negotiating the disagreement.

"A contingency to (Hopewell) exists equal to 3% of the amounts, if any, by which the loss amount ultimately settled exceeds the amount of the reserve carried by Hopewell," the annual report states.

Part of the disagreement centers on the plant's rebuilding, Mr. Deters explained. The Pampa plant was rebuilt partly "on the basis of what Hoechst Celanese thought was prudent but not necessarily what was required by building codes" or regulations, he said.

Rate hikes on Hopewell accounts in 1991 were "sporadic and nothing dramatic," according to Mr. Deters. "We took very drastic and severe action in the three years before that," he added, and rates are now at adequate levels.

Hopewell's net earned premiums in 1991 rose 5% to $4 million from $3.8 million the previous year. Net earned premiums included $152 million in earned premiums from policyholders less $148 million in premiums ceded to reinsurers. Ceding commissions totaled $33.1 million in 1991, a 47.4% rise from $22.5 million in 1990.

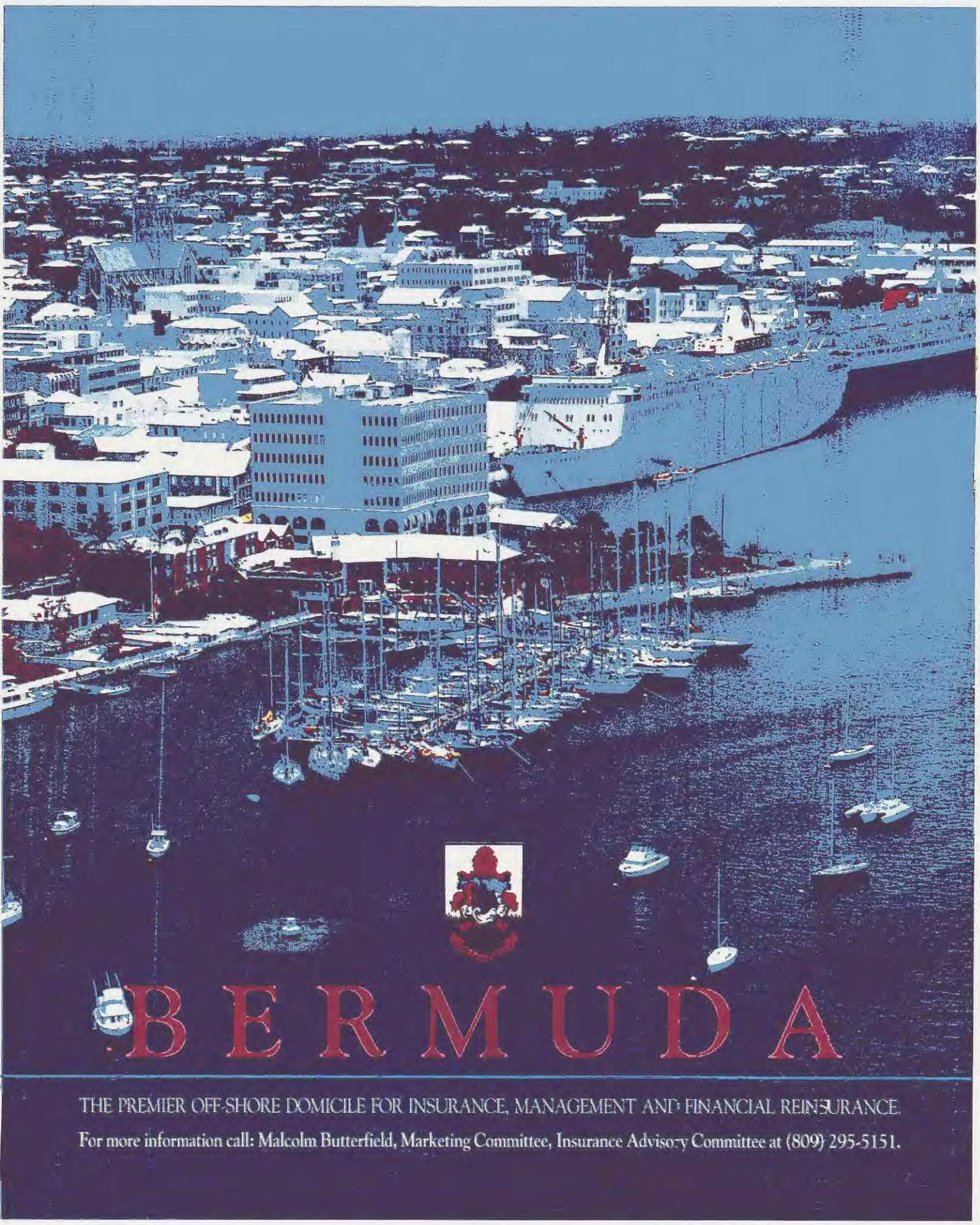
Reinsurance recoverables on the $72.2 million in losses paid in 1991 totaled $68.8 million, leaving Hopewell with net incurred losses of $3.5 million last year, down from $7.9 million in 1990.

After paying commissions of $34.3 million and other expenses in 1991, Hopewell finished the year with an underwriting loss of $329,730, a drastic improvement from a $4.8 million loss in 1990.

General and administrative expenses totaled $381,654, resulting in a net loss before investment income of $711,384 for 1991.

But interest income and gains on the sale of investments totaled $1.7 million, producing net income for Hopewell in 1991 of just over $1 million.

After changes to Hopewell's operations in recent years (*BI,* April 29, 1991), Mr. Deters noted that "we're in a consolidation period of taking advantage of those prior year changes." ■



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Spotlight report

Calm follows the storm in Bermuda

Few regulatory changes anticipated in largest domicile

By MICHAEL BRADFORD

HAMILTON, Bermuda—It's all quiet on the Bermuda regulatory front.

Except for new guidelines regarding which books and records Bermuda-based insurers must keep on the island, captives and captive managers aren't facing any regulatory changes.

Captive managers say even before the Jan. 31 effective date, insurers already were in compliance with the record-keeping regulation. It requires records like financial statements, minutes of shareholders and directors meetings, general ledgers and details of outstanding reinsurance claims to be kept in Bermuda.

Indications are that regulatory changes will be few in 1992 as well, according to Malcolm Butterfield, Bermuda's registrar of companies.

"We don't have anything earth-shattering planned," said Mr. Butterfield. "We're just ensuring that we keep up with the times and the various trends in the insurance industry. We have to continue to examine whether regulations are meeting with the trends that are occurring."

Bermuda's insurance industry has enjoyed a relative calm in the past two years since the 1990 budget hiked operating costs and caused a storm of controversy (*BI*, April 29, 1991).

The budget changes increased fees for insurers with large amounts of capital, while it cut those fees slightly for smaller insurers. Also, a phased-in 5% payroll tax was levied against foreign-owned companies.

Apart from increased business costs, the budget contained measures that pushed up the cost of living on the island. For example, the 55% import duty on automobiles was raised to 75%, and the duty-free allowance on goods purchased abroad was cut.

The lack of significant changes in Bermuda's insurance regulations in the past year doesn't mean regulators are asleep at the helm, Mr. Butterfield emphasized. Regulations are adequate to ensure the industry is properly run, he said, and serious problems with international companies are rare.

Captives and captive managers apparently have been toeing the regulatory line because no disciplinary actions were taken last year, the regulator said.

"We're not saying we would not do it," Mr. Butterfield said of enforcing the disciplinary measures if insurers or managers run afoul of regulations. "We certainly do have teeth in our regulation."

The lack of disciplinary problems, Mr. Butterfield noted, "is indicative of the high quality of service that emanates from our jurisdiction."

While the registrar's office sometimes initiates a study of an insurer's operations, many times a situation is brought to regulators' attention by the manager, Mr. Butterfield said. That is encouraging, he said, because it indicates that management companies are serving as a first line of regulatory control.

"While we're not free of problems, I think that because our regulation works and our relationship with the private sector works, it allows us to come to a workable solution" when problems arise, he noted.

Mr. Butterfield said he keeps a particularly close eye on captives that are involved in writing non-related business.

Writing third-party business caused problems for a number of offshore insurers in the 1970s and 1980s, and since then the practice has not been as popular or encouraged by regulators or captive managers.

"As a regulator, I'm always watchful of captives or any reinsurers that get into third-party business," Mr. Butterfield said, "simply because they're more susceptible to underwriting problems or adverse loss development."

When problems with non-related business arise, "we make a concerted effort to get the principals in to see that workable solutions are achieved."

He said he is pleased that "we are always seeing a cooperative effort from the respective parties that are involved in these types of situations."

Last year was a bright one in terms of new business in Bermuda. For the first time in four years, the domicile showed net growth in the number of international insurer formations.

There were 1,323 insurers at the end of 1991, with 64 new registrations and 53 deletions from the registrar's books.

Of the new registrations, 51, or 80%, are U.S.-owned captives.

Some write more than one class of business, with 30 writing property risks, 28 writing casualty, 22 writing automobile coverages, 17 writing workers compensation coverage and 14 covering professional liability exposures. The remainder wrote one or more other lines.

The general requirements and fees for operating in Bermuda haven't changed in the past year.

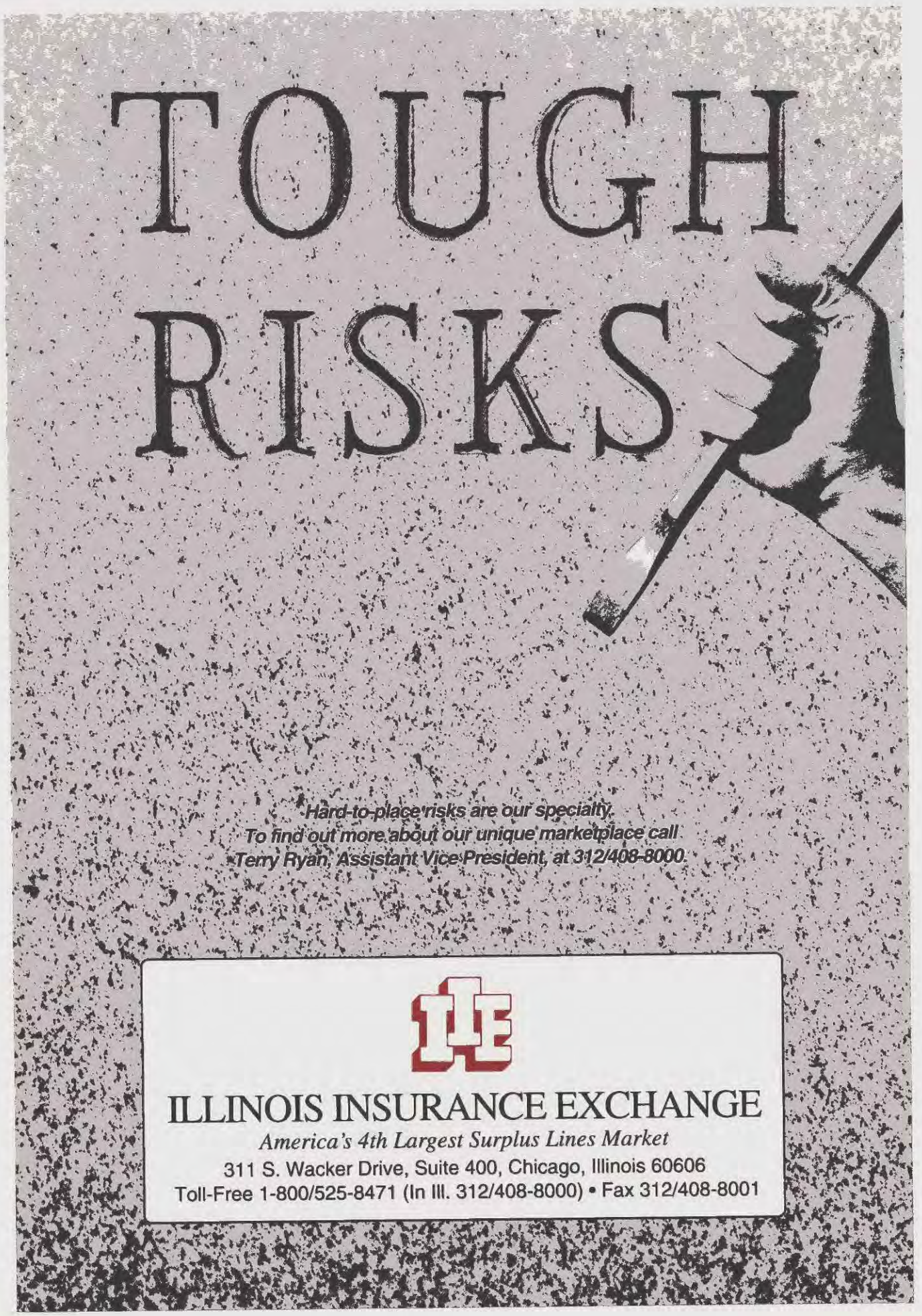
To write general business in Bermuda, captives are required to have $120,000 of capital; $250,000 is required to write long-term business. Minimum capital of $370,000 is required for captives writing both kinds of business.

Mr. Butterfield said captives that locate in Bermuda historically have capitalized well above the minimums.

Under Bermuda's Insurance Act, insurers annually pay a $1,000 business fee and at least a $3,200 fee.

Fees under the Companies Act rise to a maximum of $8,000 for companies with $12 million or more in capital.

Information on incorporating in Bermuda is available from Mr. Butterfield at the Registrar of Companies, Government Building, Hamilton 5, Bermuda; 809-295-5151. ■



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Spotlight report

Cornucopia of companies bolster Bermuda reinsurers

By JUDY GREENWALD

Island seen as 'much more than a captive domicile'

HAMILTON, Bermuda—The international insurance business in Bermuda is a glittering mosaic.

Primarily a domicile for captive insurers in the 1970s, Bermuda in the mid-1980s attracted large policyholder-initiated excess insurance companies like ACE Ltd. and X.L. Insurance Co., as well as others.

It also is home to a handful of conventional reinsurance underwriters that survived the shakeout of the late 1970s and early 1980s when huge underwriting losses on unrelated business closed down the open-market operations of several captive insurers.

And now, Bermuda's cadre of financial reinsurers is considered another crown jewel.

This diversity of specialty companies gives the Bermuda market a strong, hybrid vitality, say its participants.

In numbers, the island's captive insurers dominate the 1,323 international insurers incorporated at year-end 1991. They also write the lion's share of the $13 billion in gross premiums written in Bermuda in 1990.

However, X.L. and ACE earned net premiums in fiscal 1991 of $623.5 million—$388.3 million for XL and $235.3 million for ACE.

At the same time, commercial treaty, excess-of-loss reinsurance and captive reinsurance underwriters are doing business in Bermuda.

Seven of these companies that have released financial results wrote $295.1 million in gross premiums in 1991 (see chart, page 36).

Meanwhile, financial reinsurance continues to grow, with yet another financial reinsurer opening up shop (see story, page 59).

Financial reinsurance has been a big boost for Bermuda, said Nicholas Dove, president of Hudson Reinsurance Co. Ltd., which now specializes in financial reinsurance. "It's been wonderful for Bermuda, there's no question about that. It's given a new breath of life to the insurance industry."

The eight financial insurers and reinsurers in business throughout 1991 had year-end capital and surplus of $657.6 million, almost $4.9 billion in assets and closed 167 deals in 1991 worth $1.49 billion.

The island's largest financial reinsurer, Centre Reinsurance Co. Holdings Ltd., became even bigger last year when it acquired Pinnacle Reinsurance Co. with $1.2 billion in assets. In addition, ACE invested $50 million in Centre Re, and Zurich Insurance Co., formerly a minority stockholder, became the majority shareholder (see story, page 68).

And another well-respected competitor entered the market earlier this year: Commercial Risk Partners Ltd., which is primarily owned by the world's seventh largest reinsurer, SCOR S.A. of Paris (see story, page 38).

The commercial insurance and reinsurance business in Bermuda "probably is the best it's ever been," says Robin Spencer-Arscott, senior vp of Paumanock Insurance Co. Ltd. and chairman and chief executive officer of Anchor Underwriting Managers Ltd., which manages it.

"It's such a neat mixture," he said, pointing to ACE, X.L., the financial reinsurers and the traditional reinsurers in the market.

With ACE and X.L., Bermuda offers "one-stop shopping" for excess liability insurance, says Joseph M. Rego, managing director of Alexander International Insurance Services, the Bermuda brokerage owned by Alexander & Alexander Services Inc.

The availability of excess insurance and financial reinsurance gives Bermuda a competitive edge against other domiciles, suggests Fiona E. Luck, senior vp at Bowring (Bermuda) Ltd., a brokerage subsidiary of Marsh & McLennan Cos. Inc.

If a company is considering moving to Vermont, but visits Bermuda twice a year for other business, "they would probably remain on Bermuda" unless there is some other overwhelming reason involved, she says.

Bermuda has always been recognized as the alternative risk financing capital of the world, and in the last 12 years "a lot of people in New York and Europe and London are maybe taking that concept a little more seriously," said Robert J. Hedges, president of Intere (Bermuda) Ltd., a reinsurance broker.

Continued on page 34

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1. basic installations and facilities, such as statutes, auditors, attorneys, banks, management companies and regulators. See also: VERMONT

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Bermuda reinsurers

Continued from page 30

Furthermore, "The companies here in Bermuda seem to be working together," he said, pointing to ACE's investment in Centre Re.

Soon, "the whole product could be done in Bermuda," beginning with the captive, then finite or traditional reinsurance for the captive, then on to X.L. and ACE.

X.L. and ACE provide limits totaling $300 million, with X.L. writing up to $100 million excess of $25 million and ACE writing $200 million excess of $100 million.

"What many of us perceive to be the strength of the local market is that it's now become so multifaceted," said David Ezekiel, president and managing director of International Advisory Services Ltd., a captive manager.

"If you take a look at where we were even 10 years ago, we're much more than just a captive domicile now," which is what distinguishes Bermuda from other captive domiciles, he noted.

Each area—captives, excess insurers and financial reinsurers—complements one another, said Mr. Ezekiel.

And even further developments can be expected, he said. "In a couple of years, who knows where the next push will be?"

"I think it's of a size where its own momentum is carrying it forward," said William A. Wanklyn of broker Wanklyn & Griffiths in Bermuda.

And the future of the Bermuda market is bright, said Mr. Hedges.

"I don't think the markets here have the old-year problems which are going to plague a lot of the London and U.S. reinsurers," he said, referring to the development of large losses from prior underwriting years, particularly for asbestos and environmental liability losses.

"I think the general feeling is optimistic here."

"The condition of the U.S. market is of vital importance to the alternative risk markets here, but the general feeling is a lot of the business is moving into the alternative risk market and it doesn't seem, once it goes that route, to switch again," he added.

Following are profiles of reinsurers writing conventional reinsurance in Bermuda.

Brittany Insurance Co. Ltd.

Brittany Insurance Co. Ltd. cut in half the amount of reinsurance it wrote for unrelated risks in 1991 to $31.3 million from $66.6 million in 1990.

Brittany pruned its property and casualty business, said Paul-Henri De Visscher, senior vp and manager for Brittany.

With $118.8 million in gross written premiums in 1991, Brittany remains the largest conventional reinsurer in Bermuda.

Brittany, which is owned by Petrofina S.A., the biggest oil company in Belgium, reinsures other commercial insurers owned by Petrofina as well as Petrofina risks.

Brittany Insurance Co. Ltd. 'actually became much more selective' in underwriting last year, says Paul-Henri De Visscher, senior vp and manager.

But reinsurance of other Petrofina insurers has been reduced and an internal quota-share arrangement with these affiliates discontinued.

These affiliates became large enough to retain the business themselves, said Mr. De Visscher.

Furthermore, "we actually became much more selective" in underwriting last year, said Mr. De Visscher. Brittany has always had the discretion to decline business from its affiliates.

The decline in unrelated business "might actually continue next year" as Brittany continues to prune its book, he said, though it will not drop by more than another $5 million to $10 million, he said.

In addition, Brittany this year stopped writing property catastrophe reinsurance because it was concerned that retrocessional capacity would dry up in the next two to three years, said Mr. De Visscher.

Last year, in the tight market for catastrophe coverage, Brittany saw much more business at attractive prices and was "extremely successful" in underwriting it, said Mr. De Visscher.

U.S. general liability and professional indemnity business accounted for 20% of Brittany's business in 1991, and is expected to do so again in 1992, said Mr. De Visscher. "We have remained extremely prudent in managing our U.S. casualty renewals," he said.

Mr. De Visscher noted that 70% of Brittany's business is non-U.S. business. Thirty percent of its book is proportional and 70% non-proportional.

Brittany's profit in 1991 fell to $26.1 million from $36 million in 1990.

One reason for the decline in income is that Brittany had less investment income because it paid $125 million in dividends to its parent last year.

In addition, there was a "slight deterioration" in underwriting results, said Mr. De Visscher.

Of the $125 million dividend, $108 million was paid in March 1991 and the remaining $16 mil-

Continued on page 36

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Bermuda reinsurers

Continued from page 34

lion in December, Mr. De Visscher noted.

As a result of the dividend payment, Brittany's capital and surplus declined to $160 million at year-end 1991 from $258.6 million at year-end 1990. The $160 million consists of $150 million of paid capital and $10 million of retained earnings.

Plans for this year include writing more marine business, primarily drilling business, as well as aviation business, said Mr. De Visscher.

"The present rates are more than adequate to justify our support, and that's an area where Brittany may literally grow in the future," said Mr. De Visscher, who estimates marine business will account for about 10% of business this year.

The marine business is being written on a net-line basis, so there is no concern about needing retrocessional support in the future, said Mr. De Visscher.

Bermuda-based commercial treaty/captive reinsurance underwriters

Insurer / Parent	Gross premiums written	Unrelated gross premiums written	Net income	Capital and surplus	1992 capacity: Maximum treaty line	1992 capacity: Average treaty line
	(in millions of dollars, 1991)					
Brittany Insurance Co. Ltd. Petrofina S.A.	$118.8	$31.3	$26.1	$160.0	$500,000 property catastrophe; $300,000 casualty	$350,000 property catastrophe; $100,000-$150,000 casualty
Paumanock Insurance Co. Ltd. Grumman Corp.	97.9	87.1	6.3	67.9	$500,000	$250,000-300,000
Belvedere Insurance Co. Ltd. Caliban Holdings Ltd.	32.5	32.5	1.3	22.2	$500,000	$200,000
Sphere Drake Underwriting Management (Bermuda) Ltd. S.D. Partners	26.8	26.8	NA	— [1]	$2,000,000	$633,000
Tate & Lyle Reinsurance Ltd. Tate & Lyle P.L.C.	14.3 [2]	5.6 [2]	0.5 [2]	49.5 [2]	$250,000	$100,000-$150,000 property catastrophe
NRG Victory International Ltd. Netherlands Reinsurance Group	4.6	4.6	0.7	6.8	$200,000	$100,000
Hudson Reinsurance Co. Ltd. Skandia International Insurance Co.	0.2 [3]	0.2 [3]	-3.6	12.6	$2,000,000	$350,000
Stockholm Re (Bermuda) Ltd. Stockholm Reinsurance Co. Ltd.	NA	NA	-4.7 [4]	NA	$1,000,000	$150,000-$200,000
Totals	$295.1	$188.1	$26.6	$319.0		

[1] Writes against capital of Sphere Drake Insurance P.L.C. ($99.4 million) [2] Year-end Sept. 30, 1991 [3] Excludes financial reinsurance [4] For 1989, 1990 and 1991 NA–not available

Source: *BI* survey

GRAPHIC BY JOHN SMITHER

Paumanock Insurance Co.

In its 12th year of underwriting, Paumanock Insurance Co.'s gross written premiums for unrelated business increased by 74.9% to $87.1 million in 1991 from $49.8 million in 1990.

While some of that growth represents new business, "a lot of it is the increase in rates," said Mr. Spencer-Arscott.

Also contributing to the growth were reinstatement premiums, which are paid to reinstate treaty limits after they have been exhausted.

Paumanock, which is owned by Bethpage, N.Y.-based Grumman Corp., underwrites primarily property and marine reinsurance.

Anchor, which underwrites for Paumanock, is primarily a property reinsurance market. A total of 59% of Anchor's business is property, while marine accounts for 34%, aviation 5% and casualty 2%, which is essentially unchanged from a year ago.

Paumanock had reduced its marine business prior to 1988, and therefore was unaffected by the Piper Alpha disaster, said Mr. Spencer-Arscott. It jumped back into the market in 1989 to take advantage of increasing rates.

"The book is becoming a good size," said Mr. Spencer-Arscott, who noted that late last year an underwriter from London was hired to take over that book.

In 1988, he noted, Paumanock had written just between $4 million and $5 million in marine business. In 1991, it wrote close to $29 million and could write about $34 million by the end of 1992.

In addition to having higher rates, the marine business is now more focused, noted Mr. Spencer-Arscott. The aviation, non-marine property, catastrophe and offshore energy risks that once were included in marine coverages are now excluded, leaving a "pure marine account" that is "back to basics."

The business is growing more to an excess-of-loss account—72%—compared with 60% the year before. Anchor simply did not happen to see a lot of new proportional business last year, noted Mr. Spencer-Arscott.

Overall, submissions were up last year by about one-third, but Paumanock declined half of what it was shown.

Paumanock reported $6.3 million in net income in 1991, which was a 12.5% decline from $7.2 million in 1991.

The drop in profits was attributable to 1988 and 1989 catastrophes, which were not immediately reflected in Paumanock's results due to late reporting of the losses.

The 1990 profit, though, was Paumanock's biggest, and 1991 was still the insurer's second most profitable year, Mr. Spencer-Arscott said.

"It's still nice to report a profit of $6.3 million," he added.

In the last year, Paumanock has sought more direct access to international business, rather than going through numerous intermediaries, noted Mr. Spencer-Arscott. So, for instance, instead of writing German business via London, "we're trying to get out directly and meet on their territory."

"The big savings is the time factor," he said. Otherwise, "it's going through more hands."

It is also an advantage because the brokers in these countries are more familiar with the business itself, said Thomas W.M. Masters, vp-underwriting for Anchor.

Virginia Surety is 'a great vehicle for us' because it writes U.S. property business and is licensed in all states, says Robin Spencer-Arscott.

Mr. Masters noted also that if rates increase enough, and Anchor sees the opportunity, it may seek to reinsure the Japanese market as well.

Paumanock's $10.8 million in related Grumman business includes some of the corporation's group life business as well as workers compensation and property business. It does not write any aviation or product liability insurance for its parent because Grumman is reluctant to expose Paumanock to losses in those areas, said Mr. Spencer-Arscott.

Paumanock's capital and surplus increased to $67.9 million from $63.6 million, which essentially reflects the $6.3 million profit, less $1.9 million in dividends. Shareholders equity goes up every year "because we've never had a loss" for the year, said Mr. Spencer-Arscott.

Anchor also underwrites property reinsurance for Aon Corp.'s Virginia Surety Co. Inc. Anchor underwrote about $10 million in gross premiums for Virginia Surety in 1991.

"I think it will be down this year" because Anchor is writing less proportional reinsurance business, said Mr. Masters.

"It's a great vehicle for us," because it writes U.S. property business and is licensed in all states, said Mr. Spencer-Arscott.

Paumanock has hired five new employees in the past year, including two underwriters, a computer expert and two senior accountants.

Belvedere Insurance Co.

Belvedere Insurance Co.'s specialty remains accident and health coverage with a concentration on self-funded group health programs, said Chief Executive Officer Colin D. O'Connor.

"Our approach, our book, is very much the same as it's been," said Mr. O'Connor. "The volume is similar, the premium-to-surplus ratio is similar and the marketplace is really identical."

Belvedere would like to see a significant hardening of the commercial property/casualty insurance market, "but it's like waiting for Godot or something. It's not going to happen any time soon," said Mr. O'Connor.

About 49% of Belvedere's business is accident and health. Property and marine risks account for 13% and the remaining 38% is "all other," including casualty.

Casualty business has shrunk to pre-1985 levels because rates are depressed, said Mr. O'Connor. "Until we see some change in casualty rates, there's not likely to be very much change in our business mix," he said.

Specialty medical insurance, however, is now attractive to other competitors, Mr. O'Connor said.

"We note with some alarm the way that business has found favor with many Lloyd's syndicates who would not previously have written it," he said.

"The enhanced interest in that class of business by the London market has not been beneficial to pricing."

Meanwhile, no more than 5% of Belvedere's business was captive business, said Mr. O'Connor.

"That's another market in which we don't expect to see any early improvement in pricing," said Mr. O'Connor. "We really would like to see more captive reinsurance, but market realities make that unlikely in the short term."

Belvedere's 1991 results were "an acceptable performance" given the state of the market, said Mr. O'Connor. "I think, in fact, our bottom line over the past three to four years, not surprisingly, has mirrored the softening of the markets," he said.

Belvedere reported $1.3 million in net income in 1991, down from $3.3 million in 1990. Gross premiums written increased to $32.5 million from $29.5 million, while capital and surplus increased slightly to $22.2 million from $22 million.

A year ago, Mr. O'Connor said he was pessimistic about the reinsurance business because it was becoming more and more a business of anti-selection, and

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Continued from previous page
the immediate outlook was not good.

The same comments still apply, he said recently. "It does depress me a little, I guess, the way things have not changed much over the last year or two."

As a result, said Mr. O'Connor, much of the focus is on "avoidance of certain types of business and sources of business rather than entirely focusing on that business which we prefer to write."

"As much as ever, it seems to be a case of dodging the bullets," he said.

Belvedere avoids writing any weather-related business, said Mr. O'Connor. Being "subject to the vagaries of the weather is not our long-term objective," he said, with the time and effort this business demands discouraging factors as well.

The amount of catastrophe business Belvedere wrote was reduced in 1990, and by 1991 Belvedere was out of the business entirely, said Mr. O'Connor.

Caliban Holdings Ltd., Belvedere's parent company, which is owned by Belvedere Bermuda's management and a subsidiary of Citicorp, also owns Midlands Management Corp., an excess and surplus lines underwriting management firm in Oklahoma City.

"It's obviously diversification for us and from the vagaries of the reinsurance cycle. We saw the sense in putting resources and efforts into commission, fee-producing entities."

Midlands is writing most of its business for others, said Mr. O'Connor.

"It is writing a very modest amount for us," Mr. O'Connor explained. "It wasn't set up primarily for us."

Tate & Lyle Reinsurance Ltd.

Tate & Lyle Reinsurance Ltd., a captive reinsurer of Tate & Lyle P.L.C., has written a property catastrophe account for many years that accounts for all its unrelated business..

It reported its first underwriting loss, of $2.7 million, last year, noted vp James A. Kemp. And its net income dropped to $506,968 from $7.4 million.

"It's hardly surprising," he said of the underwriting loss, noting "literally all players" in the property catastrophe market were hurt by Hurricane Hugo and the 1990 storm losses.

"Of the underwriting loss, about 75% of it came from that single source, unrelated business," said Mr. Kemp.

"Despite the loss, we have elected to remain in the property catastrophe business, at least for the time being, as long as rates remain as high as they currently are," he added.

The business is being written, however, on a net basis.

"The retro market's just completely disappeared, so we don't write a retrocessional account, and what we do write in catastrophe is retained net."

With this approach, he noted, "you know absolutely what your maximum downside is," and do not spend years after a loss "wondering what the spiral is going to do to you."

Most of the property catastrophe business Tate & Lyle now writes is at very high limits, excess of what would be hit by a Hugo-type loss, he said.

But Tate & Lyle, whose fiscal year starts Oct. 1, is "not going to have a better year this year," said Mr. Kemp. "We expect the reserves we put on the books last year to contain any further deterioration in our unrelated account, but we have, in fact, sustained two sizeable and unprecedented losses from our related group business.

"Suffice it to say, these losses will be of a magnitude which will produce another underwriting loss to the company, probably slightly higher than last year's," said Mr. Kemp.

"I think our experience last year, and the likely result for this year, should serve to indicate that this is one captive, at least, that is definitely in the risk business. Hopefully, the man from the IRS will read this," he said, alluding to the Internal Revenue Service position that captive insurers are not true insurance companies for tax purposes.

'Despite the loss, we have elected to remain in the property catastrophe business,' Mr. Kemp says.

"Related losses notwithstanding, we believe that our strategy in terms of our chosen risk profile for related business remains sound," added Mr. Kemp.

Tate & Lyle self-insures the first $5 million of property, marine and liability losses of its parent.

In 1989, Tate & Lyle put together a master property program for all of Tate & Lyle's North American operations. And in April 1990, a combined general liability program for Tate & Lyle's North American operation was put together.

The premium for its related business breaks down to about 50% liability, 35% marine and 15% property, said Mr. Tate.

NRG Victory International Ltd.

Victory Reinsurance Holdings is now known as NRG Victory International Ltd. as a result of the 1990 acquisition of Victory Insurance Holdings Ltd. by Amsterdam-based Netherlands Re-

Continued on next page

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Bermuda reinsurers

Continued from previous page

insurance Group N.V., noted Nick Wheeler, who is president of NRG Victory Management (Bermuda) Ltd.

The bulk of its business remains life treaty, but it does write some property and a little non-U.S. based casualty business.

"We saw a little bit of deterioration on the '89 and '90 catastrophe losses, in particular the California quake and the Australian quake," said Mr. Wheeler, although overall losses were not large.

"That's the nature of these claims," he said, noting it takes a long time to reach a consensus on actual damages. Claims are still being presented on the Australian quake for instance, said Mr. Wheeler. "That's just the nature of earthquake shock-related losses."

In 1991, "we got very little, if anything, out of the two major property losses, which were the Oakland fire and Japanese typhoon losses," he said.

NRG Victory reported $660,000 in net income in 1991 and year-end capital and surplus of $6.8 million.

NRG Victory's catastrophe exposure has gone down, while catastrophe excess coverage premiums have gone up "fairly substantially" in areas where there have been losses, including Europe, the Caribbean and the United States, said Mr. Wheeler.

"The price of protecting the account has also gone up," with an obviously less viable retrocessional market in London, said Mr. Wheeler. "I think most reinsurers have had problems" in completing their programs, and net retentions have increased, he said.

Victory is restructuring its program and increasing its net retention by co-insuring a share of each layer of protection, said Mr. Wheeler.

"We don't write retro business of any sort," added Mr. Wheeler, including LMX business.

NRG Victory also writes little captive reinsurance, said Mr. Wheeler. Most captive business has been U.S. casualty business. "Basically, we don't write it," he said.

NRG also has a management company, NRG Management Bermuda, that does a small amount of captive management, said Mr. Wheeler.

Stockholm Re (Bermuda) Ltd.

Stockholm Re (Bermuda) Ltd., which writes equal amounts of property and marine business, enjoyed the results of increased marine rates last year, said James G. Parkinson, president of National Underwriters Agency Ltd., which underwrites for Stockholm Re.

Marine rates improved dramatically, and although there were many losses during the year, only one hit Stockholm Re: a Norwegian rig, Sleipner A, which was owned by Statoil, a Norwegian company (*BI*, Sept. 2, 1991).

On the property side, Stockholm Re had losses stemming from the Japanese typhoon Mireille and the Oakland fire, "neither of which proved too serious for us, so overall, we were able to show a reasonable profit for the year," Mr. Parkinson said.

Stockholm Re last year dropped Lloyd's of London's three-year accounting method to conform with the accounting of its parent company, Lansforsakrings-Bolagens AB, which acquired Stockholm Re in 1990.

Stockholm Re's 1991 financial statement reflects results in 1989, 1990 and 1991: a $4.7 million loss for the period.

Neither the Japanese typhoon nor the Oakland fire, 'proved too serious for us, so overall, we were able to show a reasonable profit,' says James G. Parkinson.

The worst year was 1989, due to catastrophes, including Hurricane Hugo and the Phillips Petroleum plant explosion, Mr. Parkinson said. The next year, the company had a small loss.

Mr. Parkinson is optimistic about this year because, in addition to further rate increases, "there's been considerable tightening of conditions, most noticeable in the (oil) rig account, where all onshore energy business is now excluded.

"Direct rates have been going up in Europe, which of course has been reflected in the proportional accounts, and holding reasonably strongly in the U.S.," said Mr. Parkinson.

Stockholm Re last year wrote predominantly excess-of-loss reinsurance, a departure from its historic equal mix of excess-of-loss and proportional business.

"I considered the primary rates in '90 and '91 still too low," said Mr. Parkinson.

Stockholm Re also writes a small amount of aviation business, and aviation excess-of-loss reinsurance rates have been increasing. Stockholm Re writes this business "where substantial rate increases have been apparent," he said.

Until last year, National Underwriters Agency also underwrote a similar account for Bristol Reinsurance Ltd., which was established by the Niarchos Group on Jan. 1, 1989. Bristol now has its own underwriter.

Stockholm Re also owns a majority investment in HJF International Ltd., a small specialist brokerage operation handling excess liability insurance and financial reinsurance.

Bristol Reinsurance Ltd.

Bristol Reinsurance Ltd., which had an amicable parting of the ways in October from Stockholm Re, is run by Marilyn T. Feldman, president and chief underwriter, with one other employee.

Ms. Feldman had worked at National Underwriters Agency for 14 years.

Bristol Reinsurance Ltd. continues to underwrite property reinsurance and marine reinsurance.

"The idea is to go forward very cautiously" with adequate protection, Ms. Feldman said.

Bristol did not "have enough coverage for Hugo and (European storm) 90A," Ms. Feldman commented.

Even with more reinsurance coverage, 1989 still would not have been a good year, "but it wouldn't have been the disaster

Continued on next page

Group benefits services can't always be programmed.

Continued from previous page
it turned out to be," she said. She noted that because Bristol works on a three-year basis, 1989 will be closed this year end.

Last year, however, "is looking very good," said Ms. Feldman. "Certainly, indications are that 1991 will be a good year. How good, it is too soon to say."

'Certainly, indications are that 1991 will be a good year. How good, it is too soon to say,' explains Bristol's Marilyn T. Feldman.

David Ezekiel, president and managing director of International Advisory Services Ltd., said "much will depend on the re-evaluation of our reserve levels for the earlier years, but we're still hopeful that 1991 fiscal will show a profit." IAS provides administrative services to Bristol.

This year, said Ms. Feldman, "we're concentrating just on marine business."

Bristol can write a maximum line of $250,000 per contract, but on an excess-of-loss contract the average is $75,000 to $100,000. On a proportional contract, the average is about $150,000.

Mr. Ezekiel said while Bristol has $10 million in capital, "we would be very surprised if our premium writing for '92 got even up to the one-to-one level."

Bristol does not insure risks of the Niarchos Group, which has its own captive in Bermuda.

About 70% of Bristol's business was written on an excess-of-loss basis, said Ms. Feldman. "Our account basically is produced 99.9% from London," she said.

Hudson Reinsurance Co. Ltd.

Reinsurance written for captives is a declining share of the business of Hudson Reinsurance Co. Ltd., a subsidiary of Skandia International Insurance Co. Ltd., said Nicholas Dove, its president.

The bulk of its business is financial reinsurance.

Skandia has been offering captive clients the option of working with the Alternative Risk Transfer department of Skandia America Corp. in New York.

"In most cases these programs have ended up in the United States" where they have the benefit of being reinsured by an A-rated company with $350 million in capital and surplus. As a result, premiums from captive re-

Hudson Re is 'seeing a lot of interest in the rent-a-captive movement from the U.S. for risks primarily' in the workers comp area,' says Nicholas Dove.

insurance business plummeted to just $150,000 last year from $2.8 million in 1990, Mr. Dove explained.

From Skandia's perspective, he said, "We're being able to offer much greater security. It's a word that's in the consciousness of every risk manager."

Hudson Re also operates a rent-a-captive program, for which Mr. Dove sees a "great future."

Some of the best captives managed by affiliate Skandia International Risk Management Ltd. began as clients of Hudson Re's rent-a-captive program, Mr. Dove said.

"We are seeing a lot of interest in the rent-a-captive movement from the U.S. for risks primarily in the workers compensation area, whose parents don't want the costs of a wholly owned insurance subsidiary offshore, but can obtain some of the same advantages by using Hudson Re," said Mr. Dove.

"We get calls all the time from people who are concerned about workers compensation in the states, feeling they have better than average experience and are being penalized unfairly," said Mr. Dove.

Hudson Re now has six clients in the program, the same number as a year ago.

One advantage Hudson Re has as a rent-a-captive is that it is a non-controlled foreign corporation 100% owned by Skandia International Insurance Co. in Stockholm, Sweden. Therefore, there are no U.S. tax questions for its U.S. clients, Mr. Dove noted.

Clients are charged on a fee basis, rather than as a percent of premiums. "We find that our clients appreciate that," said Mr. Dove. ■

Capital Re eyes public offering for Credit Re

HAMILTON, Bermuda—Capital Re Corp. intends to increase its holding in Bermuda-based Credit Reinsurance Co.

Credit Re began underwriting financial guarantee reinsurance in May 1990, operating out of a two-man office in Bermuda.

Credit Re writes financial guarantee reinsurance with a longer-term and largely international focus.

Officials at Capital Re, which is awaiting Securities and Exchange Commission approval for a public offering, would not consent to be interviewed.

The stock sale will change the ownership structure of Credit Re, according to a statement filed with the SEC.

Currently, Capital Re controls 28.2% of Credit Re, with other investors United States Fidelity & Guaranty Co.; Constellation Holdings Inc., a subsidiary of Baltimore Gas & Electric Co; and SIBAG Finance Corp., a unit of Germany's Siemans A.G. All three companies are currently also investors in Capital Re.

According to the SEC statement, following the public offering, USF&G will sell its shares to Capital Re, to SIBAG and to another Capital Re investor, Minnesota Power & Light Co.

As a result, Capital Re's ownership of Credit Re will increase to 48.5%, while SIBAG will own about 26.6% and Constellation, 23.8%, with Minnesota Power & Light Co. holding about 1.1%. ■

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Sphere Drake fares well in its first year

Crawley happy with its 'modest profitability'

By JUDY GREENWALD

HAMILTON, Bermuda—The only Bermuda-based reinsurer that specializes in reinsuring captive insurers did well in its first full year of operation despite the ongoing soft property/casualty market, says its president.

"Considering the softness of the market, and the fact that this was our first 12 months of operation, we are not unhappy with the way the book developed, nor are we unhappy with the modest level of profitability we achieved in the Bermuda office," said Jonathan Crawley, president of Sphere Drake Underwriting Management (Bermuda) Ltd.

Sphere Drake (Bermuda), which underwrites for London-based Sphere Drake Insurance P.L.C., began underwriting in mid-September 1990. Sphere Drake Insurance has capital and surplus of 53.1 million pounds ($91.1 million).

The London insurer owns 51% of the Bermuda underwriting management firm, and Mr. Crawley owns the remaining 49%.

Sphere Drake (Bermuda) does not publish its profits, but it reported $26.8 million in gross premiums written as of year-end 1991. Last year, Mr. Crawley estimated that Sphere Drake would write $25 million to $40 million in its first full year of operations.

The soft property/casualty insurance market has "impacted us in that we have come in at the low end of my original premium forecast," Mr. Crawley said. "It just means our price is not competitive in comparison with other markets, particularly direct writers" that are also writing captive reinsurance, he said.

Sphere Drake, however, will not underprice its business, he stressed.

In its first 16 months of existence, ending in December, it wrote just 127 contracts of the 779 submissions on which it was asked to quote, he said.

"That shows all the others have gone somewhere else," Mr. Crawley said.

"On the other hand, quite a number of our contracts are with smaller entities or with newer captives or similar entities where, because they are small or new, there is much less competition" for the business, he added.

Sphere Drake (Bermuda) is not seeking to reinsure the captive insurers of Fortune 500 companies, he noted.

Despite the competition for the business it wants, Sphere Drake (Bermuda) remains unique, according to Mr. Crawley. "There is no other company in Bermuda with the capital strength of Sphere Drake that specializes in the area in which we are specialists."

While other companies may write captive reinsurance, 'they don't specialize in it, and indeed, they only write a limited number of contracts."

Many major U.S. reinsurers have special units dedicated to underwriting reinsurance for captives and other alternative risk financing vehicles (*BI*, Nov. 4, 1991).

Mr. Crawley says that captive insurers should find the specialization that Sphere Drake (Bermuda) offers attractive.

"I think that as the market for providing reinsurance for captive companies increases, captive companies need to tread ever more carefully in the area of reinsurance. I do believe that providing reinsurance for captive companies is a specialty area requiring specialty skills " as well as a "very special attitude" toward clients.

"As a reinsurer of captives, you need to get very much closer to them and to understand their needs," Mr. Crawley said. "You have to care for them much more" than a commercial insurance company would, he said.

"They aren't sophisticated people" and so can "easily be taken," Mr. Crawley said.

Of the 104 contracts Sphere Drake (Bermuda) wrote last year, about 50% covered general liability and/or automobile liability and about 40% covered professional liability risks. The balance covered workers compensation medical benefits, multi-peril risks and property risks, Mr. Crawley said.

Business comes to Sphere Drake (Bermuda) from a variety of sources. Of last year's 104 contracts, 56% were offered by Bermuda brokers, 23% by Bermuda captive managers, 3% by London brokers and the balance by U.S. brokers.

Of the cedants, 28% were domiciled in Bermuda, 10.5% in Barbados, 5% in the Cayman Islands and 1% each in Hawaii and Vermont. The balance were domiciled in the United States, with the biggest concentration in Texas and Florida, Mr. Crawley said.

"The cedants domiciled in the United States are self-insurance vehicles which are not strictly traditional captives, but are approved self-insurance funds or charitable trusts or risk retention groups, or plain self-insured retentions," Mr. Crawley said.

The largest percentage of clients, 41%, were association captives, 15.5% were single-parent captives, 9.5% each were risk retention groups and agency captives, 4% were charitable trusts, and the balance were entities with self-insured retentions.

Seventeen of the 104 contracts were formerly insured by Aneco Reinsurance Underwriting Ltd., for which Mr. Crawley underwrote captive reinsurance for nine years. Aneco, which he left in mid-1990 after failing to structure a management buy-out of the captive reinsurance business, now is in liquidation (*BI*, Dec. 23, 1991).

A large majority of Sphere

Continued on page 42

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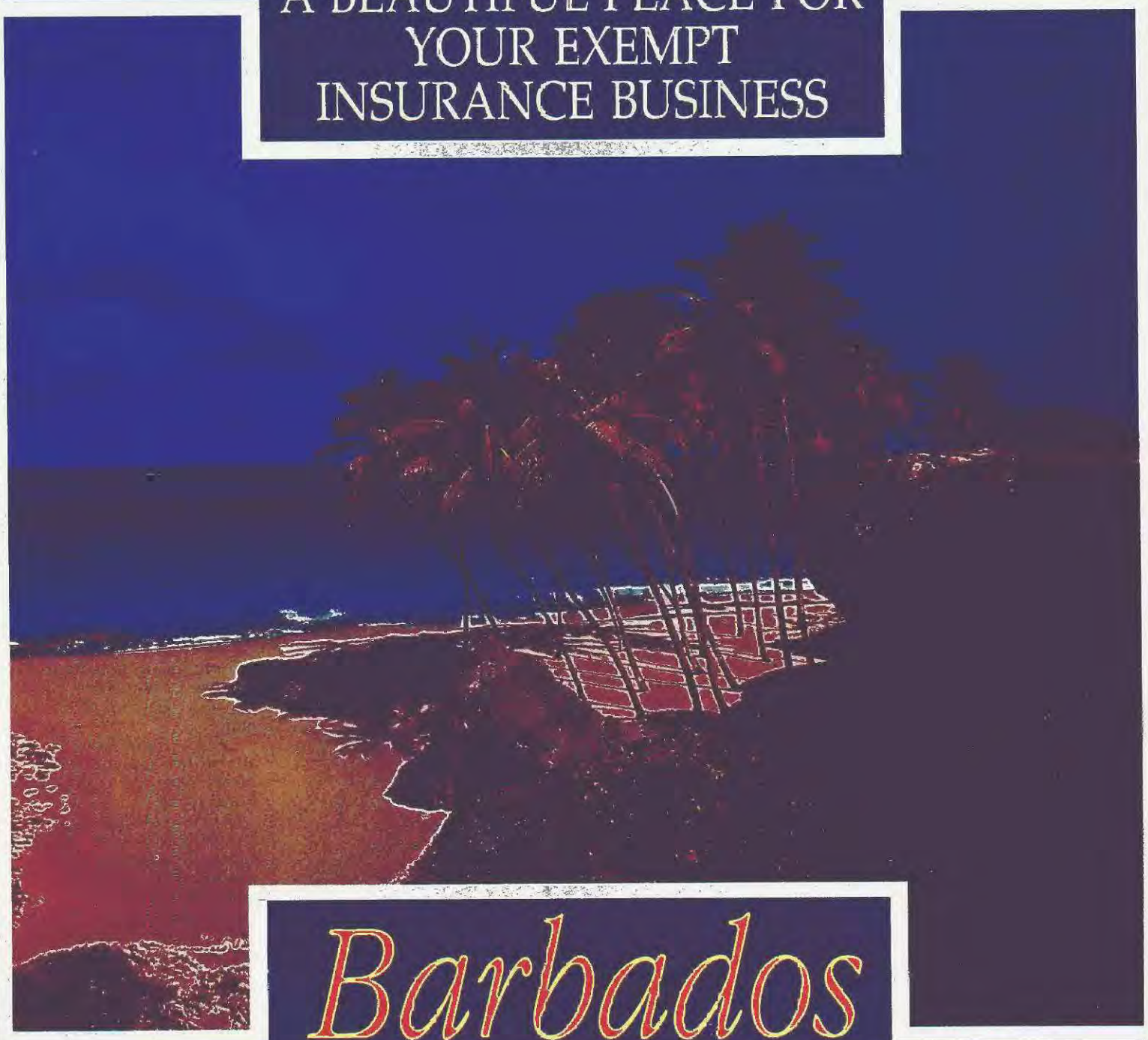

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ERIC GROUP, INC.

Solutions to Environmental Risk

ACE

Continued from page 42

Scott said.

Centre Re appealed to ACE primarily as an investment. But Mr. Scott said ACE also was motivated by the "potential applicability" of Centre Re's finite risk reinsurance techniques to the risk management programs of ACE's larger multinational clients.

Mr. Scott believes finite risk transfer techniques could be used to help improve current self-funded approaches to environmental exposures.

Part of Mr. Burville's task, he pointed out, is to help evaluate new product opportunities, "the first of which involves an area of mutual interest between ourselves and Centre Re."

As for the rate increase that was applied to all ACE excess liability accounts renewing on or after July 2 last year, Mr. Scott is as reluctant today as he was then to talk percentages.

Accounts are individually underwritten and adjusted, he said, and the rate hikes were based on three main factors: the probability of losses exceeding $100 million; the extent of a policyholder's exposures in Texas, where ACE has suffered its greatest losses so far; and the cost per layer of insurance.

Rate hikes ranged from 3% to 54%, he said.

Five accounts have been lost since the new price structure took effect, a couple of which would have been lost even without the hikes, he added.

"But these were small-limits accounts," Mr. Scott explained. "We lost none of our large accounts as a result of the rate increase."

Mr. Scott is convinced that this ability to hold on to business is a product of ACE policyholders' sophistication and understanding that it is in their self-interest for ACE to charge adequate premiums.

And ACE says it won substantially more business than it lost last year.

Earned premiums increased 8.7% in the year ended Sept. 30 to $235.3 million: $166 million in excess liability premiums and $74 million in D&O premiums. In addition, ACE ceded $4.8 million to reinsurers.

Total policyholders rose to 423 from 397. ACE added 30 new excess liability accounts and lost 25, bringing the total to 391. On the D&O side, it attracted 27 new policyholders and lost six, increasing its total accounts to 232.

As of Sept. 30, 109 ACE policyholders bought full $200 million limit excess liability policies, up from 67 a year earlier.

The average excess liability premium rose 6% to $437,000 last year, while the average limit rose 6.3% to $133.8 million and the average attachment point rose 2.3% to $136.5 million.

According to ACE's latest annual report, 47% of its umbrella liability clients are utilities, heavy manufacturing concerns, or the owners or managers of high-rise buildings. They accounted for 40% of ACE's 1991 excess liability premiums.

Pharmaceutical, chemical, energy and industrial contracting companies made up one-third of its excess liability accounts but generated 49% of premiums.

On the excess D&O side, the average premium paid continued to fall, dropping 4% last year to $325,000, while the average attachment point rose 11% to $52.4 million.

While ACE underwriters have been kept busy, the claims department has not been inactive, either.

ACE paid its first claim late in fiscal 1990. In the ensuing 14 months, ACE made "loss and loss expense payments of $191 million, including indemnity payments on five excess liability claims, comprising both operational and product losses," its annual report says.

Although refusing to discuss individual claims, the company says it has not paid a full-limits loss.

Of ACE's 312 open claims files, between 20 and 30 carry the possibility of piercing the company's attachment points, according to Mr. Scott. Total loss reserves as of Sept. 30 were $344 million, up 69% from $203 million a year earlier.

There are still some companies that 'need our cover but aren't buying it,' says Mr. Scott of ACE.

Increased claims activity caused ACE to post a $104 million underwriting loss in fiscal 1991, compared with a $6.2 million underwriting gain the previous year.

While investment income increased only modestly last year to $110.7 million from $107.8 million, ACE reported $66.8 million in realized gains on securities, compared with a $43 million loss in fiscal 1990. This helped ACE to report net income of $65.4 million in fiscal 1991, up 6.1% from $61.6 million the previous year.

In the first three months of fiscal 1992, earned premiums advanced 9.1% to $62.9 million from $57.6 million. Underwriting profit fell 10.5% to $7.9 million from $8.9 million, but net income rose 17.2% to $60.2 million from $51.4 million.

The winds of change are also evident in the shifting geography of ACE's client list.

As of Sept. 30, among the company's 423 policyholders were 55 non-U.S. corporations—that's 28% more non-U.S. business than in 1990. Of these, 22 were British and nine were Canadian, while 23 were based in other European countries and one in Japan.

Opportunities for growth still exist in the United States, but growth in non-U.S. accounts has led the company to step up its marketing efforts in Europe and the Far East, Mr. Scott said.

As a result, ACE will decide this year whether it needs to open a European subsidiary through a one-person representative office in London, Luxembourg or Dublin, Ireland.

"Our role is to increase capacity, so we present ourselves there as wanting to write excess of existing European capacity, which is the same as saying we don't want to compete with them," Mr. Scott said.

"What we're recommending to typical referrals that come to us is that we're a better alternative to going into the market and putting together a facultative program with people that they don't know. It's a marketing approach driven by our high attachment point."

Although much of the company's future growth is likely to come from markets outside the United States, Mr. Scott believes that each year "social and financial" inflation alone produce their own crop of potential U.S. policyholders. Losses exceeding $100 million become more likely each year.

When ACE was formed, its attachment point was $100 million; the equivalent today would be $152 million.

"There are also still some North American companies that need our cover but aren't buying it," he said. "Some still think they have to buy stock or put up a reserve premium, neither of which are required any longer. And we've found that the farther west you go, so knowledge about us declines. On the U.S. West Coast, there's a significantly lower level of awareness about ACE than there is on the East Coast."

But not everything is changing at ACE, which was set up at the height of the insurance capacity crisis in 1985 by 34 large U.S. corporations that were unable to buy the high limits they needed.

ACE has no plans to go public, Mr. Scott insists. "Our strategic direction remains the same. ACE does not want to go that route."

However, many ACE shareholders also own stock in X.L. Insurance Co. Ltd., whose parent EXEL Ltd., went public last year (see story, page 48).

"It's not for me to discuss X.L.'s affairs, but it's clear that there are commercial alternatives to X.L. in the market, so therefore there's not the same need to maintain policyholder control over the company," the ACE chief executive said. "The same is not true of ACE. There's no real alternative to ACE's continuous block of $200 million in limits from a company with over a billion dollars of capital and surplus."

Mr. Scott believes that another reason why ACE has not been pressured to go public is its program of returning shareholders' original investment by redeeming, or buying back, portions of callable preferred stock. So far, ACE has redeemed 50% of this stock, channeling $198 million back to its shareholders, said Mr. Scott.

However, ACE says it will not be redeeming the stock this year because of the company's underwriting loss.

Another aspect of ACE's operation that will not be changing is its policy of not relying on reinsurance, an independence the company regards as a major strength.

In his annual message to shareholders, Mr. Scott observed: "While the balance sheets of major insurance companies throughout the world are cluttered with uncollectible reinsurance recoverables, ACE has taken a different path, and our insureds have been the beneficiaries. As a result, however, our earnings are subject to greater fluctuations than those of the average insurance company, hence the importance of a strong capital base."

Were it publicly traded, ACE would have to behave differently. "If ACE were to become a public company, then we'd have to give serious consideration to protecting our earnings from significant volatility," Mr. Scott said.

Strong ties with the brokerage community outside the United States is another key element of the ACE operation and one that he says will be maintained.

"I'm frequently being asked why we don't market direct to policyholders, and I'm frequently saying that in order to have the spread of risk that we need while at the same time continuing to bring in the new accounts, it's absolutely essential we maintain close ties with the brokers." ■

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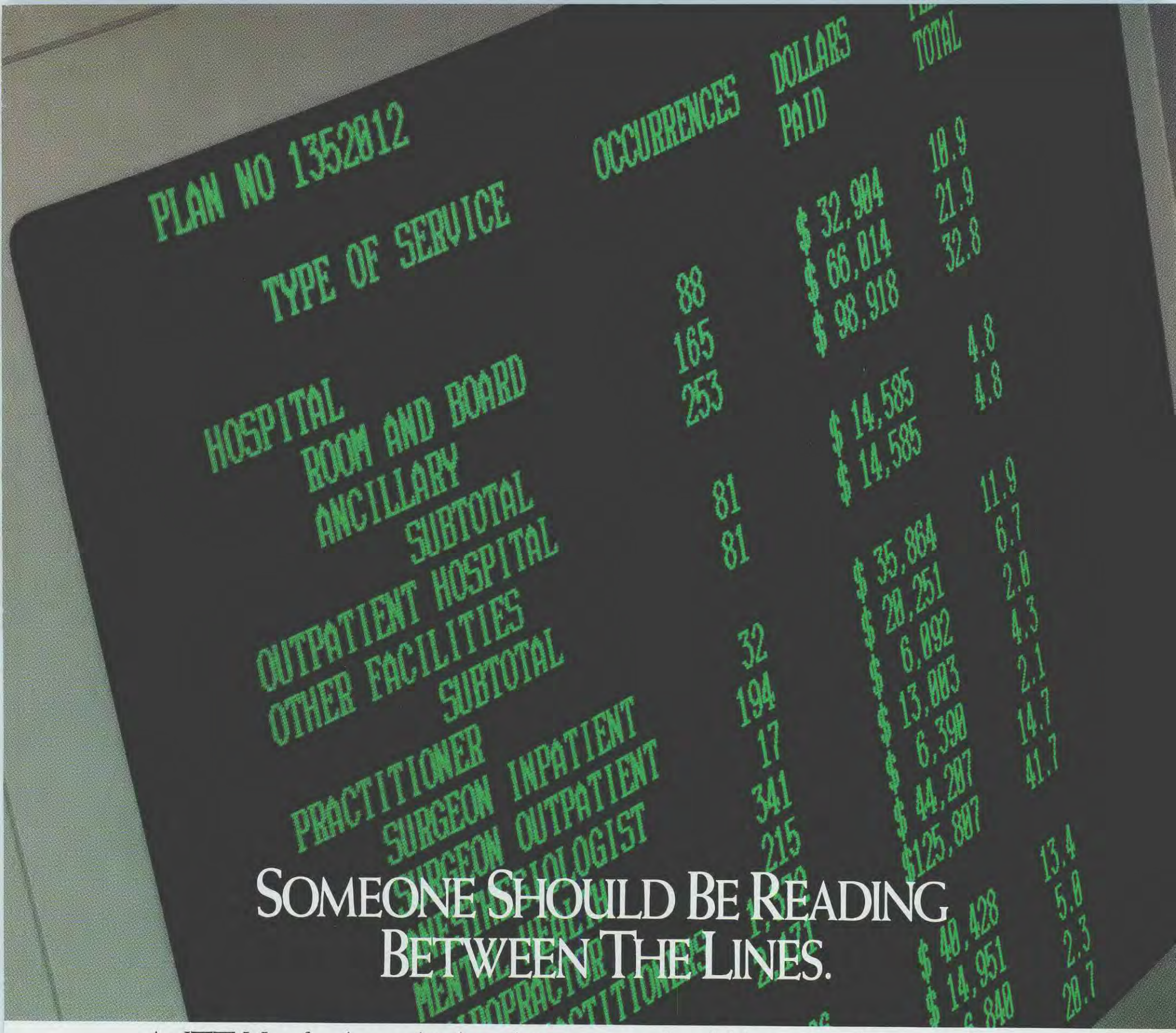

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Spotlight report

X.L. insists that going public hasn't changed its style

By ROGER SCOTTON

Underwriting results are off, but liability insurer's net income climbs

HAMILTON, Bermuda—A chat with X.L. Insurance Co.'s senior executives is not the free-flowing affair it was 12 months ago when the excess liability insurer still was part of a privately held corporation.

But, as President and Chief Executive Officer Michael J. Kevany observes, that was prior to last July, when almost half of the shares of EXEL Ltd., X.L.'s holding company, were listed on the New York Stock Exchange.

"Now, quite apart from the heavier workload involved in presenting our financial numbers so as to adhere strictly with Securities and Exchange Commission rules, we have to be much more careful about releasing market-sensitive information," Mr Kevany explains.

Going public also had an impact on X.L.'s policyholders, according to Brian M. O'Hara, X.L.'s chief operating officer and EXEL's vice chairman. "Some companies are definitely more comfortable when dealing with a publicly listed corporation.

"But, we haven't changed our style of operation," Mr. O'Hara adds. "We were aware that there was some apprehension about the chances of this happening, but I think it was soon shown to have been misplaced."

Indeed, the level of shareholder confidence in the company is so great that EXEL in February filed an SEC registration statement for a public offering of another 9.4 million common shares. If this second offer is successful, an estimated 65% of EXEL's issued stock will be publicly traded.

"Nothing breeds confidence like success," says a confident Mr. Kevany.

That success, though, comes at a price, and EXEL's 1991 financial results clearly demonstrate the cost of going public.

Underwriting income totaled $25 million for the year ended Nov. 30, down 19.4% from $31 million. The annual report said that the decline was largely "a result of the one-time charges associated with the initial public offering in July."

Still, fueled by realized investment gains, EXEL reported net income of nearly $267 million, up 51.3% from $176.5 million the previous year.

Going public also was a factor behind EXEL's decision to purchase, for the first time since its formation in 1986, aggregate excess-of-loss reinsurance. This is in addition to its regular catastrophe clash coverage, which protects the insurer from being hit by two or more claims arising from the same event.

"When we were out promoting the stock, we were constantly being asked how we could go about protecting ourselves from losses and at the same time level out our underwriting results," Mr. Kevany explains. "So what we've done in response to these questions is arrange a financial-guarantee type of program which allows us to purchase up to $250 million of aggregate limits excess of our expected loss ratios."

However, X.L., which offers $100 million in excess liability limits and $25 million in directors and officers liability limits, did not suffer a full-limits loss last year. X.L. paid out "four or five" claims totaling $140 million in fiscal 1991, half of which was on one claim. Another $154 million was added to incurred-but-not-reported loss reserves, bringing total balance sheet IBNR reserves to $773 million.

Altogether, losses and loss expenses in fiscal 1991 totaled $300.3 million, up from $281.2 million in fiscal 1990.

Vulnerability to claims that pierce X.L.'s attachment points is not the company's only concern. X.L., which generally writes excess liability coverage excess of a minimum of $25 million for North American risks and $15 million for European risks, says in its latest annual report that the company has become more vulnerable to price competition.

This is due not only to commercial market forces but also to the company's decision in 1990 to eliminate policyholder reserve premiums, a sum equal to 25% of a policyholder's first-year gross premium, the annual report points out. Because the reserve premium could be forfeited if a policyholder did not renew coverage in the first five years, poli-

Continued on page 52

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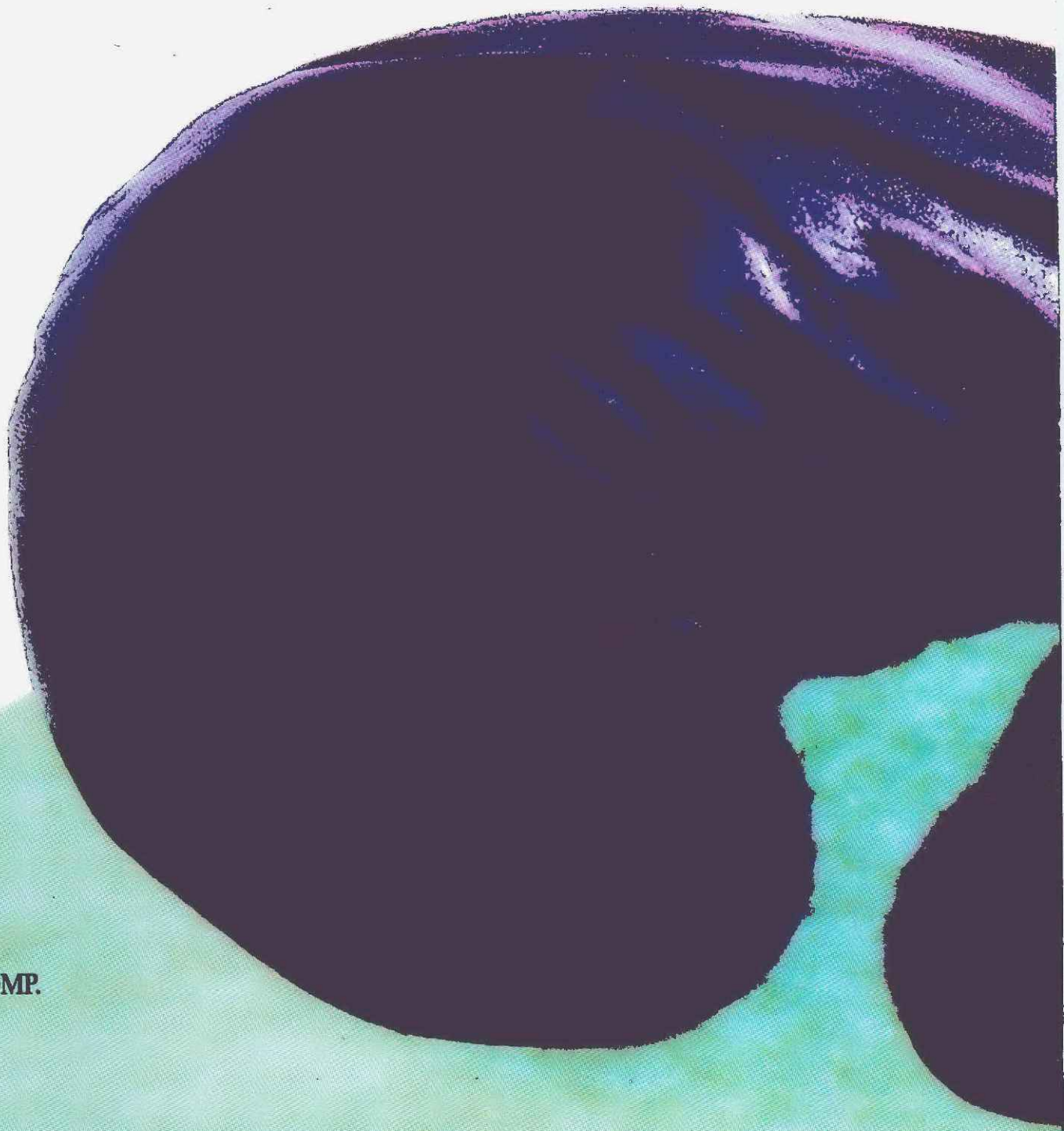

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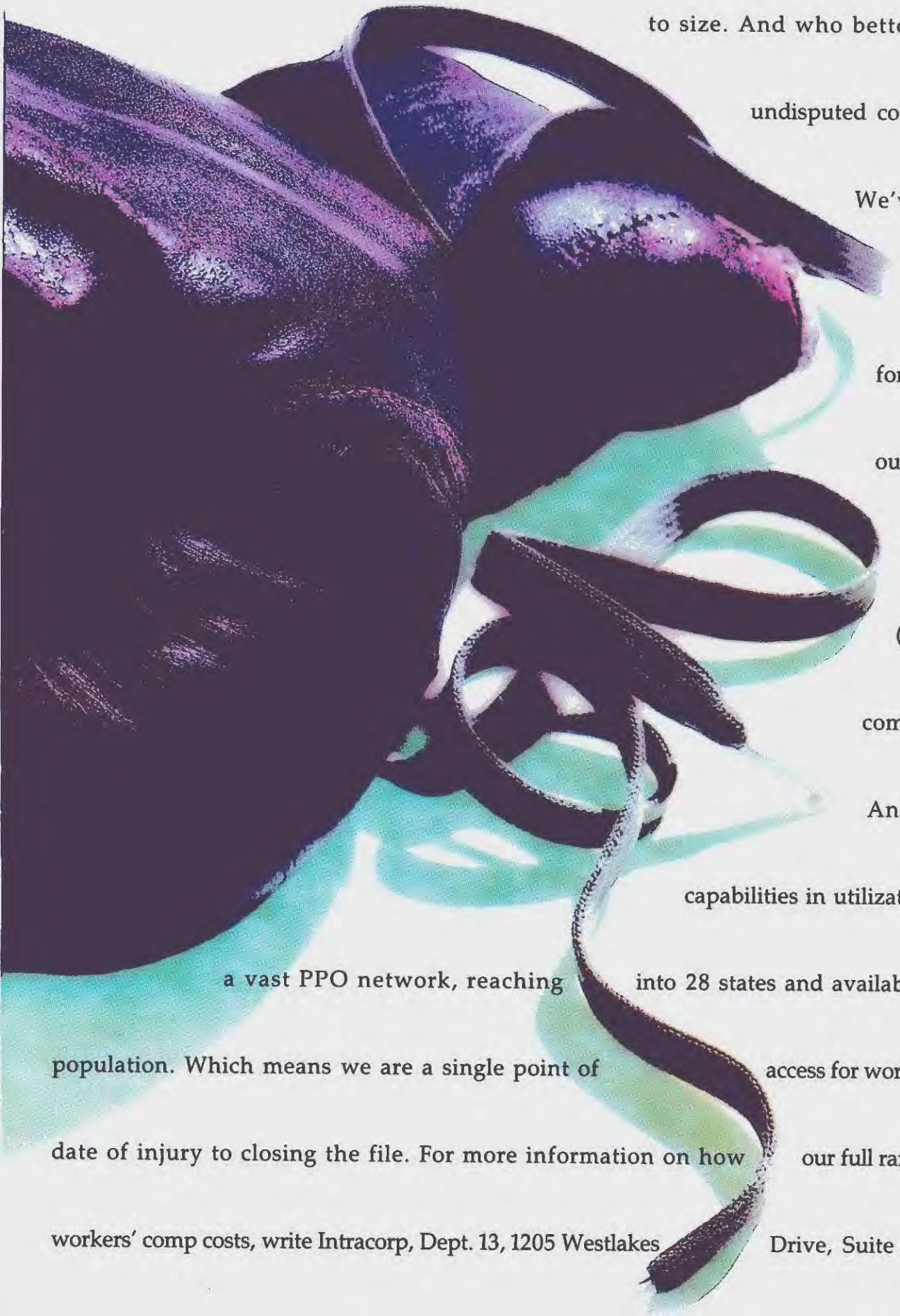

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INTRACORP

X.L.

Continued from page 48
cyholders were inclined to stick with X.L.

X.L., which announced in January 1991 that it would adjust excess liability rates to produce an average 6% increase in premium volume, says premium growth slowed among all lines last year.

Net premiums written advanced 3% to $398.8 million in fiscal 1991 from $387.3 million in fiscal 1990. The increase was due not to new business but to premium increases on current business "where our underwriting analysis has determined the need to keep pace with expanding exposures to loss caused by social and economic inflation," says the EXEL annual report.

Net excess liability premiums rose 3.4% to $333 million in fiscal 1991 from $322 million, while D&O premiums rose by $1 million to $34.3 million.

Net premiums from X.L.'s professional liability book—which includes coverage for attorneys, insurance brokers and insurance companies—were flat at $31.6 million. X.L. offers professional liability limits equal to the policyholder's underlying limit up to a maximum of $50 million, with a minimum attachment point of $25 million.

Mr. Kevany observes that because of X.L.'s 1991 rate increases, growing capacity among commercial liability insurers and price competition, X.L. last year lost more business than ever before.

The renewal rate for excess liability business dropped to 90% in fiscal 1991 from 97% in fiscal 1990, though new business exceeded lost accounts during the final quarter of fiscal 1991. The company attributes this late gain to "the contraction in capacity and significant increase in price in the London marine market, particularly in the oil/energy class."

"We lost very few of the big accounts because of the tremendous loyalty of our insureds in the major industry categories," Mr. Kevany says. "But we did lose quite a bit of business among the smaller, non-volatile accounts that make up the less-hazardous risks in what I call the property owners, landlords and tenants category."

Although the company last year created a marketing department and hired a marketing officer, it has no plans to drop its basic philosophy toward new business.

"We will not chase business," Mr. Kevany says emphatically. "If a client wants to go to a cheaper insurer elsewhere, then he can."

The company's marketing objectives are to improve liaison with brokers, upgrade X.L.'s participation in industry conferences, and increase the frequency and effectiveness of its seminars.

X.L. previously made no secret of the number of policies it issued in any given year: As of Nov. 30, 1990, it had 526 excess liability contracts and 170 D&O and professional liability policies in force. But there are no such statistics in its latest annual report, and officials are reluctant to release data not included in that report.

"We've prepared our report and accounts in accordance with SEC regulations, and if this information is not there, then it's because it's not required to be there," Mr. Kevany says.

Mr. Kevany says X.L. still is "very comfortable" with its specialty underwriting niche and has no plans to change the existing products it offers.

However, earlier this year it announced a new product, dubbed "Managed Aggregate with Excess Liability" or MAXL, which allows policyholders to introduce a degree of loss sensitivity to their excess liability coverage.

MAXL policies are typically written for three- to five-year periods, explains Senior Vp Robert J. Cooney. Maximum limits of $100 million per occurrence/aggregate over the contract period are available, with an attachment point as low as $10 million.

"With MAXL, we're basically selling one aggregate limit" for the multiple-year policy period, Mr. Cooney explains.

Multiple reinstatements are available at predetermined rates. And, MAXL policyholders with no losses can have a portion of the premium returned, which in turn releases X.L. from any further liability. "Alternatively, they could leverage future terms and conditions," he says.

Mr. Cooney says MAXL offers some of the advantages of self-insurance combined with catastrophic loss protection. Likely buyers of the product include companies that pay high premiums and are worried about the impact of a hardening market on their costs. In addition, policyholders with good loss experience may find MAXL attractive, he says.

"It could appeal to some clients in that it could lead to greater cash flow for them," Mr. O'Hara says. "For X.L. it means a lower margin, but less volatility."

However, despite the new policy, Mr. O'Hara believes it will be difficult to expand the insurer's North American book "without a major sea change, such as a hardening of the market."

EXEL is expecting a significant portion of its future growth to come from Europe, particularly the United Kingdom and Germany. Its Dublin-based arm, X.L. Europe Ltd.—which opened in November 1990 and now has a staff of 10—became fully operational last year and reported written premiums of $15.5 million by Nov. 30.

Although not all of this business is new—60% of it was business transferred from the Bermuda office—Mr. Kevany says the Dublin unit quoted 800 accounts last year and has done "a tremendous job" of making X.L.'s name known among European brokers.

Yet not all European-based accounts are being handled out of Dublin. "We have a total of about $30 million of European business" still handled from Bermuda, Mr. Kevany says. "Some of our clients prefer to maintain their accounts in Bermuda, especially if they've got other business to do here."

The company also is looking farther east than Europe. With policyholders from Japan, Hong Kong and Australia on its books, it hopes to open a unit in the Far East within two or three years.

"We're in no rush," Mr. Kevany says. "There's no immediate need and we'd like to get a clearer picture of where Hong Kong is likely to be going after 1997," the year China regains control of the British colony. However, that "is not to say that's where our Far Eastern office is going to be located."

A more immediate priority is the appointment within about three months of two new EXEL directors, one from Europe and one from the Far East, he says.

"These days, if you want to be an international company, you've got to have an international board of directors," says EXEL's Irish chief executive officer. ■

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Spotlight report

Bermuda brokers still hitched to ACE, X.L.

Financial products offer opportunity

By JUDY GREENWALD and MICHAEL BRADFORD

HAMILTON, Bermuda—Bermuda's insurance and reinsurance brokerage community market continues to tie most of its fortunes to the island's policyholder-initiated insurance facilities.

Since these facilities—which include ACE Ltd., X.L. Insurance Co. Ltd. and Corporate Officers & Directors Assurance Ltd.—have grown spectacularly since the mid-1980s, so have the brokers.

To maintain their status as offshore insurers, these facilities conduct business only with non-U.S. brokerages, primarily Bermuda brokers.

Bermuda boasts about 30 brokers that employ about 150 people, the same as a year ago, said Roy Bray, chairman of the Insurance Brokers Assn. of Bermuda.

Besides placing business with these facilities, Bermuda brokers place financial reinsurance and reinsurance for captives and other alternative programs. They also place some conventional treaty and facultative reinsurance.

Most of the attention, however, remains focused on ACE and X.L.

"If ACE and X.L. are writing more business, then the brokers are going to do better," summed up Peter F. Dunne, managing director of Triangle Brokerage Ltd., an independent broker that places more than 90% of its business with ACE, X.L. and CODA.

If it were not for ACE and X.L., "one wonders where we would be," said Paul Scope, president of independent broker Park International Ltd. "Would there be a Bermuda market? I sort of doubt it. The treaty business was dying anyway."

The ACE, X.L. and CODA business, along with the emergence of financial insurance and reinsurance products, "has taken over the Bermuda market now," said Mr. Scope. "The nice thing about that kind of business is that it's got a little bit more longevity than the treaty business."

And, "there still is a great opportunity to develop new business," he said.

While there may be a finite limit to the amount of business that can be placed with ACE and X.L., "it hasn't been hit yet," Mr. Dunne noted. "It's far from being tapped at the moment."

As liability costs continue to increase, "other potential clients will decide they need more insurance, so I think there'll always be room for growth there," said Robert A. Ernst, senior vp at Bowring (Bermuda) Ltd., a unit of Marsh & McLennan Cos. Inc. and the largest producer for ACE and X.L.

"ACE probably has a more finite number of clients than X.L. does just by virtue of the fact that ACE doesn't start till they get to $100 million," he noted.

Price hikes by ACE and X.L. aren't expected to have much of an effect on brokers because most buyers won't pull out of the facilities, said Monica Dobbie, executive vp of Willis Corroon (Bermuda) Ltd.

ACE and X.L. have been "reasonable about it," she said of price hikes, with increases depending on factors such as the location of the risk and type of exposure.

The price hikes by ACE and X.L. haven't hurt brokers, agreed Mr. Bray. "Some business has been lost. But the more sophisticated buyers understand the reasons."

One particularly promising area of growth, according to brokers, is X.L.'s new product, Managed Aggregate with Excess Liability coverage, or MAXL, a multiple-year policy that can return a portion of the premium to a policyholder based on its loss record (see story, page 48).

Joseph M. Rego, managing director of Alexander International Insurance Services Ltd., the Bermuda brokerage unit of Alexander & Alexander Services Inc., said MAXL is now targeted to "existing accounts." Eventually, though, it will be a means of attracting new accounts, he said.

"We're very excited about the MAXL product, and we're doing a lot to generate interest and market that," said Tony J. Hay, assistant vp at Johnson & Higgins Intermediaries Ltd.

Bowring's Mr. Ernst was more cautious.

"We're enthusiastic, but we think it needs some fine-tuning," he said. "They're very complex arrangements."

Ms. Dobbie said Willis Corroon has the distinction of being the first broker to place a MAXL account. She would say only that the coverage was placed for a large policyholder.

Bermuda brokers see more opportunities to prove their worth as ACE and X.L. mature and

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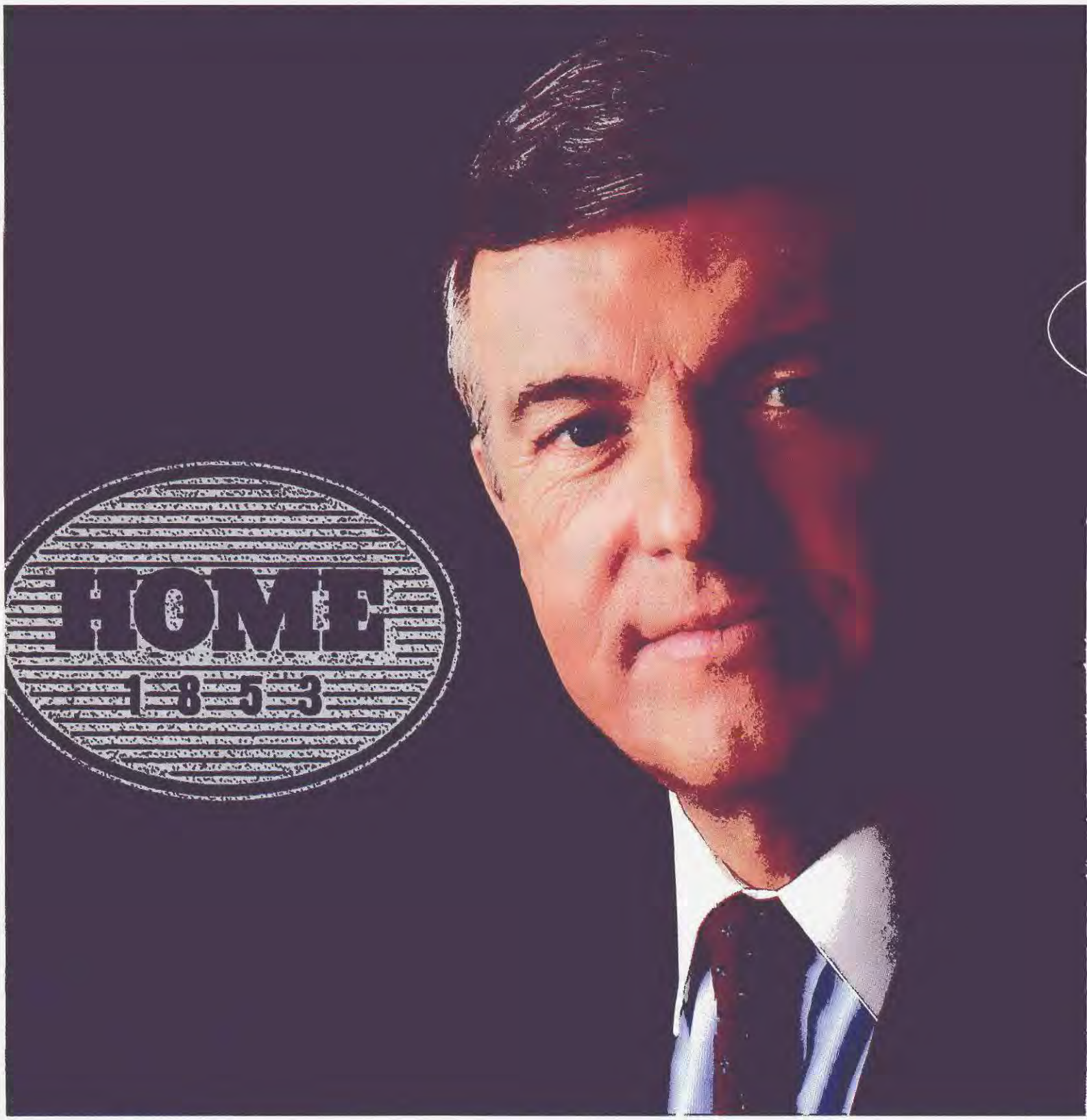
THE HOM



OLD PROS ON

Continued from previous page
claims begin to develop.

"Now comes the next step in the process" where brokers can add value, "and that's negotiating claims with insurers," Mr. Ernst said.

Brokers say there is a lot more to working with ACE and X.L. than just sitting back and letting the business come through the doors. "You work hard and you get compensated for it," said Triangle's Mr. Dunne.

There may be the perception that Bermuda brokers get the ACE and X.L. business by default, said Norman C. Amondsen, another Triangle managing director. "But that's contrary to our view. We get out, knock on doors and sell the product and find there's plenty of opportunity out there."

"We're here to serve the needs of A&A clients, whatever those needs may be," said Alexander International's Mr. Rego. "We like to make sure everybody is fully aware of what's available."

The ACE- and X.L.-specialized brokers say they are doing well.

Bowring, which brokers about half of ACE and X.L.'s business, "would expect to see more, and have seen more business, out of the London market, especially energy, marine-type accounts," Mr. Ernst said.

Despite the general softness of the domestic markets, "We were very pleased generally with how 1991 went," said J&H's Mr. Hay.

J&H, which has 22 staff members, placed business with ACE, X.L. and CODA on behalf of about 160 clients last year. More than 90% of its business is with these facilities, of which 75% is with ACE and X.L., with the remainder placed with CODA and Bankers Insurance Co. Ltd.

Despite its heavy emphasis on ACE, X.L. and CODA business, "we are trying to work in other areas, such as reinsurance of captives," said Catherine S. Lord, a J&H vp.

"We will aggressively be looking for more opportunity in 1992 both from captives and the financial reinsurance area," said Senior Vp L. John Goldberg.

Mr. Goldberg, who just moved to Bermuda from London, said J&H plans to "use the London market more aggressively for some of our captives and some of our business here."

At the same time however, "ACE, X.L. and CODA are still expanding, too," said Mr. Hay. "They're still dynamic and exciting markets themselves."

"It was a good year," said Mr. Rego of Alexander International, about 95% of whose business is generated by ACE, X.L. and CODA. The brokerage, which has a staff of six, is the third-largest broker of ACE and X.L. accounts behind Bowring and J&H. Last year, it placed 145 to 150 policies on behalf of 95 to 100 clients.

"We didn't see as much growth as we would have liked to" because of the soft market, said Mr. Rego.

As for next year, he added, "We're anticipating that it will be at least moderately better from the point of view of increased interest" in ACE and X.L.

He also noted there seems to be increased interest in financial reinsurance and "we find ourselves getting more involved."

Willis Corroon (Bermuda) Ltd. has "expanded dramatically" following the 1990 buyout that created its parent, Willis Corroon P.L.C., said Ms. Dobbie.

While Corroon & Black Corp. had no office on the island before it was bought out, relying on local brokers, Willis Corroon now operates a Bermuda office with 18 brokerage staffers, she noted.

Trevor Metcalf, senior vp at Sedgwick James (Bermuda) Ltd., said the brokerage was "well over budget" last year. The brokerage now operates with a staff of five, up by one from last year.

The brokerage placed 65 ACE and X.L. policies last year on behalf of a slightly smaller number of clients. ACE, X.L. and CODA account for about 90% of Sedgwick James' business. The remaining 10% is made up of reinsurance and financial reinsurance accounts, he said.

"We're very busy on the brokerage side," said Stuart Grayston, president of Frank B. Hall (Bermuda) Ltd. "We had a good year last year."

Mr. Grayston said Hall "made a very late start" with ACE and X.L. and therefore doesn't place as much business with them as some other Bermuda brokers. But, "we're working on a few big ones," he said of new accounts.

Park International, which is 40% owned by Atlantic Security Ltd., a captive manager and independent brokerage, has 15 clients, an increase from 12 a year ago.

Mr. Scope referred to his company as "one of the children of ACE, X.L. and CODA," established to place business with those three facilities.

Apart from those accounts, Park International has "started trying to generate a little bit more for Sphere Drake," he said, referring to Sphere Drake Underwriting Management (Bermuda) Ltd. (see story, page 40). The brokerage also has done some consulting work in recent months, Mr. Scope said.

Atlantic Security's brokerage operation picked up three new ACE/X.L. accounts last year while losing one, said Senior Vp Colin James. "We'd really like to see that expand (this year)."

Operating as a broker and captive manager provides a nice diversity of business, he noted. If one side isn't doing well, good results on the other side will generally compensate for that, he explained.

Triangle's partners also are

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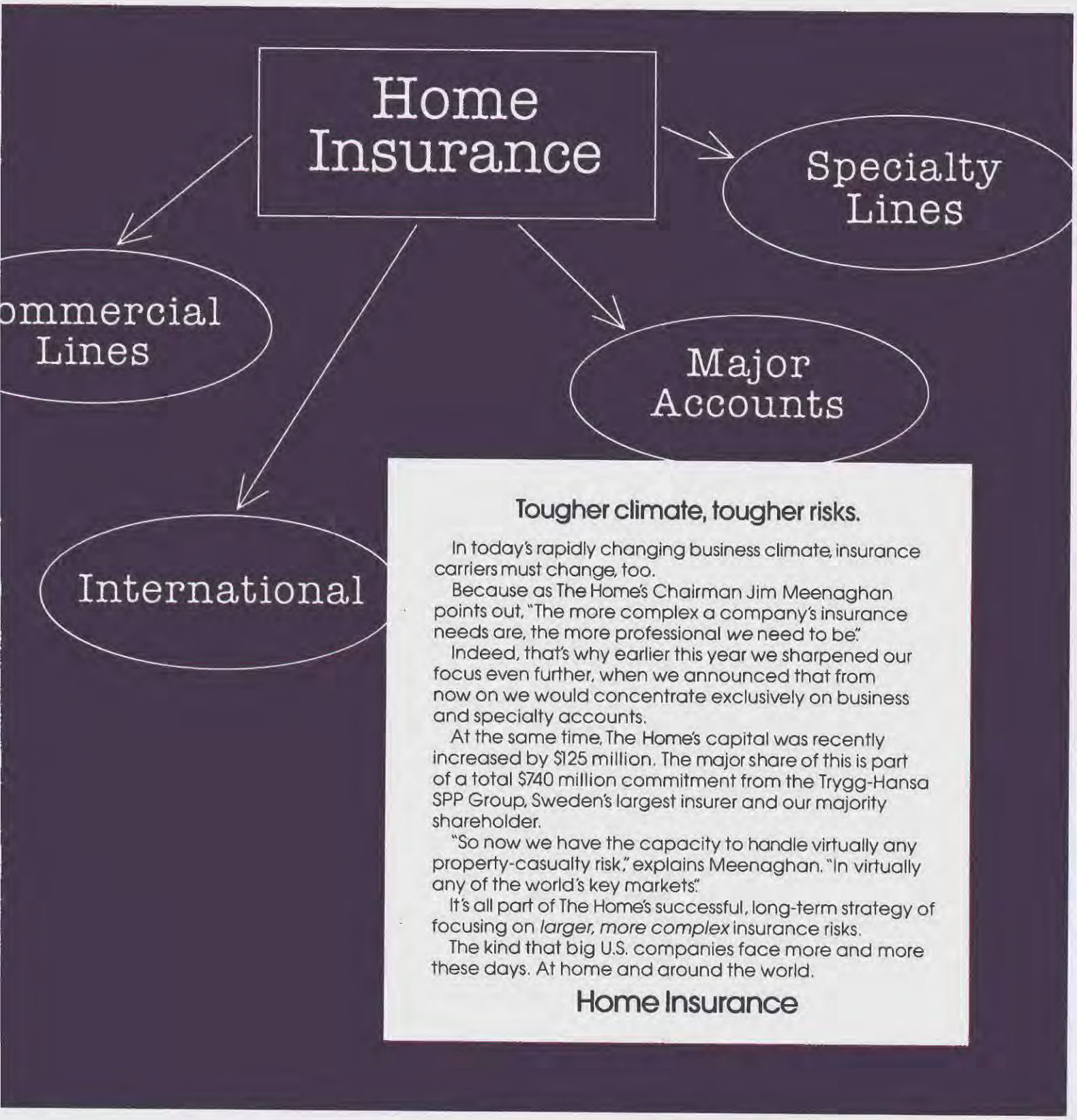
E TODAY



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A NEW TEAM

Bermuda brokers

Continued from previous page
pleased. "It's going well. Business is continuing to grow," said Mr. Dunne.

Independent brokers like Triangle split the 12% commission paid by ACE and X.L. and the 10% commission paid by CODA with producing brokers. Commissions on other business, like financial reinsurance, are negotiated.

"The types of clients that are buying ACE and X.L. are also the types of clients that are likely to be interested in other innovative approaches to risk financing needs, all of which are addressed in Bermuda," he noted.

While ACE and X.L. continue to generate the most business for Bermuda brokers, "traditional" reinsurance brokerage markets haven't disappeared.

The "conventional marine and property market is very active, but it's not very big," Mr. Bray said.

The four staffers at Mr. Bray's Alydon International Ltd. do not place coverage with ACE and X.L., but specialize in reinsurance for captives and self-funded casualty programs.

'Before ACE and X.L., Bermuda brokers were pretty much on the ropes,' says Mr. Grayston.

"In terms of the traditional market, in comparison with the ACE and X.L.-type business, there is a market, albeit a very small one," he said.

But, with London capacity shrinking, brokers could look to Bermuda for coverage, Mr. Bray added.

Robert J. Hedges, president of Intere (Bermuda) Ltd., a unit of Minet Holdings P.L.C., pointed out that the brokerage always has been involved in the traditional treaty market, but over the last 36 months it has been involved with captive reinsurance "to a greater degree."

"It seems the captive business continues to prosper," Mr. Hedges said. "We're involved with most of the people who are looking for business."

Intere (Bermuda) placed just more than 200 property catastrophe treaties, mainly for U.S. risks, in 1991.

That was about the same number as a year ago, but premium volume increased in that year by 40%.

"Some disappeared, but we got some more significant ones," Mr. Hedges said.

Intere in Bermuda also has been involved with two or three financial reinsurance placements a year since it was founded in 1977, Mr. Hedges said.

Griffiths & Wanklyn, which specializes in reinsurance for captives and risk retention groups, "had quite a good year this past year," said Partner William A. Wanklyn.

"A good deal" of its business is placed with Lloyd's of London underwriters, though it also places business with Bermuda markets, including Sphere Drake, and with several German reinsurers, according to Mr. Wanklyn.

The brokerage had 14 accounts last year that generated more than $10 million in premium volume. About 90% of its business involves quota-share reinsurance and coverages for programs in runoff.

Medical malpractice and professional liability account for more than half of its book.

He noted the brokerage manages several captives and now is forming its own insurance company, General Professional Indemnity Ltd., which will be used as a rent-a-captive operation. The operation is expected to attract mid- to large-sized law firms, hospitals and other health care providers, said Mr. Wanklyn.

Most brokers say they do not expect dramatic changes in the Bermuda brokerage marketplace.

"Things will continue pretty much as they are," said Mr. Rego, of Alexander International. "There will be more focus on services of those alternative markets for financial reinsurance and self-funding programs," but he does not see any dramatic growth in the short term.

There also will not be a dramatic increase in the number of new brokers, he said.

"I think it's in equilibrium," said Bowring's Mr. Ernst. "There's always the possibility someone could start their own independent facility."

"There are always new players on the block, so to speak," said J&H's Mr. Goldberg.

"I think the large share of the business will always be with the large brokers" because of their networks of offices, Mr. Goldberg added.

Furthermore, since all the major brokers already have Bermuda operations, "we don't see much opportunity for others—other than the small players— to come in," he said.

Hall's Mr. Grayston put the situation in historical perspective. "Before ACE and X.L., Bermuda brokers were pretty much on the ropes and ready to fall out of the ring," he said.

But the arrival of the two huge policyholder-initiated facilities has boosted the demand for brokerage services, as has the recent high-profile and aggressive product development taken by finite reinsurance specialist Centre Reinsurance Holdings Ltd.

"With those three groups, it's hard to predict what's next," Mr Grayston said. ■

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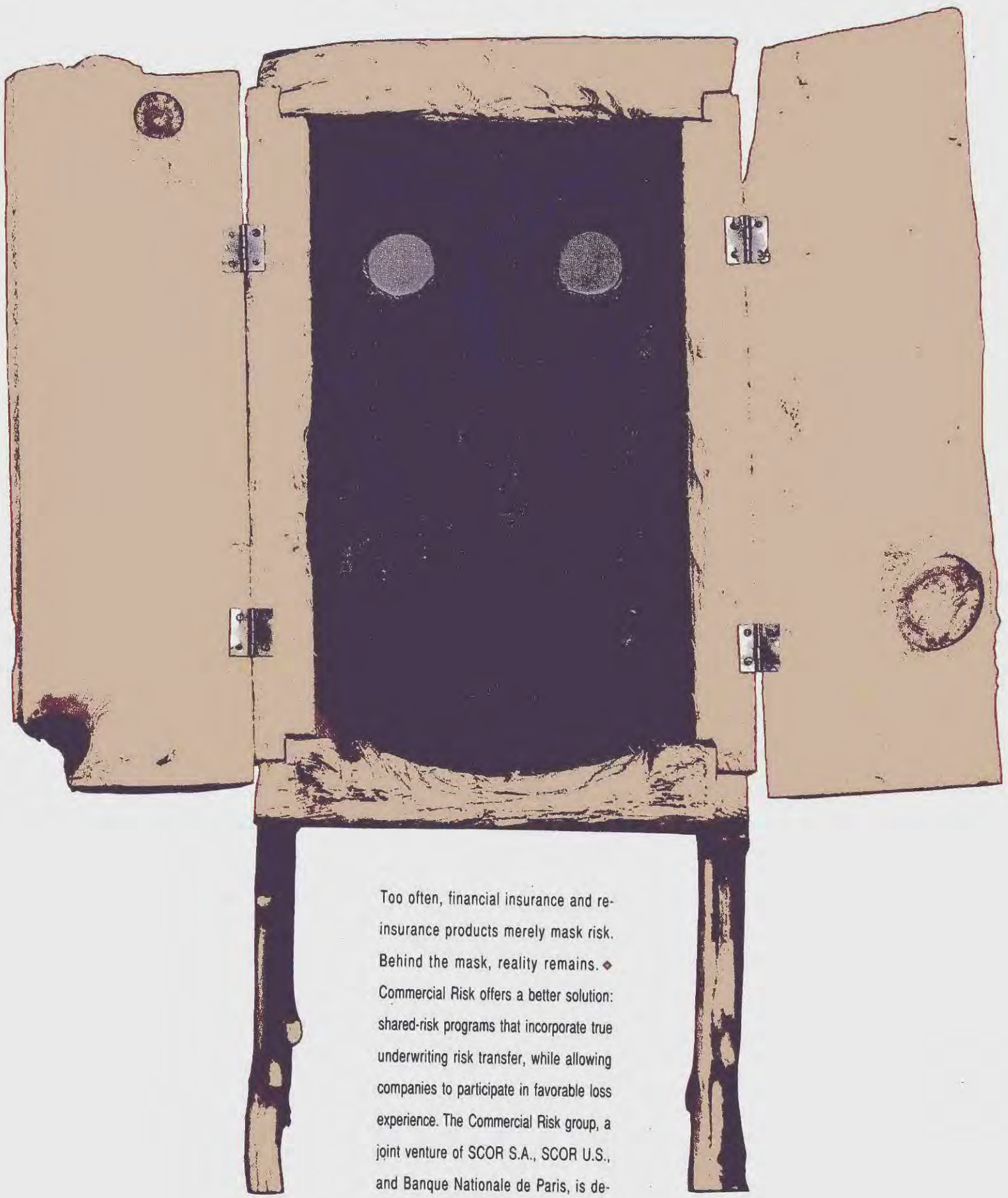

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Spotlight report

Reversal of fortune for CODA

Facility posts profit for '91

By ROGER SCOTTON

HAMILTON, Bermuda—The chairman of Corporate Officers & Directors Assurance Ltd. is considerably more comfortable with CODA's 1991 results than the previous year's.

For the year ending Oct. 31, 1991, CODA reported a small underwriting profit of $464,000, compared with a $63.2 million underwriting loss the previous year.

The insurer added $27.5 million to loss reserves last year, compared with a whopping $90.7 million in 1990.

Investment income of $30.3 million and a $4.1 million gain on the sale of securities produced net profits for CODA of $32.9 million last year, a dramatic reversal from a net loss of $38.6 million the previous year.

Earned premiums rose slightly to $32.3 million in fiscal 1991 from $31.8 million the previous year.

"We believe 1990's claims experience was an anomaly," said Don Snyder, CODA's chairman and chief executive officer, referring to a year in which CODA took the unusual step of issuing a financial viability memorandum to shareholders, policyholders and brokers to prop up sagging market confidence (*BI*, April 22, 1991).

Mr. Snyder believes the effort was successful. The number of CODA policyholders increased, and capital and surplus rose 15.2% last year to $208 million from $180.6 million.

The company's explanation to the market that its 1990 results suffered from an unexpected "loss spike," caused largely by the bankruptcy of a policyholder that could not have been predicted, "seemed to put concerns to rest," Mr. Snyder said.

Charles Smith, underwriting vp at CE Insurance Management Ltd., which manages CODA, points out that the concerns came primarily from those who concentrated purely on CODA's income statement.

"If people had taken the time to look at CODA's balance sheet, they would have seen that the company's net worth was substantial and dedicated exclusively to the directors and officers liability risks it underwrites," he said.

Mr. Smith also points out that the type of coverage offered by CODA is another reason why its financial statements are not like those of a regular D&O insurer.

"CODA protects the personal assets of a corporation's directors and officers," he explained. "We don't write primary corporate reimbursement, so we don't see all the employee-related claims which account for nearly three-quarters of typical D&O claims."

CODA provides up to $25 million of either primary or excess personal coverage to directors and officers for risks that corporations are either unwilling or unable to indemnify. CODA also offers up to $10 million of fiduciary liability coverage.

"Our policy is the ultimate in sleep insurance for directors and officers," Mr. Snyder said. "And for corporations, as one of our founders said just recently, if they never get a dime out of CODA, they're at least able to attract and hang onto their directors. And that's an immeasurable benefit."

The total number of policyholders on CODA's books rose to 172 as of Oct. 31 from 158 a year earlier. So far in fiscal 1992, it has added another three policyholders.

Although the number of policyholders is growing, average premiums are falling as CODA writes a larger number of smaller accounts. This differs from CODA's target market in 1986, when the then-new facility targeted corporations with assets of at least $250 million.

Now, fewer than half of CODA's policies are written for the full $25 million limit, and the insurer now writes coverage for what it describes as "financially sound companies having a net worth of less than $250 million."

As a result, CODA's average premium fell to $187,000 last year from $201,000 in 1990.

However, Mr. Smith notes that CODA's book of business benefits from "a good spread of risk."

Manufacturing companies account for 39% of CODA's policyholders; finance/insurance/real estate companies account for 17%; chemical and pharmaceutical firms account for 11.6%; transportation and communications companies also account for 11.6%; and mining companies account for 8%.

Fifty-six percent of CODA's policies attach in excess of $25 million.

Because of the current soft market, CODA is unlikely to see dynamic growth in new business, Mr. Snyder said. "There's plenty of capacity out there at present, but a major selling point working in our favor is the experience many insureds had in the liability crisis of 1985 of trying to start up relationships from scratch with insurers."

Because of the recession, policyholder insolvencies became CODA's biggest problem in 1991, rather than shareholder derivative actions. Although Mr. Snyder believes that CODA's insolvency risk "perhaps still hasn't played out yet," he also believes most of the problems that the recession could cause CODA already have been seen.

Mr. Snyder said that CODA, which announced a 5% rate increase in June 1990, is "reviewing its whole methodology right now to establish rate adequacy." But he declines to say whether this indicates a rate increase is imminent.

CODA has "a commitment to maintain stable capacity," which reflects an ability to provide coverage at a fair premium, he said.

"Our entire capital is dedicated to supporting just one product," he pointed out. "Nobody else is able to say this and offer what we're offering." ■

PPG's answer to the rising cost of employee benefits...

Bermuda's financial reinsurance market evolves

Anticipating clients' needs, companies are preparing to assume more risk in contracts

By JUDY GREENWALD

HAMILTON, Bermuda—Financial reinsurers in Bermuda are preparing to assume more risk in the contracts they write.

Anticipating clients' needs and responding to regulatory pressures, Bermuda-based financial reinsurers expect to stop writing traditional time-and-distance policies, which do not incorporate any underwriting or timing risk.

Already, the latest financial reinsurer to enter the business, Commercial Risk Partners Ltd., a unit of SCOR S.A., says it plans to assume more significant amounts of risk than its competitors.

Commercial Risk officials say their policies will more closely mirror the degree of risk assumed in conventional reinsurance contracts, although Commercial Risk will focus on the alternative market (see story, page 70).

While the number of financial reinsurers based in Bermuda is growing, reinsurance volume in the market in 1991 was flat after several years of dramatic growth.

Eight of the nine financial reinsurers based in Bermuda that have reported their 1991 results wrote $1.49 billion in reinsurance volume, compared with $1.47 billion for the nine writing in 1990. Independence Insurance Co. Ltd. has yet to report its 1991 results.

The number of transactions handled totaled 167 for 1991, compared with 168 in 1990, and net income totaled $65.2 million compared with $62.4 million in 1990.

The eight financial reinsurers report $657.6 million in capital and surplus and $4.9 billion in assets.

One incentive for incorporating more risk transfer in financial reinsurance contracts is a task force's recommendation that Lloyd's of London syndicates be permitted to discount their loss reserves for long-tail liability claims (*BI*, Jan. 20).

If Lloyd's syndicates, which are now the biggest buyers of time-and-distance policies, could discount their loss reserves, they would no longer need these contracts, which guarantee cedants specific payments at specific times in the future, without any assumption of underwriting risk or timing risk.

"Whoever is just existing on time-and-distance likely will see a dwindling supply of business opportunities," predicted Jens Juul, president and chief executive officer of Scandinavian Reinsurance Co. Ltd., a financial reinsurer that writes both time-and-distance contracts and policies including risk transfer.

Most financial reinsurers already incorporate at least some degree of underwriting risk or timing risk in their policies.

The two financial reinsurers that specialize in time-and-distance policies, Cologne Reinsurance Co. (Bermuda) Ltd. and Independence Insurance Co. Ltd., say they plan to adopt more risk in their products.

"We've come to the conclusion it's going to be necessary to assume some risk in the deals we're going to be writing," said James D. Thomas, Independence's chief financial officer.

And Cologne Re (Bermuda) "certainly has the ability and capacity to adjust to these market changes," said Craig P. Prall, Cologne Re (Bermuda)'s treasurer, adding the reinsurer is looking at alternative products.

Regulatory pressures also are a factor for incorporating more risk in financial reinsurance contracts.

A draft proposal by the American Institute of Certified Public Accountants provides that a reinsurance contract will be considered legitimate only if it involves a transfer of both underwriting risk and timing risk to a reinsurer (*BI*, Nov. 4, 1991).

Joseph Erickson, a fellow of the Financial Accounting Standards Board, said FASB's current approach will in essence adopt the intent, but not the specific language, of the AICPA draft.

FASB is pursuing gross reporting of reinsurance recoverables and liabilities. Under current accounting methods, an insurer reduces its liabilities by amounts recoverable from reinsurers and reports only its net liability for losses.

Under gross reporting, the insurer would report its full liability for losses and loss adjustment expenses and would report as assets its reinsurance recoverables.

A comparison of gross receivables and the gross liability would indicate the amount of risk transfer inherent in the reinsurance contracts.

The Council of the Institute of Chartered Accountants in England and Wales also is studying the issue of risk transfer in financial reinsurance, noted Roger J.B. Beach, president of Accord Re Ltd., a financial reinsurer whose contracts include risk transfer.

Meanwhile, the National Assn. of Insurance Commissioners has adopted an amendment to its practices and procedures manual that had been patterned after the AICPA draft and would require reinsurance contracts to incorporate both underwriting and tim-

Continued on next page

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Financial reinsurers

Continued from previous page
ing risk.

American accounting rules are difficult for financial reinsurers to understand "and even more difficult for the accountants to understand," Mr. Beach said.

On occasion, he said, accountants are even inhibiting their clients from buying products "it might be in their best interests to buy" because of their concerns over the rules, he said.

"The buyers of reinsurance have to be more personally equipped to be able to argue against the accountants" who may not understand the terms of a policy, "and may be taking too draconian a view," he said.

W. Dave Brining, Scandinavian Re's chief financial officer, questioned how accountants can "sit there and say we have to determine hard and fast rules of what is risk transfer and what isn't?"

"Really, all it does is increase the work load," Mr. Brining, an accountant, said of the AICPA and FASB efforts. Most people already have risk transfer in their reinsurance agreements "and everyone agrees on it," he said.

"The element of risk transfer will always be to some extent judgmental," commented Scandinavian Re's Mr. Juul.

Following are profiles of four financial reinsurers based in Bermuda. Other articles report on Bermuda's largest financial reinsurer, Centre Reinsurance (Bermuda) Ltd., and its affiliates, CentreLine Ltd. and Zurich International (Bermuda) Ltd. (see story, page 68); and the two newest entrants to the business: Inter-Ocean Reinsurance Co. (see story, page 71) and Commercial Risk Partners Ltd. (see story, page 70).

Scandinavian Reinsurance Co. Ltd.

In just its third full year of operation, Scandinavian Re posted $26 million in gross premiums, a 23.8% increase from 1990's $21 million, while its net income increased 51.4% to $10.6 million from $7 million

Scandinavian Re's reinsurance volume of $155 million, more than double 1990's $60 million, reflects time-and-distance policies written for Lloyd's, which are not booked as premiums, noted Mr. Brining.

Also not booked as premiums by financial reinsurers are amounts paid for retrospective contracts covering prior years. Only contracts covering current or future risks are booked as premiums by most of the financial reinsurers.

How can accountants 'sit there and say we have to determine hard and fast rules of what is risk transfer and what isn't?' asks W. Dave Brining.

Scandinavian Re boosted its transactions to 35 in 1991 from 25 in 1990.

"We were successful on a few loss portfolio deals out of the U.S., and we increased our whole U.S. portfolio," said Mr. Juul. "And, at the same time we won more and larger time-and-distance policies from Lloyd's. We also increased business from mainland Europe."

Scandinavian Re has capital and surplus of $61.5 million, up from $57.5 million in 1990, while its assets increased to $304 million from $122 million.

But that pace of growth will not be sustained, acknowledged Mr. Juul.

"We can't expect the same sort of growth in '92 as we did in '91, but we're budgeting a like amount of number of transactions," he said.

"We now have an in-house actuarial department, and through that we expect to be able to increase our already high degree of service to our clients, especially in the United States.

"We feel that in the States, in general, transactions are increasingly more complex and a successful solution will very often nowadays contain both a retro and a prospective element, applied with substantial risk transfer from both sides of the operation."

In addition to loss portfolio transfers and time-and-distance deals, Scandinavian Re's business includes prospective aggregate contracts written for U.S. cedants and funded catastrophe covers.

Roughly 35% of Scandinavian Re's bottom line profit, including investment income, continues to be generated by U.S. companies, he said.

Mr. Juul predicted that in a couple of years Scandinavian Re will be backed by $100 million in capital.

"We certainly are in a very favorable position because we will be able to raise our capital to that level whenever it is needed," he said.

The company is a subsidiary of Sirius Insurance Group, which would provide the capital.

Scandinavian Re will not seek increased capital until its business demands it, lest it reduce its 19% return on equity.

Accord Re Ltd.

Accord Re is diversifying from writing primarily North American casualty business for large ceding companies on a prospective aggregate basis.

Property catastrophe business now comprises up to 30% of its volume, increasing from 5% two years ago.

Accord Re has "moved on a very select basis" to write property catastrophe programs, said Mr. Beach. "They are programs written for substantial clients" in both North America and Europe.

As a result, its reinsurance volume declined in 1991 to $103 million on 27 transactions from $170 million on 20 transactions in 1990.

"Prospective business carries with it generally lower premiums compared with loss reserve-type business," explained Mr. Beach.

And loss portfolio transactions, with the transfer of significant liability, increase premium volume, but the profit margins are small, he added.

Despite the drop in volume, Accord Re boosted its profits, Mr. Beach said, declining to divulge the actual profit.

Accord does not release its profits, partly because Mr. Beach and Stephen Edwards personally own 51% of the company. The other 49% is owned by Continental Reinsurance Corp. Interna-

Continued on page 62

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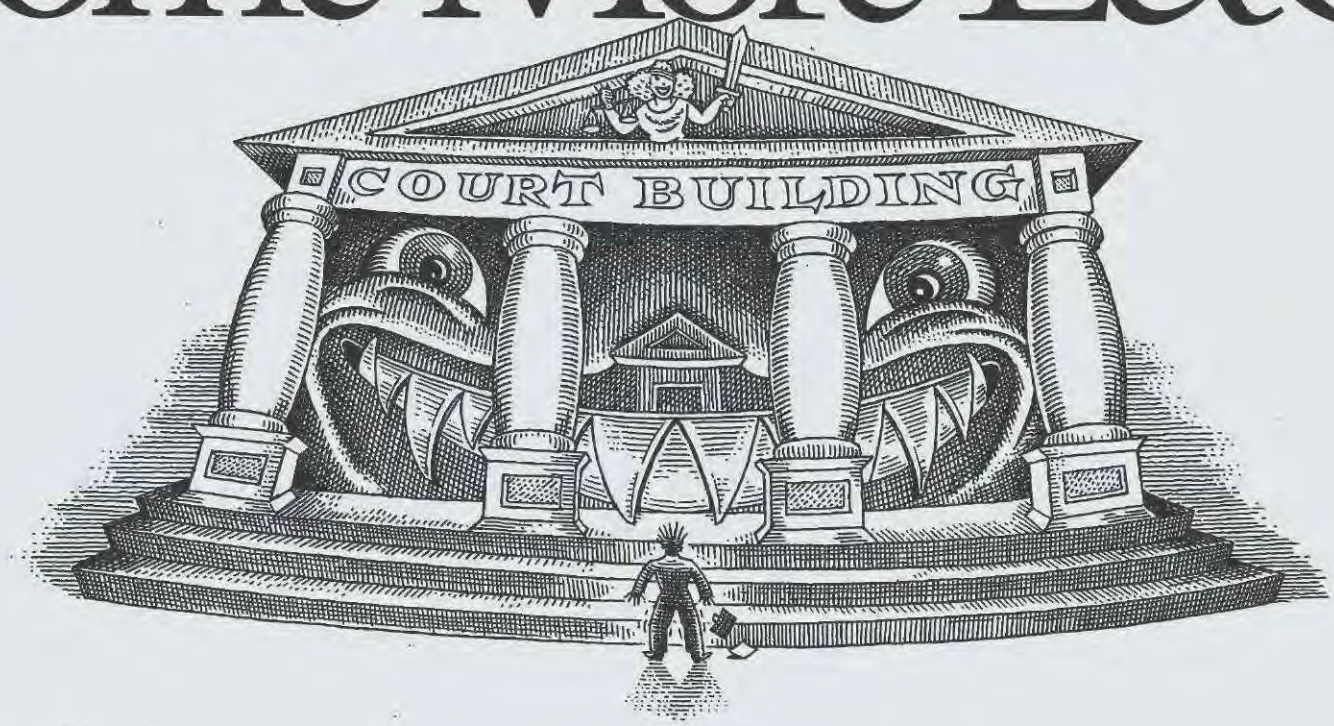

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Spotlight report

Defining financial reinsurance

Financial reinsurance can be an elusive concept to define, and the use of the terms "finite reinsurance" and "shared risk" to describe certain financial reinsurance contracts complicates matters further.

But all these transactions share some characteristics.

The term financial reinsurance can be applied to virtually any reinsurance transaction in which anticipated investment income is an acknowledged component of underwriting, and in which the reinsurer's ultimate liability is capped.

Other factors common to financial reinsurance contracts are that generally they are non-cancelable by the reinsurer, but subject to commutation by the policyholder.

Another distinguishing characteristic is that each policy is tailor-made to the particular client. There are no real "off-the-shelf" financial reinsurance products, which means deals can take considerably longer and be more complex than conventional reinsurance policies.

Within those parameters, however, are a broad range of policies.

For instance, the spectrum of underwriting risk in the contract ranges from none to large amounts. Partly because of regulatory and accounting pressures, the trend appears to be toward transfer of larger amounts of risk, and so the terms "finite risk" and "shared risk" are used to describe contracts in which there is significant underwriting risk transfer.

The policies can be prospective, focusing on future losses, or retrospective, removing past liabilities from the balance sheet. Prospective contracts are the current trend.

These policies may or may not also provide profit commissions for the ceding company.

The common purpose of financial reinsurance is to improve and smooth cedants' balance sheets by enabling them to predict and budget their liabilities and avoid sharp dips and turns.

Among the common types of financial reinsurance are:

- Time-and-distance policies, which guarantee ceding companies specific payments at specific times in the future based on the initial premium paid and the investment returns expected by the reinsurer.

This product has been popular with Lloyd's of London syndicates, although their continued popularity is questionable if syndicates in the future are permitted to discount loss reserves.

Time-and-distance policies are not considered reinsurance by U.S. regulators because the reinsurer is not obligated to pay claims any more quickly than provided for under the contract, regardless of the ceding firm's underlying loss development.

- Loss portfolio transfers, under which an insurer cedes reserves for known losses on a discounted basis to a reinsurer.
- Retrospective aggregates, under which an insurer cedes losses for known and incurred-but-not-reported losses.
- Prospective aggregate covers, under which a ceding company pays a premium and is guaranteed certain future payments to fund future losses.

These contracts can provide for a profit commission if losses are less than expected, or they can simply provide for the return of premium to pay losses as needed, up to the amount of premium paid plus investment income.

- Financing quota-share contracts or surplus relief, under which the reinsurer assumes a fixed percentage of an entire book of business. ■

Financial reinsurers

Continued from page 60

tional Ltd., a unit of Continental Corp.

Underwriting for Accord Re is conducted by Accord Underwriting Agency Ltd., with the same owners.

Accord Re writes calendar year prospective stop-loss coverage, prospective excess-of-loss policies, property catastrophe and some receivables coverage.

Accord Re does not write time-and-distance policies, but it "would be happy to get involved" in a product that incorporated an element of risk when there is sufficient information, Mr. Beach said.

Mr. Beach also is interested in developing international business, and Accord Re has written some European casualty business. But, U.S.-originated business still accounts for 80%-85% of its reinsurance volume.

Accord Re "reinsures out most of our risk," said Mr. Beach, referring to the timing risk as well as excess aggregate risk.

Accord Underwriting Agency has access to the capacity of Continental Reinsurance Corp. International in Bermuda, which has just over $100 million in capital, he said.

Since its founding in mid-1989, Accord Re has been moving "very much more toward working closely with the Continental Corp. in the development of financial reinsurance products" as the market moves towards prospective and property catastrophe-type products, said Mr. Beach.

Whether a contract is written by Accord Re or by Continental Bermuda "is largely driven by various considerations" involving pricing structure, size of the transaction, and accounting and tax considerations, he said. The deals must be structured to "provide maximum yields and flexibility."

Accord Re, with $20 million in capital, doesn't need more, said Mr. Beach. "We don't subscribe to the philosophy (that) we need large capital to produce investment income to cover costs. That would seem to be a total fallacy in terms of economic judgment," he said. "We don't find our capital is a limitation to volume."

Increasing Accord Re's capital to where "it would seem to be substantial on its own merits" without Continental's backing would require in excess of $250 million, he said. "We don't think we would want to support that level of capital as a stand-alone

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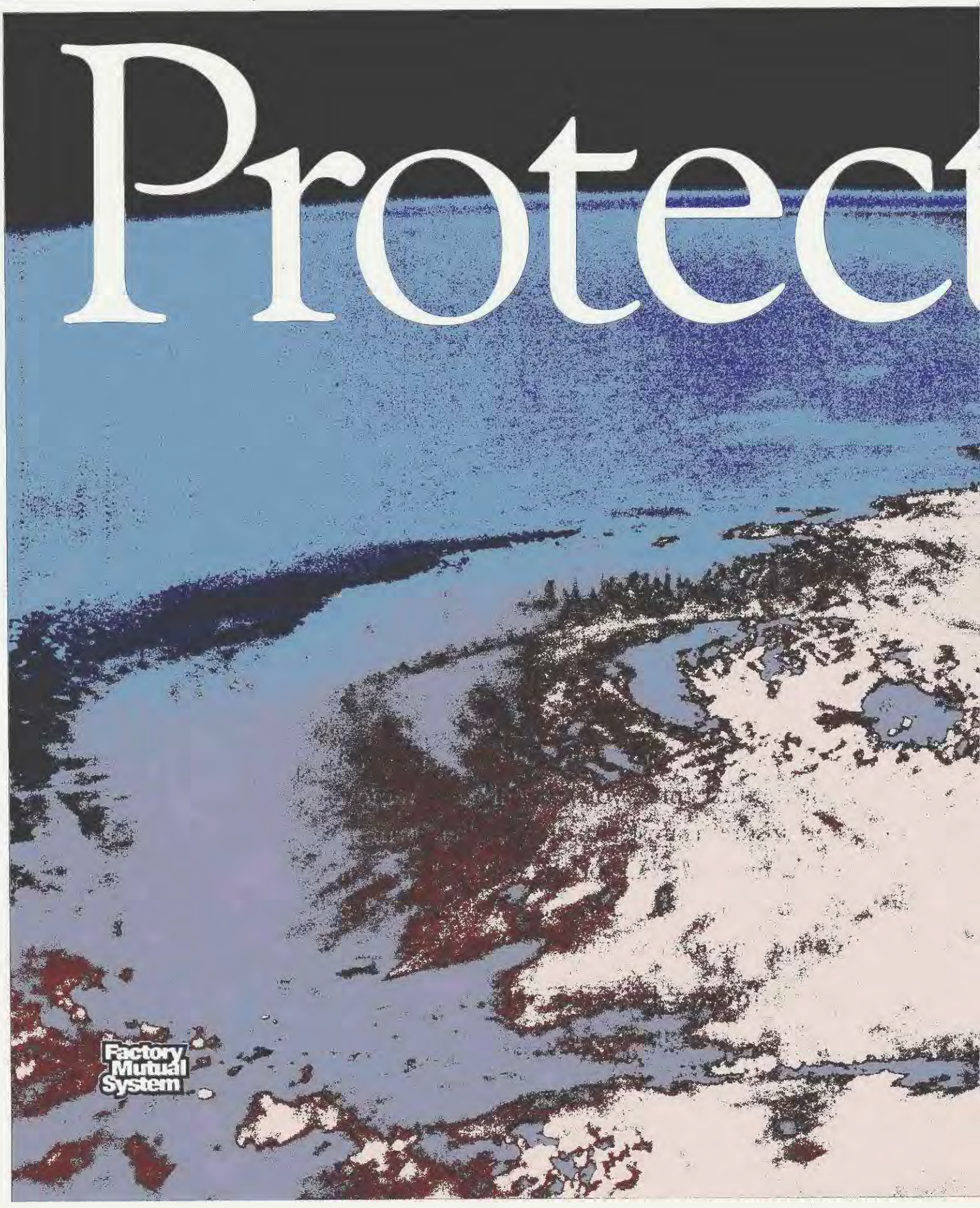

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Bermuda operation. I don't think it would be an effective use of capital," said Mr. Beach.

"We also believe it's very important to control overhead in order to provide a competitive product and that the dangers of having too much capital and too much overhead can force you into assuming business whose terms do not necessarily meet the type of business you initially intended to write."

Business comes to Accord Re from select brokers and intermediaries. "That's all part of the long-term relationships we're looking to develop," said Mr. Beach.

While Accord Re has moved to more spacious offices, it still has only two full-time employees and a part-timer, with no plans to increase its staff. Support services are provided by International Advisory Services. Ltd.

Cologne Reinsurance Co. (Bermuda) Ltd.

Cologne Re (Bermuda) completed 15 transactions in 1991, the same as 1990, but net income declined slightly to $1.5 million from $1.9 million, as reinsurance volume decreased nearly 30% to $26.5 million from $37.7 million.

Net income was down last year primarily due to an exchange loss, while in 1990 there had been an exchange gain, explained Mr. Prall.

Underwriting income dipped to $720,000 in 1991 from $850,000 in 1990.

Cologne Re (Bermuda) did particularly well, however, in generating investment income, which totaled $1.6 million in 1991, compared with $832,000 the previous year.

Mr. Prall blamed the decline in reinsurance volume on "increased competition" for time-and-distance policies.

'At the risk of sounding a bit egotistical, we don't worry about the competition,' says Cologne Re (Bermuda)'s Craig P. Prall.

Also, he noted that "financial reinsurance being a non-renewal type of business, it's difficult to really project and compare year-to-year renewals because they will fluctuate." Only one more medium-sized contract could have boosted 1991 volume, Mr. Prall pointed out.

And 1992, Mr. Prall said, "is an extremely difficult year to predict" for a couple reasons.

One, it's unclear how much time-and-distance business Centre Re will underwrite after buying Cologne Re (Bermuda)'s chief competitor, Pinnacle Reinsurance Co. Ltd.

"At the risk of sounding a bit egotistical, we don't worry about the competition," said Mr. Prall.

Two, traditional time-and-distance policies, which accounted for more than half of Cologne Re (Bermuda)'s transactions last year, may become obsolete. Most of the policies are written for Lloyd's syndicates, and "it's uncertain at this time exactly what the demand will be for the coming year," explained Mr. Prall.

Cologne Re (Bermuda) still is writing time-and-distance policies this year, "but we'll see what happens," he said.

Cologne Re (Bermuda) plans to remain in the financial reinsurance market regardless of the future of time-and-distance policies, said Mr. Prall. "We're certainly making plans."

If time-and-distance business disappears, "we'll look at different areas and different products to use."

He called reports that Cologne Re (Bermuda) would leave the Bermuda market "totally without foundation."

People have speculated that Cologne Re (Bermuda) would leave Bermuda because it has specialized in time-and-distance policies, but the Bermuda company has close to $20 million in capital, "and it will be utilized," he said.

"We would simply change from the time-and-distance type of structures" to others where there is the assumption of "some underwriting risk, some timing risk, or both," said Mr. Prall. It is no secret that in order to write this type of business, "that's exactly what you'll have to do, so we'll have to tailor ourselves accordingly."

"We're a very big organization," he said, referring to parent Cologne Reinsurance Co. in Germany. "We've got a very stable parent company, the oldest reinsurance company in the world, plus the Dublin office, which also provides the financial-type products."

Cologne Re (Bermuda) works closely with the Dublin office, he noted. Normally, the Bermuda company writes time-and-distance policies and any financial reinsurance required for the Bermuda market, while Dublin writes in "more finite risk areas," said Mr. Prall.

"If a product that we would normally quote on became a little bit larger than we might otherwise like," it is written out of the Dublin office, which has more capital, he said.

"There are no hard and fast rules—depends on the structure, depends on the risk, depends on the cedant," he said.

In addition to time-and-distance policies, Cologne Re (Bermuda) last year underwrote "several traditional policies, both property and casualty, and a few financial reinsurance transactions" incorporating underwriting or timing risk, he said.

Cologne Re (Bermuda) also quoted on "a few" loss portfolio transfers in the past year, "but we haven't bound any," he said.

There is no minimum contract. "We will look at any contract regardless of the size, and if it makes sense to do it for a larger account, then the same deal should apply to a small account, bearing in mind what the administration costs are," said Mr. Prall.

Except for a couple U.S. clients, all of Cologne Re (Bermuda)'s clients were Europe-based, he said.

Cologne Re (Bermuda) has not reinsured any captives this past year. "It's certainly an area we'll be looking into and evaluating for the future," Mr. Prall said.

Hudson Reinsurance Co. Ltd.

Hudson Re, a subsidiary of Skandia International Insurance Co. Ltd., originally specialized in captive reinsurance, but almost all its 1991 premium volume in-

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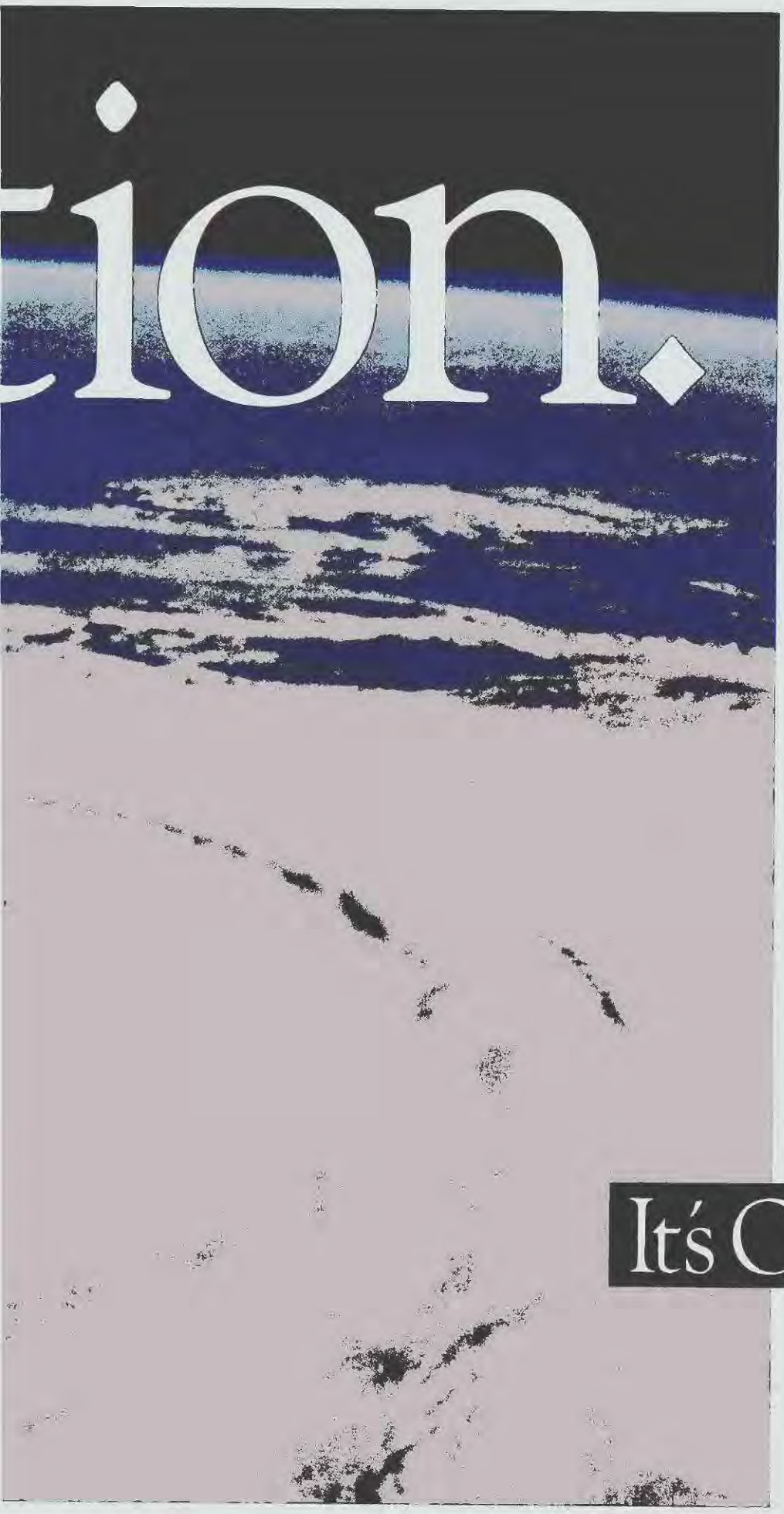

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–Charles Dudley Warner, 1890

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Financial reinsurers

Continued from previous page
volved financial reinsurance, said President Nicholas Dove.

Hudson Re writes prospective aggregates, loss portfolio transfers, financial quota shares and contingency covers.

"We are interested in risk,' said Mr. Dove. "We're not looking for just banking programs."

Hudson Re's $9.1 million in reinsurance volume reflects cessions from New York-based Skandia America Corp. as well as business written directly by Hudson Re.

"We're obviously working very closely with New York," said Mr. Dove, pointing to Hudson Re's Alternative Risk Transfer department, which writes captive reinsurance, and its captive service organization.

"We won't write business where we consider margins to be small and inadequate," Mr. Dove said. "We're very concerned about writing business where there's an inadequate return on capital, and if that means we don't write the business, then we don't write it.

"We are being, I think, conservative in terms of pricing," he added.

Hudson Re reported a $3.6 million loss for 1991, compared with a $1.3 million loss for 1990. The increased loss reflects an accumulation of unrecoverable reinsurance from years dating back to the early 1980s, Mr. Dove said.

Hudson Re has written on a net-line basis for a number of years, and the only protection it has purchased for the last five years, aside from stop-loss coverage from its parent, is catastrophe coverage, Mr. Dove said.

Independence Insurance Co.

Independence had a "quiet year last year" for reasons both external and internal, said Mr. Thomas, chief financial officer.

"Basically, there were a lot of changes back in London," he explained.

Independence is owned by Hill Samuel Bank P.L.C., which was acquired three years ago by the TSB Group Inc. Disappointed with its results, TSB last year replaced Hill Samuel's senior management with its own senior management.

"Unfortunately, when that happens, there's a ripple effect throughout the whole group," which resulted in little activity at Independence, said Mr. Thomas.

"I'm confident they're going to be very supportive. They've certainly taken a lot of time to investigate the business very thoroughly," he said.

In addition, "we had a good look at the underwriting practices of the business we wanted to do going forward," he said.

Independence is prepared to assume risk in its policies, according to Mr. Thomas.

"I think we'll be looking at all the various categories" of financial reinsurance, he said, and these will not necessarily be time-and-distance policies for Lloyd's syndicates.

Time-and-distance policies accounted for about 75% of Independence's 18 transactions in 1990.

While there will be risk in Independence policies, investment income will still be at their "core," said Mr. Thomas. "We like long-term deposits, particularly if we can place them with our parent. They're still very attractive to us."

Mr. Thomas said he hopes Independence also will do more U.S. business. "There's obviously some good opportunities there," he said. But in addition, "I think we'll still look to Lloyd's as a source of business," said Mr. Thomas, noting Independence

Continued on page 66

Leading Bermuda-based financial reinsurers

1991 business in millions of dollars

Name Parent	Capital & surplus	Assets	Reinsurance volume	Number of transactions	Net income
Centre Reinsurance (Bermuda) Ltd. Centre Reinsurance Holdings Ltd.	$360.3	$1,739.0	$528.0	37	$48.1
Zurich International (Bermuda) Ltd. Zurich Insurance Co.	106.8	398.0	120.0	24	6.0
Scandinavian Reinsurance Co. Ltd. Sirius Insurance Group	61.5	304.0	155.0	35	10.6
CentreLine Ltd. Centre Reinsurance Holdings Ltd.	50.4	1,249.0	480.0[1]	10[2]	0.3[2]
Inter-Ocean Reinsurance Co. 11 insurers	27.7	92.0	67.0	13	2.3
Accord Re Ltd. 49% Continental Corp.	20.6	410.0	103.0	27	NA
Cologne Reinsurance Co. (Bermuda) Ltd. Cologne Reinsurance Co.	17.7	214.6	26.5	15	1.5
Hudson Reinsurance Co. Ltd.[3] Skandia International Insurance Co.	12.6	493.3	9.1	6	-3.6
Total	$657.6	$4,899.9	$1,488.6	167	$65.2

[1] Reflects business conducted by Pinnacle Reinsurance Co. Ltd. and CentreLine [2] Since Centre Reinsurance Holdings Ltd. acquisition
[3] Financial reinsurance only NA - not available

Source: *BI* survey

GRAPHIC BY JOHN SMITHER

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Financial reinsurers

Continued from page 64
has good contacts there.

Independence will remain a long-term player in the financial reinsurance market, promised Mr. Thomas.

"The bank has had a good, hard look at the nature of the business and how it's changed," he said. "I think the arrival of Roger (Purkiss) is a positive step, and we're certainly not taking the view we're not going to be here next year. We're very much planning for the future."

Mr. Purkiss joined Independence as president from Skandia America Corp. in October. However, he did not move to Bermuda until February, after spending considerable time in London.

Independence also plans to work closely with risk managers on alternatives to conventional insurance and management of self-insured retentions, said Mr. Thomas. "We haven't been particularly successful, but continue to look in that area."

'We're certainly not taking the view we're not going to be here next year,' Mr. Thomas says.

After "spending a lot of time in the planning process, I think we'd certainly expect to get back to the 1990 premium level within a very, very short time frame," he said.

Independence reported 18 transactions generating reinsurance volume of $65 million in 1990. It has not released its 1991 financials yet, but Mr. Thomas admits "our premium is substantially down."

The changes at the bank, he said, occurred in the middle of last year, when the time-and-distance market is busiest, "so we were affected by that.

"We did a couple of small time-and-distance deals and some small renewals of existing deals, but nothing really major," he said. The volume of business in 1992 will be somewhat dependent on developments in the Lloyd's time-and-distance market, though, he said.

"We'll certainly be a player in the time-and-distance market again. How successful will depend on what syndicates and competitors will be looking for." ■

Financial reinsurers are Bermuda's darlings, despite skeptics' doubts

Some question companies' profitability

By JUDY GREENWALD

HAMILTON, Bermuda—Financial reinsurers are expected to generate the major premium growth among Bermuda-based reinsurers in the future.

They are the darlings of the island's business, although there are some skeptics who question the profitability of the business written.

The policyholder-initiated insurers—ACE Ltd., X.L. Insurance Co. and Corporate Officers & Directors Assurance Ltd.—"will continue to grow, but new growth will be in the finite risk area," predicts L. John Goldberg, senior vp and director of Johnson & Higgins (Bermuda) Ltd.

Bermuda-based conventional reinsurers also will lag behind the financial reinsurers in growth, predicted Mr. Goldberg. Buyers of conventional reinsurance are looking for capacity "and the traditional reinsurers here just don't have larger chunks of capacity," he said.

"That's not a criticism, that's a fact."

Others agree.

"At the moment, it's difficult for anyone to keep pace with the growth of the financial reinsurance side," said David Ezekiel, president and managing director of International Advisory Services Ltd., a captive manager.

"I think that growth in the financial reinsurance sector has been phenomenal and will continue to be," said Jonathan Crawley, president of Sphere Drake Underwriting Management (Bermuda) Ltd., which reinsures captives.

"I think that there is more innovation in product lines from senior underwriters and management in so-called financial reinsurance than in any other area in the insurance industry," Mr. Crawley said.

Not everyone in Bermuda is a financial reinsurance booster, however.

Colin O'Connor, chief executive officer of reinsurer Belvedere Insurance Co. Ltd., said: "We've continued to see occasional financial reinsurance business for the local market, but I'm no longer impressed now by the prospects for profitability for the business we've seen in the recent past.

"We wish all of these specialists good luck, but we stepped away from the property catastrophe business a couple of years ago, and we don't wish to return to it in the guise of financial reinsurance."

Financial reinsurers are writing more funded catastrophe covers since the catastrophe reinsurance market hardened.

Financial reinsurers have still not endured the test of time, noted J&H's Mr. Goldberg. "It's too early to tell whether they're doing well or not. They haven't been in business long enough to determine whether their underwriting meets their profit goals or not. There are some big contracts out there."

Michael Palm, executive vp of Centre Reinsurance Holdings Ltd., the largest financial reinsurer in Bermuda, acknowledges the skepticism.

People assume because Centre Re's business has grown so rap-

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Continued from previous page

idly that it must have achieved its position "by simply writing whatever business came through the door" and by failing to be prudent, he commented.

But this is not true, he asserts.

Centre Re's "hit ratio" of business it actually writes to the business it sees is very low, according to Mr. Palm. "We have an elaborate internal system of checks and balances.'

No single individual in the organization has any independent underwriting authority, and everything is done with "two sets of eyes," he said.

"I'm quite confident the business has not grown rapidly because of irresponsible risk taking," but because it meets needs not met by traditional reinsurance, said Mr. Palm.

Furthermore, "we like to be sure to a high degree of statistical certainty" that the business Centre Re writes is making money, he said.

"I believe we are in a business that's making money," said Mr. Palm, adding that he would be "shocked and unemployed" if that were not the case.

Robert J. Hedges, president of brokerage Intere (Bermuda) Ltd., said that while financial reinsurers are relatively young, "I don't see a problem with the financial reinsurers as long as they know what they're doing, because all their liabilities are capped."

To the benefit of financial reinsurers, competition among them is not fierce.

Brokers prefer to work with one financial reinsurer on a program because the negotiations and structuring the deal can take up to six months, said Gary Colton, vp of Inter-Ocean Reinsurance Co. Ltd., which began underwriting in 1990.

"We don't see a lot of situations where we're going head-to-head with a lot of companies and know it," agreed William J. Branum, Inter-Ocean senior vp. Sometimes, Inter-Ocean knows a piece of business has been submitted to a number of companies, he added, and this becomes a "red flag" that there could be some potential problem with it.

Jens Juul, president of financial reinsurer Scandinavian Reinsurance Co. Ltd., noted that while price competition is important when writing time-and-distance policies, other factors are more important when writing contracts containing risk transfer.

Financial reinsurance policies are "tailor-made solutions," according to Mr. Juul, "and providing the solution that gives the most benefit to the client is the competitive aspect."

Certainly price is an element, but the reinsurer that can also assist in coming up with the best solution is the one that gets the deal, said Mr. Juul.

"The competitive terms of these particular products generally are measured in terms of the innovation rather than pure pricing," agreed Norman C. Amondsen, managing director of Triangle Brokerage Ltd. in Bermuda.

"They all work with essentially the same interest rate factors. So it's either the innovation of the product or the degree of risk they're prepared to assume in each product" that differentiates the underwriter§, Mr. Amondsen explained.

But price competition may be inevitable in the future.

If the financial reinsurance market evolves as the conventional reinsurance market has, it is "textbook economics" that the same inverse relationship between capital and pricing will materialize, observed Nicholas Dove, president of Hudson Reinsurance Co. Ltd., a financial reinsurer.

"Inevitably, as there are more markets to go to and even more brokers who understand the business and have the ability to talk to these markets, there's going to be competition," said Mr. Dove. "We haven't seen it yet, but it's my feeling that we're going to."

"People start competing on price as a natural consequence of new entrants," and this pressure is harder for some to resist than others, commented Inter-Ocean's Mr. Branum.

For now, new entrants to the market aren't expected.

"This year, we don't know of anyone else who (is) going to start a new subsidiary or a new venture," said Scandinavian Re's Mr. Juul. "My gut feeling is there won't be an influx of new entrants in the next couple of years."

"I think anyone contemplating coming into this market must recognize first they need to find the talent they can employ, and secondly, Bermuda as such is not a natural market to which the business will always move," said Roger J.B. Beach, president of Accord Re. Ltd., a financial reinsurer.

While financial reinsurers enjoy tax-free income in Bermuda-unless they are U.S. controlled-"it doesn't mean that any piece of financial reinsurance business will continue to be shown to Bermuda," said Mr. Beach.

'You can't be in a business just by saying that you're in it," according to Mr. Palm. If people want to compete in financial reinsurance, they must have not only the willingness to write the business, but hundreds of millions in capital and the people to write it.

"The people just aren't there," said Mr. Palm, noting that to find the right people to start Centre Re over from scratch would take years.

Inter-Ocean's Mr. Branum agreed that "there is not a great plethora of human talent out there to write this business intelligently and responsibly."

A new competitor also would need "a particular niche they thought they could occupy" and a strong basis on which they could compete successfully, not just on price, he said.

Mr. Beach observed that just with the slate of current competitors, the financial reinsurance market in Bermuda already travels under three names.

While some call the business they write simply financial reinsurance, Centre Re officials prefer the label "finite risk," stating this is a more accurate description of the underwriting and timing risks they incorporate into their policies, while Commercial Risk Partners Ltd. has adapted the term "shared risk" for its products.

"I think it's beginning to get more and more tongue in cheek," said Mr. Beach. "It still is a product which is an investment-driven product." •

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Spotlight report

Centre Re ready for new opportunities after eventful year

New investors, Pinnacle buyout, asset growth welcomed by largest finite risk specialist

By JUDY GREENWALD

HAMILTON, Bermuda—Bermuda's largest financial reinsurer enters 1992 with "new investors, new contacts and new opportunities," says its president, Steven M. Gluckstern.

During a busy 1991 for finite reinsurance specialist Centre Reinsurance Holdings Ltd.:

- Zurich Insurance Co. moved to a majority from a minority shareholder in the reinsurer.
- ACE Ltd. invested $50 million in Centre Re (*BI*, Nov. 4, 1991).
- Centre Re acquired time-and-distance coverage specialist Pinnacle Reinsurance Co. (*BI*, Sept. 23, 1991).
- Standard & Poor's Corp. gave an AA claims-paying rating to Centre Re.
- The Centre Reinsurance (Bermuda) Ltd. unit, which excludes the Pinnacle acquisition, increased its net income 15% to $48.1 million from $41.8 million in 1990.

The number of transactions handled by Centre Re decreased slightly to 37 in 1991 from 40 in 1990, and its reinsurance volume decreased to $528 million from $617 million.

But Centre Re's assets increased 32.1% to $1.7 billion from $1.3 billion, while its capital and surplus increased 23.5% to $360.3 million from $291.8 million.

Mr. Gluckstern said Zurich's 75% stake in Centre Re bodes well for the future because Zurich bought out non-insurance institutional investors, including a unit of J.P. Morgan & Co.

Now, all Centre Re investors are insurance entities, including Kemper Reinsurance Co., a unit of Kemper Corp.

"I think that provides some stability to the company," said Mr. Gluckstern.

Executive Vp Michael Palm pointed out that insurance investors are unlikely to pull out their investments, reducing "liquidity pressure on the company in regard to its capital structure."

Centre Re calls its products, which incorporate substantial underwriting risk, finite risk reinsurance products.

Like other financial reinsurance companies, Centre Re caps its ultimate risk and its ultimate profit. But unlike many financial reinsurance contracts, Centre Re reinsurance policies cover both the risk that losses will develop more quickly than anticipated and that losses will exceed the premium charged plus anticipated investment income.

While Centre Re markets primarily to insurance companies, affiliate Zurich International (Bermuda) Ltd., under President and Chief Executive Officer Laurence Cheng, issues comparable financial insurance policies directly to corporations and captive insurers.

In December, Centre Re Holdings and Zurich International consolidated their marketing, underwriting and actuarial activities in Bermuda while retaining their separate corporate identities. Mr. Cheng also serves as executive vp and chief financial officer of Centre Re Holdings.

"It doesn't make much sense to keep two separate teams of people doing the same job," said Mr. Cheng. Now that Zurich and Centre Re underwriters work as a single team, the decision on who works on a particular submission can be better made on the basis of who has the time and experience.

But, since Zurich International is 100% owned by the Zurich, unlike Centre Re, "we have to be sure the two companies continue to exist as two separate companies," he added.

Zurich International continues to report its financial results separately. In 1991, it reported net income of $6 million and completed 24 transactions, generating $120 million in reinsurance volume. Its assets increased 24.5% to $398 million from $319.7 million and its capital and surplus increased 76.8% to $106.8 million from $60.4 million in capital and surplus for the 18 months ended December 1990.

Meanwhile, ACE's $50 million equity investment in Centre Re, for which it received newly issued stock, will enable Centre Re to gain access to a new source of potential clients.

It became apparent to Centre Re that many of its reinsurance products were applicable as insurance products, said Mr. Gluckstern.

"ACE came to the same conclusion independently," he said, pointing to ACE's policyholder base as potential clients.

"If you want to make a dent" in finite risk insurance, ACE, with its Fortune 500 clients "has a lot to offer," agreed Mr. Cheng.

Centre Re, ACE and Zurich are now working together to develop

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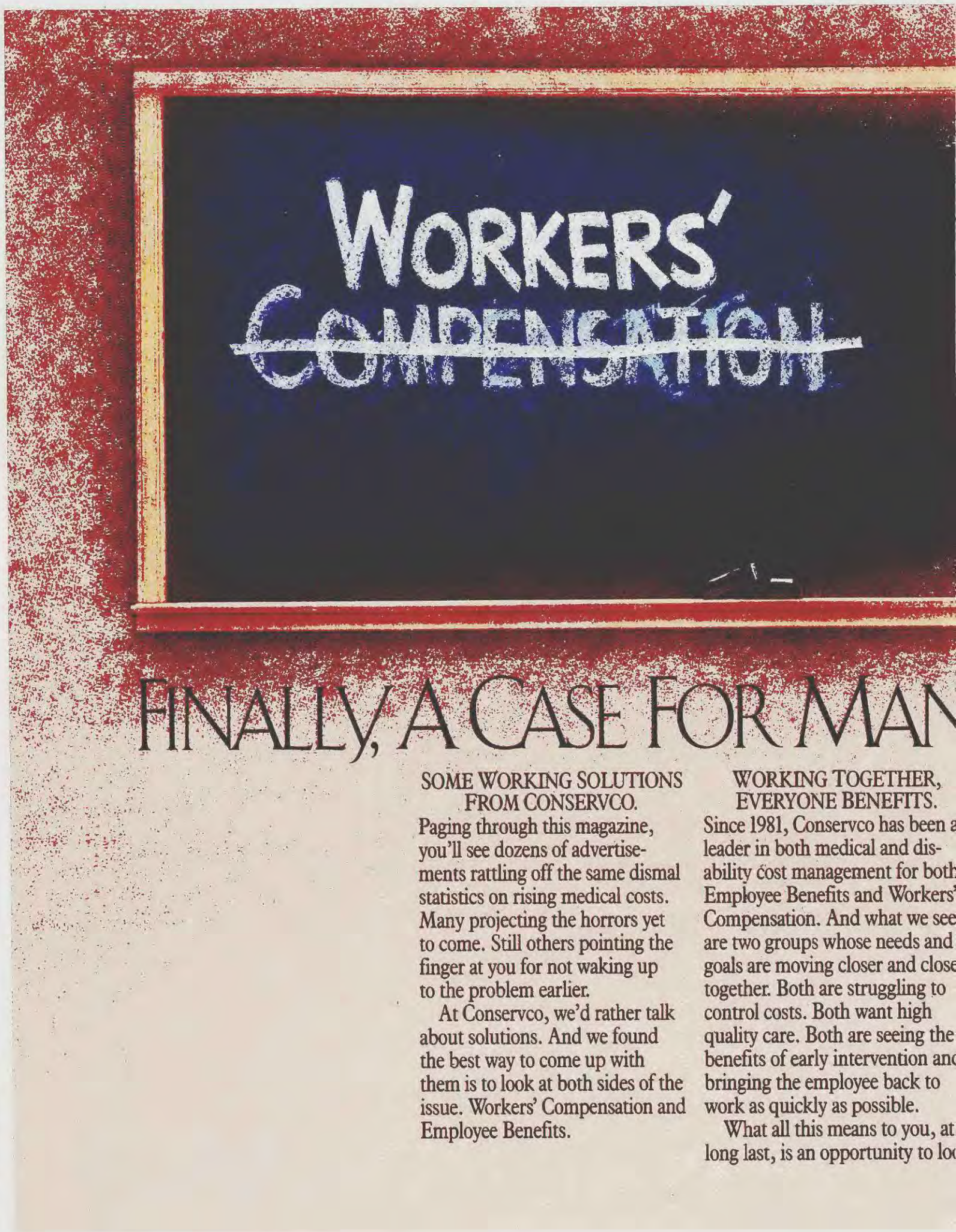

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a joint insurance product that would provide liability coverage "from the ground up," said Mr. Gluckstern.

In addition to product development, ACE decided that its investment in Centre Re "was a good investment for them to make from a purely financial point of view," said Mr. Palm. "We're very pleased to have them [as] investor because they suit the profile that we look for as an institutional investor."

Mr. Palm also welcomes the addition of ACE's chairman and chief executive officer, Walter Scott, as a director of Centre Re. Centre Re relies on the advice of its directors and shareholders, and now has "as good a group of directors and shareholders as we could hope for."

Centre Re officials are also enthusiastic about its acquisition of Pinnacle. Under terms of a complex arrangement, Pinnacle's business has been placed into a separate Centre Re unit, CentreLine Ltd., which reported $1.2 billion in assets and $50.4 million in capital and surplus at year end.

Pinnacle's specialty, time-and-distance policies, do not call for the transfer of underwriting risk, in contrast to Centre Re's underwriting philosophy.

Many believe that time-and-distance policies eventually will outlive their usefulness, Mr. Gluckstern noted.

'We're not actually looking at this point' for additional acquisitions, Mr. Cheng says.

A Lloyd's task force has recommended that Lloyd's syndicates, a major user of time-and-distance polices, be permitted to discount their loss reserves, which would make time-and-distance policies unnecessary (*BI*, Jan. 20).

If that occurs, Pinnacle's previous time-and-distance policy clients "will be looking for more risk-bearing transactions," and Centre Re will be in the best position to provide them with these products, according to Mr. Gluckstern.

Together, Centre Re and CentreLine could become one of the biggest reinsurers of Lloyd's syndicates, said Mr. Cheng. "That gives us a very significant entry into the United Kingdom market, which is not the easiest market to penetrate, and also a bigger profile."

Furthermore, the acquisition helps Centre Re Holdings' balance sheet, said Mr. Cheng, pointing to its $1.2 billion in assets.

"It was a good buy," said Mr. Palm. "We bought a portfolio of in-force business and assets related to it at an attractive price. From a purely financial point of view, doing the transaction made sense to us."

Pinnacle's staff members remain with the company, except for John Marett, a vp who resigned recently.

As for any additional acquisitions, "We're not actually looking at this point," said Mr. Cheng. But if a good deal is presented, "we're not going to say 'No.'"

However, Centre Re has grown rapidly, with assets growing more than tenfold over the past four years. "It's about time to slow down a little bit and consolidate," Mr. Cheng said.

Centre Re's officials also are proud of the double-A rating conferred by Standard & Poor's Corp. on Centre Reinsurance (Bermuda) Ltd. and its related companies, including Zurich International, CentreLine and its New York-licensed company.

"We were ecstatic we got a double-A," said Mr. Gluckstern. "We're only a 4-year old company in a new area of the business," he said, pointing out this was the first time S&P has rated a finite risk reinsurer.

Mr. Gluckstern said while it was disappointing not to have the triple-A rating, the highest, he hopes it will be conferred in the future.

"I was happy and disappointed at the same time," said Mr. Cheng. While he understood a triple-A rating for such a young company was unlikely, "I thought maybe they would make an exception."

S&P assigned the rating to the the companies independent of their ownership by Zurich.

Among the high-profile and complex programs Centre Re wrote in 1991 was its participation in an aggregate excess-of-loss reinsurance contract that was an integral element in the sale of The Home Insurance Co. to a group led by Swedish insurer Trygg-Hansa Group (*BI*, Feb. 18, 1991).

Along with an affiliate, International Insurance Investors L.P., Centre Re also was an integral element in Lincoln National Corp.'s sale last year of National Reinsurance Corp., which has since gone public (*BI*, Nov. 18, 1991).

And late last year, Centre Re completed a loss portfolio agreement with Lloyd's syndicate 799, managed by Merrett Underwriting Agency Management Ltd., covering 1988 and prior years.

The 1988 year is the last year of account for 799, which has now been split into three syndicates.

The contract with syndicate 799, which earned Centre Re about $75 million in volume, provides for the payment of between $150 million and $237 million in liabilities, depending on the payout pattern, said Mr. Cheng.

The contract provides for an expanding liability limit instead of the more common feature in financial reinsurance policies of providing profit commissions to the cedant.

"I think you'll see us continue to operate in large transactions," said Mr. Gluckstern.

Centre Re will become "more and more involved with traditional large insurance companies," he said. ■

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Spotlight report

Commitment to captives is paying off for Cayman

Thirty-one new licenses issued in 1991, most since '87

By MICHAEL SCHACHNER

GRAND CAYMAN, B.W.I.—The Cayman Islands' captive community is profiting from its commitment in recent years to steady growth, but the domicile still faces some challenges.

While captive growth has slowed worldwide because of ongoing soft market conditions, Cayman still is attracting more than enough new captives to offset the number of captives that are shutting down. In fact, more new captive licenses were granted in Cayman last year than in any year since 1987.

And, captives formed during the last hard market, which have had several years to mature, now are expanding to write more lines of insurance than had been originally planned (see story, page 75).

However, Cayman is not reporting the large-scale growth that occurred during the mid-1980s. In addition, Cayman will have to lock horns with several competitive U.S. and European domiciles that have emerged over the past couple years: Vermont, Hawaii, the Isle of Man, Guernsey and Dublin, Ireland.

Most captive managers say that Cayman should strive for a realistic, slow-and-steady growth rate.

Several captive managers, though, are not depending solely on North American business for that growth. They are looking to other continents to attract more captive business—now and in the future. Although the United States and Canada account for about 80% of Cayman's captive business, several captive experts believe there is an untapped captive market in Latin America and other areas.

In 1991, the Cayman Department of Insurance issued 31 new licenses, compared with 20 new licenses in 1990, 25 in 1989 and 29 in 1988. In 1986 and 1987, at the height of Cayman's captive growth, the domicile licensed 63 and 56 new captives, respectively.

Twenty-four captives—including four whose licenses were suspended—ceased doing business last year, leaving Cayman with a net increase of seven captives last year and 367 licensed captives overall.

Most of the captives that closed in 1991 were disbanded because their parent companies returned to the commercial insurance marketplace or completed runoff operations begun in earlier years, said Gilbert Connolly, insurance superintendent.

Premium volume for Cayman's 367 captives totaled approximately $1.5 billion in 1991, Mr. Connolly estimated. In 1990, Cayman's 360 licensed captives generated $1.4 billion in premiums.

"Last year was pretty much the same as the year before with maybe a slight increase in interest. Given market conditions, our biggest challenge is to maintain market share and continue to build upon the strong reputation we have established over the past 10 years," Mr. Connolly said.

That reputation is based on the domicile's:

- Regulatory flexibility.
- Skilled managers.
- Strong financial infrastructure. Cayman, long considered an offshore banking mecca, has more than 500 licensed international banks and dozens of attorneys, actuaries and accountants with insurance expertise.

In addition, there are no government controls on foreign currency exchange, Mr. Connolly pointed out.

"Captive owners are totally free to move their money in and out of Cayman without having to post a transfer notice with a central authority," he said.

And, captives do not pay local taxes.

- Easy access from the U.S. mainland. The Cayman national airline flies directly to five major U.S. cities, and two major U.S. airlines have daily flights to and from Grand Cayman.

But, the key to Cayman's success is the domicile's regulatory environment, according to Mr. Connolly.

"In addition to having 10 solid years of captive experience, our laws and requirements pertaining to insurance and finance are more flexible than most of our competitors," Mr. Connolly said.

Gilbert Connolly believes Cayman's 'biggest challenge is to maintain market share and continue to build upon the strong reputation we have established.'

He emphasized that the department carefully evaluates a captive before it is ever licensed, which prevents major problems from occurring down the line.

"We attempt to make a prudent assessment of a program's viability from the outset. Our whole licensing process is based on early evaluation," Mr. Connolly explained, adding that a captive can be formed in as little as three weeks.

"I participate in some of the preliminary discussions between the managers and the principals and will have already made myself familiar with a program before it reaches my desk for final approval. I try to get personally involved in the early development of a captive, which is maybe why we don't have many problems down the road," he said.

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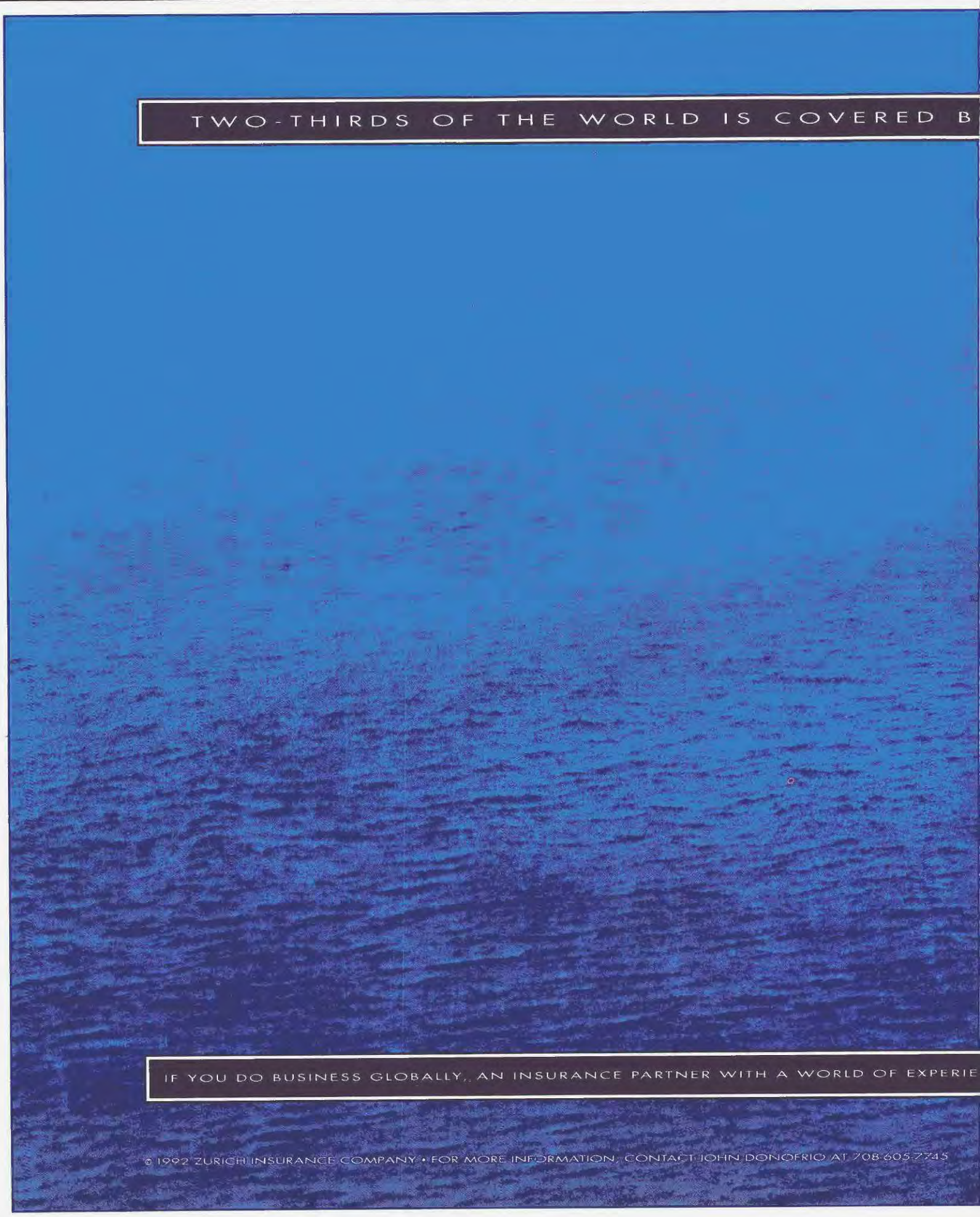

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Several of the island's leading captive managers echoed Mr. Connolly's assessment of Cayman's regulatory environment.

"One of Cayman's major advantages is that the licensing process is speedy and relatively inexpensive. You can incorporate a captive in three weeks at a total cost of about $10,000," said Peter R.L. MacKay, director of Mutual Risk Management (Cayman) Ltd.

Ian Kilpatrick, managing director of newly formed Parker Risk Management (Cayman) Ltd., said Cayman's 25 licensed managers have a very good working relationship with the Insurance Department, which helps smooth the formation process.

"It's difficult to find major differences in legislation among domiciles. So it's important for anyone considering several domiciles to evaluate the relationship between the managers and the regulators. Here, the emphasis is on the initial business plan, and much of the responsibility falls on the managers to regulate their clients," he said.

Overall property/casualty insurance market conditions are not expected to significantly harden this year, leading most captive managers to predict another relatively slow year in terms of captive growth. But, some captive managers and Mr. Connolly say interest in medical malpractice and workers compensation captives remains relatively high.

"North America continues to provide us with most of our new captives and many of them are writing some element of workers comp, especially in Texas and some other Southern states," Mr. Connolly said. "But basically, medical malpractice is our specialty and probably will continue to be."

Roughly 10 of the 31 new captives incorporated in Cayman last year were formed to reinsure workers comp risks for U.S. employers. "They're both single-parent and association captives," Mr. Connolly said.

"I do think we're benefitting from the uncertainty facing the Texas workers compensation market. It seems to be the one clear feature that's leading to new business," said Anthony B. Stelling, director of captive manager Midland Bank Trust Corp. (Cayman) Ltd.

Workers comp is one of the "windows of opportunity" for Cayman, agreed Timothy Ridley, a partner with Maples & Calder, one of Cayman's largest law firms, which services the captive industry.

But, while many Cayman-domiciled captives write medical malpractice insurance or workers compensation reinsurance, most Cayman managers are also interested in other types of captives, said Wayne A.M. Cowan, vp and branch manager with Johnson & Higgins (Cayman Islands) Ltd.

'We don't want to be identified as a jurisdiction just for medical malpractice,' says Wayne A.M. Cowan of Johnson & Higgins.

"I think there's a potpourri of companies coming here, which is good. We don't want to be identified as a jurisdiction just for medical malpractice," he said.

"And, I'm not sure we should allow workers comp to become our new meal ticket," he said.

"While now it seems to be a good line for us, I believe at some point state regulators will close the loopholes that allow companies to insure their workers comp exposure offshore. Regulators may soon realize that they want these companies to contribute to the residual markets, and if all our eggs are in one basket we could wind up getting hurt."

Other managers also said Cayman would be shooting itself in the foot by relying too heavily on workers comp and medical malpractice captives established by U.S. and Canadian companies.

"We're not just medical malpractice out of Florida or workers comp out of Texas. If we relied totally on these traditional North American sources, our outlook for the future would be rather pessimistic," said Bryan D. Murphy, president of International Risk Management (Cayman) Ltd., a Swiss Reinsurance Co. unit.

But, captive managers differ on where Cayman should look for new business.

Some captive managers say the European market has potential despite the growth of several geographically advantageous jurisdictions there.

"Managers who look only to the United States for business won't be as successful," said Parker's Mr. Kilpatrick.

IRM's Mr. Murphy strongly believes that Cayman's captive management community needs to expand its search for business, but he discounted Europe as the hunting ground of choice.

"It's very unusual these days for a European-owned captive to form in the Caribbean. With the movement of the E.C., basic geography and the maturation of Guernsey, the Isle of Man and Dublin as captive domiciles, European business seems to by staying put."

Mr. Murphy said South America is a leading candidate for new business. Japan also is a possible source for new captives, he said. "Through joint ventures, these could be good markets for us. If Cayman could attract four or five good captives from each of South America's leading countries, we'd be very fortunate."

"Any potential for real growth will come out of South and Latin America," agreed Kate Bowring, manager of corporate services with Caledonian Bank & Trust Ltd. "There are several major Latin banks with a presence here. It's an untapped source."

But, other observers still believe that North America will sustain Cayman's captive industry.

"We'd like to attract the numbers from other areas, but geography and the fact that domiciles worldwide are getting bigger and more sophisticated probably won't allow this," Mr. Connolly said.

J&H's Mr. Cowan concurred. "It might be nice to target Europe, but to me it would be a wasted effort. Realistically, European companies have very adequate domiciles much closer to them than Cayman."

Mr. Cowan believes there is still plenty of untapped captive

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potential in the United States.

For example, physician associations in Michigan and various types of health care providers in other Midwestern states are showing increased interest in forming captives, he said.

"We're not that worried about the emergence of European domiciles because our business is North American," said Steve Dilts, director and assistant vp with Marsh & McLennan Management Services (Cayman) Ltd.

In addition, "I'd suspect that Bermuda is feeling more of an impact than Cayman from the European domiciles. It's Hawaii that we're watching," Mr. Dilts said.

While many captive managers said that at least their existing captives grew internally, some managers view 1991 as another down year and say that 1992 is showing signs of being a carbon copy.

"Business won't change until there's a turn in the market, and I'm afraid it's already too late for that. All we can do is try to strengthen existing captives," lamented Steven Butler, director of Chandler Insurance Management Ltd.

Desmond Campbell, resident manager with Aberdeen Insurance Managers, also expects 1992 to be "very much like last year."

"We're a byproduct of the traditional market," he said. " As long as policyholders are getting the right coverage at their price, we'll be slow. Fortunately, the average risk manager is aware of the captive concept, so we can only hope that when things eventually change, we'll see some of the fruits."

'Sure we have the sun, sand and sea, but we have to sell more than that,' says Mr. Kilpatrick.

Captive formation also has not been spurred by recent U.S. Tax Court decisions allowing parent companies to deduct premiums paid to captives that write "significant" amounts of third-party business (*BI*, Jan. 6; Feb. 4, 1991).

"There just aren't many captives here that are even capable of taking advantage of such rulings," commented John E. Smith, managing director with Cayside Insurance Management Ltd.

Third-party insurers also are subject to stricter regulatory oversight in Cayman than single-parent or association captives, Mr. Connolly pointed out.

"At the first sign of a problem we take a close look at what's happening behind the scenes. If a third-party is at risk, I won't hesitate to take action," he said.

Cayman's captive community also is keeping a close eye on the National Assn. of Insurance Commissioners' efforts to restrict fronting arrangements (*BI*, March 16; Dec. 16, 1991; Sept. 23, 1991).

Captive managers say the possibility of Congress or individual states enacting legislation patterned after the NAIC proposals is disconcerting.

"It looks like much of this year is going to be spent fending off U.S. regulators' attempts to kill the offshore movement," said Chandler's Mr. Butler. "It's all rather unnecessary if you ask me. First, it's up to a fronting company to obtain proper security. And, secondly, we already have regulation here that's conducive to a good captive atmosphere. Captives are generally capitalized well above the island's minimum requirements."

J&H's Mr. Cowan said, however, "I don't think the talk of anti-fronting proposals is directly causing people to hold off on their captive plans. Fortunately, the original proposals, which were rather Draconian, have been softened."

Aberdeen's Mr. Campbell said he does not believe the proposals will pass unless they're relaxed considerably. "Captives are an accepted tool of risk management, and to do away with it with blanket legislation won't wash. There's too much opposition."

As the domicile settles into what is expected to be another year of slow growth, captive managers and the insurance department will continue to promote the domicile in hopes that risk managers will think of Cayman first—or at least along with rival Bermuda—when market conditions do change.

"We have our strengths," said Michael P. Daly, vp and financial controller with IRM.

"Access to the islands is improving almost every day. You can literally come to Cayman from as far away as London and be out to a half-dozen cities the next day."

"Sure we have the sun, sand and sea, but we have to sell more than that," Parker's Mr. Kilpatrick pointed out. "We have the management capabilities, reinsurance sources and tax benefits that make us a top domicile."

The one thing Cayman must protect itself against is becoming too expensive, warned IRM's Mr. Murphy.

"It hasn't gotten to the point where we're prohibitively expensive, and I still believe we're more cost-efficient than Bermuda, but we have to watch ourselves. Costs are becoming cautionary," he explained.

In an effort to get the word out about Cayman's advantages and insurance expertise, the Cayman Insurance Managers' Assn. will hold its first captive conference since 1989 from June 3-5 in Grand Cayman.

The conference will include three educational seminars focusing on topics like how the traditional market influences captives, investment options for captives, taxation, reserving, reinsurance, fronting and the proposed NAIC model law regulating fronting arrangements.

The conference also will feature two workshop sessions centering on Cayman's captive specialties, specifically medical malpractice and workers compensation.

In addition, Mr. Connolly and several of Cayman's managers also are staffing a booth again and hosting their annual party at the Risk & Insurance Management Society conference in Anaheim, Calif.

Cayman Governor Alan Scott will accompany them this year. "It's the first time our governor will be accompanying us. We're following the lead set by some of our esteemed competitors," Mr. Connolly said. ■

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Cayman captives' volume increases

Managers point to 'organic growth'

By MICHAEL SCHACHNER

GRAND CAYMAN, B.W.I.—

New captive business in the Cayman Islands is not booming, but existing captives are writing much more business, managers say.

Existing captives also are ceding less business to reinsurers, causing what many captive managers are calling organic growth in the domicile.

Captive managers say this is evidence of the strong captive base Cayman has developed since the early 1980s as well as the long-term commitment among most Cayman captives.

And, as usual captive managers are fielding a steady stream of serious inquiries. Potential captive principals are asking what they should be doing now to prepare for a turn in the market, captive managers say.

However, a few managers believe Cayman's boom period passed with the hard market of the mid-1980s. They say competition from other domiciles, especially emerging European domiciles, will limit Cayman's potential for growth.

Thirty-one new captives were licensed in this Caribbean domicile last year, up from 20 in 1990, 25 in 1989 and 29 in 1988.

Cayman experienced its major period of growth at the peak of the liability insurance crisis, when 63 captives were incorporated in 1986 and 56 captives were granted licenses in 1987.

Cayman lost 24 captives in 1991, mostly because they either completed runoff or their parents surrendered licenses to return to the soft commercial market, said Superintendent of Insurance Gilbert Connolly.

The Cayman Department of Insurance also revoked the licenses of four captives last year for the "usual reasons that lead to suspensions," he said.

Premium volume for the 367 captives managed by Cayman's 25 licensed managers was about $1.5 billion in 1991, up 7% from $1.4 billion generated by 360 captives in 1990.

The fact that premium volume grew by about $100 million while the island's captive base increased by only seven captives proves that established captives are doing more with their programs in preparation for a hardening of the market, several captive managers say.

"While the captive scoreboard ticked favorably by seven which was quite all right given market conditions, our real growth occurred within captives that were already here," said Anthony Stelling, director of Midland Bank Trust Corp. (Cayman) Ltd. "I'd call this organic growth."

Through mid-March, five new captives had been licensed and six more had received approval in principle from the Insurance Department.

In addition, the Insurance Department recently allowed one of the four captives whose license was suspended last year to begin writing new business again, according to Mr. Connolly.

There have not been any license suspensions this year.

But, through mid-March, 14 captives had voluntarily surrendered their operating licenses.

"Captives normally surrender their licenses at the beginning of the year to avoid paying annual licensing fees," Mr. Connolly said. "Based on the figures so far, we expect good net growth for the year."

Cayman finished 1991 with 25 licensed managers, down two from year-end 1990, as three managers voluntarily surrendered their business licenses and a new manager was licensed.

Mr. Connolly said the three managers that ceased doing business last year were small and not very active.

Island Insurance Managers Ltd. was licensed several years ago but never did any captive management business.

Intercontinental Insurance Managers Ltd. managed only one captive, which later transferred to another manager.

The third manager that pulled out, Stone & Webster Ltd., al-

Continued on next page

Largest Cayman captive managers

Premium volume in millions of dollars

Manager / Parent	Premium volume 1991	Premium volume 1990	Captives 1991	Captives 1990	Staff 1991	Staff 1990
Johnson & Higgins (Cayman Islands) Ltd. Johnson & Higgins	$310.0	$320.0	64	61	20	22
International Risk Management (Cayman) Ltd. Swiss Reinsurance Co.	248.0	205.0	28	27	26	28
Midland Bank Trust Corp. (Cayman) Ltd. Midland Bank of London P.L.C.	195.0[1]	190.0[1]	68	67	43	38
Chandler Insurance Management (Cayman) Ltd. Chandler Insurance Co. Ltd.	90.0	87.8	9	7	3	3
Marsh & McLennan Management Services (Cayman) Ltd. Marsh & McLennan Cos. Inc.	65.0	44.0[1]	33	30	3	5
Mutual Risk Management (Cayman) Ltd. Mutual Risk Management Ltd.	55.0	54.0	30	26	3	3
Caledonian Bank & Trust Ltd.	40.0[1]	32.7	13	11	5	5
Cayside Insurance Management Ltd.	38.5	38.6	13	14	3	4
Parker Risk Management (Cayman) Ltd.[2] Frank B. Hall & Co. Inc.	22.0	NA	4	NA	2	NA
Aberdeen Insurance Managers	15.0	25.0	13	12	6	6

[1]Estimate [2]New company NA-Not applicable

Source: *BI* survey

GRAPHIC BY KIMBERLY MART

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Cayman managers

Continued from previous page
ways had subcontracted its business to others, Mr. Connolly said.

The new manager, Parker Risk Management (Cayman) Ltd., a wholly owned subsidiary of Frank B. Hall & Co. Inc., received its license in October.

"Getting another household name here is good for Cayman," Mr. Connolly said. "We're hoping Parker will be able to generate some good business for us."

Johnson & Higgins (Cayman Islands) Ltd. again was Cayman's largest captive manager, based on $310 million in premiums under management in 1991, down about 3% from $320 million in 1990. It finished last year with 64 captives under management, a net gain of three.

"We anticipated 1991 to be a slow year because the market wasn't moving in the direction we had hoped. But the fact that Cayman gained 31 new captives is a good reflection on what we can offer," said Wayne A.M. Cowan, vp and branch manager.

Of the six new captives J&H helped form last year, one writes malpractice insurance for a large California-based hospital.

Three others are owned by various types of associations ranging from bakers to electronics distributors. They are used to write general liability insurance.

The other two new captives write workers compensation coverage for their Texas parents.

"All are fairly heavily capitalized with a mixture of cash and letters of credit," Mr. Cowan said. "All have initial capital of $300,000 to $400,000, which is well above the island's minimum of $120,000."

J&H also completed the liquidation of two captives that had been inactive for several years, he said. In addition, a U.S. hospital-owned captive J&H had managed for several years changed managers when the hospital changed brokers.

Despite the increase in net captives under management, J&H's premium volume dropped because one large property/casualty captive wrote $25 million less in 1991 than in 1990 as a result of its U.S. parent's reorganization, Mr. Cowan explained.

Approximately 30 of J&H's captives write medical malpractice coverage of some form. Nearly all have U.S. parents.

Mr. Cowan said Cayman's limited growth in licensed captives is acceptable because "existing captives are really maturing."

"For example, we just had a hospital association go from only writing its malpractice insurance to writing its primary property, general liability and workers comp coverages."

International Risk Management (Cayman) Ltd. remained Cayman's second-largest captive manager, based on $248 million in premium volume, up 21% from $205 million in 1990.

IRM, which is 70% owned by Swiss Reinsurance Co., had 28 captives under management at year-end 1991, up one from 1990. It lost no captives last year.

IRM's new captive, which writes financial guarantee business, was capitalized at the island's minimum of $120,000.

"We may not manage the most captives in Cayman, but the average size of our captives is probably bigger than most. We were quite happy that our captives grew by 21% in premiums and by an average of 32% in capital and surplus," said Michael P. Daly, vp and financial controller.

Unlike several of Cayman's other larger captive managers, IRM is focusing its search for new business in areas other than the United States.

"Two years ago I said our future here looked rather bleak," said IRM President Bryan D. Murphy. "But, now we have guarded optimism for growth because we aren't relying solely on the U.S. market for captives."

Mr. Murphy said Bermuda-based IRM Group—which has captive management operations in several domiciles—recently aligned itself with the Tokio Marine & Fire Insurance Group of Japan "so that when a Japanese company shows interest in a captive, IRM and hopefully Cayman will be a top consideration."

The IRM Group also has entered into a joint-venture with Paris-based AXA S.A. that allows IRM to explore captive management opportunities for French-owned companies and aligns AXA with an established risk management expert, according to Mr. Daly.

IRM entered that joint venture because "there's a strong interest in the captive movement in France," Mr. Murphy said.

IRM also is exploring business in South America and South Africa now that trade sanctions are falling by the wayside.

So far this year, IRM has landed two new captives, both capitalized at the minimum level.

One, which is owned by a U.S. company, writes third-party automobile liability insurance on a quota-share basis.

The other new captive, which has Swiss parents, writes travelers' assistance coverage.

IRM's largest captive is United Insurance Co., a group captive that wrote $123 million in premiums in 1991, up 9.8% from $112 million in 1990. The captive has 19 shareholders, but IRM no longer has an ownership stake.

About 95% of United's business continues to be casualty business, according to Mr. Daly.

IRM also manages Tortuga Casualty Co., which has 23 shareholders. Tortuga wrote $7.8 million in liability premiums last year, down 13.3% from $9 million in 1990.

Tortuga now offers participants just one program: $50 million in liability insurance excess of a minimum of $50 million. But, policyholders' retentions commonly exceed the minimum attachment point, Mr. Daly said.

Until Jan. 1, Tortuga offered two programs: $25 million excess of $25 million and $25 million excess of $50 million.

In addition, Tortuga policyholders no longer have to be shareholders in the captive.

"We think these changes will improve the marketability of Tortuga," Mr. Daly said. "The name of the game is to make products as simple and straightforward as possible."

Midland, a subsidiary of Midland Bank P.L.C., remained Cayman's third-largest captive manager, based on an estimated $195 million in premium volume generated by 68 captives.

Midland manages more registered captives than any other Cayman manager. Midland also manages five additional captives

Continued on next page

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Continued from previous page
on behalf of Alexander Insurance Managers (Cayman) Ltd., which does not have a Cayman representative.

Midland added two association ...ves in 1991, both of which ... malpractice insurance for U.S. hospitals, said Director Anthony Stelling.

...e captive left the manager ...ear. "Its parent was ac...ired by a corporation that already had a captive. I guess they ...anted to roll this captive into ... existing one," he said.

...out 63% of Midland's cap... write liability insurance as their primary line. "It's mostly medical malpractice or hospital ...bility. That's clearly our ex...tise and has been ever since we got started," he said.

Mr. Stelling said prospects for ...ew captives so far this year appear slim. "I was probably more bullish about our prospects last year, when I thought the market was going to harden. This year with the recession in full form, commercial insurers are likely to battle even harder for the business that's left.'

Chandler Insurance Management (Cayman) Ltd., a unit of Chandler Insurance Co. Ltd., kept its No. 4 ranking among Cayman managers, based on $90 million in premium volume.

Chandler managed nine captives last year, six of which were active.

Chandler's largest captive is its parent, which wrote $65 million, or about 72%, of total premiums under management. Chandler Insurance Co. wrote $82 million in 1990.

"Chandler was more selective in its underwriting last year," according to Steven R. Butler, director. "It wrote primarily short- and long-haul trucking liability insurance and surety bonds, which is Chandler's core business."

Chandler, which completed its second year of business in 1991, managed two new captives last year.

One was a "large" group captive for several Midwestern firms that wrote about $20 million in workers comp and general liability business. The captive had been domiciled in the Bahamas previously.

Chandler's other new captive, a unit of Chandler Insurance Group that was incorporated last fall, wrote about $2.5 million in reinsurance business in the fourth quarter.

"The rest of our captives are small and doing about $1 million to $2 million per year in business," Mr. Butler said.

He said one of the inactive captives, a medical malpractice insurer for California physicians, is ready to start writing business and should "do about $1.5 million in premiums this year."

Marsh & McLennan Management Services (Cayman) Ltd. moved up one spot to the No. 5 ranking among Cayman captive managers, based on $65 million in premiums generated by 33 captives.

In 1990, 30 captives wrote about $44 million in business, estimated Stephen R. Dilts, director and assistant vp.

"1991 was a record year for us in terms of profits and premium volume. We had 15% new business and we lost no captives, which we consider very good for soft market conditions," he said.

Almost all of M&M's business in Cayman is directed here by its U.S. brokerage network. "It's our lifeline," Mr. Dilts said. "The company philosophy is to use the Marsh network to channel business to offshore managers."

About 50% of M&M's captives write medical malpractice coverage.

Mutual Risk Management (Cayman) Ltd., which is owned by Mutual Risk Management Ltd. in Bermuda, slipped to the No. 6 position among captive managers, even though premium volume edged up to $55 million last year from $54 million in 1990.

MRM managed 30 captives last year, up from 26. The manager gained nine captives and lost five. Of MRM's nine additions, three transferred from other Cayman managers. The manager also helped parents form six new captives.

Three of MRM's new captives are owned by U.S. physician associations and write medical malpractice for doctors. Another, owned by a New York hospital, writes general liability, auto liability and professional liability insurance. The other new captives write either credit life insurance or workers comp coverage for Texas risks, according to Director Peter R. L. MacKay.

Of the five captives it lost, four completed runoff. MRM relinquished management rights to the fifth.

"Overall, I thought we had a better year than I thought we would," said Mr. MacKay. "I figured Cayman would lose captives, but there seems to be a lot of interest. And a lot of potential captives have already put their toes in the water and seem to just be waiting for the market to change."

Business is off to a brisk start this year, Mr. MacKay noted.

"We're in the process of forming a new association captive that will also write malpractice coverage, and we have a few other prospects. Spottswood Dudley, our director of captive operations, has really been working hard at stirring interest in Cayman, and it's paying off. He's our tax specialist, and he's been emphasizing the tax advantages we have here," he said.

About 45% of MRM's Cayman-based captives write medical malpractice coverage, with most of them obtaining reinsurance from Employers Reinsurance Corp. of Overland Park, Kan. "They're one of only a few reinsurers offering occurrence-based coverage for malpractice," Mr. MacKay said.

MRM also owns Philadelphia-based Legion Insurance Co., which is licensed in 47 states and can act as a fronting company for MRM-managed captives, Mr. MacKay added.

Caledonian Bank & Trust Ltd. moved up one spot and now ranks as Cayman's seventh-largest captive manager, based on an estimated $40 million in premium volume.

Kate Bowring, manager-corporate services, said Caledonian had a slow year in 1991 despite a net gain of two captives and an increase in overall premium volume from $32.7 million last year. Caledonian managed 13 captives at year-end 1991.

"Eight of our captives were inactive," she said. "As a banking and trust company, we're focusing on other things besides captives. We have to be diverse to

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Cayman managers

Continued from previous page

offset periods of slow offshore insurance such as we have seen the past few years."

One of Caledonian's new captives writes shipping risks

The other is inactive now but plans to write surety bonds for the U.S. construction industry.

Cayside Insurance Management Ltd. fell one spot to the No. 8 rank among Cayman managers, based on $38.5 million in premium volume in 1991, a slight decrease from $38.6 million.Cayside managed 13 captives in 1991, down from 14 in 1990.

Cayside lost two captives last year that completed runoff and surrendered their licenses.

"One went back onshore to join an insurance company its parent formed in 1990, while the other was just in your standard runoff," said John E. Smith, Cayside's managing director.

Cayside's new captive is owned by a group of medical clinics in Ontario and Quebec. It writes the clinics' professional liability and general liability insurance but not malpractice insurance for the nurses and doctors.

Most of Cayside's captives are small and write a wide variety of coverages, including workers compensation; auto, general and professional liability and credit life insurance.

"Several of the companies we manage are getting bigger by taking less reinsurance and holding more of the risk themselves," Mr. Smith said.

Parker Risk Management (Cayman) Ltd., a unit of Frank B. Hall & Co. Inc., was licensed only last fall but earned Cayman's No. 9 ranking by managing four captives that wrote a total of $22 million.

Among the four captives, three transferred to Parker and one was a new incorporation.

Ian Kilpatrick, Parker's managing director, said Parker has set a goal of eventually becoming one of Cayman's larger managers.

"There's really no sense in getting involved in the business if you don't want to grow. We expect to be the recipients of new business that will come both through Hall's brokerage system and our own local marketing," he said.

Mr. Kilpatrick was with International Underwriting Managers (Cayman) Ltd. at the beginning of last year and previously was J&H's Cayman branch manager.

Of the four captives Parker manages, the largest is owned by Singapore-based parents. "It just switched to us from another manager," he said.

Another captive reinsures contract bonds and liability insurance purchased by U.S. contractors. It is expected to generate about $4 million in premiums this year.

Parker also manages a risk retention group that insures extended warranties on customized cars. "This captive is growing rapidly. It did $1.6 million in volume last year," he said.

The newly licensed captive writes medical malpractice coverage for Michigan doctors. The program is fronted by a domestic insurer, he said.

Aberdeen Insurance Managers is Cayman's 10th-largest manager, based on $15 million in premium volume in 1991, a 40% decrease from $25 million in 1990.

Aberdeen gained one captive last year, ending the year with 13. Still, premiums written by Aberdeen's captives plummeted.

"A few of our captives clearly slowed down last year," said Desmond Campbell, resident manager.

Aberdeen's new captive is an agent-owned captive that reinsures trucking liability coverage.

And, one of Aberdeen's captives, which wrote workers comp risks, is in runoff.

Mr. Campbell called Aberdeen's captives a "mixed bag" writing medical malpractice, property/casualty and surety bonds for contractors.

A prominent captive manager that did not make the Top 10 is International Underwriting Managers (Cayman) Ltd. which managed nine captives last year, six of which were active.

David M.L. Roberts declined to disclose the captives' premium volume or provide details about the captives. He said they are "primarily smaller captives."

"We tend to look after captives with lesser premiums, and it has proved successful for us. We're currently working on two new programs with expectations for another that will produce sufficient volume if it matures," he said.

IUM also has a contract to manage five captives for CSI International Underwriting (Cayman) Ltd., though four are in runoff. ■

Cayman regulation stays on consistent course

Captive solvency closely watched

GRAND CAYMAN, B.W.I.—Captives in the Cayman Islands are subject to the same capitalization requirements, local taxes and licensing fees as in the past several years.

Captives with Class B licenses—the most common license in the domicile—that write general property/casualty insurance business still must be capitalized with at least $120,000 under the Insurance Law of 1979.

Captives writing long-term insurance, like life insurance, must be capitalized at a minimum of $240,000, while captives writing both types of coverage must be capitalized with at least $360,000.

Captives are subject to an annual licensing fee of $5,487.

Cayman's insurance regulators do not impose a strict net premium-to-surplus ratio on captives, but Gilbert Connolly, the superintendent of insurance, asks captives to maintain a ratio of 5-to-1.

There are no restrictions on how captives can invest funds, but Mr. Connolly's office does monitor investments and solvency closely, especially for captives writing third-party coverage. The Insurance Department will promptly register complaints with a captive's owners if investment strategies appear unsound.

Captives must provide the department with an audited financial statement within six months after the close of a captive's fiscal year. The captive's manager or the auditor also must provide the department with a certificate of compliance, indicating that the captive adhered to its approved business plan.

Cayman law requires every captive to have a licensed manager on the island. The annual licensing fee for a captive manager is $9,146.

Cayman-based captives pay no local taxes.

For more information, contact Insurance Superintendent Gilbert Connolly, Department of Finance and Development, Harbour Centre, George Town, Grand Cayman, B.W.I. 809-949-7999; fax: 809-949-7544.

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Recession, soft market slow growth in Barbados

Managers optimistic, but formations at lowest level since boom started by 1987 tax breaks

By DOUGLAS McLEOD

BRIDGETOWN, Barbados—Last year was a quiet one for Barbados captive managers as the island, like many other offshore domiciles, experienced a marked slowdown in captive growth.

Eleven exempt insurers were formed in Barbados in 1991, half the 22 formations in 1990, and down from 70 in 1987.

Last year's formations brought the total number of exempt insurers in Barbados to 209, of which 186 were active, said Insurance Superintendent Wismar Greaves.

The slowdown was based on several factors, including the economic recession, the soft commercial insurance market and the fact that Barbados has increasingly relied on Canada—a much smaller market than the United States—for new growth.

Some captive managers express optimism that business will pick up again this year, albeit more slowly than in the past.

"It looks as though it will be more active than last year, but nothing like 1987 to 1988," when a U.S. federal excise tax exemption sparked a captive boom in Barbados, observed Christopher Evans, general manager of Wyatt Management Co. (Barbados) Ltd.

Four exempt insurers have been licensed so far in 1992, bringing the total of active companies to 190, Mr. Greaves noted.

"We have had a very good start for 1992 and we expect this trend will continue," he said, predicting that Barbados will register 15 or 16 insurers this year.

The FET exemption in the U.S.-Barbados tax treaty put Barbados on the map of captive domiciles, exempting parent companies from a 4% tax on captive insurance premiums and a 1% tax on reinsurance premiums.

However, the exemption was allowed to expire at the end of 1989, as was a similar exemption granted retroactively to Bermuda.

Mr. Greaves and others cited economic and insurance market conditions for last year's slump. "The problem has been the worldwide recession."

"Our problems are continuing to stem obviously from the soft market in North America and the continuing recession in the U.S. and Canada," agreed David K. Self, vp and branch manager of Johnson & Higgins (Barbados) Ltd.

Most captive managers turned to Canada as the main source of new Barbados captive business following the demise of the U.S. tax treaty.

Under a tax treaty between Barbados and Canada, income earned by a Canadian-owned Barbados captive can be repatriated to the parent tax-free if the captive covers only third-party Canadian risks not related to the parent or risks of the parent's non-Canadian subsidiaries, including U.S. operations.

Canadian companies are also allowed tax deductions for premiums paid to their captives.

"Our marketplace very much remains Canada," said Ronald Jones, managing director of Alexander Insurance Managers (Barbados) Ltd. "That's where Barbados' main thrust will continue to be."

"We are obviously targeting Canada as our major market simply because of the tax implications," Mr. Self added.

However, relying on Canada also means slower growth, since the Canadian market is smaller and less familiar with the captive concept than the U.S. market, managers say.

"Canada is the market for us, but it's not an easy sell," added Timothy Courtis, assistant vp with Continental Risk Services (Barbados) Ltd.

"We are not tapping the U.S. here, we are tapping something one-tenth the size," he said.

Marketing captives in Canada requires more effort because many companies are relatively unfamiliar with captives and "people are very skeptical at first," he explained.

Marketing Barbados as a captive domicile is one of the functions of the Barbados Exempt Insurance Management Assn., a group with 24 captive manager members headed by Mr. Jones.

BEIMA has also been active in developing financial standards for captives and in representing the management community in regulatory matters with the Bar-

Continued on next page

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Barbados

Continued from previous page
bados government.

"Since the formation of the association, we have been able to coordinate things a lot better," Mr. Greaves said.

Last year also saw the formation of the Offshore Business Advisory Committee, a group of professionals on the island formed to advise the government on matters relating to a wide variety of offshore businesses, including insurance.

An OBAC subcommittee headed by Mr. Jones has been formed to deal specifically with exempt insurance issues, and its first job will be to determine how the Barbados Exempt Insurance Act of 1983 might be fine-tuned.

The subcommittee expects to report its findings to the full committee within a few months, said Mr. Jones.

As captive managers hope for improvement in 1992, most left behind a relatively lean 1991.

"Not a great deal happened" last year, observed Michael Weetch, an audit partner with Ernst & Young in Barbados.

Several of the island's largest management companies reported slow growth or no growth at all. They include:

• J&H (Barbados), which added two captive clients last year, bringing its total to 21 captives under management at year-end 1991. "It was a fairly slow year for incorporations last year," he observed.

One of the new captives was formed by a U.S. manufacturer to write workers compensation and product liability risks, while the other was set up by a group of Canadian auto dealerships to write extended warranty coverage, Mr. Self said.

'Canada is the market for us, but it's not an easy sell,' says Timothy Courtis of Continental Risk Services (Barbados) Ltd. 'We are not tapping the U.S. here, we are tapping something one-tenth the size.'

Of the 21 clients, 17 are active, he added. The four inactive companies include a shelf company that recently changed hands; a Canadian-owned captive whose parent is in financial trouble; a captive owned by a former Big Eight accounting firm that has moved its business to a Bermuda captive since its merger with another firm; and a company formed to reinsure a Bermuda captive to take advantage of the Barbados FET exemption.

J&H-managed captives wrote $138 million in gross premiums last year, up slightly from $129.2 million in 1990. Much of the increase related to the success of six Canadian group captives writing various liability coverages, Mr. Self said.

In addition to targeting Canada as a source of business, J&H is looking to South America—particularly Venezuela, a major trading partner with Barbados—and Mexico for growth, he said.

Developing this business will take time, though, and Mr. Self said he doesn't expect it to produce any new clients before 1993 at the earliest.

Meanwhile, he predicted J&H will add five captives this year.

• Continental Risk Services, which didn't pick up any captives last year and finished with eight active insurers and two holding companies, unchanged from year-end 1990.

"We held our own, (and that) is all that can be said for it," Mr. Courtis observed.

Gross premiums for the eight companies rose to $114 million from $106 million in 1990.

Continental is working with two potential clients that are considering either forming their own captives or establishing a rent-a-captive arrangement with an existing, unrelated captive, Mr. Courtis said.

Continental is concentrating on marketing its Barbados facilities to the insurance group's Canadian policyholders through its Canadian offices, he said. The goal is to let policyholders know that a Barbados captive is an available alternative to commercial insurance, he explained.

• Alexander Insurance Man-

Continued on next page

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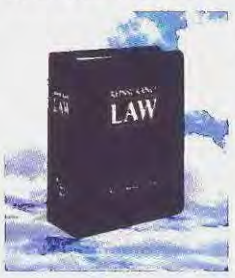

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No changes made in 1991 to Barbados captive law

BRIDGETOWN, Barbados—No changes were made last year in the Barbados Exempt Insurance Act of 1983, which sets out a number of requirements for captives, including:

• One director must be a resident citizen of Barbados and must file with the registrar of companies a written consent form to act on behalf of the captive. Shareholders may not be residents of Barbados or any other Caribbean country.

• A one-time registration fee of $250 and an annual fee of $2,500.

• Minimum capital of $125,000 in cash. A letter of credit drawn on a bank licensed in Barbados may be used for additional capitalization.

• Annual audited financial statements filed with the insurance supervisor, which are not available to the public.

• A register of policies, claims books and other financial records that must be maintained in Barbados.

The Exempt Insurance Act also allows companies, once licensed, to become active at any time, facilitating the formation of shelf companies that can be used for parents' risk management contingency planning.

Corporate and investment profits are not taxed, nor are the gains on the transfer of securities to non-residents.

For more information, contact: Wismar Greaves, Superintendent of Insurance, Ministry of Finance and Planning, Bridgetown, Barbados; 809-426-3815. ■

Domicile's licensing drive uncovers about 30 captives

Turks & Caicos getting its regulatory house in order

By DOUGLAS McLEOD

TURKS & CAICOS ISLANDS, B.W.I.—Roughly two years after passage of a new insurance act, regulators in the Turks & Caicos Islands have licensed nearly 1,200 insurance companies.

Very few of these insurers are captives, however. Of 1,199 companies licensed under the Turks & Caicos Insurance Ordinance of 1989, about 40 are or "external insurers," defined as insurers registered in other domiciles, said Derek R. Sambrook, superintendent of banking and insurance.

Of these 40 external insurers, more than 30 are captives, Mr. Sambrook said.

The other 1,159 companies are credit life reinsurers, attracted to the islands in part because they are not required to pay annual license fees or file annual financial statements with regulators.

The licensing push of the last two years is part of the government's effort to implement the 1989 insurance ordinance, which aimed at imposing some regulatory order on the chaos that followed the 1984 expiration of the islands' previous insurance law.

Until passage of the 1989 act—and the creation in 1990 of the Offshore Finance Centre Unit, the domicile's regulatory agency—hundreds of insurers operated from the Turks & Caicos with little or no regulatory oversight.

The insurance ordinance gave Turks & Caicos insurers until the end of 1990 to apply for licenses under the new law or face being struck from the domicile's registry of companies.

Mr. Sambrook says he doesn't know how many companies were operating before the ordinance took effect, but added that a "purge" of the company registry is under way.

Along with the 1,199 insurers, the government has also licensed

Continued on next page

Barbados

Continued from previous page

agers, which had 19 captives at year-end 1991, of which 14 were active.

Among the inactive companies, however, were three captives formed late last year that are slated to start writing business this year, Mr. Jones said.

The new captives included one formed by U.S. car dealers to write credit life coverage, he said. The two others were formed by Canadian pulp and paper companies to write property risks and gain access to an AIM property reinsurance facility for captives, he added.

AIM Barbados clients wrote $100 million in gross premiums last year, down slightly from $102 million in 1990.

One captive client writing product liability coverage saw its volume drop $4 million to $5 million because the recession dampened demand for its parent's products, Mr. Jones explained.

Another client, Motors Mechanical Reinsurance Co. Ltd., which provides auto warranty coverage to General Motors Corp. dealers, saw its volume increase as more franchisees became shareholders, he added.

Otherwise, the volume of most of AIM's clients remained unchanged, he said.

AIM continues to target Canada for growth, marketing its Barbados facilities through Canadian affiliate Reed Stenhouse Ltd., Mr. Jones said.

• International Insurance Management Ltd., which reported 18 captive clients at year-end, 15 of which were active and three were in runoff.

IIM picked up one client from another manager, but lost one the same way, said Director William M. Tomlin. In addition, one Fortune 500 company put its captive in runoff and moved the runoff operation to Vermont after shifting to a retrospectively rated commercial insurance program.

IIM companies wrote gross premiums of $40 million last year, down from $60 million in 1990.

However, these figures do not include substantial volumes of financial reinsurance written by three IIM clients, all units of Fort Wayne, Ind.-based Lincoln National Corp.

Mr. Tomlin also serves as managing director of Minet Risk Services (Barbados) Ltd., a captive management unit formed by Minet Holdings P.L.C. after Minet sold its previous management unit, Prescot Management (Barbados) Ltd.

IIM also provides services to captive clients of IAS (Barbados) Ltd., a unit of Bermuda-based International Advisory Services Ltd. ■

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Turks & Caicos

Continued from previous page
six insurance managers and five brokers, Mr. Sambrook said.

The new ordinance and the Offshore Finance Centre Unit have done much to improve the Turks & Caicos image as a haven for undercapitalized and otherwise dubious insurance and reinsurance companies, the islands' boosters maintain.

"I think we are really cleaning the place up. We are concerned about image," said Ross Blumentritt, managing director of Aberdeen Insurance Managers (Turks & Caicos) Ltd. in Grand Turk. "I don't think it's a serious problem today."

Mr. Sambrook also says the domicile is making strides in dispelling its image problem. "Progress can be measured to a large extent by the number of new business inquiries received. On that score, we are satisfied that the message is reaching a growing number of ears."

"Our relationship with (U.S.) regulators and the National Assn. of Insurance Commissioners is excellent," he added. "A continuing and increasing number of instances of joint cooperation bear testament to that."

Nevertheless, it may be a couple of years before insurers not licensed under the 1989 act are identified and "weeded out," predicted John A. Phillips, managing director of Coastal Brokerage & Management Corp. Ltd. in Providenciales.

He praised the Offshore Finance Centre Unit as a "one-stop shop" for oversight of several industries, including insurance, banking, trust companies and ship registry.

'It's been a little bit bumpy. The U.S. economy has not been terribly kind to us,' Mr. Phillips says.

"That greatly shortens the often cumbersome regulatory processes," he said. "The centralization is important, and certainly makes for a much more streamlined, efficient system."

To improve communication between the private sector and government regulators, Turks & Caicos captive managers recently formed the Assn. of Insurance Managers in the Turks & Caicos Islands.

Five management companies are members of the group, known as AIM; Mr. Blumentritt is its chairman and Mr. Phillips is its secretary.

AIM will present the private sector's view on regulatory issues and also will be active in promoting Turks & Caicos as a captive domicile, its officials say.

"The main thing is to present the islands as a viable, professional offshore financial center," Mr. Blumentritt said.

The captive industry in the Turks & Caicos is growing slowly, however.

"It's been a little bit bumpy. The U.S. economy has not been terribly kind to us," Mr. Phillips observed.

He noted, for example, that two of his seven captive clients have had a "roughish ride" because the recession has affected their parents' operations, cutting the captives' volume of liability business.

Three of Coastal's clients are single-parent captives, while four are group entities, Mr. Phillips said.

In addition to its seven active clients, Coastal has two applications for new captives pending with regulators, he added.

Aberdeen currently manages 11 captives, having added one new client since the beginning of the year, Mr. Blumentritt said. The 10 captives the firm managed at year-end 1991 generated $9.5 million in gross premiums last year.

"Most of the captives we see are more entrepreneurial in nature," Mr. Blumentritt said, explaining that roughly half of his clients are captives formed by insurance agents to provide coverages to their own clients.

To be licensed under the 1989 ordinance, insurers must submit a business plan to the Offshore Finance Centre Unit that includes:

- A five-year projection of the company's expected risk exposure and asset base.
- A description of the types and sources of anticipated business and premium income.
- Reasons for choosing the Turks & Caicos as a domicile.
- A description of the company's retentions and proposed reinsurance agreements.
- An assessment of the expected loss ratio for each category of business written and an explanation of how the loss ratios were developed.

The superintendent is allowed under the law to set minimum capital and solvency requirements for each company based on its business plan. However, Turks & Caicos regulators have set the following guidelines:

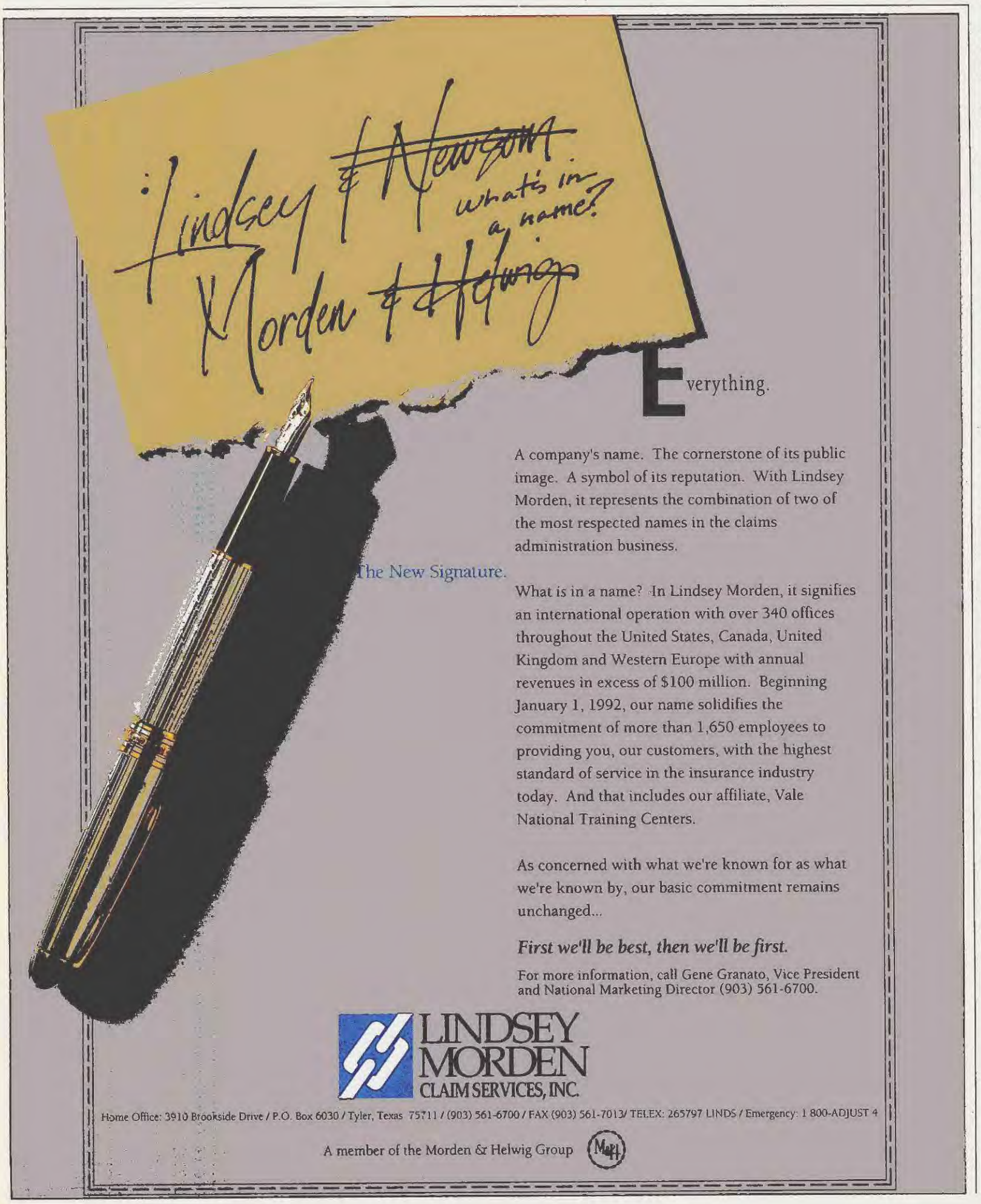
- Companies writing reinsurance, life or property/casualty coverages should have a minimum of $100,000 in capital and may be required to add more based on premium volume, types of business written, retentions and loss and expense ratios.
- Insurers writing up to $5 million in net property/casualty premiums should maintain a net worth equal to 20% of premiums. Those writing more than $5 million should maintain a net worth equal to 10% of premiums plus $100,000.
- Insurers writing only life business should maintain a net worth of at least $180,000.
- Companies writing up to $5 million in combined life and property/casualty net premiums should maintain a net worth equal to 20% of premiums, and those writing more than $5 million should have a net worth equal to 10% of premiums plus $180,000.

Assets considered acceptable for capitalizing a Turks & Caicos insurer include:

- Cash and time deposits with financial institutions acceptable to government regulators.
- Fixed-interest securities and blue chip stocks traded on recognized exchanges.
- Eurobonds rated BBB or better by Standard & Poor's Corp.
- Premiums receivable.
- Irrevocable letters of credit issued by acceptable financial institutions.

Insurers must pay a $500 license application fee, half of which is refunded if the license is denied.

Annual fees are $2,500 for property/casualty insurers and $3,500 for captive managers. ■



Wanted: A jump start for captives in the Bahamas

By MICHAEL SCHACHNER

Growth may come only after arrival of a big broker

NASSAU, Bahamas—At least one major U.S. or worldwide broker must establish captive management operations in the Bahamas before the island nation will experience any resurgence in captive growth, some captive industry officials contend.

Such a move could be the jump start the Bahamas has been seeking, according to opinions expressed by one of the five licensed Bahamian captive managers here and the domicile's top regulator.

"We have the same financial infrastructure and insurance legislation as the other leading Caribbean captive domiciles, but what we lack is the presence of some larger brokers," said Richard Clayson, the government's insurance adviser.

"I equate our situation to the chicken or the egg question: If we could get some of the household names that have set up operations in Bermuda, Cayman and Barbados, I think we might begin to see a steadier stream of captive business coming to the Bahamas. What we need to do is come up with the incentives to get them interested in us," he said.

Charles A. Donaldson, president of Captive Managers Ltd. in Nassau, which manages six captives, agreed that the Bahamas needs larger captive managers.

"Somehow, some way, we need to get the attention of some of the larger brokers. This would definitely bring in bigger business and could start a domino effect among brokers, where if one or two came in, others might follow," Mr. Donaldson said.

But, if larger brokers continue to shun the Bahamas and if the worldwide property/casualty insurance marketplace remains soft, the Bahamian captive community will be forced to focus on maintaining current business, managers say.

The Bahamas ended 1991 with 31 captives, the same number it had at year-end 1990.

The domicile lost three captives, two of which voluntarily entered into liquidation. The Bahamian government revoked the license of the third captive, Mr. Clayson said.

Making up for those captives were three new formations, all single-parent captives, Mr. Clayson said. One insures marine cargo shipped from Caribbean ports to the United States and the United Kingdom; another writes professional liability insurance for U.S. civil engineers; the third writes all of a European Bank's liability coverages.

Mr. Clayson declined to provide further details about the captives that formed last year or ceased operations.

In 1990, the last year for which figures are available, the domicile's 31 captives wrote approximately $130 million in gross premiums, down 21% from the $165 million 34 captives wrote in 1989.

The number of captive managers licensed in the Bahamas remained at five for the second consecutive year. But one manager was inactive for the fourth consecutive year, and another manager continued to run off business as it has been doing for several years.

"Things have been pretty slow. We're just holding our own right now," Mr. Clayson said.

Another major factor holding back captive growth in the Bahamas is the soft U.S. commercial insurance market.

"I know we have been flat in the past few years with only a few new formations and a few terminations, but this seems to be happening everywhere," observed Gregory Cleare, a partner with accountant KPMG Peat Marwick in Nassau.

"I don't believe this is a reflection on the Bahamas so much as it is a reflection of what is happening with captives worldwide. My understanding is that captive formation has stagnated in many other places besides here as a result of the soft market," Mr. Cleare said.

And 1992 probably will not be any better in terms of new captive formations in the Bahamas, said H. Wayne Hayes, chairman of First Managers Ltd., which manages two captives.

"Not only do we suffer a bit from operating in the shadows of Bermuda and Cayman, but there won't be any substantial changes in market conditions this year that will spur growth in new captives. Only the London marine market has tightened noticeably, and U.S. domestic carriers have become more active as a result," Mr. Hayes said.

"All we can really do is put

Continued on page 86

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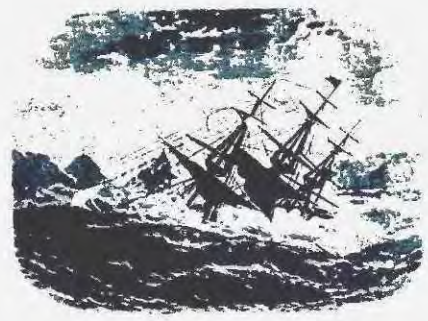

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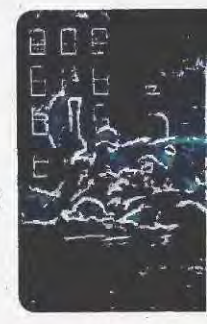

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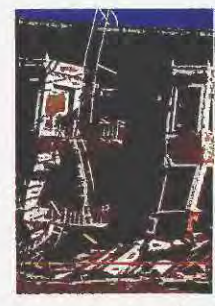

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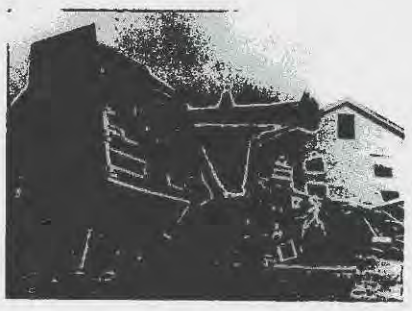

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Bahamas

Continued from page 83

forth the effort to promote our financial services and hope that when the market changes and the captive scene heats up, we'll be the recipient of some new captives," Mr. Cleare said.

To spread the word that this domicile is eager for new captives, the government's year-old Financial Services Secretariat is aggressively marketing the Bahamas as a captive insurance center.

Europe and the Far East are being targeted even more than the United States as possible sources of new captives, said Owen Bethel, executive director of the Financial Services Secretariat.

"We're trying hard to address captive promotion. Last year we said we would, but we focused on other things with more vigor. The U.S. is fairly saturated, with only a few pockets open to captives. Europe and the Far East seem to be better options," he said.

As part of the domicile's continuing captive marketing effort, the Bahamas again plans to send a delegation of regulators and captive managers to this week's Risk & Insurance Management Society conference in Anaheim, Calif.

'We are still committed to the captive movement in the Bahamas,' Ms. Higgs points out.

"We are still committed to the captive movement in the Bahamas and are optimistic that our day will come," pointed out Judy A. Higgs, president and chief executive officer of British-American Management Ltd. in Nassau, which manages 10 captives.

"As a member of the Bahamas Assn. for International Insurance, I can say we are working on some marketing ideas that we hope will help to turn us around in 1992."

However, the recession, the soft market and various pieces of legislation aimed at restricting fronting and reinsurance arrangements could offset any progress the promotion campaign might make.

"The recession and proposed U.S. insurance laws pertaining to offshore insurers are making it difficult for captives," First Managers' Mr. Hayes said.

Captive experts also still believe the Bahamas could help itself by clarifying its two insurance laws (*BI*, April 29, 1991).

For example, establishing the External Insurance Act of 1983 as the sole law for captive incorporation would be an improvement because it would eliminate any potential confusion among the two laws.

However, Bahamian captives can still be formed under either the 1983 law or the Insurance Act of 1969.

"I do believe that we need to amend the laws so that only one applies to captives, but it wouldn't be anything radical" Mr. Clayson said.

"We talked about this a lot last year, but it's a fairly slow process. We never got sufficient input from the private sector as to their wishes. I'm still hopeful that I can put something on the table for government to consider by the middle part of this year," he said.

"I think we'd all like to see a two-part insurance law where one part applies to international companies and the other for local insurers," said Captive Managers' Mr. Donaldson. "But changes require almost an act of God. Everything has to pass through the slow, grinding wheels of government, and that takes a long time."

Today, 18 captives are licensed under the Insurance Act of 1969, while 13 captives-including the three new captives-are registered under the 1983 act.

British-American managed 10 captives throughout all of last year, six of which were active. It lost one captive and added one, which writes professional liability coverage for its U.S. parent.

Ms. Higgs said that the lost client "just never got off the ground."

Two other captives British-American had managed were liquidated early last year and were not included in its total.

The captives managed by British-American generated a total of $3.65 million of gross premium volume last year, down substantially from $21 million in 1990. Ms. Higgs explained that the two liquidated captives generated much of the 1990 premiums.

Captive Managers managed six captives last year, four of which were active and generated premiums of about $16 million, Mr. Donaldson said.

First Managers managed two captives last year. One of the captives—First Reinsurance Ltd., owned by Mr. Hayes—wrote about $3 million in marine reinsurance and professional errors and omissions coverage.

First Reinsurance had written nearly $6 million in premiums during 1990, but a physicians' association that reinsured a self-funded medical malpractice liability program for its members with First Reinsurance abandoned the captive, Mr. Hayes explained.

The other captive—First Indemnity Ltd., also owned by Mr. Hayes—was dormant for the second consecutive straight year. ■

Despite talks, little headway made in unifying captive law

NASSAU, Bahamas—There has been little movement toward designating one of the Bahamas' two insurance laws as the sole law governing captives, despite two years of talks between regulators and legislators.

Captives today still can be licensed under either the Insurance Act of 1969 or the External Insurance Act of 1983. The 1969 law applies both to captives and local insurance companies, while the 1983 law applies only to captives and captive managers.

Members of the Bahamian captive community would prefer the 1983 law to be the only law governing captives, leaving the 1969 statute for domestic insurance business.

"An amendment to the current laws would help, and we're drafting some proposals now," said Owen Bethel, executive director of the government's Financial Services Secretariat. "But we're in an election year here and domestic issues usually take over. I'm not sure what will actually happen."

Under the 1969 law, applicants pay a $1,000 original registration fee and a $100 annual business license fee.

The 1983 statute requires an annual fee of $2,500 for captive insurers and a $650 annual fee for captive managers. Insurers are also required to pay a $100 annual licensing fee.

Minimum capitalization requirements under the 1969 law are $140,000 for non-life insurers and $300,000 for life companies.

Minimum capitalization requirements under the 1983 law are $100,000 for non-life companies and $200,000 for life insurers.

Captives domiciled in the Bahamas pay no premium taxes, but they must file annual financial reports with the government's insurance registrar.

For more information, contact Richard Clayson, Insurance Adviser, Insurance Department, Ministry of Finance, P.O. Box N3017, Nassau, Bahamas; telephone: 809-325-4666; fax: 809-322-8745.

—By Michael Schachner

Captive activity on hold in Virgin Islands

ST. THOMAS, U.S. Virgin Islands—Captive activity in the U.S. Virgin Islands still is generally stalled while the domicile awaits action on new captive legislation, captive managers say.

Proposed amendments to the complex 1984 Virgin Islands Exempt Insurance Act, which created two different types of captive licenses, are designed to make compliance easier and attract new captives.

The territory had eight captives at year-end 1991, with one new insurer added to the rolls last year. Only one new captive had been formed in 1990.

The domicile has been marked by "very slow growth and a low profile due to the act not being passed," said Graeme Harper, vp of Johnson & Higgins (USVI) Ltd., which manages six captives domiciled in the territory, including the territory's newest captive.

The U.S. Virgin Islands is unique among captive domiciles because of a 1983 U.S. Labor Department ruling that defines the territory as a "state" under the Employee Income Retirement Security Act.

Because ERISA does not allow employee benefits for U.S. workers to be funded through captives in non-U.S. domiciles, the ruling opened the way for U.S. employers to form insurance companies in the Virgin Islands to fund employee benefits like group health care coverage.

But the confusing 1984 insurance law has kept many U.S. companies from taking advantage of the U.S. Virgin Islands' status, hampering captive growth. In the meantime, Hawaii has emerged as another U.S. domicile that allows captives to write group health insurance (see story, page 102).

Amendments to the Virgin Islands Exempt Insurance Act were drafted in 1990 and are still pending before the territory's Legislature. However, no action has been taken on the bill.

Other insurance issues, particularly those that have arisen since Hurricane Hugo caused widespread damage to the islands in 1989, have been more pressing than the captive legislation, explained Deverita Sturdivant, director of the Virgin Islands Department of Banking and Insurance.

For example, local policyholders are concerned that insurers are passing along their higher catastrophe reinsurance costs following Hugo, she said. "I think perhaps later this year" the Legislature will address the amendments to the insurance law, he added.

Under current law, captives must buy either a Class A or Class B license. The reasons for requiring one or the other license are unclear under the current law, though a Class B license is more expensive.

Captives writing general business like property/casualty coverages are required to maintain a minimum of $120,000 in capital.

Captives writing long-term business—like life, accident and health insurance—must maintain at least $200,000 in capital, and $320,000 is required for companies writing both kinds of coverage.

There are no local premium taxes on direct or reinsurance business.

More information is available from the Department of Banking and Insurance, P.O. Box 450, St. Thomas, U.S. Virgin Islands 00801; 809-774-2991.

—By Michael Bradford

Motel 6 was losing sleep over its benefits program...

...until QicClaim/2® put their problems to rest.

Human resources personnel at Motel 6 were lodged in a health benefits administration nightmare.

"We found ourselves bogged down in paperwork and claims resolution...stuck between our insurance company and our employees," said Tom Higgins, vice president of human resources.

The QicClaim/2 advantage for Motel 6? "It works."

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So they talked to other human resources executives. They consulted software experts. They sent for information and they reviewed several products. Most software programs left them with reservations.

All but one–QicClaim/2 software from Resource Information Management Systems, Inc.(RIMS).

Higgins quickly discovered what he calls the major advantage of QicClaim/2: "It works."

Even the installation was easy. The program came in four small boxes and plugged right in to Motel 6's existing PC hardware.

When it came to actually paying claims, the motel chain didn't lose any sleep, either. That's when RIMS top training and support staff checked in.

"I could almost run the program just from watching the demonstration, so you know it's easy," Higgins said.

As for QicClaim/2's efficiency, Motel 6 expects a 15-month return on their investment.

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Guernsey changes tax options to appeal to captives

Harder market may spur formations

By STACY SHAPIRO

ST. PETER PORT, Guernsey—Captive managers in Guernsey see a bright future despite the recession, now that European insurance markets are hardening and the island has adopted new tax rules.

More captives are being set up on this Channel Island off the coast of France, even though potential parents, particularly in the United Kingdom, have been battered by the recession.

Companies are particularly attracted to Guernsey because of its maturity—it has been a captive domicile since 1922—and its new "menu" of tax options. One of these options, approved last year, allows captives to be exempt from Guernsey taxes, though they must pay fees (*BI*, Aug. 19, 1991).

Guernsey attracted 15 more captives in 1991, bringing its total to 204 at year end. Three captives closed last year due to parent company mergers and acquisitions, two captives have been formed so far this year, and two more licenses are now being considered.

The new captives, whose parents are mainly British, include insurers formed by the National Farmers' Union, Lilley P.L.C., the Rank Organization, the Royal Bank of Scotland and the Scouts Assn.

Total gross captive premium volume is estimated to have risen 10% to 15% from 1990, to between 554.4 million and 579.6 million pounds, (between $1.04 billion and $1.08 billion at the year-end 1991 exchange rate), according to the Guernsey Financial Services Commission. Actual 1991 figures won't be released until later this year.

"It has been tough the last couple of years with the recession on," admitted Roger Taylor, managing director of captive manager Sartor Resources Ltd. "Many companies are more concerned with keeping their lights on in their own business than setting up a captive. A captive then is low priority."

However, "the tax changes in Guernsey means that there is more interest" in setting up captives on the island, he said.

Guernsey is no stranger to the recession, either, as several banks have shut down and unemployment has reached new highs. An airline traveling from London to the island has replaced jet service with propeller-driven aircraft because of the declining number of tourists and businessmen traveling to Guernsey.

"Recession-wise, it's not a good time," said Callum A. Beaton, managing director of new captive manager Spread Insurance Management Ltd. "But people must buy insurance and rates are hardening, so you might as well set up a captive to save your company money. For a company truly strapped for cash, a captive is probably not a good idea. But for a company with hardening rates, a captive is a good idea."

"The (captive) market is buoyant out there. We are always getting inquiries," said John Parkinson, recently appointed group vp-Europe for International Risk Management Group Ltd.

Admittedly, there is pressure on parents to keep their costs down, but captives can help reduce corporate insurance costs, said Mr. Parkinson, also managing director of International Risk Management (Guernsey) Ltd.

"We can't be immune to a global recession," added Granville de Cruz, insurance manager for Sedgwick Management Services (Guernsey) Ltd., which manages 13 active captives. "But with a hardening market, a number of companies with (captive feasibility) studies are dusting them down and looking at them again."

In these tough times, Guernsey's new tax rules are helping draw more attention to the island, from Britain and France, Scandinavia and even South Africa, captive managers agree.

Unlike most other European domiciles, Guernsey now provides a choice of three tax options to new and existing captives. The options allow parents to choose the tax system that meshes best with their home country's laws.

'Recession-wise, it's not a good time. But people must buy insurance and rates are hardening, so you might as well set up a captive to save your company money,' says Callum A. Beaton.

Guernsey captives can:

- Be taxed as a normal resident company, whereby a 20% tax is levied on profits. The insurer, however, can postpone payment of tax until premiums are fully earned.
- Opt to pay a "sliding-scale" tax on the investment income generated by shareholders' equity. All other investment and other income, including underwriting profits, is exempt from tax.

Introduced several years ago, this rule specifies that the first 250,000 pounds ($427,500 at current exchange rates) of eligible investment income is taxed at the island's corporate rate of 20%. Insurers then pay 1% tax on the next 250,000 pounds of investment income; 0.5% on the next 500,000 pounds ($855,000); 0.3% on the next 2 million pounds ($3.4 million); and 0.1% on investment income exceeding 3 million pounds ($5.1 million).

- Elect to be a tax-"exempt" company, a rule that was approved last summer and went into effect Jan. 1.

Captives that opt for exempt status must pay an annual fee of 500 pounds ($855 at the current exchange rate), plus a 1,300 pound ($2,223) fee to the Guernsey Financial Services Commission and a 100 pound filing fee ($171), for a total annual payment of 1,900 pounds ($3,249).

Companies can change from tax-

Continued on next page

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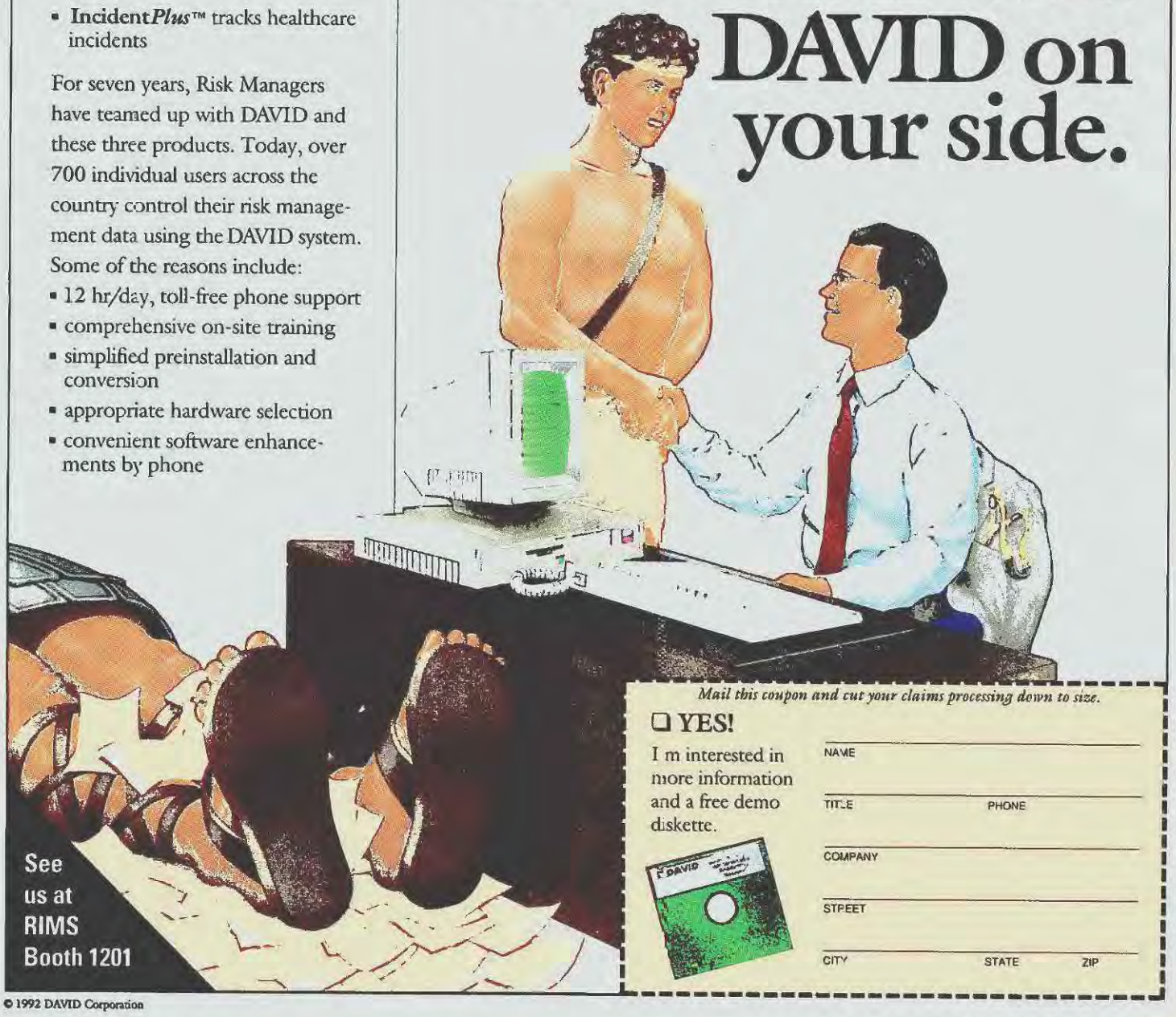

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Guernsey

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exempt status to tax-paying status on a year-to-year basis.

Some captives, particularly those with U.K. parents, still opt to pay some tax in Guernsey as a result of parent-country tax laws, captive managers agree. If the captives do not pay tax in Guernsey, their parents could be forced to pay tax on the income of their offshore insurer.

However, many companies likely will be interested in Guernsey's tax-exempt option, managers say. The option finally puts Guernsey—Europe's oldest and most established captive domicile—on par tax-wise with rival European domiciles like the Isle of Man, Dublin and Luxembourg.

Admittedly, the new tax rule came two years late, said Guernsey Insurance Superintendent Steve Butterworth. Had the island's politicians agreed to the tax exemption two years ago, more captives—particularly those formed by privatized British utilities—would have been formed in Guernsey rather than the Isle of Man, he said.

However, "it takes a long time to convince politicians to give up some tax," he said.

Guernsey's "menu" of tax options "has a lot of appeal," commented Sartor's Mr. Taylor. "It gives the shareholders of the captives tax options that will suit them best."

Sartor, which was established in January 1990, manages two active captives, plus another in runoff, and hopes to form yet another within several months.

Total premium volume for the two active captives is around 1 million pounds ($1.7 million), said Mr. Taylor.

The new tax-exempt status also "helped attract" one of France's leading insurers, L'Assurances Generales de France, to form a captive through its U.K. subsidiary and managed by Optimum Risk Research (International) Ltd., said Mr. Taylor, who is a member of the Optimum board.

Optimum, which manages five captives, is owned by French-speaking Managing Director Jean-Francois Gelot and Director Francoise Gelot.

The new AGF captive insurer, Hauteville Insurance Co. Ltd., which will write employee benefits and pension-related coverages for third-country nationals —is considered a major coup for Guernsey since only a few French captives are based there.

The tax change also inspired one of Guernsey's biggest accounting firms, BDO Binder, to set up a captive management subsidiary, Spread Insurance Management Ltd.

"The tax change has re-established Guernsey as the No. 1" domicile in Europe, said Spread's Mr. Beaton.

Guernsey's "key advantage is its infrastructure which is second to none," said Mr. Beaton. Guernsey has 26 captive managers, 60 banks, and lawyers and accountants who are familiar with and understand captives, he said.

Before now, BDO Binder—which had held a restricted captive manager's license that let it manage only captives under its wing before Guernsey's 1986 insurance law was enacted—"felt it couldn't recommend Guernsey as a captive center because the taxation was not favorable," Mr. Beaton acknowledged. "But that opinion changed last year with the tax-exemption status."

As a result, BDO, which has 140 accounting employees, approached Mr. Beaton, then director of Willis Corroon Management (Guernsey) Ltd., to form a fully licensed captive manager.

BDO previously managed one active protection and indemnity captive, Channel Shipowners Marine Indemnity Assn., which writes 14 million pounds in premiums, and seven dormant captives.

However, Mr. Beaton hopes to form at least three new captives by year end through his own contacts and those of the BDO Binder network worldwide. In particular, he will focus on companies in Germany and Spain, where BDO Binder has contacts.

"There is also tremendous potential in South Africa," said Mr. Beaton. "With sanctions (against South Africa) eased, if not dropped, there will be new opportunities."

"Guernsey has always been the best and most sophisticated place in Europe for captives, with the disadvantage of having to pay some tax," agreed IRM's Mr. Parkinson. But now, with three tax options, "we can look at the captive's results and decide on what tax basis to pay. It's great."

But, parent companies still must consider which domicile is best for them, which is why IRM has appointed Mr. Parkinson to oversee all its operations in Europe, including risk management consulting firms in England, France, Germany and Finland. IRM employs 50 to 60 workers in Europe and manages nearly 40 captives in Guernsey, Isle of Man, Luxembourg and Dublin.

In Guernsey, IRM manages 16 active captives. Two captives entered runoff last year, while two new captives were formed by a U.K. bank and a Finnish conglomerate. The firm, with 13 employees, managed a total volume of 70 million pounds in 1991 ($130.9 million at the year-end 1991 exchange rate), said Mr. Parkinson.

The tax change puts Guernsey on equal footing with other captive domiciles, says John Copeland, managing director of Willis Corroon Management. "Potential clients at least come to the island and see the infrastructure here, which gives them comfort."

Willis Corroon, with about 10 employees, manages 23 active captives in Guernsey that wrote 27 million pounds ($50.5 million at the year-end 1991 exchange rate) in premiums last year. This includes three mutual captives and 20 single-parent captives.

Guernsey has other attractions besides the tax law, Mr. Copeland said, particularly the fact that it is "a well-regulated environment."

For example, when media tycoon Robert Maxwell died mysteriously last year, Mr. Butterworth—with Mr. Copeland's help—made sure that all the assets of Maxwell Communications Corp. captive Oxford Insurance Co. Ltd. were untouched.

"The Maxwell captive is solvent and is continuing to run off its business," Mr. Copeland said. "It is open to question" whether the captive will continue to write in light of the Maxwell empire's

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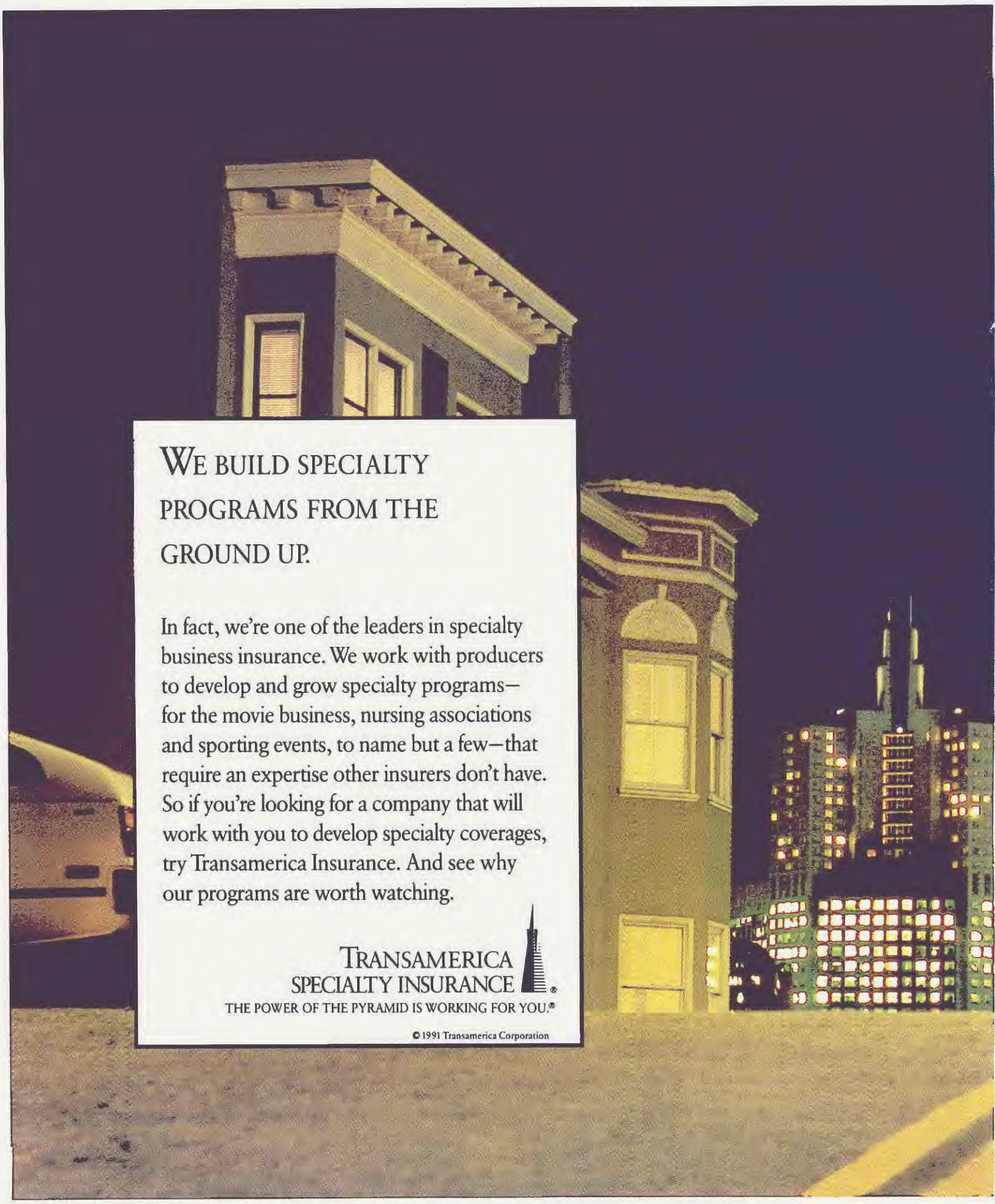

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troubles.

"We'd like to think that Guernsey is more sophisticated in captive management than the Isle of Man," added Clive R. James, associate director and company secretary of Alexander Insurance Managers (Guernsey) Ltd., who also praises Mr. Butterworth's attitude toward regulation.

The more the market hardens, the more business captive managers will see, Mr. James said.

As a result, Alexander Insurance Managers, with 11 employees, is hoping to form two captives this year that together would write 5 million to 6 million pounds in premiums, ($8.6 million to $10.3 million at current exchange rates) and has a half-dozen additional leads, Mr. James said.

AIM now manages 18 active and four dormant captives, which wrote a total of $115 million in premiums last year. Six of the captives write extended warranty business for parent companies, including the one new captive formed last year for Seeboard P.L.C., a recently privatized electric utility in the United Kingdom.

1992 is shaping up to be a better year for Guernsey than 1991 in light of a hardening market, added Roger Hall, managing director of Hogg Insurance Management Ltd.

Hogg, with seven employees, added no new captives to the 14 that it manages.

Hogg last year placed into runoff a captive for a parent with financial difficulties that already owned a London-based insurer.

This year "is looking better," though, with two "warm leads" already interested in setting up captives, he said. The renewed interest "may be due to people looking long-term and seeing through the recession," Mr. Hall said.

One of the companies interested in forming a captive is being quoted higher rates in the U.K. insurance market, he noted.

The captives that Hogg currently manages are also writing more premiums in light of the market conditions, he added. One of the captives writes a marine account whose rates have increased by 50%, while another may write more premium because its parent is increasing its retention.

"I believe '93 will be the growth year for U.K. captives" because rates will rise, Mr. Hall said.

Meanwhile, Mr. Butterworth and captive managers are making several major pushes to lure more captives to Guernsey.

For example, Mr. Butterworth has invited 23 bank risk managers to a 1½-day seminar on bank risk management to be held in April on the picturesque island of Herm, off the coast of St. Peter Port. The invitation-only meeting will provide bankers with an opportunity to see Guernsey and learn more about risk management at the same time, said Mr. Butterworth.

Also, Royal Insurance Service Co. (Guernsey) Ltd., a subsidiary of Royal Insurance (U.K.) Ltd., is offering management services for clients of Frank B. Hall & Co. Inc., said Peter Walpole, RISC's senior manager. RISC's first captive management client is AirTours P.L.C. Royal—the largest domestic insurer in the Channel Islands with 36 employees and 10 million pounds ($18.7 million at the year-end 1991 exchange rate) in premium last year—also has entered the captive reinsurance market over the past two years and now participates in the reinsurance programs of three cap-

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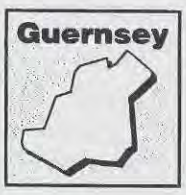
Guernsey captives are regulated by 1986 statute

ST. PETER PORT, Guernsey—



Requirements for forming a captive under the Insurance Business Law of 1986 include:

- Minimum share capital of 100,000 pounds ($171,400 at current exchange rates).
- A minimum solvency margin of 18% of the first 5 million pounds of net premium income ($8.5 million) and 16% thereafter.
- 75% of the assets required to maintain the minimum margin of solvency must be approved assets. These are: cash deposits, bank certificates of deposits, Eurobonds rated BBB and above at market value by Standard & Poor's Corp., quoted securities, net investment income receivable in relation to any of the aforementioned, premiums receivable, net accounts receivable and irrevocable letters of credit.
- Each registered insurer must appoint a general representative who is either a "fit and proper" Guernsey resident or an authorized insurance manager. Managers must be either fully licensed or have a restricted license from the superintendent of insurance. Managers pay a fee of 650 pounds ($1,112) to become authorized.

Annual financial returns must include audited accounts, a declaration by the general representative, an amended business plan, an actuary's report (if applicable), and underwriting and balance sheet information.

The fee for registering an offshore insurer is 1,300 pounds ($2,223). And, a 100 pound ($171) filing fee is charged annually. This excludes the 500 pound ($855) fee to register as a tax exempt insurer (see related story).

Document duty is 50 pounds ($86) for a company with an authorized share capital of up to 10,000 pounds ($17,140); a fee of 0.5% is charged on subsequent capital.

In addition, a fee of 1,000 pounds ($1,714) is payable when a captive's annual financial accounts are submitted.

Meanwhile, Guernsey's insurance officials are examining new regulations for insurance intermediaries and representatives overseas, although these measures are not expected to go into effect until January 1993 (*BI*, Aug. 26, 1991).

Though primarily for the life insurance industry, the regulations are designed to make the offshore insurers based in Guernsey responsible for the actions of their agents selling their insurance products outside of Guernsey.

For more information on Guernsey captives, contact Steve Butterworth, Superintendent of Insurance, Guernsey Financial Services Commission, Valley House, Hirzel St., St. Peter Port, Guernsey, Channel Islands; phone: 0481-712801; fax: 0481-712010.

—By Stacy Shapiro

Opportunities for Manx captive management abound

Captive count on Isle of Man is up 15.6% from 1990

By GAVIN SOUTER

DOUGLAS, Isle of Man—Newly privatized British companies may be petering out as a source of captive growth for the Isle of Man, but other sources of new business are far from exhausted.

Captive formation opportunities still abound in Britain and continental Europe, and a Manx captive manager has been among the first to take advantage of opportunities in the former Soviet bloc.

At year end, 111 captives were incorporated in the Isle of Man, with premium volume of about 1 billion pounds ($1.71 billion at current exchange rates), according to Bill Hastings, chief executive and insurance supervisor of the Isle of Man Government Authority. That captive count is up 15.6% from 96 at the end of 1990 (*BI*, April 29, 1991). But the 1991 growth rate is down compared with 1990's 31.5% gain, from 73 captives in 1989.

Since the beginning of the year, two more captives have been formed and another is currently being processed, said Mr. Hastings.

Currently there are 26 captive management companies on the island, one fewer than in 1990. Two management companies failed to re-register, and one new manager, Unison Management (I.O.M.) Ltd., has set up shop.

Neither of the departing firms—Transglobe Underwriting Management Ltd. and T.M.M. Ltd.—managed any captives on the island, the Insurance Authority said.

Traditionally, the Isle of Man has played host to captives formed by British parents, but this island in the middle of the Irish Sea is gradually attracting more continental European companies to set up captives there, Mr. Hastings said.

"The Isle of Man is becoming less and less dependant on the United Kingdom for business. Seven years ago, probably 95% (of the island's business) was U.K.-based, but now it is probably about 80%, and the proportion of U.K. business will continue to drop."

Although most of the new captives formed in 1991 are owned by British-based parents, one new captive is Danish and two were formed by Russian shipping companies, Mr. Hastings noted.

The Isle of Man also has captives with parents based in France, Belgium, Italy and the Netherlands. But he conceded that most continental European companies are attracted to Dublin as a domicile because of Ireland's tax treaties with many of their countries (see story, page 92).

The moderate slowdown in the rate of captive formation on the Isle of Man can partially be explained by the recession in Britain and by a reduction in the number of privatizations of U.K. government-owned companies.

The recession is simply delaying the establishment of new captives, but the decrease in privatizations in Britain is more permanent, Mr. Hastings said.

"We did very well out of privatizations over the past few years, and that created a slightly unusual blip in our figures," he said.

However, most of the projected privatization of former state-owned companies in Britain, including water and electric utilities, has occurred, he said.

The privatization of business in Eastern Europe has helped business at Isle of Man Insurance Management Ltd., according to Christine Crowther, managing director.

It gained two new captives during the year, although it also lost two when their parents went into liquidation, leaving the number of captives at year end at 15.

The two new captives are owned by Russian shipping companies: Northern Shipping Co. and Baltic Shipping Co.

Since the beginning of the year, Isle of Man Insurance also has gained a captive owned by a Ukrainian shipping company, Azov Shipping Co. And a captive for a Latvian shipping company currently is being processed.

So far, the shipping captives only insure vessels' hulls and machinery, but there will be opportunities in the future to cover other major risks for the parent companies, she said.

"Most of the companies own their own shipyards, which are substantial concerns, so they do have other areas which could be put through the captives," Ms. Crowther explained.

Shipping companies have been the first former Soviet industries to set up captives.

"Because of their worldwide trading, they have the hard currency needed to set up captives. Other Russian companies may take longer to reach the stage where they could form a captive," Ms. Crowther said.

The shipping companies selected the Isle of Man as a captive domicile partly because of their established links with London lawyers, she said.

"Although they had not bought insurance outside of Russia before, they have used London for shipping services, and their London shipping agents dealt with" a London law firm "and they, in turn, knew us," Ms. Crowther explained.

Altogether, there are 15 former Soviet regional shipping companies that potentially could set up captive insurers, she said.

Isle of Man Insurance also has had contact with a Polish shipping company to discuss the possibility of setting up a captive, Ms. Crowther said.

Willis Corroon Management (Isle of Man) Ltd. is one captive manager on the Isle of Man that will miss the stream of captives formed by newly privatized British companies.

"Over the last couple of years, the captive market has had a boost from the privatizations in Britain. . .40% of our captives have been with us less than two years and most of those are privatizations," said James Boyd, managing director.

Willis Corroon had 25 captives under management at the end of 1991, compared with 20 at year-end 1990. The company has added two more captives since the beginning of the year, Mr. Boyd said.

And two more clients will have captives in place by April 1, he noted.

Although there will be fewer newly privatized companies, captive growth will continue on the Isle of Man, Mr. Boyd said.

The hardening market in Europe "has to be the next cause for captive growth," he said.

Some lines of liability insurance, like employers liability and professional liability coverage, are already hardening, Mr. Boyd said.

Property rates remain low, but

Continued on next page

Guernsey

Continued from previous page

tives, Mr. Walpole said. Nearly all—92.5%—of the reinsurance premiums stay on the island, he added.

Meanwhile, the Transglobe companies—Guernsey's largest captive management group, owned by English & American Group Co. P.L.C.—want to attract new airline captives to Guernsey.

Transglobe Underwriting Management (Guernsey) Ltd. and Transglobe Aviation Underwriters Ltd. together manage 17 captives with premium volume totaling $177.4 million, including the huge aviation insurer, Polygon Insurance Co., owned by three airlines.

Transglobe Underwriting, with 35 employees, is responsible for managing 16 single-parent captives on the island, including two captives formed last year by hotel conglomerate Forte P.L.C. and manufacturer IM Group Ltd. In addition, two more captives were formed this year, said David J. Mills, director and general manager.

Transglobe Underwriting also looks after the back-office administration of the aviation business on the island, said he said.

Transglobe Aviation, with 25 employees headed by General Manager Ian Daish, has become one of the world's leading aviation underwriters, "though it happens to be in Guernsey," said Richard Tee, manager of Transglobe Aviation.

Martin Belcher, Transglobe Aviation's underwriter, now writes for a syndicate of 10 insurers, including Polygon, which is owned by KLM Royal Dutch Airlines, Swissair Transport Co. Ltd. and Scandinavian Airline System. Polygon wrote 17 million pounds in gross premium in 1990 ($32.3 million at the year-end 1990 exchange rate), the last year for which statistics are available.

Polygon writes the airline hull and liability coverage for the "KSSAF" group of 19 airlines, including Polygon's owners. The placement, which is the world's large airline insurance placement, is then reinsured with world markets.

Together, Polygon and the aviation syndicate write 5% of the world's airline premiums, as well as some aviation product liability, general aviation, satellite, war risk and excess-of-loss reinsurance, Mr. Tee said.

Transglobe Aviation also has formed Eastgate Aviation, a marketing firm to entice more airlines to set up captives in Guernsey. With aviation insurance rates doubling during last year's renewals and likely to increase again this year, airlines should consider setting up captives, said Mr. Tee. ■

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this is likely to change soon, he added.

The hardening insurance market in Europe will be the next stimulus to the captive insurance market, agreed Gary Crease, manager at Sedgwick Group Management Services (Isle of Man) Ltd.

"We have seen a renewal in interest in captives, because people are facing some higher insurance costs," he said.

Existing clients also are seeking to broaden the range of coverages their captives write, Mr. Crease said. In particular, some clients are now using captives to cover their environmental impairment liability exposures, he said.

Some British captives are providing coverage that includes damage from gradual pollution, since most British insurers ceased offering such coverage last year, he said.

The amount of coverage written ranges from about $500,000 to $10 million, Mr. Crease said. And most of the risk is retained by the captive, due to the paucity of pollution reinsurance support from the commercial market, he added.

Sedgwick managed 27 captives at the end of 1991, compared with 22 at the end of 1990. The total premium volume of the captives was $177.7 million at the end of 1991, compared with $127 million in 1990, he said.

Captive growth for Marsh & McLennan Management Services (Isle of Man) Ltd. could come from oil and energy companies that may turn to captives because of the sharp hardening in the commercial market for those risks, said Manager Graham King.

However, he added, "you then have the problem of capitalization, because the sums insured are so large."

M&M does not manage any captives with energy exposures from the Isle of Man, but the coverage could be written by the captives of large corporate clients that M&M is seeking, Mr. King said.

M&M managed nine captives on the Isle of Man at year-end 1991, unchanged from the previous year. All of the captives managed by M&M are owned by British parents.

There has yet to be a concerted effort by British commercial insurers to push up property rates, but the poor results being posted by British insurers should eventually force them to raise rates, Mr. King said.

"At some stage, it has got to come," he said.

The reinsurance market for captives also is changing, according to John Booth, manager of Commercial Union Management Services (Isle of Man) Ltd.

Although the commercial reinsurance market is hardening, the hike in rates for captives is still being restrained by competition between the British company market and underwriters at Lloyd's of London, he said.

"We are seeing a drift of business away from Lloyd's to the companies because of the rates which Lloyd's is charging," Mr. Booth noted.

As a result, in several cases, the lead reinsurer for captives is changing to a London insurance company from a Lloyd's syndicate, he said.

Commercial Union Management managed nine captives at year-end 1991, unchanged from 1990. Two of the captives are owned by Irish parents and the remainder are British-owned.

The risks covered by the cap-

Continued on next page

Isle of Man captives incorporate under 1986 insurance act

DOUGLAS, Isle of Man—Requirements for incorporating a captive insurance company under the Isle of Man Insurance Act of 1986 include:

- Minimum paid up capital of 50,000 pounds ($85,700) for single-parent captives. If a captive is writing third-party insurance, reinsurance or life insurance, then the minimum capital requirements can range from 100,000 pounds to 500,000 pounds ($171,400 to $857,000).

The minimum capital requirements plus 10% of any amount above 50,000 pounds must be paid in cash and deposited in an Isle of Man bank. This requirement can be relaxed at the discretion of the regulator once the captive is up and running.

- Single-parent captives must maintain a solvency margin equal to the minimum capital requirement plus an amount equal to 10% of the net written premiums up to 2 million pounds ($3.4 million) and 5% of net written premiums exceeding 2 million pounds.

Captives writing third-party business must maintain a solvency margin equal to 15% of net premiums written, but not less than 150,000 pounds ($257,100).

- Captives must present to the insurance supervisor a three-year business plan including: the maximum net retention per risk or occurrence and the aggregate retention after all reinsurance is ceded; policy limits; details of the reinsurance program, with types of reinsurance and names of reinsurers; projected claims, gross and net of reinsurance; projected cash flow; and projected profit and loss.
- A suitable manager on the island must manage the captive.

A 1,000-pound ($1,714) registration fee is required of all captives.

In addition, for captives that pay income taxes rather than seeking tax-exempt status, there is an annual business fee of 500 pounds ($857), which in the first year is charged pro rata from the date of authorization to the following April 5.

For captives with tax-exempt status, the annual fee is 2,000 pounds ($3,428), which also is pro rated in captives' first year of operation.

For more information, contact Bill Hastings, Chief Executive and Insurance Supervisor, S&F House, 12/14 Ridgeway St., Douglas, Isle of Man; 011-44-624-626262.

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Isle of Man

Continued from previous page

tives remain mainstream property and liability coverages, Mr. Booth said.

However, parent companies are bound to turn eventually to their captives for coverage of environmental risks, now that gradual pollution coverage is so scarce in Europe, he said.

"The trouble is that there is no reinsurance support, so the only way to provide the coverage is to set up a fund to cover pollution," Mr. Booth said.

Royal Insurance Service Co. (I.O.M.) Ltd. had two captives under management at year-end 1991, the same as in 1990. One of the captives has a British parent and the other has a continental European parent, said Manager David Stacey, who hopes to triple the number of captives under management by 1995.

"There is no written plan to say how many captives we will put on, but I would hope that we could get to six within the next two to three years," he said.

Rather than treating captive management as a defensive mechanism against losing traditional insurance customers, Royal now is taking a more aggressive approach to business growth from captives, Mr. Stacey said.

"We are taking a more positive and progressive attitude than in the past," he said.

And although there is plenty of opportunity for growth still in Britain, the continental European market probably offers greater possibilities to Isle of Man managers, Mr. Stacey said.

"Europe is such an expanding market (that) we have to try and develop it," he said.

The only new captive manager to arrive on the island in 1991 was Unison, which currently manages one captive. The brokerage network had set up a captive manager in Dublin in 1990 to fill the gap left when Willis Faber P.L.C. left the network after its merger with Corroon & Black.

However, the Dublin company is principally intended for continental European captives, while the Isle of Man will be more attractive to British captives, said Managing Director Ian Gerrard.

Unison selected the Isle of Man instead of Guernsey for several reasons, he said.

"There were technical reasons, such as the statutory reserves which you are allowed in the Isle of Man. Also, the costs are lower and there is more staff available," he said. Guernsey also has restrictive residency laws, he added.

Much of Unison's European captive marketing is coordinated through Johnson & Higgins Global Risk Management Consultancy Services in London, Mr. Gerrard said.

"We will look at all of the options open for a client, and if we feel that a captive would be appropriate, we would suggest the best domicile," he said.

The company also has an operation in Luxembourg (see story, page 94).

"I would hope that by the end of the year, we will be managing between six and 10 captives," Mr. Gerrard said.

Alexander Insurance Managers (Isle of Man) Ltd. did not add to its total of 10 captives during 1991, but premium volume climbed to $114.3 million in 1991, up from about $100 million in 1990.

While no new captives were added, the Alexander & Alexander Services Inc. unit has experienced significant change by restructuring business.

Philip Stamp, who heads the AIM Isle of Man office, has been made responsible for all of parent A&A's captive management operations and has been promoted to chief executive officer of the company's captive management division.

Formerly, the division was headed by Pat Patrick in New York, who now heads A&A's Japanese brokerage organization, Mr. Stamp said.

Mr. Stamp's location on the Isle of Man will not hinder him from controlling all of A&A's captive operations worldwide, as Europe is becoming an increasingly important market for the company, he said.

"Europe is one of our target markets, and we have been holding seminars promoting captives in many European capitals over the past two years," Mr. Stamp said. ■

European captives attracted by Dublin's allure

But new legislation in Germany may discourage some formations

By GAVIN SOUTER

DUBLIN, Ireland—Captive insurers and reinsurers from around Europe continue to flock to Dublin.

Dublin's attractions—which include double taxation treaties with many European nations and the ability to write insurance, as well as reinsurance, through a captive—remain irresistible to corporations, managers say.

However, recent action by the German Parliament may dull Dublin's sparkle for German companies seeking tax-efficient captives, they say.

The number of captives in Dublin nearly doubled to 50 at year-end 1991 from 31 at the end of 1990, said Kevin Hynes, manager/adviser-financial services program for the Industrial Development Authority of Ireland. Dublin is now home to 39 reinsurance captives, 13 direct captives and eight captives owned by insurers or reinsurers. Another three captives have been formed this year.

At the end of 1991, there were 19 captive managers in Dublin, up from 16 in 1990. While captive managers currently are scattered across Dublin, they must eventually open offices in Dublin's International Financial Services Center (see story, page 93).

Most of the captives managed in Dublin are owned by continental European and Scandinavian parents, Mr. Hynes said. And several, like Hewlett Packard Re Ltd., are used by North American parents to write coverage for European risks, he added.

Japanese-owned companies—like All-Nippon Airways and Hitachi U.K.—also are insuring European exposures through Dublin captives, Mr. Hynes said.

All of the Dublin captives currently write property/casualty coverage, but life insurance captives could be formed.

Life captives would be able to write employee benefits and pension-related coverages, he noted.

"If you take a U.S. multinational company with subsidiaries throughout Europe, it would want one (benefits) scheme to cover all of its European employees," he said. Although such a program is not yet feasible due to different requirements in each country, the European Community's Second Life Insurance Directive should make this type of benefit program possible, Mr. Hynes said.

Meanwhile, the existing non-life captives are expanding the types of risks they cover. "The captives already here are now covering 18 different classes of business, including credit risks, surety and marine risks," Mr. Hynes said.

While Dublin captives are allowed to write direct insurance—unlike Luxembourg captives, which can only write reinsurance—most of the captives formed so far are reinsurers. This is partly due to the extra time it takes to form a direct captive, he said.

Direct captives must be authorized as a direct insurer by the Irish Department of Industry and Commerce, which takes more than four months. Reinsurance captives only need approval from the IDA and the Certification Advisory Committee, which takes between four and six weeks, he said.

The delay inherent in setting up a direct captive is frustrating, said Irene Ryan, managing director at captive manager Sinser (Ireland) Ltd. "Most people tend to find that when they decide to set up a captive, they want to do it immediately." There is no sign the delay will be eliminated, because there still are only two people at the department working on direct captive authorization, she said. "It is bad publicity for Dublin, because large multinational companies cannot understand why it should take so long."

Sinser managed 13 captives at the end of 1991, up from six at year-end 1990, Ms. Ryan said. Another two are now being formed.

Two of Sinser's captives are direct captives and the rest are reinsurance captives, she said. But, five parents that now own reinsurance captives say they eventually want to write direct insurance, she said. And one parent already has both a direct insurance and a reinsurance captive in Dublin.

'The captives already here are now covering 18 different classes of business, including credit risks, surety and marine risks,' says Kevin Hynes.

Twelve of the captives are owned by Scandinavian parents and one is owned by a French company.

Many of the reinsurance captives formed in Dublin likely will be converted to direct captives, said Ian Clancy, director at Marsh & McLennan Services (Dublin) Ltd.

"For many of the captives, it may be the case that when they make the decision to go ahead with a captive formation, they do not have the time in their financial year to wait to set up a direct captive," he said.

M&M managed three captives—all reinsurance captives—at year-end 1991, compared with one a year earlier. Two are owned by Japanese parents, and one is owned by a Swedish company.

While companies from many nations are coming to Dublin, the domicile's appeal for German firms was dimmed earlier this year.

German companies, like other European companies, have benefitted from the 10% tax rate imposed in Dublin compared with the 50% maximum corporate rate in Germany. Under the double taxation treaties Ireland has with many countries, captives can pay the Irish tax rate in lieu of higher rates in the parent's home nation.

However, the German Parliament decided earlier this year that the investment income of wholly owned subsidiaries of German companies located in Dublin should be taxed at the German corporate rate. Captive insurers fall into this category, said Donal O'Callaghan, managing director of Aachen Management Services Ltd.

Rumors are circulating in Dublin that the Irish government is considering offering German captives the option to pay a 30% Irish tax rather than 10%. In exchange, the German government would not impose the 50% tax, Mr. O'Callaghan said.

German-owned companies with captives in Dublin include BMW A.G., which has both a reinsurance and a direct captive.

German captives might be able to benefit from the low tax rate in Dublin if they set up association captives instead of wholly owned captives, Mr. O'Callaghan said, since a group captive might not be deemed a subsidiary of a German company and thus would not be taxed at the German rate.

Aachen, a unit of Aachen Reinsurance Co. of Aachen, Germany, managed three captives and one reinsurance company at the end of 1991, unchanged from 1990. All of the captives are reinsurance captives; two are owned by insurance companies.

The German tax decision might discourage some companies from forming a Dublin captive, but the benefits of captives are not limited to tax considerations, noted Michael Matthews, insurance manager at American International Managers Ltd., a unit of American International Group Inc.

AIG now manages three captives, compared with one at the end of 1990. One is owned by a reinsurer and the other two, a direct insurance and a reinsurance captive, are owned by Seagram Co. Ltd. of Montreal.

Ireland established its special 10% tax rate with E.C. approval in 1987. The 10% rate is guaranteed until 2005, but the IDA and Dublin managers hope the long-term tax status of Dublin captives will be settled long before then.

The 10% tax rate is only guaranteed to companies formed in Dublin before Dec. 31, 1994. However, the European Community now is considering whether this date can be extended under certain circumstances, Mr. Hynes said.

Companies should not be deterred from forming Dublin captives just because the 10% tax rate expires in 2005, Mr. Matthews said.

Another special tax rate will be approved before the current tax rate expires, said Eamon O'Brien, managing director at Alexander Insurance Managers (Dublin) Ltd.,

Continued on next page

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a unit of Alexander & Alexander Services Inc. "They will have to do something. They can't just go back to the domestic rate of 40%."

Dublin will be a major captive domicile by 2005, so a new agreement is bound to be made, he said.

Alexander, whose Dublin operation was established last May, had two captives under management at the end of 1991. The firm manages the Hewlett Packard reinsurance captive as well as a direct captive owned by General Beverage Europe of the Netherlands.

The captive concept in Europe is not as developed as in the United States, Mr. O'Brien said, adding that part of his job is to educate European risk managers and A&A's own European brokers.

Many U.S. companies are interested in setting up captives in Dublin to insure their European exposures, said John Perham, managing director of Unison Management (Dublin) Ltd., which is owned by Johnson & Higgins.

"We have a strong position in the U.S., and 40% of the captives we manage have U.S. parents," he said.

Unison manages 10 captives, all of which were established last year.

Dublin will become the main captive domicile for European companies, predicted Garry Cullen, director at Sedgwick Dineen International Ltd.

In addition to double taxation treaties with many E.C. countries and the ability to set up direct captives, Dublin offers excellent services and expertise, Mr. Cullen said.

"We have over 10,000 people in Dublin working in insurance, so we have that advantage. Also, we have 40 flights a day to London. And you can fly direct to all of the main cities in the European Community," he said, adding that European risk managers can get in and out of Dublin in a day.

Sedgwick had six captives under management at the end of 1991, up from two a year earlier. Two more are in the pipeline, Mr. Cullen said.

Three of the captives are owned by German parents, two by Swedish companies and one is Norwegian-owned. Three are reinsurance captives and three are direct captives.

Besides being the home of a growing number of captives, Dublin also is the home of X.L. Europe Ltd., an affiliate of the Bermuda-based excess liability insurer.

European business was already accounting for $25 million of X.L. Insurance Co. Ltd.'s premiums before it formed the Dublin insurer, said Patrick Tolan, managing director of X.L. Europe.

X.L. Europe last year generated $15.5 million in premiums, of which $10 million was existing European business transferred from X.L. in Bermuda, he said.

X.L. Europe's 11 staff members now handle 27 accounts.

X.L. Europe writes excess liability insurance limits of up to $100 million excess of $15 million for non-U.S. policyholders.

"Our business plan is holding up well, and we are making the progress we expected, even in the soft market," Mr. Tolan said.

The potential for growth for X.L. Europe is promising, he said. "We are in Europe, and other insurers are becoming aware of that. We are looking to make even more of them aware, because we can complement their products.

"Last year we went to brokers and told them about us, and this year we are going to insurers" and captive managers, he said. ■

General insurer regulations govern captive formed in Dublin

DUBLIN, Ireland—Ireland has no specific regulations pertaining to captives.

Instead, all captives are covered by the country's insurance regulations, which follow the European Community's directives for both insurance and reinsurance.

A captive that wants to write direct insurance must be authorized as any other Irish insurer. The captive must be approved by the Department of Industry and Commerce in Ireland, which can take four to six months. The application fee is 2,000 Irish punts ($3,224).

To be licensed as an insurer, a captive must:

- Be incorporated and located in Ireland.
- Employ qualified staff with the power to issue coverage.
- Have minimum paid-up capital of 500,000 punts ($806,100) or its equivalent in another currency.
- Maintain a solvency margin in line with the European Community's Non-Life Insurance Regulations of 1976.
- Be approved by the Irish Certification Advisory Committee to qualify for a special 10% tax rate available to companies located in Dublin's International Financial Services Center.

It is easier to become a reinsurance captive, since reinsurers are regulated neither by the European Community nor by the Irish government. A reinsurance captive only needs to be approved by the Industrial Development Authority of Ireland and the Certification Advisory Committee.

There is no application fee and approval takes about four to six weeks. Annual audited returns must be submitted to the Department of Industry and Commerce.

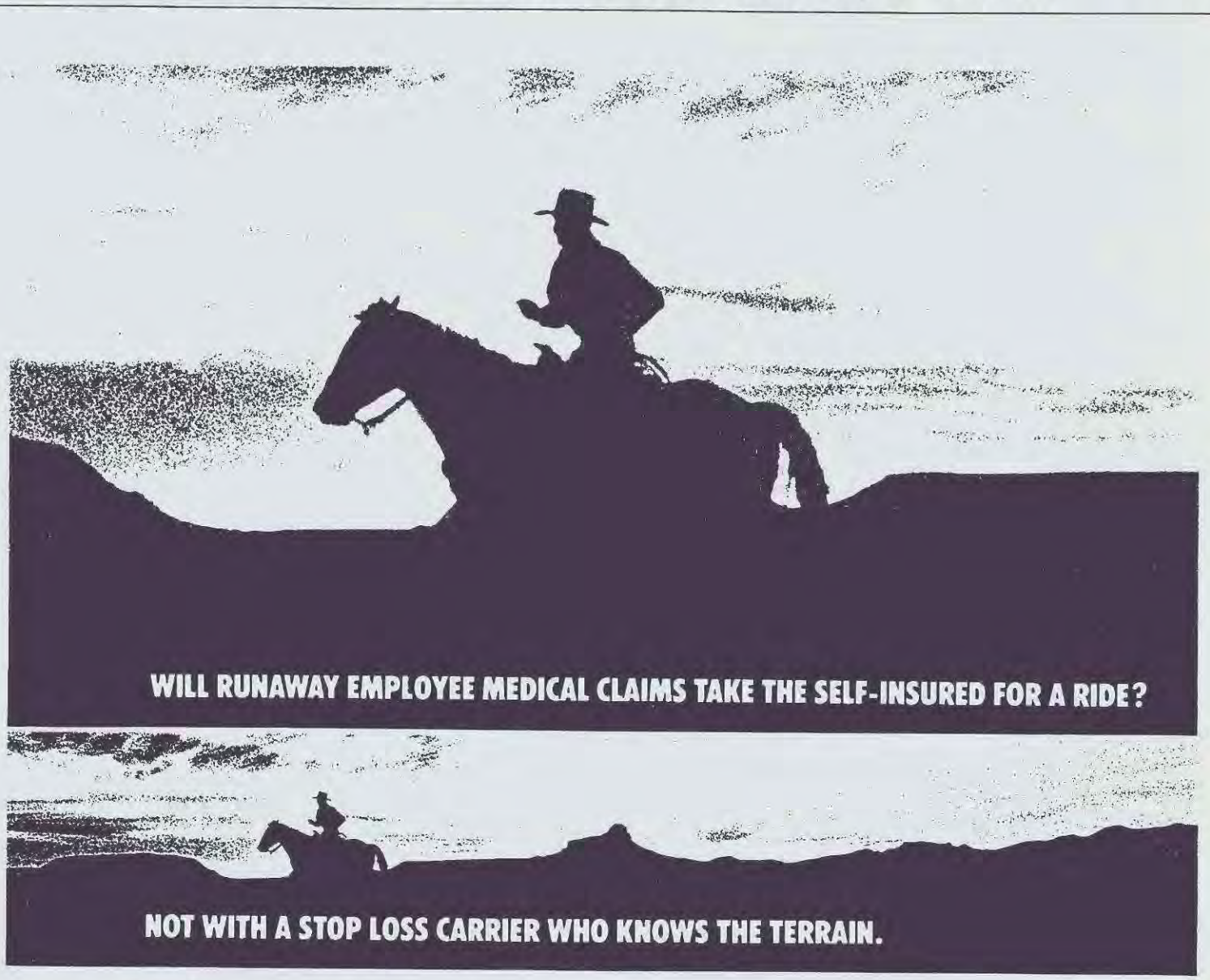
To be eligible for Dublin's 10% corporate tax status, all captives must agree to be located in the 27-acre Custom House Docks Area in Dublin where the IFSC is located. There are other tax incentives offered to companies located in the IFSC, including double deductions of rent payments and 10-year property tax abatements.

The site is 40% completed, but office space suitable for captive managers won't be completed until next year, said Kevin Hynes, manager/adviser financial services program at the IDA.

The rent charges for the office space will be approximately 23 to 25 punts ($37 to $40) per square foot per year.

Up until 1991, captive managers that formed in Dublin had to agree to employ at least 15 people within three to five years and manage a maximum of 25 captives. If the manager took on more than 25 captives, it would have to employ more staff.

The requirements, however, were changed last year. Newer captive managers must employ at least 20 people within three years and can manage a maximum of 10 captives rather than 25. ■



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Spotlight report

Luxembourg attracts captives from many nations

Duchy's managers setting their sights on Italy, Spain

By CAROLYN ALDRED

LUXEMBOURG—The Grand Duchy of Luxembourg continues to attract captives from throughout Europe, though captive managers are targeting Italy and Spain for added growth.

Luxembourg will prove to be the most attractive domicile to Italian and Spanish risk managers, who are beginning to look at captive formation in earnest as domestic insurance regulations are relaxed, managers say.

In addition to new captives from Luxembourg's traditional patrons—Scandinavian, French, Belgian and Dutch companies—the domicile also has seen the formation of three more Japanese captives in the last year.

The country's multilingual environment, a legal system similar to that used in many other European countries, membership in the European Community and a solid financial infrastructure makes Luxembourg the choice for many companies with European operations considering a captive.

At year-end 1991, Luxembourg had 153 registered reinsurance companies, of which 148 were captives. That's up from 119 captives at year-end 1990. By law, all captives must be established as reinsurers.

Twenty-four captive managers, including two new firms, were registered at year end. The net gain in captive managers, though, slowed markedly; there had been 23 total in 1990, 14 in 1989, nine in 1988 and four in 1987.

Insurance Commissioner Victor Rod expects more captive managers to merge, due in part to a new Luxembourg law that requires managers to be licensed and because of mergers within the brokerage community.

The licensing rule is part of a legislative package enacted by the Luxembourg government in December and that went into effect on Jan. 1.

The new law changes little of the existing captive statutes, though it provides the commissioner with more power to oversee captive managers, Mr. Rod said. "We are checking the technical systems (of the captive managers). They must show evidence of their organizational skills and that they can effectively run the company on a day-to-day basis," he said.

As a result of the new measure, several managers likely will merge to strengthen their operating abilities, he said.

Meanwhile, a couple of provisions from Luxembourg's 1984 law governing captive reinsurers were dropped by the new law.

For example, under the old law, a captive had the option of operating with paid-up capital of 6 million Luxembourg francs ($174,647 at current exchange rates) if it reinsured only its parent's risks, instead of the 50 million Luxembourg francs ($1.46 million) normally required. However, this provision was never adopted by any of the captives and was subsequently dropped in the new law.

Also, the new law requires all non-life reinsurers to maintain a minimum solvency margin of 10%. The old law allowed a minimum solvency margin of 7% for non-life reinsurers if they did not write general liability business and 5% if they wrote neither third-party business nor general liability business.

The new law does not materially alter the regulatory environment for captives in Luxembourg, but should enhance the domicile's reputation as one that is well-governed and well-controlled, captive managers say.

"The new legislation will increase the credibility and professionalisms of captive management in Luxembourg," says Frank Tombs, general manager of captive manager Rimacorp S.A. "One of the major issues is the fact that legislation now includes management companies," he said, predicting that "a large number of managers will have to restructure" to meet the licensing requirements.

Captive managers may in the future find it uneconomic to operate in Luxembourg if they do not manage a sufficient number of captives, Mr. Tombs said. As a result, "it will be more difficult for new captive managers to start, as it will cost more to set up." But the measure "will improve the professionalism of captive management in Luxembourg," he said.

Rimacorp itself is just completing changes begun "to provide our clients with the service they need and to meet the criteria of the new legislation," said Mr. Tombs.

Rimacorp is 65% owned by Sedgwick Group P.L.C., with the remainder held by Banque Generale du Luxembourg. Rimacorp moved to new premises last July and began recruiting its own staff, which currently numbers four. The captive manager was previously staffed by BGL employees.

"Last year, Rimacorp didn't exist as a self-supporting unit," Mr. Tombs said. At year-end 1991, Rimacorp managed eight captives, up from seven in 1990. The new captive has a Belgian parent, he said.

The parents of Rimacorp's other captives come from throughout Europe—"a real spread," Mr. Tombs said.

Another broker-owned captive manager also undergoing a major restructuring is Unison Management (Luxembourg) S.A. Previously, Unison Management's three broker owners—Johnson & Higgins Ltd. in London, Gras

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Savoye S.A. of Paris, and Boels & Begault S.A. of Brussels—each independently managed their own captives, said Jean Thomas, administrative manager.

In 1991, the three decided to operate from one office and with one administrative system, he said. As a result, Unison Management moved into new offices this month.

According to Mr. Thomas, Unison Management currently manages more than 20 captives, 14 of which have French parents; one Dutch; and the rest Belgian.

Indeed, French, Belgian and Scandinavian captives represent by far the majority of captives domiciled in Luxembourg.

However, Luxembourg managers now are seeing more interest in the domicile from parents in southern Europe.

Mr. Tombs pinpointed Italy and Spain as two growth areas.

"Italy used to have very strict regulations which made it almost impossible for captives to be formed (by Italian companies). That is now changing slowly because of the European Community. Spain also had a very strong home market for insurance," which also is changing due to E.C. rules, said Mr. Tombs.

"Luxembourg is an obvious choice as a captive domicile for Spanish and Italian companies," agreed Gilles Coremans, manager of Sogecore S.A., a Luxembourg captive manager. This is because of Luxembourg's location in central Europe, its membership in the European Community and its reputation as a financial center.

Sogecore has seven employees and currently manages 18 captives, of which 14 are registered in Luxembourg, unchanged from 1990.

Despite Mr. Coremans's expectations for captive growth from southern Europe, most of the captives managed by Sogecore have French and Belgian parents.

French companies are still at the forefront in establishing captives in Europe, said Thomas Malmholt, managing director of Sinser (Luxembourg) SARL.

Sinser is the domicile's largest captive manager, managing 62 captives, of which 50 were registered in Luxembourg at year-end, up from 37 in 1990.

In addition, it has seven clients of its Luxembourg rent-a-captive, Vital Re.

Many of Sinser's 13 new captives were formed by French companies, he said. "It is predominantly from France where we have seen the greatest interest in the captive concept and France has the best prospect in the near future."

"In the past, our growth has been from Scandinavia. Now we are trying to market ourselves in continental Europe," said Mr. Malmholt. "Spain and Italy will be interesting in the future, and Germany is a sleeping giant."

Meanwhile, Japanese companies still are looking at captive formation in Luxembourg, he said.

The domicile is attractive to Japanese companies because Japanese tax authorities do not regard Luxembourg as a tax haven and, consequently, do not impose additional taxes on captive owners.

"We have had a lot of contact with Japanese companies recently," Mr. Malmholt said.

Sinser also manages Yasuda Management Luxembourg S.A., which is owned by Yasuda Fire & Marine Insurance Co. Ltd. but does not yet manage any captives.

"We are in a situation where Japanese companies are discussing the advantages and disadvantages of captive domiciles. They are looking at the captive concept and planning to operate captives from Europe to assume the reinsurance for their European operations," Mr. Malmholt said.

Meanwhile, although many European firms are weighing the advantages between Dublin and Luxembourg, he believes Dublin should be regarded as a complimentary domicile to Luxembourg, rather than as a threat. Initially, "we had thought that the growth in Luxembourg would be less than in previous years because of Dublin. But, we believe that a lot of captive owners regard Dublin as a complement to Luxembourg," he said, pointing out that several Sinser clients have established two captives—one in each domicile.

"The bigger clients have come to the conclusion that they can use the advantages of both domiciles and that is why we have seen a growth" in captive formations.

"One reason for going to Ireland is to take advantage of writing direct insurance, which is not permitted for Luxembourg captives," he said. However, Luxembourg is often regarded as a more suitable domicile for reinsuring a company's own risks, he said. ■

Managers must be licensed

LUXEMBOURG—Changes to Luxembourg's captive reinsurance legislation will have little effect on captive reinsurers but will require captive managers to be licensed for the first time.

The changes, which were adopted last December and became effective Jan. 1, are largely based on the domicile's 1984 captive law.

Luxembourg captives, which are required to be formed as reinsurers, all must:

- Have minimum paid-up capital of 50 million Luxembourg francs ($1.46 million at current exchange rate).
- Manage their capital from Luxembourg.
- Be managed by a Luxembourg-licensed captive management firm.
- Have at least three directors, including a managing director, who reside in Luxembourg and are "of good morality" and are professional reinsurance underwriters.
- Submit an annual audit by an auditor approved by the insurance commissioner. New captives do not have to submit their first audit until 18 months after being incorporated.
- Reinsurers that write non-life business must maintain a minimum solvency margin of 10% of premium.
- Reinsurers writing life business must maintain a minimum solvency margin of 2% of their reserves.

For more information on Luxembourg captives, contact Victor Rod, Commissariat aux Assurances, Ministere des Finances, 3 Rue de la Congregation, Luxembourg; phone: 352-478285; fax: 352-475241. ■

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Spotlight report

Australia failing in attempt to woo captives ashore

By KATE McILWAINE

BRISBANE, Australia—The captive count in Australia is three—and holding firm.

For the second consecutive year, Australia licensed no captives, despite relaxing its captive tax and reinsurance rules two years ago to entice offshore captives to come home.

But new solvency and capitalization standards have reduced Australian risk managers' interest in relocating their captives.

In Australia, captives must be licensed as non-life insurers. Regulations do not distinguish between captives and non-life insurers.

The new rules raised minimum capitalization to $2 million Australian ($1.5 million at current exchange rates) from $500,000 Australian ($377,100).

And, the minimum amount by which assets must exceed liabilities is $2 million Australian, 20% of premium income in the preceding financial year or 15% of the insurer's outstanding claims provision, whichever is greater.

For already authorized companies, the new rules are being phased in over three years. New insurers must comply immediately.

Australia's regulatory authority, the Insurance and Superannuation Commission, had not anticipated "a great flow of companies coming back onshore," but it had expected to see "some movement," said Don Gruber, assistant commissioner.

Kevin D. Mutch, general manager-risk management for Melbourne-based mining and energy company CRA Ltd., which has a Singapore-based captive that writes property damage, business interruption and liability lines for CRA, has considered moving the captive onshore.

But, the idea did not advance much during the past year.

Mr. Mutch said that although the new capitalization and solvency requirements are prudent, offshore domiciles offer more flexibility. Also, the total absence of captive managers in Australia is a problem for CRA because it wants to keep its captive, Metals & Minerals Insurance Pte. Ltd., "at arm's length," he said.

David W. Blackett, manager-risk financing for GIO Australia, an insurer owned by the government of New South Wales, said Australia's Insurance Act should differentiate between reinsurers, insurers and captives.

If capitalization requirements were different for captives, there may be greater incentives to set up onshore captives, he said.

"The cost of entry into the insurance market is too low for a general insurer, too high for a captive, and ridiculously low for reinsurers," he said.

Mr. Blackett said Australia's top 30 companies should consider moving their captives onshore. "If captives are fulfilling their true role as underwriters, (the domicile) is not an issue," he explained.

GIO Australia, which is eager to become a captive manager, has submitted proposals for onshore captives to the boards of two Australian corporations.

Mr. Blackett would not name the companies, but he said that one may set up a captive to write only $500,000 of premiums or less in 18 months or so. The other company has a Singapore captive. However, he said the company—which he noted is not CRA—would not likely move onshore.

Australia's captive count remains at three even though the ISC has revoked the licence of North Broken Hill Peko Ltd., a Melbourne, Australia-based mining company that registered itself as its captive insurer.

The ISC has licensed a new captive insurer for the company, North Insurance Pty. Ltd.

The ISC requested this action, but the mining company said it was planning to create a separate captive anyway. It began transferring business to its new unit, North Insurance, in June 1991, and North Broken Hill Peko's license was revoked in February.

North Broken Hill Peko wrote only workers compensation insurance for its employees in New South Wales, but the new captive will write additional lines of coverage, said Bob J. Lang, the company's manager-insurance projects.

For the year ended June 30, 1991, North Broken Hill Peko wrote $678,945 Australian ($520,072 at appropriate exchange rates) of gross premiums, a 19.5% decrease from $691,000 Australian ($545,890) the previous year.

North Broken Hill Peko's assets exceeded liabilities for the year ended June 30, 1991, by $878 million Australian ($672.5 million).

Boral Insurance & Fund Management Ltd., the captive insurance subsidiary of Sydney-based Boral Ltd., wrote $1.9 million Australian ($1.5 million) in Australia and $78,250 Australian ($59,940) outside Australia—for a total of $2 million Australian ($1.5 million)—for the year ended June 30, 1991.

Boral Ltd. is a diversified company with interests in construction, engineering and quarrying.

Claims paid totaled $109,656 Australian ($83,996).

Melbourne-based BHP Marine & General Insurances Pty. Ltd., the captive insurer of the Broken Hill Proprietary Co. Ltd., wrote about $60 million Australian ($46 million). in 1991. ■

Japan, not Australia, may be key to Singapore's future

By KATE McILWAINE

SINGAPORE—The soft market is keeping the lid on captive growth, but Singapore's largest captive manager reports many new inquiries as well as a spurt of activity by existing captives.

Five captives were registered and three ceased operations in 1991, leaving 45 at year end.

Captives wrote gross premiums of $230 million Singapore ($141.9 million at year-end exchange rates) in 1991, up 39% from $165.6 million Singapore ($95.7 million) in 1990. The captives write liability, property, business interruption, workers compensation and professional liability insurance.

"The growth was contributed to by the new captives, hardening rates, and increased business ceded to the existing Australian captives," said Lee Soek Koon, assistant director-development division of the Insurance Commissioner's Department, which is part of the Monetary Authority of Singapore.

Ms. Lee said 73% of Singapore-domiciled captives are owned by Australian companies, compared with 75% in 1990. Japanese-owned captives account for the remainder, she said.

Four of the new captives are owned by Japanese firms; the other is Australian-owned. Financial problems with their Australian parents forced three captives to cease operations, Ms. Lee said.

The gross premium volume of Australian-owned captives rose 30.9% to $193.3 million Singapore ($119.3 million). For Japanese captives, it increased 111.4% to $37.6 million Singapore ($23.2 million).

There are 19 captive managers in the domicile, two more than at year-end 1990. At least 10 are branches of major brokerages.

Singapore-based Sedgwick James Management Services Pte. Ltd., is the largest with 15 captives under management, unchanged from year-end 1990.

In 1991, those captives began writing more classes of business, said Esmond Choo, director of operations for Sedgwick James.

Gross premiums written by captives under management rose about 20% to nearly $41.5 million in 1991, Mr. Choo said.

"The increase would have been larger, but for the soft market," he said.

There also have been many recent inquiries, mostly from Australian companies interested in establishing captives because "the market is poised for a severe hardening," Mr. Choo said.

The Australian property, aviation and marine markets are hardening somewhat, though the liability market is still "fairly soft," Mr. Choo pointed out.

There have been no regulatory changes affecting captives in Singapore during the past year.

New solvency margins for domestic insurers were raised last fall to a minimum of $5 million Singapore ($3 million at current exchange rates), or 50% of net premiums written or loss reserves, whichever is greater. But the minimum solvency margin for offshore business, including captives, remained unchanged: $1 million Singapore ($595,800) or 20% of net premiums or loss reserves.

Ms. Lee noted that the Monetary Authority has been fine-tuning the regulatory framework since the 1980s, when Singapore began to promote itself as a domicile.

Singapore is seeking to attract more captives from the Asia-Pacific region, particularly Japan, Taiwan and Korea.

Captive managers believe that additional growth is more likely to come from Japan and Taiwan. Changes in Australian tax laws have made offshore domiciles less attractive, they say, and high tariffs in Japan and an uncompetitive market there are incentives to set up offshore captives.

For more information, contact Lee Soek Koon, Assistant Director, Development Division, Insurance Commissioner's Department, Monetary Authority of Singapore, 10 Shenton Way, Singapore 0207; 65-229-9430. ■

Still no captives or managers on Labuan

By KATE McILWAINE

KUALA LUMPUR, Malaysia—No captives or captive managers have yet established offices on the Malaysian island of Labuan, despite efforts by the Malaysian government to encourage them.

So far only one insurer, MNI Offshore Insurance (L) Ltd., a unit of Malaysia National Insurance Sdn Berhad, and one reinsurer, Malaysian Re, have set up offices on Labuan (*BI*, Dec. 2, 1991). Both are Malaysian government-owned.

The tiny island is one hour's flight and 700 miles southeast of Kuala Lumpur. Some observers say it is too isolated to be a successful domicile.

Narayan Shastri, technical adviser with Malaysia National Insurance, said that while some banks have been established on Labuan, no captives or captive managers have been formed.

"We hope there will be some progress in the next two months," he said. "We have contacted the top 10 captive managers worldwide, and we are looking forward to a positive response from three."

But Mr. Shastri said development on the island would be slow. The Malaysian government has agreed insurers and captives or captive managers that are set up on Labuan can establish offices in Kuala Lumpur for the first two years while Labuan's infrastructure develops.

In its Sixth Malaysia Plan, a strategy for 1991-1995, the Malaysian government allocated $4.6 billion Malaysian ($1.8 billion) to developing financial centers in Kuala Lumpur and Labuan.

GIO Australia, a Sydney-based insurer owned by the state government of New South Wales, had planned to establish a Labuan office in 1991. But plans to privatize the insurer have put the expansion "on the back burner," said Frank Robertson, GIO Australia's representative in Kuala Lumpur.

After an initial public offering, probably in May, GIO is expected to be registered as a publicly owned, licensed non-life insurer by July 1, he said.

GIO Australia says it may reassess its plans for a Labuan office when the privatization is complete.

Labuan is a victim of the worldwide slowdown in captive growth and also suffers because it is remote and undeveloped, said Kevin D. Mutch, general manager of risk management for CRA Ltd., a Melbourne-based Australian mining company that operates a Singapore captive.

However, he noted some insurers in Hong Kong may want to move before Hong Kong reverts to Chinese control in 1997. Labuan, because it is relatively close, may be an alternative, he said.

Captive insurers on Labuan would be required to maintain a solvency margin of $1 million Malaysian ($391,000) and would pay an annual license fee of $10,000 Malaysian ($3,910) to the regulatory authority, Malaysia's Bank Negara.

For more information, contact Insurance Regulation Department, Bank Negara Malaysia, P.O. Box 10922, Jalan Dato Onn, 50480 Kuala Lumpur, Malaysia; phone: 603-2988044; fax: 603-2912990.

Too many 'tax havens'? The question is not just for regulators anymore

By STACY SHAPIRO

LONDON—It seems as if every island in the world is trying to become an offshore captive domicile at the same time that parent companies are wondering if it is best to stay onshore.

From Labuan to Vanuatu to Cape Verde, these domiciles impose few, if any, tax requirements on captives, have only minimum capital requirements and offer plenty of secrecy.

Parent companies, though, are wondering if it is best to base their captives in their home countries, says a British captive consultant.

With home country tax authorities suspicious of offshore "tax havens" and some countries offering generous reserving rules onshore, it could be best to just stay home.

"Everyone wants to be a captive center," said Paul Bawcutt, managing director of Risk & Research Insurance Group Ltd. in London.

"It's a nice balance with tourism, which can be a fickle business," he said.

One of the newest players to get into the offshore insurance field is a Texas forwarding agent that is touting the Republic of Cape Verde as the newest offshore insurance domicile (*BI*, Dec. 16, 1991).

However, captives do not actually have to be managed in the republic, which lies 375 miles off the western coast of Africa, to be

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domiciled there, said William Gregory, vp of U.S. Star International Inc. in Irving, Texas, which is the forwarding agent for the Commerce and Banking Agency of Cape Verde.

Rather, Cape Verde can be used just as a mailing address while the captives are managed onshore or in other offshore domiciles, Mr. Gregory said.

The 12 captives that already are set up in Cape Verde are managed from their U.S. and European parent offices or by captive managers in Caribbean or European domiciles, he said.

Although Mr. Gregory would not be specific, he said the captives were owned primarily by U.S. companies whose parents are based in California, Massachusetts, Nevada and Texas.

Among the risks that Cape Verde captives insure are auto physical damage and "unusual" risks—like strike expense exposures—for which coverage generally is not available in the U.S. insurance market, he said.

Mr. Gregory said there are captive managers on the island, but he does not recommend that clients use them. Rather, he recommends that clients use managers in other offshore domiciles in the Caribbean and Europe.

Mr. Gregory suggests that establishing captives in Cape Verde rather than in Caribbean domiciles, because "the overall expense is less" and there are fewer operational requirements in the new domicile.

Under Cape Verde's captive regulations, insurers and reinsurers: pay no local taxes; are not required to hold annual meetings; are protected by strict confidentiality laws; are not subject to restrictions on export of profits; are subject to only minimal reporting requirements; and are not required to have an office or agent in the domicile.

Insurers and reinsurers are required to establish a captive reserve account at the time of application. The funds, which amount to $25,000 for property/casualty companies and $50,000 for life companies, are held in a Luxembourg bank in the event the company fails to pay annual fees. The account is at Bank Continental in the name of the Commerce and Banking Agency of Cape Verde for the individual insurers/reinsurers, Mr. Gregory said.

U.S. Star suggested using a Luxembourg bank account for U.S. and European captives, because parents are more familiar with Luxembourg than with Cape Verde, Mr. Gregory said.

Annual fees are $12,500 for property/casualty insurers and $25,000 for life insurers. Both pay a $500 application fee.

Other fees include a $750 initial incorporation fee for both property/casualty and life insurers payable to the government of Cape Verde.

Property/casualty insurers are required to have minimum capital of $100,000, while life insurers must have at least $200,000 in capital.

As international business consultants with 19 employees, U.S. Star administers the applications and filing fees for U.S. and European captives through its Irving, Texas, offices, Mr. Gregory said. U.S. Star acts in this capacity as the forwarding agent for the Commerce and Banking Agency of Cape Verde, a branch of the Bank of Cape Verde, because it "is difficult to contact anyone in Cape Verde," he noted.

Indeed, the Commerce and Banking Agency of Cape Verde could not be reached despite repeated attempts.

Another island nation that is considering setting up a financial services industry is Mauritius, which lies 530 miles east of Madagascar.

The magazine "Euromoney" is holding the island's first invitation-only conference on offshore financial services this month.

The island may want to attract South African business, RIRG's Mr. Bawcutt said. One of the conference sessions will be on the legal issues involved with South African companies using captives.

Mauritius "is a very attractive domicile, and I've heard rumblings that South Africans might think about it," said Russell Dickson, managing director of Rio Tinto Insurance Brokers Pty. Ltd. in Johannesburg. "It's our holiday playground."

However, more South African companies prefer the established domiciles to set up captives, particularly in Guernsey and the Isle of Man, he said.

Besides, a past judicial inquiry into the unnecessary movement of premiums outside of South Africa has curbed the establishment of captives by South African companies, Mr. Dickson said.

New South African insurance legislation will clearly define the government's stand on offshore captives. But the legislation was put on the back burner by recent referendum on whether to continue President F.W. de Klerk's reforms that will abolish apartheid.

One island domicile that might grow in the future is Malta, which is still promoting its 5% tax rate and its proximity to Europe, according to Mr. Bawcutt. The Mediterranean island might attract Italian captives if Malta is allowed entrance into the European Community, he said.

Other countries also continue to try to attract captives to their shores, including Andorra, Cyprus, Gibraltar, Labuan, Western Samoa and Vanuatu.

However, Mr. Bawcutt said he believes that companies in the future will look more at the total tax picture for themselves and their captives rather than only at a low tax rate in a captive domicile "and find that it is advantageous to be onshore rather than offshore."

"The old business of (sending a captive) straight offshore with low taxes is passe," he said.

Many countries, including Sweden, have now curbed the tax advantages of setting up captives offshore by introducing so-called "controlled foreign corporation" legislation.

This legislation requires that the tax rate in the offshore domicile be at least 50% of the company's home country's tax rate, or full income tax is charged on the captive's income.

Some countries also publish a list of captive domiciles that they consider tax havens.

In addition, tax authorities in the United Kingdom—which has a controlled foreign corporation law—are investigating many U.K. companies' offshore captives to determine whether they are managed onshore or offshore.

European companies can avoid dealing with this type of legislation by establishing their captives in Dublin, because the Irish government has double taxation treaties with more than 20 European countries. ■

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Spotlight report

Vermont prepares to defend captive crown

Tax rules under review to make sure competitors do not get upper hand

By JERRY GEISEL

MONTPELIER, Vt.—Despite a slowdown in captive formations, the domestic captive champion isn't about to relinquish its title.

While the Vermont Department of Banking, Insurance and Securities last year licensed 25 captives, down from 35 in 1990, Vermont has still issued more licenses than all other domestic domiciles combined.

Three captives were dissolved last year, bringing the total number of captives in Vermont at year-end 1991 to 207, up from 185 in 1990. So far this year, six captives have been formed and none has been dissolved.

"Vermont has a track record of dealing with and understanding captives that none of the other domestic domiciles can match," said Jack Giesen, president of AIG Captive Management Inc.

Despite the soft commercial property/casualty insurance market market, premium volume generated by Vermont captives rose about 25% to $1.6 billion in 1991, from $1.3 billion in 1990.

"Some captives are retaining more risk, while other captives are adding new lines, especially workers compensation," said Malcolm Cutts-Watson, a vp with Johnson & Higgins Services Inc. in Burlington.

But Vermont, which wrested the domestic captive crown from Colorado in the early 1980s and increased its dominance in succeeding years, isn't resting on its laurels.

Some Vermont managers worry that Hawaii, which patterned its captive law after Vermont's but has lower premium taxes, may attract captives—especially those with West Coast parents—that would have formed in Vermont. Hawaii taxes single-parent captives' premiums at a 0.25% rate; Vermont charges up to a 0.7% rate on direct premiums.

"You don't think the amount charged in premium taxes will make a difference to a company? You can dance around and pretend it does not matter. But it certainly does," said Kathryn Westover, senior vp in American Risk Management Corp.'s Burlington office.

However, the threat that Hawaii poses to Vermont seems to involve only new captives. Parents of current Vermont captives say they don't want to move.

"We believe Vermont has the best insurance department in terms of quality of its captive staff and experience in supervising captives. We have no interest in any other domicile," said Art Broadhurst, senior vp in the Chevy Chase, Md., office of United Educators Insurance Risk Retention Group Inc., which was licensed in Vermont in 1987.

"Vermont has been cooperative and a very favorable state to operate in," said Cedric Hughes, corporate risk manager at Palo Alto, Calif.-based Hewlett-Packard Co., which established a Vermont captive in 1988 and has no plans to relocate.

To keep Vermont's tax structure competitive with other domiciles, captive managers will press the Legislature to cut captive premium taxes next year.

"We will have to revisit the premium tax," said George Chaffee, president of Skandia International Risk Management (Vermont) Inc. in Burlington.

"Vermont wants to stay competitive. Premium taxes are something that will have to be looked at," agreed Edward Meehan, executive vp at Vermont Insurance Management Inc. in Montpelier.

These messages are being heard by regulators.

"Changes in the premium tax structure will be considered next year. Vermont will be competitive," said Leonard Crouse, director of the captive division at the state Department of Banking, Insurance and Securities in Montpelier.

"It is clear that premium taxes will be looked at next year," agreed Insurance Commissioner Jeffrey Johnson.

At the same time, the state will soon embark on a feasibility study to examine whether Vermont's 1981 captive law should be changed to permit captives to fund parents' retiree health care obligations.

Interest in using captives to fund benefit coverages is being fueled by new accounting rules, set to go into effect in 1993, that will require employers to accrue retiree health care liabilities as an expense against earnings from the date an employee is hired until first eligible for retirement.

Some captive managers say employers are looking for new ways, such as through their captives, to prefund retiree health care obligations.

Funding retiree health care benefits "would be a significant boost to the captive industry. It would increase utilization of captives," said ARM's Ms. Westover.

However, other managers say that certain obstacles, like a Labor Department regulation that limits the amount of benefit coverage that can be written through an insurance subsidiary, need to first be examined.

"Vermont recognizes that there may be a certain opportunity here. But Vermont will not rush in, and instead will thoroughly study the issue," said Ray Oberg, senior vp with M&M Insurance Management Services Inc. in Burlington.

Meanwhile, the Vermont Legislature now is considering other changes that could benefit captives and their sponsors.

For example, under a legislative package, S. 243, now being considered by the Senate Finance Committee, single-parent captives could file their annual

Continued on next page

20 largest Vermont-group captives

Ranked by 1991 premium volume

Group captive Parent (manager)	Gross written premiums	Net premiums	Net income
AmHS Insurance Co. Risk Retention Group Hospitals (Johnson & Higgins Services Inc.)	$ 36,758,157	$ 1,588,030	$ 7,619
MEDMARC Insurance Co. Risk Retention Group Inc. Medical equipment manufacturers (M&M Insurance Management Services Inc.)	30,427,737	28,810,737	1,955,134
ICI Mutual Insurance Co. Members of Investment Company Institute (Hanna Insurance Vermont Ltd.)	28,492,193	19,041,882	10,480,846
United Educators Insurance Risk Retention Group Inc. Educational institutions (M&M Insurance Management Services Inc.)	21,868,711	3,698,338	251,551
Bar Vermont Risk Retention Group Inc. New York City law firms (American Risk Management Corp.)	16,656,925	1,313,801	97,509
Housing Authority Risk Retention Group Housing authorities (Yankee Captive Management Co.)	16,320,471	14,463,937	6,953,986
CPA Mutual Ins. Co. of America Risk Retention Group Accounting firms (American Risk Management Corp.)	8,638,300	4,153,904	304,512
Hospital Liability Risk Retention Group Inc. Hospitals in South Florida (Parker Risk Management Inc.)	8,546,716	3,381,342	-59,872
The Ordinary Mutual, A Risk Retention Group Corp. Catholic dioceses (American Risk Management Corp.)	8,484,488	6,966,488	678,426
Terra Insurance Co., A Risk Retention Group Geo-science engineers (Vermont Insurance Management Inc.)	8,319,025	6,290,356	1,308,318
Vermont Ins. Maritime Indemnity & Suretyship Co. New York Shipping Assn. et. al (Johnson & Higgins Services Inc.)	8,033,449	1,245,862	1,044,497
Financial Institutions Reserve Risk Retention Group Inc. Commercial banks (Johnson & Higgins Services Inc.)	7,805,000	5,335,750	5,242,127
MPC Insurance Ltd. Various California law firms (Johnson & Higgins Services Inc.)	7,552,055	4,652,055	1,363,359
National Catholic Risk Retention Group Inc. Catholic dioceses (Hanna Insurance Vermont Ltd.)	7,436,434	5,022,104	-1,962,268
Consolidated Catholic Casualty Risk Retention Group Inc. Catholic health care systems (Skandia International Risk Management Vermont Inc.)	5,148,642	3,299,653	2,048,646
American Safety Risk Retention Group Asbestos abatement contractors (Johnson & Higgins Services Inc.)	4,513,312	1,046,664	528,956
Conn Med Risk Retention Group Hospitals (Skandia International Risk Management Vermont Inc.)	4,077,618	2,375,192	0
Beverage Retailers Insurance Co. Risk Retention Group Beverage retailers (M&M Insurance Management Services Inc.)	4,065,723	3,374,550	-362,915
Tank Owners Insurance Co. of Texas Risk Retention Group Fuel tank owners (Hanna Insurance Vermont Ltd..)	3,938,369	2,538,369	-183,211
Mental Health Risk Retention Group Inc. Mental health centers (Skandia International Risk Management Vermont Inc.)	3,226,832	1,096,922	173,223

Source: Vermont Department of Banking, Insurance and Securities

GRAPHIC BY KIMBERLY MART

Vermont captive managers

Premium volume in millions of dollars

Manager Parent	Premium volume 1991	Premium volume 1990	Captives 1991	Captives 1990	Staff 1991	Staff 1990
M&M Insurance Management Services Inc. **Marsh & McLennan Cos. Inc**	$598.3	$637.4	26	25	11*	11*
American Risk Management Corp. **Swiss Reinsurance Co.**	293.3	184.3	33	29	17	13
Johnson & Higgins Services Inc. **Johnson & Higgins**	287.7	159.7	47	45	25	21
Alexander Insurance Managers **Alexander & Alexander Services Inc.**	141.4	87.6	31	25	7	5
Hanna Insurance (Vermont) Ltd. **Smith, Bell & Thompson Inc.**	104.5	84.6	18	15	8	8
Becher & Carlson Management (Vermont) **American Re-Insurance Co.**	71.2	61.7	5	4	3	3
Vermont Insurance Management Inc.	47.4	47.2	21	16	10	10
Skandia International Risk Management (Vermont) Inc. **Skandia America Corp**	24.5	20.8	11	11	4	4
AIG Captive Management Inc. **American International Group Inc.**	22.6	7.1	3	2	3	3
Yankee Captive Management Co.	17.5	15.7	2	2	3	3

* *BI* estimate
Source: *BI* survey

GRAPHIC BY KIMBERLY MART

Continued from previous page
reports with the Vermont department within 60 days after the close of their parent's fiscal year. Currently, all captives must file annual reports by Feb. 28.

Even with the change, a limited amount of financial data still would be due Feb. 28, like gross and net premium figures.

Captive sponsors, to ease administrative burdens, have asked that the filing of a captive's annual report correspond to their own fiscal year, notes Mr. Johnson, the insurance commissioner.

"Vermont is listening to its customers. If you want to stay ahead, you have to listen to your customers," he said.

"This would ease an accounting problem," pointed out Scott Frazier, executive director of North American Captive Operations at Alexander Insurance Managers in Burlington.

While the rate of captive formation slowed last year, big well-known employers continue to set up captives in Vermont. Employers forming Vermont captives last year include Hoechst-Celanese Corp., the chemical and pharmaceutical company; Beverly Enterprises Inc., the nation's largest operator of nursing and retirement homes; and Centex Corp., a home building and construction firm.

"Vermont provided the flexibility we were looking for," said Kay Kather, director of risk management for Fort Smith, Ark.-based Beverly.

Beverly's new captive, whose premium volume could exceed $30 million this year, writes a variety of coverages, including workers compensation and professional liability.

"Vermont seemed to be the place to be. It has a good infrastructure in place," said Barney Mercer, corporate risk manager for Centex in Dallas. The Centex captive initially will reinsure workers compensation risks, though other lines could be added in the future.

While risk retention groups accounted for a big chunk of Vermont's captive growth during the late 1980s, risk retention group formation slowed markedly last year. Just three were launched in 1991, down from five in 1990.

Captive managers say the soft market is taking its toll on the formation of risk retention groups and other group captives.

For example, while a group of grinding wheel manufacturers had difficulty obtaining quotes from commercial insurers during the hard market, "insurers now are fighting over them," said Roger Teese, president of Hanna Insurance (Vermont) Ltd. in Burlington.

But, many of Vermont's existing 31 risk retention groups are holding their own, managers say.

And some—even in the soft market—continue to expand.

Premium volume at United Educators, which writes excess liability and educators legal liability insurance, climbed 15% to $21.9 million in 1991 from $19 million, while the number of policyholders rose to 604 from 556.

United Educators' Mr. Broadhurst attributes the growth to aggressive marketing to convince brokers and educational institutions that the group typically provides much broader policies than do commercial insurers.

Because of increased competition, Vermont captive managers and state regulators know that it is unlikely that Vermont will win nearly every new domestic captive, as was the case in the mid- and late 1980s.

"For years, Vermont was the only game in town for domestic captives," reflected M&M's Mr. Oberg.

But with all of the features that fueled Vermont's spectacular growth intact—an attractive captive statute, an insurance department that established a special unit to exclusively regulate captives, a variety of captive management firms and a low-cost operating environment—Vermont will continue to flourish.

"I'm very bullish on Vermont," said Mr. Johnson.

"We are the best domicile and we intend to keep it that way," said ARM's Ms. Westover. ■

Vermont managers expand their captive rosters

Despite soft market, eight of top 10 attract new clients

By JERRY GEISEL

MONTPELIER, Vt.—Despite the soft market, most Vermont captive managers continue to expand their captive rosters.

Of Vermont's 10 largest managers, eight increased the number of captives they managed during 1991, while the other two—Skandia International Risk Management (Vermont) Inc. and Yankee Captive Management Co.—held steady.

In addition, managed premium volume rose for nine managers—in some cases by huge amounts—while premium volume fell for only one, M&M Insurance Management Services Inc. In fact, eight of the 10 largest managers recorded double-digit gains.

While M&M Insurance Management's premium volume declined after years of big increases, the Marsh & McLennan Inc. unit remained Vermont's largest captive manager in terms of managed premium volume.

M&M's managed premium volume slipped 6.1% in 1991 to $598.3 million from $637.4 million in 1990.

While not commenting directly on the premium decline, Ray Oberg, a senior vp in M&M's Burlington office, noted that premium volumes generated by captives can fluctuate year to year with changing conditions in the commercial market.

"Captives are very flexible," he said, adding that a parent may cut back underwriting if coverage becomes less costly in the commercial market.

M&M is far and away the largest Vermont captive manager because of the size of several captives it manages. Premium volume generated by one M&M managed captive, Exxon Corp.'s Ancon Insurance Co. Inc., exceeds $100 million, while several other M&M-managed captives each write more than $50 million in annual gross premiums.

However, Burlington-based M&M, which tied for third in 1990 with Alexander Insurance Managers in number of captives managed, slipped to fourth place last year, even though M&M ended the year with one more captive than at the end of 1990.

M&M added four new captives last year, but one captive it managed was dissolved and two others moved to other management firms. That brought the number of captives M&M managed at year-end 1991 to 26, up from 25 in 1990.

"We feel we had a successful year in terms of the services we provided to our clients," Mr. Oberg said.

American Risk Management Corp., Vermont's second-largest captive manager, closed the gap between it and M&M as its premium volume ballooned 59.1% to $293.3 million in 1991 from $184.3 million the previous year.

"We had good solid growth in 1991, continuing the trend of the last several years," said Kathryn Westover, senior vp in ARM's Burlington office. She noted that new captives accounted for roughly half of the increase in premium volume, with additional growth coming from captives that were licensed late in 1990 but didn't start writing business until last year.

For example, one new captive, Bar Vermont Risk Retention Group, which writes professional liability coverage for attorneys, generated more than $16 million in premium volume its first year.

ARM-managed Vermont captives include the insurance subsidiaries of major corporations like Hoechst-Celanese Corp., the Sommerville, N.J.-based chemical and pharmaceutical giant, and Centex Corp., a home builder headquartered in Dallas.

Johnson & Higgins Services Inc. held on to its spot as Vermont's third-largest captive manager with managed premium volume rising 80.1% to $287.7 million from $159.7 million.

Business produced by new captives as well as expanded underwriting by existing captives produced that increase, explained Malcolm Cutts-Watson, a vp in J&H's Burlington office.

One new J&H managed captive that is writing environmental impairment liability coverage for its parent, a waste disposal firm, generated more than $50 million in premiums last year, he said.

At the same time, captives are adding new lines of business, especially workers compensation, Mr. Cutts-Watson said.

"They (captive owners) believe they achieve cost savings by putting work comp in their captive rather than" buying it entirely from the commercial market, he said.

J&H attracted two new Vermont captives during 1991, while it picked up one captive from M&M. However, it lost one captive to Alexander Insurance Managers. While the net increase of two captives was down from 1990, when J&H added 11 captives, it still manages more captives—47—than any other Vermont manager.

Alexander Insurance Managers, a unit of Alexander & Alexander Services Inc., also saw its managed premium volume shoot up, rising 61.4% to $141.4 million in 1991 from $87.6 million in 1990.

In addition, Alexander Insurance Managers picked up six captives—five new insurers and one from another manager—to end the year with 31.

"It was a very good year. We added more captives than any other management firm," said Scott Frazier, executive director of Alexander Insurance Managers' North America captive operations and manager of its Burlington office.

"Captives are taking on higher retentions, while there is a heightened interest in using a captive for workers compensation," he said.

Mr. Frazier said he expects expects another good year in 1992 with four or five new captives as well as a substantial increase in premium volume.

Premiums under management at Hanna Insurance (Vermont) Ltd. rose to $104.5 million in 1991 from $84.6 million the previous year.

Hanna also saw the number of captives it manages rise to 18 from 15. Two newly formed captives signed with Hanna, and two captives managed by other firms shifted to Hanna. One Hanna-managed captive was dissolved.

"We had a good year, especially given that it is a soft market. We could pick up two to four new captives this year, judging by what we currently are working on," said Hanna President Roger Teese.

Hanna was launched in 1982 as a joint venture of M.A. Hanna Co., a Cleveland-based manufacturer, and Smith, Bell & Thompson Inc., a Burlington-based insurance broker.

However, late last year, M.A. Hanna sold its share of Hanna Insurance (Vermont) Ltd. to Smith, Bell & Thompson for an undisclosed amount. Captive management "was something that didn't fit into M.A. Hanna's core business," said Mr. Teese, who described M.A. Hanna as a silent partner.

Sixth-ranked Becher & Carlson Management (Vermont) also boosted its premium volume and the number of captives it manages.

Managed premium volume at the American Re-Insurance Co. unit rose 15.4% to $71.2 million in 1991, up from $61.7 million in 1990, while it gained one new captive, raising its total to five.

"It was a very satisfying year given the soft conditions in the commercial market," said Chairman Bill Becher.

Managed premium volume at Vermont Insurance Management

Continued on next page

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Vermont managers

Continued from previous page
Inc. in Montpelier was flat in 1991, rising to $47.4 million from $47.2 million. It did add five new captives, including two licensed at the end of the year, to bring its total to 21.

"We saw a flurry of activity in the last quarter," said Edward Meehan, VIM's executive vp. "Employers fear the hard market and they want to prepare now and work on setting up a captive rather than wait until there is a crisis. They want a captive to be up and running when the underwriting cycle turns."

VIM picked up two of the three new risk retention groups licensed last year in Vermont. VIM now manages seven risk retention groups, more than any other manager in the state.

"Risk retention groups are our bread and butter. They are a major source of revenue for us, and clients know we will be extra aggressive in seeing that they succeed," said Jon Harkavy, vp and general counsel at VIM in Arlington, Va.

Insurance agents are more likely to bring a potential risk retention group to VIM than a broker-owned manager because VIM cannot try to sell other types of insurance to the agents' clients, Mr. Harkavy said.

In anticipation of future growth, VIM will soon break ground on a new 6,000-square-foot office building near the Montpelier airport. The firm now operates from a large house several miles from downtown.

Recent hires from the Vermont department have strengthened VIM, said VIM President H. Lincoln Miller. Last year, for example, VIM hired Mr. Meehan, Vermont's deputy insurance commissioner and the state's longtime top captive official. And this month, it brought on board Peter Raymond, the department's highly regarded chief captive examiner.

Employers 'want a captive to be up and running when' the market turns, says Mr. Meehan.

Managed premium volume at eighth-ranked Skandia International Risk Management climbed 17.8% to $24.5 million from $20.8 million. The number of captives it manages, however, stayed even at 11 as Skandia picked up one new captive, while one captive it managed was dissolved.

Like VIM, Skandia gets a big block of its business from risk retention groups: Four of the Skandia-managed captives are risk retention groups. In addition, most of its captives are owned by hospitals or health care centers.

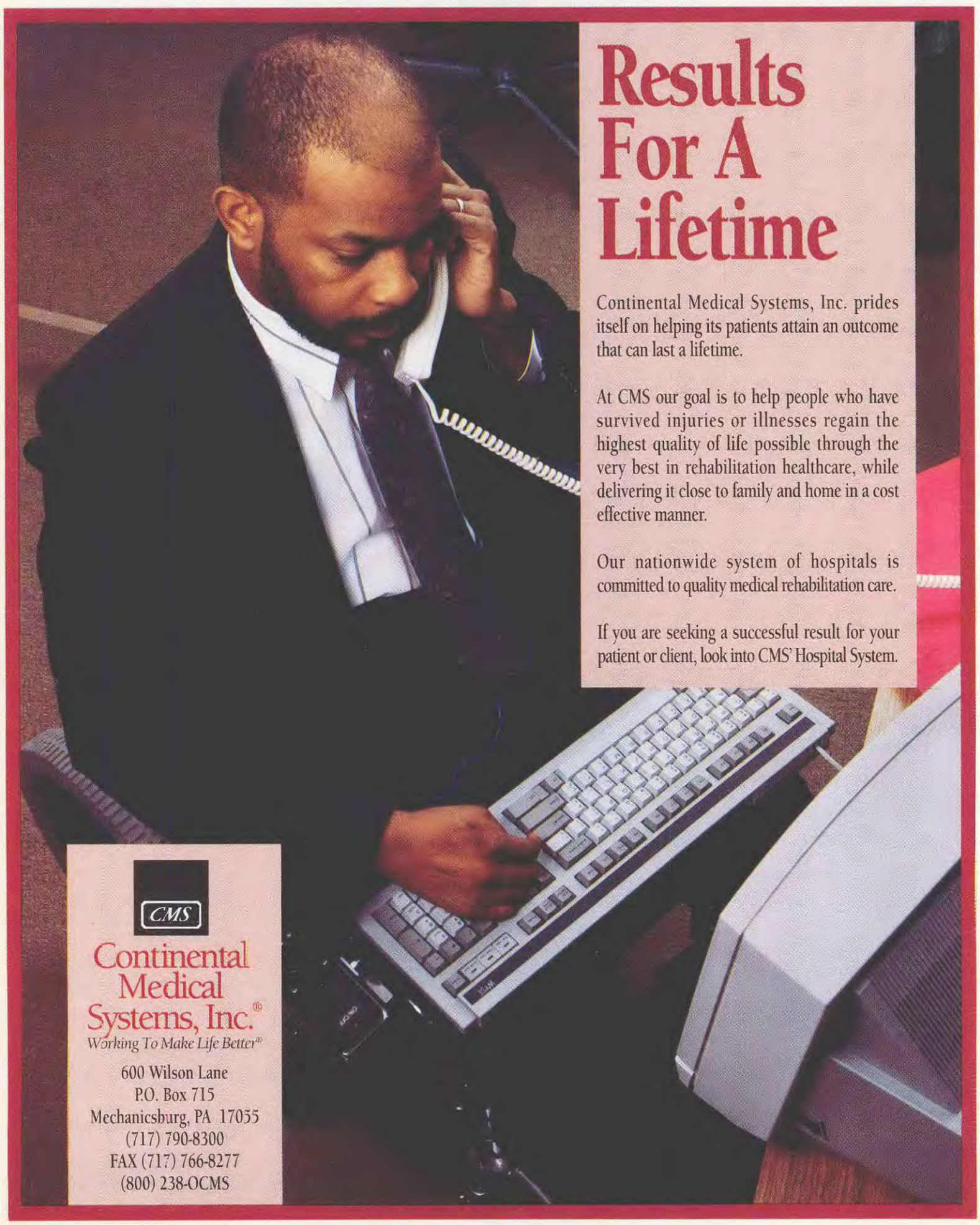
This year, Skandia may pick up an additional one or two captives, said President George Chaffee.

A more than 200% increase in managed premium volume in 1991 catapulted AIG Captive Management Inc. into the ranks of Vermont's 10 largest managers. That increase, largely due to business generated by a captive launched a couple of years ago by an American Telephone & Telegraph Co. unit, brought AIG's managed premium volume last year to $22.6 million from $7.1 million. AIG also picked up one new captive last year, bringing its total to three.

"We had a very good year and hope to add two or three new captives this year," said Jack Giesen, president of AIG Captive Management Inc. in South Burlington.

Yankee Captive Management Co. of South Burlington slipped one notch and now is the state's 10th-largest captive manager. Yankee's managed premium volume's rose 11.5% to $17.5 million in 1991 from $15.7 million, while the number of captives it manages held steady at two.

Other companies with offices in Vermont that manage captives include: Parker Risk Management Inc., a Burlington-based unit of Frank B. Hall & Co. Inc., with 1991 managed premium of $8.8 million, down from $10.2 million in 1990; Northern States Management Inc. of Waterbury, with a volume of $6.3 million, up from $4.9 million; Sedgwick James Management Inc. of Waterbury, with a volume of $5.8 million, up from $5.7 million; and Green Mountain Captive Management Co. of Barre, with a volume of $4 million, up from $2.6 million. ■



Vermont to withhold more data

MONTPELIER, Vt.—The Vermont Department of Banking, Insurance and Securities is once again cutting back on the financial information it will disclose about captives.

Beginning with the 1991 underwriting year, the department only will release financial information—like gross written premiums, net premiums and net income—for group captives, including risk retention groups.

The department had released 1990 financial information for single-parent captives that wrote unrelated business.

The restriction is the second in recent years.

While the department originally disclosed financial information for all captives unless a captive specifically requested the information remain confidential, the department several years ago stopped providing information about single-parent captives that wrote only related business. Some owners had complained that disclosure of net income and other financial information could give competitors an unfair advantage.

While restricting information about individual captives, the department still will disclose aggregate data on the amount of business written by Vermont captives.

In 1991, the 48 group captives—for which individual information is available—wrote $272 million in gross premiums. The state's 159 single-parent captives wrote $1.35 billion in gross premiums.

—By Jerry Geisel

Vermont captive law sets varying capital standards

MONTPELIER, Vt.—Requirements for captives under Vermont's Special Insurer Act of 1981 include:

• Minimum capitalization requirements of $250,000 for single-parent captives, $500,000 for industrial insureds and $750,000 for association captives.

The requirements can be met with approved letters of credit.

• A multitier tax structure for direct and reinsurance premiums.

The first $20 million of direct written premiums are taxed at 0.7%. That rate declines to 0.5% for direct premiums between $20 million and $40 million.

The tax on direct premiums between $40 million and $60 million is 0.3%, while the tax on premiums over $60 million is 0.1%

For reinsurance, the tax is 0.25% on the first $20 million of reinsurance premiums assumed, 0.2% on premiums between $20 million and $40 million, 0.15% on premiums between $40 million and $60 million, and 0.1% for premiums exceeding $60 million.

Captives are subject to a minimum annual premium tax of $5,000.

• Single-parent and industrial insured captives file simplified annual financial reports; trade association captives use the National Assn. of Insurance Commissioners' convention blank.

• Captives can directly write all types of property/casualty insurance, except primary workers compensation coverage. However, primary workers comp coverage can be reinsured by a captive, while excess workers compensation can be written directly or reinsured.

• A captive's financial records must be kept in the state, and a captive's board of directors must hold an annual meeting in Vermont.

• A $200 initial application fee and a $300 annual license fee.

In addition, a prospective captive must have its actuarial assumptions reviewed by one of five actuarial/risk management consulting firms selected by the department. The fee for this review is $1,200.

For more information, contact Leonard D. Crouse, Vermont Department of Banking, Insurance and Securities, 120 State St., Montpelier, Vt. 05602; 802-828-3301. ■

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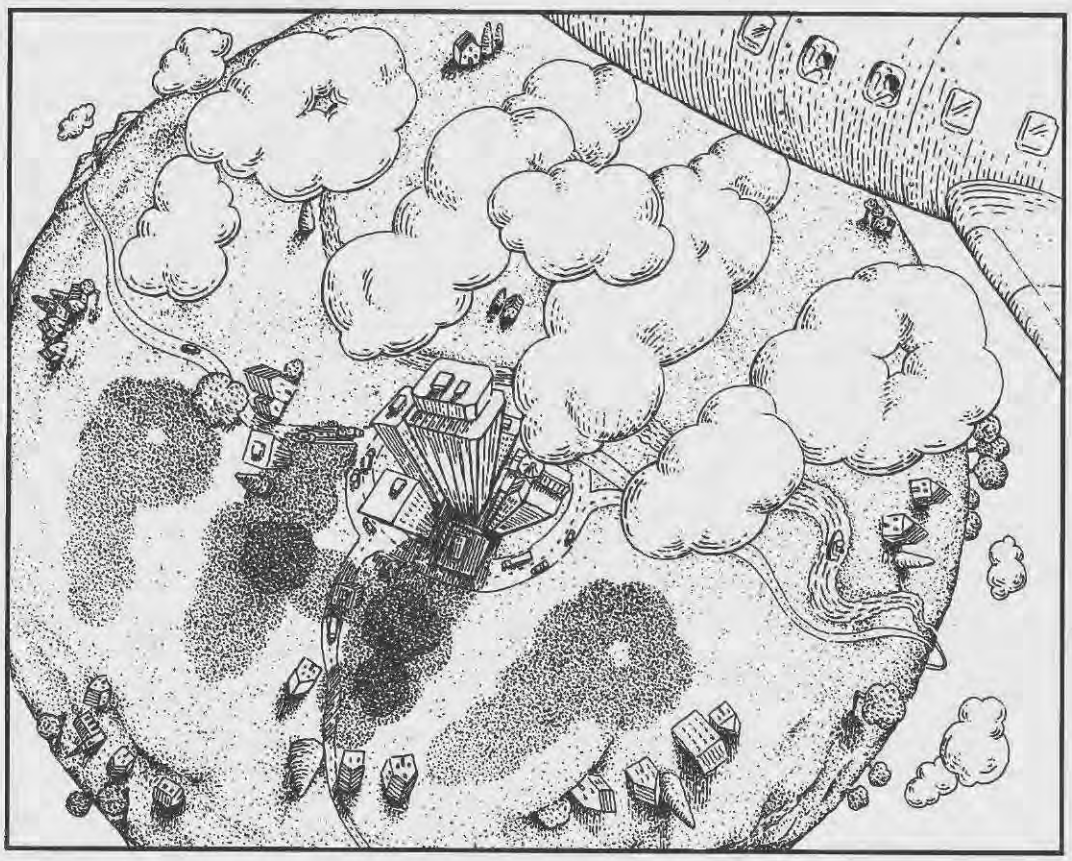

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Spotlight report

Flexibility supports Hawaii's attraction as captive domicile

Newcomers lured from other domiciles

By LOUISE KERTESZ

HONOLULU—Hawaii's growing reputation as a captive domicile with competent, flexible regulation and a comprehensive infrastructure continues to attract newcomers, even some from other domiciles.

The state was home to 21 captives at year-end 1991, compared with 14 in 1990.

Among the seven new captives formed last year is what is believed to be the first captive formed in a U.S. domicile by a foreign corporation to insure non-U.S. exposures.

Hawaii-domiciled captives wrote $42 million in direct premiums last year, almost doubling the $22.7 million in 1990 premiums, according to an estimate by the state Insurance Division.

Three more captives have been licensed this year.

Hawaii also continues to attract more captive managers.

A new manager has set up operations this year in Hawaii and is overseeing the licensing of a new captive that will replace one being run off in the Cayman Islands.

Another new Hawaii captive manager is operating from California, bringing to nine the number of licensed Hawaii managers.

Hawaii captive managers are busy promoting the domicile. Last October, the managers formed a captive council to assist the Insurance Division in marketing the state's captive industry.

Hawaii's new insurance commissioner, Linda Tayakama, has declared she will continue former Commissioner Robin Campaniano's commitment to captive development (*BI*, Feb. 24).

Large corporations may become more interested in the possibility of forming a Hawaii captive to write both workers compensation and group health care coverage, since the state's captive law allows captives to write both coverages, managers say.

"The state of Hawaii is very keen to do this," said Ward Ching, a senior consultant in the Irvine, Calif., office of Tillinghast, the risk management consulting division of Towers, Perrin, Forster & Crosby Inc.

"There's a lot of activity" on the captive scene in Hawaii, said John Middleton, vp and treasurer of Pacific Captive Management Inc. in Honolulu, the new captive manager overseeing the licensing of a captive for a large U.S.-based health care corporation that is closing its Cayman captive. The new captive will write workers comp coverage.

Three of the state's new captives—and the captive awaiting its license—were formed by parents in the health care field.

"Hawaii has, in our eyes, a greater long-term future than any comparable offshore domicile, especially for anyone in a regulated industry such as the health care industry," Mr. Middleton said.

"And, we find that the regulators in Hawaii are very receptive and businesslike and apply a good deal of stern regulation together with a good helping of common sense, which is very refreshing to many people in this industry," he said.

The domicile's other new captive manager is IAS Insurance Management Inc. of Anaheim, Calif. Its first client is CEP Mutual Risk Retention Group Inc., which was licensed in Hawaii early this year to provide medical malpractice coverage to a group of emergency room physicians in California.

The risk retention group, capitalized at $500,000, funds the deductible for medical malpractice coverage written by physician-owned Norcal Mutual Insurance Co., explains Donn McVeigh, managing director of Creative Risk Concepts International in Oakland, Calif., which helped form the captive.

San Francisco-based Norcal provides limits of $1 million per claim/aggregate. Norcal's deductibles can be as high as $125,000 per claim.

CEP is expected to write $700,000 in premium this year.

One reason the physicians chose Hawaii as the domicile for their risk retention group is that the state does not require a local captive manager.

The physicians formed the captive even though the medical malpractice insurance market in California is "very soft" because a captive should be formed "before the market turns," Mr. McVeigh said.

Two other new Hawaii captives—one formed this year and the other in 1991—with parents in the health care field are managed by Johnson & Higgins Services Inc. in Honolulu.

The health care corporations formed captives because "the commercial market has not been responsive to the needs of hospitals, and premiums may not have reflected the good experience of insureds as they should have," according to Craig Watanabe, assistant vp and J&H captive manager in Honolulu.

Nenelani Insurance Services Co. was formed this year by Epic Health Care Group of Dallas, an employee-owned company that operates hospitals and elder care facilities in Southern California and several southern states. Nenelani writes hospital professional liability and general liability coverages.

Epic formed the captive because, "as an employee-owned company, they're aggressively trying to maintain their bottom line," Mr. Watanabe said.

J&H also manages Sutter Insurance Services Corp., formed in 1991 by Sacramento-based Sutter Health, a non-profit corporation that owns and manages hospitals, principally in California, Mr. Watanabe said. The captive writes hospital professional liability and comprehensive general liability coverages.

Another captive under J&H's management was formed this year. Colonial National Mortgage Insurance Risk Retention Group Inc. was formed by a group of equity mortgage insurance brokers based in Eureka, Calif., to provide professional liability coverage, Mr. Watanabe said.

Equity mortgage brokers find investors to fund equity loans and guarantee the investors a stipulated return. The captive would cover the broker's obligation in case a homeowner defaults on a loan, Mr. Watanabe said.

Mr. Watanabe singled out Colonial, along with Nissan Motor Casualty Insurance Corp., as a new direction in which captives are moving. Nissan Motor Casualty, a captive formed last year by a unit of Nissan Motor Corp. of Japan to write extended automobile warranties, is managed by Becher & Carlson Risk Management Inc. of Honolulu.

J&H manages most of the captives on the island, with seven captives under management at year-end 1991 and nine under management at press time.

Captives under J&H management in 1991 wrote $16 million in gross premium volume, up from $10 million in 1990, Mr. Watanabe said.

Other J&H captives in Hawaii that expanded last year are:

- CAP Insurance Co., owned by Pacific Marine & Supply Co. Ltd., a marine repair and asbestos abatement firm in Honolulu. The captive, which originally wrote surety coverage, now also writes state and federal workers comp coverages.
- PacTel Reinsurance Co., owned by Pacific Telesis Group of San Francisco. It writes workers comp, auto and general liability coverage. Last year, it also began writing a layer of PacTel's property catastrophe program, Mr. Watanabe said.
- Bancorp Hawaii Insurance Services Ltd., owned by Bancorp Hawaii Inc., the holding company for Bank of Hawaii. The captive writes bankers professional liability insurance and recently received approval to write workers comp risks.

J&H's other captives are:

- GTE Hawaiian Tel Insurance Co., owned by Hawaiian Telephone Co. The captive writes auto liability, general liability and workers comp coverages. GTE also is considering insuring employee benefit coverages through its captive, Mr. Watanabe said.
- CM Insurance Co., Inc., owned by CM Holding Co., a Hawaiian company that operates tour and school buses. The captive provides surety bonding and auto liability coverage.
- Surety Pacific Insurance Co., owned by O'Brien Corp., a San Francisco-based paint manufacturer. The captive writes workers comp, general liability and auto liability coverages.

Becher & Carlson took over the management of another captive in Hawaii last year, G.L. Insurance Corp. Its parent company, Marriott Corp., moved the captive from Bermuda, primarily because of Hawaii's low premium tax.

The captive writes workers comp and general liability coverages and has state approval for other coverages, said Becher & Carlson Vp Gregory Myers. Becher & Carlson's first captive in Hawaii, Nissan Motor Casualty, is now writing extended warranties on Nissan dealers' non-Nissan products virtually nationwide, he said.

Becher & Carlson reported that its captives wrote $18.6 million in gross premium volume in 1991, more than any other manager.

The firm opened a captive management office in Honolulu in 1991, managed by Vp Wanda L. Jong.

Marsh & McLennan Insurance Management Services named a resident captive manager in Honolulu

Continued on next page

Hawaii captive managers

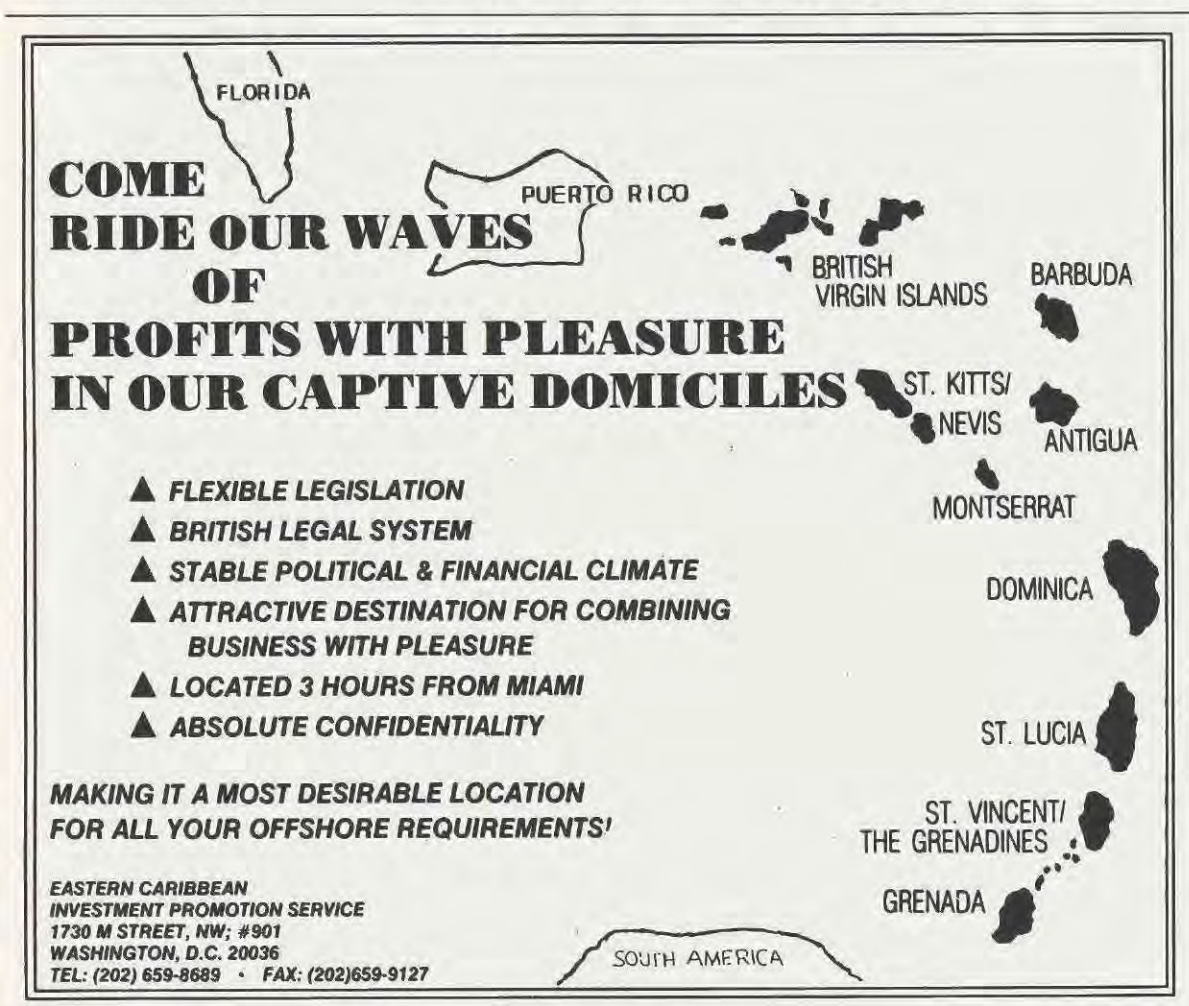
Premium volume in millions of dollars

Manager / Parent	Premium Volume 1991	1990	Captives 1991	1990	Staff 1991	1990
Becher & Carlson Risk Management Inc. Becher & Carlson	18-6	0	2	0	1	0
Johnson & Higgins Services Inc. Johnson & Higgins	16	10	7	6	3	2
Sedgwick James Management Co. Inc. Sedgwick James Inc.	13-2	8-2	4[1]	4[1]	3	4
Jardine Risk Management Co. Inc. Jardine Matheson Holdings Ltd.	NA	NA	2	1	2	2
M&M Insurance Management Service Inc. Marsh & McLennan Cos.	NA	NA	2	0	1	0
Hawaii Captive Insurance Management Inc.	NA	1-8	2	-2	2	2
A/G Captive Management Co. Inc. A/G Risk Management Co. Inc.	0-2	0.3[2]	1	0	1	0

[1] One inactive [2] 14-month period NA - not available

Source: *BI* survey

GRAPHIC BY JOHN SMITHER



Continued from previous page
last year, Peter J. Lowe.

M&M's second captive under management, Teleco Insurance Inc., is believed to be the first U.S.-based captive formed by a foreign company to write non-U.S. risks. Teleco is owned by Telecom Corp. of New Zealand Ltd., New Zealand's telephone company (*BI*, Feb. 3). Teleco writes property and business interruption coverage for more than 15 Telecom subsidiaries in New Zealand and the Pacific Basin.

M&M also manages Pacific American Insurance Co., whose parent, Biocraft Laboratories Inc. of Fair Lawn, N.J., manufactures and distributes generic drugs. The captive writes general and product liability coverage.

Sedgwick James Management Co. of Waterbury, Vt., manages five captives on the island, one of which is inactive. The captives wrote $13.2 million in premium in 1991, up about 61% from $8.2 million in 1990.

College Liability Insurance Co. Ltd., a former association captive managed by Sedgwick, became a risk retention group in 1991. CLIC, which consists of seven colleges located in California, Oregon and Washington, writes educators liability and auto liability insurance.

CLIC converted to a risk retention group because of the difficulty it had obtaining a fronting insurer at a reasonable cost, said Darlene Helme, account manager at Sedgwick James of Oregon Inc. in Portland.

Hawaii approved CLIC's request to write coverages directly, contingent on approval from the states involved. But approval from those states hinged on high capital requirements, which would have required additional cash contributions from members. So CLIC decided to convert to a risk retention group, Ms. Helme explained.

Since risk retention groups are limited to writing liability coverages, "we would like to eventually convert back to being an association captive," she said.

Sedgwick also manages:

- California Hospitals Insurance Co. Inc., a risk retention group writing medical malpractice insurance for California Hospital Assn. members.
- K-M Insurance Co., which writes workers comp and general liability coverage for parent company Kelly Moore Paint Co. of San Francisco.
- MJR Insurance Co. Inc., which is managed in a cooperative arrangement with Hawaii Captive Insurance Management Inc. The captive, which writes surety bonds, is owned by MJR Corp., a Hawaiian company that distributes tourist merchandise, said Sherman Hee, an attorney who owns Hawaii Captive Insurance Management
- Western Dealers Insurance Co. Inc., an inactive association captive.

Hawaii Captive Insurance Management also manages Royal Hawaiian Insurance Co. Ltd., owned by Duty Free Shoppers Ltd. of Honolulu and San Francisco. It writes surety coverage.

Jardine Risk Management Inc. manages two captives on the island, including a captive taken over from Rollins Burdick Hunter of Hawaii Inc., which has closed. Those captive are:

- Entertainment Risk Management Insurance Co., which writes workers comp coverage for parent company DISC of Burbank, Calif. DISC supplies temporary production personnel and accounting services for the entertainment industry.
- Mid-Pacific Insurance Co. Inc., which writes general, auto and garagekeepers liability and surety coverages for parent company Robert's Hawaii of Honolulu. The firm operates a fleet of vehicles for the handicapped.

AIG Captive Management Co. Inc. in Burlington, Vt., manages The Water, Wastewater & Process Equipment Manufacturer Insurance Co. Ltd., an association captive formed by the Water & Wastewater Equipment Manufacturers Assn. and the Process Equipment Manufacturers Assn. It writes general liability, product liability and pollution liability coverage.

The captive wrote $220,000 in premiums in 1991, compared with $310,000 in 1990. But, the 1990 figure is skewed because the first year's results covered a 14-month period. In fact, three new members were added in 1991. And, premium volume is projected to double in 1992, said Tobias Burcke, accounting manager at AIG Cap Management. ■

Hawaii captives formed under 1987 law

HONOLULU—Hawaii's captive law, which permits single-parent and association captives, became effective in July 1987.

Major amendments were passed in 1988 (*BI*, July 25, 1988), and minor modifications were made in 1990.

Hawaiian captives can write property/casualty insurance for only their parents. Captives can write marine and transportation; surety; title; workers compensation; and credit life and credit disability insurance relating to transactions between parents and affiliates and their directors, officers and employees.

Hawaii's law also permits a captive to write employee benefits-related coverage, opening the possibility for a company to write workers comp and group health insurance through a captive to form a "24-hour coverage" program.

Requirements include:

- A minimum of one board of directors meeting in Hawaii annually.
- Maintaining the captive's principal place of business in the state.
- Appointing a resident agent to represent the captive locally.
- Paying a non-refundable fee of $1,000 for the captive license application and a $300 annual registration fee.

Based on formal guidelines, the state Insurance Division determines capital requirements on an individual basis.

Premium tax rates are 0.25% for single-parent captives and 1% for association captives and risk retention groups.

Captives—including association captives and risk retention groups—must file financial statements conforming to generally accepted accounting principles, accompanied by actuarial opinions by loss reserve specialists.

For more information, contact Linda Chu Takayama, Insurance Commissioner, 250 South King St., P.O. Box 3614, Honolulu, Hawaii 96811-3614; 808-586-2790.

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For further information contact

Trevor G. Owens

Colorado captive promoters fight bad reputation

Strict rules among hurdles faced by oldest U.S. domicile

By JOANNE WOJCIK

DENVER—Colorado, which lost three captives last year, is trying to improve its image to boost captive development.

Observers say the state still appears to be suffering from the bad reputation it had before Gov. Roy Romer took office on a pro-business platform.

And a statewide hiring freeze that has not permitted the Insurance Department to replace some staffers lost through attrition has fueled the impression that it is not interested in new captives.

However, captive promoters hope that a new "approved adviser" system—under which a group of captive experts review applications on behalf of regulators—will encourage more captive formations.

And regulators say the state will relax its requirements that captive formations be market-driven and may seek to allow captives to write employee benefits coverages.

Still, Colorado had a total of 22 captives at year-end 1991, down from 25 a year earlier.

However, at least two applications are pending, says Deputy Insurance Commissioner Bruce N. Smith.

And several managers say they have had "exploratory discussions" with offshore captives considering setting up shop in Colorado.

Particularly interested in forming Colorado captives are companies based in Texas, said Michael Murphy, a principal at Denver-based captive manager RiskCap, formerly Risk Consultants Inc.

"There's a lot of activity in Texas, and Colorado's proximity to Texas gives it an advantage. Texans love to vacation here."

Three single-parent captives closed their doors last year: Arroyo Insurance Co., formed by Lear Siegler Inc. in 1976; Coachman Insurance Co., formed by IU International Corp. in 1975; and inactive Colbourne Insurance Co., formed by Coastal Corp. in 1987.

Many of the Colorado captives that remained open played "musical managers" last year.

For example, besides losing Arroyo, Parker Risk Management (Colorado) Inc. lost three captives to rivals, trimming its total roster to five from nine in 1990.

Among those that changed managers was the University of Colorado Insurance Co., which entered into a joint management agreement with Alternative Insurance Management Inc. of Englewood and Gwyn Shuel, who left Parker last year to work solely for the captive. The captive, formed in 1989 by the University of Colorado Board of Regents, wrote $6.4 million in premiums in 1991.

Johnson & Higgins of Colorado Inc. picked up Clifton Casualty Insurance Co. from Parker last year. The single-parent captive, owned by the Emory University Clinic, wrote $2.6 million in gross premiums during 1991.

And, RiskCap picked up Chesapeake Casualty Insurance Co. from Parker. The single-parent captive wrote $941,000 in premiums last year on behalf of Chesapeake Physicians P.A.

The competition among captive managers is likely to continue this year with the formation of yet another manager.

Sally Perske Arnold, a public entity pool manager with Sedgwick James Management Inc., formed Self-Insurance Specialists Inc. in Denver and plans to "aggressively pursue" government entity business.

Ms. Arnold has seven years of captive and self-insurance experience. She has managed pools for the Adams County (Colorado) Board of Cooperative Educational Services and the Northern Colorado School District. She also helped form a Bermuda captive for hardware stores while at Sedgwick James.

Sedgwick James, which has three captive management staffers in Denver, now does not manage any captives in the state.

Part of the reason for the troubled waters in the oldest U.S. captive domicile is that that many captive industry experts feel Colorado is not interested in attracting new facilities.

Colorado "has gone through some cycles as to how interested it was in promoting captives," said Gregory Myers, vp at Woodland Hills, Calif.-based Becher & Carlson Risk Management Inc., during Hawaii's recent captive conference (*BI*, Feb. 24).

Captive managers agree that the state has not consistently encouraged formations since it approved its captive law in 1972.

"When a risk manager compares Colorado with other domiciles, there appears to be more continuity of regulation in those other domiciles," said Ray Oberg, vp of M&M Insurance Management Services Inc. in Burlington, Vt. who oversees M&M's Colorado operation.

Even Colorado's Mr. Smith admitted that Colorado's hot-and-cold attitude may be hurting it. But he is hopeful that last year's premium tax reduction, on top of 1988 and 1989 amendments liberalizing the captive law, will improve the domicile's image (see story, page 105).

Despite the changes, Colorado's captive law is still more strict than either Hawaii's or Vermont's, noted Mr. Myers.

For example, Colorado requires that the minimum capital requirement of $300,000—which can be in the form of securities or letters of credit—be kept in a safe deposit box, called a custodial account, and that a key must be provided to regulators.

And, cooperation from the Insurance Department still "is not as good in Colorado as it is in some of the other domiciles," said Richard Johnson, president and chief executive officer of Alternative Insurance Management.

Continued on next page

Colorado-based captives

Captive Parent (manager)	Gross written premiums	Management fee
Havican Insurance Co. Holy Cross Shared Services Inc. (Parker)	$11,100,795	$68,000
MSJ Insurance Co. Sisters of Charity of Cincinnati (AIMS)	9,455,406	1,097,000
Neumann Insurance Co. Franciscan Health Systems (AIMS)	8,667,030	343,828
Manufacturers Indemnity & Insurance Co. of America R.D. Werner Co. Inc. (self-managed)	6,992,726	0
University of Colo. Insurance Corp. U. of Colo. Board of Regents (AIMS/self-managed)	6,448,331	0
Weld Insurance Co. Inc. Monfort of Colorado Inc. (self-managed)	3,131,117	0
Clifton Casualty Insurance Co. The Emory Clinic (J&H)	2,644,000	83,000
Farm Credit System Assn. Captive Insurance Co. Farm Credit System (J&H)	2,369,963	8,074
Western Pacific Mutual Insurance Co., A Risk Retention Group Residential Warranty Corp. (RiskCap)	1,576,350	114,818
Constance Insurance Co. Crawford Fitting Co. (RiskCap)	1,025,250	37,298
Chesapeake Casualty Insurance Co. Chesapeake Physicians P.A. (RiskCap)	941,000	131,700
North American Builders Indemnity Co. Pulte Home Management Corp. (RiskCap)	850,000	26,595
Mountainview Insurance Co. Gracoal Inc. (AIMS)	733,751	23,600
Interstate Indemnity Co. Morgan Drive-Away Inc. (Parker)	627,419	36,000
PanOl Insurance Co. U.S. Olympic Committee (M&M)	217,359	26,094
Midwestern Liability Insurance RRG Deffenbaugh Industries (Lockton)	100,000	57,500
Aurora Indemnity Inc. Bay Alarm Co. (AIMS)	0	4,050
Insurance Co. of Colorado Inc. Darling-Delaware Co. (M&M)	0	25,629
Lombardy Insurance Co. Clougherty Packing Co. (Parker)	0	17,500
Southern Surety Inc. Allwaste Inc. (M&M)	0	18,000
United Insurance Corp. Empire Gas Corp. (Parker)	0	18,000
Wescap Insurance Co. National Welding Supply Assn. (Parker)	0	40,000

Source: Colorado Division of Insurance Note: Net income figures were not provided by the Insurance Division

GRAPHIC BY BI/JOHN J. BOHORQUEZ

Colorado captive managers

Premium volume in millions of dollars

Manager Parent	Premium volume 1991	Premium volume 1990	Captives 1991	Captives 1990	Staff 1991	Staff 1990
Alternative Insurance Management Service Inc.	23.3	16.6	5	4	9	9
Parker Risk Management (Colorado) Ltd. Frank B. Hall & Co. Inc.	11.7	14.0	5	9	10	9
Johnson & Higgins of Colorado Inc. Johnson & Higgins	5.0	2.9	2	1	2	NA
RiskCap (formerly Risk Consultants)	4.4	2.4	4	3	11	12
M&M Insurance Management Services Inc. Marsh & McLennan Cos.	0.2	0.2	3	4	4[1]	4[1]
Lockton Risk Services of Colorado	0.1	NA	1	1	38	25
Self-Insurance Specialists Inc.	0	—	0	0	1	—
Sedgwick James Management Co. Inc. Sedgwick James Inc.	0	0	0	0	3	NA

[1] BI estimate N/A Not available

Source: *BI* survey

GRAPHIC BY JOHN J. BOHORQUEZ

Colorado amends captives' tax structure under 1972 law

DENVER—With the Captive Insurance Company Act of 1972, Colorado became the first state to authorize the formation of domestic captives.

Since then, the Legislature has amended the law three times: in 1987 to coordinate with the Federal Liability Risk Retention Act of 1986, in 1989 to make clarifications and last year to reduce the premium tax.

Under the new tax structure, for the 1992 tax year only, captives must pay a premium tax of 0.7% of the first $25 million in direct premiums written, plus 0.25% of the next $50 million and 0.1% of premiums exceeding $75 million.

In addition, captives that write reinsurance must pay a tax equal to 0.1% of assumed reinsurance premiums.

Previously, captives paid a flat 1% tax on all business.

The tax rate will drop in 1993 to 0.6% of the first $25 million in direct premiums written, plus 0.25% of the next $50 million and 0.1% of premiums exceeding $75 million. But, captives that write reinsurance will pay 0.2% of the first $20 million in reinsurance assumed plus 0.1% of each dollar thereafter.

The tax imposed on captives beginning in 1994 will be the greater of $5,000 or 0.5% of the first $25 million in direct premiums written, plus 0.25% of the next $50 million and 0.1% of premiums exceeding $75 million. Captives that write reinsurance will pay 0.25% of the first $20 million in assumed reinsurance premiums, plus 0.1% of each dollar thereafter.

Colorado law now includes these requirements for incorporating a captive:

- Home offices must be in Colorado, and all books, records and claims-handling documents must be maintained in the state.
- Captives must pay an initial application fee of $200 and an annual $300 fee.
- Captives may only insure the risks of their parents or affiliates.
- Single-parent and industrial insured captives must have minimum capital of $300,000 and minimum surplus of $200,000. Association captives must have minimum capital of $400,000 and minimum surplus of $350,000.

Industrial insured captives are defined as a collection of entities in which each member has a full-time risk manager, a minimum of 25 employees and minimum annual insurance premiums for all risks of $25,000.

- Risk retention groups may be formed as captives if they meet the definition of an industrial insured captive.
- Single-parent captives may make loans to their parents as long as they maintain minimum capital and surplus requirements.

However, to do so, parents must hold a Standard & Poor's debt rating of "AA," a Moody's long-term debt rating of "AA" or other equivalent ratings.

The total amount of all loans to the parent must not exceed 10% of the parent's total assets. Also, the parent or its subsidiaries must provide a clean and irrevocable letter of credit equal to the amount of the loan.

- Single-parent captives are exempt from filing policy forms and rates with the Division of Insurance. However, association captives still must file forms and rates with the department.
- The commissioner may request that a captive retain independent outside insurance examiners to supplement the Division of Insurance's evaluations in organizing a captive or for annual financial examinations of existing captives. All expenses related to the outside examiner must be paid by the captive.

For more information, contact Bruce N. Smith, Deputy Commissioner, Colorado Division of Insurance, 1560 Broadway, Suite 850, Denver, Colo. 80202; 303-894-7470, extension 310.

—By Joanne Wojcik

Colorado captives

Continued from previous page

While the Colorado Assn. of Captive Entities has tried to change the state's image by holding seminars and sponsoring a booth at the Risk & Insurance Management Society conference, "our insurance commissioner is not really promoting captive formations," Mr. Johnson said.

RiskCap's Mr. Murphy agreed: "The regulatory environment in Colorado is still conservative. It's not proactive, like Hawaii."

The state budget deficit has not made things any easier. The department has been under a hiring freeze since August 1991, severely restricting its manpower.

As one department staff member put it: "I'm down three people, and I have annual statements piled up to the ceiling."

The department will not send anyone to represent it at the CACE booth at this week's RIMS conference, Mr. Smith said.

But Mr. Smith hopes the creation of an approved adviser system will ease some of the burden on the department, which currently allocates only half of a staff person's time to captive regulation.

The system mirrors Hawaii's system and is loosely based on the system in Vermont, where approved advisers conduct only actuarial reviews.

"It was started in Hawaii because the department was small and didn't have captive experts on staff," said Mr. Murphy, who is one of five approved advisers to Hawaii's Insurance Department.

Colorado's Insurance Department has begun preparing a request for proposals to solicit bids from experts who would like to serve as approved advisers.

The department also is relaxing its requirements for the type of captives formed in the state.

For example, while Colorado traditionally has favored market-driven captives, it will consider entrepreneurial ventures not necessarily driven by a critical insurance need.

"We're always willing to look at a new idea," Mr. Smith said.

Captive promoters in Colorado also are hopeful that a move in the Legislature to expand the captive statute to allow captives to fund employee benefits will encourage growth. ■

The problems are traditional.
The solutions are not.

Spotlight report

Tennessee loses one captive; sees no new formations

Lack of formations attributed to poor marketing efforts

NASHVILLE, Tenn.—Tennessee lost ground as a captive insurance domicile last year, since no new captives were formed and a long inactive captive finally shut its doors.

The number of captives fell to 15, down from 16 in 1991. And, one of those captives is in its fourth year of running off its business.

Captive managers in Tennessee attribute the lack of growth to the failure of the Tennessee Insurance Department to actively market the state as a captive domicile and to the soft market.

"Basically, the reason why the Tennessee captive market is slow is an attitude of the Tennessee Insurance Department," said Ron O'Nan, senior vp-research and development for Willis Corroon Advanced Risk Management Services in Nashville, which manages two captives.

"Tennessee is particularly bad" at marketing itself to captives, "to the point that they discourage people," said Kenneth Smith, president of HUG Services Inc., which manages Hospital Underwriting Group, a captive insurer owned by a group of hospitals.

In addition, "the soft market is affecting the rapidity of captive development," according to Mr. O'Nan.

"Quite frankly, unless the market turns dramatically, I don't expect we will see any changes," agreed Bill Hosea, director of financial affairs for the Department of Commerce and Insurance, who predicted slow or stagnant growth for Tennessee in 1992.

Tennessee said goodbye to one long-inactive captive last year, when UHC Risk Retention Group Mutual Insurance Co., owned by a group of university hospitals, officially closed its doors. The captive, which was formed in 1987, never wrote any policies.

And Pinkerton's Insurance Co. Inc. continues to run off its book of business for a fourth consecutive year. Pinkerton's wrote workers compensation coverage for Pinkerton's Inc., a New York-based security and investigative services firm.

Tennessee's other captives are:

- American Psychiatric Assn. Risk Retention Group, owned by the American Psychiatric Assn.
- Anesthesiologists Professional Assurance Co., owned by a group of anesthesiologists.
- Century American Insurance Co., owned by Coastal Group Inc., of Durham, N.C.
- Clinic Mutual Insurance Co., owned by community clinics in California.
- CM Insurance Co. Inc., which is owned by Columbus McKinnon Corp. of Amherst, N.Y.
- DeRoyal Insurance Co., owned by DeRoyal Industries Inc., a medical supplies manufacturer.
- Distributors Insurance Co., owned by members of the Tennessee Valley Public Power Assn. of Chattanooga.
- Financial Services Insurance Co. of Tennessee, owned by Deutz-Allis Corp. of Milwaukee.
- NLC Mutual Insurance Co., owned by public entities.
- National Guardian Risk Retention Group Inc., owned by emergency room physicians.
- North American Indemnity Co., owned by C.W. Mathews Co. Inc., a Marietta, Ga.—based highway contractor.
- Parthenon Insurance Co., owned by Nashville-based Hospital Corp. of America.
- United Physicians Insurance Risk Retention Group, owned by the non-profit United Physicians Assn.

State law sets minimum gross premium volume for single-parent captives at $500,000. For group captives, the minimum is $1 million in gross premiums each year.

Regulatory fees are $5,000 for single-parent captives and $10,000 for groups captives. And Tennessee-domiciled risk retention groups with out-of-state members must pay a $10,000 regulatory fee under a 1987 law.

A 1989 law allows large unaffiliated companies in different states to form industrial insured captives. A member of such a captive must pay at least $25,000 in premiums, have a least 25 full-time employees and have a full-time risk manager.

The law also requires captives to maintain $1 million in capital and surplus.

For more information, contact Bill Hosea, Director of Financial Affairs, Department of Commerce and Insurance, 500 James Robertson Parkway, Nashville, Tenn. 37219; 615-741-1692.

—By Stacy Gordon

Illinois

SPRINGFIELD, Ill.—The Illinois captive industry hopes to get a boost this year from new promotional efforts.

And, the domicile has added a new captive, the second single-parent captive to be formed since Illinois passed its captive law in 1987, bringing its current total to eight.

Baker Insurance Co., formed by Borg-Warner Corp. of Chicago, was incorporated in July and licensed Jan. 1.

Along with single-parent captives, Illinois law permits licensing of association and industrial insured captives. Illinois has three association captives and three industrial captives, which are formed by firms in the same industry that are not bound by a formal group.

The Illinois Captive Insurance Assn. is revving up its promotional efforts this year, said Robert E. Stalker, the Chicago-based group's president.

Mr. Stalker said the association is searching for a full- or part-time director to guide the group. And, as part of its promotional efforts, the group is again sponsoring a booth at this week's Risk & Insurance Management Society conference.

"The efforts of the Illinois Cap-

Continued on next page

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Continued from previous page
tive Insurance Assn. and the Illinois Department of Insurance over the past three years have culminated in a very positive environment for a captive domicile," said Mr. Stalker, who is also vp-marketing for Crum & Forster Managers Corp. in Chicago.

"In 1992, our challenge will be to increase the visibility of our state regulators and to get their message regarding our domicile across to those organizations active in this arena," he said.

As an example of that publicity, Mr. Stalker pointed to discussion of the relative strengths of U.S. domiciles, including Illinois, at the recent 1992 Hawaii Captive Insurance Forum (*BI*, Feb. 24).

Illinois captives must have initial capitalization of $2 million, but as much as 80% of that requirement can be met through letters of credit, or as much as 67% through contractual obligations.

Captives are permitted to write any commercial property/casualty coverage except workers compensation, though they are permitted to reinsure workers comp risks. They are banned from writing personal lines coverages.

Pure captives have no investment restrictions. Industrial captives must follow the investment policy stated in their applications, and association captives are subject to the same restrictions as commercial insurers.

For information on forming a captive in Illinois, contact Arnold Dutcher, Deputy Director, or Etta Mae Credi, Assistant Deputy Director, Illinois Insurance Department; 320 W. Washington, Springfield, Ill., 62767; 217-782-4515.

—By Mark A. Hofmann

Georgia

ATLANTA—The Georgia Insurance Department wants it known that its version of Southern hospitality extends to captive insurers, even though no captives were formed in 1991.

According to Dan Champlin, the department's director of regulatory services, the state wants to become a major captive domicile. "Our plan is to initially recapture many of our Georgia businesses that have captives elsewhere and to bring them to Georgia."

The state also plans to "aggressively pursue captives" not associated with Georgia parents.

These efforts in the future could include exhibiting at the annual RIMS conference and other industry forums, Mr. Champlin said.

Georgia currently has two captives, only one of which was formed under the state's 1988 captive law. The self-managed Fuqua Risk Retention Group Captive Insurance Co. provides both property and casualty coverages for its parent, Atlanta-based Fuqua Industries Inc. The captive also writes workers compensation coverage for Fuqua's Georgia operations.

Georgia's other captive, States Self-Insurers Risk Retention Group Inc. of Norcross, Ga., was formed as a stock insurer in 1987. It writes excess liability coverage on a national basis for city and county governments.

Georgia's captive statute underwent no changes during the past year.

The 1988 law, an amendment to Chapter 40 of the state insurance code, allows the formation of single-parent and group captives. State regulators have the right to set certain standards, like minimum premium-to-surplus ratios and investment restrictions, on a case-by-case basis.

In addition, the law requires:

- Minimum capitalization of $500,000 with regulators retaining the right to require higher capitalization.
- A detailed business plan along with an application.
- Maintenance of loss reserves adequate to pay all reported and incurred-but-not-reported losses, loss adjustment and settlement expenses. The insurance commissioner reserves the right to require a captive to increase reserves if they are deemed inadequate.
- Payment of premium taxes at the same level as commercial insurers.
- A notice on each policy form informing policyholders that the captive is not subject to all insurance regulations.

Captives are permitted to write all commercial property/casualty, marine, transportation and surety risks as defined in the Georgia insurance code. Captives writing commercial auto or workers comp insurance must provide minimum limits required by law.

Captives cannot write personal lines, health, life or accident insurance.

For further information, contact Mr. Champlin at the Georgia Insurance Department, 704 West Tower No. 2, Martin Luther King Jr. Drive, Atlanta, Ga. 30324.

—By Mark A. Hofmann

Delaware

WILMINGTON, Del.—No new captives were formed in Delaware in 1991, although efforts to attract new companies continue.

Premium volume at the state's five captives also remained steady.

Nuclear Mutual Ltd.'s premium volume rose slightly to $81 million from $80.2 million in 1990, while Nuclear Electric Insurance Ltd. wrote $173 million in premiums in 1991, down from $175 million in 1990.

The two companies offer property coverage to nuclear utilities. Although they are incorporated in Bermuda, they are licensed as Delaware captives, said Jeff Palmer, treasurer of both captives.

Architects & Engineers Insurance Co., a Risk Retention Group, wrote $4 million in premiums in 1991, about the same as 1990, said C. Roy Vince, vp.

The Dover-based company reinsures professional liability coverage fronted by National Union Fire Insurance Co. of Pittsburgh, Pa., a unit of American International Group Inc.

Harbour Insurance Inc., a captive of Prison Health Services Inc. in Wilmington, provides medical malpractice and general liability for private health care providers at correctional facilities.

Don Brown, president of Harbour and senior vp of administration at Prison Health Services, would not release 1991 figures. The company wrote $1.1 million in premiums in 1990, according to a spokesman with the Delaware Insurance Department.

The Delaware Professional Insurance Co. of Wilmington provides medical malpractice insurance to more than 60 physicians, President Ben Corballis said. The St. Paul Cos. Inc. underwrites the policies and reinsures the first $100,000 of each risk with Delpro, Dr. Corballis said.

Total premium volume was $1 million in 1991, relatively unchanged from the previous year.

Meanwhile, the Delaware Development Office has been promoting

Continued on next page

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U.S. captives

Continued from previous page
the state as a captive domicile, both by sponsoring a seminar last May that attracted 100 executives and by staffing a booth at this week's RIMS conference.

"I have in the past six months tried to refocus the insurance commissioner's office" to promote captives, said Nina Keesling, financial services specialist with the development office.

Approximately 200,000 companies are incorporated in Delaware. It also is home to 4,000 investment holding companies, which are firms that receive a state tax deduction on income generated from certain assets, like stocks, bonds, patents and cash. These companies hold an estimated $200 billion in assets.

The state's Captive Act of 1984 was amended in 1988 to permit captives to be licensed in Delaware while still being incorporated in another domicile, and again in 1990 to replace a flat 1% tax on direct premiums with a regressive tax structure.

Single-owner captives must have $100,000 in capital, while association captives must have $400,000. The annual registration fee is $300.

For more information, contact Nina K. Keesling, Delaware Development Office, Carvel State Office Building, Third Floor, 820 N. French St., Wilmington, Del. 19801; 302-577-3156.

—By Sara Marley

Virginia

RICHMOND, Va.—Although Virginia's insurance code has permitted captives since 1980, no captive has ever been established in Virginia.

And no plans are under way to attract them, said Andy Delbridge, supervisor of company licenses at the state Insurance Bureau.

"The way our law is written, you almost have to have your corporate existence in Virginia" to set up a captive in the state, he said. Licensing requirements for captives are almost identical to those for commercial insurers.

Minimum capitalization and surplus for a single-parent and association captive is $4 million. Captives organized as mutual insurers must have $1.6 million in capital and surplus. Letters of credit are accepted in lieu of cash.

The tax rate on premiums paid to captives in Virginia is 2.25%.

There is no licensing fee, though captives must pay a $500 application fee and file a National Assn. of Insurance Commissioners information form.

For more information, contact Mr. Delbridge at the Bureau of Insurance, P.O. Box 1157, Richmond, Va. 23209; 804-786-3741.

—By Sara Marley

Tax law encourages B.C. captives

By JOANNE WOJCIK

VANCOUVER, B.C.—A new tax law that took effect in Canada last year could spur captive growth in British Columbia.

The new law governs how income taxes are calculated for the foreign subsidiaries of Canadian companies—including offshore captive insurers—but not captives formed in British Columbia.

Although the premiums paid by a Canadian parent company to an offshore captive are tax deductible, they are treated as "foreign accrued property income" of its foreign subsidiary.

Under the law, reserves can no longer be deducted from the premiums paid to single-parent offshore captives. Previously, loss reserves could be subtracted from premiums received to minimize FAPI tax.

The new tax law limits that relief to offshore captives insuring only risks not related to the parent or risks of the parent's foreign subsidiaries.

The only deduction remaining to single-parent offshore captives is for losses paid in a given year.

The tax law also will require all Canadian companies that own captives, regardless of their domicile, to report the present value of loss reserves to determine their tax status. Previously, Canadian parents did not have to report any information about their captives to regulatory authorities.

About a third of the 81 Canadian-owned captives worldwide will probably be affected by the tax law, said Bob Ensor, a vp in Toronto with Johnson & Higgins Willis Faber Ltd. J&H manages one captive in the domicile: B.C.T. Risk Management Corp., a single-parent entity owned by British Columbia Telephone Co. of Vancouver.

This gives a distinct advantage to the 14 captives owned by Canadian parents in British Columbia, according to Sherallyn Miller, manager of insurance in the province's Office of Financial Institutions in Vancouver.

Although the law was designed to recapture lost tax revenues, and not specifically to encourage domestic captive formations, "it should spur captive growth in British Columbia," she said.

In fact, one captive already has come ashore to avoid further Canadian tax liability, said William Morgan, managing director of Alexander Insurance Managers (Canada) Ltd. in Vancouver.

Baycrest Captive Insurance Co. was incorporated in British Columbia in February to write the property and liability risks of its parent, Toronto-based Hudson's Bay Co. The parent is running off the business of its Bermuda captive, Baycrest Insurance Co. Ltd.

Hudson's Bay "viewed the tax law change as a potential problem as they might not be able to deduct their loss reserves," explained Mr. Morgan, who manages the captive.

Many other Canadian companies, though, do not appear to be interested. "We're not getting a flood of inquires," he said.

Still, Alexander Insurance Managers, as the domicile's largest manager with seven captives under management, receives an average of one inquiry per month from companies considering forming captives in British Columbia, according to Mr. Morgan.

And J&H's Mr. Ensor points out that "people are just becoming aware" of the tax law change.

And in another move, this one unrelated to the tax law, Alexander Insurance Managers also helped form Mazda Casualty Co. Ltd. in British Columbia last year. The captive writes extended warranty coverage for the Canadian distribution operation of Mazda Motor Corp. of Japan.

Some local captive managers say the new tax rules might make the country's federal and provincial tax requirements seem less onerous for some captive owners.

If a captive is writing Canadian business, it will "pay taxes no matter where it's located—Bermuda, Barbados or British Columbia," pointed out Alexander's Mr. Morgan. "It's just simpler setting up in British Columbia."

Most other Canadian provinces, though, still treat British Columbia captives as non-admitted or unlicensed insurers, often requiring fronting arrangements that can cost as much as 7% of premiums.

The net income of British Columbia captives also is subject to both provincial and federal income taxes, which can total up to 45%.

And, unlike many U.S. domiciles where premium taxes for captives are lower than for commercial insurers, British Columbia captives pay premium tax rates as high as 3%.

Still, Mr. Morgan and others hope to change some "misconceptions" about British Columbia.

"It's true that a British Columbia captive is only licensed in British Columbia," he said. "But that's better than an offshore program that isn't licensed anywhere in Canada."

As part of an effort to attract new business, managers, consultants, accountants, parent companies and other firms are organizing a "captive users group."

In addition, a promotional effort is planned for the Canadian Risk & Insurance Management Society conference this October, Mr. Morgan added. ■

B.C. law permits 3 kinds of captives

VANCOUVER, B.C.—British Columbia's Insurance (Captive Company) Act of 1987 permits the formation of three types of captive insurers.

Besides single-parent and association captives, the law allows "sophisticated insureds," which are captives owned by unrelated companies with insurance expertise and a sufficient joint premium base.

So far only one of British Columbia's 14 captives is a sophisticated insured: First Property & Casualty Corp., which is owned by Brascan Group of Toronto.

Of the rest, 10 are single-parent and three are association captives.

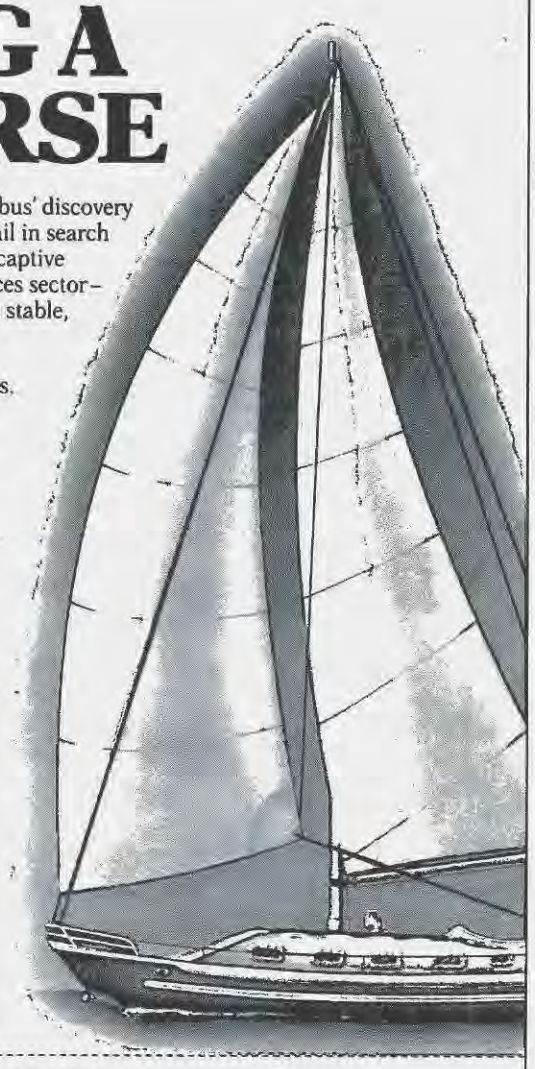
The law requires:

- Applicants to pay a non-refundable application fee of $500 Canadian ($418 at current exchange rates) and an initial registration fee of $2,500 Canadian ($2,088). Annual renewal fees are $2,500 Canadian.
- Minimum capitalization of $200,000 Canadian ($167,040) is required, but the superintendent of financial institutions can require a captive to contribute more.
- Captives may write property and liability insurance including product liability, directors and officers, errors and omissions, and marine coverages. They cannot write personal lines, life, health, accident or motor vehicle insurance.
- Annual reports are required comprising audited financial statements and an actuarial report prepared by an approved actuary. The superintendent of financial institutions can request additional information or more frequent reports.
- While no specific rules governing investments made by captives are imposed, investments must be reviewed with the audited financial statements.

For more information, contact Sherallyn Miller, Manager of Insurance, Office of the Superintendent of Financial Institutions, Suite 1000, 865 Hornby St., Vancouver, B.C. V6Z 2H4; 604-660-2947.

—By Joanne Wojcik

CHARTING A NEW COURSE



The year 1992 will mark the quincentennial of Columbus' discovery of the New World, when the celebrated explorer set sail in search of new routes to prosperity. Five hundred years later, captive insurers – and all those involved in the financial services sector – are searching for new paths to financial security, for a stable, profitable location to call home.

And like Columbus, they are discovering The Bahamas.

Launching an assertive campaign to attract new captives and encourage more investment into the islands, the Bahamas Government is reviewing and improving its insurance laws and has created new, far-reaching legislation that foster a versatile environment in which all financial activities can flourish.

Today's Bahamas offer complete underwriting, management and consulting services backed by the strongest, most stable and highly sophisticated banking and financial sector. All of which is located only 50 miles off the Florida coast enjoying the finest telecommunications and transportation infrastructure in the region with greater capabilities and a broader staff than other offshore centers.

Let the Bahamas chart a new course for all your captive and financial needs. For more information, contact Mr. Owen Bethel, Executive Director
The Bahamas Financial Services Secretariat
P.O. Box N-3017, Nassau, Bahamas
Tel: (809) 325-4666 FAX: (809) 322-8745 or
Tel: (212) 684-6601 FAX: (212) 725-4709.

Yes! I am interested in receiving additional information on The Bahamas

Name _____ Title _____
Company _____
Address _____
City/State/Zip _____
Phone _____ Fax _____

Please indicate specific sector of interest:
☐ Domestic Banking ☐ Private Banking
☐ Portfolio Management ☐ Trusts
☐ International Banking ☐ Mutual Funds
☐ Captive Insurance ☐ Merchant Banking
☐ Asset Protection Trust ☐ Reinsurance
☐ Company Registration and Management
☐ International Business Companies (IBC) Formation
☐ Other _____

FINANCIAL SERVICES SECRETARIAT · THE BAHAMAS ·

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Directory of captive management firms

A

AIG Captive Management Co. Inc.

1233 Shelburne Road, Suite 200, South Burlington, Vt. 05403; 802-658-9405; fax: 802-658-0112

Founded: 1988.
Parent company: American International Group Inc.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, investment management, association captive management services including specialized accounting services.
Occasional services: Manual claims processing, claims reserves analysis, loss forecasting, underwriting and ratemaking for captives, tax advice, legal advice, managing underwriting pools/facilities/association captives, loss control services (New York), onshore services for associations.
Staff: Three, two professionals. Professional designations held include MBAs.
Clients: Four active captives managed at year-end 1991; 25% with less than $1 million in premiums, 25% with $1 million to $2.9 million, 25% with $3 million to $9.9 million, 25% with $10 million to $19.9 million. No minimum size client.
Current business: Four active captives.
Compensation: Annual fee, $15,000 minimum; time and expense: professional, $135; clerical, $45.
1991 gross revenues: 100% from fees charged for captive management.
Principal officers: John P. Giesen Jr., president; Joseph C. Smetana, chairman; Martin Banker, senior vp/counsel; Michael Curio and Frank Neuhauser, senior vps.

AIM (Luxembourg) S.A.R.L.

BP 2243, L-1022 Luxembourg; 352-490073; fax: 352-490079

Founded: 1987.
Parent company: Alexander & Alexander Services Inc.
Principal officers: Thomas Malmholt, Phillip Stamp.
Subcontracts for captive management services with SINSER (Luxembourg) S.A.R.L.

Aachen Management Services Ltd.

14 Upper Pembroke St., Dublin 2, Ireland; 353-1-76-3184; fax: 353-1-76-0977

Founded: 1989.
Parent company: Aachen Reinsurance Co.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, tax advice, legal advice.
Staff: 10, eight professionals. Professional designations held include one CPA, one MBA.
Clients: Four active captives managed at year-end 1991; 25% with $10 million to $19.9 million in premiums, 75% with more than $20 million. $160 million in capital and surplus managed. No minimum size client.
Current business: Four active captives.
Compensation: Annual fee or commissions.
1991 gross revenues: 86% from fees charged for captive management and commissions charged for brokering insurance and/or reinsurance, 14% from other services including investment management.
Principal officers: Dr. Arno Morenz, chairman; Donald O. Callaghan, managing director; Manfred Oedingen, director; Tomas O. Dwyer, reinsurance officer; Kate Murphy, investment manager.

Abacus International Insurance Managers Ltd.

Harbour House, Box 261, Cockburn Town, Grand Turks, Turks & Caicos Islands; 808-946-1168; fax: 809-946-2612

Founded: 1991.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking for captives.
Occasional services: Computerized claims processing, investment management.
Staff: Four, three professionals. Professional designations held include two attorneys, one CIC, one CPIA.
Clients: Two active captives managed at year-end 1991; both with less than $1 million in premiums. No minimum size client.
Current business: Two active captives.
Compensation: Annual fee, $3,600 minimum; time and expense: professional, $100; clerical, $35.
1991 gross revenues: 100% from fees charged for captive management.
Principal officers: Jack W. Hoffman, president.

Aberdeen Insurance Managers

Suite 227D, Elizabeth Square, P.O. Box 1571, George Town, Grand Cayman, B.W.I.; 809-949-8820; fax: 809-949-8099

Founded: 1979.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, association captive management services including specialized accounting services.
Occasional services: Manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, investment management, onshore services for associations.
Staff: Six, three professionals. Professional designations held include one CPCU, one ARM, one attorney.
Clients: 12 active captives managed at year-end 1991; 92% with less than $1 million in premiums, 8% with $3 million to $9.9 million. One inactive captive managed. Captives managed write $15 million in premiums. $7 million in capital and surplus managed. Minimum size client: $500,000.
Current business: 12 active captives, one inactive captive.
Affiliate: Aberdeen Insurance Managers (Turks & Caicos) Ltd.
Compensation: Annual fee, $15,000 minimum; time and expense: professional, $100 to $150; clerical, $25 to $50.
1991 gross revenues: 95% from fees charged for captive management, 3% from commissions charged for brokering insurance and/or reinsurance, 2% from other services.
Principal officers: Ross Blumentritt, director/secretary; Lyne B. Humphries, director/general counsel; Bruce Blumentritt, director; Desmond Campbell, resident manager.

Aberdeen Insurance Managers (Turks & Caicos) Ltd.

PMB 14, Grand Turk, Turks & Caicos Islands, B.W.I.; 809-946-2670; fax: 809-946-2856

Founded: 1989.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing.
Occasional services: Computerized claims processing, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives.
Staff: Five, three professionals. Professional designations held include one CPA, one CPCU, one ARM.
Clients: 10 active captives managed at year-end 1991; 70% with less than $1 million in premiums, 10% with $1 million to $2.9 million, 20% with $3 million to $9.9 million. Captives managed write $9.5 million in premiums. $51 million in capital and surplus managed. No minimum size client.
Current business: 10 active captives.
Compensation: Annual fee, $6,000 minimum; commissions; time and expense: professional, $100; clerical, $35.
1991 gross revenues: 95% from fees charged for captive management, 5% from commissions charged for brokering insurance and/or reinsurance.
Principal officers: Ross Blumentritt and Hans Frederick Christoph Blumentritt, directors; Tricia Smith, assistant manager.

Alexander Insurance Managers

84 Pine St., 600 Financial Plaza, P.O. Box 5010, Burlington, Vt. 05402; 802-860-0444; fax: 802-860-0440

Parent company: Alexander & Alexander Services Inc.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives.
Occasional services: Investment management.
Staff: Seven, five professionals. Professional designations held include three CPAs, one CPCU, one ARM, three MBAs.
Clients: 32 active captives managed at year-end 1991; 25% with less than $1 million in premiums, 48% with $1 million to $2.9 million, 12% with $3 million to $9.9 million, 9% with $10 million to $19.9 million, 6% with more than $20 million. One inactive captive managed. Captives managed write $142 million on premiums. No minimum size client.
Current business: 32 active captives, one inactive captive.
Compensation: Time and expense.
1991 gross revenues: 100% from fees charged for captive management.
Principal officers: W. Scott Frazier, executive director-North America captive operations.

Alexander Insurance Managers (Barbados) Ltd.

P.O. Box 1304, Price Waterhouse Centre, Collymore Rock, St. Michael, Barbados; 809-436-4895; fax: 809-436-9016

Founded: 1984.
Parent company: Alexander & Alexander Services Inc.
Frequent services: Government reporting, accounting, computerized accounting, computerized claims processing, investment management.
Occasional services: Captive feasibility studies, captive formation, manual claims processing, managing underwriting pools/facilities/association captives, association captive management services including specialized accounting services and onshore services for associations.
Staff: Eight, two professionals. Professional designations held include one CPA.
Clients: 17 active captives managed at year-end 1991; 28.6% with less than $1 million in premiums, 35.7% with $1 million to $2.9 million, 21.5% with $3 million to $9.9 million, 7.1% with $10 million to $19.9 million, 7.1% with more than $20 million. Three inactive captives managed. Captives managed write $100 million in premiums. $75 million in capital and surplus managed. No minimum size client.
Current business: 16 active captives, three inactive captives.
1991 gross revenues: $500,000, 95% from fees charged for captive management, 5% from other services, including management of captive affiliates.
Principal officers: Ronald Jones, managing director.

Alexander Insurance Managers (Bermuda) Ltd.

Dorchester House, 7, Church Street, P.O. Box HM 2020, Hamilton, Bermuda; 809-295-0265; fax: 809-292-2754

Founded: 1965.
Parent company: Alexander & Alexander Services Inc.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, managing underwriting pools/facilities/association captives, association captive management services including specialized accounting services.
Staff: 64, 22 professionals. Professional designations held include 15 CPAs, two MBAs, five CIIs, two IBAs.
Clients: 89 active captives managed at year-end 1991; 57% with less than $1 million in premiums, 22% with $1 million to $2.9 million, 15% with $3 million to $9.9 million, 5% with $10 million to $19.9 million, 1% with more than $20 million. Captives managed write $221 million in premiums. $399 million in capital and surplus managed.
Current business: 89 active captives.
Compensation: Annual fee, time and expense.
1991 gross revenues: 100% from fees charged for captive management.
Principal officers: Alan C. Cossar, executive director; Andrew McComb, managing director; Donald Wiseman, senior vp; Gail Fox and Edward Correia, vps.

Alexander Insurance Managers (Canada) Ltd.

900 Howe St., Box 3228, Vancouver, British Columbia, Canada; 604-683-2561; fax: 604-682-4026

Founded: 1988.
Parent company: Alexander & Alexander Services Inc.
Frequent services: Captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis.
Staff: Two, both professionals. Professional designations held include two CAs, one CRM.
Clients: Five active captives managed at year-end 1991; 20% with less than $1 million in premiums, 40% with $1 million to $2.9 million, 40% with $3 million to $9.9 million. One inactive captive managed. Captives managed write $11.7 million in premiums. $11.2 million in capital and surplus managed. No minimum size client.
Current business: Five active captives, one inactive captive.
1991 gross revenues: $142,000, 100% from fees charged for captive management.
Principal officers: William J. Morgan, managing director.

Alexander Insurance Managers (Cayman) Ltd.

c/o Midland Trust Corp. (Cayman) Ltd., P.O. Box 1109, Grand Cayman, B.W.I.; 809-949-7755; fax: 809-949-7634

Founded: 1981.
Parent company: Alexander & Alexander Services Inc.
Occasional services: Captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, investment management.
Principal officers: Phillip Stamp, chief executive officer.
Subcontracts for captive management services with Midland Bank Trust Corp. (Cayman) Ltd.

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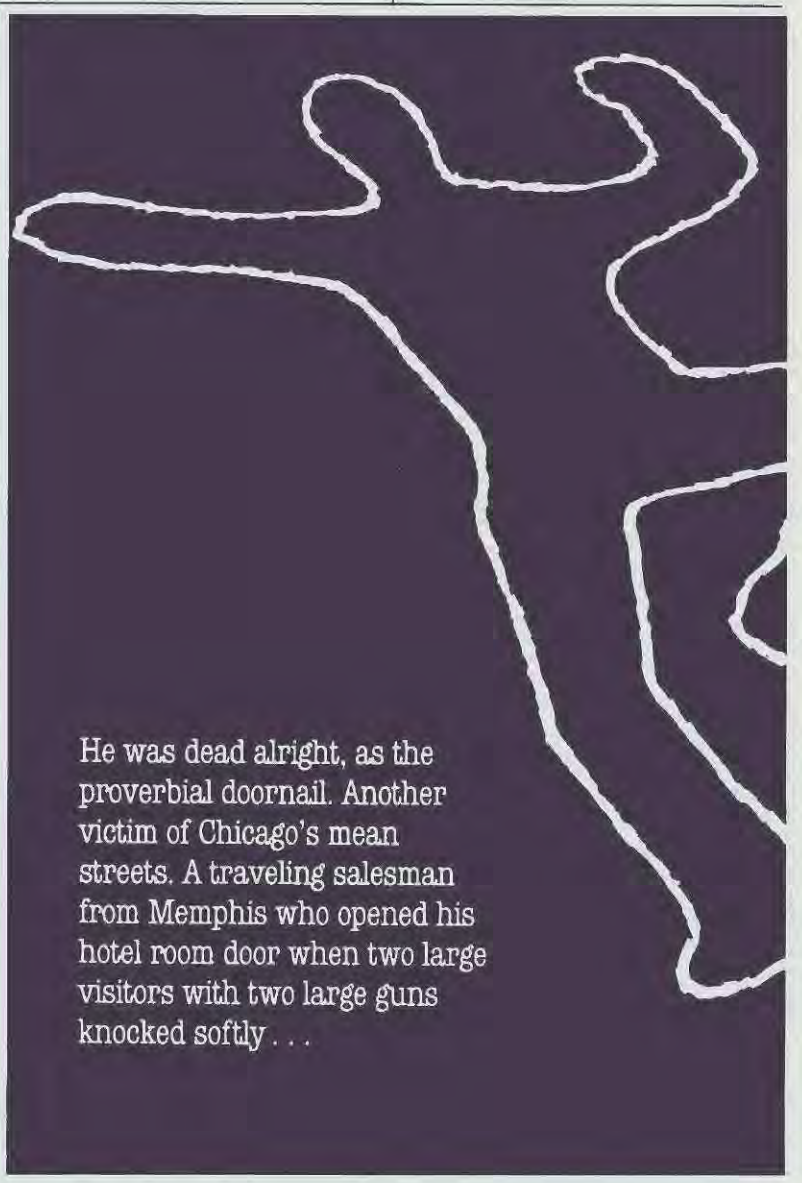

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Alexander Insurance Managers (Dublin) Ltd.

Haddington Court, Haddington Road, Dublin 4, Ireland;
353-1-605888;
fax: 353-1-605831

Founded: 1989.
Parent company: Alexander & Alexander Services Inc.
Frequent services: Captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, investment management, tax advice, legal advice.
Occasional services: Captive feasibility studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives.
Staff: Three, two professionals. Professional designations held include one ACA.
Clients: Two active captives managed at year-end 1991; 50% with less than $1 million in premiums, 50% with $1 million to $2.9 million. Captives managed write $1.4 million in premiums. $6.25 million in capital and surplus managed. No minimum size client.
Current business: Two active captives.
Principal officers: Eamon O'Brien, managing director.

Alexander Insurance Managers (Guernsey) Ltd.

Suite 1, 13/15 Victoria Road, St. Peter Port, Guernsey, Channel Islands; 481-728-180;
fax: 481-710-551

Founded: 1977.
Parent company: Alexander & Alexander Services Inc.
Frequent services: Captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives.
Occasional services: Captive feasibility studies.
Staff: 10, two professionals. Professional designations held include two MBAs, one CII, one CIB.
Clients: 17 active captives managed at year-end 1991; 23% with $1 million to $2.9 million in premiums, 65% with $3 million to $9.9 million, 6% with $10 million to $19.9 million, 6% with more than $20 million. Captives managed write $115 million in premiums.
Current business: 18 active captives, four inactive captives.
Principal officers: B.J. Seymour, managing director; C.R. James and R.J. Gale, assistant directors.

Alexander Insurance Managers (Isle of Man) Ltd.

Post Office Chambers, Regent Street, Douglas, Isle of Man;
624-673833; fax: 624-673242

Founded: 1985.
Parent company: Alexander & Alexander Services Inc.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, association captive management services including specialized accounting services.
Staff: 12, seven professionals. Professional designations held include two CPAs, one CPCU, one ARM.
Clients: 10 active captives managed at year-end 1991; 20% with less than $1 million in premiums, 10% with $1 million to $2.9 million, 40% with $3 million to $9.9 million, 20% with $10 million to $19.9 million, 10% with more than $20 million. Captives managed write $114.3 million in premiums. $134.5 million in capital and surplus managed. No minimum size client.
Current business: 10 active captives.
Principal officers: Geoffrey A. Hunt, managing director; John D. Evans and Duncan M. Donald, associate directors; Wendy Sayer, underwriting/claims manager.

Alexander Insurance Managers (Singapore) Pte. Ltd.

Fourth Floor, Capitol Building, 11, Stamford Road, Singapore 06172;
65-339-9233; fax: 65-338-9880

Founded: 1987.
Parent company: Alexander & Alexander Services Inc.
Frequent services: Captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, underwriting and ratemaking for captives.
Occasional services: Captive feasibility studies, manual claims processing, loss forecasting.
Staff: Three, one professional. Professional designations held include one MBA.
Clients: Three active captives managed at year-end 1991; 66% with $1 million to $2.9 million in premiums, 34% with $3 million to $9.9 million. Captives managed write $7 million in premiums. $8 million in capital and surplus managed. Minimum size client, $500,000.
Current business: Three active captives.
Compensation: Annual fee.
Principal officers: Lynn Lee Hoon Siang, managing director.

Allendale Management Co. Ltd.

P.O. Box HM 2062, Hamilton, Bermuda; 809-292-8637;
809-292-8637

Founded: 1980.
Parent company: Allendale Associates Inc.
Frequent services: Computerized accounting.
Occasional services: Captive feasibility studies, captive formation.
Subcontracts for captive management services with Skandia International Risk Management Ltd.

Alternative Insurance Management Services Inc.

6021 S. Syracuse Way, Suite 205, Englewood, Colo. 80111;
303-694-9360; fax: 303-694-9363

Founded: 1989.
Parent company: Novare Services Inc. and Franciscan Services Inc.
Frequent services: Captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, underwriting and ratemaking for captives, tax advice, legal advice, managing underwriting pools/facilities/association captives, loss control services (Cincinnati), association captive management including specialized accounting services and onshore services for associations, self-insurance trusts or pools.
Occasional services: Captive feasibility studies, claims reserves analysis, investment management.
Staff: Nine, five professionals. Professional designations held include two CPAs, one CPCU, one MBA, two attorneys.
Clients: Five active captives managed at year-end 1991; 40% with less than $1 million in premiums, 60% with $3 million to $9.9 million. Captives managed write $23.3 million in premiums. $57.8 million in capital and surplus managed. No minimum size client.
Current business: Five active captives.
Compensation: Annual fee; time and expense: professional, $90 to $120; clerical, $30 to $40.
1991 gross revenues: $245,000, 98% from fees charged for captive management, 2% from other services including a self-insurance trust.
Principal officers: Richard A. Johnson, president; Stanley T. Urban, secretary; Robert J. Halonen, treasurer; Ellen L. Barton, chairman; William H. Fischer, vice chairman.

ALTIS

Shand Morahan & Co. Inc.,
Evanston, Ill. 60201;
708-866-0872; fax: 708-866-0778

Founded: 1986.
Parent company: Shand Morahan & Co. Inc.
Frequent services: Government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, underwriting and ratemaking for captives.
Occasional services: Captive feasibility studies, captive formation.
Staff: 240, 180 professionals. Professional designations held include 18 CPAs, 11 CPCUs, two ARMs, 22 MBAs, one FCAS, 24 attorneys.
Clients: Two active captives managed at year-end 1991; 50% with less than $1 million in premiums, 50% with $3 million to $9.9 million. Captives managed write $8 million in premiums. $19 million in capital and surplus managed. No minimum size client.
Current business: Two active captives.
Compensation: Annual fee, negotiable minimum fee; time and expense.
1991 gross revenues: $526,000, 100% from fees charged for captive management.
Principal officers: Joseph J. Prochaska Jr., chairman; Robert B. Linn, president; Robert H. Libby, secretary/treasurer.

American International Co. Ltd.

American International Building, 29 Richmond Road, Pembroke HM 08, Bermuda; 809-295-2121;
fax: 809-292-6735

Founded: 1947.
Parent company: American International Group Inc.
Frequent services: Government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, investment management, funding, fronting, guaranteed cash flow, risk management programs.
Occasional services: Captive feasibility studies, captive formation, manual claims processing, loss forecasting, underwriting and ratemaking for captives, tax advice, legal advice, loss control services (New York and Brussels), association captive management services including onshore services for associations.
Staff: 15, seven professionals, one FCMA, one CGA, one ACA, one FCII, three ACIIs.
Clients: 23 active captives managed at year-end 1991; 45.5% with less than $1 million in premiums, 22.7% with $1 million to $2.9 million, 13.6% with $3 million to $9.9 million, 13.6% with $10 million to $19.9 million, 4.6% with more than $20 million. Captives managed write $118.1 million in premiums. $140.1 million in capital and surplus managed.
Current business: 23 active captives.
Compensation: Annual fee, $25,000 minimum; time and expense: professional, $100; clerical, $50.
1991 gross revenues: $12.7 million, 6% from fees charged for captive management, 94% from other services including fronting and funding.
Principal officers: J.C.H. Johnson, president/chief executive officer; D.J. Higginbottom, senior vp/director-captive operations; J.R. Weale, vp-offshore management services; K.D. Bond, vp-financial services/accounting; P.J. Mullen, vp-client service and development.

American International Management Co. (Barbados) Ltd.

ALICO Building, Cheapside, Bridgetown, Barbados, W.I.;
809-436-4771; fax: 809-427-5809

Founded: 1985.
Parent company: American International Group Inc.
Frequent services: Government reporting, accounting, computerized accounting, investment management, funding, risk management programs.
Occasional services: Captive feasibility studies, captive formation, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, underwriting and ratemaking for captives, tax advice, legal advice, loss control services (New York and Brussels).
Staff: Three, one professional. Professional designations include one FCCA.
Clients: Three active captives managed at year-end 1991; 33% with $3 million to $9.9 million in premiums, 67% with more than $20 million. No minimum size client.
Current business: Three active captives.
Compensation: Annual fee, $25,000 minimum; time and expense: professional, $100; clerical: $50.
1991 gross revenues: 100% from

Continued on next page

How to use directory

The annual *Business Insurance* captive manager directory lists companies that provide management and other services to captive insurance companies.

The directory is published as an editorial service and there is no charge to be included; however, companies listed have completed a *BI* questionnaire.

Listings begin with the company name, address and telephone and fax numbers, followed by year **founded** and **parent company** (if any). Next, **frequent** and **occasional services** provided are detailed. If loss control services are offered, principal location is noted.

Staff and **clients** at year-end 1991 are included, as well as total gross premium volume of captives managed in 1991 and their capital and surplus. Minimum size client accepted is given by premium volume. **Current business** includes captives managed as of March 1991.

Subsidiaries and **affiliates** are those involved in captive management in a different domicile, for which a separate listing is usually given.

Under **compensation**, which details how the company bills for its services, commissions refers to commissions for reinsurance brokered. **1991 gross revenues** are included when reported by the company. Percent of 1991 gross revenues generated from fees charged for captive management, commissions charged for insurance and/or reinsurance brokered, and other services the company may provide are given next.

Names and titles of the company's **principal officers** complete the listings.

Although every effort is made to report complete and accurate information, *Business Insurance* is unable to verify all information received.

The full professional designations, for those abbreviated under the staff heading, follow: **AAI** is Accredited Adviser in Insurance; **ACA** is Associate, Institute of Chartered Accountants; **ACCA** is Chartered Associate of Certified Accountants; **ACII** is Associate, Chartered Insurance Institute; **ACIS** is Associate, Chartered Institute of Secretaries; **AIB** is Associate, Institute of Bankers; **AIIC** is Associate, Insurance Institute of Canada; **ARe** is Associate in Reinsurance; **ARM** is Associate in Risk Management; **CA** is Chartered Accountant; **CFA** is Chartered Financial Accountant; **CFE** is Certified Financial Examiner; **CE** is Chemical Engineer; **CGA** is Certified General Accountant; **CIB** is member, Chartered Insitute of Bankers; **CIC** is Certified Insurance Consultant; **CII** is member, Chartered Insurance Institute; **CIMA** is member, Chartered Institute of Management Accountants; **CLU** is Chartered Life Underwriter; **CPA** is Certified Public Accountant; **CPIA** is Certified Professional Insurance Agent; **CPCU** is Chartered Property/Casualty Underwriter; **CRM** is Canadian Risk Management; **CSP** is Certified Safety Professional; **FCA** is Fellow Certified Accountant; **FCAS** is Fellow, Casualty Actuarial Society; **FCCA** is Fellow, Institute of Certified & Corporate Accountants; **FCIA** is Fellow, Canadian Institute of Actuaries; **FCII** is Fellow, Chartered Insurance Institute; **FICA** is Fellow, Institute of Chartered Accounts (England & Wales); **FII** is Fellow of the Insurance Institute; **FIIC** is Fellow, College of Insurance (Canada); **FLMI** is Fellow of the Life, Management Institute; **IBA** is member, Insurance Brokers Assn. (Canada); **MAAA** is member, American Academy of Actuaries; **MBA** is Master of Business Administration; **PE** is Professional Engineer; **Ph.D.** is Doctor of Philosophy.

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Continued from previous page
fees charged for captive management.

Principal officers: Helen Roper, president/general manager; John R. Weale, vp; L.M. Murphy, director; D.J. Higginbottom, president.

American International Managers Ltd.

AIG House, Merrion Road, Ballsbridge, Dublin 4, Ireland; 353-1-2837788; fax: 353-1-2837820

Founded: 1989.
Parent company: American International Group Inc.
Frequent services: Government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, investment management, funding, risk management programs.
Occasional services: Captive feasibility studies, captive formation, manual claims processing, loss forecasting, underwriting and ratemaking for captives, tax advice, legal advice, loss control services (New York and Brussels).
Staff: Five, three professionals. Professional designations include two ACAs, one ACII.
Clients: Three active captives managed at year-end 1991. No minimum size client.
Current business: Three active captives.
Compensation: Annual fee, $25,000 minimum; time and expense: professional, $100; clerical, $50.
1991 gross revenues: $204 million, 100% from fees charged for captive management.
Principal officers: J.C. Smetana, S. Hehir, S. Schleisman, N.C. Sommerville and D.J. Higginbottom, directors.

American & Overseas Reinsurance Management Co. Ltd.

P.O. Box HM 397, Hamilton HM BX, Bermuda; 809-295-4591; fax: 809-292-7456

Founded: 1990.
Parent company: Consolidated International Insurance Group.
Frequent services: Government reporting, accounting, computerized accounting, computerized claims processing, investment management.
Occasional services: Captive feasibility studies, captive formation, claims reserves analysis, actuarial studies, loss forecasting, tax advice.
Staff: Seven, three professionals. Professional designations include two CIIs, two CIMAs.
Clients: Three active captives managed at year-end 1991; 66% with less than $1 million in premiums, 34% with $10 million to $19.9 million. Captives managed write $11 million in premiums. $88 million in capital and surplus managed. No minimum size client.
Current business: Three active captives.
Compensation: Annual fee, $10,000 minimum.
Principal officers: Stephen W. Pearce, vp/director; Dennis Emery, chief accountant; Kevin Poole, claims controller.

American Risk Management Corp.

5 Burlington Square, P.O. Box 1521, Burlington, Vt. 05402-1521; 802-862-4400; fax: 802-862-7797
P.O. Box 1383, Fort Lee, N.J. 07024-3389; 201-592-7100; fax: 201-592-7859

Founded: 1988.
Parent company: International Risk Management Group Ltd.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, loss control services (Cleveland), risk management consulting.
Occasional services: Claims reserves analysis, loss forecasting, association captive management services including specialized accounting services and onshore services for associations.
Staff: 164, 130 professionals. Professional designations include seven CPAs, nine CPCUs, three ARMs, three MBAs, two attorneys, three PEs.
Clients: 36 active captives managed at year-end 1991; 31% with less than $1 million in premiums, 25% with $1 million to $2.9 million, 19% with $3 million to $9.9 million, 6% with $10 million to $19.9 million, 19% with more than $20 million. Two inactive captives managed. Captives managed write $295.3 million in premiums. $230.7 million in capital and surplus managed.
Current business: 37 active captives, two inactive captives.
Subsidiaries: American Risk Management Corp. (Vermont), ARM International (New York, Ohio, Kentucky, Minnesota, Illinois), ARMRISK (New Jersey).
Compensation: Annual fee, commissions.
Principal officers: John J. Ryan, president; William F. Nehls, executive vp; William T. Harris and William T. Torpey, senior vps-marketing; Michael Lusk, senior vp-risk management consulting; Donald W. Mosier, senior vp-technical operations; Kathryn A. Westover, senior vp-captive management operations.

Antillean Underwriting Services

P.O. Box 305, Curacao, Netherlands Antilles; 599-9-661606; fax: 599-9-661611

Founded: 1979.
Parent company: Bekouw Mendes Risk Management.
Occasional services: Captive formation, government reporting, accounting.
Principal officers: Phillip Stamp, chief executive officer.
Subcontracts for captive management services with Maduro & Curiel's Insurance Services.

Argus International Management Ltd.

P.O. Box HM 1064, 12 Wesley St., Hamilton HM EX, Bermuda; 809-295-2021; fax: 809-292-6763

Founded: 1970.
Parent company: Argus Group of Companies.
Frequent services: Captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, reinsurance brokered for captives, investment management, managing underwriting pools/facilities/association captives.
Staff: 10, six professionals. Professional designations include six CPAs, two CPCUs.
Clients: 31 active captives managed at year-end 1991. One inactive captive managed.
Current business: 33 active captives, two inactive captives.
Subsidiaries: Argus International Management (Dublin) Ltd.
Compensation: Annual fee.
Principal officers: E. John Sainsbury, managing director; Michael Hardy, manager; Windsor Ironside, Daniel Forsythe and George Nielson, account managers.

Atlantic Security Ltd.

Windsor Place, 18 Queen St., Hamilton HM 11, Bermuda; 809-295-5425; fax: 809-295-5444

Founded: 1974.
Frequent services: Captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, reinsurance brokered for captives.
Occasional services: Loss forecasting, reinsurance brokered to captives, investment management, association captive management services including specialized accounting services.
Staff: 10, six professionals. Professional designations include two CPAs.
Clients: 26 active captives managed at year-end 1991; 45% with less than $1 million in premiums, 30% with $1 million to $2.9 million, 20% with $3 million to $9.9 million, 5% with $10 million to $19.9 million. One inactive captive managed. Captives managed write $150 million in premiums. $85 million in capital and surplus managed.
Compensation: Annual fee, $20,000 minimum; time and expense: professional, $80 to $120; clerical, $50.
1991 gross revenues: 30% from fees charged for captive management, 35% from commissions charged for brokering insurance and/or reinsurance, 35% from other services.
Principal officers: Hal Forkush, president; Colin C. James, senior vp; Richard J. Witkowski, vp.

B

BF&M Management Ltd.

The ACE Building, 30 Woodbourne Ave., P.O. Box HM 1007, Hamilton HM GX, Bermuda; 809-292-6396; fax: 809-292-8682

Founded: 1969.
Parent company: The Bermuda Fire & Marine Insurance Co. Ltd.
Frequent services: Captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, investment management, managing underwriting pools/facilities/association captives, association captive management services including specialized accounting services, rent-a-captive.
Occasional services: Reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives.
Staff: Nine, seven professionals. Professional designations include one CPA, one FCAS.
Clients: 37 active captives managed at year-end 1991; 64% with less than $1 million in premiums, 22% with $1 million to $2.9 million, 8% with $3 million to $9.9 million, 3% with $10 million to $19.9 million, 3% with more than $20 million. Two inactive captives managed. Captives managed write $72 million in premiums.
Current business: 37 active captives, two inactive captives.
Compensation: Annual fee, $15,000 minimum; commissions; time and expense.
1991 gross revenues: 90% from fees charged for captive management, 5% from commissions charged for brokering insurance and/or reinsurance, 5% from other services.
Principal officers: Irmgard Viera, vp; Elizabeth A.C. Durrant, manager; John Wilkins, treasurer.

BRI International Agency Inc.

156 William St., New York, N.Y. 10038; 212-233-7171; fax: 212-513-1859

Founded: 1981.
Parent company: BRI Holding Corp.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives.
Occasional services: Computerized accounting, loss control services, association captive management services including specialized accounting services, onshore services for associations.
Staff: Eight, three professionals. Professional designations held include one CPA, two CPCUs, one ARM, two MBAs.
Clients: Seven active captives managed at year-end 1991. One inactive captive managed.
Current business: Six active captives. One inactive captive.
Subsidiaries: BRI Management Services (Cayman) Ltd.
Compensation: Commissions, time and expense.
Principal officers: Bruno Rumignani, president; Fred Ghawi, Joseph Zweig and Howard Miller, vps; Burton Matfus, secretary/treasurer.

Bain Clarkson Management Services (Guernsey) Ltd.

24 Le Pollet, St. Peter Port, Guernsey, Channel Islands; 481-710483; fax: 481-712536

Founded: 1982.
Parent company: Bain Clarkson Ltd.
Frequent services: Captive feasibility studies, captive formation, accounting, computerized accounting, computerized claims processing, loss forecasting, underwriting and ratemaking for captives, investment management.
Occasional services: Manual claims processing, claims reserves analysis, tax advice, legal advice.
Staff: 10, all professionals.
Clients: 15 active captives managed at year-end 1991.
Current business: 15 active captives.
Principal officers: Hugh Bromley, manager.

Bain Clarkson Management Services (Isle of Man) Ltd.

Fourth Floor, Derby House, Athol Street, Douglas, Isle of Man; 624-624141; fax: 624-622500

Founded: 1987.
Parent company: Bain Clarkson Ltd.
Occasional services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, tax advice, legal advice, managing underwriting pools/facilities/association captives, association captive management services.
Staff: Nine, seven professionals.
Subcontracts for captive management services with Isle of Man Insurance Management Ltd.

Becher & Carlson (Vermont)

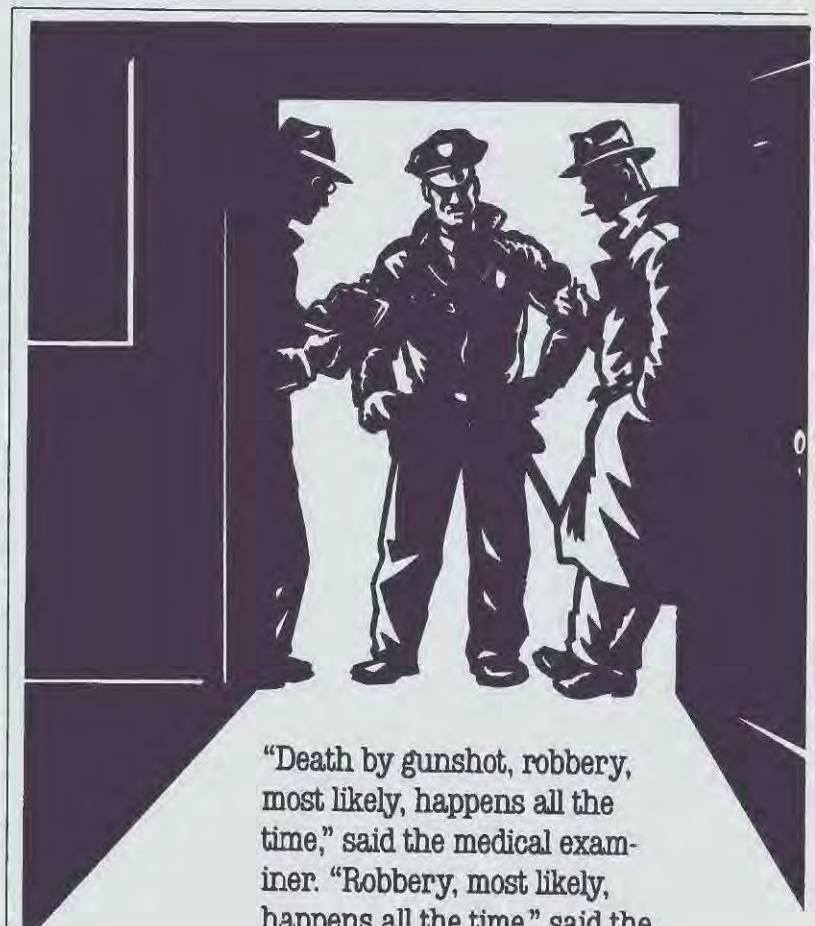
600 Financial Plaza, 84 Pine St., Burlington, Vt. 05402-5599; 802-658-7831; fax: 802-658-7843

Founded: 1982.
Parent company: American Re-Insurance Co.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, loss control services.
Occasional services: Managing underwriting pools/facilities/association captives.
Staff: Three, two professionals. Professional designations include one CPA.
Clients: Five active captives managed at year-end 1991; 20% with $1 million to $2.9 million in premiums, 60% with $3 million to $9.9 million, 20% with more than $20 million. Captives managed write $71.2 million in premiums. $36.2 million in capital and surplus managed. No minimum size client.
Current business: Five active captives.
Compensation: Annual fee.
Principal officers: David L. Carlson, president; William E. Becher Jr., chairman; Ann DesLauriers, resident manager.

Becher & Carlson Management Ltd.

Continental Building, 25 Church St., Hamilton HM JX, Bermuda; 809-295-0519; fax: 809-295-0933

Founded: 1981.
Parent company: American Re-Insurance Co.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, loss control services.
Occasional services: Reinsurance brokered to captives, managing underwriting pools/facilities/association captives.
Staff: Seven, five professionals. Professional designations include three CAs.
Clients: Eight active captives managed at year-end 1991; 20% with less than $1 million in premiums, 30% with $1 million to $2.9 million, 30% with $3 million to $9.9 million, 20% with more than $20 million. Two inactive captives managed. Captives managed write $108.8 million in premiums. $83 million in capital and surplus managed. No minimum size client.
Current business: Eight active captives, two inactive captives.
Subsidiaries: Becher & Carlson Brokerage (Bermuda) Ltd.
Compensation: Annual fee, commissions.
Principal officers: David L. Carlson, president; William E. Becher Jr.,
Continued on next page



"Death by gunshot, robbery, most likely, happens all the time," said the medical examiner. "Robbery, most likely, happens all the time," said the detective from downtown. "Happens all the time," said the patrolman who'd answered the call. It was the best echo effect this side of the Swiss Alps . . .

Continued from previous page
chairman; Robin Mehta, senior vp/general manager.

Becher & Carlson Risk Management Inc.

7 Waterfront Plaza, Suite 400, Office 424, 500 Ala Moana Blvd., Honolulu, Hawaii 96813; 808-521-1121; fax: 808-521-1288

Founded: 1991.
Parent company: American Re-Insurance Co.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, loss control services.
Occasional services: Reinsurance brokered to captives, managing underwriting pools/facilities/association captives.
Staff: One professional who is a CPA.
Clients: Two active captives managed at year-end 1991; 50% with $10 million to $19.9 million in premiums, 50% with more than $20 million. Captives managed write $18.6 million in premiums. $21.6 million in capital and surplus managed.
Current business: Two active captives.
Compensation: Annual fee.
Principal officers: David L. Carlson, president; William E. Becher Jr., chairman; Wanda Jong, vp/resident manager.

Berkley Risk Services Inc.

1401 W. 76th St., Suite 500, Minneapolis, Minn. 55423; 612-861-8600; fax: 612-861-8643

Founded: 1985.
Parent company: W.R. Berkley Corp.
Frequent services: Accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, loss control services.
Occasional services: Captive feasibility studies, captive formation, government reporting, loss forecasting, reinsurance brokered to captives association captive management services including specialized accounting services and onshore services for associations.
Staff: 119, 71 professionals. Professional designations held include one CPA, four CPCUs, three ARMs, one MBA, one attorney, three CICs, two AAIs.
Clients: 10 active captives managed at year-end 1991.
Subsidiaries: Southwest Risk Services and Arizona All Claims, Phoenix; Public Risk Managers and Berkley Risk Services of Georgia, Atlanta; Allied Adjustors, Minneapolis; D.I.S. Inc., Denver.
Compensation: Annual fee.
Principal officers: Louis Golinvaux, chief executive officer; Mark Tansey, president; Lee Johnson, Kent Rebeck and Ken Hopkins, senior vps.

Bermuda Connexion

P.O. Box 1721, International Centre, Hamilton 5, Bermuda; 313-683-0380

Founded: 1976.
Parent company: Risk Research Institute Inc.
Frequent services: Claims reserves analysis, loss forecasting, tax advice, loss control services, seminars and educational conferences.
Occasional services: Captive feasibility studies, captive formation, manual claims processing, computerized claims processing, actuarial studies underwriting and ratemaking for captives.
Staff: Five, all professionals. Professional designations include one CPCU, two ARMs, one CLU.
Compensation: Time and expense: professional, $125 to $175; clerical services included.
1991 gross revenues: 100% from fees.
Principal officers: Haig G. Neville, president; Juanita W. Neville, vp-finance; Denis Shelly, vp-legal; Brian Francis, vp-claims/loss control; Vernon Francis, vp-claims.

British-American Management Ltd.

51 Frederick St., P.O. Box N-3005, Nassau, Bahamas; 809-322-2694; fax: 809-322-2698

Founded: 1979.
Parent company: British-American Insurance Co. Ltd.
Frequent services: Captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, investment management.
Occasional services: Claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, association captive management services.
Staff: Five. Professional designations include four London School of Insurance Certificate of Competence General Insurance, one member, Insurance Institute of America.
Clients: Seven active captives managed at year-end 1991; 83.33% with less than $1 million in premiums, 16.67% with $1 million to $2.9 million. Four inactive captives managed. Captives managed write $3.65 million in premiums. $12.71 million in capital and surplus managed.
Current business: Nine active captives, three inactive captives.
Subsidiaries: British-American Management (Cayman) Ltd., British-American Management (Bermuda) Ltd.
Compensation: Annual fee, $15,000 minimum; commissions.
1991 gross revenues: $322,775, 54% from fees charged for captive management, 46% from other services accounting, corporate secretarial.
Principal officers: Dawood A. Rawat, chairman; Judy A. Higgs, president/chief executive officers.

C

CFM Insurance Managers Ltd.

Reid House, 31 Church St., Hamilton 12, Bermuda; 809-292-6424; fax: 809-292-5560

Founded: 1988.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, managing underwriting pools/facilities/association captives, association captive management services including specialized accounting services.
Occasional services: Computerized claims processing, underwriting and ratemaking for captives, investment management, tax advice.
Staff: Six, three professionals who are CPAs.
Clients: Five active captives at year-end 1991; 20% with less than $1 million in premiums, 40% with $1 million to $2.9 million, 40% with $3 million to $9.9 million. $20 million in capital and surplus managed. No minimum size client.
Current business: Five active captives.
Compensation: Annual fee, time and expense.
1991 gross revenues: 100% from fees charged for captive management.
Principal officers: Simon Scupham, president; Peter Leighton, vp.

CIGNA International Insurance Managers Ltd.

P.O. Box HM 1181, Victoria Hall, Victoria Street, Hamilton HM 11, Bermuda; 809-295-7777; fax: 809-295-6781

Parent company: CIGNA International Reinsurance Co. Ltd.
Frequent services: Captive formation, government reporting, accounting, computerized accounting, computerized claims processing, investment management, legal advice.
Staff: 26 professionals. Professional designations held include two CAs.
Clients: 12 active captives managed at year-end 1991. Three inactive captives managed. No minimum size client.
Current business: 12 active captives, three inactive captives.
Compensation: Time and expense.
Principal officers: John C. Boden, president; Heinz Schoenberger, vp/treasurer; Evelyn F. Mallory, assistant vp/secretary.

CSI International Underwriting (Cayman) Ltd.

P.O. Box 1392, Second Floor, Genesis Building, George Town, Grand Cayman, B.W.I.; 809-949-7322; fax: 809-949-7814

Founded: 1982.
Parent company: Pacific Compensation Capital Corp.
Clients: One active captive managed at year-end 1991 with $1 million to $2.9 million in premiums. Four inactive captives managed.
Current business: One active captive, four inactive captives.
Compensation: Time and expense: professional, $100 to $150; clerical, $40 to $85.
Principal officers: R. Paul Goldsworthy, James E. Little and Ronald A. Groden, directors.
Subcontracts for captive management services with International Underwriting Managers (Cayman) Ltd.

Caledonian Bank & Trust Ltd.

P.O. Box 1043, Grand Cayman, B.W.I.; 809-949-0050; fax: 809-949-8062

Founded: 1970.

Caledonian Management (Bermuda) Ltd.

73 Front St., P.O. Box HM 2455, Hamilton HM JX, Bermuda; 809-295-1683; fax: 809-295-1704

Founded: 1988.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, reinsurance brokered for captives, investment management, consulting.
Occasional services: Claims reserves analysis, actuarial studies, loss forecasting, underwriting and ratemaking for captives, association captive management services.
Staff: Three, two professionals. Professional designations include two CAs, one ARM.
Clients: 10 active captives managed at year-end 1991; 60% with less than $1 million in premiums, 20% with $1 million to $2.9 million, 10% with $3 million to $9.9 million, 10% with $10 million to $19.9 million. Captives managed write $23 million in premiums.
Current business: 10 active captives.
Subsidiaries: Caledonian Management (Isle of Man) Ltd., Caledonian Management (Guernsey) Ltd.
Compensation: Annual fee, time and expense.
1991 gross revenues: 90% from fees charged for captive management, 10% from consulting.
Principal officers: David A. Brown, president; Rhonda M. Caza, vp.

Caledonian Management (Isle of Man) Ltd.

St. James Chambers, Athol Street, P.O. Box 174, Douglas, Isle of Man; 0624-661020; fax: 0624-661298

Founded: 1988.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, reinsurance brokered for captives, investment management, consulting.
Occasional services: Claims reserves analysis, actuarial studies, loss forecasting, underwriting and ratemaking for captives, association captive management services.
Staff: One professional who is a CA.
Subsidiaries: Caledonian Management (Bermuda) Ltd., Caledonian Management (Guernsey) Ltd.
Compensation: Annual fee, time and expense.
Principal officers: David A. Brown, managing director.

Capco Insurance Management Ltd.

31/37 North Quay, Douglas, Isle of Man; 0624-662977; fax: 0624-662988

Founded: 1990.
Parent company: Capco Group.
Occasional services: Captive feasibility studies, captive formation,
Continued on next page

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MARCH 29-APRIL 3, 1992

His Excellency the Governor of the Cayman Islands Mr. Alan Scott, C.V.O., C.B.E., the Deputy Financial Secretary Mr. Woodward Terry and the Superintendent of Insurance, Mr. Gilbert Connolly will be in attendance along with other members of the insurance community to answer your questions on insurance in the Cayman Islands.

CAPTIVE INSURANCE CONFERENCE
JUNE 3-5, 1992

Please take the opportunity of collecting details for the forthcoming Cayman Islands Captive Insurance Conference scheduled for June 3-5, 1992 or call Sonia Powell at (809) 949-7988 for a conference brochure and registration form.

Continued from previous page
government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives.

Staff: Four professionals.

Principal officers: D.J. Capps, P.J. Hobson, I.R. Seymonk and R.W.F. Taylor, directors.

Captive Managers Ltd.

P.O. Box N-3860, Providence House, East Hill Street, Nassau, Bahamas; 809-322-7524; fax: 809-325-3624

Founded: 1986.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives.

Staff: Three, two professionals. Professional designations include one CPA, one MBA.

Clients: Four active captives managed at year-end 1991; 25% with $1 million to $2.9 million in premiums, 50% with $3 million to $9.9 million, 25% with $10 million to $19.9 million. Two inactive captives managed. Captives managed write $16 million in premiums. $22.6 million in capital and surplus managed. Minimum size client, $750,000.

Current business: Four active captives, two inactive captives.

Compensation: Annual fee; commissions; time and expense: professional, $90; clerical $35.

1991 gross revenues: $400,000; 80% from fees charged for captive management, 20% from commissions charged for brokering insurance and/or reinsurance.

Principal officers: Charles A. Donaldson, president; Timothy B. Donaldson, treasurer.

Caribbean Captive Insurance Managers Inc.

Suite 7, Goding House, Spry Street, Bridgetown, Barbados, W.I.; 809-436-8826; fax: 809-436-8821

Founded: 1985.

Parent company: Intel Corp.

Frequent services: Government reporting, accounting, computerized accounting, investment management.

Occasional services: Captive formation, manual claims processing, computerized claims processing, claims reserves analysis.

Staff: Two.

Clients: Five active captives managed at year-end 1991; 50% with less than $1 million in premiums, 50% with $1 million to $2.9 million. One inactive captive managed. Captives managed write $6.1 million in premiums. $46.6 million in capital and surplus managed. No minimum size client.

Current business: Five active captives, one inactive captive.

Compensation: Annual fee, $14,400 minimum; time and expenses: professional, $100; clerical, $50.

1991 gross revenues: $101,985, 100% from fees charged for captive management.

Principal officers: Luther Jones, manager; Arvind Sodhani, treasurer/vp-Intel Corp.; Mark St. John, Robert Perlman and Ted Vian, directors.

Cayside Insurance Management Ltd.

P.O. Box 878, West Wind Building, Grand Cayman, B.W.I.; 809-949-8184; fax: 809-949-7228

Founded: 1984.

Frequent services: Government reporting, accounting, computerized accounting, investment management.

Occasional services: Captive feasibility studies, captive formation, claims reserves analysis, loss forecasting, underwriting and ratemaking for captives, association captive management services including specialized accounting services.

Staff: Three, two professionals.

Clients: 12 active captives managed at year-end 1991; 50% with less than $1 million in premiums, 25% with $1 million to $2.9 million, 17% with $3 million to $9.9 million, 8% with more than $20 million. One inactive captive managed. Captives managed write $38.5 million in premiums. No minimum size client.

Current business: 10 active captives, one inactive captive.

Compensation: Annual fee, time and expense.

1991 gross revenues: 100% from fees charged for captive management.

Principal officers: John E. Smith, managing director; J. William Rewalt, chairman.

Chandler Insurance Management Ltd.

Genesis Building, P.O. Box 1854, Grand Cayman, Cayman Islands, B.W.I.; 809-949-8177; fax: 809-949-8376

Founded: 1990.

Parent company: Chandler Insurance Co. Ltd.

Frequent services: Government reporting, accounting, computerized accounting, association captive management services including specialized accounting services.

Occasional services: Captive feasibility studies, captive formation, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management.

Staff: Three, one professional. Professional designations include one ACA.

Clients: Six active captives managed at year-end 1991; 33% with less than $1 million in premiums, 33% with $1 million to $2.9 million, 16% with $10 million to $19.9 million, 16% with more than $20 million. Three inactive captives managed. Captives managed write $90 million in premiums. Minimum size client, $500,000.

Current business: Six active captives, three inactive captives.

Subsidiaries: Chandler Insurance Management (Barbados) Ltd.

Compensation: Annual fee, time and expense.

1991 gross revenues: 100% from fees charged for captive management.

Principal officers: W. Brent Lagere, chairman; Benjamin T. Walkingstick and Steven R. Butler, directors.

Channel Islands Insurance Consultants Ltd.

26 Cornet St., St. Peter Port, Guernsey, Channel Islands; 44-481-710336; fax: 44-481-710696

Founded: 1982.

Frequent services: Government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, underwriting and ratemaking for captives, tax advice.

Occasional services: Captive feasibility studies, captive formation, actuarial studies, loss forecasting, reinsurance brokered for captives, loss control services.

Staff: Seven, three professionals. Professional designations include two FCAs, one MBA.

Clients: 18 active captives managed at year-end 1991; 22% with less than $1 million in premiums, 50% with $1 million to $2.9 million, 11% with $3 million to $9.9 million, 6% with $10 million to $19.9 million, 11% with more than $20 million. Four inactive captives managed.

Current business: 18 active captives, four inactive captives.

Subsidiaries: Guernsey Insurance Management Services Ltd.

Compensation: Annual fee, time and expense.

1991 gross revenues: 100% from fees charged for captive management.

Principal officers: Michael John Savage, managing director; Wendy Joan Goodson, director/secretary; Mike Rubb, director.

Claremont Lawrie Management Ltd.

14115 Mount Havelock, Douglas, Isle of Man; 0624-661797

Founded: 1989.

Parent company: Claremont Life Insurance/Duncan Lawrie.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, underwriting and ratemaking for captives, investment management.

Staff: Five.

Clients: Two active captives managed at year-end 1991.

Current business: Two active captives.

Principal officers: Colin R. Formby, managing director.

Coastal Brokerage & Management Corp. Ltd.

P.O. Box 64, Unit 10, The Mariner, Providenciales, Turks & Caicos; 809-946-4109; fax: 809-946-4939

Founded: 1988.

Frequent services: Captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives.

Occasional services: Captive feasibility studies, manual claims processing, loss forecasting, investment management, managing underwriting pools/facilities/association captives, association captive management services including specialized accounting services and onshore services for associations.

Staff: Four, two professionals.

Clients: Six active captives managed at year-end 1991; 48% with less than $1 million in premiums, 36% with $1 million to $2.9 million, 16% with $3 million to $9.9 million. One inactive captive managed. No minimum size client.

Current business: Six active captives, one inactive captive.

Compensation: Annual fee, $6,000 minimum; commissions; time and expense: professional, $80; clerical, $40.

Principal officers: John Alistair Phillips, managing director; Charles Edward Gresham.

Commercial Insurance Alternatives Inc.

176 Main St., Suite C, St. Helena, Calif. 94574; 707-963-2400; fax: 707-963-2428

Founded: 1985.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, loss forecasting, reinsurance placement for captives, underwriting and ratemaking for captives, investment management, managing underwriting pools/facilities/association captives.

Staff: Eight, two professionals. Professional designations include one CPA, one CPCU, one ARe.

Clients: Six active captives managed at year-end 1991; 25% with less than $1 million in premiums, 50% with $1 million to $2.9 million, 25% with $3 million to $9.9 million. One inactive captive managed. Captives managed write $20 million in premiums. $14 million in capital and surplus managed. Minimum size client, $1 million.

Current business: Six active captives, one inactive captive.

Subsidiaries: Commercial Investments Alternatives, St. Helena, Calif.; CIA East Inc., New York.

Compensation: Annual fee, $500,000 minimum.

1991 gross revenues: $940,000, 100% from fees charged for captive management.

Principal officers: E. Richard Crebs, president/chief executive officer; Suzanne Bryan, chief financial officer; Denae Avalon, vp.

Commercial Union Management Services (Guernsey) Ltd.

Block A, Hirzel Court, St. Peter Port, Guernsey, Channel Islands; 0481-723308; fax: 0481-721071

Founded: 1975.

Parent company: Commercial Union Assurance P.L.C.

Frequent services: Government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, underwriting and ratemaking for captives, investment management, tax advice.

Occasional services: Captive feasibility studies, captive formation, reinsurance brokered for captives.

Staff: Five professionals. Professional designations include one CPA, two ARMs.

Clients: 12 active captives managed at year-end 1991.

Current business: 12 active captives.

Affiliates: Commercial Union Management Services Ltd., Bermuda, Gibraltar, Singapore, Luxembourg, Isle of Man, Cyprus (MedRisk).

Compensation: Annual fee; time and expense: professional, $100 to $225; clerical $50 to $100.

Principal officers: A.A. Ayton, manager.

Commonwealth Risk Management Inc.

P.O. Box 834, Montpelier, Vt. 05601-0834; 802-229-5000 or 800-369-8483

Founded: 1987.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, tax advice, legal advice, association captive management services including specialized accounting services and onshore services for associations, subrogation.

Staff: Seven, five professionals. Professional designations include one CPA, one CPCU, one FCAS, one attorney, one FCA.

Affiliates: Insurance Analysis of Vermont Inc., Montpelier, Vt.

Compensation: Annual fee; commissions; time and expense: professional, $65 to $125; clerical, $35.

Principal officers: Peter D. Sanger, president/chief executive officer; Judith A. Sanger, vp/secretary.

Continental Risk Services (Barbados) Ltd.

ICB Building, Upper Roebuck Street, Bridgetown, Barbados; 809-424-3362; fax: 809-426-0426

Founded: 1986.

Parent company: Continental Risk Services Ltd.

Frequent services: Captive formation, government reporting, accounting, computerized accounting.

Occasional services: Captive feasibility studies, manual claims processing, computerized claims processing, underwriting and ratemaking for captives, investment management, tax advice, legal advice.

Staff: Three, one professional. Professional designations include one CPA, one MBA.

Clients: Eight active captives managed at year-end 1991; 62.5% with less than $1 million in premiums, 12.5% with $1 million to $2.9 million, 12.5% with $10 million to $19.9 million, 12.5% with more than $20 million. Captives managed write $114 million in premiums. $115 million in capital and surplus managed. No minimum size client.

Current business: Eight active captives.

Compensation: Annual fee, time and expense.

Principal officers: Raymond Gill, chairman; Tim Courtis, assistant vp; Neville Cave, president; Trevor Carmichael, secretary.

Continental Risk Services (Bermuda) Ltd.

Continental Insurance Building, Church Street, Hamilton HM CX, Bermuda; 809-295-6015; fax: 809-295-1702

Founded: 1980.

Parent company: Continental Corp.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, investment management.

Occasional services: Reinsurance brokered for captives, reinsurance brokered to captives, tax advice.

Staff: Seven, three professionals. Professional designations include two CPAs, one MBA.

Clients: 13 active captives managed at year-end 1991; 46% with less than $1 million in premiums, 15% with $1 million to $2.9 million, 29% with $3 million to $9.9 million, 10% with more than $20 million. Three inactive captives managed. Captives managed write $57.15 million in premiums. $124.5 million in capital and surplus managed.

Subsidiaries: Continental Risk

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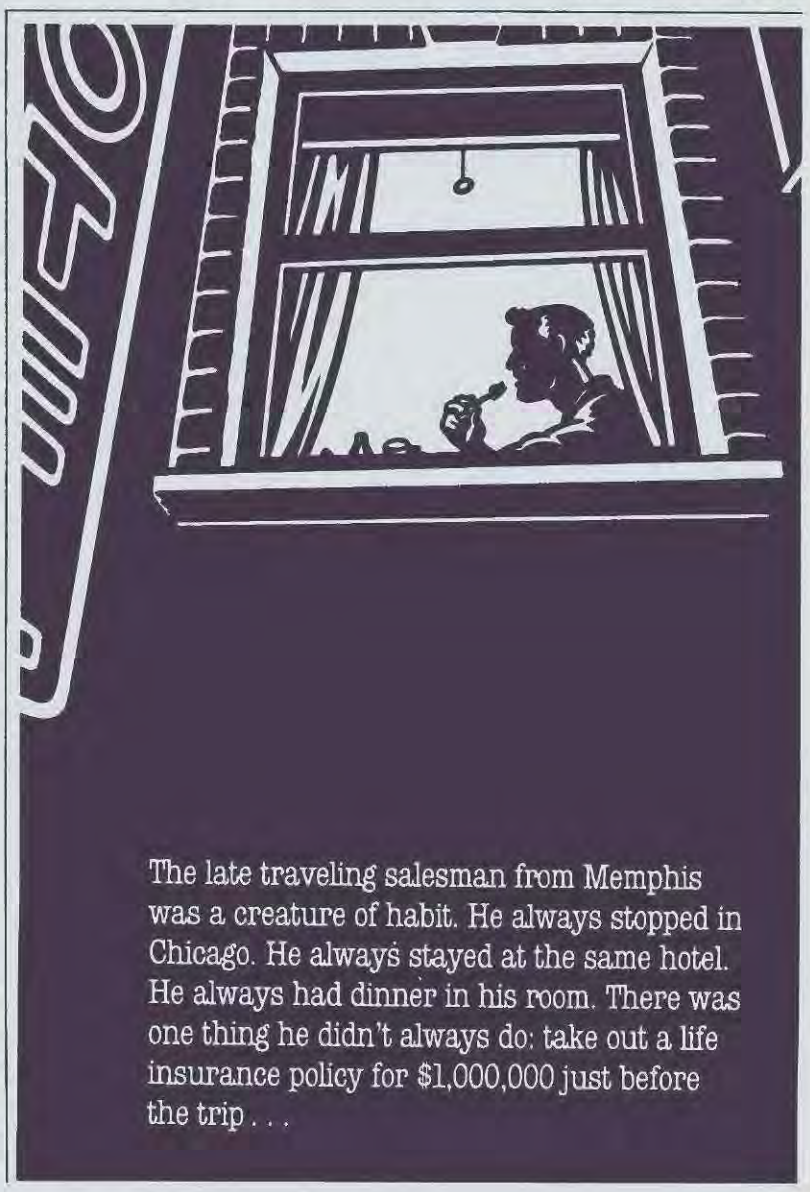

Continued from previous page
Services (Barbados) Ltd.

Compensation: Annual fee.

1991 gross revenues: 100% from fees charged for captive management.

Principal officers: Raymond Gil, chairman; Neville Cave, president; Richard Keane, assistant vp; Richard Spurling, secretary.

E

Eaglehurst Insurance Management Ltd.

Eaglehurst, Belmont Hill, Douglas, Isle of Man; 0624-628800; fax: 0624-629329

Founded: 1986.

Frequent services: Government reporting, accounting, tax advice.

Occasional services: Captive feasibility studies, captive formation, computerized accounting, investment management, association captive management services including specialized accounting services, rent-a-captives.

Staff: Six, five professionals. Professional designations include five FCAs, one FII.

Clients: Three active captives managed at year-end 1991, all with less than $1 million in premiums. One inactive captive managed. Captives managed write $1.5 million in premiums. $2.5 million in capital and surplus managed. Minimum size client, $400,000.

Current business: Three active captives, one inactive captive.

Compensation: Annual fee, $15,000 minimum; time and expense, professional: $102 to $255; clerical, $58.

1991 gross revenues: $150,000, 100% from fees charged for captive management.

Principal officers: D.A. Newby, J. Scott, I.M. Foster, I.L. Radford, K.R. Sykes.

Eurco Re Ltd.

11-12 Warrington Place, Dublin 2, Ireland; 353-1-60-99-33; fax: 353-1-61-41-57

Founded: 1988.

Parent company: DVV Verzekeringen N.V.

Frequent services: Captive feasibility studies, captive formation, government reporting, computerized accounting, computerized claims processing, claims reserves analysis, underwriting and ratemaking for captives, investment management, tax advice, legal advice.

Occasional services: Accounting, manual claims processing, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, loss control services (Belgium).

Staff: Six, all professionals. Professional designations include one CPCU, one MBA, one FCAS, one attorney.

Clients: Six active captives managed at year-end 1991; 50% with less than $1 million in premiums, 33% with $3 million to $9.9 million, 17% with more than $20 million. One inactive captive managed. Captives managed write $60 million in premiums. $65 million in capital and surplus managed. Minimum size client, $250,000.

Current business: Eight active captives, one inactive captive.

Compensation: Annual fee, commissions.

Principal officers: Eddy Van Cutsem, general manager; Brendan Malley, company secretary; Hugo Azijn, captive manager.

European Risk Management Ltd.

31/33 Monument Hill, Weybridge Surrey, KT13 8RS, England; 932-854711; fax: 932-857368

Parent company: International Risk Management Group.

Frequent services: Captive feasibility studies, captive formation, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, loss control services (United Kingdom), risk management consulting.

Occasional services: Claims reserves analysis.

Staff: 32. Professional designations held include one CPCU, two ACIIs, two FCIIs.

Principal officers: J. Eglitis, manager-engineering; D. Lawson, manager-client services; A.A. Griffin, manager-special projects.

Subcontracts for captive management services with International Risk Management (Bermuda) Ltd., (Cayman) Ltd. and (Dublin) Ltd.

European Risk Management Ltd. (Germany)

Kaiser-Friedrich-Promenade 45, D-6380 Bad Homburg, Germany; 49-6172-22033; fax: 49-6172-29596

Founded: 1990.

Parent company: International Risk Management Group Ltd.

Frequent services: Captive feasibility studies, captive formation, risk management consulting.

Staff: Four, three professionals.

Principal officers: Dr. R. Friedrich, director.

Subcontracts for captive management services with International Risk Management (Dublin) Ltd.

F

Financial Technology Consultants Inc.

10940 Wilshire Blvd., Suite 1130, Los Angeles, Calif. 90024-3939; 310-824-4864: fax: 310-824-9952

Founded: 1976.

Frequent services: Captive feasibility studies, captive formation, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives.

Occasional services: Computerized accounting, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives.

Staff: Three professionals.

Clients: 11 active captives managed at year-end 1991; 50% with less than $1 million in premiums, 35% with $1 million to $2.9 million, 15% with $3 million to $9.9 million. No minimum size client.

Current business: 12 active captives.

Compensation: Annual fee, $10,000 minimum; time and expense: professional, $250; clerical, $50.

Principal officers: Warwick Feldman, president; Selim Maatouk.

Finsbury Management Services Ltd.

50 Town Range, Gibraltar; 350-73437; fax: 350-73986

Founded: 1983.

Parent company: Riggs Valmet Ltd.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis.

Occasional services: Actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, tax advice.

Clients: Five active captives managed at year-end 1991; 60% with less than $1 million in premiums, 20% with $1 million to $2.9 million, 20% with $10 million to $19.9 million. One inactive captive managed. Captives managed write $20 million in premiums. Minimum size client, $175,000.

Current business: Five active captives, one inactive captive.

Compensation: Time and expense.

Principal officers: Christopher Samuelson, David D. Cuby, James D. Hassan, Desmond R. Reoch.

G

Arthur J. Gallagher Management (Bermuda) Ltd.

P.O. Box HM 2000, Hamilton HM HX, Bermuda; 809-292-4654; fax: 809-292-8231

Founded: 1972.

Parent company: Arthur J. Gallagher & Co.

Frequent services: Captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, reinsurance brokered for captives, investment management, loss control services (Itasca, Ill.), association captive management services including specialized accounting services and onshore services for associations, alternative risk financing programs, rent-a-captives.

Occasional services: Captive feasibility studies, claims reserves analysis, reinsurance brokered to captives, underwriting and ratemaking for captives.

Staff: Five, three professionals. Professional designations held include one FCA, one FCII, one ACII, one CBII.

Clients: Four active captives managed at year-end 1991, all with less than $1 million in premiums.

Current business: Four active captives, one inactive captive.

Compensation: Annual fee, $15,000 minimum; commissions.

Principal officers: Robert E. Gallagher, vp; John P. Gallagher, president; J. DeChristofaro, vp/director; David J. McManus, managing director; Ronald L. Hubbard, finance director.

Gecalux S.A.

1 Rue Schiller, L-2519, Luxembourg; 352-402190; fax: 352-492706

Founded: 1984.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, tax advice, legal advice.

Occasional services: Manual claims processing, investment management, managing underwriting pools/facilities/association captives, loss control services.

Staff: 32, 10 professionals. Professional designations held include one MBA, one attorney, two ACIIs, one CE.

Clients: 42 active captives managed at year-end 1991.

Subsidiaries: Gecalux (France) S.A.; Gecalux (Deutschland) GMBH; Gecalux (Ireland) Ltd.

Compensation: Annual fee.

Principal officers: Roland Frere, managing director; Frederick Gabriel, general manager; Thierry Dron and Jonathan Miles, managers.

Global Risk Financing Services Ltd.

1300-666 Burrard St., Vancouver, British Columbia, Canada V6C 3J8; 604-685-8323; fax: 604-688-2419

Founded: 1990.

Frequent services: Government reporting, accounting, computerized accounting, computerized claims processing.

Occasional services: Captive feasibility studies, captive formation, loss forecasting, investment management, tax advice.

Staff: Three, two professionals. Professional designations held include two CAs, one ARM.

Clients: One active captive managed at year-end 1991 with $1 million to $2.9 million in premiums.

Current business: One active captive.

Affiliates: Risk Financing Services Ltd., Hamilton, Bermuda

Compensation: Annual fee, time and expense.

Principal officers: Terry Holdom, president; Susan Gallivan, director.

Green Mountain Captive Management Co.

P.O. Box 628, Barre, Vt. 05641; 802-479-1046; fax: 802-479-2761

Staff: Five, four professionals. Professional designations held include one CPCU, two attorneys.

Clients: Two active captives managed at year-end 1991; 50% with less than $1 million in premiums, 50% with $3 million to $9.9 million. No minimum size client.

Current business: Two active captives.

Principal officers: Richard W. Huskes Jr., president; James L. Mulligan.

Griffiths & Wanklyn Management Ltd.

P.O. Box HM 658, Craig Appin House, Hamilton HM CX, Bermuda; 809-295-1639; fax: 809-295-1638

Founded: 1985.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, association captive management services including specialized accounting services and individual tax return preparation, management of holding companies and rent-a-captive service.

Staff: Three, two professionals.

Clients: Six active captives managed at year-end 1991. Two inactive captives managed. No minimum size client.

Current business: Six active captives, two inactive captives.

Subsidiaries: Griffiths & Wanklyn Reinsurance Brokers Ltd., General Professional Indemnity Ltd. and Underwriters Service Co. Ltd., Bermuda.

Compensation: Annual fee; commissions; time and expense: professional, $150.

Principal officers: Julian Griffiths and William Wanklyn, directors.

Continued on next page

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Continued from previous page

H

H&H Management Services Ltd.

P.O. Box HM 1760, Hamilton, Bermuda; 809-295-3688; fax: 809-295-2584

Founded: 1977.
Parent company: International Advisory Services Ltd.
Principal officers: David Ezekiel, president.
See International Advisory Services Ltd.

Hanna Insurance (Vermont) Ltd.

102 S. Winooski Ave., P.O. Box 730, Burlington, Vt. 05402-0730; 802-863-5774; fax: 802-862-2180 or 802-658-6191

Founded: 1982.
Parent company: Smith, Bell & Thompson Inc.
Frequent services: Captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, managing underwriting pools/facilities/association captives, association captive management services.
Occasional services: Captive feasibility studies, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, tax advice, association captive management services including specialized accounting services.
Staff: Eight, five professionals. Professional designations include one CPA.
Clients: 18 active captives managed at year-end 1991; 39% with less than $1 million in premiums, 11% with $1 million to $2.9 million, 28% with $3 million to $9.9 million, 16% with $10 million to $19.9 million, 6% with more than $20 million. One inactive captive managed. Captives managed write $104.5 million in premiums. $177 million in capital and surplus managed. No minimum size client.
Current business: 18 active captives, one inactive captive.
Compensation: Annual fee, minimum $15,000; time and expense.
Principal officers: Roger D. Teese, president; Warren L. Thompson, chairman; Bradley D. Matulonis, treasurer; Timothy H. Hoffman, vp.

Hawaii Captive Insurance Management Inc.

Suite 600, 567 S. King St., Honolulu, Hawaii 96813; 808-523-6161; fax: 808-526-4028

Founded: 1988.
Frequent services: Captive formation, legal advice.
Staff: Two, one professional who is an attorney.
Clients: Two active captives managed at year-end 1991; 50% with less than $1 million in premiums, 50% with $1 million to $2.9 million.
Current business: Two active captives.
Compensation: Annual fee, $2,500 minimum; time and expense: professional, $275; clerical, $75.
1991 gross revenues: $20,000, 100% fees charged for captive management.
Principal officers: Sherman S. Hee.

Hewitt, Coleman & Associates Inc.

P.O. Box 3665, Greenville, S.C. 29608; 803-240-5801; fax: 803-232-8824

Founded: 1923.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, managing underwriting pools/facilities/association captives, loss control services (Greenville, S.C.), association captive management services including specialized accounting services.
Occasional services: Manual claims processing, reinsurance brokered to captives, underwriting and ratemaking for captives, onshore services for associations.
Staff: 87, 15 professionals. Professional designations include one CPA, two ARMs, one MBA, two CSPs.
Clients: Six active captives managed at year-end 1991; 33% with less than $1 million in premiums, 17% with $1 million to $2.9 million, 50% with $3 million to $9.9 million. One inactive captive managed. Captives managed write $35 million in premiums. Minimum size client, $2 million.
Current business: Six active captives, one inactive captive.
Compensation: Annual fee; commissions; time and expense: professional, $65 to $150; clerical, $25 to $50.
1991 gross revenues: 50% from fees charged for captive management, 12% from commissions charged for brokering insurance and/or reinsurance, 38% from self-funded independent workers compensation and health care.
Principal officers: Charles R. Warne, president; Garry W. Coulter, vp-excess and reinsurance; Randy Chapman, vp-marketing; Ronald J. Graves, vp-loss control; Harriet Seel, risk management services.

Hogg Insurance Management Ltd.

Suite 5, Town Mills, Rue Du Pre, St. Peter Port, Guernsey, Channel Islands; 0481-726049; fax: 0481-712428

Founded: 1978.
Parent company: Hogg Group P.L.C.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, loss forecasting, underwriting and ratemaking for captives, investment management, tax advice.
Staff: Seven, two professionals. Professional designations include two FCIIs.
Clients: 13 active captives managed at year-end 1991; 40% with less than $1 million in premiums, 30% with $1 million to $2.9 million, 30% with $3 million to $9.9 million. One inactive captive managed. Captives managed write $35 million in premiums. No minimum size client.
Current business: 12 active captives, two inactive captives.
Compensation: Annual fee, $20,000 minimum; time and expense: professional, $150 to $200; clerical, $70 to $100.
1991 gross revenues: $600,000, 100% from fees charged for captive management.
Principal officers: Roger A. Hall, managing director; Graham M. Powell, director.

Hug Services Inc.

25 Century Blvd., Suite 300, Nashville, Tenn. 37214-3688; 615-885-5333; fax: 615-885-5983

Founded: 1976.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, loss control services (Nashville), association captive management services.
Staff: 13, six professionals. Professional designations include one CPCU, two MBAs, two CFEs.
Clients: Two active captives managed at year-end 1991; 50% with $1 million to $2.9 million in premiums, 50% with $10 million to $19.9 million. Captives managed write $22.9 in premiums. $28 million in capital and surplus managed. No minimum size client.
Current business: Two active captives.
Subsidiaries: Hospital Underwriting Group Inc., Professional Liability Insurance Co., Nashville.
Principal officers: Ray Hodges, chairman; Kenneth W. Smith, president; James C. Oakley, vp-finance; Horace E. Gaddis Jr., vp-operations; Samuel C. Dillard, vp-claims.

I

IAS (Barbados) Ltd.

CGM Building, Collymore Rock, Bridgetown, Barbados; 809-436-8296; fax: 809-426-7336

Founded: 1987.
Parent company: International Advisory Services Ltd.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, investment management, association captive management services, specialized accounting services.
Occasional services: Reinsurance brokered for captives, underwriting and ratemaking for captives, tax advice, onshore services for associations.
Staff: Three, one professional. Professional designations include one MBA.
Clients: Seven active captives managed at year-end 1991; 57% with less than $1 million in premiums, 14% with $1 million to $2.9 million, 29% with more than $20 million. Captives managed write $68 million in premiums.
Current business: Seven active captives.
Compensation: Annual fee, $10,000 minimum; commissions; time and expense.
1991 gross revenues: 100% from fees charged for captive management.
Principal officers: David Ezekiel, president/managing director; William Tomlin and Terence Power, vps.

Independent Management Group Ltd.

Third Floor, Williams House, 20 Reid St., P.O. Box HM2070, Hamilton, Bermuda; 809-295-1646; fax: 809-292-8062

Founded: 1984.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, reinsurance brokered for captives, tax advice, managing underwriting pools/facilities/association captives, association captive management services, specialized accounting services.
Occasional services: Manual claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, legal advice.
Staff: Eight, one professional. Professional designations include one CPA, one MBA.
Clients: 19 active captives managed at year-end 1991. Three inactive captives managed. Captives managed write $103 million in premiums. $218 million in capital and surplus managed. No minimum size client.
Current business: 19 active captives, three inactive captives.
Subsidiaries: Independent Brokers Ltd.
Compensation: Annual fee; commissions; time and expense: composite, $130.
Principal officers: Peter J.N. Strong, president; Geoffrey Tytheridge, vp.

Information Processors Inc.

2001 W. Irving Blvd., Irving, Texas 75061; 214-254-1035; fax: 214-259-1177

Founded: 1990.
Frequent services: Captive formation, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, association captive management services, specialized accounting services, onshore services for associations, policy manuscript.
Occasional services: Captive feasibility studies, government reporting, claims reserves analysis, tax advice, legal advice.
Staff: Nine, three professionals. Professional designations include one CPA, one CPCU, one attorney.
Clients: Four active captives managed at year-end 1991; 100% with less than $1 million in premiums. Six inactive captives managed. Captives managed write $1 million in premiums. $10 million in capital and surplus managed. No minimum size client.
Current business: Four active captives, six inactive captives.
Compensation: Annual fee, $20,000 minimum.
1991 gross revenues: 10% from fees charged for captive management, 10% from commissions charged for brokering insurance and/or reinsurance, 80% from other services, including consulting.
Principal officers: William E. Gregory, president; Michael McDonald, vp/secretary; Richard Gregory, vp.

Insurance Brokerage & Management Co. Ltd.

P.O. Box HM 604, Hamilton HM CX, Jardine House, Third Floor, Reid Street, Bermuda HM12; 809-295-2470; fax: 802-292-8243

Founded: 1974.
Frequent services: Government reporting, accounting, computerized accounting, reinsurance brokered for captives, investment management.
Occasional services: Captive feasibility studies, captive formation, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered to captives, underwriting and ratemaking for captives, legal advice.
Staff: Four, one professional.
Clients: Eight active captives managed at year-end 1991; 83% with less than $1 million in premiums, 17% with $10 million to $19.9 million. Seven inactive captives managed. Captives managed write $13 million premiums. $25 million in capital and surplus managed. No minimum size client
Current business: Six active captives, two inactive captives.
Compensation: Annual fee, $15,000 minimum; commissions.
1991 gross revenues: 59% from fees charged for captive management, 41% from commissions charged for brokering insurance and/or reinsurance.
Principal officers: Eric J.M. Arcay, managing director; John E. Thorne, controller; Denise Fearis, personal assistant.

International Advisory Services Ltd.

Chevron House, 11 Church St., Hamilton HM HX, Bermuda; 809-295-3688; fax: 809-295-2584

Founded: 1981.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, investment management, managing underwriting pools/facilities/association captives, association captive management services, specialized accounting services, reinsurance placed for captives.
Occasional services: Reinsurance brokered to captives, underwriting and ratemaking for captives, tax advice, loss control services, onshore services for associations.
Staff: 33, 16 professionals. Professional designations include two ACIIs, one FCII, 12 CAs, one CS.
Clients: 60 active captives managed at year-end 1991; 45% with less than $1 million in premiums, 18% with $1 million to $2.9 million, 16% with $3 million to $9.9 million, 5% with $10 million to $19.9 million, 16% with more than $20 million. One inactive captive managed. Captives managed write $410 million in premiums. No minimum size client.
Current business: 62 active captives, one inactive captive.
Subsidiaries: H&H Management Services Ltd. (Bermuda), IAS (Barbados) Ltd., IAS Insurance Management Inc., California U.S.A., International Advisory Services Inc. (Vermont).
Compensation: Annual fee, $12,500 minimum; commissions; time and expense.
1991 gross revenues: 95% from fees charged for captive management, 5% from other services including feasibility studies, consulting.
Principal officers: David Ezekiel, president/managing director; Terence Power, David Pickering, Simon Everett, David Lampit, officers.

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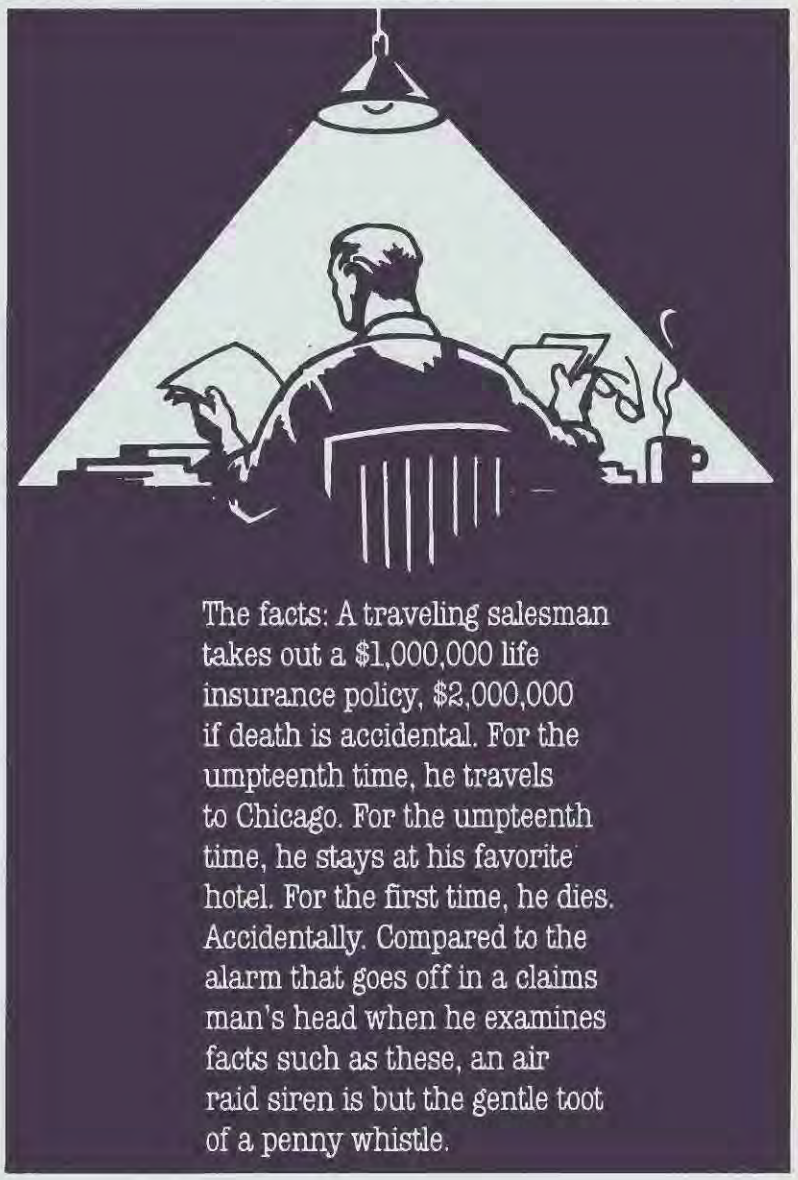

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International Insurance Management Ltd.

CGM Building, Collymore Rock, Bridgetown, Barbados;
809-436-8296; fax: 809-426-0433

Founded: 1986.
Frequent services: Captive formation, government reporting, accounting, computerized accounting, manual claims processing, investment management.
Staff: Five, one professional. Professional designations include one MBA.
Clients: 15 active captives managed at year-end 1991; 53% with less than $1 million in premiums, 13% with $3 million to $9.9 million, 7% with $10 million to $19.9 million, 27% with more than $20 million. Three inactive captives managed. Captives managed write $40 million premiums. $200 million in capital and surplus managed.
Current business: 12 active captives, three inactive captives.
Compensation: Annual fee, $5,000 minimum; time and expense: professional, $60; clerical, $20.
1991 gross revenues: 100% from fees charged for captive management.
Principal officers: William M. Tomlin, director; Anscele R.B. Payne, manager.

International Risk Management (Australia) Ltd.

c/o Deloitte, Ross & Tohmatsu;
61-250-0500

Parent company: International Risk Management Group Ltd.
Frequent services: Loss control services.
Occasional services: Captive feasibility studies, risk management consulting.
Principal officers: B.D. Murphy, chairman; W.F. Nehls, director.
Subcontracts for captive management services with International Risk Management Ltd.

International Risk Management (Barbados) Ltd.

Hadley House, P.O. Box 1264, Bridgetown, Barbados;
809-436-7541; fax: 809-436-8814

Founded: 1988.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives.
Staff: One professional who holds an ACII.
Clients: Two active captives managed at year-end 1991; 50% with $1 million to $2.9 million in premiums, 50% with $3 million to $9.9 million. Captives managed write $6.5 million premiums. $3.8 million in capital and surplus managed. No minimum size client.
Current business: Two active captives.
Compensation: Annual fee, $5,000 minimum or $135 per hour; time and expense: professional, $125 to $185; clerical: $60.
Principal officers: Richard Ince, general manager; B. Murphy, D. Westmoreland, W. Torpey and P. Joy, directors.

International Risk Management (Bermuda) Ltd.

Belvedere Building, P.O. Box HM 660, Hamilton HM CX, Bermuda;
809-295-0713; fax: 809-295-6319

Founded: 1988.
Parent company: International Risk Management Group Ltd.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives.
Occasional services: Claims reserves analysis, loss forecasting, association captive management services, specialized accounting services, onshore services for associations.
Staff: 26, 13 professionals. Professional designations include one CPA, two ARMs, four FCIIs, two CAs.
Clients: 28 active captives managed at year-end 1991; 43% with less than $1 million in premiums, 26% with $1 million to $2.9 million, 9% with $3 million to $9.9 million, 9% with $10 million to $19.9 million, 13% with more than $20 million. Captives managed write $248 million in premiums. $206 million in capital and surplus managed. No minimum size client.
Current business: 28 active captives.
Subsidiaries: International Risk Management Group Ltd.
Compensation: Annual fee, $5,000 minimum or $135 per hour; time and expense: professional, $125 to $185; clerical, $60.
1991 gross revenues: 91% from fees charged for captive management, 5% from commissions charged for brokering insurance and/or reinsurance, 4% from other services.
Principal officers: Bryan D. Murphy, president; Peter A. Joy, senior vp/director; Michael P. Daly, vp/financial controller; Roger Phelps, vp/director.

International Risk Management (Canada) Ltd.

666 Burrard St., Suite 1300, Vancouver, British Columbia, Canada V6C 3J8; 604-685-0529; fax: 604-688-2419

Frequent services: Government reporting, accounting, computerized accounting, computerized claims processing, reinsurance brokered for captives, underwriting and ratemaking for captives, loss control services.
Occasional services: Captive feasibility studies, captive formation.
Staff: Two, one professional. Professional designations held include CAs, ARMs.
Subcontracts for captive management services with Global Risk Financing Services Ltd.

International Risk Management (Canada) Ltd.

150 York St., Suite 400, Toronto, Ontario, M5H 3S5, Canada;
416-369-9797; fax: 416-594-0443

Founded: 1988.
Parent company: International Risk Management Group Ltd.
Frequent services: Loss control services, risk management consulting.
Occasional services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives.
Staff: Six, five professionals. Professional designations include one ARM, one CA, one FIIC.
Clients: One active captive managed at year-end 1991.
Current business: One active captive.
Principal officers: J.J. Ryan, president; K. Exon, vp; C. Barry Fox, district engineering manager-fire protection.

International Risk Management (Cayman) Ltd.

British American Tower, P.O. Box 69, Grand Cayman, Cayman Islands, B.W.I.; 809-949-0155; fax: 809-949-0002

Founded: 1988.
Parent company: Swiss Reinsurance Co.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, loss control services, association captive management services, specialized accounting services, onshore services for associations.
Staff: 55, 25 professionals. Professional designations include one CPCU, one MBA, seven FCIIs, four ACIIs, five PEs, three CAs.
Clients: 170 active captives managed at year-end 1991. Three inactive captives managed. Captives managed write $1.4 billion in premiums. $1.36 billion in capital and surplus managed.
Current business: 173 active captives.
Subsidiaries: International Risk Management Group Ltd., American Risk Management Corp., European Risk Management Ltd.
Principal officers: A.H. Deters, president/chief executive officer; B.D. Murphy, group executive vp; T.G. Grilli, group executive vp/chief financial officer; D.J. Westmoreland, group vp/secretary; J.J. Ryan, W.F. Nehls, group vps.

International Risk Management (Dublin) Ltd.

Block 3, Harcourt Centre, Dublin 2, Ireland; 353-1-781788;
fax: 353-1-781968

Founded: 1990.
Parent company: International Risk Management Group Ltd.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting.
Staff: Two, both professionals. Professional designations include one CPA.
Clients: Two active captives managed at year-end 1991.
Current business: Two active captives.
Principal officers: B.D. Murphy, chairman; J.R. English, director/general manager; D.J. Westmoreland, director; J.R. Parkinson, director.

International Risk Management (Guernsey) Ltd.

2 Grange Place, St. Peter Port, Guernsey; 481-727220;
fax: 481-712443

Founded: 1976.
Parent company: International Risk Management Group Ltd.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, loss control services, risk management consulting.
Occasional services: Manual claims processing, reinsurance brokered to captives, association captive management services, specialized accounting services, onshore services for associations.
Staff: 13, seven professionals. Professional designations held include two FCIIs, three FCAs.
Clients: 15 active captives at year-end 1991. Two inactive captives managed.
Current business: 15 active captives, two inactive captives.
Compensation: Annual fee, time and expense.
Principal officers: B.D. Murphy, chairman; J.R. Parkinson, managing director; J.W. Stuart, financial director; N.H. Wild, general manager/director; D.J. Westmoreland, director.

International Risk Management (Isle of Man) Ltd.

Well Road House, Market Street, Douglas, Isle of Man; 624-629198;
fax: 624-629199

Founded: 1983.
Parent company: International Risk Management Group Ltd.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, loss control services, risk management consulting.
Occasional services: Manual claims processing, reinsurance brokered to captives, association captive management services, specialized accounting services, onshore services for associations.
Staff: Four, three professionals. Professional designations include two ACIIs, one CA.
Clients: Nine active captives managed at year-end 1991. No minimum size client.
Current business: Nine active captives.
Compensation: Annual fee, time and expense.
Principal officers: B.D. Murphy, chairman; J.R. Parkinson, managing director; J.W. Stuart, financial director; A. Tunnicliffe, general manager; D.J. Westmoreland, director.

International Risk Management (Singapore) Pte. Ltd.

143 Cecil St. 15-01, GB Building, Singapore 0106; 652-2272623;
fax: 652-2274130

Founded: 1988.
Parent company: International Risk Management Group Ltd.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting.
Staff: Three, all professionals. Professional designations include one CPA, one FLMI.
Clients: Three active captives managed at year-end 1991.
Current business: Three active captives.
Principal officers: B.D. Murphy, chairman; D.J. Westmoreland, director; C. Lee, director/secretary.

International Risk Management Group Inc.

Belvedere Building, P.O. Box HM 660, Hamilton HM CX, Bermuda;
809-295-0713; fax: 809-295-5101

Founded: 1988.
Parent company: Swiss Reinsurance Co.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, loss control services, association captive management services, risk management consulting.
Staff: 313. Professional designations include nine CPAs, 11 CPCUs, five ARMs, three MBAs, four attorneys, two FCIIs, three ACIIs, four CAs.
Clients: 75 active captives managed at year-end 1991. Captives managed write $625 million premiums.
Current business: 75 active captives.
Compensation: Annual fee, $15,00 minimum.
Principal officers: B.D. Murphy, chairman; D.J. Westmoreland, deputy chairman; G.D. Brice, president; A.W. Summers, F. How, M. Searson, S. Western and D. Sampson, vps.

International Underwriting Managers (Cayman) Ltd.

P.O. Box 1569, Second Floor, Genesis Building, Jennett Street, Georgetown; 809-949-7906;
fax: 809-949-7891

Founded: 1987.
Parent company: International Management Group Ltd.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, actuarial studies, loss forecasting, investment management, tax advice, legal advice.
Occasional services: Manual claims processing, computerized claims processing, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking for captives, loss control services, association captive management services, specialized accounting services, onshore services for associations.
Staff: Nine, three professionals. Professional designations include one CA, one FCIS.
Clients: Six active captives managed at year-end 1991. Three inactive captives managed.
Current business: Six active captives, three inactive captives.

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Insurance Mergers & Acquisitions

abm

Addington, Baldwin & McDaniel, Inc.

Seattle, Washington

has merged with

RALEIGH, SCHWARZ & POWELL, INC.

Tacoma, Washington

The undersigned acted as financial advisor to Raleigh, Schwarz & Powell, Inc.

RUSSELL MILLER, INC.
INSURANCE INDUSTRY SPECIALTY INVESTMENT BANKERS

300 Montgomery Street
San Francisco, California 94104
(415) 956-7474

600 Congress Avenue, Suite 1725
Austin, Texas 78701
(512) 473-3660

Continued from previous page

Compensation: Time and expense: professional, $100 to $150; clerical, $40 to $85.

Principal officers: Athel C.E. Long, David M.L. Roberts, John M. Golds and J. Nairn Marshall, directors.

Isle of Man Insurance Management Ltd.

Derby House, Athol Street, Douglas, Isle of Man; 624-624141; fax: 624-622500

Founded: 1979.
Parent company: Isle of Man Assurance Ltd.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, underwriting and ratemaking for captives.
Occasional services: Loss forecasting, reinsurance brokered for captives.
Staff: 11, eight professionals. Professional designations include one FCII.
Clients: 11 active captives managed at year-end 1991.
Current business: 13 active captives, two inactive captives.
Subsidiaries: Dublin Independent Risk Management Ltd.
Compensation: Annual fee, $45,000 minimum.
Principal officers: R.N.S. Bigland, C. Crowther, P.M. Vick and T.E. Osborne, directors.

J

Jardine Pinehurst Management Co. Ltd.

Jardine House, 33-35 Reid St., P.O. Box HM 1752, Hamilton HM GX, Bermuda; 809-295-4864; fax: 809-292-7375

Founded: 1967.
Parent company: JIB Group P.L.C.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, tax advice, legal advice, loss control services, association captive management services, specialized accounting services, onshore services for associations, rent-a-captive facilities.
Staff: 16, four professionals. Professional designations include one MBA, one FCAS, two CAs, two FIICs.
Clients: 45 active captives managed at year-end 1991; 12% with less than $1 million in premiums, 44% with $1 million to $2.9 million, 32% with $3 million to $9.9 million, 10% with $10 million to $19.9 million, 2% with more than $20 million. Captives managed write $155 million in premiums.
Subsidiaries: Jardine Pinehurst Management (Barbados) Ltd., Jardine Pinehurst Management (Cayman) Ltd.
Compensation: Annual fee, no minimum; time and expense, professional: $75 to $225, clerical: $45 to $60.
1991 gross revenues: 70% from fees charged for captive management, 30% from commissions charged for brokering insurance and/or reinsurance.
Principal officers: Carl J.P. Daly, president; Donald P. Baker, Cyril H. Whitter Jr., senior vps; Lauretta L. Stoneham, vp-administration.

Jardine Risk Services (Isle of Man) Ltd.

Derby House, Athol Street, Douglas, Isle of Man; 624-624141; fax: 624-622500

Founded: 1987.
Principal officers: R.N.S. Bigland, C.G. Bowen, W.J.H. Corlett, directors.
Subcontracts for captive management services with Isle of Man Insurance Management Ltd.

Johnson & Higgins (Barbados) Ltd.

Alleyne House, Whitepark Road, Bridgetown, Barbados; 809-436-9929; fax: 809-436-9932

Founded: 1986.
Parent company: Johnson & Higgins.
Frequent services: Captive formation, accounting, computerized accounting, reinsurance brokered to captives, association captive management services.
Occasional services: Captive feasibility studies, government reporting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, captives, underwriting and ratemaking for captives, specialized accounting services.
Staff: 12, four professionals. Professional designations include one CGA, one FCA, one ACII, one FLMI.
Clients: 17 active captives managed at year-end 1991; 29% with less than $1 million in premiums, 12% with $1 million to $2.9 million, 23% with $3 million to $9.9 million, 18% with $10 million to $19.9 million, 18% with more than $20 million. Four inactive captives managed. Captives managed write $138 million in premiums. $126 million in capital and surplus managed. No minimum size client.
Current business: 10 active captives, three inactive captives.
Subsidiaries: J.H. Intermediaries (Barbados) Ltd.
Principal officers: David K. Self, vp/branch manager; Anderson Marshall, senior account manager.

Johnson & Higgins (Bermuda) Ltd.

Victoria Hall, Victoria Street, Hamilton, Bermuda; 809-292-4402; fax: 809-292-1563

Founded: 1969.
Parent company: Johnson & Higgins.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, managing underwriting pools/facilities/association captives, association captive management services, specialized accounting services.
Occasional services: Manual claims processing, underwriting and ratemaking for captives.
Staff: 153, 38 professionals. Professional designations include five ARMs, two MBAs, two FCIIs, 11 ACIIs.
Clients: 157 active captives managed at year-end 1991; 42% with less than $1 million in premiums, 25% with $1 million to $2.9 million, 18% with $3 million to $9.9 million, 6% with $10 million to $19.9 million, 9% with more than $20 million. 21 inactive captives managed. Captives managed write $1.2 billion in premiums. $1.6 million in capital and surplus managed. No minimum size client.
Current business: 157 active captives, 21 inactive captives.
Principal officers: Brian R. Hall, chairman; Wayne Morgan, senior vp; Roger Gillett, senior vp; Shaun A. Reape, vp-administration; Jill Husbands, vp/manager-insurance department.

Johnson & Higgins (Cayman Islands) Ltd.

P.O. Box 1051, Butterfield House, Grand Cayman, Cayman Islands, B.W.I; 809-949-7988; fax: 809-949-7849

Founded: 1979.
Parent company: Johnson & Higgins.
Frequent services: Captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, reinsurance brokered for captives, managing underwriting pools/facilities/association captives, association captive management services, specialized accounting services.
Occasional services: Captive feasibility studies, manual claims processing, computerized claims processing, actuarial studies, loss forecasting, reinsurance brokered to captives, onshore services for associations.
Staff: 20, eight professionals. Professional designations include seven CAs, one CFA.
Clients: 64 active captives managed at year-end 1991; 18% with less than $1 million in premiums, 30% with $1 million to $2.9 million, 42% with $3 million to $9.9 million, 5% with $10 million to $19.9 million, 5% with more than $20 million. Four inactive captives managed. Captives managed write $310 million in premiums. $450 million in capital and surplus managed. No minimum size client.
Current business: 62 active captives, four inactive captives.
Compensation: Annual fee, $24,000 minimum; commissions; time and expense: professional, $130 to $170; clerical, $75 to $90.
Principal officers: Wayne A.M. Cowan, vp/branch manager; Merise D. Wheatley, assistant vp/senior account manager; Graham J. Manchester, assistant vp/account manager; Peter D. O'Leary, Catherine G. Townsend and Michael G. Murphy, account managers.

Johnson & Higgins (U.S. Virgin Islands) Ltd.

P.O. Box 12259, St. Thomas, U.S. Virgin Islands 00801; 809-776-0411; fax: 809-776-0532

Founded: 1985.
Parent company: Johnson & Higgins.
Frequent services: Captive feasibility studies, government reporting, accounting, computerized accounting, captive and FSC management.
Occasional services: Captive formation, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management.
Staff: Three, two professionals. Professional designations held include one CPA, one CPCU.
Clients: Four active captives managed at year-end 1991; 25% with $1 million to $2.9 million in premiums, 50% with $3 million to $9.9 million, 25% with $10 million to $19.9 million. No minimum size client. Captives managed write $20 million in premiums.
Compensation: Annual fee, $30,000 minimum.
1991 gross revenues: 20% from fees charged for captive management, 30% from foreign sales corporation.
Principal officers: Brian R. Hall, president; Graeme M. Harper, vp.

Johnson & Higgins Risk Management Services (Singapore) Pte. Ltd.

143 Cecil St., GB Building, 14-01, Singapore 0106; 65-225-3655; fax: 65-224-6721

Founded: 1989.
Parent company: Johnson & Higgins.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, reinsurance brokered for captives, reinsurance brokered to captives, loss control services.
Occasional services: Manual claims processing, claims reserves analysis, actuarial studies, loss forecasting.
Staff: Four. Professional designations include two CPAs, one ACII, one ARM.
Clients: One active captive managed at year-end 1991 with $10 million to $19.9 million in premiums.
Current business: One active captive.
Principal officers: Richard A. Ambrose, managing director.

Johnson & Higgins Services Inc. (Colorado)

950 17th St., Suite 1850, Denver, Colo. 80202; 303-893-3444; fax: 303-893-3465

Founded: 1983.
Parent company: Johnson & Higgins.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, association captive management services, specialized accounting services, onshore services for associations.
Occasional services: Claims reserves analysis, reinsurance brokered to captives, loss control services.
Staff: Two, one professional.
Clients: One active captive managed at year-end 1991 with $3 million to $9.9 million in premiums. No minimum size client.
Current business: One active captive.
Compensation: Annual fee.
1991 gross revenues: 100% from fees charged for captive management.
Principal officers: Richard E. Meyer, president; Brian R. Hall, director; Arthur G. Koritzinsky, senior vp; Paul Froment, assistant vp; Donald Sicard.

Johson & Higgins Services Inc. (Delaware)

1201 Market St., Suite 1000, Wilmington, Del. 19801-1175; 302-888-4300; fax: 302-571-8425

Founded: 1983.
Parent company: Johnson & Higgins.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, association captive management services, specialized accounting services, onshore services for associations.
Occasional services: Claims reserves analysis, reinsurance brokered to captives, loss control services.
Staff: One professional.
Clients: One active captive managed at year-end 1991. No minimum size client.
Current business: One active captive.
1991 gross revenues: 100% from fees charged for captive management.
Principal officers: Richard E. Meyer, president; Brian R. Hall, director; Arthur G. Koritzinsky, senior vp; Kenneth A. Morley.

Johnson & Higgins Services Inc. (Hawaii)

745 Fort St., Suite 1820, Honolulu, Hawaii; 808-599-5902; fax: 808-531-1549

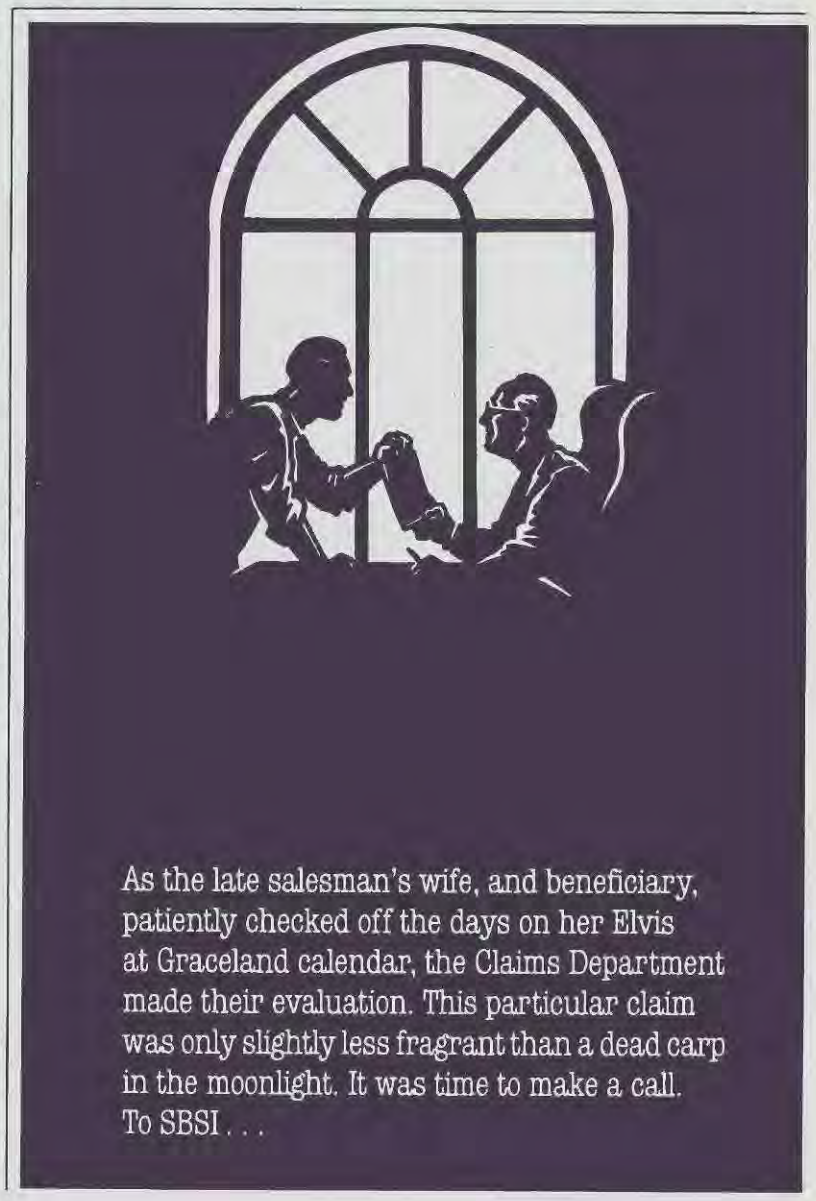
Founded: 1983.
Parent company: Johnson & Higgins.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, association captive management services, specialized accounting services, onshore services for associations.
Staff: Three, two professionals. Professional designations include two CPAs.
Clients: Seven active captives managed at year-end 1991; 43% with less than $1 million in premiums, 14% with $1 million to $2.9 million, 43% with $3 million to $9.9 million. Captives managed write $16 million in premiums. $13 million in capital and surplus managed. No minimum size client.
Current business: Seven active captives.
Compensation: Annual fee.
1991 gross revenues: 100% from fees charged for captive management.
Principal officers: Richard E. Meyer, president; Brian R. Hall, director; Arthur G. Koritzinsky, senior vp; Craig Watanabe, assistant vp.

Johnson & Higgins Services Inc. (Vermont)

7 Burlington Square, Sixth Floor, Burlington, Vt. 05401; 802-864-5599; fax: 802-864-5764

Founded: 1983.
Parent company: Johnson & Higgins.
Frequent services: Captive feasibility studies, captive formation,

Continued on next page



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government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, association captive management services, specialized accounting services, onshore services for associations.

Occasional services: Claims reserves analysis, reinsurance brokered to captives, loss control services.

Staff: 25, 21 professionals. Professional designations include six CPAs.

Clients: 47 active captives managed at year-end 1991; 40% with less than $1 million in premiums, 32% with $1 million to $2.9 million, 19% with $3 million to $9.9 million, 9% with more than $20 million. One inactive captive managed. Captives managed write $287.7 million in premiums. $591 million in capital and surplus managed. No minimum size client.

Current business: 48 active captives, one inactive captive.

Compensation: Annual fee, time and expense.

1991 gross revenues: 90% from fees charged for captive management, 10% from other services including actuarial services.

Principal officers: Richard E. Meyers, president; Arthur G. Koritzinsky, senior vp; Brian R. Hall, director; Malcolm Cutts-Watson, vp; Julie Boucher, assistant vp.

K

Kast Financial Management Ltd.

Gibbons Building, 10 Queen St., P.O. Box HM 780, Hamilton HM CX, Bermuda; 809-295-4274; fax: 809-295-8075

Founded: 1967.

Frequent services: Captive feasibility studies, captive formation, accounting, computerized accounting, investment management.

Staff: Two professionals who are both CPAs.

Clients: Two active captives managed at year-end 1991; 50% with less than $1 million in premiums, 50% with $3 million to $9.9 million. Four inactive captives managed. Captives managed write $8 million in premiums. $8 million in capital and surplus managed. No minimum size client.

Current business: Two active captives, four inactive captives.

Compensation: Annual fee.

Principal officers: Harry B. Kast, managing director.

Kemper Management Co. Ltd.

P.O. Box HM 1234, Hamilton HM FX, Bermuda; 809-292-5105; fax: 809-292-5302

Founded: 1978.

Parent company: Kemper International Corp.

Frequent services: Accounting, computerized accounting, computerized claims processing.

Occasional services: Captive feasibility studies, captive formation, government reporting, manual claims processing, claims reserves analysis, underwriting and ratemaking for captives, investment management, managing underwriting pools/facilities/association captives, association captive management services.

Staff: Six, one professional. Professional designations include one CPCU, one ARM.

Clients: Three active captives managed at year-end 1991, all with $3 million to $9.9 million in premiums. Captives managed write $16.6 million in premiums Minimum size client, $500,000.

Current business: Three active captives.

Compensation: Time and expense.

Principal officers: James S. Kemper III, chairman; Robert L. Smialek, chief executive officer; Theodore J. Hoeh, president/general manager; Walter L. White, vp; M. Grace Soares, vp/assistant general manager; D.C. Elstrom, treasurer.

L

Lockton Risk Services Inc.

1900 W. 75th St., Prairie Village, Kan. 66208; 913-676-9150 or 800-829-0919; fax: 913-676-9088

Founded: 1987.

Parent company: The Lockton Cos. Inc.

Frequent services: Accounting, computerized accounting, computerized claims processing, claims reserves analysis, underwriting and ratemaking for captives, loss control services, association captive management services, specialized accounting services, onshore services for associations.

Occasional services: Captive feasibility studies, captive formation, government reporting, loss forecasting, reinsurance brokered for captives, managing underwriting pools/facilities/association captives.

Staff: 38, 11 professionals. Professional designations held include one CPA, two CPCUs, one MBA.

Clients: Captives managed write $11 million in premiums. $10 million in capital and surplus managed. Minimum fee, $2 million.

Subsidiaries: Lockton Risk Services of Colorado.

Compensation: Annual fee; commissions; time and expense: professional, $150; clerical, $35.

1991 gross revenues: $2.5 million; 30% from fees charged for captive management, 65% from commissions charged for brokering insurance and/or reinsurance, 5% from consulting.

Principal officers: Steven Eginoire, president; Scott Keller, senior vp; Marianne Sears, vp; Michael Frost, secretary; Gary Wanamaker, treasurer.

Lowndes Lambert Insurance Management (Guernsey) Ltd.

P.O. Box 308, 11 Westbrook Centre, South Side, St. Sampson's, Guernsey, Channel Islands; 481-49984; fax: 481-48304

Founded: 1979

Parent company: Lowndes Lambert U.K. Ltd.

Frequent services: Captive feasibility studies, accounting, computerized accounting, computerized claims processing, claims reserves analysis, loss forecasting, underwriting and ratemaking for captives, investment management.

Occasional services: Captive formation, manual claims processing, actuarial studies, reinsurance brokered for captives, tax advice, legal advice.

Staff: Three, one professional. Professional designations include FCIIs.

Clients: Seven active captives managed at year-end 1991; 56% with less than $1 million in premiums, 14% with $1 million to $2.9 million, 30% with $3 million to $9.9 million. Captives managed write $22 million in premiums.

Current business: Seven active captives.

Principal officers: Alexander Lindsay, director; David Mills.

M

M&M Insurance Management Services Inc.

1700 Lincoln St., Suite 4900, Denver, Colo. 80203; 303-861-7111

Founded: 1976.

Parent company: Marsh & McLennan Cos. Inc.

Staff: Four.*

Clients: Three active captives managed at year-end 1991. Captives managed write $217,359** premiums.

Principal officers: Lorraine Kehm, assistant vp.

** BI estimate.*

***Colorado Division of Insurance figure.*

M&M Insurance Management Services Inc.

P.O. Box 5129, 7 Burlington Square, Fifth Floor, Burlington, Vt. 05402; 802-658-0776

Founded: 1980.

Parent company: Marsh & McLennan Cos. Inc.

Staff: 11*.

Clients: 26** active captives managed at year-end 1991. Captives managed write $598.3 million** in premiums.

Principal officers: Raymond C. Oberg, senior vp.

** BI estimate.*

***Vermont Department of Banking Insurance & Securities figures.*

Maduro & Curiel's Insurance Services N.V.

130, Schottegatweg Oost, Curacao, Netherlands Antilles; 599-9-661607; fax: 599-9-661611

Founded: 1979.

Parent company: Maduro & Curiel's Bank N.V.

Frequent services: Government reporting, accounting, computerized accounting.

Occasional services: Captive formation, manual claims processing, computerized claims processing, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, tax advice, legal advice.

Staff: 32, three professionals. Professional designations include one MBA.

Clients: Three active captives managed at year-end 1991; 5% with less than $1 million in premiums, 15% with $1 million to $2.9 million, 80% with $3 million to $9.9 million.

Current business: Three active captives.

Compensation: Annual fee, $850 minimum.

1991 gross revenues: 100% from fees charged for captive management.

Principal officers: R. Gomes Casseres, E.F. Stins.

Management Resources Inc.

3860 Norwest Center, Minneapolis, Minn. 55402; 612-337-5224; fax: 612-349-6865

Founded: 1989.

Parent company: MLM Services Inc.

Frequent services: Accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, loss control services.

Occasional services: Captive feasibility studies, captive formation, government reporting.

Staff: Seven, six professionals. Professional designations include one CPA, one CPCU, one ARM, one MBA.

Clients: Two active captives managed at year-end 1991; 50% with $3 million to $9.9 million in premiums, 50% with $10 million to $19.9 million. Captives managed write $15 million in premiums. $15 million in capital and surplus managed. No minimum size client.

Current business: Two active captives.

Compensation: Annual fee.

1991 gross revenues: 100% from fees charged for captive management.

Principal officers: Joseph H. Bixler, president; Rosemary L. Wells and Barbara Miller, vps.

Marsh & McLennan Management Services (Bermuda) Ltd.

Second Floor, Craig Appin House, Wesley Street, Hamilton HM FX, Bermuda; 809-295-3278

Founded: 1968.

Parent company: Marsh & McLennan Cos. Inc.

Staff: 50.

Clients: 87* active captives managed at year-end 1991. Captives managed write $350 million* in premiums.

Principal officers: Andrew D. Carr, president.

** BI estimate.*

Marsh & McLennan Management Services (Cayman) Ltd.

P.O. Box 2196, George Town, Grand Cayman, Cayman Islands, B.W.I.; 809-949-7466; fax: 809-949-8096

Founded: 1978.

Parent company: Marsh & McLennan Cos. Inc.

Frequent services: Captive formation, government reporting, accounting, computerized accounting.

Occasional services: Captive feasibility studies, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, investment management, managing underwriting pools/facilities/association captives.

Staff: Three, two professionals. Professional designations held include two CPAs.

Clients: 29 active captives managed at year-end 1991; 24% with less than $1 million in premiums, 62% with $1 million to $2.9 million, 7% with $3 million to $9.9 million, 7% with $10 million to $19.9 million. Four inactive captives managed. Captives managed write $65 million in premiums. $53 million in capital and surplus managed. No minimum size client.

Current business: 29 active captives, four inactive captives.

Compensation: Annual fee, time and expense.

1991 gross revenues: 100% from fees charged for captive management.

Principal officers: Stephen R. Dilts, director/assistant vp.

Marsh & McLennan Management Services (Guernsey) Ltd.

P.O. Box 34, Leriche House, 50 High St., St. Peter Port, Guernsey, Channel Islands; 0481-728136; fax: 0481-713617

Founded: 1988.

Parent company: Marsh & McLennan Cos. Inc.

Frequent services: Captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management.

Occasional services: Captive feasibility studies.

Subcontracts for captive management services with Transglobe Underwriting Management (Guernsey) Ltd.

McDonough Caperton Insurance Group

P.O. Box 1551, Charleston, W.Va. 25326-1551; 304-346-0611; fax: 304-347-0697

Founded: 1933.

Frequent services: Captive feasibility studies, captive formation, government reporting, computerized accounting, association captive management services.

Clients: One active captive managed at year-end 1991.

1991 gross revenues: $37.5 million.

Principal officers: W. Marston Becker, president.

Subcontracts for captive management services with BF&M Management Ltd.

Meadowbrook Insurance Group

26600 Telegraph Road, Southfield, Mich. 48034; 313-358-1100; fax: 313-358-1614

Founded: 1955.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, legal advice, managing underwriting pools/facilities/association captives, loss control services, association captive management services, specialized accounting services, onshore services for associations.

Staff: 204, 14 professionals. Professional designations include three CPAs, six CPCUs, two ARMs, one attorney, two CLUs.

Clients: 35 active captives managed at year-end 1991.

Current business: 35 active captives.

Subsidiaries: Corporate Risk Consultants (Southfield, Mich., and Boca Raton, Fla.); Meadowbrook Risk Management Ltd., Hamilton, Bermuda.

Compensation: Annual fee, commissions, time and expense.

1991 gross revenues: 80% from fees charged for captive management, 20% from consulting and studies.

Principal officers: Merton J. Segal, chairman; Robert A. Engle, president; Cheryl L. Reno, vp; Lee F. Kelly, vp/treasurer; Robert S. Cubbin, vp/general counsel.

Meadowbrook Risk Management Ltd.

P.O. Box HM 1314, Hamilton HM JX, Bermuda; 809-292-7569; fax: 809-292-3299

Founded: 1979.

Parent company: Meadowbrook Inc.

Frequent services: Government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, loss control services, association captive management services, special-

Continued on page 122

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FROM THE FILES OF SBSI:

THE CASE OF THE LOUD-MOUTHED LOVER.

The Chicago police were satisfied. A traveling salesman from Memphis had been shot down in his hotel room, the victim of an armed robbery, happens all the time. The guy made a mistake. He heard a knock, he opened the door. Maybe in Memphis that's the smart thing to do. Not in Chicago, in a hotel room, late at night. He made a mistake.

The insurance company wasn't satisfied. When a heavily insured party dies almost before the ink is dry on the policy, there's something rotten in Chicago. And it's not just the weather. SBSI agreed.

As trained SBSI investigators took their act on the road, first to Chicago, then to Memphis, curious and curiouser facts began to emerge. It soon became apparent that the traveling salesman had made two big mistakes. The second was opening his hotel room door to strangers. The first was trusting his wife.

Financial records, property ownership, medical history, any arrest reports or pending legal actions—all were carefully scanned by SBSI investigators. Equally important, friends, neighbors, relatives, employers, co-workers, business associates—anyone who might know anything was interviewed. Information was checked and cross-checked.

In her husband's absence, the little woman's heart did grow fonder. For a local barfly with nice white teeth and tight pants. As he tried in vain to drink all the shots and beers in Memphis, his tongue got looser and his ego got bigger. He bragged to anybody that would listen that he and his tootsie were going to split $2,000,000 because he'd, "stopped her old man's clock, but good."

Based on detailed information gathered by SBSI investigators, the Chicago and Memphis police departments cooperated and an almost-rich widow found herself under the hot lights.

As SBSI closed the file on this one, the insurance company was $2,000,000 to the good. And if the two greedy sweethearts want to spend their time behind bars writing their life stories, they've got the rest of their lives to do it.

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P R E S E N T S

THE FIRST ANNUAL HEALTH CARE MANAGEMENT & COST CONTAINMENT CONFERENCE

Managed Care, A Changing Industry

The industry event for all employee benefit managers, human resource executives and health care providers

April 27-28, 1992
The Grand Hyatt Hotel • New York City

HEALTH CARE MANAGEMENT CONFERENCE AGENDA

MONDAY, APRIL 27

7:45 a.m. *Registration (Coffee & Danish)*

8:45 a.m. OPENING REMARKS FROM THE CHAIR
Kathryn J. McIntyre
Publisher/Editorial Director
Business Insurance

9:00 a.m. KEYNOTE ADDRESS
Eugene LeBlanc
Executive Director of Special Assignments
Ministry of Health
Government of Ontario

9:30 a.m. MANAGED CARE: A CHANGING INDUSTRY
- ▶ Current models of managed care
- ▶ Developing trends that are changing the arena of managed care
- ▶ The next generation of managed care

Charles Jacobs
President
InterQual, Inc.

Warren L. Moser
President
Advance Benefit Concepts

Roger S. Taylor, M.D.
National Leader - Health Care
The Wyatt Company

10:30 a.m. *Mid-Morning Refreshments*

11:00 a.m. INNOVATIVE APPROACHES TO CONTAIN HEALTH CARE COSTS: ASSESSING YOUR COMPANY'S PARTICULAR NEEDS
- ▶ Balancing access, quality and cost in customizing a health care program
- ▶ Designing and implementing an effective communications program to assist employees in making informed decisions

Jay Hague
Corporate Director of Benefits
Campbell Soup Company

Jim Norton
Managing Consultant
A. Foster Higgins & Co.

12:00 p.m. GOING DIRECT: PURCHASING DIRECTLY FROM THE SOURCE
- ▶ Customizing plan design
- ▶ Leasing existing networks
- ▶ Determining and evaluating cost-effectiveness
- ▶ Sharing risk with providers
- ▶ Legal liabilities

Leesa J. Key
Partner
Coopers & Lybrand

Paul McAuliffe
Director - Compensation & Benefits
Becton, Dickinson & Co.

12:45 p.m. *Luncheon for Attendees & Speakers*
Sponsored by
John Hancock Financial Services

1:30 p.m. **Luncheon Speaker:**
William E. Caulfield
Senior Vice President
Group Benefit Operations
John Hancock Financial Services

2:00 p.m. PREVENTIVE CARE: INTEGRATING PREVENTIVE CARE INTO BENEFIT PROGRAMS
- ▶ Financial incentives to promote healthy behavior
- ▶ The ingredients of a successful wellness program
- ▶ Effective communication with employees

Lynn Gilfillan
Community Wellness Development Coordinator
Coors Brewing Company

John Moses
Consultant
Hewitt Associates

Sonia Muchnick-Baku
Director, National Resource Center on Worksite Health Promotion
Washington Business Group on Health

3:00 p.m. *Mid-Afternoon Refreshments*

3:30 p.m. ***Concurrent Session A:***
THE TOP RISK MANAGEMENT ISSUE OF THE 90s: WORKERS COMPENSATION
- ▶ Applying managed care techniques to contain workers compensation costs
- ▶ The working model
- ▶ The range of services required
  - case management
  - claims management
  - utilization review

Gary Anderberg, Ph.D.
Conservco

Douglas Rinaldi
Risk Manager
City of Waterbury, CT

Speaker to be announced

3:30 p.m. ***Concurrent Session B:***
FLEXIBLE BENEFITS: HAVE THEY PROVEN EFFECTIVE IN CONTAINING HEALTH CARE COSTS?
- ▶ Advantages and drawbacks
- ▶ Are employees using them efficiently?
- ▶ Measuring cost-effectiveness

John Hickey
Partner
Kwasha Lipton

Andrea L. Schultz
Vice President & Director - Human Resources
Educational Testing Services

HEALTH CARE MANAGEMENT CONFERENCE AGENDA

4:15 p.m. **MANAGING YOUR MENTAL HEALTH & SUBSTANCE ABUSE BENEFITS: IMPROVING QUALITY WHILE CONTAINING COSTS**

- The Chrysler Success Story: A managed mental health/substance abuse program with returns
- Integrating MH/SA benefits with your current employee assistance program
- Scoring points with your union through quality managed MH/SA benefit plan design
- Cutting edge concepts for MH/SA benefit plan redesign

Panel Moderator:
Sara Bilik
Vice President–Marketing
Preferred Health Care

Donald Longnecker
Manager - Finance & Planning
Health Care Group Insurance
Chrysler Corporation

David McDonnell
President and Chief Executive Officer
Preferred Health Care

5:15 p.m. **COCKTAIL RECEPTION**
Sponsored by Coopers & Lybrand

TUESDAY, APRIL 28

7:30 -8:45 *Special Working Continental Breakfast*
Sponsored by Preferred Health Care

PRACTICAL STEPS FOR TAKING CONTROL OF YOUR COMPANY'S MENTAL HEALTH/ SUBSTANCE ABUSE BENEFITS
Discussion will focus on state-of-the-art how-to's you can use for:

- Cost-effective MH/SA benefit plan design
- MH/SA vendor selection, management and evaluation
- EAP integration in the new managed environment

Sara Bilik
Vice President–Marketing
Preferred Health Care

David Stone
Corporate Vice President - Marketing
Preferred Health Care

8:45 a.m. **REMARKS FROM THE CHAIR**

9:00 a.m. **HEALTH CARE REFORM: WHAT IS ON THE HORIZON?**

- The probability of systemic reform: Is national health insurance a viable option?
- Proposed bills in Congress
- Issues being addressed at the State level

Panel Moderator:
Jerry Geisel
Editor-At-Large
Business Insurance

William Custer, Ph.D.
Director of Research
Employee Benefit Research Institute

Ellen Goldstein
Director of Health Policy & Communications
Association for Private Pension & Welfare Plans

Frank McArdle
Partner and Research Consultant
Hewitt Associates

10:00 a.m. *Mid-Morning Refreshments*

10:30 a.m. **QUALITY OF CARE MANAGEMENT AND COST CONTROL:IS IT A ZERO-SUM GAME?**

- Assessing cost-effectiveness and quality of care standards of providers
- How do employers evaluate what they have purchased in the health care marketplace?
- Techniques for monitoring the quality of care of providers

Panel Moderator:
Joseph Metz
Director of Governmental Legal Services
Buck Consultants

John George
Executive Vice President
InterGroup Services Corporation

The Honorable Donna Lynne
First Deputy Commissioner
Office of Labor Relations
City of New York

11:30 a.m. **LATEST DEVELOPMENTS IN HEALTH MAINTENANCE AND PREFERRED PROVIDER ORGANIZATIONS**

- Exclusive provider organizations
- Open-ended HMOs
- Managed fee-for-service
- Utilization review

Art Drechsler
Vice President
Martin E. Segal

Larry Goelman
President and Chief Executive Officer
Cost Care, Inc.

12:15 p.m. *Luncheon for Attendees & Speakers*

1:00 p.m. **Luncheon Speaker:**
Gerry Goodrich
Deputy Commissioner of Health
State of New Jersey

1:30 p.m. ***Concurrent Session A:***
EFFICIENT AND COST-EFFECTIVE USES OF TECHNOLOGY IN MANAGING HEALTH CARE COSTS

- Evaluating the claims process
- Monitoring physician costs

Panel Moderator:
Doug Leland
Vice President
Intracorp

Jack Romeo
Director of Health Care Systems
Bethlehem Steel Corporation

David Rullo, M.D.
Medical Director
Health Payment Review

1:30 p.m. ***Concurrent Session B:***
UNDERSTANDING AND IMPLEMENTING FAS 106

- The redesign of retiree health benefits
- How to fund accrued liability
- Practical aspects of plan implementation

Lee Launer
Partner
Coopers & Lybrand

Lewis M. Borgenicht
Consulting Actuary
Actuarial Sciences Associates

2:15 p.m. *Mid-Afternoon Refreshments*

2:45 p.m. **HEALTH CARE COALITIONS: COMPANIES COMING TOGETHER TO REACH COMMON GOALS**

- Defining the health care coalition
- What types of strategies are the coalitions implementing
- Advantages and drawbacks for individual companies

Debra Hubers
Director of Marketing
The Alliance

Dorothee Maynard
President
Good Neighbor Alliance

3:30 p.m. **END OF CONFERENCE**

▶ **HOW TO REGISTER:** Register for The First Annual Health Care Management & Cost Containment Conference in one of three easy ways:

1. Telephone IBF Conferences at (516) 229-2375, or
2. Fax your registration to us at (516) 229-2386, or
3. Mail your completed registration form (or a photocopy) to:
   IBF Conferences/International Business Forum
   50 Charles Lindbergh Blvd., Suite 400
   Uniondale, NY 11553-3619

▶ **FEE:** Your registration fee includes lunches, refreshments, receptions, and the conference workbook. The registration fee is $795. Early Bird registration fee is $695 if you register before March 13. You may send a check for your registration fee, charge to your American Express Card, or we will invoice you. Please make checks payable to "IBF Conferences" and print the name(s) of attendee(s) on the face of the check.

▶ **GROUP DISCOUNT:** A group discount of $100 per person off the registration fee is available for 3 or more registrants from the same company.

▶ **DATES:** April 27 & 28, 1992

▶ **VENUE:** Grand Hyatt New York
Park Avenue at Grand Central
New York, NY 10017
(212) 883-1234

▶ **CANCELLATIONS** received in writing by IBF before March 27, 1992 will receive a refund minus a $100 administrative charge. Thereafter, refunds are not available. Substitutions may be made at any time by calling IBF at (516) 229-2375.

▶ **REDUCED RATE ACCOMMODATIONS:** Please make your reservation directly with Grand Hyatt New York at (212) 883-1234. You will receive a discounted room rate if you mention the name of the conference.

▶ **TABLETOP EXHIBITORS:** There will be space set aside for tabletop exhibits for companies who target products and services to this market. To access this high-level audience, contact Kim Mascolo at IBF at (516) 229-2375.

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Please register the following individuals for **The First Annual Health Care Management & Cost Containment Conference:**

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Continued from page 118
ized accounting services, onshore services for associations.

Occasional services: Captive feasibility studies, captive formation, actuarial studies, loss forecasting, reinsurance brokered to captives, legal advice.

Staff: Four, two professionals. Professional designations include one MBA, one ACII, one FCA.

Clients: 13 active captives managed at year-end 1991; 22% with less than $1 million in premiums, 71% with $1 million to $2.9 million, 7% with $3 million to $9.9 million. No minimum size client. Three inactive captives managed. Captives managed write $22 million in premiums.

Current business: 13 active captives, three inactive captives.

Compensation: Annual fee, $10,000 minimum; time and expense.

1991 gross revenues: 100% from fees charged for captive management.

Principal officers: Merton J. Segal, president; Brian Stephenson, managing director/vp; Jim Kelly, vp.

Midland Bank Trust Corp. (Cayman) Ltd.

P.O. Box 1109, Grand Cayman, Cayman Islands, B.W.I.; 809-94-97755; fax: 809-94-97634

Founded: 1984.

Parent company: Midland Bank P.L.C.

Frequent services: Captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, investment management, association captive management services, specialized accounting services, banking.

Staff: 43, 11 professionals. Professional designations include four CPAs, two ACIIs, one ACIS, four AIBs.

Clients: 64 active captives managed at year-end 1991. Four inactive captives managed. No minimum size client.

Current business: 68 active captives, four inactive captives.

Compensation: Annual fee, $6,000 minimum; time and expense: professional, $125 to $200; clerical $85.

Principal officers: David Whitefield, managing director; Anthony Stelling, director; Thomas Clark, assistant director; Linda Haddleton, manager-insurance services.

Mims International (Barbados) Ltd.

15 Roebuck St., Bridgetown, Barbados; 809-426-6467; fax: 809-429-8517

Founded: 1986.

Frequent services: Captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing.

Occasional services: Captive feasibility studies, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives.

Staff: Three, all professionals.

Clients: 15 active captives managed at year-end 1991; 58% with less than $1 million in premiums, 14% with $1 million to $2.9 million, 7% with $3 million to $9.9 million, 7% with $10 million to $19.9 million, 14% with more than $20 million. Captives managed write $93 million in premiums. $77.9 million in capital and surplus managed. No minimum size client.

Current business: 16 active captives, 16 inactive captives.

Principal officers: Martin R. Hole, president.

Minet Risk Services (Bermuda) Ltd.

Fifth Floor, Cumberland House, 1 Victoria St., Hamilton HM 11, Bermuda; 809-295-0073; fax: 809-295-5003

Founded: 1983.

Parent company: Minet Group P.L.C.

Frequent services: Government reporting, accounting, computerized accounting, manual claims processing, association captive management services, specialized accounting services.

Occasional services: Captive feasibility studies, captive formation, computerized claims processing, claims reserves analysis, underwriting and ratemaking for captives.

Staff: 20, 10 professionals. Professional designations include seven CPAs.

Clients: 19 active captives managed at year-end 1991; 20% with less than $1 million in premiums, 27% with $1 million to $2.9 million, 37% with $3 million to $9.9 million, 5% with $10 million to $19.9 million, 11% with more than $20 million. Five inactive captives managed. Captives managed write $200 million in premiums.

Current business: 19 active captives, five inactive captives.

Compensation: Annual fee, $25,000 minimum.

1991 gross revenues: $1.4 million, 100% from fees charged for captive management.

Principal officers: L. Ware III, senior vp (New York); Colin R. Newall, managing director (Bermuda); Ian McCathie, managing director (Guernsey); Paul Lee, managing director (Singapore); William Tomlin, president (Barbados); Guy Lentz, managing director (Luxembourg).

Morris, Cottingham Associates Ltd.

P.O. Box 156, Hibiscus Square, Grand Turk, Turks & Caicos Islands; 809-946-2504 or 809-946-2505; fax: 809-946-2503

Founded: 1986.

Frequent services: Captive formation, government reporting, accounting, computerized accounting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, association captive management services, specialized accounting services, offshore financial services.

Occasional services: Captive feasibility studies, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, investment management.

Staff: 16, eight professionals. Professional designations include three CPAs, one FCA, one ACA, one CA.

Clients: 1,000 active captives managed at year-end 1991. No minimum size client.

Current business: 1,000 active captives.

Compensation: Annual fee, time and expense.

Principal officers: Reg Bodhanya, Ervin Quelch, Janice McIlwrick, Michael Parton.

Mutual Coyle Hamilton Managers Ltd.

7/9 S. Loinster St., Dublin 2, Republic of Ireland; 353-1-765043; fax: 353-1-767957

Founded: 1990.

Frequent services: Captive feasibility studies, captive formation, accounting, computerized accounting, claims reserves analysis, reinsurance brokered for captives, association captive management services, specialized accounting services, onshore services for associations.

Occasional services: Manual claims processing, computerized claims processing, actuarial studies, reinsurance brokered to captives, underwriting and ratemaking for captives.

Staff: Three, two professionals. Professional designations include one CFA, one ACII, one FCAS.

Compensation: Annual fee, commissions.

1991 gross revenues: 80% from fees charged for captive management, 20% from investment income.

Principal officers: William J. Cooney, chairman; Michael C. Brady, managing director; Hugh D. Goverey, Robert A. Mulderig, Richard G. Turner, James C. Kelly, directors; William M. Shannon, secretary.

Mutual Risk Management (Barbados) Ltd.

First Floor, Beckwith Mall, Lower Broad St., Bridgetown, Barbados; 809-436-5887; fax: 809-427-5328

Founded: 1986.

Parent company: Mutual Risk Management Ltd.

Frequent services: Captive formation, government reporting, accounting, computerized accounting, investment management, association captive management services, specialized accounting services.

Occasional services: Captive feasibility studies, manual claims processing, claims reserves analysis, tax advice, managing underwriting pools/facilities/association captives, onshore services for associations.

Staff: Three, two professionals. Professional designations include two CPAs.

Clients: Three active captives managed at year-end 1991; 33% with less than $1 million in premiums, 33% with $10 million to $19.9 million, 33% with more than $20 million. Captives managed write $44 million in premiums. No minimum size client.

Current business: Four active captives.

Affiliate: Mutual Risk Management (Cayman) Ltd.

Compensation: Annual fee.

1991 gross revenues: 100% from fees charged for captive management.

Principal officers: Spottswood Dudley, Robert Mulderig, John Kessock and Peter Mackay, directors.

Mutual Risk Management (Bermuda) Ltd.

P.O. Box HM 2064, 44 Front St., Hamilton HM HX, Bermuda; 809-295-5688; fax: 809-292-1867

Founded: 1977.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, investment management, managing underwriting pools/facilities/association captives, association captive management services, specialized accounting services.

Occasional services: Manual claims processing, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives.

Staff: 23, 12 professionals. Professional designations include 11 CPAs, two ACIIs.

Clients: 134 active captives managed at year-end 1991; 72.4% with less than $1 million in premiums, 18.7% with $1 million to $2.9 million, 8.2% with $3 million to $9.9 million, 0.7% with $10 million to $19.9 million. 112 inactive captives managed. Captives managed write $150 million in premiums. $90 million in capital and surplus managed.

Current business: 246 active captives, 112 inactive captives.

Subsidiaries: Legion Insurance Co., Commonwealth Risk Service Inc., IPC Group of America Ltd., Philadelphia USA, Hamilton Management Ltd. (Milwaukee), Mutual Risk Management (Cayman) Ltd. (Grand Cayman), Mutual Risk Management Ltd. (Bridgetown, Barbados).

Compensation: Annual fee.

1991 gross revenues: $7.7 million, 9% from fees charged for captive management, 2% from commissions charged for brokering insurance and/or reinsurance, 89% from the IPC program.

Principal officers: Robert A. Mulderig, chairman/chief executive officer; John Kessock Jr., president; Richard G. Turner and Glenn R. Partridge, senior vps; James C. Kelly, vp/chief financial officer.

Mutual Risk Management (Cayman) Ltd.

Genesis Building, Second Floor, P.O. Box 1363, Grand Cayman, Cayman Islands, B.W.I.; 809-949-7966; fax: 809-969-8068

Founded: 1982.

Parent company: Mutual Risk Management Ltd.

Frequent services: Captive formation, government reporting, accounting, computerized accounting, investment management, association captive management services, specialized accounting services.

Occasional services: Captive feasibility studies, manual claims processing, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, tax advice, managing underwriting pools/facilities/association captives, loss control services, onshore services for associations.

Staff: Three, two professionals. Professional designations include two CPAs.

Clients: 22 active captives managed at year-end 1991; 45% with less than $1 million in premiums, 36% with $1 million to $2.9 million, 14% with $3 million to $9.9 million, 5% with $10 million to $19.9 million. Eight inactive captives managed. Captives managed write $55 million in premiums. No minimum size client.

Current business: 23 active captives, five inactive captives.

Affiliates: Mutual Risk Management (Barbados) Ltd.

Compensation: Annual fee.

1991 gross revenues: 100% from fees charged for captive management.

Principal officers: Robert Mulderig, John Kessock, Spottswood P. Dudley and Peter Mackay, directors; John Pitcairn, vp.

N

NRG Victory Management (Bermuda) Ltd.

Continental Building, Church Street, P.O. Box HM 1978, Hamilton HM HX, Bermuda; 809-295-8270; fax: 809-292-8611

Founded: 1978.

Parent company: Netherlands Reinsurance Group.

Frequent services: Government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, underwriting and ratemaking for captives, investment management.

Occasional services: Captive feasibility studies, captive formation, actuarial studies.

Staff: Five, three professionals. Professional designations include one CA, two ACIIs.

Clients: Five active captives managed at year-end 1991. No minimum size client.

Current business: Five active captives.

Principal officers: N.E.J. Wheeler, president; A.G. Hyslop, vp/controller; G.P. Martin, deputy underwriter.

Nordic Mutual CMO Zurich AG

Schipfe 2, P.O. Box 4558, CH-8022, Zurich, Switzerland; 41-1-212-4455; fax: 41-1-212-44-65

Founded: 1991.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, investment management, tax advice, legal advice, financial reinsurance, risk management and insurance programs.

Occasional services: Manual claims processing, underwriting and ratemaking for captives.

Staff: Five, four professionals. Professional designations include two CPAs, two MBAs.

Clients: Two active captives managed at year-end 1991. Captives managed write $7 million in premiums. $50 million in capital and surplus managed. Minimum size client, $1 million.

Current business: Three active captives.

Subsidiaries: Nordic Mutual CMO Sweden AB, Nordic Mutual CMO Aland AB (Finland).

Compensation: Annual fee, $25,000 minimum; commissions; time and expense: professional, $300; clerical, $150.

1991 gross revenues: $500,000.

Principal officers: Hans Erik Engelbrekts, managing director; Tord E. Sarheim, administration manager; Krister Wanblad, marketing manager; Pierre C. Perrenoud, director/adviser to management.

Northern States Management Inc.

P.O. Box 160, Waterbury Center, Vt. 05677; 802-244-8607; fax: 802-244-6230

Founded: 1988.

Continued on next page

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Continued from previous page

Frequent services: Captive formation, government reporting, accounting, reinsurance brokered for captives, association captive management services, specialized accounting services, fronting arrangements.

Occasional services: Captive feasibility studies, claims reserves analysis, actuarial studies, reinsurance brokered to captives, investment management, onshore services for associations.

Staff: Two, one professional. Professional designations include one CPA.

Clients: Two active captives managed at year-end 1991; 50% with less than $1 million in premiums, 50% with $3 million to $9.9 million. Captives managed write $6.7 million in premiums. $2.7 million in capital and surplus managed. No minimum size client.

Current business: Three active captives.

Subsidiaries: Pacific Captive Management Inc. (Hawaii).

Compensation: Annual fee, commissions.

Principal officers: John J. Middleton, president.

O

Richard Oliver Risk Managers Pte. Ltd.

143 Cecil St., 15-01, GB Building, Singapore 0106; 65-2218561; fax: 65-22118569

Founded: 1989.

Parent company: Richard Oliver Pty. Ltd.

Frequent services: Government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, loss control services, risk management consulting, liability scheme manager.

Occasional services: Captive feasibility studies, captive formation, computerized claims processing.

Staff: Six, three professionals.

Clients: Four active captives managed at year-end 1991; 25% with less than $1 million in premiums, 50% with $3 million to $9.9 million, 25% with $10 million to $19.9 million. Captives managed write $19 million in premiums. $32.5 million in capital and surplus managed. Minimum size client, $1 million.

Current business: Four active captives.

Compensation: Annual fee, $25,000 minimum; time and expense: professional, $85 to $170; clerical, $56.

1991 gross revenues: $590,000, 80% from fees charged for captive management, 20% from other risk management services.

Principal officers: K.W. Brown, general manager.

Optimum Risk Research Ltd.

10 Pedvin St., St. Peter Port, Guernsey, Channel Islands; 44-481-714792; fax: 44-481-715071

Founded: 1989.

Frequent services: Captive feasibility studies, run-off services, offshore company management.

Occasional services: Captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, legal advice.

Staff: Five, two professionals. Professional designations include one CPA, one attorney.

Clients: Five active captives managed at year-end 1991.

Current business: One active captive, four inactive captives.

Subsidiaries: Optimum Risk Research Ltd., Hamilton, Bermuda.

Compensation: Annual fee, commissions, time and expense.

Principal officers: Jean-Francois Gelot, managing director; Francoise Gelot, Roger W. Taylor, directors.

P

Pacific Captive Management Inc.

7 Waterfront Plaza, Suite 400, 500 Ala Moana Blvd., Honolulu, Hawaii 96813; 808-531-5616; fax: 808-522-9490

Founded: 1991.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, association captive management services, specialized accounting services, fronting arrangements.

Occasional services: Onshore services for associations.

Staff: Three, two professionals. Professional designations include two CPAs.

Clients: No minimum size client.

Current business: One active captive.

Compensation: Annual fee, commissions.

Principal officers: Veronica Mitchell, vp/manager; John Middleton, vp/treasurer.

Parker Risk Management (Barbados) Ltd.

15 Roebuck St., Bridgetown, Barbados, B.W.I.; 809-426-6467; fax: 809-429-8517

Founded: 1986.

Parent company: Parker Risk Management (Bermuda) Ltd.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, loss control services, association captive management services, specialized accounting services, onshore services for associations.

Occasional services: Reinsurance brokered to captives.

Staff: 19, five professionals. Professional designations include five CPAs.

Clients: Two active captives managed at year-end 1991; 50% with less than $1 million in premiums, 50% with more than $20 million. Captives managed write $5 million in premiums. No minimum size client.

Current business: Two active captives.

Affiliates: Parker Risk Management (Cayman) Ltd.

Compensation: Annual fee, commissions.

Principal officers: Stuart H. Grayston, president/chief executive officer; Martin Hole, vp/general manager; Paul Towers, vp.

Parker Risk Management (Bermuda) Ltd.

P.O. Box HM 1581, Hamilton HM GX, Bermuda; 809-295-5454; fax: 809-292-6130

Founded: 1967.

Parent company: Frank B. Hall & Co. Inc.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, loss control services, association captive management services, specialized accounting services and onshore services for associations.

Staff: 16, five professionals. Professional designations include five CPAs.

Clients: 39 active captives managed at year-end 1991; 40% with less than $1 million in premiums, 24% with $1 million to $2.9 million, 30% with $3 million to $9.9 million, 2% with $10 million to $19.9 million, 4% with more than $20 million. Nine inactive captives managed. Captives managed write $435 million in premiums. No minimum size client.

Current business: 38 active captives, nine inactive captives.

Subsidiaries: Parker Risk Management (Barbados) Ltd., Parker Risk Management (Cayman) Ltd.

Compensation: Annual fee, $25,000 minimum; commissions; time and expense.

Principal officers: Stuart H. Grayston, president/chief executive officer; Paul Towers, vp-captive operations.

Parker Risk Management (Cayman) Ltd.

2nd Floor, Elizabethan Square, P.O. Box 2185, Grand Cayman, B.W.I.; 809-949-7170; fax: 809-949-0520

Founded: 1991.

Parent company: Parker Risk Management (Bermuda) Ltd.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives.

Occasional services: Reinsurance brokered to captives, managing underwriting pools/facilities/association captives.

Staff: Two total, one professional. Professional designations include one CPA.

Clients: Four active captives managed at year-end 1991; 25% with less than $1 million in premiums, 50% with $3 million to $9.9 million, 25% with $10 million to $19.9 million. Captives managed write $22 million in premiums. No minimum size client.

Current business: Five active captives.

Affiliates: Parker Risk Management (Barbados) Ltd.

Compensation: Annual fee, $25,000 minimum.

Principal officers: Stuart H. Grayston, president; Ian Kilpatrick, managing director; Paul Towers.

Parker Risk Management Inc.-Colorado

4100 E. Mississippi Ave., Suite 1500, Denver, Colo. 80217; 303-758-7688; fax: 303-756-8816

Founded: 1972.

Parent company: Frank B. Hall & Co. Inc.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, loss control services, association captive management services, specialized accounting services, onshore services for associations.

Occasional services: Reinsurance brokered to captives.

Staff: 10, two professionals. Professional designations include two CPAs.

Clients: Eight active captives managed at year-end 1991; 12.5% with less than $1 million in premiums, 12.5% with $1 million to $2.9 million, 50% with $3 million to $9.9 million, 25% with $10 million to $19.9 million. Two inactive captives managed. Captives managed write $44.5 million in premiums. No minimum size client.

Current business: Eight active captives, two inactive captives.

Subsidiaries: Burlington, Vt.

Compensation: Annual fee, $25,000 minimum; time and expense: professional, $80; clerical, $30.

Principal officers: Stuart H. Grayston, president/chief executive officer; Donald H. Willhite, executive vp/chief operating officer; Keith Specht, vp; Ann W. Wick, vp-captive operations.

Parker Risk Management Inc.-Vermont

1 Lawson Lane, P.O. Box 5696, Burlington, Vt. 05402; 802-658-1168; fax: 802-658-2996

Founded: 1985.

Parent company: Frank B. Hall & Co. Inc.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, loss control services, association captive management services, specialized accounting services, onshore services for associations.

Staff: 10, two professionals. Professional designations include two CPAs.

Clients: Two active captives managed at year-end 1991; 50% with less than $1 million in premiums, 50% with $3 million to $9.9 million. Captives managed write $8.8 million in premiums. No minimum size client.

Current business: Two active captives.

Subsidiaries: Denver.

Compensation: Annual fee, $30,000 minimum; time and expense: professional and clerical, $30.

Principal officers: Stuart H. Grayston, president/chief executive officer; Donald H. Willhite, executive vp/chief operating officer; Ann W. Wick, vp-captive operations; Keith Specht, vp.

Q

Quail Street Management Ltd.

Cumberland House, 1 Victoria St., P.O. Box HM 1088, Hamilton HM Bermuda; 809-292-2582; fax: 809-292-1880

Founded: 1988.

Parent company: Western Growers Assn.

Frequent services: Government reporting, accounting, computerized accounting, investment management, managing underwriting pools/facilities/association captives, loss control services (California and Arizona), association captive management services, specialized accounting services.

Occasional services: Captive feasibility studies, captive formation, manual claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives.

Staff: Five, all professionals. Professional designations include one CPA, one CPCU, one ARM, one MBA, one attorney.

Compensation: Annual fee, $7,500 minimum.

Principal officers: Mark F. Moffat, president.

R

Risk Financing Services Ltd.

Williams House, 20 Reid St., P.O. Box HM 1838, Hamilton HM HX Bermuda; 809-295-3952; fax: 809-295-3982

Founded: 1990.

Frequent services: Government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for cap-

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tives, association captive management services including specialized accounting services.

Occasional services: Captive feasibility studies, captive formation, loss forecasting.

Staff: Two, one professional. Professional designations include one ACA.

Clients: Six active captives managed at year-end 1991; 83% with less than $1 million in premiums, 17% with $1 million to $2.9 million. Two inactive captives managed. Captives managed write $2.2 million in premiums. $11.7 million in capital and surplus managed. No minimum size client.

Current business: Eight active captives, two inactive captives.

Affiliates: Global Risk Financing Services Ltd., Vancouver, British Columbia.

Compensation: Annual fee, $12,000 minimum; commissions; time and expense: professional, $75 to $100; clerical, $40 to $50.

1991 gross revenues: 99% from fees charged for captive management, 1% from other services, including sundry financial reporting.

Principal officers: Bruce Fenton, director; Norman Amondsen, director/vp-underwriting; Terry Holdom, director/president.

Risk Research & Captive Services A/S

P.O. Box 2222, Holmens Kanal 22, DK-1097 Copenhagen K, Denmark; 45-3313-1415; fax: 45-3313-1716

Founded: 1977.

Frequent services: Captive feasibility studies.

Occasional services: Captive formation, accounting, computerized accounting, manual claims processing, investment management, tax advice, legal advice.

Staff: Five, four professionals.

Clients: One active captive managed at year-end 1991, with $1 million to $2.9 million in premiums. Captives managed write $2.5 million in premiums. Minimum size client, $1.2 million in premium volume.

Current business: One active captive.

Compensation: Annual fee, time and expense.

1991 gross revenues: $120,000, 60% from fees charged for captive management, 40% from other services.

Principal officers: Morten E. Holm, general manager.

RiskCap

1571 Race St., Denver, Colo. 80206; 303-388-5688; fax: 303-388-5585

Founded: 1976.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, loss forecasting, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, loss control services, association captive management services including specialized accounting services.

Occasional services: Computerized claims processiong.

Staff: 11, seven professionals. Professional designations include two CPAs, one CPCU, two ARMs.

Clients: Four active captives managed at year-end 1991; 17% with less than $1 million in premiums, 66% with $1 million to $2.9 million, 17% with $3 million to $9.9 million.

Current business: Four active captives.

Compensation: Annual fee, $30,000 minimum; time and expense: professional $125 to $150; clerical, $35.

1991 gross revenues: 100% from fees charged for captive management.

Principal officers: Michael Murphy, principal consultant; Sherrie Farrell, Edward Rohrer, James M. Graham, Dale Gray, Brian Briese and Nancy McAninch, consultants.

Rollins Burdick Hunter (Bermuda) Ltd.

Cumberland House, 1 Victoria St., Hamilton, Bermuda; 809-295-2220; fax: 809-292-0217

Founded: 1970.

Parent company: Aon Corp.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, investment management, managing underwriting pools/facilities/association captives, association captive management services including specialized accounting services and onshore services for associations.

Occasional services: Actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, tax advice, loss control services.

Staff: 16, 11 professionals. Professional designations include five CPAs, one CPCU.

Clients: 39 active captives managed at year-end 1991; 33% with less than $1 million in premiums, 40% with $1 million to $2.9 million, 14% with $3 million to $9.9 million, 6% with $10 million to $19.9 million, 9% with more than $20 million. Two inactive captives managed. Captives managed write $225 million in premiums. $335 million in capital and surplus managed. No minimum size client.

Current business: 42 active captives, two inactive captives.

Subsidiaries: RBH (Intermediaries) Ltd., Hamilton, Bermuda.

Compensation: Annual fee, commissions.

Principal officers: Robin Spencer-Arscott, chairman/chief executive officer; Tracy Keill, vp; Pauline Richards, group financial controller; Madeline Joell, vp-RBH (Intermediaries) Ltd.

Rollins Management Co.

123 N. Wacker Drive, Chicago, Ill. 60606; 312-701-4068; fax: 312-701-4123

Founded: 1970.

Parent company: Aon Corp.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, loss forecasting, association captive management services including specialized accounting services and onshore services for associations.

Occasional services: Computerized claims processing, actuarial studies, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, tax advice, legal advice.

Staff: Seven, five professionals. Professional designations include three CPAs, one CPCU, two MBAs, one attorney.

Clients: Ten active captives managed at year-end 1991; 20% with $1 million to $2.9 million in premiums, 80% with $3 million to $9.9 million. Captives managed write $35 million in premiums. $50 million in capital and surplus managed. Minimum size client, $1 million.

Current business: 12 active captives.

Compensation: Annual fee, $25,000 minimum; time and expense: professional, $100 to $150; clerical, $40 to $50.

1991 gross revenues: $800,000, 100% from fees charged for captive management.

Principal officers: John E. Toi, senior vp; Alan L. Stein, vp; Zayda Encarnacion and Stephen P. Keogh, assistant vps.

Royal Insurance Service Co. (Guernsey/Isle of Man) Ltd.

P.O. Box 160, Dixcart House, Sir William Place, St. Peter Port, Guernsey, Channel Islands; 0481-713322; fax: 0481-713434; 19 Athol St., P.O. Box 27, Douglas, Isle of Man; 0624-673446; fax: 0624-663864

Founded: 1985.

Parent company: Royal Insurance (UK) Ltd.

Frequent services: Government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis.

Occasional services: Captive feasibility studies, captive formation, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, tax advice, legal advice, loss control services.

Staff: Eight, four professionals. Professional designations include one ACII, one FICA.

Clients: Three active captives managed at year-end 1991; 100% with $3 million to $9.9 million in premiums. Captives managed write $20 million in premiums. $13 million in capital and surplus managed. No minimum size client.

Current business: Three active captives.

Compensation: Annual fee, $30,000 minimum.

1991 gross revenues: 100% from fees charged for captive management.

Principal officers: Peter R. Walpole, director-RISC (Guernsey) Ltd. and RISC (Isle of Man) Ltd.; David Stacey, director-RISC (Isle of Man) Ltd.; Clive McMinn, financial director-RISC (Guernsey) Ltd.

S

Sartor Resources Ltd.

10, Pedvin Street, St. Peter Port, Guernsey, Channel Islands; 44-481-714792; fax: 44-481-715071

Founded: 1989.

Frequent services: Captive feasibility studies, government reporting, accounting, computerized accounting.

Occasional services: Captive formation, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives.

Staff: Five, two professionals. Professional designations include one CPA, one attorney.

Clients: Three active captives managed at year-end 1991.

Subsidiaries: Sartor Resources (Gibraltar) Ltd., Capco Insurance Management (Isle of Man) Ltd.

Principal officers: Roger W.F. Taylor, Jean Francois Gelot.

Victor O. Schinnerer & Co. Inc.

2 Wisconsin Circle, Chevy Chase, Md. 20815-7003; 301-961-9800; fax: 301-951-5444

Founded: 1938.

Parent company: The Schinnerer Group and Seabury & Smith, a Marsh & McLennan Co.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, loss control services (Chevy Chase, Md.; Chicago), association captive management services including onshore services for associations and underwriting management.

Occasional services: Investment management, specialized accounting services.

Staff: 191, 140 professionals. Professional designations include one CPA, 12 CPCUs, four ARMs, four MBAs, nine attorneys, two MAAAs.

Clients: Four active captives managed at year-end 1991; 25% with $1 million to $2.9 million in premiums, 25% with $3 million to $9.9 million, 25% with $10 million to $19.9 million, 25% with more than $20 million. Captives managed write $37.6 million in premiums. No minimum size client.

Current business: Four active captives.

Subsidiaries: The ENCON Group (Ottawa and Toronto, Canada; Dallas), Victor O. Schinnerer & Co. (Bermuda) Ltd., Schinnerer & Co. (London) Ltd.

Compensation: Percent of gross premiums for underwriting/claims management.

Principal officers: James R. Stevens, president; John W. Colmer, Paul L. Genecki, Homer M. Sandridge and Richard J. Walk, senior vps.

Sedgwick Dineen International Ltd.

23 Clyde Road, Dublin 4, Republic of Ireland; 353-1-680200; fax: 353-1-684568

Founded: 1989.

Parent company: Sedgwick James Group.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives.

Staff: Six, four professionals.

Clients: Seven active captives managed at year-end 1991.

Current business: Seven active captives.

Compensation: Annual fee, time and expense.

Principal officers: Garry Cullen, P.J. Casey.

Sedgwick Group Management Services (Guernsey) Ltd.

P.O. Box 309, Dixcart House, Sir William Place, St. Peter Port, Guernsey, Channel Islands; 481-710555; fax: 481-721857

Founded: 1978.

Parent company: Sedgwick Group P.L.C.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, loss control services.

Occasional services: Investment management.

Staff: Five, two professionals.

Clients: 13 active captives managed

Continued on next page

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Continued from previous page
at year-end 1991. One inactive captive managed.

Current business: 13 active captives, one inactive captive.

Compensation: Time and expense.

Principal officers: Granville Michael de Cruz, director.

Sedgwick Group Management Services (Isle of Man) Ltd.

S&F House, 12/14 Ridgeway St., Douglas, Isle of Man; 624-625313; fax: 624-624523

Parent company: Sedgwick Group.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, underwriting and ratemaking for captives.

Occasional services: Loss forecasting.

Staff: 13, five professionals. Professional designations include one FCII, one ACII, two ACAs, one ACCA.

Clients: 25 active captives managed at year-end 1991; 20% with less than $1 million in premiums, 44% with $1 million to $2.9 million, 24% with $3 million to $9.9 million, 12% with more than $20 million. Two inactive captives managed. Captives write $177.8 million in premiums. $520.7 million in capital and surplus managed. No minimum size client.

Current business: 25 active captives, two inactive captives.

Compensation: Annual fee, commissions.

1991 gross revenues: 100% from fees charged for captive management.

Principal officers: Gary Crease, manager; Alan Campbell, financial controller; Tim Edwards, underwriting manager.

Sedgwick James (Bermuda) Ltd.

Cumberland House, Level 6, 1 Victoria St., P.O. Box HM 2280, Hamilton, Bermuda; 809-292-6667; fax: 809-292-0498

Founded: 1973.

Parent company: Sedgwick Group P.L.C.

Frequent services: Captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, association captive management services, specialized accounting services, onshore services for associations.

Occasional services: Reinsurance brokered for captives.

Staff: 32, 13 professionals. Professional designations include one CPCU, one ARM, two FICAs, three ACAs, one CA, one FCCA, one ACIMA, one FCII, one AIIC.

Clients: 48 active captives managed at year-end 1991; 14.6% with less than $1 million in premiums, 25% with $1 million to $2.9 million, 39.6% with $3 million to $9.9 million, 14.6% with $10 million to $19.9 million, 6.2% with more than $20 million. 21 inactive captives managed. Captives managed write $349 million in premiums. $976.5 million in capital and surplus managed. No minimum size client.

Current business: 48 active captives, 22 inactive captives.

Subsidiaries: Sedgwick James (Cayman), Sedgwick Group Management Services (Curacao).

Compensation: Annual fee, commissions, time and expense.

1991 gross revenues: 83% from fees charged for captive management, 17% from commissions charged for brokering insurance and/or reinsurance.

Principal officers: Robert C. Hug Jr., president; Pamela Lambarth, senior vp; A. Trevor Metcalf, senior vp-broking services; Andrew Sargeant and Simon Moore, vps.

Sedgwick James Management Co. Inc.

Route 100 at Colbyville Road, P.O. Box 480, Waterbury, Vt. 05676-0480; 802-244-5852; fax: 802-244-7873

Founded: 1982.

Parent company: Sedgwick James Inc.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, loss control services, association captive management services, specialized accounting services and onshore services for associations.

Occasional services: Manual claims processing.

Staff: Six, five professionals. Professional designations include one CPA, one CPCU, two ARMs, one MBA.

Clients: Four active captives managed at year-end 1991; 25% with less than $1 million in premiums, 25% with $1 million to $2.9 million, 50% with $3 million to $9.9 million. Captives managed write $11.8 million in premiums. No minimum size client.

Current business: Four active captives.

Subsidiaries: Sedgwick James Management Co. Inc., Denver, Honolulu, Nashville, Chicago.

Compensation: Annual fee; commissions; time and expense: professional, $220 to $250; clerical: $60 to $75.

1991 gross revenues: 95% from fees charged for captive management, 5% from commissions charged for brokering insurance and/or reinsurance.

Principal officers: Richard E. Schoneman, president; Mary K. Moulton, vp.

Sedgwick James Management Co. Inc.-Colorado

2000 S. Colorado Blvd., Suite 5000, Denver, Colo. 80222; 303-758-4400; fax: 303-758-2302

Founded: 1982.

Parent company: Sedgwick James Inc.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, loss control services, association captive management services, specialized accounting services, onshore services for associations.

Occasional services: Manual claims processing.

Staff: Three, two professionals. Professional designations include one ARM, one AIC.

Clients: No minimum size client.

Compensation: Annual fee; commissions; time and expense: professional, $220 to $250; clerical: $60 to $75.

Principal officers: Richard E. Schoneman, president; Mary K. Moulton, vp.

Sedgwick James Management Co. Inc.-Hawaii

841 Bishop St., Suite 2125, Honolulu, Hawaii 96813; 808-545-2420; fax: 808-528-1944

Founded: 1982.

Parent company: Sedgwick James Inc.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, loss control services, association captive management services, specialized accounting services, onshore services for associations.

Occasional services: Manual claims processing.

Staff: Three professionals. Professional designations include one CPCU.

Clients: Three active captives managed at year-end 1991; 33% with less than $1 million in premiums, 33% with $1 million to $2.9 million, 33% with $10 million to $19.9 million. One inactive captive managed. Captives managed write $13.2 million in premiums. No minimum size client.

Compensation: Annual fee; commissions; time and expense: professional, $220 to $250; clerical: $60 to $75.

1991 gross revenues: 95% from fees charged for captive management, 5% from commission charged for brokering insurance and/or reinsurance.

Principal officers: Richard E. Schoneman, president; Mary K. Moulton, vp.

Sedgwick James Management Co. Inc.-Illinois

230 W. Monroe St., Chicago, Ill. 60606; 312-346-3000; fax: 312-346-1693

Founded: 1990.

Parent company: Sedgwick James Inc.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, loss control services, association captive management services, specialized accounting services, onshore services for associations.

Occasional services: Manual claims processing.

Staff: Three, two professionals. Professional designations include two CPCUs, one MBA, one attorney.

Clients: No minimum size client.

Compensation: Annual fee; commissions; time and expense: professional, $220 to $250; clerical: $60 to $75.

Principal officers: Richard E. Schoneman, president; Mary K. Moulton, vp.

Sedgwick James Management Co. Inc.-Tennessee

3401 West End Ave., Suite 600, Nashville, Tenn. 37203; 615-385-2860; fax: 615-385-8366

Founded: 1982.

Parent company: Sedgwick James Inc.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, loss control services, association captive management services, specialized accounting services, onshore services for associations.

Occasional services: Manual claims processing.

Staff: Three, two professionals. Professional designations include one MBA, one attorney.

Clients: Three active captives managed at year-end 1991. Captives managed write $10 million in premiums. No minimum size client.

Current business: Three active captives.

Compensation: Annual fee; commissions; time and expense: professional, $220 to $250; clerical: $60 to $75.

1991 gross revenues: 95% from fees charged for captive management, 5% from commission charged for brokering insurance and/or reinsurance.

Principal officers: Richard E. Schoneman, president; Mary K. Moulton, vp.

Sedgwick James Management Services Pte. Ltd.

51 Bras Basah Road, Suite 08-03, Plaza by the Park, Singapore 0718; 65-336-8383; fax: 65-336-5463 or 65-336-7759

Founded: 1984.

Parent company: Sedgwick Group P.L.C.

Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, underwriting and ratemaking for captives, investment management, loss control services (Asia Pacific).

Occasional services: Loss forecasting, tax advice, legal advice.

Staff: 14, 10 professionals. Professional designations include four CPAs, four CPCUs, two ARMs.

Clients: 15 active captives managed at year-end 1991; 5.9 % with less than $1 million in premiums, 25.9% with $1 million to $2.9 million, 68.2% with $3 million to $9.9 million. Captives managed write $41.5 million in premiums. $81.3 million in capital and surplus managed. No minimum size client.

Current business: 15 active captives.

Compensation: Annual fee, time and expense.

Principal officers: Ross Bovill, managing director; Esmond Choo, director-operations; John Dalgleish, manager-underwriting/administration; Kong Kean Wah, manager-risk control engineering; Tan Lee Lee, underwriting executive.

Self-Insurance Specialists Inc.

600 S. Cherry St., Suite 1205, Denver, Colo. 80222; 303-393-0344; fax: 303-393-0561

Founded: 1991.

Frequent services: Captive formation, government reporting, accounting, computerized accounting, managing underwriting pools/facilities/association captives, association captive management services, onshore services for associations, public entities and self-insurance pools in Colorado.

Occasional services: Captive feasibility studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, loss control services, specialized accounting services.

Staff: Two, one professional. Professional designations include one CPCU, one ARM, one MBA.

Clients: One active captive managed at year-end 1991 with $3 million to $9.9 million in premiums. Captives managed write $6.2 million in premiums. $5 million in capital and surplus managed. No minimum size client.

Current business: One active captive.

Compensation: Annual fee, time and expense.

Principal officers: Sally Perske Arnold, president.

The SINSER Group

P.O. Box 1301, Olaf Palmes Gata 13A, S-103 Stockholm, Sweden; 46-8-788-3221; fax: 46-8-788-2560

Founded: 1983.

Parent company: Scandinavian Insurance Services.

Frequent services: Government reporting, accounting, computerized accounting.

Occasional services: Captive feasibility studies, captive formation.

Staff: 48, all professionals.

Clients: 96 active captives managed at year-end 1991.

Current business: 96 active captives.

Subsidiaries: SINSER (Luxembourg) S.A.R.L., SINSER (Europe) S.A., SINSER (Bermuda) Ltd., SINSER (Ireland) Ltd.

Principal officers: Mats Lindkvist, chief executive officer; T. Malmholt; C. Beshehard; Irene Ryan.

Skandia International Risk Management Ltd.

Skandia International House, 16 Church St., P.O. Box HM 2062, Hamilton HM HX, Bermuda; 809-295-2185; fax: 809-295-8637

Founded: 1979.

Parent company: Skandia America Group.

Frequent services: Captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, managing underwriting pools/facilities/association captives, loss control services, association captive management services, specialized accounting services, onshore services for associations, financial reinsurance, rent-a-captive.

Staff: 24, nine professionals. Professional designations include eight CPAs, one CPCU, one MBA.

Clients: 82 active captives managed at year-end 1991. Captives managed write $200 million in premium volume. No minimum size client.

Current business: 82 active captives.

Compensation: Time and expense: professional, $115 to $200; clerical, $55 to $80.

Principal officers: Nicholas S. Dove, president; Robert J. Rosser, Adrian Lee-Emery and Robert W. Eastham, vps.

Continued on next page

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Skandia International Risk Management (Vermont) Inc.

346 Shelburne Road, P.O. Box 64649, Burlington, Vt. 05406-4649; 802-658-1474; fax: 802-658-0692

Founded: 1989.
Parent company: Skandia America Corp.
Frequent services: Captive formation, government reporting, accounting, computerized accounting, underwriting and ratemaking for captives, association captive management services including specialized accounting services, onshore services for associations.
Staff: Four, three professionals. Professional designations include one CPCU.
Clients: 11 active captives managed at year-end 1991; 36.5% with less than $1 million in premiums, 27% with $1 million to $2.9 million, 36.5% with $3 million to $9.9 million. Captives managed write $24.5 million in premiums. $38.4 million in capital and surplus managed. No minimum size client.
Current business: 11 active captives.
Compensation: Annual fee.
1991 gross revenues: 100% from fees charged for captive management.
Principal officers: George A. Chaffee, president; Anders Grabo, senior vp; Scott D. Moore, senior vp/treasurer; Robert E. Boardman, vp; Thomas M. Tobin, secretary.

Sogecore

3 Ave. Pasteur, L-1933, Luxembourg; 352-46-1116; fax: 352-22-3719

Founded: 1987.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, investment management, tax advice, legal advice, managing underwriting pools/facilities/association captives, loss control services, association captive management services, specialized accounting services.
Occasional services: Reinsurance brokered to captives, underwriting and ratemaking for captives.
Staff: Nine, all professionals. Professional designations include two CPAs, one CPCU, one MBA, one attorney.
Clients: 23 active captives managed at year-end 1991; 31% with less than $1 million in premiums, 13% with $1 million to $2.9 million, 26% with $3 million to $9.9 million, 17% with $10 million to $19.9 million, 13% with more than $20 million. Captives managed write $150 million in premiums.
Current business: 17 active captives.
Subsidiaries: Sogecore Ireland Ltd.
Principal officers: Jean Thilly, managing director; Gilles Coremans, financial director; Maite Lambillon, manager-reinsurance.

Spread Insurance Management Ltd.

P.O. Box 119, Commerce House, St. Peter Port, Guernsey, Channel Islands; 481-714161; fax: 481-711657

Founded: 1992.
Frequent services: Captive formation, government reporting, accounting, computerized accounting, manual claims processing, investment management, tax advice, legal advice.
Occasional services: Captive feasibility studies, computerized claims processing, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking for captives, association captive management services including specialized accounting services.
Staff: 133, 18 professionals. Professional designations include nine FCAs, one ACII, one FCCA, seven ACAs.
Compensation: Annual fee, time and expense.
Principal officers: C.A. Beaton, S.D. Parrott, J.C. Rowe, J.E. Fenkes, J.E. Thomas.

Stockholm Management Ltd.

Windsor Place, 18 Queen St., P.O. Box 2092, Hamilton HM HX, Bermuda; 809-295-2169; fax: 809-295-0459

Founded: 1987.
Parent company: Stockholm Re (Bermuda) Ltd./LF AB.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives.
Occasional services: Manual claims processing, claims reserves analysis, investment management, legal advice.
Staff: 52, nine professionals. Professional designations include one CPA, one CPCU.
Clients: Five active captives managed at year-end 1991.
Compensation: Annual fee, time and expense.
Principal officers: Bengt Nystrom, chairman; James G. Parkinson, vice chairman; Alain F.A. Wattiez, president; Beryl Pearson, vp.

Symphony Management Ltd.

10 Queen St., Gibbons Building, Hamilton HM 11, Bermuda; 809-295-2447; fax: 809-292-6140

Founded: 1991.
Frequent services: Captive formation, government reporting, accounting, computerized accounting, managing underwriting pools/facilities/association captives, association captive management services, specialized accounting services.
Occasional services: Captive feasibility studies, manual claims processing, computerized claims processing, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, management of non-insurance affiliates of insurance clients.
Staff: Two, both professionals. Professional designations include one CPA.
Clients: Six active captives managed at year-end 1991; 50% with $1 million to $2.9 million in premiums, 30% with $3 million to $9.9 million, 20% with more than $20 million. Captives managed write $37.7 million in premiums. $27 million in capital and surplus managed. No minimum size client.
Current business: Eight active captives.
Compensation: Annual fee; commissions; time and expense: professional, $100 to $175; clerical, $60 to $100.
1991 gross revenues: 100% from fees charged for captive management.
Principal officers: John G. Neal, president.

T

Tate & Lyle Management & Finance

Jardine House, 33-35 Read St., Hamilton, Bermuda; 809-295-9911; fax: 809-295-6139

Founded: 1979.
Parent company: Tate & Lyle P.L.C.
Frequent services: Government reporting, accounting, computerized accounting, computerized claims processing, investment management.
Occasional services: Captive formation, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, legal advice.
Staff: Five, three professionals, including one FCII, one CA.
Clients: Four active captives managed at year-end 1991; 25% with less than $1 million in premiums, 50% with $1 million to $2.9 million, 25% with more than $20 million. One inactive captive managed. Captives managed write $34 million in premiums. No minimum size client.
Current business: Four active captives, one inactive captive.
Compensation: Annual fee, $25,000 minimum.
Principal officers: James A. Kemp, vp; Vivian D. Tierney, treasurer.

Transglobe Underwriting Management (Guernsey) Ltd.

P.O. Box 34 Le Riche House, 50 High St., St. Peter Port, Guernsey, Channel Islands; 0481-728136; fax: 0481-713617

Founded: 1975.
Parent company: English & American Group P.L.C.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, commercial aviation underwriting.
Staff: 60, six professionals, including one MBA, four FCASs, one Ph.D.
Clients: 18 active captives managed at year-end 1991; 17% with less than $1 million in premiums, 27% with $1 million to $2.9 million, 27% with $3 million to $9.9 million, 17% with $10 million to $19.9 million, 12% with more than $20 million. Two inactive captives managed. Captives managed write $177.4 million in premiums. $131.2 million in capital and surplus managed. Minimum size client, $600,000.
Current business: 18 active captives, two inactive captives.
Compensation: Annual fee, $45,000 minimum; time and expense.
Principal officers: D.J. Mills, general manager; I.G. Daish, general manager-aviation; M. Belcher, senior aviation; M. Perrett, secretary; S. Hardy.

U

Unison Management (Dublin) Ltd.

12/14 Lower Mount St., Dublin 2, Republic of Ireland; 353-1-762748; fax: 353-1-789636

Founded: 1990.
Parent company: Johnson & Higgins.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis.
Occasional services: Manual claims processing, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, association captive management services, specialized accounting services, onshore services for associations.
Staff: 13, six professionals, including two CPAs, two CPCUs.
Clients: 10 active captives managed at year-end 1991; 10% with less than $1 million in premiums, 70% with $1 million to $2.9 million, 10% with $3 million to $9.9 million, 10% with more than $20 million. Captives managed write $69 million in premiums. $23 million in capital and surplus managed.
Current business: 10 active captives.
Compensation: Annual fee, commissions, time and expense.
Principal officers: John Perham, vp/branch manager; Joe Grogan, broking manager; Tim Hennessy, account manager.

Unison Management (Isle of Man) Ltd.

S & F House, 12/14 Ridgeway St., Douglas, Isle of Man; 624-612144; fax: 624-612138

Founded: 1991.
Parent company: Johnson & Higgins.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis.
Occasional services: Manual claims processing, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, association captive management services, specialized accounting services, onshore services for associations.
Staff: Two, one professional who is a CPA.
Current business: One active captive.
Compensation: Annual fee, time and expense.
Principal officers: Ian Gerrard, branch manager.

Unison Management (Luxembourg) S.A.

11 Rue Barble, L-1210, Luxembourg; 352-450-338; fax: 352-458-322

Founded: 1989.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, reinsurance brokered for captives, reinsurance brokered to captives.
Occasional services: Manual claims processing, claims reserves analysis, actuarial studies, loss forecasting, association captive management services including specialized accounting services, rent-a-captive.
Staff: Six, three professionals including two CPAs, one CPCU.
Clients: 25 active captives managed at year-end 1991; 4% with less than $1 million in premiums, 80% with $1 million to $2.9 million, 8% with $3 million to $9.9 million, 8% with more than $20 million. Captives managed write $220 million in premiums. $300 million in capital and surplus managed.
Current business: 25 active captives.
Principal officers: Ronald Daene, managing director; Serge Pinot and Ken Hall, directors.

Continued on next page

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Continued from previous page

V

Vermont Insurance Management Inc.

P.O. Box 306, Montpelier, Vt. 05601; 800-872-7475; fax: 802-229-6280

Founded: 1980.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, reinsurance brokered for captives, association captive management services, specialized accounting services, onshore services for associations.
Occasional services: Claims reserves analysis, loss forecasting, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, tax advice, legal advice.
Staff: 10, four professionals, including two CPAs, one MBA, one attorney.
Clients: 22 active captives managed at year-end 1991; 40.9% with less than $1 million in premiums, 22.7% with $1 million to $2.9 million, 27.2% with $3 million to $9.9 million, 4.6% with $10 million to $19.9 million, 4.6% with more than $20 million. One inactive captive managed. Captives managed write $80.3 million in premiums. $69.9 million in capital and surplus managed. No minimum size client.
Current business: 24 active captives, one inactive captive.
Subsidiaries: Risk Retention Management Inc., (Florida and Arlington, Va.); Vermont Insurance Management Inc. (Arlington, Va.).
Compensation: Annual fee; commissions.
1991 gross revenues: 80% from fees charged for captive management, 20% from commissions charged for brokering insurance and/or reinsurance.
Principal officers: H. Lincoln Miller Jr., president; Edward E. Meehan, executive vp; Michael T. Rogers, chief operating officer; Jon Harkavy, general counsel/vp.

Vista Insurance Services Inc.

908-A2 Pompton Ave., Cedar Grove, N.J. 07009; 201-857-7999; fax: 201-857-1487

Founded: 1985.
Frequent services: Captive feasibility studies, captive formation, computerized accounting, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, association captive management services, specialized accounting services, onshore services for associations.
Staff: Four.
Clients: Four active captives managed at year-end 1991; 50% with less than $1 million in premiums, 50% with $3 million to $9.9 million. Captives managed write $11 million in premiums. Minimum size client, $1 million.
Compensation: Annual fee, $25,000 minimum; commissions; time and expense: professional, $125; clerical, $40.
1991 gross revenues: $425,000, 50% from fees charged for captive management, 50% from commissions charged for brokering insurance and/or reinsurance.
Principal officers: E. Arnold Powell, president; Joan McDougall, administration.

W

Willis Corroon Advanced Risk Management Services

26 Century Blvd., Nashville, Tenn. 37214; 615-872-3400; fax: 615-872-3333

Founded: 1905.
Parent company: Willis Corroon P.L.C.
Frequent services: Captive feasibility studies, government reporting, accounting, computerized accounting, actuarial studies, loss forecasting, reinsurance brokered for captives.
Occasional services: Captive formation, claims reserves analysis, underwriting and ratemaking for captives.
Staff: 93, 26 professionals, including two CPAs, eight CPCUs, 11 ARMs, 10 MBAs, two FCASs, three attorneys.
Current business: Two active captives.
Compensation: Annual fee, commissions.
Principal officers: James V. Davis, chairman; Manny D. Buzzell, vice chairman; Brian Kawamoto, Janice Hackett, Lloyd Kelly, Donald Heim, Ron O'Nan, Corbette Doyle.

Willis Corroon Management (Bermuda) Ltd.

F.R. Perry Building, Church Street, P.O. Box HM 1995, Hamilton HM HX, Bermuda; 809-295-1272; fax: 809-295-4143

Founded: 1978.
Parent company: Willis Corroon P.L.C.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, underwriting and ratemaking for captives.
Occasional services: Manual claims processing.
Staff: 70, 17 professionals, including five CPAs/FCAs, seven CPCUs/ACIIs, four MBAs, one FCAS.
Clients: Six active captives managed at year-end 1991. No minimum size client.
Current business: Seven active captives, one inactive captive.
Affiliates: Willis Corroon (Cayman) Ltd.; Willis Corroon Management Ltd. (Isle of Man, Guernsey, Dublin, Gibraltar, Luxembourg, Singapore).
Compensation: Annual fee.
1991 gross revenues: 100% from fees charged for captive management.
Principal officers: Christine Douse, chairman; Monica Dobbie, senior vp; David Campbell, Oliver Heyliger and Christopher Festog, vps.

Willis Corroon Management (Dublin) Ltd.

80 Harcourt St., Dublin 2, Republic of Ireland; 353-1-783877; fax: 353-1-784772

Founded: 1989.
Parent company: Willis Corroon P.L.C.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management.
Occasional services: Manual claims processing, actuarial studies, tax advice, legal advice.
Staff: Four, one professional who is a FCAS.
Clients: Four active captives managed at year-end 1991; 100% with $3 million to $9.9 million in premiums. No minimum size client.
Current business: Four active captives.
Compensation: Time and expense.
1991 gross revenues: 100% from fees charged for captive management.
Principal officers: Christine L. Douse, chairman; Ronald Graham Heather, managing director; Desmond Gerard McCarthy, director/resident manager; David Campbell, director; Michael Trainor, senior account manager.

Willis Corroon Management (Guernsey) Ltd.

P.O. Box 384, Fourth Floor, The Albany, South Esplande, St. Peter Port, Guernsey, Channel Islands; 481-720049; fax: 481-710455

Founded: 1981.
Parent company: Willis Corroon P.L.C.
Frequent services: Captive formation, government reporting, accounting, computerized accounting, computerized claims processing, reinsurance brokered for captives, managing underwriting pools/facilities/association captives, association captive management services.
Occasional services: Captive feasibility studies, manual claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management.
Staff: 10, four professionals, including two CPAs, two CPCUs.
Clients: 23 active captives managed at year-end 1991. No minimum size client.
Current business: 23 active captives.
Compensation: Annual fee, no minimum.
1991 gross revenues: 95% from fees charged for captive management, 5% from commissions charged for brokering insurance and/or reinsurance.
Principal officers: John Copeland, managing director.

Willis Corroon Management (Isle of Man) Ltd.

10 Finch Road, Douglas, Isle of Man; 0624-620274; fax: 0624-601586

Founded: 1982.
Parent company: Willis Corroon P.L.C.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives.
Occasional services: Actuarial studies, association captive management services including specialized accounting services.
Staff: 12, five professionals. Professional designations include one FCA, two ACAs, one FCII, one MIB.
Clients: 26 active captives managed at year-end 1991; 10% with less than $1 million in premiums, 10% with $1 million to $2.9 million, 65% with $3 million to $9.9 million, 10% with $10 million to $19.9 million, 5% with more than $20 million. Captives managed write $170 million in premiums. No minimum size client.
Current business: 29 active captives.
Compensation: Annual fee.
1991 gross revenues: 100% from fees charged for captive management.
Principal officers: David Campbell, chairman; James C. Boyd, managing director; Angus Alexander, senior account manager; David G. Prince, account manager; Peter J. Foulger, underwriting manager.

Wyatt Management Co. (Barbados) Ltd.

P.O. Box 1307, Sixth Floor, Central Bank Building, Bridgetown, Barbados; 809-429-3974; fax: 809-427-3771

Founded: 1989.
Parent company: The Wyatt Co.
Frequent services: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, association captive management services, specialized accounting services, onshore services for associations, investment management selection.
Occasional services: Underwriting and ratemaking for captives, investment management.
Staff: Five, one professional who is a CPA.
Clients: Three active captives managed at year-end 1991; 66% with less than $1 million in premiums, 33% with $10 million to $19.9 million. One inactive captive managed. Captives managed write $72 million in premiums. $35 million in capital and surplus managed. No minimum size client.
Current business: Three active captives, one inactive captive.
Compensation: Time and expense: professional, $150; clerical, $50 to $95.
1991 gross revenues: 100% from fees charged for captive management.
Principal officers: C. Ian Durrell, director; Sylvain Dion, manager-international risk management services; Chris Evans, general manager.

Willis Wrightson (Bermuda) Ltd.

P.O. Box HM 1826, Hamilton HM HX, Bermuda; 809-292-4402; fax: 809-292-1563

Founded: 1981.
Parent company: Willis Wrightson Capacity Resources (Holdings) Ltd.
Principal officers: Beatrice White, president; Frank Mutch, vp; Christine Douse, director; Ian Morrison, secretary; Peter Willitts, alternate director.
Subcontracts for captive management services with Johnson & Higgins Ltd.

Y

Yankee Captive Management Co.

P.O. Box 2127, 140 Kennedy Drive, South Burlington, Vt. 05407-2127; 802-658-1100; fax: 802-658-9419

Founded: 1983.
Parent company: Yankee Insurance Group.
Frequent services: Captive formation, government reporting, accounting, manual claims processing, claims reserves analysis, investment management.
Staff: Three, two professionals, including one ARM, one MBA.
Clients: Two active captives managed at year-end 1991; 33.3% with less than $1 million in premiums, 33.3% with $1 million to $2.9 million, 33.3% with $10 million to $19.9 million.
Current business: Four active captives.
Compensation: Annual fee, $5,000 minimum.
Principal officers: L.F. Hackett, president; J.F. McNally, vp.

Z

Zurich International (Bermuda) Ltd.

Cumberland House, 1 Victoria St., P.O. Box HM 2268, Hamilton HMJX BDA, Bermuda; 809-292-8155; fax: 809-292-7368

Founded: 1977.
Parent company: Zurich Insurance Co.
Frequent services: Government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, investment management.
Occasional services: Captive feasibility studies, captive formation, reinsurance brokered to captives.
Staff: 14, seven professionals, including two CPAs, two MBAs, two FCASs, two MAAAs, two FCIAs.
Clients: 12 active captives managed at year-end 1991.
Current business: 12 active captives.
Subsidiaries: Coral Shield Insurance Co. Ltd., Hamilton, Bermuda.
Compensation: Annual fee.
1991 gross revenues: $2.3 million.
Principal officers: Laurence W. Cheng, president; Nigel J. Pooley, vp/comptroller; J. Scott Bradley, vp-underwriting; George F. Hutchings, vp-marketing.

Zurich International Services (Ireland) Ltd.

Stephen Court, 18/21, St. Stephens Green, Dublin 2, Republic of Ireland; 353-1-613722; fax: 353-1-619707

Founded: 1990.
Parent company: Zurich Insurance Co.
Frequent services: Captive formation, government reporting, accounting, computerized accounting, computerized claims processing.
Staff: Three professionals.
Clients: One active captive managed at year-end 1991 with $3 million to $9.9 million in premiums.
Current business: One active captive.
Principal officers: Lawrence Shemn, general manager. ■

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Spotlight report

Keeping Belz Enterprises' ducks in a row

Workman credits success to being open to all ideas from all comers

By JAMES M. BURCKE

No one pays attention to the sign hanging from Millie Workman's office doorknob.

The brass sign, proclaiming the familiar "Do Not Disturb," is embossed with the logo of the Peabody hotel in Memphis, Tenn. and with an outline of a group of ducks, the hotel's trademark.

But Millicent W. Workman attracts attention, just like the famous ducks whose twice-daily march through the Peabody's lobby attract visitors from the world over.

As director of corporate risk management for Belz Enterprises, the Memphis-based real estate management and development company that owns the Peabody, Ms. Workman virtually single-handedly oversees risk management and employee benefits programs for the 2,500-employee company.

With only two administrative assistants, quiet times are few and far between: Her telephone rings incessantly, and Belz executives are constantly sticking their heads in the door to fire off questions. When things finally do settle down, there's still a small mountain of phone messages to return and a tall pile of mail to read.

"Do Not Disturb" is not an option for Millie Workman, but it's not her style either.

"Shutting the door doesn't do it; the only thing I can do is lock it, and I've resorted to that a few times," she says with a chuckle.

More seriously, Ms. Workman credits her success as a risk manager to being open to all advice from all comers: Belz's top management, hotel executives, security personnel, property managers, maintenance workers, her assistants, and her brokers and other advisers.

1992 RISK MANAGER of the YEAR

"We're not reinventing the wheel. I'm not saying we have any great original ideas. We are just taking ideas that we have seen work someplace else and are applying them here," Ms. Workman says.

"Millie's motto is, 'Let's give it a shot,' " says Marilyn Wojcik, vp at Johnson & Higgins of Tennessee Inc. in Nashville, who nominated Ms. Workman for the Risk Manager of the Year award. "It would never cross her mind to say that's the way it's always been done."

"I'm an idea person," Ms. Workman says. "If you sit down and talk with me for a while, in a few minutes I'll start saying, 'We can do this, we can do that.' My problem is getting it done."

Others disagree: They attest that the petite, redhaired, energetic Millie Workman gets the job done.

She has assembled a state-of-the-art risk and employee benefit management program. Befitting the entrepreneurial nature of a company that still makes "deals," she has juggled the old with the new, the conventional with the experimental, the serious with the corny—all while she juggles her time.

And, it all works: Belz's workers compensation losses have dropped by more than 60% in four years; its property insurance rate has fallen by almost the same amount while coverage has been broadened; and the company reduced its health care costs by about 15% last year.

Her superiors and advisers credit Ms. Workman with being far ahead of her time in her crusade to control workers compensation claims costs. And, she now is attempting to apply the medical cost control techniques she is learning as a benefit manager to workers comp and other risk management programs.

Her accomplishments have won the praise of the Belz family, her boss, her co-workers and her peers in the risk management community. Now, they have been recognized by the 10 independent judges who selected Ms. Workman as the 1992 *Business Insurance* Risk Manager of the Year.

While Ms. Workman is the 15th recipient of the award, created by *Business Insurance* in 1977 to recognize outstanding achievements in risk management, she is the first to represent a small company, defined as one with less than $300 million in revenues.

Photo by Michael A. Marcotte

Belz Enterprises may be small compared with the giants of Corporate America, but the risks it faces are huge and varied. Tens of thousands of people each day sleep in Belz-managed hotels or dine in their restaurants, work in Belz-owned office buildings or industrial parks, shop in malls operated by Belz, and go home to residential communities it developed or apartment buildings it owns.

Airplanes take off and land at a Belz-owned private airport in Mississippi, while river barges load and unload at Belz's two marine terminals in Memphis.

While each of Belz's businesses pose unique risks, the hotels present the greatest challenges and demand the bulk of the time Ms. Workman spends on risk management.

Belz's hotels, formally known as the Peabody Hotel Group, account for 95% of the company's workers comp claims, partly because Belz's other operations largely contract for services. For instance, the Belz Factory Outlet Mall in Orlando, which claims to be the second-largest attraction in an area that includes the Walt Disney World resort, has only about 15 employees.

"The interesting thing is that this holds true not only for workers comp, but it also holds true across the board" for all types of liability claims, Ms. Workman explains. "One of the mysteries of life is why we have so many guest claims in hotels and we rarely have them in a mall."

She then quickly adds, "You don't argue with it."

While Ms. Workman has accomplished a great deal since she joined Belz in late 1987, that does not mean that she moves rashly.

When Belz decided to buy a large deductible workers compensation program to cover the Peabody Orlando—the first written in the Southeast by American International Group Inc.—Ms. Workman originally negotiated a $100,000 per-claim deductible. A year later, she increased it to $250,000.

Ms. Workman says her philosophy is to take "one step at a time. Let's see how it all works out, and then we'll take another step."

That's especially true when it comes

Continued on next page

Belz Enterprises

Founded: 1943, when Philip Belz developed an industrial warehouse on a six-acre site in Memphis, Tenn.

Current business: Belz Enterprises has become the largest real estate development and management company in Memphis. It develops and manages warehouses, industrial parks, office buildings, shopping malls, apartment buildings and residential communities. It owns a private airport and two marine terminals on the Mississippi River. It owns and operates 10 hotels.

Altogether, the company owns nearly 340 facilities with a total of 22.5 million square feet of space. In addition, it owns more than 400 vacant parcels of land.

Belz Enterprises also is well-known in the Memphis area for its community and charitable work.

Status: Privately held, family-owned company.

Revenues: $200 million (estimated).

Industrial, warehouse, distribution and office showroom: Include Gateway Industrial Park, Goodlett Farms, Memphis International Office Center, Rivergate Industrial Port and Shelby Oaks Industrial Park in Memphis; Trousdale Industrial Park in Nashville, Tenn.; and Metro Industrial Park in Olive Branch, Miss.

Retail: Belz Factory Outlet Malls in Orlando, Fla.; Lakeland, Fla.; Pigeon Forge, Tenn.; Wentzville, Mo.; and Las Vegas, Nev. (under development). Also owns 17 shopping centers in Memphis and five in Nashville.

Office buildings: 88 Union Center, First Tennessee Building, Union Plaza Building, Memphis Professional Building, 2400 Poplar Building and Shelby Oaks Corporate Park, all in Memphis.

Hotels: The Peabody, Radisson Ridgeway Hotel and Holiday Inn Overton Square in Memphis; The Peabody Orlando in Orlando, Fla.; Holiday Inn Normal in Normal, Ill.; Natick Crown Plaza in Natick, Mass.; Randolph Holiday Inn in Randolph, Mass.; Holiday Inn Somerville in Somerville, Mass.; and Greenville Hilton and Towers in Greenville, S.C. In addition, a hotel in Framingham, Mass., currently is closed for renovation.

Residential: Four residential developments in Memphis. Apartment buildings and developments in Memphis; Orlando; Maumelle, Ark.; Columbus, Miss.; and Rensselaer and Troy, N.Y.

Continued from previous page

to risk retention for a family-run company with an aversion to risk. "We're more comfortable with $100 than with $100,000," she jokes, but then quickly points to the large deductible plan as proof that the company is not mired in the past.

Perhaps Ms. Workman's biggest accomplishment has been taming the workers compensation claims monster that was born with the opening of the Peabody Orlando, which welcomed its first guests in late 1986.

In its first full year of operation, the hotel's workers comp loss ratio stood at almost 270%. Following a program of loss control, claims management, and employee and management education instituted by Ms. Workman after she joined Belz, the hotel's loss ratio dwindled to about 50% in only three years (see story, below).

But Ms. Workman's workers comp accomplishments should not be measured by the performance at the Peabody Orlando alone.

"The Peabody Orlando was obviously a problem, but the rest of the hotels were a time bomb waiting to explode," says J&H's Ms. Wojcik, referring both to the lack of loss control measures at these properties and the fact that workers comp insurance rates had not yet begun to rise out of sight in 1987.

"Before things got to a crisis, she took the bull by the horns," Ms. Wojcik says. "She was practicing workers compensation cost containment before it was in vogue."

Ms. Workman taught Belz to focus on workers comp. While she discussed Belz's risk management program with her predecessor when she started work, she does not remember "that he ever discussed workers comp. It was more like, 'These are the properties, you inspect the properties on a regular basis, and so on.' "

Now, Ms. Workman has turned her attention to employee benefits. In a little more than three years, while still retaining responsibility for risk management, she has changed health care plan administrators and stop-loss insurers, increased cost-sharing with employees, used the money saved to provide new benefits, implemented a new wellness program and is now investigating whether Belz should administer health care claims itself (see story, page 138).

To make the Belz risk management and employee benefits programs as effective as possible, Ms. Workman has strived to improve relations between the risk management department in Memphis and the managers of Belz's hotels and other properties.

"One of the things I found out when I got here is that there was not a lot of communication with the risk manager," she says. Local executives often were told to follow procedures when they had a problem—and not to bother the risk manager.

"Then, I went around and started talking to people. That's when they opened up the bottom drawer and pulled out all the problems they hadn't dealt with for awhile.

"I have really tried to be available to local managers if they have a question," she says. "And it just isn't claims."

A common problem handled by Ms. Workman is an inquiry from a shopping mall manager who wants to hold a special event in the mall even though the event's sponsor cannot furnish the required certificate of insurance.

"What do they do? We try to work with them and figure it out," she says (see story, page 142).

Ms. Workman now says that she "probably has overcompensated" in trying to build relations with the managers of hotels, malls and other Belz properties. "But I would much rather have them talk to me about it on the front end so I know what is going on than to find out about it later."

Ms. Workman spent about 100 days on the road last year. That's a little more than normal, she says, because she needed more time to explain the major changes in Belz's employee benefits plan.

Ms. Workman attempts to visit each Belz-owned hotel outside of Memphis at least twice a year, and she travels to the Peabody Orlando three or four times a year. "It's just a larger property, and there are so many issues to deal with."

In fact, Ms. Workman's absences from her Memphis office are becoming the stuff of legends.

"We love Millie more and more each year. As they say, absence makes the heart grow fonder, and every time I call, she's out of town," jokes Jack A. Belz, the company's chairman.

But Ms. Workman says spending time in the field is valuable. "No matter how close you work with staffers, how long you are in a hotel, you still are constantly learning things that affect the risk management program," she says.

And, she credits her success as a risk manager—including her Risk Manager of the Year award—to her co-workers. "It's not just one person; it took lots of people to do it.

Ms. Workman is especially pleased that she is the first risk manager from a small company to win the award and says she hopes it will demonstrate the importance of risk management to other smaller companies.

"I hope management at other small companies will say, 'I didn't think having a risk manager could have such an impact,' " she says. ■

Millicent W. Workman

Born: Brownsville, Tenn.

Age: 44.

Title: Director of corporate risk management, Belz Enterprises, Memphis, Tenn.

Education: B.S. with major in biology from Union University, Jackson, Tenn. Received Chartered Property & Casualty Underwriter designation in 1974; Associate in Insurance Underwriting designation in 1979. Currently working on Associate in Risk Management designation.

Previous experience: Director of marketing and risk management, Hemisphere General Insurance Group, Memphis, 1986-1987; risk manager and personnel policy administrator, Care Inns Inc., Memphis, 1983-1986; also served as vp of International Insurors Inc., an in-house agency for Care Inns, 1983-1984; vp, Anthony & Fisher Inc., a brokerage in Germantown, Tenn., 1980-1983; manager of research and specialty development and various other positions at Cook, Treadwell & Harry Insurance Agency, Memphis, 1977-1980; vp, D.A. Fisher Inc., a Memphis agency, 1977; manager of property department and various other positions with Crump London Underwriters Inc. in Memphis, 1969-1977.

Professional memberships: Deputy member, Risk & Insurance Management Society Inc.; member of conference programming committee for 1992 RIMS conference; president, Memphis Chapter of RIMS, 1991-1992; vp, 1990-1991; national director-Southeast region, Society of CPCU, 1991-1994; chairwoman, national curriculum liaison committee, Society of CPCU, 1990-1991; president, Memphis Chapter of Society of CPCU, 1988-1989; chairwoman, Memphis Business Emergency Preparedness Council, 1991-1992; chairwoman, Greater Memphis Insurance Council, 1978.

Honors: Insurance Woman of the Year, Insurance Women of Memphis, 1977-1978; Insurance Woman of the Year, Insurors of Memphis, 1976.

Hobbies: Reading, needlepoint.

Polishing a 'crown jewel' hotel's safety record

Cohesive risk management plan reins in comp losses

By JAMES M. BURCKE

A spanking new hotel combined with an antiquated risk management program spelled disaster for Belz Enterprises' new risk manager.

The new hotel was the Peabody Orlando, a 891-room showcase that opened in late 1986 to serve both vacationers headed to Walt Disney World and business executives headed for the nearby Orlando/Orange County Convention Center, the largest meeting facility in central Florida.

The new hotel and the historic Peabody in Memphis, "the Grand Hotel of the South," comprise the crown jewels of Belz's hotel holdings.

But Belz's splintered risk management program, a lack of loss control engineering in the Peabody Orlando's design and no safety awareness among management and employees added up to an avalanche of workers comp claims from the time the new hotel opened.

In fact, in 1987—its first full year of operation—the Peabody Orlando's workers comp loss ratio approached 270%, recalls Millie Workman, Belz's director of corporate risk management, who joined the company in December of that year.

Losses and expenses in 1987 from the Peabody Orlando—including estimates of still open claims—totaled $941,986. The hotel's approximately 850 employees were involved in a whopping 405 workers compensation incidents, mostly slip-and-fall accidents.

"The losses were beyond imagination," Ms. Workman remembers with a nervous chuckle.

Compounding the problem was that Belz was largely ignoring the claims. The guaranteed-cost workers comp coverage it purchased through the Florida Hotel & Motel Assn.'s self-insured trust—along with a lack of comparable loss history—gave the company little motivation to take action.

"We were not paying any attention to the claims. All we were doing was filing the first report of injury, shipping the bill and that was it. Nobody was asking, 'Why did this reserve go up?' or 'Why is this guy still off work?"

And, according to Ms. Workman, Belz wasn't receiving any real help from the outside claims adjusters hired by the pool. "They weren't interested in doing much. They weren't managing the claims."

Since no one was paying attention, an estimated one-third of the claims filed by Peabody Orlando workers were litigated.

"We were doing everything wrong that we could," says Ms. Workman.

In those days, human resource departments at various Belz properties had primary responsibility for workplace safety. So decentralized was the program that Ms. Workman still had not received complete 1987 loss runs from the Peabody Orlando by the spring of 1988 when she got the bad news: The experience modification factor to be applied at the next renewal on Jan. 1, 1989, would skyrocket.

"After everybody started breathing again, it was pretty easy to get funds committed to start solving the problem," Ms. Workman says.

Yet, despite the magnitude of the problem, Ms. Workman stuck to her basic safety management philosophy when dealing with human resource personnel or general managers at all Belz properties: "direct, but don't dictate."

"I would much prefer that they try to solve their problems themselves. You're going to be much more successful than if you go in and say, 'You have to do this and you have to do that.' "

The key to any loss control

Continued on next page

Workers comp

Continued from previous page

program, according to Ms. Workman, is "management commitment." And "we had that from Day One at that property" after asking for it, she says.

Still, "on the front end, we couldn't quantify what effect the steps would have, but we knew we had to do something to save those dollars."

To cut losses, Ms. Workman instituted loss control actions and claims management procedures.

The first step taken in conjunction with staff members at the Peabody Orlando was simple but very effective: installing indoor-outdoor carpeting in the so-called back hallways used by the hotel's staff. "All food and beverage goes through these back halls. There were grapes, water, lettuce, ice and everything else on those floors. It was a big skating rink," she says.

In the six months after the carpeting was installed, not one slip-and-fall accident was reported at the Peabody Orlando compared with hundreds the year before. "We had virtually eliminated the problem."

Another step that Ms. Workman quickly took was forming a safety review board and employee safety inspection teams at the hotel.

The safety review board was charged with reviewing every accident at the Peabody Orlando. Members include the hotel's general manager and director of human resources and heads of various hotel departments, like food and beverage, finance, security and engineering.

The board meets with the employee who suffered the accident and the employee's supervisor to review "what went wrong, could it have been prevented, what do we need to do in the future to prevent accidents."

Once top hotel officials began to review every workplace accident, "supervisors had a vested interest in making sure that their own investigation was complete."

In addition, employees were drafted for safety inspection teams, which examined safety hazards at the hotel. For instance, a team of kitchen employees would investigate hazards in the housekeeping department, and vice-versa.

Were the teams' findings and suggestions all practical? "No, but still they were looking," Ms. Workman says. "That was the important part. We wanted to get our employees involved in the whole concept of safety."

The hotel also appointed a full-time member of its security staff to investigate all employee and guest injuries. The investigator collects evidence on why the accident occurred and takes statements from witnesses to produce a detailed report on each injury.

The efforts paid off quickly. New workers compensation cases dropped by one-third to 268 in 1988 from 405 the previous year. And, total workers comp loss and expense costs at the Peabody Orlando fell 14.7% to $803,420 in 1988 from $941,986 in 1987.

"It was a start," she says.

But Belz and Ms. Workman were not out of the woods yet. They still had to renew the workers comp coverage for the Peabody Orlando, and that huge experience modification factor was looming.

"Knowing that on Jan. 1, 1989, the experience mod was going to hit the policy and cost us big bucks," Ms. Workman and Belz's broker, Johnson & Higgins of Tennessee Inc., approached a variety of insurers about writing the coverage. Among those insurers was

Workers comp claims from the Peabody Orlando at first were 'beyond imagination,' Ms. Workman says.

American International Group Inc., which had written Belz's general liability and other assorted casualty coverages since 1982.

"We talked about the experience we had, showed them what we had done, and had their loss control people go in and conduct a survey," Ms. Workman says.

Belz finally decided to withdraw from the self-insurance pool and purchase workers comp coverage from National Union Fire Insurance Co. of Pittsburgh, Pa., an AIG unit. However, Belz didn't have many other options.

"National Union was the only company that stepped up and said they would do it," she says. "National Union had the casualty account for a long time and they already had a lot of our dollars in their pocket.

"Their decision has been vindicated if you look at our loss experience today," she points out.

While National Union also was writing workers comp coverage for most of Belz's other operations and Ms. Workman was moving toward consolidating Belz's crazy-quilt of workers comp policies into one retrospectively rated program, Ms. Workman decided to keep the Peabody Orlando's coverage separate.

"We all thought we were doing a good job controlling losses, but we sure didn't want to roll Orlando in with everybody else and have another disaster that would impact everybody else's comp costs."

A big advantage to signing on with AIG came in claims adjusting. Belz replaced the third-party adjusters hired by the self-insurance pool with adjusters—employees of AIG subsidiary American International Adjustment Co.—who would have Belz's best interests in mind, Mr. Workman says.

AIAC "handles claims promptly and stays in touch with these people," she testifies.

Armed with the in-house investigations and additional data reports from AIAC, Ms. Workman, the hotel's human resource director and his staff members began to learn more about each workers compensation claim filed by a hotel employee. And, they were better able to identify candidates for modified duty programs to allow the injured employee to return to work more quickly, Ms. Workman says.

While she praises AIAC, it's necessary for the hotel's own staff to also track claims, rather than leave that job solely to outside adjusters, because "loss adjusters for any insurer or TPA are trained to process and pay bills," Ms. Workman says.

"That's not a condemnation; that's what they are paid to do. They don't necessarily spend the time thinking about getting this person back to work. No matter how good of relationship you have with the people adjusting your claims, that still is not their primary thrust.

"And, as a company, we are totally, absolutely committed to modified duty. We want to get them back to work because psychologically that is so important," she stresses (see story, page 132).

Focusing on claims management helped to reduce litigation by injured employees. "The first year after we moved to AIG, we had no cases go in litigation (in Orlando), which tells you they have done a good job handling the claims."

"Good communication from the adjuster helps to keep these employees from going to attorneys. If injured workers feel like their claims are going to be handled fairly, a lot of times that will keep someone from going to an attorney immediately."

To reduce claims at the Peabody Orlando even further, Ms. Workman installed some "old favorite" loss control mechanisms.

For more than a year, employees of the Peabody Orlando played "safety bingo." An employee who was not involved in a workers comp incident during a given month would receive a bingo card, and a new number was drawn each day. A worker that "bingoed" was eligible for a twice-monthly drawing of $50.

A workers comp claim knocked the employee out of the game for the month.

While Ms. Workman concedes that such an approach is often derided as "corny," the game met Belz's goal of increasing employee interest in safety.

The hotel's security department "was in change of drawing the numbers," Mr. Workman recalls. "It got to a point where if security did not post the number by 11 a.m. in the employee cafeteria, the employees were calling wondering what the number was for the day."

In fact in some cases, the game was too successful. Some employees tried to downplay real injuries because they did not want to be knocked out of the game for the month, she said.

As the loss control and claims management steps took hold, claims experience at the Peabody Orlando continued to improve—dramatically.

In 1989, the first year the coverage was underwritten by AIG, the number of workers comp claims filed increased slightly to 315, but total workers comp-related losses and expenses fell 61.8% to $306,565 from $803,420 in 1988. The hotel's 1989 workers comp loss ratio stood at 64.7% compared with nearly 270% just two years earlier.

The next year, total costs fell another 10.4% to $274,538, while the number of claims filed in 1990 dropped 10.8% to 281. The loss ratio fell to 53.6%.

And while Ms. Workman cautions that 1991's loss statistics still are "green" because of still-open claims, the hotel's loss ratio now stands at about 30%.

While the results of the program have been impressive indeed, the hotel's top management and human resource staff still show the same vigilance in preventing workers comp claims as they did in early 1988, Ms. Workman says.

"Today, the general manager is as committed to the concept of loss control as he was the first day. I wish I could say I had that commitment at every property."

One of the "key result areas"—a type of management objective—for the human resource director at the Peabody Orlando is tied to workers comp losses, she notes.

And, workers comp experience is used as a factor in determining the bonuses received by all general managers of Belz-operated hotels, she points out. "However, it's not big enough" of a factor.

The Peabody Orlando workers comp program is now the model for other Belz hotels and Ms. Workman is now trying to install portions of the Orlando program at other Belz locations. However, differences in state laws, the smaller size of some of the other hotels and other factors make it impossible to have a standard workers comp program for all its hotels and other properties.

"I have a hodgepodge of properties to work with," she says. Furthermore, since the hotels that Belz owns and manages are members of different hotel chains—like Hilton, Holiday Inn and Radisson—it must follow some procedures prescribed by those companies.

Some of the hotels have such small staffs that they file only one or two workers compensation claims a year. "Do you really go in and beat that one to death? Or do you focus on places where you really have problems?"

Nearly all the Belz hotels now have safety committees, though Ms. Workman admits the emphasis placed on them varies among the hotels based on their loss history.

Even with the success at the Peabody Orlando, Ms. Workman still strives to reduce workers compensation losses even further, sometimes in subtle ways.

For example, she believes an employee assistance program that she instituted last year in her role as Belz's employee benefits manager could help injured employees return to work more quickly by giving them increased access to counselors (see story, page 138).

The EAP "is something we have communicated to our adjusters to remind them that we have counseling available to injured workers that, to a point, is not going to cost anything," she explains. ■

Special policy lowers workers comp costs

Belz Enterprises does not include a loss limitation factor in its retrospectively rated workers compensation insurance program, but that doesn't mean it has not taken steps to limit the effect of a catastrophic loss on the program's cost.

Instead, it now buys a catastrophic occupational accident insurance policy, a type of accidental death and dismemberment policy that pays Belz if an employee is killed, dismembered or paralyzed in a workplace accident.

While many employers prefer to build a loss limitation into their retro programs, so that any claim exceeding a certain amount is not factored into the retro premium, "you pay for that loss limitation dearly most of the time," explains Millie Workman, Belz's director of corporate risk management.

The premium for the CAT-OCC policy was about one-third of the cost of a loss limitation, she noted.

Few companies buy so-called CAT-OCC policies, points out Marilyn Wojcik, vp at Johnson & Higgins of Tennessee Inc., who manages the Belz account. In fact, the policy purchased by Belz on Sept. 1 was the first written by CIGNA Corp., she says.

Belz pays a flat rate per employee for the policy, written by the Insurance Co. of North America. The policy pays up to $100,000 per employee with an annual aggregate payout of $1 million. "If we had a chandelier fall at a hotel and it crushed three employees, the payment from the (CAT-OCC policy) is going to more than offset" the added cost under the retro program, she says.

The policy covers all Belz operations, including the Peabody Orlando hotel, whose workers are covered under a guaranteed-cost, large-deductible policy rather that the retro program. If a serious accident occurs at the Orlando hotel, the proceeds from the OCC-CAT policy would help fund claims costs that Belz would have to pay under its $250,000 deductible.

So far, no Belz worker has suffered an injury that would trigger the coverage. ■

Proactive management provides control over workers comp claims

Precertification eyed as an option for containing medical component of workers comp costs in the future

A key to holding down rising workers compensation costs is through an aggressive medical cost containment program, Millie Workman believes.

Ms. Workman takes a very proactive approach to workers comp medical cost management because she is Belz Enterprises' employee benefit manager as well as director of corporate risk management.

"I guess I look at it from a different perspective because of employee benefits. I see what can be done over there," she says.

Ms. Workman concedes that medical cost containment works differently in the group health care setting than in workers comp programs because "you can penalize employees for not doing things in an employee health care plan that you cannot do in workers comp."

However, workers comp medical cost control programs can produce results, "even if not all workers do what they are supposed to."

For example, "some people say, 'What good is precertification for workers comp claims if you cannot penalize the injured employee if they do not obtain precert?'

"But if you at least get half of the people precertified, you're probably going to save some days" of hospitalization, she points out.

Ms. Workman says it would not be tough to implement a precertification program for workers comp claims because "most physicians and hospitals are so accustomed to precertification."

"We get calls to precertify workers comp cases just because they are so geared to checking with the medical plan if someone has to be admitted to the hospital," she says.

Precertification, when combined with continued stay review of workers comp-related hospitalizations and case management of serious workers comp cases, would cut costs, she says firmly.

American International Group Inc., Belz's workers comp insurer, now is running pilot workers comp precertification programs, a move that Ms. Workman welcomes.

1992 RISK MANAGER of the YEAR

But, she is seeking proof that AIG's cost containment efforts deliver results.

"AIG says no one does cost containment any better than they do, but they cannot give you a report to back that up," Ms. Workman says. "They are probably doing more than I can perceive, but they can't show me that they are. I want to see more."

Following a meeting last month with AIG officials, Belz hired consultant A. Foster Higgins & Co. Inc. to audit Belz's workers comp claims to determine the efficiency of the current medical cost containment program. Based on the findings of the audit, Ms. Workman will discuss with AIG what steps Belz will take.

One solution could be to hire an outside workers comp cost management firm to provide case management and other types of cost control services, she says.

However, she put the idea on hold after discussing with AIG officials the improvements the insurer could make.

"AIG understands where I am coming from; they just don't have a program up and running. But, they have made a commitment to really try to do these things this year."

When AIG offers Belz workers comp medical cost control services, Ms. Workman sometimes would like it done differently.

For example, while AIG contracts in the Memphis, Tenn., area with a workers comp preferred provider organization formed by the Methodist Hospitals of Memphis, Belz—whose headquarters are in Memphis—traditionally has sent injured workers to Baptist Memorial Hospital. And, Belz's group health care plan contracts with Baptist Health Services Group, a PPO operated by Baptist Memorial.

"So what are your alternatives?" she asks rhetorically, explaining that Belz could either attempt to negotiate a workers comp PPO arrangement on its own with Baptist Health Services or persuade AIG to contract with that PPO.

Besides offering workers comp PPOs in various locations where Belz owns properties, AIG also audits hospital bills, analyzes claims to see whether they match up with fee schedules and reasonable and customary charges, and offers medical case management services.

Still, AIG "can't show you how much they saved," she said.

Ms. Workman is quick to note that she is very satisfied with the overall workers comp program underwritten for Belz by AIG, which includes a large deductible policy written for the Peabody Orlando in Orlando, Fla. (see story, page 133).

"The fact of the matter is that they do a good job on the program. The program is priced very competitively," she says, emphasizing the word "very."

—By James M. Burcke

24-hour coverage looks promising

But constant cost management is key to success, says Workman

Millie Workman admits she doesn't have the answer to the nation's workers compensation problems.

"I don't know what can be done to reform the comp system. If I did, I wouldn't be here—I'd be retired," says the director of corporate risk management for Belz Enterprises.

However, Ms. Workman has some ideas that she believes could help make a difference.

"It's really medical costs that are inflating workers comp costs. It's not the whole problem, but if we can get a handle on that, we'd make some progress," she said. "When it costs three times as much for a back injury under workers comp than under your medical plan, you've got a problem."

Businesses have "worked so hard to contain costs under the medical plan that (providers) have shifted them over to the comp side," Ms. Workman explains. "We sit here and pay most any bill they send us on the comp side."

Besides more aggressive workers comp medical cost control (see related story), another possible solution to the problem of rising workers comp medical costs could be 24-hour coverage, Ms. Workman says.

Conceptually, a 24-hour coverage program that combines group health care and workers compensation medical benefits is "doable," Ms. Workman says. "It could work. You'd eliminate part of the cost shifting."

Any move to 24-hour coverage, though, will require "24-hour management," she says. This means having a single vendor apply the identical cost management techniques that are applied to an employer's group health and workers comp claims.

Twenty-four-hour management "is where I want to be," she says.

Another problem with the comp system is ever-increasing litigiousness, she says.

"The whole concept of why we have a comp system is gone," Ms. Workman says. "It wasn't supposed to be adversarial, and now it probably is more adversarial than before the system was conceived.

"If it's going to be adversarial, let's throw away this idea and let's play dirty." But, a better idea would be to "get back to the original concept. The original concept was a good one—there was nothing wrong with it."

She points out that in Tennessee, where Belz Enterprises is based, a worker can bring a comp claim directly to a trial court. And workers comp verdicts can be appealed only to the state Supreme Court, which Ms. Workman says will not review a case unless there is an "error in a significant point of law."

"In Tennessee, the system is lousy," she asserts. However, she does not see much chance for "meaningful reform" because a large number of state legislators are plaintiffs' attorneys.

—By James M. Burcke

Famed ducks waddle their way to the good life at the Peabody

They've gone on tour.

They've performed before hundreds of thousands of people.

They may be the most famous act from Memphis since Elvis.

But, they're not singers, dancers or musicians. They're ducks—the famed Peabody ducks.

Hundreds of people jam the usually sedate lobby of the Peabody hotel in Memphis each morning and afternoon to witness what words cannot properly describe.

At the stroke of 11, the ducks—one drake and four hens—emerge from an elevator, waddle single-file down a 50-foot-long red carpet to the strains of John Phillip Sousa's "King Cotton March" and plop in the lobby's ornate fountain, where they cavort until 5 p.m.

They then repeat the process in reverse before a new crowd of amazed—and chuckling—onlookers. After the ducks file into the elevator, they're zoomed to the hotel's roof where they spend the evening in their special "Royal Duck Palace."

A similar routine is performed at the Peabody Orlando in Florida.

The ducks, which have appeared on "The Tonight Show" and have traveled the world to promote the Peabody hotels, have been adopted as the mascot of the hotels owned by Belz Enterprises.

Guests eat at Dux restaurants in both Peabodys. Some Belz-owned hotels feature wines from Duckhorn Vineyards in California's Napa Valley. And, guests at the Peabodys can buy anything from sweatshirts to ties to keychains—all with duck logos.

About the only thing you can't buy is duck to eat—neither of the Peabodys feature duck on their menus, points out Millie Workman, director of corporate risk management at Belz Enterprises. "We don't want any guests to think the fountain is a lobster tank."

While the ducks' act now is carefully choreographed—or at least as carefully as possibly, given the performers—the mallards were introduced to the Peabody by accident. Returning from a duck hunting trip during the late 1930s, the hotel's then-general manager —fortified by a gulp or two of Tennessee sippin' whiskey—thought it would be fun to place some of his live decoys in the lobby fountain. The idea caught on.

The current routine—including the red carpet and the " duck march"—was initiated in the early 1940s by Edward Pembroke, who recently retired after 50 years as the Peabody's "duckmaster."

The tradition was interrupted for a time in the late 1970s and early '80s, when the hotel was closed and renovated after its purchase by Belz Enterprises. But, the ducks were on hand when the hotel reopened in 1981.

Over the years, hundreds of different ducks have marched through the Peabody. In fact, a new group of ducks is introduced about every four months, says Tootie Madison Haas, the Peabody's director of public relations.

"They get too fat with all the pampering," Ms. Haas explains. "They wobble instead of waddle."

Not to worry, though. After their tour of duty, the ducks are retired to a private farm with a lake; they don't wind up in a pate.

In fact, these are pampered birds. When the ducks go on their annual "world tour," they fly first-class in a special cage on Delta Air Lines, "the official airline of the Peabody ducks," Ms. Haas says. They stay in the best hotels, like the Waldorf Astoria in New York and the Mirage in Las Vegas. Once checked into their suite, they can float in the bathtub and dine on heads of lettuce ordered from room service.

As valuable as they are, though, Ms. Workman says, "We don't insure the ducks."

—By James M. Burcke

Spotlight report

Return-to-work program healthy for Belz and employees

Regular communication with employee ensures that the program keeps pace with recovery

An aggressive return-to-work program is one of the ingredients in Belz Enterprises' workers compensation success recipe.

"If an adjuster can simply tell us that someone can return to work in some manner, we're going to try to make an accommodation to get that person back on the job," says Millie Workman, Belz's director of corporate risk management.

"We feel it is beneficial for our employees to have a reason to get up in the morning," she says.

Belz also has the advantage of being able to offer its workers injured at the company's hotels —like kitchen help, maintenance workers and housekeeping staff —meaningful alternative work.

"We're very fortunate that in a hotel operation, unlike some businesses, there is a lot you can do to return workers to the job," she says.

"You can fold napkins—that's sounds funny, but it's something that has to be done. You can train them to answer phones. . . .There's a lot of things they can do, depending on their capabilities.

However, a return-to-work program must keep pace with an employee's recovery and rehabilitation, she observes. An injured worker cannot "just fold napkins until they come back to regular duty. As they become able to do a little bit more, you add a few new duties or shift them to another job.

"We don't want employees to say, 'I wish I would hurt my back so that I can sit and fold napkins for eight hours a day.' You sometimes have to walk a fine line."

Like most everything else at Belz, the return-to-work program is administered on the local level—typically by the human resources department at Belz's various hotels, with input from Ms. Workman and adjusters from American International Adjustment Co. There are few iron-clad rules.

Supervisors—either a human resource staff member, the employee's actual supervisor or sometimes both—are charged with staying in contact with injured employees. Contact ranges from every day to every couple of weeks, depending on the case.

"We want to keep the employees feeling like they are still part of the company. We don't want them to feel like they have been injured and forgotten about," Ms. Workman says, describing Belz's approach as a TLC—tender loving care—program.

And, injured workers "don't have to come back for eight hours a day. If they come back for a few hours each day, they're making progress," she said.

"There's no question that the longer somebody stays off, it's easier for them to stay home. What we're trying to do is to prevent that from happening."

The Belz return-to-work program focuses on what the injured worker can do, not what he or she cannot do, Ms. Workman says. "Psychologically, that's a lot better for the employee."

Workers best-suited to modified duty are identified by physicians or the claims adjuster.

"AIAC adjusters understand that we want to get these people back to work," she explains. The adjusters call officials at Belz hotels to ask, " 'What can we do to get this person back to work?' Or when they are talking to a doctor's office, the adjusters are thinking, 'What can we do to get this person back?' "

'It is beneficial for our employees to have a reason to get up in the morning,' says Ms. Workman.

If an injured worker has not returned to some kind of duty within 45 days, Ms. Workman spots it when she routinely reviews all workers comp claims open for more than 45 days.

"Sometimes 45 days is too late, but better late than never," she says.

Ms. Workman concedes that she has not yet explored how Belz's return-to-work posture will be affected by the Americans with Disabilities Act. Belz must comply with the workers compensation-related portions of the ADA starting in July.

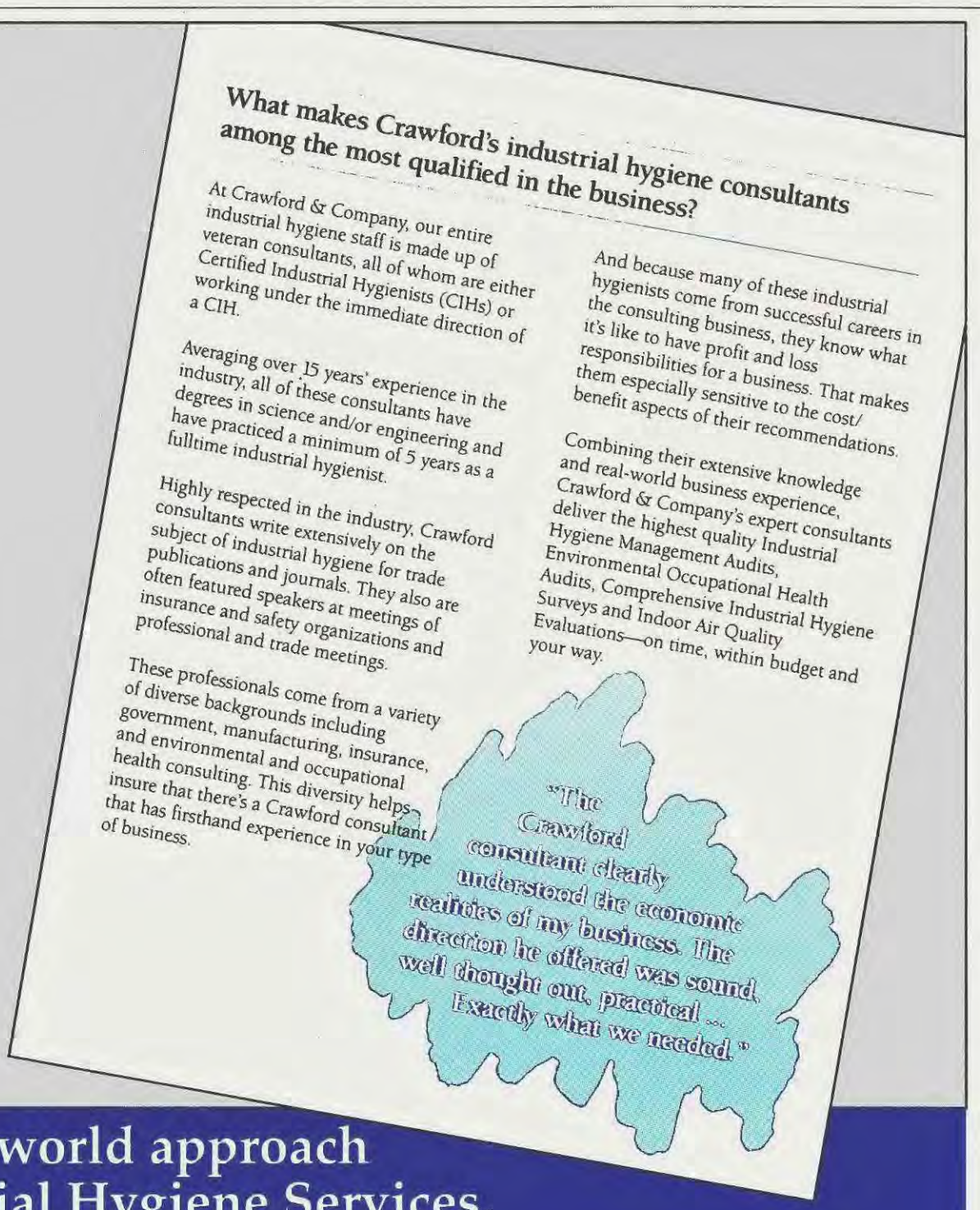
The law, among other things, allows disabled workers to fill jobs if an employer can make a "reasonable accommodation."

In addition, the law says that able-bodied workers who later suffer disabilities, whether work-related or not, must be reassigned to a vacant position for which the worker is qualified if a reasonable accommodation cannot be made to allow the worker to return to his or her regular job (*BI,* Jan. 27).

Ms. Workman points out that Belz now makes "accommodations" to return workers to their job, "so maybe we're already there."

While Ms. Workman credits the return-to-work program with helping lower Belz's workers comp losses, she can't quantify the success of the program. But, "our indemnity costs are down, so it appears to be working."

—By James M. Burcke



Workman opts for cost efficiency of large deductible comp cover

Savings of a retro program, but Belz controls cash flow

By JAMES M. BURCKE

While companies across the nation are self-insuring their workers compensation risks to reduce skyrocketing commercial workers comp insurance premiums and huge residual market loads, self-insurance doesn't make sense for Belz Enterprises.

But Belz has found an alternative way to fund its workers comp exposures. For more than a year, it has purchased a so-called large deductible workers compensation policy to cover a Florida hotel and is considering similar programs in two other states (*BI*, Sept. 16, 1991).

Belz's far-flung empire of hotels, warehouses, shopping centers and other types of properties makes it tough for the family-owned company to adopt a comprehensive self-insured workers comp program.

"Remember, we have Tennessee hotels, Boston hotels, a hotel in Florida; we have one in Illinois and one in South Carolina. We do not have enough people in some of the locations, nor do we have enough premium volume for some of the states to let us self-insure," points out Millie Workman, director of corporate risk management.

Belz has enough employees in Tennessee and at the Peabody Orlando, a luxury hotel in Florida, to self-insure in those states, but Ms. Workman doesn't want to splinter a program that she has worked four years to consolidate.

Still, Belz at one time seriously considered self-insuring its workers compensation risk at the Peabody Orlando, the largest of its hotels, Ms. Workman notes.

The company embarked on self-insurance feasibility studies in late 1990. One of the studies was conducted by Johnson & Higgins of Tennessee Inc., Belz's broker. And Corroon & Black Advanced Risk Management Services in Nashville, Tenn., now part of Willis Corroon Corp., was commissioned to study self-insuring the Florida workers comp program.

"Comp costs were continuing to go up and up and up," she recalls. "We looked at what should we be doing from a workers comp standpoint, particularly in Florida, where we have big dollars at risk."

Among the alternatives considered were a retrospectively rated program like the one Belz had in place at the time; self-insurance; and a large deductible program, which had just been approved in Florida.

Both the J&H and the Corroon & Black studies reached the same conclusion: "Bottom-line, when you ran all the financials, it didn't make sense for us to self-insure," Ms. Workman says.

In addition, "it's not been a philosophy of ours to be self-insured," she points out. For example, Belz still carries only a $5,000 general liability deductible.

However, a large deductible program for the Peabody Orlando did make sense.

"Large deductible plans were just beginning to come to the forefront" when the study was conducted in 1990, Ms. Workman explains. In fact, the large deductible plan for the Peabody Orlando was the first written by American International Group Inc. in the Southeast. The coverage is written by AIG unit Insurance Co. of the State of Pennsylvania.

AIG also insures Belz's workers comp exposure in other states.

The program commenced Jan. 1, 1991, with a $100,000 per-claim deductible and a $750,000 aggregate deductible.

The biggest advantage to the large deductible program is that "we get to use our money," she notes. "With a retro, you give them the money and maybe 18 months later you get some of it back."

"We had projected our retro adjustments, and we were going to get big bucks back. So we asked ourselves, 'Why should the insurer get all this money?' "

The ultimate projected cost of the large deductible plan is expected to be about the same as the cost of the retro plan. The premium paid to AIG under the large deductible plan is equal to about half of the standard premium Belz would have paid for guaranteed-cost coverage.

Significant cash flow advantages are one benefit of the plan; another is that the lower premium reduces Belz's residual market assessment.

American International Adjustment Co., an AIG unit, still adjusts workers comp claims that fall below the deductible, an advantage over a fully self-insured plan, which would force Belz to hire a third-party administrator or administer claims itself. The claims adjustment expense is included in the premium.

Under the large deductible plan, Belz does not actually pay claims that fall under the deductible until the claim closes. Belz only paid out about $10,000 to $12,000 in claims in 1991 because most of the claims stemming from incidents at the Orlando hotel were open at year-end. "So, we've gotten a lot of use of our money," Ms. Workman says.

"Even if we have to pay $200,000 or $300,000, by the time we have to pay," Belz will have received significant cash-flow advantages from the large deductible plan, she explains. "And if you can control your claims, you can save pretty big dollars.

"Under a retro, you're going to get some of that back, but the question is when will you get it back," she adds.

The large deductible plan also "is a natural step toward self-insurance," Ms. Workman says.

While self-insurance could present even greater cash-flow possibilities, a large deductible plan gives a conservative company like Belz a bit of reassurance—without having to buy reinsurance.

"Even though we haven't historically had a $500,000 claim, how do you know you won't have a $500,000 claim tomorrow?" she asks. "Particularly with our company, you have to cap that exposure."

However, Belz is becoming more comfortable with retaining risk as it gains experience with the large deductible plan.

When the large deductible plan commenced on Jan. 1, 1991, Belz set the deductible at $100,000 per claim. At renewal a year later, that was increased to $250,000, which cut the premium paid to AIG by 22%. The reduction would have been even larger had Florida not approved an across-the-board 24.9% workers comp rate hike at year end and had residual market loadings not increased (*BI*, Jan. 6).

It appears likely that no claim incurred during 1991 will pierce the $100,000 deductible.

Belz also increased its aggregate deductible on Jan. 1 to $1 million from $750,000.

The aggregate provides Belz with more peace of mind, Ms. Workman points out. "You know the worst you can do" in a given year is pay the upfront premium plus the aggregate deductible.

Ms. Workman also increased the per-claim deductible to $250,000 this year, but she thinks that is as high as Belz is likely to go. Further raises probably wouldn't save enough in premiums to justify the increased risk.

While Ms. Workman and other Belz executives have been happy with the large deductible program, she compares the difference in price between a large deductible program and a return to retrospectively rated first-dollar coverage when she renewed the Florida workers comp program late last year.

"It was a no-brainer. The large deductible program was the way to go."

In fact, large deductible programs may be the wave of the future for Belz.

Ms. Workman currently is considering whether to adopt a large deductible program for its operations in Tennessee and Massachusetts, where the bulk of Belz's other operations are located, when its current workers comp policies in those states expire on Sept. 1.

Tennessee only last year approved the use of large deductible programs. Insurers in Massachusetts only now are receiving authorization to write large deductible plans.

Ms. Workman says that if Belz does decide on a large deductible program in other states, it probably will follow the same strategy that it used in Florida: It will initially take a $100,000 deductible "and see how it works out" before deciding whether to increase the deductible. ■

Belz relies on traditional coverages with some new twists

Program features long-term ties, low retentions

By JAMES M. BURCKE

Belz Enterprises' risk financing program relies heavily on traditional property/casualty insurance principles—with some newfangled wrinkles.

The family-owned firm retains only $5,000 of its general liability risk per occurrence. And its property insurance deductible is a modest $10,000.

But, Belz also was the fist American International Group Inc. policyholder in the Southeast to insure its workers compensation exposures under a so-called large deductible program (see related story). And, one year after adopting the large deductible program, Belz increased its workers comp deductible on the coverage for the Peabody Orlando, a luxury hotel in Orlando, Fla., to $250,000 per occurrence from $100,000.

Generally, though, Belz prefers to transfer risk to an insurer rather than retain it, especially if the price is right, says Millie Workman, Belz's director of corporate risk management.

"The Belz family has been pretty conservative in taking retentions and large deductibles," she explains. "It's not that they're not willing to take a risk, but they want an aggregate" on the amount of risk the company assumes.

As befitting a family-owned company, Belz Enterprises places a strong emphasis on long-term relationships with brokers and underwriters.

Most of its liability coverages are written by units of American International Group Inc., while property coverage is written by Allendale Mutual Insurance Co.

And, the majority of Belz's coverage is brokered by Johnson & Higgins of Tennessee Inc. in Nashville, although the company places a few policies through Menard, Gates & Mathis, a Memphis brokerage.

Excess of its $5,000 general liability retention, Belz purchases $1 million per occurrence/$2 million aggregate in liability insurance from National Union Fire Insurance Co. of Pittsburgh, Pa., an AIG unit.

Belz also purchases $100 million in excess liability coverage, though no general liability claim in recent memory has exceeded the primary policy limits.

The first $15 million excess liability layer is written by Royal Indemnity Insurance Co., a U.S. unit of Royal Insurance Holdings P.L.C.

A $10 million layer excess of $15 million is written by First State Insurance Co., a unit of ITT Hartford Group Inc.

A $15 million layer excess of $25 million is written by United States Fire Insurance Co., a Crum & Forster Inc. affiliate.

The next layer, $10 million excess of $40 million, is written by Niagara Fire Insurance Co., a Continental Corp. subsidiary.

Aetna Casualty & Surety Co. writes the $15 million layer excess of $50 million, while Transamerica Insurance Co. writes a $25 million layer excess of $65 million.

The final $10 million layer excess of $90 million is underwritten by American Insurance Co., a unit of Fireman's Fund Insurance Co. However, for risks in Massachusetts, Belz purchases $10 million of coverage excess of $90 million from Gulf Insurance Co., a unit of Primerica Corp., since Fireman's Fund had not been not licensed in Massachusetts.

Belz paid about $475,000 for its primary liability insurance for 1991-92, roughly the same as the previous year. Excess liability insurance costs totaled more than $540,000 in 1991-92, more than a 10% reduction.

National Union also writes auto liability insurance with a $1 million combined single limit.

While Belz does not own property outside the United States, Ms. Workman purchases $1 million in worldwide liability coverage—including non-owned auto coverage—from Insurance Co. of the State of Pennsylvania, another AIG affiliate, to cover Belz family members when doing business overseas.

Belz's workers compensation coverage, except for the coverage for the Peabody Orlando, is written by National Union to statutory limits on an incurred loss retrospectively rated basis.

The large deductible policy for the Peabody Orlando is written by AIG unit Insurance Co. of the State of Pennsylvania. The policy, renewed Jan. 1, now has a $250,000 deductible, up from $100,000 in 1991.

The Florida coverage is written on a guaranteed-cost basis rather than included in the retro calculation.

The basic premium for Belz's workers compensation coverages totaled about $1.88 million in 1991-92, up slightly from $1.86 million in 1990-91.

However, these costs do not include any adjustment on the retrospectively rated portions of the coverage, Ms. Workman points out. Belz expects to receive more than $800,000 from the initial retro adjustment of the 1990-91 workers comp coverage.

Workers comp premiums include ever-increasing residual market loads, she notes. In 1991, Belz paid nearly $300,000 in residual market loads, compared with just $50,000 in 1989.

In Massachusetts, where Belz operates four hotels, Belz now pays a residual market load equal to 60% of its premium.

Belz purchases $30 million in airport liability coverage from Associated Aviation Underwriters to cover a private airport it owns in Olive Branch, Miss., located just across the state line from Memphis.

In addition, Belz buys $5 million in non-owned aviation coverage from Insurance Co. of North America, a CIGNA Corp. unit, to cover Belz's exposures when it leases an aircraft for its own use.

Another liability policy, which includes terminal operators legal liability coverage, is purchased for Belz's two marine terminals

Continued on next page

Insurance program

Continued from previous page
on the Mississippi River in Memphis.

The $10 million in coverage, which is underwritten by Lloyd's of London and other London marine insurance underwriters, includes sudden and accidental pollution coverage.

Allendale writes all-risk property insurance—which includes business interruption, boiler and machinery, earthquake and flood coverages—with a blanket limit of more than $1 billion.

The property policy includes coverage for electronic data processing risks; fine arts, including the Belz family's extensive collection of jades, ivories, bronzes and other artworks displayed in the company's Memphis headquarters; and real and personal property.

The Allendale coverage also provides builders risk coverage when Belz is the general contractor on a development.

Earthquake coverage is subject to a $150 million sublimit, except in California, where no coverage is purchased. Belz's only property in California is a small recording studio operated by a family member.

Flood coverage is subject to a $100 million sublimit for locations outside of known flood zones and a $25 million sublimit for locations within flood zones.

A $10 million sublimit applies to electronic data processing risks.

There also is a $10 million sublimit for contingent business interruption and contingent extra expense losses.

Since the coverage is written on an Allendale policy form and not manuscripted for Belz, the company purchases a $5 million difference-in-conditions—or "wraparound"—policy from Royal Indemnity Insurance Co. to protect against any coverage gaps.

Before Belz moved its property coverage to Allendale in 1988, it had purchased a layered property insurance program underwritten by several insurers on a manuscript form that reduced the potential for coverage gaps.

Belz selected Allendale for cost savings and for the loss control engineering services available from the member of the Factory Mutual System.

Excess of the $150 million in earthquake coverage provided by Allendale, Belz buys an additional $100 million in quake coverage from Hartford Fire Insurance Co.

Many of Belz's properties, including the historic Peabody hotel, are located in Memphis, which lies on the New Madrid fault.

The fault triggered a cataclysmic series of earthquakes in 1811 and 1812, and seismologists agree that properties in Memphis are subject to a significant risk (see story, page 142).

Belz paid property insurance premiums of about $750,000 in 1991-92, virtually unchanged from the previous year. However, that was a big reduction from more than $1.7 million in property premiums paid at the height of the hard market in 1986, even though insured property values have increased 22%.

Other coverages include:

- A blanket crime insurance policy.

The coverage, which includes $4 million in crime coverage and $100,000 in hotel safe deposit box legal liability coverage, is written by National Union. There is a $10,000 deductible on the crime portion of the policy, while a $5,000 deductible pertains to the safe deposit box coverage.

- Excess garagekeepers legal liability coverage.

The $1 million policy, written by National Union, is excess of Belz's primary liability coverage.

- Employed lawyers professional liability coverage.

The $1 million policy, written by National Union, covers Belz's in-house legal staff.

- Tenant and user liability coverage.

The $1 million policy is written by Continental Casualty Co., a CNA Financial Corp. unit (see story, page 142).

- Catastrophic occupational accident coverage.

This coverage, with limits of $100,000 per employee/$1 million aggregate per accident, pays Belz if an employee is killed, paralyzed or dismembered at work. It is written by INA (see story, page 130).

Overall, Belz paid $3.88 million in insurance premiums in 1991-92, not including retro adjustments, slightly less than the $3.9 million paid in 1990-91.

Nearly half—49%—of Belz's total premium costs in 1991-92 was for workers comp insurance, 21% for property insurance, 14% for excess liability insurance, 12% for primary general liability coverage, 3% for auto coverage and 1% for other types of coverages. ■

Workman advocates multiple renewal dates

The renewal dates of Belz Enterprises' property/casualty coverage are scattered throughout the year, something that Belz's risk manager has come to appreciate.

The property insurance program renews on May 1, while most liability and workers compensation policies renew on Sept. 1, except for the large-deductible workers comp program covering the Peabody Orlando—Belz's most complex risk—which renews on Jan. 1.

Millie Workman, Belz's director of corporate risk management, admits that at one time she intended to change the renewal of the Orlando workers comp program so it also renewed on Sept. 1. But, the renewal remained at year end because of problems in adjusting residual market loads and other factors.

Now, she is thankful that the renewals are spread out. "I just could not deal physically with handling all of the coverages at one time. It's bad enough doing all of your casualty allocations at one time. To also update all of the property values at the same time would be an enormous task." ■

Low retention garners high marks

$5,000 is higher than most claims, Workman says

The mere mention of Belz Enterprises' $5,000 general liability retention causes the company's risk manager to grin.

"It's so low I hate to mention it," says Millie Workman, director of corporate risk management.

The low retention is in keeping with family-owned Belz's general philosophy of transferring risk when it pays to do so.

However, while Belz never has considered the seven-digit liability retentions that are common among Fortune 500 companies, Belz's retention wasn't always so low.

"Back when the market was very difficult in the mid-'80s, Belz had no choice but to go to a $25,000 retention. . . .It had been zip previously," she says.

The next year, in 1986, the retention was reduced to $15,000 for hotels and $5,000 for all other properties. Then, in September 1987, the retention was reduced to $5,000 for all properties.

When Ms. Workman joined Belz in December 1987, her predecessor told her: "What you need to do is get rid of that retention," she recalls, unable to hold back a chuckle. "The next year rolled around, and I figured out that I had a lot more control over our claims by having that retention than I would otherwise. So I kept it at that level."

At each subsequent renewal, Ms. Workman and her advisers have examined whether to increase the retention. "I would like to increase it for claims control. But our general liability premium is so cheap, it wouldn't save us any money, so it is stupid to do it."

And, by keeping Belz's retention at such a low level, "I've got someplace to go" to reduce premiums when the liability insurance market finally tightens, she says.

While Ms. Workman has considered increasing the retention to give operating units more of an incentive to control claims costs, she points out that the current $5,000 retention still is "very effective," since the vast majority of Belz's claims are less than $5,000.

One reason for that, according to Ms. Workman: Belz does not purchase medical payments coverage for its hotels and, therefore, is not quick to offer to pay the hospital and doctor bills of people injured in Belz hotels and shopping centers—unless the accident is clearly Belz's fault.

Medical payments coverage, which usually is written on a first-dollar basis, pays the medical bills of hotel guests who are injured on the premises, even if the hotel is not at fault. The coverage often is included by endorsement in general liability policies for hotels and similar types of risks, but Belz has specifically decided to reject the coverage.

While Belz's general liability coverage does cover guests' medical costs when Belz is at fault, medical claims are still subject to the $5,000 self-insured retention.

"There are hotels that carry medical payments coverage. From their perspective, that's a good public relations move," Ms. Workman explains. However, Belz does not buy the coverage because "we do not want to pay for things we are not responsible for. We don't want the reputation of being an easy mark," she says.

But, she adds, Belz "wants to do everything we can" to settle claims when Belz is indeed liable for an accident.

"We don't want to see anybody get hurt, but we don't feel that we should pay for somebody's own klutziness or, unfortunately, stupidity," she says. "I know that's a little bit different philosophy from some other companies', but we think it works for us. And, I guess we don't feel that it has lost us a ton of business."

Besides not automatically paying the medical bill of everyone who suffers an injury at a Belz-owned hotel, "we take a very hard stance on guest room claims," Ms. Workman points out.

While a parade of hotel guests each year allege that money, jewelry and other valuables are stolen from their rooms, Belz refuses to settle those claims, noting that such valuables should be stored in the hotel's safe-deposit boxes.

While Ms. Workman says that Belz hotel employees are honest, "no matter how well you screen employees, you are going to get some bad ones."

That's why Belz-owned hotels post several notices in each room stating that guests' valuables should be stored in safe-deposit boxes.

—By James M. Burcke

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Workman relies on 'Belz Team' to accomplish goals

Network of industry professionals augments Belz's in-house risk staff in unique 'textbook' relationship

By JAMES M. BURCKE

Millie Workman does not have a big staff like Fortune 500 risk managers, but she has the "Belz Team."

The team consists of brokers, insurers, claims adjusters, attorneys and others who assist Ms. Workman in her duties as director of corporate risk management at Belz Enterprises.

Those duties include overseeing a risk management program covering nearly 340 properties in 10 states, including hotels, office buildings, warehouses, two marine terminals and a private airport; managing an employee benefits program covering 1,500 employees and their dependents; and overseeing human resource functions—ranging from payroll to the annual holiday party—for Belz's headquarters staff of 125.

Ms. Workman has only two assistants: Payroll Administrator Chris Breuning, who oversees payroll and other human resource functions; and Administrative Assistant Carolyn Bradshaw, who Ms. Workman says "does everything else"—from handling employee questions about health care claims to checking motor vehicle records to returning phone calls.

"I don't have a department," Ms. Workman jokes, referring to her small in-house staff, "so I have to have a team." Then, seriously, she points out that she could not do her job without the assistance that the Belz Team provides.

"We have something here that is really unique. The partnership really works," said Wayne M. Fell, regional casualty manager for American Home Assurance Co. in Atlanta and the American International Group Inc. official who works most closely with Ms. Workman.

"You read textbooks on how a broker, insurer and risk manager are supposed to do things, and that's how we do it," Mr. Fell commented.

Relations among team members are based upon trust and honesty, members point out.

"We are all very open. We don't color things a little bit or selectively tell the underwriters about things. It's a real, true partnership," according to Marilyn Wojcik, a vp at Johnson & Higgins of Tennessee Inc., Belz's broker, and manager of the account.

This teamwork requires long-term commitments, because brokers, underwriters and other service providers must know the Belz account intimately to provide the high-quality service that Ms. Workman requires.

"We're big on long-term relationships," Ms. Workman stresses. J&H has been Belz's major broker since 1986 and, before that, Belz was a client of Alexander & Alexander Services Inc. for 10 years. AIG has written casualty coverages for Belz since the early 1980s.

"Establishing those relationships long-term has really meant a lot to the account and has enabled us to do things we wouldn't have been able to do on our own," she says.

Besides these long-term relationships, Ms. Workman says the success of the team hinges on "good communication at all levels," but especially with the J&H employees who work on the Belz account.

Johnson & Higgins "just doesn't sell insurance; they're my risk management department," she emphasizes.

For instance, she taps J&H's loss control capabilities—as well as those provided by underwriters—to control claims at Belz properties.

But, perhaps more importantly, Ms. Workman relies on Johnson & Higgins for ideas, just as other risk managers rely on their staff.

"J&H feeds me a lot of information. . .articles they see, etc. We squirrel away a lot of ideas and say, 'Let's think about this later.'

Photo by Michael A. Marcotte

Ms. Workman's "team" includes Wayne M. Fell of American Home Assurance Co. and Marilyn Wojcik of J&H of Tennessee Inc.

"You get a lot of ideas talking with other people," she points out.

Ms. Workman also relies heavily on Ms. Wojcik. "She makes it as simple as possible for me to deal with things. We think alike. . .we are alike."

Because Ms. Workman and Ms. Wojcik understand each other so well, Ms. Wojcik can instruct J&H staffers working on the Belz account with minimal guidance from Ms. Workman.

The team can then carry through.

"We are totally plugged into what is going on at all times—as soon as Millie knows about something, we know about it," Ms. Wojcik says. "Then we, in turn, can pull the underwriters into it."

Each year, J&H summarizes many of Ms. Workman's goals and ideas in a "stewardship report," which Ms. Workman describes as "a state of the account report."

The report describes the projects that J&H has undertaken on behalf of Belz in the past year; discusses the risk management goals that Belz and J&H are working toward; and details information about Belz's coverages and claims, which Ms. Workman can incorporate in the annual report that she forwards to the Belz executive committee.

To foster a sense of "teamwork," Ms. Workman tries to meet with Belz Team members in various cities four times a year.

These quarterly meetings started in 1989 after AIG's Mr. Fell suggested that Ms. Workman and AIG representatives get together on a regular basis.

"The key thing on a large account is communication," Mr. Fell explains. "You can't have real communication through letters, faxes and phone calls only. You need to meet face-to-face to talk about what's going right and what's going wrong."

Ms. Workman later invited representatives from Allendale Mutual Insurance Co., Belz's property underwriter, to the meetings. Also attending are representatives from J&H and American International Adjustment Co., the AIG unit that handles Belz's casualty claims.

While account representatives attend the meetings, the underwriters who actually write Belz's coverages are also invited—and encouraged—to attend.

All told, about 12 to 14 people attend the meetings.

The subjects emphasized at the meetings—and the people who attend—vary according to the time of the year and the problems at hand. For example, a meeting held last month at the Peabody Orlando in Orlando, Fla., focused on property insurance because Belz's property program renews on May 1.

And underwriters will more likely be asked to attend a meeting preceding renewals, while claims personnel likely will be asked to attend a later meeting, when more time can be devoted to claims handling topics.

Ms. Workman says the quarterly meetings allow her and other members of the Belz Team "to get any problems out on the table early on."

There is also a lighter side to the meetings. "We try to work and play. We try to build personal relationships, and the meetings have done that very effectively," she says. A typical quarterly meeting might include a miniature golf tournament or a trip to the MGM/Disney Studios in Orlando.

Ms. Workman last year tried to add employee benefit issues to the quarterly meeting agenda—and learned a lesson. "It was too much; we were wiped out," she says. Now, risk management is the only item on the agenda.

The relationships that Ms. Workman has built with team members—through the quarterly meetings and through routine, day-to-day contact—have paid off, she says.

Unlike some risk managers who communicate with underwriters through brokers, "I am very involved with our underwriters. I'm there for renewal negotiations."

In addition, she has no trouble telling vendors what she wants.

Besides establishing one-on-one relationships with members of the team, Ms. Workman also gets to know key team members' bosses.

"That ongoing relationship is important. What happens if somebody gets hit by a truck?" she asks.

While Ms. Workman has nothing but high marks for the current Belz Team, in the past she has asked—without hesitation—that some members of the team be replaced. "Some of it is just finding the people who work best with me. It's people and personalities."

And, while committed to the team concept, she says she will not guarantee that Belz will always do business with J&H, though she adds that she currently wouldn't seriously think of changing brokers.

"We will consider other brokers, but it is so much more of a decision for me because it would mean replacing this group of people and making sure all of these functions could be done," Ms. Workman explains.

"The account is J&H's to lose. They know what is required—it's a very high-service account," she says.

The Belz Team also includes Gene Mathis, a broker with Menard, Gates & Mathis in Memphis, Tenn., which has placed "bits and pieces" of the Belz Enterprises account for years. The Memphis broker places miscellaneous coverages for Belz like fiduciary liability and contractors equipment coverages and personal lines coverages for members of the Belz family under Ms. Workman's supervision.

"I think there is some merit in keeping a local contact, but with an account that is spread over several states, you really need a national broker," Ms. Workman says.

Another "integral" member of the Belz Team is Memphis attorney Richard Glassman of Glassman, Jeter, Edwards & Wade. The firm, which was referred to Belz by AIG, defends Belz in claims litigation and provides legal advice to Ms. Workman.

While the Memphis firm handles most of Belz's risk management-related legal work, Belz also uses local attorneys in Orlando and in Boston, where Belz operates hotels. ■

Belz cures the bond-buying blues

Subdivision bonds a worry

Belz Enterprises is a respected name in real estate circles, but it still must secure bonds like every other developer.

And, Belz's status as a family-owned company that does not release an audited financial statement complicates bond buying for Millie Workman, Belz's director of corporate risk management.

The main problem is securing subdivision bonds. These bonds guarantee a city or county that a developer—whether developing residential or commercial property—will ensure that work is performed in accordance with local codes. This type of work includes street grading and paving, sewage hookups and utility connections.

Subdivision bonds generally are difficult to obtain because public entities are reluctant to release them, Ms. Workman explains.

Belz's problems with these bonds really arose about 2½ years ago "when the carrier that we had at the time stopped writing subdivision bonds," she recalls. The broker that handled Belz's bond business at the time said it could not find another company to write subdivision bonds, though other markets could be found to write the other types of bonds—like liquor bonds and utility bonds—that Belz must post.

Ms. Workman contacted Johnson & Higgins of Tennessee Inc., which brokers most of Belz's insurance, "but they didn't have any luck."

"We went a year or more without being able to buy subdivision bonds," she says. Belz used alternatives, like putting up a letter of credit, to guarantee its obligations with municipal governments.

It would rather use subdivision bonds, though, because an LOC can tie up cash for long periods.

Finally, J&H told Ms. Workman that SAFECO Corp. would write subdivision bonds for Belz without an audited financial statement. Subsequently, Belz asked J&H to transfer all of its bonds to SAFECO.

Computer takes the pain out of premium allocation

Belz Enterprises' risk manager uses variety of systems for various types of insurance

By JAMES M. BURCKE

The computer age has made premium allocation among Belz Enterprises' various properties a lot less painful.

Allocations were "pretty much done by hand" when Millie Workman joined Belz as director of corporate risk management in December 1987.

"The first couple of years I was here it was absolute agony," Ms. Workman recalls. Johnson & Higgins of Tennessee Inc., Belz's broker, "was doing some of the premium allocation, and I was doing some of it manually."

But correctly allocating insurance costs is important for the real estate development and management company, not only to ensure that costs are divided fairly among different units but also among Belz's tenants.

"You can bill some of the insurance costs back to the tenants" through their leases, Ms. Workman points out, explaining why insurance costs are allocated among each of the more than 300 properties that Belz owns or manages.

Belz generally allocates property insurance premiums strictly based on the value of the property when the program renews on May 1. The exception is high-value or highly protected risk properties that are individually rated by Belz's property insurer, Allendale Mutual Insurance Co.

"I pull those specific rates directly out, then I allocate the other locations according to value," she explains.

Besides paying their share of the property insurance premium, individual properties are charged the deductible if there is a property loss. "If the claim doesn't exceed the deductible, the property bears the cost of that claim."

Ms. Workman concedes that she is not entirely happy with the system she uses to allocate general liability insurance premiums among various Belz properties. She devised the system several years ago, and "it seemed to make sense at the time. And, it makes some sense now."

Before Ms. Workman arrived, Belz allocated 60% of its liability premiums to its hotels and the remainder to all other properties. "So a shopping center paid the same rate as an industrial property. That didn't seem quite fair," since general liability claims are far more likely at a shopping center than at a warehouse, she says.

Now, Belz allocates general liability insurance costs among properties based on the specific type of property: hotel, shopping center, office building, industrial property, etc.

To calculate a specific property's liability premium allocation, Ms. Workman determines the square footage for all property in a particular class; applies the rate suggested by the Insurance Services Office Inc. for that class; calculates what the ISO premium would be for each property based on its square footage; and finally adjusts the premiums for each property to match Belz's overall liability premium costs.

Under this allocation system, "the industrial properties pay a very low rate, which is logical. You don't have claims there. The hotels pay the highest rate, and the office buildings and shopping centers are in the middle," Ms. Workman explains.

However, under this system, the rate paid by office buildings has climbed—as the ISO rate for that class of property has climbed—so that the office building rate currently is about the same as the shopping center rate.

"There may be some logic to that, but the reality is that we just do not have claims in our office buildings," Ms. Workman points out. "We don't have many losses in our shopping centers, but we have even fewer (in the office buildings)."

Basing the liability premium allocation on ISO rates "seemed like a good idea at the time, and I still may not change it. . . .If you abandon that system, where do you go?"

Ms. Workman says Belz could attempt to allocate general liability premiums purely based on loss history among the various properties. "But, if you do that, the hotels are going to be paying all of the GL premium" since the vast bulk of Belz's claims are incurred at the hotels.

While Belz does not allocate liability premiums based on individual properties' loss histories, Ms. Workman says her system is loss-sensitive, since the ISO rate takes into account the loss potential of the different types of properties and because she charges any liability loss that falls within Belz's $5,000 retention directly to the property that incurs the loss.

The "vast majority" of liability claims against Belz are settled within the SIR, she said.

For years, Belz allocated workers compensation insurance costs among properties based simply on payroll. However, beginning in 1990, individual properties' monthly workers comp premium allocation was adjusted based on the unit's paid losses during the previous month.

"Obviously, that's not the ideal way and it's not particularly scientific," Ms. Workman admits. "But it does allow local managers to immediately see what kind of losses they are incurring. They cannot claim ignorance.

"I'm not saying it's the fairest system in the world, but it got their attention. If that's what it takes, that's what we'll do."

Local managers' bonuses also are partially based on a factor tied to workers comp loss experience, but Ms. Workman says she would like to see the penalty increased for managers with poor loss records.

"I think we need a bigger stick. Someone could do absolutely nothing to control losses and it still would not have a big impact on their bonus," she said.

"You have to hit them in the pocketbook to get their attention," she says, referring both to the impact of workers comp losses on local managers' operating budgets and their bonuses. "Until it affects them directly, it's hard to get them to buy into the program." ■

Photo by Michael A. Marcotte

Millie Workman reports to Jimmie D. Williams, vp and chief financial officer, in all her capacities.

Risk manager scrutinizes leases for changes in terms

Belz strives to transfer liability to lessees

Millie Workman reviews more and more contracts every year.

"I've become more plugged in," explains the director of risk management for Belz Enterprises.

Most often Ms. Workman reviews leases, as fits the risk manger for a real estate development and management company. However, she routinely reviews only those leases in which the standard insurance and indemnification language has been altered.

Ms. Workman talks almost daily to Belz's in-house general counsel, Andrea Bienstock, who reviews all contracts and informs Ms. Workman when standard wordings have been changed.

While she scrutinizes all changes in lease agreements, there are some that Ms. Workman will "almost routinely" accept.

For instance, Belz normally requires lessees to purchase $1 million in liability insurance, with any aggregate limit applicable to the location specified on the lease, not to multiple locations. Belz requires this so that a loss at another site operated by the lessee will not deplete the insurance covering the Belz-owned site.

However, this condition can present problems for some large retailers that lease space in Belz-owned shopping malls. So Ms. Workman will often agree to waive the $1 million aggregate per location requirement if the lessee purchases much higher aggregate limits.

Belz strives to transfer as much liability as possible on a contractual basis, no matter what the contract, Ms. Workman explains. While Belz has adequate insurance to cover liabilities that cannot be transferred contractually, "why should we expose our program?"

There are limits to how far Belz will go in attempting to transfer liability, she says, adding that a knee-jerk decision to stick to her guns could ruin a multimillion-dollar deal.

"We are obviously concerned about our liability and would like to transfer any liability that we can, but not at the sacrifice of having an empty mall." ■

Workman wears many hats

Benefits, human resources also within her purview

The director of corporate risk management at Belz Enterprises wears many hats—and reports to many masters.

Besides supervising Belz's risk management program, Millie Workman also is responsible for Belz's employee benefit program. And, she serves as human resources director for Belz's 150-member corporate staff.

Ms. Workman reports in all of these capacities to Jimmie D. Williams, Belz's vp and chief financial officer. But while Mr. Williams' office is directly adjacent to Ms. Workman's, she says she is "given room to do my job with little interference" from top management.

"We have an understanding; he wants to know about the significant things," she says, referring to Mr. Williams. Otherwise, Mr. Williams and Ms. Workman do not hold regularly scheduled meetings.

"She is able to work on her own. She meets with me only when she needs my help" or to obtain approval for a large expenditure, Mr. Williams points out, adding that "Millie has brought a great deal of professionalism and stability to our risk management area."

Ms. Workman's relationship with Mr. Williams reflects the corporate culture at Belz Enterprises, a family-owned company where results take precedence over red tape.

"I do report to the CFO, but I also report to the Belzes," Ms. Workman explains, referring to Chairman Jack Belz and his sons Martin S. Belz and Ronald A. Belz, who both have the title of president. "I talk to them daily. They are not really isolated. Who I talk to depends upon what cap I am wearing that day.

"We have tried to become more structured, but don't let anyone tell you that the family does not know what is going on on a day-to-day basis," she says.

While Ms. Workman has daily contact with the company's top executives, she also issues a formal annual report to the executive committee, usually in September.

In addition, she attends a monthly operations meeting, both in her duties as risk manager and as employee benefits manager. Others attending the meeting include Martin and Ronald Belz, Mr. Williams and other corporate officials, including the directors of Belz's asset management, property brokerage, finance and construction divisions. ■

Photo by Michael A. Marcotte

Ms. Workman talks frequently with, from left, Belz Enterprises Chairman Jack Belz and his sons Ronald A. Belz and Martin S. Belz, who share the title of president of the family-owned company.

Workman test drives new RMIS

**STARS system puts new shine on claims data*

By JAMES M. BURCKE

While risk management information systems are nothing new, Belz Enterprises' risk management department is a relative newcomer to the world of RMIS.

Belz's first true RMIS—the *STARS system developed by Johnson & Higgins, Belz's longtime broker—has been up and running for just more than a year.

Before Millie Workman arrived at Belz in December 1987, the risk management department kept track of all the certificates of insurance that Belz tenants must provide and stored summaries of insurance policies on the company's mainframe computer.

All casualty claims information—including workers compensation claims data—was reported by insurers to the risk management department on paper loss runs.

"I was at a point where if a property wanted to know what their claims had been, I couldn't tell them," recalls Belz's director of corporate risk management.

Ms. Workman knew she needed a loss data management system and was starting to look around when J&H announced that it was developing *STARS.

"Millie was ready to roll with *STARS before it was ready to be rolled out to our clients," says Marilyn Wojcik, vp at Johnson & Higgins of Tennessee Inc. in Nashville and manager of the Belz account. "She said, 'Test it out on me. Let's go with it.' "

Ms. Workman was one of the first risk managers in the nation to use *STARS. Ms. Workman and Ms. Wojcik both concede some bugs had to be worked out, but Ms. Workman now is very pleased with the system.

"It allows you to do the reports you want to do," she says.

American International Adjustment Co., a unit of American International Group Inc. that handles Belz's general liability and workers compensation claims, provides a tape of its loss runs each month to J&H in New York. The broker tailors the data so it matches the format that Ms. Workman wants and sends her a diskette, which she loads into her personal computer.

In addition to current claims data, most of Belz's historical claims information has been input into the system by J&H, giving Ms. Workman the opportunity to access trended information.

While Ms. Workman was impressed with *STARS capabilities, "*STARS had an obvious appeal to me—cost," she admits. The cost to use *STARS is not itemized in the negotiated fee that Belz pays J&H, "so from my perspective, it's free."

"What did I have to lose? Nothing. They were going to convert all the data, and then if it didn't work, I could still go somewhere else."

1992 RISK MANAGER of the YEAR

For now she's sticking with *STARS because "it does a lot of things I was looking for."

For instance, the system lets Ms. Workman design her own claims reports—"to pull out the information I want to see." However, she has not used this feature as much as she had thought she would because the "canned" reports available through *STARS "look pretty good."

The RMIS can break down claims information by any number of parameters: by value, cause, operating unit, frequency, etc. "The system is capable of more categories than I can use."

While many other risk managers now are using *STARS, J&H still is listening to Ms. Workman's comments and is making modifications to the system based on those suggestions.

For example, J&H is now attempting to modify *STARS to also track Belz's employee benefit claims. She now uses a program supplied by John Hancock Mutual Life Insurance Co., which administers Belz's group health care plan, to analyze benefit claims and costs.

By adapting *STARS to also handle health care benefit claims, "you would have a data base that would contain both your medical and your workers comp claims," she says. "You could then do some comparisons that could be rather interesting."

It would be much easier to spot claims filed under both the workers comp and group health care systems, she notes.

Ms. Workman can also use her PC to access AIAC's RADAR claims management system, but she quickly points out that *STARS is much superior. "If I had to pay for (RADAR), I'd be really offended. But they give it to me, so it's OK and I use it."

Ms. Workman uses the RADAR system to quickly compile workers compensation loss totals for Belz's various hotels. "I have to report by a hotel standpoint by about the eighth of the month and I don't have loss runs by then or the update from J&H."

RADAR also can provide information about a particular claim, "but *STARS is a zillion times faster," she says, explaining that she had to call up numerous screens when using RADAR to get information that can be obtained almost instantaneously through *STARS.

While Ms. Workman uses *STARS to analyze claims data and produce reports, she uses "an old standby," Lotus 1-2-3, to allocate insurance costs among Belz's various properties (see story, page 136).

Ms. Workman—who also serves as the human resource director for Belz's corporate staff—uses her office PC as a terminal to connect with Belz's IBM 400 mainframe computer, which contains payroll data.

Ms. Workman also accesses the Star-View employee benefit information system software supplied to her by John Hancock from the same PC that runs the *STARS and 1-2-3 programs.

Star-View, which was installed at Belz in August 1990, allows Ms. Workman to track Belz group health care claims—broken down by type of diagnosis and by demographic group—on a monthly basis.

She also uses Star-View's electronic mail, which offers a convenient way to communicate with Hancock officials about claims and other issues when a more immediate answer isn't needed. ■

Loss control plans for leased properties require special care

Influencing tenants' safety efforts

By JAMES M. BURCKE

As an owner of huge amounts of real estate, Belz Enterprises wants its properties to be as well-protected as possible.

However, there's a hitch: Much of Belz's property—including office parks, warehouses, shopping malls and other commercial buildings—is leased to others.

"And once we lease a property to someone else, we do not have control of that property to a great extent," explains Millie Workman, director of corporate risk management for Belz Enterprises. It is virtually impossible for Belz to control what goes on in leased space, especially in a warehouse environment.

For example, a favorite loss control measure recommended by Allendale Mutual Insurance Co., Belz's property insurer and a member of the Factory Mutual System, is "in-rack" sprinklers, or sprinklers that are built into the racks on which goods are stored in a warehouse.

But, "I can't *make* any tenant put in in-rack sprinklers," Ms. Workman says.

However, under its lease agreements, Belz can order a tenant to make loss control improvements if the tenant's activity materially increases the hazard to the property.

Also under its lease agreements, Belz can control how high goods are stacked in a warehouse. It also can make sure that sprinkler heads or electrical panels are not blocked by stored material.

"But bottom line: When you lease, you have a contract that you can't break," Ms. Workman says. However, Belz will suggest —sometimes strongly—that a tenant take certain loss control precautions.

Belz's position as a lessor can sometimes make for a tough relationship with Allendale—and with Factory Mutual representatives, who provide loss control services on behalf of Allendale—because "Allendale is accustomed to writing coverage for an owner-occupant," Ms. Workman says.

Belz has worked for more than two years with two Factory Mutual loss control representatives in Memphis, where $500 million in Belz property is located. "They understand what we can and cannot do, and Allendale has been realistic on the receiving end of that."

Along with insuring Belz properties that qualify for highly protected risk status, like the Peabody Orlando hotel in Orlando, Fla., Allendale also insures Belz's less well-protected facilities, like some of its Memphis warehouses.

While it is tough for a company like Belz to adhere to Factory Mutual's loss control ideals, Ms. Workman notes that the relationship with Allendale and Factory Mutual marks a big improvement in loss control for Belz. Before buying property insurance solely with Allendale in 1989, in part because of competitive pricing, Belz purchased a layered property insurance program written by many underwriters that furnished virtually "no loss control."

Ms. Workman says she "agonized" over the decision to place the coverage with Allendale. "I knew we needed loss control, but I couldn't deal with a lot of mandatory recommendations."

However, Allendale and Factory Mutual have not made any mandatory recommendations to Belz, Ms. Workman says. And their advice "has accomplished good things," including simple steps like locking open sprinkler valves.

Factory Mutual loss control representatives inspect major Belz properties no more than once a year. Some other properties are inspected only once every three years, while properties with a value of less than $5 million are not inspected.

After receiving a loss control report, Ms. Workman meets with the Belz maintenance officials in charge of a particular property to go over the recommendations.

However, "we don't have a slush fund of dollars so we can go out and do all these dream things to make everything the best risk in the world," Ms. Workman says.

Ms. Workman says there is rarely a comment on Factory Mutual's loss control reports concerning the Peabody Orlando or the Holiday Inn Crown Plaza in Natick, Mass., both of which were constructed to HPR standards.

However, the Peabody Memphis, which was opened in 1925, "is a different story altogether because of its age. Obviously, it is built like a fort, but what we don't have are sprinklers throughout."

With the exception of recommendations to sprinkler all areas of the Peabody—something that Ms. Workman says is not economically feasible without closing the hotel for a major renovation—"we don't get that much in the way of recommendations."

While it is hard to make loss control changes in an older hotel, Belz management has "grasped pretty quickly that you have to do some things to save money," Ms. Workman says. "They have learned that the rates paid at the Peabody Orlando are a lot cheaper than the Peabody Memphis."

Belz generally now builds to HPR standards, with Allendale and Factory Mutual reviewing construction plans to make loss control suggestions.

And when Belz renovates a property, "we do go in and retrofit," she says.

Besides the Peabody Memphis, only a few Belz-owned hotels are not fully sprinklered. "That wasn't true a few years ago," she adds.

And the maintenance and engineering staffs at both Peabody hotels include fully trained fire brigades. ■

Belz Enterprises takes a fresh look at benefits

Millie Workman meets challenge of trimming costs while improving workers' benefits

By JAMES M. BURCKE

Employee benefits were "part of the deal" when Millie Workman accepted the job of director of corporate risk management at Belz Enterprises in 1987.

"One thing we talked about when I interviewed for the job was adding benefits to this risk management function," she explains.

While it was clear when she began work that she someday would be responsible for Belz's benefit programs, "we didn't do it from Day One. They wanted to give me an opportunity to get my hands around the risk management program," Ms. Workman says. "I was here more than 18 months before we made that transition."

When she finally took responsibility for benefits in September 1989, she stared at the same problem nearly every other corporate benefit manager faces: rising costs.

With health care costs going up about 20% annually, Ms. Workman set out to do two things: reorganize Belz's benefit plans and gain control over costs.

She has done both. Belz's employee benefit program today is substantially different from the hodgepodge of plans in place 2½ years ago. Belz employees now pay more for benefits, but they also receive dental, life insurance and prescription drug coverages that were missing from the old plan.

At the same time, redesigning the plan and making other changes helped to cut Belz's health care costs by almost 15% last year.

Belz spent $3.7 million in health care benefits in 1990 and projected costs would rise only to $4.2 million—or 13.5%—in 1991.

However, health care costs actually totaled only $3.15 million last year, or about 25% less than estimated.

"We were lucky," Ms. Workman now says, explaining that the plan design features worked better than expected and that some employees dropped out of the health plan after additional costs were passed to them.

When Ms. Workman took over Belz's benefit program, varying levels of benefits were offered to employees at various properties and corporate divisions. All health care benefits were self-funded through an indemnity plan administered by Massachusetts Mutual Life Insurance Co.

Only the plan at the Peabody Orlando hotel in Florida, which opened in 1986, included substantial cost containment features, like preferred provider organizations and utilization review.

Meanwhile, workers at the four Belz hotels in the Boston area were charged only a $50 deductible for individual coverage, a holdover from a Blue Cross plan offered many years before.

Ms. Workman's initial action as benefit manager was to order an audit of claims handled by Mass Mutual. The audit was performed by A. Foster Higgins & Co., the benefit consulting subsidiary of Belz's broker, Johnson & Higgins.

The purpose of the study was to determine "if there was money running out of the door. We found out that was not the case," Ms. Workman says. The audit showed "they weren't doing that bad of a job."

However, Ms. Workman decided to obtain bids—including the cost of claims administration and stop-loss coverage—from other insurers so "we could see where Mass Mutual stacked up."

The winner in the bidding process was John Hancock Mutual Life Insurance Co., which began administering Belz's plan Aug. 1, 1990.

When Belz made the move to another administrator, it was not yet ready to make major changes to its plan. But it did add some basic cost containment features that had previously been implemented only at the Peabody Orlando, like hospital pre-certification, continued stay review and case management.

The utilization review procedures were provided by Cost Care Inc., a Hancock subsidiary.

One cost containment feature that all the plans had in common —mandated second surgical opinions—was actually removed. "Only a minuscule percentage of the time do you get a differing opinion. It's ludicrous," she explains.

At the same time, the individual deductible was increased for Boston-area employees to $100 from $50 to correspond with plans covering other Belz employees.

Major changes were not made right away, partly because Ms. Workman lacked adequate data to make those decisions. Mass Mutual's view "was that it was their data, not ours," she says. "Hancock, on the other hand, says 'you're self-funded; it's your data.' "

By Sept. 1, 1990, Belz embarked on a study of changes it would make to its benefit program in 1991. That study was conducted by J&H benefits staffers.

"J&H came up with an extensive list of things we could do to our plan and projected cost savings," Ms. Workman says.

Besides looking at ways to cut costs, the study also identified the "most effective way" Belz could spend its benefit dollars. "Could we increase the deductible and add dental? How could we sweeten the whole plan?"

The changes were implemented May 1, 1991. Among the changes:

- Deductibles were increased to $200 for individual coverage and to $400 for family coverage from $100 and $200 respectively.
- Preferred provider organization options were offered to all Belz employees, except the handful in Normal, Ill., and in eastern Tennessee. In Memphis, Belz employees are directed to use providers affiliated with Baptist Health Services Group, a unit of the giant Baptist Memorial Hospital.

The Belz plan pays 80% of the cost of most services if preferred providers are used, but only 60% when outside doctors are used.

1992 RISK MANAGER of the YEAR

- Out-of-pocket maximums were changed. Under the new plan, employees' expenses are capped at $800 for individual coverage/ $2,400 for family coverage if network doctors are used and at $2,000 for individual coverage/ $6,000 for family coverage if non-network providers are used. Formerly, out-of-pocket costs were capped at $700 for individual coverage but were not capped for family coverage.
- Employees' premium contributions were doubled. However, at the same time, Belz began allowing employees to make their health plan premium contributions on a pretax basis, "so the net effect was not as horrendous," Ms. Workman says.

Employees now pay 25% of the estimated cost of individual coverage and 50% of the estimated cost of family coverage.

- A wellness program, dubbed "Feelin' Ducky," was introduced (see story, page 140).

Along with these cost-shifting changes, several new benefits were added.

A mail-order drug program, administered by Flex Rx, was implemented by Belz.

Employees with ongoing medical conditions can receive a 30- to 90-day supply of prescription drugs for no charge if a generic drug is ordered or for a $5 copayment if a name-brand prescription is requested.

And, an employee assistance program, provided by St. Louis-based Personal Performance Consultants, was added.

Belz Enterprises employees generally can receive eight confidential counseling sessions at no charge, though more serious cases are referred to other providers and are covered under the mental health care provisions of the group medical benefits plan.

The employee assistance program also serves as a gatekeeper for mental health and substance abuse treatment under the medical plan.

No mental health or benefits or substance abuse benefits are payable unless the employee first contacts the EAP.

Employees also now are offered free of charge their choice of two dental plan options, both underwritten by units of CIGNA Corp.

Under one option, employees are enrolled in a prepaid dental plan. Employees choosing this option must visit CIGNA-designated dentists. Dental benefits are paid according to a fee schedule.

The other option is a dental indemnity plan that pays 100% of preventive dental treatment and 80% of basic restorative treatment. A $50 deductible applies to restorative dental treatment and there is a $500 annual benefit limit.

While the prepaid plan covers major restorative work and orthodontic treatment, the indemnity plan does not.

Photo by Michael A. Marcotte

Ms. Workman's 'department' includes (from left): Carolyn Bradshaw, administrative assistant, and Chris Breuning, payroll administrator.

All Belz employees, effective May 1, received $10,000 in basic life insurance, underwritten by a unit of UNUM Corp., with additional coverage available through payroll deduction.

Belz employees also now are offered optional accidental death and dismemberment insurance underwritten by American Home Assurance Co., which is an American International Group Inc. unit.

Ms. Workman points out that more employees buy the optional AD&D coverage than the optional life insurance.

"We have a fairly young workforce, so AD&D makes more sense," she comments.

Long-term disability coverage is offered to employees of the Peabody Orlando.

Belz last year offered a voluntary LTD program to all employees, but "it didn't fly" because of insufficient enrollment, Ms. Workman says.

About 15% of those eligible enrolled, short of the 25% needed to sustain the plan, Ms. Workman explains.

"We just couldn't get enough enrollment. I couldn't believe it," Ms. Workman says, though she adds that Belz again may attempt to offer the coverage later this year.

While these plan changes were effective in May 1991, Belz Enterprises made another major change in its health care plan—one not noticed by employees—as of Aug. 1, 1991, when it switched its stop-loss insurance to Lexington Insurance Co., another American International Group unit.

The reason for the change was simple, Ms. Workman explains: "Lexington's pricing was more attractive."

Belz Enterprises purchases both specific and aggregate stop-loss coverage. The specific coverage attaches at $50,000 per claim, while the aggregate coverage is triggered if claims exceed 125% of anticipated costs.

Belz explained the changes in meetings with all Belz employees and also through written handouts.

The meetings were "bears," Ms. Workman says, "because we were doing so much at one time." However, she believes it is better to communicate all benefit plan changes at once than to announce them in meetings a little bit at a time.

Gauging reaction to the health plan changes is difficult, says Ms. Workman, because a number of other benefits were also changed. For instance, paid holidays and vacation days have been standardized for employees throughout the company. And, while no employee actually "lost" holiday or vacation time, some perceive that they did.

The whole topic of benefits "has gotten some bad raps" in employee opinion surveys, Ms. Workman says. But, she defends the changes, noting that "we still had a $100 deductible. . .give me a break. Other places are increasing from $200 to $500, while we increased from $100 to $200 and were beaten to death.

"Anytime you make plan changes, it's not popular."

Some employees, in fact, were angry. But Ms. Workman says the changes to the plan could build morale in the long run because they will allow Belz to "control costs better and thus not pass through as large of an increase" in employee premium contributions in the future.

"That's the only place you can vindicate yourself."

Because the changes were traumatic for some employees, Ms. Workman says she intends not to make any plan changes, including cost-shifting steps, until the beginning of 1993.

"That would make it close to 20 months without any plan changes or increased costs."

And, she hopes to soon send out personalized benefit statements for the first time to all Belz employees.

In addition, Ms. Workman hopes to "do a better job" communicating to employees that Belz self-insures its health care plan, "so that when we pay your claims, it has an impact on everything we do, including raises and benefits."

Besides medical and other welfare benefits, Belz's headquarters employees are offered a 401(k) savings plan with company matching contributions based on a profit-sharing formula. This plan is not offered to hotel employees.

Belz does not have a defined benefit pension plan. ■

Belz studies health plan self-administration

But big savings aren't certain, feasibility study says

Already self-funding its employee health care plan, Belz Enterprises is considering self-administration of claims, too.

There are two primary reasons Belz is weighing the switch, says Millie Workman, who oversees the company's benefits programs:

- Belz might be able to administer its own claims more inexpensively than an insurance company or third-party administrator.
- It might gain more control over claims payments.

But in the first phase of a feasibility study, A. Foster Higgins & Co. found that the savings, even over five years, would not be as great as Belz's management had anticipated.

However, Ms. Workman notes that the study only compared the cost of self-administration with the administration fees Belz now pays.

Further savings would be possible if it could exert more control over claims through self-administration, Ms. Workman points out.

"What is your comfort level that your claims are being handled right?" asks Ms. Workman, who adds that is not meant as an indictment of John Hancock Mutual Insurance Co., which currently administers Belz' health care claims.

A change to self-administration would mean a drastic increase in staff. Ms. Workman currently has only two assistants, one assistant who primarily handles payroll matters and another who "does everything else."

"I *will* get a staff" if the company decides to administer its own claims, she says with a smile. The feasibility study has indicated that Belz would need to hire four additional staffers in order to administer its own claims.

But, Ms. Workman is quick to point out that Belz would "have to spend big bucks on people. You have to get competent people, and you have to get a good (claims administration) system," she explains.

In addition, if Belz were to self-administer, it would have to "buy" other services, like consulting and legal services, that Hancock currently provides as part of its administration agreement," she says.

"That's a big piece that a lot of people don't realize is there," she points out.

While Belz is considering self-administration, it also has taken steps to control its current administrative fees.

Belz last year negotiated a set administration fee with Hancock for a 17-month period. In addition, Hancock has guaranteed that administration fees will rise by no more than 10% when the current contract ends at year-end 1992.

—By James M. Burcke

Workman thrives on double duty for risks, benefits

If Millie Workman is a risk manager in name, she is a benefit manager at heart.

In her role as director of risk management at Belz Enterprises, Ms. Workman is searching for new and effective ways to apply medical cost containment techniques to workers compensation claims.

And, in her role as Belz's benefit manager, a duty that does not carry a corresponding title, Ms. Workman is aggressively trying to contain Belz's costs while offering new benefits to workers.

Currently, Ms. Workman estimates that she spends almost 60% of her time on benefits—largely because of the major plan changes made by Belz in the past year—while she spends about 30% of her time on risk management.

The other 10% of Ms. Workman's time is consumed by her human resources-related duties, like payroll and personnel responsibilities.

"I have been fortunate in that I have gotten the property/casualty side of the job in real good shape," Ms. Workman says. In addition, she points out that she relies heavily on her broker, Johnson & Higgins of Tennessee Inc., and account manager Marilyn Wojcik for assistance in administering Belz's risk management program (see story, page 135).

Ms. Workman expects to get more satisfaction from her job as benefit manager when some of the day-to-day administrative burdens of managing the plans are shifted to others.

She now is more heavily involved in those day-to-day administrative tasks, like investigating why individual claims are denied, than she anticipated when she took responsibility for employee benefits in 1989.

Many of these day-to-day chores will be shifted to the human resources managers at Belz-owned hotels and other units "when things get straightened out," she says, referring to the plan changes. In addition, a benefits administration manual will soon be distributed to local managers to help them deal with some of the issues Ms. Workman now handles.

For example, health plan enrollment documents for every new employee now flow through Ms. Workman's office. In the future, human resources officials at individual hotels will send the documents directly to John Hancock Mutual Insurance Co., which administers Belz's health plan. ■

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Belz promotes healthy habits

Wellness plan rewards workers for participation

Good health can be more than just a feather in the cap of Belz Enterprises employees.

Employees who act and feel downright "ducky" could win a new car—and at the same time help Belz meet its health care cost containment goals.

Belz Enterprises launched its wellness program, "Feelin' Ducky," last spring as part of a major overhaul of its employee benefit program to contain costs (see story, page 138).

The theme "Feelin' Ducky" plays off the famous Peabody ducks, which parade in grand style each day through the Belz-owned Peabody hotels in Memphis, Tenn., and Orlando, Fla., and have been adopted as an unofficial company mascot (see story, page 131).

Belz began a wellness program, 'Feelin' Ducky,' last spring.

The wellness plan has two goals: to make employees more aware of healthy lifestyles through rewards and to contain costs.

Under the program, "employees can get points for participating in health and safety activities," explains Millie Workman, Belz's director of corporate risk management, who conceived the program.

Points are earned for participation in activities like prenatal care, smoking cessation programs, weight and stress management programs, exercise programs, blood-pressure screenings and a host of others.

Some programs require active participation. But employees can continue to lead their normal lifestyle and still receive credit. For example, all non-smokers receive a point every three months, while smokers who participate in smoking cessation programs can receive two points per quarter.

Dovetailing—or in this case "ducktailing"—with the points employees earn are health care cost "goals" set by Belz for each of its properties. If the property keeps health care costs below the targeted goal in a quarter, prizes are raffled to employees who have earned "Feelin' Ducky" points.

The prizes have ranged from portable compact disc players to food processors to exercise equipment. The more points an employee earns, the more chances he or she has to win a prize. And all employees who have earned points receive a prize—like a T-shirt or a sports "squeeze bottle"—if they show up at the raffle.

"The whole point is to get employees to participate," Ms. Workman says. "If they do something, we want them to get something."

At the end of the year, if the company's overall health care costs fall below the target, which for 1991-92 is $3.24 million, Belz will award three grand prizes: two round-trip airline tickets anywhere in the United States, a cruise—and a new car.

Employees will receive "chances" in the year-end raffle equal to the number of points they accumulated during the year. And, if the hotel or property where an employee works met its health care cost goal during the year, the employee will receive double the number of chances to win.

In addition, if a property meets its goal at year end, all medical plan enrollees will receive $100 if they have been on the job more than six months. Employees with fewer than six months' service will receive $50.

So far, the program has been successful. In the first quarter of "Feelin' Ducky," nine of the 14 operating units participating in the program met their health care cost goal, while in the second quarter 11 out of 12 participating units met their goal. In the third quarter, which concluded Jan. 1, nine out of the 11 units met their goal.

"We have a really good chance of meeting our goal for the year."

The number of units participating each quarter has changed because of divestitures and because the company occasionally closes some hotels for renovation.

Ms. Workman concedes that while the figures so far "look great," the wellness program is not totally responsible for the cost reductions—although it hasn't hurt.

"Obviously there is some benefit. We can give you a list of the employees who have quit smoking, who have lost weight." And, while such savings cannot be quantified, she believes that offering flu shots and blood-pressure screenings through "Feelin' Ducky" likely has helped to hold down costs.

"Where you're going to really see the cost savings from this wellness program are down the road."

Ms. Workman coordinates the wellness program, while wellness committees at each Belz unit administer it. Some units have conducted more wellness activities—like health fairs—than others, but "surprisingly enough, each property had done a little something," she says.

The program is now a permanent part of Belz's benefit plan. And, as the program enters its second year, Ms. Workman is busy thinking of refinements. For example, she wants to clarify the rules to broaden the types of physical activities—like playing on a softball team—that can qualify as an "exercise" program.

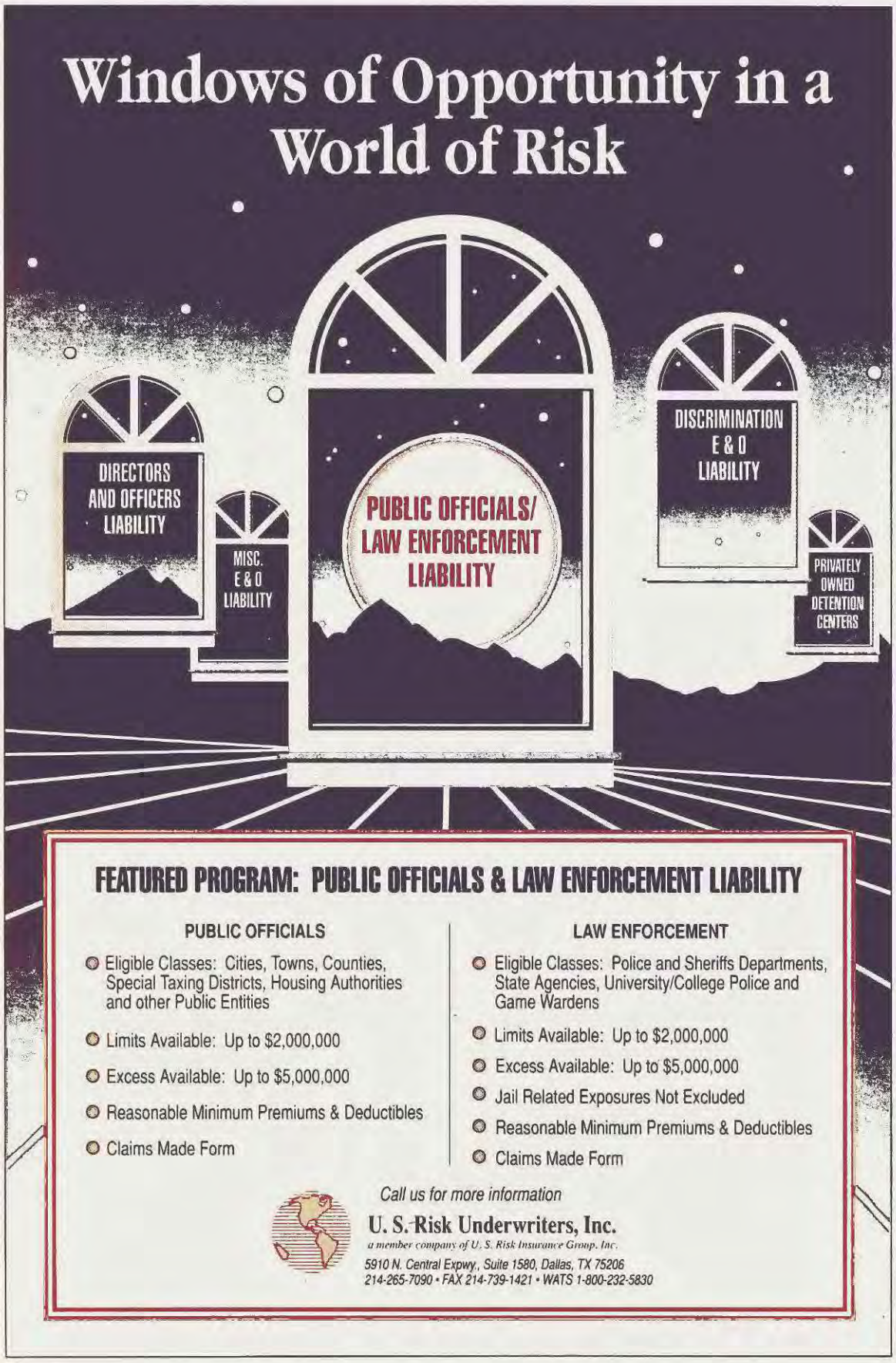
"We want to make it easier for employees to understand and easier for them to get points."

In addition, Ms. Workman wants to do more "groundwork" for the operating units so that human resource officials at Belz properties will find it easier to locate smoking cessation programs for employees or to organize health fairs.

But, the best way to build the program is for Belz to meet its goal and give away the car and the other prizes, she says.

"If we meet our goal, that's going to pump the program up."

—By James M. Burcke



Workman uses humor to sell new wellness program

Would you buy a wellness program from this woman?

The management of Belz Enterprises did. So did the company's employees.

To sell the "Feelin' Ducky" program, Millie Workman adopted a light-hearted approach, which included strapping a duck bill over her nose to attract management and employee support.

"I came to see what I thought was going to be a sensible, businesslike presentation," Belz Enterprises Chairman Jack A. Belz recalls. "I see this weird group of people, including our esteemed hotel group chief financial officer, wearing this T-shirt with a duck on it, and (Ms. Workman) comes prancing out this door with a duck nose on," he says, breaking into a big laugh.

The light-hearted approach carried over into a five-minute audiovisual program used to communicate the program to workers.

The star of the show is a cartoon duck, who explains how employees can save money, feel better—and win prizes—by participating in Feelin' Ducky.

"By being healthy, you'll save money and, to be honest, we'll save money, too. How do you think we're going to pay for all the stuff we're giving away?" the duck informs workers.

Throughout the presentation, slides showing Belz employees are interspersed with images of the duck. Slides of workers at each Belz hotel can be inserted into the program, providing a personal touch to the communications.

The communication program was done in-house. "We did the whole program for $2,500," Ms. Workman says, including the cost of photography.

And, the duck was drawn by a room service waitress at the Radisson Ridgeway, a Belz-owned hotel in Memphis, Tenn. "We asked several employees to draw something, and she came up with the perfect duck."

Ms. Workman is getting more mileage out of the duck. The canard's caricature has been embossed on caps to tout Belz's "Driving Ducky" drivers' safety program.

Liabilities lurk behind special events at malls

Belz Enterprises is in the shopping mall business, and that can mean a lot more than just shopping.

To lure shoppers, a mall will sponsor anything from Santa Claus to a petting zoo to a baseball card show to a rock concert.

While effective, these events also can pose a considerable liability exposure to the mall—and hence to Belz.

Standard procedure among Belz-owned malls is to require the sponsor of any special event to furnish a certificate of liability insurance with a minimum limit of $1 million.

But, "how good is that certificate of insurance?" asks Millie Workman, director of corporate risk management for Belz. "You can look at it today and it may be fine, but when the claim occurs, you may find out it has been canceled."

And, it's impossible to require some groups to provide the required insurance. "The local high school choir is going to sing carols at Christmas. You're not going to be able to get a certificate."

In cases when proof of insurance cannot be furnished, Belz requires a hold-harmless agreement. "But, again, how good is that?" Ms. Workman asks.

So, Belz purchases $1 million in tenant and user liability insurance from Continental Casualty Co., a CNA Financial Corp. unit. The policy, with a $250 to $500 deductible depending on the event, covers any liability that may fall upon Belz from a special event.

"What this does is take this exposure away from my primary liability program," Ms. Workman explains. "You hate to expose that to something that is unknown," like an event over which Belz officials have little or no control, she says.

Under the terms of the policy, Belz reports to Continental Casualty each quarter the types of events that have been held in its malls and, occasionally, in its hotels. The events are divided into three classes, ranging from light to, as Ms. Workman puts it, "horrid hazard."

The rate charged for coverage of each event is based on the class of event and the number of people attending. Belz's estimate of the cost of the coverage can be built into the contract with the event sponsor.

The policy spells out exactly what events can be covered. Light events include mundane activities like baseball card shows and antique shows. Events in the most hazardous category include animal acts, rock concerts for fewer than 5,000 people, livestock shows and petting zoos.

Evangelistic meetings and seances are classified as "medium" hazards, Ms. Workman points out. So are political rallies. ■

Reconstructing the past

Pollution risk leads to policy search

Millie Workman majored in biology in college. Now, she is trying her hand at archaeology.

Belz Enterprises is attempting to reconstruct old insurance records to determine whether it can tap its past liability policies to cover potential pollution claims.

Belz's pollution exposures stem from two sources: Belz may have in the past acquired sites that are polluted, even though Belz did not know it at the time; and tenants that lease property from Belz may undertake operations that could lead to pollution.

"Our big pollution exposure stems from something that used to be on a site. We have owned some of this property over 50 years. Nobody remembers what used to be done at some of these places," according to Ms. Workman, Belz's director of corporate risk management.

Belz could now own a site where a service station—with an underground tank—was located decades before. "No one would remember anymore," she points out.

Belz now is studying a possible pollution exposure dating back to the 1960s when it leased space to a dry cleaner that used powerful chemicals.

This type of pollution exposure is "tenant-generated but, bottom line, it may come back to us," Ms. Workman acknowledges.

While Belz's general liability insurance no longer includes any pollution coverage, Belz—like thousands of other policyholders—could file a claim, if one arises, against its comprehensive general liability insurers at the time the pollution occurred. Unfortunately, Belz no longer possesses many of its insurance records.

So, Ms. Workman—a scientist by training—is beginning to dig.

"We have been trying to reconstruct the records ourselves, but we can't go back far enough," she says, noting that Belz is considering whether to hire an "insurance archaeology" firm to help.

To limit its current pollution exposures, Belz includes hazardous material clauses in leases with its tenants. The clauses are intended to transfer to the tenants any liability for pollution from the tenants' operations.

"Whether, in the end, that holds up is another question, but that's how we're trying to deal with this exposure," Ms. Workman says.

In addition, Belz orders environmental assessments of all properties it is considering acquiring. "Nowadays you have no choice. Any lender will make that a requirement," Ms. Workman explains.

Contracting for those assessments is the responsibility of Belz's asset management division, though Ms. Workman is available for consultation.

Belz also has considered purchasing pollution liability coverage, but has decided against it.

"To buy site-specific coverage is not really practical," Ms. Workman says, noting that Belz has more than 300 buildings and more than 400 parcels of vacant land.

One exception: The liability policy covering Belz's Mississippi River marine terminals does include sudden and accidental pollution coverage (see story, page 133).

—By James M. Burcke

Photo by Michael A. Marcotte

Millie Workman speaks with John Behringer, head of security for the Peabody hotel in Memphis.

When duck bites man. . . .

Hotels and shopping malls present real estate management company with not-so-typical liability claims

Millie Workman has seen—or heard—it all.

As director of corporate risk management for Belz enterprises, which owns hotels and shopping malls, among other properties, Ms. Workman has handled almost any type of liability claim imaginable.

Some claims are predictable but hard to prevent: slips and falls in hotel room bathtubs, cars damaged by valet parking attendants and luggage lost by the hotel bell staff.

And, some of the claims are not so typical, like a shopper injured in a mall after being run over by a fleeing shoplifter.

While Belz takes a tough line on paying many medical claims incurred on Belz-owned property (see story, page 134), it approaches claims incurred by children a little differently.

"I tend to take a little different look at the claim because, absent a release by a parent, it can come back to haunt you after they reach majority," Ms. Workman says, explaining that the "statute of limitations for claims involving children does not begin to run" until the child becomes an adult.

A claim incurred at a shopping mall demonstrates the problem. The mall sponsored a petting zoo as an attraction, and one of the animals bit a young girl on the face.

"Of course, she was a child model," Ms. Workman remarks with just a hint of skepticism, recalling the incident.

"We ended up paying some medical (bills) simply because we wanted to get rid of that claim forever and ever. We didn't want her coming back when she was 21 years old."

"Something like that can come back to haunt you," Ms. Workman warns.

One factor that works to Belz's advantage in handling liability claims is that the statute of limitations in Tennessee, where most of Belz's shopping malls and nearly half of its hotels are located, is only one year.

"That can have a big impact. It doesn't mean that you don't see a lawsuit on the 364th day, but it's a lot better than five years," Ms. Workman explains.

Ms. Workman faces one type of liability exposure that probably no other hotel company in the country must cope with—duck bites.

The famous ducks that each day march to and from the fountains in the Peabody hotels in Memphis, Tenn., and Orlando, Fla., occasionally take a nip at a guest who gets a little too close.

"Kids will worry the fool out of those ducks. I don't blame the ducks; I'd bite, too," Ms. Workman says.

Still, the ducks pose a very minor exposure.

"It's something everybody asks about, but we really don't have much trouble with them." ■

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Belz adopts back-to-basics loss control plan

Workman uses mixture of fun and games, new safety handbook to reduce accidents

By JAMES M. BURCKE

A cardinal rule followed by Millie Workman is that "we have to control our own destiny."

While Belz Enterprises slowly is assuming more liability risk, the company still is "very subject to the cycles of the insurance market," explains Belz's director of corporate risk management.

Thus, "loss control is really a key for us in controlling our insurance costs and the overall cost of risk over time."

But, Ms. Workman points out that it is difficult to instill a companywide focus on loss control because it "is a difficult concept for management to grasp. You cannot hang a dollar figure on it. The only time you can quantify what loss control has done is down the road."

She can, however, point to success in controlling once-skyrocketing workers comp losses at Belz's Peabody Orlando hotel in Florida, which makes selling loss control easier "because you can say we lowered the loss ratio" (see story, page 129).

In planning loss control activities for the coming year, Ms. Workman identifies the specific properties on which she wants to focus with the help of officials of American International Group Inc., Belz's workers comp and primary liability insurer, and Johnson & Higgins of Tennessee Inc., its broker.

"We find each year we focus on the hotels rather than the shopping centers because we don't have the claims problems at the shopping centers that we have at the hotels," she says.

A new tool to control workers compensation losses is an employee safety handbook written primarily by Ms. Workman that is hot off the presses and will soon be distributed to all hotel workers.

Like the rest of the Belz risk management program, the handbook is not fancy; however, it delivers important safety advice to employees in an easy-to-understand format.

The beginning of the employee handbook outlines why safety is important and the basic safety rules all Belz employees are expected to follow.

Subsequent chapters deal with safety procedures to be followed by specific groups of employees, like kitchen workers, housekeeping staffs, maintenance engineers, bell staff and parking attendants.

"One type of claim that we are particularly looking to wipe out are those caused by carelessness," like a slip-and-fall injury caused by an employee not cleaning up a spill or employees "cutting their hands on Saran-Wrap boxes. You wouldn't believe it. . .We get them."

Even warning signs are fun at the Peabody hotels.

Another common claim stems from the use of knives in the hotel kitchens, Ms. Workman says. So, the handbook contains a section on the use of knives. "If you are handing a knife to someone, don't hand it blade-first," she recites.

"Those simple things are the most effective means to control losses," she says firmly. "There is so much carelessness."

The handbook will supplement ongoing employee safety "education," which starts the first day Belz hotel employees arrive at work, Ms. Workman says. "Their initial training at the property stresses safety."

In addition, "supervisors should on a monthly basis incorporate safety in their meetings with employees," she says. How safety topics are covered is up to the supervisor and that particular hotel's management, in keeping with Belz's—and Ms. Workman's—philosphy of giving local managers responsibility.

Ms. Workman also is not afraid to use gimmicks to boost employees' safety awareness.

Employees at the Peabody Orlando played "safety bingo" for more than a year, and she credits the game—and the interest it generated from employees—as one reason that the hotel's workers comp claims experience declined dramatically.

In addition, Ms. Workman last year instituted "Driver Roadeos" at Belz hotels to help teach drivers of courtesy vans, valet parking attendants and other employees of the hotels to become better drivers "and still have a little fun."

Reducing auto accidents not only helps reduce workers comp costs by preventing driver injuries, but it also helps control Belz's auto liability and general liability losses.

"We were going through a period where we were constantly having little fender-benders," Ms. Workman remembers. "We operate a Hilton and the vans have the Hilton rainbow painted on them. We had a van in the shop having the rainbow repainted every week."

Participants in the roadeos receive about an hour's worth of driver training. "We try to keep it light, keep it fun," she says. Then, the drivers are put through five tests that demonstrate the skills of both valet parking attendants and van drivers. The winners receive cash prizes.

One of the tests is a parallel parking drill. "You'd be amazed how many drivers didn't get any points," she chuckles.

Another test requires drivers to stop as close as possible to a "barrier" without touching it. "Thank goodness we had the foresight to use tape on the ground instead of a real barrier, or we would have really had problems," she says.

"It was really funny because the drivers come out so cocky and say things like, 'I can't believe we have to do this. This is a piece of cake.' And when we're through, we ask them what they have learned, and they say: 'We learned we weren't as good as we thought we were.'

"That's the whole point."

While all employees that drive as part of their jobs could participate in last year's roadeos, this year "if you've had an accident in the last year, you can't participate" and thus can't win the $125 first-place award, Ms. Workman says. "That's an incentive."

The fun and games—and loss control training—won't stop with drivers. Ms. Workman is hoping to institute another loss control program this year that ties in with the Olympics. For example, a back training and stretching program could kick off the events, followed by a contest for housekeeping employees to see who could make a bed or clean a room most quickly.

"If you can make it fun, it can be a lot more effective," says the risk manager.

"I don't have the money to spend on huge, costly programs. I wish I did because there are zillions of ideas out there. What you have to do is to take an idea and figure out how to do it yourself in-house without a lot of expense." ■

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Workman leads Memphis group promoting disaster planning

Earthquake threat rallies local businesses to action

If disaster strikes, many Memphis-area businesses will be more prepared than they were two years ago, thanks to a group formed by risk managers.

The Business Emergency Preparedness Council, which was established in April 1990 partly in response to the Northern California earthquake the previous year, is trying to raise the disaster planning consciousness of Memphis corporations under the leadership of Millie Workman, director of corporate risk management at Belz Enterprises (*BI*, Nov. 26, 1990).

Ms. Workman is the second chairman of the BEPC, succeeding Donald D. Batchelor, risk manager for Union Planters National Bank in Memphis and a member of the 1991 *Business Insurance* Risk Management Honor Roll.

Ms. Workman says her involvement with the group is based on a "purely selfish" reason: Belz "didn't have a disaster recovery plan" on a corporate basis, although individual Belz hotels did have disaster plans in place.

Through its association with the BEPC, Belz now has a plan to ensure that the company can maintain basic operations should catastrophe strike. That's especially crucial to a real estate management company like Belz, because "if we can't deal with a disaster, neither will our tenants," she said.

While the BEPC was formed in part to make sure that Memphis-area businesses could recover from an earthquake—Memphis is located on the New Madrid Fault—the group also is concerned about other types of catastrophes, like chemical spills.

Still, the group's greatest challenge is educating executives, employees and the general population about earthquake hazards in light of the celebrated prediction by the late climatologist Iben Browning that a major earthquake would strike along the New Madrid Fault in December 1990. The temblor, of course, never occurred.

Amid the speculation over what would happen on Dec. 3, the BEPC was a voice of reason, distributing tens of thousands of earthquake preparedness leaflets to schoolchildren. Ms. Workman distributed the same leaflets to Belz's Memphis-area employees.

While Memphis has not yet been rocked by a quake, the possibility still looms. Many people "thought the earthquake didn't happen on Dec. 3, so it is never going to happen. You can't think like that," Ms. Workman says.

Even persuading some risk managers to participate in BEPC is tougher now "that the scare is gone."

Ms. Workman says she'll remain active in the BEPC when her term as chairman ends in June. "Part of being a good risk manager is knowing what to do in a disaster." ■

Workman finds risk management 'dream job' at Belz

Top risk manager says she enjoys challenge of finding ways to make things better

Photo by Michael A. Marcotte

After having been a broker, underwriter and risk manager, Ms. Workman says she prefers her current job.

By JAMES M. BURCKE

Having worked on all sides of the fence—as a broker, an insurer and a risk manager—Millie Workman says she has settled on the right career.

After more than 20 years in insurance-related jobs, Ms. Workman has found her niche as director of corporate risk management at Belz Enterprises.

"I'm a creative person and risk management gives you more of an opportunity to be creative," Ms. Workman says. As a risk manager, "you have to think about what you can do to make things better. I like that challenge."

However, an insurance career of any type was not in the cards when Ms. Workman enrolled at Union University in Jackson, Tenn.—not far from her hometown of Brownsville in western Tennessee—to study biology and chemistry.

Her first contact with the insurance industry was part-time clerical work while in college at the Smith-Jacocks Agency in Brownsville, an agency owned by a friend.

Ms. Workman graduated from Union in 1969 with a biology major, but did not want to pursue a career in science. "I was sick of dissecting frogs and dead cats," she jokes.

"So, I fell back on the only thing that I felt I knew anything about"—insurance.

An executive at Smith-Jacocks referred her to a friend at Crump London Underwriters Inc., the excess/surplus affiliate of the then-E.W. Crump Cos. Inc. in Memphis, a brokerage now part of Sedgwick James Inc.

Ms. Workman was hired as an underwriter trainee in Crump London's property insurance department. Over the next seven years she rose in the organization, finally becoming manager of the department in 1976. During that time, her duties included marketing coverage to insurers, underwriting, dealing with the London market and placing facultative reinsurance.

"It was great training. It taught me so much about marketing accounts," she recalls.

However, after eight years at Crump, Ms. Workman needed new horizons. She took a job in early 1977 with D.A. Fisher Inc., a Memphis agency where she was vp responsible for marketing new commercial accounts.

When she was talking to Fisher, she also was in contact with Cook, Treadwell & Harry Inc., then the 13th-largest U.S. retail brokerage. After less than a year at D.A. Fisher, Cook, Treadwell & Harry called—and Ms. Workman jumped.

She established a unit within the brokerage that marketed small accounts with less than $5,000 in premium. She eventually rose to manager of research and specialty development, responsible for developing new programs and marketing unusual or hard-to-place accounts.

Ms. Workman found a new opportunity in April 1980 when she was hired to open a Memphis office for Anthony & Fisher Inc., an agency that operated in small towns in western Tennessee.

"That was a great experience," she says, referring to the start-up operations. "When we started we had a dirt floor in the building."

But, there were aspects of the job she didn't like. "I don't like to sell insurance," she admits, explaining that she preferred marketing coverage to underwriters over pure "sales" responsibilities. "I didn't like making cold calls."

One of the potential clients she had contacted, Care Inns Inc. of Memphis, was looking for someone to establish an in-house agency to serve the nursing homes it owned.

"What appealed to me was that they were not interested in developing a full-blown agency" to sell coverage to outsiders, she said, noting Care Inns furnished her first corporate risk management experience.

While Care Inns soon dissolved its in-house agency, she stayed on as risk manager and personnel policy administrator, a job she enjoyed—until Care Inns was acquired by another company.

While she looked for another risk management job, Ms. Workman did several free-lance projects for Hemisphere General Insurance Group, a property/casualty insurer in Memphis. She eventually took a full-time position at Hemisphere—as director of marketing and risk management services—with the understanding she would continue looking for a risk management job.

"I really wanted to stay in risk management, but in Memphis there are not tons and tons of opportunities," she says.

But an opportunity did arise that caught Ms. Workmans's attention: The risk manger for Belz Enterprises was planning to retire, so Ms. Workman submitted a resume in response to an ad in *Business Insurance*.

"I found my dream job—a good risk management job in Memphis," she says.

While Ms. Workman began her career at Belz focusing on risk management, in 1989 she added benefits management to her duties. She now also is responsible for human resources for the company's 150-member headquarters staff.

Ms. Workman says she has found a home—both at Belz and in risk and benefits management. "I sure don't think I want to go back into brokerage," she says.

But she does concede she wouldn't mind moving up in the organization, acquiring more finance- and human resource-related responsibilities.

Besides immersing herself in her job at Belz, Ms. Workman has immersed herself in risk management-related activities. She is president of the Memphis Chapter of the Risk & Insurance Management Society Inc., following a year as chapter vp and chairwoman of the chapter's much-acclaimed annual golf tournament. The tournament has raised more than $100,000 in the last five years to benefit risk management education programs at Memphis State University (*BI*, Aug. 19, 1991).

She also is a member of the conference programming committee for this week's RIMS conference and will moderate a session on employee assistance programs.

Ms. Workman also is national director for the Southeast region of the Society of Chartered Property & Casualty Underwriters and is chairman of the Society of CPCU's national curriculum liaison committee. In addition, she was president of the society's Memphis Chapter in 1988-89.

Ms. Workman attributes some of her success to her CPCU designation and her activity in the society. "There is no question in my mind that I would not have received opportunities without that designation.

"And the networking in CPCU is phenomenal—insurance is a people business," she adds.

She also is chairman of the Business Emergency Preparedness Council, a group of Memphis-area business executives that works closely with government emergency agencies to prepare for potential catastrophes (see story, page 142).

Ms. Workman is proud of her involvement with service organizations. "The insurance industry has been really good to me. You have to give something back.

"Besides, for me, these kinds of things are my therapy, my escape."

When not "escaping" to work or a RIMS or CPCU meeting, Ms. Workman likes to read a good mystery novel and practice her needlework skills. ■

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Millie Workman shares the spotlight with her co-workers

Colleagues and superiors applaud her accomplishments and abilities

Photo by Michael A. Marcotte

Millie Workman receives the 1992 Risk Manager of the Year award from *Business Insurance* Publisher and Editorial Director Kathryn J. McIntyre and Editor James M. Burcke at the Peabody in Memphis.

Millie Workman is the first to point out that she can't do it alone.

The director of corporate risk management for Belz Enterprises is quick to give credit to many others, both inside and outside the company, for the accomplishments that led to her selection as the 1992 *Business Insurance* Risk Manager of the Year.

"Everybody here has a part in this and that's why I wanted you to share it with me today," Ms. Workman said to her friends and co-workers after she accepted the crystal obelisk given to the Risk Manager of the Year.

The award ceremony was held following a luncheon last month at the Peabody, a Belz-owned hotel in Memphis.

Ms. Workman thanked Jimmie D. Williams, her boss and Belz's vp and chief financial officer, "who decided to take a chance with me, and who has always been there supporting and helping me.

She also thanked members of the Belz family—Chairman Jack A. Belz and Martin S. Belz and Ronald A. Belz, who both have the title of president—"for letting me do the things I think we can do."

"I see so many other risk managers constantly beating their heads against their wall. We couldn't have made any accomplishments if I had not had your support. I appreciate that more than you will know," Ms. Workman said.

Mohamad Hakimian, vp-finance of the Peabody Hotel Group, the unit of Belz Enterprises responsible for the management of the company's hotels, was recognized by Ms. Workman as "somebody special to me and another person who has supported me as I worked with our hotels."

Ms. Workman gave special recognition to the "two most important people" attending the luncheon: Carolyn Bradshaw and Chris Breuning, her two assistants.

"We do an awful lot for three people, and I certainly couldn't do what I do without these two people," Ms. Workman said.

"It's been a real joy to see these two people grow so much in the last few years. They get the biggest chunk of this," Ms. Workman said, holding up the crystal obelisk.

Besides those working within Belz, Ms. Workman also praised the contributions of members of the "Belz Team," the group of outsiders she relies on to help administer her programs (see story, page 135).

Ms. Workman singled out Marilyn Wojcik, vp of Johnson & Higgins of Tennessee Inc. in Nashville, who manages the Belz account and nominated Ms. Workman for the Risk Manager of the Year award.

"I appreciate all the hard work on the Belz account over the years. We are where we are today because of what Marilyn has done.

"Marilyn is always willing to take my dreams and my wild ideas and see if they can come true for me. We've been doing pretty good," Ms. Workman said.

She also thanked Wayne Fell, "my favorite underwriter" and regional casualty manager for American Home Assurance Co. in Atlanta, a unit of American International Group Inc. AIG writes most of Belz Enterprises' casualty coverages.

"I do appreciate all that you do for us," Ms. Workman said, praising AIG for its "responsiveness to my wild ideas and dreams."

Another member of the team saluted by Ms. Workman was Richard Glassman, an attorney with Glassman, Jeter, Edwards & Wade in Memphis who represents Belz.

"He wins them all," Ms. Workman said succinctly.

She also thanked Dennie Smith, a Memphis management consultant who works with Belz. Mr. Smith "believed enough in me to get me past the first interview."

Ms. Workman's bosses and colleagues quickly returned the compliments to the Risk Manager of the Year—along with a few good-natured barbs.

Jack Belz, the company's chairman, joked that the petite Ms. Workman was 5-foot-10 when she started working at Belz Enterprises a little more than four years ago.

"She knew she'd get shorter because of the load, but she said she thought that she could lower our costs on the same (scale). She's doing that," Mr. Belz joked.

He added seriously that "we're really proud of Millie. She doesn't say no to anything you ask her."

But, then he quickly added that "in honor of her award, I would like to grant her the next three Sundays off."

"We're just so grateful to have Millie," said Mr. Williams, her immediate superior. "Every year she comes up with good programs to keep our costs down—and that's what it is all about.

"We're very, very proud of her," he said.

Martin Belz saluted Ms. Workman for the "hours and hours" of work that she spends not only on the risk management function, but also on her employee benefits and human resources responsibilities.

"It's amazing, Millie, how much you are able to get done outside of risk management. We all appreciate that effort," he said.

"She has done a tremendous job responding to our needs," said Mr. Hakimian of the Peabody Hotel Group.

"Her accomplishments are amazing," said Ms. Wojcik, the Johnson & Higgins executive in Nashville who manages the Belz account. "It's been a privilege to work with Millie, and I have learned so much from her. There's never a dull minute," she said.

"Millie is a firm believer in preventive law," said Mr. Glassman, the attorney who represents Belz.

"She goes through a hotel and finds areas that need to be changed—sometimes small, inexpensive things that can prevent lawsuits," said Mr. Glassman.

In addition, he lauded Ms. Workman for her refusal to settle claims filed by hotel guests and others when Belz is not at fault (see story, page 134).

"Millie has given us an opportunity to do something we enjoy doing and that is to try lawsuits and make people their cases," Mr. Glassman said "She doesn't roll over and play dead.

"She by far is the best client we deal with," he added.

John Middleton, manager of the Johnson & Higgins office in Nashville, credited Ms. Workman's many accomplishments to the fact that she "works exceptionally well with people." In addition, she knows how to "work within a family-owned company," something that other risk managers have not learned to do, he said. ■

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Risk Management Honor Roll

Marc Darby

Bombardier Inc.

Large Company

By MARK A. HOFMANN

Marc Darby's job is to make sure that risk management and insurance are on board as Bombardier Inc.'s aggressive acquisition strategy picks up steam.

As director of risk management and insurance since 1987, Mr. Darby has seen Bombardier rapidly evolve into a multinational transportation and aviation power with annual revenues of about $3 billion Canadian ($2.51 billion at current exchange rates).

Because the Montreal-based firm expands through acquisitions, Mr. Darby has had to create a risk management program that can respond to new risks almost immediately while remaining as streamlined as possible.

His success in this endeavor, plus his decades of contributions to the furthering of risk management in North America, has earned Mr. Darby a place on *Business Insurance*'s 1992 Risk Management Honor Roll, representing companies with annual revenues of more than $300 million.

Mr. Darby's achievements include:

- Creating an insurance program that responds to the needs of a rapidly expanding corporation without requiring a flurry of new policies.
- Establishing an offshore captive to cover Bombardier's worldwide property exposures and, as needed, other coverages.
- Vigorously promoting risk management professionalism and education through a variety of activities, including a term as president of the Risk & Insurance Management Society Inc. (*BI*, May 9, 1983).

"He's demystified the insurance world when he's talking to laymen," said Jean Rivard, vp-legal services for Bombardier.

"He's very effective and very enthusiastic," added Mr. Rivard, to whom Mr. Darby reports. "He has very good contacts, and gets information whenever it's needed."

"He is really unencumbered by traditional ways of thinking. He goes for the big picture and gets things done," said Eckart Russell, senior vp with Johnson & Higgins of Canada Ltd. in Montreal, which is Bombardier's primary broker. Mr. Russell also is a former Risk Manager of the Year (*BI*, April 19, 1982).

"He never stops exploring the periphery," according to Mr. Russell.

Mr. Darby demonstrates this quality by always entertaining new ideas, such as using a captive insurance company for Bombardier's worldwide property exposures, Mr. Russell explained.

Managing the risk management and insurance program of Bombardier presents more than the usual considerable challenges of a multinational corporation. The company has 24 divisions or wholly owned subsidiaries located throughout North America and Europe.

Bombardier's endeavors include manufacturing military and private aircraft, mass transit rolling stock and consumer recreation equipment, including the Ski-Doo snowmobile, which was the company's first product line (see story, page 147).

A particularly critical part of Mr. Darby's risk management program is to be involved in the acquisition process from the beginning.

"I am involved in the original due diligence team. By being there early, we are in a position to evaluate, first of all, and to obtain the asset values we're discussing; to look at their insurance policies; to look at their outstanding recommendations from a loss prevention standpoint; and to look at their loss experience depending on the type of corporation."

From his experience, Mr. Darby says that risk managers must be involved in the early stages of corporate acquisitions.

"It is important that a risk manager know what kind of corporation, what exposures are there, what product is sold by this division and what the products liability exposure is, how many employees are involved and what the workers comp exposure is," he said.

"Risk managers cannot overrule the yea or nay of the acquisition, but we can raise flags in certain areas.

"We looked at a corporation once that had substantial exposures from a products liability standpoint. It did not scare us from acquiring that company, although it happened in the end that we did not acquire the company because somebody else bid more than we did. But it is important that the risk manager be involved right at the outset of the acquisition," he said.

Besides acquisitions, other Bombardier projects are becoming more complex and higher-profile, as well.

For example, the company is producing much of the rolling stock that will be used in the Eurotunnel, the rail tunnel beneath the English Channel connecting England and France. Rail cars designed to carry trucks and cars through the Eurotunnel will be assembled by Bombardier in Europe from parts made in Canada (see story, page 148).

Mr. Darby surmounts these new challenges within a decentralized corporate structure that emphasizes leanness and efficiency.

Bombardier's home office staff in Montreal runs with between 70 and 80 people at any given time, even though the company employs more than 10,000 people worldwide.

Mr. Darby oversees the risk management program with three assistants: Daniel Desjardins, manager of risk management and insurance in Montreal; Louis D. Tummers, European manager of risk management and insurance in Brussels, Belgium; and Louise Bouchard, secretary in Montreal.

In addition, most divisions have their own local loss control personnel who report to Mr. Darby.

"Very lean, very effective," is the way that Mr. Darby describes Bombardier's management structure.

"We are a very decentralized corporation. Each division or wholly owned subsidiary is responsible for its own activities. Insurance purchasing is the only area

Continued on next page

Photo by Michael A. Marcotte

Marc Darby

Continued from previous page
that's truly centralized," he said.

"We are not a company that is snowed under many administrative procedures. We'd rather take the decision to solve problems on a piecemeal basis than to add procedures that hamper effectiveness," said Mr. Darby.

To address the insurance needs of its many diverse and largely autonomous divisions in an efficient manner, Bombardier formed a captive insurer in 1990 in Barbados that writes its worldwide property insurance program. The captive also participates in the company's U.S. workers compensation insurance program.

Mr. Darby says his greatest achievement as risk manager for Bombardier was "deciding that a captive was viable, convincing management that it would be a useful risk financing tool and going through the process of charter and incorporation of the captive in Barbados."

"To my surprise, it was a relatively easy sell," he said. He attributed the relative ease of persuading Bombardier's management of the captive's usefulness to having researched the subject thoroughly.

"After I sat here, I became more and more convinced that a captive was a viable tool," he said, even though he had never been involved in the formation of a captive.

He decided to pursue the captive "because of premium volume, because of the size of the corporation's assets and because I felt it would serve the purpose of what a captive is used for—good cash-flow management."

Given the constraints of a small risk management staff, Mr. Darby said that he "could not afford the time to do everything in-house, and there were a lot of legal aspects I was not familiar enough with, so we went to the brokers. I asked the brokers whether or not I should recommend to management to form a captive and, if so, how should I go about it," he said.

Johnson & Higgins, which is Bombardier's primary broker, acted as his adviser throughout the formation process, he said. Toward the end of the project, Bombardier's external auditors were brought in to review the tax implications of a captive, he said.

Forming the captive took about a year, he said, culminating in January 1990 with the licensing of DBB Insurance Co.

Mr. Darby noted that the initials are the reverse of Bombardier's ticker symbol on the Montreal Stock Exchange. That name, however, was not his first choice.

"I wanted BBD Insurance Co., but, being in Barbados, BBD was already in existence. So we went with DBB," he explained.

While the captive is now up and running, Mr. Darby hasn't put it in the back of his mind.

"We are looking at three other programs that could eventually be added to the captive. Some may be dropped, some others may be added depending on the cost of the programs and the viability within the captive," Mr. Darby said.

"We want to preserve the financial stability of the captive and we want to put in there what we think is viable," he said.

Each of Bombardier's divisions and wholly owned subsidiaries obtain property coverage from the captive, which is managed by Johnson & Higgins (Barbados) Ltd. The premiums individual units pay are determined in Montreal.

"We bill the divisions from this department and we do the premium apportionment to the divisions according to whatever (allocation) standard we decide to use" for a particular line of coverage, Mr. Darby explained. "In the property area, we're using property values and business interruption figures.

"We have fortunately been profitable in that program last year and, unless the reinsurance costs skyrocket, we think we will be able to stabilize the price to the divisions from year to year," he said.

Mr. Darby made clear that Bombardier's intention to extend its use of its captive does not mean that it plans to turn its corporate back on the commercial insurance market.

"The commercial market will always be needed," he said, noting that "our worldwide insurance programs should normally fit most of the corporations we're acquiring."

Bombardier centrally purchases more than $100 million Canadian ($83.5 million U.S. at current exchange rates) in general liability limits from insurers, as well as at least $1 billion U.S. in aviation product liability coverage (see story, page 147).

Mr. Darby does not keep track of Bombardier's complex insurance program alone.

"Bluntly put, I require that we deal with worldwide insurance brokers and I give that mandate to the brokers and/or the underwriters that I deal with. For instance, overseas there are certain countries where the captive can be a direct—you don't need a domestic insurer. In other countries you need a domestic insurer" to write fronting policies, he said.

Risk Management Honor Roll

"For compliance with the different workers comp regulations in The States, here again you have to rely on the underwriters to make sure that you're complying with the requirements of each and every state," he said.

In addition to the expertise of the brokers and underwriters he deals with, Mr. Darby relies on Mead Loss Control Consultants Inc. of Dayton, Ohio, for loss prevention engineering advice.

All locations valued at more than $15 million Canadian ($12.5 million) are visited at least once annually by Mead engineers, he said.

"Someone from my department is always with Mead unless schedule conflicts take place. Then, Mead goes alone," Mr. Darby noted.

Photo by Michael A. Marcotte

Bombardier Inc.'s Marc Darby with two of his assistants: Louise Bouchard, secretary, and Daniel Desjardins, manager of risk management and insurance in Montreal (right).

"I can't afford to tour all the locations myself any more," he said. Mr. Darby's assistant in Montreal, Mr. Desjardins, carries out some of the North American visits. And Mr. Tummers in Brussels conducts the European inspections.

"Otherwise, I rely on Mead," Mr. Darby said.

Mead loss prevention engineers also are helping Mr. Darby promote the use of highly protected risk property conservation techniques in all of its divisions.

The HPR philosophy is not prevalent in Europe, where Bombardier has acquired numerous manufacturing facilities in the past few years.

But with persuasion and flexibility, Mr. Darby is promoting HPR in Europe.

"We want to sell that philosophy overseas. We have already been successful in a couple of divisions. We are gradually getting there in selling the philosophy (to the other divisions), but we're realizing we cannot change the world tomorrow," he said.

As part of Mr. Darby's determination to promote the HPR concept, about three years ago he began gathering the local loss prevention engineers from all the U.S. divisions and had Mead loss prevention engineers "give them a talk on the different steps that need to be taken in order to preserve the properties," he said.

The discussions covered recommended inspection frequency for fire protection equipment, suggestions for organizing local emergency response teams and use of basic loss-prevention tools, he said.

"We are considering doing the same thing overseas sometime in the fall again with the loss prevention engineers of the European divisions," he added.

In addition to the intelligence network composed of professional advisers and employees, Mr. Darby also relies on a basic risk management information system to keep on top of his program. But, he's quick to point out that, like everything else about his operation, the RMIS is kept lean.

His RMIS consists of a Toshiba laptop computer equipped with general business spreadsheet programs to keep track of Bombardier's insurance programs.

"We could probably be fancier in having an all-integrated system, having it designed by somebody else because we certainly don't have the time to really design it, but I find that with Lotus 1-2-3, we are in the position to at least store the information we need," he said.

Mr. Darby does not see any advantage to having a more complicated system, and doesn't have the time to experiment anyway. "I believe in computers to store data, to store statistical premium split and all kinds of financial information."

Nevertheless, he values what even basic automation will afford the risk manager.

"I think that the risk manager who does not involve himself in the computer age will soon be either replaced or will not be able to cope with the job because risk management is more and more demanding and the computer, although it takes time to store data, is helpful in saving time once the data is in there," Mr. Darby said.

And, Mr. Darby expects the role of the risk manager to continue to grow as the discipline becomes increasingly sophisticated.

"I think that in a matter of time, if the risk management philosophy is fully applied, we may venture out of the pure risk area to become more involved in the area of risk analysis for non-pure risks, like risk analysis of investments. I think there is a future for risk management in this area," he said.

Still, Mr. Darby is content with his role as Bombardier's risk management and insurance director and the duties that come with the job.

"I've been in insurance all my life. Insurance is a major part of what I do on a daily basis," he said.

"I love talking to people and discussing problems and solving problems with people. When people call here, it is to solve a problem, often times at the last minute, but it is because they have a problem—an insurance or loss prevention problem—that they want solved.

"This is what my job is and what I like to do. Plus, the fact that corporate philosophy here is such that there is a lot of delegation to individuals or at the divisional level—that's why I like this job." ■

Risk management career rewards Darby

Bombardier Inc. risk manager decided early on to follow a career in insurance

By MARK A. HOFMANN

Marc Darby had no doubt that insurance would be his life's calling while still a student in Eastern townships of Quebec—and he has never regretted that early choice.

"It's a field that has provided me many rewards," says Mr. Darby. One of those rewards, which he considers his greatest professional achievement, was serving as president of the Risk & Insurance Management Society Inc. during 1983-84 (*BI*, May 9, 1983).

"When I was in school, insurance was intriguing to me," said the 55-year-old director of risk management and insurance for Montreal-based Bombardier Inc.

Within a couple years of graduating from high school, Mr. Darby joined Royal Insurance Co. of Canada as a claims adjuster.

Working his way through the ranks at Royal's Sherbrooke, Quebec, branch office during the 1960s, Mr. Darby held a variety of inspection, adjusting and underwriting positions.

During this period, he found time to continue his education, obtaining in 1967 the Fellow of the Insurance Institute of Canada designation, a professional designation awarded by the Toronto-based Insurance Institute of Canada that is comparable to the Chartered Property & Casualty Underwriter designation.

One of Mr. Darby's clients while at Royal was Bombardier, then primarily a manufacturer of snowmobiles.

In 1970, Mr. Darby accepted an offer to join Bombardier as its first insurance manager, responsible for managing the company's entire insurance program.

"We didn't know what the name 'risk manager' meant at that time," he said.

Regardless of what they were called, the risk management skills Mr. Darby developed during his first stint at Bombardier came into even greater play with his next job, that of risk manager for James Bay Energy Corp., the Montreal-based construction arm of the Quebec government's Hydro Quebec public utility.

During his tenure with James Bay from 1973 to 1984, it began construction on a huge hydroelectric power plant at the confluence of four rivers at James Bay, a body of water at the southern end of Hudson Bay. The construction area is about 800 miles north of Montreal in a remote part of the province, where the climate is "very extreme," said Mr. Darby.

As risk manager of James Bay, Mr. Darby found that his responsibilities included "basically all insurance and loss prevention matters" connected with the construction of the dam and powerhouse.

"Building a dam and building a powerhouse is highly technical," he said. During the early 1970s, though, the philosophy of risk management had not deve-

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Darby

Continued from previous page

loped to the point that it could be applied to the bulk of the specialized construction, he noted.

"However, we were able to implement some risk management philosophy in the facilities that were needed to lodge and feed people at these remote sites," said Mr. Darby.

For example, the project depended on six corporate passenger aircraft and one cargo plane to ferry people and supplies to the cold shores of James Bay from various sites throughout Quebec. The project operated six landing strips and had to contend with "all of the usual airport facility liability exposures," he said.

Mr. Darby remained with James Bay until the $15 billion Canadian ($12.53 billion at current exchange rates) project was completed in the mid-1980s.

After leaving the energy company in 1984, he held several risk management and insurance industry jobs. For two years, he was a risk management consultant in Montreal.

In 1987, he learned the risk manager position was opening at Bombardier, which had grown greatly and diversified its manufacturing operations since he had left 15 years earlier. He applied and was rehired for the job.

It was during his tenure with James Bay that Mr. Darby became increasingly involved with the Risk & Insurance Management Society Inc., called the American Society of Insurance Management until 1975. The risk management concept was still relatively new, he said, and the idea that people entrusted with buying corporate insurance could and should do more about controlling risks had not been fully sold to management.

As a result, while serving as president of the Quebec chapter of RIMS in 1974-75, Mr. Darby decided to try to translate the risk management concept into French, the predominant language of the Quebecois.

"We had to find a French translation of the words, and then start selling the concept," he said. Ultimately, the French phrase adopted for risk management was "gestion de risques," and for risk manager "gestionnaire de risques," he said.

"We were able to have these words translated by a person in the translation department of James Bay. He came up with the idea, we checked with a few French-speaking gestionnaire de risques in Montreal and the word was adopted for the translation of risk management or risk manager," said Mr. Darby.

"Now, you see the word used overseas, but they use risk management more than gestion de risques," he added.

The Quebec chapter of RIMS now translates risk management publications into French.

After first becoming involved with the local RIMS chapter in the early 1970s, Mr. Darby worked his way up through the organization. He served as the local chapter's representative at the national level, and in 1977 was nominated to RIMS' executive council.

This course ultimately led to Mr. Darby's election as RIMS president in 1983.

Mr. Darby chose communications as the theme of his presidency. "We wanted to improve the in-house communications at all levels, between staff, the executive committee and the board and all of the chapters and the divisions," he said.

"I might add that RIMSCOPE was started in 1983-84" as part of that emphasis on communication, said Mr. Darby. RIMSCOPE is a biweekly members' newsletter.

Not surprisingly, Mr. Darby remains an enthusiastic supporter of RIMS.

"What you put into RIMS in terms of time, you get 10 times as much out," he said. The rewards come in terms of "personal contacts, by knowing people throughout your profession and enabling you to contact people that have a specific knowledge to solve a problem you currently have."

"That's called networking, isn't it?"

To Mr. Darby, risk management is more than a simple exercise in insurance. "Pushed to its extreme, risk management is involved in all facets of operation of a company like this.

"When I say all facets, although we are not involved in the production per se or in the scheduling, we have to make sure that the facilities are adequately protected so that the plants keep on working," he said.

"Problem solving—there is a lot of problem solving. However, you want to be ahead of the game and obtain the tools that will help you solve most of those problems ahead of them," said Mr. Darby.

Education provides many of those tools, and Mr. Darby has been active in professional education for decades. In addition to earning the FIIC designation, he has taken courses in product liability, bonding, insurance purchasing and risk management.

In addition, he has taught, notably courses leading to the Associate in Risk Management designation administered by the Insurance Institute of America.

He was a lecturer for the first risk management course, ARM 54, at McGill University in Montreal and was the first French lecturer there during the 1970s, said Mr. Darby.

Risk Management Honor Roll

Canadian insurance professionals can take the ARM course independent of the university, which also offers risk management courses in its school of business, said Mr. Darby. He added that he had to drop the lecturing commitment as work and RIMS activities began taking up more and more of his time.

Mr. Darby's contributions to the field of risk management in Canada were recognized by his peers in 1990 with the Donald W. Stuart Award.

Mr. Darby's commitment to his profession remains strong after more than 30 years in insurance and risk management.

"I find that my work takes a good part of time," said Mr. Darby.

Nevertheless, he does make time to cycle during the warmer months. "In the winter, you can't cycle in Montreal at all."

And despite a busy travel schedule, Mr. Darby finds time to read.

"Traveling the way I travel, I have much time to spend in airports and on board aircraft," said Mr. Darby. He favors business-related works that deal with the future of business, recently completing futurist Alvin Toffler's "Powershift."

Mr. Darby said his interest is "what will the future be, what business will be like in say, five or 10 years down the road."

"We never expected five years ago that we'd be so sophisticated in computers or communications," he observed. ■

It all started with the Ski-Doo

Bombardier now a diverse giant

By MARK A. HOFMANN

Although its very name suggests a tie to the aviation industry, Montreal-based Bombardier Inc. had nothing to do with aircraft when it opened its doors 50 years ago.

The company takes its name from its founder—J. Armand Bombardier—a Quebecois inventor and entrepreneur who created a company in Valcourt, Quebec, to manufacture vehicles that could run in the snow.

Mr. Bombardier's vision led to the Ski-Doo snowmobile, which was introduced in North America in 1959.

The Ski-Doo snowmobile remains a mainstay of Bombardier's consumer product line. In fact, a waterborne version of the Ski-Doo, the Sea-Doo, was introduced in 1987.

But during the past decade, Bombardier's greatest expansion has occurred in the aircraft and railcar sectors, where the company has grown through acquisition of companies with well-established markets.

These acquisitions have taken the company, which has revenues of more than $3 billion Canadian ($2.5 billion U.S.), far from the snow-covered slopes of Quebec and New England.

Bombardier's various units have production facilities stretched across North America and Europe, with plants in Austria, Belgium, Canada, Finland, France, the United Kingdom and the United States. Although the company is based in Canada, more than 90% of its sales are generated in other markets.

Jet planes built by Bombardier units—including Learjet Inc. of Wichita, Kan.—appear in corporate fleets as far away as Indonesia.

Bombardier also manufactures military aircraft. Its Short Brothers P.L.C. unit, based in Belfast, Northern Ireland, manufactures military cargo and military trainer aircraft.

The Canadian manufacturer's products also appear at the Walt Disney World Resort in Orlando, Fla., where visitors see the sights from Bombardier monorail cars.

Bombardier rolling stock also runs along the tracks of Mexico City's subway.

And, in a contract certain to bring it even greater international recognition, Bombardier has agreed to manufacture the shuttles that will be used in the Eurotunnel between France and Britain (see story, page 148).

Recent acquisition ANF-Industrie in Crespin, France, which manufacturers subway trains and high-speed trains, will join other Bombardier facilities in producing the shuttles.

These large rail cars, the only ones of their kind in the world, will carry cars, trucks and buses through the tunnel when it is completed later in the decade. ■

Photo by Michael A. Marcotte

Marc Darby, left, 'demystifies the insurance world when he's talking to laymen,' explains Jean Rivard, his immediate supervisor.

Keeping it simple at Bombardier

Few insurers and rolling renewals streamline program

By MARK A. HOFMANN

Marc Darby's philosophy is to buy as few insurance policies from as few underwriters through as few brokers as possible.

Johnson & Higgins in Montreal brokers all of Bombardier Inc.'s property/casualty insurance program except for its aviation coverage, which is handled by Marsh & McLennan Inc. offices in Montreal, Paris and London.

And, American International Group Inc. underwrites several types of coverage for the Montreal-based aircraft and transportation equipment manufacturer.

To further streamline the program, Mr. Darby uses rolling renewals—in February, April and early December—rather than renewing the entire program on one day.

"We stay away from the Dec. 31 renewal," he said. "The major policies are spread throughout the year. We need to do that because we certainly wouldn't want to gather all of the information together at one time."

Bombardier spends about $30 million Canadian ($25.1 million U.S. at current exchange rates) annually on property/casualty insurance, including premiums paid to its Barbados captive, DBB Insurance Co., which funds Bombardier's worldwide property exposures.

About $24 million Canadian ($20 million U.S.) of that amount is spent by the corporate risk management office. The remainder is spent on policies—like workers compensation-type policies in Belgium—that local divisions by directly, he said.

Bombardier purchases $25 million Canadian ($20.9 million U.S.) in first-layer general liability insurance, led by AIG units and followed by underwriters at Lloyds of London, he said. The first-layer coverage is written excess of an undisclosed self-insured retention.

Bombardier purchases another $50 million Canadian ($41.8 million U.S.) in excess liability coverage from X.L. Insurance Co. Ltd. Above the X.L. coverage is high-layer excess liability insurance. But Mr. Darby declined to name the underwriters or the limits, except to say that Bombardier buys more than $100 million Canadian ($83.5 million U.S.) of liability coverage excess of the SIR.

The company's general liability insurance covers all product liability claims other than aviation products and special product exposures associated with the manufacture of railway shuttles for the Eurotunnel linking England and France (see story, page 148).

For all other product liability claims, each of the company's North American division retains the first $100,000 Canadian ($83,500 U.S.) of risk within Bombardier's retention, Mr. Darby explained. Above that, "we are constituting a (self-insured) fund which is held in our home office from which we draw should a claim cost more than $100,000," but less than its retention.

"In excess of our retention, we have our general liability policies, which insure product liability for our mass transit division worldwide and our snowmobile/water scooter division worldwide," he said.

Overseas divisions have much lower product liability retentions, he said.

"Because the divisions are used to lower deductibles than we have here, we are passing

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Bombardier cover

Continued from previous page

onto the market the self-assumption that we assume here in North America. That is cheaper because products liability is not the same exposure overseas as it is south of the border. Unfortunately, Canada is looked at as the same exposure" as the United States, said Mr. Darby.

Mr. Darby said that aviation product liability is "by the far the largest exposure" that Bombardier confronts.

He noted that Bombardier has added three major divisions to its aircraft manufacturing operations in the past three to four years, including Learjet Inc. of Wichita, Kan.; Short Bros. P.L.C. of Belfast, Northern Ireland; and de Havilland Inc. of Toronto.

Risk Management Honor Roll

"The program, which is a combined aviation products liability/hull insurance program, is led by London with French and American underwriters. Our limit is at least $1 billion U.S.," said Mr. Darby.

"Right now, the capacity is large enough; it is not a major, major problem," he said.

Mr. Darby said there was no trick to assembling Bombardier's worldwide aviation program. "It is a fully vertical program. The market is in a position to respond to substantial limits that are needed.

"The hull exposure is not of a major concern to us because the most valuable aircraft we sell, the RJ or Challenger, are worth somewhere between $15 million and $20 million, depending on the interior finish."

Workers compensation insurance in the United States is currently placed with AIG, with limits varying according to different state statutory requirements, said Mr. Darby.

"I think our workers comp program is 'special,' " said Mr. Darby, who noted that the Barbados captive participates in the coverage. "But, because of its uniqueness, I'd rather not go further" in describing the program, he said.

He added that some U.S. divisions self-insure their workers comp risks.

Despite the troubles plaguing many state workers compensation systems, Bombardier's expansion in the United States is not causing Mr. Darby any undue concern.

"The underwriters are taking care of that along with the brokers. I sleep well at night," he said.

Surety bonds are a major coverage "of ours because our mass transit division deals with public entities, which are the owners of transportation systems. We have a substantial approved limit with a joint venture of underwriters in the States," said Mr. Darby.

AIG and CIGNA Corp. underwrite surety bonds on Bombardier's behalf.

"Buying surety bonds is not a problem for the time being. But this is an area you have to manage and be ahead of the eight-ball because you never know what might happen in the future," he said.

Bombardier's boiler and machinery insurance is written by Hartford Steam Boiler Insurance & Inspection Co., with a limit of $2 million Canadian ($1.7 million U.S.).

Different underwriters handle Bombardier's commercial automobile coverage in the United States and Canada.

The U.S. program, with limits of $2 million U.S., covers both liability and collision risks and is written by United States Fidelity & Guaranty Co.

The Canadian program, which covers only liability risks, also has limits of $2 million Canadian and is written by Zurich Insurance Co. Collision coverage in Canada is self-insured.

Automobile coverage for European divisions is purchased directly in the different countries, he said.

"We're looking into the possibility of having a Europewide automobile policy" that would be administered through the Brussels office, with the company self-insuring the collision exposure, he said.

Bombardier also purchases directors and officers liability and employee fidelity coverage, but Mr. Darby would not provide coverage details. ■

Surety bonds are a major coverage 'of ours because our mass transit division deals with public entities, which are the owners of transportation systems,' explains Mr. Darby, Bombardier's director of risk management.

Covering Eurotunnel shuttles

Belgian, French insurers cover product defects

Bombardier Inc.'s role in developing the shuttle that will carry vehicles through the Eurotunnel connecting England and France poses unique insurance demands.

"We are the manufacturers of all of the shuttles, single-deck and double deckers, produced in three different countries—Canada, Belgium and France," said Marc Darby, director of risk management and insurance for Bombardier.

The shuttles will travel on two 31-mile-long tracks in the tunnel beneath the English Channel, carrying cars, trucks and buses. The shuttle system, which will include 38 locomotives and 500 carrier cars, is expected to be operating by mid-1993 (*BI*, Nov. 11, 1991).

The rolling stock manufacturing program required product liability coverage in addition to that afforded by the general liability insurance program, as well as product defect coverages, said Mr. Darby. The program was placed 50% in the Belgian market and 50% in the French market, he said, declining to give further coverage details.

"When these units are in our plants or in transit, they are covered by either our worldwide property or our transit policy. We needed products liability," he said. "We were able to underwrite a policy that guarantees any defective work on the trains, like a warranty. That is a policy that is available in the French-Belgian market, but very tough to obtain in America," Mr. Darby added.

AP/Wide World Photo

British and French workers on the Eurotunnel project exchanged flags after their tunnels were linked on Dec. 1, 1990.

"As Bombardier Inc. got involved with this, much of the work had been done between the Belgian and the French divisional risk managers, and after discussing it with these two guys, we decided to form a consortium of brokers between the French, the Belgian and the Canadian brokers with the understanding that the best conditions obtained would prevail," he said.

Mr. Darby said the brokers involved are Boels & Begault S.A. of Belgium, Gras Savoye S.A. of France and Johnson & Higgins of Canada Ltd., all members of the UNISON brokerage network.

Bombardier's goods in transit exposure for the Eurotunnel project is covered by a worldwide transportation insurance policy written by Allendale Mutual Insurance Co.'s Affiliated FM Insurance Co. unit.

The $20 million Canadian ($16.7 million U.S. at current exchange rates) policy covers component parts for the rolling stock that are produced in La Pocatiere, Quebec, and then shipped to Bombardier plants in Bruges, Belgium, and Crespin, France, for assembly.

—By Mark A. Hofmann

Advertiser Index

Issue of March 30

Advertiser	Page #
Accord Re Ltd.	154
AIG Corporate	26-27
A. I. G. Credit	123,125,127
Allendale Insurance	32-33
American Excess	34
American Risk Pooling	70
American Risk/Int'l Risk	30
American Risk/Hopewell Ins.	37
American Risk/Tortuga	79
American Risk/United Ins.	81
AM Re Managers	105,106-107
AON Broker Services Inc.	36
AON Reinsurance Agency Inc.	52
Argus International Mgmt.	134
Avert	110
AXIA	56
Bahamas Financial Services	108
The Bank of Bermuda Ltd.	64
The Bank of Butterfield	20
Benefit Plan Systems Corp.	151
Richard T. Bergsund Assoc.	143
B. F. & M. Management Ltd.	16
Bermuda IAC Marketing Comm.	24
Blue Cross Blue Shield (NJ)	60
Business Insurance	21,120-121
Cayman Ins. Managers Assoc.	112
Central Bank of Barbados	40
Centre Re-Insurance	35
CIGNA	84-85
Claims Overload Systems	156
CNA Insurance Co.	38-39
Colorado Assn. Captive Ent.	126
Commonwealth Risk Service	94-95
Comm Risk Prtns/Scor U.S.	57
Conservco	68-69
Continental Medical Systems	100
Continental Underwriters	99
Cost Care Inc.	48
Cover X	90
Crawford & Co.	12,91,132
David Corporation	87
Delta Dental Plan Assoc.	66,67
Discover Re	22-23
ECIPS	102
Employers Reinsurance	46-47,93
Environmental Compliance	7
Environmental Risk Ins. Co.	41
Erisco	76-77
ERMA	61
European American of NY	157
Express Scripts	155
First Hawaiian Bank	43
First State Insurance	74
Flex RX.	58-59
Fortress Insurance Co. Ltd.	103
GAB Business Services	17
Gay & Taylor	42
General Rehabilitation	78
G & M Marine Incorporated	154
Great American Insurance Co.	97
Hanna Insurance	101
Health Payment Review Inc.	18-19
Helmsman Management Svcs	53
Hilb Rogal & Hamilton	25
Holder & Hall	157
Home Insurance Company	54-55
Illinois Insurance Exchange	28
Industrial Risk Insurers	164
Intracorp	50-51
ITT/Hartford	45
Jamison Special Risk Inc.	124
Johnson & Higgins	6
Kemper Insurance Group	14-15
Kitson Management Services	126
Lamba Systems	118
Lexington Insurance	49
Liberty Mutual	9
Lincoln National/Reins	75
Lindsey Morden	82
Majestic Insurance	112
Marathon Systems	160
William H. McGee	139
Mutual of Omaha	C4
NILS Publishing Company	80
North American Reinsurance	13,65
D. Parfett & Comapny	144
Practical Risk Management	141
Preferred Health Prof'ls	101
Pro Systems	92
Protection Mutual Ins. Co.	62-63
Prudential Reinsurance	83
Pyramid Services Inc.	142
Reliance National	10-11.C3
Resource Information Mgmt. Systems	86
RLI Corp.	71
Russell Miller Inc.	116
Safety Software Inc.	122
Schirmer Engineering	124
Scor Reinsurance	C2,2A/B
Skandia Intl' (Bermuda)	4
Sphere Drake	44
Standard & Poor's Corp.	114
Systematic Business Svcs.	109,111,113,115,117,119
Telos	161
Transamerica Ins. Group	88-89
Universal Management Ltd.	103
U.S. Risk Underwriters	140
Vermont Captive Insurance	31
Vermont Insurance Mgmt.	155
Wausau Insurance Company	5
Willis, Corroon	29,114
Zurich-American Ins. Co.	72-73

Business Insurance

Risk Management Honor Roll

Jerry Newsom

State of Georgia

Government Entity

By STACY GORDON

It's one of those "rainy nights in Georgia."

It is getting late, it's pouring buckets and the driver's windshield wipers fail. He "solves" the problem by tying shoelaces to each wiper so that he and his passenger can manually move the wipers by reaching out of their windows.

Of course, the driver is so busy leaning out the window that he fails to notice that part of the road has been washed away by the heavy rain.

Predictably, the driver sues the state of Georgia for $3 million, alleging that the accident was caused by faulty road design.

In another part of the state, a drawbridge operator routinely lowers his bridge. Unfortunately, he lowers it onto the mast of a fisherman's boat, pushing the mast through the bottom of the hull.

The fisherman is so angry that he chases after the drawbridge operator until a state patrolman intervenes.

"Welcome to the South," says Jerry Newsom, risk management administrator for the state of Georgia, who has the responsibility for preventing claims like these from occurring and for financing the losses that do occur.

Sometimes claims are filed against the state due to the recklessness of citizens, like the imaginative driver, and sometimes the state is sued because of the negligence of its employees, like the careless drawbridge operator, he points out.

"State governments have many more loss exposures than any private industry," Mr. Newsom explains. "A state is like many companies under one umbrella.

"Many private risk managers don't realize the responsibility a government risk manager has on his shoulders. At times it can be very encompassing. This job requires everything I have learned."

Among Mr. Newsom's responsibilities are protecting the state's $9 billion worth of buildings and contents, 18,000 vehicles, 16 oceangoing vessels and 65 aircraft. In addition, Mr. Newsom is the guardian of schools, hospitals, prisons, amusements parks, roads and convention centers.

And, he is responsible for the safety of more than 110,000 employees.

As risk management administrator, Mr. Newsom oversees six funds through which the state finances the majority of its risks through a combination of self-insurance and commercial insurance policies (see story, page 150).

The Department of Administrative Services in general—and Jerry Newsom in particular—is responsible for investigating and adjusting claims that fall under the self-insured portions of the risk financing program, including its self-insured workers compensation program. The responsibility includes performing actuarial studies to make sure that agencies are charged the proper premiums and to ensure that the self-insurance funds are properly financed.

Today, the department processes more than 12,000 claims each year, about 10,000 of which are workers comp claims.

Altogether, state entities are budgeted to pay $49.1 million in premiums to the DOAS during the current fiscal year for self-insured and insured coverage.

Self-funding, including the cost of administering claims, pays off, according to Mr. Newsom. He estimates that commercial insurance for all the state's risks would cost more than $100 million.

Since his appointment as the state's risk manager in 1981, Mr. Newsom has established a self-insurance fund covering the general liability risks faced by the state's 27 "authorities," agencies not covered by state sovereign immunity statutes. In addition, he established a centralized fund that finances state agencies' unemployment insurance expenses and saves about $500,000 per year compared with the former fragmented system.

He also established a novel program that protects foster parents from liability claims stemming from the actions of their foster children (see story, page 152).

"Jerry could have come in and just purchased insurance for the state," says Claude Vickers, director of the fiscal division of the DOAS. "But he has done much more than that. He has set up programs that are actuarially sound and has allowed us to take the fluctuations out of the budgeting process."

Now each state agency can determine in advance how much it will pay in premiums to participate in the self-insurance funds established and managed by Mr. Newsom's department, Mr. Vickers explains.

"I rely almost totally on Jerry and his advice for all of the activities in the risk management program," says Mr. Vickers.

Besides winning the praises of his boss, Mr. Newsom's accomplishments have won him a place on the 1992 *Business Insurance* Risk Management Honor Roll, representing government entities.

Mr. Newsom, who reports directly to Mr. Vickers, oversees a staff of 45—including about 30 claims adjusters—responsible for all risk management activities for the state.

"Jerry is always looking for creative ways to preserve the assets of Georgia," says Dan Houston, vp for Marsh & McLennan Inc., which places a portion of the commercial coverage that the state does purchase.

"He has superior technical expertise and he knows the people in government necessary to aid in effecting change," Mr. Houston says.

Besides the normal responsibilities that go with a top risk management post, Mr. Newsom plays a significant role in seeing that legislation that will help the DOAS protect the state government's property and employees is passed. And, he keeps a

Continued on next page

Photo by Brooke Hummer

Newsom

Continued from previous page
watchful eye out for legislation that can make risk management more difficult.

Each morning when the Georgia Assembly is in session, Mr. Newsom's assistant places a tall stack of newly introduced bills on his desk. Mr. Newsom carefully examines each piece of legislation for its possible impact on the risk management operation.

"It is like a contract. You look at it to see how it impacts on your operations," he explains.

Thanks to his close scrutiny, a bill that would have required the state to provide workers compensation insurance for part-time volunteers working in state parks was amended to make it clear these workers are not considered state employees.

"I have a unique ability to read a bill and spot problems," says Mr. Newsom. "It has become my role to see that problems are solved before the legislation is passed.

"Many times these bills are introduced by people that don't know what risk management is. We have to explain to them what risk management is and how their legislation impacts on risk management. It is very challenging."

Mr. Newsom also promotes legislation that would be beneficial to risk management. For example, he supports legislation now pending in the Georgia Assembly that would, among other things, limit attorneys' compensation in workers comp cases, limit the number of weeks of benefits that could be received by a claimant with a non-catastrophic injury and increase benefits for workers with catastrophic injuries.

"Unless more risk managers and company presidents get involved in the legislative process and get bills passed that are favorable to both employers and employees, the overall costs of workers compensation will continue to increase," Mr. Newsom warns.

"Workers compensation costs are threatening to break companies," he says.

While Mr. Newsom says he enjoys his legislative function, "the bottom line is preserving the state's resources: controlling losses."

To meet this goal, Mr. Newsom has developed in-depth loss control and safety programs.

He expanded field inspection programs so that each state-owned building worth more than $300,000 is inspected annually and all high-risk facilities, like those operated by the Georgia Ports Authority, are inspected twice a year.

The result of this intensive loss control program, which includes a seven-member property inspection staff, has enabled the state to reduce its property loss costs by 20%, he estimates.

While addressing property loss control, Mr. Newsom has not forgotten workplace safety. George Mickle, state safety director, spends his days traveling around the state marketing safety programs to various state entities.

"We cannot tell the agencies what to do," explains Mr. Newsom, who is Mr. Mickle's boss. "George simply goes out and encourages the agencies to use our safety programs."

Among the safety products developed by Mr. Mickle and his staff are 50 safety videos, 747 pre-prepared safety talks and an in-depth driver training program.

And, in March Mr. Mickle helped host "State Employee Safety Awareness Week," which brought together about 35 exhibitors of safety products like safety glasses, ear plugs and pharmaceuticals that do not cause drowsiness.

Some 25 state agencies participated in Safety Week, along with the American Red Cross and the American Lung Assn.

"Employees came from all over the state," says Mr. Mickle.

"We had 10,000 handouts on a table that were all taken away," added Sherry Manning, Mr. Newsom's administrative assistant, who helped coordinate the event.

Among the participants at Safety Week were the state's 228 safety officers and 150 insurance coordinators, all employees of individual state agencies.

The insurance coordinator program is another of Mr. Newsom's creations. Under this program, each state entity appoints one person to act as a liaison with the risk management department.

Before the program was established, nobody in the state agencies "knew something about insurance," says Mr. Newsom.

Today insurance coordinators are responsible for understanding the various insurance coverages purchased by their agency, he explained. Now, someone in each state agency speaks the language of insurance and risk management, Mr. Newsom says. ■

Georgia finances risks through six separate funds

State uses combination of self-funding, commercial insurance to provide coverage to agencies

By STACY GORDON

The state of Georgia's risk financing program is administered through six funds that provide both self-funded and commercially insured coverage to state agencies.

Each state department, agency or authority buys the coverages it deems necessary from the funds, though the Department of Administrative Services—which manages the program—requires all units to buy certain coverages.

There are exceptions to this general rule, though. For example, the property, general liability and workers compensation exposures created by the construction of the Georgia Dome in Atlanta are covered under a separate contractor-controlled wrap-up program (see story, page 152).

Altogether, state entities are budgeted to pay $49.1 million in premiums to the DOAS for self-insured and insured property/casualty coverage in fiscal 1992, which ends June 30. The agency has budgeted for that to rise to $55 million for fiscal 1993.

The following is a breakdown of five of the six funds established by the state. The state's Workers Compensation Fund is covered in a story on page 151.

• State Authority Liability Fund.

This fund provides general liability coverage to state agencies that face third-party liability claims from their operations.

Many "agencies"—like the departments of Human Resources, Transportation and Administrative Services, the agency that operates state prisons, and similar agencies—are considered part of the government and are immune from third-party liability claims under the state sovereign immunity law.

However, the state also has formed 27 state-operated "authorities," which are set up by law as corporations and subject to third-party liability claims. They often operate state facilities that cater to the public, like the Georgia Dome and Stone Mountain Park, a recreational facility near Atlanta, and the World Congress Center, a convention facility in Atlanta.

Whether to establish an agency or an authority is a "political question," explains Jerry Newsom, the state's risk management administrator. "A state agency cannot borrow money, so that is often the reason some entities are made into an authority."

The authorities bought their own liability insurance until 1985, when no liability coverage could be found for the New Georgia Railroad, a train that circles Atlanta that is operated by the Georgia Building Authority.

"The liability coverage for the railroad was canceled a week before the state was supposed to begin running the train," Mr. Newsom explains.

The Georgia Building Authority asked the Department of Administrative Services to set up a fund to provide this insurance, Mr. Newsom recalls.

Other state authorities faced similar problems. The answer was the State Authority Liability Fund, and the results have been outstanding.

"The premiums paid by all of the state authorities are down 56% since 1986," Mr. Newsom says proudly. "And, the limits have increased to $25 million." Before the creation of the fund, the authorities could obtain limits of only $1 million to $5 million, he says.

Currently, the fund self-insures the first $5 million in coverage. Authorities can negotiate their own deductibles within the retention.

Lexington Insurance Co., a unit of American International Group Inc., then provides $20 million in coverage excess of $5 million.

The commercial coverage is brokered by Marsh & McLennan Inc. in Atlanta, which places property/casualty coverage for the state government.

Premiums paid to the fund by individual authorities are based on each authority's loss exposure and loss history. Policies are individually written to fit the coverage needs of each authority.

The DOAS cuts premiums by up to 10% if state authorities implement certain safety programs. Authorities can obtain an additional 10% off their premium by implementing hold-harmless agreements with vendors and others who use state facilities as part of their business.

And, authorities can receive another 5% discount by requiring vendors that use authority property to produce certificates of liability insurance.

This means that an authority like the World Congress Center can save up to 25% of its premium by implementing all of these measures.

However, the premium reductions are worth it from the DOAS' point of view.

Some 1.3 million people displayed their wares in the World Congress Center during calendar year 1990. And from July to December of that year, the center paid out only $3,402 on four claims. And, between July 1990 and July 1991, only 10 claims totaling $10,143 were paid on behalf of the center. There are no outstanding claims.

Risk Management Honor Roll

Authorities do not have to participate in the fund; they can choose to go bare, but none does.

Only the Georgia Ports Authority uses a separate insurance arrangement. Instead of purchasing the excess coverage provided by Lexington, the Ports Authority buys $100 million of liability coverage in the London market excess of $1 million retained by the fund.

Mr. Newsom explains that the Ports Authority goes to London because marine coverage has been very inexpensive in the London market. However, he notes that because prices for marine coverage in the London market are now rising rapidly, the Ports Authority may decide to purchase its excess coverage from Lexington in the near future.

• State Property Fund.

This fund provides buildings and contents coverage and auto physical damage coverages to state entities.

The building and contents coverage is mandatory for all state government units. This policy provides replacement value coverage for all real and personal property destroyed by named perils including fire, lightning, windstorm, earthquake and theft.

The office where the DOAS is located alone is valued at $80 million. The state's 3,000 buildings and their contents are valued at $9 billion.

The policy includes boiler and machinery coverage. And, it provides business interruption coverage to some agencies and authorities, including the Georgia Ports Authority; the World Congress Center; the Georgia Correctional Industries Administration; and the Lake Lanier Authority, the Jekyll Island Authority and the Stone Mountain Authority, all of which operate recreational facilities.

The fund retains $3 million of risk per occurrence/$5 million aggregate for all agencies. Agencies pay a $500 deductible for all perils except mechanical/electrical physical damage, for which there is a $5,000 deductible.

The state purchases excess coverage on a pro-rata basis from several insurers, including National Union Fire Insurance Co. of Pittsburgh, Pa., another AIG unit; The Home Insurance Co.; and and International Insurance Co., a Crum & Forster Inc. unit.

The premium for this coverage in fiscal 1991 was 4 cents per $100 of insured value. However, in fiscal 1992, which began July 1, 1991, the DOAS provided all state entities with free building and contents coverage due to an $18 million surplus in the fund.

"If you let the funds get too large" the federal government could decide the state is hoarding money and cut its payments to the state, Mr. Newsom explains.

There is one other reason the DOAS wants to provide state agencies with free building and contents coverage: the recession, which has pinched state revenues. "In these hard financial times, every little bit helps" individual agencies, Mr. Newsom says.

State agencies also can purchase optional all-risk coverage to insure unique loss exposures that are not covered under the standard building and contents program. Among the risks that can be insured under the all-risk program are aircraft, money and securities losses, fine arts and marine hull risks.

This policy is very flexible so that each agency can tailor it to fit its needs. Items can be insured to replacement value, up to $3 million. The state self-insures the first $100,000 per loss/$500,000 aggregate, after which the excess property coverage kicks in.

The premium for this coverage either is set at 60% of the going rate among commercial insurers or is negotiated between the DOAS and individual agencies. The deductible is normally $100.

State agencies can also purchase optional auto physical damage coverage from the DOAS. The policy covers the repair or replacement cost of all state-owned or long-term leased vehicles.

While the state owns or leases 20,000 vehicles, only 4,000 are insured under this policy because the DOAS does not recommend insuring vehicles valued at $1,000 or less.

"We have a lot of old vehicles," quips Mr. Newsom.

The auto coverage carries a $250 collision deductible and a $100 comprehensive deductible.

The rate for this coverage is $1.60 per $100 of a vehicle's value. Collision coverage accounts for $1 of the rate; comprehensive accounts for the remainder.

The state totally self-insures auto physical damage risks, Mr. Newsom points out. "And, every year we make money on it!"

In fact, one of Mr. Newsom's first acts when he became risk manager was to self-insure auto physical damage risks.

"We were paying $300,000 a year in premiums, but only had $100,000 in losses," he explained. "The decision. . .was pure economics."

• State Liability Fund.

This fund provides four types of coverages: employee broad-form general liability coverage, auto liability coverage, personal vehicle excess liability coverage and fidelity bond coverage.

The employee broad-form general liability coverage, which provides $25 million in limits, protects state employees' personal assets in the event of a lawsuit alleging bodily injury or property damage caused by the negligence of the employee in doing his or her job.

The program includes coverage for medical malpractice, other errors and omissions, and acts by directors and officers of state authorities.

Like the liability fund covering authorities, the State Liability Fund self-insures the first $5 million and purchases $20 million in excess limits from Lexington.

The premium for the full $25 million in coverage ranges from $100 to $332 per budgeted full-time employee, depending upon the exposure each employee presents.

Included in the employee broad-form liability program is a special plan that provides coverage to foster parents (see story, page 152).

State entities must purchase automobile liability coverage from the State Liability Fund. This pol-

Continued on next page

Georgia funds

Continued from previous page
icy protects state employees who operate state-owned or leased vehicles on the job from third-party claims.

The fund purchases $500,000 in first-dollar auto liability coverage from American Southern Insurance Co. of Atlanta under a retrospectively rated program. The state buys primary coverage, rather than self-funding the risk, to take advantage of the insurer's investigative and adjusting services, Mr. Newsom says.

The fund then self-insures the next $4.5 million layer. Lexington then writes $20 million in coverage excess of $5 million.

The premium is set at $233 to $819 per vehicle, based on the agency's loss experience and its exposure to auto accidents.

State employees also can purchase from the fund personal vehicle excess liability insurance, which covers liability claims filed against employees that use their own cars for state business.

Some 4,000 to 5,000 state employees use their own cars for state business, reports Mr. Newsom.

This coverage, which provides $300,000 in limits and is underwritten by American Southern, is excess of the employee's personal auto coverage.

Under Georgia law, all automobile owners are required to purchase at least $15,000 in auto liability insurance. If an employee does not purchase personal auto insurance but does purchase the excess coverage from the fund, the employee is responsible for the first $15,000 of any claim.

The premium for the coverage is $27.50 per worker. Six thousand workers buy the supplemental coverage.

State agencies also can buy fidelity coverage to protect against losses stemming from employee dishonesty or unfaithful performance. The coverage provides limits of $5 million for dishonesty claims and $100,000 for unfaithful performance claims.

The fund self-insures the first $50,000 per incident. Wausau Insurance Cos., a unit of Nationwide Insurance Co., writes $1 million in coverage excess of $50,000, while Westchester Fire Insurance Co. of New York writes another $4 million excess layer.

• State Unemployment Fund.

Each state agency paid its own unemployment claims before the fund was created in 1986. By consolidating all these claims and administering them through the DOAS, the state has been able to significantly reduce its unemployment insurance costs.

"I don't know of any other states that do this," Mr. Newsom says.

Much of the cost savings stem from the fact that agencies paid claims they should not have paid, he said.

For example, under the old system, a state agency often would not adequately investigate whether the person seeking benefits, in fact, had once been a state employee.

And, since each agency formerly was responsible for paying unemployment claims out of its own budget, agencies often ran into financial problems because of the unpredictability of unemployment claims.

For example, if the DOAS lays off 10% of its workers, but then has to pay unemployment benefits, it saves less money than it anticipated.

The ability to pay annual premiums for unemployment insurance helps stabilize each agency's budgetary process, he says.

Another advantage to the centralized system is that Mr. Newsom's department is able to compare all unemployment benefits with workers compensation benefits, so unemployment benefits are not paid to injured workers who are off the job.

Overall, "for the last five years, the state has saved $500,000 per year in unemployment costs," Mr. Newsom says.

The self-insured fund, which currently has reserves of $5.5 million, pays out approximately $3.5 million in claims per year.

Each agency pays a premium to the fund based on the number of employees and the agency's loss history.

This coverage is mandatory for all state agencies.

Under Georgia law, those qualifying for unemployment benefits can receive $165 per week for up to 26 weeks.

• State Indemnification Fund.

This fund provides disability and death benefit payments when certain types of government employees are killed or severely injured in the line of duty.

Workers covered by the fund include law enforcement officers, firefighters, prison guards, emergency medical technicians and other employees in high-risk jobs.

The fund currently covers 60,000 state, county and city employees.

Beneficiaries are eligible for up to $50,000 in periodic benefits or a lump-sum payment of up to $43,485.15. These benefits are paid in addition to any workers compensation benefits.

The benefits are mandated under amendments to the Georgia Constitution, Mr. Newsom says.

The Georgia Assembly appropriates $700,000 each year to pay these benefits.

The risk management department investigates the claims and administers the fund. ■

Photo by Brooke Hummer

Jerry Newsom, Georgia's risk management administrator, kneeling, surrounded by Department of Administrative Services staff members.

State takes high-tech approach to work comp costs

Newsom says RMIS will pay for itself

By STACY GORDON

Jerry Newsom, risk management administrator for the state of Georgia, hopes that high technology can help the state curb workers compensation costs that have doubled in three years.

He has implemented a sophisticated medical claims management software system that he projects will save the state $1 million in workers comp costs per year.

In addition, he hired a registered nurse to help in-house claims adjusters understand complex medical diagnoses and a full-time rehabilitation specialist to help get injured workers back to work.

Georgia self-insures and self-administers the workers comp program covering the state's 110,000 employees. The task is enormous: Each year, about 10,000 workers comp claims are filed, with claims costs totaling about $32 million.

The state's Workers Compensation Fund is one of six largely self-insured funds established by the state Department of Administrative Services to finance the state's risks (see story, page 150).

The state retains the first $5 million of each workers comp claim. Catastrophic excess insurance, with limits of $15 million excess of $5 million, is purchased from National Union Fire Insurance Co. of Pittsburgh, Pa., an American International Group Inc. unit.

Each state entity pays a premium that is 80% based on actual losses and 20% based on its propensity for loss.

For fiscal 1992, which ends on June 30, state agencies were billed $26 million in premiums for workers compensation coverage, or $6 million less than the $32 million in expected claims. Administrative expenses will likely add 3% to 4% to the total, Mr. Newsom says.

The shortfall will be paid out of a $12 million surplus that was in the workers comp fund at the end of fiscal 1991, he explains.

The $32 million in workers comp costs for fiscal 1992 represents more than a 20% increase from the $26.3 million it spent in fiscal 1991, when 9,756 claims were filed. Furthermore, in fiscal 1989, the state paid out only $15 million in workers comp costs for 7,800 claims.

Risk Management Honor Roll

Controlling these soaring costs is the goal of Mr. Newsom and Diane Stephens, who heads the DOAS' workers compensation department. Ms. Stephens reports directly to Mr. Newsom.

One way Mr. Newsom is grounding soaring workers comp costs is by installing a medical claims management program that is part of a newly installed risk management information system designed by Corporate Systems Ltd. of Amarillo, Texas. The system cost about $1 million.

As part of this system, Mr. Newsom purchased a software component called CS Plus Managed Care, Medical Cost Management, which enables the risk management department to analyze the quality, quantity, cost and necessity of medical treatments billed to the Workers Compensation Fund.

For example, the software analyzes each workers comp medical bill against the rigid fee schedule established for all doctors that treat state employees to identify providers who are charging too much for their services.

The program also enables risk management department claims adjusters to avoid paying the same bills twice by identifying similar bills that have already been paid.

And, the program compares the medical diagnosis to the treatment provided. For example, the computer will flag a claim if the diagnosis is for a leg injury and the treatment is for an arm injury.

Finally, the system tracks overutilization. If a single employee has received the same procedure more than once or has undergone a great number of procedures, the system will again flag the claim for attention.

"We will pay for the entire RMIS system in one year due to the cost savings achieved from the medical claims management program alone," Mr. Newsom says proudly.

Another advantage of the RMIS is that it will greatly reduce paperwork for the risk management department and state agencies, he says.

The system enables state agencies to transmit workers comp incident reports and claims files to the risk management department via a statewide computer network.

"Our goal is to achieve a paperless office in one year," Mr. Newsom says.

He also has instituted extensive utilization review procedures in an effort to curb workers comp costs.

In 1989, the state contracted with FORTIS Corp. of Irvine, Calif., to provide hospital precertification review, second surgical opinions, concurrent review and hospital bill auditing.

Use of precertification review alone saved the state $221,188 in 1991, according to FORTIS. FORTIS calculates cost savings by estimating what the state would have paid if procedures rejected by the precertification program had been reimbursed, he says.

Mr. Newsom also has developed a program in which a nurse consultant works with the state's in-house claims adjusters to help them understand complex medical diagnoses and know what questions to ask physicians.

"We get thousands of bills from doctors. Often these bills include terms we have never heard of."

To help solve this problem, Mr. Newsom decided in 1986 to hire a nurse on a part-time basis to help claims adjusters wade through the medical terminology. Today, Melinda Mock works two days a week in the risk management department.

And, six years ago, he hired a full-time medical and vocational rehabilitation supervisor who helps get injured employees back to work.

The rehabilitation supervisor also works with various state agencies to make necessary adjustments to allow injured employees to return to work.

All of these assorted cost control techniques saved the state $1.8 million in workers comp costs in fiscal 1991, Mr. Newsom says. ■

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Photo by Brooke Hummer

Jerry Newsom, left, with his boss, Claude L. Vickers, director of the fiscal division of the state Department of Administrative Services.

State insures foster parents

Protection from third-party claims offered to programs' participants

Georgia foster parents who care for children through state programs receive free liability coverage from the state, protecting the parents from third-party liability claims caused by foster children.

The foster parents insurance program, established in 1988 by Jerry Newsom, Georgia's risk management administrator, is covered under the state's employee broad form liability policy (see story, page 150).

The need for the coverage, which the state partially self-funds, stems from the fact that when foster parents take in a child, they become legally liable for all of the foster child's actions, according to Mr. Newsom.

"It is very hard for the Department of Human Resources to get foster parents, in part, because of the liability," says Mr. Newsom.

"We never want insurance to be a reason not to do something."

When establishing the program, "we tried to locate commercial coverage, but all we could find was $100,000 aggregate for the year," Mr. Newsom recalls.

The state program provides limits of $500,000 per claim. The annual premium of $65 per foster child is paid by the Department of Human Resources.

The coverage is offered until the child is 18 years old.

"Our ability to provide this coverage is just one more incentive to enroll a foster parent," Mr. Newsom says.

Some 8,000 children have been placed with 4,000 foster families covered by this program.

Several incidents already have been covered by the program.

For example, when a foster child set fire to five neighborhood houses, the homeowners sued the foster parent for improper supervision.

The state settled the claims filed against the foster parents for about $110,000, Mr. Newsom says.

In another case, a foster child fell into his foster parents' swimming pool and drowned. The natural parents of the child then sued the foster parents for negligent supervision.

In this case the state paid to successfully defend the foster parents against liability, Mr. Newsom says.

The policy also protects state case workers, who can be sued for placing a child with unsuitable parents. Case workers are not protected by the state's sovereign immunity statutes, explains Mr. Newsom.

—By Stacy Gordon

Contractor's wrap-up covers dome

Newsom wants an owner-controlled program for future projects

By STACY GORDON

A risk management program that includes a contractor-controlled insurance program is helping to ensure that the Georgia Dome opens on time and on budget.

The 20-story, $210 million domed stadium is scheduled to open in August for the beginning of the Atlanta Falcons' football season. It will be the site of National Football League games, events connected with the 1996 Summer Olympics, conferences and exhibitions.

But before the opening kickoff, the state and the dome's general contractor, Atlanta-based Beers Construction, protected the stadium, its owners—and the workers building it—through a contractor-controlled wrap-up program.

Under a contractor-controlled wrap-up program, the contractor is responsible for purchasing the necessary property, liability and workers compensation coverages.

These policies are designed to cover everyone connected with the Georgia Dome, including the Georgia Dome Authority, which will operate the facility.

The general contractor works with its broker, in this case Sedgwick James of Georgia Inc., and Jerry Newsom, risk management administrator for the state of Georgia, in developing the program. Ultimately, though, the decisions are the contractor's.

This type of wrap-up program differs from an owner-controlled wrap-up program, under which the owner of a property under construction places the necessary coverages on behalf of all the contractors and subcontractors. The contractors then deduct the cost of the insurance from their bids.

An owner-controlled wrap-up enables the owner to buy broader and less expensive coverages than individual contractors would be able to buy. With a contractor-controlled program, the owner does not control insurance buying.

"It is like being in the passenger seat of a car; you are not in control," says Mr. Newsom.

At the time the insurance for the Georgia Dome was being arranged, the state Department of Administrative Services, which includes Mr. Newsom's department, did not have authority to create an owner-controlled wrap-up, explained Mr. Newsom. A specific state law must be passed to grant this authority.

Legislation now pending before the Georgia Assembly would give Mr. Newsom the authority to create an owner-controlled wrap-up program in the future.

Risk Management Honor Roll

Mr. Newsom's ultimate goal is to create a "rolling wrap-up" program that would automatically cover all state construction projects.

"A rolling wrap-up remains in place year after year, and we add and subtract risks," he explains. "The premium fluctuates based on the risks under the program."

Because Mr. Newsom, by law, could not create an owner-controlled wrap-up program for the Georgia Dome project, the contractor-controlled wrap-up, he said, was "the next best thing."

An owner-controlled program would have saved more money, but the state estimates that it saved $1 million on construction costs with the contractor-controlled program.

Much of this savings comes from lower retro premiums, says Mr. Newsom, adding that "all of the savings from the wrap-up come back to the state and not to the general contractor."

Using a contractor-controlled wrap-up program also meant the state could not dictate safety measures, Mr. Newsom notes.

"We have much less leverage with a contractor-controlled wrap-up program," he says. "The contractor doesn't have the incentive to reduce losses that the owner has. From a safety standpoint, all we can do is suggest changes. We don't have the authority to stop something if there is a problem."

As a result, insurance companies generally prefer to write owner-controlled wrap-ups than contractor-controlled programs, he says. "It is critical for insurance companies to know that there is a safety program that is being enforced."

To date, the dome construction project has a good safety and loss record, Mr. Newsom says, pointing to a 38% loss ratio for the wrap-up program. "This is really good. A ratio between 60% and 70% is break-even, anything below 60% and you are saving money."

The Georgia's Dome current wrap-up program covers some 82 to 100 contractors that will work on the project until its completion in August, says Thomas Beman, a vp at Sedgwick James.

The wrap-up's workers compensation and general liability coverages are placed with Argonaut Insurance Co., both on a retrospectively rated basis. Excess liability coverage is purchased from Royal Insurance Co. and the London market.

Builders' risk coverage is purchased from Crum & Forster Inc. units.

Despite his role as a "passenger" in the dome's construction, Mr. Newsom was able to make important safety recommendations in the design of the stadium.

For example, once it was discovered that an area of the dome that could be used for exhibitors' displays was not protected by the sprinkler system, Mr. Newsom suggested that four giant water cannons be installed.

These computer-controlled cannons can be directed to squelch a fire in this otherwise unprotected area, explains Richard Beohm, senior risk management consultant and the state official in charge of safety for the Georgia Dome.

Additional fire protection measures enabled the dome to be classified as a highly protected risk.

"Because the dome is used year-round, it greatly increased the risks both from a safety standpoint and a loss control standpoint," Mr. Beohm says. ■

Experience sharpens focus on the future

Newsom anticipates Georgia's needs

By STACY GORDON

Jerry Newsom considers himself something of a soothsayer, predicting the new exposures to be faced by the state of Georgia.

"I really try to be a visionary," says Mr. Newsom. "I need to know what the problems are now and try to see the problems that are coming.

"My role isn't to maintain our programs. I spend my time developing programs."

In identifying risks and developing ways to insure them, Mr. Newsom says he relies heavily on his training and previous experience.

Mr. Newsom, a former Marine, has received both the Associate in Risk Management designation and the Chartered Property & Casualty Underwriter designation. He also has a bachelor's degree in management from Georgia State University in Atlanta.

In developing risk financing programs, Mr. Newsom—who became the state's risk manager in 1981—says he often relies on the financial experience he gained as an accounting officer in the Georgia Department of Administrative Services' fiscal division from 1979 to 1981.

In this position, Mr. Newsom computerized the operations of the state treasury. He also was responsible for allotting funds to state agencies and helped supervise state investments.

In his role as risk manager, Mr. Newsom oversees a staff of 45 people who seem to truly enjoy working with him, partly because of his easy-going management style and because he gives his employees authority.

"Jerry gives us the freedom to do our jobs," says Sherry Manning, his administrative assistant.

In addition, Mr. Newsom has a wonderful sense of humor. In fact, practical jokes are something of the order of the day in the risk management department. Birthdays call for singing telegrams, and once some 60 pizzas were delivered and billed to a birthday celebrant.

Such friendship and camaraderie has engendered strong loyalty in members of Mr. Newsom's staff, many of whom have worked with him for nearly a decade.

While Mr. Newsom's advice is often requested by various state officials, his participation also is sought by Atlanta-area professional organizations. He regularly attends meetings of the Atlanta chapters of the Risk & Insurance Management Society Inc., the Society of Chartered Property & Casualty Underwriters, the Public Risk Management Assn. and the State Risk & Insurance Management Assn.

"Jerry does not join organizations just for the sake of joining," says Dan Houston, a vp of Marsh & McLennan Inc., one of the state's brokers. "Rather people seek him out and ask him to join to gain the benefit of his input."

Mr. Newsom was selected as a member of the insurance committee for the 1988 Democratic National Convention in Atlanta in 1988 and a member of the Risk Management Professionals' Support Group for the 1996 Summer Olympics, which also will be held in Atlanta.

Mr. Newsom is married and lives in Lilburn, Ga., just east of Atlanta. He also has a cabin on nearby Lake Hartwell, where he enjoys bass fishing.

Risk Management Honor Roll

Judith Torneses

Transamerica Corp.

Financial Institution

By JOANNE WOJCIK

Judith Tornese practices what she calls "macro-risk management" at Transamerica Corp.

Like macroeconomics, which deals with the interrelationship of various sectors of the economy, macro-risk management takes into account how insurance and loss control relates to other aspects of the corporation.

As part of this focus on the big picture, Ms. Tornese skillfully sells her risk management philosophy companywide—a delicate task in a decentralized corporation with many diverse units.

"A lot of my function is to make complex insurance issues as simple and easy to understand as possible and then come up with solutions," Ms. Tornese explained.

For example, Transamerica's vp-risk management has implemented a sophisticated cost allocation system. Each subsidiary is assessed for a portion of the cost of the corporation's insurance and self-insured retention, based on its relative risk.

This system helps each unit focus on loss control in addition to equitably distributing the cost of coverage (see story, page 154).

And, having earned the Chartered Property & Casualty Underwriter designation in 1984, Ms. Tornese takes an active role in all facets of insurance negotiations, including determining initial coverage strategy, marketing and placement.

Ms. Tornese's "big picture" view of risk management even has influenced some of Transamerica's business expansion decisions.

For example, an equipment leasing subsidiary decided it could begin leasing tanks for use in shipping hazardous chemicals at minimal risk after consulting with Ms. Tornese and following and building on her risk management suggestions.

But, another unit decided not to purchase a property management firm in the South based in part on her concerns about the firm's potential pollution liability (see story, page 156).

And, recognizing that many components create an effective risk management program, Ms. Tornese has enlisted Transamerica's broker as an active member of her department (see story, page 156).

At San Francisco-based Transamerica, the risk management staff works as a team with Sedgwick James of California Inc., brainstorming ways to improve coverages and loss control.

Meanwhile, to make the risk management program more efficient, Ms. Tornese is overseeing the development of a user-friendly risk management information system. The personal computer-based system will make essential information more readily available to the department (see story, page 157).

As Herb Cunningham, Transamerica Corp.'s first risk manager and Ms. Tornese's mentor, puts it: "Judi plays all of her resources like a piano, and it makes beautiful music."

She innovatively applies the diverse tools of risk management and insurance to provide effective protection for her company and, as a pleasant side-effect, improve its bottom line.

For these accomplishments, Ms. Tornese, 48, was named to the 1992 *Business Insurance* Risk Management Honor Roll representing financial institutions.

Ms. Tornese's exceptional communication skills are perhaps her greatest strength and a major reason her risk management philosophy has spread throughout the diverse group of Transamerica companies, according to her co-workers, staff and superiors.

As risk manager in charge of Transamerica's corporate operations, Ms. Tornese places coverages for all its subsidiaries, which include a life insurance company, a property/casualty insurer, real estate and investment management companies, consumer and commercial finance companies, and a transportation equipment leasing company.

With each of these subsidiaries operating autonomously, coordinating a consolidated insurance and risk management program has proven to be a challenge.

"The subsidiaries are our clients," Ms. Tornese explained. "That's why our approach is a sales approach. We sell and we persuade, but we don't dictate."

Her communication skills make her a very persuasive saleswoman.

"Judi is very good with people," according to Blair C. Pascoe, senior vp responsible for the corporation's treasury, risk management, investor relations and corporate communications functions.

"Her powers of persuasion extend beyond corporate offices out to the subsidiaries," he said. "She commands a lot of respect."

So much respect, in fact, that she was promoted to vp in 1987, 16 years after joining the department as a secretary.

Ms. Tornese credits Maryellen Cattani, a Transamerica executive and general counsel until 1989, as being instrumental in her promotion.

Ms. Cattani, the first woman to be a senior vp at Transamerica, "encouraged the promotion of other women executives to officer levels," she said.

Mr. Pascoe said that Ms. Tornese has earned that respect over the years by demonstrating her ability to translate complex risk management issues into layman's terms.

Ms. Tornese also uses her communication and marketing expertise with underwriters during Transamerica's numerous insurance renewals.

She insists on closely managing the marketing of Transamerica's insurance program, going so far as to negotiate with underwriters herself.

In fact, either Ms. Tornese or Insurance Manager Betsy Ross accompanies brokers from Sedgwick James of California Inc. on coverage placement trips. Those

Continued on next page

Photo by Brooke Hummer

Tornese runs department like a 'mini-insurer'

Transamerica's allocation system provides extensive data to underwriters

By JOANNE WOJCIK

Transamerica Corp.'s insurance fee allocation system has helped its risk management department keep close tabs on subsidiary losses as well as encourage loss control efforts.

The system, implemented by Judith Tornese, vp-risk management, when she was a risk management analyst in 1976, also enables her to provide extensive data to insurers when negotiating coverage placements.

"Transamerica's risk management department operates like a mini-insurance company," Ms. Tornese explained.

Much like an insurer that purchases reinsurance and retains a net line, the department purchases insurance with large self-insured retentions and then allocates retentions and premiums to subsidiaries based on their individual loss experience and exposures.

Subsidiaries with high workers compensation losses pay more than units with better records, explained Betsy Ross, the insurance manager responsible for administering the system.

Unlike an insurance company, however, "our objective is to break even—not to make a profit," Ms. Tornese noted. And, thus far, Transamerica's risk management department has kept pretty close to its budget.

Risk Management Honor Roll

Over the years, some subsidiaries have challenged the system. But, Ms. Tornese has justified it by showing subsidiaries how much more they would pay for insurance had they purchased it themselves.

"We try to be as fair and equitable as possible with all subsidiaries to maintain our credibility," she said.

Winning over the subsidiaries "took a few years," she admitted. "And I still get questions. But now the questions are friendly questions."

The allocation process begins by having all major subsidiaries complete a risk management questionnaire by Oct. 15 of each year.

They are asked for information like property values and losses as of Sept. 30. Subsidiaries also must complete a separate questionnaire on property replacement costs for items with original values of $50,000 or more.

The questionnaires to subsidiaries also seek information on, among other things, the number of people handling money, annual revenues, the percentage of interest the subsidiaries have in joint ventures, the number of foreign countries in which the subsidiary has operations and payroll.

'We try to be as fair and equitable as possible with all subsidiaries to maintain our credibility,' Ms. Tornese says. Winning over the subsidiaries 'took a few years. And I still get questions. But now the questions are friendly questions.'

This data is then loaded into Transamerica Corp.'s mainframe-based risk management information system, which is being converted into a personal computer-based system (see story, page 157).

Separate formulas are used to calculate premiums for each type of coverage. The system factors in an experience charge based on each subsidiary's last three years of losses, but it does not factor in the portion of any paid claim exceeding $25,000.

Recent experience is weighted more heavily. For example, when calculating 1992 premiums, 1991 experience was weighted at 50%, 1990 experience at 30% and 1989 at 20%.

The allocation system also incorporates a trend factor that takes into account inflationary pressures on losses, incurred-but-not-reported losses, loss control incentives and efforts in various states to increase workers compensation benefits.

For example, if labor groups in a certain state are lobbying for higher disability benefits for injured workers, the allocation system would estimate how much those additional benefits would likely increase workers comp premiums.

The allocation system also incorporates a catastrophe charge for those subsidiaries that have unique exposures, like transportation equipment, which could pose a pollution risk.

The system has been helpful in encouraging subsidiaries' loss control efforts, according to Ms. Tornese.

"Any risk management cost allocation system should intend to create risk awareness at all management levels" so problems can be isolated and solved, Ms. Tornese said.

For example, she cited one of Transamerica's Southern operations that had a high level of workers compensation claims. "When they saw their work comp fee increase substantially as a result of of their own loss experience—the losses being charged back to them—it really got their attention," according to Ms. Tornese.

The operation also had the opportunity to review its loss report every month so that it could see where those losses were occurring.

In addition, John F. Carlson Jr., director of claims and loss control, recommended that the operation hire a loss control manager, who instituted a program focusing on areas that needed the most improvement, like heavy lifting and driver safety.

Transamerica's fee allocation system also has proved helpful in coverage negotiations.

"We usually have far more information than underwriters are used to getting from a company this size," says Ms. Ross, who often accompanies Ms. Tornese when negotiating coverage. ■

Tornese

Continued from previous page

trips include London, where Ms. Tornese or Ms. Ross accompanies Transamerica's broker to negotiations with underwriters at Lloyd's of London syndicates.

But before they set out on those trips, Ms. Tornese and her staff hold a brainstorming session with Sedgwick James Vp Jim Bridgeman and Senior Vp Ron Massa. Their goal: to explore every possible opportunity to improve Transamerica's coverage.

"Next comes interviews with key underwriters. Brokers, as risk management team members, provide expertise and contacts as appropriate," while Ms. Tornese and her staff "provide authoritative information about risk exposures and company policy," Mr. Bridgeman explained in the petition nominating Ms. Tornese for the Risk Manager of the Year award.

By negotiating directly with underwriters, Transamerica's risk management department also is able to "speak directly to policy wording issues in terms of why certain provisions are necessary and how they apply to Transamerica's risk exposures," Mr. Bridgeman wrote.

Ms. Tornese's insistence on a closely managed marketing process has enabled her to assemble some of the most comprehensive coverage for Transamerica's group of companies—over half of which provide insurance services themselves—at the least cost possible, Mr. Bridgeman noted.

Ms. Tornese's knowledge of underwriting also is invaluable in her role as president of Transamerica's captive, Pyramid Insurance Co. of Bermuda Ltd. The captive reinsures Transamerica's first layer of general liability coverage, writes $10 million of excess liability coverage and reinsures most of its workers compensation coverage (see story, page 155).

"She understands clearly the exposures involved in underwriting and can communicate effectively with underwriting managers," Mr. Bridgeman said.

She also uses her underwriting expertise when assessing risk retention and in structuring reinsurance support, he said. ■

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Tornese looks to alternative markets for coverage

But Transamerica maintains lasting relationships with underwriters

By JOANNE WOJCIK

Transamerica Corp. was involved in financial reinsurance long before it was in vogue.

In 1979, the risk management department negotiated a funding arrangement with Swiss Reinsurance Co. and Zurich Insurance Co. to reinsure part of Transamerica's $10 million of excess liability coverage underwritten by its captive.

The captive, Pyramid Insurance Co. of Bermuda Ltd., writes the liability coverage above a $1 million self-insured retention.

However, in situations where Transamerica has to provide evidence of insurance, subsidiary Transamerica Insurance Co. provides a $1 million primary liability policy.

The first $5 million layer of the excess liability coverage written by Pyramid is 100% reinsured by Swiss Re and Zurich on a 50/50 basis through a funding arrangement under which Transamerica makes annual contributions to cover expected losses over a five-year period.

If losses exceed the amount set aside in the fund to pay claims, Transamerica makes up the difference and pays interest on that amount at the U.S. Treasury bill rate.

But, if the fund exceeds the amount needed to pay claims, Transamerica is credited with the excess plus interest at the T-bill rate, explained Judith Tornese, vp-risk management.

"You can call it a type of spread-loss plan," she said.

On the next $5 million reinsurance layer, the first transfer-of-risk layer, Transamerica has negotiated a five-year facultative program with American Re-Insurance Co., to which the captive cedes 100% of the risk.

This long-term arrangement reflects Ms. Tornese's desire to maintain enduring relationships with all of Transamerica's insurers and reinsurers, "as long as we're treated fairly and the service and premium are competitive over the long term," she said.

Transamerica has bought coverage from the same property underwriter for 20 years, the same directors and officers liability underwriter for 17 years and the same fidelity insurers for nine years.

Above the $10 million excess liability layer written by the captive, Transamerica purchases $40 million in coverage written by various insurers:

- Industrial Insurance Co. of Hawaii Ltd., a Crum & Forster Inc. unit, which writes a $5 million layer excess of the first $10 million layer.
- Royal Surplus Lines Insurance Co., a unit of Royal Insurance P.L.C., and Insurance Co. of the State of Pennsylvania, an American International Group Inc. unit, which share the next $20 million layer.
- Federal Insurance Co., a Chubb Corp. unit, which writes a $15 million layer excess of $35 million.

X.L. Insurance Co. and ACE Ltd., both of Bermuda, write high excess coverage for Transamerica, but Ms. Tornese declined to divulge the limits.

Additional Transamerica coverages include:

- $51.5 million of leased equipment contingent liability coverage, which also covers sudden and accidental pollution incidents for its Transamerica Leasing Inc. unit. There is a $2,500 deductible per occurrence for general liability losses and a $5,000 deductible per occurrence for cargo liability losses (see story, page 156).

The ACE and X.L. coverage attaches over these limits.

- $400 million of all-risk property coverage, which includes a $75 million sublimit for losses from an earthquake or a flood.

Risk Management Honor Roll

The first $10 million layer of the all-risk property coverage is underwritten by syndicates at Lloyd's of London. Aetna Casualty & Surety Co., AIG's National Union Fire Insurance Co. of Pittsburgh, Pa., and Lloyd's syndicates write the next $15 million layer.

A $50 million layer excess of $25 million is written on a quota-share basis by Fireman's Fund Insurance Co., an Allianz A.G. Holding unit; Aetna; Navigators Insurance Co.; Lexington Insurance Co., an AIG unit; Marine Office of America Corp.; Industrial Indemnity Co., a Crum & Forster unit; and New York Marine & General Insurance Co.

Federal and New York Marine & General write the next $25 million layer excess of $75 million on a quota-share basis.

A $100 million layer excess of $100 million is written, also on a quota-share basis, by Fireman's Fund; ITT/Hartford Group Inc.; Transamerica Insurance Co.; and Great American Insurance Co., an American Financial Corp. unit.

Hartford and Federal write the next layer—$100 million excess of $200 million—on a quota-share basis. Fireman's Fund then writes the $100 million layer excess of $300 million.

- $500,000 of workers compensation coverage per accident under a fronting arrangement with Transamerica Insurance in all states except California and those with monopolistic state workers comp funds.

Transamerica Insurance cedes the coverage to Pyramid, which retains 100% of the risk.

General Reinsurance Corp. writes $5 million of excess coverage, except in California and states with monopolistic funds, and Transamerica Insurance provides statutory excess coverage above that layer.

Transamerica is a qualified self-insurer for its primary workers comp exposure in California. It retains $500,000 of its California risks, while General Re writes $10 million in excess workers comp coverage. Fireman's Fund writes coverage to statutory limits above the General Re coverage.

- $40 million of crime/fidelity bond insurance, which includes coverage for the insurance companies' agency force.

Retentions for this risk vary by corporate unit, with Transamerica Life Insurance Co. maintaining a $3 million per-loss retention, Transamerica Commercial Finance Corp. and subsidiaries retaining $2 million per loss and all other subsidiaries retaining $1 million per loss.

The first $25 million layer excess of the retentions is underwritten by Lloyd's syndicates. National Union writes a $15 million layer excess of $25 million.

- $55 million of corporate D&O limits over a $5 million retention, and $65 million of personal D&O limits, with no deductible.

Lloyd's syndicates write $10 million of corporate D&O limits excess of the $5 million SIR, National Union writes a $25 million layer excess of $15 million, Chubb writes the next $10 million layer, and Lloyd's syndicates write the final $10 million layer.

Corporate Officers & Directors Assurance Ltd. of Bermuda writes the first $5 million of personal D&O limits.

Lloyd's syndicates write a $10 million layer excess of $5 million, and National Union writes a $25 million layer excess of $15 million.

Chubb Corp. then writes a $10 million layer excess of $40 million, Lloyd's syndicates write a $10 million layer excess of $50 million, and CODA writes the top $5 million layer excess of $60 million.

- $25 million of E&O coverage above a $5 million retention for large subsidiaries and a $2 million retention for smaller units.

The first $10 million of coverage for larger units is written by Reliance Insurance Co., with $15 million excess of $10 million written by syndicates at Lloyd's.

- $20 million of fiduciary liability coverage from National Union above a $40,000 retention.
- $200 million of aviation liability coverage written by Lloyd's syndicates to respond to product liability or non-owned aircraft liability losses related to aircraft sold by Transamerica Airlines when it discontinued operations in September 1986.

Transamerica also has $25 million of personal injury liability coverage, written by syndicates at Lloyd's, that would respond to product liability claims arising from losses associated with the aircraft. ■

Photo by Brooke Hummer

Judith Tornese, Transamerica Corp.'s vp-risk management, repo[illegible] to Senior Vp Blair C. Pascoe.

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Risk manager's suggestions influence business strategies

Tornese's advice valued by execs

By JOANNE WOJCIK

She doesn't have the final word, but Judith Tornese influences some business decisions made by Transamerica Corp.'s top corporate and subsidiary management.

For example, Ms. Tornese, vp-risk management, analyzed the risks inherent in leasing tank containers used for transporting hazardous liquids, then assembled a manuscript equipment contingent liability insurance policy to enable Transamerica Leasing Inc. to become a major player in the tank container leasing business.

In addition, a real estate subsidiary shelved its idea of purchasing a Southern property management company after Ms. Tornese raised concerns over possible environmental pollution liabilities.

And, her recommendation that the company participate in the formation of an offshore excess liability insurer turned into a profitable investment, demonstrating that not only can risk management save money, it can make money, too.

Ms. Tornese was consulted when Transamerica Leasing, the world's second-largest lessor of intermodal transportation equipment—which is used to ship goods on various types of carriers—was deciding whether to expand into the mobile tank container leasing business.

The subsidiary leases and manages this equipment for railroads, steamship lines and motor carriers around the world.

As part of Transamerica Leasing's expansion plans, it was considering purchasing tank containers to carry liquid products, some of which are hazardous.

"However, they were very concerned about the pollution exposure and insurance availability," Ms. Tornese recounted.

After researching the insurance market, Ms. Tornese sent a letter to the leasing company's president suggesting that it go ahead with its expansion plans as long as it implemented certain loss control measures, including:

- Selecting financially sound lessees.
- Requiring lessees to purchase broad liability insurance that covers pollution exposures and names Transamerica Leasing as an additional insured.
- Monitoring compliance with insurance requirements.

Transamerica Leasing followed Ms. Tornese's suggestions and went a step further, instituting a loss control plan that included the additional safeguards of, among other things, advising employees worldwide to report accidents as soon as they occur and monitoring major intermodal tank container accidents worldwide.

Transamerica Leasing also has set strict and elaborate quality control standards and manufacturing specifications to be used by the companies from which it purchases tank containers, she said.

Ms. Tornese also worked with her broker, Sedgwick James of California Inc. in San Francisco, to develop a leased equipment contingent liability policy with Lloyd's of London underwriters.

Risk Management Honor Roll

The three-year program provides Transamerica Leasing $51.5 million of liability coverage, including coverage for sudden and accidental pollution incidents. There is a $2,500 deductible per occurrence for general liability losses and a $5,000 deductible per occurrence for cargo liability losses.

Both ACE Ltd. and X.L. Insurance Co. Ltd. of Bermuda write liability insurance excess of the contingent liability policy that provides coverage for unexpected and unintended pollution.

Following these precautions, the subsidiary purchased several hundred new tanks in 1990 and acquired 500 used tank containers in 1991. It also consulted Ms. Tornese on the purchase agreements, which she reviewed to ensure that Transamerica Leasing and its parent company were adequately shielded from liability.

Since the October 1990 inception of the operation, Transamerica Leasing has not experienced any losses. It has increased the number of tank containers available for lease to 1,200, making it the No. 7 supplier out of 24 in the industry, said Ms. Tornese.

While the first two years of tank container leasing revenues were modest, "we are forecasting a four-fold increase in revenue for 1992 over 1991," said Dennis Kenney, senior vp and general counsel for Transamerica Leasing.

Ms. Tornese's ability to assemble a risk management program to respond to the losses that Transamerica Leasing might experience demonstrates how risk management can be applied to other corporate decision making besides insurance purchases.

"From that standpoint, you may call me a financial manager in addition to a risk manager," she said.

And her colleagues apparently agreed; shortly afterward she was consulted on a potential acquisition involving Transamerica's real estate management unit.

The subsidiary was contemplating purchasing a property management firm in the South.

However, after Ms. Tornese reviewed the draft of the purchase agreement, she suggested the unit consider potential environmental liabilities that Transamerica might assume.

For example, she warned that the property management firm may be concealing some past environmental liabilities—for improper waste disposal, for example—related to some properties that it managed.

So "we suggested that in their due diligence procedures that they check to what extent this potential acquisition could be held liable for the environmental exposures of its clients," she said.

The acquisition was never completed. "Apparently, my input helped them decide not to make this purchase," she said.

Ms. Tornese also unwittingly acted as a kind of investment counselor in 1986 when she persuaded Transamerica Corp.'s board to become one of the policyholder-owners of X.L., formed to write high-layer excess liability, directors and officers liability, and errors and omission coverage.

Ms. Tornese investigated the project and wrote many memos to her superiors recommending that the company participate.

Ms. Tornese maintains that her intention was to ensure that Transamerica would have adequate liability coverage should the market harden as it did in the mid-1980s.

"It was not intended to be a financial investment; it was an insurance alternative," she said.

Little did Ms. Tornese know how profitable Transamerica's X.L. involvement would become.

"Judi acted as an investment officer" in addition to being a risk manager when she urged the company to become one of the 66 initial sponsors of X.L., said Blair C. Pascoe, senior vp responsible for the treasury, risk management, investor relations and corporate communications functions.

Cayman Islands-based EXEL Ltd. last year embarked on an initial public offering of 10.1 million shares, which initially were valued at $25 per share (see story, page 48). EXEL shares were trading at $35.25 last week.

Transamerica now holds 500,000 shares and 175,000 options. ■

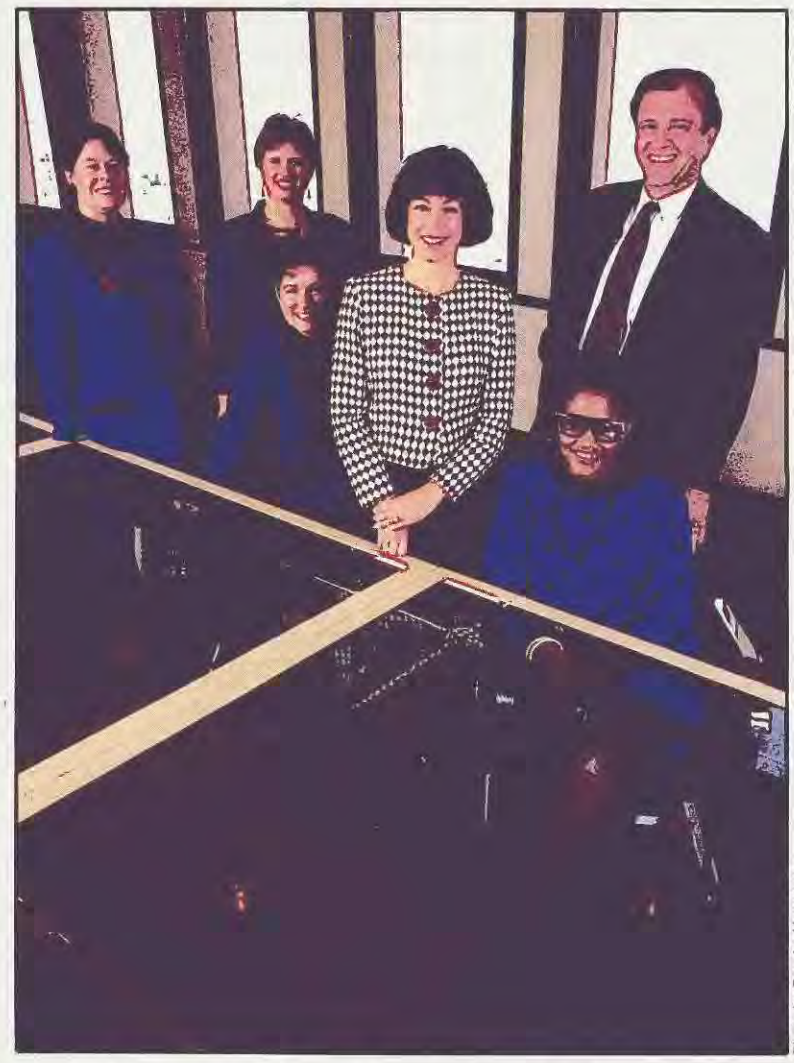

Photo by Brooke Hummer

Judith Tornese, third from right, and her staff, from left: Velma Kingsbury, Sally Heise, Betsy Ross, Jack Carlson and Joan King.

Tornese, broker work as team

Ties to Sedgwick date back to '78

Judith Tornese works in partnership with Transamerica Corp.'s broker, Sedgwick James of California Inc., using its services not only to place coverages, but also as an extension of her department.

In addition to providing brokerage services, Sedgwick serves as the manager of Transamerica's captive, Pyramid Insurance Co. of Bermuda Ltd. The captive reinsures Transamerica's first layer of general liability coverage, writes $10 million of excess liability coverage and reinsures most of its workers compensation coverage (see story, page 155).

The broker also helps assemble the underwriting information needed for coverage placements and provides actuarial services to calculate incurred-but-not-reported loss reserves for the corporation's self-insured retentions.

"We don't have enough people in-house to handle all of the administration, so we use them to provide resources to our small staff," explained Judith Tornese, vp-risk management.

Transamerica's corporate risk management department has just six employees, including Ms. Tornese and a part-time word processor. As a result, Sedgwick is "part of the team," Ms. Tornese said.

In fact, either Ms. Tornese or Insurance Manager Betsy Ross travels with Sedgwick brokers on coverage placement trips, working together to negotiate coverages directly with underwriters both in the United States and overseas.

"It's not that we accompany them or that they accompany us—we go as a team to visit our major primary underwriters," Ms. Tornese stressed.

Transamerica's relationship with its broker dates back to 1978, when Ms. Tornese, then insurance manager, began working with Jim Bridgeman, now a Sedgwick James vp, while he was with broker Dinner Levison in San Francisco.

Mr. Bridgeman remained on the Transamerica account after Dinner Levison was acquired in 1985 by Fred. S. James & Co. Inc., which at the time was a Transamerica unit. And since Sedgwick Group P.L.C.'s 1985 acquisition of James, Ms. Tornese, Ms. Ross and Mr. Bridgeman have continued to be a closely knit team that now includes Ron Massa, a senior vp with Sedgwick James in San Francisco.

Mr. Bridgeman handles the casualty side of the account, while Mr. Massa handles property and crime and fidelity coverages.

But, these long-term ties are not directly related to the fact that Transamerica has retained a 25% share of Sedgwick Group since it sold James to the London brokerage in 1985, said Ms. Tornese.

"We still would use Sedgwick even if there were no investment. We have the latitude to use another broker, but there's no need because Sedgwick can do the job as well as, if not better than, the competition." ■

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Tornese's energetic pace keeps her a step ahead

By JOANNE WOJCIK

Judith Tornese provides the spark that energizes Transamerica Corp.'s corporate risk management department.

Like a pace setter leading a footrace, Ms. Tornese, vp-risk management, sets the momentum for her six-person department, which oversees insurance and loss control for Transamerica Corp.'s numerous subsidiaries.

John F. Carlson, director of claims and loss control, Betsy A. Ross, insurance manager, Sally M. Heise, workers compensation and systems manager, Joan King, risk management analyst, and Velma Kingsbury, a part-time word processor, work together like a well-oiled machine, churning out information that Ms. Tornese assembles, translates and communicates to her supervisors.

But the relatively small size of Transamerica Corp.'s risk management department is not out of line with the size of the corporate executive staff as a whole, she points out. Reflecting the shape of the company's headquarters pyramid, just 90 executives head this $32 billion diversified financial services company, which employs about 17,000 workers worldwide.

Risk Management Honor Roll

Jim Bridgeman, a vp in the San Francisco office of broker Sedgwick James Inc., describes Ms. Tornese's energy level best when recalling his business trips with her: "A week on the road with Judi is like running three marathons back-to-back. It's a recipe for exhaustion."

Indeed, when traveling to Europe to assist Sedgwick brokers in negotiating Transamerica Corp.'s coverage with Lloyd's of London underwriters, Ms. Tornese packs as many appointments as she can into a single day.

Ms. Tornese's perseverance is most apparent when she is confronted with obstacles, like a difficult placement, according to Mr. Bridgeman. "Judi has never met a premium increase that she liked."

Ms. Tornese also is always a step ahead of her superiors, anticipating their needs, according to Blair C. Pascoe, senior vp responsible for the corporation's treasury, risk management, investor relations and corporate communications functions, and Ms. Tornese's immediate supervisor.

"If I'm ever wondering about one of Transamerica's coverages, I can call Judi up and she has the answer before I've even asked the question," he said.

According to Ms. Tornese, fulfilling such needs is all in a typical 10-hour day's work. "My job is to make the jobs of my higher-ups easier."

Ms. Tornese has always met the classic definition of a self-starter, according to Herb Cunningham, a former Transamerica risk manager and Ms. Tornese's mentor.

Shortly after she began working as secretary to the risk management department 20 years ago, Ms. Tornese demonstrated her willingness to go the extra mile when she answered subsidiaries' inquiries herself, anticipating Mr. Cunningham's responses.

"She's a classic example of hiring really good people and leaving them alone to do their own thing," he said.

To further her career in risk management, Ms. Tornese completed the 10 classes leading to the Chartered Property & Casualty Underwriter designation in 1984.

She also is an active participant in the risk management council of the Manufacturers' Alliance for Productivity & Innovation Inc., a Washington, D.C.-based group that fosters professional development.

And Ms. Tornese served for three years as a member of the Earthquake Insurance and Recovery Finance Committee of the Seismic Safety Commission for the state of California. That committee produced a report addressing earthquake loss financing that the state Legislature used in drafting California's new Residential Earthquake Insurance Program.

"I think you can never get enough education in your field, especially with the insurance industry changing so much every day," she observed.

Ms. Tornese also uses her leisure time for self-improvement.

Whenever they get a week off, Ms. Tornese and her husband, Jerry Winters, hop a plane to some exotic destination where they can explore native cultures and people with the same intensity that she applies to her profession. ■

A shaky reminder of the need for a disaster recovery plan

By JOANNE WOJCIK

Judi Tornese was putting the finishing touches on a report detailing Transamerica Corp.'s earthquake exposures at 5:04 p.m. on Oct. 17, 1989, when the office began to shake.

Like most Californians, she initially thought it was just another minor tremor. But when the movement persisted, she ducked under a desk to protect herself from flying debris.

"Instead of writing about an earthquake, I was in one," she recalled.

The timing of the 1989 quake helped keep Transamerica's attention focused on Ms. Tornese's loss control message: Her earthquake report was moved to first on the agenda from last at the Transamerica Corp. board meeting the following week.

"Before a disaster, it usually gets a low priority. But after it happens, it gets high visibility," she explained.

That's precisely why "you have to make the most of the piqued interest after a disaster," she stressed. "The survival of the company could be dependent on your post-disaster recovery actions."

Ms. Tornese's report provided loss estimates for Transamerica properties and operations in the event of an earthquake measuring 8.25 on the Richter scale, slightly less than the 8.3 magnitude of the devastating 1906 earthquake in San Francisco. The 1989 quake registered 7.1.

The loss calculation used in Ms. Tornese's report was based on the average probable maximum property loss that would be experienced by nine out of 10 buildings in a given earthquake building class within a specified earthquake zone.

Some of the information used to calculate the maximum losses was derived from periodic surveys of Transamerica properties done by EQE Inc., a San Francisco Bay-area earthquake engineering firm. Ms. Tornese also surveyed subsidiaries and consulted the California Department of Insurance and earthquake experts throughout the United States.

Also estimated were the earthquake exposures of Transamerica's insurance subsidiaries. Those subsidiaries could see quake-related losses like:

- Life insurance policyholder deaths.
- Homeowner damage claims filed under earthquake riders.
- Worker injury or death claims filed by workers comp policyholders.

Transamerica emerged from the October 1989 quake with no property damage or business interruption losses.

But, since then, all of its California operations have instituted disaster recovery plans, many of which have been tested through drills.

That effort predates the earthquake. Earlier in 1989, James Harvey, then chief executive officer and now chairman, sent memos to Transamerica Corp.'s subsidiaries recommending that they develop business recovery plans to use in the event of a disaster or crisis.

As part of the corporate headquarters disaster recovery plan, Ms. Tornese established an alternate communication plan for executives and employees.

Because local telephone communication was blocked in favor of outgoing long-distance calls in the aftermath of the 1989 earthquake, Ms. Tornese arranged for Transamerica personnel to communicate with each other via a long-distance voice mail system.

As an additional precaution, Transamerica in 1991 installed in its Pyramid building a separate network of phone lines as a backup to the existing phone network. The new lines emanate from a different central office of the local phone company. ■

Developing a user-friendly RMIS

PC-based system is custom-made

Transamerica Corp.'s new risk management information system reflects the highly developed communication skills of the company's risk manager, Judith Tornese.

For example, while most systems require users to sift through multiple menus to retrieve information, Transamerica's new personal computer-based RMIS will be so user-friendly that it will respond directly to inquiries made "with the press of a button," says Sally M. Heise, workers compensation and systems manager in Transamerica's risk management department. Ms. Heise heads the RMIS project.

Three 16-year-old mainframe-based systems will be replaced with one integrated PC-based system that will be used to manage claims, keep track of corporate property values and administer the fee allocation system (see story, page 154).

"With a mainframe, you don't have access to information instantaneously," said Ms. Tornese, vp-risk management. "You can't just press a button and say, 'Sort it out for me and print it.' "

But with Transamerica's new RMIS, "if you want to know how many claims you have in Texas," for example, you just select the question from a menu of inquiries and "here's how many claims you have in Texas," Ms. Tornese said.

Ms. Heise is working with Dimensions in Computing, a Mill Valley, Calif.-based programming firm, in designing and implementing the Transamerica Risk Management Information System—or TARMIS—which the company will own. The system will cost between $90,000 and $100,000.

The system runs on an IBM PS2 network, with claims people in the field using Compaq laptop computers. The field computers will connect to the on-line system via telephone modems.

Since Jan. 1, Ms. Heise has been conducting "parallel testing," or running the old RMIS on Transamerica's mainframe system while simultaneously operating the new PC-based system to check that all information has been transferred and that the new system is operating properly.

When the conversion is completed, TARMIS will contain 17 years of Transamerica's claims experience, plus all of Transamerica's fee allocation system and property value information.

The new PC-based system is expected to be fully operational by midyear.

In the meantime, Ms. Heise is working on lining up software to, among other things, more quickly answer questions.

For example, an off-the-shelf software package called "Forest and Trees" will enable the user to request information in 208 different subject areas and still get a rapid response.

So, if Ms. Tornese were to ask TARMIS, "How many claims were handled by law firm such-and-such?" the system would weed through the forest of information in its program and find the answer, Ms. Heise explained.

The software is designed by Channel Computing Inc. of Newmarket, N.H.

—By Joanne Wojcik

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10 independent judges select '92 Risk Manager of the Year

Leaders in risk management and commercial insurance selected the 1992 *Business Insurance* Risk Manager of the Year and Risk Management Honor Roll.

The 10 independent judges for the 1992 award, the 15th to be awarded by *Business Insurance*, were:

- Donald D. Batchelor, risk manager for Union Planters Corp. in Memphis, Tenn. Mr. Batchelor was named to the 1991 Risk Management Honor Roll representing financial institutions.
- Percy Chubb III, vice chairman of Chubb Corp. in Warren, N.J. Mr. Chubb is serving on the panel for the first time, representing a stock insurance company.
- Arnold L. Davenport, vp-risk management for Marriott Corp. in Bethesda, Md., and the 1991 Risk Manager of the Year.
- Mary L. DeCampli-Stewart, risk manager for the Metropolitan Washington Airports Authority in Washington, D.C. Ms. DeCampli-Stewart was named to the 1991 Risk Management Honor Roll, representing government entities.
- Larry D. Gaunt, professor of risk management and insurance in the College of Business Administration at Georgia State University in Atlanta. Mr. Gaunt, serving on the panel for a second year, represents the academic community.
- H. Felix Kloman, a vp and principal with Tillinghast, a division of Towers, Perrin, Forster & Crosby Inc. in Stamford, Conn. Mr. Kloman, also in his second year on the panel, represents risk management consultants.
- John A. Kohler, chairman of Brandow Howard Kohler & Rosenbloom Inc. in Minneapolis. Mr. Kohler, serving on the panel for the first time, represents regional insurance brokerages.
- Edward K. Trowbridge, chairman and chief executive officer of Atlantic Mutual Cos. in New York. Mr. Trowbridge is serving on the panel for a second year, representing mutual insurers.
- Rod Umscheid, risk management director for the University of California in Berkeley. Mr. Umscheid was a member of the 1991 Risk Management Honor Roll, representing non-profit entities.
- J. Bransford Wallace, executive chairman of the Willis Corroon division of Willis Corroon P.L.C. in Nashville, Tenn. Mr. Wallace is serving on the panel for the first time, representing national insurance brokerages.

Created by *Business Insurance* in 1977 on the 10th anniversary of its founding, the Risk Manager of the Year Award is designed to honor outstanding professionals in the field of risk management.

The Risk Management Honor Roll was created in 1981 to recognize excellence in different types of organizations.

Candidates are scored based on 10 criteria:

- Established and implemented an effective risk management program within the organization.
- Solved one or more major problems for his or her organization.
- Innovatively applies the diverse tools of risk management and insurance.
- Creatively and effectively uses the insurance markets to structure an insurance program that serves the needs of the organization.
- Established a workable intelligence system inside and outside the organization, culminating in a flow of information about events and activities that affect the organization's risk management and insurance.
- Skillfully performs the functions of management in the overall organization and within the risk management/insurance department.
- Achieves the most effective program at the optimum cost over the long term.
- Developed technical expertise in any or all of the broad categories included within risk management, leading to a better managerial grasp of the operations aspects of the job.
- Exhibits an attitude and performs activities fostering the advancement of the risk management profession.
- Develops in his or her career.

The highest scoring candidate is selected as the Risk Manager of the Year.

The remaining candidates then are separated by employment categories: corporations with sales exceeding $300 million; corporations with sales of less than $300 million; government entities; tax-exempt or non-profit entities; financial institutions; and self-insurance funds and pools.

The highest-scoring candidate in each of the categories not represented by the Risk Manager of the Year is named to the Risk Management Honor Roll, subject to the judges' discretion.

To nominate a candidate for the 1993 Risk Manager of the Year award, request a nominating form by writing to *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611.

A candidate can be nominated by anyone familiar with the candidate's work. A candidate need not handle risk management functions full time, but he or she must be a full-time employee of the organization for which he or she directs the risk management program. ■

Risk Managers of the Year

Arnold L. Davenport
Vp-Risk Management
Marriott Corp.

Stephen M. Wilder
Director of Corporate Risk Management
The Walt Disney Co.

Jeffrey W. Pettegrew
Risk Manager and Chief Administrative Officer
Contra Costa County Municipal Risk Management Insurance Authority

William L. Mather
Administrator of Risk Management
The Gillette Co.

Edith F. Lichota
Senior Vp
rving Trust Co.

Donald Nelson
Director of Risk Management
AFA Services Inc.

Harold C. Lang
Director of Insurance and Risk Management
Leaseway Transportation Corp.

Richard M. Inserra
Director of Insurance and Risk Management
American Can Co.

John A. O'Connell
Executive Director and Risk Manager
Holy Cross Shared Services Inc.

Eckart Russell
Risk and Insurance Manager
Alcan Aluminium Ltd.

Duane E. Allen
Assistant Treasurer
Hanna Mining Co.

Thomas V. Hallett
Risk Manager
General Motors Corp.

Edward L. Erickson
Director of Insurance
American Broadcasting Cos. Inc.

Howard T. Weber
Director of Insurance
Minnesota Mining & Manufacturing Co.

GRAPHIC BY KIMBERLY MART

Risk Management Honor Rolls

Donald D. Batchelor
Union Planters Corp.
Financial Institution

Mary L. DeCampli-Stewart
Metropolitan Washington
Airports Authority
Government Entity

Rod Umscheid
University of California
Not-for-Profit Entity

Josephine Goode Johnson
University of Maryland Medical
Service System
Self-insured Fund

Roger D. Oaks
Tennessee Farmers Cooperative
Small Corporation

M. Michael Zuckerman
Thomas Jefferson University
Not-for-Profit Entity

John A. Lindquist
Browning-Ferris Industries Inc.
Large Corporation

J. Douglas Higley
State of Louisiana
Government Entity

Gregory L. Daniels
American National Red Cross
Not-for-Profit Entity

Stephen A. Finley
City of Lakewood, Colo.
Government Entity

Timothy G. Galarnyk
Lunda Construction Co./
Phoenix Steel Inc.
Small Corporation

Edward G. Weiss
First of America Bank Corp.
Financial Institution

Susan M. Werner
Hardee's Food Systems Inc.
Large Corporation

Mark F. Wilson
First Mississippi Corp.
Small Corporation

Delmer Ison
Washington Metropolitan Area
Transit Authority
Government Entity

William E. Rogers
Conemaugh Valley
Memorial Hospital
Not-fot-Profit Entity

Susan N. Weiner
Dade County Public Schools
Government Entity

Eva F. Goodrich
Cincinnati Electronics Corp.
Small Corporation

Sidney D. Blatt
Holloway Cos.
Small Corporation

Gene Snyder
State of Oregon
Government Entity

Jerri Nelson MacMillian
Aetna Life & Casualty Cos.'
Real Estate Investment Department
Large Corporation

Robert L. Sinclair
Metropolitan Government of
Nashville and Davidson County
Government Entity

Spencer J. Traver
BF Goodrich Co.
Runner-up

Paul B. Harvey
Ponderosa Homes
Small Corporation

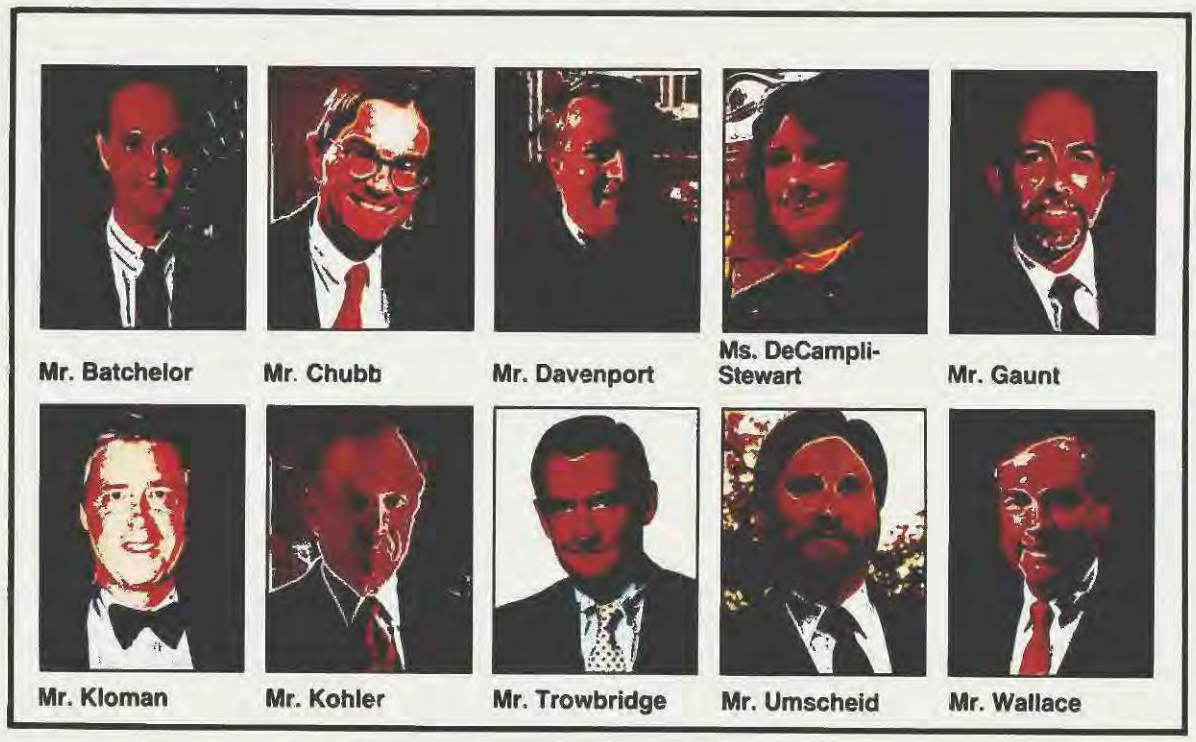
George N. Pierce
Orange County, Fla.
Government Entity

Gene M. Marsh
General Conference of
Seventh-day Adventists
Not-for-Profit Entity

Robert Bieber
Westchester County
Government Entity

William Ryan
University of Michigan
Not-for-Profit Entity

GRAPHIC BY KIMBERLY MART



Mr. Batchelor | Mr. Chubb | Mr. Davenport | Ms. DeCampli-Stewart | Mr. Gaunt

Mr. Kloman | Mr. Kohler | Mr. Trowbridge | Mr. Umscheid | Mr. Wallace

INTERNATIONAL

INTERNATIONAL DIGEST

Reinsurers question Outhwaite settlement

The landmark settlement between 987 members of Lloyd's of London underwriter **Richard Outhwaite's syndicate** and 81 members agencies may not be fully covered by reinsurance. The 116 million pound ($199.5 million at current exchange rates) out-of-court settlement was agreed upon earlier this year between the members, the members' agencies and 120 insurers that wrote errors and omissions coverage for the agencies (*BI*, March 9; Feb. 17). Recently, though, reinsurers of the E&O underwriters have questioned whether they are obligated to cover the settlement. In particular, some question whether the settlement constitutes a single "event" under the reinsurance coverage, since 32 runoff reinsurance contracts were involved and the loss will be spread over several underwriting years. If the settlement is considered to be more than one event, E&O insurers would be responsible for a larger share of the settlement.

EIL insurer opens U.K. office

ECS Inc. has opened a British office to offer **environmental impairment liability insurance** to the British and eventually the European market. Director of operations at ECS Underwriting Ltd. is Brian Street, who was formerly City production manager of American International Underwriters. ECS will offer a broad range of environmental polices, including: first-party pollution coverage; environmental impairment liability coverage; and general liability policies to the hazardous waste industry. The limits for each type of coverage will be $10 million, Mr. Street said.

Kemper, UAP strike pact

Kemper National Insurance Cos. and Union des Assurances de Paris have entered into a cooperative agreement. The deal will allow Paris-based UAP to increase its ability to cover European multinationals' North American operations, according to Long Grove, Ill.-based Kemper. Kemper will underwrite and service the North American property/casualty risks of UAP's clients. The two companies have participated in a joint venture in Europe since 1989, UAP/Kemper HPR Co., that markets highly protected risk coverage.

Aegon confirms Allami Biztosito stake

Following rumors earlier this month about an acquisition in Hungary, Dutch insurer Aegon N.V. confirmed an agreement in principle to acquire a 75% stake in **Hungary's largest insurer, Allami Biztosito** (*BI*, March 16). The Hungarian government will retain 20% of the company, while the remaining 5% may be acquired by the insurer's employees. The agreement will substantially reinforce AB's capital base, while providing Aegon an entrance to one of Eastern Europe's rapidly growing insurance markets. Terms were not disclosed.

Munich Re forms Italian subsidiary

Munich Reinsurance Co. has formed a wholly owned subsidiary in Italy. **Munich Re Italia S.p.A.** will offer all lines of reinsurance and is initially capitalized at 60 million deutsche marks ($36.3 million). The German reinsurer previously offered reinsurance in the Italian market through a service company. Munich Re Italia is the seventh wholly owned foreign subsidiary of Munich Re, which derived nearly half of all premiums from international business last year.

AMB, AGF negotiations hit a wall

Negotiations between state-controlled French insurer Assurances Generales de France Group and Germany's AMB Aachener & Muenchener Beiteilingungs A.G. are at an impasse, according to an AMB spokesman. AGF filed suit in a German court last month to force AMB to recognize its 25% stake in the German insurer with an equivalent voting right, which AMB has steadfastly refused (*BI*, Feb. 24). An attempt to resolve the insurers' differences through the partial takeover of ailing AMB subsidiary Bank fuer Gemeinwirtschaft by state-owned French bank Credit Lyonnais fell through over the issue of recognizing AGF's shares, the spokesman reported.

Analyst sees Lloyd's brokers for sale

As many as 100 small Lloyd's of London brokers could be for sale as the contraction in the London market continues, confirms Julianne Jessup, director of De Lisle Jessup Scott, a new mergers and acquisitions consulting firm in London. "Many specialist brokers are devastated by the loss of capacity in the market," she said. Small London excess-of-loss reinsurance brokers in particular are looking to be acquired rather than go out of business, she added.

Underwriting agent told to cease new business

Lloyd's of London has directed underwriting agent **H.G. Chester & Co. Ltd.** to cease accepting any new insurance business. The decision was taken due to the agency's inability to purchase errors and omissions insurance, Lloyd's said.

—By Don Lewis Kirk, Stacy Shapiro and Gavin Souter

Lloyd's underwriters appeal bad faith award

By GAVIN SOUTER

LONDON

LONDON—Lloyd's of London underwriters sharply criticize the legal reasoning that produced one of the largest bad faith awards ever against an insurer in U.S. courts.

The underwriters are appealing an $86.2 million award—including $60 million in punitive damages and nearly $25 million in legal fees—that stems from the alleged mishandling of a $200,000 property claim.

"Rarely has a lawsuit lurched so far, so frequently and so rapidly from the path of justice," underwriters argue in their appeal, filed last week with the Supreme Court of Alaska in Anchorage.

The underlying claim was made after The Narrows, a restaurant in Ketchikan, Alaska, burned down in May 1989.

The property was jointly insured under a surplus lines policy for a $6,000 premium by Gotham Insurance Co. of New York and by 25 Lloyd's underwriters led by John Wetherell, underwriter for syndicate 1031, managed by Janson Green Management Ltd.

The Lloyd's underwriters rejected the policyholder's proof of loss and contents inventory, advising them to submit additional information supporting the claim, court papers say.

The restaurant owners then sued the underwriters for payment, although the action was delayed due to discovery disputes, court papers say.

At trial, the restaurant owners argued that the lawyer and claims adjuster hired by the underwriters failed to investigate the claim, never intended to recommend payment and accused the owners of fraud.

On Dec. 17, 1990, the jury ruled on the bad faith claim, awarding $60 million in punitive damages, $1 million for emotional distress, $150,000 for monetary losses and $386,472 in compensatory damages (*BI*, Feb. 4, 1991).

Alaska District Court Judge Victor Carlson later added $24.5 million in attorneys' fees, $203,565 for postjudgment interest on the emotional distress and monetary awards, and more than $4,400 for out-of-pocket expenses (*BI*, June 17, 1991).

The Lloyd's underwriters' motion for a retrial was subsequently denied, leading to this appeal.

"Judicial errors obscured a legitimate dispute," the underwriters contend in their appeal.

The resulting award is beyond comprehension because "it inflicts such an irrational, excessive punishment that it violates all common law and constitutional principles governing damages," the underwriters contend.

The restaurant owners are expected to file their response this week.

Continued on next page

All's well, Russian insurer says

Ingosstrakh exec downplays impact of hard currency loss

MOSCOW—Russian insurer Ingosstrakh is downplaying the probable loss of roughly half of its hard currency reserves held by Vnesheconombank, the former Soviet trade bank that collapsed at year-end.

"It is unlikely that the funds in Vnesheconombank will be recovered," even if the Russian government takes measures to revive the bank, said Ingosstrakh Chairman Mikail Safronov.

However, the loss of the funds will not hurt the security of Ingosstrakh policies, stressed Mr. Safronov, who would not disclose the amount Ingosstrakh may have lost.

"There has been no extra delay in claims payment because of the collapse" of the bank, he said. "It is not an immediate problem for us because half of our reserves are held with banks outside of Russia."

Ingosstrakh, which is Russia's international insurer and reinsurer, has hard currency reserves in eight European banks and one Indian bank, Mr. Safronov said.

Separately, the Russian Parliament is expected to pass insurance capitalization legislation next month that could thin the ranks of insurers in Russia.

Around 230 new insurance companies have been established in Russia since the beginning of perestroika, in addition to the 70 regional offices of the former Soviet state insurer Gosstrakh that now are operating autonomously, Mr. Safronov said.

But, many of those new insurers will be forced to fold when the law is enacted because they will not meet the proposed capital requirement of 2 million rubles (approximately $222,222), Mr. Safronov said. There currently is no capitalization requirement for Russian insurers.

—By Gavin Souter

Fraud scheme tied to murder

By GAVIN SOUTER

CHORLEY, England—An accountant murdered in his home may have been at the center of an international fraud ring involving phony insurance documents, according to police investigations.

An organized crime ring is likely to have been behind the fraud involving the attempted sale of 50 container loads of Marlboro cigarettes worth $12 million, according to a marine investigation group.

At least four attempts have been made in Europe to sell the cigarettes since the murder, they say.

An insurance broker suspected of involvement in the fraud scheme has been arrested by police along with another man identified as a farm worker.

Accountant David Wilson, 47, was shot to death March 5 in the garage of his home near Chorley in Lancashire.

The gunmen entered the house at 9 p.m. and held Mr. Wilson's daughter prisoner until he returned at 11 p.m. Mr. Wilson was then taken into his garage and shot twice in the head.

Police suspect the motive for the killing stems from Mr. Wilson's alleged connection to a scheme to sell 50 containers of Marlboro cigarettes, though there is speculation that the cigarettes may never have existed.

According to the International Maritime Bureau in London, which is a division of the International Chamber of Commerce involved in maritime crime prevention, the fraud artists used bogus documents, including a phony marine cargo insurance policy, to establish ownership of the purported containers of cigarettes with potential buyers. The sellers would then require a letter of credit from the buyer as security for the deal.

To enable potential buyers to establish letters of credit with European banks, the sellers issued a set of forged documents including a bill of lading, a certificate of freshness, a certificate of origin and a marine cargo insurance policy.

The insurance policy was allegedly issued by a British underwriter; it has not yet been established whether the policy was legitimate or bogus, according to Eric Ellen, director of IMB.

The bill of lading was issued by Mr. Wilson's own Bahamas-registered shipping company, the

Continued on next page

INTERNATIONAL

LONDON

Continued from previous page

Insurer liquidations

Provisional liquidators have been appointed for two London market insurers that have suffered from large claims and unpaid loans.

However, schemes of arrangement are being prepared for Trinity Insurance Co. Ltd. and Bryanston Insurance Co. Ltd. to try to prevent liquidation.

Both companies are owned by GFA International Ltd., the British holding company for businesses owned by Australian entrepreneur Grant Fowler.

Bryanston wrote mainly North American property and casualty reinsurance and catastrophe reinsurance. The company was officially placed in runoff in September 1991, but had not accepted any new business since early 1990.

Its 1989 net premium volume was 22 million pounds ($35.5 million at year-end 1989 exchange rates), though it has outstanding claims totaling $250 million, said Paul Evans, senior manager at provisional liquidator Price Waterhouse.

The company suffered large losses from Hurricane Hugo and the European windstorms in early 1990.

Trinity wrote direct business including contractors all-risk and marine, transport and aviation policies. It was placed in runoff in January 1992.

The company had a 1991 net premium income of 43.5 million pounds ($81.4 million at year-end 1991 exchange rate). It has outstanding claims of 100 million pounds ($172 million at current exchange rates), Mr Evans said.

Trinity suffered large losses from contractors all-risk policies with deteriorating claims experience, said John Winter, a runoff specialist who was appointed chief executive officer of both companies in January.

In addition to poor claims experience, both companies had high expenses and low investment income due to "non-performing assets," Mr. Winter said.

Mr. Winter refused to comment on the non-performing assets. However, other sources say the insurers made a series of loans totaling 20 million pounds ($34.4 million) to companies owned by Rupert Murdoch. Mr. Fowler is married to Mr. Murdoch's niece.

Price Waterhouse hopes to have schemes of arrangement for the companies approved by the British High Court in May.

North Sea crash

The U.K. Civil Aviation Authority continues to investigate the crash of a helicopter in the North Sea during a blizzard earlier this month shortly after the aircraft lifted off of a platform owned by Shell U.K. Ltd.

Eleven of the 17 passengers and crew on board died when the Super Puma helicopter built by French-owned Aerospatiale dove into the water unexpectedly as it flew on a two-minute trip from the oil platform to an accommodation deck.

A walkway between the two rigs was closed due to bad weather.

Bristow Helicopters Ltd., which owned the helicopter, is believed to carry liability insurance limits of up to 150 million pounds ($258 million at current exchange rates).

The helicopter is thought to be insured for between $7 million and $8 million.

Bristow's broker, Morgan Reid & Charman, declined to comment.

The hull and liability coverage is led in the London market by The Orion Insurance Co. P.L.C. and British Aviation Insurance Group. The coverage is led in Lloyd's of London by aviation underwriter Robin Eliot and one other Lloyd's syndicate.

The victims were subcontractors of Shell, not employees, said a spokeswoman in Aberdeen. She would not identify their employers.

Under British law, each employer must carry unlimited employers liability insurance to pay for employee-related injury.

This is the fourth fatal helicopter accident in the North Sea since 1986, when 45 men died in the crash of a Boeing Chinook helicopter (*BI*, Nov. 17, 1986).

Lloyd's probes Bain

Lloyd's of London broker Bain Clarkson P.L.C. is being investigated by the Lloyd's Investigation Committee over allegations that it charged clients higher premiums than were forwarded to underwriters.

Few other details of the investigation have been revealed.

The investigations are not expected to be of "any financial significance to the company," a Bain Clarkson statement said.

"Since September 1991 Bain Clarkson has been the subject of an inquiry which Lloyd's is conducting into grossing-up and market practices and has been cooperating with Lloyd's," the broker said.

Lloyd's would not comment on the inquiry.

Broker results

Two of the world's largest brokers reported vastly different results for 1991: JIB Group P.L.C., formerly Jardine Insurance Brokers Group Ltd., reported a 33% increase in pretax profits, while Willis Corroon P.L.C. reported an 8% drop.

JIB's pretax profits grew to 20.1 million pounds ($37.6 million) from 15.1 million pounds in 1990 ($29.1 million). Following tax and extraordinary items, income grew to 12.5 million pounds ($23.4 million) from 4.9 million pounds ($9.5 million) in 1990.

JIB's gross revenues grew 12% to 189.4 million pounds at year end ($354.2 million) from 168.5 million pounds in 1990 ($325.1 million).

JIB attributed the growth during its first year as a public company to a good spread of retail business around the globe and an "excellent" year for its international wholesale and reinsurance divisions.

Meanwhile, pretax profits at Willis Corroon P.L.C. dropped 8% to 96.1 million pounds in 1991 ($179.6 million) from an estimated 104.5 million pounds ($198.6 million) that it and its predecessor companies earned in 1990.

Brokerage revenues rose a slender 0.9% to 593 million pounds ($1.11 billion) in 1991 from an estimated 588 million pounds ($1.14 billion) in 1990.

Both the 1990 revenue and profit estimates include full-year results for Corroon & Black Corp., which was acquired by Willis Faber P.L.C. in October 1990 (*BI*, Oct. 15, 1990).

If Corroon's results prior to the acquisition are excluded, as British accounting rules require, pretax profits would have risen 17.6% to 96.1 million pounds ($179.6 million) in 1991 from 81.7 million pounds ($155.1 million) in 1990. Total gross revenues for Willis Corroon would have risen 44.8% to 653.6 million pounds ($1.22 billion) from 451.2 million pounds ($856.3 million). ■

Cigarette scam

Continued from previous page

Wilson Line. The Wilson Line owned the Lisa Marie, a ship that purportedly carried the cigarette containers.

According to the forged documents, the Lisa Marie left Miami on Nov. 22, 1991, bound for Hamburg, Germany, carrying 50 containers of Marlboro cigarettes.

However, IMB investigations revealed that the Lisa Marie left Miami Nov. 23 with no cargo on board, Mr. Ellen said.

"The cigarettes probably do not exist," he said.

The IMB notified banks worldwide of the fraud scheme after discovering that an abnormally large quantity of cigarettes was being offered for sale in Brussels, Belgium, last November.

Dutch police on Dec. 2 arrested six people in Rotterdam suspected of involvement in the scam. A British buyer who suspected the deal was a fraud tipped police, who scheduled a sting in Rotterdam.

But attempts to sell the cigarettes continued.

On Feb. 12, a Swiss bank was asked to supply a letter of credit for $500,000 as security for the purchase of three containers of cigarettes from a company in the United States.

The documents presented by the seller to a bank in San Francisco were forwarded to the Swiss bank, which notified the IMB.

The documents proved identical to those presented in November and the deal was terminated, Mr. Ellen said.

Another foray involving the cigarette fraud was attempted on Feb. 20 in Britain.

Again, the fraud was scuppered when the documents were inspected by the IMB, Mr. Ellen said.

The IMB has supplied details of its investigation to British police, who believe that there is a connection between Mr. Wilson's murder and the cigarette fraud, Mr. Ellen said.

But it is unlikely that Mr. Wilson was the only person involved in the fraud as the IMB has been notified of four other attempts to sell cigarettes since the murder, he said.

Two banks in Switzerland, one in Monaco, and one in Britain have been approached to provide letters of credit to buy cigarettes, Mr. Ellen said.

"It looks like it's an international conspiracy because of all the different buyers," he said.

And the documentation suggests that the originators of the scam are based in either Miami or Mexico, Mr. Ellen said.

Last week the police charged two people will conspiring to defraud international banks. One, Michael Sammons, is an insurance broker in Maldon, Essex.

The involvement of an insurance broker in the scam suggests that the insurance policies used may have been forged, Mr. Ellen said. ■

Hong Kong bank forms reinsurer unit in Bermuda

By ROGER SCOTTON

HAMILTON, Bermuda—Hong Kong's largest financial institution, The Hongkong & Shanghai Banking Corp. Ltd., has formed a wholly owned reinsurance subsidiary in Bermuda.

The reinsurer, Carlingford International Reinsurance Ltd., was incorporated last year and commenced operations in Bermuda last month.

Carlingford International Re, which was formed to underwrite mostly treaty reinsurance, is capitalized at $5 million and is managed by Gibbs Harnett & Richardson International Ltd., which is controlled by Lloyd's of London broker Gibbs Hartley Cooper Ltd.

Initially, Carlingford will participate in reinsuring the general book of business underwritten by its Hong Kong-based affiliate, Carlingford Insurance Co. Ltd.

Using technical underwriting support supplied by Carlingford in Hong Kong, the reinsurer is expected to assume a small percentage of the Hong Kong company's treaty business.

The Bermuda reinsurer is expected to write net premiums of $5 million in its first year, according to Gibbs, Harnett & Richardson.

Facultative risks will also form part of Carlingford International Re's business, the manager predicted.

Carlingford International Re's aim is not only to reinsure business led by its Hong Kong-based affiliate, but also to expand its revenue base by developing business through the global network of the Hongkong & Shanghai Banking Group, which has assets of $150 billion and 54,000 employees in 1,300 offices worldwide.

Bermuda was chosen as the domicile after a two-year review of possible sites, the captive manager said.

Prospect wound up

Prospect Insurance Ltd., a Bermuda-based financial insurer, is being voluntarily wound up by its owners, broker C.E. Heath P.L.C. and Britain's Midland Bank.

The decision to wind up the company comes in the aftermath of a decision by Heath to sell the business of its Pinnacle Reinsurance Co. subsidiary to Centre Reinsurance Holdings Ltd. (*BI*, Sept. 23, 1991). Prospect was operated out of Pinnacle's premises in Bermuda.

"Winding up Prospect was felt to be the right thing to do in the circumstances," said Pinnacle's former chairman, Bruce Swann. "Whatever happened, Pinnacle's people could not have continued to manage it anyway."

Mr. Swann is now chairman of Centre Re's new subsidiary CentreLine Ltd. (see related story, page 68). ■

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Top concerns

Continued from page 1

Yet some issues that have ranked highly in past surveys are of lower concern to risk managers this year. These include awards for emotional distress claims and litigation over coverage for pollution cleanup costs.

A&A asked more than 1,900 risk managers between Jan. 9 and Feb. 10 to rank the importance to their companies of 98 legislative and regulatory issues.

In addition, this year's survey for the first time asked risk managers whether their companies have international operations and, if so, to rank nine international issues.

About 18% of the risk managers responded to the fifth annual survey (*BI*, April 29, 1991; April 30, 1990; April 10, 1989; April 18, 1988).

"This reinforces the notion that risk managers are concerned with public policy issues and how they impact on business," said Robert H. Moore, senior vp at A&A in Washington, D.C.

Risk managers this year were asked to consider 34 issues that were either new or substantially revised from last year's survey. A&A also eliminated 19 questions, making some exact comparisons between the two surveys difficult.

"We keep trying to refine the questions so that we can get at the issues as they evolve," explained Mr. Moore. "Each year we hope to have another level of specificity in the questions."

A report on the 1992 survey will be officially released today in Anaheim, Calif., at the 30th annual Risk & Insurance Management Society conference.

A&A compiles mailing lists for the survey from the *Business Insurance* Directory of Corporate Buyers of Insurance, Benefit Plans and Risk Management Services, selecting only those individuals specifically designated as having a risk management function.

Most respondents were risk managers at companies with sales of $250 million or more. Half were with companies with sales of at least $1 billion. The risk managers represent all sectors of industry, including manufacturing, services, utilities, oil, gas and natural resources and chemical production.

The most important concerns of these risk managers are determined by the percentage of risk managers citing an issue as "highly important," which is the percentage who say a particular issue is of high or above average importance.

Overall, the survey found that Corporate America is struggling under the dual burdens of skyrocketing workers compensation and health care costs.

Specifically, eight of the 15 issues of greatest concern relate to the workers comp system and health care costs.

"This survey underscores what the NCCI has been saying: The work comp system is in crisis and, in some states, it is unraveling," pointed out Bill Hager, president of the National Council on Compensation Insurance in Boca Raton, Fla.

Mr. Moore agreed: "The story for the 1992 survey is the degree to which work comp is seen as a major public policy issue.

"People are not only aware of the problems (in workers comp), but the link to rising health care costs is now apparent," Mr. Moore commented.

"These two issues are inextricably linked," he added. "You can't talk about one without talking about the other."

Eighty-three percent of risk managers this year ranked spiraling health care costs as highly important, up from 80% in 1991.

Workplace safety, specifically policies to prevent back injuries and slips and falls, was cited by 82% of risk managers as a highly important issue. This subject was not addressed in the 1991 survey.

The tendency of workers to file workers comp claims for non-work-related injuries was highly important to 78% of the respondents. This question also is new to the 1992 survey.

Three-quarters of the respondents cited increased workers compensation costs due to residual market loadings as highly important, up from 72% in 1991.

Three additional workers compensation issues each received the vote of 74% of the risk managers:

- The limited ability of employers to identify undesirable job applicants through workers comp claims, up from 73% of respondents in the 1991 survey.
- Implementation of cost containment strategies to control workers comp costs, down sharply from 84% of respondents in 1991.
- The lower standard of proof needed in a workers comp claim, unchanged from 1991.

Risk managers also cited the increase in workers comp claims for mental and nervous disorders, with 73% saying this is highly important, up from 70% in 1991.

"Because the costs of workers comp and health care have gone up so much, the prevention of injuries has gained new importance," said A&A's Mr. Moore.

"It is no longer acceptable for companies to have a certain number of injuries each year," he said. "This has become an unacceptable cost, both economically and in terms of human suffering."

Suzanne Crager, first vp of the Risk & Insurance Management Society Inc. and assistant vp-risk management and insurance at PNC Financial Corp., agreed: "Workplace safety has a direct impact on the cost of workers comp. One of the first things an employer has to do when tackling comp is to establish safety programs.

"With a safe environment, employers can prevent claims and mitigate injuries," added Ms. Crager, who will take over as president of RIMS on May 1.

"If you don't control your destiny by controlling your losses, you are just throwing good money after bad," said Robert W. Esenberg, outgoing president of RIMS and risk management administrator for the city of Virginia Beach, Va.

The NCCI's Mr. Hager pointed out that workplace accidents cost the economy more than $45 billion in 1989. Moreover, the number of annual lost workdays has increased to 90 per 100 employees in 1990, from 48 per 100 employees in 1972, he said.

Rubbing salt in the wounds of the workers comp system are efforts by some employees to exploit the system by classifying non-work-related injuries as work-related, said A&A's Mr. Moore.

Workers are driven to do this because of increasing deductibles and copayments under their group medical plans, which do not exist under workers comp programs, he explained.

"We are seeing increasing evidence that people are opting, where possible, to seek benefits under the workers comp programs rather than under the group health program because workers comp is a more generous program," said Mr. Moore.

Mr. Hager said there are "two concurrent pressures" causing employees to exploit the workers comp system in this manner.

"First, employees have come to recognize that if an injury is categorized as work-related, they will not have to pay deductibles or coinsurance and there is no limit to the coverage.

"At the same time, the medical community understands this formula," he said.

The medical community also knows that in some states there is no fee schedule governing care provided to injured workers, Mr. Hager added.

To remedy the situation, Mr. Esenberg suggested a study to find out "how often non-job-related injuries are classified as job-related because employees no longer enjoy first-dollar medical coverage."

Meanwhile, the 1992 A&A survey also revealed that risk managers remain concerned about tort reform.

Topping the list of concerns were caps on non-economic and/or punitive damages, with 86% saying enactment of such caps is highly important, down only slightly from 88% last year.

Health care costs and work comp costs are two issues that 'are inextricably linked,' says Mr. Moore.

"There continues to be concern about both the litigious nature of our society and the fact that damages are potentially open-ended," said Mr. Moore.

"Nothing scares risk managers more than open-ended liability," he said.

Mr. Esenberg agreed: "We are seeing greater use of punitive damages and there is no judicial control to limit these damages to actual damages awarded.

"When you can have a case where $20,000 in compensatory damages are awarded and millions in punitive damages, there is a problem with the system," he commented.

"These awards are all over the place—the sky is the limit. And, there is no way to plan for these awards," agreed PNC's Ms. Crager.

Risk managers identified three other tort reforms as highly important in the 1992 survey, although they lost some of their prominence compared with last year's survey:

- Modification of joint and several liability, cited by 82% of risk managers, down from 84% in 1991.
- Limits on directors and officers liability, cited by 72%, down from 79%.
- Abolition of attorney contingency fees, cited by 71%, down from 72%.

"The only people who win in our civil justice system are the attorneys; everybody else loses," Mr. Esenberg remarked.

Ms. Crager said limitations on the liability of directors and officers remains a top concern year after year because this is a very "visible" issue for risk managers.

"This issue puts risk management in the spotlight in front of the board of directors," she pointed out.

Interestingly, one concern that appeared high on the 1991 list did not rank as highly in this year's survey: allowing recovery for purely emotional distress without any physical injuries.

This issue had been cited by 79% of the risk managers in 1991, but only 71% cited it this year.

"My speculation is that the experience of risk managers is that this has not proven to be the bogeyman that they thought it would be," said A&A's Mr. Moore. "This has not turned into the open-ended, bottomless pit people feared."

Another issue conspicuously absent from the 1992 list of top concerns is court rulings on liability for pollution cleanup costs.

Only two-thirds of respondents cited that issue this year, down from 78% in 1991.

"The survey showed a general decrease in interest in environmental issues," according to Mr. Moore. "These issues go through cycles. When the issue is new, anxiety is high. After the issue has been around for awhile, anxiety drops."

Because courts have been issuing conflicting rulings on whether pollution cleanup costs are covered by the comprehensive general liability policy for several years, the level of anxiety this causes among risk managers has dropped, said Mr. Moore.

Mr. Esenberg agreed: "We are getting used to the fact that one week courts will rule one way and the next week courts will rule another way.

"While this is certainly still a problem, it has been moved to a back burner," he said.

Other issues that are highly important to risk managers, according to the survey, are:

- The continuation of the soft property/casualty market, which 77% say is highly important. This issue is new to the 1992 survey.
- The unpredictability of price swings in the insurance markets, cited by 74% or respondents, down from 78% in 1991.
- Alternative risk financing mechanisms, which 76% say is highly important. This issue is also new to the 1992 survey.

Mr. Moore looked at all three of these categories and concluded: "Experienced business people recognize that this current cycle has run longer than anyone thought that it would and that means a correction at some point."

Risk managers also displayed "a good bit of foresight" by recognizing that "now is the time to prepare for a significant market shift" by setting up a captive or other alternative risk financing mechanisms, he said.

Meanwhile, for the first time, the 1992 survey asked risk managers with foreign operations to rate global business topics. Some 52% of the risk managers responding indicated that their companies have international operations.

The survey identified several international issues that are of concern to international risk managers.

For instance, 61% said increasing litigation and higher court awards outside the United States are highly important. And, compliance with overseas regulation was identified as highly important by 57%.

Responses to the survey also indicate that risk management priorities vary among industries.

For example, 80% of risk managers in service industries listed limits on the liability of directors and officers as highly important, compared with the overall response of 72%.

And, 83% of the risk managers at utilities and 91% of chemical industry risk managers cited court rulings on liability for pollution cleanups as a highly important issue, compared with only 66% of risk managers overall.

Some concerns also varied by region of the country.

In the West, risk managers expressed their greatest concern about corporate officers' personal and/or criminal liability for their companies' environmental offenses.

And, risk managers in the South are most concerned with insurer insolvency, according to the survey.

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Copies of the "1992 National Risk Management Survey" can be obtained free of charge by writing Laurie Londoner, Alexander & Alexander Governmental & Industry Affairs Inc., Suite 900 E., 1300 I. St. N.W., Washington, D.C. 20005-3306; 202-371-2800; (fax) 202-371-2805.

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NOTICES

IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS COUNTY DEPARTMENT, CHANCERY DIVISION

IN THE MATTER OF THE LIQUIDATION OF LINCOLNWOOD NATIONAL LIFE INSURANCE COMPANY a/k/a UNITED EQUITABLE LIFE INSURANCE COMPANY

NO. 90 CH 7724

NOTICE

PLEASE TAKE NOTICE than on December 20, 1991 an Order of Liquidation with a finding of insolvency was entered against United Equitable Life Insurance Company by the Honorable Lester D. Foreman, 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 the United Equitable Life Insurance Company.

TAKE FURTHER NOTICE that pursuant to the order of liquidation, all rights and liabilities of United Equitable Life Insurance Company and :ts creditors, policyholders and all other persons or entities who may have a claim against its assets are fixed as of December 20, 1991, 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 Equitable Life Insurance Company or claiming any right, title or interest in or to any funds or property of United Equitable Life Insurance Company 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 21, 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 United Equitable Life Insurance Company, In Liquidation, 222 Merchandise Mart Plaza, Suite 1450, Chicago, Illinois 60654. Filing shall occur upon receipt of Proof of Claim by the Liquidator. The Liquidator reserves the right to require such additional information with respect to any claims as he may deem necessary. The Liquidator further reserves all rights to any and all defenses of United Equitable Life Insurance Company 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 PROOFS OF CLAIMS WITH THE LIQUIDATOR AT THE ABOVE MENTIONED OFFICE OF HIS SPECIAL DEPUTY LIQUIDATOR IS DECEMBER 21, 1992 AT 4:30 P.M. CHICAGO TIME. NO PERSON HAVING OR CLAIMING TO HAVE ANY CLAIMS AGAINST UNITED EQUITABLE LIFE INSURANCE COMPANY SHALL PARTICIPATE IN ANY DISTRIBUTION OF THE ASSETS OF THE COMPANY UNLESS THE CLAIMS ARE FILED WITH THE LIQUIDATOR ON OR BEFORE DECEMBER 21, 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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Insurance Services Guide Works

Play or pay

Continued from page 1

For example, legislation introduced by several Senate Democratic leaders last June included a play-or-pay provision. The bill would require the secretary of Health and Human Services to set the payroll tax rate to be paid by employers that do not offer their workers health care, but the measure's sponsors suggested a tax of about 7.5% (*BI*, June 10, 1991).

And, House Ways and Means Committee Chairman Daniel Rostenkowski, D-Ill., introduced comprehensive health care reform legislation that included a play-or-pay provision calling for a 9% payroll tax on employers that do not provide health care to their workers (*BI*, Aug. 19, 1991).

A play-or-pay approach to providing universal health care has been backed by the National Leadership Coalition for Health Care Reform, which is dominated by companies like Chrysler Corp. and Bethlehem Steel Corp. The group last year recommended that all employers provide health coverage or pay a 7% payroll tax to fund a public plan for the uninsured (*BI*, Nov. 18, 1991).

Employers' medical costs—including hospital, surgical and dental benefits for workers and retirees, but excluding employee contributions—averaged 9.9% of payroll in 1990, says the U.S. Chamber of Commerce (*BI*, Dec. 16, 1991).

The cost to manufacturers, which typically provide greater benefits than other types of employers, is even higher. Their costs, excluding employee contributions, totaled 11.6% of payroll on average in 1990, the Chamber reported.

The Urban Institute, a research organization in Washington, D.C., projected in the study commissioned by the U.S. Labor Department's Pension and Welfare Benefits Administration that a play-or-pay plan would lead to a new public health plan nearly four times larger than Medicare.

The new plan would cover about 112 million people, comprising workers and dependents from employers terminating health plans, tens of millions now covered by Medicaid and other programs, as well as people who now buy individual insurance or are uninsured, says the study (*BI*, Jan. 13).

But, employers and other benefits experts do not envision companies automatically dumping their workers into a public plan.

In fact, a recent survey of 197 employers by the Employers Council on Flexible Compensation, a non-profit employer association in Washington, D.C., found that 57.8% of respondents were "very unlikely" to terminate their health plans in favor of a 7% to 10% payroll tax.

Among the other 42.2%, 21.3% said their companies would be somewhat unlikely to drop their health plans in favor of the payroll tax. Thirteen percent of the respondents said they were somewhat likely to drop their health plans. Only 7.6% said they would likely drop their plans. The rest were uncertain.

"In 1990, our total medical and dental expense for active employees, excluding employee contributions, was about 6.6% of payroll," said Arthur J. Young, manager of benefits for Hewlett-Packard Co. in Palo Alto, Calif. Hewlett-Packard estimates its 1991 health care costs, excluding contributions from its 53,000 U.S. employees, will equal about 6.3% of payroll.

"Based on the figures, it doesn't make sense" to terminate the com-

Continued on next page

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Sub-total 25,683

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Commercial Consumers
Sub-total 27,386

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* Source Business/Occupational breakdown of qualified circulation, November 25, 1991 issue, as submitted to BPA for December 1991 BPA Publisher's Statement.

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Play or pay

Continued from previous page
pany's health plan, Mr. Young said.

While recent reports have said that Highland, Mich.-based Chrysler would drop its private health insurance plan in favor of paying a payroll tax, it is unlikely the company will do so.

The cost of health care coverage for Chrysler's 90,000 active U.S. employees equals about 9% of payroll, said Walter B. Maher, director of federal relations and human resources in Washington, D.C.

And, "if you factor out added expense as a result of cost shifting, the figure is closer to 7%," he added.

"Very clearly, even if we have health system reform that eliminates cost shifting and establishes a community-rated system, it makes no sense for us to pay a tax," he said.

Southern California Edison Co.'s medical costs for its approximately 17,000 active employees and their dependants also equaled about 9% of payroll in 1991, said Barbara Decker, division manager of health care planning and legislation for the Rosemead, Calif.-based utility.

"I think, given the situation today, we'd be on the play side," she said.

But, even employers whose health plans cost a bit more than the national average say they would not likely terminate their health plans under play-or-pay.

Among those is Cleveland-based manufacturer TRW Inc. Its health plans—including medical, dental, vision, indemnity and health maintenance organization coverage—for its 40,000 active U.S. employees and dependents equaled about 12% of payroll in 1991, said John K. McMahon, director of employee benefits.

"It would cost us more to play," Mr. McMahon said. But, "we would have a hard time reconciling our strong commitment to cafeteria plans with play-or-pay," he added.

Employers also would have to consider potential employee recruitment and retention problems before deciding whether to play or pay, experts say. Employers that compete for highly skilled workers probably would retain their private plans, especially if the government plan offers only minimal benefits, they say.

Houston-based Baker Hughes Inc. is not likely to terminate its health plan for its approximately 11,300 U.S. employees because its "competitors will not drop theirs," said Joe Vinson, director of compensation and benefits for the oil and gas firm.

"There are serious human resource implications employers must consider" if the country adopts play-or-pay," said Frank McArdle, a consultant with Hewitt Associates in Washington, D.C.

"Employees value health insurance as their No. 1 benefit. If an employer drops coverage in favor of the public plan, it could impact employee morale," he said.

If an employer terminates its health plan in favor of paying a tax, employees may ask, "Am I an employee in the same category of people who are in the Medicaid and Medicare programs, and will doctors resist treating me because government payment rates are less than private plans?" said Mercer's Mr. Beadle.

"Employee relations is not an insignificant issue," said Chip Kerby, a principal in Mercer's Washington, D.C., office.

The level of health care coverage that would be available under a public plan also concerns employers.

"We are concerned about our employees, and we don't want to get into a situation where they don't get adequate, quality medical care," said Bob Ozment, director of corporate and employee insurance for Ford Motor Co. in Detroit.

It is not an "automatic financial consideration," Southern California Edison's Ms. Decker explained. "We'd have to look at exactly what kind of public plan would be available if we were going to pay the payroll tax."

SCE's health plans include, among other things, case management and preventive care, Ms. Decker said. SCE would be unlikely to endorse a public plan that didn't provide those services, she said.

Even small employers say the content of the public plan is important.

"I am a firm believer in providing insurance for employees," said Ed Brody, president of Brody Truck Rental Inc. in Baltimore.

The company would retain its fully insured medical plan for its 70 employees—even if faced with continued premium increases—rather than dump its employees into a public plan offering less coverage. "I would try to make sacrifices another way," he vowed.

"And if health care coverage is collectively bargained, you're probably stuck with what you've got," Mercer's Mr. Kerby said.

While "it's too early to make a decision regarding play-or-pay," heavily unionized Ford will have to listen to its workers' concerns, Mr. Ozment said. "We have a long-running relationship with the United Auto Workers" and that will be factored into a decision to play or pay, he said.

But, the play-or-pay approach in general meets most of the AFL-CIO's principles regarding health care system reform and as a method of financing is "a step in the right direction," said Claudia Bradbury, policy associate in the employee benefit department of the AFL-CIO in Washington, D.C.

Ms. Bradbury said whether an employer chooses to terminate its health plan in favor of a payroll tax "would depend on what kind of plan the employer offers now and whether the public plan offers equal or better benefits."

Questioned about its findings and comments employers made to *BI*, Colin Winterbottom, a research associate with the Urban Institute said: "The assumption underlying our analysis (in the January report) is employers would choose the option that would be most beneficial"

Continued on next page

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Play or pay

Continued from previous page
financially.

"We base that argument on the idea that the federally sponsored plan would be as good a package and as strong a package as what employers offer now," he said.

Mr. Winterbottom pointed out that The Urban Institute will soon release an expanded version of the report that "considers variations in employer behavior." The report indicates that under certain circumstances the exodus into the public plan would not be as great as the original study predicts.

For example, if the tax were set at 7% of payroll and workers lobbied their employers to maintain private coverage, the number of persons covered by the public plan would drop to 71.8 million from 112 million, he said.

But small firms, because of economic pressures, may be more likely to pay the payroll tax.

"A federal system will attract those who can most benefit—small employers with no clout in the marketplace, those with older employees and lots of retirees and those with a low-paid workforce," said Kenneth Sperling, a consultant in the Rowayton, Conn., office of Hewitt Associates.

"I think small employers with limited or no benefit plans who don't want administrative burdens may find it's just as easy for them to pay the tax," said Mark Heeter, director of human resources for Checkers, Simon & Rosner, a small public accounting firm in Chicago.

"The number of small employers that would drop their plans in favor of the payroll tax is high," said Eamonn McGeady, president of Martin G. Imbach Inc., a Baltimore-based marine construction firm with about 60 employees.

Referring to fellow members of the National Federation of Independent Business, a Washington, D.C.-based small employer trade group, he said: "About 75% of the NFIB members have some form of medical coverage, and in my opinion, a large percentage—perhaps as much as 90%—of them would drop coverage and just let the government do it."

But, both Mssrs. Heeter and McGeady said their firms would not terminate their health plans.

Mr. Heeter said the cost of medical care for Checkers, Simon & Rosner's 200 employees, excluding employee contributions, equals about 5% of payroll, "so a 7% payroll tax is not attractive."

On the other hand, said Mr. McArdle, unless payroll tax rates are indexed "to keep pace with health care inflation in the private sector, there is a chance for a big pull into the public plan. And that is counter to the whole purpose of the program—which is to retain an employer-based health care system."

Although many employers do not plan to drop their health plans if a play-or-pay plan is enacted, some worry that the cost control progress they have made will not be carried over to a public plan. That will mean more cost-shifting to employer-sponsored plans, they say.

"I don't see any of the fruits of employers' cost containment efforts in the play-or-pay proposals or any supply-side reform," said TRW's Mr. McMahon.

"If the government plan doesn't adequately pay for the price of health services it covers, we will see a cost shift to employers," said Sylvester Schieber, director of research in The Wyatt Co.'s Research & Information Center in Washington, D.C.

"The degree of cost shifting depends on whether the government uses a Medicare, diagnostic-related group payment scale," explained Hewitt's Mr. Sperling. "Over the last decade, we've seen a slowdown in the growth of Medicare payments to providers, and that has resulted in cost shifting to private plans. Employers are looking at this with natural skepticism."

"When I look at Medicare and Medicaid and when I look at the post office, I'm not sure I want the government" running health care, said John A. Romeo, director of health care systems in the human resource department of Bethlehem Steel Corp. in Bethlehem, Pa.

Commented Mr. McGeady of Martin G. Imbach Inc.: "When I think of the folks who bought $950 toilet seats and brought us the S&L scandal running the health care system, it scares me." ■

Consultants see no play-or-pay threat

By CHRISTINE WOOLSEY

Benefit consultants say they aren't worried about losing business if a play-or-pay universal health care proposal is enacted.

In fact, as the government expands its role in the health care delivery system, consulting firms may find themselves in greater demand, some consultants say.

"Over the past 20 years or so, government intervention has resulted in an increase, not a decrease, in our business," said Kenneth Sperling, a consultant with Hewitt Associates in Rowayton, Conn.

"I'm not worried about our business at all," said Chip Kerby, a principal with William M. Mercer Inc. in Washington, D.C. Even if a play-or-pay plan is enacted, many employers would keep their health plans, and "they will be dealing with the same issues they do now."

And, because the government will be running a plan about four times the size of its current plan, it will look to benefit consultants if it chooses to incorporate managed care features like health maintenance organizations or preferred provider networks, he said.

"The effect play-or-pay has on benefit consultants depends on where we end up," noted Sylvester Schieber, director of research in The Wyatt Co.'s Research & Information Center in Washington, D.C.

"There is a lot of sorting out to be done. Most proposals haven't focused on all the little details, like coordination of benefits among employers and interaction with Medicare. When you really get into the bump and grind. . .you see many things haven't been addressed yet," he said.

"Regardless of how the government sets it up, the transition process will generate work for us," said Carson Beadle, a managing director with Mercer in New York.

For example, employers will have to perform cost/benefit analyses to determine whether to keep their own health plans or terminate them and pay a payroll tax instead, he said.

"Employers also will have to evaluate how much the government will raise the tax rate vs. how much the company's medical care costs will increase over time," Mr. Beadle said.

In addition, under a play-or-play plan, "there will be a minimum benefit package employers have to meet, so you are talking about adding compliance work to health plans—even self-insured plans," Mr. Kerby pointed out.

Consultants also will have to help with "mechanical considerations," said Frank McArdle, a Hewitt consultant in Washington, D.C.

"Every time an employee moves out of private coverage to another employer or to the public plan, there would have to be some sort of paper notification," to the U.S. Health and Human Services Department, which probably would have to track who has public and who has private coverage, he said. Consultants would have to help with this communication.

Another mechanical consideration is portability, Mr. McArdle said. Some sort of arrangements would have to be made to keep track of and credit employees for deductibles and copayments they satisfy under different employer plans or the public plan, he said.

Under at least one proposal, much of that responsibility would fall on employers, said Mr. McArdle. The proposal by House Ways and Means Committee Chairman Daniel Rostenkowski, D-Ill., would require employers to recognize the deductibles new employees paid under their former plans.

Consultants—and even group health insurers—could see new business if employers with workers covered by the public plan under a play-or-pay system offer supplemental benefits.

"Employers that are doing well financially may continue to offer some supplemental benefits," like vision or long-term care, said Richard Sinni, director of Buck Consultants Inc.'s health management practice in Secaucus, N.J.

However, other consultants say that is not likely. "Employers in general are not interested in adding costs in this environment," so many may choose not to enrich benefits for employees in the public plan, Mr. McArdle said. ■

RIMS creates new post, shifts some executive duties

The Risk & Insurance Management Society Inc. is reassigning duties among members of its executive council.

RIMS is creating a new post, vp-international activities. International activities previously were handled by the International Cooperation Committee under the direction of the vp-business and industry liaison.

"International Cooperation grew logically out of the business and industry liaison function," said Suzanne H. Crager, first vp and president-elect of RIMS.

The new post, however, "ties in with the direction the strategic plan is going and the way our world is changing," she said. "It was a logical change to separate that out and give it the emphasis it needs," said Ms. Crager, who is also assistant vp of risk management and insurance at PNC Financial Corp, a bank holding company in Pittsburgh.

In addition, responsibility for the Products and Services Committee returns to the vp-business and industry liaison from the vp-governmental affairs.

The latter position has been renamed vp-government and public affairs, reflecting the communications responsibilities that this office now oversees. The vp-communications position was eliminated.

The title of vp-member affairs and secretary changes to vp-membership and chapter services secretary in a "housekeeping move," Ms. Crager said.

The changes were announced to the RIMS Board of Directors yesterday and will be announced today at the annual membership meeting at RIMS' 30th Annual Risk Management & Employee Benefits Conference in Anaheim, Calif. ■

USAir crash

Continued from page 2

USAir insured the F28-Mk4000 jetliner destroyed last week for $13.1 million.

Insurers' reserves for liability payments stemming from the crash could total $30 million to $50 million, a London underwriter said last week. However, as of last week, no liability reserve had been established.

USAir renewed its hull and liability coverage on Feb. 1 through Alexander & Alexander Services Inc. of New York and its London subsidiary, Alexander Howden Ltd.

The hull and liability insurance is led by Associated Aviation Underwriters, which is based in Short Hills, N.J.

According to the U.S. Department of Transportation, the underwriters of USAir's hull and liability coverage are:

- AAU with 30% of the coverage.
- London insurers, which write 26% of the coverage. The London coverage is led by Lloyd's of London's Ariel syndicate.
- La Reunion Aerienne in Paris, which writes 17%.
- Compagnie des Assurances Maritimes et Terrestre in Paris, which writes 9%.
- Aviators International Insurance Group Inc. in Dallas, which writes 8%.
- Philadelphia-based CIGNA Corp., which writes 5%.
- AIG Aviation Inc., a unit of American International Group Inc., which writes 5%.

USAir paid a total hull and liability premium of $31.5 million, a 57.5% increase compared with $20 million last year, London underwriters say.

However, the airline increased its fleet value by 13% at its latest renewal.

The airline also switched brokers and underwriting leads when it renewed on Feb. 1. The coverage was placed last year by Frank B. Hall & Co. Inc. of New York and its London subsidiary, Leslie & Godwin Ltd. Last year's coverage was led by U.S. Aircraft Insurance Group Inc. in New York, which wrote 25% of the coverage. USAIG does not participate in this year's coverage.

USAir last year paid about double the premium it paid in 1990 even though it reduced its fleet value to reduce premium costs. However, just 18 hours after the coverage renewed in 1991, a USAir Boeing 737 jetliner landed on top of a Skywest Airlines commuter plane at Los Angeles International Airport, killing 34 people and injuring 26 (*BI*, Feb. 11, 1991).

Because the value of USAir's fleet had been reduced the day of the crash, the Boeing 737 was insured for $16 million rather than its replacement value of $33 million.

The U.S. government eventually agreed to accept the brunt of the liability for the Los Angeles disaster, following evidence indicating that an air traffic controller guided the USAir jetliner to land on the same runway where she had instructed the SkyWest commuter aircraft to wait for takeoff (*BI*, May 13, 1991).

Graham Nichols, chairman of the Aviation Insurance Offices' Assn. in London, said last week that the U.S. government agreed to pay $16 million for the lost USAir hull, but would not comment on how much the government contributed to liability settlements.

However, a London underwriter last week said that the U.S. government agreed to pay 85% of passenger claims and expenses for USAir and Skywest, and 100% of employee claims.

Underwriters believe that liabilities from the 1991 disaster will total $24.5 million.

Meanwhile, last week's disasters sent jitters through the London aviation market as underwriters scrambled to determine whether the USAir loss would fall within the higher retentions negotiated in excess-of-loss reinsurance programs during year-end renewals.

1992 already is starting off as a bad year for aviation underwriters.

So far this year, but not including the USAir loss, underwriters face $70 million in claims from total or major partial hull losses and have established $27 million in liability reserves.

Airline claims last year totaled $596 million, including $324 million in claims for the destruction of hulls, $142 million in major partial hull losses and $130 in estimated liability losses, the AIOA reports.

Huge rate increases for major airlines last year (*BI*, March 23) were not enough to return aviation underwriters to profitability, Mr. Nichols said. "Overall, premium levels do need to double or the balance sheet doesn't work," he said.

Federal investigators late last week were still trying to determine exactly what caused the USAir plane to careen off the runway.

Aviation experts have speculated that an ice buildup on the wings of the Fokker F-28 may have caused the crash.

Three F-28s have crashed in icy conditions since the plane was introduced to commercial aviation in 1969.

The most recent in North America was an Air Ontario F-28 that crashed in 1989 outside Dryden, Ontario, killing 24 of 69 people on board (*BI*, March 20, 1989).

Canadian investigators later said wing ice caused that crash.

A spokesman for the NTSB said it was too early to declare that an ice buildup was responsible.

According to Arlington, Va.-based USAir, the plane was deiced twice before leaving the gate for Cleveland, the last time approximately 30 to 35 minutes before the 9:30 p.m. crash.

"After the plane leaves the gate, however, it's up to the captain and the plane's crew to visually inspect the aircraft to make sure its safe for takeoff," an airline spokesman said.

The first officer aboard the plane, who survived the crash, said that he and the pilot did not notice ice on the wings prior to the abortive takeoff. The pilot died in the crash. ■

Hall sale

Continued from page 1

lieve the previous method of accounting for Hall as an investment was appropriate, "given the company's investment intent, which is to buy and sell equities to generate capital gains."

The sale of Hall will raise or lower the surplus of Reliance Insurance Co., the Reliance Group unit holding Hall's stock, to the extent the sale price differs from Hall's carrying value.

Reliance values Hall at its current market value, or $389.4 million on a fully diluted basis. This represents 46.3% of Reliance Insurance Co.'s year-end policyholder surplus of $841 million.

Standard & Poor's Corp. Vp William Cavanagh said Reliance is carrying Hall at a "reasonably conservative" value. Even if Reliance sells Hall for somewhat less than its carrying value, "they're still in better shape" because Reliance will have swapped a poorly performing investment for hard cash, he said.

Reliance currently owns 71% of Hall's common stock. However, if it converts the preferred stock and warrants it owns, Reliance's ownership would increase to 85.1%.

The remainder of Hall's common shares is dispersed among individual investors, investment houses and Hall's savings and investment plan. Hall stock closed at $4.50 per share on Thursday, the same price as a week earlier.

S&P last week lowered Reliance Insurance Co. Intercompany Pool's claims-paying ability rating t BBB+ from A−, after having placed the company on its CreditWatch Nov. 20, 1991. The revised rating was unrelated to the potential sale of Hall, Mr. Cavanagh said.

Moody's Investors Service Inc. said it does not plan to change its Ba1 financial strength ratings of Reliance units, noting that Moody's already had accounted for the Hall investment in its ratings.

Reliance's stake in Hall is "a lot of money to have tied up in one single investment relative to surplus," observed Charles L. Ruoff, a senior vp with Sedgwick James Inc. of New York. Parent Sedgwick Group P.L.C. is the world's third-largest broker.

However, Mr. Ruoff speculated that while the consolidation of Hall's and Reliance's financial results likely played a part in Reliance's decision to sell, it only "moved up the timetable."

"The decision to sell Hall is not a surplus-driven decision," a Reliance spokesman affirmed. "Reliance has always viewed Hall as an investment."

Reliance purchased a 10% stake in the broker in 1983 and its holding has grown steadily.

However, since 1983, the broker has posted year-end profits only twice—in 1983 and 1990.

Hall reported a net loss of $25.6 million for 1991. Part of the loss was attributed to a $15.4 million "downsizing" charge taken in the fourth quarter. Hall's gross revenues last year grew 4.2%, to $461.6 million from $443.1 million in 1990 (*BI*, March 2).

Reliance "thinks this is a good time for a strategic buyer to look at a company like Hall," which has emerged from a "successful restructuring" and has grown "during a difficult period," the spokesman said.

Reliance Chairman and Chief Executive Officer Saul P. Steinberg said: "The restructuring of Hall has been completed, and the company is well-positioned for the future. Hall should be a very attractive property for a strategic buyer seeking entree or expansion in the insurance brokerage industry in anticipation of a turn in the underwriting cycle."

Hall Chairman and CEO Donald R. Bell said the broker is "in great shape to move ahead." Reliance's decision to sell the broker "gives us a better chance to complete our vision," such as expanding Hall's global network. Hall offers prospective buyers a loyal clientele, he noted. "Our client loyalty has been phenomenal, not to mention greatly appreciated."

In addition, Mr. Bell emphasized that "this is a 130-year-old franchise. People forget that when they look at (the problems during) the early '80s" (see related story.)

Some analysts say that Reliance has wanted to sell Hall for years. They say the fact Reliance was forced to consolidate Hall's results may have provided the impetus to formally put Hall on the block.

"I think they've probably had in mind the sale of Hall for some time," said Richard White, a senior analyst with Moody's.

But, one analyst said that this is not "the best time" for Reliance to sell Hall because the property/casualty insurance market is still soft. He labeled Reliance's move a "distress sale."

Analysts and industry observers differ markedly in their estimates of how much Hall could fetch for Reliance.

Estimates of Hall's value range from as much as $595 million, or $7 a share, to a paltry $42.5 million, or 50 cents a share.

Citing the loyalty of Hall's clientele, one investment banker estimated that Hall could sell for $4 to $7 a share, or $340 million to $595 million, with Reliance receiving $289.3 million to $508.7 million for its 85.1% share.

Hall "has extraordinary client loyalty," observed Russell Miller, chairman of San Francisco-based specialty investment banker Russell Miller Inc. "Everyone who has been a competitor has had a surprise when it tries to take accounts away from Hall, even when Hall has been under siege," he said, adding Hall also has successfully attracted new business.

Walter Fitzgerald, a money manager with RAS Securities in New York, notes that "there are very few of these size franchises that are left," which may entice a buyer.

But other analysts, citing Hall's longstanding inability to turn a profit and related problems, speculate that Hall's stock is currently overvalued and may only be worth 50 cents to $1 share.

Such a low estimate is based on the fact that Hall has "never had a pretax operating margin in excess of 5%" of gross revenues, one analyst said critically.

If Hall sold for 50 cents to $1 per share, it would command only $42.5 million to $85 million for Reliance.

Who will purchase Hall—which retained New York investment banker Bear Stearns & Co. to assist in the divestiture—is another question.

The most commonly cited possibility is Aon Corp., the Chicago-based insurance services company. Aon's Rollins Burdick Hunter Group Inc. brokerage unit, the world's seventh-largest broker, last year purchased Hudig-Langeveldt Group bv of the Netherlands, the No. 14 world broker. Analysts estimated the value of that deal at $150 million to $200 million (*BI*, Aug. 19, 1991).

In addition, Aon made a last-minute bid in 1990 for Corroon & Black Corp. before its merger with Willis Faber P.L.C. was finalized.

Aon might be interested in Hall's core business, which is considered to be high-quality, some analysts suggest. But, Aon Chairman and CEO Patrick G. Ryan said that Aon has "not been having discussions" with Reliance regarding Hall.

Willis Corroon P.L.C. also has been named as a potential buyer, since it's believed Willis Faber was interested in Hall before it merged with C&B. But, a Willis Corroon spokesman said the company is not interested in Hall.

Analysts also said Jardine Insurance Brokers Inc. could be a suitor.

A Jardine spokeswoman would only say the broker has "no formal negotiations in progress."

U.S. brokers Marsh & McLennan Cos. Inc. and Alexander & Alexander Services Inc. would not comment, while Johnson & Higgins has "absolutely no interest" in Hall, a spokesman said.

Potential buyers could include insurers, financial services companies, foreign brokers or "an industrial company looking to diversify," one analyst said.

Mr. Miller, the investment banker, speculated that Reliance and Hall "would prefer" the buyer be "someone not in the business," so that overlapping operations would not have to be integrated.

Still, he added, such a buyer "would have to be convinced" that Hall had successfully been turned around. "And that's going to be somewhat hard to do."

Some analysts also say that a management buyout of Hall could be orchestrated. Indeed, "it's difficult to see who would buy Hall, other than its management," one London analyst said.

Sean Mooney, senior vp and chief economist with the Insurance Information Institute in New York, believes this is a good time for a management buyout.

Hall management, working with Bear Stearns, could raise the funds it needs to purchase Reliance's stake in the broker through a new issue of stock, he said.

But Mr. Bell, who was traveling in the Caribbean last week with Hall's top producers rewarded in a sales incentive program, said a management buyout "is hardly likely—though you never know."

Antony A.M. Pinsent, chairman of Leslie & Godwin Ltd., Hall's Lloyd's of London brokerage unit, denied rumors that a management buyout of Leslie & Godwin was in the works.

Mr. Miller noted that parts of Hall—like Leslie & Godwin—could fetch a premium or be part of a smaller management buyout.

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International Editor Stacy Shapiro contributed to this story.

Executive VP Hallett to leave Hall

VIENNA, Va.—Thomas V. Hallett will end his nearly 12-year tenure with Frank B. Hall & Co. Inc. later this year.

He will not renew his contract as executive vp of subsidiary Frank B. Hall Insurance Brokers Inc. when it expires later this year.

His decision to leave coincided with Reliance Group Holdings Inc.'s announcement that it intends to sell its majority stake in the world's sixth-largest broker (see story, page 1). A Hall spokesman said Mr. Hallett "is interested in pursuing other career developments and we are actively discussing with him retaining him as an exclusive consultant in dealing with the risk management community."

He has no definitive plans yet, but Mr. Hallett said he would "explore other opportunities" in the brokerage and insurance communities. In the interim, Mr. Hallett said he may be interested in serving as a consultant to Hall. He will represent Hall at the Risk & Insurance Management Society conference in Anaheim, Calif., this week.

Mr. Hallett currently serves as Hall's principal spokesman and liaison with the risk management community.

Until a year ago, he managed many of Hall's specialty operations, including Healthcare Risk Inc., Risk Science International Inc., Pyramid Services Inc. and the firm's environmental risk division.

Before joining Hall, Mr. Hallett was the director of risk management for General Motors Corp. in Detroit. In 1980, while at GM, he was named Risk Manager of the Year by *Business Insurance*.

—By Lori Block

Hall's last 10 years were bumpy at best

NEW YORK—In its 1982 annual report, Frank B. Hall & Co. Inc. asked incredulously of the insurance business, "Did you say dull?"

In retrospect, Hall might have preferred dull.

Instead, the last decade has been a recurring exercise in damage control for the broker, starting with its disastrous 1981 takeover of Jartran Inc., a truck leasing company.

While Hall said it acquired Jartran to generate tax losses, the acquisition was widely believed to be Hall's defense against a takeover threat from Ryder System Inc.

The takeover never materialized, with Ryder later selling its shares to Saul P. Steinberg's Reliance Group Holdings Inc. But Jartran, operating under bankruptcy protection for most of the period Hall owned it, produced $110 million in pretax losses before Hall disposed of it in 1985.

Hall's underwriting operations turned into another nightmare, leading auditor Touche Ross & Co. to qualify the broker's financial statements. These operations included:

- Global Surplus Insurance Services Inc., which acted as a managing general agent for Protective National Insurance Co. of Omaha, Neb. Protective National sued Hall for breaching its duties as an MGA, including failing to notify reinsurers of claims. Hall agreed in 1986 to pay $45 million to settle the litigation.
- Union Indemnity Insurance Co. of New York, a Hall underwriting unit that was declared insolvent by $138.5 million and ordered liquidated in 1985 (*BI*, July 22, 1985).

The New York Insurance Department sued Hall and dozens of its affiliates, directors and officers in 1987, charging that Hall "abused" Union Indemnity to benefit its brokerage operations (*BI*, March 16, 1987).

Hall and its D&O insurer agreed in 1989 to pay $48 million to settle the suit, along with two other complaints filed by insurers ceding business to Union Indemnity and state guaranty funds seeking to recover losses (*BI*, June 5, 1989).

Meanwhile, Hall paid $14.6 million in 1987 to settle a suit filed by Omaha Indemnity Co., which charged that Hall reinsurance brokerage units breached fiduciary duties on programs written through an Omaha Indemnity MGA and reinsured by Union Indemnity (*BI*, Dec. 7, 1987).

Hall's insurance brokerage operation produced a costly embarrassment in the early 1980s when it placed back-dated liability coverage for MGM Grand Hotels Inc. after a 1980 fire killed 85 people and injured 591 at MGM's Las Vegas hotel.

The quick settlement of fire victims' claims triggered a coverage dispute that ended in MGM suing Hall and one of its underwriting units, Union International Insurance Co., along with more than 30 other insurers participating on the program.

A $75.9 million settlement of the suit in 1985 cost Hall and Union International $36 million in addition to $11.5 million Union had already paid (*BI*, April 8, 1985). ■

Tax bill veto

Continued from page 2

ployee for non-discrimination testing purposes.

- Require the IRS to round to the nearest $100 and $1,000 the annual inflation adjustments for maximum 401(k) deferrals and the maximum that could be funded through a defined benefit plan, respectively.

While these provisions fall short of substantive pension simplification, they are at least a reversal of the trend of recent years of legislators and regulators adding layers of pension rules.

And the congressional agreement on these provisions makes it more likely that they later could become part of either a stripped-down tax bill or a bill to extend tax breaks that are scheduled to expire.

"There is now a congressional consensus on simplification provisions that did not exist a few months ago," said Frank McArdle, a consultant with Hewitt Associates in Washington, D.C.

"The presidential veto of the tax bill may represent more of a beginning than an end for the pension simplification provisions. Benefit provisions agreed to in old tax bills never die. They come back to form the basis of new legislation," said Foster Higgins' Mr. Saveth.

President Bush vetoed the tax bill because it would have raised taxes on upper-income individuals.

Other pension provisions in the final tax bill were dropped by the conferees. These included measures that would have:

- Eased pension non-discrimination testing requirements for employers that cover union and non-union employees under a single plan.

Under that provision—included only in the Senate bill—employers would have had the option of not using a so-called pension "disaggregation" rule, which currently is mandatory.

- Required multiemployer pension plans to adopt more rapid vesting schedules. The vesting provision only was in the House bill.

In addition, conferees modified a measure in the Senate bill that would have liberalized an IRS rule requiring pension plans to cover at least a certain percentage or number of an employer's workers.

Under the current rule, a pension plan must cover 40% of a company's workforce or 50 employees, whichever is less.

Continued on next page

Tax bill veto

Continued from previous page

The conferees agreed to exempt defined contribution plans from the rule, but rejected the Senate proposal to reduce the required number of employees in defined benefit plans.

"Given the time constraints, the conferees sought to reach a quick agreement on an overall bill by dropping controversial provisions rather than holding onto positions for long periods of time," said Hewitt's Mr. McArdle.

In addition, conferees may have felt that some provisions may be better addressed through regulation than legislation, said Lynn Dudley, senior legislative analyst with the Assn. of Private Pension & Welfare Plans in Washington, D.C.

Meanwhile, sharp differences among Democratic conferees likely played a key role in the deletion of a health care reform package that had been part of the Senate bill. Those provisions would have restricted the use of pre-existing medical condition exclusions in health plans and reformed the small group health market (*BI*, March 9).

"Some Democrats see incremental reform as a roadblock to the comprehensive reforms they favor," said Ellen Goldstein, the APPWP's director of health care policy.

"There is no consensus among Democrats that they should do small group reform in the absence of comprehensive reform," agreed Mr. McArdle. ■

Managed care

Continued from page 2

entered into arrangements that offer discounted fees from provider networks, points out Kathryn Abernethy, a vp and national health care practice leader with TPF&C in Arlington, Va.

All respondents contract with managers, typically a health insurer, that develop and maintain local networks of providers, over which locally based medical directors or executive directors exercise "very tight local control" on a city-by-city basis, Ms. Abernethy explained.

These network managers also typically guarantee that costs will not rise above a certain percentage, clearly define and set quality standards, and monitor the care actually delivered against those standards, TPF&C says.

Also, under these so-called point-of-service programs, employees select a primary physician within the network who provides primary care and serves as a "gatekeeper" in referring the employee to other physicians in the network.

The surveyed employers—drawn from TPF&C's client list and the membership of the Managed Health Care Assn.—include: Allied Signal Inc., American Airlines Inc., American Telephone & Telegraph Co., Digital Equipment Corp., Farmers Group Inc., General Electric Co., Marathon Oil Co., Mobil Co., Sears, Roebuck & Co. and Xerox Corp.

While these companies sometimes offer a stand-alone indemnity plan or other options to the point-of-service plan, "in most cases the (network-based) managed care plan is the predominant plan," Ms. Abernethy said.

In companies offering at least one other option, 59% of employees choose the managed care network, the survey found.

And, 68% of the respondents "report that, where managed care is offered, 80% or more of total health care costs are incurred in the networks," according to the survey.

This indicates that "employees respond to incentives built into the point-of-service design, using the networks more frequently than not," the survey said.

Respondents said they expect health care costs to increase an average of 11% in their network-based plans in 1992. By contrast, they forecast average increases of 12% for their stand-alone HMO programs and 18% for their stand-alone indemnity plans.

However, 37% of the companies with indemnity plans expect those plans' costs to jump by 20% or more in 1992, according to the survey.

At year-end 1991, benefit experts predicted that indemnity plan premiums would grow by 20% to 25% on average this year, compared with 10% to 17% for HMO premiums (*BI*, Dec. 16, 1991).

The main factor suppressing cost increases in the managed care programs is lower utilization, the surveyed companies indicated.

Nearly two thirds—65%—were able to identify areas where managed care had lowered utilization. Of these, 88% saw a reduction in specialty care visits; 79% in inpatient days; 75% in admissions; and 64% in surgical procedures.

Indeed, 64% of all survey participants believe that, "in the long run, the most significant utilization reductions achieved under managed care will come in the area of specialty care," the survey authors say.

This suggests that employers recognize the role of the primary care physician and the network manager in overseeing the care delivered to employees, according to the survey authors.

The respondents also ranked the components of their network-based plans that most contributed to savings. Plan design was first, followed by the role of the primary care physician; financial discounts from doctors and hospitals; clinical oversight of medical care by the network manager; role of local network management; and how long the network has operated.

In addition to lower health care cost increases, an important attribute of any managed care plan is employee satisfaction, TPF&C said.

"In fact, gaining employee acceptance and maintaining positive relations are critical—because the success of managed care depends in large part on changes in employee behavior," the survey authors said.

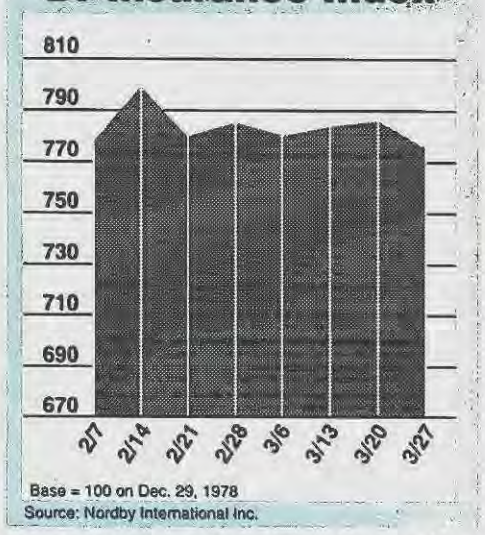
Of the 81 companies surveyed, 46% report that employees are more satisfied with their health care benefits after the introduction of managed care and 27% are as satisfied. Another 27% reported, though, that employees are less satisfied.

But companies acknowledged that there was a "shakeout period" before large numbers of employees accepted managed care, the survey said. That period of employee dissatisfaction lasted six months or less for 47% of the companies; seven to 12 months for 40% of the companies; and more than a year for 13% of the companies.

But once past the "shakeout period," employees like the following features of managed care the most, according to the survey: copayments rather than coinsurance; paperless claims; flexibility to use out-of-network providers; doctors handling referral and admission authorization; having a personal primary care physician; and network doctors who are carefully chosen and monitored. ●

Copies of "Network-based Managed Care: The Employer View" may be obtained free of charge by calling 800-525-6741.

BI Insurance Index



Insurance industry stocks slipped last week, as the *Business Insurance* Index fell 10.2 points to 776.7 on March 27 from 786.9 on March 20. Advancing issues for the week were led by Belvedere Corp., up 25.7%; Frank B. Hall, up 12.1%; and NWNL Cos., up 9.5%. Declining issues for the week followed HMO America Inc., down 18.1%; Reliance Group Holdings, down 12.2%; and National Re Holdings Corp., down 10.2%. The most active issue was HMO America, with 4.4 million shares traded. The *BI* Index was down 1.3%; the New York Stock Exchange Composite was down 1.6%; the Standard & Poor's 500 fell 1.9%; and the Dow Jones 30 Industrials fell 1.4%.

British Issues

March 26 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Comml Union	412	N/M	31.5	7.6	421—412	
Genl Accident	396	N/M	35.7	9.0	401—396	
Gdn Royal Exch	124.5	N/M	10.0	8.0	124.5—118	
Royal	187	N/M	15.0	8.0	187—174	
Sun Alliance	271	N/M	19.3	7.1	271—261	
Brokers						
Bradstock	156	17.5	6.3	4.0	158—156	
CE Heath	392	26.0	34.5	8.8	401—392	
Hogg Group	187	11.3	11.3	6.0	187—187	
JIB Group	175	12.9	10.0	5.7	176—175	
Lloyd Thompson	235	23.5	6.0	2.5	246—235	
Lowndes Lmbrt	322	13.4	17.3	5.4	329—322	
PWS Holdings	60	6.5	5.3	8.8	62—60	
Sedgwick Grp	202	15.8	16.0	7.9	204—201	
Steel Brrl Jones	300	15.1	17.7	5.9	301—300	
Willis Corroon	230	14.6	17.6	7.7	237—230	

Source: Philip Olsen, Insurance Industry Analyst, London

BI Industry Stock Report

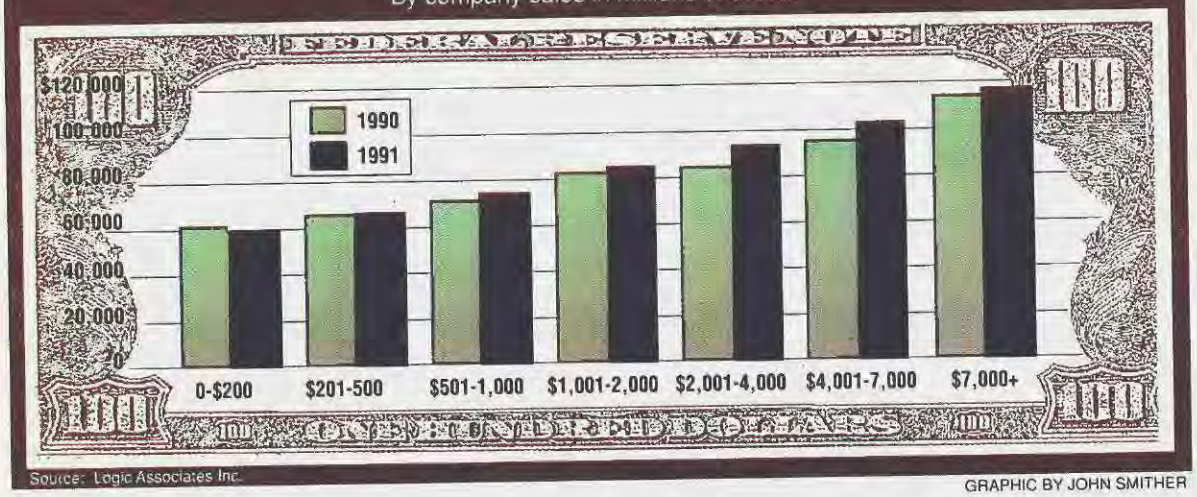
MARCH 23, 1992 THROUGH MARCH 27, 1992

BROKERS		Price	Weekly % change	Year to Date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt/Bk. value
Alexander & Alexander	NYS	20.75	-4.05	1.22	27.50	18.00	242	1.00	4.82	-83	9.77	2.12
Gallagher Arthur J. & Co.	NYS	24.75	-1.49	10.61	28.00	19.00	50	0.64	2.59	19	5.88	4.21
Frank B. Hall	NYS	4.63	12.12	8.82	5.50	3.13	266	0.00	0.00	-4	-5.24	-0.88
Hilb, Rogal & Hamilton	OTC	12.50	4.17	-5.66	17.50	11.25	128	0.40	3.20	20	3.56	3.51
Marsh & McLennan	NYS	75.63	-0.49	-7.07	87.25	70.00	402	2.60	3.44	18	14.77	5.12
Poe & Associates	OTC	15.25	1.67	27.08	15.75	7.25	35	0.40	2.62	17	2.52	6.05
BROKERS	AVERAGE		2.0	5.8					2.4	-2		
CONGLOMERATES & HOLDING COMPANIES												
Berkley W.R. Corp.	OTC	33.75	0.75	10.66	36.25	23.50	49	0.36	1.07	13	23.89	1.41
Berkshire Hathaway Inc.	NYS	8950.00	0.28	-1.10	9125.00	7760.00	0	0.00	0.00	-33	4612.00	1.94
ITT (Hartford Group)	NYS	65.38	-0.95	13.20	70.63	50.00	1731	1.84	2.81	10	64.01	1.02
Sears (Allstate)	NYS	45.38	-3.97	19.80	47.88	32.50	3280	2.00	4.41	14	37.38	1.21
CONGLOMERATES	AVERAGE		-1.0	10.6					2.1	1		
INSURERS/REINSURERS												
AEGON N.V.	NYS	70.88	2.35	1.25	71.75	54.75	3	2.30	3.25	7	N/A	N/A
Aetna Life & Casualty	NYS	41.88	-4.29	-4.83	49.13	31.88	894	2.76	6.59	9	64.23	0.65
Allied Group Inc.	OTC	21.50	1.18	26.47	22.25	16.00	78	0.64	2.98	8	11.50	1.87
American General	NYS	41.13	-5.19	-7.58	44.75	36.38	1829	2.08	5.06	10	37.14	1.11
American Indemnity/Fin'l	OTC	6.88	3.77	44.74	9.25	4.50	1	0.08	1.16	6	12.93	0.53
American International	NYS	85.88	-4.58	-12.71	102.00	78.63	1050	0.48	0.56	12	45.34	1.89
Aon Corp.	NYS	41.63	-2.63	5.05	45.25	34.75	152	1.60	3.84	11	18.50	2.25
Argonaut Group	OTC	27.00	2.86	13.68	33.38	21.75	322	0.68	2.52	9	48.26	0.56
AVEMCO Corp.	NYS	25.50	-5.99	2.00	28.00	19.50	11	0.40	1.57	19	9.55	2.67
Baldwin & Lyons Inc.	OTC	26.75	0.94	3.88	27.50	21.50	7	0.28	1.05	7	24.29	1.10
Belvedere Corp.	ASE	5.50	25.71	69.23	6.13	2.75	155	0.04	0.73	16	7.65	0.72
Chandler Insurance	OTC	5.13	5.13	57.69	5.13	2.13	237	0.00	0.00	64	5.95	0.86
Chubb Corp.	NYS	66.00	0.57	-14.29	78.00	60.75	1264	1.60	2.42	10	35.19	1.88
CIGNA Corp.	NYS	52.88	-5.16	-13.50	61.75	41.25	372	3.04	5.75	11	73.15	0.72
CNA Financial Corp.	NYS	80.00	-3.47	-18.37	104.50	75.50	89	0.00	0.00	8	70.23	1.14
Continental Corp.	NYS	26.63	-4.05	-3.62	30.38	23.25	243	2.60	9.77	27	37.83	0.70
EXEL Ltd.	NYS	33.88	-2.17	-9.67	40.25	27.38	386	0.92	2.72	7	N/A	N/A
Fund American Corp.	NYS	65.75	-1.13	-5.90	70.25	60.88	99	0.68	1.03	15	36.11	1.82
Fremont General Corp.	OTC	20.88	-0.60	-14.36	26.00	18.00	205	0.88	4.22	5	19.13	1.09
Frontier Insurance Group	NYS	30.75	1.23	13.89	31.25	19.22	58	0.60	1.95	12	11.20	2.75
Gainsco Inc.	ASE	14.13	1.80	0.89	15.00	6.38	100	0.04	0.28	17	3.37	4.19
General RE Corp.	NYS	92.75	-0.27	-8.96	104.75	85.00	504	1.80	1.94	12	37.50	2.47
Guaranty National Corp.	NYS	15.25	0.83	5.17	17.00	12.63	49	0.48	3.15	11	N/A	N/A
Hanover Insurance Co.	OTC	37.50	0.00	4.90	42.75	27.13	35	0.44	1.17	16	37.44	1.00
Harleysville Group	OTC	19.38	1.97	-8.82	23.25	16.75	36	0.64	3.30	9	22.99	0.84
Hartford Steam Boiler	NYS	48.13	-1.03	-16.30	63.75	45.13	179	2.00	4.16	14	17.05	2.82
Kemper Corp.	NYS	31.88	-1.92	-16.39	46.13	28.88	533	0.92	2.89	8	34.20	0.93
Lawrence Insurance Group	ASE	8.88	7.58	-20.22	11.13	7.88	6	0.48	5.41	17	4.71	1.88
Liberty Corp.	NYS	24.88	1.02	12.43	25.00	19.50	20	0.48	1.93	13	23.86	1.04
Lincoln National	NYS	56.13	-1.10	2.51	61.00	45.38	237	2.92	5.20	12	45.16	1.24
Markel Corp.	OTC	28.25	1.80	28.41	28.25	14.00	26	0.00	0.00	13	3.22	8.77
Mutual Risk Mgmt. Ltd.	NYS	35.25	-1.05	0.36	37.75	17.00	57	0.12	0.34	26	-	-
NAC Re Corp.	OTC	27.75	-3.48	-11.90	33.00	21.75	88	0.16	0.58	13	18.90	1.47
National Re Holdings Corp.	NYS	18.63	-10.24	N/A	23.63	18.50	164	1.20	6.44	8	N/A	N/A
Navigators Group	OTC	44.00	-4.86	7.32	48.25	29.38	4	0.00	0.00	25	13.52	3.25
Nobel Insurance LTD.	OTC	5.50	4.76	37.50	6.00	3.38	341	0.00	0.00	4	7.76	0.71
NWNL Companies	NYS	34.63	9.49	11.24	38.50	18.63	444	1.40	4.04	13	42.73	0.81
Ohio Casualty Corp.	OTC	56.00	-0.88	13.13	58.25	40.75	96	2.68	4.79	9	36.38	1.54
Old Republic Int'l	NYS	40.00	-4.19	12.68	41.88	26.00	128	0.72	1.80	8	33.09	1.21
Orion Capital Corp.	NYS	30.88	-0.40	-2.37	34.25	23.00	58	0.92	2.98	5	20.42	1.51
Phoenix RE Corp.	OTC	10.00	2.56	-4.76	11.75	8.50	17	0.20	2.00	40	13.30	0.75
Provident Life	OTC	22.50	0.00	-3.23	24.50	16.75	108	1.00	4.44	9	25.88	0.87
Re Capital Corp.	ASE	15.88	-0.78	10.43	18.63	13.13	6	0.24	1.51	13	15.05	1.05
Reliance Group Holdings	NYS	4.50	-12.20	9.09	6.75	3.50	79	0.32	7.11	3	5.61	0.80
RLI Insurance Corp.	NYS	19.25	-5.52	16.67	20.38	11.88	22	0.48	2.49	9	14.41	1.34
St. Paul Companies	NYS	70.38	-1.75	-3.43	75.75	57.13	224	2.72	3.87	8	52.00	1.35
SAFECO Corp.	OTC	45.00	-4.51	-7.69	50.00	35.50	406	1.48	3.29	11	31.50	1.43
SCOR U.S. Corp.	NYS	18.00	0.00	17.07	18.88	11.63	22	0.28	1.56	10	11.19	1.61
Seibels Bruce Group	OTC	5.50	0.00	0.00	8.88	4.00	173	0.36	6.55	-2	7.35	0.75
Selective Ins. Group	OTC	19.25	1.32	14.93	19.75	13.75	81	1.04	5.40	9	18.91	1.02
Statesman Group Inc.	OTC	5.38	-6.52	-6.52	6.88	2.31	285	0.00	0.00	3	2.48	2.17
Tokio Marine & Fire	OTC	37.88	-0.66	-26.46	55.25	36.50	32	0.00	0.00	-	70.93	0.53
Torchmark Corp.	NYS	57.75	-2.74	-0.22	61.50	46.50	205	1.60	2.77	12	16.70	3.46
Transamerica	NYS	42.50	-3.13	6.58	43.88	31.25	468	2.00	4.71	36	36.56	1.16
Transatlantic Holdings	NYS	36.00	-2.37	-7.40	39.63	29.00	27	0.24	0.67	12	18.38	1.96
Travelers Corp.	NYS	20.13	0.00	-6.94	25.38	17.25	1138	1.60	7.95	7	41.44	0.49
Trenwick Group Inc.	OTC	29.13	0.43	2.19	30.75	23.00	32	0.72	2.47	10	21.71	1.34
United Fire & Casualty	OTC	54.50	-0.46	21.11	58.00	42.00	1	1.32	2.42	11	35.39	1.54
USF&G Corp.	NYS	8.38	-5.63	15.52	12.50	5.63	696	0.20	2.39	-4	11.96	0.70
UNUM Corp.	NYS	37.13	0.00	-8.33	40.63	28.81	669	0.52	1.40	12	37.25	1.00
USLIFE Corp.	NYS	45.38	0.28	-5.22	47.88	37.50	178	1.64	3.61	9	60.34	0.75
Unitrin	OTC	34.13	1.87	-4.55	41.50	31.00	96	1.00	2.93	13	30.70	1.11
USLICO Corp.	NYS	18.38	2.80	-0.68	21.00	17.00	34	1.00	5.44	-19	29.44	0.62
Washington National	NYS	17.13	-0.72	7.87	19.25	13.38	14	1.08	6.31	-8	26.86	0.64
Zenith National Ins.	NYS	16.38	0.00	-2.96	18.50	13.75	204	1.00	6.11	7	13.14	1.25
INSURERS/REINSURERS	AVERAGE		-0.5	3.3					3.4	13.0		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	OTC	14.25	0.00	0.00	29.75	9.88	916	0.00	0.00	13	5.44	2.62
HMO America Inc.	OTC	16.38	-18.13	-2.24	24.88	11.38	4453	0.00	0.00	17	0.61	26.84
Pacificare Health Sys.	OTC	59.13	-1.87	49.68	62.50	21.50	403	0.00	0.00	23	6.55	9.03
Safeguard Health Enter.	OTC	13.25	1.92	41.33	14.38	4.81	244	0.00	0.00	23	3.53	3.75
Sierra Health Services	ASE	23.75	-1.04	28.38	29.50	12.38	127	0.00	0.00	13	1.78	13.34
United Healthcare Corp.	NYS	80.50	0.00	8.05	93.00	37.00	421	0.03	0.04	34	3.76	21.41
United Medical Corp.	ASE	8.63	7.81	23.21	10.88	5.88	6	0.20	2.32	27	8.79	0.98
U.S. Healthcare	OTC	44.00	-7.85	6.02	57.75	21.25	3385	0.56	1.27	21	3.38	13.02
HMOs	AVERAGE		-2.4	19.3					0.5	21		
ALL COMPANIES	AVERAGE		-0.5	9.8					2.9	12		

System design: Nordby International Inc.

Risk managers' average compensation

By company sales in millions of dollars



Source: Logic Associates Inc.

GRAPHIC BY JOHN SMITHER

Salary survey

Continued from page 1

companies have finally changed their hierarchy so that risk managers now report to officials in the treasury and financial departments rather than to human resources or administration, according to Mr. Citron.

But while companies in the $2 billion-$7 billion range are beginning to understand what the largest corporations have known all along, small companies have yet to catch on, the survey found.

This is partly because "most smaller companies have less esoteric insurance and risk management needs," observed Mr. Perry.

The results of Logic Associates' annual survey are eagerly awaited by risk managers wanting to compare their compensation with that of colleagues in similarly sized companies and industries. The statistics also are an important guide for employers creating risk management positions or wanting to compare their compensation practices with those of other firms.

Some 3,710 questionnaires were sent out earlier this year; 1,366 risk managers completed the surveys, a response rate of about 37%.

Risk managers at the largest corporations continue to receive the largest compensation packages, according to the survey. Those at firms with more than $7 billion in annual sales earned average compensation of $116,673 in 1991, nearly twice as much as the $59,093 average for risk managers at the smallest companies, those with sales less than $200 million.

Risk managers at midsized and large firms also were more likely to see their total compensation increase from 1990 levels, while those at smaller firms saw insignificant gains or, in some cases, a pay cut.

For example, the $102,644 in annual compensation earned by risk managers at companies with annual sales between $4 billion and $7 billion was 8.5% higher than the $94,577 average in 1990. In contrast, the average compensation of $59,093 earned by risk managers at companies with sales below $200 million was down 3.6% from $61,280 in 1990.

Not only were risk managers at largest corporations the highest-paid, they also received the largest raises in 1991. Average risk managers' salaries, based on company size, were:

- Companies with more than $7 billion in annual sales: $106,048 in 1991, up 3.6% from $102,333 in 1990.
- Companies with $4 billion to $7 billion in annual sales: $95,114 in 1991, up 10% from $86,461 in 1990.
- Companies with $2 billion to $4 billion in annual sales: $86,559 in 1991, up 9.6% from $79,006 in 1990.
- Companies with $1 billion to $2 billion in annual sales: $79,305 in 1991, up 3.1% from $76,492 in 1990.
- Companies with $501 million to $1 billion in annual sales: $69,659 in 1991, up 3.4% from $67,308 in 1990.
- Companies with $201 million to $500 million in annual sales: $62,958 in 1991, up less than 1% from $62,461 in 1990.
- Companies with less than $200 million in annual sales: $56,504, down 4.0% from $58,847 in 1990.

Bonuses were a mixed bag in 1991, though smaller company risk managers generally fared better than those at the largest companies. Average bonuses, based on company size, were:

- Companies with more than $7 billion in annual sales: $10,625 in 1991, down 6.9% from $11,411 in 1990.
- Companies with $4 billion to $7 billion in annual sales: $7,530 in 1991, down 7.2% from $8,116 in 1990.
- Companies with $2 billion to $4 billion in annual sales: $6,554 in 1991, up 27.4% from $5,143 in 1990.
- Companies with $1 billion to $2 billion in annual sales: $5,448 in 1991, down 6.5% from $5,871 in 1990.
- Companies with $501 million to $1 billion in annual sales: $4,358 in 1991, up 8% from $4,034 in 1990.
- Companies with $201 million to $500 million in annual sales: $3,663 in 1991, up 7.1% from $3,421 in 1990.
- Companies with less than $200 million in annual sales: $2,589 in 1991, up 6.4% from $2,433 in 1990.

Average risk managers' total compensation based on company size include:

- Companies with more than $7 billion in annual sales: $116,673 in 1991, up 2.6% from $113,744 in 1990.
- Companies with $4 billion to $7 billion in annual sales: $102,644 in 1991, up 8.5% from $94,577 in 1990.
- Companies with $2 billion to $4 billion in annual sales: $93,113 in 1991, up 10.7% from $84,149 in 1990.
- Companies with $1 billion to $2 billion in annual sales: $84,793, up 3% from $82,363 in 1990.
- Companies with $501 million to $1 billion in annual sales: $74,017, up 3.7% from $71,342 in 1990.
- Companies with $201 million to $500 million in annual sales: $66,621 in 1991, up 1.1% from $65,882 in 1990.
- Companies with less than $200 million in annual sales: $59,093 in 1991, down 3.6% from $61,280 in 1990.

Logic Associates also breaks down compensation by industry, but due to the survey format, industry-by-industry comparisons are possible only within specific size categories.

For example, the highest-paid risk managers earned an average total compensation of $120,583 and worked for "miscellaneous firms" with annual sales of more than $7 billion.

In contrast, the lowest-paid risk managers surveyed were those at paper companies with annual sales of less than $200 million. Their average total compensation was $47,509.

Risk managers at companies with $1 billion to $2 billion in sales, for example, reported the following average compensation:

- Chemical: $80,920, including salary of $75,330 and bonus of $5,590.
- Communications: $84,050, including salary of $78,750 and bonus of $5,300.
- Conglomerate: $83,608, including salary of $77,658 and bonus of $5,950.
- Construction: $85,340, including salary of $80,440 and bonus of $4,900.
- Consumer products: $85,722, including salary of $80,943 and bonus of $4,779.
- Cosmetics: $92,900, including salary of $87,320 and bonus of $5,580.
- Entertainment: $89,700, including salary of $84,600 and bonus of $5,100.
- Food: $77,467, including salary of $74,367 and bonus of $3,100.
- Hotel: $80,090, including salary of $74,778 and bonus of $5,312.
- Manufacturing: $82,984, including salary of $77,103 and bonus of $5,881.
- Metals/mining: $92,044, including salary of $86,710 and bonus of $5,334.
- Oil/petrochemical: $88,084, including salary of $82,750 and bonus of $5,334.
- Paper: $99,000, including salary of $91,000 and bonus of $8,000.
- Pharmaceutical: $99,023, including salary of $92,485 and bonus of $6,538.
- Publishing: $96,384, including salary of $90,484 and bonus of $5,900.
- Retail: $79,784, including salary of $74,834 and bonus of $4,950.
- Service: $81,572, including salary of $74,600 and bonus of $6,972.
- Utility: $78,691, including salary of $73,629 and bonus of $5,062.
- Miscellaneous: $85,734, including salary of $80,467 and bonus of $5,267.

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Copies of the survey are available for $60 each from Logic Associates Inc., 170 Broadway, Suite 814, New York, N.Y. 10038; 212-227-8000.

Update

Florida passes health reforms

Continued from page 2

coverage to any employee in a group plan.

While the law says Florida should achieve universal health insurance by 1995, it also says employers cannot be required to offer health plans until the Legislature agrees on an acceptable rate of health care cost inflation and that target is reached.

High court seeks antitrust brief

WASHINGTON—The U.S. Supreme Court has asked the Solicitor General's office to submit a brief outlining the Justice Department's view of the massive insurance antitrust litigation that the high court has been asked to review.

The Justice Department in May 1990 submitted a brief to U.S. District Judge William Schwarzer in support of the attorneys general who filed the 1988 suit (*BI*, May 21, 1990). Judge Schwarzer later dismissed the case, but it was reinstated last year by the 9th U.S. Circuit Court of Appeals in San Francisco (*BI*, Feb. 24; June 24, 1991). Industry defendants are now asking the Supreme Court to overturn the appellate court's ruling.

No deadline has been set for the brief to be filed.

Dow Corning payments allowed

CINCINNATI—A federal judge has lifted a temporary restraining order that had prohibited Dow Corning Corp. from offering women with silicone breast implants up to $1,200 to pay for their removal.

The judge had issued the order last week after plaintiffs' attorneys charged the company was requiring the women to sign release forms and turn over removed implants in exchange for the money.

Dow Corning, facing potentially huge liability from its implants, made the $1,200 offer to women earlier this month after saying it would no longer make silicone implants (*BI*, March 23).

The company said Friday that the offer "never required women to sign a release that would waive their legal rights for product liability. It also does not require women to return their implants."

The restraining order had been requested by attorneys for some 3,000 women who are part of a class-action suit certified in U.S. District Court here Feb. 14. The suit consolidates actions nationwide against Dow Corning—a joint venture of Dow Chemical Co. and Corning Corp.—and six other silicone implant makers .

In addition to actual and punitive damages, the suit seeks establishment of a medical monitoring fund to pay for treatment for women who are suffering side effects from leaking implants. The suit also seeks the return of all profits made on the implants plus interest, said Diana McBride with the Cincinnati law firm of Waite, Schneider, Bayless & Chesley, which is handling the consolidated litigation.

PWBA gets tough on late filers

WASHINGTON—The Labor Department will begin imposing penalties on employers that fail to file all federally required annual reports for their pension and welfare plans or who file them late, but will temporarily reduce penalties for those that file the reports during a limited grace period.

The department's Pension and Welfare Benefits Administration last week said pension and welfare administrators who do not file Form 5500s may be fined $300 a day, up to $30,000 per year, until an ordered filing is submitted. But, employers that approach the PWBA first with late filings will pay a penalty of only $50 a day. The penalties will be retroactive starting with reports that were due in 1989.

However, until Sept. 30, plan administrators who file overdue annual reports will only be liable for a penalty of $50 for each day a report was late, up to a maximum of $1,000.

Many employers may never have filed Form 5500s for their welfare plans because they incorrectly believed the reports were required only for pension plans, said Kyle Brown, an attorney with The Wyatt Co. in Washington, D.C.

Briefly noted

SCOR U.S. Corp. says it is negotiating with Crum & Forster Inc. over the possible purchase of **Constitution Reinsurance Corp.**, C&F's reinsurance unit. C&F last year postponed a planned public offering of Constitution Re's holding company, citing market conditions. . . .**Aneco Reinsurance Underwriting Ltd. creditors** in Bermuda last week formally rejected an attempt by Aneco Chairman Mark Hardy to stop the appointment of liquidators from the accounting firm Coopers & Lybrand. Mr. Hardy had argued that using the firm would be a conflict of interest, since Coopers & Lybrand liquidators are already winding up two other companies formerly controlled by Mr. Hardy. . . .Pennsylvania Deputy Insurance Commissioner Ronald E. Chronister has been appointed acting commissioner following the **resignation of Commissioner Constance Foster**. . . .A San Francisco federal judge sentenced **Angelo T. Commito** to 2½ years in prison, five years probation, and $17,000 in fines and restitution after he pleaded guilty to fraud and embezzlement from a California multiple employer welfare arrangement. The sentence will run consecutively with a 10-month term he received after a bribery conviction (*BI*, Oct. 3, 1988). . . .Maine Gov. John R. McKernan Jr. signed a bill last week establishing a four-member, blue ribbon commission to examine alternatives to the state's **troubled workers comp system** and make recommendations by Aug. 1 "concerning replacement" of the system. . . .The Labor Department is seeking to appoint an independent fiduciary to assume control of and terminate Paramount, Calif.-based Diversified Industrial Group, a **self-funded MEWA**.

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  - Excess of SIR's
  - "Wrap around" approaches that combine retro, deductible and SIR applications under one aggregate
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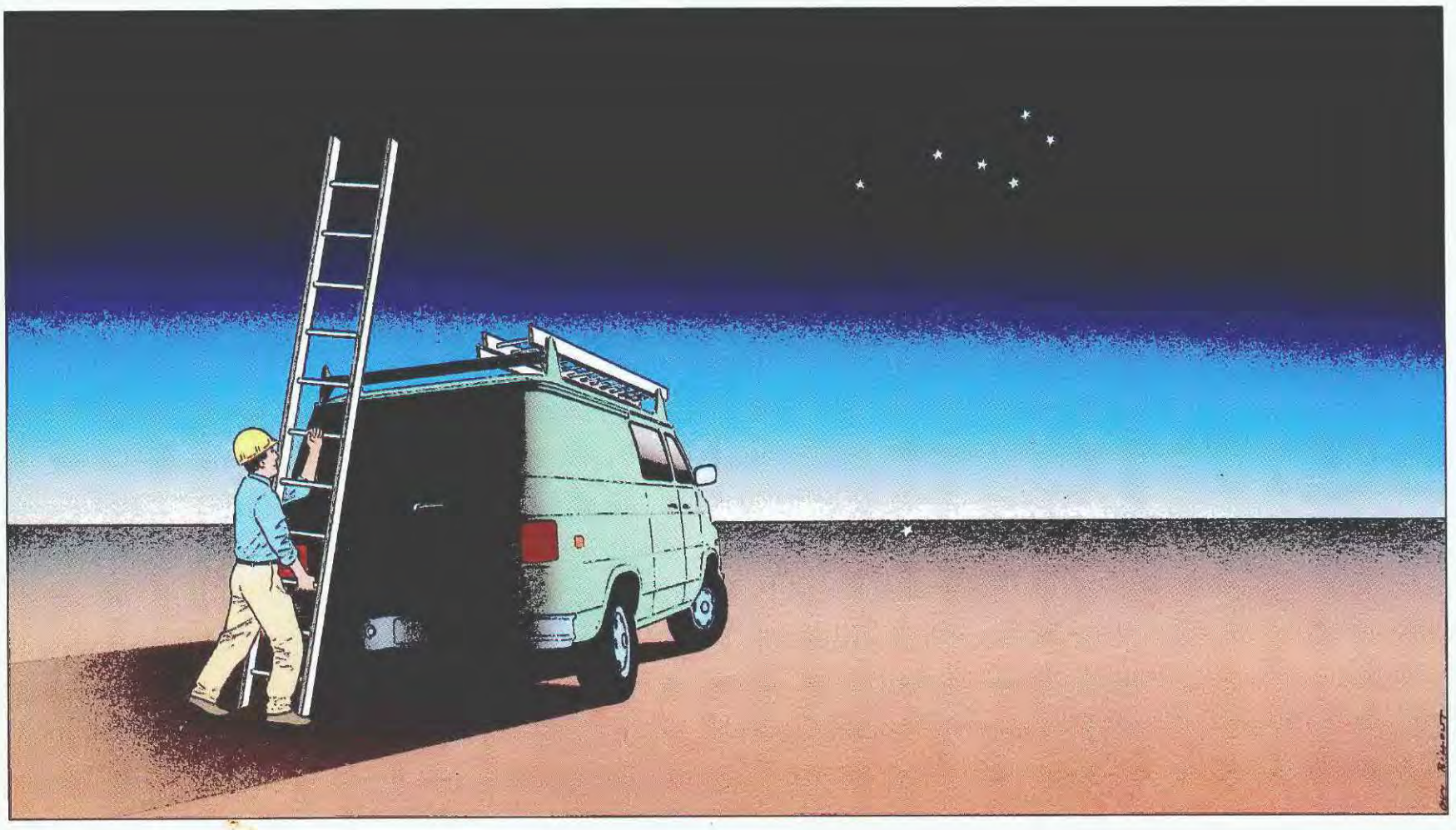

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